

Finance Paper

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Financial Concepts ²Evaluation

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Financial Concepts Evaluation

Business is a fundamental activity that most people undertake with the aim of making a profit. These businesses usually have various records that entail financial elements that are recorded at a given time. Financial statements comprise accounts and or records involving specific business variables and an industry's economic analysis (Berthilde & Rusibana, 2020). Each financial statement is exposed or subjected to thorough scrutiny by authorities like internal and external auditors. One of the reasons why financial statements undergo auditing is to ensure that the organizations comply with the taxation policies. Such auditing also enables these businesses to determine their financial position in the competitive business environment. These records consist of cash flow statements, balance sheets, and income statements, among others. Different organizations rely upon these financial statements in their decision-making cycles. Therefore, these financial records enable respective businesses to make sound and informed business decisions. This paper will assess my level of understanding of various financial statements following the course simulation, course learnings, and knowledge acquired from the work environment.

I'm very confident with the analysis of cash flows, balance sheets, and income and expense reports. Based on income and expense reports, these elements play a crucial role in a business environment. For instance, most business organizations utilize this statement when evaluating their net income after a particular timeframe. These organizations benefit more from this statement because it presents a breakdown of both expenses and income, providing a basis for comparing the organization's expenditure versus the actual budget (Mohseni Zonouzi, 2018). Therefore, companies are able to track their finances after a given financial period. The next variable is the balance sheet. The calculation and general analysis of the balance sheet are quite

manageable. This statement consists of elements such as liabilities, shareholders' equity, and assets. Companies utilize this statement to determine materials under their ownership and those they owe other individuals termed creditors. This statement is also vital because it allows an organization to understand its current financial or economic position, thus making appropriate decisions. Companies are not restricted when it comes to the use of these financial statements. For instance, most businesses have experts that develop or compute more than one statement since they complement each other. Cash flow is another financial record that I have learned in this course. This is a statement that assesses the money that comes into the business. This cash can be available following the sale of a company's products. Also, the statement records the money that is taken out of the business (Anyushenkova & Samorukova, 2019). Such cash can be used to settle debts and other expenses. Therefore, an organization should always stay on top of its cash management to ensure that it does not make losses. It is crucial to note that proper management of a company's resources is a key to its success.

The respective entries of income and expense reports must adhere to particular principles or standards. Historical cost is one of the required principles as outlined in the simulation. According to this standard, these entries should integrate the concept of acquisition cost. This principle argues that it is not appropriate to report these entries on the basis of the fair market of elements such as liabilities and assets. Companies that use acquisition cost rather than the fair market are likely to attain a more accurate statement of their respective income and expenditure. Recognizing revenue is another important element of consideration when recording these entries (Vonder Haar, 2017). This principle dictates that companies should only record entries for realized revenues while not for the received cash. Generally, it is crucial to have enough knowledge of pro forma and expense statements. For instance, this knowledge enables a person

to clearly explain to the investor the possible projected revenue hence convincing them to become part of the organization.

Similarly, the entries in the balance sheet assume important functions. These entries comprise assets, liabilities, and shareholders' equity. These entries are important because they are used to determine an organization's financial strength against its market rivals. For instance, they are useful in calculating the liquidity ratio that informs the management on whether the organization can pay its debts when it is terminated.

A pro forma balance sheet report gives a budget summary responsible for organizing expectations in the future, essential for overseeing corporate resources at present and for future advantages. This statement applies the rule that previous events in the business may happen again later on. For the most part, these assumptions are applied in estimating the result of the institution's venture. Investors request to understand the enterprise procedure and the expected result, which are key to decide the reasonability in the experience they wish to undertake (Islam, 2017). Anticipated procedure to examine the pro forma balance sheet incorporate benefiting enterprise's monetary position, short term, and fixed resources. Then, those obligations related to the company should be evaluated to assess the economic value of the business. The business procedure, objectives, and assumptions are evaluated, thus enabling the investors to gauge the merits of putting resources into such a business.

Cash flow entries are statements that sum up the overall movement of cash into and outside the organization. This type of statement enables the association to decide the measure of cash assets it needs to hold to offset its everyday monetary commitments and clear the day-by-day working expenses (Anyushenkova & Samorukova, 2019). Statement of cash flow sections assumes a few parts, including; first, it gives primary data to investors and other entrepreneurs

that empowers them to comprehend the business's economic value. The accomplishment of this is achieved by providing point-by-point data on the inflow and outpouring of the business's cash, which shows the company's exhibition by demonstrating the cash's wellspring and as well as the cash equivalents in the business. Second, the statement assumes the part of availing information to financiers relating to market condition and business performance, thus enabling them to settle on the company's short-term assets and determine the enterprise's capability to support its undertakings and pay the company obligations shouldered. In general, this explanation is applied to check how viable the idea of investing in the business is.

A Pro forma cash flow is responsible for demonstrating the expected measure of cash recorded as in and outflowing scheduled in at least one of the periods to come in the business cycle. A budget summary, in this case, is generally ready on specific events, similar to when requested by the loan specialist or investors. There are several steps followed when discussing this statement with investors. These steps include calculating projected revenues of that business, estimating total costs and liabilities, and estimating the business cash flows (Islam, 2017). All of these steps enable the investor to make an informed investment decision.

In a nutshell, this paper considers various financial statements as a crucial element of every business. These statements enable the business to maintain a record of all finances at every point in business. These statements are also important because the business can easily determine its position in an ever-competitive environment. Therefore, every organization should maintain accurate financial records in order to track its financial position.

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