Transactions

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**The Impact of Accounting Transactions in Financial Statements.**

Every accounting transection is crucial to achieve the goal to have precise and accurate records and reports. For the purpose to have accurate financial statements, each accounting transection should be recorded properly. Transections comprise payments, sales, loans, or any other even in which the exchange of goods, services or money occur. Every accounting transaction has impact on the financial statement in different way. Like if the company or business purchase an asset on liability then the transaction would an increase in assets as well as increase in liability. So the impact of transection will be; assets will be higher in the financial statements especially in balance sheet while there would be an increase in liability too.

In another way, if the asset is a fixed asset like building or machinery and purchased on cash. So, the impact will be that fixed assets will be increased but current assets will become lower because of decrease in cash (Hermanson, Edwards, & Maher, 2011). This would further impact ROE and ROE will be lower because of decrease in cash.

**Elements and Purpose of each Financial Statement**

The major elements that comprise a financial statement are, assets, capital/equity, liability, revenues, comprehensive income, expenses, gains, losses, owners’ investments and distribution to owners. Assets are the elements which are beneficial economically and controlled by the management while liabilities are the obligations of creditors. The example of liabilities is accounts payable.

Equity is the terms that includes several types of equities. Net assets and/or shareholders’ equity are the residual interest which remains when liabilities are subtracted. Comprehensive income shows the differences in equity through non-owner source while owners’ investments are not encompasses in comprehensive income (Rimerman, 1999).

Revenues are the increase in asset through sales products and services. Revenues works as the inflow of assets while expenses are the outflow against assets. Expenses are the cost occurred in the production and it is an increase in the actual assets while it brings profit like payments for goods and services utilized or payment of rent etc.

Gain or loss is the increase and decrease in the equity from incidental or peripheral transections of an equity. The example of gain can be, if a company sell any of the asset for higher amount than its book value then the gain is recorded while loss is reported when the same item is sold for lower price than the book value (Marshall, McManus, & Viele, 2011).

Investments by the owners occur on financial statement which is the increase in the assets. Those investments are made in shape of cash for ownership in the company where buying stock is the example of investment by the owners or investors. Distribution are the payments made to owners after the revenues/profits are generated. These distributions are made as dividends which decrease the amount of equity of owners in company once the payment is made.

**Components and Use of Financial Analysis**

Financial analysis is the crucial for the health of business or company which is used by investors for the decisions regarding investments. This is also used for long term business planning and policy development. There are 5 major components of financial analysis which profits, revenues, capital efficiency, solvency, and liquidity.

Revenue concentration emphasis how much is the distribution of each client. Revenue per employees shows the productivity of the business where higher ratios are found efficient (Chen, & Shimerda, 2008).

Longevity is maintained through the profits where profit margin is an element in financial element. Profit margin is used to show the ability of company to pay the operating costs in the event of large loss and re-invest in the business. Operational efficiency is a measurement that shows that how the business resources are used where analyst look at accounts receivables turnover for determination offered credit works well or need adjustments as well as leverage of business is determined through debt by equity.

 Liquidity demonstrations the ability of business regarding generation of cash for covering expenses. Assets divided by total liabilities states that company is or not able to pay its short tern obligation over a period (Chen, & Shimerda, 2008). In liquidity, ratio higher than 2 is considered good by the investors.

**References**

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