The Value of Financial Statements

Tahirah Lee

[Institutional Affiliation(s)]

Author Note

Why SEC requires the presentation of Financial Statements to float shares in the Stock Exchange? What kind of useful information do these statements have for investors?

The Value of Financial Statements

The United States’ Security and Exchange Commission (SEC) places a requirement that all companies that want to float shares in the Stock Exchange to generate extra capital must present their updated financial statements for assessment (Nimtrakoon, 2015). This directive has gained a lot more importance was the recent Enron debacle that has raised renewed interest of the public in this issue. There are several reasons that this rule makes perfect sense. First, the financial statement provides details of the company in question (which are required to be more market-sensitive) after the enforcement of the Sarbanes-Oxley or SOX Act. These details include several essential aspects that can be useful for the evaluation of the company to be SEC. some of these factors are details of accounting practices, auditing procedures, responsibilities of officers and directors of the company, conflict of interests by stock analysts, previous years' disclosures to predict the financial future of the company, and violations committed as made evident by chartered accountants or financial analysts. Another main reason for this rule is the practice of standardizing the accounting system of all the companies to eliminate differences in financial reporting under the Generally Accepted Accounting Practices or GAAPs.

Potential investors are also presented with these detailed disclosures for increasing their confidence in the stability of the company. This is necessary as the main aim of the shares is to raise capital, which are bought by these investors. These figures are quoted in the Initial Public Offerings, or IPO, to attract customers to buy and sell shares to facilitate the running of the company. Another reason that such disclosures are required by the investor is that these statements provide information about the financial condition of the company. Such is also declared compulsory under the SOX act after the recent Enron debacle that has shaken the confidence of many investors.

# References

Nimtrakoon, S. (2015, July 13). The relationship between intellectual capital, firms' market value, and financial performance. *Journal of Intellectual Capital, 16*(3), 487-618. DOI:10.1108/JIC-09-2014-0104