The Value of Financial Statement and Big Business vs. Small Business

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Author Note

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Financial statements play a vital role in deciding the direction of any business. They are more important for big businesses because there are many matters which have to be considered in them. The performance of big businesses can be judged by its financial statements, whereas a small business may manage things without financial statements for a short period of time. These small businesses will need financial statements before making any decision regarding expansion (Wu et al. 2017). The income statement will tell businesses about the efficiency of their operations in terms of increasing revenues and controlling expenses. The smaller businesses should be keener to save on expenses because they will have to use their resources more efficiently. The balance sheet compares the sources and resources of a business. Whether big or small, businesses have to rely on these financial statements. Another aspect related to their importance is that businesses are started on the going concern assumption, which means that they have to go on and on.

This assumption applies that businesses review their performance from time to time basis and rectify their past mistakes. The best way to do this is a comprehensive financial statement analysis. Smaller firms may also prepare quarterly or even monthly financial statements so that their true direction can be revealed to their owners. For smaller firms, the most important financial statement will be a statement of cash flow, showing the various sources and uses of cash. This will show owners how much cash is generated by the business (Wu et al. 2017). There are three main components of a statement of cash flow, namely operations, investment, and financing. The most appropriate for a small business will be operations and financing because these will tell the owners and lenders about the sources of finance for business and how well they are used.

# References

Wu, TsingZai C., Wan Ting Hsieh, Chun Chan Yu, and Hsin Ti Chu. 2017. “Value Relevance of Financial Statements in Convergence with IFRS: Analyses in the Abnormal Pricing Error Method.” *Applied Economics Letters* 24(7): 490–493.

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