Financial Statements

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**Financial Statements**

The financial statements are essential to give an overview of performance of a company. These statements are impacted by the accounting transactions profoundly. The classes of items confined in the financial statements are known as its elements which combine together to make a financial statement. The analysis of these statements overall financial health of a company.

**Impact of Accounting Transactions in Financial Statements**

An accounting transaction represents a business event, and it has a direct impact on the financial statements of a business. Accounting transaction's make up the financial record of the business. A few examples of accounting transactions include credit sales, purchase of equipment or supplies, recording depreciation on fixed asset and supplies purchased from a supplier. Each accounting transaction plays a role in achieving the goal of accurate financial reports and records. In order to ensure that every financial statement is accurate, it is essential to record each and every transaction precisely and appropriately following the rules of recording transaction. The transactions about sales, income, expenses, loans, and payments need to be accurate. Appreciation or depreciation in the monetary values of the transaction can disrupt the whole financial statement, and the company is unable to assess its accurate position. This can impact the efficient business decisions making as the business decisions are based on the financial statements. Investors employ the financial statement, to not only assess the standing of business but also to make the investment decisions regarding when to throttle back and invest further. Financial statements are also used to reflect on the future and hence wrong, and inaccurate financial statements can result in false future prediction for a certain period. Hence, the accounting transaction must be recorded accurately and precisely.

**The Elements and Purpose of each Financial Statement**

The classes of items confined in the financial statements are referred to as elements of financial statements. There are many of these elements such as assets, liabilities, losses, gains, equity, revenues, income, expenses and owners’ equity. These elements combine together to make a financial statement. A financial statement can’t be created in the absence of these elements as they make up the core objective of a financial statement. Assets are items owned by the company, revenue is the income, and expense is the amount spend on company’s operations, liabilities are obligations of payment, and the owners’ equity is the amount owners have invested in the company.

A financial statement gives the reader a complete overview of the financial condition of a business (Henderson, 2015). The four basic financial statements consist of the income statement, cash flow statement, balance sheet and statement of retained earnings. Each financial statement serves its own purpose. The income statement illustrates the revenues, and expenses of a company. A balance sheet serves to show the financial position of a company. The statement of cash flows reveals the cash inflows and outflows in a certain period of time and the statement of retained earning reveal the changes in equity during the accounting reporting period.

**The Components and Use of Financial Analysis**

The financial analysis is the process of evaluating business projects and determining the overall financial health of a company. Financial analysis is a tool which helps in determining whether making an investment will be profitable or not. It is also used for financial planning and has some essential components such as revenues, profitability, operational efficiency, capital solvency and efficiency and liquidity (Gibson, 2001). The revenue and growth reveal that which clients are contributing more to the business, and which employees are contributing towards growth. It also depicts the employee’s productivity. Profitability analysis shows how much profits are needed to maintain longevity and it also helps in prediction if the company is going to be financially stable or not. Net, operating and gross profit margins clarifies the company's ability to pay its operating costs and expenses in case of loss or reinvesting. Financial analysis also shows operational analysis and the efficiency of use of resources. Efficiency ratios also help a company to assess its abilities to generate income by efficient management of assets and liabilities.

Overall the four basic financial statements must be made precisely as the success of business decisions is highly dependent on these statements.

# **References**

Gibson, C. H. (2001). *Financial reporting and analysis: Using financial accounting information.* South-Western College.

Henderson, S. P. (2015). *Issues in financial accounting.* Pearson Higher Education AU.