

Unit 2 Financial Statement and Cash Flows

Write Short Notes:

- a. Financial Statement:** Financial Statements are the final report of an accounting system that are used and designed in the organization. Financial Statement contains summarized information of the user regarding the operating performance, financial strengths and weakness of firm financial affairs. Financial Statement and report provide information to the user regarding the operating performance, financial strength and weakness of a firm. Investor, creditors, shareholders, workers, government and financial analysts use this statement. They examine the firm's performance in order to make their respective decisions. Financial statement consists of different statements like income statement, balance sheet, cash flow statement etc.
- b. Role or importance of financial statement:** A financial statement provides information for analyzing and understanding of the performance of the corporation. The roles of financial statement are given as:
- Financial statement concerned with the past (historical) record of the corporation.
 - Financial statement provides an estimate of future financial course of action.
 - Financial statement enables to acquire the knowledge about comparative cash flow position of a firm throughout two comparative periods.
 - Financial statement provides the clear picture of corporation's financial situation for the interested group like shareholders, creditors, managers, and other stakeholders.
 - Efficient analysis of financial statement will enable to identify the current status and future possibilities of the corporations.
- c. Balance Sheet:** The balance sheet provides information on what the company owns, what it owes, and the book value of the business to its stockholders. Balance sheet presents the balance of assets and capital plus liabilities of the firm at the certain date. At that particular point of time, balance sheet is prepared.
- d. Income Statement:** A company's income statement is a record of its earnings or losses made from the business for a given period. It shows all the money a company earned (revenue) and all the money a company spends (expenses) during this specified period.
- e. Cash flow statement:** A cash flow statement concentrates on transactions that have a direct impact on cash. It deals with the inflows and outflows of cash indicating exact amount and timing of flows between two balance sheets dates. It explains the change in cash position between the two positions. Cash flow means inflow and out flow of cash during the accounting period. Cash flow is divided into three categories :- Operating, Investing and Financial activities.
- f. Source and Use of Funds Statement or Fund Flow Statement:** Funds refer to cash, cash equivalent or marketable securities and credit that can be easily convert in to cash. While preparing fund flow statement it must be considered under which topic of balance sheet fund is coming and under which topic it is spent. Source and use of fund statement are prepared to carry out the above purpose. It is a summary of a firm's change in financial position from one period to another period.