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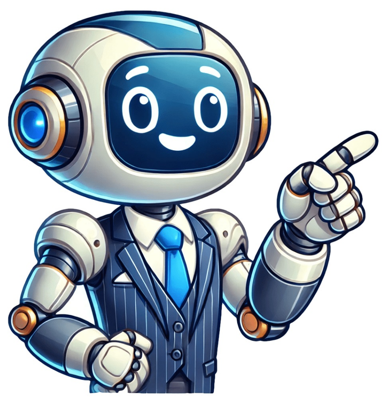

There are key performance indicators that investors and lenders will want to see in a company's financial statements before they will invest or loan to the business. Investors will be looking at these key metrics, so work with your controller services to track and improve them. Business financial statements are like a financial report card showing how well your business is doing. Financial statements reveal information about a company, including its net profit or the revenue remaining after paying all expenses.Sales and revenue growth are critical to a company's financial performance and determining if sales have increased or decreased.Investors want to see healthy profit margins, which represent the percentage of profit earned on each dollar of revenue.Companies need adequate cash flow to run their daily operations, making free cash flow a key metric for lenders and investors. Financial statements will reveal a company's net profit, The net profit is the money that a business has left over after paying all expenses. "Are you making money?" is often the first question asked, but it's only a starting point. Unsustainable profits are bad, and losses can be good if you're on track to profitability as you scale up. But as many business owners do not often have a clear understanding of their net profit, this is a good place to start. You may have an objectively amazing product or service, but the real question is, are people willing to buy it? If you establish a track record of sales before seeking investment, investors don't take on the risk of not knowing the answer to that question. Investors also care about sales growth. Are you showing an upward trend, or did the initial excitement fizzle out? Sales are meaningless if you aren't making money. Investors also want to see your profit margins both overall and at the individual product level. They'll also compare your margins against industry standards and their other available investment opportunities. Higher margins generally lead to a better return for investors. If you have low margins, you'll need to demonstrate a plan for improving them. For early-stage businesses, demonstrating how economies of scale will reduce costs as you grow is usually the answer. It's critical to compare a company's financial statements to companies within the same industry to show how well the company is performing against its peers. For example, banks should be compared to those in the financial sector, while technology companies with those in the tech sector. In business, cash is king. A solid five-year plan does you no good if all your employees will walk out if you can't make payroll next week. Investors view of cash in the bank as a sign that you can deal with unexpected problems and capitalize on new opportunities. Free cash flow, the amount of cash that's left after you meet your expenses each period, is a sign of sustainable operations. If you have both, investors won't have to worry that you could go under at any time. Customer acquisition cost tells how much you have to spend to get one new customer. It's calculated by dividing your marketing spend by your number of new customers. For a fledgling business, this can sometimes be a very large number. For businesses that are mostly established, this amount can be blended and reduced by repeat and referred customers, who are likely easier to acquire. Acquisition cost is important because a product that's profitable from a material and labor standpoint may not actually be profitable if you have trouble getting people to buy it. This problem can occur with super-niche areas where it's hard to spread the word about your product or in hyper-competitive areas where advertising competition is fierce. As with other measures, your ability to find economies of scale or otherwise lower the cost can be more important than the actual number. Investors want to see a company's growth potential and its level of financial stability. Investors also use financial statements to determine whether the CEO and management team have a consistent track record of generating sales, revenue, and profit over multiple quarters and years. Coupled with the acquisition cost is your churn rate. Once you get customers, can you keep them? A low churn rate can compensate for a high acquisition cost, and it's often an indicator of less risk for investors if you have steady repeat business. Of course, high churn rates may be the norm in sectors with long purchase cycles and/or heavy competition. Debt scares investors for two reasons. One is simply that if you go out of business, debt holders get their money back before equity holders have a chance to claim what's left. The second, and more important, is that debt payments eat up your cash. High debt payments can hinder your ability to meet payroll and other expenses during slow periods. They may also mean you have less cash available to help you handle a sudden surge in orders or an emergency equipment replacement. One of the most common debt measures is the quick debt ratiocurrent assets (excluding inventory) divided by current liabilities. A quick ratio of 1 indicates that you can exactly meet your obligations, and the higher it is above that, the more flexibility you have. Accounts receivables turnover shows how long it takes you to collect money from customers. This tells investors two important things. First, are you willing to do what's necessary to make sure you get paid? Many new business owners feel bad asking for money and end up never getting paid. An investor looking for a return doesn't want to work with someone who isn't good at tracking down customer payments. Second, how stable are your customers? A slow turnover combined with a large percentage of write-offs could indicate that many of your customers don't have financially sound operations. This adds risk to your business model, and investors will want to see an increased return to compensate. Investors accept short-term losses, but they want to see a profit and a return on their investment sooner rather than later. Your break-even point says what is needed to make this happen. Often, the break-even point is a specific sales target that will cover your expenses and get you to profitability. You may also build on other assumptions, such as economies of scale, improved production efficiency, or reduced marketing expenses, as long as you can explain them in a way that's acceptable to investors. You deserve sweat equity for the hard work it took to get your business running, but many investors will want to see that you've made a financial equity investment as well. If you have money at stake, investors believe that you'll do what it takes to protect it. If you're not at risk of losing financial capital, investors may fear that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investments. You can discuss the specific ratios that apply in each category of analysis with your controller services. Even if you're not ready to seek investment, finding ways to improve can help the overall health of your business. When analyzing financial statements, investors should consider reviewing a company's net profit, sales and revenue growth, debt level, profit margin, and free cash flow. Financial statements reveal critical pieces of information about a company's ability to generate revenue from its sales. Financial statements also show how well a company is managed by controlling costs and using its debt properly to expand or reinvest back into the company to generate profit. Companies may mislead investors by misrepresenting their financial performance by inflating revenue and earnings or understating costs to hide problems or reduce their taxable income. If a company has accounting errors that lead to restating lower earnings, shareholders can lose money when the stock price plunges. Investors use financial statements to determine the financial viability of a company by analyzing its revenue, profit, expenses, and debt. However, it's important that investors compare a company's financial statements with other companies within the same industry to determine how well the company is performing against its peers or competitors. Want to read more content like this? Sign up for The Balances newsletter for daily insights, analysis, and financial tips, all delivered straight to your inbox every morning! Thanks for your feedback! How can financial brands set themselves apart through visual storytelling? 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Explore our latest gallery of EditorsPicks.Browse Editors' FavoritesThe statement of financial position, often called thebalance sheet, is a financial statement that reports the assets, liabilities, and equity of a company on a given date. In other words, it lists the resources, obligations, and ownership details of a company on a specific day. You can think of this like a snapshot of what the company looked like at a certain time in history.This definition is true in the sense that this statement is a historical report. It only shows the items that were present on the day of the report. This is in contrast with other financial reports like the income statement that presents company activities over a period of time. The statement of financial position only records the company account information on the last day of an accounting period.In this sense, investors and creditors can go back in time to see what the financial position of a company was on a given date by looking at the balance sheet. ExampleLets take a look at a statement of financial position example.As you can see from our example template, each balance sheet account is listed in the accounting equation order. This organization gives investors and creditors a clean and easy view of the companys resources, debts, and economic position that can be used forfinancial analysis purposes.Investors use this information to compare the companys current performance with past performance to gauge the growth and health of the business. They also compare this information with other companies reports to decide where the opportune place is to invest their money.Creditors, on the other hand, are not typically concerned with comparing companies in the sense of investment decision-making. They are more concerned with the health of a business and the companys ability to pay its loan payments. Analyzing the leverage ratios, debt levels, and overall risk of the company gives creditors a good understanding of the risk involving in loaning a company money.Obviously, internal management also uses the financial position statement to track and improve operations over time.Now that we know what the purpose of this financial statement is, lets analyze how this report is formatted in a little more detail. FormatThe statement of financial position is formatted like theaccounting equation(assets = liabilities + owners equity). Thus, the assets are always listed first.Assets SectionAssets are resources that the company can use to create goods or provide services and generate revenues. There are many ways to format the assets section, but the most common size balance sheet divides the assets into two sub-categories: current and non-current. The current assets include cash, accounts receivable, and inventory. These resources are typically consumed in the current period or within the next 12 months.The non-current assets section includes resources with useful lives of more than 12 months. In other words, these assets last longer than one year and can be used to benefit the company beyond the current period. The most common non-current assets include property, plant, and equipment. Liabilities SectionLiabilities are debt obligations that the company owes other companies, individuals, or institutions. These range from commercial loans, personal loans, or mortgages. 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Meanwhile, a partnership would simply list the members capital account balances including the current earnings, contributions, and distributions.In the world of nonprofit accounting, this section of the statement of financial position is called the net assets section because it shows the assets that the organization actually owns after all the debts have been paid off. Its easier to understand this concept by going back to an accounting equation example. If we rearrange the accounting equation to state equity = assets liabilities, we can see that the equity of a non-profit is equal to the assets less any outstanding liabilities. Does the Balance Sheet always balance?Notice that the balance sheet is always in balance. Just like the accounting equation, the assets must always equal the sum of the liabilities and owners equity. This makes sense when you think about it because the company has only three ways of acquiring new assets.It can use an asset to purchase and a new one (spend cash for something else). It can also take out a loan for a new purchase (take out a mortgage to purchase a building). Lastly, it can take money from the owners for a purchase (sell stock to raise cash for an expansion). All three of these business events follow the accounting equation and thedouble entry accounting systemwhere both sides of the equation are always in balance. Statement of Shareholders EquityCash Flow Statement Financial statements are reports businesses compile to record the company's financial performance and health. They offer a clear, standardized picture to stakeholders like investors, creditors, and management to see how well the business operates and assess whether it's headed in the right direction. 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Accountants prepare financial statements following specific accounting rules, like the Generally Accepted Accounting Principles (GAAP) for US companies or the International Financial Reporting Standards (IFRS) for many international companies. These accounting standards ensure that financial statements are clear, consistent, and comparable, so data analysis is apples to apples between different companies. There are four primary types of financial statements that provide valuable insights into a company's financial position and performance: A company's balance sheet provides stakeholders with a snapshot of its assets, liabilities, and shareholder equity at a specific point in timetypically the last day of the reporting period. Rather than predicting future success or trends, the balance sheet reflects the company's current financial position. The balance sheets follow the standard equation: Assets = Liabilities + Equity. You must understand a few basic financial terms to read a balance sheet effectively. Assets represent what the company owns and are categorized as current and non-current assets. Current AssetsCurrent assets, often considered short-term assets, can be converted into cash within the firm's fiscal year. Non-Current AssetsThese assets, also called long-term assets, are critical for a company's success but cannot be converted into cash within the firm's fiscal year. Current LiabilitiesThe liabilities which are due within a year. Non-Current LiabilitiesOften called long-term liabilities, these are the company's financial obligations not due within a year.Long-term Debt: Debt payable in more than one year, such as bonds or long-term loans.Deferred Tax Liabilities: Future tax payments.Pension Liabilities: Employee retirement benefits obligations.Lease Liabilities: Long-term lease commitments for buildings or equipment. Equity, also called net assets, represents the company's assets minus their liabilities. Net assets are payable to shareholders. An income statement overviews a companys revenues, expenses, net income, and earnings per share over a specified period, such as a quarter or a year. It answers the question: Did the company make money? Income statements help stakeholders assess financial health and management success by comparing income statements across multiple periods.Key Components of Income Statements: This statement has a few key components, but the formula for calculating shareholder equity varies from company to company. Comprehensive income expands equity exploration by including items not typically seen on a traditional income statement. It accounts for adjustments in securities held for sale by the firm, unrealized gains or losses on investments, hedging activities, foreign currency exchange rate changes, and adjustments to future pensions. Some companies produce a separate statement for comprehensive income, while others list it as footnotes on the income statement. While easy to perhaps overlook, comprehensive income gives a much fuller picture of the company's financial position. A company's cash flow statement (CFS) tracks the movement of cash into and out of the business over time. The primary purpose of the CFS is to show stakeholders where a company's money is coming from and how the management is spending it. Cash flow statements are divided into three categories: Operating activities: Cash from day-to-day business operationsInvesting activities: Cash spent on or earned from investmentsFinancing activities: Cash made from borrowing, debt repayment, or issuing stock The company cash flow statement shows where the money went and if there is enough left or incoming to sustain future operations. The Statement of Shareholders' Equity shows how a company's equity changes over a reporting period. It complements the balance sheet and helps assess whether the companys stock is profitable. Another way to look at the Statement of Shareholders' Equity is to reveal how much money is left for shareholders after the company pays all liabilities and accounts for all assets. Does the leftover equity accurately reflect the cost per share? A positive number signals stability, while a negative result may indicate looming financial trouble, possibly even bankruptcy. Until the Securities Exchange Commission (SEC), through the Securities Act of 1933 and Securities Exchange Act of 1934, mandated that public companies have audits, financial statements were just something some companies used to attract investors. However, after the 1929 stock market crash and the Great Depression, mistrust grew due to manipulated financial data. As the stock market and regulations evolved, independent auditors established standard reporting procedures to keep financial statements transparent and uniform. Today, several international and national standards boards regulate reporting structures to ensure that companies report accurate and transparent information. While financial statements are informative, they have limitations:Historical Data: Financial statements report past performance and rely on interpretation to predict future success.Non-Financial Information: Important factors like brand reputation, employee morale, and market position are not captured.Inflation: Financial statements do not account for inflation, and assets/liabilities are often recorded at historical costs.Reporting Periods: Differences in reporting periods and estimates or assumptions used by management make cross-company comparisons challenging. To read financial statements, you must understand key terms and the purpose of the four main reports: balance sheet, income statement, cash flow statement, and statement of shareholder equity.Balance sheets reveal what the company owns versus owes. Income statements show profitability over time. Cash flow statements track the flow of money in and out of the company. The statement of shareholder equity shows what profits or losses shareholders would have if the company liquidated today. The core structure of financial statements is the same worldwide, but the accounting rules differ depending on which standard the company follows based on its locality or trading location. US Companies must use Generally Accepted Accounting Principles (GAAP), and foreign companies may use International Financial Reporting Standards (IFRS). Financial statements give a company's stakeholders, such as investors, board members, creditors, employees, and analysts, a picture of a company's financial performance and stability. They help stakeholders assess profitability and overall economic health to make decisions about investing in, lending to, or working with the company. Financial statements are important tools for evaluating a company's financial health and future projections. There are four main types of financial statements: balance statements, income statements, cash flow statements, and statements of shareholders' equity, each with a specific purpose in detailing the company's financials. Whether you're an investor looking for new opportunities, a CEO seeking a quick snapshot of a company's finances, or someone curious about the inner financial workings of a company, knowing how to read and interpret these statements is a measure of financial literacy that will pay future dividends. 30Solution and considerations Assets = Liabilities + EquityDividend = reduction in equity (retained earnings need to be positive)Learning activity38,1501.+25,000+25,000Trans-actionCash EquipmentAccountsPayableShare CapitalRetained EarningsRev. Exp. Div.Assets= Liabilities +Equity+++=2.+7,000+7,0003.+8,000+8,0004.- 850- 8505.- 1,000-1,00031,1507,0007,00025,0008,0008501,000+++=-38,150The statement of financial position, often called thebalance sheet, is a financial statement that reports the assets, liabilities, and equity of a company on a given date. In other words, it lists the resources, obligations, and ownership details of a company on a specific day. You can think of this like a snapshot of what the company looked like at a certain time in history.This definition is true in the sense that this statement is a historical report. It only shows the items that were present on the day of the report. This is in contrast with other financial reports like the income statement that presents company activities over a period of time. 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Whether you're an investor looking for new opportunities, a CEO seeking a quick snapshot of a company's finances, or someone curious about the inner financial workings of a company, knowing how to read and interpret these statements is a measure of financial literacy that will pay future dividends.Written by: Lisa EadesReviewed by: Steve VorsterUpdated on 19 April 2024Assets are items that are owned by a businessTwo types of assets appear in the statement of financial positionNon-Current Assets are items owned by the business in the long-termExamples include tangible assets such as buildings, land, machinery and vehiclesNon-current assets may be intangible such as patents, goodwill or brand valueCurrent Assets include cash and items that can be turned into cash relatively quickly, usually within 12 monthsThe four types of current assets are cash in hand, cash in bank, trade receivables and inventoryLiabilities are items that areowed by a businessTwo types of liabilities appear in the statement of financial positionCurrent Liabilities are short-term financial obligations that a business must usually pay within one year, or as demanded by its creditorsE.g. Trade payables and bank overdraftsNon-current Liabilities are moneys owed by a business that are due to be repaid over a period longer than twelve monthsE.g. Long term loans and mortgagesThe Statement of Financial Position shows the financial structure of a business at a specific point in timeIt is included as a key financial statement in the annual reportIt identifies a businesses assetsand liabilitiesand specifies the capital (equity) used to fund the business operationsThe Statement of Financial Position is sometimes known as the Balance SheetIt is called the balance sheet as the net assets are equal to the total equityThe statement of financial position generally follows the structure shown belowThe statement of financial position details assets, liabilities and capital of a business at a specific point in timeInterpreting the statement of financial positionSeveral deductions can be made from the statement about how a business finances its activities, Financing its activitiesPacker Sports Limited is funded through share capital of $1,500 and retained earnings of $13,235The business has long-term liabilities in the form of a loan for $20,000This is significantly greater than share capital so its gearing is highFuture applications for loans may be declined as the business is likely to be seen as a lending riskWhat the business ownsOn the stated date, Packer Sports Ltd owned assets worth $39,795 in totalNon-current assets of $24,250 consisting of property, machinery (plant) and other equipmentCurrent assets worth $15,545, comprised of inventory, trade receivables and cashInventory will be sold and converted to cash or trade receivablesWhen trade payables pay their invoices they will become cashWhat the business owesOn the stated date, the business had total liabilities of $25,060Its current liabilities were $5,060, comprised of a bank overdraft, trade payables and other short-term loansIts long-term liabilities were valued at $20,000You are not required to construct a statement of financial position in the exam, but you may be asked to define assets and liabilities or identify the statement's uses and key components.Did this page help you? Share copy and redistribute the material in any medium or format for any purpose, even commercially. Adapt remix, transform, and build upon the material for any purpose, even commercially. The licensor cannot revoke these freedoms as long as you follow the license terms. Attribution You must give appropriate credit , provide a link to the license, and indicate if changes were made . You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use. ShareAlike If you remix, transform, or build upon the material, you must distribute your contributions under the same license as the original. No additional restrictions You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits. You do not have to comply with the license for elements of the material in the public domain or where your use is permitted by an applicable exception or limitation . No warranties are given. The license may not give you all of the permissions necessary for your intended use. For example, other rights such as publicity, privacy, or moral rights may limit how you use the material. For a Non-Governmental Organization (NGO), the Statement of Sources and Uses of Funds plays a crucial role in financial transparency and accountability, showcasing how the organization obtains its funds (sources) and how those funds are allocated or spent (uses) during a specific period.This statement is vital for NGOs due to their reliance on donations, grants, and other forms of funding to support their operations and projects. Heres how the statement typically breaks down for an NGO:Donations and Grants: The major portion usually comes from donations by individuals, corporate entities, and grants from government or international bodies.Membership Fees: Some NGOs have membership programs, and fees collected contribute to their funds.Fundraising Events: Income generated from organizing events intended to raise funds.Investment Income: Earnings from investments made by the NGO.Other Sources: This can include income from selling goods or services, if applicable.Program Expenses: Funds used directly for carrying out the NGOs missions, such as health, education, environmental conservation, etc. This includes project implementation costs, supplies, and direct beneficiary support.Operational Costs: These are the overhead costs necessary for the NGOs day-to-day operations, including office rent, utilities, staff salaries, and other administrative expenses.Fundraising Expenses: Costs associated with organizing fundraising events or campaigns.Investments: Outlays for securing future financial stability, such as purchasing fixed assets or financial instruments.Other Expenditures: Any other expenses not classified above, such as legal fees, consultancy fees, etc.Importance for NGOsTransparency and Accountability: It provides stakeholders, including donors, government agencies, and the public, with a clear picture of the NGOs financial activities and stewardship of funds.Planning and Management: Helps in effective financial planning, budgeting, and managing cash flow to ensure the sustainability of projects and operations.Funding and Grants: A well-prepared statement can support applications for funding by demonstrating the NGOs financial responsibility and the impact of its activities.The Statement of Sources and Uses of Funds for an NGO not only reflects its financial health but also its commitment to its mission and values, enhancing trust among supporters and beneficiaries alike.The Statement of Sources and Uses of Funds, integral to both for-profit organizations and non-profit entities like NGOs, serves several critical functions in financial reporting and analysis. Here are the main functions of this statement:Liquidity Analysis: It provides insight into an organizations liquidity by detailing how cash flows in and out. This helps stakeholders understand the entitys ability to meet short-term obligations and manage its cash flow efficiently.Financial Management and Planning: By showcasing where funds come from and how they are spent, the statement aids in budgeting and financial planning. Organizations can use this information to make informed decisions about allocating resources, controlling expenses, and planning future financial activities.Transparency and Accountability: For non-profits, including NGOs, this statement is crucial for demonstrating financial stewardship to donors, grantors, and the public. It shows how funds are sourced and utilized, reinforcing the organizations credibility and trustworthiness.Performance Evaluation: Investors, donors, and management can evaluate the organizations financial health and operational efficiency by analyzing the sources and uses of funds. This includes assessing the effectiveness of fundraising activities, the efficiency of program spending, and the management of operating expenses.Support for Fundraising and Financing Activities: The statement can be used to support applications for grants, loans, and other forms of financing. By illustrating a clear and responsible management of funds, organizations can better position themselves to secure additional resources.Cash Flow Management: It highlights the cash flow from operating, investing, and financing activities, enabling organizations to identify trends, potential shortfalls, or surpluses in cash flow. This is vital for ensuring that there is enough liquidity to support ongoing operations and strategic initiatives.Strategic Decision Making: By providing a comprehensive view of how funds are sourced and used, the statement assists in strategic planning and decision-making. Organizations can identify opportunities for improving efficiency, expanding operations, or reallocating resources to achieve their objectives better.In essence, the Statement of Sources and Uses of Funds is a foundational tool for financial analysis, strategic planning, and ensuring the financial sustainability of an organization.It enables stakeholders to assess past and present financial activities and to plan effectively for the future.The Statement of Sources and Uses of Funds, commonly known as the Statement of Cash Flows in contemporary financial reporting, outlines how a company generates (sources) and spends (uses) its cash over a specific period.This statement is essential for understanding a companys liquidity and financial flexibility. Despite its usefulness, there are several limitations to consider:Historical Data: The statement is based on historical cash flows and may not accurately predict future cash flows or the companys future financial condition.Non-Cash Items: It does not account for non-cash transactions, which can be significant for some companies. For instance, depreciation and amortization are not cash outflows but significantly affect net income and the companys financial position.Accrual Accounting: Because it is adjusted for accrual accounting, the statement might not reflect the immediate cash situation. Accrual accounting includes revenues and expenses when they are earned or incurred, not necessarily when cash is received or spent, which can cause discrepancies between the reported financial position and the actual cash position.Limited Detail: The statement may aggregate cash flows into broad categories (operating, investing, and financing activities), which can obscure the details of specific sources and uses of cash. This aggregation might limit the ability to analyze specific cash flow drivers.Does Not Reflect Solvency: While it shows liquidity, the statement does not directly reflect a companys solvency or its ability to meet long-term obligations, which requires analysis of the balance sheet and income statement.Influence of Management Judgments and Estimates: The preparation of this statement can involve significant judgments and estimates made by management, particularly in classifying cash flows and indirect method adjustments. This can introduce subjectivity and potential bias into the reported figures.Complexity for Large Organizations: For large, diversified organizations, the statement can become very complex and difficult for users to understand, reducing its usefulness for making investment decisions.Related article What Is The Statement Of Fund Balance? (Explained)Understanding these limitations is crucial for interpreting the Statement of Cash Flows accurately and using it alongside other financial statements for a comprehensive analysis of a companys financial health.

What is statement of financial transactions. What is financial resources. Financial statement.