

Financial statement

Financial statement is a summary of the account of a business enterprises its show the result of of annual transaction related to finance.

The form of of business is no longer restricted to sole trading and partnership and joint stock company have came into existence.

every investor want to know about the position of the business before investing money show all type of company publish their account show that existing shareholder and investor get to know about the current position of the company the statement published by company are called financial statement.

Normally the meaning financial statement is that statement which give financial information of our business but practically the combined form of statement of profit and loss and balance sheet is called financial statement.

According to John Mayer". The financial statement provide assembly of the accounts of a business enterprise balance sheet reflecting the assets laboratory and capital as on a certain day and the income statement showing the result of operation during a certain period".

According to Anthony, "financial statement essentially are antarim reports presented annually and reflect a division of the life of an enterprise into more or less arbitrary accounting period more frequently a year."

As per section 2(40) of companies act 2013 , " financial statement in relation to company include a balance sheet profit and loss account cash flow statement change in financial position and fund flow statement."

Types of financial statement

There are three types of financial statement

- 1. Income statement for profit and loss statement:- this statement is prepared by a business enterprises in order to know financial result for earning during a specific period.**
- 2. Position statement are balance sheet:- it is prepared by a business concern on a particular date for knowing the position of the form that what is the assets liability and capital of the form on a specific date for a certain period.**
- 3. Other statement:- other statement include retained earning, fund flow statement, cash flow statement, accounting ratio and other**

Nature of financial statement

Nature of financial statement is determined by the following factors

- 1. Accounting concept**
- 2. Accounting convention**
- 3. Personal decision**
- 4. Recorded fact in statement**

- 5. Suggestion to the the management**
- 6. Provide final result of the form**
- 7. Best on accounting fact**
- 8. Financial Statement are summarised detail of business**
- 9. It related to a particular period**
- 10. Statement do not reflect current economic value.**

Objective of financial statement

Main objective of financial statement are to present the actual condition of a business and to provide useful information for financial decisions the main objective of financial statement are described as follow

- 1. Provide information related to business transaction and other events that profitability of the company can be estimated compared and evaluated.**
- 2. With the help of financial statement management get knowledge of earning capacity.**
- 3. Provide information of cash flow statement.**
- 4. Helpful to provide relevant information to estimate compare and evaluate future cash flows related to creditor and investor**

5. Provide information for forecasting process and to provide financial statement to increase the reliability of future forecast.

6. To inform about the the activity of the organisation which are important from social point of view

Important of financial statement

The main importance or directory of statement is to present the actual position of business organization provide important information related to business nau ras financial statement is very important to manager investor and government.

Utility of financial statement to various parties are

1. For management:- statement are very important to people who manage and control a business management required this financial statement to have control over business activity and for proper management of business the financial statement are useful to manager to a scale and map to an engineer

2.For Inverestor:- investor like and share holder and debenture holder 12 safe their investment in the company show their main objective is to safety of their investment along with a reasonable return. Need information about financial position of company profitability and value of share capital structure and information related to future planning for the security of their investment financial statement also provide information about long term redemption capacity to debenture holder?

3. For bank :- Bank provide short term and middle term loan to company show Bank also need the information about financial position and earning capacity of the company before issuing a loan bank study the balance sheet and income statement on the basis of which it draw conclusion about its future prospects and the risk involved in financing

4. For trade creditors :- Trade creditor are short-term creditors whose payment is generally made within the financial year they need financial statement to know about liquidity and short term production capacity of company

5. For employees :- financial statement also important for employee as the gate to knowledge about the financial position of the company through this statement their demand for wages salary like better working conditions and other labour welfare program are based on the information received from these statement

6. For government :- government has made law to save the interest of equity shareholder as they cannot directly participate in the management of company in India private or public company has to submit the copy of balance sheet and profit and loss statement to the registrar within 30 days of annual general meeting. The government formulate a new policy or a the existing one on the basis of these statement

7. For tax authority:- tax such as sale tax income tax GST is not possible without financial statement

8 . For trade association :- association is the association of owner of various industries full objective is not to earn profit but to protect the interest of its member association study the financial statement of company evaluate their progress and provide required help and advises.

9. For stock exchange :- the company have to send a copy of their financial statements to stock exchange if they are share and debenture are purchased and sold through stock exchange.

Limitation of financial statement:-

Following are the limitation of financial statements

- 1. Window dressing: -** these days accounting prepare financial statement in such a way that they fulfill the requirement of act and also satisfy auditor but do not present the true figure
- 2. Certain period :-** is prepared at the end of accounting year without analysis of final account
- 3. Lack of knowledge about the exact position :-** financial statement of profit and loss are balance sheet is is only prepared on the basis of estimate such a s provision for bad and doubtful debts creation it is so its have lack of knowledge about exact position.

4. Ignorance of the role of the entrepreneur: - business depend upon the skill and qualities of entrepreneur but financial statement ignore the role of entrepreneur.

5. Fact and forecasting: - in financial statement some fact are basically estimated and some figure are mentioned on the basis of personal decision of accountant

6. Duration: - statement are prepared for a period of one year it is not possible to get correct information about the position of the form without comparing more than 2 years

7. Problem of comparison:- financial statements are prepared on the different dates and different accounting method which are adopted then their competition become extremely difficult

8. Limited scope :- statement have a limited scope as there is no record of other factors affecting a business like social economic and political factors.

Types of financial statement:-

Financial statement can be classified into following categories:-

1. Position statement:- In this form of Balance sheet, liability are shown under the heading Equity and liability which is immediately follows by Assets. As per amendments made in the companies Act in 2011 and also incorporated in companies Act ,2013 now only vertical format is to be used onwards.

Form of Balance sheet

NAME OF THE COMPANY

BALANSHEET AS AT

PARTICULARS	Note No	Figure as at the end of current year	Figure as at the end of prev. year
1.	2.	3.	4.
I. Equity And Liability 1. Share holder fund a) share capital b) Reserve and Surplus c) Money received against share warrants 2. Share Application money pending Allotment 3. Non - current liabilities a) long- term loan b) Deferred tax liability c) other long - term liability d) Long term provisions 4. Current Liabilities a) short term borrowing b) trade payable c) other current liabilities d) short term provisions			

Total :-

II. Assets

1. non current assets

a) Fixed Assets

i) tangible assets

ii) Intangible assets

iii) Capital work in progress

iv) Tangible assets under Development

b) Non- current Investment

c) Deferred Tax assets

d) Long term loans and advance

e) Other Non – current Assets

2. Current Assets :-

a) current investment

b) inventory

c) Trade receivables

d) cash and cash equivalent

e) short- term loans and advances

f) other- current assets

Total

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