Financial Reporting - A Study on techniques implemented

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Abstract:

Financial reports mirror business performance in terms of numerical figures. It aims to fulfil the company goals. Financial reporting is the process of documenting and communicating financial activities and performance over specific time periods, typically on a quarterly or yearly basis. Companies use financial reports to organize accounting data and report on current financial status. The financial statement applies tools, analytical techniques and required methods for business analysis. It is a diagnostic tool for management decisions and other business decisions. The analysis of financial statements, respectively the analysis of the financial reports are used by managers, shareholders, investors and all other interested parties regarding the company's status. Managers use financial reports to see the situation in which the company stands and then provide information to shareholders, to see how reasonable are the investments made in the company. To potential investors, the analysis of the financial statements of the company is very important, because, first they want to know the actual state of the company and then decide whether to invest or not.

Keywords: Financial Reports, Techniques, Decision-Making.

Introduction:

Financial reporting is a systematic process of recording and representing a company's financial data. The reports reflect a firm's financial health performance in a given period. Management, investors, shareholders, financiers, government, and regulatory agencies rely on financial reports for decision-making.

The reports determine business assets, liabilities, cash flow, profitability, ad shareholder' equity. Financial reports are standardized by two prominent frameworks-The Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standard (IFRS).

GAAP definition

Generally Accepted Accounting Principles are standardized guidelines for accounting and financial reporting. These principles should be followed when preparing a company's financial statement.

- It is mandate by the US Securities and Exchange Commission (SEC) for reporting publicly traded companies.

- GAAP establishes a proper classification and measurement criteria for financial reporting. These principles assist investors in comparing the financial performance of different businesses. It is a legal procedure that ensures transparency and accuracy.

Methodology:

To assess and examine the significance of financial indicators in a company, a number of qualitative and quantitative elements were used in this study. The financial statement of Company was studied during this study using the proper tools, analytical techniques, and procedures. Primary and secondary data were the data sources used in this study. After that, various studies were applied to the information to reveal the findings and a conclusion, indicating the use of inductive approaches. Because of particular criterion data categorization, this research also used the classification method in add to analysis and induction.

Objectives of the Study:

1. To provide useful information to the users of financial reports.
2. To provide information about the cash flows to which an entity is subjected, including the timing and uncertainty of cash flows. This information is critical for determining the liquidity of a business, which in turn can be used to evaluate whether an organization can continue as a going concern.
3. To disclose the obligations and economic resources of an entity.

Understanding Financial Reporting:

Financial reporting and analysis is the representation of financial transactions in the books of accounts. These reports provide insight for investors and creditors. Financial statements reflect a company's financial health. The reports are crucial as they become the basis for decision making.

When it comes to financial requirements and regulations, there are mainly two frameworks GAAP and IFRS.

- GAAP lists reporting guidelines for US based Public and Private Companies.
- The IFRS, on the other hand, has established a universally accepted standard for formulating such reports- followed by international companies.

Types of financial Reporting

1) **Financial Statement:**

   This includes balance sheets, income statements, cash flow statements, and the statement of shareholder' equity. In addition, some companies with two or more units may have both standalone and consolidate financial statements. The statements reflect a firm's business performance.

2) **Director's Report:**

   In larger companies, the Board of Directors releases a report stating annual returns, board meetings, loans, investments, corporate affairs, highlights, and achievements. If a firm performs lousily, this report points out the cause behind underperformance.

3) **Management Discussion and Analysis:**

   Financial reporting and analysis provide information on the current position and performance of a company-in comparison to the competition. In addition, the report focuses on industry trends, future strategies, and future opportunities.

4) **Notes to Accounts:**

   It is mentioned as footnote and informs about methods and accounting policies used by a company.

5) **Auditor's Report:**

   This report contains the independent opinion of the statutory auditor. It is the auditors who take the company's financial and accounting principles.

6) **Corporate Governance report:**

   The report catalogs the composition of the board of directors, directors' profiles, remuneration paid to top management, and compliance with statutory regulations. It is a communication between the board of directors, management, shareholders, and the creditors.

7) **Prospectus:**

   A company planning to issue an IPO release a prospectus to promote the securities. It contains all the information about the company's financials, operations, management, and business goals.

Importance of financial reporting:

Financial reports mirror business performance in terms of numerical figures. It aims to fulfil the following goals:

- **Periodic record maintenance:** All the financial transactions in a particular period is recorded in the company's financial statements.
- **Financial Ratio Analysis:** Financial reports are used to evaluate company financial ratios.
- **Tax Purpose:** Financial accounts and reports are formulated in accordance with Internal Revenue Service (IRS). This helps forms infilling tax returns.
- **Reveal Company's financial condition:** Investors, creditors, bankers, the public, regulatory agencies, and the government rely on financial data for decision-making.
- **Disclose future strategies:** Managements chart strategic roadmap alleviates investor concerns by revealing strategies that can improve corporate position.
- **Clear Internal Vision:** In accounting, internal reporting is used by some companies to keep employees informed of operations and economic position.
- **Statutory Compliance:** Organizations are required to file reports with various agencies lice Return on Capital (ROC), government, and stock exchanges- on a quarterly or annual basis. Businesses are subject to statutory audits.
- **Brings Transparency:** Financial reports reveal how a company utilizes resources.

Different types of financial reporting techniques

There are a variety of different techniques used in financial reporting, and each has its own benefits and drawbacks.

Three most common types of financial reporting:

i) Generally Accepted Accounting Principles (GAAP),
ii) International Financial reporting Standards (IFRS)
iii) United States Generally Accepted Accounting Principles (US GAAP)

- Each of these standards has its own set of requirements for financial statements, timeline, valuation methods, etc.
- The main benefit of using a specific standard over another is that it provides a more consistent framework for understanding and comparing financial performance across companies.

Types of Reporting Techniques:

There are a variety of financial reporting techniques available to businesses. This can depend on the type of business and its size.

Generally, there are three types of financial reporting: cash flow reporting, income statement reporting, and balance sheet reporting.

1. **Cash flow reporting:**

Cash flow is the amount of money that a company brings in each period. This includes cash flows from operations, investing and financing activities. It's important to monitor cash flow because it can help you understand how well a business is managing its finances.

Three sections of the statement of cash flows:

- **Operating Activities:** The principal revenue-generating activities of an organisation and other activities that are not investing or financing; any cash flows from current assets and current liabilities.
- **Investing Activities:** Any cash flows from the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- **Financing Activities:** Any cash flows that result in changes in the size and composition of the contributed equity capital or borrowings of the entity(i.e., bonds, stocks, dividends)

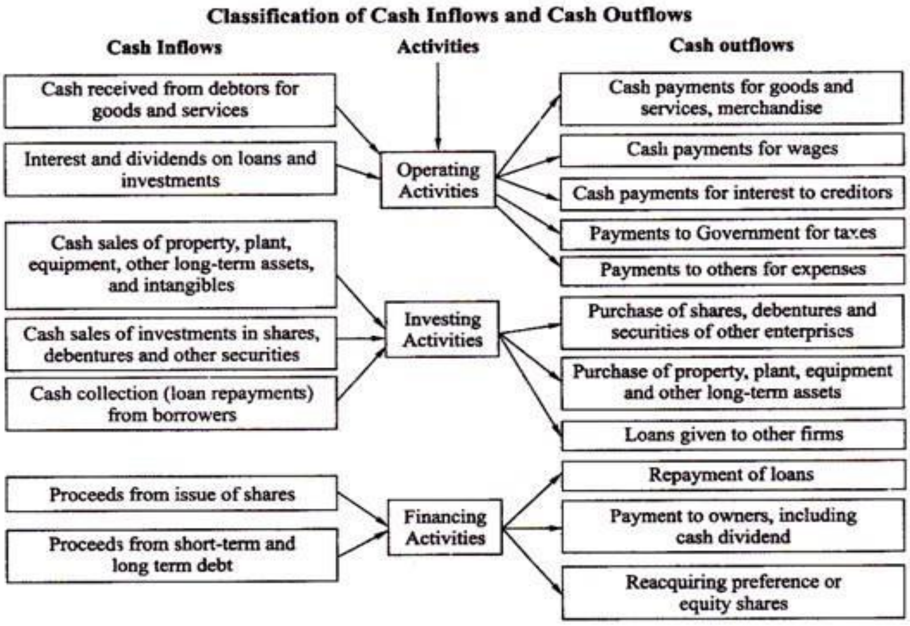

Fig. 18.1 Classification of cash inflows and out flows relating to operating activities, investing activities and financing activities

2. Income statement reporting:

The income statement reports a company's revenue, expenses, and net earnings (Loss) for each period. This information can help you understand how well the company is performing overall. You can use this information to make decisions about how to invest in the company or what kind of products to sell.

Importance of an Income statement

An income statement helps business owners decide whether they can generate profit by increasing revenues, by decreasing costs, or both. It also shows the effectiveness of the strategies that the business set at the beginning of a financial period. The business owners can refer to this document to see it the strategies have paid off. Based on their analysis, they can come up with the best solutions to yield more profit.

Following are the few other things that an income statement informs

i) **Frequent reports:**

While other financial statements are published annually, the income statements are generated.

ii) **Pinpointing expenses:** This statement highlights the future expenses or any unexpected which are incurred by the company, and any areas which are over or under budget. Expenses include building rent, salaries and other overhead costs. As a small business begins to grow, it may find its expenses soaring. These expenditures may involve hiring workers, buying supplies and promoting the business.

iii) **Overall analysis of the company:** this statement gives investors an overview of the business in which they are planning to invest. Banks and other financial institutions can also analyze this document to decide whether the business is loan-worthy.

3. Balance Sheet Reporting:

The balance sheet reports a company's assets, Liabilities, and net worth at the end of each period. This information can help you understand how well the company is functioning financially and whether it has enough money to cover its debts.

Importance of a Balance Sheet

Balance Sheets determine risk. This financial statement lists everything a company owns and all of its debt. A company will be able to quickly assess whether it has borrowed too much money, whether the Regardless of the size of a company or industry in which it operates, there are many benefits of a balance sheet,

Balance sheets determine risk. This financial statement lists everything a company owns and all of its debt. A company will be able to quickly assess whether it has borrowed too much money, whether the assets it owns are not liquid enough, or whether it has enough cash on hand to meet current demands.

Balance sheets are also used to secure capital. A company usually must provide a balance sheet to a lender in order to secure a business loan. A company must also usually provide a balance sheet to private investors when attempting to secure private equity funding. In both cases, the external party wants to assess the financial health of a company, the creditworthiness of the business, and whether the company will be able to repay its short-term debts.

Managers can opt to use financial ratios to measure the liquidity, profitability, solvency, and cadence (turnover) of a company using financial ratios, and some financial ratios need numbers taken from the balance sheet. When analyzed over time or comparatively against competing companies, managers can better understand ways to improve the financial health of a company.

Last, balance sheets can lure and retain talent. Employees usually prefer knowing their jobs are secure and that the company they are working for is in good health. For public companies that must disclose their balance sheet, this requirement gives employees a chance to review how much cash the company has on hand, whether the company is making smart decisions when managing debt, and whether they feel the company's financial health is in line with what they expect from their employer.

Issues with Reporting Techniques

There are many different methods for reporting financial information, and each has its own strengths and weaknesses. When choosing a reporting method, it is important to consider the information required and the format in which it can be presented.

Some common financial reporting techniques include interim reports, income statements, balance sheets, cash flows, and budgets. Each has its own advantages and disadvantages.

- **Interim Reports:** Interim reports are often used to provide a quick overview of company's financial results over a short period of time.

- **Income Statements:** Income statements provide more comprehensive information about a company's revenue and expenses over a period of time.
- **Balance sheets:** Balance sheets show how much assets and liabilities the company has on hand.
- **Cash flow statements:** Cash flow statements can help investors understand how much money a company is making and spending over a particular period of time.
- **Budgets:** Budgets are often used to plan future expenditures and track progress against target goals. It is important to choose the right reporting method for the data required.

  Ex: Income statements will generally be more detailed than balance sheets when it comes to measuring financial performance. And cash flow statements are best suited for analyzing transactions that have monetary values (Such as sales or purchases).

How Financial Reporting Techniques can help?

Different types of financial reporting techniques can help companies and investors better understand a company's financial condition. There are five main **methods** used to report financial data:

- **Periodic reports:** periodic reports show the status of operations of a company at specific intervals such as annually, quarterly or monthly.
- **Income statements:** income statements present revenue and expenses in News Corporation's form – revenue is the amount of money a company earns from selling goods and services, while expenses are costs associated with running the business.
- **Cash flow statements:** cash flow statements depict how much money a company has available to pay its bills. Ex: how much money it has left after paying its debts.
- **Balance sheets:** Balance sheets list a company's assets, liabilities and equity (i.e., its capital).
- **Statement of retained earnings:** statement of retained earnings is a financial metric that reflects how much profit a company expects to make in future periods; this number is important because it helps investors determine whether they should buy a stock.

Each type of financial report has its own advantages and disadvantages. Periodic reports can be helpful in providing long-term insight into how a company is performing; however, they can be difficult to read because they often use complicated language.

New applications and adoption of financial reports

The use of financial reports in different industries and companies is constantly changing as new methods are developed. Many different types of financial reports exist, each with its own purpose and use. This article provides an overview of the most common types of financial reports, their purposes, and how they are typically used.

- **Internal Revenue Service (IRS) Financial Reports:**

The IRS publishes a wide range of tax- related financial reports every year. These reports include the individual income tax report, the corporate income tax report, the instalment sale reporting instructions, and the reconciliation of estimated taxes to final taxes. The primary purpose of these reports is to help tax payers understand their income and tax liability, as well as to provide information relevant to the administration of the federal tax laws.

- **Financial Reports for Private Companies:**

Private companies use a variety of financial reporting techniques to manage their businesses and investors. These reports may include the company's annual report, quarterly report, 10-Q report, or other similar filings. The primary purpose of these reports is to provide information about the company's financial condition and results of operations to shareholders and other interested parties.

- **Financial Reports for Public Companies:**

Public companies generate a majority of their revenues by issuing securities. These documents provide investors and the general public with detailed numerical and financial information related to each company's business. Public releases may cover a range of different topics, including financial analysis,, significant events, annual earnings, key personnel changes, among others.

The following sections provide an overview of some of the most common financial reports used by public companies. Financial reports for private companies financial statements issued by privately held corporations reflect their proprietary financial reports according to GAAP issued by the American Institute of Certified Public Accountants or other well-recognized accounting standards or guidelines published by independent organisations such as FINRA.

Conclusions

The analysis of the financial statements is a very important process, even necessary for making right decisions. Information obtained from financial analysis, together with accounting, are the basis for making decisions, both internally and externally. From the analysis of financial statements, we can ascertain its financial condition and how it has operated during the periods for which the analysis is conducted and what are future trends in that enterprise. These reports are also used to give information to shareholders on how reasonable are investments made in the company because they are interested in making profit from investments made.

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