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A Discussion on Financial Statement Practice

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ABSTRACT

Financial statements are essential tools that provide a comprehensive view of an organization's financial performance, position, and cash flows. This abstract explores the practice of financial statement preparation and analysis, highlighting its importance in decision-making, financial reporting, and external communication. It covers key elements of financial statements, such as the balance sheet, income statement, and cash flow statement, as well as the principles and standards that guide their preparation. Additionally, it discusses the significance of accurate and transparent financial reporting in fostering investor confidence and supporting informed business decisions. Financial statement practice involves the preparation, presentation, and analysis of financial information to provide stakeholders with a clear understanding of an organization's financial health and performance. The balance sheet, also known as the statement of financial position, presents the organization's assets, liabilities, and shareholders' equity at a specific point in time. It helps assess the organization's solvency, liquidity, and capital structure.

KEYWORDS

Balance Sheet, Cash Flow, Comparative Financial, Disclosure, Financial Analysis, Financial Statement Footnotes, GAAP (Generally Accepted Accounting Principles).

I. INTRODUCTION

Companies have put a lot of effort into reorganizing themselves in response to the significant changes that have recently transpired in the economy and in their markets. The financial crisis that started in 2008 compelled even the most reluctant people to adapt; they were left with no other option. Thankfully, the American government placed "wake-up" requirements on businesses it bailed out, such as General Motors and AIG Insurance. Here are seven of the biggest errors businesses have made while attempting to change, along with advice on how to prevent them.

First error: just laying off lower-level support personnel

Senior and middle management make hiring choices; they will, of course, not pick themselves for outplacement. As a consequence, there are too many chiefs and not enough Indians in the company. When they need to be meeting with clients and formulating plans, six executives instead waste their time typing, photocopying, and faxing. Based on their profitability and potential, executives should rank the importance of whole initiatives, products, and markets. Executives will have more time to build the company if support personnel are maintained, or even increased, and their duties are increased. Leave the simpler jobs to people who are qualified to do them [1]–[3]. Some businesses concentrate on prior projects, approaches, and mindsets during periods of market upheaval and uncertainty. This offers some organizational comfort and lessens the stress related to change. Sticking with strategies that have historically been successful, however, may really be perpetuating techniques that are no longer effective due to recent changes in the industry.

When a corporation performs below expectations, there shouldn't be any holy cows. All operations and activities of the organization should be reevaluated and given new priorities. Depending on when it is implemented and how much management support it gets, a concept will either be profit or not. Something that was ineffective seven years ago can be seen to have worth now. Some goods and services that were not necessary in the past may now be needed by the market. List each concept, research it, and give it careful thought. Make a list of every action that may be taken, taking into account the opinions of everyone involved. It's possible that some revived principles or previous mistakes may rescue the day. Consider a business that decided in 2001 that it was not a good idea to sell products online and was reluctant to change its mind in 2015. For instance, certain enormous, bulky things don't sell well online. However, purchases may be purchased online and then delivered to a shop for client pickup or delivery. Home Depot is an expert at this. The advancement of car dealers is not far behind.

Mistake #4: Lowering Prices Instead of Increasing Value

A price reduction for the consumer could lead to a sale. Additionally, it can prompt the buyer to anticipate future price reductions or to ponder the question, "If you can afford to lower the price now, does that mean you were gouging me in the past?"

Instead of just making a sale, your goal should be to build a loyal customer base. When you add value to the transaction, pressures to lower the price are diminished. Value-added features could consist of:

1. quicker delivery
2. superior quality
3. educating consumers on the uses of products
4. User meetings
5. focus groups for enhancing products
6. enhanced client services
7. These exercises improve your ability to compete.

Keep in mind: Finding new customers is really challenging. Maintaining a satisfied consumer is a difficult task. Once you've lost a consumer, it's almost tough to get them back.

5th error: disregarding the 80/20 Rule

You must understand that 20% of your clients generate 80% of your income, and 20% of your goods generate 80% of your shipping. Less favorably, 20% of your workers are accoun for 80% of your absenteeism, and 20% of your customers are in charge of 80% of your past-due accounts receivable. Businesses conflate activity with productivity and effectiveness with productivity. They make an effort to satisfy everyone. People who are overworked and fatigued give each order their undivided attention with the hope and conviction that if they only work more, things would change. Concentrate your efforts on the tasks that are most important. Only 20% of the success comes from the least significant 80% of all company activities. Don't waste too much energy on the 20% of jobs that are the least vital, since this will dilute your effort and make it harder to complete the things that are more crucial.

Holding on to Sacred Cows is Mistake

A frequent evaluation of the whole company is necessary, maybe around budget season. Is each market and product line still making the desired contribution? Is there a product line or market using an excessive amount of company resources compared to what is anticipated given its current and projected performance? What alternative, more lucrative projects may be carried out with insufficient resources? Do we really need to be in this industry?

Target is a business that kept on to a "sacred cow" for too long.

long periods of time at enormous expense. It entered the Canadian retail market by acquiring an unsuccessful retail chain with more than 100 sites and launching a number of outlets practically simultaneously. These choices drove it to make significant capital investments before it knew if Canadian consumers really wanted Target, leaving it with a very large fixed-cost commitment. The CEO needed to admit the errors in order to limit their losses and liquidate these businesses, but he refused to do so. His first choice was his holy grail. The firm even predicted that it would take five more years of significant losses before they would even breakeven; it was obvious that a prosperous, professional future beyond those years was not guaranteed.

In 2014, Target hired a new CEO, who shut down all of the Canadian locations and fired the management team responsible for this disastrous business model that had lost Target billions of dollars. Recognize that there is nothing fundamentally wrong with Target considering entering the Canadian market. For instance, Nordstrom entered the Canadian retail sector with two locations and is doing well despite having spent little money. Target's execution, not the aim, was the issue; this was made worse by Target's refusal to reconsider its positioning even after it became obvious that it was a mistake.

GE Capital, the seventh-largest financial organization in the nation when the 2008 financial crisis struck, was a business without any sacred cows. At the time, it accounted for 40% of GE's business. By 2018, GE will have virtually sold off all of its finance divisions and become a pure industrial corporation [4]–[6].

Relying on a Dominant Customer is Mistake.

A valuable client might sometimes take up too much of our business portfolio. This is thrilling but also quite risky. A powerful client can abruptly go. They may grow haughty and impose onerous conditions, such as cheaper prices and compressed delivery times. It's taking Qualcomm a while to recover after losing Apple as its top customer.

Unless you have long-term contracts with provisions for prolonged cancellation notice, you should never allow one client to represent more than 10% of your company. In the 1980s, Sears had a reputation for pushing itself on its smaller suppliers and forcing them to make harsh pricing and other concessions until they were in serious financial trouble. In the ten years that ended in 2016, Sears had among the poorest financial results of any retail businesses. The company is currently owned by Home Depot and Lowe's.

II. DISCUSSION

Middlesex Manufacturing Company

All of Middlesex Manufacturing Company, Inc.'s financial categories are included in the below. Determine whether each item on the list goes on the income statement or the balance sheet, and then put the appropriate number in the appropriate location. You will have a thorough assessment of the format and substance of the financial statements if the numbers are placed correctly.

Woodbridge Manufacturing Case Study: A Comprehensive Analysis

This case study offers a comprehensive look at the discounted cash flow method's full process of analyzing an investment opportunity. A number of concerns will come up in addition to this general examination that the analyst should take into account. These include working capital investments and the potential effects that new product launches may have on various aspects of the company. The Woodbridge Manufacturing Company is thinking of launching a brand-new item, a computer pad that is particularly ergonomically sound. One of the business's current items' sales will undoubtedly be impacted. The bad news is that consumers won't be lost, but some sales of Woodbridge's current product will. The good news is that Woodbridge itself will "lose" the sales rather than a rival. A potent offensive is the finest kind of defense. Someone will update the product range, whether it's Woodbridge or a rival.

Further Issues

A prediction is based on numerous simplifying assumptions. The prediction will be realized, to start. Note that Year 1 is when the working capital investment is allocated. One may argue that although accounts receivable will start in Year 1, inventory will be required before the project begins. It is equally speculative to say that the working capital investment would be completely repaid in Year 5. After the project is completed, Year 6 is used by some analysts for this recovery. It is also doubtful that all of the inventory can be sold at full price in Year 5. The answer is to create the investment and cash flow prediction as objectively and thoughtfully as you can, but never lose sight of the fact that this is only a forecast.

If the accountants had opted to employ accelerated depreciation rather than the straight-line technique used in this research, the return on investment for this opportunity would have been impacted. The analysis's methodology should correspond to how the business really files its taxes. Glossary 10-K the annual report that must be filed with the Securities and market Commission by any corporation with 500 or more shareholders, any issuer of public securities, or whose stock is listed on any stock market. The 10-K is comparable to the annual report that each shareholder gets; it includes a full set of financial statements and other supporting material, but no pictures or anything related to "public relations."

ACR: Accelerated Cost Recovery a depreciation technique that the Internal Revenue Service has prescribed. Since it was initially established, it has undergone a number of modifications; the present version is referred to as the Modified Accelerated Cost Recovery System. Equipment's depreciable lifetimes are shortened, although the first-year deduction is smaller than the complete straight-line deduction. As equipment's technical lifetimes become shorter, the MACRS-prescribed depreciable lives are constantly modified. The IRS mandates the use of MACRS for tax reporting, but GAAP does not permit its use for financial reporting [7]–[10]. Accounting the monetary reporting of the past. Accounting documents company activities after they have place. Financial statements are the summaries of the findings after all of these transactions have been documented.

Invoices Payable Amount due to suppliers for goods and services the business has already received but hasn't yet paid for. As a short-term obligation, accounts payable must be paid off in less than a year, most often within 30 to

60 days after the balance sheet date. Receivables Accounts the sum of money that the business is owed by its clients for goods and/or services that they have rendered but have not yet been paid for. It is a current asset, which means that it is due sooner than a year from the date of the balance sheet—probably within 30 to 60 days.

Finance for Accounts Receivable a kind of borrowing where the business pledges its accounts receivable as security for bank loans or loans from commercial finance organizations. Earnings Accounting The accounting approach utilized by practically all public organizations and individual businesses. According to this system, regardless of when cash is received or spent, revenues are recorded when money is generated and costs are recorded when a resource is used. The cash foundation of accounting is a substitute technique. Accordingly, income is recorded as soon as money is received, and costs are recorded as soon as invoices are really paid.

Ratio of Acid Tests Look up Quick Ratio.

Acquisition the acquisition of a business by another. A transaction may include the exchange of cash, securities, debt, or any combination of these. Expenses for administration what the business spends on the infrastructure that its support employees require to contribute to the success of the business. Those that make up the support personnel are:

1. Accounting
2. Legal Personnel Resources
3. Informational management systems
4. The following are examples of the supporting infrastructure:
5. The corporate office Office products

The system of computers

Ageing Time a thorough summary of how long the business has been patiently awaiting payments from its clients. This analytical tool aids management in evaluating the success of the company's attempts to collect accounts receivable. Days' Sales Outstanding may conceal particular problems even if it shows the average age of receivables.

Amortization The accounting system used to distribute an investment in an intangible asset across the years of its useful life. The following intangibles are amortized: goodwill, copyrights, licenses, and trademarks. A corresponding portion of the total investment will be recorded as a noncash expenditure on the income statement each year. Depreciation expenditure and this idea are quite similar, although depreciation is used for fixed assets. An arrangement wherein calculated regular monthly principle and interest payments are made on a loan. Every payment has the period's interest as well as enough principle to pay off the debt after the specified number of installments. 240 equal monthly payments will be required for a loan with a 20-year amortization period.

Angel Investment a kind of venture capital that provides funding for startups in their early stages. At this stage, the company is probably just a concept. There might, but isn't always, a business strategy. The "angel" is generally a rich friend or family, however if the proposal includes a high-tech concept created by someone with experience in the industry, it may be a venture capital business. In return for a piece of the ownership, the angel investor offers funding and managerial experience.

lending based on assets utilizing the company's assets as security to get a loan from a bank or other financial institution. A house mortgage is an instance of asset-based financing where the collateral is real estate. Inventory and accounts receivable are used as collateral for working capital loans. The only way a smaller firm may borrow money from a commercial bank is often by using assets as security. Due to the lesser risk to the lender, it may also lead to cheaper fees and interest rates.

Assets the assets that belong to the business. These are considered the following:

1. very fluid
2. Cash and its substitutes
3. Temporary market securities
4. Purchasing power:
5. Payables receivable
6. Inventory
7. Fixed or tangible assets:
8. Land Buildings
9. Equipment and machinery

10. equipment, furnishings, and vehicles
11. Financial or intangible assets
12. ownership of other businesses
13. additional loan or equity investments
14. Copyrights Patents Trademarks

Goodwill

Audit an unbiased party's evaluation and criticism of the company's accounting system, control methods, and real accounting process. The recording of occurrences and the creation of financial statements are among the components that were examined. Obtaining confirmation that the s shown in those financial statements are fairly correct is another step in the audit process. A third-party, independent CPA company that the shareholders employ conducts a certified audit. Such a company sometimes accomplishes these goals through managing individuals referred to as "internal auditors." Although they work for the business, these internal auditors are under the CPA firm's supervision.

Assurance that the audit was carried out properly and that there is a reasonable confidence that the financial statements are presented accurately is provided by the audit letter, which is issued by the CPA firm to the shareholders. You should read the letter that is included in the company's annual report. It makes reference to the difficulties and unknowns involved with accounting. Because there are varying opinions about what it promises and does not guarantee, it is often the subject of legal disputes. Account Statement a financial report created by the corporation at the conclusion of each fiscal quarter that details the stockholders' equity, liabilities, and assets of the company. The formula for the balance sheet is:

Acceptance from the Bank a corporate credit product that was created by a bank and is often used to fund import-related operations. When the goods is "accepted" by the importer, it allows both the importer and the seller to be certain that they will get what they bought and that they will be paid. Bankruptcy the unsatisfactory experience brought on by a business's failure to pay its invoices. It may be: When creditors ask the court to declare the debtor insolvent, it is involuntary. when the debtor corporation submits the petition, voluntarily The court appoints a trustee under 7 with extensive authority to act, which often results in the liquidation of the company's assets and the end of its activities. To attempt to save the firm and their relationships, the company and its creditors will cooperate. Debt is restructured, payment plans and settlements are made. The company will often get additional loans and credit from creditors in the hopes that it would thrive.

Basis for 1/100th of one percent is the meaning of this financial and banking word. 100 basis points are equivalent to one full percentage point. The Federal Reserve lowers interest rates by 50 basis points, or 1/2 percent, when it does so. Invoice of Lading the paperwork backing up the goods shipping. Payment Cycle the space in between when businesses send out in-voices. It might last for a single day or a whole month. Companies should look at the ways in which their clients pay them and, if necessary, reduce the billing cycle to speed up payments. This choice should also take into account the administrative expenses associated with sending out bills, an expense that is sometimes overlooked. Committee of Directors the corporate body that makes decisions. It is chosen and reported to by the investors. It employs the organization's top executives and holds them accoun for their work ethics and financial success.

Bond a business debt instrument that is offered for public sale or via a private placement to generate money. The maturity typically ranges from 5 to 30 years. The stated interest rate at the time the bond was issued is known as the coupon rate. Corporate bonds are often sold in $1,000 increments; when a bond sells at par, it is doing so at its face value. During the years that a bond is outstanding, its price will often change in reaction to market circumstances. The company must, however, return the bond's whole paramount when it matures. An accounting phrase that refers to the fixed asset's initial purchase price minus the total cumulative depreciation paid against it. In this context, the words "book value" and "net book value" are interchangeable. The shareholders' equity of a company's balance sheet is sometimes referred to as the book value. The book value per share is calculated by dividing the total equity on the balance sheet by the number of outstanding common shares:

Stockholders' Equity = Common Shares Outstanding * Book Value per Share

In stock market research, the market price of a common stock share is then contrasted with the book value per share, which serves as a benchmark to determine the "premium" being paid for the shares. Breakeven Evaluation study of the connections between a product's selling price, variable and fixed costs, and production volume, as well as their overall effects on corporate profitability. Budget Essentially, this is a financial process that prioritizes the financial expenditures needed to execute business prospects vs the rewards that would arise from those efforts. The business engages in what we will refer to as the planning process every year. Management makes strategic, operational, and financial choices as well as future-focused planning. In essence, it distributes funds to the divisions, initiatives, markets, and activities that it believes will offer the greatest value to the company. Once every choice has been made, it is documented in a document known as the budget. As a result, the budget is basically a record of the planning process. It acts as a history, manual, and performance benchmark for measuring and assessing future outcomes.

III. CONCLUSION

In conclusion, in order to provide stakeholders a thorough knowledge of an organization's financial performance and situation, financial statement practice includes the creation, presentation, and analysis of financial statements. For the sake of regulatory compliance, investor trust, and well-informed decision-making, accurate and honest financial reporting is crucial. Consistency and comparability in financial reporting are ensured by adherence to accepted principles and standards. By analyzing and understanding the financial information provided in the statements, financial statement analysis improves decision-making even more. In order for firms to convey their financial performance and support wise business choices, effective financial statement practices are essential.

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