

محاضرة (4)

Financial Statements

القوائم المالية

❖ Introduction

Financial statements are the final outputs for applying the accounting cycle which supply with credible, relevant, and timely financial information to take rational economic decision.

The object of a firm is to get profit. It is something of vital importance to all firms. The profit made by a firm is the difference between the total revenues earned and the total expenses incurred during a particular period of time. The owner is also interested to know their financial position. The preparation of Trading and Profit and Loss Account and Balance Sheet is known as the preparation of final accounts.

القوائم المالية هي المخرجات النهائية لتطبيق الدورة المحاسبية التي تزود معلومات مالية موثوقة وذات صلة وفي الوقت المناسب لاتخاذ القرار الاقتصادي العقلاني.

❖ Basic of Analysis

أساسيات التحليل

• Financial Statements (meaning) (القوائم المالية (المعنى)

1. Financial Statement is a statement prepared for evaluating past performance and predicting future performance.
2. Financial Statements are regarded as indices of business enterprises performance and position.
3. The term 'Financial statement' as used in modern accounting refers to two statements, the position statement reflecting the assets, liabilities and capital of a business entity on a particular date called the balance sheet, and the other called the profit and loss account showing the results of the business operations during a given period.

يشير مصطلح "البيان المالي" كما هو مستخدم في المحاسبة الحديثة إلى بيانين ، بيان يبين الموقف الذي يعكس الأصول والخصوم ورأس مال لوحدة تجارية في تاريخ معين يسمى الميزانية العمومية ، والآخر يسمى حساب الأرباح والخسائر يظهر نتائج العمليات التجارية خلال فترة معينة.

- **Important Definitions of Financial Statements**

(a) "The financial statements provide a summary of the accounts of a business enterprise , the balance sheet reflecting the assets , liabilities and capital as on a certain data and the income statements showing the results of operations during a certain period ". (John N. Meyer 2009).

(b) "The end product of financial accounting is a set of financial statements prepared by the accountant of a business enterprise that purport to reveal the financial position of the enterprise the result of its recent activities, and an analysis of what has been done with earnings". (Smith and Ashburn 2017).

أ. "توفر القوائم المالية ملخصاً لحسابات منشأة تجارية ، فالميزانية العمومية تعكس الأصول والخصوم ورأس المال معتمدة على بيانات معينة، وقائمة الدخل التي تبين نتائج العمليات خلال فترة معينة".

ب. "المنتج النهائي للمحاسبة المالية هو مجموعة من القوائم المالية التي أعدها المحاسب لمشروع تجاري يهدف إلى الكشف عن المركز المالي للمشروع نتيجة أنشطته الأخيرة ، وتحليلاً لما تم إنجازه بالأرباح".

- **Nature of financial statements** طبيعة القوائم المالية

1. The American institute of certified public accountants (AICPA) states the nature of financial statements as , "financial statements are prepared for the purpose of presenting a periodical review or report on progress by the management and deal with the status of investment in the business and the results achieved during the period under review financial statements reflect a combination of recorded facts, accounting principles and personal judgements " .
2. Financial statements are plain statements based on historical recorded facts and figures .
3. Financial statements reflect a judicious combination of recorded facts , accounting principles concepts and conventions, personal judgements and estimates .
4. According to (john N. Meyer 2009) , "The financial statements are composed of data which are the results of a combination of the following:
 - (1) Recorded facts concerning the business transactions .
 - (2) Conventions adopted to facilitate the accounting techniques .

(3) Postulates or assumptions made to , and

(4) Personal judgements used in the application of the conventions and postulates .

• **Objectives of Financial Statements** أهداف القوائم المالية

1. To communicate to their interested users , quantitative and objective information, this information is useful in making economic decisions.
2. To meet the specialized needs of conscious creditors and investors .
3. To provide reliable information about the earnings of business enterprise and its ability to operate at a profit in future .
4. To provide financial base for tax assessments .
5. To provide valuable information for predicting the future earning power of the enterprise .
6. To provide reliable information about the changes in economic resources .
7. To provide information about the changes in net resources of the organization
8. To provide reliable information about the changes in net economic resources.
9. To provide information about the changes in net resources of the organization that result from profit directed activities.
10. To play a very important role in accounting and corporate reporting.
11. To regulate equity and debenture issues by companies.

• **Importance of Financial Statements** أهمية القوائم المالية

1. The financial statements are mirror which reflect the financial position of operating strength or weakness of the business concern .
2. These statements are useful to management , investors , creditors, bankers , workers, government and public at large .
3. Financial statements are the indicators of two significant factors namely, the profitability and financial soundness of a business enterprise.
4. The following major uses of financial statements which shows its importance .

(a) As a report of stewardship .

- (b) As a basis of fiscal policy .
- (c) To determine the legality of dividends.
- (d) As a guide to dividend policy.
- (e) As a basis for granting the credit.
- (f) As informative for prospective investors in an enterprise.
- (g) As guide to the value of investment already made.
- (h) As an aid to government supervision.
- (i) As a basis for price or rate regulation.
- (j) As a basis for taxation.

• **Interpretation of Financial Statements** تفسير القوائم المالية

- (1) Interpretation of financial statements is the mental process of understanding the terms or the simple elements resulting from the analysis of the compounded financial statements and forming opinions or inferences or conclusions about the various aspect of a business enterprise , such as solvency , profitability , efficiency etc .
- (2) Interpretation Financial Statements which follows analysis of financial statements, is an attempt to reach to logical conclusion regarding the position and progress of the business on the basis of analysis .
- (3) Interpretation Financial Statements aims to explain the meaning and significance of the data simplified by analysis.
- (4) Interpretation of financial statements is the process of drawing inferences or conclusions about the various aspects of business .
- (5) Integration Financial Statements aims to explain the meaning and significance of the data simplified by analysis.

❖ **Business Activities** أنشطة الأعمال

Business activity is the process of transforming inputs into outputs by addition value. An accounting is a system that collects, records, stores, and processes data to produce information for decision makers into several firms. The type of a business depends on size of activity which is performed by the business .Thus the accounting must be carefully addressed because of the tax, managerial, legal and liability impacts that business formation has.

From Commercial and Legal angles, a business may be organized in many ways. There are a number of different forms of Business firms. However, the common forms of organizing are: Sole proprietorship, Partnership, Limited Company and corporation.

1- Sole proprietorship المنشأة الفردية

The **Sole proprietorship** is carried on by single individual. All the profits of the business earn go to him. The sole proprietors' liability is unlimited, and he is personally liable for paying of the debts.

2- A partnership شركة التضامن

A partnership comprises a minimum of two and a maximum of (20) persons trading together as one firm and sharing in the profits. In addition to sharing the profits, each partner shares unlimited Liability for all the debts and obligations of the firm and is responsible for the Liabilities in the firm of his fellow partners as well as his own.

3- A Limited Company الشركة المحدودة

A limited company is a Legal entity and is treated by the law like a natural person; it must be run according to the rules set out by the company law. Among other provisions, it is laid down that financial statement must be prepared and audited every year and be made available for inspection on a public register.

4- Corporation شركة مساهمة

The Corporation structure consists of the shareholders and the board of directors. The shareholders appoint the board of directors to manage the company. The capital of a company is divided into units of ownership called shares. The shares of a public company are freely transferable from one individual to another.