

محاضرة (5)

❖ Financial Statements Reflect Business Activities

القوائم المالية تعكس أنشطة الأعمال

• **Advantages of Analysis of Financial Statements**

مزايا تحليل القوائم المالية

(a) Knowing the Exact Position معرفة المركز الحقيقي

1. Everybody who is interested in knowing the exact financial position of the concern is benefited by the 'analysis' of financial statement.
2. Interested party gets the valuable information about the exact facts and figures of the concern by analyzing the financial statements by various methods.

(b) Decision-making صناعة القرار

3. Every interested party is in a position to assess the exact financial position of the concern when it analyses financial statements of that concern by reliable methods.
4. Thus, such an analysis ultimately helps that party in taking various types of decisions such as investment, sale, purchase etc.

(c) Forecasting التنبؤ

After analyzing the financial statements, one is in a position to forecast whether it would be profitable or not to invest in or to deal with the business concern.

• **Making Financial Decisions on the Basis of Financial Statements**

صناعة القرارات المالية على أساس القوائم المالية

1. The major advantage of financial statement analysis is to provide decision makers information about our a business enterprise decision-making.
2. Financial statements are used by financial institutions, loaning agencies, banks and others to make sound loan or credit decisions.
3. Financial statements helps in predicting the earning prospects and growth rate in earnings which are used by investors while comparing investment

alternatives and other users interested in judging the earning potential of business enterprises.

4. Analysis of financial statements is a significant tool in predicting the bankruptcy and failure probability of business enterprises.
5. Financial statement analysis is defined as the process of identifying financial strengths and weaknesses of the firm - by properly establishing relationship between the items of the balance sheet and the profit and loss account.

• **Disadvantages of Analysis of Financial Statements**

عيوب تحليل القوائم المالية

(a) Completely Ignore Current Costs إهمال كامل للتكاليف الجارية

- Financial analysis is always based on financial statements which are generally prepared on the basis of historical costs. Thus, it may reflect distorted results.
- The financial analysis based on such financial statements would not portray the effects of price level changes over a period of time.

(b) Financial Statements are Essentially Interim Reports

القوائم المالية بالأساس تقارير مرحلية

- The amount of profit or loss as shown by the Profit and Loss account or the financial position as shown by the Balance Sheet of any unit is always based on certain accounting concepts and conventions. Therefore, these figures may not reflect the exact position.
- Further, the existence of contingent liabilities, deferred revenue expenditure etc. may make them inaccurate.

(c) Financial Analysis is Only a Means Not an End

القوائم المالية وسيلة وليست غاية

- The financial analysis should not be considered as the ultimate objective test but it may be carried further based on the outcome and revelations about the causes of variations. It is the part of the larger information processing system.
- In other words, it is a means to an end and not the end in itself and therefore, it should be used only as a starting point and conclusion should be drawn keeping in view the overall picture and the prevailing economic and political situation.

(d) Completely Ignores Non-monetary Facts إهمال الحقائق غير النقدية بالكامل

- Financial statements reveal only those facts which can be expressed in terms of money.
- For example, the financial statements will show only the amount paid to workers and staff as wages, salaries and other perks.
- But these will not reveal how loyal they are to their organization or how trained and efficient are they in the work assigned to them.
- These matters are also of considerable importance for the business and play a crucial role in efficient working of an organization.
- However, these are completely ignored in financial statement as these cannot be measured in terms of money.