Financial Statements

By

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1. Critically evaluate how the annual report and associated financial statement may be used to assess the performance of a company?

Answer 1: There are several measures which can be used in order to access the performance of the company by using the financial statements and annual reports of organizations. It can be critically said that annual reports and financial statements can be used to compare the performance of the company in the current period as compared to the previous years. The performance of the companies can also be measured using the financial statements as these statement s provide all relevant information's associated with the efficiency of operations and creditworthiness of the company, effectiveness of credit policies etc (Drake and Fabozzi 2012).

The annual reports can also be measured and compared with those of the similar companies in the similar industry which will provide the information associated with the performance of the company. The performance can also be accessed in terms of the profitability, efficiency, liquidity; leverage etc. Specific financial statements also provide information's associated with performance related to different aspects of the business of the companies. It can also be critically said that the financial statements provides information's about the workings and several other aspects of the company. The profit and loss account or the income statement of the company provides information's related to the income and expenditure of the business done in the financial year. The balance sheet provides information related to the assets, liabilities, and ownership equity at a given point of time (Drake and Fabozzi 2012).

The changes in reporting equity statement provides information related to the changes in the company equity throughout the reporting period. The cash flow statements provide information related to the operating, investing and financing activities. Thus it can be critically said that the financial statements and the annual reports of the companies can be used to effectively access the performance of the companies (Drake and Fabozzi 2012).

2. To what extent is the financial crisis a result of poor financial accounting?

Answer 2: The financial crisis was highly a result of the poor financial accounting. Financial accounting is the base for the financial sector based on which all the transactions were undertaken. The inappropriate financial accounting results into poor management of financials which resulted into inappropriate handling of funds. This resulted into misappropriations of the funds of public by corrupt officials of companies which led to the financial crisis (Basu 2006).

The mismanagement of the funds in several financial institutions was only the result of the poor financial accounting. Due to the poor financial accounting there was a huge impact on the global stock markets. This also led to the bust and bubbles in the real estate markets leading to expansion and shrinkage of the derivative transactions. Accounting plays a vital role in the success and failure of the businesses. The key objects of the business are entirely defined by the accounting functions in most of the businesses like stocks, bonds, derivatives etc. it can be argued that the major reason of the financial crisis was rooted from the failure of the accounting standards, accounting policies, regulations and practices etc (Basu 2006).

Poor financial accounting also resulted into poor risk management and ignoring of the systematic risk, this also resulted into proprietary trading and keeps them winning and public bearing losses. Due to the poor financial accounting took place and affected the whole world markets. If the accounting were proper then lot of looses beard by the public in the financial sector can be saved and several financial institutions could have been saved from getting bankrupted (Pratt 2010).

3. Critically evaluate how potential inventors might use published financial statements to make decisions on whether or not to invest in a company.

Answer 3: Potential investors might use the published financial statements to access the viability of investing or not investing in any business. It can be critically said that there are several measures which the investors might use in order to take decisions whether or not to invest in the company. The financial statements can be used by the investors to access the performance of the company in the current period and also in the past which may also lead to providing them with information associated with future performance of the business or company (Whittington and Delaney 2011).

Potential investors might use the financial statements to do the financial analysis based on which the decisions can be taken related to investing or not investing in any company or business. The financial statements can be used to calculate the financial ratios based on which the investor can do the analysis. Using the financial statement for calculating ratios helps the investors to take investing decision based on several criteria's, like profitability, risk, liquidity, leverage and so on. The investors can also use the published financial statements and compare it with the previous financials which may help them to take investing decisions. The investors can also take decisions related to investing by comparing the financial statements with that of the industry standards and analyze the performance of the company in several aspects (Whittington and Delaney 2011).

The decisions can be based on the comparisons of the financial statements with the company previous data or with that of the other similar companies or industry standards. Thus it can be critically said that the financial statements can effectively used by the potential investors to take decision associated with investing or not investing in any company or business (Whittington and Delaney 2011).

4. What are the difficulties surrounding the valuation of both assets and liabilities on the Balance Sheet?

Answer 4: There are several difficulties surrounding the valuation of the assets and liabilities on the balance sheet this mainly includes:

Character of the assets: there are several cases in which it becomes difficult to identify the character of the asset for valuations purpose i.e. it becomes difficult to identify whether the asset if fixed asset or current asset. This treated as problem because the mode of valuations of both kinds of assets is different from one another like if we take an example of investment it is difficult to judge it as a fixed or current asset (Wiborg 2012).

Use of asset: in several cases similar assets were used in the organization and are also used for sale. The nature of the asset changes the treatment of its valuation. The asset like furniture was sometimes used as an asset in companies for use while it is also used as stock of furniture for sale.

Estimated life: The valuation of the assets is also difficult because the life of fixed assets is not certain and the valuation of such assets is based on the estimated life of it which affects the valuation of the assets (Whittington and Delaney 2011).

Lack of proper information: the lack of appropriate information related to the assets and liabilities is also one of the difficult faced while doing valuation of the assets and liabilities (Allison 2012).

Eventual problems: It is also difficult in the valuation of the assets and liabilities that the valuation does not include the information related to the assets and liabilities which has been occurred after the balance sheet date.

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