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## Financial Statements

### Components, Users and Elements

Financial Statement - A tabulation of names and sums of money extracted from accounting records Financial statements are presented to provide information about the financial position, performance and changes in the financial of an entity.

### General Purpose Financial Statements

Provides information that would be useful to a wide range of users in making economic decisions.

#### Components of General Purpose Financial Statements

- Statement of financial position as at the end of the period (Balance Sheet)
  - Provides information about the performance of the entity over a period
  - Made up of income and expenses
- Statement of comprehensive income for the period (Income Statement)
  - Provides information about the financial position of the entity at a point in time
  - Made up of assets, liabilities and equity, with the basic accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

- Statement of cash flows for the period
  - Provides information about changes in an entity's financial position during a period
  - Used to assess operating, investing, and financing activities during a period
  - Used to assess the entity's ability to generate cash and cash requirements
  - Made up of cash inflows and cash outflows
- Statement of changes in equity for the period
  - Provides information about investments and distributions to owners in their capacity as owners during a period
  - Made up of equity
- Notes comprising a summary of significant accounting policies and other explanatory information

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## Special Purpose Financial Statements

Provides information that is useful to a particular user or group of users in making economic decisions.

## Elements of Financial Statements

Directly related to performance:

- Income
- Expenses

Directly related to financial position: - Assets - Liabilities - Equity

**Assets** Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

- Embodies a probable future benefit
- A particular entity can obtain the benefit and control others' access to it
- The transactions or other event given rise to the entity's right to obtain or control the benefit has already occurred.

Current Assets - Assets from which future economic benefits are expected to flow to the entity in not more than a year after the reporting period

Non-current Assets - Assets from which future economic benefits are expected to flow to the entity in more than a year after the reporting period

## Financial Analysis

Financial Analysis is an examination of financial statement figures and related financial and non-financial data to get a better understanding of the financial information provided in the financial statements.

- **Structure** - Financial statements are structural as they are generated through the strict application of several accounting rules
- **Absolute** - Financial statement figures are presented in absolute terms rather than relative terms

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- **Context** - The meaning of a figure in a financial statement is contextual and can only be understood in relation to other figures in the same or other financial statements

### **Financial Analysis Process**

- Setting objectives
- Gathering data
- Computing the performance indicators
- Reporting the results

### **Data and Data Sources**

#### **Data**

- Elements of financial statements
- Stock market indices, i.e. price of shares, P/E (price to earnings) ratio, stock index
- Other financial and economic indices, i.e. inflation, interest rates, CPI.
- Non-financial data, i.e. output level, number of employees

#### **Data Sources**

- Annual reports and other publications of companies
- GSE (Ghana Stock Exchange) Fact Book
- Statistical Reports
- Newspaper and Journal Articles
- Securities firms and financial analysts reports

**Statement of Comprehensive Income / Income Statement** Presents income earned over the period and expenses incurred over the same period. Income and expenses are used to assess the performance of the reporting entity.

**Statement of Financial Position / Balance Sheet** Presents the financial position of the reporting entity at the end of the reporting period. It reports the entity's assets and the means of financing those assets (liabilities and equity).