Mikiyas Lema

ACCOUNTING ASSIGNMENT

3 commonly used financial statements are- Balance Sheet, Statement of Cash flow, Income Statement

**Income Statement-** It shows revenues and expenses. It is used by many investors including me as one evaluating factor if a business has profitability and growth potentials.The statement deduct cost of goods sold from total revenue to find gross profit. The reason it is important is because it shows us how much expenses a business has compared to the revenue.

**Balance Sheet-** The balance sheet displays a company’s Assets, Liabilities, and Shareholders Equity at a point in time. Assets= Liabilities + Shareholder Equity. The asset section begins with Cash which should be equal to the balance found at the end of cash flow statement. The reason the balance sheet is very important is it shows us the financial position of a business. It is also a key tool that investors use when evaluating the value of a business.

**Statement of Cash Flow-** The cash flow statement takes net income and adjusts it for any non-cash expenses. After, using changes in the balance sheet, receipt of cash is found. The cash flow statement displays the change in cash per period, as well as the beginning and ending cash balance of cash. The reasons why statement of cash flow is important are it shows us the increase and decreases in cash. A great cash flow is important for a company to expand and grow, and the statement of cash flow helps us to see that. It makes it clear to see the net changes in the cash balance from start to end of a period.