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There are key performance indicators that investors and lenders will want to see in a company's financial statements before they will invest or loan to the business. Investors will be looking at these key metrics, so work with your controller services to track and improve them. Business financial statements are like a financial report card showing how
well your business is doing. Financial statements reveal information about a company, including its net profit or the revenue growth are critical to a company's financial performance and determining if sales have increased or decreased. Investors want to see healthy profit margins, which
represent the percentage of profit earned on each dollar of revenue. Companies need adequate cash flow to run their daily operations, making free cash flow a key metric for lenders and investors. Financial statements will reveal a company's net profit, The net profit is the money that a business has left over after paying all expenses. "Are you making free cash flow to run their daily operations, making free cash flow to run their daily operations, making free cash flow a key metric for lenders and investors. Financial statements will reveal a company's net profit and investors.
money?" is often the first question asked, but it's only a starting point. Unsustainable profits are bad, and losses can be good if you're on track to profitability as you scale up. But as many business owners do not often have a clear understanding of their net profit, this is a good place to start. You may have an objectively amazing product or service, but
the real question is, are people willing to buy it? If you establish a track record of sales before seeking investment, investors also care about sales growth. Are you showing an upward trend, or did the initial excitement fizzle out? Sales are meaningless if you aren't making
money. Investors also want to see your profit margins both overall and at the individual product level. They'll also compare your margins against industry standards and their other available investment opportunities. Higher margins generally lead to a better return for investors. If you have low margins, you'll need to demonstrate a plan for improving
them. For early-stage businesses, demonstrating how economies of scale will reduce costs as you grow is usually the answer. It's critical to company is performing against its peers. For example, banks should be compared to those in the financial
sector, while technology companies with those in the tech sector. In business, cash is king. A solid five-year plan does you no good if all your employees will walk out if you can't make payroll next week. Investors view of cash in the bank as a sign that you can deal with unexpected problems and capitalize on new opportunities. Free cash flow, the
amount of cash that's left after you meet your expenses each period, is a sign of sustainable operations. If you have to spend to get one new customer. It's calculated by dividing your marketing spend by your number of new
customers. For a fledgling business, this can sometimes be a very large number. For businesses that are mostly established, this amount can be blended and reduced by repeat and referred customers, who are likely easier to acquire. Acquisition cost is important because a product that's profitable from a material and labor standpoint may not actually
be profitable if you have trouble getting people to buy it. This problem can occur with super-niche areas where it's hard to spread the word about your product or in hyper-competitive areas where advertising competition is fierce. As with other measures, your ability to find economies of scale or otherwise lower the cost can be more important than
the actual number. Investors want to see a company's growth potential and its level of financial statements to determine whether the CEO and management team have a consistent track record of generating sales, revenue, and profit over multiple quarters and years. Coupled with the acquisition cost is your churn
rate. Once you get customers, can you keep them? A low churn rate can compensate for a high acquisition cost, and it's often an indicator of less risk for investors if you have steady repeat business. Of course, high churn rates may be the norm in sectors with long purchase cycles and/or heavy competition. Debt scares investors for two reasons. One
is simply that if you go out of business, debt holders get their money back before equity holders have a chance to claim what's left. The second, and more important, is that debt payments can hinder your ability to meet payroll and other expenses during slow periods. They may also mean you have less cash
available to help you handle a sudden surge in orders or an emergency equipment replacement. One of the most common debt measures is the quick debt ratio—current assets (excluding inventory) divided by current liabilities. A quick ratio of 1 indicates that you can exactly meet your obligations, and the higher it is above that, the more flexibility
you have. Accounts receivables turnover shows how long it takes you to collect money from customers. This tells investors two important things. First, are you willing to do what's necessary to make sure you get paid? Many new business owners feel bad asking for money and end up never getting paid. An investor looking for a return doesn't want to
work with someone who isn't good at tracking down customer payments. Second, how stable are your customers? A slow turnover combined with a large percentage of write-offs could indicate that many of your customers don't have financially sound operations. This adds risk to your business model, and investors will want to see an increased return
to compensate. Investors accept short-term losses, but they want to see a profit and a return on their investment sooner rather than later. Your break-even point is a specific sales target that will cover your expenses and get you to profitability. You may also build on other
assumptions, such as economies of scale, improved production efficiency, or reduced marketing expenses, as long as you can explain them in a way that's acceptable to investors will want to see that you've made a financial equity investment as well. If
you have money at stake, investors believe that you'll do what it takes to protect it. If you're not at risk of losing financial capital, investors may fear that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll view them as a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll be a blank checkbook and burn through cash without enough focus on protecting their investors believe that you'll be a blank checkbook and burn through cash without enough focus on protecting the protecting through the protecting through
your controller services. Even if you're not ready to seek investment, finding ways to improve can help the overall health of your business. When analyzing financial statements, investors should consider reviewing a company's net profit, sales and revenue growth, debt level, profit margin, and free cash flow. Financial statements reveal critical pieces
of information about a company's ability to generate revenue from its sales. Financial statements also show how well a company is managed by controlling costs and using its debt properly to expand or reinvest back into the company is managed by controlling costs and using its debt properly to expand or reinvest back into the company is managed by controlling costs and using its debt properly to expand or reinvest back into the company is managed by controlling costs.
revenue and earnings or understating costs to hide problems or reduce their taxable income. If a company has accounting errors that lead to restating lower earnings, shareholders can lose money when the stock price plunges. Investors use financial statements to determine the financial viability of a company by analyzing its revenue, profit,
expenses, and debt. However, it's important that investors company is performing against its peers or competitors. Want to read more content like this? Sign up for The Balance's newsletter for daily insights, analysis, and financial
tips, all delivered straight to your feedback! How to Calculate Withholding and Deductions From a Paycheck We help you conquer everyday moments in your financial lives, and we take our job seriously. Learn how we create content Subject-matter experts write and edit all of our articles. We never recommend
something we wouldn't recommend to our friends. We give you practical solutions, rather than mere best practices. We're committed to consistently updating and rigorously fact-checking our content. How to Buy Your First Home Download Article A financial report is an informational document about the financial health of a
company or organization, which includes a balance sheet, an income statement of cash flows. Financial analysts and government agencies. Reports must be prepared and disseminated in a timely manner, and they must be accurate
and clear. Although creating a financial report may seem daunting, the accounting required is not all that difficult. 1 Decide on a time frame. Before you begin, you will need to determine the period of time your financial report will cover. Most financial report will cover. Most financial report will need to determine the period of time your financial report will cover.
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unless the underlying accounting data is correct. For example, make sure all accounts payable and receivable have been processed, verify that the bank reconciliation is complete, and ascertain whether all inventory purchases and product sales have been recorded. You'll also need to consider any liabilities that may be unrecorded as of the financial
report date. For example, has the company received any services that have not been invoiced? Are employees owed wages that have not yet been paid? These items represent accrued liabilities and must be recorded in the financial statements. Advertisement 3 Gather any missing information. If your review of the ledgers reveals any missing
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Title the first page of your financial report "Balance Sheet" and then list the organization's name and the balance sheet seffective date. The balance sheet appropriately. Most balance sheets feature assets on
the left and liabilities/equity on the right. Alternatively, some may show assets on top and liabilities/equity below. 3 List your assets. Add the title "Assets" to first section of the balance sheet, then list the different assets held by the company. Start with current assets, such as cash and any items that will be converted to cash within one year of the
balance sheet date. At the end of this section, include a subtotal of the current assets. [2] Next, list the non-current assets. Include a subtotal of
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would be left over if all assets were sold and all liabilities paid. Hence, liabilities plus equity should be equal to assets. If the balance sheet does not balance, double check your work. You may have omitted or miscategorized one of your accounts. Double check each column individually and make sure everything is included that ought to be. You may
have missed a valuable asset, or a significant liability. Advertisement 1 Set up the income statement shows how much money a company earned and spent over a period of time the income statement will cover. For
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isn't strictly necessary. 2 List sources of revenue separately, adjusted as necessary for any sales discounts or return allowances, for example: "Sales, $10,000" and "Service Income, $5,000." Organize the sources of revenue in a way that is
meaningful to the company. Some options may be revenue by geographical region, by management team or by specific product. When all revenue sources have been included, sum them and report the total as "Total Revenue." 3 Report the costs of goods sold. This is the total cost of developing or manufacturing your product or providing your service
in the reporting period.[6] To calculate a cost of goods, you should add the direct materials, direct labor, factory costs and shipping or delivery expenses. [7] Subtract cost of goods sold from total revenue and title this number "Gross Profit." [8] 4 Record operating expenses include all of the expenses that are necessary for
conducting your business. This includes general and administrative expenses, such as salaries, rent, utilities and depreciation of properties. It also includes advertising and research and development expenses separately so that the readers of your report can get an overall idea of where money is being spent.
Subtract the sum of these costs from your gross profit and title this number "Profit Before Taxes." 5 Include retained earnings from the beginning of the year to the current year's net income or loss results in the total
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the increase or decrease in cash to the cash balance shown on your balance sheet. 6 Add any important notes or narrative. Financial reports often include a section called "Notes to the Financial Statements," which contain significant information about the
company. Consider what additional information about the finances of the organization would be most useful to include in the "Notes" and then add this information. This is your opportunity to explain to investors what the report means and
what it shows or doesn't show. It can help potential investors see the company through your eyes.[12] Typically, the notes also include an explanation of balance sheet captions. This section also often includes details about the company's tax situation, pension plans, and
stock options. Advertisement Add New Question Can I get an elaboration on how gross profit is used in a financial report? Michael R. Lewis Business Advisor Michael R. Lewis Bus
President for Blue Cross Blue Shield of Texas. He has a BBA in Industrial Management from the University of Texas at Austin. Gross Profit is the earnings after direct costs of production are deducted from Revenues. It is typically means a competitive market so prices are not easily raised and
Lewis is a retired corporate executive, entrepreneur, and investment advisor in Texas. He has over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas. He has over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas. He has over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas. He has over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas.
overview. For example, an Income Statement might reflect he totals of Gross Revenues, Cost of Goods, Administrative Costs, Earnings before Taxes, Intangibles, and Total Assets as well as Current Liabilities, Long-term Liabilities, Total
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prepared and disseminated in a timely manner, and they must be accounting required is not all that difficult. 1 Decide on a time frame. Before you begin, you will need to determine the period of time your financial report will cover. Most financial reports are prepared
quarterly and annually, although some companies also prepare them on a monthly basis. To determine the period of time your financial report should be
prepared. Ask an executive at your organization how frequently reports are expected to be prepared. If you are the executive of your own organization, consider when the financial report would be most useful to you and select that as your financial report date. 2 Review your ledgers. Next, you'll need to make sure everything in your ledgers is up to
date and properly recorded. Your financial report will not be useful to readers unless the underlying accounting data is correct. For example, make sure all inventory purchases and product sales have been recorded. You'll
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as common stock and additional paid-in capital for a specific date. [1] Title the first page of your financial report "Balance sheet" and then list the organization's name and the balance sheet items are reported as of a specific day of the year. For example, the balance sheet items are reported as of December 31. 2 Format
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often includes details about the company's tax situation, pension plans, and stock options. Advertisement Add New Question Question Question Ean I get an elaboration on how gross profit is used in a financial report? Michael R. Lewis Business Advisor Michael R. Lewis is a retired corporate executive, entrepreneur, and investment advisor in Texas. He has
over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas. He has a BBA in Industrial Management from the University of Texas at Austin. Gross Profit is the earnings after direct costs of production are deducted from Revenues. It is typically analyzed as a ratio. A low gross profit typically
means a competitive market so prices are not easily raised and manufacturing costs are not easily reduced. On the other hand, high gross profits might mean that prices are relatively elastic so a targeted gross profit can be achieved or that the costs of producing the product to service is easily managed. Question How do I overview a financial
statement in a sample? Michael R. Lewis Business Advisor Michael R. Lewis is a retired corporate executive, entrepreneur, and investment advisor in Texas. He has over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas. He has a BBA in Industrial Management from the University of
Texas at Austin. Summarize the various elements of the Statements into an overview. For example, an Income Statement might reflect he totals of Gross Revenues, Cost of Goods, Administrative Costs, Earnings before Taxes, and Net Income. A Balance Sheet would include totals for Current Assets, Fixed (long-term) Assets, Intangibles, and
Total Assets as well as Current Liabilities, Long-term Liabilities, Total Liabilities, Total Liabilities, then Equity. You should provide enough detail in the Statements to accurately reflect the circumstances and condition of the enterprise. Ask a Question Advertisement Thanks Thanks Advertisement Thanks Advertisement Thanks Advertisement Thanks Tha
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agencies. Reports must be prepared and disseminated in a timely manner, and they must be accounting required is not all that difficult. 1 Decide on a time frame. Before you begin, you will need to determine the period of time your financial report will cover. Most
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 "Income Statement" and list the organization's name and the period of time the income statement will cover. For example, an income statement is often drafted for the period from January 1 to December 31 of a particular year. Note that it is possible to prepare a financial report for a single quarter or month, while your income statement might be for
a full year. Your financial report will be easier for readers to understand if they are for the same period, but this isn't strictly necessary for any sales discounts or return allowances
for example: "Sales, $10,000" and "Service Income, $5,000." Organize the sources of revenue by geographical region, by management team or by specific product. When all revenue sources have been included, sum them and report the total as "Total Revenue." 3 Report the
costs of goods sold. This is the total cost of goods, you should add the direct materials, direct labor, factory costs and shipping or delivery expenses.[7] Subtract cost of goods sold from total revenue and title this number "Gross
Profit."[8] 4 Record operating expenses include all of the expenses include all of the expenses that are necessary for conducting your business. This includes advertising and research and development expenses, such as salaries, rent, utilities and depreciation of properties. It also includes advertising and research and development expenses. You may want to record these
expenses separately so that the readers of your report can get an overall idea of where money is being spent. Subtract the sum of these costs from your gross profit and title this number "Profit Before Taxes." 5 Include retained earnings. "Retained earnings refers the sum of all net income and net losses since the organization was founded. Adding
retained earnings from the beginning of the year to the current year's net income or loss results in the total retained earnings balance. Advertisement 1 Set up your cash flows statement tracks the sources and uses of cash by the company.[9] Title this page "Statement tracks the sources and uses of cash by the company.[9] Title this page "Statement tracks the sources and uses of cash by the company.[9] Title this page "Statement tracks the sources and uses of cash by the company.[9] Title this page "Statement tracks the sources and uses of cash by the company.[9] Title this page "Statement tracks the sources and uses of cash by the company.[9] Title this page "Statement tracks the sources and uses of cash by the company.[9] Title this page "Statement tracks the sources and uses of cash statement tracks the sources are statement tracks the sources ar
period of time the statement will cover. Similar to the income statement of cash flows covers a period of time, such as January 1 to December 31. 2 Create an operating activities cover. Similar to the income statement of cash flows begins with a section corresponds to the income statement of cash flows covers a period of time, such as January 1 to December 31. 2 Create an operating activities cover.
statement you already prepared. List the operating activities of the organization. This may include items such as cash receipts from sales and cash paid for inventory. Subtotal these items and label the resulting activities section. Add a section titled "Cash Flows from Investing activities."
should be titled "Cash Flows from Financing Activities." This section relates to the equity portion of the balance sheet. This section should shows inflows and outflows from Financing Activities." 5 Sum up the categories. Sum the three categories in the
statement of cash flows, and label this number as the "Increase or Decrease in Cash" during the period. You can add the increase or decrease in cash balance shown on your balance sheet. 6 Add any important notes or narrative. Financial reports
history, future plans or industry information. This is your opportunity to explain to investors what the report means and what it shows or doesn't show. It can help potential investors see the company through your eyes.[12] Typically, the notes also include an explanation of accounting practices and procedures used by the company and explanations of
balance sheet captions. This section also often includes details about the company's tax situation, pension plans, and stock options. Advertisement Add New Question Can I get an elaboration on how gross profit is used in a financial report? Michael R. Lewis Business Advisor Michael R. Lewis is a retired corporate executive, entrepreneur,
and investment advisor in Texas. He has over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas. He has over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas. He has over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas.
as a ratio. A low gross profit typically means a competitive market so prices are not easily reduced. On the other hand, high gross profits might mean that prices are relatively elastic so a targeted gross profit can be achieved or that the costs of producing the product to service is easily managed. Question
 How do I overview a financial statement in a sample? Michael R. Lewis Business Advisor Michael R. Lewis is a retired corporate executive, entrepreneur, and investment for Blue Cross Blue Shield of Texas. He has a BBA in Industrial
Management from the University of Texas at Austin. Summarize the various elements of the Statement might reflect he totals of Gross Revenues, Cost of Goods, Administrative Costs, Fixed
(long-term) Assets, Intangibles, and Total Assets as well as Current Liabilities, then Equity. You should provide enough detail in the Statements to accurately reflect the circumstances and condition of the enterprise. Ask a Question Advertisement Thanks Thanks Advertisement Thanks Advertisement Thanks Advertisement Thanks Advertisement Thanks Advertisement Thanks Thanks
article was co-authored by Michael R. Lewis. Michael R. Lewis is a retired corporate executive, entrepreneur, and investment advisor in Texas. He has over 40 years of experience in business and finance, including as a Vice President for Blue Cross Blue Shield of Texas. He has a BBA in Industrial Management from the University of Texas at Austin.
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fast and simple." Share your story Formal record of the financial activities and position of a business, person, or other entity Part of a series on Accounting Constant purchasing powerHistorical costManagementTax Major typesAuditBudgetCostForensicFinancialFundGovernmentalManagementSocialTax Key conceptsAccounting periodAccrualConstant
purchasing powerEconomic entityFair valueGoing concernHistorical costMatching principleMaterialityRevenue recognitionUnit of account Selected accounting standardsGenerally-accepted principlesGenerally-accepted
auditing standardsConvergenceInternational Financial Reporting StandardsInternational Standards on AuditingManagement discussionFinancial statement analysis BookkeepingBank reconciliationDebits and creditsDouble-entry systemFIFO
and LIFOJournalLedger / General ledgerTrial balance AuditingFinancialInternalFirmsReportSarbanes-Oxley Act People and organizationsAccountingSarbanes-Oxley Act MisconductCreativeEarnings managementError accountHollywoodOff-balance-sheetTwo sets
of books vte Historical financial statements (or financial statements (or financial activities and position of a business, person, or other entity. Relevant financial information is presented in a structured manner and in a form which is easy to understand. They typically include four basic financial statements [1][2]
accompanied by a management discussion and analysis:[3] A balance sheet reports on a company's assets, liabilities, and owners equity at a given point in time. An income statement provides information on the operation of the enterprise. These
include sales and the various expenses incurred during the stated period. A statement of changes in equity reports on a company's cash flow activities, particularly its operating, investing and financing activities over a stated period. Notably, a balance sheet
represents a snapshot in time, whereas the income statement, the statement of changes in equity, and the cash flow statement each represent activities over an accounting period. By understanding the key functional statement each represent activities over an accounting period. By understanding the key functional statement each represent activities over an accounting period. By understanding the key functional statement each represent activities over an accounting period. By understanding the key functional statement each represent activities over an accounting period.
stability. "The objective of financial statements is to provide information about the financial position, performance and changes in financial statements should be understandable, relevant, reliable and comparable. Reported assets, liabilities,
equity, income and expenses are directly related to an organization's financial statements are intended to be understandable by readers who have "a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently."[4] Financial statements may be used by users for
different purposes: Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis is then performed on these statements to make important business decisions that affect its continued operations. Financial analysis is then performed on these statements to make important business decisions that affect its continued operations.
the stockholders. Employees also need these reports in making collective bargaining agreements (CBA) with the management, in the case of labor unions or for individuals in discussing their compensation, promotion and rankings. Prospective investors make use of financial statements to assess the viability of investing in a business. Financial
analyses are often used by investors and are prepared by professionals (financial analysts), thus providing them with the basis for making investment decisions. Financial institutions (banks and other lending companies) use them to decide whether to grant a company with fresh working capital or extend debt securities (such as a long-term bank loan
or debentures) to finance expansion and other significant expenditures. Stockholders may from time to time request insight into how share capital is managed, which may be made available via financial interest of shareowners in affirming that capital stock is handled viably and mindfully with
duly care.[5] Main article: Consolidated financial statement Consolidated financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent (company) and its subsidiaries are presented as those of a single economic entity", according to International Accounting
Standard 27 "Consolidated and separate financial statements", and International Financial Statements, and International Financ
statements prepared by different companies, a set of guidelines and rules are used. Commonly referred to as Generally Accepted Accounting Principles (GAAP), these set of guidelines provide the basis in the preparation of financial statements, although many companies voluntarily disclose information beyond the scope of such requirements.[8]
Recently there has been a push towards standardizing accounting rules made by the International Accounting Standards Board (IASB). IASB develops International Financial Reporting Standards that have been adopted by Australia, Canada and the European Union (for publicly quoted companies only), are under consideration in South Africa and
other countries. The United States Financial Accounting Standards Board has made a commitment to converge the U.S. GAAP and IFRS over time. Management discussion and analysis or MD&A is an integrated part of a company's annual financial statements. The purpose of the MD&A is to provide a narrative explanation, through the eyes of
management, of how an entity has performed in the past, its financial condition, and its future prospects. In so doing, the MD&A attempt to provide investion contains a description of the year gone by and some of the
key factors that influenced the business of the company in that year, as well as a fair and unbiased overview of the company's past, present, and future. MD&A typically describes the corporation's liquidity position, capital resources, [10] results of its operations, underlying causes of material changes in financial statement items (such as asset
impairment and restructuring charges), events of unusual or infrequent nature (such as mergers and acquisitions or share buybacks), positive and negative trends, effects of inflation, domestic and international market risks,[11] and significant uncertainties. Accountable Fundraising Corporate financial accounting Financial statement analysis
Comprehensive annual financial report Model audit Earnings report ^ "Beginners' Guide to Financial Statement". Securities and Exchange Commission. 4 February 2007. ^ Donald Kieso; Jerry Weygandt; Terry Warfield (2022). "1.1 - Financial Reporting Environment". Intermediate Accounting (18 ed.). p. 1-3. ISBN 978-1-119-79097-6. financial
statements (income statement, statement of owners' (stockholders') equity, balance sheet, and statement of cash flows) are the principal means that a company uses to assess its financial Statement of owners' (stockholders') equity, balance sheet, and statement of owners' (stockholders') equity (stockholders'
the Preparation and Presentation of Financial Statements" International Accounting Standards Board. Accessed 24 June 2007. ^ "Accounting standards and value relevance of financial Statements: An international analysis". Science Direct. Retrieved 1 April 2023. ^ "IAS 27 — Separate Financial Statements (2011)". www.iasplus.com. IAS Plus (This
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