Understanding Financial Statements

Financial statements provide a summary of a company's financial condition. They can be used by:

- The company's management to help inform strategic business decisions.
- Shareholders (investors who own the company) with an interest in the company's financial performance.
- Creditors determining whether to lend money.

Financial statements generally comprise three components:

1. Balance Sheet

(also known as a Statement of Financial Position) which details:

— *Assets* – what the company owns (including cash, inventory and property).
— *Liabilities* – what the company owes (including debt from loans and money payable to suppliers).
— *Equity* – what is owed to shareholders.

2. Income Statement

(also known as a Statement of Comprehensive Income or Loss) which details:

— *Revenues* – all money brought in from sales.
— *Expenses* – money spent to generate revenue, such as wages and rent.
— *Net Income (the "bottom line")* – revenue minus expenses, showing exactly how much the company has generated.

3. Cash Flow Statement

which focuses only on cash, detailing:

— *Opening cash* – how much money the company had at the start of the statement period.
— *All transactions* – different categories of cash flow, including revenues, expenses, investments and loans.
— *Ending balance* – how much cash the company has at the time of the statement.

Financial statements should be prepared annually, and more frequently if required.

- For start-ups, monthly statements are recommended. For more established organizations, statements on a quarterly or annual basis may suffice, depending on the nature of the business and operations.

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