

Name

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Date

The four basic financial statements are usually prepared by organizations for use by internal and external decision makers. According to McGraw-Hill Higher Education (2009), "They can be prepared at any point in time (such as the end of the year, quarter, or month) and can apply to any time span (such as one year, one quarter, or one month)." (para. 3). The four basic statements outline the financial operations of the business. They can be prepared at any time and can apply to any period. Most companies prepare financial statements for external users through [quarterly reports](#) and through [annual reports](#). The four basic financial statements include income statement, retained earnings statement, balance sheet, and statement of cash flow.

Income statement used to show income less expenses and is used to show whether the company is making a profit or losing money. The income Statement reports the success or failure of the company's operations for a period and the basic purpose is the measurement of an organization's performance. "The income Statement reports the success or failure of the company's operations for a period of time." (Kimmel, Weygandt, & Kieso, 2011, p. 11). This is a report made by accountants for a specified period.

Retained earnings are net earnings to be reinvested in the organization. "The retained earnings statement shows the amounts and causes of changes in retained earnings during the period." (Kimmel, Weygandt, & Kieso, 2011, p. 12). Some of these earnings may be reinvested by the organization for growth opportunities such as research and development. According to StreetAuthority, LLC (2011), "Retained earnings are the sum of a company's profits, after [dividend](#) payments, since the company's inception." (para. 1).

The purpose of the [balance sheet](#) is a summary of the financial positions such as liabilities, assets, and stockholders' equity of an accountant at a particular point. "The balance sheet reports assets and claims to assets at a specific point in time." (Kimmel, Weygandt, & Kieso, 2011, p. 13). The statement of cash flows is one of the main financial statements that organize and reports cash generated and used in specific areas. "The Statement of cash flows provides financial information about the cash receipts and cash payments of a business for a specific period of time. In addition, the statement shows the net increase or decrease in cash during the period and the amount of cash at the end of the period." (Kimmel, Weygandt, & Kieso, 2011, p. 15).

Internal users can make business decisions with the financial statements released by the accounting department, such as downsize, or grow. "For internal users, accounting provides internal reports, such as financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year. In addition, companies present summarized financial information in the form of financial statements." (Kimmel, Weygandt, & Kieso, 2011, p. 6). Employees can set expectations of the organizational goals may be in the near future. Discuss how the financial statements would be useful to external users, such as investors, and creditors.

Putting the financial statements together creates a picture of where an organization stands financially and as a result external users may make educated monetary decisions. The external users may make decisions on the future outlook of the organization's numbers released by their accounting department. "Investors (owners) use accounting information to make decisions to buy, hold, or sell stock. Creditors such as suppliers and bankers use