

## **Week 1 DQ 1**

### ***What are the major objectives of financial reporting?***

**Response #1** The objectives of financial reporting are to give the user information that is useful in investment and credit decisions, assessing cash flow prospects and supply information about company resources, claims on those resources and changes in them.

People who use this information includes investors, that would want to get an understanding of how the company is performing now and future prospects before considering purchasing shares of the company that is exchanged on a market. A private investor that is considering purchasing a portion of a business would also consider this information invaluable when contemplating a partnership purchase or of a company purchase. This group would find the information that refers to the company's credit important to ensure potential growth could be funded. There would also be interest in the timing of cash receipts in an attempt to understand the business cycle which could help in forecasting the company's profits and losses.

Creditors, who are considering offering a loan, would want to review financial reporting to determine if the prospect is a good risk before making a decision. Mull over a bank that is approached by a business in need of an expansion loan. Information found in the financial report will give the board of directors an understanding of the individual company, allowing them to compare to other industry guidelines to determine if the business is a suitable risk.

Both creditors and investors will use the financial reporting to determine how new regulations will affect the profits in an organization. For instance many businesses are still interpreting the impact of the recent health care bill and what will the forced mandates mean to the profitability of the organization. While the company may show a strong balance sheet, with required regulatory costs added, the company may not be a good investment or credit opportunity.

**Response #2** The major objectives of financial reporting, as per our chapter readings is to provide "(1) useful in investment and credit decisions, (2) useful in assessing cash flow prospects, and (3) about company resources, claims to those resources, and changes in them" (Kieso, Weygandt, & Warfield, 2007, p. 5). Information obtained from financial report will assists current and potential investors and creditors to have a better grasp of the company's financial standings prior to conducting business with them.

In addition to the financial standing and condition of the company, it allows those current and potential investors and creditors to see the potential profits and cash receipts of the company as well. Last, it allows the current and potential investors and creditors to see an analysis of the flow of cash and the effects of the economic resources the company possesses.

## **References**

**Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2007). *Intermediate Accounting (12th ed.)*. Hoboken, NJ: John Wiley & Sons.**

**Response #3** The main objective of financial reporting is to provide essential information for creditors, analysts, government, investors, and many other financial statements users. According to the Governmental Accounting Standard Board (GASB), external financial reporting objective is to provide information that is useful to present and potential investors and creditors and others in making investment, credit, and similar resource allocation decisions (Financial Accounting Series, 2009, p. 10). This useful information usually contains company's assets, operations, income, and expenses, etc. and is very important for external users in order to assess an organization's strength to make cash inflows and provide returns to them. Consequently, this information should be up-to-date, faithful representation of the economy status of the entity, verifiable, neutral, and complete.

**Response #4** The general objective of financial reporting is to provide financial information that is relevant and reliable. Information is relevant if it makes a difference when involved in a decision and if that information has been reported on a timely basis. To be reliable the information must be verifiable, represent faithfulness, and be of a neutral nature. If the information provided is not reliable, then the financial statements become misleading and useless. Financial information must be comparable in order to be useful, and the reporting of these financial information needs to be consistently reported in order to be reliable.

This relevant and reliable information presented in financial reports provides information that allows users of the financial reports to make investment and credit decisions, helps the users understand and predict the company's cash flows, and helps the user to identify the company's resources and to identify any claims to those resources. With this information, the user of financial reports will have a clear, reliable picture of the company's financial health. Users of financial reports have limited resources and want to use those resources in the most beneficial way. By having a clear and reliable understanding of the financial health of companies, the user can allocate these limited resources in the best way, benefitting the user and the market system.