

*Individual Financial Statement Paper*  
*page 1 of 4*

**Individual Financial Statement Paper**  
ACC/290 – PRINCIPLES OF ACCOUNTING I  
2012/02/12

The four basic financial statements are: balance sheets, income statements, cash flow statements, and retained Earning Statement.

Balance sheets allow a company to see how much money they have made or spent over a period of time. They also provide details regarding information about a company's assets, liabilities, and shareholders' equity. Assets are things that a company owns that hold a value. They are sold or used by a company to provide services or produce a sellable product. Other company assets includes thing such as patents, copyrights, and trademarks. And lastly, cash and investments owned by a company are also considered assets. Liabilities are the amounts of money a company owes to other companies, people, or organizations. Liabilities can be a business loan that a company owes or money that is due to payroll for company employees. Overall, liabilities are what a company owes can must be paid before claiming any profit. And lastly, shareholders' equity is the net worth or capital. This is the value of a company if all the liabilities were paid off and all assets were sold. And the money left over is the money that belongs to people such as shareholders, or owners of the supposed company. All of this information is found in a company's balance sheet and is composed in a equation to gain an overall outlook of a company's financial position. The equation is,  $assets = liabilities + shareholders' equity$ .

Income statements are statements that show how much a company has made and how much a company has spent over a period of time. But the real reason for income statements are to show a company's net earnings or losses and can be compared to previous financial quarters. Income statements are set up to show you first their total amount of sales

and then continues to show you deductions that were made to help produce those sales.

After finally deducting the expenses from the total sales value, you can then see how much the company really made in the end.

Cash flow statements show all exchanges of money between different companies and all other sources. This flow of cash is either incoming or outgoing depending on what transaction the company is making. The purpose of this statement is to provide knowledge regarding how much cash is on hand to pay for expenses and be able to purchase assets at the same time. Overall, cash statements show whether or not a company has generated any cash. These statements use information from both balance sheets and income statements to ultimately show a net increase or decrease in cash over time. These statements are divided into different parts which review cash flow from three types of activities, they are: operating activities, investing activities, and financing activities. Operating activities analyze a company's cash flow from net losses or income. Investing activities show cash flow from purchases or sales of assets made by a company to buy or sell assets such as, property, equipment, and investments. The money used in these transactions would show up on the cash flow statements.

Retained Earnings Statements are the financial statements that calculate the balance at the end of each period. These statements are calculated by using the following formula:  $\text{retained earnings (RE)} = \text{beginning RE} + \text{net income} - \text{dividends}$ . Companies use this formula to calculate their retained earnings in order to invest them into areas of their company that will most likely produce the most growth. For example, a company will use its retained earnings to purchase equipment or on research and development.

I think financial statements are useful by giving managers and employees the ability to