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Commentary

Summary on financial statements and final accounts

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Accepted 21 December, 2021

INTRODUCTION

Final Accounts' of a business are prepared with the objective of providing a precise summary of the profits made by the business during a particular year and the financial position of the business as on a particular date to its users (debtors, creditors, customers and associates, etc.). Such information helps the business in talking corrective actions, if required, and decisions in respect of the business future strategies with regards to its growth and expansion. Individuals asking for a personal loan or financial help may be asked to submit personal financial statements. 'Final Accounts', also known as 'Financial Statements', are prepared in conformity with the provisions of the various statutory and regulatory frameworks, some of which are 'Income Tax Act', 'Companies Act', 'Partnership Act', Accounting Standards' (AS), 'Generally Accepted Accounting Principles' (GAAP), Etc. Provisions of such acts are used for the valuation of various financial transactions with a view to standardise to another, depending upon their type. As different business organisations are created and operated under different legal framework, the process of preparing their final accounts also differs in a marked manner.

Components of final accounts

In the case of a 'Trading Concern', final accounts are prepared in three distinct stages, which are as under.

Trading account: Trading account is prepared to ascertain the gross profit or trading profit.

Profit and loss account: Profit and loss account reveals the net profit of the business organisation.

Balance sheet: Balance sheet is a statement of assets and liabilities (financial position) of the organisation as on a specific date, normally the last date of the accounting period.

Trading account of an organisation reveals its gross profit or loss. It reflects the result of buying and selling of goods and services, in which employees also wants these reports in making Collective Bargaining Agreements (CBA). These statements can be complicated, with a large number of footnotes to the financial statements as well as management discussion and analysis.

Accounting is the language of business accounting involves the procedure of responding the financial transactions in the books of accounts are helpers to tis users for analysis interpreting the financial soundness of business. The process of 'Financial Accounting' involves in the presentation as well as interpretation of the financial results of a company's conduct with a view to make assessments of the financial performance. Financial Accounting provides the requisite information necessary for taking investments decisions.

According to American Institute of Certified Public Accountants (AICPA), Accounting is "The art of recording, classifying and summarizing in a significant manner and in terms of money, character and interpreting the results thereof".

The meaning of the term "accounting" has steadily broadened as the economy has progressed.

According to American Accounting Association (AAA), Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.

Accounting to Bierman and Derbin, "Accounting may be defined as the identifying, measuring, recording and communicating of financial information".

According to "An accounting system is a way of gathering, summarising, analysing, and reporting the information of a corporation in monetary terms," says Anthony.

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