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Paper Financial Reporting and Analysis

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Financial Reporting & Analysis

Q 1

@ Role of AICPA in the formulation of Accounting Principles

Backround

The American institute of Certified public Accounts and its predecessors have a history dating back to 1887, when the American Association of public Accountants was formed. In 1916 the American Association was Succeeded by the institute of public Accounts when there was a membership of 1150 The name was changed to the American institute of Accountants in 1917 and remained so until 1957 when it changed to its current of the American institute of Certified public Accountants.

Role of AICPA in the formulation of Accounting principles

Establishing professional standards

The organization held a monopoly in setting the generally accepted professional and technical standards for the CPA profession until 1970. The function of setting the GAAP was later transferred to the financial Accounting standards Board while the organization retained the role of setting professional Standards for CPA professionals.

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Recruiting and educating prospective members

AICPA develops the uniform certified public Accountants examination for CPA practioners. students and other individuals seeking to practice as certified public Accountants are required to pass the CPA examination.

Certification and licensing of new members

AICPA grants the CPA designation to accounting professionals who pass a series of accounting exams and meet the experience requirments before ventering into private practice

Public interest Compaigns

The AICPA is involved in various public interest programs including Feed the Pig Compaign is to encourage American aged 25 to 34 years to take control of their finance and attain financial stability members of the AICPA represents different areas of practice such as public practice government, education business and industry and consulting. Managment Accountants can recieve the Charted Global Managment Accountant designation from both the AICPA and the charted institute of managment Accountants.

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(B) Role of FASB in the formulation of Accounting principles

Introduction. The financial Accounting standards Board is an independent non profit organization that is responsible for establishing accounting and financial reporting standards for companies and nonprofit in the united states following generally accepted accounting principles (GAAP) The FASB was formed in 1973 to succeed the Accounting principles board and carry on its mission.

Role of FASB

The FASB has the authority to establish and interpret (GAAP) in the united states for public and private Companies as well as for non profit organizations. GAPP refers to a set of standards for how Companies and government should prepare and present their financial statements including any related party transactions

In recent years the FASB has been working with the international Accounting standard Board to establish Compatible standards Boards.

P.T.O

Collectively the organizations mission is to establish and improve financial accounting and reporting standards to provide usefut information to investors and other users of financiof reports and educate stakeholders on how to most effectively understand and implement those standards
In 2009 the FAF launched the FASB Accounting standards Codifications an online research tool designed as a single source for authoritative non-govermental generally accepted accounting principles in the US. It recognized the thousands of U.S GAAP which is the backbone of comprehensive set of accounting principles in the world.

Recently. the FASB completed the first phase of its project on business Combination which eliminated pooling of interests accounting enhanced disclosure requirements relating to goodwill and intingble Assets In an effort to speed up the standards setting process the FASB has initiated a reorganization of its staff we are encouraged by there recent actions and hope that they are will lead to more timely and improved guidance.

Q1 © Role of SEC in the formulation of accounting principles

Introduction The U.S Security and exchange commission is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of the securities markets and fascilitang Capital formation. It was created by Congress in 1934 as the first federal regulator of the securities markets.

Role:

The Securities and Exchange Commission is responsible for overseeing the securities markets and protecting investors. The SEC primary function is to oversee organizations and individuals in the Securities markets including securities exchanges, brokerage firms, dealers investment advisors and investment funds. Through established securities rules & regulations the SEC promotes disclosure and sharing of market-related information, fair dealing, and protection against fraud

SEC brings numerous civil enforcement actions against firms and individuals that violate securities laws every year. It is involved in every major case of financial misconduct either directly or in conjunction with the justice Department. Typical offenses prosecuted by the SEC include accounting fraud, the dissemination of misleading or false information

Further Explanation

The SEC is on the front line of financial reporting and often is among the first to identify emerging issues and areas of accounting that need attention. Issues needing attention often can be attributed to new and unique transaction that arise in the market place but they may alised from the authoritative literature. The SEC staff frequently learns of these issues when companies engage us in a dialogue as to the appropriate financial reporting answer in advance of an event or transactions commonly referred to as preclearing an accounting question.

While these preclearing questions usually relate to single transactions trends tend to develop surrounding certain issues when they do the staff refers these issues to the FASB.

Q1 End

QNo 2

@ Yes this is true because every business from opening to enventually liquidates this is important to maintain the record of every transactions in appropriate way this is important for the success of the business. one of the basic reason of a business failure is that people cannot maintain the Accurate statements and sometimes the business lost the confidence of the shareholder trust therefore accurate way to to account for the success or failure of an entity is to accumulate all transactions from the opening of business until liquidates of business is true.

B Importance of Accurate Financial statements

For any business and for the people who run it the importance of accurate financial statements cannot be underestimated. some of the most important financials that are imperative for an organization of any scale are income statement, Balance sheet statement of stockholders Equity. Cash flow statement and statement of comprehensive income. The number revealed through these financial statements play an immense role in making decisions, planing strategies, determing success estimating failure and telling the world the story of the company.

① Financial Transparency
Even the smallest numbers in a balance sheet can have a huge impact on the business. Assets never have the same value that they did when they were first purchased. A percentage has to be deducted from their value of depreciation. A company might report a Certain number as revenue earned. but how much of it is actual Cash and how much of it is accounts receivable has to accurately stated.

② Evaluate Tax Liability
Corporate tax rates are quite high. when Companies make a lot of profit the taxes they have to pay are equally high. the owners often get astonished at how little they have left once they have paid taxes to the government. Can they have reduce the tax burden. if yes then they will need the most accurate financial number possible otherwise all their resources could be depleted in a very short time. Conversely for the goverment accurate financial statements are essential because many firms fudge their reports only to avoid paying tax

③ Mitigate Errors:
Accurate financial statements are also essential to catch costly mistakes or internal wrongdoing early on in the process. If any illegal activity is taking place there is no better way to catch it than through discrepancies in the number if an error has been made reconciliation activities can find them This is why Companies spend a lot of time on reconciling their books of accounts and checking each entry so

Q2 continued

So that they can find if anyone has tampered with any part of the business or an accounting error has been made. The inefficiency of the financial reporting system allowed those losses to be hidden. This is why regulators have started asking banks and other trading firms to pay more attention to their internal accounting methods.

(4). Build Trust

Accurate financial statements induce trust in the company. investors need a sign that a company is doing well and they can put their hard earned money in its business. Government have made accounting and compliance rules more stringent so that companies do not feel tempted to misreport their financial numbers.

(5) Improved Payment Cycles

In order to optimize the account payable and Account Receivables cycles accuracy of financial statements play a key role. other outgoing payments include salaries and daily wages that need to be paid (payroll) dividend and inventory needs to be managed and credotors need to be paid. All this cannot be done unless the number are in order if a loan is overdue then the company needs to know how much interest has to paid or received Mathemitical calculations can be done only with the correct figures.

Q2(b) Conclusion

Financial statements open a window for educated decision-making and strategic planing. The working capital statements fund flow statement cash flow statements and trading account all have to be consulted every day for evaluating how much money the company is making how much money they need the reserves that they need to set aside.

The above mentioned points emphasize why it is imperative that companies strive to maintain the accuracy of their financial statements. following GAPP or other applicable accounting standards to generate these statements is critical factor in ensuring they present the actual financial picture of the business to managment and external stakeholders.

Q2 End

Q No 3

ⓐ Basic form of business exist in any economy

Almost every country consists of two business sectors the private sector and the public sector private sector business are operated and run by individuals while public sector business are operated by the government. The types of business present in a sector can vary so lets take a look at them

private sector:

Sole properitorship: This form are the most common form of business in the world and take up as much as 90% of all business in a country. The business is owned and run by one person only.

Partnership;

A partnership is a group consisting of 2 to 20 peoples who run and own a business together They required a deed of partnership or partnership Agreement which is document that states that all partners agree to work with each other and issues such as who put the most Capital into the business or who is entitled to the most profit. other legal regulations are similar to that of a sole trader.

(c) Private limited Companies

private limited companies have legal identities to their owners and thus their owners have limited liability. The Company has continuity and can sell shares to friend or family although with the consent of all shareholders The business can now make legal contracts

Public limited Companies

These Companies are similar to private limited Companies but they are able to sell shares to the public.
The Annual General Meeting (AGM) is held every year and all shareholders are invited to attend so that they can elect their Board of Directors
Normally Director are majority shareholders who has the power to do whatever they want However this is not the case for public limited companies since there can be millions of shareholders Anyway when directors are elected they have to power to make important decisions However they must hire managers to attend to day to day decisions.
shareholder own the Company
Directors and managers control the Company

Q3 continued

Important financial statements

The key components of the financial statements are the income statement, balance sheet, and statement of cash flows these statement are designed to be taken as whole to present a complete picture of the financial condition and result of a business.

A case can be made for each of the financial statements being the most important though the ultimate answer depends on the needs of the User. The key points favoring each of these financial statements as being the most important are

income statement

The most important financial statement for the majority of users is likely to be the income statement since it reveals the ability of a business to generate a profit. Also the information listed of the income statement is mostly in relatively current dollers and so presents a reasonable degree of accuracy However it doesnot reveal the amount of assets and liabilities required to generate a profit and its result donot necessarily equate to the cash flows generated by the business. Thus the income statement when used by itself can be somewhat misleading

Balance sheet

The balance sheet is likely to be ranked third by many users since it doesnot reveal the results of operations and some of the numbers listed in it may be based on historical costs which renders the report less informative. Nonetheless the balance sheet is of considerable importance when paired with the income statement since it reveals the amount of investment needed to support the sales and profit shown on the income statement.

Statement of Cash flows.

A possible candidate for most important financial statement is the statement of cash flows because it focuses solely on changes in cash inflows and outflows. The report present a more clear view of a company cash flows that the income statement which can sometimes present skewed results especially when accurals are mandated under the accural basis of accounting

Another way of looking at the question in which two statements provide the most information? In this case the best selection is the income statement which can sometimes present skewed results especially when accurals are mandated under the accural basis of accounting Auditors audit the balance sheet while for investors perspective cash flow is important because of share value.

important for financial analysis and decesion making

Financial analysis is the process of examining a company performance in the context of its industry and economic environment in order to assive at a decision or recommendation. often the decesions and recommendations addressed by financial analysts pertain to providing capital to companies specifically whether to invest in the Company debt or equity securities and at what price.

overall a central focus of financial analysis is evaluating the company ability to earn a return on its capital that is at least equal to the cost of that Capital, to profitability grow its operations and to generate enough cash to meet obligation and pursue opportunities.

Foundamental financial analysis starts with the information found in a company financial reports

Conclusion

The information presented in financial and other reports including the financial statements notes and managment commentry help the financial analyst to assess a company performance and financial position

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The primary purpose of financial reports is to provide information and data about a company financial position and performance including profitability and cash flows. The information presented in the reports including. the financial statements and notes and managment Commentary or managment discussion and analysis allow the financial analyst to assess a Company financial position and performance and trends in that performance.

End