

FINANCIAL STATEMENTS IN FINANCIAL MANAGEMENT

Olha Chumachenko

PhD, Associate Professor, Department of National Economy and Finance, KROK University, Kyiv, Ukraine, e-mail: olgach@krok.edu.ua, ORCID: <https://orcid.org/0000-0001-6874-3201>

Vsevolod Bielanovskyi

Master`s degree student, KROK University, JSC “KPMG Audit Ukraine”, senior auditor, Kyiv, Ukraine, e-mail: bielanovskyivo@krok.edu.ua

In today’s sometimes volatile economy, business managers are frequently asked to make process decisions that help the company’s capital work harder or to decrease overhead costs. Good managers have many tools at their disposal to accomplish these goals, provided they have a good understanding of the company’s financial position. Familiarity with the basic types of financial statements and the ability to interpret the numbers behind them are essential to sound business decision-making.

While there are some differences between nonprofit and for-profit entities, all businesses typically prepare these three most common financial statements – the balance sheet, the income statement, and the cash-flow statement. These documents are prepared according to generally accepted accounting principles and presented in a standardized format.

Financial statements are neutral; they present an accurate picture of the activities of the business over a defined period. The business manager then evaluates the data to make operating decisions, such as whether the business is positioned to free up existing cash for operating expenses or needs to obtain additional credit.

The information in the balance sheet drives many business decisions. For example, assume you work for a company with \$25 million in annual sales. Examining the balance sheet, you discover that there are six weeks of sales sitting in accounts receivable.

Simply by changing credit policies within the company and focusing on streamlining collections so that most receivables are resolved within 30 days, a million dollars can become available for operating capital without increasing sales or leveraging a line of credit. A good business manager can see possibilities for growth and efficiencies behind the numbers in the balance sheet.

The cash-flow statement is one of the most important documents for making management decisions. While the company can look profitable based on standard accounting methods, the cash-flow statement tells managers whether the company has the cash to pay its bills over the short term.

Net income and earnings can be manipulated to paint a healthy financial picture, but the cash-flow statement presents the reality of the company’s ability to maintain operations. A drop in the company’s operating cash-flow ratio should trigger a red flag, indicating business managers need to reassess pricing, inventory, overhead, debt, and other short-term decisions to improve the company’s cash position.

The income statement differs from the cash-flow statement in significant ways: It includes intangibles such as depreciation, but it does not show when revenue is

actually received and payables are actually paid. It shows projected profitability over a period. It is also a useful tool for comparing a company's performance to others of similar size in similar industries. The data in the income statement helps inform decisions that control operating expenses and the cost of goods sold to keep profit margins intact.

References

1. Thomas R. Robinson (2020). *International Financial Statement Analysis*. Wiley.
2. Emile Woolf (2021). *ACCA Financial Reporting (FR) - Study Text*. Bracknell
3. Eugene F. Brigham, Michael C. Ehrhardt (2017). *Financial Management: Theory & Practice*. Boston.