

Analysis of Financial Statement

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Introduction:

For every organization, financial statement is one of the most required and essential module to let the business run smoothly and in a more transparent way. Financial statements are required to meet the organization's objectives and the aspects are required to be justified with proper research.

TASK: 1**1.0 Outline of Different Types of Financial Information for the users who are mentioned below:****a. Lenders such as Bank:**

For an organization, a bank is always its monetary support in the following fields

- i) Liquidity point
- ii) Interest Coverage Ratio

b. Owners or Board Members:

The following aspect should be dealt with by the boards members and the owners of the company

- i). Profit and Loss report
- ii) Capital expenditure report

c. Senior Management Staff:

Senior management staffs look after the following mentioned issues:

- i) Profitability Ratio
- ii) Balance Sheet making

d. Operation Manager:

The operation manager looks upon these issues

- i Budget report
- ii)) Standard costing output.

Layout of tailoring the report for these users:**e. Lenders such as bank:**

The banking institutes offered financial support to the AHI Roofing. Yet risks do certainly seem to happen while recollecting the amount for the bank and this is why the organization's management staffs has made the following assessments:

- (i) Interest Coverage Ratio: The increase in monetary stability is measured with this feature.

With respect to the ROI of the business the annual turn over of interest is being measured for the organization.

- (ii) Liquidity point: This feature helps in determining the state of the business it is currently in.

f. Owners or Board Members:

Company's board members and the owner need to have some of the excellent decision making skills to let the business reach sky high. The various features they use are:

- i. Profit and loss report: The net revenue, the growth and the net cash outflow of the business are shown here and justified.
- ii. Capital expenditure report: It is normally made to analyze the cash flow that occurs in a business. The three subcategory of this particular part helps the upper management to understand the financial advancement of the business.

g. Senior Management Staff:

The senior management staff must look into all the related processes and activities of the financial aspects for better co-ordination.

Important features that need to be discussed are:

- i. Balance Sheet making: The overview of an organization's financial aspect is shown through a balance sheet and this is why it should be accurately made and should be ethically correct.
- ii. Profitability ratios: Profitability ratio of an organization are an important aspect for an organization as it is required to perform all the issues related to financial problem in an organization.

h. Operation Manager:

One of the most important jobs for an operation manager is to provide a seemingly work flow and to

provide a path to perform day to day activities smoothly.

- i) Standard costing output: It helps to determine the actual and the standard output.
- ii) Budget report: To perform the financial norms for the organization a budget report is required.

Forecasting the requirements of the purchasing assets, costs and the capital expenditure are all carried out with the help of budget report.

2.0 Financial Report Preparation:

a. A lender – such as the bank (External Stakeholders):

This segment gives a clear understanding of the financial statement. The research should be carried be done with the most appropriate way for better understanding of the financial report

(Balakrishnan & Watts & Zuo, 2016). The research should be carried out with the following data:

(i) Gross Profit Ratio $[(\text{Gross Profit} / \text{Total sales}) * 100]$

In 2017 it is 73.65% and in 2016 it was 72.57%.

The gross profit has seen a change in 2017.

(ii) Net profit Ratio $[(\text{Net Profit} / \text{Total Sales}) * 100]$

In 2017 it is 7.54% and in 2016, it was 4.32%.

The Net profit ratio seem to increase from the last year.

(iii) Current ratio (Current Assets / Current Liability):

In 2017 it is 0.82 times and in 2016 it was 0.68 times.

So, it has increased from the last year.

(iv) Balance Sheet:

The balance sheet for all the assets in 2017 is \$ 315000 and in 2016 it was \$ 286800. Hence, it can be concluded that the total assets has also increased.

b. Operation Manager (Internal Stakeholder)

The most appropriate overview for running a manufacturing process is acquired by an operational manager. This step is to be carried out with the help of the following data provided:

(i) Operating Profit ratio [(Operating Profit/ Total Revenue)*100]

In 2017 it is 17.33%

In 2014 it was 14.97%

The operating profit has increased and improved as well.

(ii) Net Worth:

In 2017 it is \$ 205200

In 2016 it was \$ 185830

The net worth has increased.

(iii) Working Capital (Current Assets – Current Liabilities)

In 2017 working capital is \$ 22036

In 2016 it was \$ 27537

(iv) Return on investment (ROI) [(Net income/Net Worth)*100]

In 2017 it is 14.88%

In 2016 it was 12.38%

So, the Return on investment has improved compared to the last year.

Task 2:

1.0 Determination of the primary nature of accountability and transparency aspect of the organization

From the statement of finance an exact representation of the organization is being obtained and this is why the finance statement should have all the details of the organization that are relevant and are also important for studying the organization. On the basis of both the internal and the external factors of the finance statements, various decisions are made by the users. By getting a relevant and valid outcome business can be improved by reducing the fraud cases (Brown-Liburd et al., 2015).

The information obtained can produce various relevant information can be extracted on the market's capitalization. Due to this feature the shares holder's wealth increased in a dramatic way. Thus it can be concluded that with accurate finance statement growth of the business can be maintained,

profit graph can see an increasing edge, fraud cases can be eliminated altogether resulting in increasing in business performance (Segal & Shaliastovich & Yaron, 2015).

2.0 Various strategies used

2.1 Behavior in terms of profession

Whenever a finance statement is submitted it should be made sure that it maintains a strict professional behaviour. Hence, few of the aspects that need to be discussed are:

2.1.1 The managers involved in the operation always need to maintain a proper professional behavior and decorum. Integrity should be maintained all the time and also while presenting the presentation of the finance report a professional behaviour is maintained (Ramachandra, 2017). The activities of the operation managers should make sure that the share holders requirements are met.

2.1.2 Quality is one of the most primary features. The operation managers are qualified enough to complete the mentioned tasks. All the aspects of the business should be made known to them. It is the duty of the operation manager to analyze the business performance and further improve it.

2.2 Behavior in terms of ethics

The following activities need to be performed by the operation manager based on the following aspects:

2.2.1 The main objective, major business decisions and integrity are to be taken care of by the operation manager. In addition the various requirements of the share holders that they possess are also to be met.

2.2.2 All the aspects and strategies that are linked with the behavioural maintenance in the basis of the ethics need to be considered by the operation manager. Also the operation manager controls the manager. Thus it is important for them to make sure that there exists no error in the norms prepared and also no miscalculations exist.

2.3 Behavior in terms of society

2.3.1 The operation manager should be aware of the most profitable aspects and the most

lacking aspect of the business to expand it even further. After they are found they need to be implemented and execute properly.

2.4 Practices of work which are appropriate in terms of culture

2.4.1 The operation managers are also required to acquire the strategies and then updating the business market. This would result in the proper growth of the business in the marketing field (Patel et al., 2016).

Task 3:

3.0 Cost behavior understanding reasons

Without the behavioural cost calculating the marginal cost is almost impossible. Also the behavioural cost incurs in taking important decisions related to the production in the business. Hence, it can be said that the behavioral cost is very important for the comprehension of business norms.

4.0 Relations between activity volume and gain/loss

With the increase in the production the cost also increased. Thus it can be conducted that a relationship occurs in between the production and the volume activity. Also with the increase in production the profit is also increased (Davig & Doh, 2014). Also when the production is increased it also leads to the increase in contribution and thus the fixed cost stays unchanged.

5.0 CVP analysis effects

5.1 Evaluating the Break Even Point

Total Sales of AHI Roofing= \$500000

Total Variable Cost = \$ 260000

So Total Contribution = \$500000 - \$260000 = \$240000

The Contribution Margin = (Total Contribution/ Total Sales) = 48% = 0.48

Total Fixed Cost = \$ 156,000

So the Break Sales = (Total Fixed Cost / Contribution Margin)

Break Even Sales = (156,000/0.48) = \$325000

Examination of Answer:

Total Break Even Sales = \$325000

Contribution = $$(325000 * 0.48) = \$156,000$

Fixed Cost = \$ 156,000

That means the profit or loss is null at break even point.

5.2 All cost effectiveness can be handled with the acute management of the principle of cost.

The operation manager is also bale to take up important decision based in the dileman. The over

6.0 Fixed and Variable cost distinction

6.1 Alternation inflation

There is not change in the fixed cost even withth inflation. This is because fixed costs are not effected by inflaitons. But the varied cost does gets increased (Bromley et al., 2015).

6.2 Alternation in activity level

The cost that differes, alternation does occurs with the variation of the product but the fixed cost experiences no such alteration. Also the cost for every unit will alter. Though every individuals unit's cost remains the same but the total amount of cost does changes.

Conclusion

Thus it can be concluded that the assignment provides the brief detail, different usage and a proper analysis of the finance statement. Both the finance statement and the informaiton that is related to it is important for every organizaiton. This is thus considered to be importnt for both the users and the organziations.

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