

Course: BBA Part II
Paper: XII
Topic: Objectives of Financial Statement
Teacher's Name: Prof. (Dr.) Reyazuddin
School: Commerce and Management
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Meaning of Financial Statement:

The financial statements are the statements which are prepared from the data taken from a published annual report of a company. These statements are prepared and presented in a concise form so that the users of the financial statements can understand their meaning and purpose.

Financial Statements present the financial information relating to financial affairs of a firm. The financial statements supply the necessary financial information to the users of financial statements viz. shareholders, creditors, investors, social investigators, government and other organisations for their own interest.

Objectives of Financial Statements:

The primary objectives of financial statements are to present the true and fair value of the state of affairs of the firm with the help of its various statements viz. Income statement, Balance sheet, Cash flow statement, Funds flow statements, i.e. to supply necessary information to the users and analysts for taking decisions which will be formulated in future.

In short, the objectives of financial statement is to provide information about the financial position, performance and change in financial

position of an enterprise that is useful to a wide range of users in making economic decisions.

The significant objectives of financial statements are:

(i) They provides necessary information about the financial activities to the interested parties.

(ii) They provides necessary information about the efficiency or otherwise of the management, regarding the proper utilisation of the scarce resources.

(iii) They provide necessary information for predictions (financial forecasting).

(iv) They help to evaluate the earning capacity of the firm by supplying a statement of financial position, a statement of periodical earnings together with a statement of financial activities to the various interested persons.

(v) They facilitate decisions regarding the changes in the manner of acquisition, utilisation, preservation and distribution of the scarce resources.

(vi) They facilitate decisions regarding replacement of fixed assets and expansion of the firm.

(vii) They provide necessary data to the government for taking proper decisions relating to duties, taxes and price control, etc. and for some legal and control purposes.

(viii) They device remedial measures for the deviations between the actual and budgeted performances.

(ix) They also provide necessary data and information to the managers for internal reporting and formulation of overall policies.

(x) They also help to safeguard the interest of shareholders who are not allowed to go through the day-to-day affairs of the firm.

(xi) They help to settle disputes arising from High Court, Supreme Court, Arbitrators etc.

(xii) They help the credit rating agencies to determine the rating of the Company.