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Editorial Note on Financial Reporting Standards

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Editorial

Financial reporting standards provide principles for preparing financial reports and determine the types and amounts of information that must be provided to users of financial statements, including investors and creditors, so that they may make informed decisions. This reading focuses on the context within which these standards are created. An understanding of the underlying framework of financial reporting standards, which is broader than knowledge of specific accounting rules, will allow an analyst to assess the valuation implications of financial statement elements and transactions—including transactions, such as those that represent new developments, which are not specifically addressed by the standards. An awareness of financial reporting and underlying financial reporting standards can assist in security valuation and other financial analysis. This reading describes the conceptual objectives of financial reporting standards, the parties involved in standard-setting processes, and the implication for analysts in monitoring developments in reporting standards.

Financial accounting standards are defined rules or principals governing the accounting of economic transactions. They are usually issued by a country's own accounting standards board or similar neutral organization. One of the main objectives of accounting standards is to facilitate the comparability of financial statements across companies. All financial statements are prepared in accordance with a financial reporting framework. The term financial reporting framework is defined as a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements.

Financial reporting is the process of documenting and communicating financial activities and performance over specific time periods, typically on a quarterly or yearly basis. Companies use financial reports to organize accounting data and report on current financial status. Financial reports are also essential in the projections of future profitability, industry position and growth, and many financial reports are available for public review.

There are several primary statements to use when reporting financial data, and the information you include in these documents fulfills several key objectives of financial reporting:

- Tracking cash flow
- Evaluating assets and liabilities
- Analyzing shareholder equity
- Measuring profitability
- Types of financial reports

Most companies document financial data on three key statements but sometimes include the shareholder equity on a separate report. The following documents make up the primary records of a company's financial activities:

Balance sheet: A balance sheet records the total assets, liabilities and equity you currently possess. A quick review of the balance sheet can show you the total assets, minus the equity and liabilities.

Income statement: While a balance sheet reviews current activities, the income sheet tracks these processes over a longer period. Some businesses track income statements quarterly and use these documents to monitor financial processes throughout the year.

Cash flow statement: The cash flow statement is important for measuring the efficiency with which companies generate cash to pay down debts. Documentation of cash flow also encompasses how well businesses fund operations and investments, showing the ongoing activities that generate revenue to support expenses. There are two key elements in the income statement, such as revenues and expenses. All of these elements are clearly defined and explained in the IASB's Framework [1-5].

These Financial Statements contain five main elements of the entity's financial information, and these five elements of financial statements are:

- Assets
- Liabilities
- Equities
- Revenues and
- Expenses

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