Why We Have Financial Statements

Our culture revolves around statistics. In baseball there are statistics for everything from the total number of bases a batter achieves in a season versus his batting average to a pitcher's earned run average versus his win-loss record. In cinema, the second week of a film's run is a more important factor in determining its long term success than the first. And in farming, a high per acre crop yield is more important than the total bushels harvested.

All these statistics relate in one way or another to determining how well we do. They are the measuring sticks of life. Businesses use them; governments use them; churches use them; non-profit organizations use them. The most widely used statistic or measuring stick is the financial statement.

Financial statements are the measuring stick for success or failure in business. They provide management with the ability to measure their success or failure. The value of a company is measured by its financial resources and ability to generate income. Financial statements are tools we use to buy or sell a business, to purchase stock of a business listed on the stock exchange, and to validate our income and expenses in our non-profit organization or church. Financial statements are the single largest resource used by bankers to determine if they should lend money to a prospective customer. The federal and state governments use our financial statements to assess taxes.

Within a company, financial statements are the most accurate record of performance and one of the most helpful tools to management, if they are used correctly. Financial statements can help management determine if profit targets are being met, if cash flow is adequate, if long range objectives are being achieved; and they provide a backbone for predicting the future. In short, if management uses their monthly financial statements as a resource and management tool, it usually determines the difference between failure and doom.

by Dan Lacy