BUSINESS FINANCIAL REPORTING

STANDARDS AND REQUIREMENTS

White Paper

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Certified Public Accountant Firm

FINACIAL REPORTING REQUIREMENTS

Every business is responsible for maintaining accurate accounting records and making them available for inspection by the IRS, and SEC for publicly traded companies. The accounting records must track the income, expenses, and credits reported for the business and support the preparation of financial statements in accordance with US accounting standards.

Financial statements are important to investors, lending institutions and government authorities because they provide information about a company's revenue, expenses, profitability, debt, and the business' ability to meet short-term and long-term financial obligations.

Accurate accounting records and financial statements give business owners and managers a more clear understanding for business performance and greater ability to assess financial situations. Information contained in financial statements is essential for supporting critical business decisions.

Adversely, inaccurate accounting records and financial statements can lead business management to make bad decisions. If misstatements in the accounting records, financial statements and associated tax returns are found by the IRS or SEC, the business may be required to explain the items reported. If material inaccuracies or mistatements are found it could lead to fines and serious legal penalties.

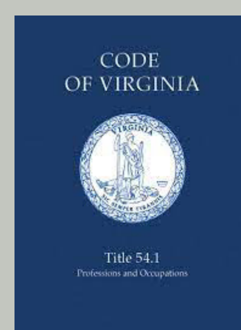
MONETARY FINES AND PENALTIES

If the IRS determines that errors in a business tax return are due to failing to apply appropriate care to financial reporting or ignoring tax laws, the business and its management may be assessed penalties for negligence. IRS levied penalties can also apply if errors are due to a business not keeping adequate books and records.

For instance, the SEC recently filed a fraud suit and other charges against Hertz Global Holdings Inc. and its wholly-owned subsidiary The Hertz Corp for materially misstating pre-tax income because of accounting errors made by a number of business units for reporting periods going back to July 2013. The suite resulted in Hertz Global having to pay a $16 million penalty.(SEC Filing https://www.sec.gov/enforce/33-10601-s).

PREPARATION OF FINANCIAL STATEMENTS

Financial reporting for US business entities follow US GAAP (Generally Accepted Accounting Principles). In addition to following US GAAP, companies also have to undergo annual audits or seek the assistance of a licensed Certified Public Accountant Firm in preparing year-end financial statements based on the accounting records for the business.



In the state of Virginia, Title54.1, Chapter44, Section 54.1-4412.1 of the state code stipulates that only licensed CPA firms may provide financial statement preparation services, compilation services, financial statement audits and reviews. Any business providing these services must have an active CPA firm license and be in good standing. (Virginia Code https://law.lis.virginia.gov/vacode/title54.1/chapter44/section54.1-4412.1/).

CORE FINANCIAL STATEMENTS

Core financial statements for any business type or size include the Income Statement, Balance Sheet, and Cash Flow Statement.

INCOME STATEMENT:

The Income Statement provides a summary of the business' financial performance over time. This is usually prepared at the end of every quarter or year. The components in this statement include:

- ***Revenue:***
  This is the amount of cash the company received through the sale of goods or services during the reported accounting period. Revenue should include discounts and deductions for returned merchandise and include the amount received as a result of using capital or assets of the business as part of the operations of the business.

- ***Expenses:***
  Expenses include outflows of money and/or incurring liabilities through the production of goods, rendering services, or carrying out any business activities. Business expenses can include wages or salaries, utilities, rent, depreciation of capital assets, and interest paid on loans. Expenses also include the Cost of Goods Sold (COGS), and may include costs such as import duties, freight, handling, and other costs for converting inventory to finished goods.

- ***Gains:***
  A company's gain is an increase in equity through peripheral or incidental transactions, other than those from revenue or investments by owners (shareholders). Typically, gains refer to unusual and nonrecurring transactions, such as gain on sale of land, change in a stock's market price or a gift. It is often shown in the P&L statement as non-operating income.

- ***Losses:***
  Business losses are decreases in equity through peripheral or incidental transactions. These could include writing off assets, losses from litigation or other decreases that are peripheral to the activities of a business.

BALANCE SHEET:

The Balance Sheet is a statement of the business assets, liabilities, and capital reported for a particular point in time. This statement provides a snapshot for what the company owns and owes, as well as the amount of shareholder equity. The key components of this statement include:

- ***Assets:***
  Assets can be tangible or intangible and are often owned or controlled by the business. Assets may also be current assets and fixed assets. Current assets consist of inventory, accounts receivables, and other short-term investments. Fixed assets include buildings, equipment, and other physical resources. Intangible assets usually include goodwill, copyright, trademarks, and patents.

- ***Liabilities:***
  Liabilities are a company's legal debts or obligations that might arise during the course of business operations. These are usually settled over time through the transfer of cash, goods, or services. Liabilities include accounts payable, salaries or wages payable, interest due, customer deposits, and other such obligations to third parties. Liabilities include both current and long-term liabilities.

- **Equity or owner's equity:**
  Equity equates to the assets of an entity that remain after deducting liabilities. Equity usually comprises funds contributed by shareholders, reserves, and retained earnings.

CASH FLOW STATEMENT:

This statement is a summary of the actual or anticipated inflows and outflows of cash during an accounting period. This statement can be prepared at the end of a month, quarter or year. The cash flow statement reflects the liquidity position of the business. This is used as the basis for budgeting and business planning. The components in this statement include:

- ***Cash Flow from Investing Activities:***
  These are cash flows related to investments such as gains or losses from investments in subsidiaries or in the financial market, the purchase of assets, and other related items.

- ***Cash Flow from Financing Activities:***
  This cash is related to activities that support the raising of capital or repaying investors and may include cash dividends, adding or changing loans, or issues of stock. Financing activities that produce positive cash flow include cash from issued stocks and bonds. Financing activities that produce negative cash flow include cash for repurchasing stock, paying off debt or interest, or payment of dividends to shareholders.

- ***Cash Flow from Operating Activities:***
  Cash flow from operating activities is related to the production, sale, and delivery of finished products and the collection of payments from customers. The activities could include cash outlays for raw materials, advertising, and the cost of shipping products. Payments to suppliers, employees, and interest payments may also be included in cash outflows for operating activities. The cash flow statement may also include depreciation and amortization. Cash inflows include receipts from the sale of goods and services and interest received.

HOW OUR CPA FIRM CAN HELP

BAS is a US-based Certified Public Accountant Firm that helps domestic and multinational businesses and not-for-profit organizations to more easily and effectively manage their accounting, tax, financial reporting, and compliance needs.

As a licensed CPA firm in good standing, BAS provides the following financial reporting and tax services in accordance with US GAAP (Generally Accepted Accounting Principles) and IRS regulations:

- Preparation of financial statements
- Compilation of financial statements
- Consolidation of parent company and subsidiary financial statements
- Foreign bank and asset reporting (FBAR)
- Translation of IFRS financial statements to US GAAP
- Preparation and filing of business income tax returns

For assistance with your business financial reporting and accounting needs visit our firm‘s website at https://bas.cpa or contact us by telephopne at (571) 495-2227.

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