

REALITY BEHIND FINANCIAL STATEMENT

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PREFACE

The objective of this project paper is to bring out some of the important issues relating to the background of the data presented in a financial statement. Whilst financial statements serve a major source of information by the various users and with varied purposes, they should be aware of the background relating to the information presented. The reliance on these statements as a decision-making guideline may be affected by the limitations inherent in the statement itself and also by the practices of manipulation of the data presented so as to give a favourable picture of a business situation.

1.0 METHODOLOGY

Most of the sources of information in writing up this project paper has been from texts, articles and from survey of related literatures. As far as the most recent and the latest opinions regarding the subject in concern, sources from the 'Letters to Editor' from the newspaper media regarding public opinions acts as an important support to the subject. Where technical matters are involved, text serves as the most useful reference.

2.0 LIMITATIONS OF THE STUDY

This project paper is mainly concerned with the use of financial statements as a source for analysing a business situation at a given point of time. The main financial statement used as a reference in this context is the balance-sheet, whereas other financial statements such as the profit and loss and the fund flow statements are directly related to the topic in question, is purposely excluded.

The tool for analysing the balance-sheet is by means of various ratios analysis, it is not the intention of this paper to show how ratios are calculated, but to highlight some of the circumstances or actions that may be manipulated, which will affect the ratios.