

10 Associated Elements in Financial Statements

Financial statements play an extremely important role in the day-to-day operations of a business. The balance sheet provides a snapshot of the company's financial statement, while the statement of cash flows shows its operating expenses. It is vital for a credit professional to review and understand these documents. The credit manager should also be aware of the 10 associated elements in financial statements that relate to measuring the performance and financial position of the business.

1. *Assets*—All of the resources owned, or in some cases controlled, by a company or a person
2. *Liabilities*—obligations, debts and items that are owed by the business
3. *Equity*—assets minus liabilities
4. *Investment by owners*—an increase in the equity of the business; something of value is transferred to the business to obtain or increase ownership interest
5. *Distribution to owners*—a decrease in the equity of business after assets of some kind, such as cash, are transferred to the owners
6. *Comprehensive income*—all of the changes in equity during a stated period, except changes from either investments by or distributions to owners
7. *Revenues*—cash or other items received by the business in exchange for merchandise or services rendered
8. *Expenses*—the amount of assets or services spent or used
9. *Gains*—increases in a company's equity from non-operating business transactions, except those that stem from revenues or investments by owners
10. *Losses*—decreases in a company's equity from non-operating business transactions and other occurrences, except those that stem from expenses or distributions to owners

Source: NACM, Principles of Business Credit