



CFA Institute

FINANCIAL STATEMENT ANALYSIS

CFA[®] Program Curriculum
2027 • LEVEL PREREQUISITE READING • VOLUME 2

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How to Use the CFA Program Curriculum

The CFA® Program exams measure your mastery of the core knowledge, skills, and abilities required to succeed as an investment professional. These core competencies are the basis for the Candidate Body of Knowledge (CBOK™). The CBOK consists of four components:

A broad outline that lists the major CFA Program topic areas (www.cfainstitute.org/programs/cfa/curriculum/cbok/cbok)

Topic area weights that indicate the relative exam weightings of the top-level topic areas (www.cfainstitute.org/en/programs/cfa/curriculum)

Learning outcome statements (LOS) that tell you the specific knowledge, skills, and abilities you should gain from each curriculum topic area. You will find these statements at the start of each learning module and lesson. We encourage you to review the information about the LOS on our website (www.cfainstitute.org/programs/cfa/curriculum/study-sessions), including the descriptions of LOS “command words” on the candidate resources page at www.cfainstitute.org/-/media/documents/support/programs/cfa-and-cipm-los-command-words.ashx.

The CFA Program curriculum that candidates receive access to upon exam registration.

Therefore, the key to your success on the CFA exams is studying and understanding the CBOK. You can learn more about the CBOK on our website: www.cfainstitute.org/programs/cfa/curriculum/cbok.

The curriculum, including the practice questions, is the basis for all exam questions. The curriculum is selected/developed specifically to provide candidates with the knowledge, skills, and abilities reflected in the CBOK.

CFA INSTITUTE LEARNING ECOSYSTEM (LES)

Your exam registration fee includes access to the CFA Institute Learning Ecosystem (LES). This digital learning platform provides access to all the curriculum content and practice questions. The LES is organized as a series of learning modules consisting of short online lessons and associated practice questions. This tool is your source for all study materials, including practice questions and mock exams. The LES is the primary method by which CFA Institute delivers your curriculum experience. Here, you will find additional practice questions to test your knowledge, including some interactive questions.

DESIGNING YOUR PERSONAL STUDY PROGRAM

An orderly, systematic approach to exam preparation is critical. You should dedicate a consistent block of time every week to reading and studying. Review the LOS both before and after you study curriculum content to ensure you can demonstrate

the knowledge, skills, and abilities described by the LOS and the assigned learning module. Use the LOS as a self-check to track your progress and highlight areas of weakness for later review.

Successful candidates report an average of more than 300 hours preparing for each exam. Your preparation time will vary based on your prior education and experience, and you will likely spend more time on some topics than on others.

ERRATA

The curriculum development process is rigorous and involves multiple rounds of reviews by content experts. Despite our efforts to produce a curriculum that is free of errors, we must make corrections in some instances. Curriculum errata are periodically updated and posted by exam level and test date on the Curriculum Errata webpage (www.cfainstitute.org/en/programs/submit-errata). If you believe you have found an error in the curriculum, you can submit your concerns through our curriculum errata reporting process found at the bottom of the Curriculum Errata webpage.

OTHER FEEDBACK

Please send any comments or suggestions to info@cfainstitute.org, and we will review your feedback thoughtfully.

Financial Statement Analysis

LEARNING MODULE

1

Introduction to Financial Reporting

by Elaine Henry, PhD, CFA, J. Hennie van Greuning, DCom, CFA, and Thomas R. Robinson, PhD, CFA, CAIA.

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LEARNING OUTCOMES

<i>Mastery</i>	<i>The candidate should be able to:</i>
☐	describe the objective of financial reporting and the importance of financial reporting standards in security analysis and valuation
☐	describe the roles of financial reporting standard-setting bodies and regulatory authorities in establishing and enforcing reporting standards
☐	describe the International Accounting Standards Board's conceptual framework, including qualitative characteristics of financial reports, constraints on financial reports, and required reporting elements
☐	describe general requirements for financial statements under International Financial Reporting Standards (IFRS)
☐	describe the roles of the statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flows in evaluating a company's performance and financial position

Note: Changes in accounting standards as well as new rulings and/or pronouncements issued after the publication of the readings on financial reporting and analysis may cause some of the information in these readings to become dated. Candidates are *not* responsible for anything that occurs after the readings were published. In addition, candidates are expected to be familiar with the analytical frameworks contained in the readings, as well as the implications of alternative accounting methods for financial analysis and valuation discussed in the readings. Candidates are also responsible for the content of accounting standards, but not for the actual reference numbers. Finally, candidates should be aware that certain ratios may be defined and calculated differently. When alternative ratio definitions exist and no specific definition is given, candidates should use the ratio definitions emphasized in the readings.

1

INTRODUCTION

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. 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.

This learning module discusses the objective of financial reporting and the importance of financial reporting standards in security analysis and valuation, describes the roles of financial reporting standard-setting bodies and regulatory authorities and several of the financial reporting standard-setting bodies and regulatory authorities, and describes the International Financial Reporting Standards (IFRS) reporting framework¹ and general requirements for financial statements. It also discusses the elements of financial statements and the general requirements for financial statements.

2

THE OBJECTIVE OF FINANCIAL REPORTING



describe the objective of financial reporting and the importance of financial reporting standards in security analysis and valuation

The financial reports of a company include financial statements and other supplemental disclosures necessary to assess a company's financial position and periodic financial performance. Financial reporting is based on a simple premise. The International Accounting Standards Board (IASB), which sets financial reporting standards that have been adopted in many countries, said in its *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) that the objective of financial reporting is to provide financial information that is useful to users in making decisions about providing resources to the reporting entity, where those decisions relate to equity and debt instruments, or loans or other forms of credit, and in influencing management's actions that affect the use of the entity's economic resources.²

A fully articulated framework is an essential first step to guide the development of a set of standards. Before the establishment and broad adoption of IFRS, financial reporting standards were primarily developed independently by each country's standard-setting body. This independent standard setting process created a wide range of standards, some of which were quite comprehensive and complex (rules-based standards), and others that were more general (principles-based standards). The globalization of capital flows and various accounting scandals increased awareness of the need for more uniform, high quality global financial reporting standards and provided the impetus for stronger coordination among the major standard-setting bodies. Such coordination is also a natural outgrowth of the increased globalization of capital markets.

¹ The body of standards issued by the International Accounting Standards Board (IASB) is referred to as International Financial Reporting Standards.

² In March 2018, the IASB updated the *Conceptual Framework for Financial Reporting* originally adopted in 2010.

Developing financial reporting standards is complicated because the underlying economic activities are complicated and dynamic. The financial transactions and financial position that companies present in their financial reports are also complex. Furthermore, uncertainty about various aspects of transactions often results in the need for accruals and estimates, both of which necessitate judgment. Judgment varies from one preparer to the next. Accordingly, standards are needed to achieve some amount of consistency in these judgments. Even with such standards, there usually will be no single correct answer to the question of how to reflect economic activity in financial reports. Nevertheless, financial reporting standards try to limit the range of acceptable answers to increase consistency in financial reports.

The IASB and the US-based Financial Accounting Standards Board (FASB) have developed similar financial reporting frameworks which specify the overall objective and qualities of information to be provided. Financial reports are intended to provide information to many users, including investors, creditors, employees, customers, and others. As a result, financial reports are *not* designed solely with asset valuation in mind. However, financial reports provide important inputs into the process of valuing a company or the securities a company issues. Understanding the financial reporting framework—including how and when judgements, estimates, and management policy decisions can affect the numbers reported—enables an analyst to evaluate the information reported and to use the information appropriately when assessing a company's financial performance. Clearly, such an understanding is also important in assessing the financial impact of business decisions by, and in making comparisons across, entities.

ACCOUNTING STANDARDS BOARDS

3

- ☐ describe the objective of financial reporting and the importance of financial reporting standards in security analysis and valuation
- ☐ describe the roles of financial reporting standard-setting bodies and regulatory authorities in establishing and enforcing reporting standards

A distinction must be made between standard-setting bodies and regulatory authorities. Standard-setting bodies, such as the IASB and FASB, are typically private sector, self-regulated organizations with board members who are experienced accountants, auditors, users of financial statements, and academics. The requirement to prepare financial reports in accordance with specified accounting standards is the responsibility of regulatory authorities. Regulatory authorities, such as the Accounting and Corporate Regulatory Authority in Singapore, the Securities and Exchange Commission (SEC) in the United States, and the Securities and Exchange Commission of Brazil, have the legal authority to enforce financial reporting requirements and exert other controls over entities that participate in the capital markets within their jurisdiction.

In other words, *generally*, standard-setting bodies set the standards and regulatory authorities recognise and enforce the standards. Without the recognition of the standards by the regulatory authorities, the private sector standard-setting bodies would have no authority. Note, however, that regulators often retain the legal authority to establish financial reporting standards in their jurisdiction and can overrule the private sector standard-setting bodies.

Accounting Standards Boards

While accounting standards boards exist in virtually every national market, the IASB and FASB are the two most influential because the vast majority of issuers in global financial markets prepare their financial statements under IFRS or US GAAP.

International Accounting Standards Board

The IASB is the independent standard-setting body of the IFRS Foundation, an independent, not-for-profit private sector organization. The Trustees of the IFRS Foundation reflect a diversity of geographical and professional backgrounds. The Trustees appoint the members of the IASB and are accountable to a monitoring board composed of public authorities that include representatives from the European Commission, IOSCO, the Japan Financial Services Agency, and the US SEC, with the chairman of the Basel Committee on Banking Supervision as an observer.

The Trustees of the IFRS Foundation are committed to act in the public interest. The principle objectives of the IFRS Foundation are to develop and promote the use and adoption of a single set of high quality financial standards; to ensure the standards result in transparent, comparable, and decision-useful information while taking into account the needs of a range of sizes and types of entities in diverse economic settings; and to promote the convergence of national accounting standards and IFRS. The Trustees are responsible for ensuring that the IASB acts and is perceived to act independently and in the best interests of users of the financial statements.

The members of the IASB are appointed by the Trustees on the basis of professional competence and practical experience and reflect a diversity of geographical and professional backgrounds. The members deliberate, develop, and issue international financial reporting standards,³ assisted by advice on the standards, and their application, from advisory bodies whose members represent a wide range of organizations and individuals that are affected by and interested in international financial reporting.

The IASB has a formal, structured process that it goes through when deliberating, developing, and issuing international financial reporting standards. A simplified version of the typical process is as follows. An issue is identified as a priority for consideration and placed on the IASB's agenda. After considering an issue, which may include soliciting advice from others including national standard-setters, the IASB may publish an exposure draft for public comment. After reviewing the comments and input of others, the IASB may issue a new or revised financial reporting standard. These standards are authoritative to the extent that they are recognised and adopted by regulatory authorities.

Financial Accounting Standards Board

The FASB and its predecessor organizations have been issuing financial reporting standards in the United States since the 1930s. The FASB operates within a structure similar to that of the IASB. The Financial Accounting Foundation oversees, administers, and finances the organization. The Foundation ensures the independence of the standard-setting process and appoints members to the FASB and related advisory entities.

The FASB issues new and revised standards to improve standards of financial reporting so that decision-useful information is provided to users of financial reports. This is done through a thorough and independent process that seeks input from stakeholders and is overseen by the Financial Accounting Foundation. The steps in the process are

³ Although the name of the IASB incorporates "Accounting Standards" and early standards were titled International Accounting Standards (IAS), the term "International Financial Reporting Standards" (IFRS) is being used for new standards. The use of the words "financial reporting" recognizes the importance of disclosures outside of the core financial statements, such as management discussion of the business, risks, and future plans.

similar to those described for the IASB. The outputs of the standard-setting process are contained in the FASB Accounting Standards Codification™ (Codification).⁴ The Codification, organized by topic, is the source of authoritative US generally accepted accounting principles to be applied to non-governmental entities.

US GAAP, as established by the FASB, is officially recognized as authoritative by the SEC; however the SEC retains the authority to establish accounting standards and financial reporting requirements. Although it has rarely overruled the FASB, the SEC does issue authoritative financial reporting guidance including Staff Accounting Bulletins. These bulletins reflect the SEC's views regarding accounting-related disclosure practices and can be found on the SEC website. Certain portions—but not all portions—of the SEC regulations, releases, interpretations, and guidance are included for reference in the FASB Codification.

THE INTERNATIONAL FINANCIAL REPORTING STANDARDS FRAMEWORK

4

- ☐ describe the objective of financial reporting and the importance of financial reporting standards in security analysis and valuation
- ☐ describe the International Accounting Standards Board's conceptual framework, including qualitative characteristics of financial reports, constraints on financial reports, and required reporting elements

The IASB's *Conceptual Framework for Financial Reporting* sets forth the concepts that underlie the preparation and presentation of financial statements for external users.⁵ The framework is designed to: assist standard setters in developing and reviewing standards; assist preparers of financial statements in applying standards and in dealing with issues not specifically covered by existing standards; assist auditors in forming an opinion on financial statements; and assist users in interpreting financial statement information. The objective of financial reporting is to provide financial information that is useful to current and potential economic resource providers in making decisions, and all other aspects of the framework flow from that central objective.

The primary users of financial reports include investors, lenders, and other creditors. Other users may also find the financial information useful for making economic decisions. The types of economic decisions differ by users, so the specific information needed differs as well. However, although users may have unique information needs, some information needs are common across all users. For example, users need information about a company's a) financial position, including its resources and its financial obligations; b) financial performance, including how and why the company's financial position changed in the past, which can be useful in evaluating potential changes in

4 The Codification combines literature issued by various standard setters, including the FASB, the Emerging Issues Task Force (EITF), the Derivative Implementation Group (DIG), and the American Institute of Certified Public Accountants (AICPA).

5 The FASB has a similar conceptual framework which it describes on its website as follows: "The Conceptual Framework (or "Concepts Statements") is a body of interrelated objectives and fundamentals. The objectives identify the goals and purposes of financial reporting and the fundamentals are the underlying concepts that help achieve those objectives. Those concepts provide guidance in selecting transactions, events and circumstances to be accounted for, how they should be recognized and measured, and how they should be summarized and reported." Note that under IFRS, the conceptual framework is considered authoritative guidance, but under US GAAP, the conceptual framework is not authoritative.

the future; and c) cash position, including how the company obtained cash (by selling its products and services, borrowing, and other methods) and how it used cash (by paying expenses, investing in new equipment, paying dividends, and other methods).

Information that is helpful to users in assessing future net cash inflows to the entity includes information about the economic resources of (assets) and claims against (liabilities and equity) the entity, and about how well company management and the governing board utilized the resources of the entity. Financial reports are useful in estimating the economic value of an entity.

Qualitative Characteristics of Financial Reports

Flowing from the central objective of providing information that is *useful* to providers of resources, the *Conceptual Framework* identifies two fundamental qualitative characteristics that make financial information useful: relevance and faithful representation.⁶ The concept of materiality is discussed within the context of relevance.

1. *Relevance*: Information is relevant if it would potentially affect or make a difference in users' decisions. The information can have predictive value (useful in making forecasts), confirmatory value (useful to evaluate past decisions or forecasts), or both. In other words, relevant information helps users of financial information to evaluate past, present, and future events, or to confirm or correct their past evaluations in a decision-making context.
Materiality: Information is considered to be material if omission or misstatement of the information could influence users' decisions. Materiality is a function of the nature and/or magnitude of the information.
2. *Faithful representation*: Information that faithfully represents an economic phenomenon that it purports to represent is ideally complete, neutral, and free from error. Complete means that all information necessary to understand the phenomenon is depicted. Neutral means that information is selected and presented without bias. In other words, the information is not presented in such a manner as to bias the users' decisions. Free from error means that there are no errors of commission or omission in the description of the economic phenomenon, and that an appropriate process to arrive at the reported information was selected and was adhered to without error. Faithful representation maximizes the qualities of complete, neutral, and free from error to the extent possible. Faithful representation is sometimes referred to as "reliability."

Relevance and faithful representation are the fundamental, most critical characteristics of useful financial information. In addition the *Conceptual Framework* identifies four enhancing qualitative characteristics: comparability, verifiability, timeliness, and understandability.

1. *Comparability*: Comparability allows users "to identify and understand similarities and differences of items." Information presented in a consistent manner over time and across entities enables users to make comparisons more easily than information with variations in how similar economic phenomena are represented.
2. *Verifiability*: Verifiability means that different knowledgeable and independent observers would agree that the information presented faithfully represents the economic phenomena it purports to represent.
3. *Timeliness*: Timely information is available to decision makers prior to their making a decision.

⁶ *Conceptual Framework for Financial Reporting*.

4. *Understandability*: Clear and concise presentation of information enhances understandability. Information should be prepared for and be understandable by users who have a reasonable knowledge of business and economic activities, and who are willing to study the information with diligence. Information that is useful should not be excluded simply because it is difficult to understand, and it may be necessary for users to seek assistance to understand information about complex economic phenomena.

Financial information exhibiting these qualitative characteristics—fundamental and enhancing—should be useful for making economic decisions.

Constraints on Financial Reports

Although it would be ideal for financial statements to exhibit all of these qualitative characteristics and thus achieve maximum usefulness, it may be necessary to make tradeoffs across the enhancing characteristics. The application of the enhancing characteristics follows no set order of priority and each enhancing characteristic may take priority over the others. The aim is an appropriate balance among the enhancing characteristics.

A pervasive constraint on useful financial reporting is the cost of providing and using this information. Optimally, benefits derived from information should exceed the costs of providing and using it. Again, the aim is a balance between costs and benefits.

A limitation of financial reporting involves information that is not included. Financial statements, by necessity, omit information that is non-quantifiable. For example, the creativity, innovation, and competence of a company's work force are not directly captured in the financial statements. Similarly, customer loyalty, a positive corporate culture, environmental responsibility, and many other aspects about a company may not be directly reflected in the financial statements. Of course, to the extent that these items result in superior financial performance, a company's financial reports should reflect the results.

EXAMPLE 1

Balancing Qualitative Characteristics of Useful Information

A tradeoff between enhancing qualitative characteristics often occurs. For example, when a company records sales revenue, it is required to simultaneously estimate and record an expense for potential bad debts (uncollectible accounts) if the sale is made on credit. Including this estimated expense is considered to represent the economic event faithfully and to provide relevant information about the net profits for the accounting period. The information is timely and understandable; but because bad debts may not be known with certainty until a later period, inclusion of this estimated expense involves a sacrifice of verifiability. The bad debt expense is simply an estimate. Accordingly, it is apparent that it is not always possible to simultaneously fulfill all qualitative characteristics.

5

THE ELEMENTS OF FINANCIAL STATEMENTS

- ☐ describe the International Accounting Standards Board's conceptual framework, including qualitative characteristics of financial reports, constraints on financial reports, and required reporting elements
- ☐ describe general requirements for financial statements under International Financial Reporting Standards (IFRS)

Financial statements portray the financial effects of transactions and other events by grouping them into broad classes (elements) according to their economic characteristics. Three elements of financial statements are directly related to the measurement of financial position: assets, liabilities, and equity.

- **Assets:** A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Assets are what a company owns (e.g., inventory and equipment).
- **Liabilities:** A present obligation of the entity to transfer an economic resource as a result of past events. An obligation is a duty or responsibility that the entity has no practical ability to avoid. Liabilities are what a company owes (e.g., bank borrowings).
- **Equity:** Assets less liabilities. Equity is the residual interest in the assets after subtracting the liabilities.

The elements of financial statements directly related to the measurement of performance (profit and related measures) are income and expenses.

- **Income:** Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims. Income includes both revenues and gains. Revenues represent income from the ordinary operating activities of the enterprise (e.g., the sale of products or provision of services). Gains may result from ordinary activities or other activities (the sale of surplus equipment).
- **Expenses:** Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims. Expenses include cost of goods sold (which may include wages and rent) and selling and administrative expenses. Losses are also considered expenses and can result from the sale of assets at less than their carrying values, impairments of asset values and a variety of other items.

Underlying Assumptions in Financial Statements

Two important assumptions underlie financial statements: accrual accounting and going concern. These assumptions determine how financial statement elements are recognized and measured.

The use of "accrual accounting" assumes that financial statements should reflect transactions in the period when they actually occur, not necessarily when cash movements occur. For example, a company reports revenues *when they are earned (when the performance obligations have been satisfied)*, regardless of whether the company

received cash before or after delivering the product, at the time of delivery. Accrual accounting helps ensure related revenues and expenses are recognized in the same reporting period, resulting in a more meaningful measure of net income.

“Going concern” refers to the assumption that the company will continue in business for the foreseeable future. To illustrate, consider the value of a company’s inventory if it is assumed that the inventory can be sold over a normal period of time versus the value of that same inventory if it is assumed that the inventory must all be sold in a day (or a week). Companies with the intent to liquidate or materially curtail operations would require different information for a fair presentation.

Recognition of Financial Statement Elements

Recognition means that an item is included in the balance sheet or income statement. Recognition occurs if the item meets the definition of an element and satisfies the criteria for recognition. Recognition is appropriate if it results in both relevant information about assets, liabilities, equity, income and expenses and a faithful representation of those items, because the aim is to provide information that is useful to investors, lenders and other creditors.

Measurement of Financial Statement Elements

Measurement is the process of determining the monetary amount at which the elements of the financial statements are recognized and carried in the balance sheet and income statement. The following alternative bases of measurement are used to different degrees and in varying combinations to measure assets and liabilities:

- **Historical cost:** Historical cost is simply the amount of cash or cash equivalents paid to purchase an asset, including any costs of acquisition and/or preparation, such as transportation expense or sales tax. If the asset was not bought for cash, historical cost is the fair value of whatever was given in order to buy the asset. When referring to liabilities, historical cost means the amount of proceeds received in exchange for the obligation.
- **Amortised cost:** Historical cost adjusted for amortisation, depreciation, or depletion and/or impairment.
- **Current cost:** In reference to assets, current cost is the amount of cash or cash equivalents that would have to be paid to buy the same or an equivalent asset today (i.e., replacement cost). In reference to liabilities, the current cost basis of measurement means the undiscounted amount of cash or cash equivalents that would be required to settle the obligation today.
- **Realizable (settlement) value:** In reference to assets, realizable value is the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. For liabilities, the equivalent to realizable value is called “settlement value”—that is, settlement value is the undiscounted amount of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.
- **Present value (PV):** For assets, present value is the net present value of the future expected cash inflows that the asset is expected to generate in the normal course of business, discounted at an appropriate interest rate. For liabilities, present value is the present value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business, discounted at an appropriate interest rate.

- **Fair value:** Fair value is defined as an exit price, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This may involve either market measures or present value measures depending on the availability of information.

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MAJOR FINANCIAL STATEMENTS



describe the roles of the statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flows in evaluating a company's performance and financial position

In performing an equity or credit analysis of a company, an analyst collects a great deal of information. The nature of the information collected will vary on the basis of the individual decision to be made (or the specific purpose of the analysis) but will typically include information about the economy, industry, and company, as well as information about comparable peer companies. Information from outside the company will likely include economic statistics, industry reports, trade publications, and databases containing information on competitors. The company itself provides core information for analysis on its website and in its financial reports, press releases, investor conference calls, and webcasts.

Companies prepare financial reports at regular intervals (annually, semiannually, and/or quarterly depending on the applicable regulatory requirements). Financial reports include financial statements along with supplemental disclosures necessary to assess the company's financial position and periodic performance.

Financial statements are the result of an accounting process that records a company's economic transactions, following the applicable accounting standards and principles. These statements summarize the accounting information, mainly for users outside the company (such as investors, creditors, analysts, and others) because insiders have direct access to the underlying financial data summarized in the financial statements and to other information that is not included in the financial reporting process.

Financial statements of public companies and large, privately owned companies are typically audited by independent public accountants, who provide an opinion on whether the financial statements present fairly the company's performance and financial position, in accordance with a specified, applicable set of accounting standards and principles.

Financial Statements and Supplementary Information

A complete set of financial statements includes a statement of financial position (i.e., a balance sheet), a statement of comprehensive income (i.e., a single statement of comprehensive income or an income statement and a statement of comprehensive income), a statement of changes in equity, and a statement of cash flows.

The balance sheet portrays the company's financial position at a given point in time. The statement of comprehensive income and statement of cash flows present different aspects of a company's performance over a period of time. The statement of changes in equity provides additional information regarding the changes in a company's financial position over a period of time. In addition, the accompanying required notes, or footnotes, are an integral part of a complete set of financial statements. The