

HFMA Career Center

HFMA CHFP Certification Series

Article 5 - Financial Reporting, Part I

Module Five in the certification preparation materials is *Financial Reporting*. Financial reporting is the process of gathering financial data derived from operations, interpreting the data for management purposes and formulating standardized and accepted reports of the data.

This module provides 16%-20% of the examination's content. The functional focus of this module:

- Preparing financial statements
- Governmental reporting
- Internal management reporting
- Ratio analysis

Some accounting industry background is useful to understanding this module. This article provides an overview of accounting standards, basic principles and the financial statements. A second article addresses financial ratios, the "nuts & bolts" of financial reporting.

The Federal Accounting Standards Board (FASB) is the primary accounting standards setting body. Professional accounting and financial reporting practices derived from the standards are known as *Generally Accepted Accounting Principles* (GAAP). To develop standards FASB relies on certain key assumptions:

- Monetary unit: requires that only those things that can be expressed in monetary terms are included in accounting records
- Economic entity: states that every economic entity can be separated and accounted for
- Time period: states that the life of a business can be divided into artificial time periods useful for developing reports that cover the activity in that time period
- Going concern: states that the business will remain in operation for the foreseeable future

Two fundamental principles coexist with the four assumptions:

1. Cost principle: dictates that assets are recorded at their cost
2. Full disclosure principle: requires that all circumstances and events that would make a difference to users of financial statements must be disclosed

GAAP is a collection of methods used to process, prepare, and present public accounting information. GAAP is overall very general in its methods, as it needs to be somewhat applicable to many different types of industries. GAAP can be principle-based or specific technical requirements. Due to the fact that in many instances it is flexible and general, most industries in the United States are expected to follow GAAP principles.

Although different organizations contribute to GAAP, the Financial Accounting Standards Board (FASB) is the main contributor to GAAP under Securities & Exchange Commission (SEC) authorization. NOTE: FASB and GASB (Governmental Accounting Standards Board) together establish the accounting practices for recording liabilities

Generally accepted accounting principles (GAAP) are varied but based on a few basic principles that must be upheld by all GAAP rules. These principles include consistency, relevance, reliability, and comparability.

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Financial reporting is accomplished through the *Financial Statements*. Financial statements have different titles depending on whether the organization is a not-for-profit or a for-profit entity. The purpose of the financial statement is similar regardless of the organization type.

- Balance sheet/statement of financial position: This statement summarizes the organization's assets, liabilities, and accumulated excesses from operations less any accumulated losses from operations or withdrawals. A snapshot of an organization's wealth as of a certain date.
- -Income statement/statement of operations: This statement summarizes the organization's revenues and expenses and any excess or loss from the operations. Directly ties to the Statement of Financial Position.
- Statement of Financial Position or Balance Sheet
This statement can be understood by the simple formula: $Assets = Liabilities + Net Assets + (Net Revenue - Expenses)$
- -Statement of cash flows: This statement summarizes how cash (An asset listed on the Balance Sheet or Statement of Financial Position) was used and from where it was obtained. The flow may have been from or for: operations (revenues in excess of expenses, accounts receivable, accrued expenses, etc.); Investing (purchase or sale of assets, distributions to partners, investments, etc.) or financing (debts, grants, endowments, etc.)

There is a standard format to the financial statements:

Financial Statement Presentation

- Two years are displayed; Prior year to the right of the current year
- -Statement of Operations or Income Statement are for a period of time—typically a month
- -Statement of Cash Flows reflects a period of time consistent with the Statement of Operations or Income Statement—typically a month
- Statement of Financial Position or Balance Sheet reflect the status of Assets, Liabilities, and Net Assets/Shareholders' Equity as of a day.

Notes to the Financial Statement provide further detail about the numbers represented on the financial statements. The notes may elaborate on the calculation of the numbers for example, identifying litigation and/or governmental interventions that could impact the viability of the organization.