[**Financial Statement Preparation**](https://www.accountingtools.com/articles/financial-statement-preparation.html)

The preparation of [financial statements](https://www.accountingtools.com/articles/2017/5/10/financial-statements) involves the process of aggregating accounting information into a standardized set of financials. The completed financial statements are then distributed to [lenders](https://www.accountingtools.com/articles/2017/5/9/lender), [creditors](https://www.accountingtools.com/articles/2017/5/4/creditor), and [investors](https://www.accountingtools.com/articles/2017/5/10/investor), who use them to evaluate the performance, [liquidity](https://www.accountingtools.com/articles/2017/5/13/liquidity), and [cash flows](https://www.accountingtools.com/articles/what-is-cash-flow.html) of a business.

The preparation of financial statements includes the following steps (the exact order may vary by company):

1. Compare the receiving log to [accounts payable](https://www.accountingtools.com/articles/2017/5/5/accounts-payable) to ensure that all supplier invoices have been received. [Accrue](https://www.accountingtools.com/articles/2017/5/5/accrual) the expense for any invoices that have not been received.
2. Compare the shipping log to [accounts receivable](https://www.accountingtools.com/articles/2017/5/7/accounts-receivable) to ensure that all customer invoices have been issued. Issue any invoices that have not yet been prepared.
3. Accrue an expense for any [wages](https://www.accountingtools.com/articles/2017/11/5/wage) earned but not yet paid as of the end of the [reporting period](https://www.accountingtools.com/articles/2017/5/11/reporting-period).
4. Calculate [depreciation](https://www.accountingtools.com/articles/2017/9/20/depreciation) and [amortization expense](https://www.accountingtools.com/articles/2017/5/7/amortization-expense) for all [fixed assets](https://www.accountingtools.com/articles/2017/5/10/fixed-asset) in the [accounting records](https://www.accountingtools.com/articles/2017/5/7/accounting-records).
5. Conduct an ending [physical inventory count](https://www.accountingtools.com/articles/2017/5/16/physical-count), or use an alternative method to estimate the [ending inventory](https://www.accountingtools.com/articles/2017/5/6/ending-inventory) balance. Use this information to derive the [cost of goods sold](https://www.accountingtools.com/articles/2017/5/4/cost-of-goods-sold), and record the amount in the accounting records.
6. Conduct a [bank reconciliation](https://www.accountingtools.com/articles/2017/5/17/bank-reconciliation), and create [journal entries](https://www.accountingtools.com/articles/what-is-a-journal-entry.html) to record all adjustments required to match the accounting records to the [bank statement](https://www.accountingtools.com/articles/what-is-a-bank-statement.html).
7. Post all [subsidiary ledger](https://www.accountingtools.com/articles/what-is-a-subsidiary-ledger.html) balances to the [general ledger](https://www.accountingtools.com/articles/2017/5/9/general-ledger).
8. Review the [balance sheet](https://www.accountingtools.com/articles/2017/5/17/the-balance-sheet) accounts, and use journal entries to adjust account balances to match the supporting detail.
9. Print a preliminary version of the financial statements and review them for errors. There will likely be several errors, so create journal entries to correct them, and print the financial statements again.
10. Accrue an [income tax expense](https://www.accountingtools.com/articles/2017/5/12/income-tax-expense), based on the corrected [income statement](https://www.accountingtools.com/articles/2017/5/17/the-income-statement).
11. Close all subsidiary ledgers for the period, and open them for the following reporting period.
12. Print a final version of the financial statements.
13. Write footnotes to accompany the financial statements.
14. Provide a cover letter that explains key points in the financial statements.
15. Distribute the financial statements.