

Financial Statement Preparation

The preparation of financial statements involves the process of aggregating accounting information into a standardized set of financials. The completed financial statements are then distributed to lenders, creditors, and investors, who use them to evaluate the performance, liquidity, and cash flows 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 to ensure that all supplier invoices have been received. Accrue the expense for any invoices that have not been received.
2. Compare the shipping log to 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 earned but not yet paid as of the end of the reporting period.
4. Calculate depreciation and amortization expense for all fixed assets in the accounting records.
5. Conduct an ending physical inventory count, or use an alternative method to estimate the ending inventory balance. Use this information to derive the cost of goods sold, and record the amount in the accounting records.
6. Conduct a bank reconciliation, and create journal entries to record all adjustments required to match the accounting records to the bank statement.
7. Post all subsidiary ledger balances to the general ledger.
8. Review 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, based on the corrected 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.