

Financial Statements: What's Right for Your Business?

Every business needs reliable information on its financial performance—but different types of businesses require different levels of assurance on the financial statements they produce for their stakeholders. The choice of a reporting method depends on a number of factors:

- What degree of independent scrutiny of the financial statements do outside users require?
- How comfortable are management and owners with the accuracy of internally prepared financial statements?
- What are the company's future plans?

WE CAN HELP

At Metcalf Hodges, we offer two levels of assurance—the compilation and the review. Should you need an audit, the third level of assurance, we will be happy to provide you with a referral. We can examine your internal and external financial reporting needs and explain the advantages and disadvantages of each of the options.

Compilation

A compilation helps a company assemble information into a financial statement format, but provides no assurance about those statements. A Compilation is often required for commercial lending purposes.

We do not attempt to verify the accuracy or completeness of the information during a compilation. However, should we notice the information provided appears false or misleading, we would obtain new or revised material.

There is also no need for us to maintain objectivity on a compilation engagement and the financial statements we compile may not be prepared in accordance with generally accepted accounting principles (GAAP).

Review

A review may be a cost-effective alternative to an audit when the company's owners are:

- Actively involved in day-to-day operations; and
- Feel comfortable with the effectiveness of existing procedures and controls; and
- Require only some limited assurance about the financial statements

A review may be required by a lender for a larger credit arrangement

We maintain our objectivity when performing reviews. However, the review provides only some limited assurance on the reliability of the financial statements. Our objective is limited to assessing whether the financial statements are plausible.

We discuss with you the accounting principles and practices you use and how transactions are recorded and accumulated into the financial statements. We also perform analytical procedures, such as comparisons of current and past financial results. This helps us identify items that appear to be implausible and worthy of further inquiry.

Audit

Audited financial statements offer the highest level of assurance. For this reason, audits are often required by securities law, outside investors, lenders and other major creditors or for internal purposes. In many instances, there is no acceptable substitute for an audit.

The objective of an audit is to express an opinion as to whether a company's financial statements are presented fairly, in all material aspects, in accordance with generally accepted accounting principles.

Audits are performed with professional skepticism and objectively evaluate the evidence obtained. Partners, Managers and their families of the CPA Firm performing the audit remain free of any interest or relationship with the company—such as holding shares—which could impair their judgment.

Accounting records are tested and evidence examined from sources within and outside the company to support amounts and disclosures in the financial statements.

An opinion is then expressed on the financial statements based on the results of the audit. The opinion may provide reasonable assurance that the financial statements are free from misstatement or the opinion may be modified to express any reservations.

LET'S TALK

Whether you choose a compilation or review, Metcalf Hodges has the resources and expertise to provide responsive, high-quality, professional service to meet your financial reporting requirements.

