

## Financial Statements

### 3.1 Income Statement

- ☞ An Income Statement presents the results of a company's operations for a given reporting period
- ☞ Accountants in accordance with General Acceptable Accounting Principles (GAAP) prepare it
- ☞ The Income Statement presents the Revenues earned and Expenses incurred by an entity during a specific time period, resultant in a figure known as Net profit or Net loss.

#### Standard Format for Income Statement (Statement/Report Form)

Name of Company		
Income Statement		
During the Period ended .....		
Descriptions	Rs.	Rs.
Sales	*****	
Sales Return/Discounts/Allowances etc.	(****)	
Net Sales		*****
Cost of Goods/Sales/Services Sold		(*****)
<b>Gross Profit/Loss</b>		*****
Commercial Expenses:		
Selling Expenses	*****	
Administrative Expenses	*****	
<b>Operating Profit</b>		****
Other Income		****
Other Expenses		(***)
<b>Earnings Before Interest and Taxes (EBIT)</b>		*****
Financial Charges		(***)
<b>Earnings Before Tax (EBT)</b>		*****
Tax		(***)
<b>Net Profit</b>		*****
Dividend		*****
Add to Retained Earning		*****

### 3.2 Balance Sheet

- ❖ A Financial Statement that summarizes a company's Assets, Liabilities and Owner Equity at a specific point in time called Balance Sheet. It shows financial position of the business
- ❖ The Balance Sheet must follow the following formula:  $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$

#### Standard Format for Balance Sheet (Statement/Report Form)

*Name of Company*

Balance Statement

As on .....

Description	Rs.	Rs.
<b>Assets</b>		
<b>Current Assets:</b>		
Cash & Cash equivalents in hand	****	
Cash at Bank	*****	
Marketable Securities	*****	
Note Receivables	****	
Account Receivables	****	
Inventory	****	
Other Current Assets	****	
Prepaid Expenses	****	
<i>Total Current Assets</i>		*****
<b>Long Term Assets:</b>		
Advance to employees	*****	
Bonds Investments	****	
Goodwill/Rights/Patents/Trade Mark etc.	****	
Other Long Term Assets	****	
<i>Total Long Term Assets</i>		*****
<b>Fixed Assets:</b>		
Furniture *****		
Accumulated Depreciation (*****)	*****	
Machinery *****		
Accumulated Depreciation (*****)	*****	
Building *****		
Accumulated Depreciation (*****)	*****	
Land	****	
<i>Total Fixed Assets</i>		*****
Other Assets		*****
<b>Total Assets</b>		*****
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Note Payable	*****	
Account Payable	*****	
Expenses Outstanding/Payable	****	

Unearned Revenues	*****	
Other Current Liabilities	*****	
<i>Total Current Liabilities</i>		*****
<b>Long Term Liabilities:</b>		
Bank Loan	****	
Bonds Outstanding	*****	
Mortgage Loan	*****	
Debentures	*****	
Other Long Term Liabilities	*****	
<i>Total Long Term Liabilities</i>		*****
<b>Total Liabilities</b>		*****
<b>Shareholder's Equity</b>		
Preferred Stock/Shares	*****	
Common/Ordinary Shares/Stock	****	
Retain Earning	****	
Other Reserves	****	
<b>Total Owner Equity</b>		*****
<b>Total Equities</b>		*****

**Example # 3.1:** From the following particulars taken out from the books of Mirpur Ltd. you are required to prepare Cost of Goods Sold, Income Statement and Balance Sheet as at June 30<sup>th</sup>, 2010.

**Mirpur Ltd.**

**Trial Balance**

June 30<sup>th</sup>, 2010

S #	Heads of Accounts	Ref	Amount	
			Dr	Cr
1	Cash		4,000	
2	Sales			27,000
3	General Reserve			3,000
4	Purchases		4,500	
5	Transportation in		800	
5	Note Payable			1,600
6	Other Expense		400	
7	Commission received			3,200
8	Note Receivable		700	
9	Account Receivable		1,400	
10	Salaries Payable			100
11	Prepaid Rent		500	
12	Inventory:			
13	Raw Material		800	
14	Work-in-Process		1,000	
15	Finish Goods		1,200	
16	Return inward		1,300	
17	Carriage inward		250	
18	Return outward			650
19	Transportation outward		150	
20	Financial Charges		1,200	
21	Advertisement Expenses		2,200	

## Cost Accounting

22	Direct Labor		2,700	
23	FOH		1,600	
24	Marketable Securities		6,500	
25	Mortgage Loan			14,000
26	Land		27,000	
27	Debenture			7,000
28	Building		24,000	
29	Equipments		6,700	
30	Share Capital:			
31	Ordinary Shares			28,000
32	Preference Shares			9,000
33	Bank		13,000	
34	Corporate Taxes		3,200	
35	Other Liabilities			1,200
36	Bonds outstanding			7,500
37	Bank Loan			12,000
38	Loan to Employees		7,300	
39	Employees Pension Funds			13,700
40	Investments		17,500	
41	Administrative Salaries		1,600	
42	Account Payable			1,000
43	Retain Earning			6,050
44	Dividend		3,500	
	<b>Total</b>		<b>135,000</b>	<b>135,000</b>

### *Closing Inventories*

Raw Material Rs. 1,500, Work in Process Rs. 1,200 and Finish goods Rs. 500

**Mirpur Ltd.**

### Cost of Goods Sold

*For the year ended June 30<sup>th</sup>, 2010*

Descriptions	Rs.	Rs.
Direct Material used		4,200

Total Factory Cost		8,500
Cost of Goods sold		<b>Rs. 9,000</b>

**Mirpur Ltd.**  
**Income Statement**  
*For the year ended June 30<sup>th</sup>, 2010*

Descriptions	Rs.	Rs.
<b>Gross Profit</b>		16,700
<b>Operating Profit</b>		12,750
<b>Earnings Before Interest and Taxes (EBIT)</b>		15,550
<b>Net Profit</b>		11,150
Retain Earning		7,650

**Mirpur Ltd.**  
**Balance Statement**  
*As on 30<sup>th</sup>, 2010*

Description	Rs.	Rs.
<i>Assets</i>		
<b>Current Assets:</b>		
<i>Total Current Assets</i>		29,300
<b>Long Term Assets:</b>		
<i>Total Long Term Assets</i>		24,800
<b>Fixed Assets:</b>		
<i>Total Fixed Assets</i>		57,700
<b>Total Assets</b>		
<i>Liabilities</i>		
<b>Current Liabilities:</b>		
<i>Total Current Liabilities</i>		2,700
<b>Long Term Liabilities:</b>		

<i>Total Long Term Liabilities</i>		55,400
<i>Total Liabilities</i>		
<i>Owner Equity</i>		
<i>Total Owner Equity</i>		53,700
<i>Total Equities</i>		

## Further Study and Practice of Financial Statements

Video Lecture (Financial Statements)

<https://youtu.be/0YJ7zdeUtO4>

Practice MCQs (Financial Statements)

<https://www.accountancyknowledge.com/financial-statement-mcqs/>

# [www.AccountancyKnowledge.com](http://www.AccountancyKnowledge.com)

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