

FINANCIAL STATEMENTS (INFORMAL)

Financial statements are end results of financial accounting. It consists of Income Statement, Statement of Owner Equity and Balance Sheet.

21.1 Income Statement

- ✓ An Income Statement presents the results of a company's operations for a given reporting period
- ✓ It is called flow statement or period of time statement
- ✓ The Income Statement presents the Revenues earned and Expenses incurred by an entity during a specific time period
- ✓ Resultant figure known as Net Income/Profit (Excess of revenue over expenses) or Net Loss (Excess of expenses over revenue)
- ✓ Accounting period or year is the period of time covered by an Income Statement. It is usually one year. It can either be calendar year (Jan to Dec) or fiscal year (July to June)
- ✓ Income Statement includes revenue, expenses and net profit or loss which carry forward to statement of owner equity

Idrees Sultan
Income Statement

For the Period / Year ended

<i>Expenses</i>	<i>Debit</i>	<i>Revenue</i>	<i>Credit</i>
Total		Total	

19.2 Statement of Owner Equity

- This is a statement, which shows the financial interest or claim of the owner
- Financial interest of the owner represents residual claim against assets of the business
- It includes initial investment plus any further investment and dividend or profit and less withdrawal or/and loss and closing balance which carry forward to balance sheet

Saifullah Mir
Statement of Owner Equity

For the Period / Year ended

<i>Description</i>	<i>Debit</i>	<i>Description</i>	<i>Credit</i>
Total		Total	

19.3 Balance Sheet

- It shows financial position or condition at a specific point in time
- Sometime balance sheet is known a statement of financial position or statement of condition
- A Financial Statement that summarizes a company's Assets, Liabilities and Owner Equity called Balance Sheet
- These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders. The Balance Sheet must follow the following formula:

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

Obaid Ur Rehman

Balance Sheet

As on

<i>Assets</i>	<i>Debit</i>	<i>Equities</i>	<i>Credit</i>
Total		Total	

Example # 19.1: Following are the Adjusted Trial Balance related to Naeem & CO (Pvt.) Limited. Prepare Financial Statements (Income Statement, Statement of Owner Equity and Balance Sheet) for the year ended 31st March, 2017

Naeem & CO (Pvt.) Ltd.

Adjusted Trial Balance

For the Period Ended 31st March, 2017

(Million Rupees)

S. No	Heads of Accounts	Debit	Credit
1	Owner Equity		1,551
2	Drawings	560	
3	Machinery	1,850	
4	Sales		5,850
5	Account Receivables	530	
6	Purchases	1,260	
7	Wages	364	
8	Bank Loan		356
9	Account Payable		528
10	Taxes	220	
11	Cash in Hand	226	
12	Note Payable		680
13	Inventory	264	

Adjustments:

1. Salary due to his shop assistants on December 31, 2016 is Rs. 800.
2. Rent includes Rs. 25,000 deposited as security (Debit Prepaid Rent).
3. Loan from Mr. Ahmed Ali taken on July 01, 2016 carries simple interest at the rate of 10%.
4. Inventory in the shop on December 31, 2016 is Rs. 35,000.
5. Insurance Expense for the period September 1, 2016 to August 31, 2017.

 For Solution See
www.accountancyKnowledge.com
Solution 1 : Correction of Trial Balance
Purwa Shakeel (Pvt.) Ltd.
Trial Balance
As on 31st December, 2016

S. No	Heads of Accounts	Ref	Amount (Rs.)	
			Debit	Credit
1	Salary			
2	Return Inward			
3	Rent Expense			
4	Sundry Debtors			
5	Loan from Ahmed Ali			
6	Cash in hand			
7	Cash at Bank			
8	Return Outward			
9	Sundry Creditors			
10	Interest Expense			
11	Capital Owner Equity			
12	Sales			
13	Purchases			
14	Furniture			
15	Insurance Expenses			
16	Commission (Cr)			
Total			Rs. 203,300	Rs. 203,300

Solution 2: Adjustments Entries

General Journal

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
2016					
Dec	31				
	31				
	31				
	31				
	31				
Total					

Solution 3: Adjustments Trial Balance

Purwa Shakeel (Pvt.) Ltd.

Adjusted Trial Balance

As on 31st December, 2016

S. No	Heads of Accounts	Ref	Amount (Rs.)	
			Debit	Credit
1	Salary			
2	Return Inward			
3	Rent Expense			
4	Sundry Debtors			
5	Loan from Ahmed Ali			
6	Cash in hand			
7	Cash at Bank			
8	Return Outward			
9	Sundry Creditors			
10	Interest Expense			
11	Capital Owner Equity			
12	Sales			
13	Purchases			
14	Furniture			
15	Insurance Expenses			
16	Commission (Cr)			
17	Salary Payable			
18	Prepaid Rent			
19	Interest Payable			
20	Inventory			
21	Prepaid Insurance			
Total				

Solution 4: Income Statement (Informal)

Purwa Shakeel (Pvt.) Ltd.
Income Statement
 For the Year ended 31st December, 2016

<i>Expenses</i>	<i>Debit</i>	<i>Revenue</i>	<i>Credit</i>
Total		Total	

Solution 5: Statement of Owner Equity (Informal)

Purwa Shakeel (Pvt.) Ltd.
Statement of Owner Equity
 For the Year ended 31st December, 2016

<i>Description</i>	<i>Debit</i>	<i>Description</i>	<i>Credit</i>
Total		Total	

Solution 6: Balance Sheet (Informal)

Purwa Shakeel (Pvt.) Ltd.
Balance Sheet
 As on 31st December, 2016

<i>Assets</i>	<i>Debit</i>	<i>Equities</i>	<i>Credit</i>
Total		Total	

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