

Week 4 - Financial Statements

What does basic Financial Statement consist of?

The financial statement consists of the following pieces of important information:

(1) **Income Statement**



The statement of profit and loss for the period is comprised of net revenue less expenses for the period.

Revenues + Gains - Expenses - Losses = Income

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What does Basic Financial Statements consist? (cont')

(2) Balance Sheet / Statement Of Financial Position

A statement of financial position at a particular date. The form of the statement follows the balance sheet equation.



Assets = Liabilities + Owner's Equity

(3) Statement Of Cash Flows

The statement of cash flow enumerates the cash receipts and cash disbursement for a specified interval of time.

Cash Inflow - Cash Outflow = Change In Cash

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Example of the consolidated income statement

Profit From Operation (earnings before interest and taxes)

(-) Finance Cost (interest expenses like bank charges)

= **Profit Before Tax**



(-) Income Tax (liability determined by profit before tax)

= **Profit For The Period** (earnings available to the firm's ordinary and preferred shareholders)

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Example of the consolidated balance sheet

Property, plant and equipment (an asset comprising equipment, buildings, and land. The life of the asset is usually expressed in number of years)



- (+) **Current assets** (consist primarily of cash, marketable securities, accounts receivable, inventories and prepaid expenses)

- (+) **Investment** (an asset that the owner makes an investment in long term securities)

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Example of the consolidated balance sheet

- (-) **Current liabilities** (short term debts consist of such sources as credit extended by creditors / suppliers)
- (-) **Long-term liabilities** (long term debts consist of such sources as credit extended by a bank for long term loans, notes and bonds)
- = **Share capital** (includes the stockholders' investment in the firm (paid -up capital) AND
Reserve (cumulative earnings that have been retained and reinvested in the firm over its life)

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Concept 1: Cash Flow Statement

Net Profit =

Cash sales	-	Cash purchase	-	Cash expense
+		+		+
Credit sales		Credit purchase	+	Accruals
			-	Prepayment
			-	Depreciation
			-	Doubtful Debt
			-	Bad Debt
<u>Revenue</u>		<u>Expenses</u>		<u>Expenses</u>

Cash & Bank = Cash sales - Cash purchase - Cash expense

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Concept 2: Cash Flow Statement

The cash movement of all activities of the firm could be illustrated as follows:

Financing Activities: Activities that result in changes in the size and composition of the equity capital and borrowings of the firm.

Investing Activities: Activities like acquisition and disposal of long-term assets and other investments.

Operating Activities: Key revenue-generating activities of the firm.