

# Chapter-4

## 4.1 Financial Statements:

It covers a huge area in Accounting. But for engineering students, it is not discussed in details. Financial statements consist of income statement, owner's equity, and balance sheet and cash flow statements. In engineering, we will study about cash flow statement.

## 4.2 Income Statement:

The income statement reports the revenues and expenses for a specific period of time. The income statement lists revenues first, followed by expenses. Finally the statement shows net income or net loss. Net income results when revenues/income exceeds expenses. A Net loss occurs when expenses exceed revenues. The column of income statement will as need and there is no limit.

### 4.2.1 Specimen of a single step Income statement:

STEL limited	
Income Statement	
For the Year ended	
<b>Revenue/income:</b> Net sales/service Revenue Interest Income Commission income	Taka
<b>Expenses:</b> Cost of goods sold Selling expense Administrative expense Accidental loss Loss on sale of asset Interest Expense	Taka

#### Note:

##### cost of goods sold:-

Opening inventory

Purchase

Less:- Purchase return

" discount

Net purchase

Freight in/ carriage in/carriage inward/transportation in

**Cost of goods available for sale**

Less: ending inventory

Cost of goods sold

### 4.2.2 Specimen of a Multi-step Income statement:

Name of the company

Income statement

For the year/month(depend on the accounting period) ended ....

Account titles	Taka	Taka
<b>Income:-</b>		
Sales/service revenue	xxx	
(-)/less: sales return and allowances	(xxx)	
xx Sales discount		xxx
xx		
<b>Net sales</b>		
<b>Less: cost of goods sold:-</b>		
Opening inventory	xxx	
Purchase		
xxx		
Less:- Purchase return	xxx	
(xxx)		
" discount		
(xxx)		xxx
Net purchase	xxx	
Freight in	xxx	
<b>Cost of goods available for sale</b>		
Less: ending inventory		
Cost of goods sold		xxx
<b>Gross profit</b>		
<b>(-) operating expense:-</b>		
Rent expense	xxx	
Supplies expense/supplies used	xxx	
Freight out/carriage out/carriage outward/transportation out	xxx	
Utilities expense	xxx	
Advertising expense	xxx	
Delivery expense	xxx	
Office salaries	xxx	
Insurance expense	xxx	
Repair expense	xxx	
Telephone expense		
Depreciation expense		
<b>Net income from operation/operating income</b>		

<b>(+) Add: Non operating income:-</b>		
Interest on investment	xxx	xxx
" on notes receivable	xxx	
" on Account receivable	xxx	
Commission received	xxx	xxx
<b>(-)less: Non operating expenses:-</b>		
Interest expenses on Notes payable		xxx
Interest expenses on Accounts payable		
Interest expenses on loan	xxx	
<b>Net profit/income</b>	xxx	xxx
		xxx

### Special notes:

- If company are not related with the sales (like a dental clinic, consulting service, architect firm, advisory firm where a company make income by giving service) then income is Service revenue or fees revenue. In case of this company or firm there is no need to involve cost of goods sold.
- If only inventory is given, then we will consider the inventory (Whose date is the beginning date of the account period) as opening inventory and ending inventory is the inventory whose date is last date of accounting period.

### 4.3 Owner's Equity:

The owners equity statement reports the changes in owner's equity for a specific period of time. The time period is the same as that covered by the income statement. In owner's equity net profit (if profit occurs)is added with the capital. On the other hand if net loss occurs then net loss is subtracted from the capital. After that drawings should be subtracted from the remaining amount after the addition of profit or subtraction of loss from the capital.

#### 4.3.1 Specimen of a owner's equity:

Name of the company/firm

Owner's equity statement

For the year ended/month (depending on the accounting period) . . .

Account titles	Taka	Taka
Capital	xxx	
Add: net profit / less: net loss	(xxx)	
Less: drawings		xxx
Ending capital		(xxx)
		xxx

#### 4.4 Balance Sheet:

It reports the asset, liabilities, and Owner's equity at a specific date. A balance sheet lists assets at the top, followed by liabilities and owner's equity. Total assets must equal total liabilities and Owner's equity. The column of balance sheet will as need and there is no limit.

#### 4.5 Classified balance sheet:

It's a balance sheet in which asset, liabilities are classified. In this case current assets, fixed assets, current liability and fixed liability should be written separately.

##### 4.5.1 Specimen of a Classified Balance sheet

Name of the company					
Balance sheet					
As on date.....					
Account titles		Taka	Taka		
<b>Assets:-</b>					
<b>Current assets:-</b>					
Cash					
Account receivable					
Notes receivable					
Mortgage receivable (below 12 months)					
Prepaid rent/ Unexpired rent					
Prepaid insurance/ Unexpired insurance					
Office supplies					
Store supplies					
Supplies					
Merchandise inventory/inventory (Ending)					
Fees earned but not billed					
<b>Total current assets</b>					
<b>Fixed assets:-</b>					
Land					
Building					
Less: accumulated depreciation-building					
Equipment					
Less: accumulated depreciation-equipment					
Furniture					
Less: accumulated depreciation-furniture					
Office equipment					
Less: accumulated depreciation-office equipment					
Mortgage payable (greater than 12 months)					
<b>Total fixed assets</b>					

<b>Liability and owner's equity:-</b>		
<b>Current Liabilities:-</b>		
Accounts payable		
Notes payable		
Salaries payable		
Utilities payable		
Wages payable		
Interest payable		
Property tax payable/ taxpayable		
Unearned revenue/unearned fees revenue/unearned fees		
<b>Total current liabilities</b>		
<b>Long term liabilities:-</b>		
Long term Notes payable (greater than 12 months)		
Mortgage payable than 12 months		
Loan (greater than 12 months)		
<b>Total long term liabilities</b>		
<b>Total liabilities</b>		
Owners equity		
<b>Total liabilities and owner's equity</b>		

**Note:** Item from Trial balance should be included only in one element of financial statement. But item from adjusting entries or adjustment should go to both income statement and balance sheet.

#### Illustration 4.1:

The adjusted trial balance as of Lisa washing company as of June 30, 2009 is presented below

Account titles	Debit(TK)	Credit(TK)
Cash	19,000	
Accounts receivable	6,900	
Supplies	2,100	
Prepaid insurance	6,000	
Land	43,500	
Buildings	1,32,000	
Accumulated depreciation-Buildings		25,600
Accounts payable		13,700
Interest payable		20,300
Salaries payable		2,500
Property tax payable		14,100
Unearned revenue		2,600
Notes payable (Due in 15 months )		70,000
Capital		40,000
Service revenue		78,600

Wages expenses	13,800	
Utilities expenses	5,600	
Property tax expenses	4,500	
Insurance expenses	5,700	
Supplies expenses	4,100	
Depreciation expense	9,800	
Interest expenses	12,000	
Miscellaneous expenses	2,400	
Total	2,67,400	2,67,400

**Required:**

- (a) Prepare income statement for the year ended June 30, 2009.
- (b) Prepare owner's equity statement.
- (c) Prepare the balance sheet as on date June 30, 2009.

**Solution:**

Lisa Washing company

Income statement

For the ended June 30, 2009

Account titles	Taka	Taka
<b>Income:</b>		
Service Revenue		78,600
<b>Less: Operating expenses</b>		
Wages expenses	13,800	
Utilities expenses	5,600	
Property tax expenses	4,500	
Insurance expenses	5,700	
Supplies expenses	4,100	
Depreciation expenses	9,800	
Interest expenses	12,000	
Miscellaneous expenses	2,400	
<b>Total expenses</b>		(57,900)
<b>Net income</b>		<u>20,700</u>

**Lisa Washing company**  
**Owner's equity statement**  
**For the ended June 30, 2009**

Account titles	Taka	Taka
<b>Capital</b>	<b>40,000</b>	
Add: net income	20,700	60,700
Less: Drawings		nil
<b>Ending capital</b>		<b>60,700</b>

**Lisa Washing company**

**Balance sheet**

As on June 30, 2009

Account titles	Taka	Taka
<b>Assets:</b>		
<b>Current assets:</b>		
Cash	19,000	
Accounts receivable	6,900	
Supplies	2,100	
Prepaid insurance	6000	34,000
<b>Fixed assets:</b>		
Land	43,500	
Buildings	1,06,400	
1,32,000		
Less: accumulated depreciation		
(25,600)		1,49,900
Total fixes assets		1,83,900
Total assets		
<b>Liabilities sand owner's equity</b>		
<b>Current liabilities:</b>		
Account payable	13,700	
Interest payable	20,300	
Salaries payable	2,500	
Property tax payable	14,100	
Unearned revenue	2,600	
		53,200
<b>Long term liabilities</b>		
Notes payable		70,000
<b>Total liabilities</b>		1,23,200
<b>Owner's equity</b>		60,700
<b>Total liabilities and owner's equity</b>		1,83,900

**Explanation:** Notes payable will be long term liability because it will occur for greater than 12 months.

1. "Fees earned but not received" means service is completed but revenue of service is due to the customer and it's an income so it is added with the Fees revenue.

2. Salaries payable (if lies in adjusting entries) should be added with the salary expense in the income statement and placed in the liability side in balance sheet. 3. Unearned fees is one kind of liability because fees is received but service is not given.

4. Similarly Unearned revenue is also a liability.

### Illustration 4.2:

[KUET ME-2006]

The adjusted Trial balance for Pioneer Advertising Agency is presented below:

#### Pioneer Advertising Agency

#### Adjusted trial Balance

	October 31,2002	Debit(TK)	Credit(TK)
Cash		15,200	
Accounts Receivable		200	
Advertising supplies		1,000	
Prepaid Insurance		550	
Office Equipment		5,000	
Accumulated Depreciation-office Equipment			40
Notes payable			5,000
Accounts payable			2,500
Unearned revenue			800
Salaries payable			1,200
Interest payable			50
Capital			10,000
Drawings		500	
Service revenue			10,600
Salaries expense		5,200	
Advertising supplies Expense		1,500	
Insurance Expense and Rent expense		950	
Interest expense		50	
Depreciation Expense		40	
Total		30,190	30,190

**Solution:**

**Required:**

(a) Prepare an income statement for October 31,2002.

(b) Prepare a classified Balance Sheet as on October 31, 2002.

**Solution:**

**Pioneer Advertising Agency**  
**Income statement**  
For the year ended October 31, 2002

Account titles	Taka	Taka
<b>Revenue:</b>		
Service revenue		10,600
<b>Less: Operating expenses</b>		
Salaries expenses	5,200	
Advertising expense	1,500	
Insurance expense and Rent expense	950	
Depreciation expense	40	
<b>operating income</b>		7,690
<b>Less: non operating expense</b>		
Interest expense		2,910
<b>Net income/ profit</b>		50
		<b>2,860</b>

**Pioneer Advertising Agency**  
**Owner's Equity statement**  
For the year ended 31 october , 2002

Account Titles	Taka	Taka
Capital	10,000	
<b>Add: net profit</b>	2,860	12,860
<b>Less: Drawings</b>		500
<b>Ending capital</b>		<b>12,360</b>

**Pioneer Advertising Agency**  
**Balance sheet**  
As on Date 31 October, 2002

Account Titles	Taka	Taka
<b>Assets:</b>		
<b>Current assets:</b>		
Cash	15,200	
Account Receivable	200	
Advertising supplies	1,000	
Prepaid insurance	550	
<b>Total current assets</b>		16,950
<b>Fixed assets:</b>		
Office equipment	5,000	
<b>Less: Accumulated depreciation</b>		4,960

Total fixed assets		<u>21,910</u>
		<u>21,910</u>

### Illustration 4.3: [KUET ME-2007]

The unadjusted Trial Balance of Imperial Delivery Service as on May 31, 2006 is presented below:

Title of Account	Debit	Credit
Cash	5,840	
Account Receivable	1,410	
Supplies	890	
Prepaid insurance	1,900	
Land	48,000	
Buildings	82,000	
Accumulated depreciation-Buildings		18,960
Equipment	43,000	
Accumulated depreciation-Equipment		16,800
Accounts payable		2,160
Unearned delivery fees		2,100
Mortgage payable		58,000
Capital		65,000
Withdrawals	15,000	
Delivery fees earned		55,090
Salary Expenses	16,670	
Telephone Expenses	620	
Utilities Expenses	1,350	
Repair Expenses	1,430	
	2,18,110	2,18,110

### Adjustment Data:

- (a) Supplies used during the month TK. 270.
- (b) Prepaid insurance expired during the month TK. 600.
- (c) Depreciation on Buildings TK. 500 and equipment TK. 900.
- (d) Salaries unpaid TK. 1,200.
- (e) Interest on mortgage payable TK. 300.

### Required:

1. Prepare income statement of imperial delivery service for the month of May 2006.
2. Prepare the owner's equity statement, and
3. Prepare balance sheet as of that date.

**Solution:** Imperial Delivery service

#### Income statement

For the month ended May 31, 2006

Account titles	Taka	Taka	Taka
<b>Revenue:</b>			
Delivery fees earned			55,090
<b>Expenses:</b>			
Salary Expenses	16,670		
Salaries unpaid	1,200		
Total salaries expenses		17,870	
Supplies used/expense		270	
Telephone Expenses		620	
Utilities Expenses		1,350	
Repair Expenses		1,430	
Depreciation Expenses		500	
Depreciation Expenses		900	
Interest Expenses		300	
Total Expenses			23,840
<b>Net income/profit</b>			<u>31,250</u>

#### Imperial Delivery service

#### Owner's equity statement

For the month ended May 31, 2006

Account titles		
Capital	65,000	
Add: net profit	31,250	
		96,250
Less: Drawings/withdrawals		15,000
Ending capital		<u>81,250</u>

**Adjustment Data:**

1. Depreciation is Tk. 10,000 on buildings and TK. 9,000 on equipment.

2. Merchandise Inventory actually on hand is TK. 89,200.

**Required:** Prepare an income statement, owner's equity statement for the year and a classified balance sheet at December 31, 2003.

**Solution:**

**GRAHAM WHOLESALE COMPANY****Income statement**

For the year ended 31 December, 2003

Account titles/particulars	Taka	Taka
<b>Revenue/income:</b>		
Sales	9,04,100	
Less: Sales Discount	(4,600)	
Net sales		8,99,500
<b>Less: cost of goods sold:-</b>		
7,09,900		
Add: Opening inventory	7,99,900	
90,000	(89,200)	
Cost of Goods available for sale		(7,10,700)
Less: Ending inventory		1,88,800
Cost of goods sold	69,800	
<b>Gross profit/operating income</b>	19,400	
<b>Less: Operating expense:-</b>		
Salaries expense	5,900	
Utilities expense	7,200	
Repair expense	3,500	
Gas and oil expense	10,000	
Insurance expense	9,000	
Depreciation expense-buildings		(1,24,800)
Depreciation expense-equipment		
Total expense		64,000
<b>Net profit</b>		

**GRAHAM WHOLESALE COMPANY****Owner's equity statement**

For the year ended 31 December, 2003

Account titles	Taka	Taka
Graham, capital	2,67,800	
Add: net profit	64,000	3,31,800
Less: Graham, Drawing		(10,000)
Ending capital		3,21,800

# GRAHAM WHOLESALE COMPANY

## Balance sheet

As on date 31 December, 2003

Account titles	Taka	Taka
<b>Assets:</b>		
<b>Current assets:</b>		
Cash	25,400	
Account receivable	37,600	
Merchandise inventory on hand (Ending inventory)	89,200	
Total current assets		1,52,200
<b>Fixed asset:</b>		
Land	92,000	
Buildings		
1,97,000		
Less: Accumulated depreciation-buildings (54,000+10,000)	1,32,000	
64,000		
Equipment	32,100	
83,500		
Accumulated depreciation-equipment (42,400+9,000)		2,57,000
51,400		
<b>Total fixed assets</b>	50,000	
<b>Total asset</b>	37,500	
<b>Liabilities and owner's equity</b>	nil	
<b>Current liabilities:</b>	3,21,800	
Notes payable		
Account payable		
<b>Long term liabilities:</b>		
Owner's equity		
<b>Total liabilities and owner's equity</b>	4,09,300	

### Illustration 4.5:

[KUET ME-2009]

The following unadjusted Trial balance has been taken from the Karnofully Traders at the end of its annual accounting period.

#### Unadjusted trial balance of Karnofully Traders

December 31, 2007

Account titles	Taka	Taka
Cash	11,500	
Inventory (1.1.2007)	25,000	
Store supplies	3,500	
Prepaid insurance	3,000	

Office supplies	6,000	
Prepaid rent	24,000	
Store equipment	18,000	
Accumulated depreciation-store equipment	8,000	
Office equipment	24,000	
Accumulated depreciation- Office equipment	4,000	
Accounts payable	20,000	
Capital	61,000	
Drawings	11,000	
Sales	1,36,000	
Sales returns and allowance	3,000	
Purchase	75,000	
Purchase returns and allowance	5,000	
Freight in/carriage on purchase	3,000	
Sales salaries	4,000	
Advertising expense	8,000	
Office salaries	11,000	
Utilities expense	4,000	
<b>Total</b>	<b>2,34,000</b>	<b>2,34,000</b>

Adjustment and other data are as follows:

1. The inventory was valued at 31<sup>st</sup> December 2007 TK. 30,000.
2. Office supplies on hand TK. 2,000 at 31.12.07.
3. Store supplies on hand at 31<sup>st</sup> December 2007 TK 1,500.
4. Utilities expense outstanding (Due or accrued or payable) for the period TK. 1,000.

**Required:**

1. Prepare an income statement for the year ended 31<sup>st</sup> December 2007.
2. Prepare owner's equity statement, and
3. A balance sheet as on that date.

**Solution:**

Karnofully Traders

Balance sheet  
31 December, 2007

Account titles	Taka	Taka
<b>Assets:</b>		
<b>Current assets:</b>		

Cash	11,500	
Inventory (Ending)	30,000	
Store supplies on hand	1,500	
Prepaid insurance	3,000	
Office supplies on hand	2,000	
Prepaid rent	24,000	
<b>Total current assets</b>		
<b>Fixed assets:</b>		
Store equipment		
18,000	10,000	
Less: Accumulated depreciation-store equipment 8,000)		
Office equipment	20,000	
24,000		
Less: Accumulated depreciation-Office equipment (4,000)		
<b>Total fixed assets</b>		<b>1,02,000</b>
<b>Total assets</b>	<b>20,000</b>	
<b>Liabilities and owner's equity:</b>		
Accounts payable	1,000	
Utilities payable		
Owner's equity	81,000	
<b>Total liabilities and owner's equity</b>		<b>1,02,000</b>

**Bad debt expenses:** When a business grants credit to its customer, there usually are some customers who do not pay what they promise. The accounts of such customers are called bad debts. Generally Bad debts are considered to be an expense. For example a business sold goods on credit for Tk. 4,000. The customer closes down his business before making payment of his debts and the business is unable to collect Tk. 4,000. This Tk. 4,000 is called bad Debt by the business.

**Allowance for doubtful accounts/debts:** Allowance for doubtful account is the fund which is made to make up Bad debts expense. It's a liability. In Balance sheet you can subtract allowance for doubtful account from account receivable. This process is old method. Again according to new method you can place allowance for doubtful accounts in the liability side of the balance sheet.

#### Illustration 4.6:

The following Balances are taken from the books of accounts of SHIHAB Enterprise on 31<sup>th</sup> December 2010.

**SHIHAB Enterprise**  
**Trial balance 31 December, 2010.**

Account titles	Debit(TK)	Credit(TK)
Cash	30,000	
Account receivable	5,000	
Inventory (1.1.2010)	25,000	
Furniture	10,000	
Accumulated depreciation-Furniture		1,500
Buildings	20,000	
Accumulated depreciation-Buildings		3,000
Equipment	5,000	
Accumulated depreciation-Equipment		500
Prepaid insurance	3,000	
Prepaid rent	6,000	
Accounts payable		19,500
Sales		1,54,500
Purchase	90,000	
Salaries expense	2,000	
Utilities expense	1,500	
Carriage in	900	
Bad debts	1,600	
Allowance for doubtful accounts		1,000
Capital		30,000
Drawings	10,000	
Total	2,10,000	2,10,000

**Adjustment Data:**

- At the end of the period, Inventory (31.12.2010) is TK. 35,000.
- Insurance expired during the period TK. 500.
- Rent expired during the period TK. 1,000.
- Salaries accrued TK. 500.
- Interest accrued TK. 5,000.

**Required:** Prepare income statement, owner's equity statement and Balance sheet as on date 31 December, 2010.

**Solution:**

**SHIHAB Enterprise**  
**Income statement**  
**For the year ended 31 December, 2010.**

Account titles	Taka	Taka	Taka
<b>Revenue/income:</b>			
Sales			1,54,000
<b>Less: cost of goods sold:-</b>			
Opening inventory	25,000		
Purchase	90,000		
Carriage in	900		
Cost of goods available for sale		1,15,900	
<b>Less: Ending inventory</b>		(35,000)	
Cost of goods sold			80,900
<b>Gross profit</b>			
<b>Less: operating expenses</b>			
Salaries expense (2,000+500)		2,500	73,600
Utilities expense		1,500	
Rent expense/Rent expired		1,000	
Insurance expense/insurance expired		500	
Interest expense		5,000	
Bad debts expense		1,600	
<b>Total operating expenses</b>			12,100
<b>Net profit/income</b>			61,500

**SHIHAB Enterprise**  
**Owner's equity statement**

**For the year ended 31 December, 2010**

Account titles	Taka	Taka
<b>Capital</b>	30,000	
<b>Add: net profit</b>	61,500	91,500
<b>Less: Drawings</b>		(10,000)
<b>Ending capital</b>		81,500

# SHIHAB Enterprise

## Balance sheet

**As on date 31 December, 2010**

Account titles	Taka	Taka
<b>Assets:-</b>		
<b>Current assets:</b>		
Cash	30,000	
Account receivable 5,000	4,000	
Less: allowance for doubtful accounts (1,000)	35,000	
Inventory	2,500	
Unexpired insurance (3,000-500)	5,000	
Unexpired rent (6,000-1,000)	76,500	
Total current assets	8,500	
<b>Fixed assets:</b>		
Furniture 10,000	17,000	
Less: accumulated depreciation-furniture (1,500)	4,500	
Buildings 20,000	30,000	
Less: accumulated depreciation-buildings (3,000)	19,500	
Equipment 5,000	500	
Accumulated depreciation-equipment (500)	5,000	
Total fixed assets	25,000	
<b>Total assets</b>	<b>81,500</b>	
<b>Liabilities and owner's equity:-</b>		
Accounts payable		
Salaries payable		
Interest payable		
Total liabilities		
Owners equity		
<b>Total liabilities and owner's equity</b>	<b>1,06,500</b>	