



# Financial Statements

## Chapter Eight



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**Example**

# Session 1



# Financial Statements

The financial statement and the results of operations of business are a major interest of many groups including **owners, managers, creditors, government agencies especially the tax body, employees and prospective owners and creditors.**

The financial statements are the output of an accounting system.

A complete set of financial statements includes the following components

- 1.Statement of financial position (Balance sheet)
- 2.Income statement/Statement of Comprehensive income
- 3.Statement of cashflows
- 4.Statement of change of equity

# The accounting cycle



# The accounting cycle

**The accounting cycle has the following stages:**

Occurrence and documentation

**Journalising** of the transactions

Posting of the transactions from the **journal to the ledgers**

Preparation of the **trial balance**

**Adjustment** of accounts

Preparing the **financial statements**

**Closing Entries**



# The income statement and Statement of financial position





# The income statement and Statement of financial position

The **income statement** discloses the financial performance of the enterprise during a given year/operating cycle.

That is whether the operations of the enterprise resulted in a profit or a loss.

It is therefore a profitability statement that shows an organisation's revenue and expenses.

# The income statement and Statement of financial position

XYZ Ltd	
Statement of Comprehensive income	
for the year ended 20XX	
Sales revenue	XXXX
<b>Less: <u>Cost of goods Sold</u></b>	
Opening inventory	XXX
Add: Purchases	<u>XXX</u>
	XXX
Less: Closing Inventory	<u>XXX</u> <u>XXXX</u>
<b>Gross profit</b>	<b>XXXX</b>
<b>Less: <u>operating expenses</u></b>	
Rent	XXX
Electricity	XXX
Salaries	<u>XXX</u> <u>XXXX</u>
Net profit before int and tax(NBIT)	XXXX
Finance cost(interest)	<u>(XXX)</u>
Net profit before tax (NBT)	XXXX
Taxation	<u>(XXX)</u>
<b>Net profit for the year</b>	<b>XXXX</b>

# Example



## Chapter 8. Financial Statements

### Example

**From the following information relating to the business of Lee's Ltd, for the year ended 31<sup>st</sup> December, 2019. prepare the profit and loss accounts for the year ended**

Gross profit.....	420,000
Salaries expense.....	14,000
Insurance expense.....	74,000
Rent and rates expense .....	27,000
General office expenses.....	19,000
Carriage on sales expense .....	45,000
Printing and stationery exp.....	37,000
Electricity expense.....	12,000
Postage and tele expense.....	8,000

Discount allowed (sales dis) .....	15,000
Bank charges.....	1,200
Advertising expense .....	42,000
Interest exp on bank loan.....	2,500
Salesmen's commission exp.....	32,000
Discount received.....	5,000
Rent received .....	2,700



# Solution



## Solution

**John Ltd**  
**Statement of comprehensive income**  
**for the year ended 31/12/2019**

	<b>Ugx.</b>	
Gross profit		420,000
add: other incomes (discount received)	5,000	
Rent received	<u>2,700</u>	<u>7,700</u>
<b>Total income</b>		<b>427,700</b>
<u>Less: operating expenses</u>		
Salaries	14,000	
Rent and rates	27,000	
Insurance	74,000	
General office expense	27,000	



Cont...

	Ugx.	
Carriage on sales	45,000	
Printing and stationery	37,000	
Electricity	12,000	
Postage and telephone	8,000	
Discount allowed (sales discount)	15,000	
Bank charges	1,200	
Interest on bank loan	<u>32,000</u>	
total operating expense		<u>(328,700)</u>
<b>Net profit before tax</b>		<u><b>99,000</b></u>
tax (30% x 99,000).....	(33,000)	
<b>Net income.....</b>	<b>66,000</b>	

# Statement of financial position



# Statement of financial position

## XYZ LTD STATEMENT OF FINANCIAL POSITION AS AT 20XX

### ASSETS

<b>Tangible non-current assets</b>	<b>Cost</b>	<b>Acc. Depn</b>	<b>NBV</b>
Land	XXXX	Nil	XXXX
Motor vehicles	XXXX	XXXX	XXXX
Equipment	XXXX	XXXX	XXXX
	<u>XXXX</u>	<u>XXXX</u>	XXXX
Intangible assets			XXXX
Financial Assets			XXXX
Investments			XXXX
<b>total non-current Asset .....</b>			<b>XXXX</b>

The background of the slide is a grayscale photograph of various US currency items. In the top left, there are green grapes. Scattered across the top and middle are several US coins, including pennies and quarters. In the bottom left, there are several US one hundred dollar bills, with the portrait of Benjamin Franklin visible. In the bottom right, there is a large, textured orange object, possibly a donut or a piece of fruit. The entire image is dimmed to serve as a background for the text.

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**Current Assets**

Inventories	XXXX		
Prepayments	XXXX		
Trade and other receivable		XXXX	
Cash and cash equivalent	<u>XXXX</u>		
<b>Total current Asset</b>		<b><u>XXXX</u></b>	
<b>Total assets</b>			<b><u>XXXX</u></b>

**EQUITY AND LIABILITIES**

**Capital and reserves**

Share capital	XXXX		
Accumulated profit (net drawings if any)	XXXX		
Other reserves	<u>XXXX</u>		<u>XXXX</u>
Other controlling interest			XXXX

### **Non current liabilities**

Bank loans	XXXX	
Debentures	XXXX	
Preferences shares(redeemable)	<u>XXXX</u>	<u>XXXX</u>

### **Current Liabilities**

Trade and other payables	XXXX	
Short term borrowings(overdrafts)	XXXX	
Taxation payable	<u>XXXX</u>	<u>XXXX</u>

### **Total equity and liabilities**

**XXXX**



# Example



## Chapter 8. Financial Statements

### Example

**The following stood in the ledger of Tirisa Banareri on 31/12/2019**

Cash in hand	10,800	Capital	464,000
Cash at bank	38,700	Sales	789,300
Petty cash in hand	1,350	Sales returns	15,300
Stock 1 <sup>st</sup> Jan, 2019	54,000	Carriage out	7,875
Purchases	351,900	Discount received (purch disc)	15,750
Purchase returns	14,400	Discount allowed	12,600
Carriage in	6,750		
Sundry debtors(a/r)	147,000		
Sundry creditors (a/p)	119,340		
Motor vehicle	270,000		

Rent and rates	36,000
Wages and salaries	162,000
Printing and stationery	33,300
Drawings	22,500
Telephone and telegraph	5,625
Office equipment	90,000
Furniture	67,500
Electricity	6,525
Water	1,575
Bank charges	540
Insurance ex	16,200
Motor expenses	25,200
General office expenses	19,350

Closing stock 31 December 2019	102,150
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**Required:**

- (a) Re arrange the trial balance on 31/12/2019
- (b) Prepare a trading and profit and loss account (income statement) for the year ending 31/12/2019
- (c) Prepare a statement of financial position as at 31/12/2019

## **Tirisa Banareri**

### **Trial balance on 31/12/2019**

	<b>Dr.</b>	<b>Cr.</b>
Cash in hand	10,800	
Cash at bank	38,790	
Petty cash in hand	1,350	
Stock 1 <sup>st</sup> January 2019	54,000	
Motor vehicles	270,000	
Furniture	90,000	
Office equipment	67,500	
Sundry debtors	147,150	
creditors		119,340
Purchases	351,900	
Purchase returns		14,400
Sales		789,300

Sales return	15,300	
Carriage in	6,750	
Carriage out	7,875	
Discount allowed/	12,600	
Discount received		15,750
Rent and rates	36,000	
Wages and salaries	162,000	
Printing and stationery	33,300	
Drawing	22,500	
Telephone and telegraph	5,625	
Electricity	6,525	
Water	1,575	
Bank charges	540	
Insurance	16,200	
Motor expenses	25,200	
General office expenses	25,200	
Capital		464,000
	<b><u>1,402,830</u></b>	<b><u>1,402,830</u></b>
Closing stock 31 December 2019	102,150	





**Tirisa Banareri**  
**profit and Loss statement**  
**for the year ending 31 December 2019**

	Ugx.	Ugx.
Sales		789,300
Less: sales returns		<u>(15,300)</u>
Net income from sales		774,000
Less: Cost of sales		
Opening stock	54,000	
add: Purchases	351,900	
carriage in	<u>6,750</u>	
	412,650	
Less: Purchase returns	<u>14,400</u>	
Total available for sale	398,250	
Less: Closing stock	<u>(102,150)</u>	<u>(296,100)</u>
<b>Gross profit</b>		<b>447,900</b>

Add: other incomes		
Discount received		<u>15,750</u>
<b>Total incomes</b>		<b>493,650</b>
Less: Operating expenses		
Carriage out	7,875	
Discounts allowed	12,600	
Rent and rates	36,000	
Wages and salaries	162,000	
Printing and stationery	33,300	
Telephone and telegraph	5,625	
Electricity	6,525	
Water	1,575	
Bank charges	540	
Insurance	16,200	
Motor expenses	25,200	
General office expenses	19,350	
Total expenses		<u>326,790</u>
<b>Net profit tax</b>		<b><u>166,860</u></b>

**Tirisa Baneri**  
**Statement of Financial Position**  
**at 31 December 2019**

<b>Assets</b>	<b>Ugx.</b>	<b>Ugx.</b>
<b>Non current assets</b>		
Furniture	90,000	
Office equipment	67,500	
Motor vehicles	<u>270,000</u>	
<b>Total non current assets</b>		<b>427,500</b>
<b>Current assets</b>		
Stock	102,150	
Debtors	147,150	
Cash in hand	10,800	
Cash at bank	38,790	
Petty cash in hand	<u>1,350</u>	
<b>Total current assets</b>		<b><u>300,240</u></b>
<b>Total assets</b>		<b>727,740</b>

## Equity and Liabilities

Capital		464,040
Add: Net profit	166,860	
Less: Drawings	<u>(22,500)</u>	
Retained Earning.....		<b>144,360</b>
<b>total equity</b>		<b>608,400</b>

## Current liabilities

Creditors		<u>119,340</u>
<b>Total Equity and liabilities</b>		<b><u>727,740</u></b>

