

Chapter: 3

Preparation of Financial Statements

1. Definition of Financial statement:

Financial statements are written records that convey the business activities and the financial performance of a company. The financial statements provide important information concerning past financial transactions and their effects on the profitability and the financial position of the business.

2. Features of Financial statement:

1. Financial statements are always expressed in monetary terms. They ignore qualitative aspects. In other words, the non-monetary events do not come under the scope of financial statements.
2. Financial statements are always prepared for a certain period of time. They generally cover the period of one year.
3. Financial statements are historical in nature since they always present the past performance. Hence, they do not carry the futuristic approach.

3. Component/parts of financial statement:

Financial statement include-

1. Income statement
2. Balance sheet
3. Owners equity statement
4. Cash flow statement

Income statement: the income statement covers a range of time, which is a year for annual financial statements and a quarter for quarterly financial statements. The income statement provides an overview of revenues, expenses, net income

Income Statement Formula and Calculation: $\text{Net Income} = (\text{Revenue} - \text{Expenses})$

- Total all revenue or sales for the period.
- Total all expenses and costs of operating the business.
- Subtract total expenses from revenue to achieve net income or the profit for the period.

Balance sheet: The balance sheet provides an overview of a company's assets, liabilities, and stockholders' equity

The Balance Sheet Formula: $\text{Assets} = (\text{Liabilities} + \text{Owner's Equity})$

- Locate total assets on the balance sheet for the period.
- Total all liabilities, which should be a separate listing on the balance sheet.
- Locate total shareholder's equity and add the number to total liabilities.
- Total assets should equal the total of liabilities and total equity.

Owner's equity statement: it contains the information of owner's capital, drawing and net profit or loss

Formula for owner's equity statement = $\text{capital} + \text{net profit} - \text{drawing}$

The Cash Flow Statement: A basic financial statement that provides information about the cash receipts, cash payments, and net change in cash during a period, resulting from operating, investing, and financing activities.

Exercise

Ex-1:

XVZ Corporation

Trial balance

For the year ended on 31st Dec, 2020

S. n.	Particulars	L.R.	Dr	Cr
1.	Capital			3000000
2.	Equipment		166000	
3.	Supplies		4000	
4.	Advertisement		7900	
5.	Sales			322000
6.	Insurance ex		28000	
7.	Salary		20000	
8.	Electricity bill ex		1000	
9.	Telephone bill ex.		1000	
10.	Cost of goods sold		32000.	
11.	Showroom ex.		6000	
12.	A/R		15000	
13.	A/P			46000
14.	Cash		3087100	
	Total		<u>3368000</u>	<u>3368000</u>

Additional information

- Office supplies tk.2000 on hand
- Telephone bill tk.700 due
- Showroom expense tk.1000 Paid in advance

Instruction: Prepare

- Income statement
- Balance sheet

Ex-2

Unique Business incorporation
Trial balance
For the year ended on 31st Dec, 2020

S.N.	Particulars	Dr. (Tk.)	Cr. (Tk.)
1.	Capital		500000
2.	Electrical equipment	150000	
3.	Adv. Ex	8500	
4.	Supplies	5900	
5.	Purchase	128000	
6.	Sales		206000
7.	Opening stock	6100	
8.	Insurance	6000	
9.	Salary	10000	
10.	Electricity bill	4600	
11.	Telephone bill	400	
12.	A/R	36000	
13.	A/P		30000
14.	Carriage outward	7600	
15.	Cash	372900	
	Total	736000	736000

Additional data

After the end of year the following facts were revealed:

1. Salary due tk. 5000
2. Bad debt tk.5000
3. Closing stock tk.40000

Instruction: Prepare

- a) Income statement
- b) Balance sheet

Ex-3

Rupsha Company limited
Trial balance

For the quarter ended on 31st Dec, 2020

S. n.	Particulars	L.R.	Dr. (tk.)	Cr.(tk.)
1.	Capital		12000	500000
2.	Insurance expense		5000	
3.	Advertisement		109000	
4.	Equipment		43000	
5.	Furniture		10800	
6.	Carriage out-ward		88000	
7.	Purchase			265000
8.	Sales		80000	
9.	Salary			

10.	Electricity bill	15100	18000
11.	A/P	45000	
12.	A/R	5700	
13.	Supplies	50000	
14.	Wage	319400	
15.	Cash	783000	783000
Total			

Adjustment:

1. Closing stock tk.67000
2. Accrued wage tk.3000
3. Bad debt tk.3000

Instruction: Prepare

- A. Income statement
- B. Balance sheet

Ex-4:

Based on the following trial balance and additional data prepare income statement and balance sheet for 31st December, 2019

Sweet bakery ltd
Trial balance
31-12-19

Sl. No.	Account title	L. Ref.	Dr (tk.)	Cr (tk.)
1.	Cash		54,000	
2.	Account receivable		5,000	
3.	Account payable			65,000
4.	Furniture		60,000	
5.	Land		60,500	
6.	Equipment		87,000	
7.	Wage		5,000	
8.	Carriage out-ward		3,400	
9.	Advertisement		5,100	
10.	Opening stock		56,000	
11.	Carriage in-ward		6,900	
12.	Office expense		6,700	
13.	Sales			198,000
14.	Purchase		56,000	
15.	Rent		11,000	
16.	Salaries		32,000	
17.	Show room expense		14,400	
18.	Capital			200000
Total			<u>463,000</u>	<u>463,000</u>

Additional information:

1. Closing stock tk.45,000
2. Accrued wage tk.2,000

Instruction: Prepare

- a) Income statement
- b) Balance sheet

Ex-5:

Modern Co.
Trial balance
For the Year ended on 31st Dec, 2020

S.N.	Particulars	L.R	Dr.(Tk.)	Cr.(Tk.)
1.	Bank loan		45000	50000
2.	A/R		3500	
3.	Wage			14000
4.	A/P		9000	
5.	Utility bill		15000	
6.	Furniture		13000	
7.	Equipment		12000	
8.	Carriage in-ward			156000
9.	Sales		139000	
10.	Purchase		20000	
11.	Rent		5500	
12.	Supplies		52000	
13.	Salary			500000
14.	Capital		406000	
15.	Cash		720000	720000

Adjustment:

After the end of the year, the following facts were revealed:

1. Closing stock tk.55000
2. Bad debt tk. 3000
3. Accrued salary tk. 2000

Instruction: Prepare

- i. Income statement
- ii. Balance sheet