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: **Net Income= (Revenue−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: **Assets= (Liabilities+ 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= **capital+ net profit- 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:

XYZ Corporation
Trial balance
For the year ended on **31st Dec**, 2020

S. n.	Particulars	LR.	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		3368000	3368000

Additional information

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

Instruction: Prepare

i) Income statement

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

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

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 balnce
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		**463,000**	**463,000**

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			50000
2.	A/R		45000	
3.	Wage		3500	
4.	A/P			14000
5.	Utility bill		9000	
6.	Furniture		15000	
7.	Equipment		13000	
8.	Carriage in-ward		12000	
9.	Sales			156000
10.	Purchase		139000	
11.	Rent		20000	
12.	Supplies		5500	
13.	Salary		52000	
14.	Capital			500000
15.	Cash		406000	
			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