

2.2 Income statement (Performance statement)

Performance is the ability of an entity to earn a profit on the resources that have been invested in it, information about the amount and variability of profits helps in forecasting future cash flows from the entity's existing resources and in forecasting potential additional cash flows from additional resources that might be invested in the entity. This information is primarily provided in a statement of comprehensive income or in two separate statements commencing with profit or loss and reporting other components of comprehensive income. IAS1 prescribes items that should be included in the income statement like revenue, cost of sales, other expenses (distribution, administration ..etc) and finance costs, share of profit or loss of associates and tax expense in addition to some components of other comprehensive income which includes changes in fair value of available for sale financial investments, exchange differences on translating foreign operations, asset revaluation

The following equations are derived from the income statement:

- 1) Net sales = Sales revenues - sales returns and allowances – sales discount
- 2) Cost of goods sold = Beginning inventory + cost of goods purchased ending inventory.
- 3) Cost of goods purchased = Purchases - purchases returns and allowances – purchases discounts
- 4) Gross profit = Net sales - cost of goods sold.
- 5) Income from operations = Gross profit - total operating expenses.
- 6) Total operating expenses = Total selling expenses + total administration expenses.
- 7) Net income = Income from operations + other revenues and gains - other expenses and losses.

The elements of revenues and expenses are classified by function

Revenue

Cost of sales

Gross profit

Other incomes

Distribution expenses

Administrative expenses

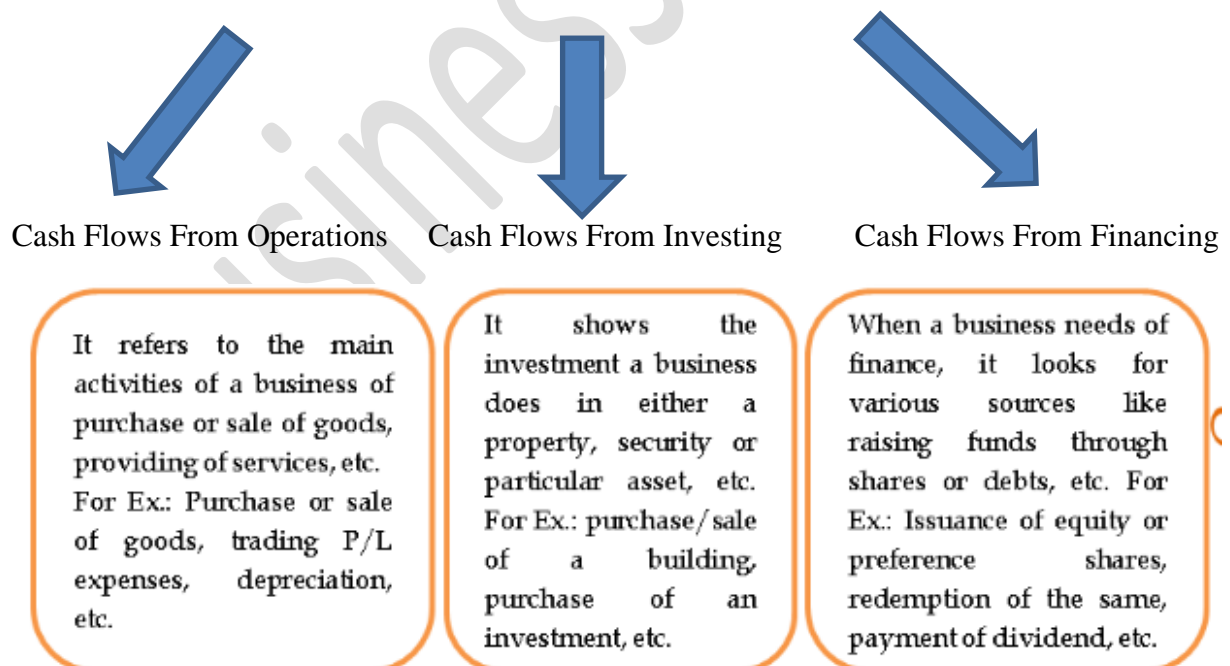
Other expenses

Income from operations
 Financial costs
 Profit before tax
 Income tax expense
 Profit for the year
 Other comprehensive income:
 Exchange differences on translating foreign operations
 Available-for-sale financial assets
 Gains or losses on property revaluation
 Total comprehensive income for the year

2.3 Cash flow Statement:

A cash flow statement is a financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources. It also includes all cash outflows that pay for business activities and investments during a given period.

The cash flow statement includes cash made by the business through operations, investment, and financing—the sum of which is called net cash flow.



2.4 Statement of changes in Equity:

Equity The owner's equity in a business represents the financial resources invested by the owner

1* Paid - in capital it describes the total amount of cash and other assets paid to the corporation by stockholders in exchange for capital stock.

Shares: الأسهم A share is a certificate of ownership in a corporation. There are two types of shares (stocks):

1-Common stocks (ordinary shares) give the right to vote in the stockholders' meetings and managerial decisions.

2-Preferred stock has a preference as to payment of dividends and in the distribution of assets in case of liquidation.

2*Retained earnings are net income retained in a corporation.

3* legal reserves

Statement of Changes in Equity, often referred to as Statement of Retained Earnings in U.S. GAAP, details the change in owners' equity over an accounting period by presenting the movement in reserves comprising the shareholders' equity.

Movement in shareholders' equity over an accounting period comprises the following elements:

- Net profit or loss during the accounting period attributable to shareholders
- Increase or decrease in share capital reserves
- Dividend payments to shareholders
- Gains and losses recognized directly in equity
- Effect of changes in accounting policies
- Effect of correction of prior period error

1. Summary of the elements of financial statements

Assets: is a resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity. This definition identifies three essential characteristics of an asset:

- 1- The resource must contain future benefits (it can be exchanged for another assets, it can be used to settle a liability or to produce goods or services to be sold)
- 2- The entity must have control over future benefits
- 3- There must have been a past event occurred

Liability: is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits, there are a number of important aspects concerning this definition:

- 1- The existence of a present obligation, being a duty or responsibility of the entity to act or perform in a certain way.

- 2- A liability must result in the giving up of resources embodying economic benefits that require settlement in the future.

Equity: is the residual interest in the assets of the entity after deducting all its liabilities, hence, the characteristics of equity are as follow:

- 1- $\text{Equity} = \text{assets} - \text{liabilities}$
- 2- Equity increases as a result of profitable operations, and by the distribution by owners
- 3- Equity is influenced by the measurement system adopted for assets and liabilities
- 4- Equity may be sub classified into contributed funds from owners, retained earnings and other reserves.

Income: is defined as an increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains.

- **Revenue:** the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in an increase in equity other than increases relating to contributions from equity participants.
- **Gains:** represents an income that does not necessarily arise from the ordinary activities of the entity eg gains on the disposal of non-current assets, they are usually disclosed net of any related expenses whereas revenues are reported at a gross amount.

Expenses: are decrease in economic benefits during the accounting period in the from the outflows or depletions of assets or incurrence of liabilities that result in equity other than those relating to distribution to equity participants.