

Financial Statement Review:

Financial Statements Tutorial

There are four major financial statements used to communicate information to external users (creditors, investors, suppliers, etc.) -

1. Balance Sheet (assets, liabilities, and Shareholder's equity)
2. Income Statement (revenues and expenses)
3. Statement of Changes in Shareholder's Equity (contributed capital and retained earnings)
 - Statement of Retained Earnings
4. Statement of Cash Flows

Balance Sheet

- Financial statement that presents the financial position of the company on a particular date.

- Summarized by the accounting equation which must always be in balance

(Assets=Liabilities + Shareholder's Equity)

- Three categories of accounts:

1. Assets

- Three Characteristics of Assets

- a) It has probable future benefit that involves a capacity to contribute directly or indirectly to future net cash flows
- b) A particular entity can obtain the benefit and control other's access to the asset
- c) The transaction that resulted in the entity's right to the benefit of the asset has already occurred

- Examples: Cash, Accounts Receivable, Land, Equipment, Construction in Progress, Patents, Copyrights, Goodwill, etc.

2. Liabilities

- Amounts that company owes to its creditors
- Examples: Notes Payable, Accounts Payable, Unearned Revenue, etc.

3. Owner's Equity (Stockholder's Equity or Shareholder's Equity)

- The owner's claims to the assets of the company
 - Includes both retained earnings and capital stock (common stock, preferred stock)
- Most companies prepare a classified balance sheet which is the same as a regular balance sheet except assets and liabilities are categorized as current and non-current.
 1. Current—will be used or paid for within the next year
 - Examples: