

Chapter Ten: Financial Statement

Net Profit, Net sales Profit, Invested Capital:

The table given below show the list of operating and non-operating income and expense:

Income/Revenue		Expense		
Operating Income	Other Income	Cost of Goods Sold	Operating Expense	Other Expense
<ul style="list-style-type: none"> • Goods Sold • Service Revenue 	<ul style="list-style-type: none"> • Interest on bank Deposit • Dividend Received • Rent revenue • Commission Income/ Received • Profit on Sale of Fixed Assets • Discount Received • Interest on Investment 	<ul style="list-style-type: none"> • Opening Stock of Goods • Goods Purchase • Carriage Inward • Import Duty • Freight • Dock Charge 	<ul style="list-style-type: none"> • Salary & Allowance • Travel & Conveyance Exp. • Training Allowance • Printing & Stationary • Postage & Telegram Exp. • Electric ,Gas & Water/Utility Exp. • Office & Warehouse Rent • Lease Rent • Bank Charge • Marketing & Advertisement Exp. • Packing Expense • Carriage Outward • Depreciation on Building • Depreciation on Office Equipment • Sales Commission • Insurance Expense • Legal Expense • Discount Expense/ allowed • Goodwill written off • Patent written off • Trademark written off • Bed Debts • Entertainment Expense 	<ul style="list-style-type: none"> • Interest on Loan • Interest on Bank Overdraft • Loss on Sale of Fixed Assets • Interest on Debenture • Accidental Loss/Sundry Loss

■ Sample table of the Statement of Comprehensive Income (Service providing business)

Name of the organization.....

Statement of Comprehensive Income

For the year ended on.....

Particulars	Taka	Taka	Taka
Incomes:			
Service revenue	****		
Add: Service revenue Receivable	****	****	
Interest revenue		****	
Dividend Income/Received		****	
Total Income			****
Less: Expenses:			
Office rent	****		
Add: Due	****	****	
Salary & Allowance		****	
Electric & Telephone Bill		****	
Insurance expense		****	
Conveyance expense		****	
Legal expense		****	
Printing & Stationery		****	(****)
Net Profit			****

Sample table of the Statement of Comprehensive Income (Merchandising business):

Name of the organization.....
 Statement of Comprehensive Income
 For the year ended on.....

Particulars	Taka	Taka	Taka
Sales	****		
Less: Sales returns	(****)		****
Net sales			
Less: Cost of goods sold:		****	
Opening Stock	****		
Purchase	****		
Less: Purchase returns	(****)		****
Net Purchase		****	
Carriage inward	****		
Import Duty	****		
Less: Closing Stock	(****)		****
Gross Profit			
Less: Operating Expenses:		****	
Carriage Outward	****		
Salaries	****		
Office rent	****		
Electricity Expense	****		
Office expense	****		
Discount allowed	****		
Repairs of Fixed Assets	****		
Postages & Telegrams	****		
Advertising	****		
Stationery	****		
Packing expense	****		
Traveling expenses	****		
Insurance expense	****		
Depreciation on Fixed Assets	****		
Leasehold properties written off	****		
Goodwill written off	****		
Commission Paid	****		
Bank Charge	****		
Closing Bad Debts & Provision for doubtful debts		****	
Less: Surplus of Provision for doubtful debts & Bad Debts	(****)		
(Opening balance - Bad Debts written off)			
Or			
Add: Deficiency of Provision for Bad Debts & doubtful debts	****	****	(****)
(Bad Debts written off - Opening balance)			

Operating Profit			
Add: Other incomes:		****	
Profit from selling of fixed assets	****		
Interest on Investment	****		
Discount received	****		
Interest on loan paid	****		
Interest from Bank deposit	****		
Commission received	****		
Rent revenue	****		
Dividend received		****	****
Less: Other expenses:		****	
Loss from selling on fixed assets	****		
Interest on debenture	****		

NAME OF THE ORGANIZATION
Statement of Changes in Equity
For the year ended on.....

Particulars	Taka	Taka
Capital (Opening Balance)		*****
Add: Additional capital employed		****
(+) Net Profit/ (-) Net Loss		****
 less: Drawings:		****
Cash		****
Goods		****
Income Tax		****
Life insurance premium		****
 Add: General reserve		(****)
 Equity (Closing Balance)		****

■ Procedure of preparing Statement of Financial Position:

Information is recorded in the Statement of Financial Position in two stages. Assets are shown dividing into four types in the first stage- A) Fixed assets, B) Long term investment, C) Current assets, D) Fictitious assets. Equity and liabilities are shown at the second stages. Liabilities are divided into two types- A) Long term liabilities & B) Current or Short term liabilities. Sum of the closing surplus of the Owner's equity and total liabilities will be equal to the total assets.

Name of the organization.....

Statement of Financial Position

As on..... Date.....

Particulars	Taka	Taka	Taka
 Assets			
Fixed Assets:			
Goodwill less written off		****	
Furniture less accumulated depreciation		****	
Office Equipment less accumulated depreciation		****	
Machinery less accumulated depreciation		****	
Land & Building less accumulated depreciation		****	
Total Fixed assets			****
 Long term investment:			
Investment			****
 Current Assets:			
Cash in hand & Bank deposit		****	
Debtors		****	
Less: Closing bad debts & doubtful debts		(****)	
Bill receivables		****	
Unused Stationery		****	
Income Receivables		****	
Expenses made in advance		****	
Closing Stock		****	
Total Current assets			****
 Fictitious Assets:			
Preliminary Expenses		****	
Deferred Advertisement		****	****
Total Assets			****
 Owner's Equity & Liabilities			
Equity (Closing Balance)			****
 Long term liabilities:			
Bank loan/ Mortgage Loan		****	****

Particulars	Taka	Taka	Taka
Current liabilities:			
Creditors	****		
Bill Payable	****		
Outstanding expenses	****		
Advance income/ unearned revenue	****		
Bank overdraft	****		
Total current liabilities	<hr/>	<hr/>	<hr/>
Total liabilities		<hr/>	<hr/>
Owner's Equity & Total liabilities		<hr/>	<hr/>

1) Necessary formulas

- Net sales = Sales + Unrecorded sales + Goods drawings at sale price – Sales returns – Sales discount – Non-profit sales – Sale of goods on return terms
- Net purchase = Purchase + Unrecorded purchase – Purchase return – Purchase discount – Goods drawings – Non-profit sales – Goods distributed
- Cost of Goods sold = Opening stocks goods + Net purchase + Other direct expenses – Net closing stock goods
- Gross profit = Net sales – Cost of Goods sold
- Operating profit = Gross profit – Operating expenses (If the value is negative, there will be Operating loss)
- Net profit = Operating profit + Other revenue – Other expenses (If the value is negative, there will be Net loss)
- Advance insurance premium = Total amount of insurance /12 × Advance duration (If asked to pay for one year or, if nothing is said)
- Advance insurance premium = Total amount of insurance / Fixed duration × Advance duration (Question has given that time)
- Actual total debtors = Total debtors + Unrecorded sales + Deposited cheque/Bill receivable are dishonour – Unrecorded sales return – Unrecorded Bad debts written off – Closing bad debts & Provision for doubtful debts – Provision for discount on debtors.
- Closing bad debts & Provision for doubtful debts = (Total debtors + Unrecorded sales + Deposited cheque/Bill receivable are dishonour – Unrecorded Bad debts written off – Unrecorded sales return) × Percentage of bad debts & Provision for doubtful debts.
- Provision for discount on debtors = (Total debtors + Unrecorded sales + Deposited cheque/Bill receivable are dishonour – Bad debts written off – Unrecorded sales return – Closing bad debts & Provision for doubtful debts) × Percentage of provision for discount on debtors.
- Net profit ratio = $\frac{\text{Net profit}}{\text{Net sales}} \times 100$
- Gross profit ratio = $\frac{\text{Gross profit}}{\text{Net sales}} \times 100$
- Net profit to capital employed ratio = $\frac{\text{Net profit}}{\text{capital employed}} \times 100$
- Capital employed = Total assets – Current liabilities
- Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ (The standard value of current ratio 2 : 1)
- Liquidity ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$ (The standard value of liquidity ratio 1 : 1)
- Liquid Assets = Current Assets – (Prepaid expenses + Closing stock of goods)

2) Important adjustments to the financial statements are shown in below:

Serial No.	Adjustments Entry	Statement of Comprehensive Income	Statement of Financial Position
1.	Closing stock goods 40,000 taka Or, Unsold goods remain at the end of year 40,000 taka.	Cost of Goods sold: xxx Less: Closing stock of goods (40,000)	Current assets: Closing stock of goods 40,000
2.	Purchase price of glasses	Cost of valuable goods	xxx