



MODULE 2

REVIEW OF FINANCIAL STATEMENT

FINANCIAL STATEMENTS

This section discusses the four basic financial statements and the kind of information found in each report

01

Statement of Financial Position (Balance Sheet) – financial condition

02

Income Statement (Profit or Loss) – business performance

03

Statement of Changes in Equity – changes in owners'/shareholders' equity

04

Cash Flow Statement – cash inflows and outflows

BALANCE SHEET

Shows the company's assets, liabilities, and equity

Presents the financial position at a specific date

Formula:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Helps assess financial stability

INCOME STATEMENT

Shows revenues and expenses during a period

Determines whether the business earned a profit or loss

Formula:

$$\text{Net Income} = \text{Revenues} - \text{Expenses}$$

Measures business performance

SHOWS CASH INFLOWS AND OUTFLOWS

Divided into:

- Operating activities
- Investing activities
- Financing activities

Helps evaluate liquidity and cash management

STATEMENT OF CHANGES IN EQUITY

Shows changes in the owner's equity over time

Affected by:

Net income or loss

Owner's investments

Withdrawals or dividends

Explains why equity increased or decreased

IMPORTANCE OF REVIEWING FINANCIAL STATEMENTS

BASIC FINANCIAL ANALYSIS TOOLS

- Evaluates profitability
- Measures ability to pay short-term and long-term debts
- Identifies strengths and weaknesses of the business
- Helps in planning and control

- Ratio Analysis
 - Liquidity ratios
 - Profitability ratios
 - Solvency ratios
- Trend Analysis
 - Compares financial data across periods

USERS OF FINANCIAL STATEMENTS

- Management - planning and decision-making
- Investors - assessing returns and risk
- Creditors - evaluating ability to pay debts
- Government - taxation and regulation

**THANK
YOU**

