

FINANCIAL **Statements**

Financial Statements

- Financial statements are **structured reports** showing an entity's:
 - Financial position
 - Financial performance
 - Cash flows
- Used by different users to **make economic decisions.**

Set of Financial Statements

- Statement of Comprehensive Income (Income Statement)
- Statement of Changes in Equity (Capital Statement)
- Statement of Financial Position (Balance Sheet)
- Statement of Cash Flows (Direct Method)
- Notes to Financial Statements

Statement of Comprehensive Income (Income Statement)

- Shows the **revenues and expenses** for an accounting period.
- Determines whether the business earned a **net income** or incurred a **net loss**.
- It is the **first financial statement prepared**.
- Contains all **nominal accounts** except:
 - Drawing account
 - Income summary account

Statement of Changes in Equity (Capital Statement)

- Shows changes in the owner's equity due to:
 - Additional investments
 - Net income or net loss
 - Owner's withdrawals (drawings)
- Explains why capital increased or decreased during the period.

Statement of Financial Position (Balance Sheet)

- Presents the entity's **assets, liabilities, and capital** at a specific date.
- Based on the accounting equation:

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

- Shows the financial condition of the business.

Statement of Cash Flow

- Shows cash inflows and cash outflows during the period.
- Classified into three activities:

i. Operating Activities

- Cash transactions related to **net income**.
- Includes cash received from revenues and cash paid for expenses.

ii. Investing Activities

- Cash transactions related to **non-current assets**.
- Includes property, plant, equipment, and long-term investments.

iii. Financing Activities

- Cash transactions related to **capital and long-term liabilities**.
- Includes owner investments, borrowings, and repayments.

Journalizing and Posting Adjusting Entries

- Adjusting entries are prepared to update accounts before financial statements.
- These entries must still be **journalized and posted** to the ledger.
- After posting, ledger balances must match the **adjusted trial balance**.

Closing Entries

- Closing entries reset **nominal accounts** to zero.
 - Nominal accounts:
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Revenues

Expenses

Drawing

- Real accounts:

Assets

Liabilities

Capital

Closing Process:

- 1.Close all revenue accounts to the profit or loss summary.
- 2.Close all expense accounts to the profit or loss summary.
- 3.Transfer net income or loss to the capital account.
- 4.Close the drawing account to the capital account.

After Closing Entries

- Assets and liabilities retain their balances.
- Revenue, expense, and drawing accounts **have zero balances**.
- Capital reflects the amount shown in the **Statement of Changes in Equity**.

Post Closing Trial Balance

- Prepared after closing entries.
- Includes **only real accounts**:

Assets

Liabilities

Capital

- Confirms that the books are ready for the next accounting period.

FABM2: LESSON 2

THANK
YOU

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