

CH 1 — Financial Statements

Luke Lu • 2025-09-15

The order (ascending)

1) Income Statement (during the year) — a.k.a. Statement of profit and loss

- Income = revenues and gains
- Expenses and losses
- Net income:

$$\text{Revenues} + \text{Gains} - \text{Expenses} - \text{Losses}$$

Example — mini format

ABC Corporation Income Statement For the Year Ended December 31, 20XX	
Net sales	XX,XXX
Other revenue	+X,XXX
Total revenues	XX,XXX
Cost of goods sold	(XX,XXX)
Gross margin	XX,XXX
Selling, general, and administrative expenses	(XX,XXX)
Income from operations	XX,XXX
Interest expense	(X,XXX)
Income before income taxes	XX,XXX
Income tax expense	(X,XXX)
Net Income	\$XX,XXX

statement of Retained Earnings (during the year)

- Positive balance indicates cumulative revenues exceeded expenses
- Negative suggests a problem
- Ending retained earnings:

$$\text{Beg. RE} + \text{Net Income} + \text{OCI} - \text{Dividends} = \text{End. RE}$$

- End. RE carries to equity section of the balance sheet

Example – mini format

ABC Corporation Income Statement	
For the Year Ended December 31, 20X2	
Retained earnings, December 31, 20X1	XX,XXX
Plus: Net income	+X,XXX
Less: Dividends	(X,XXX)
Retained earnings, December 21, 20X1	(XX,XXX)

3) Balance Sheet (end of the year)

- Owner's equity = shares + retained earnings
- Assets
 - **Current assets:** expected to convert to cash, be sold, or consumed within one year
 - cash and cash equivalents
 - short-term investments
 - **Non-current assets:** held longer than a year
 - land, building, equipment
 - intangibles
 - long-term investments
- Basic equation:

$$\text{Asset} = \text{Liabilities} + \text{Shareholders' Equity}$$

- Owns = Owes

Properties of each statement

Question	Financial Statement	Answer
How much income did the company earn during the year?	Income statement	Revenues + gains – Expenses – losses Net income or net loss
Why did retained earnings change during the year?	Statement of retained earnings	Beg. retained earnings + Net income + Other comprehensive income – Dividends = End. retained earnings
What is the company's financial position at the end of the year?	Balance sheet	Assets = Liabilities + Owners' equity
How much cash was generated and spent during the year?	Statement of cash flows	Operating cash flows ± Investing cash flows ± Financing cash flows Change in cash

Some definitions

	Proprietorship	Partnership	Corporation
--	----------------	-------------	-------------

Owner(s)	Proprietor – one	Partners – two or more	Shareholders – usually many
Personal liability of owner(s) for business debts	Proprietor is personally liable	Partners are usually personally liable	Shareholders are not personally liable