

Financial statements

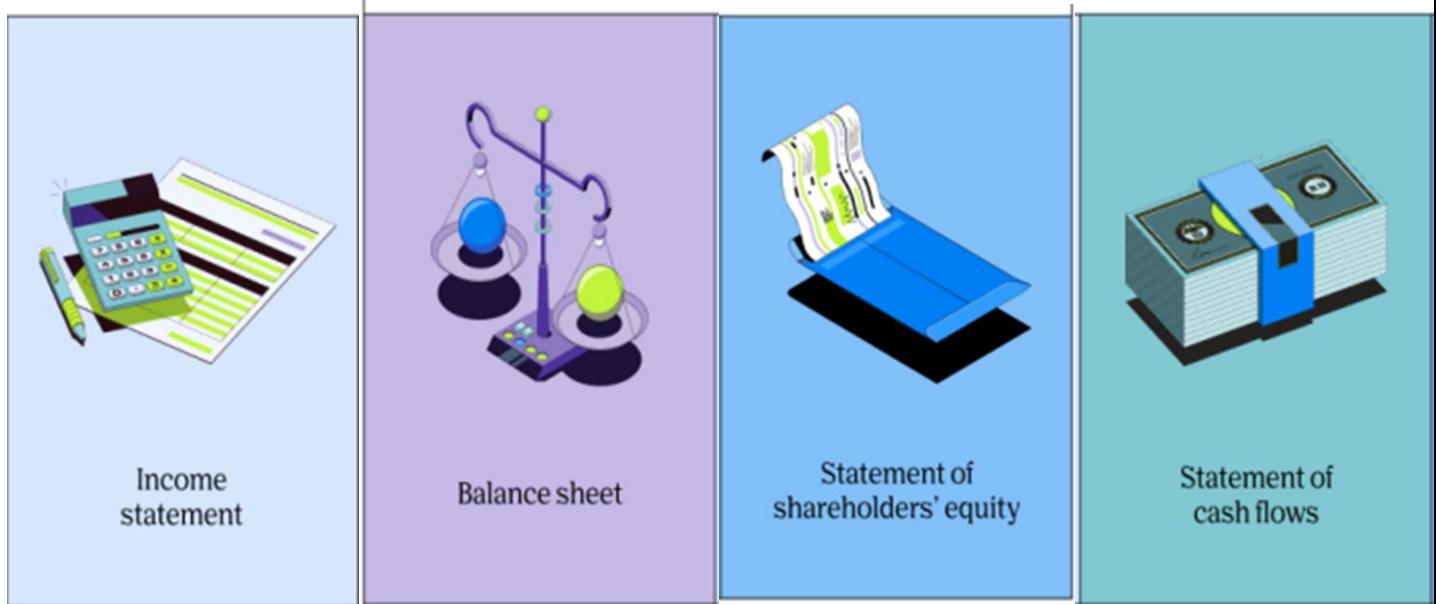
Financial statements are the primary means of communicating important accounting information about a business to those who have an interest in the business. Companies prepare **four** financial statements from the summarized accounting data :

1- Income statement presents the revenues and expenses and resulting net income or net loss for a specific period of time.

2- Balance sheet reports the assets, liabilities, and owner's equity at a specific date.

3- Owner's equity statement summarize the changes in owner's equity for a specific period of time.

4- Statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.



Income statement

Presents the revenues and expenses and resulting net income or net loss for a specific period of time.

Single – Step Income Statement

The single-step statement consists of just two groupings: revenues and expenses, Expenses are deducted from revenues to arrive at net income or loss.

| Particulars | Amount | Amount |
|-------------------------|--------|--------|
| Revenues: | | |
| Net sales | *** | |
| Dividend revenue | *** | |
| Rent revenue | *** | |
| Total revenues | | *** |
| Expenses: | | |
| Cost of goods sold | *** | |
| Selling expenses | *** | |
| Administrative expenses | *** | |
| Finance Charges | *** | |
| Other expenses | *** | |
| Income tax expense | *** | |
| Total expenses | | *** |
| Net income | | *** |

Gross Profit = Net Sales - Cost of good sold

Net Sales = Sales – (Sales return + Sales discount)

Cost of good sold = Beginning inventory + Net purchases - Ending inventory

Net purchases = purchases – (purchases return + purchases discount)

Net income = Revenues - Expenses

Example (1) : From the following balances, prepare single-step income statement for **Dina trading Company** for the year ended Dec. 31, 2012 :

Sales \$3,053,081 Inventory January 297,241 , Purchases 1,924,000, Purchases returns and allowances 80,414 , Sales discounts \$ 24,241 , Purchases discounts 57,720, Sales returns and allowances 56,427 , Freight and transportation-in 154,162 , Selling expenses 453,028 , Administrative expenses 350,771 , Interest on bonds and notes 126,060 , Income tax 66,934 , Dividend revenue 98,500 , Rent revenue 72,910 , Inventory December 31 254,728 .

Sol /

| Dina Trading Company Single-Step Income Statement For the year ended Dec. 31, 2012 | | |
|--|-------------|--------------------|
| Particulars | Amount | Amount |
| Revenues: | | |
| Net sales | \$2,972,413 | |
| Dividend revenue | 98,500 | |
| Rent revenue | 72,910 | |
| Total revenues | | \$3,143,823 |
| Expenses: | | |
| Cost of goods sold | 1,982,541 | |
| Selling expenses | 453,028 | |
| Administrative expenses | 350,771 | |
| Interest expense | 126,060 | |
| Income tax expense | 66,934 | |
| Total expenses | | 2,979,334 |
| Net income | | 164,489 |

Example (2) : Tim Allen Co. had sales revenue of 540,000 in 2004 , other items recorded during the year were :

Cost of goods sold 320,000

Wages expenses 120,000

Income tax expenses 25,000

Other operating expenses 10,000

Required : Prepare a single - step income statement for Allen 2004.

Solutions /

Tim Allen Co.
Income statement for the year 2004

Revenue:

| | |
|-------|---------|
| Sales | 540,000 |
|-------|---------|

Expenses :

| | |
|--------------------|---------|
| Cost of goods sold | 320,000 |
|--------------------|---------|

| | |
|----------------|---------|
| Wages expenses | 120,000 |
|----------------|---------|

| | |
|--------------------------|--------|
| Other operating expenses | 10,000 |
|--------------------------|--------|

| | |
|---------------------|--------|
| Income tax expenses | 25,000 |
|---------------------|--------|

| | |
|----------------|--------------------|
| Total expenses | <hr/> (475,000) |
|----------------|--------------------|

| | |
|-------------------|------------------------|
| Net income | <hr/> 65,000 |
|-------------------|------------------------|

Exercise : Starr Co. had sales revenue of \$540,000 in 2017. Other items recorded during the year were :

Cost of goods sold \$330,000

Salaries and wages expense 120,000

Income tax expense 25,000

Other operating expenses 10,000

Required : Prepare a single-step income statement for Starr for 2017 .

Multiple – Step Income Statement

Is one of the major financial statements presents the financial results of business for a stated period of time.