BA 211: Financial Accounting

The basic accounting equation:
**Assets = Liabilities + Shareholders’ Equity → must always balance.**

General Format of the 4 key financial statements

**Single Step Income Statement**

XYZ Corp.
Income Statement
For the year ending …

Revenues
  Revenues
**Total Revenues**

Expenses
  Supplies
  Wages
  Rent
  Utilities
  Insurance
  Advertisement
  Income taxes
Less: Total Expenses
**Net Income (loss)**

**Multiple Step Income Statement**

Sales Revenue
Less: Cost of Goods Sold
**Gross Profit**
Operating Expenses:
  Selling and General
  Advertising Expense
  Commissions Expense
Less: Total Operating Expenses
Operating Income (Earnings before Interest and Tax)
Add: Non-operating revenues
  Interest Revenues
  Gain on Sale of Investments
Less: Non-operating expenses
  Interest Expenses
  Loss from Lawsuits
**Total Earnings before Tax**
Less: Tax Expense
**Net Income (loss)**
**Statement of Retained Earnings**: Reports the way the net income and the distribution of dividends affected the financial position of the company during a specific year.

**Statement of Retained Earnings**

Retained Earnings, beginning of month
- Add: Net Income
- Less: Dividends (if any)

Retained Earnings, end of month

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**Balance Sheet**

ABC Corp.
Balance Sheet
December 31, 2011

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td><strong>Current Liabilities</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Taxes Payable</td>
</tr>
<tr>
<td>Inventory</td>
<td>Wages Payable</td>
</tr>
<tr>
<td>Pre-paid items</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>Total Current Liabilities</strong></td>
</tr>
<tr>
<td>Property, plant and Equipment</td>
<td>Notes payables</td>
</tr>
<tr>
<td>Furniture</td>
<td>Mortgage payable</td>
</tr>
<tr>
<td>Equipment</td>
<td>Deferred Taxes</td>
</tr>
<tr>
<td>Lease</td>
<td>Bonds Payable</td>
</tr>
<tr>
<td><strong>Total PP&amp;E</strong></td>
<td><strong>Total Long term Liabilities</strong></td>
</tr>
<tr>
<td>Intangibles</td>
<td>Total Liabilities = (Current + LT)</td>
</tr>
<tr>
<td>Franchise fee</td>
<td>ADD:</td>
</tr>
<tr>
<td>Corporate charter</td>
<td><strong>Owner's Equity</strong></td>
</tr>
<tr>
<td><strong>Total Intangibles</strong></td>
<td>Common Stock</td>
</tr>
<tr>
<td>Total Assets = (Current + LT)</td>
<td>Retained Earnings</td>
</tr>
<tr>
<td></td>
<td><strong>Total Owner's Equity</strong></td>
</tr>
</tbody>
</table>

**Total Assets = Total Liabilities + Owner's Equity**
Statement of Cash Flows: Reports of the operating investing and financing activities that caused increases and decreases in cash during that period.

Statement of Cash Flows

Cash Flows from Operating Activities
   Inflows from customers
   Less: Outflows to suppliers and employees
Cash Provided by Operating Activities (1)

Cash Flows from investing Activities
   Cash used to buy equipment
Cash Provided in Investing Activities (2)

Cash Flows from Financing Activities
   Contributed by stockholders
   Dividends paid to stockholders
   Borrowed from the bank
Cash Flows by Financing Activities (3)

Change in Cash (Sum 1+2+3)
   Beginning Cash1 (0, unless stated otherwise)
   Ending Cash Balance

1Ending cash balance from last year is the beginning for this year

Source: created by Lana Maani, LC tutor, winter 2015