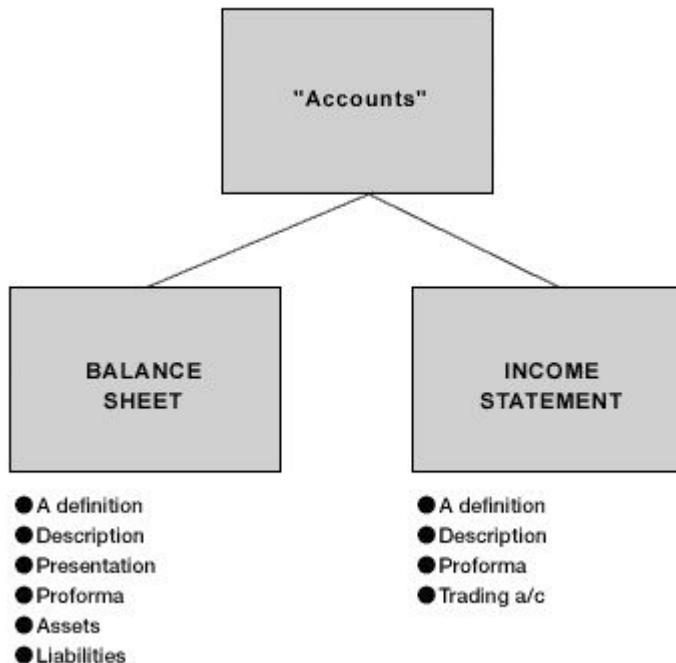


## Balance Sheet & Income Statement

### Overview

To present and explain the balance sheet and income statement in vertical format.



### Balance Sheet

A statement of the *financial position* of the enterprise as at a stated date.

#### Description

- | Shows what the enterprise *owns* (assets ) and *owes* (liabilities ).
- | Usually presented in *vertical format*
- | The balance sheet *always balances* – what it owns (total assets) equals what it owes (to its suppliers, lenders and owners).
- | All items recorded have a monetary value attributed to them.

#### Presentation

- | To facilitate meaningful analysis, assets and liabilities are grouped according to classifications which are generally accepted (or legally required).
- | IAS 1 *Presentation of Financial Statements* sets out minimum requirements for all general purpose financial statements presented in accordance with IASs IAS.
- | The proforma which follows is suitable for a sole trader.

# Financial Training College Pakistan

## Lecture Notes on C-1 & 1.1 - Balance Sheet & Income Statement

Developed by FTFaculty Experts for ACCA & CAT Students

### Proforma

#### I Points to note

- It is dated at the point in time at which it is stated.
- Items are classified in order of liquidity (ie relative ease of conversion into cash). Non-current assets are placed first, working down to cash balances.

BALANCE SHEET AS AT ....			
ASSETS	\$	\$	\$
<b>Non-current assets</b>	<i>Cost</i>	<i>Depreciation</i>	
Property	x	x	x
Plant and equipment	x	x	x
	<u>x</u>	<u>x</u>	<u>x</u>
<b>Current assets</b>			
Inventories		x	
Trade and other receivables		x	
Prepayments		x	
Cash		x	
		<u>x</u>	<u>x</u>
<b>Total assets</b>			<u>x</u>
CAPITAL AND LIABILITIES			
<b>Capital and reserves</b>			
<b>Capital</b> b/fwd		x	
<b>Profit/(loss)</b>		x	
<b>Drawings</b>		(x)	
Capital c/fwd			x
<b>Non-current liabilities</b>			
Interest bearing borrowings			x
<b>Current liabilities</b>			
Trade and other payables		x	
Accrued expenses		x	
Operating overdrafts		x	
		<u>x</u>	<u>x</u>
<b>Total capital and liabilities</b>			<u>x</u>

# Financial Training College Pakistan

## Lecture Notes on C-1 & 1.1 - Balance Sheet & Income Statement

Developed by FTFaculty Experts for ACCA & CAT Students

### Assets

Resources having a monetary value.

#### Non-current assets

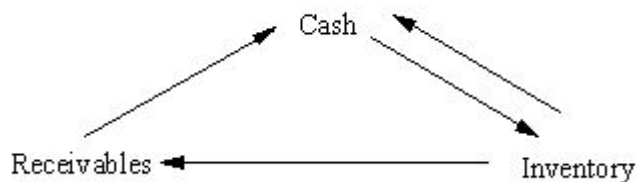
- ▢ May be
  - tangible (physical objects eg buildings, equipment, vehicles) or
  - intangible (without physical substance but possessing rights to monetary values eg trademarks).
- ▢ Initially recorded in the accounts at their monetary purchase price ("cost").
- ▢ With notable exceptions (eg land) assets become less valuable. Wearing out of a *tangible* asset is called *depreciation* ( *amortisation* for an *intangible* asset).

#### Investments

- ▢ Usually shares in, or loans to, other entities.
- ▢ May be classified as non-current (if held on a continuing basis) or current.
- ▢ Listed investments are those quoted on a recognised stock exchange.

#### Current assets

- ▢ Acquired for conversion into cash in the ordinary course of business.



- ▢ Listed in order of ease with which the asset can be turned into cash
  - inventory takes the longest time
  - receivable are fairly liquid
  - cash is cash.

#### Inventory

- ▢ Examples
    - | Retailer                      Goods for resale
    - | Manufacturer              Raw materials
    - Work in progress (WIP) – eg half finished cars on a production line
    - Finished goods – eg cars completed but not yet distributed to garage outlets
    - | Service industry (eg      WIP – eg labour and overheads for accounting services not yet
                                    accountancy)              charged out to clients.
- | Inventory should be measured at the *lower* of
  - Cost (its purchase price or manufacturing cost) and
  - Net realisable value (estimated selling price less any further costs incurred).

# Financial Training College Pakistan

## Lecture Notes on C-1 & 1.1 - Balance Sheet & Income Statement

Developed by FTFaculty Experts for ACCA & CAT Students

### Receivables

- ∩ A general term for persons or entities who owe the enterprise money.
- ∩ Balance sheet amount is after deducting the *provision* or *allowance for doubtful debts* (representing the amount which may not be received).

### Prepayments

- ∩ Amounts paid on or before the balance sheet date which relate to a period after the balance sheet date.

### Cash

- ∩ Cash on hand (cheques, notes and coins) and demand deposits with a bank.
- ∩ If a bank account is overdrawn it is not an asset but a liability.

### Liabilities

Financial Obligations of an enterprise.

- | Imply legal responsibilities to other parties.
- | Comprise *external* liabilities (eg to suppliers of goods) and *internal* liabilities (to owners, whether shareholders, partners or the proprietor).
- | Categorised by time.

### Non-current liabilities

- ∩ Enterprises are frequently financed by credit obtained from sources other than the owners eg interest-bearing loans. A loan due to be repaid in 2004 will be a non-current liability in the 1999 balance sheet.

### Current liabilities

- ∩ Amounts owed by the business falling due for payment *within one year* of the balance sheet date.

### Accrued expenses

- ∩ Amounts which have not been invoiced to the business at the balance sheet date, but which are known to be due.

## Income Statement

A statement of the *financial performance* of the enterprise over a period of time.

# Financial Training College Pakistan

## Lecture Notes on C-1 & 1.1 - Balance Sheet & Income Statement

Developed by FTFaculty Experts for ACCA & CAT Students

### Description

- The income statement comprises
  - A *trading* account summarising trading transactions  
(Revenue – Cost of sales = Gross profit)  
An *income and expenditure* account (all other items of I&E  
legitimately earned as a result of business activities).

### Proforma

- Points to note – For a *manufacturing* enterprise, the cost of goods sold will be manufacturing cost (ie including production labour and overheads), not just raw material purchase cost.

INCOME STATEMENT FOR THE YEAR ENDED. . .		
	\$	\$
Revenue		
Less Cost of sales		
Opening inventory	x	
Add Purchases	x	
	—	
Less Closing inventory	(x)	
		(x)
Gross profit		x
Other operating income		x
Less Expenses		
Distribution costs	x	
Administrative expenses	x	
	—	
		(x)
Net profit		x
		—

### Trading account

#### Revenue

- Revenue reflects *all* sales made to customers in the year, regardless of whether or not they have been paid for.
- A sale is usually recognised as taking place when goods are despatched (or services provided) to a customer. The balance sheet reflects, as trade receivables, the extent to which credit sales made to customers have not been settled for cash.

# Financial Training College Pakistan

## Lecture Notes on C-1 & 1.1 - Balance Sheet & Income Statement

Developed by FTFaculty Experts for ACCA & CAT Students

### Cost of sales

- ∩ This is the cost of goods actually sold.
- ∩ Costs incurred are "matched" with revenues earned.

### Example

Gilda starts a business selling shoes. During the first accounting period she

- (i) buys 100 pairs from a supplier for \$30 each
- (ii) sells 20 pairs for \$62 each.

### Solution

Profit has been realised to the extent that sales have been made, ie on 20 pairs of shoes. This could be calculated as

	\$
Turnover (20 × \$62) =	1,240
Less Cost (20 × \$30) =	(600)
	_____
Gross profit	640 (ie 20 × [62 – 30])
	_____

However, this presentation only gives limited information about trading performance. The trading account is more informative in showing

- ∩ total purchases (100 × 30 = \$3,000); and
- ∩ goods that remain unsold (ie inventory 80 × 30 = \$2,400).

Trading activities are presented as

	\$	\$
Revenue (20 pairs)		1,240
Purchases (100 pairs)	3,000	
Less Closing inventory (80 pairs)	2,400	
	_____	
Cost of sales (ie cost of goods sold)		600
		_____
Gross profit		640
		_____

### Example

During the next accounting period Gilda

- (i) buys 20 pairs of shoes at \$30 each

FTOnline is a Free of Cost Service for the welfare of ACCA & CAT students in Pakistan. All Lecture Notes are protected under Copyrights. Students can download and use the notes for exam preparation.

**For Hard Copies, Contact FTStudent Services Department**

# Financial Training College Pakistan

## Lecture Notes on C-1 & 1.1 - Balance Sheet & Income Statement

Developed by FTFaculty Experts for ACCA & CAT Students

(ii) sells 90 pairs at \$62 each.

### Solution

Part of the current period's revenue will come from opening inventory.

	\$	\$
Revenue (90 × \$62)		5,580
Opening inventory (80 pairs <i>Illustration 1</i> )	2,400	
Purchases (20 × \$30)	600	
	<hr/>	
<i>Available for sale</i>	3,000	
Less Closing inventory (10 pairs)	(300)	
	<hr/>	
Cost of goods ( <i>actually</i> ) sold (90 pairs)		2,700
		<hr/>
Gross profit (check 90 × [\$62– 30])		2,880
		<hr/>