

**Basic accounting procedures:**

**INCOME STATEMENT &  
BALANCE SHEET**



# Financial Statements

## Income Statement

Revenue

Expenses

Profits

## Balance Sheet

Asset

Current

Non-current

Liabilities

Current

Non-current

Equity

Paid-in capital

Retained earnings

## Cash Flow Statement

Operation

Investment

Financing

# Income Statement

***Income Statement*** - It presents financial record of a company's revenues and expenses, and profits over a period of time.

It also gives firm's financial performance in terms of revenues, expenses, and profits over a given time period.

It focus on revenues and costs associated with revenues.

**JOSHUA'S RESTAURANT**  
**Income Statement**  
**For the Year Ended December 31, 2010**

	Dollars	%
<b>SALES:</b>		
Food	\$2,058,376	81.0%
Beverage	482,830	19.0
<b>Total Sales</b>	<b>\$2,541,206</b>	<b>100.0</b>
<b>COST OF SALES:</b>		
Food	767,443	37.3
Beverage	96,566	20.0
<b>Total Cost of Sales</b>	<b>\$ 864,009</b>	<b>34.0</b>
<b>GROSS PROFIT:</b>		
Food	1,290,933	62.7
Beverage	386,264	80.0
<b>Total Gross Profit</b>	<b>\$1,677,197</b>	<b>66.0</b>
<b>OPERATING EXPENSES:</b>		
Salaries and Wages	714,079	28.1
Employee Benefits	111,813	4.4
Direct Operating Expenses	132,143	5.2
Music and Entertainment	7,624	0.3
Marketing	63,530	2.5
Utility Services	88,942	3.5
Repairs and Maintenance	35,577	1.4
Administrative and General	71,154	2.8
Occupancy	120,000	4.7
Depreciation	55,907	2.2
<b>Total Operating Expenses</b>	<b>\$1,400,769</b>	<b>55.1</b>
<b>Operating Income</b>	<b>\$ 276,428</b>	<b>10.9</b>
Interest	84,889	3.3
<b>Income Before Income Taxes</b>	<b>\$ 191,539</b>	<b>7.5</b>
Income Taxes	76,616	3.0
<b>Net Income</b>	<b>\$ 114,923</b>	<b>4.5</b>

# Why Income Statement ?

- The **income statement** is one of the major financial statements used by accountants and business owners.
- It shows the *profitability* of a company during the time interval specified in its heading
- It helps in identifying Risks and Opportunities & forecast future performance for :-

Owners

Investors

Creditors

Competitors

## Usefulness

- Evaluate past performance.
- Predicting future performance.
- Help assess the risk or uncertainty of achieving future cash flows.

# Balance Sheet

- A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time.
- The accounting **balance sheet** is one of the major financial statements used by accountants and business owners.
- It is also referred to as the **statement of financial position**.

# **A BALANCE SHEET**

**IS A 'SNAPSHOT' OF A BUSINESS'S  
ASSETS, LIABILITIES AND EQUITY**



# Reading a Balance sheet

## Assets

### Current Assets

- Cash
- Accounts receivable
- Inventories
- Prepaid Expenses

### Fixed Assets

- Land & Building
- Equipments

### Investments

### Goodwill

## Liabilities

### Current Liabilities

- Accounts payable
- Accrued Expenses
- IT Payable
- Short Term debt

### Non Current Liabilities

- Bonds Payable
- Long Term Borrowings

### Owner's Equity

- Common Stock
- Retained earnings

**Paul's Guitar Shop, Inc.**  
**Balance Sheet**  
**December 31, 2015**


<b>Assets</b>		<b>Liabilities</b>	
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash	32,800	Accounts Payable	49,000
Accounts Receivable	300	Accrued Expenses	450
Prepaid Rent	1,000	Unearned Revenue	1,000
Inventory	39,800	<b>Total Current Liabilities</b>	50,450
<b>Total Current Assets</b>	<b>73,900</b>	Long-term Liabilities	99,500
		<b>Total Liabilities</b>	<b>149,950</b>
		<b>Owner's Equity</b>	
<b>Long-term Liabilities</b>		<b>Owner's Equity</b>	
Leasehold Improvements	100,000	Retained Earnings	11,950
Accumulated Depreciation	(2,000) 98,000	Common Stock	10,000
<b>Total Long-term Liabilities</b>	<b>98,000</b>	<b>Total Owner's Equity</b>	<b>21,950</b>
<b>Total Assets:</b>	<b>171,900</b>	<b>Total Liabilities and Owner's Equity</b>	<b>171,900</b>

# Why Balance sheet

- A balance sheet offers a way to look inside your business and outline what it is really worth. A balance sheet is different from a measure of profit and loss.
- It's a list of assets and liabilities. Any good balance sheet includes some basics:
  - 1) What the business owns (real estate, vehicles, office equipment, etc.)
  - 2) Revenue you expect to take in (accounts receivable)
  - 3) Expenses you expect to pay out (accounts payable)

## Continue..

- The balance sheet is used to assess the value of your business at any given point
- It helps to keep track of finances
- It helps for showing it to investors & Bank Managers
- It is also useful for annual accounts too.



Thank You

<https://www.youtube.com/watch?v=YZyBSU6YdmM>