Chapter 2

Financial Statements

2. Financial statements

- Statement of Financial Position
- Comprehensive Income Statement
- Statement of Changes in Stockholder's Equity
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2. Elements of Financial Statements

1. Assets
2. Liabilities
3. Owners' Equities
4. Revenues
5. Expenses

2. Elements of Financial Statements

- *Assets*. These are items of economic benefit that are expected to yield benefits in future periods. Examples are accounts receivable, inventory, and fixed assets.
- *Liabilities*. These are legally binding obligations payable to another entity or individual. Examples are accounts payable, taxes payable, and wages payable.
- *Equity*. This is the amount invested in a business by its owners, plus any remaining retained earnings.

2. Elements of Financial Statements

- *Revenue*. This is an increase in assets or decrease in liabilities caused by the provision of services or products to customers. It is a quantification of the gross activity generated by a business. Examples are product sales and service sales.

- *Expenses*. This is the reduction in value of an asset as it is used to generate revenue. Examples are interest expense, compensation expense, and utilities expense.

[redacted]

Current assets

Non-Current assets

FRANKLIN CORPORATION
Balance Sheet
October 31, 2010

Assets			
Current assets			
Cash		$ 6,600	
Short-term investments		2,000	
Accounts receivable		7,000	
Notes receivable		1,000	
Inventories		3,000	
Supplies		2,100	
Prepaid insurance		400	
Total current assets			$22,100
Long-term investments			
Investment in stock of Walters Corp.		5,200	
Investment in real estate		2,000	7,200
Property, plant, and equipment			
Land		10,000	
Office equipment	$24,000		
Less: Accumulated depreciation	5,000	19,000	29,000
Intangible assets			
Patents			3,100
Total assets			$61,400

[redacted]

Liabilities and Stockholders' Equity

Current Liabilities	**Current liabilities**		
	Notes payable	$11,000	
	Accounts payable	2,100	
	Salaries payable	1,600	
	Unearned revenue	900	
	Interest payable	450	
	Total current liabilities		$16,050
Long-term Liabilities	**Long-term liabilities**		
	Mortgage payable	10,000	
	Notes payable	1,300	
	Total long-term liabilities		11,300
	Total liabilities		27,350
Owner's Equity	**Stockholders' equity**		
	Common stock	14,000	
	Retained earnings	20,050	
	Total stockholders' equity		34,050
	Total liabilities and stockholders' equity		$61,400

Current Assets

SOUTHWEST AIRLINES CO.
Balance Sheet (partial)
(in millions)

Current assets	
Cash and cash equivalents	$1,390
Short-term investments	369
Accounts receivable	241
Inventories	181
Prepaid expenses and other current assets	420
Total current assets	$2,601

Companies usually list current asset accounts in the order they expect to convert them into cash.

Non-Current Asset

Long-term investments		
Long-term investments in marketable securities		$90,266

Property, plant, and equipment		
Land and land improvements	$ 41,553	
Buildings	298,706	
Machinery and equipment	1,636,091	
Molds, cores, and rings	268,158	$2,244,508
Less: Accumulated depreciation		1,252,692
		$ 991,816

Liabilities

Current Liabilities

Current liabilities	
Notes payable	$ 239
Accounts payable	24,242
Current maturities of long-term debt	57,250
Other current liabilities	27,477
Taxes payable	11,215
Accrued compensation payable	6,720
Total current liabilities	$127,143

Long-Term Liabilities

Long-term liabilities	
Long-term debt	$23,375
Deferred income taxes	12,015
Other noncurrent liabilities	5,147
Total long-term liabilities	$40,537

Stockholders 'Equity

Stockholders' equity		
Common stock	14,000	
Retained earnings	20,050	
Total stockholders' equity		34,050
Total liabilities and stockholders' equity		$61,400

- **Common stock (หุ้นสามัญ)** investments of assets into the business by the stockholders.
- **Premium on Common stock / Additional paid-in capital**

  Retained earnings (กำไรสะสม) income retained for use in the business.

Class Exercise:

Classify following accounts on Balance Sheet

- Accounts Payable
- Accounts Receivable
- Buildings
- Cash
- Common Stock
- Land
- Office Building
- Merchandising Inventory
- Private Car of Director
- Income Taxes Payable
- Long-Term Investments
- Notes Payable (Due in 3 years)
- Notes Receivable (Due in 6 months)
- Prepaid Rent
- Company Van
- Retained Earnings
- Supplies
- Utilities Payable
- Wages Payable
- Store Officer

If the balances in all accounts, except retained earning, are 10.
Find the balance in retained earning account.

Statement of Financial Position

As at December 31, 20XX

Current Assets

Non-Current Assets

Current Liabilities

Non-Current Liabilities

Stockholders' equity

Not Applicable