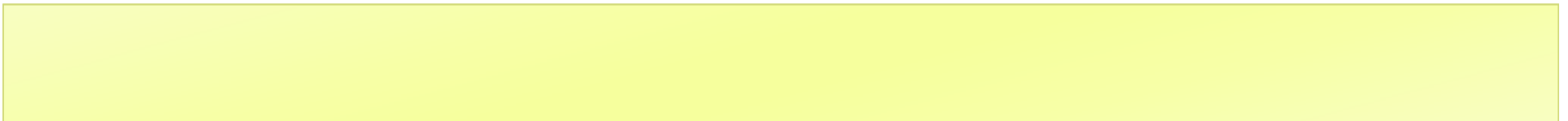


Chapter 2

Financial Statements



2. Financial statements

- ▶ Statement of Financial Position
- ▶ Comprehensive Income Statement
- ▶ Statement of Changes in Stockholder's Equity
- ▶ Statement of Cash Flows
- ▶ Notes to Financial Statements



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.



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

Current
assets

Non-
Current
assets

**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	<u>\$2,601</u>

**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
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Property, plant, and equipment

Land and land improvements	\$ 41,553	
Buildings	298,706	
Machinery and equipment	1,636,091	
Molds, cores, and rings	<u>268,158</u>	\$2,244,508
Less: Accumulated depreciation		<u>1,252,692</u>
		\$ 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	<u>6,720</u>
Total current liabilities	\$127,143

Long-Term Liabilities

Long-term liabilities

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

Stockholders' Equity

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

- **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

