

Financial statements

1- Elements of Financial Statements :-

Assets – Liabilities = Equity

Equity = Contribution – Distribution = Comprehensive
by Owners to Owners Income

$$\text{Comprehensive Income} = \left(\begin{array}{l} \text{Revenues} - \text{Expenses} + \text{Gains} - \text{Losses} \\ \pm \text{Other Comprehensive Income} \end{array} \right)$$

Balance of sheet:

2- Current Assets & Liabilities :-

<p><u>Assets</u></p> <ul style="list-style-type: none"> - Economic Resource . - Future Benefit . - Control of Company Past Event or Transaction . 	<p><u>Liabilities</u></p> <ul style="list-style-type: none"> - Economic Obligation . - Future Sacrifice . - Beyond Control of Company Past Event or Transaction .
<p><u>Current Assets</u></p> <p>Converted into Cash or used up longer of :</p> <ul style="list-style-type: none"> One Year . - One Accounting Cycle . 	<p><u>Current Liabilities</u></p> <p>Paid or Setteled Longer of :</p> <ul style="list-style-type: none"> - One Year . One Accounting Cycle . Requires Use of Current Assets .
<p>Note : The measurement date of both current assets and liabilities is the balance-sheet date not the maturity date .</p>	

It is the statement of financial position; it reports the assets, liabilities, and Stockholders, equity of business enterprise at a specific date.

Liquidity: Describes "The amount of time that is expected to elapse until an asset is realized or otherwise converted into cash or until liability has to be paid.

Solvency: Refers to the liability of an enterprise to pay its debts as they mature

The general format of balance sheet presentation

Assets	Liabilities and owners equity
Current assets	Current liabilities
Long-term investments	Long-term debt
Property, plant, and equipment	Owners equity
/intangible assets	Capital stock
Other liabilities	Additional paid-in capital Retained earnings

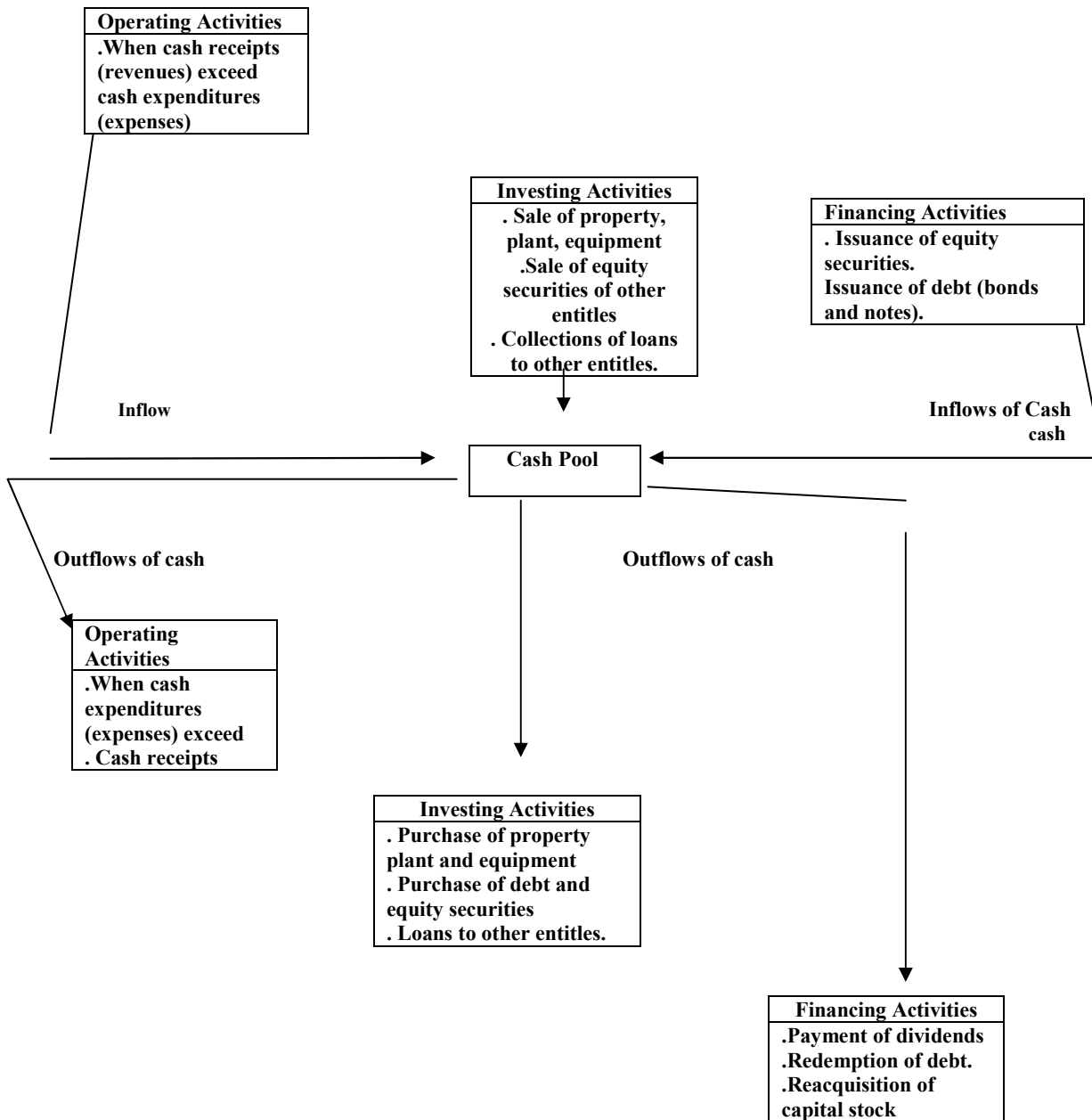
. Statement of cash Flows: The primary purpose of statement cash flows is to provide relevant information about the cash receipts and cash payments of an enterprise during period.

. Content and format of the statement of cash flows:

- 1- Operating activities.**
- 2- Investing activities.**
- 3- Financing activities.**

Basic Format of Cash Flow Statement

Statement of Cash Flows	
Cash flows from operating activities	\$ XXX
Cash flows from investing activities	XXX
Cash flows from financing activities	XXX
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Net increase (decrease) in cash	XXX
Cash at beginning of year	XXX
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Cash at end of year	XXX



.Preparation of the statement of cash flows:

- 1-Determine the cash provided by operations.
- 2-Determine the cash provided by or used in investing and financing activities.
- 3-Determine the change (increase or decrease) in cash during the period.
- 4-Reconcile the change in cash with the beginning and ending cash balances.

. The following illustration demonstrates how these steps are applied in the preparation of a statement of cash flows:

Telemarketing Inc. in its first year of operations issued on January 1, 2002, 50,000 shares of \$ 1.00 par value

Common stock for 50,000 cash.

The companies rented its office space, furniture, and telecommunications equipment and performed surveys throughout the first year. In June 2002 the company purchased Land for \$ 15,000. The comparative balance sheets at the beginning and end of the year 2002 are shown in illustration.

Comparative Balance sheet

TELMARKETING INC.			
Balance sheets			
Assets	Dec. 31,2002	Jan.1,2002	Increase/Decrease
Cash	\$31,000	\$-0-	\$31,000 Increase
Account receivable	41,000	-0-	41,000 Increase
Land	15,000	-0-	15,000 Increase
Total	<u>\$87,000</u>	\$-0-	
Liabilities and Stockholders' Equity			
Accounts payable	\$12,000	\$-0-	12,000 Increase
Common stock	50,000	-0-	50,000 Increase
Retained earnings	<u>25,000</u>	-0-	25,000 Increase
Total	<u>\$87,000</u>	\$-0-	

. The income statement and additional information for Telemarketing Inc. is as following:

Income Statement Data

TELEMARKETING INC.	
Income Statement	
For the year Ended Dec. 31,2002	
Revenues	\$ 172,000
Operating expenses	120,000
Income before income taxes	<u>52,000</u>
Income tax expense	<u>13,000</u>
Net income	\$ 39,000
Additional information:	
Dividends of \$ 14,000 were paid during the year.	

.Analysis of Telemarketing's comparative balances sheets reveals tow items that give rise to non cash credit or changes to the income statement:

- 1- The increase in accounts receivable reflects a noncash charge of credit of \$ 41,000 to revenues.
- 2- The increase in accounts payable reflects a noncash charge of \$ 12,000 to expense.

. As a result of the accounts receivable and accounts payable adjustments, cash provided by operations is determined to be \$ 10,000, computed as follows

Net income		\$ 39,000
Adjustments to reconcile net income		
To net cash provided by operating activities :		
Increase in accounts receivable	\$ (41,000)	
Increase in accounts payable	<u>12,000</u>	<u>(29,000)</u>
Net cash provided by operating activities		\$10,000

The increase of \$ 50,000 in common stock resulting from the issuance of 50,000 shares for cash is classified as a financing activity.

Likewise, the payment of \$14,000 cash in dividends is a financing activity.

**Telemarketing Inc.'s only investing activity was the land purchase.
The statement of cash flows for Telemarketing Inc. for 2002 is as follows:**

TELEMARKETING INC.		
Statement of Cash Flows		
For the Year Ended Dec. 31,2001		
Cash flows from operating activities		
Net income		\$39,000
Adjustments to reconcile net income to		
Net cash provided by operating activities:		
Increase in accounts receivable	\$ (41,000)	
Increase in accounts payable	12,000	(29,000)
		<hr/>
Net cash provided by operating activities		10,000
Cash flows from investing activities:		
Purchase of land	(15,000)	
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Net cash used by investing activities		(15,000)
Cash flows from financing activities:		
Issuance of common stock	50,000	
Payment of cash dividends	(14,000)	
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Net cash provided by financing activities		36,000
Net increase in cash		31,000
Cash at beginning of year		<hr/> -0-
Cash at end of year		\$ 31,000