

10.1 Financial statements

Name: _____ Class: _____ Date: _____

Total: 29 marks

KEY WORDS statement of financial position

• financial statements

• income statement

• balance sheet

• depreciation

Objective

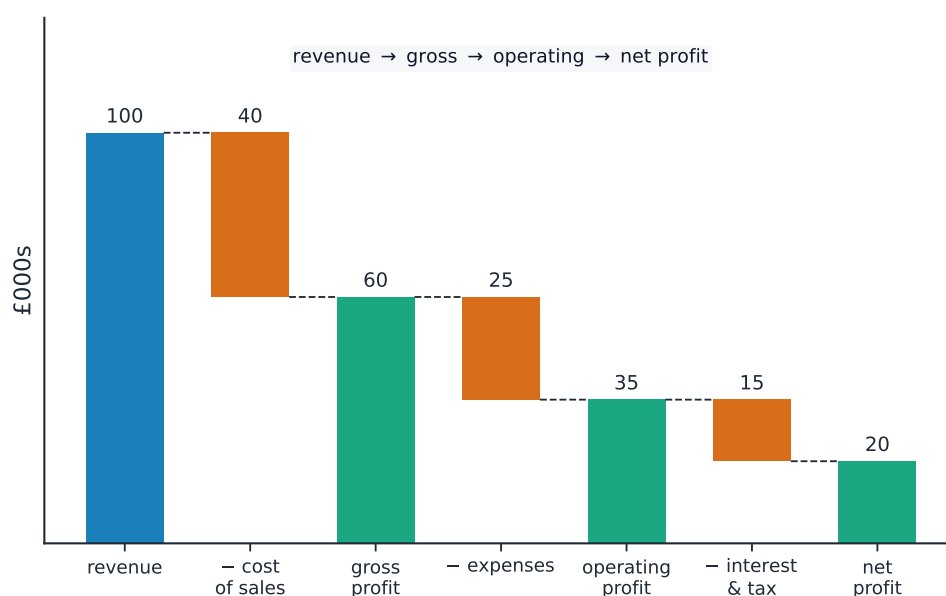
Build the skills to answer exam questions on **financial statements** – the **income statement**, the **statement of financial position** (balance sheet), and **depreciation**.

You must be able to:

- calculate gross, operating and net profit
- describe what the statement of financial position shows
- analyse and evaluate how stakeholders use financial statements

1 Key knowledge and worked examples

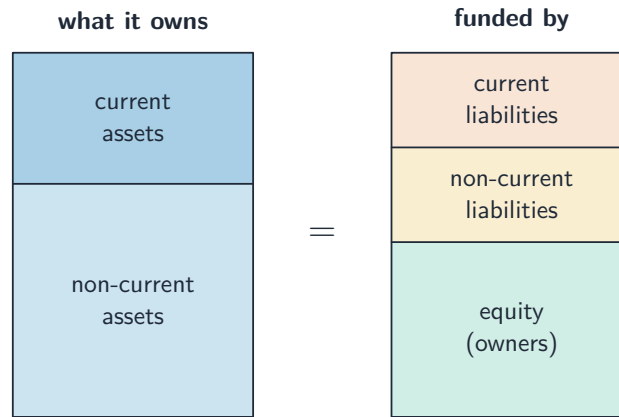
■ Income statement and balance sheet



Revenue – cost of sales = gross profit; – expenses = operating profit; – interest and tax = net profit

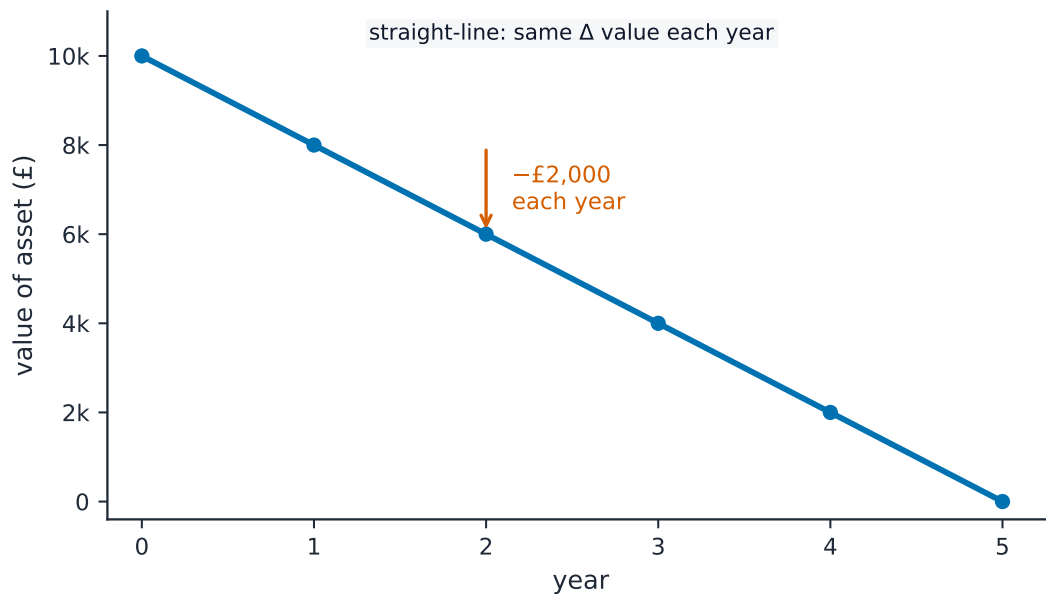
gross profit = revenue – cost of sales

- **Worked:** revenue \$500,000, cost of sales \$300,000 → gross profit = \$200,000.
- **Statement of financial position:** assets = liabilities + equity (it always balances).



The statement of financial position: assets = liabilities + equity

- **Depreciation:** spreads a fixed asset's cost over its life, so profit is not overstated.



Depreciation spreads a fixed asset's cost over its useful life

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State the formula for *gross profit*. [2]

2.2 A firm has revenue of \$400,000 and cost of sales of \$250,000. Calculate its gross profit. [2]

2.3 Define the term *depreciation*. [2]

3 Exam-style questions

3.1 Explain one reason why a company must publish its financial statements. [3]

3.2 Analyse how two different **stakeholders** would use a firm's financial statements. [8]

[12]