2.4 Financial statements

Name: _____ Class: _____ Date: _____ **Total: 20 marks**

KEY WORDS income statement • statement of financial position

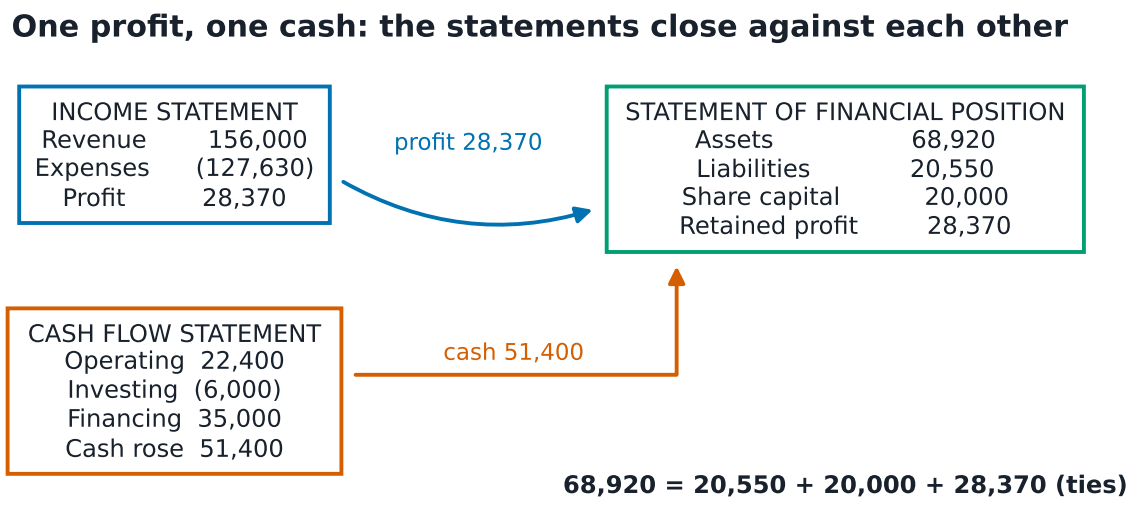
Objective

Prepare an income statement and statement of financial position, link them through profit and equity, and present them so a non-accountant can read both.

1 Key knowledge and worked examples

■ Two statements, one company

The **income statement** reports the period's income and matched expenses; the **statement of financial position** lists assets against liabilities and equity at a date, with the profit already inside equity as retained earnings. Nothing new is invented at statement stage.



One profit, one cash: the statements close against each other

■ Worked example. Nimbus year 1

Income statement: revenue 156,000, cost of sales 62,400, gross 93,600; wages 52,000, rent 3,000, other 8,000, depreciation 1,080, electricity 250, interest 900 – profit 28,370. Balance sheet: assets 68,920 = liabilities 20,550 + equity 48,370 ✓ (machine-verified).

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2 Practice

2.1 From Nimbus's figures, restate the income statement in the "non-accountant" order: what came in, what the bread cost, what running the business cost, what was left – and give each subtotal. [4]

2.2 Nimbus pays a £5,000 dividend from year-1 profit. State the effect on the income statement and on the balance-sheet equity. [3]

2.3 A junior drops the depreciation line from the balance sheet's equipment entry. Quantify both effects of that single omission. [3]

3 Exam-style questions

3.1 The café of sheet 2.3, fully assembled: owner contributed £20,000 and took a £25,000 loan (5%, interest unpaid) on 1 January; equipment £9,000 bought for cash; purchases £39,000 paid (closing inventory £2,600); revenue £98,000 of which £6,000 is receivables; wages £34,000 with £800 accrued; rent £9,600 paid (£1,600 expensed); other costs £7,300 paid; electricity £180 unpaid. Assemble the statement of financial position and verify the tie. [7]

3.2 Explain to a non-accountant why the balance sheet "balances" – and why that is a property of the definitions, not of good luck. [3]

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