

FINANCIAL STATEMENTS – REVIEWER

I. Meaning of Financial Statements

Financial statements present the data of a business's financial performance and financial position for a specific period of time. They help users understand how the business earns, spends, and manages money.

II. Period Covered

There are **two types of accounting periods**: - **Fiscal Year** – Any 12-month period chosen by the business (example: February to March). - **Calendar Year** – January 1 to December 31.

III. Main Components of Financial Statements

1. Balance Sheet (Statement of Financial Position)

Shows the financial position of the business at a specific date.

Elements: - **Assets** – Resources owned by the business (cash, inventory, equipment). - **Liabilities** – Obligations or debts of the business. - **Equity (Capital / Net Assets)** – Owner's claim on the assets.

Equity includes: - Capital or Share Capital - Retained Earnings (Accumulated profits of the business)

Basic Accounting Equation: $Assets = Liabilities + Equity$

2. Income Statement (Statement of Profit or Loss)

Shows the financial performance of the business for a period of time.

Main Components: - **Revenue / Sales** – Total income earned from selling goods or services. - **Sales Deductions** – Sales discounts and sales returns. - **Net Sales** – Revenue after sales deductions. - **Cost of Goods Sold (COGS)** – Direct costs of producing goods sold. - **Gross Profit** – Net Sales minus COGS. - **Operating Expenses** – General and administrative expenses. - **Earnings Before Interest and Taxes (EBIT)** – Gross profit minus operating expenses. - **Interest Expense** – Cost of borrowed money. - **Earnings Before Tax (EBT)** – EBIT minus interest expense. - **Taxes Expense** – Tax based on taxable income. - **Net Income** – Final profit of the business.

Sample Income Statement

ABC CORP.

Statement of Profit or Loss

For the year ending December 31, 2025

- Revenue / Sales ₱10,000
 - Less: Sales Discount 5,000
 - Net Sales ₱5,000
 - Less: Cost of Goods Sold (COGS) 1,000
 - **Gross Profit** ₱4,000
 - Less: General & Administrative Expenses 500
 - **Earnings Before Interest & Taxes (EBIT)** ₱3,500
 - Less: Interest Expense 1,050
 - **Earnings Before Tax (EBT)** ₱2,450
 - Less: Taxes Expense (30%) 735
 - **Net Income** ₱1,715
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3. Statement of Shareholders' Equity

Shows the changes in owners' equity during the period.

Elements: - Issuance of stocks - Distribution of stock dividends - Purchase and sale of treasury shares - Retained Earnings - Declaration of cash dividends - Accumulated other comprehensive income

4. Statement of Cash Flows

Shows how cash is generated and used by the business.

Purpose: - Explains where cash comes from and where it goes. - Shows cash inflows and cash outflows.

Sections: - **Operating Activities** – Cash from main business operations. - **Investing Activities** – Cash from buying and selling assets. - **Financing Activities** – Cash from loans, capital, and dividends.

In short: It shows the inflow and outflow of money in the business.

IV. Importance of Financial Statements

- Help management in decision-making
 - Show profitability and financial position
 - Used by investors, creditors, and government
 - Basis for tax computation and planning
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Tip for Exams: - Balance Sheet = position (what the business owns and owes) - Income Statement = performance (profit or loss) - Cash Flow = cash movement - Statement of Equity = changes in ownership value