

Fourth lecture: Financial statements

Financial statements are the balance sheet, income statement, statement of cash flows, statement of changes in equity and the appendix.

1- The Balance sheet (or the financial position statement)

The Balance sheet is the most important of these statements, as it shows the financial position and property of the entity at a certain date. We will discuss in the following its definition, definition and classification of its elements, and the relationship between those elements.

1-1- Balance sheet definition

The Balance sheet is two separate tables, one for assets and one for liabilities, or it is a single table with two sides, the right side identifies the assets items (the organization's property or uses), and the left side identifies the liabilities items (own funds and debts or funds that were used to acquire the assets) on a certain date.

1-2- Definition and classification of Balance sheet components

In defining and classifying The Balance sheet elements, we depend on what was stated in the conceptual framework of financial accounting.

1-2-1- Definition of assets

Assets consist of resources controlled by the entity as a result of past events and intended to provide the entity with future economic benefits.

Control over assets is the ability to obtain future economic benefits provided by those assets.

1-2-2- Asset classification

The elements of the assets directed to serve the activity of the entity are **permanently non-current assets**, while the assets that do not have this capacity because of their destination or nature are **current assets**.

Current assets contain:

- The assets that the entity expects to be realized, sold or consumed within the framework of the normal exploitation cycle, which represents the period between the acquisition of raw materials or goods that enter into the exploitation process and their completion in the form of treasury liquidity;
- Assets that are acquired primarily for transactional purposes or for a short term and which the entity expects to realize within 12 months;
- Liquids or semi-liquids whose use is not subject to restrictions.

Non-current assets include:

- Assets intended for continuous use to cover the needs of the entity's activities, such as tangible fixations and intangible fixations;
- Assets that are acquired for the purpose of long-term employment or are not destined to be realized within the twelve months starting from the closing date, such as financial confirmations.

1-2-3-Definition of Liabilities

Liabilities consist of the entity's current obligations resulting from past events, whose expiration for the entity is represented in the exit of resources representing economic benefits.

1-2-4- Classification of Liabilities

Liabilities are classified into **current liabilities** when:

- It is expected to be settled during the normal exploitation cycle;
- Or, it must be paid within the twelve months following the closing date.

The remaining liabilities are classified as **non-current liabilities**—

1-2-5- Definition of Capital

own capitals, own funds or financial capital represents the surplus of the entity's assets over its current and non-current liabilities.

1-2-6-Relationship between the various components of Balance sheet:

The basic relationship of The Balance sheet equilibrium is:

$$\text{Total assets} = \text{total liabilities}$$

The Other relationships are:

$$\text{Total Assets} = \text{Non-current Assets} + \text{Current Assets}$$

$$\text{Total liabilities} = \text{own funds} + \text{non-current liabilities} + \text{current liabilities}$$

$$\text{Result (after Balance sheet change)} = \text{Total Assets} - \text{Total Liabilities}$$

1-2-7-Balance sheet Form

Below is an example of a closing balance sheet with the account number and account name of each element

Assets (The uses)			Liabilities (Sources of funds)		
C.N	account name	The Amount	C.N	account name	The Amount
	Non-current Assets			own funds	
204	informatics software		101	Company's capital or Exploitation funds	
205	Trademarks		106	reserves	
211	lands		108	Exploiter account	
213	buildings		109	Uncalled committed capital	
215	Industrial equipment and tools		110	Result postponement	
2181	hardware equipment		120	result of the fiscal year	
2182	transportation equipment			non-current liabilities	
2183	office supplies		164	Loan from credit institutions	
2184	office equipments		168	other loans	
2186	returnable packaging			current liabilities	
	Current Assets		401	Inventory and services suppliers	
30	merchandise stocks		403	Commercial bills to pay	
31	Raw materials and supplies		404	Fixed asset suppliers	
326	Packaging (damaged packaging)		4455	value added tax (VAT) to pay	
355	manufactured products				
411	customers				
413	Receivable trade bills				
44567	value added tax (VAT) prepayment to be reported				
512	Bank				
53	Cashbox				
	Total assets			total liabilities	

The closing balance sheet, at the end of the accounting cycle, contains the **result of the fiscal year**, whereas the opening balance sheet, at the beginning of the accounting cycle, does not contain the **result of the fiscal year**.

If the **result of the fiscal year** is a **profit**, it appears in the **C/120** account

If it is a **loss**, it appears in the **C/129** account

The account C/101 is called « Company's capital » for a company and called « Exploitation funds » for an individual commercial enterprise.

Example:

On 01/12/2015, Mr. Othman decided to establish an individual commercial enterprise, so he brought an amount of 1,200,000 DA. With half of the amount he bought a building standing on land, **where the amount of the building was one-third (1/3) of the amount of land.**

And he put 350,000 DA in the bank and the rest in the cashbox

He obtained a **long-term bank loan** of 700,000 DA, with which he bought a truck.

He also bought **on the account** a computer for 150,000 DA, goods for 200,000 DA, computer software for 50,000 DA, raw materials and supplies for 30,000 DA, returned packing for 100,000 DA, damaged packaging for 20,000 DA, and a production machine for 150,000 DA.

Required:

- 1) Find the amount and account number for each element of the mentioned balance sheet.
 - 2) Preparing the opening balance sheet for merchant Othman.
 - 3) During the month of December 2015, he performed the following operations:
 - He sold all the goods in the warehouse with a profit margin of 30% and received the sale amount through the bank, and the goods were delivered within all the damaged covers;
 - He pay all debts of stocks and services suppliers
 - He pays all debts of inventory and services.
- Find the final budget at the end of December after changing the budget, showing the result (C / 12, the result of the fiscal year).**

the solution:

1) The amount brought by the trader Othman to practice his commercial activity is the capital C/101«Exploitation funds » its amount is 1,200,000 DA.

Half of the amount is 600,000 DA used for buying a building and land **where the amount of the building was one-third (1/3) of the amount of land.**

We put : $x = \text{building amount}$ so $3x = \text{land amount}$

So we have: $x + 3x = 600\ 000$ so $4x = 600\ 000$ this means $x = 150\ 000$ DA

And therefore **building amount = 150 000** and **land amount = 450 000 DA**

The amount that was placed in the bank is recorded in account C / 512 “current account banks”, the amount of which is 350 000 DA

The remaining amount is recorded in the account C /53 "Cashbox" in the amount of 250 000 DA.

The bank loan account is C/164 « Loan from credit institutions » for the amount of 700 000 DA.

The truck acquired with the loan is recorded in the account C/2182 « Transport equipment » for 700 000 DA.

Purchasing on account means purchase with deferred payment (at a later time agreed upon between the buyer and seller or supplier), as follows:

In the case of purchasing current assets such as inventories (goods, raw materials, damaged packaging, or other supplies), the amount of the debt is recorded in account 401 “ Inventory and services suppliers.”

In the case of purchasing non-current assets such as installations (informatics software, computers, returned packing), the amount of the debt is recorded in account 404 "Fixed assets suppliers".

Accordingly, the items(elements) that were purchased **on the account** and that represent stocks (inventories) are recorded as follows:

C/ 30 "Stocks of goods or merchandise" in the amount of 200,000 DA

C/ 31 "raw materials and supplies" for the amount of 30,000 DA

C/ 326 " damaged packaging " for the amount of 20,000 DA.

The sum of these amounts is recorded as a debt in C / 401 "Inventory and services suppliers" in the amount of 250 000 DA.

The items acquired on the account that represent Fixed assets are recorded as follows:

H/ 204 "Informatics Software" for the amount 50,000 DA

H / 215 "Industrial Equipment and Tools" for the amount of 150,000 DA

H / 2181 "computer" for the amount of 150,000 DA

H / 2186 " returned packing " for the amount 100,000 DA.

The total of these amounts is recorded as a debt in C / 404 “ Fixed assets suppliers” in the amount of 450 000 DA.

2) The opening balance sheet for merchant Othman on 01/12/2015 is:

Assets (The uses)			Liabilities (Sources of funds)		
C.N	account name	The Amount	C.N	account name	The Amount
	Non-current Assets			own funds	
204	informatics software	50 000	101	Exploitation funds	1 200 000
211	lands	450 000		non-current liabilities	
213	buildings	150 000	164	Loan from credit institutions	700 000
215	Industrial equipment and tools	150 000		current liabilities	
2181	computer	150 000	401	Inventory and services suppliers	250 000
2182	transportation equipment(truck)	700 000	404	Fixed asset suppliers	450 000
2186	returnable packaging	100 000			
	Current Assets				
30	merchandise stocks	200 000			
31	Raw materials and supplies	30 000			
326	damaged packaging	20 000			
512	Bank	350 000			
53	Cashbox	250 000			
	Total assets	2 600 000		total liabilities	2 600 000

3) During the month of December, he performed the following operations:

- He sold all the goods in the stocks with a profit margin of 30% and received the sale amount through the bank, and the goods were delivered within all the damaged packaging; the sale price is $200,000 \times 1.3 = 260,000$ added to the amount in the bank, and accordingly: the bank account becomes $= 350,000 + 260,000 = 610,000$
From which the amount of the goods account becomes $= 00$, and the amount of the damaged covers account becomes $= 00$

All dues of Inventory and services suppliers(250 000) were paid through the cashbox in which there were (250,000).

This means that the amount of the inventory and service suppliers account becomes 00 DA and the cash account becomes 00 DA

Therefore, the total assets = 2 390 000 DA and the total liabilities = 2 350 000

Thus, a result appears (on the liabilities side) in account 120 with an amount $= 2 390 000 - 2 350 000 = 40 000$ (profit)

The final balance sheet for merchant Othman will be:

Assets (The uses)			Liabilities (Sources of funds)		
C.N	account name	Amount	C.N	account name	Amount
	Non-current Assets			own funds	
204	informatics software	50 000	101	Exploitation funds	1 200 000
211	lands	450 000	120	result of the fiscal year (December)	40 000
213	buildings	150 000		non-current liabilities	
215	Industrial equipment and tools	150 000	164	Loan from credit institutions	700 000
2181	computer	150 000		current liabilities	
2182	transportation equipment(truck)	700 000	404	Fixed asset suppliers	450 000
2186	returnable packaging	100 000			
	Current Assets				
31	Raw materials and supplies	30 000			
512	Bank	610 000			
	Total assets	2 600 000		total liabilities	2 600 000

2-The income statement

The income statement is the second list of the financial statements after the balance sheet that the entity prepares and publishes at the end of the fiscal year.

2-1- Income statement definition

The income statement is a two-column table showing how to determine the various results based on the balances of the main management accounts (The account 7 and the account 6), with two numbers.

2-2- Various results identified in the income statement

The various results identified in the income statement are:

- fiscal year production;
- the added value of exploitation;
- gross operating surplus;
- operational result;
- financial result;
- ordinary result before tax
- the net result of ordinary activities;
- Extraordinary Result;
- The net result of the fiscal year.

2-3- How to calculate different results

designation	Amounts
Sales and ancillary products	C/70
Stored or destocked production	C/72
immobilised production	C/73
exploitation subsidies	C/74
fiscal year production (1) =	C70 +C72 +C73 +C74
consumed purchases	C/60
External services and other consumption	C/61 + C/62
consumption for the fiscal year (2) =	C/60 + C/61 + C/62
the added value of exploitation (3) =	(1) - (2)
personnel expenses or staff costs	C/63
taxes, fees, and similar payments	C/64
Gross operating surplus (4) =	(3) - C/63 - C/64
Other operational products	C/75
other operating expenses	C/65
depreciation allocations, provisions and impairment losses	C/68
reversal of impairment losses and provisions	C/78
operational result (5) =	(4) + C/75 - C/65 - C/68 + C/78
financial products	C/76
financial expenses	C/66
financial result (6) =	C/76 - C/66
ordinary result before tax (7) =	(5) + (6)
Taxes to be paid for normal results	C/695 and C/698
Deferred taxes (changes) for normal results	C/692 and C/693
Total products of ordinary activities	(1) + C/75 + C/78 + C/76
total expenses of ordinary activities	(2) + C/63 + C/64 + C/65 +C66 + C/68
the net result of ordinary activities (8) =	(7) - [C/695 + C/698 + C/692 + C/693]
Extraordinary items - products	C/77
Extraordinary items - expenses	C/67
Extraordinary Result (9) =	C/77 - C/ 67
The net result of the fiscal year 10 =	(8) + (9)

2-4- preparation of the income statement

Here are the balances of the accounts for expenses and revenues for the "Furniture Today" company as of 31/12/2015.

account number	account name	debit balance	Credit balance
60	consumer purchases	1 200 000	
61	external services	56 000	
62	Other external services	92 000	
63	personnel expenses	300 000	
64	taxes, fees, and similar payments	42 000	
65	other operating expenses	8 000	
66	financial expenses	12 000	
68	depreciation allocations, provisions and impairment losses	40 000	
70	Sales and ancillary products		1 900 000
72	Stored or destocked production	8 000	
73	immobilised production		30 000
74	exploitation subsidies		70 000
75	Other operational products		4 000
76	financial products		8 000

The required task is to prepare the income statement, with the knowledge that the profit tax rate is 25%.

the income statement will be :

designation	Amounts
Sales and ancillary products	1 900 000
Stored or destocked production	- 8 000
immobilised production	30 000
exploitation subsidies	70 000
fiscal year production (1) =	1 992 000
consumed purchases	1 200 000
External services and other consumption	148 000
consumption for the fiscal year (2) =	1 348 000
the added value of exploitation (3) =	644 000
personnel expenses or staff costs	300 000
taxes, fees, and similar payments	42 000
Gross operating surplus (4) =	302 000
Other operational products	4 000
other operating expenses	8 000
depreciation allocations, provisions and impairment losses	40 000
reversal of impairment losses and provisions	/
operational result (5) =	258 000
financial products	8 000
financial expenses	12 000
financial result (6) =	- 4 000
ordinary result before tax (7) =	254 000
Taxes to be paid for normal results	63 500
Deferred taxes (changes) for normal results	/
Total products of ordinary activities	2 004 000
total expenses of ordinary activities	1 813 500
the net result of ordinary activities (8) =	190 500
Extraordinary items - products	/
Extraordinary items - expenses	/
Extraordinary Result (9) =	0
The net result of the fiscal year 10 =	190 500