

Financial Statements



Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are formal records that represent the financial activities and position of a business, person, or other entity. These statements provide an overview of the entity's financial performance and position over a specific period of time.

The main types of financial statements include the income statement, balance sheet, and cash flow statement.

INCOME STATEMENT (PROFIT AND LOSS STATEMENT):

The income statement shows the revenues earned and the expenses incurred over a specific period, typically a fiscal quarter or year.

The basic formula for the income statement is: $\text{Net Income} = \text{Revenues} - \text{Expenses}$

Key components include:

- Revenues (Sales)
- Cost of Goods Sold (COGS)
- Gross Profit
- Operating Expenses (e.g., selling, general and administrative expenses)
- Operating Income
- Other Income and Expenses
- Net Income

BALANCE SHEET:

The balance sheet provides a snapshot of an entity's financial position at a specific point in time, showing its assets, liabilities, and shareholders' equity.

The fundamental accounting equation is: $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$

Key components include:

- Assets: Current assets (e.g., cash, accounts receivable) and non-current assets (e.g., property, plant, equipment)
- Liabilities: Current liabilities (e.g., accounts payable, short-term debt) and non-current liabilities (e.g., long-term debt)
- Shareholders' Equity: Common stock, retained earnings



CASH FLOW STATEMENT:

The cash flow statement provides information about the cash generated and used by an entity during a specific period.

It is divided into three main sections:

- Operating Activities: Cash flows from the core business operations.
- Investing Activities: Cash flows from the purchase and sale of long-term assets.
- Financing Activities: Cash flows from transactions with the entity's owners and creditors.

The statement reconciles the net change in cash and cash equivalents over the period.

These financial statements are essential tools for assessing the financial health and performance of a business. They are often used by investors, creditors, analysts, and other stakeholders to make informed decisions about the entity. Additionally, financial statements are prepared in accordance with generally accepted accounting principles (GAAP) or International Financial Reporting Standards (IFRS) to ensure consistency and comparability.

References:

<https://www.investopedia.com/terms/f/financial-statements.asp#:~:text=%25%2025%25%200%25-,What%20Are%20Financial%20Statements%3F,%2C%20financing%2C%20or%20investing%20purposes.>

<https://corporatefinanceinstitute.com/resources/accounting/three-financial-statements/>

<https://www.accountingtools.com/articles/financial-statements>