Module 2
FINANCIAL STATEMENTS

Financial statements are records that provide an indication of an individual's, organization's, or business' financial status.

Income Statement

An **income statement** (also called **statement of financial performance**) presents the revenues and expenses and resulting net income (or net loss) *for a specific period of time*. The basic equation for computing the resulting net income or net loss is:

Net income (NI) = Revenues (R) – Expenses (E)

Below is proforma income statement.

Your Company
Income Statement
For the year ended December 31, 2013

Fees earned	xxx
Operating expenses	
Salaries and wages	xxx
Depreciation	xxx
Office rentals	xxx
Power and light	xxx
Transportation	xxx
Office supplies	xxx
Total expenses	xxx
Net income	xxx

Equity (or Capital) Statement

An **equity statement** summarizes the changes in owner's equity *for a specific period of time*. In a sole proprietorship, the basic capital equation is:

Capital (C) = Investment (I) + Net income (NI) – Drawings (D)

Below is proforma equity statement.

Your Company
Capital Statement
For the year ended December 31, 2013

Owner, capital (beginning)		xxx
Add:	Net income	xxx
	Additional investment	xxx
Less:	Owner, drawing	xxx
C.S., capital (ending)		xxx

Balance Sheet

A **balance sheet** (also called statement of **financial position**) reports the assets, liabilities, and owner's equity *at a specific date*. The basic accounting equation (as expressed in the balance sheet) is:

Assets (A) = Liabilities (L) + Equity (E)