

Finance Management & Planning

Financial Statements – Income Statement

The Financial Statements

Recap of Last week

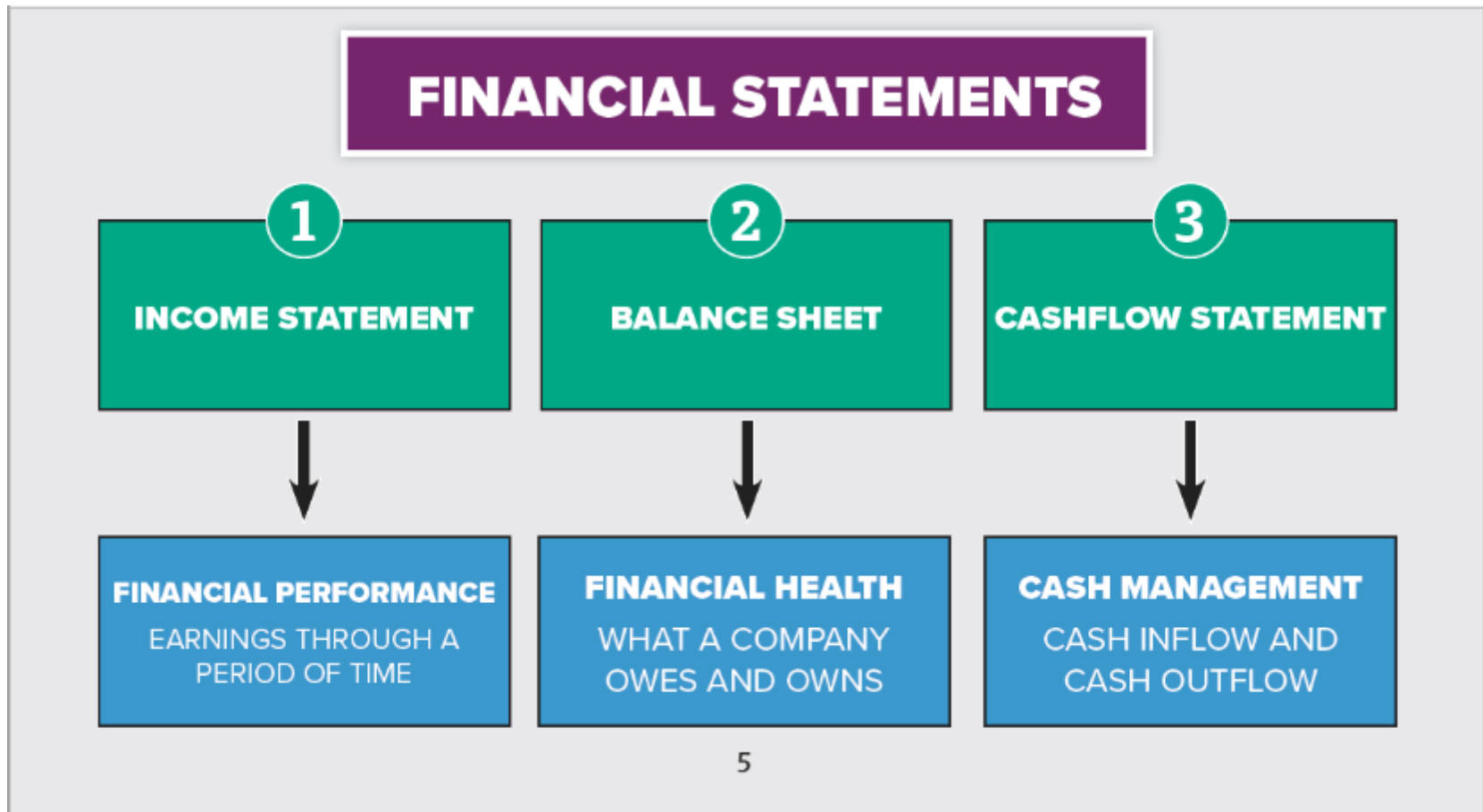
- Ethics and Code of Conduct

The Financial Statements

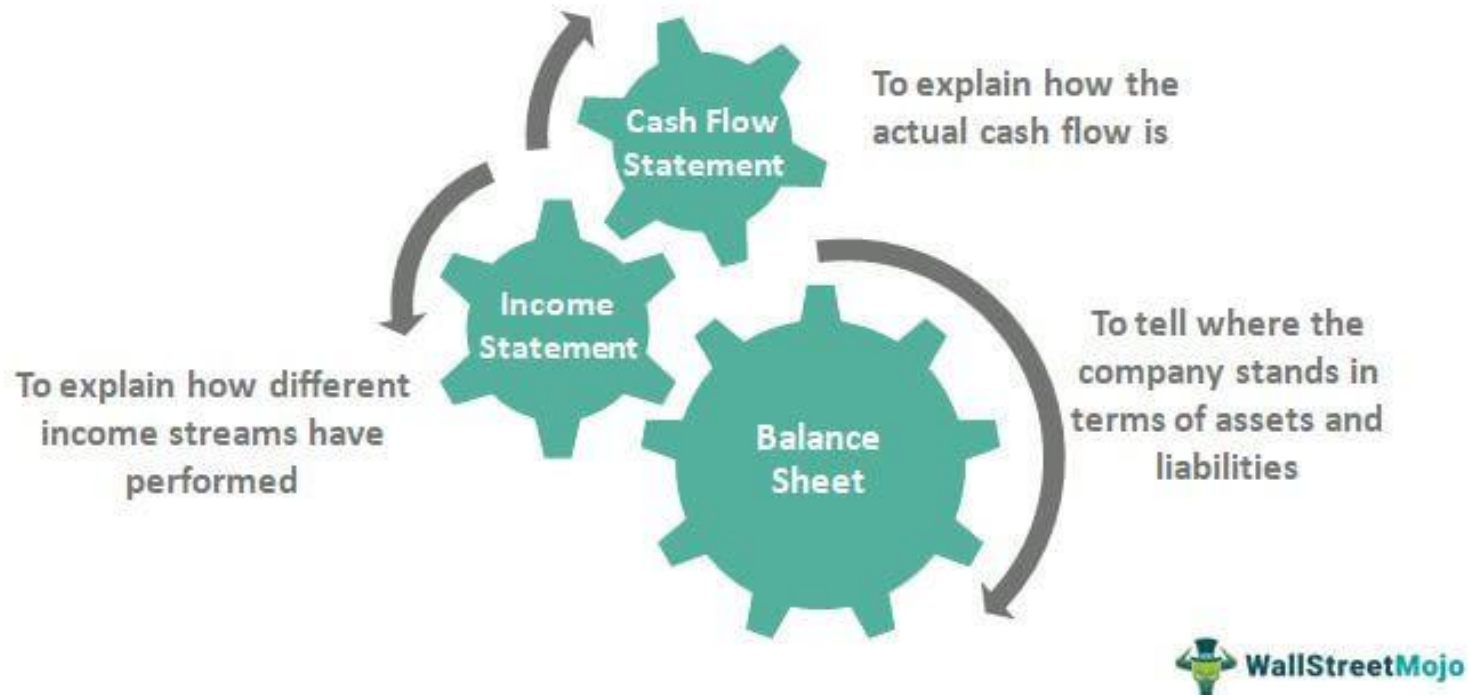
Today's Objectives

- Discuss the Three Financial statements
- Understanding the purpose of an Income Statement
- Creation of an Income Statement

Financial statements measure the financial health of the organisation:



Types of Financial Statements



Definition :

Financial statements are key indicators of the health of your business at specific points in the company's accounting year and on an ongoing basis.

There are 3 main types of Financial statements

- Income Statement (Sometimes referred to as the Profit and Loss Statement)
- Balance Sheet
- Cash-flow

Purpose

- To accurately measure the profitability and financial conditions of a business

Downside

- The statements are collated at a specific point in time and are historical.

Financial Statements

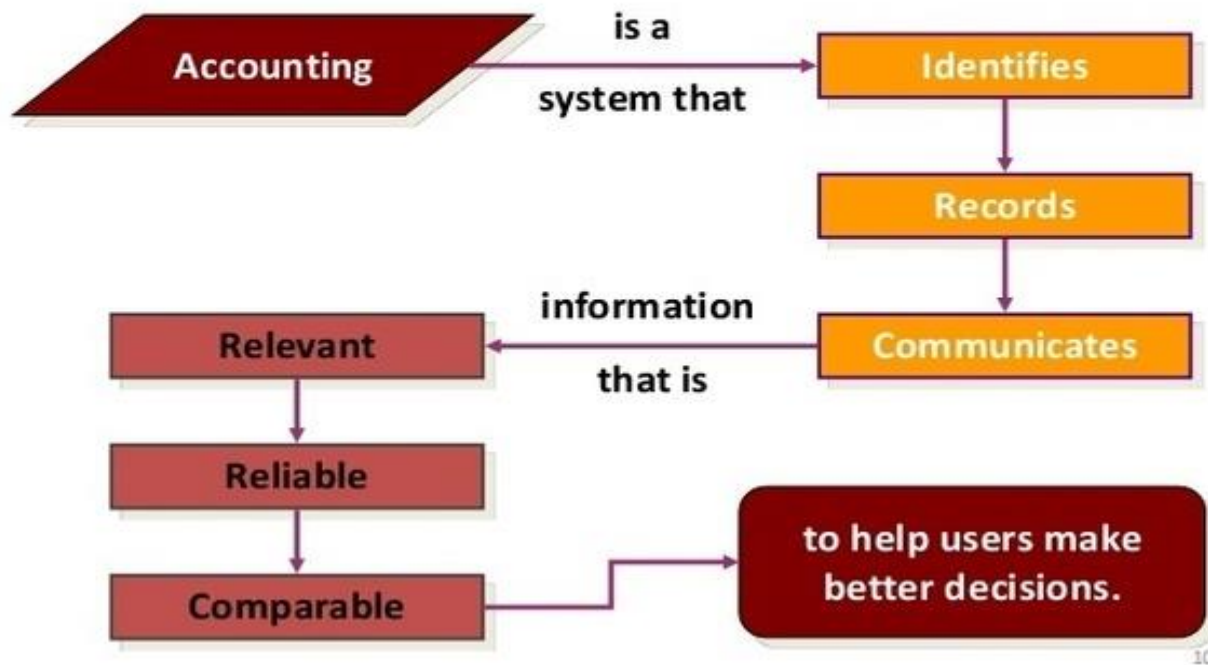
- Overview of a business's performance through a specified period
- Income Statement
 - Business Performance
 - Revenue Levels
 - Cost of Good Sold
 - Gross margin
 - Overheads
 - Net Margin (EBITDA alternative in US GAAP)
 - Usually compared to prior year
 - Internally compared to a forecast or budget
- Balance Sheet
 - Value of Assets and Liabilities within a business
- Cash-flow
 - How a businesses cash has flowed through the business.

Financial Statements

Who uses them ?

- Stakeholders in the business
 - Senior managers
 - Banking facilities
 - Shareholders
- Future investors
- Stock Markets
- Acquisition Companies
- Companies house
- Future employees

Importance of Accounting



So what are the fundamentals of the accounting system ?

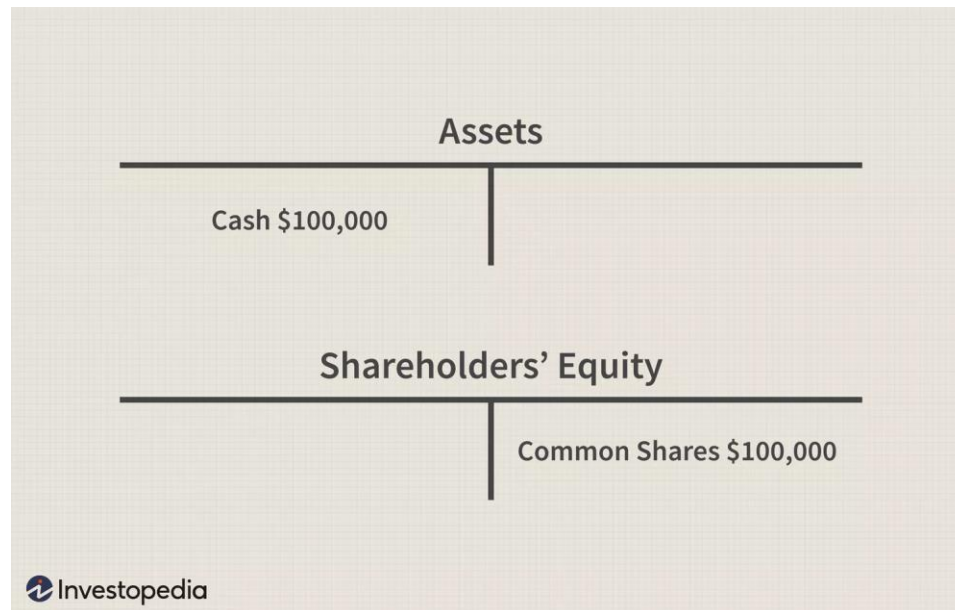
Elements of Financial Statements

- Asset – a resource controlled by the Enterprise
- Liability – an obligation to repay this value
- Equity – the balance of Assets less Liabilities made up of Shareholders value or retained earning.
- Income
- Expenses

Accounting is all about Debits and Credits

<https://youtu.be/-7XeZLQ2hYQ>

T Accounts



Financial Statements

**Paul's Guitar Shop, Inc.
Unadjusted Trial Balance
December 31, 2015**

Account	<u>Debit</u>	<u>Credit</u>	
Cash	\$ 32,800		}
Accounts Receivable	300		
Inventory	39,800		
Leasehold Improvements	100,000		
Accounts Payable		\$ 49,000	
Long-term Liabilities		99,500	
Common Stock		10,000	
Dividends	1,000		}
Revenues		27,800	
Cost of Goods Sold	10,200		
Rent Expense	500		
Supplies Expense	500		
Utilities Expense	200		
Wages Expense	500		
Interest Expense	500		
Totals	\$ 186,300	\$ (186,300)	

Balance Sheet Items

Income Statement Items

Profit and loss statement example

Profit and loss of company XYX

Total revenue	£100,000
Cost of goods sold	£20,000
Gross profit	£80,000

Operating expenses

Salaries	£10,000
Rent	£10,000
Utilities	£5,000
Depreciation	£5,000

Total operating expenses	£30,000
Operating profit	£50,000
Interest expense	£10,000

Income before taxes	£40,000
Taxes	£10,000

Net income	£30,000
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Balance sheet example

TEDDY FAB INC. BALANCE SHEET December 31, 2100

ASSETS

Current assets

Cash and cash equivalents	\$ 100,000
Accounts receivable	20,000
Inventory	15,000
Prepaid expense	4,000
Investments	10,000
Total current assets	149,000

Property and equipment

Land	24,300
Buildings and improvements	250,000
Equipment	50,000
Less accumulated depreciation	(5,000)

Other assets

Intangible assets	4,000
Less accumulated amortization	(200)

Total assets **\$ 472,100**

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	\$ 30,000
Notes payable	10,000
Accrued expenses	5,000
Deferred revenue	2,000
Total current liabilities	47,000

Long-term debt 200,000

Total liabilities **247,000**

Shareholders' Equity

Common stock	10,000
Additional paid-in capital	20,000
Retained earnings	197,100
Treasury stock	(2,000)

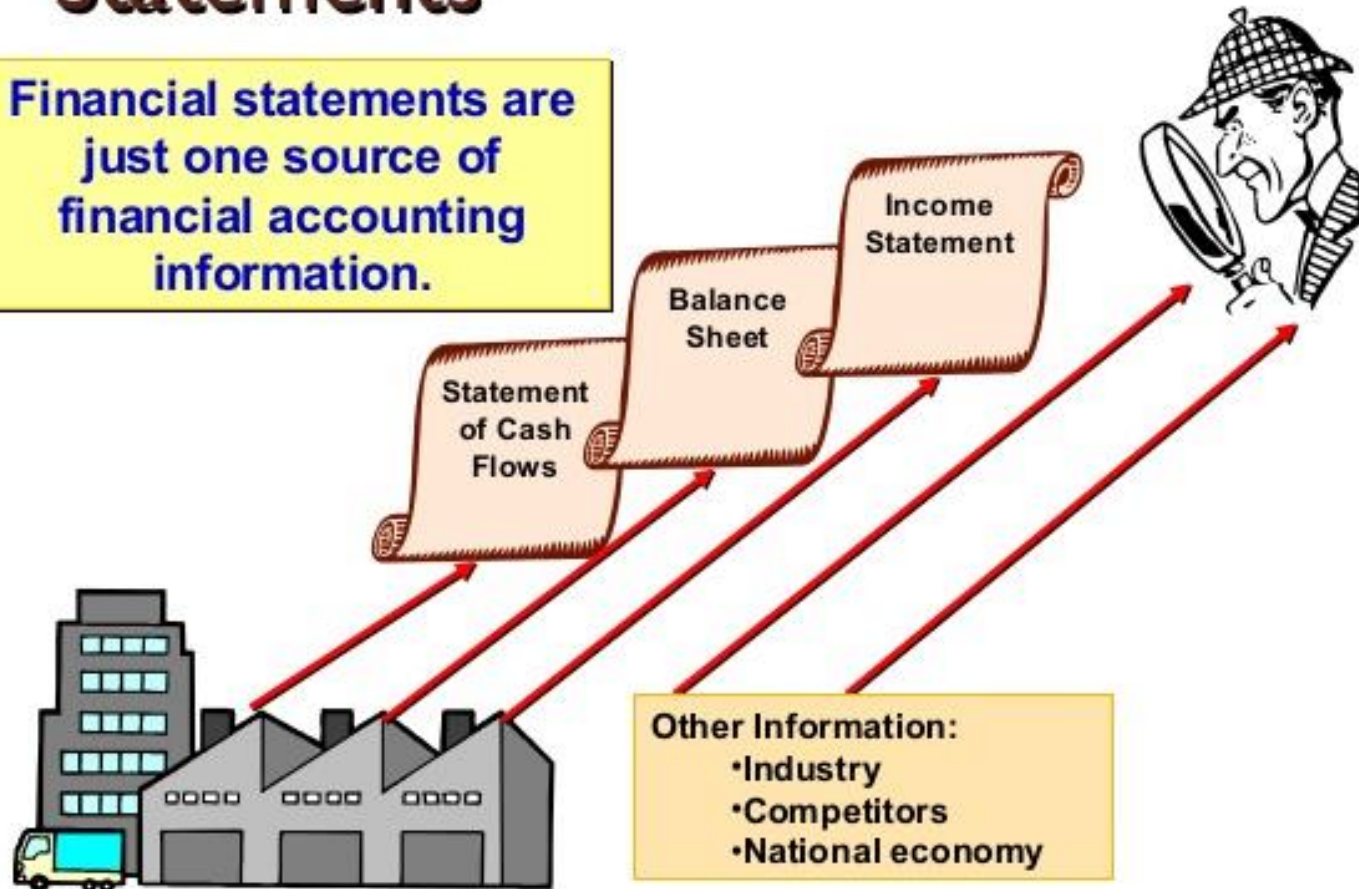
Total liabilities and shareholders' equity **\$ 472,100**

	A	B	C	D	E
1			[Company Name]		
2			Cash Flow Statement		
3					
4			For the Year Ending	12/31/2008	
5			Cash at Beginning of Year	15,700	
6					
7			Operations		
8			Cash receipts from customers	693,200	
9			Cash paid for		
10			Inventory purchases	(264,000)	
11			General operating and administrative expenses	(112,000)	
12			Wage expenses	(123,000)	
13			Interest	(13,500)	
14			Income taxes	(32,800)	
15			Net Cash Flow from Operations	147,900	
16					
17			Investing Activities		
18			Cash receipts from		
19			Sale of property and equipment	33,600	
20			Collection of principal on loans		
21			Sale of investment securities		
22			Cash paid for		
23			Purchase of property and equipment	(75,000)	
24			Making loans to other entities		
25			Purchase of investment securities		
26			Net Cash Flow from Investing Activities	(41,400)	
27					
28			Financing Activities		
29			Cash receipts from		
30			Issuance of stock		
31			Borrowing		
32			Cash paid for		
33			Repurchase of stock (treasury stock)		
34			Repayment of loans	(34,000)	
35			Dividends	(53,000)	
36			Net Cash Flow from Financing Activities	(87,000)	
37					
38			Net Increase in Cash	19,500	
39					
40			Cash at End of Year	35,200	
41			© 2008 Vertex42 LLC	Templates by Vertex42.com	

Financial Reporting and Financial Statements



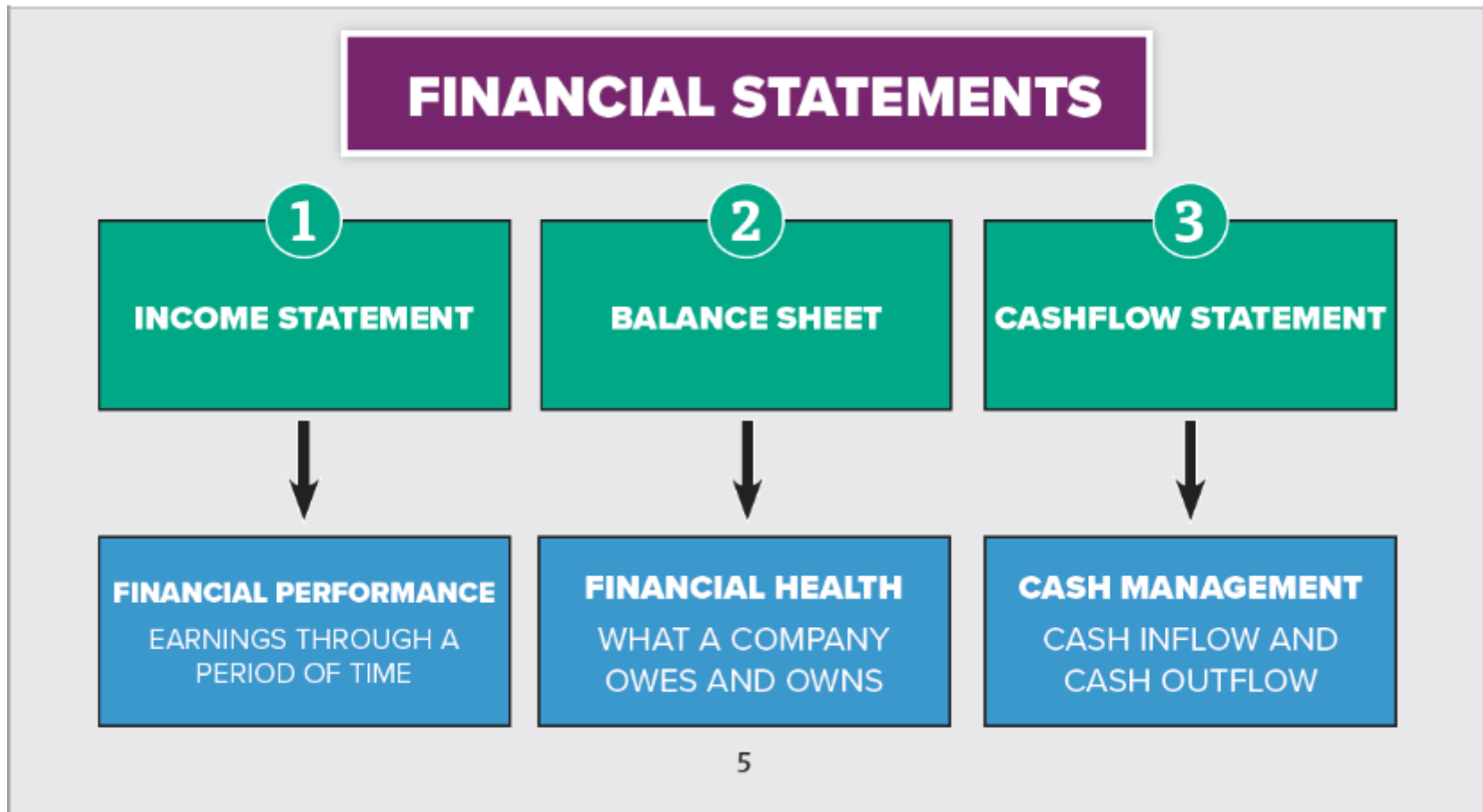
Financial statements are just one source of financial accounting information.



2-19

The Financial Statements

Financial statements measure the financial health of the organisation:



Income Statement (or Profit and Loss Statement)

Definition :

An **income statement** is a **financial statement** that shows you how profitable your business was over a given reporting period. It shows your revenue, minus your expenses and losses

Purpose :

An **income statement** is a **financial statement** that shows you how profitable your business was over a given reporting period. It shows your revenue, minus your expenses and losses

Profit and loss statement example

Profit and loss of company XYZ

Total revenue	£100,000
Cost of goods sold	£20,000
Gross profit	£80,000

What your
business does

Operating expenses

Salaries	£10,000
Rent	£10,000
Utilities	£5,000
Depreciation	£5,000

The additional
running costs of
your business

Total operating expenses	£30,000
Operating profit	£50,000
Interest expense	£10,000

Servicing
costs of your
business

Income before taxes	£40,000
Taxes	£10,000

Net income **£30,000**

Financial Statements



GROUP INCOME STATEMENT

	Note	52 weeks to 27 March 2021 £m	52 weeks to 28 March 2020 £m
Revenue	3	2,343.9	2,633.1
Cost of sales		(681.4)	(927.6)
Gross profit		1,662.5	1,705.5
Net operating expenses	4	(1,141.4)	(1,516.8)
Operating profit		521.1	188.7
Financing			
Finance income		3.1	7.6
Finance expense		(33.3)	(26.6)
Other financing charge		(0.7)	(1.2)
Net finance expense	8	(30.9)	(20.2)
Profit before taxation	5	490.2	168.5
Taxation	9	(114.3)	(46.9)
Profit for the year		375.9	121.6

Ref: Burberry Annual Report 2020

Group income statement

	Notes	52 weeks ended 26 February 2022			52 weeks ended 27 February 2021 ⁱⁱⁱ		
		Before adjusting items £m	Adjusting items ⁱⁱ (Note 4) £m	Total £m	Before adjusting items £m	Adjusting items ⁱⁱ (Note 4) £m	Total £m
Continuing operations							
Revenue	2	61,344	–	61,344	57,887	–	57,887
Cost of sales		(56,574)	(176)	(56,750)	(53,948)	221	(53,727)
Impairment reversal/(loss) on financial assets	2	39	–	39	(384)	–	(384)
Gross profit/(loss)		4,809	(176)	4,633	3,555	221	3,776
Administrative expenses		(1,984)	(89)	(2,073)	(1,767)	(462)	(2,229)
Operating profit/(loss)		2,825	(265)	2,560	1,788	(241)	1,547
Share of post-tax profits/(losses) of joint ventures and associates	14	15	–	15	26	–	26
Finance income	5	9	–	9	15	–	15
Finance costs	5	(652)	101	(551)	(695)	(257)	(952)
Profit/(loss) before tax		2,197	(164)	2,033	1,134	(498)	636
Taxation	6	(502)	(8)	(510)	(249)	145	(104)
Profit/(loss) for the year from continuing operations		1,695	(172)	1,523	885	(353)	532
Discontinued operations							
Profit/(loss) for the year from discontinued operations	7	(2)	(38)	(40)	309	5,117	5,426
Profit/(loss) for the year		1,693	(210)	1,483	1,194	4,764	5,958

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

		2020			2019 restated *		
	Notes	Adjusted £m	Adjusting items** £m	Total £m	Adjusted £m	Adjusting items** £m	Total £m
Revenue	3	611.8	–	611.8	980.5	–	980.5
Cost of sales		(500.7)	–	(500.7)	(642.7)	–	(642.7)
Gross profit		111.1	–	111.1	337.8	–	337.8
Selling and distribution expenses		(79.6)	–	(79.6)	(95.0)	–	(95.0)
Administrative and other operating expenses		(256.4)	(98.0)	(354.4)	(233.7)	(42.1)	(275.8)
Other expense	5	–	–	–	(19.0)	–	(19.0)
Operating loss	4	(224.9)	(98.0)	(322.9)	(9.9)	(42.1)	(52.0)
Finance income	8	33.1	6.9	40.0	16.3	–	16.3
Finance expense	9	(107.6)	(75.5)	(183.1)	(77.3)	(6.6)	(83.9)
Loss before tax		(299.4)	(166.6)	(466.0)	(70.9)	(48.7)	(119.6)
Income tax credit/(charge)	10	22.6	32.9	55.5	(6.8)	8.8	2.0
Loss for the year		(276.8)	(133.7)	(410.5)	(77.7)	(39.9)	(117.6)

Classify the following Items

For the Year	2018
Revenue	97400
Materials Purchases	69350
Direct Labour	5000
Direct Costs	2500
Heat and Light - Non Direct	900
Telephone and Postage	450
Insurance	750
Salaries	7500
Rent and Rates	5000
Vehicle Running Expenses	1200
Depreciation	1500
Loan Interest Payable	620

Classify into the following Categories

What the business does ?

Additional Costs to the business ?

Servicing Costs for the business ?

Template

Classify the following Items

For the Year	2018
Revenue	97400
Materials Purchases	69350
Direct Labour	5000
Direct Costs	2500
Heat and Light - Non Direct	900
Telephone and Postage	450
Insurance	750
Salaries	7500
Rent and Rates	5000
Vehicle Running Expenses	1200
Depreciation	1500
Loan Interest Payable	620

	2018
Revenue	97400
Material	69350
Labour	5000
Other Costs	2500
Cost of Goods Sold	76850
Gross Profit	20550
	21.10%
Heat and Light	900
Telephone and Postage	450
Insurance	750
Salaries	7500
Rent and Rates	5000
Vehicle Running Expenses	1200
Depreciation	1500
Total Operating Expenses	17300
Operating Profit	3250
Interest Paid	620
Net Income	2630

Exercise

Create an income statement for the following costs :-

For the Year	2018
Sales of Product A	75000
Sales of Product B	25000
Sales of Product C	50000
Sales of Product D	35000
Opening Stock	100000
Materials Purchases	75000
Closing Stock	75000
Direct Labour	35000
Direct Costs	10000
Sales Costs	10000
Admin Costs	2500
General Costs	5000
Interest Paid	0
Depreciation	3000

Materials Used is calculated as below

= Opening Stock + Purchases Less Closing Stock

	2018
Revenue	185000
Materials	100000
Direct Labour	35000
Direct Costs	10000
Cost of Goods Sold	145,000
Gross Profit	40,000
Sales Costs	10000
Admin Costs	2500
General Costs	5000
Depreciation	3000
Total Operating Expenses	20,500
Operating Profit	19,500
Interest Received	
Interest Paid	0
Net Income	19,500

Exercise

Create an income statement for the following costs :-

For the Year	2018	2019	2020
Sales of Product A	75000	100000	150000
Sales of Product B	25000	50000	50000
Sales of Product C	50000	50000	50000
Sales of Product D	35000	50000	50000
Opening Stock	100000	75000	75000
Materials Purchases	75000	100000	150000
Closing Stock	75000	75000	100000
Direct Labour	35000	75000	95000
Direct Costs	10000	20000	25000
Sales Costs	10000	10000	15000
Admin Costs	2500	5000	3500
General Costs	5000	5000	7500
Interest Paid	0	0	1000
Depreciation	3000	5000	5000

	2018	2019	2020
Revenue	185000	250000	300000
Cost of Goods Sold	145000	195000	270000
Gross Profit	40000	55000	30000
Total Operating Expenses	20500	25000	31000
Operating Profit	19500	30000	-1000
Interest Paid	0	0	1000
Net Income	19500	30000	-2000

Income Statement (or Profit and Loss Statement)

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Purpose :

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2 Videos to watch in Teams explaining the use of Income Statements

Next Week

- Costing Methodologies
- Balance Sheet