Answer on Question#78947 - Economics – Finance

The Balance Sheet represents a statement of the firm's financial position at a specific point in time. A statement balances firms assets (what it owns) versus its financing, either by borrowing or by investing the owners' money. The total assets are always equal to the liabilities and owner's equity.

The statement of Balance Sheet can be described by the following equation: **Total assets** = Total current assets (expected to be converted into cash within 1 year or less) + Net fixed assets = Current liabilities (expected to be paid within 1 year or less) + long-term debt (for which payment is not due in the current year) + owner's equity.

The assets are listed in order of their «liquidity», or the length of time for conversion the assets to cash (from most liquid – cash and marketable securities – down to the least liquid fixed assets). The liabilities and equity accounts are listed from short-term to long-term.

An example of typical structure of Balance Sheet is shown in the table below (on 31 December, or 30 September, 31 March, 30 June).

Assets	Current year	Previous year
Current Assets		
Cash		
Marketable securities		
Account receivable		
Inventories		
Total current assets		
Gross fixed assets		
Land and buildings		
Machinery and equipment		
Furniture and fixtures		
Vehicles		
Others (includes leases)		
Total gross fixed assets		
Less: accumulated depreciation		
Net fixed assets		
Total Assets		
Liabilities and Equity	Current year	Previous year
Current liabilities:		
Account payable		
Note Payable		
Accruals		
Total current liabilities		
Long-term debt (includes financial leases, loans, bonds etc.)		
Total liabilities		
Stockholders' Equity		
Common stock		
Preferred stock		
Retained earnings		
Common equity		
Total liabilities and equity		

Note: in most cases company balance sheet has two sides: assets on the left and liabilities and ownership equity on the right.

The profit and loss statement is a financial statement. This statement summarizes the revenues, costs and expenses that generated by the company over the entire reporting period. The profit & loss statement (P&L) is also known as the income statement, statement of earnings, statement of operations, or statement of income.

P&L is based on simple equation: Profit = Revenues – Expenses

In practice, more complex equation used according business condition. For example:

- Profit = Revenues – Cost of Goods Sold – Salaries – Rent –Utilities – Depreciation
- Profit = Operating Profit(EBIT)
- Income Before Taxes (EBT) = EBIT – Interest Expenses
- Income After Taxes(EAT) = EBT - Taxes
- EAT = Net Income

Forms of Profit & loss statements are regardless of industry, but basic form may be representing by following example:

Profit & Loss Statement for Company ABC, Inc.
For the Year Ended December 31, 2017

Total Revenue		$1000
Cost of Goods Sold		($ 300)
Gross Profit		$ 700
Operating Expenses		
Salaries	$200	
Rent	$100	
Utilities	$50	
Depreciation	$250	
Total Operating Expenses		($600)
Operating Profit (EBIT)		$100
Interest Expense		($10)
Income before taxes (EBT)		$ 90
Taxes		($ 10)
Net Income		$ 80
Number of Shares Outstanding		$100
Earnings Per Share (EPS)		$0.8

The **statement of retained earnings** is a financial statement that reflects the changes in the *retained earnings* over the entire reporting period. Retained earnings are the part of net income that a company does not distribute among its shareholders. It retains in the business for growth of owned capital.

The **statement of retained earnings** can be described by the following equation:

Retained earnings at the end = Retained earnings at the beginning + Net income – Dividends

Amount of **retained earnings** increases when company earns net income and decreases when company has net loss or paying dividends during the period.

Below is an example of retained earnings statement:

Company ABC, Inc.
Statement of retained earnings
For the Year Ended December 31, 2017

Retained earnings at January 1, 2017	**$100**
Add: net income earned in 2017	**$80**

Subtotal	**$180**
Less: dividends declared in 2017	**$20**
Retained earnings at December 31, 2017	**$160**

A cash flow statement is a financial statement that combines the data, regarding with the flow of cash in and out of the business during a given period. The cash flow statement used data about cash generated and used in the following categories:

- Operating activities
- Investment activities
- Financial activities

Cash flows from operating activities includes following elements:

- Cash receipts from customers (inflow)
- Cash paid to suppliers and employees (inflow)
- Income taxes paid (outflow)

Cash flows from investing activities includes following elements:

- Proceeds from the sale of equipment(inflow)
- Dividends received (inflow)

Cash flows from (used in) financing activities includes following elements:

- Dividends paid (outflow)
- Interest paid (outflow)
- Issuance of owned common stock (inflow)
- Purchase of owned common stock (outflow)
- Issuance of debt (inflow)
- Repayments of debt (outflow)