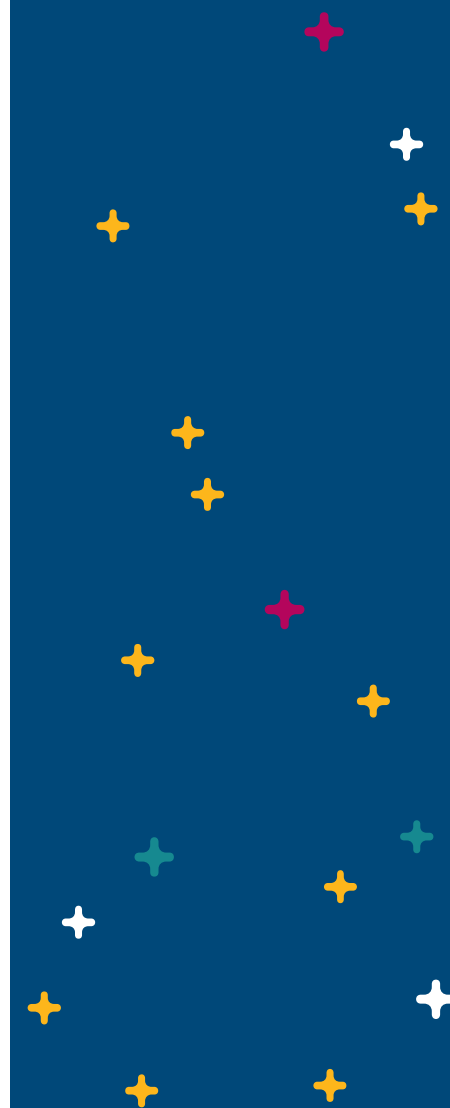


# Financial Reporting

## Module

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NOTES

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## 1 Balance Sheet

Under U.S. GAAP, general purpose financial reporting is defined as a full set of financial statements and notes to the financial statements. A full set of financial statements typically includes:

- Statement of financial position (balance sheet)
- Statement of earnings (income statement)
- Statement of comprehensive income
- Statement of cash flows
- Statement of owners' equity

Entities may present a classified balance sheet that distinguishes current and non-current assets and liabilities. When appropriate, a balance sheet presentation based on liquidity is also permissible. The following is an example of a classified balance sheet.

Company Name <b>Balance Sheet</b> As of December 31, Year 1	
<u>Assets</u>	<u>Liabilities and Stockholders' Equity</u>
<b>Current assets</b>	<b>Current liabilities</b>
Cash and cash equivalents	Current portion of long-term debt
Trading securities, at fair value	Accounts payable
Accounts receivable, net of allowance	Notes payable
Notes receivable	Interest payable
Inventory	Salaries payable
Prepaid expenses	Unearned revenue
<b>Investments</b>	<b>Long-term liabilities</b>
Available-for-sale securities, at fair value	Bonds payable
Held-to-maturity securities	Deferred income tax liability
Investments in affiliates	Pension and other postretirement benefit liabilities

(continued)

(continued)	
<u>Assets</u>	<u>Liabilities and Stockholders' Equity</u>
<b>Property, plant, and equipment</b>	<b>Total liabilities</b>
Land	<b>Stockholders' equity</b>
Building	Capital stock
Equipment	Preferred stock, \$10 par, 8% cumulative and nonparticipating, 10,000 shares authorized, 5,000 shares issued and outstanding
Less: accumulated depreciation	Common stock, \$0.01 par, 600,000,000 shares authorized, 57,598,000 shares issued and 57,178,485 shares outstanding
<b>Intangible assets</b>	Paid-in capital in excess of par
Goodwill	Retained earnings
Patents, net of amortization	Accumulated other comprehensive income (Treasury stock at cost) (419,515 shares)
<b>Other assets</b>	<b>Total stockholders' equity</b>
Pension and other postretirement benefit assets	<b>Total liabilities and stockholders' equity</b>
Deferred income tax asset	
<b>Total assets</b>	

## 2 Uses of the Income Statement and Terminology

The purpose of the income statement is to provide information about the uses of funds in the income process (i.e., expenses), the uses of funds that will never be used to earn income (i.e., losses), the sources of funds created by those expenses (i.e., revenues), and the sources of funds not associated with the earnings process (i.e., gains).

### 2.1 Uses of the Income Statement

The income statement is useful in determining profitability, value for investment purposes, and creditworthiness. The income statement is also useful in predicting information about future cash flows (e.g., the amounts, timing, and uncertainty of cash flows) based on past performance.

## 2.2 Terminology

### 2.2.1 Cost and Unexpired Costs

- **Cost** is an amount (measured in money) expended for items such as capital assets, services (e.g., payroll), and merchandise received. Cost is the amount actually paid for something.
- **Unexpired costs** are costs that will expire in future periods and be charged (allocated in a systematic and rational manner or matched) against revenues from future periods.

Unexpired Costs (Asset)		Expired Costs (Expense)	
1.	Inventory	→	Cost of goods sold
2.	Unexpired (prepaid) cost of insurance	→	Insurance expense
3.	Net book value of fixed assets	→	Depreciation expense
4.	Unexpired cost of patents	→	Patents expense (amortization)

### 2.2.2 Gross Concept (Revenues and Expenses)

- **Revenues** are reported in the gross amount of consideration to which the entity expects to be entitled in exchange for the specified goods or services transferred.
- **Expenses** (costs that benefit only the current period or the allocation of unexpired costs to the current period for the benefit received) are reported at their gross amounts.

### 2.2.3 Net Concept (Gains and Losses)

- **Gains** are reported at their net amounts (i.e., proceeds less net book value). A gain is the recognition of an asset either not in the ordinary course of business (e.g., gains on the sale of a fixed asset) or without the incurrence of an expense (e.g., finding gold on the company's property).
- **Losses** are reported at their net amounts (i.e., proceeds less net book value). A loss is cost expiration either not in the ordinary course of business (e.g., loss on the sale of investment assets) or without the generation of revenue (e.g., abandonment).

**Note:** Items of income or loss that are unusual or infrequent (or both) should be reported separately as part of income from continuing operations. The nature of the item and the financial statement effects should be disclosed on the face of the income statement or in the footnotes.