

# Introduction to Financial Statements: Income Statements

## C O N T E N T S

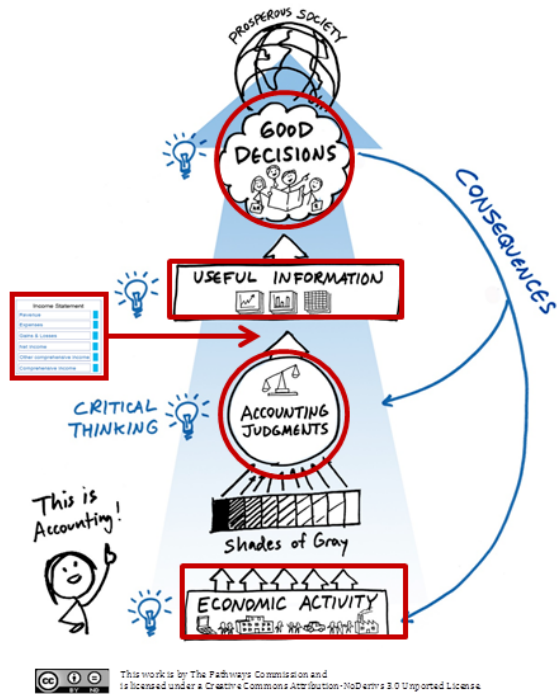
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## Questions Pertaining to Income Statements

### Introduction to Financial Statements Income Statements

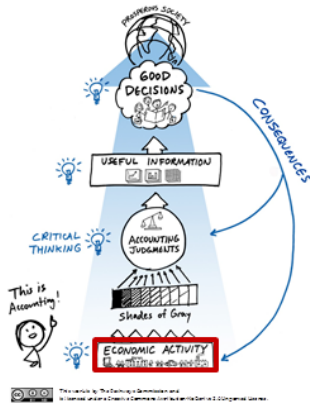


- What does it mean for a company to perform for its owners?
- How is this performance measured on income statements?
- Which user decisions might be affected by income statement information?
- What determines the usefulness of this information for users' decisions?

## What Does It Mean to Perform?

### Introduction to Financial Statements Income Statements

What does it mean for a company to perform for its owners?



#### Management's Goal Each Reporting Period

Maximize the owners' return  
on their investment over the period.

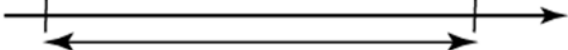
## What Does It Mean to Perform?

### Introduction to Financial Statements Income Statements

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$$\begin{array}{l} A = L + OE \\ \$0 = \$0 + \$0 \end{array} \qquad \begin{array}{l} A = L + OE \\ \$110 = \$0 + \$110 \end{array}$$


## What Does It Mean to Perform?

### Introduction to Financial Statements Income Statements

What does it mean for a company to perform for its owners?

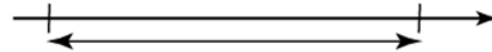
Management's Goal Each Reporting Period

Maximize the owners' return

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$$A = L + OE \qquad A = L + OE$$

$$\$0 = \$0 + \$0 \qquad \$110 = \$0 + \$110$$



$$\begin{array}{r} \Delta A \\ \text{Change in} \\ \text{Assets} \\ \$110 \end{array} = \begin{array}{r} \Delta L \\ \text{Change in} \\ \text{Liabilities} \\ \$0 \end{array} + \begin{array}{r} \Delta OE \\ \text{Change in} \\ \text{Owners' Equity} \\ \$110 \end{array}$$



$$\begin{array}{r} \Delta A \\ \text{Change in} \\ \text{Assets} \\ \$110 \end{array} - \begin{array}{r} \Delta L \\ \text{Change in} \\ \text{Liabilities} \\ \$0 \end{array} = \begin{array}{r} \Delta OE \\ \text{Change in} \\ \text{Owners' Equity} \\ \$110 \end{array}$$

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Management's Goal Each Reporting Period

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$A = L + OE$		$A = L + OE$
$\$0 = \$0 + \$0$		$\$110 = \$0 + \$110$
$\Delta A$	$-$	$\Delta L$
Change in Assets	-	Change in Liabilities
$\$110$	-	$\$0$
	$=$	$\Delta OE$
		Change in Owners' Equity
		$\$110$

## What Does It Mean to Perform?

### Introduction to Financial Statements Income Statements

What does it mean for a company to perform for its owners?

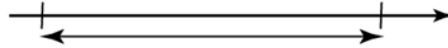
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Manage these

↑

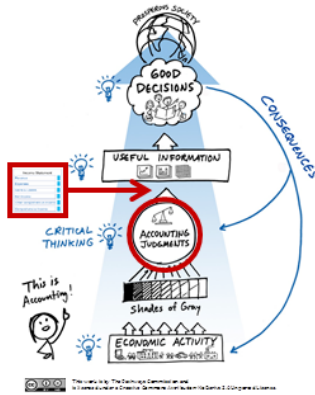
Credibly communicate performance to outsiders



## How Is Performance Measured on Income Statements?

### Introduction to Financial Statements Income Statements

How is performance for owners measured on income statements?



#### FINANCIAL STATEMENTS

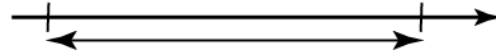
- BSE excludes some assets and liabilities
- Measured at “book value”

$$A = L + OE$$

$$\$0 = \$0 + \$0$$

$$A = L + OE$$

$$\$109 = \$0 + \$109$$



$\Delta A$	-	$\Delta L$	=	$\Delta OE$
Change in Assets		Change in Liabilities		Change in Owners' Equity
\$109		\$0		\$109

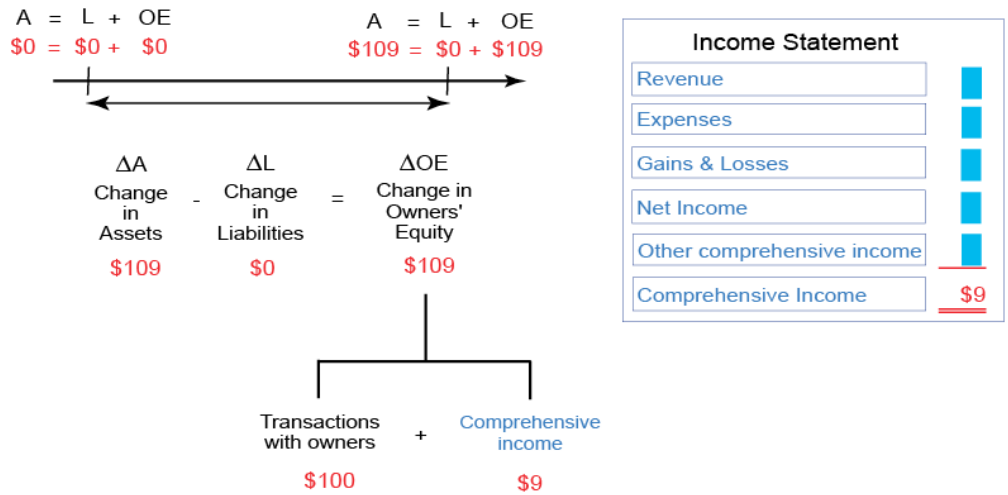
	+	
Transactions with owners		Comprehensive income
\$100		\$9



## How Is Performance Measured on Income Statements?

### Introduction to Financial Statements Income Statements

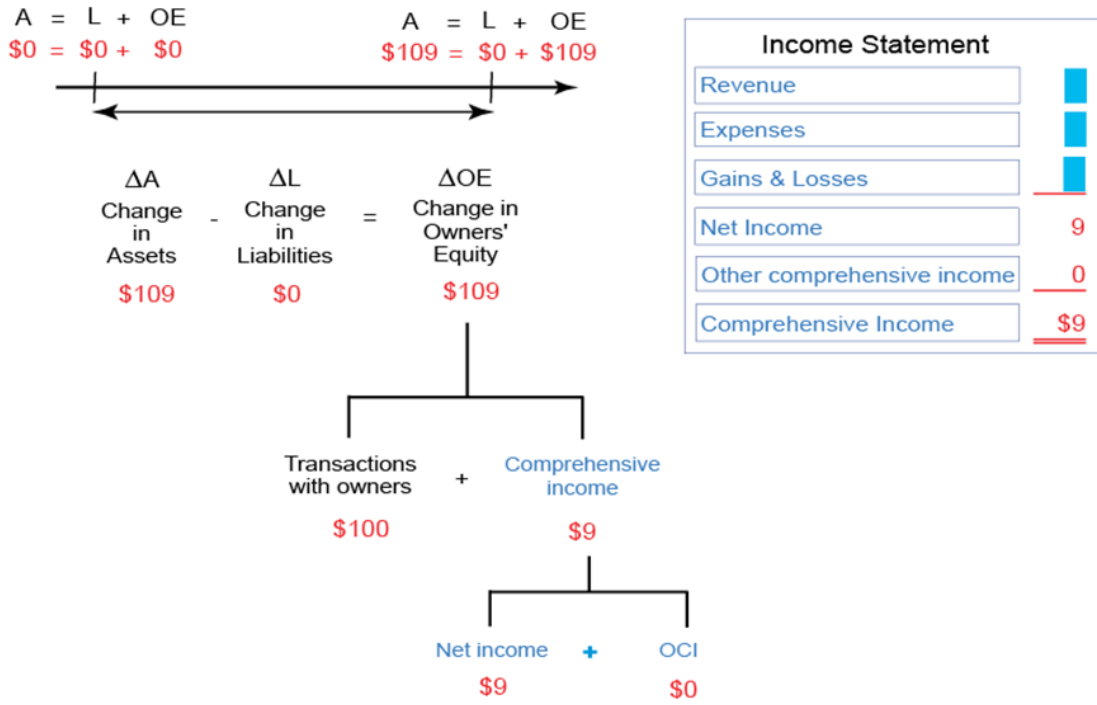
How is performance for owners measured on income statements?



## How Is Performance Measured on Income Statements?

### Introduction to Financial Statements Income Statements

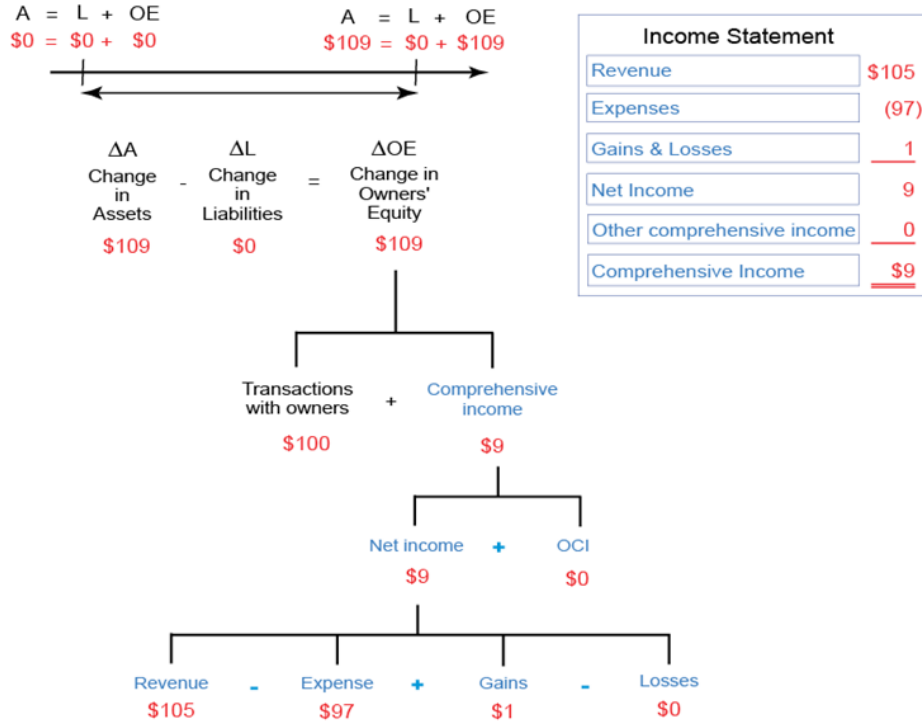
How is performance for owners measured on income statements?



## How Is Performance Measured on Income Statements?

### Introduction to Financial Statements Income Statements

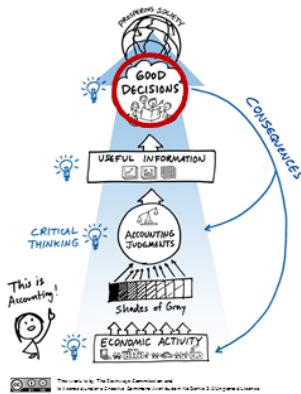
How is performance for owners measured on income statements?



## What User Decisions are Affected?

### Introduction to Financial Statements Income Statements

Which user decisions might be affected by income statement information?



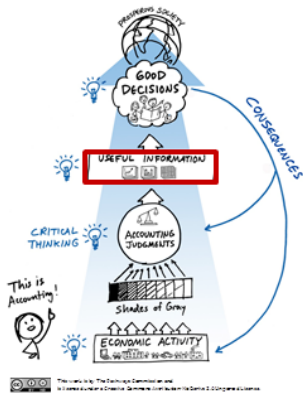
- Assess past performance
- Predict future performance

Income Statement	
Revenue	■
Expenses	■
Gains & Losses	■
Net Income	■
Other comprehensive income	■
Comprehensive Income	■

## What Determines Usefulness?

### Introduction to Financial Statements Income Statements

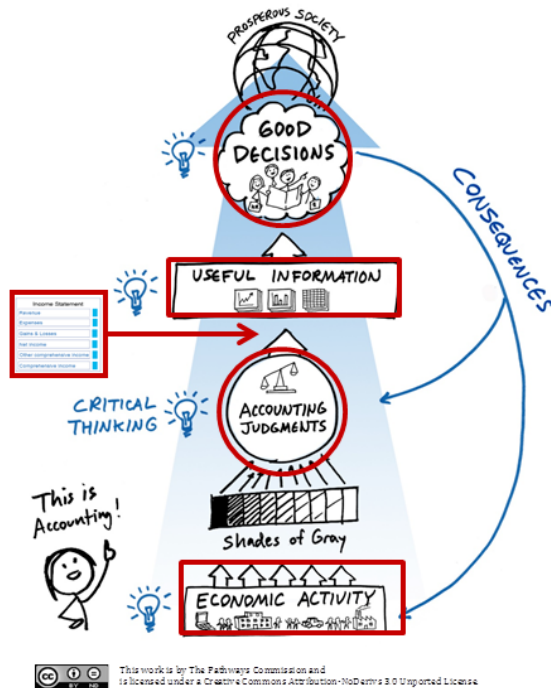
What determines the usefulness of income statement information for users' decisions?



- The extent to which measures help predict future performance.
- The extent to which assets and liabilities faithfully reflect the underlying economic activities.

## Summary

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- What does it mean for a company to perform for its owners?
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