

Trial
Balance

Income
Statement

CHAPTER 5
PREPARING FINANCIAL
STATEMENTS

Balance Sheet

TOPIC 1

INTRODUCING THE SIX-COLUMN WORKSHEET

*J. Emery Real Estate
Worksheet
For the month ended October 31, 19-1*

ACCOUNT TITLE	ACCT NO.	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	101	71,065.00					
Accts. Rec. / Pat. Rogers	103	6,000.00					
Accts. Rec. / R. Scobie	104	4,000.00					
Accts. Rec. / Shannon Inv. Co.	106	15,000.00					
Automobile	110	15,000.00					
Furniture	112	9,000.00					
Office Equipment	114	8,000.00					
Bank Loan Payable	201		16,000.00				
Accts. Pay. / Bill Furn. Co.	202		3,000.00				
Accts. Pay. / The City Bus	203		2,000.00				
Accts. Pay. / Ryan Equip. Co.	204		3,000.00				
J. Emery, Capital	301		63,000.00				
J. Emery, Drawing	302	2,000.00					
Commissions Earned	401		51,800.00				
Rent Expense	501	16,000.00					
Telephone Expense	502	400.00					
Utilities Expense	503	595.00					
Salaries Expense	504	450.00					
Advertising Expense	505	2,000.00					
		138,800.00	138,800.00				

It is a working paper that summarizes all information needed to prepare an accurate set of financial statements.

- not a permanent accounting records
- may prepare in pencil, so that you can easily correct errors.

Heading - same as Income Statement

Body - Account Title, Account No., Trial Balance, Income Statement, Balance Sheet

all accounts with a balance at the end of the accounting period and the corresponding account number

Who What When

*J. Emery Real Estate
Worksheet
For the month ended October 31, 19-1*

ACCOUNT TITLE	ACCT. NO.	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	101	7106500					
Accts. Rec. / Pat. Rogers	103	600000					
Accts. Rec. / R. Doobie	104	400000					
Accts. Rec. / Sheenan Chev. Co.	105	1500000					
Automobile	110	1500000					
Furniture	118	900000					
Office Equipment	114	800000					
Bank Loan Payable	201		1600000				
Accts. Pay. / Bill. Juan Co.	202		300000				
Accts. Pay. / The City Bus Co.	203		200000				
Accts. Pay. / Ryan Equip. Co.	204		300000				
J. Emery, Capital	301		6300000				
J. Emery, Drawing	302	200000					
Commissions Earned	401		5180000				
Rent Expense	501	160000					
Telephone Expense	502	4000					
Utilities Expense	503	59500					
Salaries Expense	504	450000					
Advertising Expense	505	200000					
		13880000	13880000				

Two money columns - debits and credits

The worksheet begins with a trial balance and is expanded to include other statement columns, the worksheet may be defined as an expanded trial balance

The Income Statement and Balance Sheet columns at the right are referred to as the 'financial statement columns.'

Worksheet: an expanded trial balance, in which account balances are classified and sorted. The worksheet provides information to prepare formal financial statements.

Completing the Six Column Worksheet

1. COMPLETE THE HEADING

- length of accounting period that ended (month, quarter, year)
- the link which connects the financial statement columns is the accounting period
- the net income (or net loss) is the result of matching revenue with related expenses for a definite period, known as the matching principle.

2. COPY the TRIAL BALANCE TO THE WORKSHEET

- enter the account titles, account numbers, and debit and credit balances exactly as listed for the trial balance.
- not all companies prepare a formal trial balance, instead they copy the trial balance information directly from the General Ledger accounts to the worksheet.

3. TRANSFER and SEPARATE THE BALANCES

- divide the account balances in the trial balance between the income statement and balance sheet.

2 Rules to Remember

1. Copy a debit balance to the debit side (column) of the related financial statement.

2. Copy a credit balance to the credit side (column) of the related financial statement.

The accounting equation is represented in the balance sheet.

- therefore assets, liabilities and owner's equity are transferred to the balance sheet

- income statements reports revenue and expenses, these accounts are transferred to the income statement.

↳ Capital + Drawing

4. ADD the FINANCIAL STATEMENT COLUMN

- draw a single line across all statement columns as shown.

Then add the figures in the debit and credit columns for both the Income Statement and the Balance Sheet. These totals are written below the single line

*J. Emery Real Estate
Worksheet
For the Month Ended October 31, 19-1*

ACCOUNT TITLE	ACCT NO	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	101	71106.50				71106.50	
Accts. Rec. / Pot. Papers	103	600.00				600.00	
Accts. Rec. / R. Sabine	104	400.00				400.00	
Accts. Rec. / Shannon Div. Co.	105	1500.00				1500.00	
Automobile	110	1500.00				1500.00	
Furniture	112	900.00				900.00	
Office Equipment	114	800.00				800.00	
Bank Loan Payable	201		1600.00				1600.00
Accts. Pay. / Best Furn. Co.	202		300.00				300.00
Accts. Pay. / The City Flea	203		200.00				200.00
Accts. Pay. / Ryan Equip. Co.	204		300.00				300.00
J. Emery, Capital	301		6300.00				6300.00
J. Emery, Drawing	302	200.00					200.00
Commissions Cracked	401		5180.00		5180.00		
Rent Expense	501	160.00		160.00			
Telephone Expense	502	4.00		4.00			
Utilities Expense	503	59.50		59.50			
Salaries Expense	504	450.00		450.00			
Advertising Expense	505	200.00		200.00			
		<u>13880.00</u>	<u>13880.00</u>	<u>8735.00</u>	<u>5180.00</u>	<u>13006.50</u>	<u>8700.00</u>
					<u>8735.00</u>		
Net Income				<u>4306.50</u>			<u>4306.50</u>
						<u>13006.50</u>	<u>13006.50</u>

single underline

5. COMPLETE the INCOME STATEMENT SECTION

- the income statement is shown as debit and credit columns, the procedure to prepare an income statement is slightly different.

INCOME STATEMENT	
DEBIT	CREDIT
8 735	51 800
	8 735
	43 065

- Below the totals, place the smaller amount under the larger one. \$8735 is placed under \$51800 in the credit column
- Draw a single line under the smaller amount to indicate a calculation
- Subtract the two figures - the debits represent expenses, since they are less than the credits (revenue), the answer must be net income for the month
- Finally, at the far left of the worksheet, enter the words: **NET INCOME**.

6. COMPLETE THE BALANCE SHEET SECTION

-copy the net income along the same line to the credit column of the balance sheet. Why? Since the net income in the income statement shows a credit balance, owner's equity in the balance sheet must also show a credit balance. *It represents an increase to OE*

net loss → *debit column*

**COMPLETING THE BALANCE SHEET SECTION:
REPORTING A NET INCOME**

INCOME STATEMENT		BALANCE SHEET		
DEBIT	CREDIT	DEBIT	CREDIT	
8 735	51 800	130 065	87 000	20
	8 735			21
	43 065		43 065	22
		130 065	130 065	23

not normally used, but it may help you at this point

draw a single line across both the debit and credit columns of the Balance Sheet section to indicate a calculation

total the Balance Sheet column. The sums must agree

finally, draw a double line across the financial statement

THE WORKSHEET IS NOW COMPLETE

CALCULATING and REPORTING a NET LOSS

-suppose the total expenses (debit column) is greater than the revenue (credit column)

CALCULATING AND REPORTING A NET LOSS

INCOME STATEMENT		BALANCE SHEET		
DEBIT	CREDIT	DEBIT	CREDIT	
15 000	14 000	74 600	75 600	20
14 000				21
1 000		1 000		22
		75 600	75 600	23

Problem 5-1 we will do together