PZ	-9a, b, c		1	-	ASSETS				=		ABILITIE	(12)	(13)	(14)	VNER'S EQ	(16)	(17)	7
	(1) Date	(2) Cash	(3) Accts. Rec.	(4) Land	(5) Building	(6) Truck	(7) Office Equip.	(8) Binding Equip.	(9) Total Assets	(10) Bk. Loan Payable	(11) Accts. Payable	Total Liabilities	D. Egyed, Capital	Revenue	Expenses	D. Egyed, Drawing	Total O. E.	-
1	May 1	250 000							250 000		1 200	00 000	250 000				250 000	1
2	3	-3 500						+8 500	255 000		+5 000	5 000					250 000	1
3	5	-1 000				+15 000			269 000		+14 000	19 000					250 000	1
4	6	-970							268 030			19 000			-970		249 030	
5	6	-185 000		+45 000	+140 000				268 030		1	19 000				400	249 030	
6	7						+8 000		276 030		+8 000	27 000					249 030	
7	7	-6 500							269 530			27 000			-6 500		242 530	
8	8		+10 000						279 530			27 000		+10 000			252 530	
9	11	+22 000							301 530			27 000		+22 000			274 530	
10	12	-350							301 180		0102	27 000			-350		274 180	1
11	13	-99							301 081			27 000			-99		274 081	1
12	15	-7 900							293 181			27 000			-7 900		266 181	12
13	17	- 8 000							285 181		-8 000	19 000					266 181	13
14	18	+300							285 481			19 000		+300			266 481	14
15	21		+15 000						300 481			19 000		+15 000			281 481	15
16	23	-650							299 831			19 000			-650		280 831	16
17	23	+3 200							303 031	+3 200		22 200					280 831	17
18	26		+700						303 731		kiz li	22 200		+700			281 531	18
19	31	-85							303 646			22 200			-85	1212 161	281 446	19
20	31	+700	-700						303 646		parting.	22 200					281 446	20
21	31	-2 500							301 146		1000	22 200				-2 500	278 946	21
22	31	-7 900							293 246		1	22 200			-7 900		271 046	22
23	31	-1 500							291 746	-1 500	1180	20 700					271 046	23
24	31		+450						292 196		1	20 700		+450			271 496	24
25	31	50 246	25 450	45 000	140 000	15 000	8 000	8 500	292 196	1 700	19 000	20 700	250 000	48 450	-24 454	-2 500	271 496	25

#### Chapter 2 Anlayzing Changes in the Accounting Equation

# Topic 1 and 2 Vocabulary

- -Business transactions
- -Drawing
- -Revenue and expense transactions
- -Commissions
- -Accounts receivable
- -Revenue
- -Revenue Principle
- -Expenses
- -Expense Principle
- -Matching Principle
- -Net Income
- -Net Loss

# Topic 3 - ANALYZING THE INCOME STATEMENT AND THE RELATED BALANCE SHEET

In Topic 2 we saw how revenue and expense transactions expand the accounting equation under owner's equity so that net income (net loss) may be calculated for a certain time period.

The results of this expanded equation may be summarized in two kinds of accounting reports.

- 1.) An Income Statement summarizes the revenue and related expenses and reports the net income or net loss for a specific accounting period
- 2.) A Related Balance Sheet reports assets, liabilities and owner's equity as at the end of a specific accounting period.

## ANALYZING AN INCOME STATEMENT

Turn to page 48 in your text for an example of an income statement printed and a hand written Income Statement

Income Statement - has 2 sections

- 1.) heading
- 2.) body

## Heading has three lines

Line 1 - shows the name of the business (Full Business Name)

Line 2 - the name of the financial statement (Income Statement)

Line 3 - the specific period for which revenue and expenses are matched - notice the difference between the date in the income statement and the date in the balance sheet

## Example:

J. Emery Real Estate
Income Statement
For the Month Ended October 31, 2009

Year

Queter

Period

## Body



- At the beginning of the body is a summary of reported <u>revenue</u> for the accounting period
- Revenue is followed by expenses for the same accounting period
- The results of operating the business the net income or net loss for the accounting period concludes the income statement

Example:	1st column	2nd column		
Revenue:  Commission Earned  Expenses:		\$51 800.00	The second column is the	
Salaries Expense Rent Expense Utilities Expense Telephone Expense Advertising Expense Total Expenses	\$4 500.00 1 600.00 595.00 40.00 2 000.00	४ ७३५, <b>०</b> ०	main money column for the match-up of revenue with related expenses	
Net Income		<b>\$43</b> 065.00		

#### PREPARING AN INCOME STATEMENT

```
By Hand

HEADING - who

what

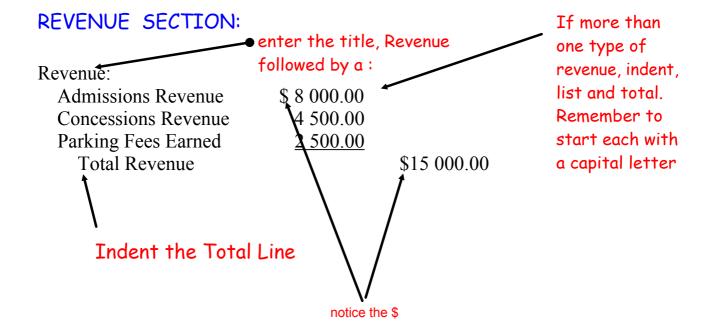
when - *** explains the accounting period covered by the

statement
```

# Examples:

one month (January 2009) For the Period Ended January 31, 2009 three months (Jan-Mar 2009) For the Quarter Ended March 31, 2009 calendar year (Jan-Dec 2009) For the Year Ended December 31, 2009

Note: the period has ended, incorrect to use ending

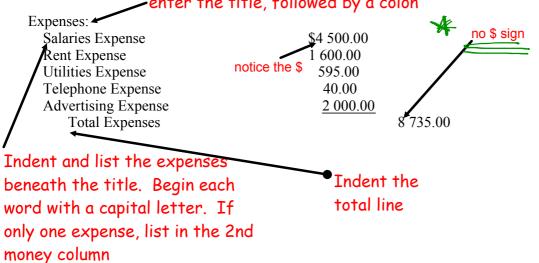


## Source of Sales depends on the nature of a business operations

- Retailing, wholesaling and manufacturing businesses earn revenue mainly by selling goods. The may describe their main source of sales as Sales Revenue or simply Sales.
- •Businesses who charge a commission for their service may report their revenue as Commissions Earned.
- •Many service businesses are professional law, medicine, dentistry, accounting etc. These businesses charge a fee for their services. They may describe their source of revenue as Professional Fees Earned or Fees Earned.

#### The EXPENSE SECTION





### NET INCOME or NET LOSS SECTION

- the income statement concludes with <u>net income</u> or <u>net loss</u>. This is the final result of operating a business for an accounting period.
- draw a single line under the amount of total expenses
- subtract the difference between total revenue and total expenses, record
- -draw a double line under the amount of Net Income or Net Loss to indicate the match of revenue and related expenses, the statement is complete

Revenue: Commission Earned		\$51 800.00
Expenses:		\$51 800.00 Note use of
Salaries Expense	\$4 500.00	
Rent Expense	1 600.00	dollar signs
Utilities Expense	595.00	J 0510
Telephone Expense	40.00	
Advertising Expense	2 000.00	<b>6</b>
Total Expenses		8 735.00
Net Income		\$43 065.00

# Dollar Signs:

- Income Statement is a formal financial statement so dollar signs should appear with the <u>first amount in each money column</u> and the <u>final result in the second money column</u>

Revenue:		
Commission Earned		\$51 800.00
Expenses:		
Salaries Expense	\$4 500.00	
Rent Expense	1 600.00	
Utilities Expense	595.00	
Telephone Expense	40.00	
Advertising Expense	2 000.00	
Total Expenses		8 735.00
Net Income		\$43 065.00
		===

Income Statement - a financial report of the results of matching revenues with related expenses for a definite accounting period

Do 2.7 For homework!

Q-7

Diamond Theatre
Income Statement
For the Year Ended December 31, 2016

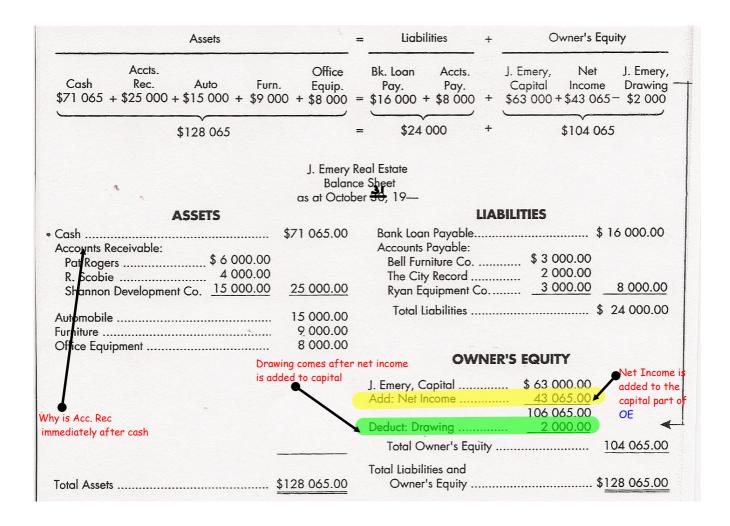
Revenue:		
Admissions Revenue	\$ 900 000.°°	
Parking Fees Earned	33 570, x	
Concessions Revenue	<u>37500.00</u>	
Total Revenue		\$ 263 070.00
Expenses:		
Telephone Expense	119.00	
Salaries Expense	96 300. <b>00</b>	
Advertising Expense	6000,00	
Insurance Expense	1500-00	
Miscellaneous Expense	<b>56.°°</b>	
Building Rental Expense	18 000.00	
Utilities Expense	3000.00	
Film Rental Expense	5 <del>3</del> 175.°°	
	4 800.00	
Projection Rental Expense Total Expenses		181943.00
Net Income		\$ 81 137.00

### PREPARING A RELATED BALANCE SHEET

-Remember - Income is the amount remaining after revenues and related expenses have been matched for an accounting period

Revenue means an inflow of assets (cash and/or accounts receivable through sales and expenses means an outflow of assets (cash) or an increase in liabilities (accounts payable), then certain balances must be updated to reflect these changes.

- Once the Income Statement is complete you must immediately prepara new balance sheet to report the new balances in assets, liabilities and owner's equity.



What is the main goal of a business? What is the main goal of the owner?

Drawing: payments made in anticipation of profits (net income)
In order to live the owner may have to withdraw cash. Drawing are considered to be a distribution of profits. These payments (withdrawals) are often before the net income has been computed and recorded. - This is the reason it is very important to report withdrawals only <u>after</u> net income has been added to capital in OE.

No withdrawal of assets for the owner's personal use should ever be reported in the income statement. WHY???

# How do you report a Net Loss??

Total Liabilities		\$24 000
OWNER'S EQ		
J. Emery, Capital	\$63 000	
Less: Net Loss	3 000	
	60 000	
Less: Drawing	2 000	
Total Owner's Equi	ty	<u>58 000</u>
Total Liabilities & OE		\$82 000

Page 54 Problem P2-7 (we will do together)

Concept Reinforcement
Page 54-56 P2-8, P2-9
Page 56-57 MC2-7, MC2-8, MC2-9