

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

$$A = L + OE$$

$$292\ 196 = 20\ 700 + 271\ 496$$

$$292\ 196 = 292\ 196$$

Chapter 2 Analyzing 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

Quarter

Period

Body

- At the beginning of the body is a summary of reported revenue 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

\$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

The second column is the main money column for the match-up of revenue with related expenses

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

REVENUE SECTION:

Revenue:

Admissions Revenue
Concessions Revenue
Parking Fees Earned
Total Revenue

\$ 8 000.00
4 500.00
2 500.00

\$15 000.00

Indent the Total Line

notice the \$

enter the title, Revenue followed by a :

If more than one type of revenue, indent, list and total. Remember to start each with a capital letter

Source of Sales depends on the nature of a business operations

- Retailing, wholesaling and manufacturing businesses earn revenue mainly by selling goods. They 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

Starts on the line below the last entry in the revenue section

enter the title, followed by a colon

Expenses:		
Salaries Expense	\$4 500.00	
Rent Expense	1 600.00	
Utilities Expense	595.00	
Telephone Expense	40.00	
Advertising Expense	<u>2 000.00</u>	
Total Expenses		8 735.00

Indent and list the expenses beneath the title. Begin each word with a capital letter. If only one expense, list in the 2nd money column

Indent the total line

NET INCOME or NET LOSS SECTION

- the income statement concludes with net income or net loss. 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
 Expenses:
 Salaries Expense
 Rent Expense
 Utilities Expense
 Telephone Expense
 Advertising Expense
 Total Expenses
 Net Income

	\$51 800.00
\$4 500.00	
1 600.00	
595.00	
40.00	
<u>2 000.00</u>	
	<u>8 735.00</u>
	<u><u>\$43 065.00</u></u>

*note use of
dollar signs*

Dollar Signs:

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

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	<u>2 000.00</u>	
Total Expenses		<u>8 735.00</u>
Net Income		<u><u>\$43 065.00</u></u>

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

Do 2.7 for homework.

(2-7)

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

Revenue:

Admissions Revenue	\$ 202 000. ⁰⁰	
Parking Fees Earned	23 570. ⁰⁰	
Concessions Revenue	<u>37 500.⁰⁰</u>	
Total Revenue		\$ 263 070. ⁰⁰

Expenses:

Telephone Expense	\$ 112. ⁰⁰	
Salaries Expense	96 300. ⁰⁰	
Advertising Expense	6 000. ⁰⁰	
Insurance Expense	1 500. ⁰⁰	
Miscellaneous Expense	56. ⁰⁰	
Building Rental Expense	18 000. ⁰⁰	
Utilities Expense	3 000. ⁰⁰	
Film Rental Expense	52 175. ⁰⁰	
Projection Rental Expense	<u>4 800.⁰⁰</u>	
Total Expenses		<u>181 943.⁰⁰</u>

Net Income

\$ 81 127.⁰⁰

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 prepare a new balance sheet to report the new balances in assets, liabilities and owner's equity.

Assets					=	Liabilities		+	Owner's Equity		
Cash	Accts. Rec.	Auto	Furn.	Office Equip.		Bk. Loan Pay.	Accts. Pay.		J. Emery, Capital	Net Income	J. Emery, Drawing
\$71 065	+\$25 000	+\$15 000	+\$9 000	+\$8 000	=	\$16 000	+\$8 000	+	\$63 000	+\$43 065	-\$2 000
\$128 065					=	\$24 000		+	\$104 065		

J. Emery Real Estate
Balance Sheet
as at October 30, 19—

ASSETS		LIABILITIES	
• Cash	\$71 065.00	Bank Loan Payable.....	\$ 16 000.00
Accounts Receivable:		Accounts Payable:	
Pat Rogers	\$ 6 000.00	Bell Furniture Co.	\$ 3 000.00
R. Scobie	4 000.00	The City Record	2 000.00
Shannon Development Co.	<u>15 000.00</u>	Ryan Equipment Co.	<u>3 000.00</u>
	25 000.00		8 000.00
Automobile	15 000.00	Total Liabilities	\$ 24 000.00
Furniture	9 000.00		
Office Equipment	8 000.00		

Why is Acc. Rec immediately after cash

Drawing comes after net income is added to capital

OWNER'S EQUITY	
J. Emery, Capital	\$ 63 000.00
Add: Net Income	<u>43 065.00</u>
	106 065.00
Deduct: Drawing	<u>2 000.00</u>
Total Owner's Equity	<u>104 065.00</u>

Net Income is added to the capital part of OE

Total Assets	<u>\$128 065.00</u>	Total Liabilities and Owner's Equity	<u>\$128 065.00</u>
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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 after 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 EQUITY	
J. Emery, Capital	\$63 000
Less: Net Loss	<u>3 000</u>
	60 000
Less: Drawing	<u>2 000</u>
Total Owner's Equity	<u>58 000</u>
Total Liabilities & OE	<u><u>\$82 000</u></u>

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

