

5.1 ► **The Expanded Ledger and Income Statement**

To date, you have been accustomed to having a single account for owner’s equity. That one account was the owner’s capital. Any change in the equity of the business was recorded in that capital account, no matter what caused the change.

Both the asset and liability sections of the ledger have several accounts. Now you will become familiar with a system where the equity section also has multiple accounts. Each of the new accounts reflects a particular kind of transaction that affects owner’s equity. In the expanded equity section, you will see new accounts for

The acronym RED will help you identify the three new types of equity accounts:
Revenues
Expenses
Drawings

- revenues*, which are related to the sale of goods or services
- expenses*, which are the costs related to the revenues
- drawings*, which are the owner’s withdrawals for personal use

Purpose of Expanding the System

The new accounts in the equity section of the ledger have one main purpose: to provide essential information about the progress of the business. This information is needed by managers and owners to see if the business is being run profitably and to help them make sound decisions. For example, imagine you are the accountant for Eve Boa, a lawyer in her first month of business. If you used the accounting skills you acquired in Chapter 4, Eve’s capital account and trial balance would look similar to what is shown in Figure 5.1.

*
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Chapter 4		EVE BOA, LLB TRIAL BALANCE JANUARY 31, 20-	
		Dr	Cr
	E. Boa, Capital		
Jan. 1, 20-	21 878	Bank	2 439
	3 950	A/R – H. Geroux	1 420
	1 321	A/R – J. Magill	757
	615	A/R – E. Parsons	1 395
	3 300	Supplies	2 316
	385	Office Equipment	7 550
	9 830	Automobile	16 800
Jan. 31, 20-	26 137	A/P – OK Supply	4 400
		A/P – Computer Outlet	1 200
		Bank Loan	940
		<u>E. Boa, Capital</u>	<u>26 137</u>
		<u>32 677</u>	<u>32 677</u>

Figure 5.1

The capital account and trial balance for Eve Boa, a lawyer. The abbreviation LLB stands for Bachelor of Laws. The orange numbers represent beginning and ending capital; the blue numbers represent transaction data for January.

If the owner, Eve Boa, wanted to know how her legal firm performed in its first month, she might ask you the following questions:

- ?
- How much money did the firm make in its first month?
 - How much was spent on advertising?
 - Are the wages fair?
 - Is the rent too high?
 - How much money did I withdraw from the business for personal expenses?

Could you answer Ms. Boa's questions by examining the financial records shown in Figure 5.1? The answer is no. The trial balance shows the assets and the claims on assets at the end of January, but it does not show what happened during the month. What happened during the month is recorded in the E. Boa, Capital account and hidden from the view of most people.

Perhaps you could make some guesses about what happened during January from examining the E. Boa, Capital account. For instance, it is likely that the three credits (7290, 9250, and 7120) are increases in the owner's capital as a result of sales. However, you cannot be sure. Also, which of the debits in the capital account represents advertising? Or rent? Or the money the owner withdrew for personal use? You cannot tell. If you cannot answer these questions, you certainly cannot answer the most important question: How much profit was earned in January?

From a theoretical point of view, nothing is wrong with the accounting results presented in Figure 5.1. The debits and credits in Eve Boa's capital account are recorded properly. Yet the accounting system is deficient because it cannot provide the information the owner wants.

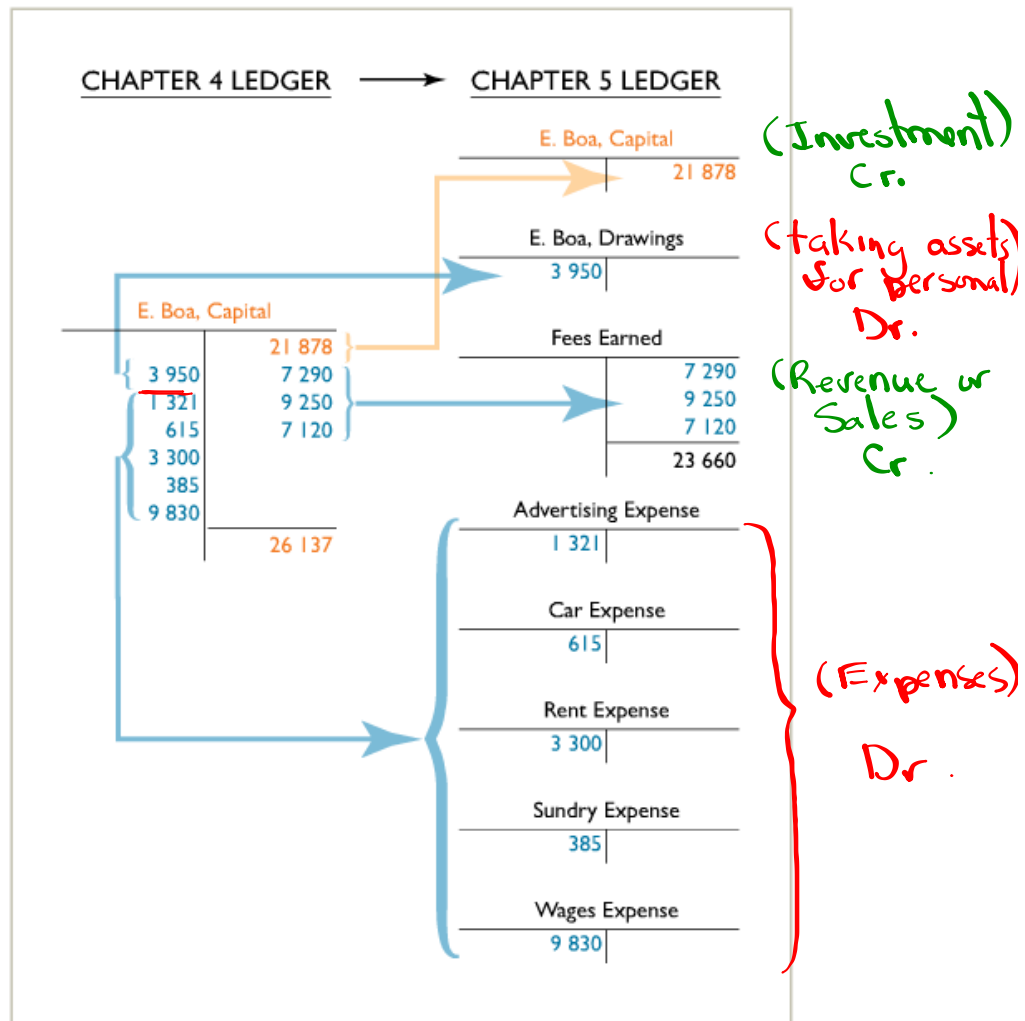


Figure 5.2

In the Chapter 5 Ledger in Figure 5.2, the amounts stay the same but they appear in new accounts. The ledger is therefore still in balance. You can prove this equality from the data in Figure 5.2. If you mathematically combine all the equity account balances in the Chapter 5 Ledger (21 878 – 3950 + 23 660 – 1321 – 615 – 3300 – 385 – 9830), the total equity is \$26 137. This total is the same as the balance of the capital account in the Chapter 4 Ledger.

We will refer to the Chapter 5 Ledger in Figure 5.2 as the *expanded ledger*. The new accounts in the expanded ledger do not change the procedure for preparing a trial balance that you learned in Chapter 4. Simply transfer the final balance of each account to the proper debit or credit side of the trial balance. Then calculate and show the trial balance totals. Figure 5.3 (on the next page) shows the comparison between a Chapter 4 trial balance and a Chapter 5 trial balance.

- Increase Owner's Equity through Capital or Revenue (Credits) investment
- Decrease Owner's Equity through Drawing or Expenses. (Debits) (personal) use

CHAPTER 4 TRIAL BALANCE			→	CHAPTER 5 TRIAL BALANCE		
EVE BOA, LLB Trial Balance January 31, 20-				EVE BOA, LLB Trial Balance January 31, 20-		
	Dr	Cr		Dr	Cr	
Bank	2 439			Bank	2 439	
A/R – H. Geroux	1 420			A/R – H. Geroux	1 420	
A/R – J. Magill	757			A/R – J. Magill	757	
A/R – E. Parsons	1 395			A/R – E. Parsons	1 395	
Supplies	2 316			Supplies	2 316	
Office Equipment	7 550			Office Equipment	7 550	
Automobile	16 800			Automobile	16 800	
A/P – OK Supply		4 400		A/P – OK Supply		4 400
A/P – Computer Outlet		1 200		A/P – Computer Outlet		1 200
Bank Loan		940		Bank Loan		940
E. Boa, Capital		26 137		E. Boa, Capital		21 878
	<u>32 677</u>	<u>32 677</u>		E. Boa, Drawings	3 950	
				Fees Earned		23 660
				Advertising Expense	1 321	
				Car Expense	615	
				Rent Expense	3 300	
				Sundry Expense	385	
				Wages Expense	9 830	
					<u>52 078</u>	<u>52 078</u>

Figure 5.3

The comparison between a trial balance with just one equity account to a trial balance in an expanded ledger

The Income Statement (Revenues + Expenses)

The Chapter 5 trial balance for the expanded ledger is far more informative than the Chapter 4 trial balance. Answers to the owner's questions are now readily available. For example, Ms. Boa can instantly see how much money was spent on advertising or rent. Also, she can effectively evaluate the fairness of the wages because she can quickly determine the amount spent during the month. There is no need to search through the ledger for that information. It is right there on the trial balance.

In actual practice, most of the new equity information on the trial balance is reorganized into an essential accounting report called the income statement. The **income statement** is a financial report that shows the revenue of a business, subtracts its expenses, and reveals the profit made for a given period of time.

Before you learn additional important details about the income statement, examine Figure 5.4 to see how one is prepared.

TRIAL BALANCE			INCOME STATEMENT	
EVE BOA, LLB Trial Balance January 31, 20-			EVE BOA, LLB Income Statement Month Ended January 31, 20-	
	Dr	Cr		
Bank	2 439		Revenue	
A/R – H. Geroux	1 420		Fees Earned	\$ 23 660
A/R – J. Magill	757			
A/R – E. Parsons	1 395		Expenses	
Supplies	2 316		Advertising Expense	\$ 1 321
Office Equipment	7 550		Car Expense	615
Automobile	16 800		Rent Expense	3 300
A/P – OK Supply		4 400	Sundry Expense	385
A/P – Computer Outlet		1 200	Wages Expense	9 830
Bank Loan		940	Total Expenses	15 451
E. Boa, Capital		21 878	Net Income	\$ 8 209
E. Boa, Drawings	3 950			
Fees Earned		23 660		
Advertising Expense	1 321			
Car Expense	615			
Rent Expense	3 300			
Sundry Expense	385			
Wages Expense	9 830			
	<u>52 078</u>	<u>52 078</u>		

Figure 5.4

New equity accounts and amounts are used to prepare the income statement

Figure 5.4 reveals that most of the new equity accounts and amounts are used to prepare the income statement. Only two of Eve Boa’s equity accounts were omitted—the capital and drawings accounts. You will learn how to formally show those accounts later.

The Fees Earned amount is shown in the rightmost column of the income statement under Revenue. Then the individual expense amounts are listed to the left, followed by their total to the right. Lastly, the total of the expenses is subtracted from the Fees Earned to show the net income or profit made in January.

Like the balance sheet, the income statement is a formal statement seen by people who are important to the business. Therefore, it must be prepared with care. Use the methods you learned for the balance sheet when underlining totals and when inserting dollar signs. Use a formal “Who, What, and When” heading with one important change: the “When.” The “When” portion of the income statement now contains more than a date. It indicates the time period covered by the statement. For Eve Boa, it is the month of January.

Revenue Fees Earned, Sales . . .

Selling goods or services produces revenue. **Revenue** or **income** is an increase in equity resulting from the sale of goods or services in the usual course of business.

Often, a business has only one revenue account. It is given a name that identifies the source of the revenue. For example, a loan company earns its revenue in the form of interest. Its revenue account would likely be called Interest Revenue. A real estate company would have a revenue account called Commissions Earned. A merchandising business normally uses a revenue account called Sales.

Some businesses may have more than one revenue account depending on the various aspects of their business. Suitable names for other revenue accounts might be Rental Revenue, Fees Earned, Royalties, and so on. When multiple revenues exist, their amounts can be listed on the income statement in the first money column, with the total revenue appearing in the second. This is the same way expenses are presented.

Expenses

There are costs associated with producing revenue—rent, wages, utilities, advertising, and so on. Each of these costs is known as an expense. An **expense** represents a decrease in equity resulting from the costs of operating the business. The purpose of an expense is to produce revenue or to support revenue-making activities.

In any business, there are a number of expense accounts, each one representing a specific type of decrease in equity. The name of the account shows what type of decrease it is. Typical expense accounts are Rent Expense, Delivery Expense, Insurance Expense, Bank Charges, and Postage. Observe that the word “expense” is not always included in the account title; it may be omitted where there is no doubt that the item is an expense.

Although it is true that a business spends money to make money, not all expenditures are initially recorded as expenses. The purchase of a long-lasting asset, such as a new building, for example, would be debited to an asset account called Buildings. Gradually, the revenue-generating role played by long-lasting assets expires. At different points in time, portions of these long-lasting assets are recorded as expenses. When you complete Chapter 8, you will learn more about when to record an expenditure as an asset and when to record it as an expense.

Net Income or Net Loss $Revenues - Expenses$

It is from the revenue and expense accounts that a business can tell whether or not it has earned a net income (profit). **Net income** is the difference between the total revenues and the total expenses, where the revenues are greater than the expenses. If the expenses are greater than the revenues, the business has suffered a **net loss**.

Revenues minus expenses equals net income or net loss.

$Revenues > Expenses \rightarrow$ Net Income
or Net Profit

$Revenues < Expenses \rightarrow$ Net Loss

The Income Statement Put to Use

By Owners and Managers

The income statement is a very useful tool. It tells the owners or managers if their business is earning a profit and, if so, how much. The income statement is helpful to them in forming company goals and policies and in making business decisions.

A business will not survive long if it does not earn a profit. All of the figures making up the profit or loss may be seen on the income statement. The figures for the current year may be compared with those for previous years. Unfavourable trends or problems may be seen quickly and can then be corrected. Successful business people make good use of the information on the income statement.

By Bankers

Bankers will want to see the financial statements of any business to which they loan money. Bankers need to know if the borrower will be able to repay the loan. Income statements help inform bankers about the condition of a business.

By Investors

When a business needs extra funds, banks are not the only option. Outside investors will eagerly provide cash to a business if there is a good chance of future profits. For small businesses, these outside investors may be friends or family members. For large businesses and those companies listed on stock exchanges, countless people and institutions are ready to provide money in exchange for the right to become shareholders or bondholders.

Regardless of the financial details, an investor's willingness to inject cash or other assets into a business is greatly affected by what is revealed on its income statement.

By Income Tax Authorities

Every business is required by law to prepare an income statement once each year. The amounts on the income statement form an important part of the **income tax return**, which is a detailed report sent to the government. The government uses the net income figure to determine the tax owed by the business.

Drawings

The owner usually looks to the profits of the business to provide a livelihood. In a healthy business that is generating profits, the owner will be able to take out funds on a regular basis, much like a salary. These withdrawals of funds by the owner are known as **drawings** and represent a decrease in equity.

Drawings are not expenses because they are not always directly related to earning revenue or to supporting revenue-making activities. For example, the owner of a business might withdraw \$5000 to help renovate a summer cottage. Certainly, such a withdrawal will affect equity, but it is unconnected to revenue and therefore has nothing to do with determining the business's net income or net loss. In Section 5.3, you will learn how to show the owner's drawings on the balance sheet.

Chart of Accounts

To help organize the expanded ledger, it is customary to create a numbering system for all of its accounts. These numbers are used for identification and reference. The numbering system used in this text is primarily a three-digit one. Accounting software systems typically use a four-digit system, which gives extra flexibility and room for growth. With either system, you can tell what type of account you are working with by the first digit of its account number.

	Three Digit	Four Digit
Assets	100s	1000s
Liabilities	200s	2000s
Equity:		
Capital	300s	3000s
Drawings	300s	3000s
Revenues	400s	4000s
Expenses	500s	5000s

A **chart of accounts** is a list of the ledger accounts and their numbers arranged in ledger order. Most businesses have copies of their chart of accounts available for their employees, as well as for outsiders such as auditors. Eve Boa's chart of accounts is shown in Figure 5.5 below. Notice the gaps left between account numbers in case new accounts need to be inserted.

E. BOA, LLB CHART OF ACCOUNTS			
Assets	No.	Equity	No.
Bank	105	E. Boa, Capital	305
A/R – H. Geroux	110	E. Boa, Drawings	310
A/R – J. Magill	115		
A/R – E. Parsons	120	Fees Earned	405
Supplies	125		
Office Equipment	130	Advertising Expense	505
Automobile	135	Car Expense	510
		Rent Expense	515
<i>Liabilities</i>		Sundry Expense	520
A/P – OK Supply	205	Wages Expense	525
A/P – Computer Outlet	210		
Bank Loan	215		

Figure 5.5

A chart of accounts for Eve Boa, LLB

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Homework

SECTION 5.1 REVIEW QUESTIONS (page 140)

1. *The new accounts in the equity section of the ledger are revenues, expenses, and drawings.*
2. *The main purpose of the new accounts in the ledger is to provide essential information about the progress of the business.*
3. *A ledger with only one equity account cannot answer the question, "How much profit or loss was made during a financial period?"*
4. *In the expanded ledger, the procedure for preparing a trial balance does not change. You still transfer the final balance of each account to the correct side of the trial balance and total each column.*
5. *Three things an income statement does is to show a business's revenue during a given time period, its expenses during a given time period, and its profit or loss during a given time period.*
6. *The two equity accounts that are not included on the income statement are Capital and Drawings.*
7. *The date on an income statement covers a period of time, such as a month or a year, while the date on a balance sheet is for one day.*
8. *The "bottom line" is the net income or loss shown at the bottom of the income statement.*
9. *Revenue is an increase in equity resulting from the sale of goods or services.*
10. *An expense is a decrease in equity resulting from the costs of operating the business.*
11. *The purpose of an expense is to produce revenue or to help with revenue-making activities.*
12. *Net income is the difference between total revenues and total expenses when revenues are more than expenses.*
13. *Owners are very interested in income statements because they use income statements to determine the company's profits, examine financial trends, set goals for the company, and make business decisions.*
14. *Bankers are interested in seeing the income statement of a business that has a loan with them to see whether the business is able to repay the loan.*
15. *Investors want to provide a business with cash because they can earn a profit on their money if the business is successful.*

SECTION 5.1 REVIEW QUESTIONS (continued)

16. *A business must provide an income statement to the government as part of their annual income tax return, which helps the government calculate the amount of income tax the business owes.*
17. *Drawings are not included on the income statement because they are not always directly related to earning revenue or to supporting revenue-making activities.*
18. *A chart of accounts is a list of the ledger accounts and their account numbers in ledger order.*
19. *This text uses a three-digit account numbering system. Assets are numbered in the 100s. Liabilities are numbered in the 200s. Capital and Drawings are numbered in the 300s. Revenues are numbered in the 400s. Expenses are numbered in the 500s.*
20. *An asset account normally has a debit balance. A liability account normally has a credit balance. A Revenue account normally has a credit balance. An Expense account normally has a debit balance. The Drawings account normally has a debit balance. The Capital account normally has a credit balance.*
21. *The Capital account will normally contain the beginning equity figure and new investments from the owner.*

Exercise I, p. 141

- A.
- *The heading should use Mayfare Plumbing instead of the owner's name.*
 - *Mayfare Plumbing should be the first line in the heading.*
 - *Income Statement should be the second line of the heading.*
 - *The third line of the heading should have Year Ended before the date, since it covers a period of time not a single date.*
 - *The Capital account should not be listed on the income statement.*
 - *There is only one revenue account, so the revenue total should be listed in the right column on the same line as Sales and Service.*
 - *Add a blank line between Total Revenue and Operating Expense*
 - *The Drawings account should not be included on the income statement.*
 - *Gas and Oil should be written as Gas and Oil Expense.*
 - *Utilities should be written as Utilities Expense.*
 - *Total expenses should be \$32 519.62.*
 - *Net income should be \$74 896.38.*
 - *Change Net Profit to Net Income.*

Exercise I, p. 141 (continued)

B. MAYFARE PLUMBING
INCOME STATEMENT
YEAR ENDED DECEMBER 31, 20-

<u>Revenue</u>																						
<i>Sales and Service</i>																					\$107 4 1 6 -	
<u>Operating Expenses</u>																						
<i>Advertising Expense</i>																						\$ 1 1 5 0 50
<i>Bank Charges</i>																						1 7 5 0 -
<i>Car Expense</i>																						4 2 9 6 -
<i>Gas and Oil</i>																						4 9 3 5 -
<i>Materials Used</i>																						15 9 0 6 -
<i>Miscellaneous Expense</i>																						2 5 7 -
<i>Telephone Expense</i>																						2 5 0 -
<i>Utilities</i>																						3 9 7 5 12
<i>Total Expenses</i>																						32 5 1 9 62
<i>Net Income</i>																						\$ 74 8 9 6 38

Exercise 2, p. 141

Express Air Service Chart of Accounts

Assets	No.	Equity	No.
<u>Bank</u>	<u>105</u>	<u>Karen Koy, Capital</u>	<u>305</u>
<u>Accounts Receivable</u>	<u>110</u>	<u>Karen Koy, Drawings</u>	<u>310</u>
<u>Supplies</u>	<u>115</u>		
<u>Land</u>	<u>120</u>	<u>Revenue—Freight</u>	<u>405</u>
<u>Building</u>	<u>125</u>	<u>Revenue—Passengers</u>	<u>410</u>
<u>Equipment</u>	<u>130</u>		
<u>Automobiles</u>	<u>135</u>	<u>Advertising Expense</u>	<u>505</u>
<u>Airplanes</u>	<u>140</u>	<u>Bank Charges Expense</u>	<u>510</u>
		<u>Building Repairs Expense</u>	<u>515</u>
		<u>General Expense</u>	<u>520</u>
		<u>Insurance Expense</u>	<u>525</u>
		<u>Legal Expense</u>	<u>530</u>
		<u>Salaries Expense</u>	<u>535</u>
Liabilities	No.	<u>Supplies Expense</u>	<u>540</u>
<u>Accounts Payable</u>	<u>205</u>	<u>Telephone Expense</u>	<u>545</u>
<u>Mortgage Payable</u>	<u>210</u>	<u>Wages Expense</u>	<u>550</u>

Exercise 3, p. 142

A.

*EMILY STOKALUK**TRIAL BALANCE**MARCH 31, 20-*

ACCOUNTS	DEBIT					CREDIT						
<i>Bank</i>	10	1	0	0	-							
<i>Accounts Receivable</i>	8	3	0	0	-							
<i>Supplies</i>		9	5	0	-							
<i>Land</i>	235	0	0	0	-							
<i>Building</i>	210	0	0	0	-							
<i>Equipment</i>	22	0	0	0	-							
<i>Automobiles</i>	24	0	0	0	-							
<i>Accounts Payable</i>								2	8	0	0	-
<i>Bank Loan</i>								10	0	0	0	-
<i>Mortgage Payable</i>								175	0	0	0	-
<i>E. Stokaluk, Capital</i>								252	0	8	8	-
<i>E. Stokaluk, Drawings</i>	15	0	0	0	-							
<i>Fees Earned</i>								132	5	0	0	-
<i>Interest Earned</i>								1	0	0	0	-
<i>Advertising Expense</i>	1	2	0	0	-							
<i>Bank Charges Expense</i>		3	5	0	-							
<i>Building Maintenance Expense</i>		4	2	0	-							
<i>Gas and Oil Expense</i>	1	8	0	0	-							
<i>Utilities Expense</i>	1	6	4	0	-							
<i>Miscellaneous Expense</i>		1	2	8	-							
<i>Car Repair Expense</i>		8	5	0	-							
<i>Wages Expense</i>	41	6	5	0	-							
	573	3	8	8	-	573	3	8	8	-		

Exercise 3, p. 142 (continued)

B.

E. Stokaluk Chart of Accounts

Assets		No.	Equity		No.
<i>Bank</i>		<i>105</i>	<i>E. Stokaluk, Capital</i>		<i>305</i>
<i>Accounts Receivable</i>		<i>110</i>	<i>E. Stokaluk, Drawings</i>		<i>310</i>
<i>Supplies</i>		<i>115</i>			
<i>Land</i>		<i>120</i>	<i>Fees Earned</i>		<i>405</i>
<i>Building</i>		<i>125</i>	<i>Interest Earned</i>		<i>410</i>
<i>Equipment</i>		<i>130</i>			
<i>Automobiles</i>		<i>135</i>	<i>Advertising Expense</i>		<i>505</i>
			<i>Bank Charges Expense</i>		<i>510</i>
			<i>Building Maintenance Expense</i>		<i>515</i>
			<i>Gas and Oil Expense</i>		<i>520</i>
			<i>Utilities Expense</i>		<i>525</i>
			<i>Miscellaneous Expense</i>		<i>530</i>
			<i>Car Repair Expense</i>		<i>535</i>
			<i>Wages Expense</i>		<i>540</i>
Liabilities		No.			
<i>Accounts Payable</i>		<i>205</i>			
<i>Bank Loan</i>		<i>210</i>			
<i>Mortgage Payable</i>		<i>215</i>			

C.

EMILY STOKALUK

INCOME STATEMENT

MONTH ENDED MARCH 31, 20-

<u>Revenue</u>									
<i>Fees Earned</i>	\$	132	5	0	0	-			
<i>Interest Earned</i>		1	0	0	0	-			
<i>Total Revenue</i>							\$	133	5 0 0 -
<u>Expenses</u>									
<i>Advertising Expense</i>	\$	1	2	0	0	-			
<i>Bank Charges Expense</i>			3	5	0	-			
<i>Building Maintenance Expense</i>			4	2	0	-			
<i>Gas and Oil Expense</i>			1	8	0	-			
<i>Utilities Expense</i>			1	6	4	-			
<i>Miscellaneous Expense</i>				1	2	8	-		
<i>Car Repair Expense</i>				8	5	0	-		
<i>Wages Expense</i>			4	1	6	5	0	-	
<i>Total Expenses</i>								\$	48 0 3 8 -
<i>Net Income</i>								\$	85 4 6 2 -

Exercise 4, p. 142

A., B.

ASSETS

Bank		Tools and Equipment		Truck	
1 300.20	Jul. 31 balance	5 156.40	Jul. 31 balance	6 100.00	Jul. 31 balance

LIABILITIES

A/P—Kitzul Tools	
Jul. 31 balance	1 600.00

EQUITY

<i>S. O'Neill, Capital</i>		<i>S. O'Neill, Drawings</i>		<i>Renovation Revenue</i>	
	9 455.60	⑧ 2 250		8 000	②
		⑬ 2 250		8 000	⑥
		④ 500		5 000	⑪
				<u>21 000</u>	
<i>Gasoline Expense</i>		<i>Repairs Expense</i>		<i>Supplies Expense</i>	
④ 109.55		③ 312.09		① 11 245	
⑤ 110.71					
⑨ 108.99					
⑩ 112.66					
<u>441.91</u>					
<i>Wages Expense</i>					
⑦ 1 500					
⑫ 1 500					
<u>3 000</u>					

Exercise 4, p. 142 (continued)

C. MEADOWLARK MAKEOVERS
TRIAL BALANCE
JULY 31, 20-

ACCOUNTS	DEBIT	CREDIT
<i>Bank</i>	1 3 0 0 20	
<i>Tools and Equipment</i>	5 1 5 6 40	
<i>Truck</i>	6 1 0 0 -	
<i>A/P—Kitzul Tools</i>		1 6 0 0 -
<i>S. O’Neill, Capital</i>		9 4 5 5 60
<i>S. O’Neill, Drawings</i>	4 5 0 0 -	
<i>Renovation Revenue</i>		21 0 0 0 -
<i>Gasoline Expense</i>	4 4 1 91	
<i>Repairs Expense</i>	3 1 2 09	
<i>Supplies Expense</i>	11 2 4 5 -	
<i>Wages Expense</i>	3 0 0 0 -	
	32 0 5 5 60	32 0 5 5 60

D. MEADOWLARK MAKEOVERS
INCOME STATEMENT
MONTH ENDED JULY 31, 20-

<u>Revenue</u>		
<i>Renovation Revenue</i>		\$21 0 0 0 -
<u>Operating Expenses</u>		
<i>Gasoline Expense</i>	\$ 1 4 4 1 91	
<i>Repairs Expense</i>	3 1 2 09	
<i>Supplies Expense</i>	11 2 4 5 -	
<i>Wages Expense</i>	3 0 0 0 -	
<i>Total Expenses</i>		14 9 9 9 -
<i>Net Income</i>		\$ 6 0 0 1 -

E. Sean should be encouraged by the income statement for July. It shows a net income of \$6001. That is 28.6% of revenue (6001 ÷ 21 000). With this healthy profit, Sean was able to withdraw \$4500 for personal living expenses (drawings), leaving \$1501 of assets left over to help grow the business.