



CHAPTER 7

FINANCIAL STATEMENTS FOR A SOLE PROPRIETORSHIP





PREPARING AN INCOME STATEMENT

- Prepare an income statement for a service business.
- Calculate and analyze financial ratios using income statement amounts.



REPORTING FINANCIAL INFORMATION

- ✗ Information obtained from general ledger
- ✗ Before data can be utilized, it must be summarized, organized, and reported
- ✗ Financial accounting
 - Reporting information to external users
 - Bankers, creditors, government agencies, etc.
- ✗ Managerial accounting
 - Reporting information to internal users
 - Company managers and officers

PREPARING AN INCOME STATEMENT FROM INFORMATION ON A WORK SHEET

- Information needed to prepare the income statement is obtained from the work sheet.

Account titles are obtained from

Account balances are obtained from the work

Income Statement reports over a PERIOD OF TIME

[illegible]

HEADING OF INCOME STATEMENT

CENTER THE NAME OF THE
COMPANY ON THE FIRST LINE.

1

Delgado Web Services

Income Statement

For Month Ended January 31, 20--

3

CENTER THE DATE OF THE
REPORT ON THE THIRD LINE.

2

CENTER THE NAME OF THE
REPORT, INCOME STATEMENT,
ON THE SECOND LINE.

E AMOUNTS

1

4

5

8

14

1.

2

15

1

HEADING

REVENUE

EXPENSES

NET INCOME

ANALYZING AN INCOME STATEMENT

- ✗ Revenue is generally compared to:
 - Total expenses
 - Net income
- ✗ Financial ratio
 - A comparison between two components of financial information is called.
 - Divide by total sales for ratios on income statement
- ✗ Ratio analysis
 - The calculation and interpretation of a financial ratio
- ✗ Vertical analysis
 - Reporting an amount on a financial statement as a percentage of another item on the same financial statement
- ✗ WHY? Check financial health of business!

Delgado Web Services											
Income Statement											
For Month Ended January 31, 20--											
Revenue:											
Sales											
Expenses:											
Advertising Expense			3	5							
Cash Short and Over					1	00					
Communications Expense			8	0	00						
Equipment Rental Expense		1	4	5	5	00					
Insurance Expense			1	5	0	00					
Miscellaneous Expense				4	5	00					
Supplies Expense			5	3	0	00					
Total Expenses							2	6	5	8	00
Net Income							3	1	6	2	00

Revenue:									
Sales									
Expenses:									
Advertising Expense									
Cash Short and Over									
Communications Expense									
Equipment Rental Expense									
Insurance Expense									
Miscellaneous Expense									
Supplies Expense									
Total Expenses									
Net Income									

Total Expense

\$2

Total Expenses Ratio

Total Expenses ÷ Total Sales = Total Expenses Ratio

\$2,658.00 ÷ \$5,820.00 = 45.7%

No more than 48.0%

Total Expenses Ratio

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Total Expenses ÷ Total Sales = Total Expenses Ratio

\$2,658.00 ÷ \$5,820.00 = 45.7%

No more than 48.0%

Net Income Ratio
 Net Income ÷ Total Sales = Net Income Ratio
 \$3,162.00 ÷ \$5,820.00 = 54.3%
No less than 52.0%

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INCOME STATEMENT

REVENUE

1

ACCOUNT
TITLES

2

TOTAL
REVENUE

5

NET LOSS

6

NET LOSS

REVENUE
AMOUNTS

4

TOTAL OF
REVENUE

More than one sale
account?
List account balances
in
first amount column
Total and list total in
right amount column



CHECK YOURSELF!

List the four sections of an income statement.

Heading, revenue, expenses, and net income or net loss

What is the formula for calculating the total expenses ratio?

Total Expenses divided by Total Sales equals Total Expenses Ratio.

What is the formula for calculating the net income ratio?

Net Income divided by Total Sales equals Net Income Ratio.



PREPARING A BALANCE SHEET

- Prepare a balance sheet for a service business organized as a proprietorship.

PREPARING A BALANCE SHEET FROM INFORMATION ON A WORK SHEET

- ✗ Screenshot of business financial condition on a **SPECIFIC DATE**
- ✗ Information needed to prepare the balance sheet is obtained from the work sheet.

Account titles are obtained from the work sheet's Account Title column.

ACCOUNT TITLE		BALANCE SHEET									
		DEBIT					CREDIT				
1	Cash	2	5	9	7	00					1
2	Petty Cash	1	0	0	00						2
3	Accounts Receivable—Main Street Services	3	0	0	00						3
4	Accounts Receivable—Valley Landscaping	4	0	0	00						4
5	Supplies		9	0	00						5
6	Prepaid Insurance	7	5	0	00						6
7	Accounts Payable—Canyon Office Supplies						1	2	0	00	7
8	Accounts Payable—Mountain Graphic Arts						1	0	5	00	8
9	Michael Delgado, Capital						2	0	0	00	9
10	Michael Delgado, Drawing	1	1	5	0	00					10
20		5	3	8	7	00	2	2	2	5	00
21	Net Income						3	1	6	2	00
22		5	3	8	7	00	5	3	8	7	00

FOUR SECTIONS:
HEADING
REVENUE
EXPENSES
NET INCOME

HEADING OF A BALANCE SHEET

CENTER THE NAME OF THE
COMPANY ON THE FIRST LINE.

Delgado Web Services

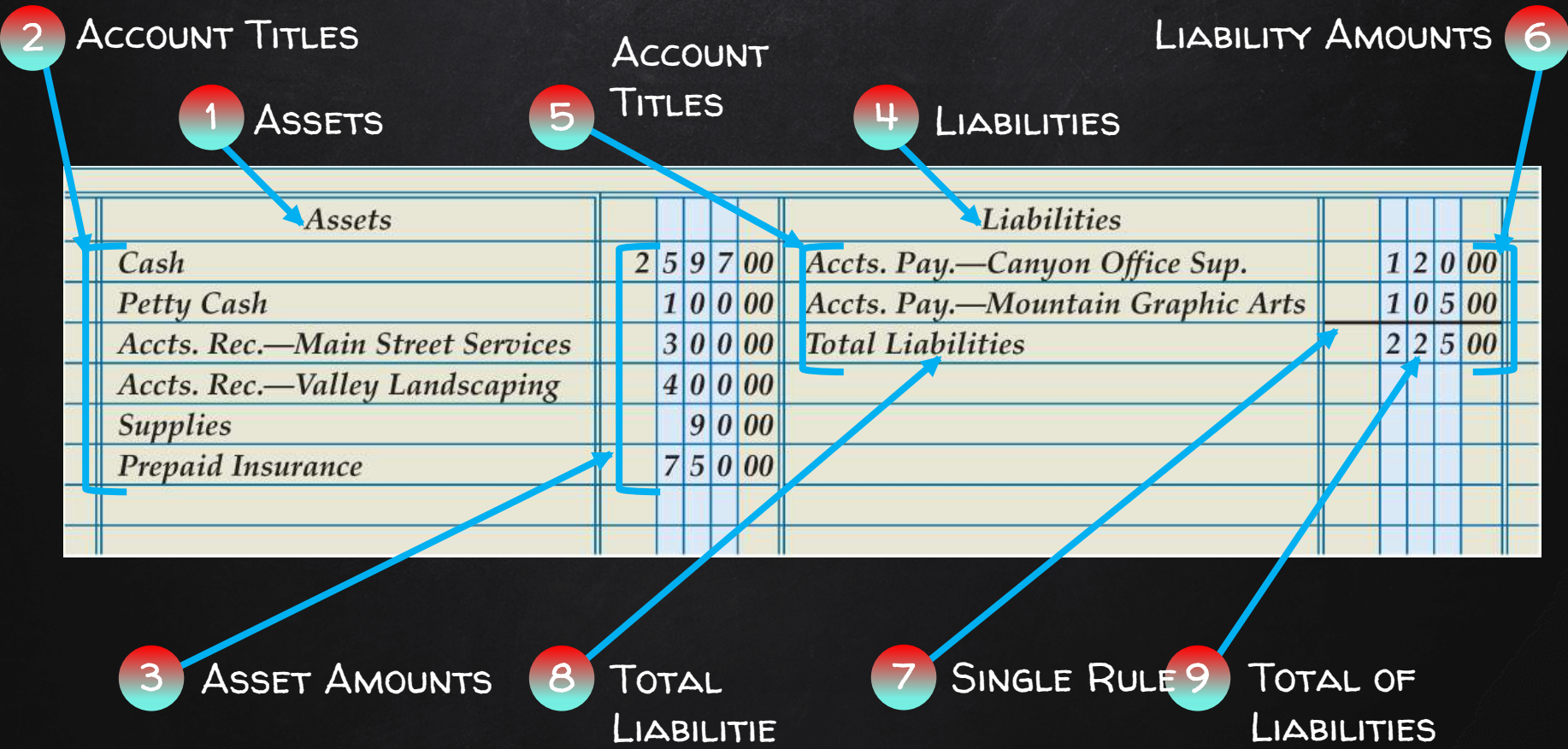
Balance Sheet

January 31, 20--

3 CENTER THE DATE OF THE
REPORT ON THE THIRD LINE.

2 CENTER THE NAME OF THE
REPORT, BALANCE SHEET, ON
THE SECOND LINE.

ASSETS AND LIABILITIES SECTIONS OF A BALANCE SHEET



OWNER'S EQUITY SECTION OF A BALANCE SHEET

1

OWNER'S EQUITY

2

ACCOUNT TITLE

3

CAPITAL AMOUNT

4

SINGLE RULE

5

TOTAL ASSETS

6

TOTAL OF ASSETS

7

TOTAL LIABILITIES AND OWNER'S EQUITY

8

TOTAL OF LIABILITIES AND OWNER'S EQUITY

9

COMPARE TOTALS

10

DOUBLE RULE

Assets				Liabilities			
Cash	2	5	9 7 00	Accts. Pay.—Canyon Office Sup.	1	2	0 00
Petty Cash	1	0	0 00	Accts. Pay.—Mountain Graphic Arts	1	0	5 00
Accts. Rec.—Main Street Services	3	0	0 00	Total Liabilities	2	2	5 00
Accts. Rec.—Valley Landscaping	4	0	0 00	Owner's Equity			
Supplies		9	0 00	Michael Delgado, Capital	4	0	1 2 00
Prepaid Insurance		7	5 0 00				
Total Assets	4	2	3 7 00	Total Liabilities and Owner's Equity	4	2	3 7 00

OWNER'S EQUITY REPORTED IN DETAIL ON A BALANCE SHEET

1 BEGINNING CAPITAL

2 BEGINNING CAPITAL AMOUNT

3 NET INCOME

4 DRAWING

5 SINGLE RULE

6 DIFFERENCE

7 ENDING CAPITAL

8 CURRENT CAPITAL AMOUNT

9 TOTAL LIABILITIES AND OWNER'S EQUITY

Total Liabilities						2	2	5	00
Owner's Equity									
Michael Delgado, Capital, January 1					2,000.00				
Net Income				3,162.00					
Less Michael Delgado, Drawing				<u>1,150.00</u>	<u>2,012.00</u>				
Michael Delgado, Capital, January 31						4	0	1	2 00
Total Liabilities and Owner's Equity						4	2	3	7 00

CHECK YOURSELF!

List the four sections on a balance sheet.

Heading, assets, liabilities, and owner's equity

What is the formula for calculating current capital?

Capital Account Balance plus Net Income (or less Net Loss) less Drawing Account Balance equals Current Capital.