

Name: \_\_\_\_\_

## Lesson 7-1: Preparing an Income Statement

Objectives: LO1: \_\_\_\_\_

LO2: \_\_\_\_\_

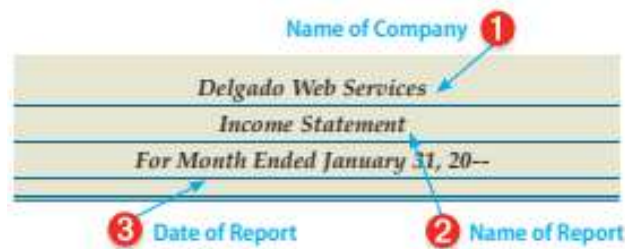
### A. Reporting Financial Information

- Where is the information needed to make wise business decisions found? \_\_\_\_\_
  - What needs to be done to make this detailed information useful for decisions?  
\_\_\_\_\_
- Financial Accounting:
  - Give two examples of external users of accounting information:  
\_\_\_\_\_
- Managerial Accounting:
  - Give two examples of internal users of accounting information:  
\_\_\_\_\_
- \_\_\_\_\_ financial information must be reported to make wise business decisions.
- **GAAP: Full Disclosure**:
- **GAAP: Going Concern**:

### B. Preparing an Income Statement from Information on a Work Sheet

- An income statement reports information over a \_\_\_\_\_ - showing is there is net income or net loss.
- An income statement has four sections:
  1. \_\_\_\_\_
  2. \_\_\_\_\_
  3. \_\_\_\_\_
  4. \_\_\_\_\_

### C. Heading of Income Statement



- Headings of financial statements answers: Who? What? When?
- What is another name for an Income Statement? (google if you are unsure!) \_\_\_\_\_
- Three items listed on the heading are:
  - 1. \_\_\_\_\_
  - 2. \_\_\_\_\_
  - 3. \_\_\_\_\_
- Why isn't just a specific date stated in the third line of the heading?

The diagram shows an Income Statement with the following structure:

Account Title	Expense Amounts	% OF SALES
Revenue:		
Sales	5 8 2 0 00	
Expenses:		
Advertising Expense	3 9 7 00	
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	

14 numbered callouts explain the structure and rules:

- Revenue
- Account Title
- Revenue Amount
- Expenses
- Account Titles
- Expense Amounts
- Single Rule
- Total Expenses
- Total of Expenses
- Calculate Net Income
- Single Line
- Record Net Income
- Double Lines
- Net Income

#### D. Revenue, Expenses, and Net Income Sections of Income Statement

- IN YOUR WORDS, write the 14 steps to preparing an Income Statement

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

- NOTE – the account balances are NOT listed as “left/right” “debit/credit” – Division totals (Revenue and Expenses) are ALWAYS in the right column. **Account Balances are in the left.**
- Where are the two SINGLE rules drawn?
- Where do our Account Divisions (Revenue and Expenses) totals go?

- ALWAYS verify the Net Income calculated on the Income Statement matches the amount on the Work Sheet!

### E. Analyzing an Income Statement

- The revenue listed on the income statement is generally compared to what two items:
  1. \_\_\_\_\_
  2. \_\_\_\_\_
- Financial ratio:
- Ratio analysis:
- On an income statement, amounts are divided by \_\_\_\_\_ to calculate financial ratios.
- Vertical analysis:
- Businesses compare these ratios with past ratios to check health of business

#### 1. Acceptable Financial Ratios

- Must stay consistent to be able to provide insight to a company success/failure.

#### 2. Total Expenses Ratio

- \_\_\_\_\_ ÷ \_\_\_\_\_ = Total Expenses Ratio
- What is acceptable? \_\_\_\_\_

#### 3. Net Income Ratio

- \_\_\_\_\_ ÷ \_\_\_\_\_ = Net Income Ratio
- What is acceptable? \_\_\_\_\_
- Return on Sales (ROS):
  - Listed in a **percentage** then it is named Net Income Ratio
  - Listed as **cents** per dollars of sale named ROS
    - (SAME calculation for both)

## F. Income Statement with Two Sources of Revenue and a Net Loss

Repair It Now												
Income Statement												
For Month Ended July 31, 20--												
												% OF SALES
Revenue 1	Revenue:											
Account Titles 2	Sales—Riding Mowers	18	5	0	0	00						
	Sales—Push Mowers	2	7	0	0	00						
Total Revenue 5	Total Revenue						21	2	0	0	00	100.0
	Expenses:											
	Advertising Expense	2	3	7	5	00						
	Cash Short and Over				2	00						
	Communications Expense				3	5	0	00				
	Equipment Rental Expense	12	3	0	0	00						
	Insurance Expense				1	5	0	00				
	Miscellaneous Expense				5	5	0	00				
	Supplies Expense	8	4	0	0	00						
	Total Expenses						24	1	2	7	00	113.8
	Net Loss						(2	9	2	7	00)	(13.8)

3 Revenue Amounts

4 Total of Revenue

6 Net Loss

7 Record Net Loss

- If there is more than one revenue account, the account balances go in the first (left) column). Where does the TOTAL of all revenue accounts go? \_\_\_\_\_
- How is a net loss indicated as a negative amount? \_\_\_\_\_.

### Check yourself!

- List the four sections of an income statement.
- What is the formula for calculating the total expenses ratio?
- What is the formula for calculating the net income ratio?

## Lesson 7-2: Preparing a Balance Sheet

Objectives: LO3: \_\_\_\_\_

### A. Preparing a Balance Sheet from Information on a Work Sheet

- A balance sheet reports information on a \_\_\_\_\_. It is like a screenshot of a business.
  - It shows the \_\_\_\_\_ of a business.
  - Adequate assets and few liabilities → doing well
  - Inadequate assets and high liabilities → not doing well
  - Four sections of a balance sheet:
    1. \_\_\_\_\_
    2. \_\_\_\_\_
    3. \_\_\_\_\_
    4. \_\_\_\_\_

### B. Heading of a Balance Sheet



- Three items listed on the heading are (WHO/WHAT/WHEN?):
  - 1. \_\_\_\_\_
  - 2. \_\_\_\_\_
  - 3. \_\_\_\_\_

### C. Assets and Liabilities Sections of a Balance Sheet

Assets		Liabilities	
Cash	2 597 00	Accts. Pay.—Canyon Office Sup.	1 20 00
Petty Cash	1 00 00	Accts. Pay.—Mountain Graphic Arts	1 05 00
Accts. Rec.—Main Street Services	3 00 00	Total Liabilities	2 25 00
Accts. Rec.—Valley Landscaping	4 00 00		
Supplies	9 00 00		
Prepaid Insurance	7 50 00		
<b>Total Assets</b>	<b>2 25 00</b>	<b>Total Liabilities</b>	<b>2 25 00</b>

- The balance sheet reports information about the elements of the \_\_\_\_\_.
- What is on the LEFT side of the balance sheet? \_\_\_\_\_
- What is on the RIGHT side of the balance sheet? \_\_\_\_\_
- IN YOUR WORDS, write the 9 steps to preparing the Assets & Liabilities Sections of a Balance Sheet
  1. \_\_\_\_\_
  2. \_\_\_\_\_
  3. \_\_\_\_\_
  4. \_\_\_\_\_
  5. \_\_\_\_\_
  6. \_\_\_\_\_
  7. \_\_\_\_\_
  8. \_\_\_\_\_
  9. \_\_\_\_\_

#### D. Owner's Equity Section of a Balance Sheet

**Owner's Equity** 1

**Account Title** 2

*Delgado Web Services*  
*Balance Sheet*  
*January 31, 20--*

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	<b>Total Liabilities</b>	<b>2 2 5 00</b>
Accts. Rec.—Valley Landscaping	4 0 0 00	<b>Owner's Equity</b>	
Supplies	9 0 0 00	Michael Delgado, Capital	4 0 1 2 00
Prepaid Insurance	7 5 0 00		
<b>Total Assets</b>	<b>4 2 3 7 00</b>	<b>Total Liabilities and Owner's Equity</b>	<b>4 2 3 7 00</b>

3 Capital Amount

4 Single Line

10 Double Lines

5 Total Assets

6 Total of Assets

9 Compare Totals

7 Total Liabilities and Owner's Equity

8 Total of Liabilities and Owner's Equity

- To complete the OE section of the Income Statement, we must know the current amount of the Capital Account. How do we find/calculate this?

\_\_\_\_\_ + \_\_\_\_\_ - \_\_\_\_\_ = Current Capital

- NOTE: The single rule below assets/OE is always under whichever is longer (Assets or Capital – usually assets) AND they are ALWAYS on the same line on both left and right amount column!
- IN YOUR WORDS, write the 10 steps to preparing the Owner's Equity Section of a Balance Sheet

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_



# If detail of OE is listed on Balance Sheet ¶

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

6 Difference  
8 Current Capital Amount  
9 Total Liabilities and Owner's Equity  
4 Drawing  
5 Single Line  
7 Ending Capital

- IN YOUR WORDS, write the 10 steps to preparing the Owner's Equity Section DETAIL of a Balance Sheet

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

## Check yourself!

- List the four sections on a balance sheet.
- What is the formula for calculating current capital?