

ACCOUNTING

Ch. 2: Basic Financial Statements

■ What is a Financial Statement?

A financial statement is simply a **report** prepared to *summarize the changes* resulting from business activities.

- A period of time that financial statements cover is called a _____.
This time period can be a month, quarter of a year, or an entire year.
 - Annual statement—covers _____ year
 - Interim statement—covers periods of time _____ than one year
 - Companies will have _____ Interim and Annual Statements

Companies prepare four financial statements from the summarized accounting data:

1. Income Statements

- Reports the revenues and expenses for a _____ of time.
- _____ – revenues exceed expenses.
- _____ – expenses exceed revenues.

Revenues:	
Service revenue	\$ 5,850
Expenses:	
Salary expense	2,000
Rent expense	400
Advertising expense	250
Total expenses	<u>2,650</u>
Net income	<u>\$ 3,200</u>

2. Owners' Equity Statement

- Statement indicates the reasons why _____
_____ has increased or decreased during the period.
- Increases (Add) result from:
- Decreases (Less) result from:

Barone's, Capital May 1	\$ -
Add: Investment	10,000
Net income	3,200
	<u>13,200</u>
Less: Drawings	1,000
Barone's, Capital May 31	<u>\$ 12,200</u>

INCOME STATEMENT

OWNERS' EQUITY STATEMENT

Barone's Repair Shop Income Statement For the Month Ended May 31, 2007	Barone's Repair Shop Owners' Equity Statement For the Month Ended May 31, 2007
Revenues: Service revenue \$ 5,850	Barone's, Capital May 1 \$ - Add: Investment 10,000 Net income <u>3,200</u> 13,200
Expenses: Salary expense 2,000 Rent expense 400 Advertising expense 250 Total expenses <u>2,650</u> Net income <u>\$ 3,200</u>	Less: Drawings <u>1,000</u> Barone's, Capital May 31 <u>\$ 12,200</u>

Net income is _____ to determine the ending balance in owner's equity.

3. Balance Sheet

- Reports the assets, liabilities, and owner's equity at a _____ date.
- Assets listed at the top, followed by liabilities and owner's equity.
- Total assets must _____ total liabilities and owner's equity.

Barone's Repair Shop Balance Sheet May 31, 2007	
Assets	
Cash	\$ 6,820
Accounts receivable	630
Equipment	5,000
Total assets	<u>\$ 12,450</u>
Liabilities	
Accounts payable	\$ 250
Owners' Equity	
Barone's, capital	12,200
Total liab. & equity	<u>\$ 12,450</u>

BALANCE SHEET

OWNERS' EQUITY STATEMENT

Barone's Repair Shop Balance Sheet May 31, 2007	Barone's Repair Shop Owners' Equity Statement For the Month Ended May 31, 2007
Assets Cash \$ 6,820 Accounts receivable 630 Equipment 5,000 Total assets <u>\$ 12,450</u>	Barone's, Capital May 1 \$ - Add: Investment 10,000 Net income 3,200 13,200
Liabilities Accounts payable \$ 250	Less: Drawings <u>1,000</u> Barone's, Capital May 31 <u>\$ 12,200</u>
Owners' Equity Barone's, capital 12,200 Total liab. & equity <u>\$ 12,450</u>	

The _____ balance in owner's equity is needed in preparing the balance sheet

4. Statement of Cash Flows

- Information for a _____ period of time.
- Answers the following:
 - Where did cash _____ from?
 - What was cash _____ for?
 - What was the _____ in the cash balance?

Barone's Repair Shop Statement of Cash Flows For the Month Ended May 31, 2007	
Cash flow from Operations	
Cash receipts from customers	\$ 5,220
Cash paid for expenses	(2,400)
Cash provided by operations	<u>2,820</u>
Cash flow from Investing	
Purchase of equipment	<u>(5,000)</u>
Cash flow from Financing	
Investment by owners	10,000
Drawings by owners	<u>(1,000)</u>
Cash provided by financing	<u>9,000</u>
Net increase in cash	<u>6,820</u>
Cash balance, May 1	-
Cash balance, May 31	<u><u>\$ 6,820</u></u>

BALANCE SHEET

STATEMENT OF CASH FLOWS

Barone's Repair Shop Balance Sheet May 31, 2007		Barone's Repair Shop Statement of Cash Flows For the Month Ended May 31, 2007	
Assets		Cash flow from Operations	
Cash	\$ 6,820	Cash receipts from customers	\$ 5,220
Accounts receivable	630	Cash paid for expenses	(2,400)
Equipment	5,000	Cash provided by operations	<u>2,820</u>
Total assets	<u>\$ 12,450</u>	Cash flow from Investing	
Liabilities		Purchase of equipment	
Accounts payable	\$ 250		<u>(5,000)</u>
Owners' Equity		Cash flow from Financing	
Barone's, capital	12,200	Investment by owners	10,000
Total liab. & equity	<u>\$ 12,450</u>	Drawings by owners	<u>(1,000)</u>
		Cash provided by financing	<u>9,000</u>
		Net increase in cash	<u>6,820</u>
		Cash balance, May 1	-
		Cash balance, May 31	<u><u>\$ 6,820</u></u>

The Cash balance on the _____ should equal the cash balance on the statement of cash flows

REMEMBER!!!!

- It is important to know how to correctly title each statement:
- The first two lines are always the same:
- The third line is where most mistakes take place. For the balance sheet we state the date we are making the statement IE:
- For all other statements it is for a period of time IE:

Preparing an income statement. 2-2

Presented below in alphabetical order are the income statement accounts for Child Company for the year ended December 31, 2011. Prepare the 2011 income statement for Child Company.

Advertising expense	\$ 300
Depreciation expense	500
Rent expense	1,000
Salaries expense	2,000
Services revenue	10,000
Utilities expense	900

Child Company Income Statement For the Month Ended January 31, 2011		
Revenues		
Expenses		
Net income		

Name: _____

Accounting Ch. 2 2-5

Income Statements

On April 1, Vinnie Venuchi established Vinnie's Travel Agency. The following transactions were completed during the month.

1. Invested \$15,000 cash to start the agency.
2. Paid \$600 cash for April office rent.
3. Purchased office equipment for \$3,000 cash.
4. Incurred \$700 of advertising costs in the NY Times, on account.
5. Paid \$800 cash for office supplies.
6. Earned \$11,000 for services rendered: \$3,000 cash is received from customers, and the balance of \$8,000 is billed to customers on account.
7. Withdrew \$500 cash for personal use.
8. Paid the NY Times amount due in transaction (4).
9. Paid employees' salaries of \$2,200.
10. Received \$4,000 cash from customers who have previously been billed in transaction (6).

- A. Prepare a tabular analysis of the transactions below.
- B. Prepare an income statement for Vinnie's Travel Agency for the month of April.

Trans.	Cash	Acct. Rec.	Supplies	Office Equip.	Accts Payable	V. Venuchi, Capital	V. Venuchi, Drawings	Revenue	Expense	OE Explanation
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										
T.										

REVENUES		
EXPENSES		

2-6 Preparing an owner's equity statement.

Listed below are accounts for James Johnson, M.D. Prepare an owner's equity statement for James Johnson for the year ended December 31, 2011.

James Johnson, Capital, January 1, 2011	\$ 50,000
Professional fees revenue	300,000
Total expense	220,000
Additional investments	25,000
James Johnson, drawing	75,000

James Johnson, M.D. Owner's Equity Statement For the Year Ended December 31, 2011		

2-7

Presented below is information related to the sole proprietorship of Anthony Scalici, consultant.

Consulting service revenue—2010	\$340,000
Total expenses—2010	213,000
Assets, January 1, 2010	85,000
Liabilities, January 1, 2010	64,000
Drawings—2010	63,000

Instructions

Prepare the 2010 owner's equity statement for Anthony Scalici's consulting company. Assume there were no investments during the year.

2-8

The following information relates to Ty Ringo Co. for the year 2010.

Ty Ringo, Capital, January 1, 2010	\$ 47,000	Advertising expense	\$1,500
Ty Ringo, Drawing during 2010	6,000	Rent expense	9,500
Service revenue	62,500	Utilities expense	3,400
Salaries expense	29,000		

Instructions

After analyzing the data, prepare an income statement and an owner's equity statement for the year ending December 31, 2010

Income Statement

REVENUES		
EXPENSES		

Owner's Equity Statement

Work Paper

Name: _____
 Accounting Ch 2-9
 I/S, OE & Balance Sheet

An analysis of the transactions made by K. T. Lang & Co., a law firm, for the month of July is shown below. Each increase and decrease in owner's equity is explained. Note: July was the first month of business.

	<u>Cash</u>	+	<u>Accounts Receivable</u>	+	<u>Office Supplies</u>	+	<u>Equipment</u>	=	<u>Accounts Payable</u>	+	<u>Owner's Equity</u> <u>K. T. Lang, Capital</u>
1.	+\$15,000										+\$15,000 Investment
2.	- 2,000						+\$5,000		+\$3,000		
3.	- 750				+\$750						
4.	+ 2,500		+\$3,600								+ 6,100 Service Revenue
5.	- 1,500								- 1,500		
6.	- 2,500										- 2,500 Drawings
7.	- 650										- 650 Rent Expense
8.	+ 550		- 550								
9.	- 3,500										- 3,500 Salaries Expense
10.									+ 500		- 500 Utilities Expense
Total:											

Instructions

- Prepare an income statement for the month ending July 31, 2012.
- Prepare an owner's equity statement for the month ending July 31, 2012.
- Calculate the totals for each column.
- Prepare a balance sheet for the month ended July 31, 2012.

A.

REVENUES		
EXPENSES		

B.

C.

Name: _____

Accounting Ch. 2 - 10

Income Statements & Owner's Equity

Amanda's Repair shop was started on May 1 this year by Amanda House. A summary of May transactions is listed below.

1. Invested \$15,000 cash to start the business.
2. Purchased Equipment for \$5,000 cash.
3. Paid \$400 for May office rent.
4. Paid \$500 cash for supplies
5. Incurred \$250 of advertising costs in the D & C on account.
6. Received \$5,100 in cash from customers for repair services.
7. Withdrew \$1,000 cash for personal use.
8. Paid Part-Time employee salaries of \$2,000.
9. Paid utility bills \$140.
10. Provided repair service on account to customers \$750.
11. Collected cash of \$120 for services billed in transaction (10).

- A. Prepare a tabular analysis of the transactions below.
- B. Prepare an income statement for Amanda's Repair Shop for the month of May.
- C. Prepare an Owner's Equity for Amanda's Repair Shop for the month of May.
- D. Prepare a balance sheet (To be done later).

Trans.	Cash	Acct. Rec.	Supplies	Equipment	Accts Payable	A. House, Capital	A. House, Drawings	Revenue	Expense	OE Explanation
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										
Total										

REVENUES		
EXPENSES		

C.

D.

Assets		
Liabilities & Owner's Equity		

ACCOUNTING: BALANCE SHEET REPRESENTS THE ACCOUNTING EQUATION

Directions: Complete the Balance Sheet

2-11

RED RIVER FARMS Balance Sheet September 26, 2008			
Assets		Liabilities & Owner's Equity	
Cash	\$ 16710	Liabilities:	
Accounts receivable	22365	Notes payable	\$530000
Land	550000	Accounts payable	77095
Barns and sheds	78300	Property taxes payable	9135
Citrus trees	76650	Wages payable	1820
Livestock	120780	Total Liabilities	
Irrigation system	20125		
Farm machinery	42970	Owner's Equity:	
Fences & gates	33570	Hunter Roberts, Capital	
Total		Total Liabilities & Owner's Equity	

2-12

Preparing a balance sheet.

Arranged in alphabetical order are the balance sheet items for Starks Company at December 31, 2011.

a) After each item, indicate the proper classification (asset, liability, owner's equity) by placing a check in the appropriate column.

		A	L	OE
Accounts payable	\$14,200			
Accounts receivable	2,100			
Building	80,000			
Cash	11,800			
Equipment	6,500			
Land	20,000			
Note payable	60,000			
Supplies	700			
Walt Morrell, Capital	46,900			

b) Prepare a balance sheet at December 31, 2011.

Starks Company Balance Sheet December 31, 2011		
Assets		
Liabilities and Owner's Equity		

Name: _____
 Accounting Ch 2-13
 Balance Sheet

Chris Chiang is the bookkeeper for Ayala Company. Chris has been trying to get the balance sheet of Ayala Company to balance. Ayala's balance sheet is as follows.

AYALA COMPANY
 Balance Sheet
 December 31, 2010

	Assets			Liabilities
Cash	\$17,400	Accounts payable		\$30,000
Supplies	7,100	Accounts receivable		(9,500)
Equipment	45,000	Ayala, Capital		<u>58,200</u>
Ayala, Drawing	<u>9,200</u>	Total liabilities and		
Total assets	<u>\$78,700</u>	owner's equity		<u>\$78,700</u>

Instructions

Prepare a correct balance sheet.

Assets		
Liabilities & Owner's Equity		

Name: _____
 Accounting Ch 2-14
 Balance Sheet

Listed below in alphabetical order are the balance sheet items of Pieter Company at December 31, 2009. Prepare a balance sheet and include a complete heading.

Accounts Payable	\$ 14,000
Accounts Receivable	15,000
Building	46,000
Cash	17,000
Jan Pieter, Capital	120,000
Land	52,000
Office Equipment	4,000

Assets		
Liabilities & Owner's Equity		

Name: _____
 Accounting Ch 2 - 15
 Balance Sheet

At September 1, the balance sheet accounts for Stanley's Restaurant were as follows:

Accounts Payable	\$ 3,800	Land	\$33,000
Accounts Receivable	1,600	Stanley, Capital	?
Building	68,000	Notes Payable	48,000
Cash	10,000	Supplies	6,600
Furniture	18,700		

The following transactions occurred during the next two days:

Stanley invested an additional \$22,000 cash in the business. The accounts payable were paid in full. (No payment was made on the notes payable.)

Instructions

Prepare a balance sheet at September 3, 2009.

Assets		
Liabilities & Owner's Equity		

Work Paper

Name: _____

Accounting Ch. 2 - 16

IS - OE - BS

On May 1, Sean Tobey started Skyline Flying School, a company that provides flying lessons, by investing \$45,000 cash in the business. Following are the assets and liabilities of the company on May 31, 2010, and the revenues and expenses for the month of May.

Cash	\$5,600	Notes Payable	\$30,000
Accounts Receivable	7,200	Rent Expense	1,200
Equipment	64,000	Repair Expense	400
Lesson Revenue	7,500	Fuel Expense	2,500
Advertising Expense	500	Insurance Expense	400
		Accounts Payable	800

Sean Tobey made no additional investment in May, but he withdrew \$1,500 in cash for personal use.

Instructions:

Prepare an income statement and owner's equity statement for May and a balance sheet at May 31.

REVENUES		
EXPENSES		

Assets		
Liabilities & Owner's Equity		

2-17

Prepare an income statement, an owner's equity statement, and a balance sheet for the acupuncture practice of Bi Loi, from the items listed below for the month of September.

Bi Loi, Capital, September 1	\$42,000
Accounts payable	7,000
Equipment	30,000
Service revenue	25,000
Bi Loi, Drawings	6,000
Dental supplies expense	3,500
Cash	6,000
Utilities expense	700
Dental supplies	2,800
Salaries expense	9,000
Accounts receivable	14,000
Rent expense	2,000

BI LOI, ACCURPUNCTURIST
Income Statement
For the Month Ended September 30, 2009

Revenues		\$
Expenses	\$	\$
Total expenses		\$
Net income		\$

BI LOI, ACCURPUNCTURIST
Owner's Equity Statement
For the Month Ended September 30, 2009

Bi Loi, Capital, September 1	\$
Add:	\$
Less:	\$

Ex. 204 (cont.)

BI LOI, ACCURPUNCTURIST
Balance Sheet
September 30, 2009

Assets	
	\$
Total assets	<u>\$</u>
	<u> </u>
Liabilities and Owner's Equity	
Liabilities	\$
Owner's Equity	\$
Total liabilities and owner's equity	<u>\$</u>
	<u> </u>

2-18
Transaction analysis.

Bill Fence is the owner of Microhard Software Company which opened on January 1, 2011. During January, the following transactions occurred.

1. Bill Fence invests \$10,000 into the business.
2. Received \$2,000 cash from customers for software programming services it provided.
3. Incurred \$300 of advertising costs in the Global News on account.
4. Provided customers with programming services on account, \$3,500.
5. Paid the following expenses for January: salaries to employees \$2,500, utilities \$400.
6. Bill Fence withdrew \$1,500 cash for personal use.
7. Collected \$1,000 cash for services billed in transaction #4.
8. Borrowed \$5,000 from National Bank on a note payable.
9. Paid the amount owed to Global News for advertising in transaction #3.

a) Prepare a tabular analysis of the transactions in the table below.

	ASSETS =		LIABILITIES +		OWNER'S EQUITY			
	Cash	Accounts Receivable	Notes Payable	Accounts Payable	B. Fence, Capital	B. Fence, Drawings	Revenues	Expenses
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
Total								

b) Assets = Liabilities + Owner's Equity

_____ = _____ + _____

- c) Prepare an income statement and an owner's equity statement for the month of January.

Microhard Software Co. Income Statement For the Month Ended January 31, 2011		
Revenues		
Expenses		
Net income		

Microhard Software Co. Owner's Equity Statement For the Month Ended January 31, 2011		

- d) Prepare a balance sheet as of January 31.

Microhard Software Co. Balance Sheet January 31, 2011		
Assets		
Liabilities and Owner's Equity		