

Accounting I
Chapter 7
FINANCIAL STATEMENTS FOR A PROPRIETORSHIP

Review/Preview: Summative Assessment (Ch. 6 Quiz)

Accounting Concept: *Adequate Disclosure* --when financial statements contain all information necessary to understand a business's financial condition.

Two Financial Statements are prepared:

1. Income Statement
2. Balance Sheet

Assign Students to Read Ch. 7 (p. 178-193) and complete the terms p. 178 (Students may hand-write them on handout or do on word processor)

Discuss Section 7-1: Preparing an Income Statement

An income statement reports financial information over a specific period of time. It shows progress in the business's net income or net loss.

Revenue is the business earnings. Expenses are the operating costs. The revenue earned and the expenses incurred to earn that revenue must be reported in the same fiscal period. (CONCEPT: Matching Expenses with Revenue)

Information for preparing income statement obtained from the Worksheet. Account titles from account title column, balances from Income Statement columns.

4 Sections of Income Statement

1. Heading
2. Revenue
3. Expense
4. NI/NL

1. Heading Section (p. 182)
 - a. Company Name
 - b. Name of Report (Income Statement)
 - c. Date of Report (For Month Ended mm/dd/yy)
2. Revenue Section (p. 183)
 - a. Revenue (far left)
 - b. Title of Revenue Account--Sales (indented)
 - c. Balance of Sales Account--same line, second amount column
3. Expense Section (p. 183)
 - a. Expenses (at far left)
 - b. Title of each Expense Account (indented)
 - c. Balance of each Expense Account--same line as title, first amount column
 - d. Single Rule first amount column (addition)
 - e. Total Expenses--label and add, place total in second amount column
 - f. Calculate NI/NL (subtract total expenses from revenue)
 - g. Label NI/NL
 - h. Verify NI/NL same as on worksheet.
 - i. Double Rule if equal

Two components of Income Statement: Total Expenses and Net Income

- The percentage relationship between one financial statement item and the total that includes that item is called a **component percentage**.
- Component percentages are calculated by dividing the component (total expenses or Net Income) by Net Sales. (p. 184)
- Component percentages are compared from one fiscal period to another to determine progress of the business. They are also compared to industry standards to see how a business compares to similar businesses.
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Income Statement with two sources of revenue and/or net loss (p. 185)

- a. Two sources of revenue--list each account and total revenue.
- b. Net Loss--place amount in parentheses to indicate loss. Label Net Loss.

Practice: Complete Work Together/On Your Own p. 186

Discuss Section 7-2: Balance Sheet Information on a Work Sheet

A balance sheet reports financial information on a *specific date*. Information is obtained from the work sheet--account title column and Balance Sheet Columns.

4 Sections of a Balance Sheet

1. Heading
2. Assets
3. Liabilities
4. Owner's Equity

1. Heading Section (p. 187)
 - a. Company Name
 - b. Name of Report (Balance Sheet)
 - c. Specific Date (mm/dd/yy)
2. Assets Section (left side)
 - a. Title of Section (Assets)
 - b. Account titles of assets
 - c. Account Balances of assets
3. Liabilities Section (right side)
 - a. Title of Section
 - b. Account titles of Liabilities
 - c. Account titles of Liabilities
 - d. Single Rule (addition)
 - e. Total Liabilities (title/amount)
4. Owner's Equity Section (right side)
 - a. Title of Section (owner's equity)
 - b. Title of Owner's Equity Account
 - c. Calculate** current capital balance and record amount
 - d. ****Capital Account Balance + Net Income -Drawing Account
Balance Current Capital**

Finishing Balance Sheet

- a. Determine which column is longer, single rule last item in longest column. Single rule same line on other column.
- b. Calculate and Record Total Assets
- c. Calculate and Record Total Liabilities and Owner's Equity
- d. Compare Totals ($A=L+OE$) **MUST EQUAL!!!**
- e. Double Rule both columns when balanced

Owner's Equity reported in detail on Balance Sheet--shows details about how current balance is figured (p. 190)

Practice: Complete Work Together/On Your Own p. 192

Formative Assessment: Assign Application Problems 7-1, 7-2 p 194

Mastery Problem 7-3 p 195

Assign Challenge Problem 8-4 p 196

Assign Recycling Problem if needed

Prepare for Summative Assessment: Complete Study Guide 7

Summative Assessment--Ch. 7 Quiz--Concept & Application

Continue with Ch. 8: Recording Adjusting and Closing Entries for a Service Business