**­­­­Accounting Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Ch. 8 Financial Statements for a Proprietorship**

**8-1 Preparing an Income Statement** (R - E = I)

A. Income Statement Information on a Work Sheet

1. An Income Statement indicates the financial

progress of a business with Net Income or Net

Loss.

2. Revenue Earned & Expenses Incurred to earn

revenue are reported in the same fiscal period

(Matching Expenses with Revenues Concept).

3. Worksheets are prepared to assist in planning other financial statements.

a. Used to prepare Income Statements, pg. 177

1) account titles

2) account balances

b. 4 Sections of an Income Statement,

1) heading, pg. 176 - for month ENDED

2) revenues

3) expenses

4) net income/net loss

(revenue – expenses)

B. Heading of an Income Statement

**Encore Music**

**Income Statement**

**For Month Ended August 31, 2018**

1. Name of Company

2. Name of Report

3. Date of Report

C. Preparing Revenue, Expenses, & Net Income

Sections of an Income Statement **(pg. 177)**

1. Write the name ***Revenue*** at the extreme left of

the wide column on the first line.

2. Write the title of the revenue account, "***Sales***" on

the next line, be sure to indent it.

3. Record the balance of the account on the same line

in the ***second*** *amount column.*

4. Write the name of the second section, "***Expenses***:"

on the next line at the extreme left of the wide

column.

5. Write the title of each expense account in the wide column, be sure to indent each title.

6. Record the balance of each expense in the ***first***

***amount column*** on the same line as the account

title.

7. Rule a single line across the first amount column

under the last expense account balance.

8. Write the Words **Total Expenses** on the next blank

line in the wide column, be sure to indent.

9. Record the amount of total expenses on the same

line in the *second amount column*.

10. Calculate and verify the amount of net income using 2 methods:

a. Calculate net income (or loss) from

information on the Income Statement:

Total R - Total E = Net Income

b. Compare the amount of Net Income (or loss)

with the Net Income shown on the worksheets

(they must be the same).

11. Rule a single line across the second amount column

just below the amount of total expenses.

12. Write the words ***Net Income/Loss*** on the next line

at the extreme left of the wide column.

13. On the same line, record the amount of net income

in the *second amount column.*

14. Double rule both columns below the amount of net

income to show that the amount has been verified as correct.

D. Component Percentage Analysis of an Income Statement

1. Revenue Reported on an Income Statement

includes Two Components (based on the total of

sales)

a. Total Expenses

b. Net Income

2. Component Percentage - The percentage

relationship between one fiscal statement item

and the total that includes that item. (**Percent of**

**Sales)**

3. Calculating Component Percentages

a. Divide the amount of each component (TS,

TE, NI) by the total amount of sales.

b. The relationship between each component

and total sales is shown in a separate column

on the income statement on the right of the

amount columns.

4. Acceptable Component Percentages must be calculated.

a. Look up average percentages published by various

other organizations.

b. Compare one fiscal period percentage with the

percentages of the previous fiscal periods.

5. Total **Expenses** Component Percentage

a. An acceptable total expenses component

percentage for businesses similar to Encore

Music is not more than **80** %. Less than 80%

b. 75.1% is an acceptable percentage.

**Work Together was 39.6 so it is acceptable because it is under 80%.**

6. **Net Income** Component Percentage

a. An acceptable net income component percentage is **not**

**less than 20**%. Greater than 20%

b. 24.9% is greater than 20% and acceptable.

**Work Together was 60.4 so it is acceptable because it is greater than 20%.**

E. Income Statement with Two Sources of Revenue pg. 179

1. When an income statement is prepared for a

business with **more than one revenue** account the

revenue section differs just slightly.

2. Write the titles of both revenue accounts in the

wide/left column, but be sure to indent.

3. Write the words **Total Revenue** in the wide/left

column, be sure to indent.

4. On the same line as the Total Revenue title, total

the revenue amounts and write the amount in the

second amount column.

F. Income Statement with a Net Loss (pg. 179)

1. Write words **Net Loss** at the extreme left of the

wide column.

2. Subtract the total **expenses** from the revenue

to calculate the net loss.

3. Record the amount of net loss in the second

amount column **in (parentheses)**.

4. An amount written in parentheses on a financial

statement indicates a negative amount.

**8-2 Balance Sheet Information on a Work Sheet, pg 181**

A. Balance Sheet (A = L + OE)

1. A balance sheet reports financial information on

a specific date, indicating the financial condition

of a business.

2. Financial condition = financial strength

a. A business with adequate available assets

and few liabilities is a strong business.

b. If a business is not strong, adverse changes

to the economy may cause the business to

fail.

3. Worksheets are prepared to assist in planning

other financial statements.

a. Used to prepare Balance Sheets

1) account titles

2) account balances

b. 4 Sections of a Balance sheet

1) heading

2) assets

3) liabilities

4) owner's equity

**Encore Music**

**Balance Sheet**

**August 31, 2018**

B. Heading of a Balance Sheet

1. Name of the Company

2. Name of the Report

3. Specific Date of the Report

C. Assets & Liabilities Sections of a Balance Sheet

1. Accounting Equation: A = L + OE

2. Left Side of a Balance Sheet = Assets

3. Right Side of a Balance Sheet = L & OE

a. 2 Kinds of Equities reported on a Balance

Sheet

1) Liabilities

2) Owner's Equity

D. Instructions for Preparing the Assets & Liabilities

sections of a Balance Sheet. **Pg. 183**

1. Write the title of the first section, **Assets**, in the

middle of the left wide column.

2. Write the titles of all asset accounts under the

Heading

3. Record the balance of each Asset account in the

*left amount column* on the same line as the

account title.

4. Write the title of the next section, **Liabilities**, in

the *middle* of the right wide column.

5. Write the titles of all liability accounts under the

heading.

6. Record the balance of each liability account in

the *right amount column* on the same line as the

account title.

7. Rule a single line across the right amount

column under the last amount, to indicate

addition. Pg 182

8. Write the words **Total Liabilities** in the right

wide column on the next blank line, be sure to

indent.

9. Record the total of all liabilities in the *right*

*amount column.*

10. Write the title of the section **Owner's Equity** in

the *middle* of the right wide column on the next

line below Total Liabilities.

11. Write the title of the Owner's Capital account,

**BT Capital**, on the next line.

12. Record the current amount of Owner's Equity in

the *right amount column.*

13. Determine which column is longer. The longer

column may vary.

14. Rule a single line under the last amount in the

left amount column. Rule a single line in the

right amount column on the same line as in the

left amount column.

15. Write the words **Total Assets** on the next line, in

the left wide column.

16. Record the amount of **Total Liabilities** and

**Owner's Equity** in the right amount column.

17. Compare the totals of the two amount columns. Because totals are the same on both sides of Encore Music's balance sheet the balance sheet is in balance.

18. Double rule both the left and right amount columns just below the column totals that show that the totals have been verified as correct.

E. Owner's Equity Reported in Detail on a Balance

Sheet

1. Some businesses prefer to report the details

about how owner's equity is calculated.

2. See pg. 184 to see how the owner's equity

section of the balance sheet would be prepared if

all details about OE were reported.

Total Liabilities 1380.00

Owner's Equity

BT, Capital, August 1 10,000.00

Net Income/loss 1,099.00

Less BT, Drawing 600.00 499.00

BT, Capital, August 31 10,499.00

Total Liabilities & Owner's Equity 11,879.00

**REMEMBER:**

**1. Capital is not copied from the worksheet to**

**the balance sheet.**

**2. Capital is calculated using beginning capital,**

**plus net income or minus net loss, minus**

**drawing.**

**Current Capital (pg. 183)**

**Beginning Capital 10,000**

**+ Net Income +1,099**

**- Drawing - 600**

**Balance of Capital 10,499**

**Current Capital**

Beginning Capital 12,000

- Net Loss - 200

- Drawing - 500

**Balance of Capital** **11,300**

**Preparing Revenue, Expenses, & Net Income Sections of an Income Statement**

1. Write the name ***Revenue*** at the extreme left of the wide column on the first line.

2. Write the title of the revenue account, "***Sales***" on the next line, be sure to indent it.

3. Record the balance of the account on the same line in the *second amount column.*

4. Write the name of the second section, "***Expenses***:" on the next line at the extreme

left of the wide column.

5. Write the title of each expense account in the wide column, be sure to indent each

title.

6. Record the balance of each expense in the *first amount column* on the same line as

the account title.

7. Rule a single line across the first amount column under the last expense account

balance.

8. Write the Words **Total Expenses** on the next blank line in the wide column, be

sure to indent.

9. Record the amount of total expenses on the same line in the *second amount column*.

10. Calculate and verify the amount of net income using 2 methods:

a. Calculate net income (or loss) from information on the Income Statement: Total R - Total E = Net Income

b. Compare the amount of Net Income (or loss) with the Net Income shown on

the worksheets (they must be the same).

11. Rule a single line across the second amount column just below the amount of total

expenses.

12. Write the words ***Net Income*** on the next line at the extreme left of the wide

column.

13. On the same line, record the amount of net income in the *second amount column.*

14. Double rule both columns below the amount of net income to show that the amount

has been verified as correct.

**Instructions for Preparing the A, L & OE Sections of a Balance Sheet**.

1. Write the title of the first section, **Assets**, in the middle of the left wide column.

2. Write the titles of all asset accounts under the heading.

3. Record the balance of each Asset account in the *left amount column* on the same

line as the account title.

4. Write the title of the next section, **Liabilities**, in the *middle* of the right wide

column.

5. Write the titles of all liability accounts under the heading.

6. Record the balance of each liability account in the *right amount column* on the

same line as the account title.

7. Rule a single line across the right amount column under the last amount, to indicate

addition.

8. Write the words **Total Liabilities** in the right wide column on the next blank line,

be sure to indent.

9. Record the total of all liabilities in the *right amount column.*

10. Write the title of the section **Owner's Equity** in the *middle* of the right wide

column on the next line below Total Liabilities.

11. Write the title of the Owner's Capital account, **BT Capital**, on the next line.

12. Record the current amount of Owner's Equity in the *right amount column.*

13. Determine which column is longer. The longer column may vary.

14. Rule a single line under the last amount in the left amount column. Rule a single

line in the right amount column on the same line as in the left amount column.

15. Write the words **Total Assets** on the next line, in the left wide column.

16. Record the amount of total liabilities and owner's equity in the right amount column.

17. Compare the totals of the two amount columns. Because totals are the same on

both sides of Encore Music's balance sheet the balance sheet is in balance.

18. Double rule both the left and right amount columns just below the column totals

that show that the totals have been verified as correct.