
College Accounting



Chapter 7: Financial Statements for Sole Proprietorships

Goals of Chapter 7:



- Define accounting terms related to financial statements for a service business organized as a proprietorship
- Identify accounting concepts and practices related to preparation of financial statements for a service business organized as a proprietorship
- Prepare an income statement for a service business organized as a proprietorship and analyze an income statement using component percentages
- Prepare a balance sheet for a service business organized as a proprietorship

REPORTING FINANCIAL INFORMATION

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- Reporting Financial Information
 - Essential for managers & owners to make good decisions
 - Information is summarized, organized and reported through financial statements

Accounting Concepts:

- **Adequate Disclosure**: is applied when financial statements contain all information necessary to understand a business's financial condition.
- **Accounting Period Cycle**: financial statements must be prepared at the end of each fiscal period.
- **Going Concern**: is applied when financial statements are prepared with the expectation that a business will continue to operate indefinitely

INCOME STATEMENT INFORMATION ON A WORK SHEET

ACCOUNT TITLE	5		6		7		8	
	INCOME STATEMENT				BALANCE SHEET			
	DEBIT		CREDIT		DEBIT		CREDIT	
12 Sales				356500				
13 Advertising Expense	21300							
14 Insurance Expense	10000							
15 Miscellaneous Expense	2800							
16 Rent Expense	30000							
17 Supplies Expense	71500							
18 Utilities Expense	11000							
19	146600			356500				
20 Net Income	209900							
21	356500			356500				
22								

Income Statement:

- Reports financial progress over a specific period of time (month, year etc.)
- Shows: Revenues – Expenses = Net Income or Net Losses

Accounting Concept: 

Matching Expenses with Revenue: revenue earned & expenses incurred to generate that revenue are reported in the same fiscal period.

HEADING OF AN INCOME STATEMENT

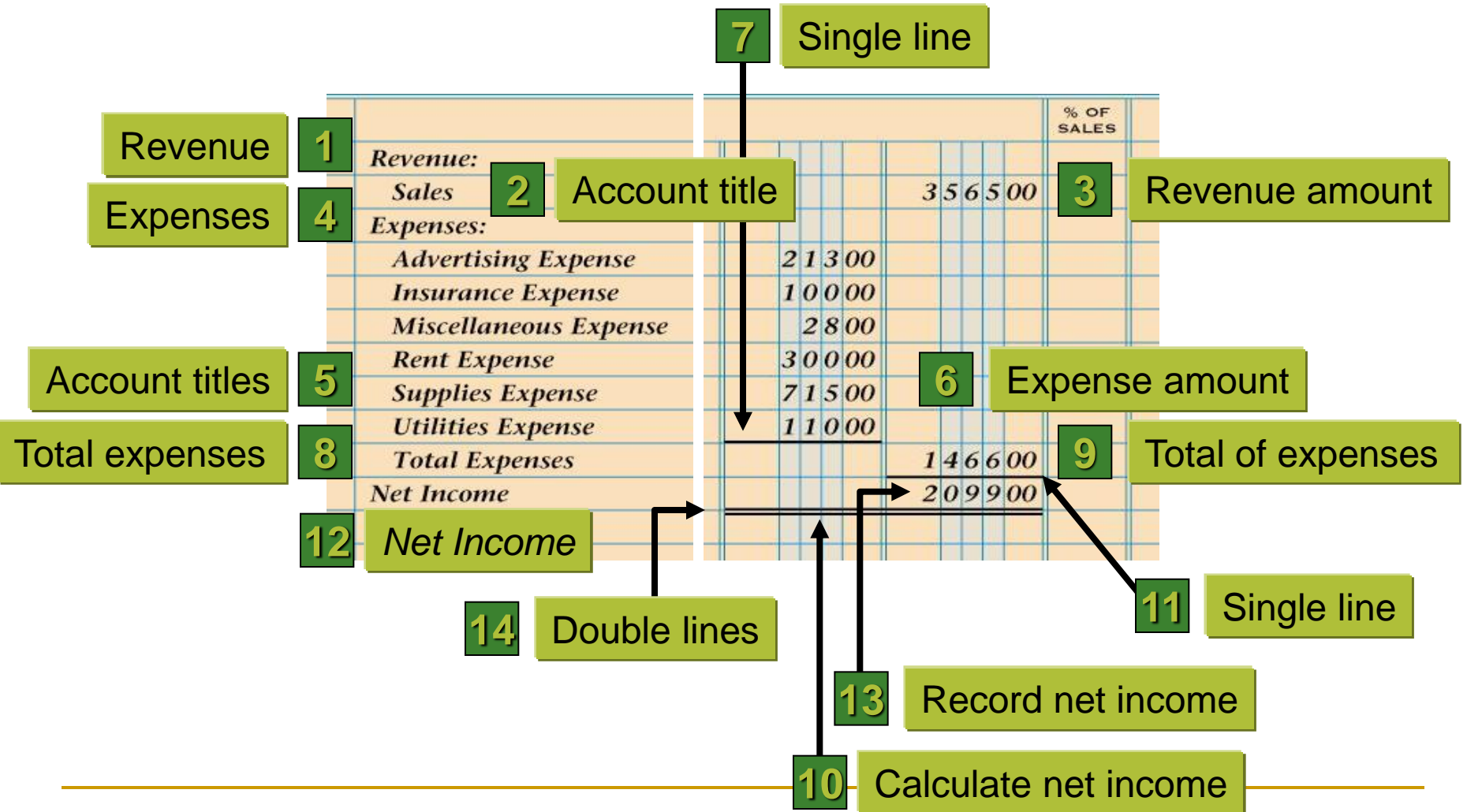
Income Statement has four sections:

- ❑ Heading
- ❑ Revenue
- ❑ Expenses
- ❑ Net income or loss

<i>TechKnow Consulting</i>	1
<i>Income Statement</i>	2
<i>For Month Ended August 31, 20--</i>	3

1. Center the name of the company on the first line.
2. Center the name of the report on the second line.
3. Center the date of the report on the third line.

REVENUE, EXPENSES, AND NET INCOME SECTIONS OF AN INCOME STATEMENT



COMPONENT PERCENTAGE ANALYSIS OF AN INCOME STATEMENT

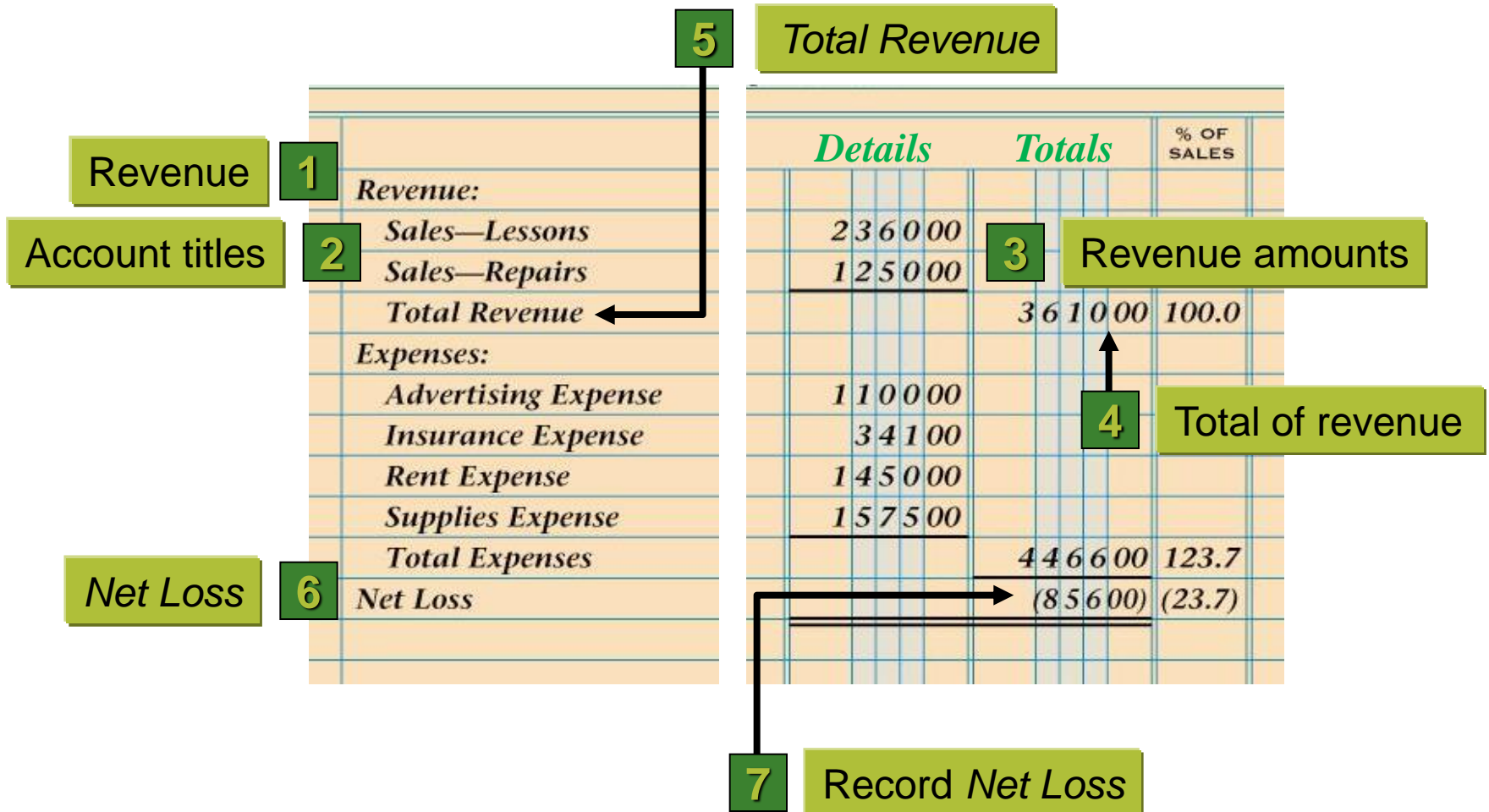
- To make decisions about future business operations management analyzes the primary components of the income statement relative to total sales or revenue:
 - Expenses
 - Net Income or Loss
- Component Percentage: percentage relationship between one financial statement item and the total. Calculation:
 - $(\text{Component Item} / \text{Total Sales}) * 100 = \text{Component Percentage}$
 - Round to the nearest 1/10 of a percent
- How to know if percentages are good?
 - Compare to Industry average for similar businesses
 - Compare one fiscal period to another

COMPONENT PERCENTAGE ANALYSIS OF AN INCOME STATEMENT

TechKnow Consulting
Income Statement
For Month Ended August 31, 20--

	<i>Details</i>	<i>Totals</i>	<i>% OF SALES</i>
<i>Revenue:</i>			
<i>Sales</i>		3 5 6 5 00	100.0
<i>Expenses:</i>			
<i>Advertising Expense</i>	2 1 3 00		6.0
<i>Insurance Expense</i>	1 0 0 00		2.8
<i>Miscellaneous Expense</i>	2 8 00		0.1
<i>Rent Expense</i>	3 0 0 00		8.4
<i>Supplies Expense</i>	7 1 5 00		20.1
<i>Utilities Expense</i>	1 1 0 00		3.1
<i>Total Expenses</i>		1 4 6 6 00	41.1
<i>Net Income</i>		2 0 9 9 00	58.9

INCOME STATEMENT WITH TWO SOURCES OF REVENUE AND A NET LOSS



BALANCE SHEET

- What is a Balance Sheet?
 - Reports financial information on specific date
 - Information is cumulative – not isolated
 - Reports the financial condition of a company
 - Company's financial strength
 - Assets relative to debt and equity
 - Debt relative to equity
- Balance Sheet has Four Sections:
 1. Heading
 2. Assets
 3. Liabilities
 4. Owner's Equity

Information comes from the Worksheet – 2 places:

- Account Titles Column
- Balance Sheet Columns

BALANCE SHEET INFORMATION ON WORKSHEET

		7				8							
ACCOUNT TITLE		BALANCE SHEET											
		DEBIT				CREDIT							
1	<i>Cash</i>	4	9	6	4	0	0			1			
2	<i>Petty Cash</i>	1	0	0	0					2			
3	<i>Accounts Receivable—Oakdale School</i>	1	5	0	0					3			
4	<i>Accounts Receivable—Campus Internet Cafe</i>	1	0	0	0					4			
5	<i>Supplies</i>	3	1	0	0					5			
6	<i>Prepaid Insurance</i>	1	1	0	0	0				6			
7	<i>Accounts Payable—Supply Depot</i>							2	0	0	7		
8	<i>Accounts Payable—Thomas Supply Co.</i>							5	0	0	8		
9	<i>Kim Park, Capital</i>							5	0	0	0	9	
10	<i>Kim Park, Drawing</i>	6	2	5	0						10		
19		7	3	4	9	0	0	5	2	5	0	0	19
20	<i>Net Income</i>							2	0	9	9	0	20
21		7	3	4	9	0	0	7	3	4	9	0	21

HEADING OF A BALANCE SHEET

TechKnow Consulting **1**

Balance Sheet **2**

August 31, 20-- **3**

1. Center the name of the company on the first line.
2. Center the name of the report on the second line.
3. Center the date of the report on the third line.

ASSETS AND LIABILITIES

SECTIONS OF A BALANCE SHEET

Assets		Liabilities	
Cash	496400	Accts. Pay.—Supply Depot	20000
Petty Cash	10000	Accts. Pay.—Thomas Supply Co.	5000
Accts. Rec.—Oakdale School	15000	Total Liabilities	25000
Accts. Rec.—Campus Internet Cafe	10000		
Supplies	31000		
Prepaid Insurance	110000		

Diagram callouts:

- 1: Assets
- 2: Account titles
- 3: Asset amounts
- 4: Liabilities
- 5: Account titles
- 6: Liability amounts
- 7: Single line
- 8: Total Liabilities
- 9: Total of liabilities

OWNER'S EQUITY SECTION OF A BALANCE SHEET

Assets		Liabilities	
Cash	496,400	Accts. Pay.—Supply Depot	20,000
Debt. Cash	10,000	Accts. Pay.—Thomas Supply Co.	5,000
Total of assets	150,000	Total Liabilities	25,000
Accts. Rec.—Campus Internet Cafe	10,000	Owner's Equity	
Supplies	31,000	Kim Park, Capital	647,400
Prepaid Insurance	11,000		
Total Assets	672,400	Total Liab. and Owner's Eq.	672,400

1 Owner's Equity

2 Account title

3 Capital amount

4 Single line

5 Total Assets

6

7 Total Liab. and Owner's Eq.

8

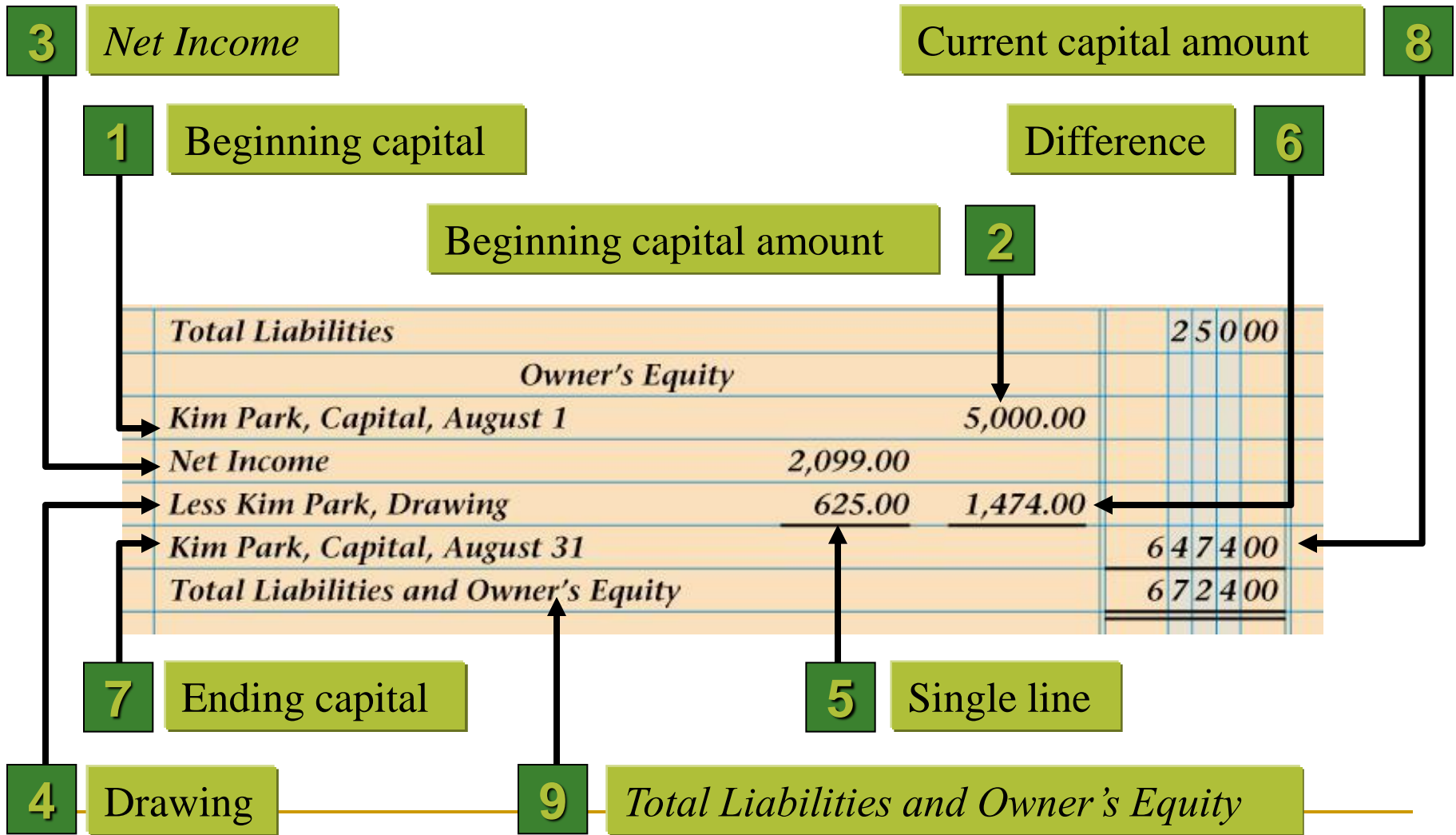
9 Compare totals

10 Double lines

Total of Liabilities and Owner's Equity

Calculating Capital:
 Capital + Net Income - Drawing = Current Capital
 Capital - Net Loss - Drawing = Current Capital

OWNER'S EQUITY REPORTED IN DETAIL ON A BALANCE SHEET



TERMS REVIEW

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- Matching Expenses with Revenues
- Adequate disclosure
- Going Concern
- Accounting Period Cycle
- Stakeholders
- Component percentage