

Al-Mustaqbal university college

ACCOUNTING IN ACTION 6

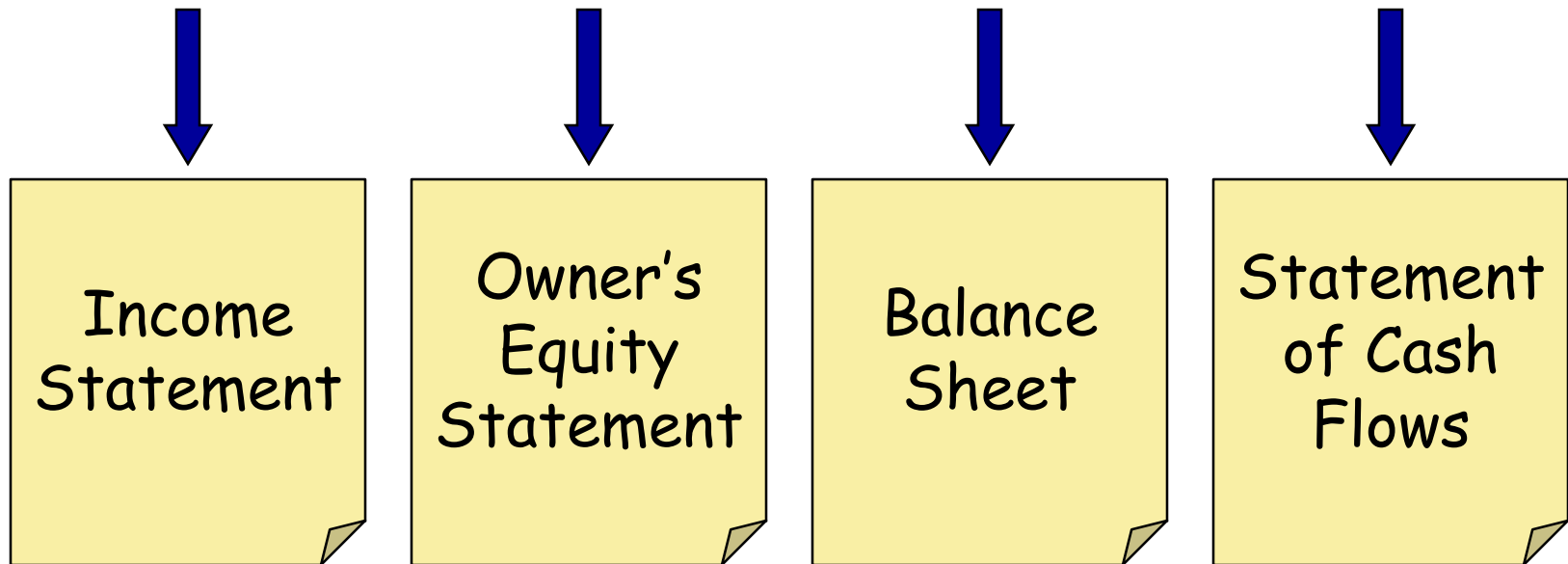
Financial Statements

Prepared by

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Financial Statements

Companies prepare four financial statements from the summarized accounting data:



Financial Statements

Review Question

Net income will result during a time period when:

- a. assets exceed liabilities.
- b. assets exceed revenues.
- c. expenses exceed revenues.
- d. revenues exceed expenses.

Financial Statements

Income Statement

Barone's Repair Shop	
Income Statement	
For the Month Ended May 31, 2008	
Revenues:	
Service revenue	<u>\$ 5,850</u>
Expenses:	
Salary expense	2,000
Rent expense	400
Advertising expense	<u>250</u>
Total expenses	<u>2,650</u>
Net income	<u><u>\$ 3,200</u></u>

- Reports the revenues and expenses for a specific period of time.
- Net income - revenues exceed expenses.
- Net loss - expenses exceed revenues.

Financial Statements

Income Statement

Barone's Repair Shop	
Income Statement	
For the Month Ended May 31, 2008	
Revenues:	
Service revenue	\$ 5,850
Expenses:	
Salary expense	2,000
Rent expense	400
Advertising expense	250
Total expenses	2,650
Net income	\$ 3,200

Owner's Equity Statement

Barone's Repair Shop	
Owner's Equity Statement	
For the Month Ended May 31, 2008	
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	\$12,200

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

Financial Statements

- Statement indicates the reasons why owner's equity has increased or decreased during the period.

Owner's Equity Statement

Barone's Repair Shop	
Owner's Equity Statement	
For the Month Ended May 31, 2008	
Barone's, Capital May 1	\$ -
Add: Investment	10,000
Net income	3,200
	<hr/>
	13,200
Less: Drawings	1,000
Barone's, Capital May 31	<hr/> <hr/>
	\$12,200

Financial Statements

Balance Sheet

Barone's Repair Shop
Balance Sheet
May 31, 2008

Assets

Cash	\$ 6,820
Accounts receivable	630
Equipment	5,000
Total assets	<u>\$12,450</u>

Liabilities

Accounts payable	\$ 250
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Owner's Equity

Barone's, capital	<u>12,200</u>
Total liab. & equity	<u>\$12,450</u>

Owners' Equity Statement

Barone's Repair Shop
Owner's Equity Statement

For the Month Ended May 31, 2008

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>

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

Financial Statements

Balance Sheet

Barone's Repair Shop
Balance Sheet
May 31, 2008

Assets

Cash	\$ 6,820
Accounts receivable	630
Equipment	5,000
Total assets	<u>\$12,450</u>

Liabilities

Accounts payable	\$ 250
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Owner's Equity

Barone's, capital	12,200
Total liab. & equity	<u>\$12,450</u>

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

Financial Statements

Balance Sheet

Barone's Repair Shop
Balance Sheet
May 31, 2008

Assets

Cash	\$ 6,820
Accounts receivable	630
Equipment	5,000
Total assets	<u><u>\$12,450</u></u>

Liabilities

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Owner's Equity

Barone's, capital	12,200
Total liab. & equity	<u><u>\$12,450</u></u>

Statement of Cash Flows

Barone's Repair Shop

Statement of Cash Flows

For the Month Ended May 31, 2008

Cash flow from operating activities

Cash receipts from revenues	\$ 5,220
Cash paid for expenses	(2,400)
Cash provided by operations	<u>2,820</u>

Cash flow from investing activities

Purchase of equipment	(5,000)
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Cash flow from financing activities

Investment by owners	10,000
Drawings by owners	(1,000)
Cash provided by financing	<u>9,000</u>

Net increase in cash 6,820

Cash balance, May 1 -

Cash balance, May 31 \$ 6,820

Financial Statements

- Information for a specific period of time.
- Answers the following:
 1. Where did cash come from?
 2. What was cash used for?
 3. What was the change in the cash balance?

Statement of Cash Flows

Barone's Repair Shop	
Statement of Cash Flows	
For the Month Ended May 31, 2008	
Cash flow from operating activities	
Cash receipts from customers	\$5,220
Cash paid for expenses	(2,400)
Cash provided by operations	<u>2,820</u>
Cash flow from investing activities	
Purchase of equipment	<u>(5,000)</u>
Cash flow from financing activities	
Investment by owners	10,000
Drawings by owners	(1,000)
Cash provided by financing	<u>9,000</u>
Net increase in cash	6,820
Cash balance, May 1	-
Cash balance, May 31	<u><u>\$6,820</u></u>

Financial Statements

Review Question

Which of the following financial statements is prepared as of a specific date?

- a. Balance sheet.
- b. Income statement.
- c. Owner's equity statement.
- d. Statement of cash flows.

Financial Statements

Discussion Question

Q19. "A company's net income appears directly on the income statement and the owner's equity statement, and it is included indirectly in the company's balance sheet." Do you agree? Explain.

See notes page for discussion

Accounting Career Opportunities

Public Accounting

Careers in auditing and taxation serving the general public.

Private Accounting

Careers in industry working in cost accounting, budgeting, accounting information systems, and taxation.

Opportunities in Government

Careers with the IRS, the FBI, the SEC, and in public colleges and universities.

Forensic Accounting

Careers with insurance companies and law offices to conduct investigations into theft and fraud.

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