



Accounting

Happy

Thanksgiving

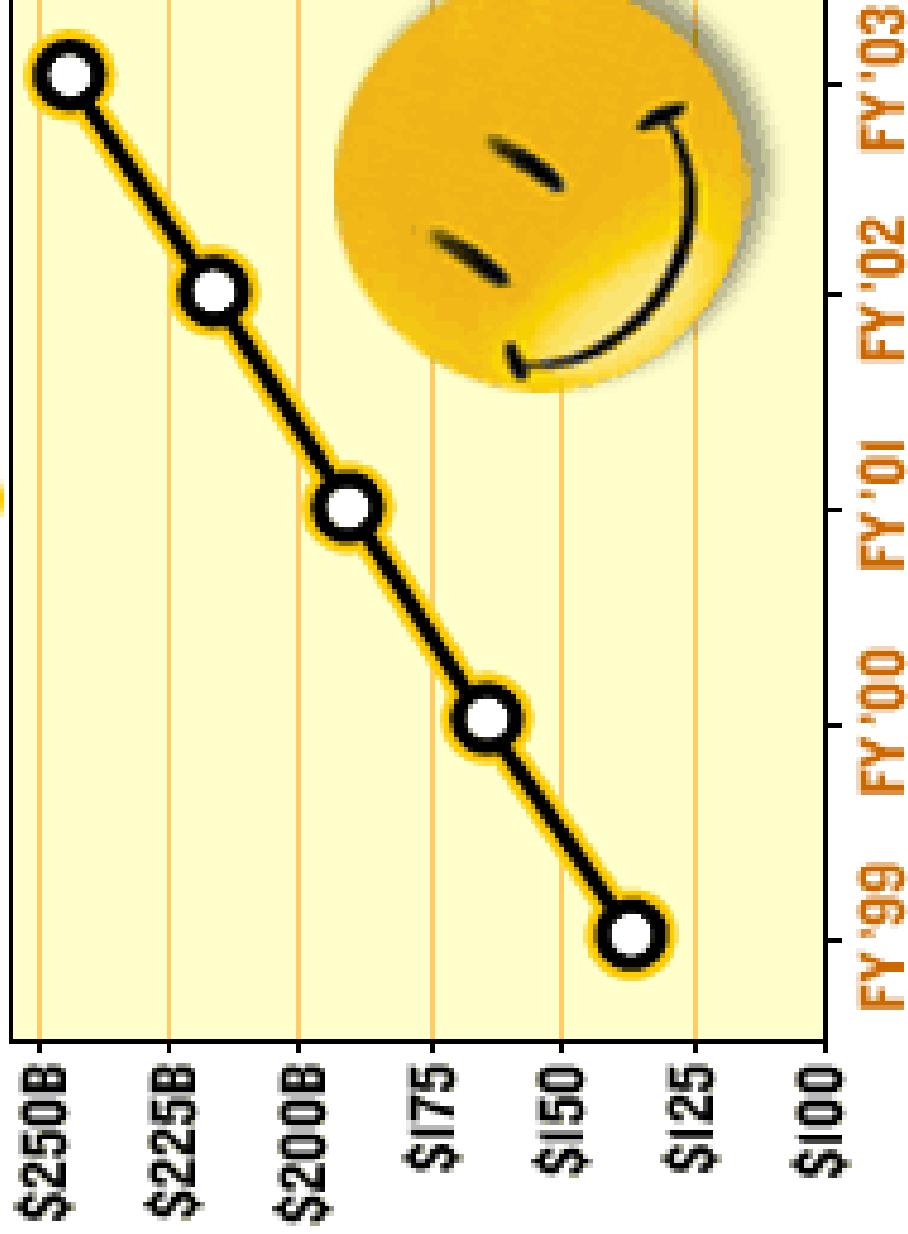


Love,
Sam

& Mr. Alexander

REVENUE

Wal-Mart's total revenue continues to grow....



EXPENSES



Revenue

-Expenses

Net Income

- **Revenue - expenses = net Income.**

(‘gross’ income – means ALL of the income without regard for expenses)

(‘net’ income – indicates that we’ve taken expenses into account.)

Net Income

- Revenue in a year.
- Minus the expenses for that year.

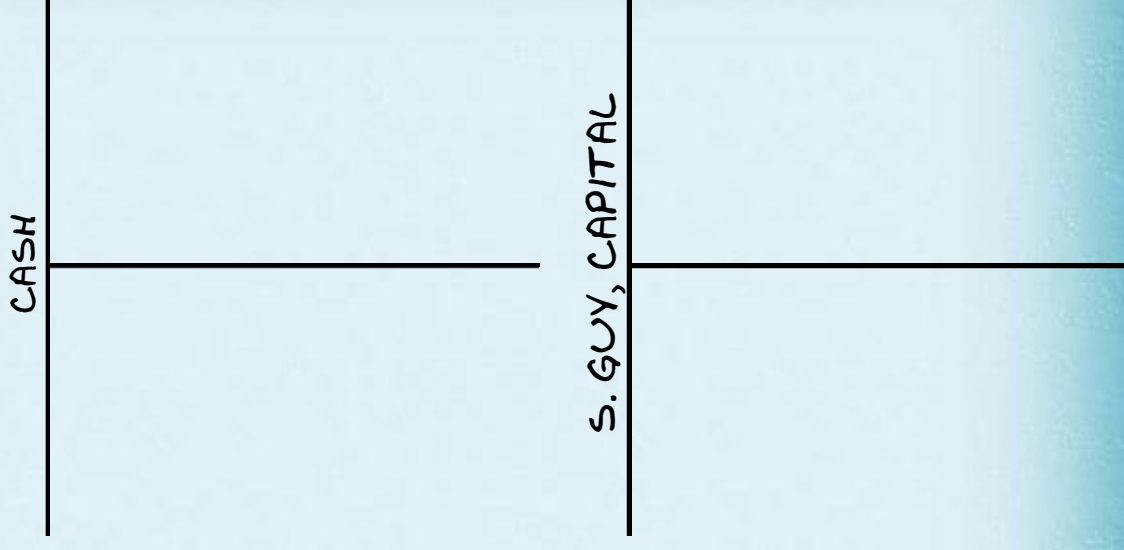
Equals How much our company grows by!
(How much our capital or net worth increases by!)

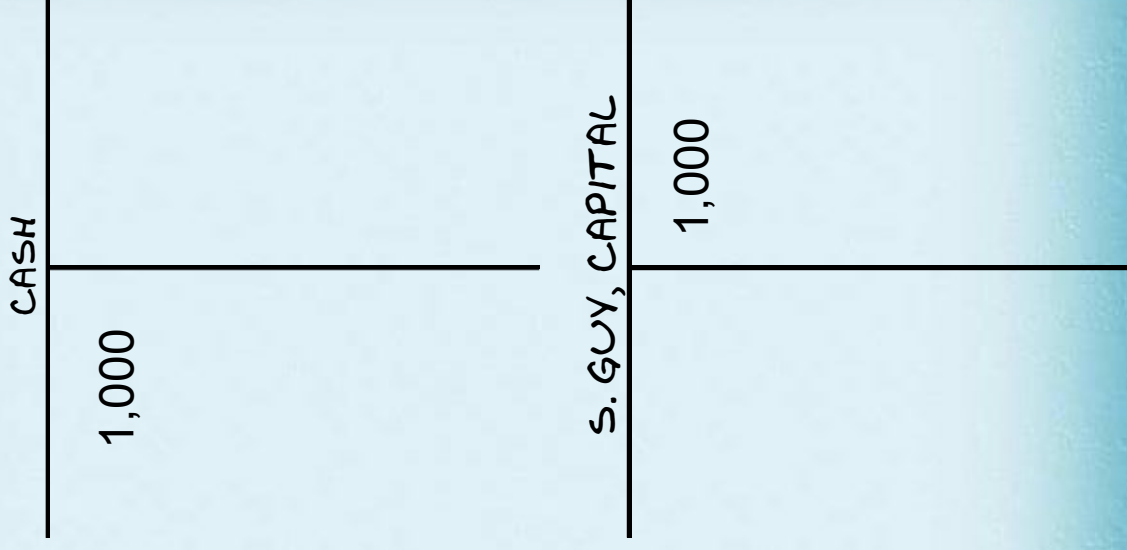
What is our business worth?

THE OWNER'S EQUITY

or 'Capital' Account

- The Capital account is affected whenever a **transaction** makes the business better off (or worse off) than it was before.

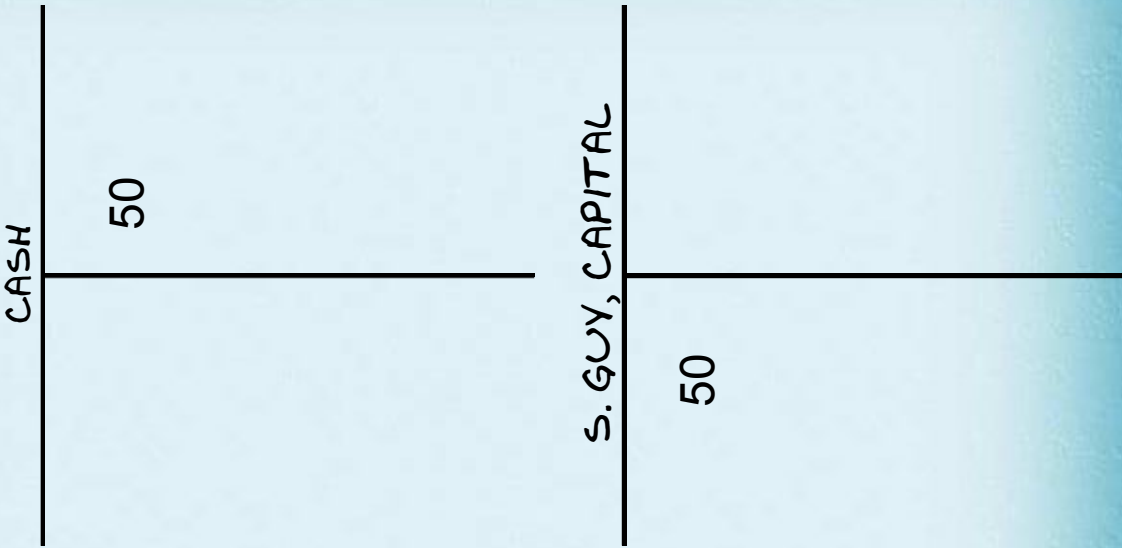




We make a \$1000 sale.



We put \$50 worth of gas in the company truck.



S. Guy withdraws \$200
for his personal use.

CASH	200
S. GUY, CAPITAL	200

- However, by looking at the Capital account, it is hard to determine which changes were from **Sales**, which were from **Expenses**, and which were from the owner **taking money out** of the business.

So...

- We split the Capital Account into multiple accounts.

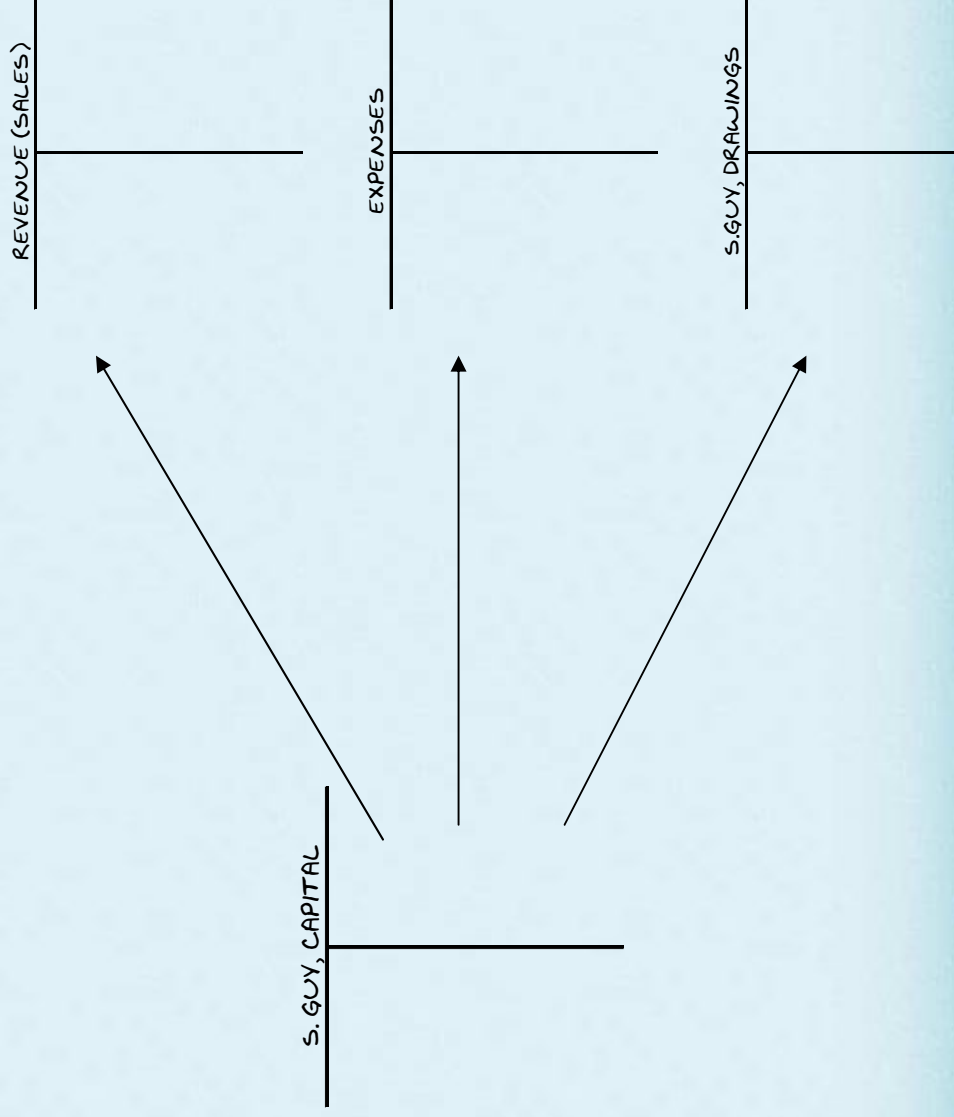
They are:

Revenue

Expenses

Drawings

Instead of Capital, we have:



– These accounts act the same as the capital account. (... because they **are** capital accounts.)

- CR increases these accounts
- DR decreases these accounts

Let's do these again:

1. We make a \$1000 sale.
2. We put \$50 worth of gas in the company truck.
3. S. Guy withdraws \$200 for his personal use.

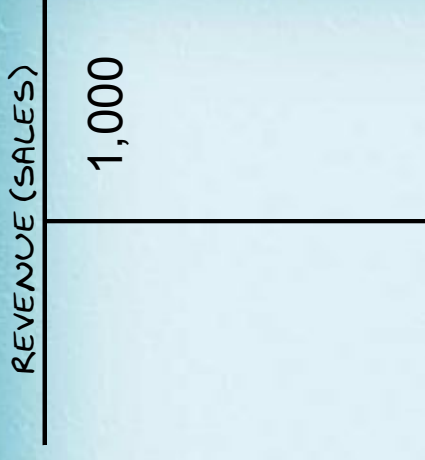
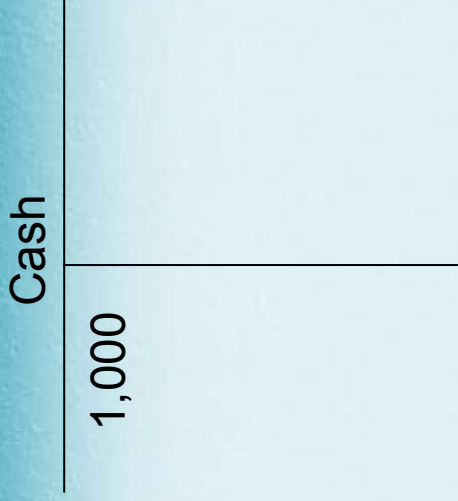
Remember, they work the same way as the Capital account! (They just keep Sales, Expenses, and Drawings separate.)

REVENUE (SALES)

EXPENSES

S.GUY, DRAWINGS

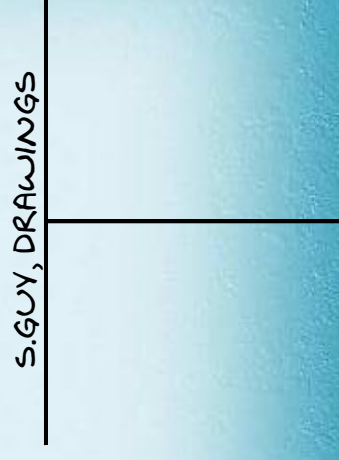
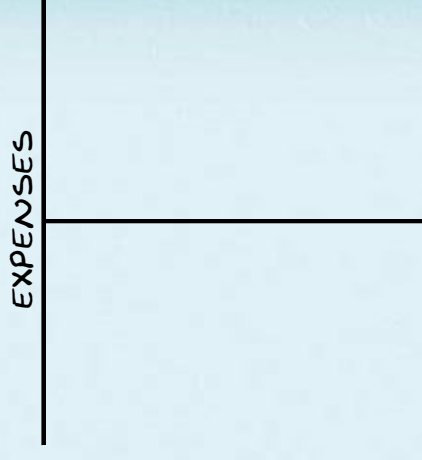
1.



Let's do these again:

1. We make a \$1000 sale.
2. We put \$50 worth of gas in the company truck.
3. S.Guy withdraws \$200 for his personal use.

Remember, they work the same way as the Capital account! (They just keep Sales, Expenses, and Drawings separate.)



1., 2.

Cash	
1,000	50

REVENUE (SALES)	
	1,000

Let's do these again:

1. We make a \$1000 sale.
2. We put \$50 worth of gas in the company truck.
3. S.Guy withdraws \$200 for his personal use.

Remember, they work the same way as the Capital account! (They just keep Sales, Expenses, and Drawings separate.)

EXPENSES	
	50

S.GUY, DRAWINGS	

1., 2., 3.

Cash	
1,000	
50	
200	

REVENUE (SALES)	
1,000	

Let's do these again:

1. We make a \$1000 sale.
2. We put \$50 worth of gas in the company truck.
3. S.Guy withdraws \$200 for his personal use.

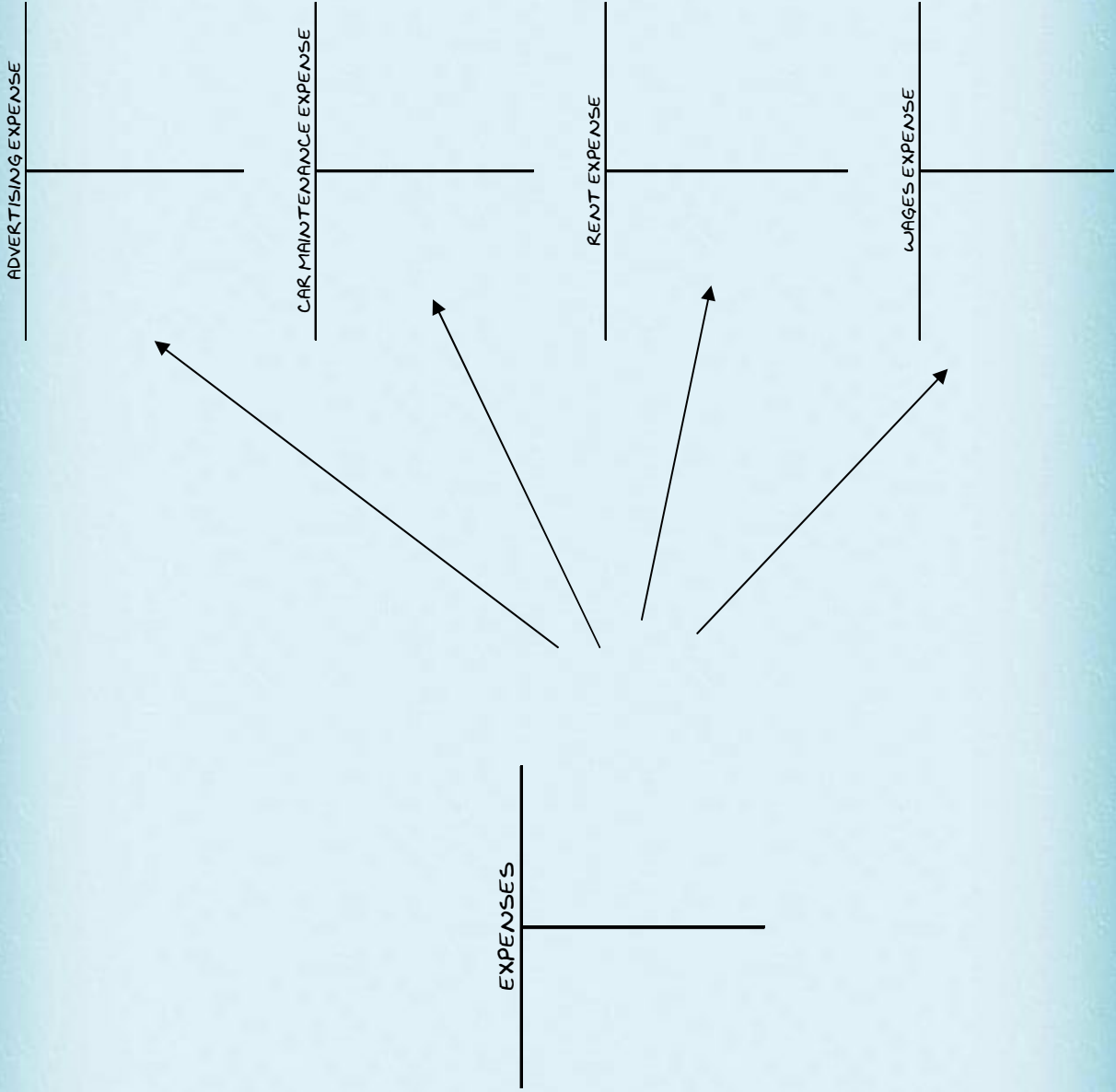
Remember, they work the same way as the Capital account! (They just keep Sales, Expenses, and Drawings separate.)

EXPENSES	
50	

S.GUY, DRAWINGS	
200	

Expenses

- Your expense account is also further divided into the various 'expenses' a business might encounter.
 - Advertising Expense
 - Car Maintenance Expense
 - Gas Expense
 - Rent Expense
 - Wages Expense
 - etc.



‘Revenue’
might also be called....

- ‘Fees Earned’
- ‘Revenue’
- ‘Sales’
- ‘Services Rendered’
- etc.

What will my ledger look like now?

ASSETS

CASH

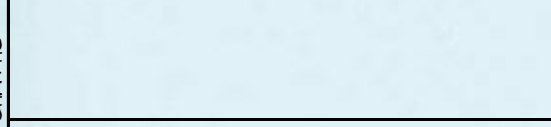


LIABILITIES & OWNER'S EQUITY

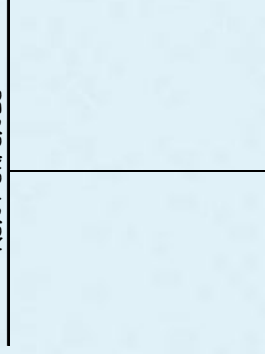
REVENUE (SALES)



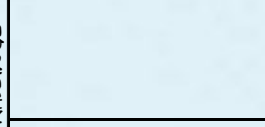
S. GUY, CAPITAL



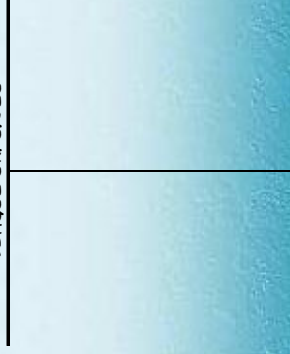
RENT EXPENSE



S. GUY, DRAWINGS



WAGES EXPENSE



Why separate these?

Revenue

- Expenses

Net Income

Why separate these?

Revenue

- Expenses

Net Income



A very important number in Accounting!!!

Net Loss

- What if you have more expenses than revenue??

Revenue	\$10,000
<u>- Expenses</u>	<u>-\$11,000</u>

Net Loss

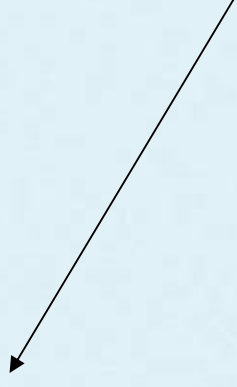
- What if you have more expenses than revenue??

Revenue	\$10,000
- <u>Expenses</u>	<u>-\$11,000</u>
Net Loss	- \$1,000

Various ways to show a loss...

- **Net Loss**

\$1,000



- **Net Income**

- \$1,000

- **Net Income**

\$1,000

Various ways to show a loss...

- **Net Loss** \$1,000

- **Net Income** - \$1,000



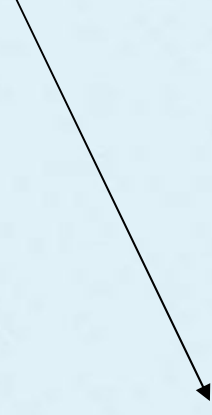
- **Net Income** **\$1,000**

Various ways to show a loss...

- **Net Loss** \$1,000

- **Net Income** - \$1,000

- **Net Income** **\$1,000**



HOMWORK

Exercise 2 on page 125

- recreate the chart on this page using excel.
- Call it 'CapitalAccountsHomework1'

Exercise 3 on page 126

- download the file 'BlankExpandedLedger' from the class website.
- set up the ledger as required and post the transaction to the ledger.
(remember to number your transactions!!)

Exercise 4 on page 127

- complete the sentences as required.

Read page 128 and 129

- What is meant by a 'fiscal period'?

Exercise 2, Page 125

2. This exercise also appears in your Workbook.

A business has the beginning financial position recorded in the schedule below and in your Workbook. Ten simple transactions are listed in the left-side column. Work out the revised totals for assets, liabilities, and owner's equity after each transaction. Enter these totals in your Workbook. Complete the last two columns of the chart by recording: a) the amount of change in equity (if any), and b) whether the change in equity represents revenue, expense, or drawings.

10,000	6,000	4,000	-	-
--------	-------	-------	---	---

Beginning financial position Transactions	Total Assets	Total Liabilities	Owner's Equity	Change in Equity	Revenue? Expense? Drawings?
	10,000	6,000	4,000		
1. Purchased \$400 of supplies for future use and paid cash.	10,000	6,000	4,000	-	-
2. Reduced bank loan by \$1,000.					
3. Received \$800 cash from a debtor.					
4. Sold services for \$900 cash.	10,900	6,000	4,900	+900	Revenue
5. Sold services on credit, \$1,500.					
6. Paid hydro for month just ended, \$125.					
7. Owner withdrew \$750 cash for personal use.					
8. Paid employee's wages, \$600.					
9. Purchased truck on credit, \$20,000.					
10. Owner took supplies for personal use, \$250.					

3. Eric Inahaba is in business for himself as a groundskeeper and gardener in Bathurst, New Brunswick. He cuts grass, weeds gardens, and trims trees and shrubs for a number of customers on a regular basis. The following accounts are in Eric Inahaba's ledger:

Bank	10,000	A/P—Pesticide Products	E. Inhaba, Capital	1,000
A/R—G. Hung		A/P—Pro Hardware		
A/R—F. Sawchuck		E. Inahaba, Capital		
A/R—W. Scott		E. Inahaba, Drawings		
Chemical Supplies		Revenue		
Equipment		Advertising Expense		
Truck		Interest Expense		
Bank Loan	9,000	Telephone Expense		
A/P—Banner News		Truck Expense		
		Wages Expense		

***All accounts without a value have a beginning balance of \$0**

- Download 'BlankExpandedLedger' and make a copy of it.
- Name the copy 'InahabaLedger'
- Set up the ledger with the listed accounts and post the following transactions.

TRANSACTIONS

July

- 2 Received a bill from Pesticide Products regarding the purchase of \$125 worth of chemical supplies on credit.
- 5 Received a bill from Pro Hardware for \$150 for the purchase of a new ladder on credit.
- 6 Issued a cheque for \$100 to W. Decorte for part-time wages.
- 10 Received \$50 from a customer for services performed for cash.
- 13 Issued a bill to G. Hung for \$100 for services sold on credit.
- 13 Received a bill from the *Banner News* regarding a \$50 advertisement placed in the newspaper on credit.
- 16 Issued a cheque for \$175 to E. Inahaba, the owner, for his personal use.
- 19 Received a notice from the bank stating that \$80 had been taken by it from the business's bank account to pay for interest charges on the bank loan.
- 20 Received a memo from E. Inahaba, the owner, stating that he had received \$100 from a cash customer. The money was not put in the bank as usual but was kept by Mr. Inahaba.

4. In your Workbook, complete each of the following statements with either the word "debit" or the word "credit."

- a. The Bank account normally has a _____ balance.
- b. A revenue account normally has a _____ balance.
- c. An expense account normally has a _____ balance.
- d. Paying a creditor involves a _____ entry to the creditor's account.
- e. The Drawings account receives a _____ entry when the owner withdraws money for personal use.
- f. A lawyer gives a refund to a customer. The Bank account will receive a _____ entry and the Revenue account will receive a _____ entry.
- g. Supplies are bought on credit. The Supplies account will receive a _____ entry and the supplier's account payable will receive a _____ entry.
- h. The Drawings account will not normally receive _____ entries.
- i. An increase in equity can be thought of as a _____ to the Capital account.
- j. Net income can be thought of as a _____ to the Capital account.
- k. Net loss can be thought of as a _____ to the Capital account.
- l. The owner takes a computer from the business for his personal (permanent) use. The Drawings account will receive a _____ entry.

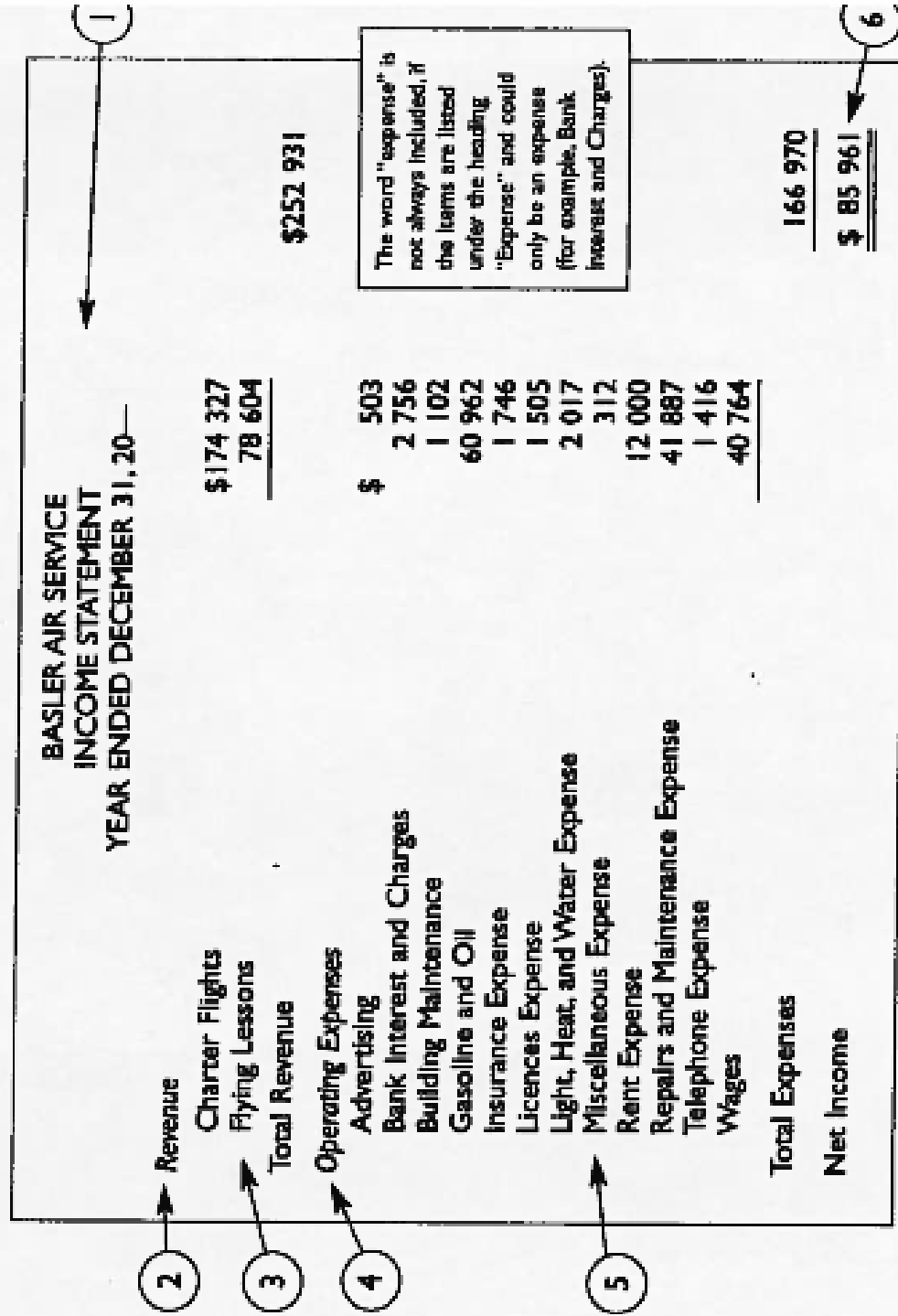
The Income Statement

You learned in the previous section that information was removed from the capital account and was classified as revenues, expenses, or drawings. You also learned that revenues and expenses together produce a net income or a net loss. For Eve Boa, a lawyer, you saw on page 120 that her revenues, expenses, and net income were summarized on the income statement. This is very important information because the income statement tells the owners and the managers how the business is doing (that is, whether or not it is profitable). These people will be keenly interested in this information because their livelihoods and the continuation of the business depend on profitability.

By definition, an income statement is a financial statement that summarizes the items of revenue and expense, and shows the net income or net loss of a business for a given period of time. The income statement of Basler Air Service is shown in Figure 5.4.

FIGURE 5.4

The income statement for Basler Air Service showing a two-column presentation.



- 1 The **Heading** gives:
 - name of business;
 - name of statement;
 - accounting period for which the figures have been accumulated.
- 2 The **Revenue** section shows an increase in equity resulting from the proceeds of the sale of goods or services in the ordinary course of business.
- 3 Two types of revenue are shown in the statement for Basler Air Service.
- 4 The **Expense** section shows decreases in equity resulting from the cost of goods or services used to produce the revenue.
- 5 Expenses are shown in detail.
- 6 The **Net Income** or **Net Loss** figure. Net Income is not cash. It is the difference between total revenues and total expenses, if the revenues are greater than the expenses. In this case a net income is the result.

Revenues	\$ 252 931
Expenses	— 166 970
Net Income	<u>\$ 85 961</u>

A net loss occurs if the expenses are greater than the revenues.

The Income Statement Put to Use

By Owners and Managers

The income statement is a very useful tool. It tells the owners or managers if their business is earning a profit and, if so, how much. The income statement is helpful to them in forming company goals and policies, and in making business decisions.

A business will not survive long if it does not earn a profit. All of the figures making up the profit or loss may be seen on the income statement. The figures for the current year may be compared with those for previous years. Unfavourable trends or problems may be seen quickly and can then be corrected. Successful business people make good use of the information on the income statement.

By Bankers

Bankers will want to see the financial statements of any business to which they loan money. Bankers need to know if the borrower will be able to repay the loan. Financial statements help inform bankers about the condition of a business.

By Income Tax Authorities

Every business is required by law to prepare an income statement once each year. The net income figure of a proprietorship must be included on the owner's income tax return. The income statement must be sent to the government along with the owner's income tax return.

The Fiscal Period

Net income is measured over a specific length of time, called the fiscal period. The fiscal period (also called the accounting period) is the period of time over which earnings are measured. All fiscal periods for an individual business are of the same length.

The earnings figure of a business does not mean anything if you do not know how long it took to produce those earnings. You would not be very informed about a business if all you knew about its net income was that it amounted to \$8 000. You would not be favourably impressed if it took one year to earn that amount. On the other hand, if the \$8 000 was earned in only one week, you would probably be quite impressed.

p.s.

- I will come around and have you show me your homework tomorrow on your computers.

Please have it ready to be shown at the start of class.

