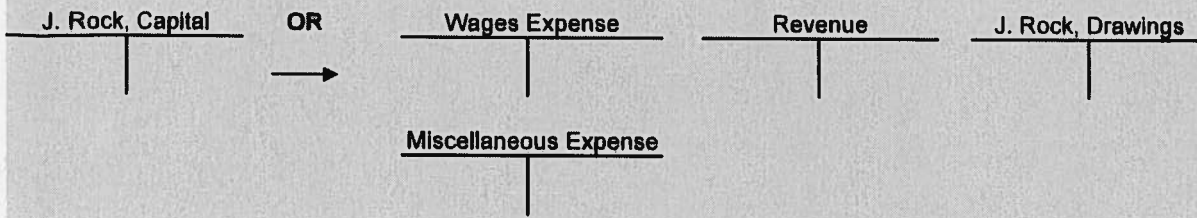


Transactions affecting Equity



Please post the following transactions, from this month, for 'P. Roy Design' to the expanded ledger below.

- | | |
|---|---|
| <p>a) Purchased \$400 worth of supplies for cash.</p> <p>b) Reduced the bank loan by \$1000.</p> <p>c) Received \$800 cash from a debtor.</p> <p>d) Sold services for \$900 cash.</p> <p>e) Sold services on credit for \$1500.</p> | <p>f) Paid hydro for the month just ended, \$125 cash.</p> <p>g) P. Roy (the owner) withdrew \$750 for his personal use.</p> <p>h) Paid employee's wages by cheque, \$600.</p> <p>i) Purchased truck on credit for \$20,000.</p> <p>j) Owner took supplies for personal use, \$250.</p> |
|---|---|

ASSETS

<u>Cash</u>	<u>Supplies</u>
9,000	200
	<u>Accounts Receivable</u>
	800

LIABILITIES & EQUITY

<u>Bank Loan</u>	<u>P. Roy, Capital</u>
6,000	4,000
	<u>Revenue</u>
	<u>P. Roy, Drawings</u>
	<u>Utilities Expense</u>
	<u>Wages Expense</u>

BAF3M

ISP: October 11, 2012

- Post January's transactions to the provided ledger.
- Take off a trial balance for the end of January, 2012 for Sergeant Splatter's Paintball.
- Read the provided material on 'The Income Statement'
- Create an Income Statement for 'The Month Ending January, 2012' for Sgt. Splatter.

You will have Thursday to work on this assignment.

It will be checked on Monday.

Please bring your work to class.

Name: _____

January Transactions

1. John finds a great place to rent. It is an old arena that he can pay for month by month. He pays his first instalment of \$1750 to owners and is given the keys to the front door.
2. John decides he needs a sign. He purchases a great big 'Sergeant Splatter's' neon sign for \$1200. He pays cash.
3. John also finds an old truck for \$3000 to drive around for business use. He buys it, on account, from Ray Cullen Chevrolet.
4. Various supplies are needed which John purchases for \$600. He pays in cash.
5. One of the main items needed are paintball shooters. (They are considered 'equipment'.) Each one cost \$250. Ten of them are bought for the business with cash.
6. Various obstacles are needed for the arena, which John also considers 'equipment.' He buys \$750 worth of obstacles from Obstacles Inc. on account.
7. John decides to pay off his truck loan.
8. Sergeant Splatter's gets ready for business. It puts an Ad in the local 'Metro' paper for \$300. Payment is due in 30 days.
9. On opening day, 40 people come to Sergeant Splatter's. Each one pays \$50 to play for two hours.
10. The next day, 50 people come! All of them pay in cash.
11. John needs to make repairs to some of the obstacles. It costs him \$155 which he pays in cash.
12. John decides to sell his truck. He sells it to a friend for \$2100 cash.
13. John decides to withdraw \$500 for his personal use.
14. With his own money, John goes out for lunch, paying \$4.
15. Thinking ahead, John decides to apply for a bank loan of \$200,000. He is approved, and the money is deposited in his account.
16. John decides to buy himself a newer truck. It costs \$42,000, payable in 45 days, to Ray Cullen Chevrolet.
17. Forty Subway employees are treated to a day of paintballing. The bill will be paid later in the month.
18. During the remainder of the month, sales come to \$21,550. All are paid in cash.
19. The bank loan is paid down by \$5,000.
20. John negotiates with the owners of the Arena, Tandum Corp. They say he can buy it for \$233,000. John agrees, paying \$200,000 up front and owing them the rest.
21. John has to make some more repairs. It costs him \$455 cash.
22. John takes out another \$200 for his own use.
23. Interest on the loan comes to \$325. It is withdrawn from his bank account.
24. John pays for a billboard ad along the highway. It is \$974, on account to Metro as well.
25. John pays his employees at the end of the month. A total of \$2,472 is paid by cheque.

Name: _____

CASH
25,000

NEON SIGN

TRUCK

A/P - RAY CULLEN

A/P - OBSTACLES INC.

J. SPLATTER, CAPITAL
25,000

SALES

A/R - SUBWAY

EQUIPMENT

A/P - METRO

J. SPLATTER, DRAWINGS

SUPPLIES

A/P - TANDUM CORP

RENTAL EXPENSE

BANK LOAN

REPAIR EXPENSE

ADVERTISING EXPENSE

INTEREST EXPENSE

WAGES EXPENSE

5.2 | 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.

You should note carefully some important features of the formal income statement as shown in Figure 5.4 below. Explanations for the circled numbers follow the income statement.

FIGURE 5.4

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

BASLER AIR SERVICE INCOME STATEMENT YEAR ENDED DECEMBER 31, 20—		
②	Revenue	
	Charter Flights	\$174 327
	Flying Lessons	<u>78 604</u>
③	Total Revenue	\$252 931
	Operating Expenses	
④	Advertising	\$ 503
	Bank Interest and Charges	2 756
	Building Maintenance	1 102
	Gasoline and Oil	60 962
	Insurance Expense	1 746
	Licences Expense	1 505
	Light, Heat, and Water Expense	2 017
	Miscellaneous Expense	312
⑤	Rent Expense	12 000
	Repairs and Maintenance Expense	41 887
	Telephone Expense	1 416
	Wages	<u>40 764</u>
	Total Expenses	<u>166 970</u>
	Net Income	<u>\$ 85 961</u>

The word "expense" is not always included, if the items are listed under the heading "Expense" and could only be an expense (for example, Bank Interest and Charges).

- 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 the 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	<u>– 166 970</u>
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.

