



# Accounting

### Open Positions

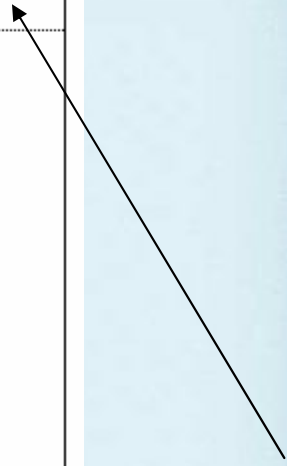
Overall Ranking	1380	Overall Return	0.03%	Portfolio Value (USD)	\$500,133.95
Monthly Ranking	1380	Monthly Return	0.03%	Buying Power (USD)	\$495,886.95
Weekly Ranking	1209	Weekly Return	0.03%		

\* Profit/Loss is in local currency and does not reflect FX impact.



### Equities

ACTION	SYMBOL	CURRENCY	LAST PRICE	CHANGE	QTY	PRICE PAID	MKT VALUE (USD)	PROFIT/LOSS (LOCAL CURRENCY)	%
<b>SELL</b>	L	USD	42.46	0.36	100	42.11	4,246.00	35.00	0.83%
					1				



**Return on Investment!**  
= Change in Price / Price Paid

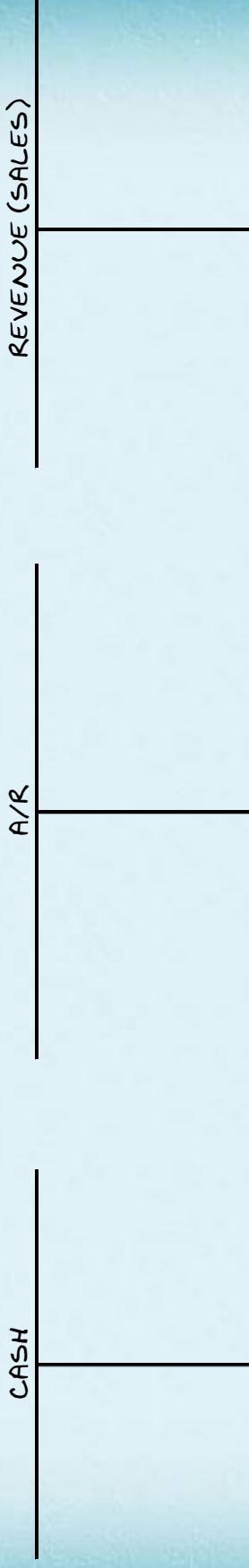
# THE INCOME STATEMENT

# Remember....

- Revenue: CR !!!
- Expenses: DR !!!
- (Commit this to memory!)

# GAAP

- **Revenue Recognition**
  - Revenue recognition states that revenue must be recorded (recognized) at the time the transaction is completed.



# INCOME STATEMENT

- The Income Statement tells managers, bankers, and investors whether a business is profitable or not.
- It is a **formal** statement that shows Revenue and Expenses of a business over a period of time. (Usually over the fiscal year.)
- Revenue – Expenses = **Net Income**

JOE'S CARPENTRY  
INCOME STATEMENT  
MONTH ENDED JANUARY 31, 2015

REVENUE	
FEES EARNED	25,000
EXPENSES	
ADVERTISING EXPENSE	800
RENT EXPENSE	6,000
WAGES EXPENSE	<u>3,200</u>
TOTAL EXPENSES	10,000
NET INCOME	<u><u>15,000</u></u>

JOE'S CARPENTRY  
INCOME STATEMENT  
MONTH ENDED JANUARY 31, 2015

REVENUE

FEES EARNED

25,000

EXPENSES

ADVERTISING EXPENSE

800

RENT EXPENSE

6,000

WAGES EXPENSE

3,200

TOTAL EXPENSES

10,000

NET INCOME

15,000



- **Remember that the Income Statement covers a period of time.**
- (How much \$ in sales there were during that time vs. the business' expenses)
- The 'date' part of the heading should reflect that.
  - 'For the year ended December 31, 2015'
  - 'For the month ended, March 31, 2012'

# GAAP

- The Time Period Concept
  - The time period concept provides that accounting will take place over specific time periods known as fiscal periods.

\*\* Fiscal Period\*\*

# The Matching Principle

- The matching principle states that expensed items related to revenue must be recorded in the same period as the revenue it helped to earn.
  - eg. Advertising



# The Trial Balance

- The trial balance procedure is unchanged
- List all the accounts
- List their debit and credit balances
- Add each column up. (and double underline!)

- Assets, Liabilities, Equity go to the **Balance Sheet.**
- Revenues and Expenses go to the **Income Statement.**

# HOMework...

- Page 133
  - Review Questions
- Page 134
  - Exercise 2-A,C
  - Exercise 5-A,B,C,D

\*Refer to the **Income Statement** example in your ISP handout, as an example.

## Review Questions

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1. What two classifications appear on the income statement?
2. How do you calculate net income? Net loss?
3. Name the three persons or groups who use the income statement.
4. Why are owners keenly interested in the income statement?
5. Why are bankers interested in seeing the income statement of a business to which the bank has loaned money?
6. Why must a business produce an income statement for the government?
7. Define the term "fiscal period."
8. Define the GAAP "time period concept."
9. How does the date on the income statement heading differ from that on the balance sheet?
10. Explain the "matching principle."
11. What is a chart of accounts?
12. Describe the account numbering system used in this text.
13. What types of account balances are normally found in an asset account? A liability account? A Revenue account? An Expense account? The Drawings account? The Capital account?

2. The ledger of Emily Stokaluk as at March 31, 20— is given below.

Bank	Accounts Receivable	Supplies
10 100	8 300	950
Land	Building	Equipment
35 000	110 000	22 000
Automobiles	Accounts Payable	Bank Loan
24 000	2 800	10 000
Mortgage Payable	E. Stokaluk, Capital	E. Stokaluk, Drawings
75 000	52 088	15 000
Fees Earned	Interest Earned	Advertising Expense
132 500	1 000	1 200
Bank Charges Expense	Building Maintenance Expense	Gas and Oil Expense
350	420	1 800
Utilities Expense	Miscellaneous Expense	Car Repair Expense
1 640	128	850
	wages Expense	
	41,650	

\*instructions on next page...



Page 134, 2.

- A. Prepare a trial balance in your Workbook.
- B. Prepare a chart of accounts based on the numbering system used in the text and shown on page 131.
- C. Prepare a simple income statement (one month).

3 part heading

Revenue  
Sales

Operating Expenses  
Expense 1  
Expense 2

Net Income

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. The following information is for Atlas Associates for the month ended November 30, 20--.

Fees Earned, \$31 700; Salaries Expense, \$13 400; Rent Expense, \$6 000; General Expense, \$1 200; Advertising Expense, \$600; Car Expense, \$3 700; Utilities Expense, \$3 500.

- A. Prepare an income statement for the month.
- B. The Salaries Expense of \$13 400 included a \$1 400 advance paid to an employee who desperately needed the money. The accounting clerk included the \$1 400 in Salaries Expense because the employee was going to earn this amount of money in December. What GAAP did the clerk violate when preparing the November expense figures? Explain why this was a violation.
- C. Calculate the November net income if the GAAP you noted above had been followed.
- D. Would the net for December be higher or lower if the GAAP was not followed?