

THE ABCs OF Accounting

Lesson 6: Generating Financial Statements

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Lesson Objectives

- After studying this lesson, you will be able to:
 - ▲ Create adjusting entries and post them to the general ledger
 - ▲ Prepare the worksheet
 - ▲ Prepare the income statement
 - ▲ Prepare the statement of owner's equity
 - ▲ Prepare the balance sheet
 - ▲ Define the terms introduced in the lesson

Step 6: Preparing the Worksheet

- Form used to collect all data needed at the end of an accounting period to prepare the financial statements
- Sections of the worksheet:
 - ▲ Heading
 - ▲ Trial Balance
 - ▲ Adjusted Trial Balance
 - ▲ Income Statement
 - ▲ Balance Sheet

The Heading

- Company name
- Report title
- Period covered

**World Wide Travel
WorkSheet
For the Month Ended April 30, 2009**

Sections of the Worksheet

World Wide Travel WorkSheet For the Month Ended April 30, 2009								
Account Name	Trial Balance		Adj. Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	28,100.00		28,100.00				28,100.00	
Accounts Receivable	450.00		450.00				450.00	
Inventory Asset	1,000.00		1,000.00				1,000.00	
Furniture and Equipment	9,000.00		9,000.00				9,000.00	
Accounts Payable		3,800.00		3,800.00				3,800.00
Jenny Smith, Capital		35,000.00		35,000.00				35,000.00
Jenny Smith, Draw	700.00		700.00				700.00	
Fees		2,200.00		2,200.00		2,200.00		
Advertising Expense	75.00		75.00		75.00			
Maintenance Expense	800.00		800.00		800.00			
Rent Expense	750.00		750.00		750.00			
Utilities Expense	125.00		125.00		125.00			
TOTAL	41,000.00	41,000.00	41,000.00	41,000.00	1,750.00	2,200.00	39,250.00	38,800.00
Net Income					450.00			450.00
					2,200.00	2,200.00	39,250.00	39,250.00



Trial Balance

1. Enter all general ledger account names
2. Transfer the balances to the debit and credit columns
3. Total the columns to prove the trial balance is in balance
4. Draw a double underline (rule) under each column to show that it is complete and that no other entries will be made

Adjustments

- Account balances change whenever transactions occur
- Other changes occur because of internal operations
- Journal entries that are made to update accounts at the end of the accounting period are called adjusting entries
- Assets that are used up through business operations are called expenses

Adjustments (cont'd)

- If \$1,200 of supplies were purchased at the beginning of the month; if there were only \$600 worth left – what happened?
- Half the supplies were used up
- Unless you adjust the Supplies account, it will state that there is \$1,200 of supplies; this is an overstatement
- The business would be saying it had more supplies than it actually had



Prepaid Expenses

- Supplies are a prepaid expense
- These expenses are things a business pays for in advance, before it uses them
- What are some other examples of prepaid expenses?
 - ▲ Advertising
 - ▲ Insurance
 - ▲ Rent
 - ▲ Supplies

Adjusting Entry

- If \$600 worth of supplies were indeed used up, the general journal entry follows:

GENERAL JOURNAL				Page <u> 2 </u>											
	Date		Description	Post. Ref.	Debit					Credit					
1	2009		Adjusting Entries												
2	Apr.	30	Supplies Expense	525			6	0	0						
3			Supplies	125								6	0	0	



Step 7: Generating the Financial Statements

- Prepared at the end of the accounting period
- Give the business owner information on how business is performing
- Primary statements include:
 - ▲ Income Statement
 - ▲ Balance Sheet
 - ▲ Statement of Owner's Equity

The Income Statement

World Wide Travel												
Income Statement												
For the Month Ended April 30, 2009												
	Revenue:											
	Fees								2	2	0	0
	Expenses:											
	Advertising Expense											
	Maintenance Expense											
	Rent Expense											
	Utilities Expense											
	Total Expenses								1	7	5	0
	Net Income											

Revenues

- Revenues are the assets created through business operations
- Increase in total assets
- Not tied to any liabilities
- Increase in owner's equity



Not all inflows of cash are revenues. Cash may be received by borrowing money from the bank. This is an increase in liabilities.

Expenses

- Assets consumed through business operations
- Represent a decrease in assets
- Represent a decrease in owner's equity



Not all outflows of an asset are an expense. Cash used to buy supplies is not an expense. This is an exchange of one asset (cash) for another (supplies).

The Statement of Owner's Equity

- Will show changes that have occurred in the owner's position during the accounting period
- Balance sheet and net income or net loss figure are used to prepare this report
- Balance sheet: owner's capital, owner's withdrawals, and owner's investment
- Income statement: Amount of net income or net loss

Statement of Owner's Equity

WorldWide Travel														
Statement of Changes in Owner's Equity														
For the Month Ended April 30, 2009														
Beginning Capital														
Add: Investment			3	5	0	0	0							
Net Income					4	5	0							
Total Increase in Capital										3	5	4	5	0
Subtotal										3	5	4	5	0
Less: Withdrawals												7	0	0
Ending Capital, April 30, 2009										3	4	7	5	0

The Balance Sheet

- Shows the financial position of a firm on a given date
- Also called the position statement
- Pinpoints:
 - ▲ What a business owns
 - ▲ What a business owes
 - ▲ What a business is worth

Balance Sheet

WorldWide Travel												
Balance Sheet												
April 30, 2009												
Assets												
Cash in Bank					2	8	1	0	0			
Accounts Receivable							4	5	0			
Inventory Asset					1	0	0	0				
Furniture and Equipment					9	0	0	0				
Total Assets										3	8	5 5 0
Liabilities												
Accounts Payable					3	8	0	0				
Total Liabilities										3	8	0 0
Owner's Equity												
Jenny Smith, Capital										3	4	7 5 0
Total Liabilities & Owner's Equity										3	8	5 5 0

Preparing Financial Statements on the Computer

- Easy to do
- Choose the report
- Select the date or date range
- Preview the report

Deep Divers

Balance Sheet

Modify Report... Memorize... Print... E-mail Export... Hide Header Collage Refresh

Dates Custom As of 04/30/2009 Columns Total only Sort By Default

11:57 PM
11/10/09
Accrual Basis

Deep Divers1 Balance Sheet As of April 30, 2009

◊ Apr 30, 09 ◊

ASSETS	
Current Assets	
Checking/Savings	
Big Bank	▶ 48,050.00 ◀
Total Checking/Savings	48,050.00
Accounts Receivable	
Accounts Receivable	350.00
Total Accounts Receivable	350.00
Other Current Assets	
Undeposited Funds	400.00
Total Other Current Assets	400.00
Total Current Assets	48,800.00
Fixed Assets	
Furniture and Equipment	29,250.00
Total Fixed Assets	29,250.00
TOTAL ASSETS	<u>78,050.00</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	2,500.00
Total Accounts Payable	2,500.00
Total Current Liabilities	2,500.00
Total Liabilities	2,500.00
Equity	
Opening Balance Equity	75,000.00
Owners Draw	-1,250.00
Net Income	1,800.00
Total Equity	75,550.00
TOTAL LIABILITIES & EQUITY	<u>78,050.00</u>



Summary

- Proper preparation of the worksheet is one of the most important tasks in the accounting cycle
- Adjusting entries help create a true value of the business
- Worksheet is used to create financial statements
- These statements are used by business owner to apply for loans and when making growth or contraction decisions

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