

FINANCIAL STATEMENTS

BASIC STEPS TO PREPARING FINANCIAL STATEMENTS

- Journalize
 - Journal entries are in transaction (date) order
- Post journal entries to General Ledger
 - General Ledger is in account order
- Prepare Income Statement
- Prepare Balance Sheet

GENERAL LEDGER

Journal Entries Must Have Been

Cash									
Date	Description	Reference	Debit	Credit	Balance				
1/15/2015	Investment by owner	J1	100,000.00		100,000.00	J1	1/15/2015	Cash	100,000
1/20/2015	Buy Equipment	J2		8,000.00	92,000.00			Common Stock	100,000
1/25/2015	Bought gas used to mow customer's lawn	J3		400.00	91,600.00				
1/25/2015	Rec'd payment from customer	J4	2,000.00		93,600.00				
Equipment									
Date	Description	Reference	Debit	Credit	Balance				
1/20/2015	Buy Equipment	J2	8,000.00		8,000.00	J2	1/20/2015	Equipment	8,000
								Cash	8,000
Common Stock									
Date	Description	Reference	Debit	Credit	Balance				
1/15/2015	Investment by owner	J1		100,000.00	100,000.00	J3	1/25/2015	Gas Expense	400
								Cash	400
Revenue									
Date	Description	Reference	Debit	Credit	Balance				
1/25/2015	Rec'd payment from customer	J4		2,000.00	2,000.00	J4	1/25/2015	Cash	2,000
								Revenue	2,000
Gas Expense									
Date	Description	Reference	Debit	Credit	Balance				
1/25/2015	Gas used to mow lawn	J3	400.00		400.00				

FINANCIAL STATEMENTS

Income Statement

$$\text{Revenues} - \text{Expenses} = \text{Net Income}$$

Balance sheet

$$\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$$

RELATIONSHIP BETWEEN STATEMENTS

Income Statement ends with Net Income

Balance sheet

$$\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$$

Retained Earnings is part of S/E



RETAINED EARNINGS FORMULA

- Beginning Retained Earnings
 - + Net Income
 - Dividends
- Ending Retained Earnings

FINANCIAL STATEMENTS EXAMPLE 1

Cash			Income Statement		
Debit	Credit	Balance	For year ended December 31, 2016		
100,000.00		100,000.00	Revenue	2,000.00	
	8,000.00	92,000.00	Gas Expense	(400.00)	
	400.00	91,600.00	Net Income	1,600.00	
2,000.00		93,600.00			
Equipment			Balance Sheet		
Debit	Credit	Balance	December 31, 2016		
8,000.00		8,000.00	Assets		
			Cash	93,600.00	
			Equipment	8,000.00	
			Total Assets	101,600.00	
Common Stock			Liabilities		
Debit	Credit	Balance	December 31, 2016		
	100,000.00	100,000.00	Total Liabilities		0.00
Revenue			Stockholders' Equity		
Debit	Credit	Balance	December 31, 2016		
	2,000.00	2,000.00	Common Stock	100,000.00	
			Retained Earnings		
			Beginning Balance	0.00	
			Net Income	1,600.00	
			Dividends	0.00	
			Ending Retained Earnings	1,600.00	
			Total Stockholders' Equity	101,600.00	
Gas Expense			Total Liabilities Plus S/E		
Debit	Credit	Balance	December 31, 2016		
400.00		400.00			101,600.00

FINANCIAL STATEMENTS EXAMPLE 1

Cash			Income Statement		
Debit	Credit	Balance	For year ended December 31, 2016		
100,000.00		100,000.00	Revenue	2,000.00	
	8,000.00	92,000.00	Gas Expense	(400.00)	
	400.00	91,600.00	Net Income	1,600.00	
2,000.00		93,600.00			
Equipment			Balance Sheet		
Debit	Credit	Balance	December 31, 2016		
8,000.00		8,000.00	Assets		
			Cash	93,600.00	
			Equipment	8,000.00	
			Total Assets	101,600.00	
Common Stock			Liabilities		
Debit	Credit	Balance	December 31, 2016		
	100,000.00	100,000.00	Total Liabilities		0.00
Revenue			Stockholders' Equity		
Debit	Credit	Balance	December 31, 2016		
	2,000.00	2,000.00	Common Stock	100,000.00	
			Retained Earnings		
			Beginning Balance	0.00	
			Net Income	1,600.00	
			Dividends	0.00	
			Ending Retained Earnings	1,600.00	
			Total Stockholders' Equity	101,600.00	
Gas Expense			Total Liabilities Plus S/E		
Debit	Credit	Balance	December 31, 2016		
400.00		400.00			101,600.00

EXAMPLE 2 – INCOME STATEMENT

Income Statement	
January 1, 20XX - December 31, 20XX	
Revenues	100,000
- Cost of Goods Sold	(40,000)
Gross Profit	60,000
-Other Expenses	
Wage Expense	25,000
Insurance Expense	13,000
Total Expenses	(38,000)
Net income	22,000

EXAMPLE 2 – BALANCE SHEET

Balance Sheet			
December 31, 20XX			
Assets		Liabilities	
Cash	50,000	Accounts Payable	65,000
Accounts Recv.	60,000	Notes Payable	75,000
Land	70,000	Total Liabilities	140,000
Equipment	80,000		
Total Assets	260,000		
		Stockholders' Equity	
		Common Stock	85,000
		Beginning Retained Earnings	23,000
		+Net Income	22,000
		-Dividends	(10,000)
		Ending Retained Earnings	35,000
		Total Stockholders' Equity	120,000
		Total Liabilities plus S/E	260,000

ALMOST DONE!
