

## اعداد القوائم المالية

### INCOME STATEMENT

The income statement reports the results of an entity's operations over a period of time, such as a year.

$$\text{The Income Equation: Income (Loss) = Revenues + Gains – Expenses – Losses}$$

The following are the elements of an income statement:

1. Revenues are inflows or other enhancements of assets or settlements of liabilities (or both) from delivering or producing goods, providing services, or other activities that qualify as ongoing major or central operations.
2. Gains are increases in equity (or net assets) other than from revenues or investments by owners.
3. Expenses are outflows or other usage of assets or incurrences of liabilities (or both) from delivering or producing goods, providing services, or other activities that qualify as ongoing major or central operations.
4. Losses are decreases in equity (or net assets) other than from expenses or distributions to owners.

### BALANCE SHEET

The statement of financial position, also called the balance sheet, reports the amounts of assets (items of value), liabilities (debt), and equity (net worth) and their relationships at a moment in time, such as at the end of the fiscal year.

### ELEMENTS OF THE BALANCE SHEET

- A. Assets are resources controlled by the entity as a result of past events. They represent probable future economic benefits to the entity. Examples include inventory; accounts receivable; investments; and property, plant, and equipment.
- B. Liabilities are present obligations of the entity arising from past events. Their settlement is expected to result in an outflow of economic benefits from the entity. Examples include loans payable, bonds issued by the entity, and accounts payable.
- C. Equity is the residual interest in the assets of the entity after subtracting all its liabilities. Examples include a company's common stock, preferred stock, and retained earnings

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لاستلة والتمارين

- 2.1. Prepare an income statement based on the following information: Fees Income, \$38,000; Supplies Expense, \$16,000; Salaries Expense, \$12,000. Miscellaneous Expense, \$7,000.


**SOLUTION**

<i>Income Statement</i>		
Fees Income		\$38,000
Expenses		
Supplies Expense	\$16,000	
Salaries Expense	12,000	
Miscellaneous Expense	7,000	
Total Expenses		35,000
Net Income		\$ 3,000

- 2.2. Based on Prob. 2.1, what would the net income or net loss be if, in addition to the listed expenses, there was an additional expense of \$5,000 charged to Rent?


**SOLUTION**

<i>Income Statement</i>		
Fees Income		\$38,000
Expenses		
Supplies Expense	\$16,000	
Salaries Expense	12,000	
Rent Expense	5,000	
Miscellaneous Expense	7,000	
Total Expenses		40,000
Net Loss		\$ 2,000

*Note:* When expenses exceed income, a net loss results. This will have the effect of reducing capital.

- 2.3. The following information was taken from an income statement: Fees Income, \$14,000; Rent Expense, \$2,000; Salaries Expense, \$5,000; Miscellaneous Expense, \$1,000. If the owner withdrew \$2,000 from the firm, what is the increase or decrease in capital?


**SOLUTION**

There are two steps to solving this problem:

1. Prepare an income statement.
2. Determine increases or decreases in capital by subtracting the drawing (withdrawal) from the net income.

Fees Income		\$14,000
Expenses		
Rent Expense	\$2,000	
Salaries Expense	5,000	
Miscellaneous Expense	1,000	
Total Expenses		8,000
Net Income		<u>\$ 6,000</u>
Net Income	\$6,000	
Drawing	2,000	
Increase in Capital	<u>\$4,000</u>	

- 2.4. Based on the information in Prob. 2.3, if the withdrawal were \$9,000 instead of \$2,000, what would the increase (decrease) become?

**SOLUTION**

If the withdrawal is larger than the net income, a decrease in capital will result.

Net Income	\$6,000
Drawing	<u>9,000</u>
Decrease in Capital	<u>\$3,000</u>

- 2.5. If the Capital account has a balance on January 1 of \$32,000, what will be the balance on December 31 (a) based on Prob. 2.3? (b) based on Prob. 2.4?

**SOLUTION**

(a)	Capital, January 1		\$32,000
	Net Income	\$6,000	
	Less: Drawing	<u>2,000</u>	
	Increase in Capital		<u>4,000</u>
	Capital, December 31		<u>\$36,000</u>
(b)	Capital, January 1		\$32,000
	Net Income	\$6,000	
	Less: Drawing	<u>9,000</u>	
	Decrease in Capital		<u>3,000</u>
	Capital, December 31		<u>\$29,000</u>

- 2.6. Based on the following information, determine the capital as of December 31, 19X8: Net Income for period, \$18,000; Drawing, \$6,000; Capital (January 1, 19X8), \$20,000.


**SOLUTION**

Capital, January 1, 19X8		\$20,000
Net Income	\$18,000	
Less: Drawing	6,000	
Increase in Capital		12,000
Capital, December 31, 19X8		<u>\$32,000</u>

- 2.7. Based on the following information, determine the capital as of December 31: Capital (January 1), \$26,000; Net Income, \$18,000; Drawing, \$20,000.


**SOLUTION**

Capital, January 1		\$26,000
Net Income	\$18,000	
Drawing	20,000	
Decrease in Capital		2,000
Capital, December 31		<u>\$24,000</u>

*Note:* It is possible to withdraw more than net income, provided that your beginning capital has an adequate balance. This will result in a decrease in capital, which will be subtracted from the beginning capital.

- 2.8. Determine the capital as of December 31, given the following information: Capital (January 1), \$30,000; Net Loss for period, \$18,000; Drawing, \$4,000.


**SOLUTION**

Capital, January 1		\$30,000
Net Loss	\$18,000	
Drawing	4,000	
Decrease in Capital		22,000
Capital, December 31		<u>\$ 8,000</u>

- 2.9. Based on the following information, determine the capital on December 31:

Cash	\$6,000
Supplies	400
Equipment	8,000
Accounts Payable	4,500
Notes Payable	2,500

### SOLUTION

#### ASSETS

Cash	\$ 6,000
Supplies	400
Equipment	<u>8,000</u>
Total Assets	<u>\$14,400</u>

#### LIABILITIES AND OWNER'S EQUITY

Accounts Payable	\$ 4,500
Notes Payable	<u>2,500</u>
Total Liabilities	\$ 7,000
Capital	<u>7,400*</u>
Total Liabilities and Owner's Equity	<u>\$14,400</u>

\*\$14,400(Assets) – \$7,000(Liabilities) = \$7,400(Owner's Equity).

- 2.10. Selected accounts of the Ruez Company produced the following balances:

	January 1	January 31
Assets	\$16,000	\$19,000
Liabilities	4,000	3,000

What was the net income of the firm, assuming that there were no withdrawals?

### SOLUTION

Capital, January 1	\$12,000*
Capital, January 31	<u>16,000**</u>
Increase in Capital	<u>\$ 4,000</u>

Because there was no drawing, \$4,000 must also be the net income, because net income minus drawing equals increase in capital.

\*(\$16,000 – \$4,000). Based on the concept assets – liabilities = owner's equity.

\*\*(\$19,000 – \$3,000). Based on the concept, assets – liabilities = owner's equity.

- 2.11. Based on the information in Prob. 2.10, determine the net income if \$1,500 was withdrawn from the company.

### SOLUTION

Capital, January 1	\$12,000
Capital, January 31	<u>16,000</u>
Increase in Capital	<u>\$ 4,000</u>

We know that net income – drawing = increase in capital.

Therefore, net income – \$1,500 = \$4,000. Net income must be \$5,500.

- 2.12. Below are the financial statements for Lucky Dip Ice Cream Consulting. Certain key figures have been left out. Place the correct amount needed in each of the blanks.

<i>Lucky Dip Ice Cream Consulting</i>		
<i>Income Statement</i>		
<i>Year Ended December 31, 19X8</i>		
Fees Income		66,700
Operating Expenses		
Wages Expense	\$31,500	
Rent Expense	7,200	
Supplies Expense	700	
Miscellaneous Expense	900	
Total Operating Expenses		(a)
Net Income		(b)

<i>Lucky Dip Ice Cream Consulting</i>		
<i>Statement of Owner's Equity</i>		
<i>Year Ended December 31, 19X8</i>		
Capital, January 1, 19X8		\$18,000
Net Income for the Year	(c)	
Less: Withdrawals	\$20,000	
Increase in Capital		(d)
Capital, December 31, 19X8		(e)

<i>Lucky Dip Ice Cream Consulting</i>		
<i>Balance Sheet</i>		
<i>December 31, 19X8</i>		
<b>ASSETS</b>		
Current Assets		
Cash	\$11,000	
Accounts Receivable	(f)	
Supplies	5,700	
Total Current Assets		\$29,700
<b>LIABILITIES</b>		
Accounts Payable	\$2,500	
Notes Payable	2,800	
Total Liabilities		(g)
<b>OWNER'S EQUITY</b>		
John Sweet, Capital		(h)
Total Liabilities and Owner's Equity		(i)

**SOLUTION**

- (a) \$40,300
- (b) \$26,400
- (c) See Net Income from income statement
- (d) \$6,400
- (e) \$24,400
- (f) \$13,000
- (g) \$5,300
- (h) \$24,400 (John Sweet, Capital, December 31, 19X8)
- (i) \$29,700

**2.13.** Prepare a statement of owner's equity and balance sheet as of December 31, 19X8, from the following data:

Accounts Payable	\$ 3,000
Cash	4,000
Equipment	16,000
Notes Payable	12,000
Supplies	200
Net Income	11,400
Drawing	10,200
Capital, January 1, 19X8	4,000

<i>Statement of Owner's Equity</i>		
Capital, January 1, 19X8		
Net Income		
Drawing		
Increase in Capital		
Capital, December 31, 19X8		

<i>Balance Sheet</i>		
<b>ASSETS</b>		
Cash		
Supplies		
Equipment		
Total Assets		
<b>LIABILITIES AND OWNER'S EQUITY</b>		
Notes Payable		
Accounts Payable		
Total Liabilities		
Capital, December 31, 19X8		
Total Liabilities and Owner's Equity		



**SOLUTION**

<i>Statement of Owner's Equity</i>		\$ 4,000
Capital, January 1, 19X8	\$11,400	
Net Income	10,200	
Drawing		1,200
Increase in Capital		\$ 5,200
Capital, December 31, 19X8		

<i>Balance Sheet</i>		
<b>ASSETS</b>		
Cash		\$ 4,000
Supplies		200
Equipment		16,000
Total Assets		\$20,200
<b>LIABILITIES AND OWNER'S EQUITY</b>		
Notes Payable	\$12,000	
Accounts Payable	3,000	
Total Liabilities		\$15,000
Capital, December 31, 19X8		5,200
Total Liabilities and Owner's Equity		\$20,200

**2.14.** Classify the following accounts by placing a check mark in the appropriate column.

	Current Asset	Fixed Asset	Current Liability	Long-Term Liability
(1) Accounts Receivable				
(2) Accounts Payable				
(3) Notes Payable				
(4) Mortgage Payable				
(5) Cash				
(6) Supplies				
(7) Salaries Payable				
(8) Bonds Payable				
(9) Equipment				
(10) Land				

**SOLUTION**

		Current Asset	Fixed Asset	Current Liability	Long-Term Liability
(1)	Accounts Receivable	✓			
(2)	Accounts Payable			✓	
(3)	Notes Payable			✓	
(4)	Mortgage Payable				✓
(5)	Cash	✓			
(6)	Supplies	✓			
(7)	Salaries Payable			✓	
(8)	Bonds Payable				✓
(9)	Equipment		✓		
(10)	Land		✓		

**2.15.** From the information that follows, prepare a classified balance sheet as of December 31.

Cash	\$ 6,000
Accounts Receivable	3,000
Supplies	1,000
Equipment	14,000
Accounts Payable	2,500
Notes Payable	1,500
Mortgage Payable	12,000
Capital, December 31	8,000

<b>ASSETS</b>		
Current Assets		
Total Current Assets		
Fixed Assets		
Total Assets		
<b>LIABILITIES AND OWNER'S EQUITY</b>		
Current Liabilities		
Total Current Liabilities		
Long-Term Liabilities		
Total Liabilities		
Capital		
Total Liabilities and Owner's Equity		

### SOLUTION

<b>ASSETS</b>		
Current Assets		
Cash	\$6,000	
Accounts Receivable	3,000	
Supplies	1,000	
Total Current Assets		\$10,000
Fixed Assets		
Equipment		14,000
Total Assets		\$24,000
<b>LIABILITIES AND OWNER'S EQUITY</b>		
Current Liabilities		
Notes Payable	\$1,500	
Accounts Payable	2,500	
Total Current Liabilities		\$ 4,000
Long-Term Liabilities		
Mortgage Payable		12,000
Total Liabilities		\$16,000
Capital		8,000
Total Liabilities and Owner's Equity		\$24,000

- 2.17. Complete the chart by writing in the appropriate column the name of the account group in which the particular account belongs and check the appropriate column for the classification of each balance sheet item.

	Income Statement	Balance Sheet	Current Asset	Fixed Asset	Current Liability	Long-Term Liability
Accounts Payable						
Accounts Receivable						
Advertising Expense						
Cash						
Capital						
Equipment						
Fees Income						
Machinery						
Mortgage Payable						
Notes Receivable						
Other Income						
Salaries Expense						
Supplies						
Supplies Expense						

**SOLUTION**

	Income Statement	Balance Sheet	Current Asset	Fixed Asset	Current Liability	Long-Term Liability
Accounts Payable		Liability			✓	
Accounts Receivable		Asset	✓			
Advertising Expense	Expense					
Cash		Asset	✓			
Capital		Owner's Equity				
Equipment		Asset		✓		
Fees Income	Income					
Machinery		Asset		✓		
Mortgage Payable		Liability				✓
Notes Receivable		Asset	✓			
Other Income	Income					
Salaries Expense	Expense					
Supplies		Asset	✓			
Supplies Expense	Expense					

**2.19.** Below are the account balances as of December 31, 19X8, of Mr. R. Gregg, owner of a movie theater.

Accounts Payable	\$11,400
Admissions Income	34,200
Capital, January 1, 19X8	16,000
Cash	7,500
Drawing	5,400
Equipment	18,500
Film Rental Expense	6,000
Miscellaneous Expense	4,000
Notes Payable	1,000
Rent Expense	10,000
Salaries Expense	7,000
Supplies	4,200

Prepare (a) an income statement, (b) a statement of owner's equity, (c) a balance sheet.