Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chapter 7 Notes

Financial Statements

**Why prepare financial statements?**



**Accounting** **Concepts**

*Accounting Period Cycle Adequate Disclosure Going Concern*

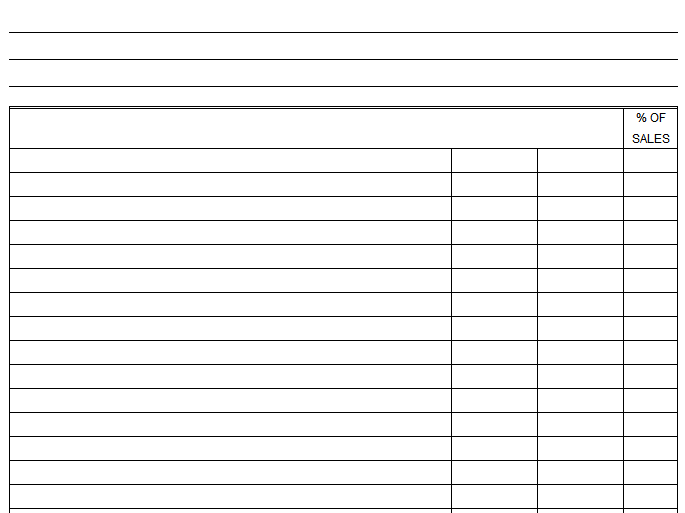
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - financial statements are prepared at the end of each fiscal period
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - when financial statements contain all information necessary to understand a business’s financial condition
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - when financial statements are prepared with the expectation that a business will remain in operation indefinitely

**Income Statement** –



*There are four parts of an Income Statement:*





**Component Percentage** –



*Is that a good component percentage?*



**Balance Sheet** –



*Financial Strength*

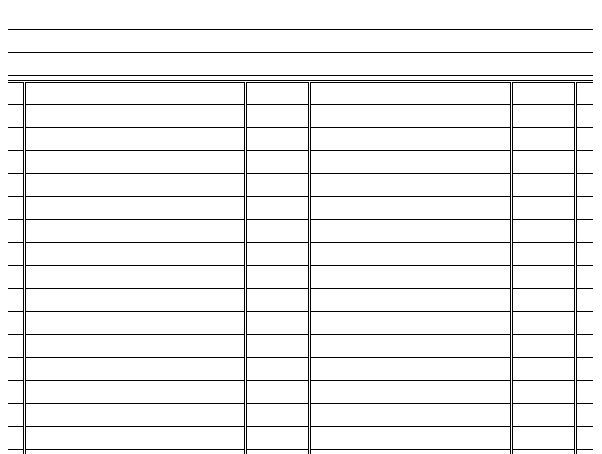
vs.

*The Accounting Equation*

+ =

*There are four parts of a Balance Sheet:*





**Calculating Current Capital**

* *When there is a Net Income:*

**Capital Drawing**

**Account + Net Income - Account = Current Capital**

**Balance Balance**

**+ - =**

* *When there is a Net Loss:*

**Capital Drawing**

**Account - Net Loss - Account = Current Capital**

**Balance Balance**

**- - =**