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

Chapter 7 Notes

Financial Statements

**Why prepare financial statements?**

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*
*

**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:*

1.
2.
3.
4.



**Component Percentage** –

*
*
*

*Is that a good component percentage?*

1.
2.

**Balance Sheet** –

*
*

*Financial Strength*

vs.

*The Accounting Equation*

 + =

*There are four parts of a Balance Sheet:*

1.
2.
3.
4.



**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**

 **- - =**