



Marketing Virtual Learning

# HS/Accounting I

**Topic: Preparing an Income Statement**

April 20, 2020



# Lesson Topics - Preparing an Income Statement

## Lesson Introduction:

Watch the [video](https://youtu.be/hrSUq4wcd0g) over Income Statements. <https://youtu.be/hrSUq4wcd0g>  
The income statements we are creating are a little easier than what he covers but he gives a good explanation of what it is and why it's important.

1. The information used to prepare the income statement comes from the Income Statement columns of the worksheet (covered in lessons last week).
2. An example of the format for the income statement is on the next slide.

# Lesson Topics - Preparing an Income Statement

									% OF SALES
Revenue:									
Sales								5 8 2 0 00	
Expenses:									
Advertising Expense						3 9 7 00			
Cash Short and Over						1 00			
Communications Expense						8 0 00			
Equipment Rental Expense						1 4 5 5 00			
Insurance Expense						1 5 0 00			
Miscellaneous Expense						4 5 00			
Supplies Expense						5 3 0 00			
<b>Total Expenses</b>						<b>2 6 5 8 00</b>			
<b>Net Income</b>						<b>3 1 6 2 00</b>			



## Lesson Topics - Preparing an Income Statement

1. Use the information on the next slide to prepare an income statement.
2. To create the income statement you can [click here for a google sheet](#), use the PDF, or write it on paper in the proper format.
3. Note the heading should follow this format:
  - a. line 1 - name of the company
  - b. line 2 - Title "Income Statement"
  - c. line 3 - Date (For Month ended ...)

Forms are given in the *Recycling Problem Working Papers*. The following information is obtained from the work sheet of Destin Heating Repair for the month ended April 30 of the current year.

ACCOUNT TITLE	5		6		7		8	
	INCOME STATEMENT		BALANCE SHEET					
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT		
1 Cash			6 960 00				1	
2 Petty Cash			1 50 00				2	
3 Accounts Receivable—Jennifer Ford			1 96 00				3	
4 Supplies			7 80 00				4	
5 Prepaid Insurance			8 00 00				5	
6 Accounts Payable—Coastal Supplies				1 112 00			6	
7 Isabel Ybarra, Capital				9 336 00			7	
8 Isabel Ybarra, Drawing			6 00 00				8	
9 Income Summary							9	
10 Sales		3 270 00					10	
11 Advertising Expense	4 50 00						11	
12 Cash Short and Over	2 00						12	
13 Insurance Expense	1 56 00						13	
14 Miscellaneous Expense	8 40 00						14	
15 Rent Expense	5 00 00						15	
16 Supplies Expense	1 40 00						16	
17 Utilities Expense	1 64 00						17	
18	4 232 00	3 270 00	9 486 00	10 448 00			18	
19 Net Loss		9 62 00	9 62 00				19	
20	4 232 00	4 232 00	10 448 00	10 448 00			20	
21							21	

**Instructions:**

1. Prepare an income statement for the month ended April 30 of the current year.
2. Calculate and record the ratios for total expenses and net loss. Place the percentage for net loss in parentheses to show that it is for a net loss. Round percentage calculations to the nearest 0.1%.

# Final Step - Determine financial ratios

In order to be more useful, the income statement can contain additional information and calculations. For a service business, the revenue reported on an income statement is often compared to two items:

- total expenses and net income

To make decisions about future operations, a manager analyzes relationships between these two income statement components and the total sales. A comparison between two components of financial information is called a **financial ratio**. The calculation and interpretation of a financial ratio is called **ratio analysis**. On an income statement, financial ratios are calculated by dividing the amount of each component by the total amount of sales.

**TO DO: Finish your income statement by figuring the total expenses ratio and the net income ratio.**