SOLUTIONS Learning Goal 13

LG 13-1. Income statement:

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Income Statement
For the Month Ended July 31, 2017

Revenues		
Fees earned		$4,250
Expenses		
Rent expense	$1,500	
Wages expense	850	
Interest expense	300	
Utilities expense	150	
Total expenses		2,800
Net income		$1,450

LG 13-2. There are two good ways to find the missing information for a financial statement problem:

a. One good way is to actually prepare the statement using the amounts available and then fill in or calculate the amounts you identified as missing. This helps you visually identify what you need to do.
b. A second, and faster, way is simply to use the relationships that exist on the income statement. This is always: revenues – expenses = net income.

Using the first method:

De Anza Operating Company
Income Statement
For the Year Ended December 31, 2017

Revenues		
Service revenue earned		$?
Expenses		
Rent expense	$12,000	
Wages expense	7,500	
Advertising expense	3,000	
Utilities expense	2,000	
Supplies expense	?	
Total expenses		
Net income		$10,000

SOLUTIONS Learning Goal 13, continued

LG 13-2, *continued*

Supplies Expense is the supplies used up: $3,000 (balance on January 1) + $4,000 purchased – X used up = $5,000 (balance on December 31). Therefore, $7,000 – X = $5,000. The supplies used up is $2,000.

Service Revenue Earned is the sum of net income plus the total expenses. Now that you know Supplies Expense, you can calculate the total expenses as $26,500. Therefore, total revenue is $10,000 + $26,500 = $36,500.

If you use the second method: **R** – (12,000 + 7,500 + 3,000 + 2,000 + **S**) = 10,000. After you calculate Supplies Expense, you have: R – 26,500 = 10,000. Therefore, revenue is $36,500.

Whichever method you use, you can now complete the income statement.

De Anza Operating Company
Income Statement
For the Year Ended December 31, 2017

Revenues		
Service revenue earned		$36,500
Expenses		
Rent expense	$12,000	
Wages expense	7,500	
Advertising expense	3,000	
Utilities expense	2,000	
Supplies expense	2,000	
Total expenses		26,500
Net income		$10,000

LG 13-3. The income statement shows the effect of operations on the owner's equity. The owner's equity is changed by the operational effects of (a) revenues and (b) expenses. Revenues increase owner's equity and expenses decrease owner's equity.