

## 4.5: Prepare Financial Statements Using the Adjusted Trial Balance

Once you have prepared the adjusted trial balance, you are ready to prepare the financial statements. Preparing financial statements is the seventh step in the accounting cycle. Remember that we have four financial statements to prepare: an income statement, a statement of retained earnings, a balance sheet, and the statement of cash flows. These financial statements were introduced in [Introduction to Financial Statements](#) and [Statement of Cash Flows](#) dedicates in-depth discussion to that statement.

To prepare the financial statements, a company will look at the adjusted trial balance for account information. From this information, the company will begin constructing each of the statements, beginning with the income statement. Income statements will include all revenue and expense accounts. The statement of retained earnings will include beginning retained earnings, any net income (loss) (found on the income statement), and dividends. The balance sheet is going to include assets, contra assets, liabilities, and stockholder equity accounts, including ending retained earnings and common stock.

### YOUR TURN

#### Magnificent Adjusted Trial Balance

<b>MAGNIFICENT LANDSCAPING SERVICE</b> <b>Adjusted Trial Balance</b> <b>April 30, 2018</b>		
<b>Account Title</b>	<b>Debit</b>	<b>Credit</b>
Cash	\$2,950	
Accounts Receivable	575	
Office Supplies	40	
Prepaid Insurance	240	
Equipment	2,500	
Accumulated Depreciation: Equipment		\$ 35
Accounts Payable		28
Salaries Payable		420
Unearned Lawn Mowing Revenue		100
Common Stock		5,000
Dividends	1,000	
Lawn Mowing Revenue		2,350
Gas Expense	53	
Advertising Expense	35	
Depreciation Expense: Equipment	35	
Supplies Expense	85	
Salaries Expense	420	
	<u>\$7,933</u>	<u>\$7,933</u>

Go over the adjusted trial balance for Magnificent Landscaping Service. Identify which income statement each account will go on: Balance Sheet, Statement of Retained Earnings, or Income Statement.

#### Solution

Balance Sheet: Cash, accounts receivable, office supplied, prepaid insurance, equipment, accumulated depreciation (equipment), accounts payable, salaries payable, unearned lawn mowing revenue, and common stock. Statement of Retained Earnings: Dividends. Income Statement: Lawn mowing revenue, gas expense, advertising expense, depreciation expense (equipment), supplies expense, and salaries expense.

### Income Statement

An income statement shows the organization's financial performance for a given period of time. When preparing an income statement, revenues will always come before expenses in the presentation. For Printing Plus, the following is its January 2019

Income Statement.

PRINTING PLUS		
Income Statement		
For the Month Ended January 31, 2019		
Revenues		
Interest Revenue	\$ 140	
Service Revenue	<u>10,100</u>	
Total Revenues		\$10,240
Expenses		
Supplies Expense	100	
Depreciation Expense		
Equipment	75	
Salaries Expense	5,100	
Utility Expense	<u>300</u>	
Total Expenses		<u>5,575</u>
Net Income		<u>\$ 4,665</u>

Revenue and expense information is taken from the adjusted trial balance as follows:

PRINTING PLUS Income Statement For the Month Ended January 31, 2019		
Revenues		
Interest Revenue	\$ 140	
Service Revenue	<u>10,100</u>	
Total Revenues		\$10,240
Expenses		
Supplies Expense	100	
Depreciation Expense:		
Equipment	75	
Salaries Expense	5,100	
Utility Expense	<u>300</u>	
Total Expenses		<u>5,575</u>
Net Income		<u>\$ 4,665</u>

PRINTING PLUS Adjusted Trial Balance January 31, 2019		
Account	Debit	Credit
Cash	\$24,800	
Accounts Receivable	1,200	
Interest Receivable	140	
Supplies	400	
Equipment	3,500	
Acc. Dep: Equipment		\$ 75
Accounts Payable		500
Salaries Payable		1,500
Unearned Revenue		3,400
Common Stock		20,000
Dividends	100	
Interest Revenue		140
Service Revenue		10,100
Supplies Expense	100	
Depreciation Expense:		
Equipment	75	
Salaries Expense	5,100	
Utility Expense	300	
Total	<u>\$35,715</u>	<u>\$35,715</u>

Total revenues are \$10,240, while total expenses are \$5,575. Total expenses are subtracted from total revenues to get a net income of \$4,665. If total expenses were more than total revenues, Printing Plus would have a net loss rather than a net income. This net income figure is used to prepare the statement of retained earnings.

## CONCEPTS IN PRACTICE

### The Importance of Accurate Financial Statements

Financial statements give a glimpse into the operations of a company, and investors, lenders, owners, and others rely on the accuracy of this information when making future investing, lending, and growth decisions. When one of these statements is inaccurate, the financial implications are great.

For example, **Celadon Group** misreported revenues over the span of three years and elevated earnings during those years. The total overreported income was approximately \$200–\$250 million. This gross misreporting misled investors and led to the removal of **Celadon Group** from the New York Stock Exchange. Not only did this negatively impact **Celadon Group**'s stock price and lead to criminal investigations, but investors and lenders were left to wonder what might happen to their investment.

That is why it is so important to go through the detailed accounting process to reduce errors early on and hopefully prevent misinformation from reaching financial statements. The business must have strong internal controls and best practices to ensure the information is presented fairly.<sup>3</sup>

### Statement of Retained Earnings

The statement of retained earnings (which is often a component of the statement of stockholders' equity) shows how the equity (or value) of the organization has changed over a period of time. The statement of retained earnings is prepared second to determine the ending retained earnings balance for the period. The statement of retained earnings is prepared before the balance sheet because the ending retained earnings amount is a required element of the balance sheet. The following is the Statement of Retained Earnings for Printing Plus.

**PRINTING PLUS**  
**Statement of Retained Earnings**  
**For Month Ended January 31, 2019**

Beginning Retained Earnings (Jan 1)	\$
Net Income	4,665
	<u>4,665</u>
- Dividends	100
Ending Retained Earnings (Jan 31)	<u><u>\$4,565</u></u>

Net income information is taken from the income statement, and dividends information is taken from the adjusted trial balance as follows.

PRINTING PLUS Income Statement For Month Ended January 31, 2019	
Revenues	
Interest Revenue	\$ 140
Service Revenue	<u>10,100</u>
Total Revenues	\$10,240
Expenses	
Supplies Expense	100
Depreciation Expense	
Equipment	75
Salaries Expense	5,100
Utility Expense	<u>300</u>
Total Expenses	<u>5,575</u>
Net Income	<u>\$ 4,665</u>

  

PRINTING PLUS Statement of Retained Earnings For Month Ended January 31, 2019	
Beginning Retained Earnings (Jan 1)	\$
Net Income	4,665
	<u>4,665</u>
- Dividends	100
Ending Retained Earnings (Jan 31)	<u><u>\$4,565</u></u>

  

PRINTING PLUS Adjusted Trial Balance January 31, 2019		
Account	Debit	Credit
Cash	\$24,800	
Accounts Receivable	1,200	
Interest Receivable	140	
Supplies	400	
Equipment	3,500	
Accumulated Depreciation		
Equipment		\$ 75
Accounts Payable		500
Salaries Payable		1,500
Unearned Revenue		3,400
Common Stock		20,000
Dividends	100	
Interest Revenue		140
Service Revenue		<u>10,100</u>
Supplies Expense	100	
Depreciation Expense		
Equipment	75	
Salaries Expense	5,100	
Utility Expense	<u>300</u>	
Total	<u>\$35,715</u>	<u>\$35,715</u>

The statement of retained earnings always leads with beginning retained earnings. Beginning retained earnings carry over from the previous period's ending retained earnings balance. Since this is the first month of business for Printing Plus, there is no beginning

retained earnings balance. Notice the net income of \$4,665 from the income statement is carried over to the statement of retained earnings. Dividends are taken away from the sum of beginning retained earnings and net income to get the ending retained earnings balance of \$4,565 for January. This ending retained earnings balance is transferred to the balance sheet.

## LINK TO LEARNING

Concepts Statements give the Financial Accounting Standards Board (FASB) a guide to creating accounting principles and consider the limitations of financial statement reporting. See the [FASB's "Concepts Statements" page](#) to learn more.

## Balance Sheet

The balance sheet is the third statement prepared after the statement of retained earnings and lists what the organization owns (*assets*), what it owes (*liabilities*), and what the shareholders control (*equity*) on a specific date. Remember that the balance sheet represents the accounting equation, where assets equal liabilities plus stockholders' equity. The following is the Balance Sheet for Printing Plus.

PRINTING PLUS Balance Sheet January 31, 2019		
<b>Assets</b>		
Cash		\$24,800
Accounts Receivable		1,200
Interest Receivable		140
Supplies		400
Equipment	\$3,500	
Accumulated Depreciation: Equipment	(75)	3,425
<b>Total Assets</b>		<b><u>\$29,965</u></b>
<b>Liabilities</b>		
Accounts Payable		\$ 500
Salaries Payable		1,500
Unearned Revenue		3,400
<b>Total Liabilities</b>		<b><u>5,400</u></b>
<b>Stockholders' Equity</b>		
Common Stock		20,000
Ending Retained Earnings		4,565
<b>Total Stockholders' Equity</b>		<b><u>24,565</u></b>
<b>Total Liabilities and Stockholders' Equity</b>		<b><u>\$29,965</u></b>

Ending retained earnings information is taken from the statement of retained earnings, and asset, liability, and common stock information is taken from the adjusted trial balance as follows.

PRINTING PLUS Balance Sheet January 31, 2019		PRINTING PLUS Adjusted Trial Balance January 31, 2019		
Assets		Account	Debit	Credit
Cash	\$24,800	Cash	\$24,800	
Accounts Receivable	1,200	Accounts Receivable	1,200	
Interest Receivable	140	Interest Receivable	140	
Supplies	400	Supplies	400	
Equipment	\$3,500	Equipment	3,500	
Accumulated Depreciation Equipment	75	Acc. Dep: Equip.		\$ 75
<b>Total Assets</b>	<b>\$29,965</b>	Accounts Payable		500
<b>Liabilities</b>		Salaries Payable		1,500
Accounts Payable	\$ 500	Unearned Revenue		3,400
Salaries Payable	1,500	Common Stock		20,000
Unearned Revenue	3,400	Dividends	100	
<b>Total Liabilities</b>	<b>5,400</b>	Interest Revenue		140
<b>Stockholders' Equity</b>		Service Revenue		10,100
Common Stock	20,000	Supplies Expense	100	
Ending Retained Earnings	4,565	Dep. Expense: Equip.	75	
<b>Total Stockholders' Equity</b>	<b>24,565</b>	Salaries Expense	5,100	
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$29,965</b>	Utility Expense	300	
		<b>Total</b>	<b>\$35,715</b>	<b>\$35,715</b>

  

PRINTING PLUS Statement of Retained Earnings For the Month Ended January 31, 2019	
Beginning Retained Earnings (Jan. 1)	\$ 0
Net Income	4,665
Dividends	(100)
<b>Ending Retained Earnings (Jan. 31)</b>	<b>\$4,565</b>

Looking at the asset section of the balance sheet, Accumulated Depreciation–Equipment is included as a contra asset account to equipment. The accumulated depreciation (\$75) is taken away from the original cost of the equipment (\$3,500) to show the book value of equipment (\$3,425). The accounting equation is balanced, as shown on the balance sheet, because total assets equal \$29,965 as do the total liabilities and stockholders' equity.

There is a worksheet approach a company may use to make sure end-of-period adjustments translate to the correct financial statements.

## IFRS CONNECTION

### Financial Statements

Both US-based companies and those headquartered in other countries produce the same primary financial statements—Income Statement, Balance Sheet, and Statement of Cash Flows. The presentation of these three primary financial statements is largely similar with respect to what should be reported under US GAAP and IFRS, but some interesting differences can arise, especially when presenting the Balance Sheet.

While both US GAAP and IFRS require the same minimum elements that must be reported on the Income Statement, such as revenues, expenses, taxes, and net income, to name a few, publicly traded companies in the United States have further requirements placed by the SEC on the reporting of financial statements. For example, IFRS-based financial statements are only required to report the current period of information and the information for the prior period. US GAAP has no requirement for reporting prior periods, but the SEC requires that companies present one prior period for the Balance Sheet and three prior periods for the Income Statement. Under both IFRS and US GAAP, companies can report more than the minimum requirements.

Presentation differences are most noticeable between the two forms of GAAP in the Balance Sheet. Under US GAAP there is no specific requirement on how accounts should be presented. However, the SEC requires that companies present their Balance Sheet information in liquidity order, which means current assets listed first with cash being the first account presented, as it is a company's most liquid account. Liquidity refers to how easily an item can be converted to cash. IFRS requires that accounts be classified into current and noncurrent categories for both assets and liabilities, but no specific presentation format is required. Thus, for US companies, the first category always seen on a Balance Sheet is Current Assets, and the first account balance reported is

cash. This is not always the case under IFRS. While many Balance Sheets of international companies will be presented in the same manner as those of a US company, the lack of a required format means that a company can present noncurrent assets first, followed by current assets. The accounts of a Balance Sheet using IFRS might appear as shown here.

INTERNATIONAL COMPANY		
Balance Sheet		
December 31, 2020		
<b>Assets</b>		
<b>Noncurrent Assets</b>		
Buildings	\$1,500,000	
Equipment	<u>800,000</u>	
<b>Total Noncurrent Assets</b>		\$2,300,000
<b>Current Assets</b>		
Investments	\$ 100,000	
Inventory	500,000	
Accounts Receivable	400,000	
Cash	<u>200,000</u>	
<b>Total Current Assets</b>		<u>1,200,000</u>
<b>Total Assets</b>		<u><u>\$3,500,000</u></u>
<b>Share Equity and Liabilities</b>		
<b>Share Equity</b>		
Share Capital	\$ 550,000	
Retained Earnings	<u>750,000</u>	
<b>Total Share Equity</b>		\$1,300,000
<b>Long-term Liabilities</b>		
Pensions	\$ 875,000	
Note Payable	<u>\$ 225,000</u>	
<b>Total Long-term Liabilities</b>		1,200,000
<b>Current Liabilities</b>		
Short-term Note Payable	\$ 650,000	
Accounts Payable	<u>\$ 350,000</u>	
<b>Total Current Liabilities</b>		<u>1,000,000</u>
<b>Total Share Equity and Liabilities</b>		<u><u>\$3,500,000</u></u>

Review [the annual report of Stora Enso](#) which is an international company that utilizes the illustrated format in presenting its Balance Sheet, also called the Statement of Financial Position. The Balance Sheet is found on page 31 of the report.

Some of the biggest differences that occur on financial statements prepared under US GAAP versus IFRS relate primarily to measurement or timing issues: in other words, how a transaction is valued and when it is recorded.

## Ten-Column Worksheets

The **10-column worksheet** is an all-in-one spreadsheet showing the transition of account information from the trial balance through the financial statements. Accountants use the 10-column worksheet to help calculate end-of-period adjustments. Using a 10-column worksheet is an optional step companies may use in their accounting process.

Here is a picture of a 10-column worksheet for Printing Plus.

PRINTING PLUS										
10-Column Worksheet										
For the Month Ended January, 2019										
Account Name	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	24,800				24,800				24,800	
Accounts Receivable	1,200				1,200				1,200	
Interest Receivable			140		140				140	
Supplies	500			100	400				400	
Equipment	3,500				3,500				3,500	
Accumulated Depreciation: Equipment				75		75				75
Accounts Payable		500				500				500
Salaries Payable				1,500		1,500				1,500
Unearned Revenue		4,000	600			3,400				3,400
Common Stock		20,000				20,000				20,000
Dividends	100				100				100	
Interest Revenue				140		140		140		
Service Revenue		9,500		600		10,100		10,100		
Supplies Expense			100		100		100			
Depreciation Expense: Equipment			75		75		75			
Salaries Expense	3,600		1,500		5,100		5,100			
Utility Expense	300				300		300			
Totals	34,000	34,000	2,415	2,415	35,715	35,715	5,575	10,240	30,140	25,475
Net Income							4,665			4,665
							10,240	10,240	30,140	30,140

There are five sets of columns, each set having a column for debit and credit, for a total of 10 columns. The five column sets are the trial balance, adjustments, adjusted trial balance, income statement, and the balance sheet. After a company posts its day-to-day journal entries, it can begin transferring that information to the trial balance columns of the 10-column worksheet.



PRINTING PLUS		
10-Column Worksheet		
For the Month Ended January, 2019		
Account Name	Trial Balance	
	Debit	Credit
Cash	24,800	
Accounts Receivable	1,200	
Interest Receivable		
Supplies	500	
Equipment	3,500	
Accumulated Depreciation: Equipment		
Accounts Payable		500
Salaries Payable		
Unearned Revenue		4,000
Common Stock		20,000
Dividends	100	
Interest Revenue		
Service Revenue		<u>9,500</u>
Supplies Expense		
Depreciation Expense: Equipment		
Salaries Expense	3,600	
Utility Expense	<u>300</u>	
Totals	<u>34,000</u>	<u>34,000</u>
Net Income		

The trial balance information for Printing Plus is shown previously. Notice that the debit and credit columns both equal \$34,000. If we go back and look at the trial balance for Printing Plus, we see that the trial balance shows debits and credits equal to \$34,000.

<b>PRINTING PLUS</b> <b>Unadjusted Trial Balance</b> <b>January 31, 2019</b>		
<b>Account</b>	<b>Debit</b>	<b>Credit</b>
Cash	\$24,800	
Accounts Receivable	1,200	
Supplies	500	
Equipment	3,500	
Accounts Payable		\$ 500
Unearned Revenue		4,000
Common Stock		20,000
Dividends	100	
Service Revenue		9,500
Salaries Expense	3,600	
Utility Expense	300	
Total	<u>\$34,000</u>	<u>\$34,000</u>

Once the trial balance information is on the worksheet, the next step is to fill in the adjusting information from the posted adjusted journal entries.

PRINTING PLUS				
10-Column Worksheet				
For the Month Ended January, 2019				
Account Name	Trial Balance		Adjustments	
	Debit	Credit	Debit	Credit
Cash	24,800			
Accounts Receivable	1,200			
Interest Receivable			140	
Supplies	500			100
Equipment	3,500			
Accumulated Depreciation: Equipment				75
Accounts Payable		500		
Salaries Payable				1,500
Unearned Revenue		4,000	600	
Common Stock		20,000		
Dividends	100			
Interest Revenue				140
Service Revenue		<u>9,500</u>		<u>600</u>
Supplies Expense			100	
Depreciation Expense: Equipment			75	
Salaries Expense	3,600		<u>1,500</u>	
Utility Expense	<u>300</u>			
Totals	<u>34,000</u>	<u>34,000</u>	<u>2,415</u>	<u>2,415</u>
Net Income				

The adjustments total of \$2,415 balances in the debit and credit columns.

The next step is to record information in the adjusted trial balance columns.

PRINTING PLUS						
10-Column Worksheet						
For the Month Ended January, 2019						
Account Name	Trial Balance		Adjustments		Adjusted Trial Balance	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	24,800				24,800	
Accounts Receivable	1,200				1,200	
Interest Receivable			140		140	
Supplies	500			100	400	
Equipment	3,500				3,500	
Accumulated Depreciation: Equipment				75		75
Accounts Payable		500				500
Salaries Payable				1,500		1,500
Unearned Revenue		4,000	600			3,400
Common Stock		20,000				20,000
Dividends	100				100	
Interest Revenue				140		140
Service Revenue		9,500		600		10,100
Supplies Expense			100		100	
Depreciation Expense: Equipment			75		75	
Salaries Expense	3,600		1,500		5,100	
Utility Expense	300				300	
Totals	34,000	34,000	2,415	2,415	35,715	35,715
Net Income						

To get the numbers in these columns, you take the number in the trial balance column and add or subtract any number found in the adjustment column. For example, Cash shows an unadjusted balance of \$24,800. There is no adjustment in the adjustment columns, so the Cash balance from the unadjusted balance column is transferred over to the adjusted trial balance columns at \$24,800. Interest Receivable did not exist in the trial balance information, so the balance in the adjustment column of \$140 is transferred over to the adjusted trial balance column.

Unearned revenue had a credit balance of \$4,000 in the trial balance column, and a debit adjustment of \$600 in the adjustment column. Remember that adding debits and credits is like adding positive and negative numbers. This means the \$600 debit is subtracted from the \$4,000 credit to get a credit balance of \$3,400 that is translated to the adjusted trial balance column.

Service Revenue had a \$9,500 credit balance in the trial balance column, and a \$600 credit balance in the Adjustments column. To get the \$10,100 credit balance in the adjusted trial balance column requires adding together both credits in the trial balance and adjustment columns ( $9,500 + 600$ ). You will do the same process for all accounts. Once all accounts have balances in the adjusted trial balance columns, add the debits and credits to make sure they are equal. In the case of Printing Plus, the balances equal \$35,715. If you check the adjusted trial balance for Printing Plus, you will see the same equal balance is present.

<b>PRINTING PLUS</b> <b>Adjusted Trial Balance</b> <b>January 31, 2019</b>		
<b>Account</b>	<b>Debit</b>	<b>Credit</b>
Cash	\$24,800	
Accounts Receivable	1,200	
Interest Receivable	140	
Supplies	400	
Equipment	3,500	
Accumulated Depreciation: Equipment		\$ 75
Accounts Payable		500
Salaries Payable		1,500
Unearned Revenue		3,400
Common Stock		20,000
Dividends	100	
Interest Revenue		140
Service Revenue		10,100
Supplies Expense	100	
Depreciation Expense: Equipment	75	
Salaries Expense	5,100	
Utility Expense	300	
Total	<u>\$35,715</u>	<u>\$35,715</u>

Next you will take all of the figures in the adjusted trial balance columns and carry them over to *either* the income statement columns or the balance sheet columns.

## YOUR TURN

[Income Statement and Balance Sheet](#)

MAGNIFICENT LANDSCAPING SERVICE										
Worksheet										
April 30, 2018										
Account Name	Trial Balance		Adjustments		Adjusted Trial		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	2,950				2,950					
Accounts Receivable	575				575					
Office Supplies	85			(c) 45	40					
Prepaid Insurance	240				240					
Equipment	2,540			(b) 40	2,500					
Accounts Payable		28				28				
Unearned Lawn Mowing Revenue		200	(d) 100			100				
Common Stock		5,000				5,000				
Dividends	1,000				1,000					
Lawn Mowing Revenue		2,250		(d) 100		2,350				
Gas Expense	53				53					
Advertising Expense	35				35					
	<u>7,478</u>	<u>7,478</u>								
Depreciation Expense: Equipment			(a) 35		35					
Accumulated Depreciating: Equipment				(a) 35		35				
Supplies Expense			(b) 40 (c) 45		85					
Salaries Expense			(e) 420		420					
Salaries Payable				(e) 420		420				
			<u>640</u>	<u>640</u>	<u>7,933</u>	<u>7,933</u>				

Take a couple of minutes and fill in the income statement and balance sheet columns. Total them when you are done. Do not panic when they do not balance. They will not balance at this time.

### Solution

MAGNIFICENT LANDSCAPING SERVICE										
Worksheet										
April 30, 2018										
Account Name	Trial Balance		Adjustments		Adjusted Trial		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	2,950				2,950				2,950	
Accounts Receivable	575				575				575	
Office Supplies	85			(c) 45	40				40	
Prepaid Insurance	240				240				240	
Equipment	2,540			(b) 40	2,500				2,500	
Accounts Payable		28				28				28
Unearned Lawn Mowing Revenue		200	(d) 100			100				100
Common Stock		5,000				5,000				5,000
Dividends	1,000				1,000				1,000	
Lawn Mowing Revenue		2,250		(d) 100		2,350		2,350		
Gas Expense	53				53		53			
Advertising Expense	35				35		35			
	<u>7,478</u>	<u>7,478</u>								
Depreciation Expense: Equipment			(a) 35		35		35			
Accumulated Depreciation: Equipment				(a) 35		35				35
Supplies Expense			(b) 40 (c) 45		85		85			
Salaries Expense			(e) 420		420		420			
Salaries Payable				(e) 420		420				420
			<u>640</u>	<u>640</u>	<u>7,933</u>	<u>7,933</u>	628	2,350	7,305	5,583

Every other account title has been highlighted to help your eyes focus better while checking your work.

Looking at the income statement columns, we see that all revenue and expense accounts are listed in either the debit or credit column. This is a reminder that the income statement itself does not organize information into debits and credits, but we do use this presentation on a 10-column worksheet.

PRINTING PLUS								
10-column Worksheet								
For the Month Ended January, 2019								
Account Name	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	24,800				24,800			
Accounts Receivable	1,200				1,200			
Interest Receivable			140		140			
Supplies	500			100	400			
Equipment	3,500				3,500			
Accumulated Depreciation: Equipment				75		75		
Accounts Payable		500				500		
Salaries Payable				1,500		1,500		
Unearned Revenue		4,000	600			3,400		
Common Stock		20,000				20,000		
Dividends	100				100			
Interest Revenue				140		140		140
Service Revenue		<u>9,500</u>		<u>600</u>		<u>10,100</u>		<u>10,100</u>
Supplies Expense			100		100		100	
Depreciation Expense: Equipment			75		75		75	
Salaries Expense	3,600		<u>1,500</u>		5,100		5,100	
Utility Expense	<u>300</u>				<u>300</u>		<u>300</u>	
Totals	<u>34,000</u>	<u>34,000</u>	<u>2,415</u>	<u>2,415</u>	<u>35,715</u>	<u>35,715</u>	5,575	10,240
Net Income							<u>4,665</u>	
							<u>10,240</u>	<u>10,240</u>

You will notice that when debit and credit income statement columns are totaled, the balances are not the same. The debit balance equals \$5,575, and the credit balance equals \$10,240. Why do they not balance?

If the debit and credit columns equal each other, it means the expenses equal the revenues. This would happen if a company broke even, meaning the company did not make or lose any money. If there is a difference between the two numbers, that difference is the amount of net income, or net loss, the company has earned.

In the Printing Plus case, the credit side is the higher figure at \$10,240. The credit side represents revenues. This means revenues exceed expenses, thus giving the company a net income. If the debit column were larger, this would mean the expenses were larger than revenues, leading to a net loss. You want to calculate the net income and enter it onto the worksheet. The \$4,665 net income is found by taking the credit of \$10,240 and subtracting the debit of \$5,575. When entering net income, it should be written in the column with the lower total. In this instance, that would be the debit side. You then add together the \$5,575 and \$4,665 to get a total of \$10,240. This balances the two columns for the income statement. If you review the income statement, you see that net income is in fact \$4,665.



## PRINTING PLUS

### Income Statement

For the Month Ended January 31, 2019

#### Revenues

Interest Revenue	\$ 140	
Service Revenue	<u>10,100</u>	
Total Revenues		\$10,240

#### Expenses

Supplies Expense	100	
Depreciation Expense: Equip.	75	
Salaries Expense	5,100	
Utility Expense	<u>300</u>	
Total Expenses		<u>5,575</u>

Net Income \$ 4,665

#### PRINTING PLUS

#### 10-Column Worksheet

For the Month Ended January, 2019

Account Name	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	24,800				24,800				24,800	
Accounts Receivable	1,200				1,200				1,200	
Interest Receivable			140		140				140	
Supplies	500			100	400				400	
Equipment	3,500				3,500				3,500	
Acc. Dep: Equip.				75		75				75
Accounts Payable		500				500				500
Salaries Payable				1,500		1,500				1,500
Unearned Revenue		4,000	600			3,400				3,400
Common Stock		20,000				20,000				<u>20,000</u>
Dividends	100				100				<u>100</u>	
Interest Revenue				140		140		140		
Service Revenue		<u>9,500</u>		<u>600</u>		<u>10,100</u>		<u>10,100</u>		
Supplies Expense			100		100		100			
Dep. Exp: Equip.			75		75		75			
Salaries Expense	3,600		<u>1,500</u>		5,100		5,100			
Utility Expense	<u>300</u>				<u>300</u>		<u>300</u>			
Totals	<u>34,000</u>	<u>34,000</u>	<u>2,415</u>	<u>2,415</u>	<u>35,715</u>	<u>35,715</u>	5,575	10,240	30,140	25,475

Net Income							<u>4,665</u>			<u>4,665</u>
							<u>10,240</u>	<u>10,240</u>	<u>30,140</u>	<u>30,140</u>

We now consider the last two columns for the balance sheet. In these columns we record all asset, liability, and equity accounts.

When adding the total debits and credits, you notice they do not balance. The debit column equals \$30,140, and the credit column equals \$25,475. How do we get the columns to balance?

Treat the income statement and balance sheet columns like a double-entry accounting system, where if you have a debit on the income statement side, you must have a credit equaling the same amount on the credit side. In this case we added a debit of \$4,665 to the income statement column. This means we must add a credit of \$4,665 to the balance sheet column. Once we add the \$4,665 to the credit side of the balance sheet column, the two columns equal \$30,140.

You may notice that dividends are included in our 10-column worksheet balance sheet columns even though this account is not included on a balance sheet. So why is it included here? There is actually a very good reason we put dividends in the balance sheet columns.

When you prepare a balance sheet, you must first have the most updated retained earnings balance. To get that balance, you take the beginning retained earnings balance + net income – dividends. If you look at the worksheet for Printing Plus, you will notice there is no retained earnings account. That is because they just started business this month and have no beginning retained earnings balance.

If you look in the balance sheet columns, we do have the new, up-to-date retained earnings, but it is spread out through two numbers. You have the dividends balance of \$100 and net income of \$4,665. If you combine these two individual numbers (\$4,665 – \$100), you will have your updated retained earnings balance of \$4,565, as seen on the statement of retained earnings.

<b>PRINTING PLUS</b> <b>Statement of Retained Earnings</b> <b>For the Month Ended January 31, 2019</b>	
Beginning Retained Earnings (Jan. 1)	\$ 0
Net Income	<u>4,665</u>
Dividends	<u>(100)</u>
Ending Retained Earnings (Jan. 31)	<u><u>\$4,565</u></u>

You will not see a similarity between the 10-column worksheet and the balance sheet, because the 10-column worksheet is categorizing all accounts by the type of balance they have, debit or credit. This leads to a final balance of \$30,140.

The balance sheet is classifying the accounts by type of accounts, assets and contra assets, liabilities, and equity. This leads to a final balance of \$29,965. Even though they are the same numbers in the accounts, the totals on the worksheet and the totals on the balance sheet will be different because of the different presentation methods.

## LINK TO LEARNING

Publicly traded companies release their financial statements quarterly for open viewing by the general public, which can usually be viewed on their websites. One such company is Alphabet, Inc. (trade name Google). Take a look at [Alphabet's quarter ended March 31, 2018, financial statements](#) from the SEC Form 10-Q.

## YOUR TURN

### Frank's Net Income and Loss

What amount of net income/loss does Frank have?

FRANK INVESTMENT ADVISERS										
Work Sheet										
For the Month Ended December 31, 2016										
Account Name	Trial Balance		Adjustments		Adjusted Trial		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	28,000				28,000				28,000	
Accounts Receivable	46,000				46,000				46,000	
Office Supplies	5,000			(b) 1,000	4,000				4,000	
Equipment	28,000				28,000				28,000	
Accumulated Depreciation-Equipment		14,000		(c) 2,800		16,800				16,800
Accounts Payable		16,000				16,000				16,000
Salaries Payable				(d) 2,000		2,000				2,000
Unearned Revenue		2,000	(a) 100			1,900				1,900
Notes Payable (Long Term)		23,000				23,000				23,000
Common Stock		15,000				15,000				15,000
Retained Earnings		52,000				52,000				52,000
Dividends	20,000				20,000				20,000	
Service Revenue		55,000		(a) 100		55,100		55,100		
Insurance Expense	3,000				3,000		3,000			
Salaries Expense	35,000		(d) 2,000		37,000		37,000			
Supplies Expense			(b) 1,000		1,000		1,000			
Interest Expense	4,000				4,000		4,000			
Rent Expense	8,000				8,000		8,000			
Depreciation Expense-Equipment			(c) 2,800		2,800		2,800			
	<u>177,000</u>	<u>177,000</u>	<u>5,900</u>	<u>5,900</u>	<u>181,800</u>	<u>181,800</u>	55,800	55,100	126,000	126,700

### Solution

FRANK INVESTMENT ADVISERS										
Worksheet										
For the Month Ended December 31, 2016										
Account Name	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	24,800				28,000				24,800	
Accounts Receivable	46,000				46,000				46,000	
Office Supplies	5,000			1,000 b	4,000				4,000	
Equipment	28,000				28,000				28,000	
Accumulated Depreciation: Equipment		14,000		2,800 c		16,800				16,800
Accounts Payable		16,000				16,000				16,000
Salaries Payable				2,000 d		2,000				2,000
Unearned Revenue		2,000	a	100		1,900				1,900
Notes Payable (long term)		23,000				23,000				23,000
Common Stock		15,000				15,000				15,000
Retained Earnings		52,000				52,000				52,000
Dividends	20,000				20,000				20,000	
Service Revenue		55,000		100 a		55,100		55,100		
Insurance Expense	3,000				3,000		3,000			
Salaries Expense	35,000		d	2,000	37,000		37,000			
Supplies Expense			b	1,000	1,000		1,000			
Interest Expense	4,000				4,000		4,000			
Rent Expense	8,000				8,000		8,000			
Depreciation Expense: Equipment			c	2,800	2,800		2,800			
	<u>177,000</u>	<u>177,000</u>	<u>5,900</u>	<u>5,900</u>	<u>181,800</u>	<u>181,800</u>	55,800	55,100	126,000	126,700
<b>Net Loss</b>								<b>700</b>		
							<u>55,800</u>	<u>55,800</u>		

In [Completing the Accounting Cycle](#), we continue our discussion of the accounting cycle, completing the last steps of journalizing and posting closing entries and preparing a post-closing trial balance.

## Footnotes

- 3 James Jaillet. "Celadon under Criminal Investigation over Financial Statements." *Commercial Carrier Journal*. July 25, 2018. <https://www.ccjdigital.com/200520-2/>

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