



What other concepts do I need to understand to be able to read the financial statements? continued

Answer Key, p. 262

BLUE SKY INDUSTRIES Balance Sheet with Adjustments December 31, 2006

ASSETS		LIABILITIES	
Cash	\$ 6,300	Accounts Payable	\$ 200
Petty Cash	50	Notes Payable	12,300
Accounts Receivable	7,000	TOTAL LIABILITIES	12,500
Inventory	2,000		
Prepaid Expenses	—	EQUITY	
Total Current Assets	15,350	Owner's Capital	5,000
Equipment	3,500	Less: Owner's Draw	(16,300)
Less: Accumulated Depreciation	1,167	Retained Earnings	16,483
Net Fixed Assets	2,333	TOTAL EQUITY	5,183
		TOTAL LIABILITIES & OWNER'S EQUITY	
TOTAL ASSETS	\$17,683		\$17,683

BLUE SKY INDUSTRIES Income Statement with Adjustments For the Month of December 2006

	Year to Date
SALES	\$58,000
Less: Purchases/Merchandise	20,450
Gross Margin	37,550
Advertising Expense	1,400
Depreciation Expense	1,167
Insurance Expense	2,000
Interest Expense	2,500
Miscellaneous Expense	1,150
Office Supplies Expense	2,500
Rent Expense	9,350
Utilities Expense	1,000
TOTAL EXPENSES	21,067
NET PROFIT (LOSS)	\$16,483

Note: Highlighted cells show figures that have changed with the addition of Depreciation Expense.