

Name _____

OWNER'S EQUITY AND BALANCE SHEET NET INCOME AND INCOME STATEMENT ESSENTIAL TERMINOLOGY

Owner's Equity

In the world of accounting, items owned with value are called _____ . On the other hand, monies owed to others are called debts or _____. The difference between total _____ and total _____ for a business is called net worth or net value or capital or owner's _____ .

Accounting is used to measure the net worth or net value or owner's _____ of a business on a particular date.

The term owner's equity is used because the equity, or value, of the business belongs to the owner of the business.

Balance Sheet

A balance sheet is a financial statement that displays the equity (or net worth or net value) of a business on a particular date.

In order to calculate equity:

$$\text{assets} - \text{liabilities} = \text{owner's equity} \text{ or } A - L = OE$$
$$(\text{all items owned}) - (\text{all monies owed}) = \text{net worth or net value of the business}$$

Net Income

In the world of accounting, monies earned from the sale of goods and services (\$ in) are known as sales or _____. On the other hand, monies paid on a regular basis in order to operate a business (\$ out) are known as costs or _____. The difference between total _____ and total _____ is known as net profit (when revenues > expenses) or net loss (when revenues < expenses) or, as it is known in grade 11 accounting regardless of

whether it is a profit or a loss, net _____.

Accounting is used to measure the net _____ of a business in the ordinary course of operations over a specified period of time.

Income Statement

An income statement is a financial statement that displays the net income (net profit or net loss) of a business in the ordinary course of operations over a specified period of time.

In order to calculate net income:

$$\begin{aligned} \text{revenues} - \text{expenses} &= \text{net income or } R - E = NI \\ (\text{all monies earned}) - (\text{all costs incurred}) &= \text{net profit/loss of the business} \end{aligned}$$

Note

Did you know that the commercial and taxation laws of Ontario require all public corporations (and some private corporations) to formally calculate their equity and income at least once a year? Furthermore, both sole proprietorships and partnerships must report their revenues and expenses for income tax purposes on an annual basis as well.