

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:

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

### **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.