Chapter 07:
Financial Statements

Sage Peachtree
Financial Statements

In Chapter 7, you learn about Peachtree’s financial statements. Once journal entries have been recorded and posted, financial statements are automatically calculated by Peachtree.

In Chapters 1 through 6, you explored the sample company, Bellwether Garden Supply. You learned how PCA’s user interface works and how to navigate the software. You also journalized and posted various types of transactions.

Beginning in Chapter 9, you will learn how to use these features to set up service businesses. Then, in Chapter 12, you will set up merchandising businesses.

In Parts 2 through 4 of the textbook, you set up 12 businesses which include service, merchandising, nonprofit, and manufacturing businesses.
A balance sheet is a list of assets, liabilities, and capital of a business entity as of a specific date, such as the last day of an accounting period or the last day of the year.

The March 31, 2012 balance sheet is shown on pages 233-234.
A departmentalized accounting system provides information that management can use to evaluate the profitability or cost effectiveness of a department’s activities. The Gross Profit by Departments financial statement is a custom report designed for Bellwether that details each department’s year-to-date gross profit as of the current month.

The Year-to-Date Departmental Gross Profit Totals are shown on page 235.
The income statement is a summary of the revenues and expenses a company accrues over a period of time, such as an accounting period or a year. Only revenue and expense accounts are displayed on the income statement.

In addition to dollar figures, Peachtree’s income statement also includes percentage-of-revenue columns for the current month. The percentages shown for each expense, total expenses, and net income (or net loss) indicate the relationship of each item to total revenues.

The income statement is shown on page 237.
The statement of cash flow summarizes the effects on cash of the operating, investing, and financing activities of a company for a period and the year to date.

The statement of cash flow reports cash transactions associated with the purchase or sale of fixed assets (Investing Activities) and cash paid to or received from creditors and owners (Financing Activities).

The statement of cash flow is shown on page 239.
The statement of retained earnings shows beginning and ending retained earnings amounts, adjustments made to retained earnings within the report period, and the detail for all Equity-gets closed accounts. The retained earnings balance is the cumulative, lifetime earnings of the company less its cumulative losses and dividends.

The Statement of Retained Earnings is shown on page 240.
The statement of changes in financial position describes changes in a company’s financial position that may not be obvious from other financial statements. The Statement of Changes in Financial Position is shown on page 241.

Peachtree includes the Statement of Changes in Financial Position even though current accounting standards require that a statement of cash flows is required as part of a full set of financial statements in place of a statement of changes in financial position.
No single financial statement tells the entire story. The income statement indicates how much revenue a business has earned during a specific period of time, but it says nothing about how much of that amount has or has not been received in cash. For information about cash and accounts receivable, you have to look at the balance sheet, statement of cash flow, and statement of changes in financial position.
Since the Exercise 6-2 backup (textbook page 220) includes all the data necessary for the financial statements, there is no need to back up in Chapter 7.

Do *not* delete the Exercise 6-2.ptb file. It is used for activities in Chapters 16-18 (Part 4).
## Backing Up Chapter 7

<table>
<thead>
<tr>
<th>Backup Name</th>
<th>KB</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 7.ptb (optional)</td>
<td>3,702</td>
<td>242</td>
</tr>
<tr>
<td>Chapter 7_Financial Statements.xlsx</td>
<td>37</td>
<td>243</td>
</tr>
<tr>
<td>Chapter 7_Balance Sheet.pdf</td>
<td>12</td>
<td>244</td>
</tr>
<tr>
<td>Chapter 7_Income Statement.pdf</td>
<td>14</td>
<td>244</td>
</tr>
<tr>
<td>Chapter 7_Dept Gross Profit Total.pdf</td>
<td>8</td>
<td>244</td>
</tr>
<tr>
<td>Chapter 7_Statement of Cash Flow.pdf</td>
<td>11</td>
<td>244</td>
</tr>
<tr>
<td>Chapter 7_Statement of Retained Earnings.pdf</td>
<td>7</td>
<td>244</td>
</tr>
<tr>
<td>Chapter 7_Statement of Changes in Financial Position.pdf</td>
<td>11</td>
<td>244</td>
</tr>
</tbody>
</table>
Glossary of Terms
Chapter 7
A net income results when revenues exceed expenses.
Net loss, p. 227

A net loss results when expenses exceed revenues.
Masking, p. 235

A feature included in Peachtree called masking allows you to departmentalize financial statements. Masking is the ability to limit information on the report to a single division, department, location, or type code.
Access the article How to Value Stocks: How to Read a Balance Sheet at

Read the article. Answer the following questions.

What are liquid assets?
What are the liquid assets called on the balance sheet?
In the More on reading a balance sheet section, link to two other sites. Define each link; include the website addresses in your answer.
Analysis Questions, p. 248

1. How are the income statement and balance sheet related to each other?

2. Using Bellwether as an example, what cash accounts does the statement of cash flow report?

3. Does the statement of cash flow use information from both the balance sheet and income statement?

➢ The answer is on the next slide.
The financial statements work together. No single financial statement tells the entire story. The income statement indicates how much revenue a business has earned during a specific period of time, but it says nothing about how much of that amount has or has not been received in cash. For information about cash and accounts receivable, we have to look at the balance sheet, statement of cash flow, and statement of changes in financial position.

1. The net income (or net loss) from the income statement is on the balance sheet’s capital section. The net income or net loss is used to update the balance sheet’s capital amount: Capital Beginning of the Year - Net Loss (or + Net Income) = Total Capital.

2. The total of all the cash accounts on the Balance Sheet (Petty Cash, Cash on Hand, Regular Checking Account, Payroll Checking Account, Savings Account, and Money-Market Fund) is shown as the Cash Balance at End of Period on the statement of cash flow.

3. Yes, the statement of cash flow uses information from both the balance sheet and income statement.
<table>
<thead>
<tr>
<th>Report</th>
<th>Date</th>
<th>Menu</th>
<th>Window</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Statement</td>
<td>For the three months ended March 31, 2012</td>
<td>Reports &amp; Forms, Financial Statements Or, Find a Report area of Business Status Navigation Center.</td>
<td>&lt;Standard&gt; Income Stmt</td>
</tr>
</tbody>
</table>
Online Learning Center

  - Interactive Testing
  - Glossary of Terms
  - Narrated PowerPoints
  - Assessment Rubric
  - Going to the Net
  - QA Templates