

Living in the Real World

Jojoba Healing

Applying Your Knowledge As it turns out, Jojoba Healing has achieved an 11.7 percent increase in net profit during the last two quarters. Lakes feels satisfied that her young business is on the upswing and is confident that she can convince the bank to help her achieve her dreams of building a new facility.

- 1 **Investigate.** What type of job do you have now or want? Is it in the field you might continue to work in?
- 2 **Creative Thinking.** Imagine yourself in five years. What type of job do you want? Where are you living? What skills are you using?
- 3 **Observe.** Look at other people—your family, friends, co-workers, and so on. Do any of them have a career that you might enjoy? What skills would you need for this career? Do your dreams revolve around a career?



After YOU READ

REVIEW OF KEY WORDS

assets (p. 658)

liabilities (p. 658)

owner's equity (p. 658)

net worth (p. 658)

capital (p. 658)

balance sheet (p. 660)

cost of goods sold (p. 663)

income statement (p. 666)

profit-and-loss statement (p. 666)

net income (p. 666)

net profit (p. 666)

current ratio (p. 669)

quick ratio (p. 669)

horizontal analysis (p. 672)

base figure (p. 672)

amount of change (p. 672)

Match one of the key words above with a definition below.

1. shows your sales, operating expenses, and net profit or loss; also called profit-and-loss statement.
2. the difference between your assets and liabilities; also called net worth or capital.
3. is negative if the amount decreases from one income statement to the next.
4. shows your assets, liabilities, and owner's equity.
5. the total of your cash, the items that you have purchased, and any money that
6. the ratio of total assets to total liabilities.
7. the ratio of total assets minus inventory to total liabilities.
8. the total amount of money you owe your creditors.
9. is the beginning inventory plus receipts minus the ending inventory.
10. a comparison of two or more income statements from different periods.

REVIEW EXERCISES

Complete the table.

	Cash	Inventory	Supplies	Total Assets	Bank Loan	Taxes Owed	Total Liabilities	Owner's Equity
17.	\$ 11,500.00	\$117,000.00	\$ 4,300.00	a.	\$100,000.00	\$13,400.00	b.	c.
18.	32,400.00	9,432.00	8,400.00	a.	10,300.00	3,900.00	b.	c.
19.	109,864.00	156,790.00	21,300.00	a.	210,600.00	b.	c.	\$71,754.00
20.	36,540.00	89,500.00	20,600.00	a.	45,600.00	b.	c.	90,010.00
21.	78,302.00	21,400.00	13,490.00	a.	b.	11,500.00	c.	44,802.00
22.	5,311.00	13,200.00	2,190.00	a.	b.	894.34	c.	9,806.68
23.	54,210.00	123,908.00	3,219.10	a.	b.	983.21	c.	99,853.21

SECTION OBJECTIVE 21-3 AND EXAMPLES

Figure out the cost of goods sold.

The Cat's Meow began the month with an inventory valued at \$13,400. During the month it received merchandise valued at \$3,200. The ending inventory was valued at \$12,300. What was the cost of goods sold?

STEP: Find the cost of goods sold.

$$(\text{Beginning Inventory} + \text{Receipts}) - \text{Ending Inventory}$$

$$(\$13,400 + \$3,200) - \$12,300$$

$$= \$4,300 \text{ cost of goods sold}$$

REVIEW EXERCISES

Find the cost of goods sold.

	Beginning Inventory	Receipts	Ending Inventory	Cost of Goods Sold
24.	\$183,204.00	\$ 48,650.00	\$ 90,431.00	
25.	104,588.00	132,005.00	100,459.00	
26.	85,430.32	34,509.56	100,231.96	
27.	73,210.11	3,490.65	32,985.66	
28.	5,490.86	21,390.86	3,490.35	
29.	45,796.23	61,209.58	71,890.91	

Skills and Concepts

SECTION OBJECTIVE 21-1 AND EXAMPLES

Compute the total assets, liabilities, and owner's equity.

Philip Lawson starts Yellow Jackets by putting in \$30,000 of his own money. Yellow Jackets is a retail outlet for outdoor hunting gear. Lawson obtains a bank loan of \$100,000, of which \$75,000 was used to purchase inventory. Store fixtures cost \$10,000, which he did not pay for immediately. What was Lawson's owner's equity?

Assets:

Cash (\$30,000 + \$100,000) - \$75,000	= \$ 55,000
Inventory	= 75,000
Store Fixtures	= <u>10,000</u>
Total Assets:	= \$140,000

Liabilities:

Bank Loan	= \$100,000
Unpaid Fixtures	= <u>10,000</u>
Total Liabilities	= \$110,000

Owner's Equity:

Total Assets - Total Liabilities	
\$140,000 - \$110,000	= \$30,000

REVIEW EXERCISES

Complete the table.

	Liabilities	+	Owner's Equity	=	Assets
11.	\$17,844	+	\$29,300	=	
12.		+	36,500	=	\$121,944
13.	9,230	+		=	42,100
14.		+	74,508	=	93,200
15.	32,190	+	64,310	=	
16.	21,390	+		=	25,498

SECTION OBJECTIVE 21-2 AND EXAMPLES

Calculate a balance sheet.

Prepare a balance sheet for Yellow Jackets based on the information above.

STEP: Prepare a balance sheet.

Balance Sheet			
Yellow Jackets		March 15	
Assets		Liabilities	
Cash	\$ 55,000	Notes payable	\$ 10,000
Inventory	75,000	Bank loan	<u>100,000</u>
Store fixtures	<u>10,000</u>	Total liabilities	\$110,000
		Owner's Equity	
		Capital	<u>30,000</u>
Total assets	<u>\$140,000</u>	Total liabilities and owner's equity	<u>\$140,000</u>

SECTION OBJECTIVE 21-4 AND EXAMPLES

Complete an income statement.

One month after Youssef Weston opened his music store, he prepared an income statement. Sales for the year totaled \$67,540.32; merchandise totaling \$1,200.00 was returned to him. Weston's inventory records show that the goods he sold cost him \$29,304.86. Records show his operating expenses totaled \$18,002.29. What is the net income?

STEP: Find the net income.

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$$

$$\text{Net Income} = \text{Gross Profit} - \text{Total Operating Expenses}$$

Income Statement	
Youssef Weston's Music Store	For the Month Ending June 30
Income: Sales	\$67,540.32
Less: Sales returns and allowances	1,200.00
Net sales	<u>\$66,340.32</u>
Cost of goods sold	29,304.86
Gross profit on sales	<u>\$37,035.46</u>
Operating expenses: Total operating expenses	<u>\$18,002.29</u>
Net income	<u>\$19,033.17</u>

REVIEW EXERCISES

Complete the table.

	Total Sales	Returns	Net Sales	Cost of Goods Sold	Gross Profit	Operating Expenses	Net Income
30.	\$ 21,905.00	\$ 1,207.63	a.	\$ 6,509.38	b.	\$ 12,309.00	c.
31.	39,650.00	3,400.00	a.	8,540.20	b.	18,500.00	c.
32.	54,201.11	8,430.38	a.	18,409.43	b.	21,200.00	c.
33.	89,500.32	5,490.43	a.	15,900.34	b.	41,200.00	c.
34.	981,309.22	22,309.56	a.	431,098.99	b.	128,504.00	c.
35.	45,902.46	7,509.43	a.	21,209.31	b.	16,430.97	c.

SECTION OBJECTIVE 21-5 AND EXAMPLES

Analyze balance sheets and income statements.

Look back at Youssef Weston's Music Shop's income statement in Section 21-4. To the nearest tenth percent, the total operating expenses are what percent of net sales?

STEP: Find the percent of net sales.

$$\frac{\text{Amount for Item}}{\text{Net Sales}} = \frac{\$18,002.29}{\$66,340.32} = 0.2713 \text{ or } 27.1\% \text{ net sales}$$

REVIEW EXERCISES

Find the current ratio and the quick ratio.

	Total Assets	Inventory	Total Liabilities	Current Ratio	Quick Ratio
36.	\$154,900.00	\$32,900.00	\$84,300.00	a.	b.
37.	75,400.00	11,900.00	43,400.00	a.	b.
38.	101,409.00	84,500.00	56,430.00	a.	b.
39.	219,549.33	39,843.29	98,459.44	a.	b.
40.	56,903.44	11,290.56	8,905.68	a.	b.

SECTION OBJECTIVE 21-6 AND EXAMPLES

Compare two income statements using horizontal analysis, and compute the percent change.

Last year's net sales were \$129,569. This year's net sales are \$199,540. What is the amount of change? What is the percent change?

STEP 1: Find the amount of change.

$$\$199,540 - \$129,569 = \$69,971 \text{ amount of change}$$

STEP 2: Find the percent change.

$$\frac{\text{Amount of Change}}{\text{Base Figure}} = \frac{\$69,971}{\$129,569} = 0.5400 \text{ or } 54\% \text{ change}$$

REVIEW EXERCISES

Find the amount of change and the percent of change.

	Last Year (Base)	This Year	Amount of Change	Percent Change
41.	\$ 560,900.00	\$ 689,000.00	a.	b.
42.	465,030.00	398,400.00	a.	b.
43.	109,569.00	176,500.00	a.	b.
44.	156,905.00	200,560.00	a.	b.
45.	3,209,880.00	3,110,850.00	a.	b.
46.	96,320.00	110,540.00	a.	b.
47.	110,457.00	110,457.00	a.	b.