Income statement

Business, Accounting

Step 1-Identify the transaction: a client purchased a one day ticket for the Disney Park amounting to $50.

Step 2 – Analyze the transaction: the main function of the Disney Park is to sell tickets to customers wishing to visit the park. This therefore directly affects the service revenue of the park. Since the client paid the ticket by cash, it will also alter the cash account of the organization.

Step 3 – Record the transaction in the Journal: the two accounts noted above will be affected as follows: Debit Cash $50 and Credit Service Revenue $50 and will be recorded in the journal accordingly.

Step 4 – Post transaction to appropriate accounts in the ledger: the nominal ledger accounts noted above will also be affected by Debit Cash $50 and Credit Service Revenue $50.

Step 5 – Prepare the trial balance: once all the transactions for a particular time frame has been properly recorded in line with steps 3 and 4, a trial balance is prepared. This lists all the assets (cash), liabilities, expenses, gain (service revenue) and expenditure of the company.

Step 6 – Record adjusting entries in the Journal: a large organization like Disneyworld would have a considerable amount of adjusting entries. For example, accounting for depreciation is a typical case in point. Let us presume that the depreciation charge for machinery for the period amounts to $15, 000. The accounts affected are the depreciation expense and the accumulated depreciation for machinery. These will be affected as follows in the Journal: Debit Depreciation Expense $15, 000 and Credit Accumulated Depreciation for Machinery $15, 000.

Step 7 - Post adjusting entries in the appropriate accounts in the ledger: Likewise the depreciation transaction noted above will be recorded in the appropriate ledgers (nominal ledger) the same as the journal.

Step 8 – Prepare an adjusted trial balance: once all the adjusting entries have been reflected in the journal and ledgers an adjusted trial balance is prepared for a particular time frame.

Step 9 – Prepare the financial statements for Disneyworld– the income statement, balance sheet, cash flow statement, statement of changes in equity and accompanying notes will be prepared for the company to be forwarded to the external users. These will reflect all the transactions recorded in the fashion noted above.

Step 10 - Transfer the balances in the temporary accounts to the stockholders' equity: the statement of changes in equity would reflect such transfers. For example the net income incurred by Disneyworld as shown in the Income Statement would be included in the stockholders' equity section.

Step 11 – Prepare an after-closing trial balance: after all the transfers noted in step 10 have been affected an after closing trial balance will be prepared where, these type of accounts would not appear (eg: cost of sales account) since they have been reflected in the stockholders' equity section.