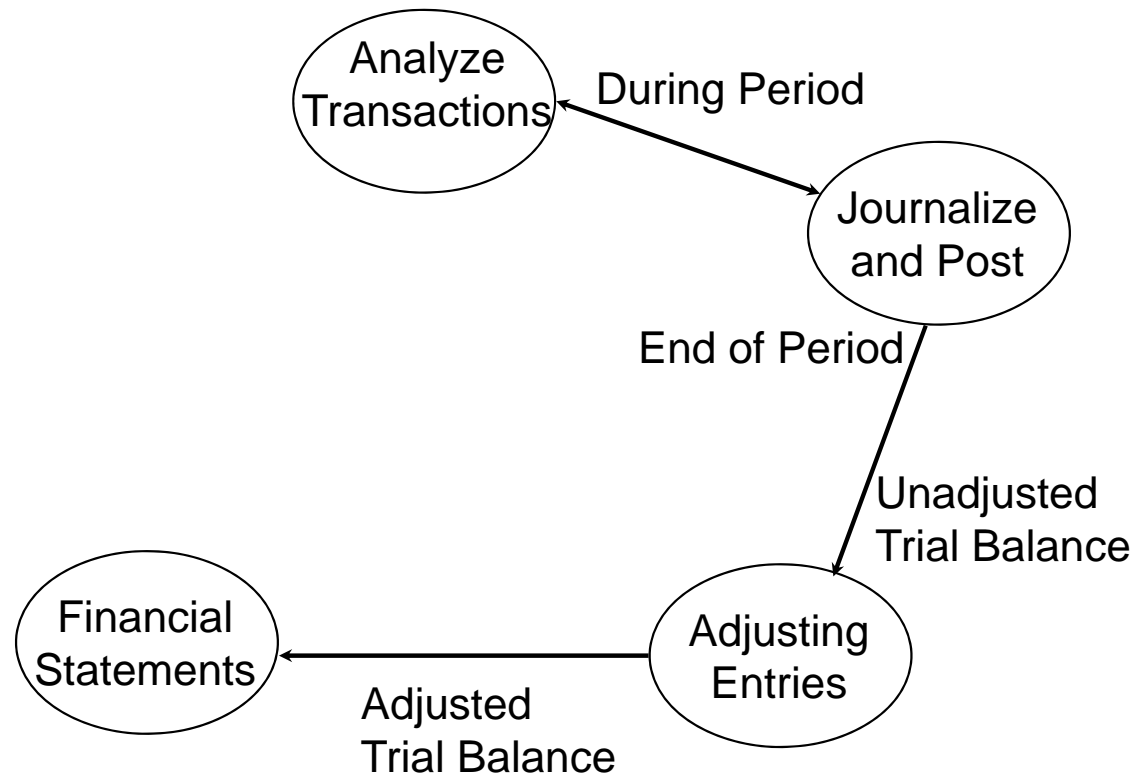


The Accounting Cycle



Preparation of Financial Statements

- **Adjusted Trial Balance**

- Summarizes balances in each account after adjusting entries
- Used to make financial statements

- **Preparation of Financial Statements**

- Prepare Income Statement first
- Then, use Net Income to update Retained Earnings and to prepare Balance Sheet
- Finally, complete the Statement of Cash Flows and Statement of Stockholders' Equity

Income Statement Format

The Income Statement generally has the following format:

- Revenue (or Sales)
- Cost of Goods Sold
- Gross Profit
- Operating (SG&A) Expense
- Operating Income
- Interest, Gains, and Losses
- Pre-tax Income
- Income Tax Expense
- Net Income

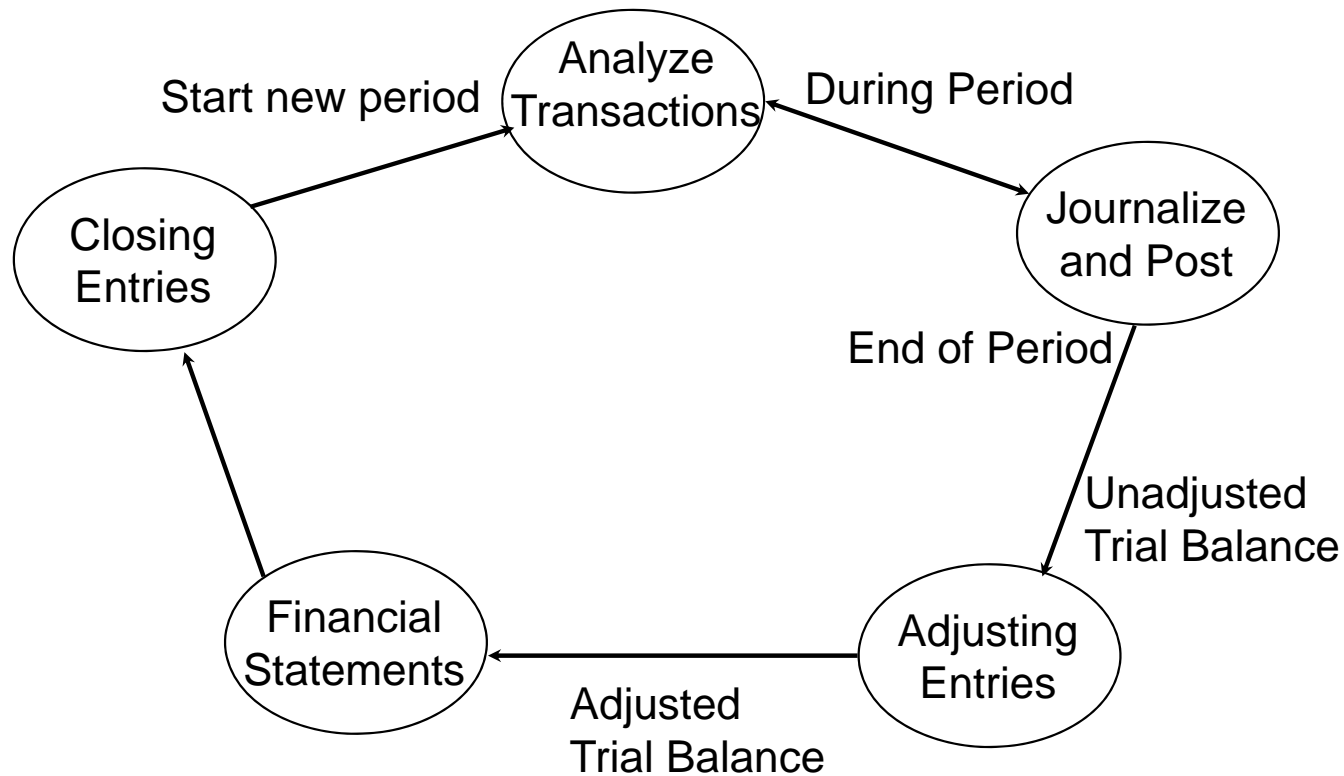
Balance Sheet Format: Assets

- **Assets are listed first in the following order:**
 - **Current assets (benefits within next year)**
 - Ordered by liquidity (how readily can they be converted to cash)
 - Cash
 - Accounts Receivable
 - Inventory
 - Prepaid Assets
 - **Noncurrent assets**
 - Tangible assets
 - Intangible assets

Balance Sheet Format: Liabilities and Stockholders' Equity

- **Liabilities and Stockholders' Equity are listed next in the following order:**
 - **Current liabilities (obligations within next year)**
 - Ordered by liquidity
 - Bank borrowings
 - Accounts payable and other payables
 - Deferred revenues and other noncash
 - **Noncurrent liabilities**
 - Bank borrowings and bonds
 - Other types of liabilities (deferred taxes, pensions)
 - **Stockholders' equity**
 - Contributed capital
 - Retained earnings

The Accounting Cycle



Close Temporary Accounts

- **Temporary Accounts**

- Accumulate the effects of transactions for a period of time only
- Revenue and Expense accounts
- Closed out to retained earnings at the end of period

- **Permanent Accounts**

- Accumulate the effects of transactions over the entire life of business
- Balance sheet accounts (Assets, Liabilities, Contributed Capital, Retained Earnings)

Close Temporary Accounts

- **Closing entries**

- Internal transactions that "zero out" temporary accounts at the end of the accounting period
- Revenue and Expense account balances are transferred to Retained Earnings

- Revenues:

- Dr. Revenue Accounts (-R, -SE)

- Cr. Retained Earnings (+SE)

- Expenses:

- Dr. Retained Earnings (-SE)

- Cr. Expense Accounts (-E, +SE)

- **Post-closing trial balance**

- Summarizes balances of permanent accounts after closing entries
- All revenue and expense accounts have a zero balance

- **Now, we're ready to start the next fiscal period**

Relic Spotter Inc. Case

- Prepare the adjusted trial balance
- Prepare the Income Statement
- Record the closing entries and post to T-accounts
- Prepare the Balance Sheet