



Course Title: Financial Accounting

Course Code: ACT 101

Course Instructor: Fairose Farin

Chapter 4: Completing the Accounting Cycle

PREVIEW OF CHAPTER 4

COMPLETING THE ACCOUNTING CYCLE			
Using a Worksheet	Closing the Books	Summary of Accounting Cycle	Classified Statement of Financial Position
<ul style="list-style-type: none">• Steps in preparation• Preparing financial statements• Preparing adjusting entries	<ul style="list-style-type: none">• Preparing closing entries• Posting closing entries• Preparing a post-closing trial balance	<ul style="list-style-type: none">• Reversing entries—An optional step• Correcting entries—An avoidable step	<ul style="list-style-type: none">• Intangible assets• Property, plant, and equipment• Long-term investments• Current assets• Equity• Non-current liabilities• Current liabilities

Financial Accounting
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Weygandt • Kimmel • Kieso

CHAPTER

4

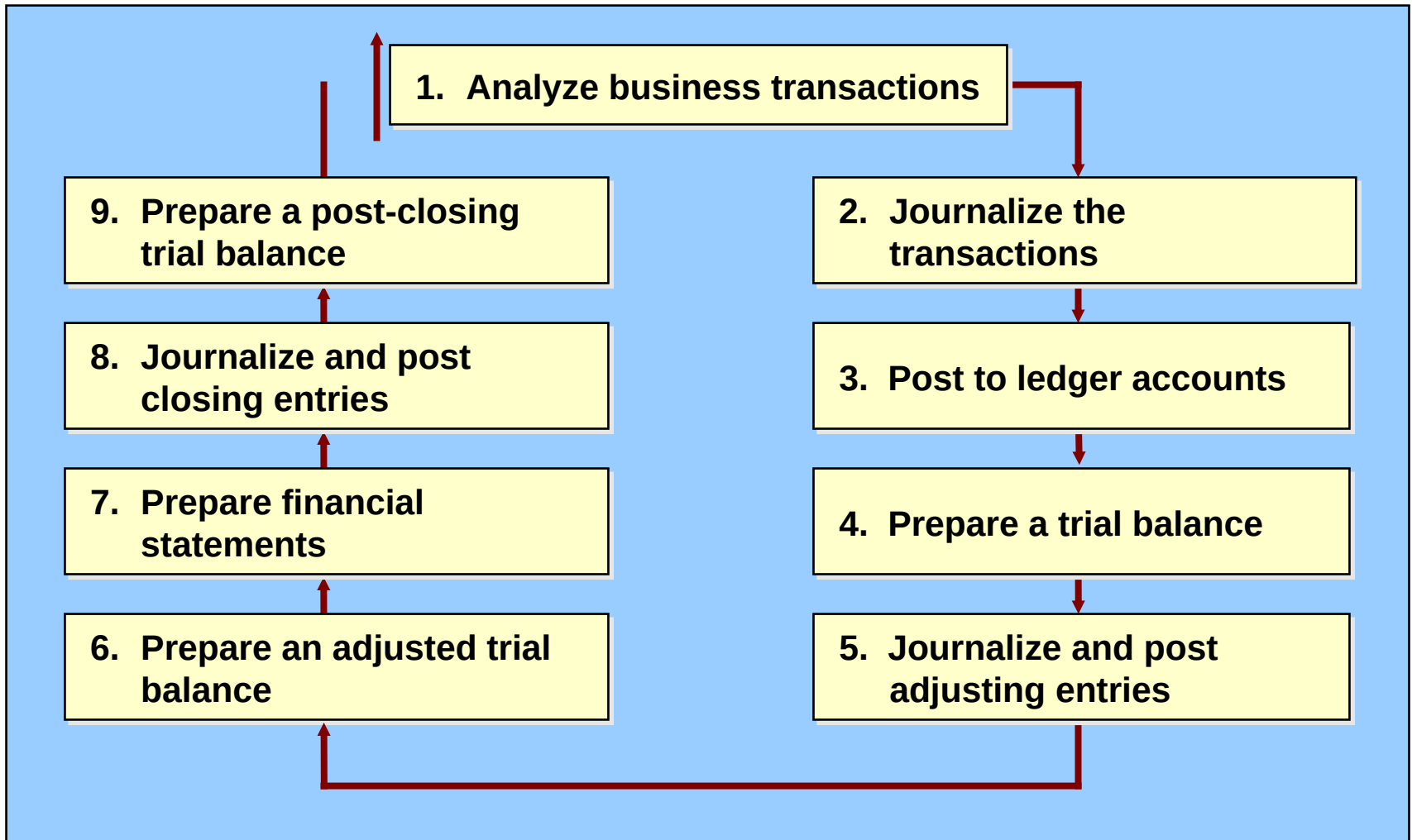
Completing the Accounting Cycle

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Prepare a worksheet.
2. Explain the process of closing the books.
3. Describe the content and purpose of a post-closing trial balance.
4. State the required steps in the accounting cycle.
5. Explain the approaches to preparing correcting entries.
6. Identify the sections of a classified statement of financial position.

The Accounting Cycle



Using a Worksheet

Worksheet

- ◆ Before financial statements are finalized, accountants need a **tool to organize and test information**. That's where the worksheet comes in—it's a tool to help ensure everything is accurate and balanced before anything goes public or to the tax authorities .
- ◆ We start with transactions, move through the journal and ledger, then create a trial balance. But before financial statements, we use a worksheet to:
 - ◆ **Adjust entries,**
 - ◆ **Update balances,**
 - ◆ **Prepare financial statements.**

Using a Worksheet

Worksheet

- ◆ A worksheet is a multi-column document used during the accounting cycle to **help prepare adjusting entries and financial statements**.
- ◆ It's not part of the official accounting records, but it's **crucial for internal use**. It's neither a journal nor a part of a general ledger.
- ◆ May be a computerized worksheet using an electronic spreadsheet program such as Excel.
- ◆ It is prepared using a five step process.
- ◆ Use of worksheet is **optional**.

Steps in Preparing a Worksheet


Illustration 4-1
Form and procedure
for a worksheet

Worksheet.xls


Home Insert Page Layout Formulas Data Review View

P18 fx


	A	B	C	D	E	F	G	H	I	J	K
1		Worksheet									
2											
3											
4		Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
5	Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											




1
Prepare a trial balance on the worksheet



2
Enter adjustment data



3
Enter adjusted balances



4
Extend adjusted balances to appropriate statement columns
5
Total the statement columns, compute net income (or net loss), and complete worksheet

Steps in Preparing a Worksheet

1. PREPARE A TRIAL BALANCE ON THE WORKSHEET

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200									
Supplies	2,500									
Prepaid Insurance	600									
Equipment	5,000									
Notes Payable		5,000								
Accounts Payable		2,500								
Unearned Revenue		1,200								
Share Capital-Ordinary		10,000								
Dividends	500									
Service Revenue		10,000								
Salaries and Wages Exp.	4,000									
Rent Expense	900									
Totals	<u>28,700</u>	<u>28,700</u>								

Include all accounts with balances.

Trial balance amounts come directly from ledger accounts.

Steps in Preparing a Worksheet

Illustration 3-23

General journal showing
adjusting entries

Adjusting Journal Entries (Chapter 3)

GENERAL JOURNAL					J2
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2017	<u>Adjusting Entries</u>				
Oct. 31	Supplies Expense	631	1,500		
	Supplies	126		1,500	
	(To record supplies used)				
31	Insurance Expense	722	50		
	Prepaid Insurance	130		50	
	(To record insurance expired)				
31	Depreciation Expense	711	40		
	Accumulated Depreciation—Equipment	158		40	
	(To record monthly depreciation)				
31	Unearned Service Revenue	209	400		
	Service Revenue	400		400	
	(To record revenue for services performed)				
31	Accounts Receivable	112	200		
	Service Revenue	400		200	
	(To record revenue for services performed)				
31	Interest Expense	905	50		
	Interest Payable	230		50	
	(To record interest on notes payable)				
31	Salaries and Wages Expense	726	1,200		
	Salaries and Wages Payable	212		1,200	
	(To record accrued salaries and wages)				

Steps in Preparing a Worksheet

Illustration 4-2

2. ENTER THE ADJUSTMENTS IN THE ADJUSTMENTS COLUMNS

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200									
Supplies	2,500			(a) 1,500						
Prepaid Insurance	600			(b) 50						
Equipment	5,000									
Notes Payable		5,000								
Accounts Payable		2,500								
Unearned Revenue		1,200	(d) 400							
Share Capital-Ordinary		10,000								
Dividends	500									
Service Revenue		10,000		(d) 400						
				(e) 200						
Salaries and Wages Exp.	4,000		(g) 1,200							
Rent Expense	900									
Totals	<u>28,700</u>	<u>28,700</u>								
Supplies Expense			(a) 1,500							
Insurance Expense			(b) 50							
Accumulated Depreciation				(c) 40						
Depreciation Expense			(c) 40							
Accounts Receivable			(e) 200							
Interest Expense			(f) 50							
Interest Payable				(f) 50						
Salaries and Wages Payable				(g) 1,200						
Totals			<u>3,440</u>	<u>3,440</u>						

Adjustments Key:

(a) Supplies Used.

(b) Insurance Expired.

(c) Depreciation Expensed.

(d) Service Revenue Recognized.

(e) Service Revenue Accrued.

(f) Interest Accrued.

(g) Salaries Accrued.

Enter adjustment amounts, total adjustments columns, and check for equality.

Add additional accounts as needed.

Steps in Preparing a Worksheet

Illustration 4-2

3. COMPLETE THE ADJUSTED TRIAL BALANCE COLUMNS

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200				15,200					
Supplies	2,500			(a) 1,500	1,000					
Prepaid Insurance	600			(b) 50	550					
Equipment	5,000				5,000					
Notes Payable		5,000				5,000				
Accounts Payable		2,500				2,500				
Unearned Revenue		1,200	(d) 400			800				
Share Capital-Ordinary		10,000				10,000				
Dividends	500				500					
Service Revenue		10,000		(d) 400 (e) 200		10,600				
Salaries and Wages Exp.	4,000		(g) 1,200		5,200					
Rent Expense	900				900					
Totals	<u>28,700</u>	<u>28,700</u>								
Supplies Expense			(a) 1,500		1,500					
Insurance Expense			(b) 50		50					
Accumulated Depreciation				(c) 40		40				
Depreciation Expense			(c) 40		40					
Accounts Receivable			(e) 200		200					
Interest Expense			(f) 50		50					
Interest Payable				(f) 50		50				
Salaries and Wages Payable				(g) 1,200		1,200				
Totals			<u>3,440</u>	<u>3,440</u>	<u>30,190</u>	<u>30,190</u>				

Total the adjusted trial balance columns and check for equality.

Steps in Preparing a Worksheet

Illustration 4-2

4. EXTEND AMOUNTS TO FINANCIAL STATEMENT COLUMNS

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200				15,200					
Supplies	2,500			(a) 1,500	1,000					
Prepaid Insurance	600			(b) 50	550					
Equipment	5,000				5,000					
Notes Payable		5,000				5,000				
Accounts Payable		2,500				2,500				
Unearned Revenue		1,200	(d) 400			800				
Share Capital-Ordinary		10,000				10,000				
Dividends	500				500					
Service Revenue		10,000		(d) 400 (e) 200		10,600		10,600		
Salaries and Wages Exp.	4,000		(g) 1,200		5,200		5,200			
Rent Expense	900				900		900			
Totals	<u>28,700</u>	<u>28,700</u>								
Supplies Expense			(a) 1,500		1,500		1,500			
Insurance Expense			(b) 50		50		50			
Accumulated Depreciation				(c) 40		40				
Depreciation Expense			(c) 40		40		40			
Accounts Receivable			(e) 200		200					
Interest Expense			(f) 50		50		50			
Interest Payable				(f) 50		50				
Salaries and Wages Payable				(g) 1,200		1,200				
Totals			<u>3,440</u>	<u>3,440</u>	<u>30,190</u>	<u>30,190</u>	<u>7,740</u>	<u>10,600</u>		

Extend all revenue and expense account balances to the income statement columns.

Steps in Preparing a Worksheet

Illustration 4-2

5. TOTAL COLUMNS, COMPUTE NET INCOME (LOSS)


Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200				15,200				15,200	
Supplies	2,500			(a) 1,500	1,000				1,000	
Prepaid Insurance	600			(b) 50	550				550	
Equipment	5,000				5,000				5,000	
Notes Payable		5,000				5,000				5,000
Accounts Payable		2,500				2,500				2,500
Unearned Revenue		1,200	(d) 400			800				800
Share Capital-Ordinary		10,000				10,000				10,000
Dividends	500				500				500	
Service Revenue		10,000		(d) 400 (e) 200		10,600		10,600		
Salaries and Wages Exp.	4,000		(g) 1,200		5,200		5,200			
Rent Expense	900				900		900			
Totals	28,700	28,700								
Supplies Expense			(a) 1,500		1,500		1,500			
Insurance Expense			(b) 50		50		50			
Accumulated Depreciation				(c) 40		40				40
Depreciation Expense			(c) 40		40		40			
Accounts Receivable			(e) 200		200				200	
Interest Expense			(f) 50		50		50			
Interest Payable				(f) 50		50				50
Salaries and Wages Payable				(g) 1,200		1,200				1,200
Totals			3,440	3,440	30,190	30,190	7,740	10,600	22,450	19,590
Net Income							2,860			2,860
Totals							10,600	10,600	22,450	22,450

Compute Net Income or Net Loss.

Steps in Preparing a Worksheet

Question

Which of the following statements is incorrect concerning the worksheet?

- a. The worksheet is essentially a working tool of the accountant.
-  b. The worksheet is distributed to management and other interested parties.
- c. The worksheet cannot be used as a basis for posting to ledger accounts.
- d. Financial statements can be prepared directly from the worksheet before journalizing and posting the adjusting entries.

Preparing Financial Statements from a Worksheet

- ◆ Income statement is prepared from the income statement columns.
- ◆ Statement of financial position and retained earnings statement are prepared from the statement of financial position columns.
- ◆ Companies can prepare financial statements before they journalize and post adjusting entries.

Preparing Statements from a Worksheet

YAZICI ADVERTISING A.Ş. Income Statement For the Month Ended October 31, 2017

Revenues		
Service revenue		₺10,600
Expenses		
Salaries and wages expense	₺5,200	
Supplies expense	1,500	
Rent expense	900	
Insurance expense	50	
Interest expense	50	
Depreciation expense	40	
Total expenses	<u>7,740</u>	<u>7,740</u>
Net income		<u>₺ 2,860</u>

Illustration 4-3

Financial statements from a worksheet

Preparing Statements from a Worksheet

YAZICI ADVERTISING A.Ş. Retained Earnings Statement For the Month Ended October 31, 2017

Retained earnings, October 1	₺ -0-
Add: Net income	<u>2,860</u>
	2,860
Less: Dividends	<u>500</u>
Retained earnings, October 31	<u><u>₺2,360</u></u>

Illustration 4-3

Financial statements from a worksheet

YAZICI ADVERTISING A.Ş.
Statement of Financial Position
October 31, 2017

<u>Assets</u>		
Equipment	₺ 5,000	
Less: Accumulated depreciation—equipment	<u>40</u>	₺ 4,960
Prepaid insurance		550
Supplies		1,000
Accounts receivable		200
Cash		<u>15,200</u>
Total assets		<u><u>₺21,910</u></u>

<u>Equity and Liabilities</u>		
Equity		
Share capital—ordinary	₺10,000	
Retained earnings	<u>2,360</u>	₺12,360
Liabilities		
Notes payable	5,000	
Accounts payable	2,500	
Interest payable	50	
Unearned service revenue	800	
Salaries and wages payable	<u>1,200</u>	<u>9,550</u>
Total equity and liabilities		<u><u>₺21,910</u></u>

Illustration 4-3
Financial statements from a worksheet

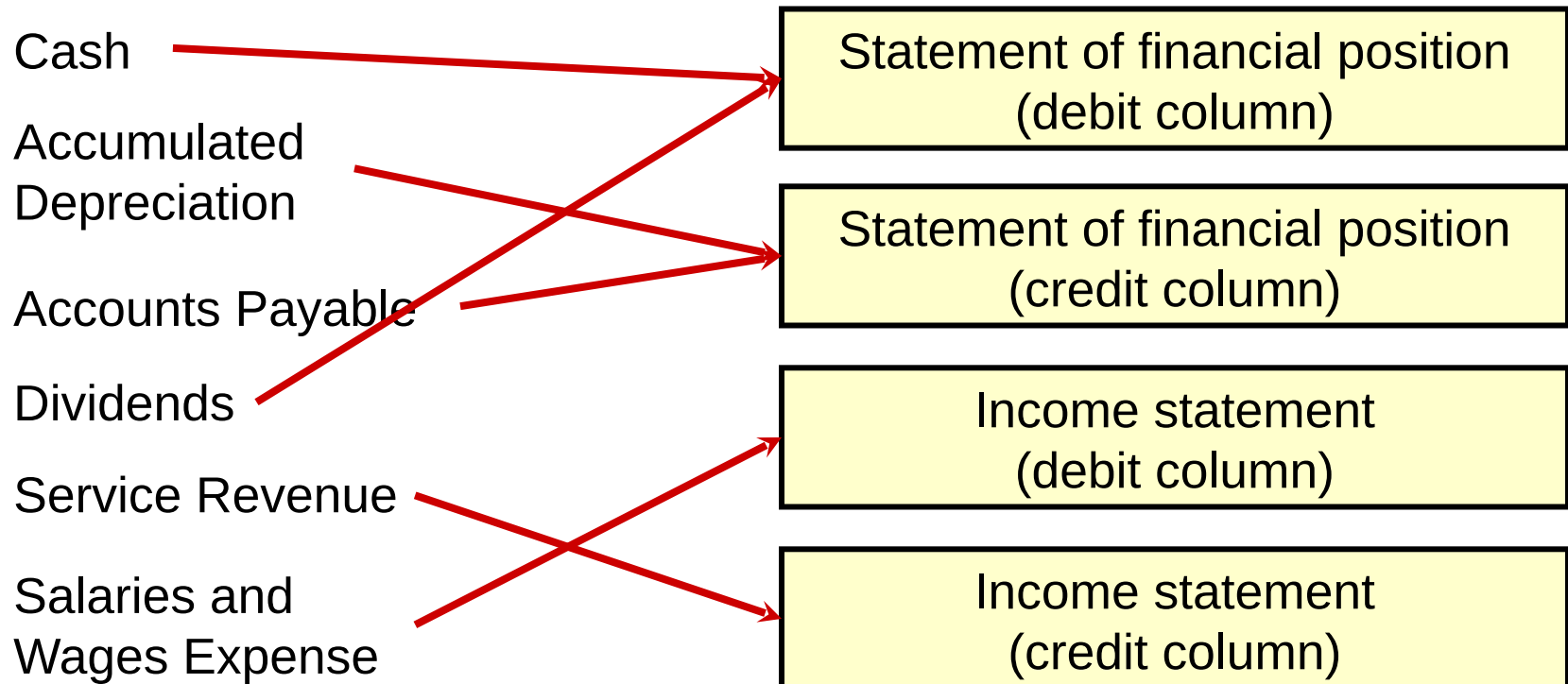
Preparing Adjusting Entries from a Worksheet

- ◆ Adjusting entries are prepared from the adjustments columns of the worksheet.
- ◆ Journalizing and posting of adjusting entries **follows** the preparation of financial statements when a worksheet is used.



DO IT!

Susan Elbe is preparing a worksheet. Explain to Susan how she should extend the following adjusted trial balance accounts to the financial statement columns of the worksheet.



Closing the Books

- ☐ At the end of the accounting period, the company makes the accounts ready for the next period. This is called **closing books**.
- ☐ Temporary accounts relate only to a given accounting period. They include all **income statement accounts and the Dividends account**.
- ☐ The company closes all temporary accounts at the end of the period.
- ☐ In contrast, **permanent accounts relate to one or more future accounting periods**. They consist of all statement of financial position accounts, including equity accounts.
- ☐ **Permanent accounts are not closed from period to period.**

Closing the Books

At the end of the accounting period, the company makes the accounts ready for the next period.

TEMPORARY

These accounts are closed

All revenue accounts

All expense accounts

Dividends

PERMANENT

These accounts are not closed

All asset accounts

All liability accounts

Equity

Illustration 4-4
Temporary versus permanent accounts

Preparing Closing Entries

- ✓ **Closing entries** formally recognize in the ledger the transfer of
 - ◆ net income (or net loss) and
 - ◆ Dividendsto Retained Earnings.
- ✓ **Companies generally journalize and post closing entries only at the end of the annual accounting period.**
- ✓ **Closing entries produce a zero balance in each temporary account.**

Preparing Closing Entries

- ☐ Companies generally prepare closing entries directly from the adjusted balances in the ledger.
- ☐ The following four entries accomplish the desired result more efficiently:
 - 1. Debit each revenue account for its balance, and credit Income Summary for total revenues.**
 - 2. Debit Income Summary for total expenses, and credit each expense account for its balance.**
 - 3. Debit Income Summary and credit Retained Earnings for the amount of net income.**
 - 4. Debit Retained Earnings for the balance in the Dividends account, and credit Dividends for the same amount.**

(Individual) Expenses	

(Individual) Revenues	

Income Summary	

Retained Earnings	

Dividends	

• HELPFUL HINT

The Dividends account is closed directly to Retained Earnings and *not* to Income Summary because dividends are not an expense.

Illustration 4-5
Diagram of closing process—corporation

Retained earnings is a permanent account. All other accounts are temporary accounts.

Key:

- 1** Close Revenues to Income Summary.
- 2** Close Expenses to Income Summary.
- 3** Close Income Summary to Retained Earnings.
- 4** Close Dividends to Retained Earnings.

GENERAL JOURNAL					J3
Date	Account Titles and Explanation	Ref.	Debit	Credit	
	<u>Closing Entries</u>				
2017	(1)				
Oct. 31	Service Revenue	400	10,600		
	Income Summary	350		10,600	
	(To close revenue account)				
	(2)				
31	Income Summary	350	7,740		
	Supplies Expense	631		1,500	
	Depreciation Expense	711		40	
	Insurance Expense	722		50	
	Salaries and Wages Expense	726		5,200	
	Rent Expense	729		900	
	Interest Expense	905		50	
	(To close expense accounts)				
	(3)				
31	Income Summary (10,600 – 7,740)	350	2,860		
	Retained Earnings	320		2,860	
	(To close net income to retained earnings)				
	(4)				
31	Retained Earnings	320	500		
	Dividends	332		500	
	(To close dividends to retained earnings)				

Illustration 4-6
Closing entries journalized

Supplies Expense 631		
1,500	(2)	1,500

Depreciation Expense 711		
40	(2)	40

Insurance Expense 722		
50	(2)	50

Salaries and Wages Expense 726		
4,000	(2)	5,200
1,200		
5,200		5,200

Rent Expense 729		
900	(2)	900

Interest Expense 905		
50	(2)	50

Service Revenue 400		
(1) 10,600		10,000
		400
		200
10,600		10,600

Income Summary 350		
(2) 7,740	(1) 10,600	
(3) 2,860		
10,600	10,600	

Retained Earnings 320		
(4) 500	(3) 2,860	
	Bal. 2,360	

Dividends 332		
500	(4) 500	

Posting Closing Entries

Key:

- 1 Close Revenues to Income Summary.
- 2 Close Expenses to Income Summary.
- 3 Close Income Summary to Retained Earnings.
- 4 Close Dividends to Retained Earnings.

Illustration 4-7
Posting of closing entries



DO IT!

The worksheet for Hancock Company shows the following in the financial statement columns:

Dividends €15,000

Common stock €42,000

Net income €18,000

Prepare the closing entries at December 31 that affect equity.

Income Summary 18,000

Retained Earnings 18,000

Retained Earnings 15,000

Dividends 15,000

Preparing a Post-Closing Trial Balance

Post-closing trial balance

- ◆ Lists permanent accounts and their balances after the journalizing and posting of closing entries.
- ◆ Purpose is to prove the equality of the permanent account balances carried forward into the next accounting period.
- ◆ Only contains balances for permanent—statement of financial position—accounts.
- ◆ All temporary accounts will have zero balances.

YAZICI ADVERTISING A.Ş.

Post-Closing Trial Balance

October 31, 2017

	<u>Debit</u>	<u>Credit</u>
Cash	₺15,200	
Accounts Receivable	200	
Supplies	1,000	
Prepaid Insurance	550	
Equipment	5,000	
Accumulated Depreciation—Equipment		₺ 40
Notes Payable		5,000
Accounts Payable		2,500
Unearned Service Revenue		800
Salaries and Wages Payable		1,200
Interest Payable		50
Share Capital—Ordinary		10,000
Retained Earnings		2,360
	<u>₺21,950</u>	<u>₺21,950</u>

Illustration 4-8

Illustration 4-8

Post-closing trial balance

Correcting Entries—An Avoidable Step

- ◆ Unnecessary if accounting records are free of errors.
- ◆ Made whenever an error is discovered.
- ◆ **Must be posted before closing entries.**

Instead of preparing a correcting entry, it is possible to reverse the incorrect entry and then prepare the correct entry.

Correcting Entries—An Avoidable Step

CASE 1: On May 10, Bai Co. journalized and posted a NT\$500 cash collection on account from a customer as a debit to Cash NT\$500 and a credit to Service Revenue NT\$500. The company discovered the error on May 20, when the customer paid the remaining balance in full.

Incorrect entry

Cash	500	
Service Revenue		500

Correct entry

Cash	500	
Accounts Receivable		500

Correcting entry

Service Revenue	500	
Accounts Receivable		500

Correcting Entries—An Avoidable Step

CASE 2: On May 18, Mercato purchased on account equipment costing NT\$4,500. The transaction was journalized and posted as a debit to Equipment NT\$450 and a credit to Accounts Payable NT\$450. The error was discovered on June 3.

Incorrect
entry

Equipment	450	
Accounts Payable		450

Correct
entry

Equipment	4,500	
Accounts Payable		4,500

Correcting
entry

Equipment	4,050	
Accounts Payable		4,050



DO IT!

Sanchez Company discovered the following errors made in January 2017 .

1. A payment of Salaries and Wages Expense of \$600 was debited to Supplies and credited to Cash, both for \$600.
2. A collection of \$3,000 from a client on account was debited to Cash \$200 and credited to Service Revenue \$200.
3. The purchase of supplies on account for \$860 was debited to Supplies \$680 and credited to Accounts Payable \$680.

Correct the errors without reversing the incorrect entry.



DO IT!

Sanchez Company discovered the following errors made in January 2017 .

1. A payment of Salaries and Wages Expense of \$600 was debited to Supplies and credited to Cash, both for \$600.

Correct the error without reversing the incorrect entry.

Salaries and Wages Expense	600
Supplies	600



DO IT!

Sanchez Company discovered the following errors made in January 2017 .

2. A collection of \$3,000 from a client on account was debited to Cash \$200 and credited to Service Revenue \$200.

Correct the error without reversing the incorrect entry.

Service Revenue 200

Cash 2,800

Accounts Receivable 3,000



DO IT!

Sanchez Company discovered the following errors made in January 2017 .

3. The purchase of supplies on account for \$860 was debited to Supplies \$680 and credited to Accounts Payable \$680.

Correct the error without reversing the incorrect entry.

Supplies (\$860 - \$680)	180	
Accounts Payable		180

Statement of Financial Position

- ◆ Presents a snapshot at a point in time.
- ◆ To improve understanding, companies group similar assets and similar liabilities together.

Learning Objective 6

Identify the sections of a classified statement of financial position.

Standard Classifications

Assets Equity and Liabilities

Intangible assets Equity

Property, plant, and equipment Non-current liabilities

Long-term investments Current liabilities

Current assets

Illustration 4-16

Standard statement of financial position classifications

CHENG LTD.
Statement of Financial Position
October 31, 2017
(NT\$ in thousands)

Illustration 4-17
Classified statement
of financial position

<u>Assets</u>			
Intangible assets			
Patents			NT\$ 3,100
Property, plant, and equipment			
Land		NT\$10,000	
Equipment	NT\$24,000		
Less: Accumulated depreciation— equipment	5,000	19,000	29,000
Long-term investments			
Investment in shares of Walters Corp.		5,200	
Investment in real estate		2,000	7,200
Current assets			
Prepaid insurance		400	
Supplies		2,100	
Inventory		3,000	
Notes receivable		1,000	
Accounts receivable		7,000	
Short-term investments		2,000	
Cash		6,600	
Total current assets			22,100
Total assets			NT\$61,400

CHENG LTD.
Statement of Financial Position
October 31, 2017
(NT\$ in thousands)

Illustration 4-17
Classified statement
of financial position

Equity and Liabilities

Equity

Share capital—ordinary	NT\$20,000	
Retained earnings	14,050	NT\$34,050
	<hr/>	

Non-current liabilities

Mortgage payable	10,000	
Notes payable	1,300	11,300
	<hr/>	

Current liabilities

Notes payable	11,000	
Accounts payable	2,100	
Salaries and wages payable	1,600	
Unearned service revenue	900	
Interest payable	450	
	<hr/>	

Total current liabilities		16,050
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Total equity and liabilities		NT\$61,400
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Intangible Assets

- ◆ Assets that do not have physical substance.

Nokia	
Statement of Financial Position (partial)	
(in millions)	
Intangible assets	
Capitalized development costs	€ 244
Goodwill	6,257
Other intangible assets	3,913
	<u>€10,414</u>

Illustration 4-18
Intangible assets section

Property, Plant, and Equipment

- ◆ Long useful lives.
- ◆ Currently used in operations.
- ◆ **Depreciation** - allocating the cost of assets to a number of years.
- ◆ **Accumulated depreciation** - total amount of depreciation expensed thus far in the asset's life.

Property, Plant, and Equipment



LACLEDE GROUP

Statement of Financial Position (partial) (₩ in billions)

Property, plant, and equipment

Land		₩ 2,604
Buildings	₩ 9,487	
Structures	1,568	
Machinery	36,956	
Vehicles	226	
Other	<u>10,600</u>	58,837
Less: Accumulated depreciation		<u>32,617</u>
		₩28,824

Illustration 4-19

Property, plant, and equipment section

Long-Term Investments

- ◆ Investments in ordinary shares and bonds of other companies.
- ◆ Investments in non-current assets such as land or buildings that a company is not using in its operating activities.

Weinberger AG	
Statement of Financial Position (partial)	
(in thousands)	
Long-term investments	
Investment property	€ 26,511
Investments in associates	150,002
Other financial assets	29,253
	<u>€205,766</u>

Illustration 4-20

Long-term investments section

Current Assets

- ◆ Assets that a company expects to **convert to cash** or **use up** within one year or the operating cycle, whichever is longer.
- ◆ **Operating cycle** is the average time it takes from the purchase of inventory to the collection of cash from customers.

Current Assets

Tesco Statement of Financial Position (partial) (£ in millions)

Current assets

Inventories	£2,430
Trade and other receivables	1,311
Derivative financial instruments	97
Current tax assets	6
Short-term investments	360
Cash and cash equivalents	1,788
Total current assets	<u>£5,992</u>

Illustration 4-21
Current assets section

Accounts usually listed in the reverse order they expect to convert them into cash.

Equity

- ◆ Proprietorship - one capital account.
- ◆ Partnership - capital account for each partner.
- ◆ Corporation – Share Capital and Retained Earnings.

Unilever Group		
Statement of Financial Position (partial)		
(£ in millions)		
Equity		
Share capital—ordinary	£	484
Share premium		121
Other reserves		(6,469)
Retained earnings		15,812
Total equity	£	9,948

Illustration 4-22
Equity section

Non-Current Liabilities

- ◆ Obligations a company expects to pay after one year.

Siemens Statement of Financial Position (partial) (in millions)	
Non-current liabilities	
Long-term debt	€14,260
Pension plans and similar commitments	4,361
Provisions	2,533
Deferred tax liabilities	726
Other non-current liabilities	2,752
	<u>€24,632</u>

Illustration 4-23

Non-current liabilities section

Current Liabilities

- ◆ Obligations company is to pay within the coming year or its operating cycle, whichever is longer.
- ◆ Usually list notes payable first, followed by accounts payable. Other items follow in order of magnitude.
- ◆ Liquidity - ability to pay obligations expected to be due within the next year.

Current Liabilities

Siemens Statement of Financial Position (partial) (in millions)

Current liabilities

Trade payables	€ 8,860
Current provisions	5,165
Other current financial liabilities	2,427
Income taxes payable	1,970
Current maturities of long-term debt	1,819
Other current liabilities	22,210
	<u>€42,451</u>

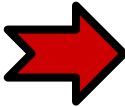
Illustration 4-24

Current liabilities section

Statement of Financial Position

Question

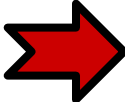
The correct order of presentation in a classified statement of financial position for the following current assets is:

- a. accounts receivable, cash, prepaid insurance, inventories.
- b. cash, inventories, accounts receivable, prepaid insurance.
-  c. prepaid insurance, inventories, accounts receivable, cash.
- d. inventories, cash, accounts receivable, prepaid insurance.

Statement of Financial Position

Question

In a classified statement of financial position, assets are usually classified using the following sequence of categories:

- a. current assets; non-current assets; property, plant, and equipment; intangible assets.
- b. tangible assets; property, plant, and equipment; long-term investments; current assets.
- c. current assets; long-term investments; tangible assets; intangible assets.
-  d. intangible assets; property, plant, and equipment; long-term investments; current assets.



DO IT!

The following accounts were taken from the financial statements of Callahan Company.

Salaries and wages payable
Service revenue
Interest payable
Goodwill
Short-term investments
Mortgage payable (due
in 3 years)

Investment in real estate
Equipment
Accumulated depreciation—
equipment
Depreciation expense
Share capital—ordinary
Unearned service revenue

Match each of the following accounts to its proper statement of financial position classification, shown below. If the item would not appear on a statement of financial position, use “NA.”

Current assets (CA)

Long-term investments (LTI)

Property, plant, and equipment (PPE)

Intangible assets (IA)

Current liabilities (CL)

Non-current liabilities (NCL)

Equity (E)

- ◆ It is often helpful to reverse some of the adjusting entries before recording the regular transactions of the next period.
- ◆ Companies make a reversing entry at the **beginning** of the next accounting period.
- ◆ Each reversing entry is the **exact opposite** of the adjusting entry made in the previous period.
- ◆ The use of reversing entries **does not change** the amounts reported in the financial statements.

Reversing Entries Example

Illustration: To illustrate the optional use of reversing entries for accrued expenses, we will use the salaries expense transactions for Yazici Advertising A.S.

1. October 26 (initial salary entry): Pioneer pays ₺4,000 of salaries and wages earned between October 15 and October 26.
2. October 31 (adjusting entry): Salaries and wages earned between October 29 and October 31 are ₺1,200. The company will pay these in the November 9 payroll.
3. November 9 (subsequent salary entry): Salaries and wages paid are ₺4,000. Of this amount, ₺1,200 applied to accrued salaries and wages payable and ₺2,800 was earned between November 1 and November 9.

Reversing Entries Example

Without Reversing Entries (per chapter)

Initial Salary Entry

Oct. 26	Salaries and Wages Expense	4,000	
	Cash		4,000

Adjusting Entry

Oct. 31	Salaries and Wages Expense	1,200	
	Salaries and Wages Payable		1,200

Closing Entry

Oct. 31	Income Summary	5,200	
	Salaries and Wages Expense		5,200

Reversing Entry

Nov. 1	No reversing entry is made.		
--------	-----------------------------	--	--

Subsequent Salary Entry

Nov. 9	Salaries and Wages Payable	1,200	
	Salaries and Wages Expense	2,800	
	Cash		4,000

With Reversing Entries (per appendix)

Initial Salary Entry

Oct. 26	Same entry		
---------	------------	--	--

Adjusting Entry

Oct. 31	Same entry		
---------	------------	--	--

Closing Entry

Oct. 31	Same entry		
---------	------------	--	--

Reversing Entry

Nov. 1	Salaries and Wages Payable		1,200
	Salaries and Wages Expense	1,200	

Subsequent Salary Entry

Nov. 9	Salaries and Wages Expense		4,000
	Cash	4,000	

Illustration 4A-1

Comparative entries—not reversing vs. reversing

Reversing Entries Example

Illustration 4A-2

Postings with
reversing
entries

Salaries and Wages Expense					
10/26	Paid	4,000	10/31	Closing	5,200
	31	Adjusting	1,200		
		5,200			5,200
11/9	Paid	4,000	11/1	Reversing	1,200

Salaries and Wages Payable					
11/1	Reversing	1,200	10/31	Adjusting	1,200

At the end of its first month of operations, Pampered Pet Service Ltd. has the following unadjusted trial balance.

PAMPERED PET SERVICE LTD.

August 31, 2017

Trial Balance

(NT\$ in thousands)

	<u>Debit</u>	<u>Credit</u>
Cash	NT\$ 5,400	
Accounts Receivable	2,800	
Supplies	1,300	
Prepaid Insurance	2,400	
Equipment	60,000	
Notes Payable		NT\$40,000
Accounts Payable		2,400
Share Capital—Ordinary		30,000
Dividends	1,000	
Service Revenue		4,900
Salaries and Wages Expense	3,200	
Utilities Expense	800	
Advertising Expense	400	
	<u>NT\$77,300</u>	<u>NT\$77,300</u>

Practice Problem

Other data:

1. Insurance expires at the rate of NT\$200 per month.
2. NT\$1,000 of supplies are on hand at August 31.
3. Monthly depreciation on the equipment is NT\$900.
4. Interest of NT\$500 on the notes payable has accrued during August.

Instructions

- (a) Prepare a worksheet.
- (b) Prepare a classified statement of financial position assuming NT\$35,000 of the notes payable are long-term.
- (c) Journalize the closing entries.

Solution

(a)

PAMPERED PET SERVICE LTD.
Worksheet for the Month Ended August 31, 2017
(in thousands)

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	5,400				5,400				5,400	
Accounts Receivable	2,800				2,800				2,800	
Supplies	1,300			(b) 300	1,000				1,000	
Prepaid Insurance	2,400			(a) 200	2,200				2,200	
Equipment	60,000				60,000				60,000	
Notes Payable		40,000				40,000				40,000
Accounts Payable		2,400				2,400				2,400
Share Capital—Ordinary		30,000				30,000				30,000
Dividends	1,000				1,000				1,000	
Service Revenue		4,900				4,900	4,900			
Salaries and Wages Expense	3,200				3,200		3,200			
Utilities Expense	800				800		800			
Advertising Expense	400				400		400			
Totals	<u>77,300</u>	<u>77,300</u>								
Insurance Expense			(a) 200		200		200			
Supplies Expense			(b) 300		300		300			
Depreciation Expense			(c) 900		900		900			
Accumulated Depreciation—Equipment				(c) 900		900				900
Interest Expense			(d) 500		500		500			
Interest Payable				(d) 500		500				500
Totals			<u>1,900</u>	<u>1,900</u>	<u>78,700</u>	<u>78,700</u>	6,300	4,900	72,400	73,800
Net Loss								1,400	1,400	
Totals							<u>6,300</u>	<u>6,300</u>	<u>73,800</u>	<u>73,800</u>

Explanation: (a) insurance expired, (b) supplies used, (c) depreciation expensed, and (d) interest accrued.

(b)

PAMPERED PET SERVICE LTD.
Statement of Financial Position
August 31, 2017
(NT\$ in thousands)

<u>Assets</u>		
Property, plant, and equipment		
Equipment	NT\$60,000	
Less: Accumulated depreciation—equipment	<u>900</u>	NT\$59,100
Current assets		
Prepaid insurance	2,200	
Supplies	1,000	
Accounts receivable	2,800	
Cash	<u>5,400</u>	
Total current assets		<u>11,400</u>
Total assets		<u><u>NT\$70,500</u></u>

<u>Equity and Liabilities</u>		
Equity		
Share capital—ordinary	NT\$30,000	
Retained earnings	<u>(2,400)*</u>	
Total equity		NT\$27,600
Non-current liabilities		
Notes payable		35,000
Current liabilities		
Notes payable	5,000	
Accounts payable	2,400	
Interest payable	<u>500</u>	
Total current liabilities		<u>7,900</u>
Total equity and liabilities		<u><u>NT\$70,500</u></u>

*Net loss NT\$1,400, plus dividends of NT\$1,000.

(c)

Aug. 31	Service Revenue	4,900	
	Income Summary		4,900
	(To close revenue account)		
31	Income Summary	6,300	
	Salaries and Wages Expense		3,200
	Depreciation Expense		900
	Utilities Expense		800
	Interest Expense		500
	Advertising Expense		400
	Supplies Expense		300
	Insurance Expense		200
	(To close expense accounts)		
31	Retained Earnings	1,400	
	Income Summary		1,400
	(To close net loss to retained earnings)		
31	Retained Earnings	1,000	
	Dividends		1,000
	(To close dividends to retained earnings)		

ARAPAHO COMPANY AG
Adjusted Trial Balance
July 31, 2017

<u>No.</u>	<u>Account Titles</u>	<u>Debit</u>	<u>Credit</u>
101	Cash	€ 15,940	
112	Accounts Receivable	8,580	
157	Equipment	16,900	
158	Accumulated Depreciation—Equipment		€ 7,500
201	Accounts Payable		4,420
208	Unearned Rent Revenue		1,600
311	Share Capital—Ordinary		20,500
320	Retained Earnings		25,000
332	Dividends	14,000	
400	Service Revenue		64,000
429	Rent Revenue		5,500
711	Depreciation Expense	4,500	
726	Salaries and Wages Expense	54,700	
732	Utilities Expense	13,900	
		<u>€128,520</u>	<u>€128,520</u>

Instructions

- Prepare the closing entries using page J15 in a general journal.
- Post to Retained Earnings and No. 350 Income Summary accounts. (Use the three-column form.)
- Prepare a post-closing trial balance at July 31, 2017.

Solution

1. (a)

GENERAL JOURNAL				J15
Date	Account Titles	Ref.	Debit	Credit
July 31	Service Revenue	400	64,000	
	Rent Revenue	429	5,500	
	Income Summary	350		69,500
	(To close revenue accounts)			
31	Income Summary	350	73,100	
	Depreciation Expense	711		4,500
	Salaries and Wages Expense	726		54,700
	Utilities Expense	732		13,900
	(To close expense accounts)			
31	Retained Earnings	320	3,600	
	Income Summary	350		3,600
	(To close net loss to retained earnings)			
31	Retained Earnings	320	14,000	
	Dividends	332		14,000
	(To close dividends to retained earnings)			

(b)

Retained Earnings					No. 320
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance				25,000
31	Close net loss	J15	3,600		21,400
31	Close dividends	J15	14,000		7,400

Income Summary					No. 350
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Close revenue	J15		69,500	69,500
31	Close expenses	J15	73,100		(3,600)
31	Close net loss	J15		3,600	0

(c)

ARAPAHO COMPANY AG
Post-Closing Trial Balance
July 31, 2017

	<u>Debit</u>	<u>Credit</u>
Cash	€15,940	
Accounts Receivable	8,580	
Equipment	16,900	
Accumulated Depreciation—Equipment		€ 7,500
Accounts Payable		4,420
Unearned Rent Revenue		1,600
Share Capital—Ordinary		20,500
Retained Earnings		7,400
	<u>€41,420</u>	<u>€41,420</u>

Assignment

**E4-1,E4-2,E4-4 PRACTICE
PROBLEM**