



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
IFRS 3rd Edition
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CHAPTER

4

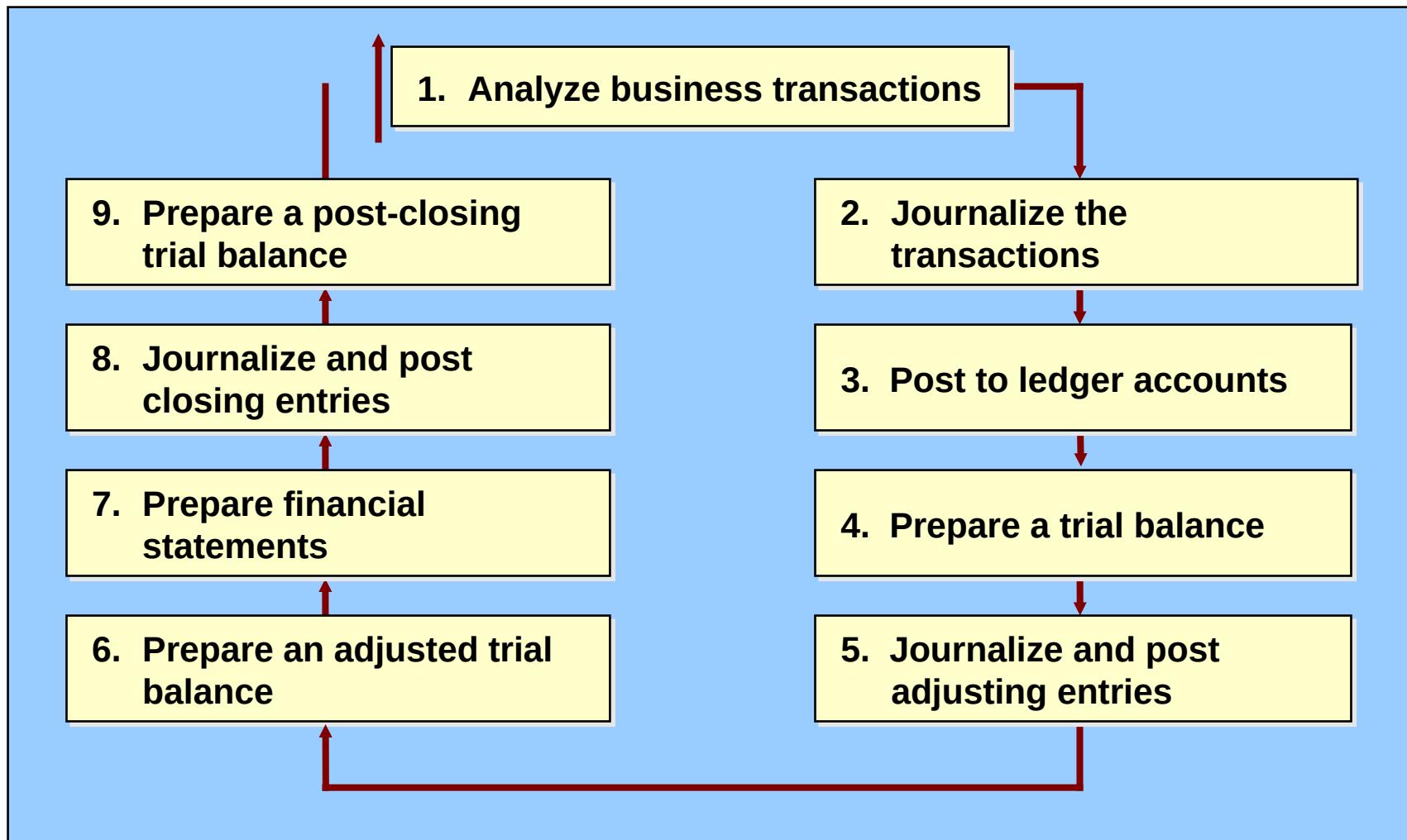
Completing the Accounting Cycle

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.** Its 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											
	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
1											
2											
3											
4											
5	I Prepare a trial balance on the worksheet	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
6											
7											
8											
9											
10											
11	2 Enter adjustment data	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
12											
13											
14											
15	3 Enter adjusted balances	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
	4 Extend adjusted balances to appropriate statement columns	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
	5 Total the statement columns, compute net income (or net loss), and complete worksheet	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.

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>				

Trial balance amounts come directly from ledger accounts.

Include all accounts with balances.

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	28,700	28,700								
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			3,440	3,440						

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.

LO 1

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			10,600				
			(e) 200							
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.

LO 1

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			10,600		10,600		
			(e) 200							
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				
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	3,440	3,440			30,190	30,190	7,740	10,600		

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

LO 1

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			10,600		10,600		
			(e) 200							
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.

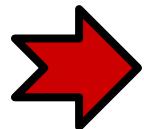
LO 1

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	<hr/> 7,740
Net income	₺ 2,860

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	2,860
	<hr/>
Less: Dividends	500
	<hr/>
Retained earnings, October 31	₺2,360
	<hr/>

Illustration 4-3

Financial statements from a worksheet

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

Assets		
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>

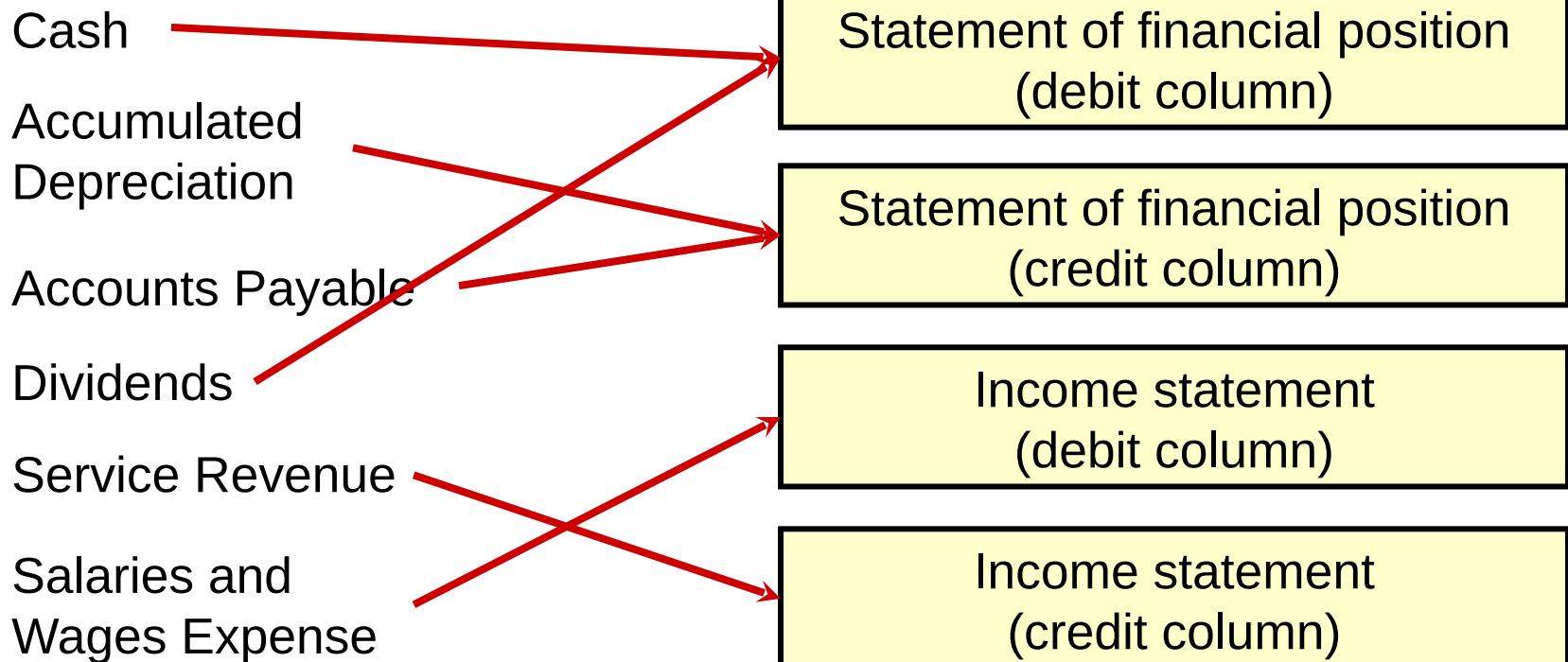
Equity and Liabilities

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>	9,550
Total equity and liabilities		<u><u>₺21,910</u></u>

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.

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

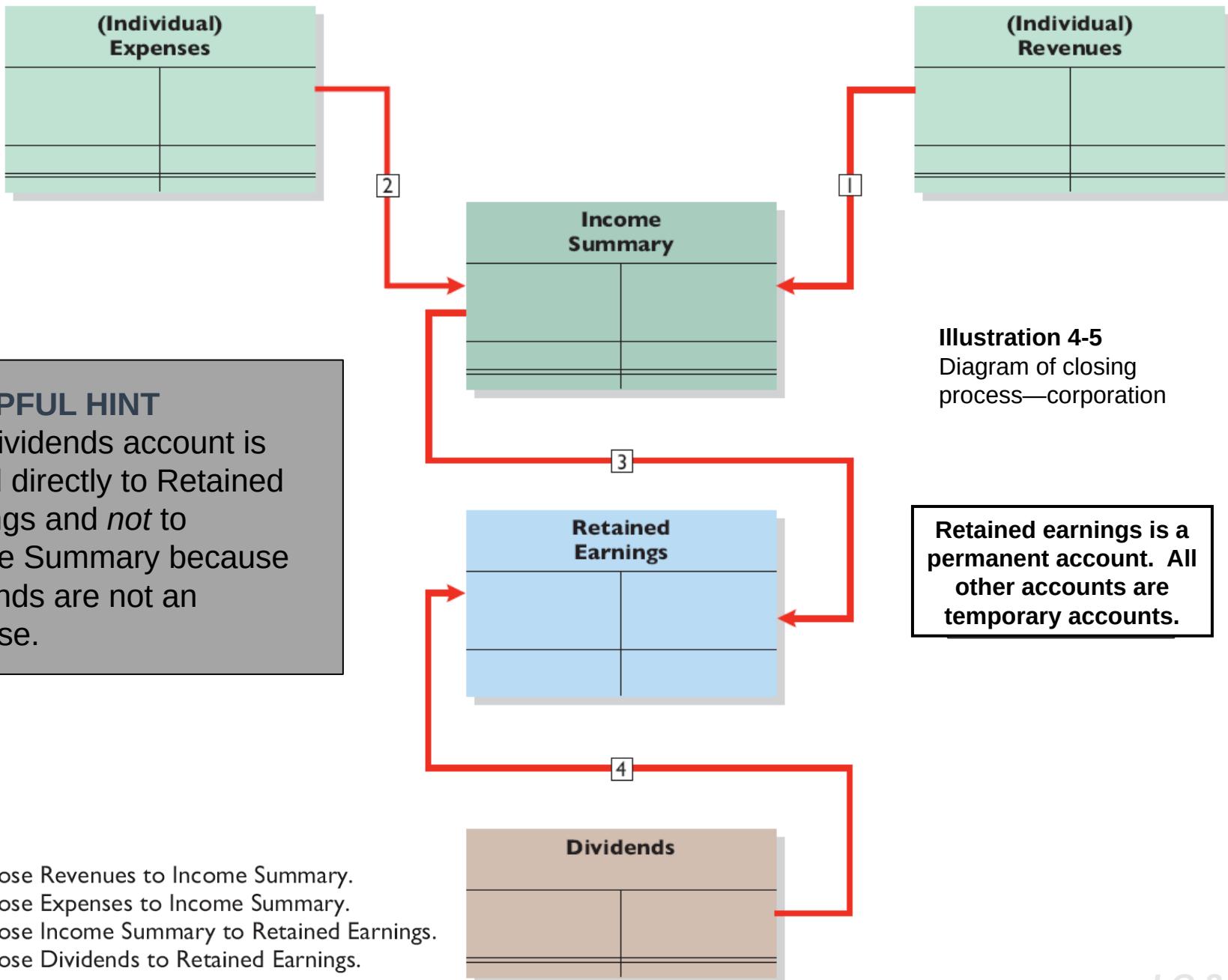
Illustration 4-4
Temporary versus permanent accounts

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.**



GENERAL JOURNAL

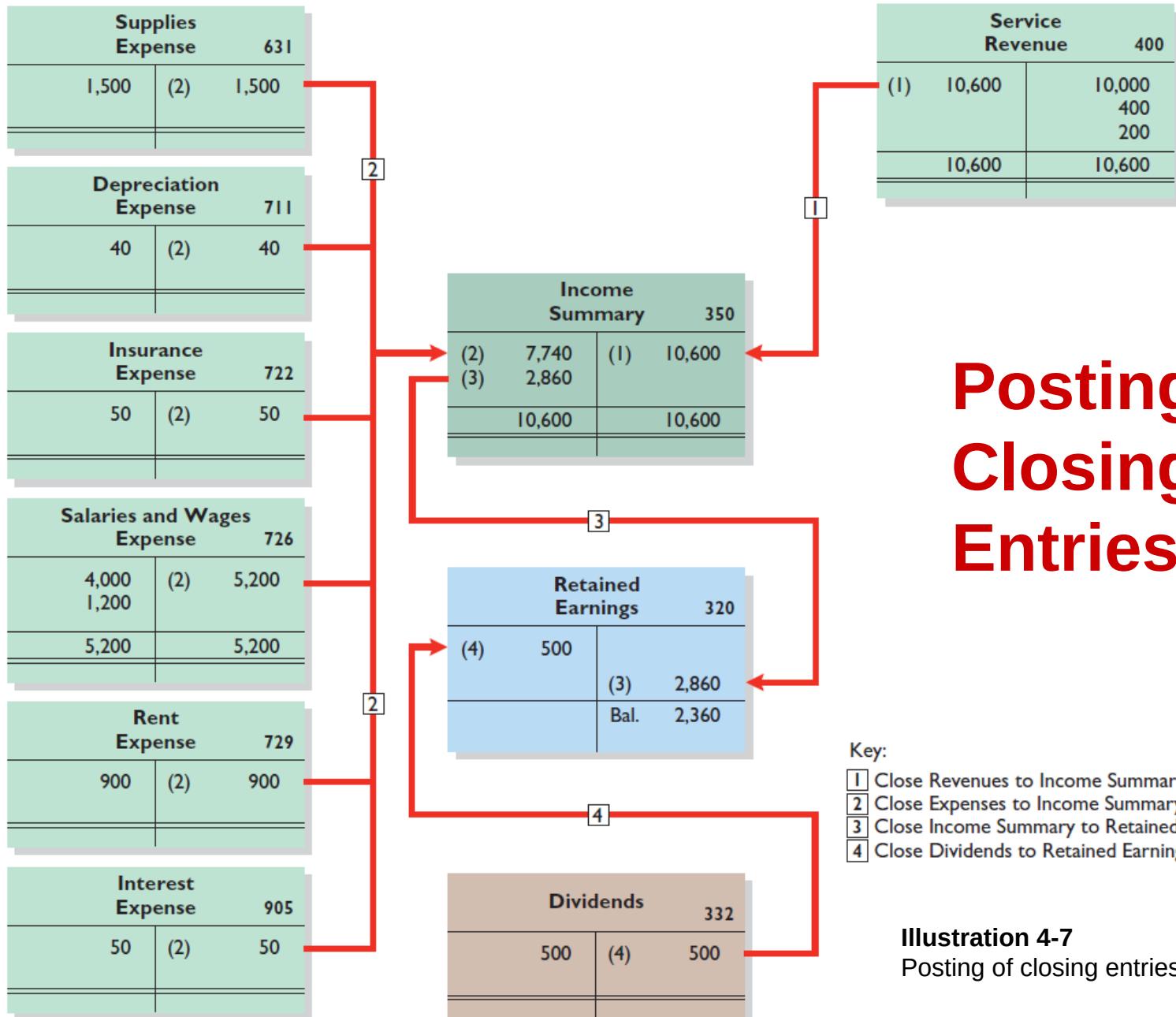
J3

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

Illustration 4-6

Closing entries journalized

LO 2



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

	Debit	Credit
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
	₺21,950	₺21,950

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

LO 6

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			<u>NT\$61,400</u>

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	
	<hr/>	NT\$34,050

Non-current liabilities

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

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

Total equity and liabilities

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
	<hr/> €10,414

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

Real
World

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>
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
	<hr/>
	€205,766

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	<u>1,788</u>
Total current assets	£5,992

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

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
	<hr/>
	€24,632

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
	<hr/>
	€42,451

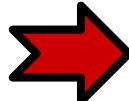
Illustration 4-24
Current liabilities section

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)

Current liabilities (CL)

Long-term investments (LTI)

Non-current liabilities (NCL)

Property, plant, and equipment (PPE)

Equity (E)

Intangible assets (IA)

- ◆ 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)			
<u>Initial Salary Entry</u>			
Oct. 26	Salaries and Wages Expense	4,000	4,000
	Cash		
<u>Adjusting Entry</u>			
Oct. 31	Salaries and Wages Expense	1,200	1,200
	Salaries and Wages Payable		
<u>Closing Entry</u>			
Oct. 31	Income Summary	5,200	5,200
	Salaries and Wages Expense		
<u>Reversing Entry</u>			
Nov. 1	No reversing entry is made.		
<u>Subsequent Salary Entry</u>			
Nov. 9	Salaries and Wages Payable	1,200	
	Salaries and Wages Expense	2,800	
	Cash		4,000

With Reversing Entries (per appendix)			
<u>Initial Salary Entry</u>			
Oct. 26	Same entry		
<u>Adjusting Entry</u>			
Oct. 31	Same entry		
<u>Closing Entry</u>			
Oct. 31	Same entry		
<u>Reversing Entry</u>			
Nov. 1	Salaries and Wages Payable		1,200
	Salaries and Wages Expense		
	1,200		
<u>Subsequent Salary Entry</u>			
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
31	Adjusting	1,200	5,200
		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>

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.

Practice Problem

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			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>	<u>6,300</u>	<u>4,900</u>	<u>72,400</u>	<u>73,800</u>
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	900	NT\$59,100
Current assets		
Prepaid insurance	2,200	
Supplies	1,000	
Accounts receivable	2,800	
Cash	5,400	
Total current assets		11,400
Total assets		<u>NT\$70,500</u>

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

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

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

ARAPAHO COMPANY AG
Adjusted Trial Balance
July 31, 2017

No.	Account Titles	Debit	Credit
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

- (a) Prepare the closing entries using page J15 in a general journal.
- (b) Post to Retained Earnings and No. 350 Income Summary accounts. (Use the three-column form.)
- (c) 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 (To close revenue accounts)			350		69,500
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 (To close net loss to retained earnings)			350		3,600
31	Retained Earnings			320	14,000	
	Dividends (To close dividends to retained earnings)			332		14,000

(b)

Retained Earnings			No. 320			Income Summary			No. 350		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance				25,000	July 31	Close revenue	J15	69,500		69,500
31	Close net loss	J15	3,600		21,400	31	Close expenses	J15	73,100		(3,600)
31	Close dividends	J15	14,000		7,400	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**