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## Chapter 2

### Bridge between B/S and I/S

- Statement of retained earnings
- End RE = Beg RE + NI – Dividends
  - NI = Revenue – Expense
  - [Income Stmt]
- Asset = Liabilities + Cont. Capital + RE
  - [Balance Sheet]

### Chapter 1



### During period

JOURNALIZE POST

### End of period

TRIAL BALANCE

### Chapter 3: End of the period

ADJUSTING ENTRIES ADJUSTED TRIAL BALANCE FINANCIAL STATEMENTS

### Chapter 4: End of the period

CLOSING ENTRIES POST-CLOSING TRIAL BALANCE

Assets: Left for **increase**; Right for **decrease**  
Liabilities/OE: Left for **decrease**; Right for **increase**

left ⇒ debit  
right ⇒ credit

$$\begin{array}{c} \text{Assets} \\ \text{Cash} + \text{Accounts Receivable} + \text{Supplies} + \text{Equipment} \end{array} = \begin{array}{c} \text{Liabilities} \\ \text{Accounts Payable} \end{array} + \begin{array}{c} \text{Equity} \\ \text{Share Capital} + \text{Retained Earnings} \\ \text{Rev.} - \text{Exp.} - \text{Div.} \end{array}$$

Asset = Liability + Equity → CC & RE

| Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. |
|-----|-----|-----|-----|-----|-----|-----|-----|
| +   | -   | -   | +   | -   | +   | -   | +   |

RE = Revenue - Expense - Dividend

| Dr. | Cr. | Dr. | Cr. | Dr. | Cr. |
|-----|-----|-----|-----|-----|-----|
| -   | +   | +   | -   | +   | -   |

Basic Equation

Assets = Liabilities + Equity

Expanded Equation

| Assets  | = | Liabilities | + | Share Capital | + | Retained Earnings | + | Revenues | - | Expenses | - | Dividends |
|---------|---|-------------|---|---------------|---|-------------------|---|----------|---|----------|---|-----------|
| Dr. Cr. |   | Dr. Cr.     |   | Dr. Cr.       |   | Dr. Cr.           |   | Dr. Cr.  |   | Dr. Cr.  |   | Dr. Cr.   |
| + -     |   | - +         |   | - +           |   | - +               |   | - +      |   | +        | - | +         |

Debit/Credit Effects

## Currency Signs

- Do not appear in journals or ledgers.
- Typically **used only in the trial balance and the financial statements**.
- Shown **only for the first item and the total** in the column

|     |                            |           |     |                                 |           |
|-----|----------------------------|-----------|-----|---------------------------------|-----------|
| 157 | Equipment                  | R\$88,000 | 311 | Share Capital — Ordinary        | R\$20,000 |
| 332 | Dividends                  | 8,000     | 212 | Salaries and Wages Payable      | 2,000     |
| 201 | Accounts Payable           | 22,000    | 200 | Notes Payable (due in 3 Months) | 19,000    |
| 726 | Salaries and Wages Expense | 42,000    | 732 | Utilities Expense               | 3,000     |
| 112 | Accounts Receivable        | 4,000     | 130 | Prepaid Insurance               | 6,000     |
| 400 | Service Revenue            | 95,000    | 101 | Cash                            | 7,000     |

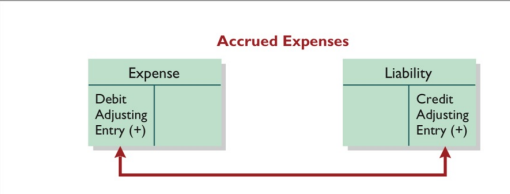
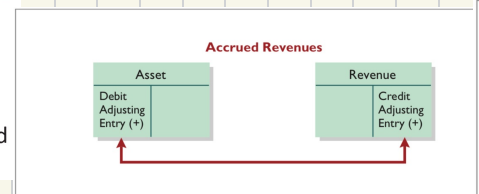
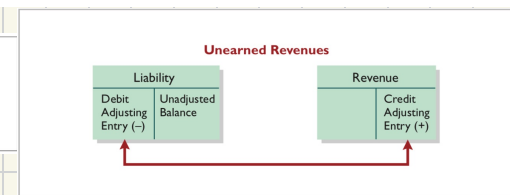
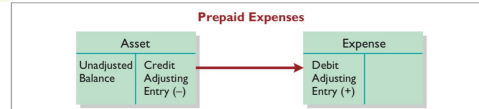
## Types of Adjusting Entries

Deferrals (cash before the revenue/exp):

- Prepaid expenses:** Expenses paid in cash before they are used or consumed.
- Unearned revenues:** Cash received before services are performed.

Accruals (cash after the revenue/exp):

- Accrued revenues:** Revenues for services performed but not yet received in cash or recorded.
- Accrued expenses:** Expenses incurred but not yet paid in cash or recorded.



### 1. Analyze business transactions

9. Prepare a post-closing trial balance

8. Journalize and post closing entries

7. Prepare financial statements

6. Prepare an adjusted trial balance

2. Journalize the transactions

3. Post to ledger accounts

4. Prepare a trial balance

5. Journalize and post adjusting entries

