

ACC 1701X Accounting for Decision Makers

Lecturer: Dr. Hanny Kusnadi

Prior Lecture Refresher

Chapter 04 – Part 1:

- Accrual basis better matching of revenues and expenses
 - Revenue recognition principle
 - Matching principle expense recognition
- Adjustments getting revenues and expenses into the right period
 - Unearned Revenue / Accrued Revenue
 - Prepaid Expense / Accrued Expense





Preparing Financial Statements

Chapter 04 – PART 2

Goals for Today (Chapter 04 – Part 2)

Concepts

- Importance of periodic reporting
- Importance of accrual accounting
- Adjustments and their purposes

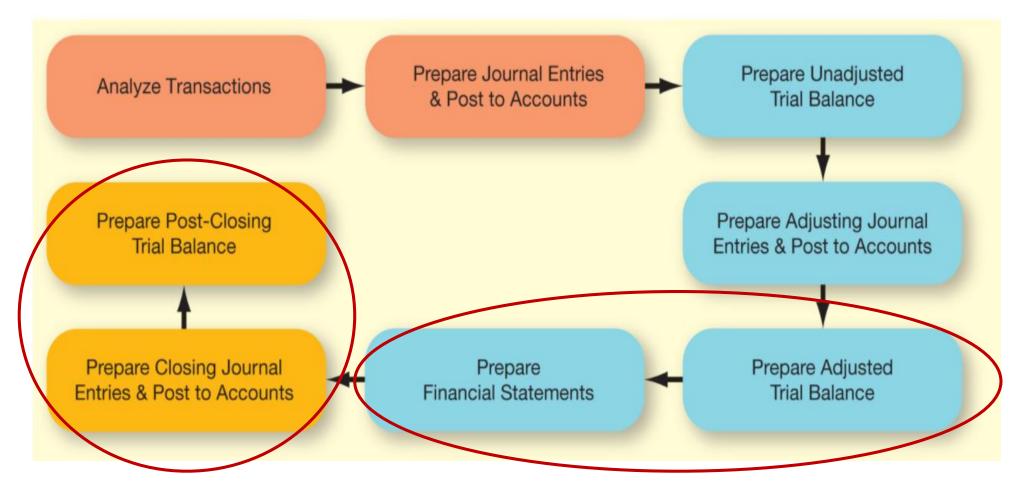
Accounting Procedures

- Prepare adjusting entries
- Prepare adjusted trial balance
- Prepare financial statements from adjusted trial balance
- Closing the books

Financial Analysis

Profit Margin

The Accounting Cycle



Today's Focus



RECALL Apple Story Trial Balance

Recall that we learnt how to prepare a Trial Balance in lecture 02:

| Accounts | Debit | Credit |
|------------------------|--------|--------|
| Cash | 36,800 | |
| Equipment | 200 | |
| Prepaid Rent | 3,500 | |
| Long-term Debt | | 5,000 |
| Unearned Sales Revenue | | 11,000 |
| Contribute Capital | | 1,300 |
| Dividends | 4,000 | |
| Sales Revenue | | 50,000 |
| Development Expense | 800 | |
| Cost of Goods Sold | 22,000 | |
| Total | 67,300 | 67,300 |

This is an Unadjusted **Trial Balance**

Adjusted Trial Balance

- In lecture 03, we learnt about **adjustments** and how to do AJEs (adjusting journal entries)
- After AJEs are done, what's next?
 - → At the end of an accounting period, AJEs are posted.
 - → AJEs will update our *unadjusted* trial balance resulting in an *adjusted* trial balance.
- An unadjusted trial balance is a list of accounts and balances prepared before adjustments are recorded.
- An **adjusted trial balance** is a list of accounts and balances prepared <u>after</u> adjusting entries have been recorded and posted to the ledger.

Recording AJEs on the Trial Balance Minion Co. Example



| Account Types | Unadj | usted | AJ | IEs | Adju | sted |
|--------------------------------|---------|---------|-------|--------|---------|---------|
| 110000000 15 pos | Debit | Credit | Debit | Credit | Debit | Credit |
| Cash | 130,000 | | | | 130,000 | |
| Accounts Receivable | 45,000 | | | | 45,000 | |
| Allowance for Bad Debts | - | | | - | | - |
| Inventory | 20,000 | | | - | 20,000 | |
| Prepaid Expenses | 14,000 | | | - | 14,000 | |
| Property, Plant & Equipment | 100,000 | | | | 100,000 | |
| Accumulated Depreciation | | 20,000 | | - | | 20,000 |
| Accounts Payable | | 44,000 | | | | 44,000 |
| Income Tax Payable | | 1,500 | | - | | 1,500 |
| Unearned Revenue | | 19,500 | - | | | 19,500 |
| Dividends Payable | | 4,500 | | | | 4,500 |
| Long-term Debt | | 50,000 | | | | 50,000 |
| Common Stock | | 120,000 | | | | 120,000 |
| Retained earnings | | 31,000 | | | | 31,000 |
| Dividends Declared | 4,500 | | | | 4,500 | |
| Sales Revenue | | 65,000 | | - | | 65,000 |
| Cost of Sales | 15,000 | | - | | 15,000 | |
| Salaries Expense | 20,000 | | | | 20,000 | |
| General Admin Expense | 7,000 | | | | 7,000 | |
| Rent Expense | - | | - | | - | |
| Depreciation Expense | - | | - | | - | |
| Bad Debt Expense | - | | - | | - | |
| Income Tax Expense | - | | - | | - | |
| Total | 355,500 | 355,500 | | | 355,500 | 355,500 |

An expanded TB worksheet includes unadjusted balances, the <u>adjustments</u>, and finally the <u>adjusted balances</u>:

- Here is the unadjusted trial balance of Minion Co. at the end of 2022
- Minion is performing its end-ofperiod adjustments.
- Let's refresh what we learnt in the last lecture and look at a few of Minion's AJEs

Recording AJEs Minion Co Example



| A4 TT | Unad | justed | Adjustments | | Adjusted | | |
|-----------------------------|---------|---------|-------------|--------|----------|---------|---------|
| Account Types | Debit | Credit | | Debit | Credit | Debit | Credit |
| Cash | 130,000 | | | | | 130,000 | |
| Accounts Receivable | 45,000 | | | | | 45,000 | |
| Allowance for Bad Debts | - | | | | | | - |
| Inventory | 20,000 | | <i>(b)</i> | | 1,700 | 18,300 | |
| Prepaid Expenses | 14,000 | | | | | 14,000 | |
| Property, Plant & Equipment | 100,000 | | | | | 100,000 | |
| Accumulated Depreciation | | 20,000 | | | | | 20,000 |
| Accounts Payable | | 44,000 | | | | | 44,000 |
| Income Tax Payable | | 1,500 | | | | | 1,500 |
| Unearned Revenue | | 19,500 | (a) | 8,500 | | | 11,000 |
| Dividends Payable | | 4,500 | | | | | 4,500 |
| Long-term Debt | | 50,000 | | | | | 50,000 |
| Common Stock | | 120,000 | | | | | 120,000 |
| Retained earnings | | 31,000 | | | | | 31,000 |
| Dividends Declared | 4,500 | | | | | 4,500 | |
| Sales Revenue | | 65,000 | (a) | | 8,500 | | 73,500 |
| Cost of Sales | 15,000 | | <i>(b)</i> | 1,700 | | 16,700 | |
| Salaries Expense | 20,000 | | | | | 20,000 | |
| General Admin Expense | 7,000 | | | | | 7,000 | |
| Rent Expense | - | | | | | - | |
| Depreciation Expense | - | | | | | - | |
| Bad Debt Expense | - | | | | | - | |
| Income Tax Expense | _ | | | | | | |
| Total | 355,500 | 355,500 | | 10,200 | 10,200 | 355,500 | 355,500 |

(a) <u>Unearned Revenue:</u>

Minion delivered \$8,500 worth of goods this period (2022), of which it has already received advance payment for last year in 2021.

Unearned Revenue

\$8,500

Sales Revenue

\$8,500

(b) Cost of Goods Sold/Sales:

The cost of sales from event (a) above is \$1,700.

Cost of Sales

\$1,700

Inventory

\$1,700

Remember Always: **DEBIT** = **CREDIT**

Recording AJEs Minion Co Example



| A 4 TD | Unad | justed | Adjustments | | | Adjusted | |
|--|---------|---------|-------------|--------|--------|----------|---------|
| Account Types | Debit | Credit | | Debit | Credit | Debit | Credit |
| Cash | 130,000 | | | | | 130,000 | |
| Accounts Receivable | 45,000 | | | | | 45,000 | |
| Allowance for Bad Debts | - | | | | | | - |
| Inventory | 20,000 | | (b) | | 1,700 | 18,300 | |
| Prepaid Expenses | 14,000 | | (c) | | 7,000 | 7,000 | |
| Property, Plant & Equipment | 100,000 | | | | | 100,000 | |
| Accumulated Depreciation | | 20,000 | (d) | | 10,000 | | 30,000 |
| Accounts Payable | | 44,000 | | | | | 44,000 |
| Income Tax Payable | | 1,500 | | | | | 1,500 |
| Unearned Revenue | | 19,500 | (a) | 8,500 | | | 11,000 |
| Dividends Payable | | 4,500 | | | | | 4,500 |
| Long-term Debt | | 50,000 | | | | | 50,000 |
| Common Stock | | 120,000 | | | | | 120,000 |
| Retained earnings | | 31,000 | | | | | 31,000 |
| Dividends Declared | 4,500 | | | | | 4,500 | |
| Sales Revenue | | 65,000 | (a) | | 8,500 | | 73,500 |
| Cost of Sales | 15,000 | | (b) | 1,700 | | 16,700 | |
| Salaries Expense | 20,000 | | | | | 20,000 | |
| General Admin Expense | 7,000 | | | | | 7,000 | |
| Rent Expense | _ | | (c) | 7,000 | | 7,000 | |
| Depreciation Expense | - | | (d) | 10,000 | | 10,000 | |
| Bad Debt Expense | - | | | | | - | |
| Income Tax Expense | - | | | | | - | |
| Total | 355,500 | 355,500 | | 27,200 | 27,200 | 365,500 | 365,500 |

(c) Prepaid Expense:

Minion had paid rent in advance in 2020. The rent allocation for period 2022 is \$7,000.

Rent Expense

\$7,000

Prepaid Expenses (Rent) \$7,000

(d) <u>Depreciation Expense</u>:

In 2020, Minion had purchased PP&E for \$100,000. The allocation of expense is \$10k per year for 10 years.

Depreciation Expense \$10,000

Accumulated Depreciation \$10,000

Remember Always: **DEBIT** = **CREDIT**

Recording AJEs Minion Co Example



| A cocumt Trumos | Unad | justed | | Adjustmen | uts | Adjusted | |
|-----------------------------|---------|---------|-----|-----------|--------|----------|---------|
| Account Types | Debit | Credit | | Debit | Credit | Debit | Credit |
| Cash | 130,000 | | | | | 130,000 | |
| Accounts Receivable | 45,000 | | | | | 45,000 | |
| Allowance for Bad Debts | - | | (e) | | 1,800 | | 1,800 |
| Inventory | 20,000 | | (b) | | 1,700 | 18,300 | |
| Prepaid Expenses | 14,000 | | (c) | | 7,000 | 7,000 | |
| Property, Plant & Equipment | 100,000 | | | | | 100,000 | |
| Accumulated Depreciation | | 20,000 | (d) | | 10,000 | | 30,000 |
| Accounts Payable | | 44,000 | | | | | 44,000 |
| Income Tax Payable | | 1,500 | (f) | | 1,000 | | 2,500 |
| Unearned Revenue | | 19,500 | (a) | 8,500 | | | 11,000 |
| Dividends Payable | | 4,500 | | | | | 4,500 |
| Long-term Debt | | 50,000 | | | | | 50,000 |
| Common Stock | | 120,000 | | | | | 120,000 |
| Retained earnings | | 31,000 | | | | | 31,000 |
| Dividends Declared | 4,500 | | | | | 4,500 | |
| Sales Revenue | | 65,000 | (a) | | 8,500 | | 73,500 |
| Cost of Sales | 15,000 | | (b) | 1,700 | | 16,700 | |
| Salaries Expense | 20,000 | | | | | 20,000 | |
| General Admin Expense | 7,000 | | | | | 7,000 | |
| Rent Expense | - | | (c) | 7,000 | | 7,000 | |
| Depreciation Expense | - | | (d) | 10,000 | | 10,000 | |
| Bad Debt Expense | - | | (e) | 1,800 | | 1,800 | |
| Income Tax Expense | - | | (f) | 1,000 | | 1,000 | |
| Total | 355,500 | 355,500 | | 30,000 | 30,000 | 368,300 | 368,300 |

(e) <u>Bad Debt Expense</u>:

Based on past experience, Minion estimate bad debt expense for 2022 is 4% of \$45,000 = \$1,800. The contra account to Receivable is Allowance for Bad Debts.

Bad Debt Expense

\$1,800

Allowance for Bad Debts

\$1,800

(f) <u>Income Tax Expense</u>:

Minion estimate income tax in 2022 to be \$1,000.

Income Tax Expense \$1,000

Income Tax Payable \$1,000

Remember Always: **DEBIT** = **CREDIT**



Preparing the Financial Statements

NI is a component to

determine ending RE

STEP 1

Income Statement

NET INCOME

STEP 2

Statement of Changes in Equity

Beg Equity + share capital changes

- + **Net Income** Dividends
- + OCI = Ending Equity

Ending RE = Beg RE + Net Income - Dividends

Statement of Cash Flow (SCF)

Reports changes in cash

→ CASH (End balance)

(Statement of Cash Flow preparation to be covered in Chapter 14)

- Ending Cash is reported on the SFP's Assets.
- SCF provides greater details on how cash changes

STEP 3

Statement of Financial Position

Assets (Cash)

Liabilities

Shareholders' Equity (ending

equity, including **RE**)

Preparing Financial Statements Minion Co Example

| Account Types | Adjı | usted |
|--------------------------|---------|---------|
| | Debit | Credit |
| Cash | 130,000 | |
| Accounts Receivable | 45,000 | |
| Allowance for Bad Debts | | 1,800 |
| Inventory | 18,300 | |
| Prepaid Expenses | 7,000 | |
| Property, Plant & | 100,000 | |
| Equipment | | |
| Accumulated Depreciation | | 30,000 |
| Accounts Payable | | 44,000 |
| Income Tax Payable | | 2,500 |
| Unearned Revenue | | 11,000 |
| Dividends Payable | | 4,500 |
| Long-term Debt | | 50,000 |
| Common Stock | | 120,000 |
| Retained earnings | | 31,000 |
| Dividends Declared | 4,500 | |
| Sales Revenue | | 73,500 |
| Cost of Sales | 16,700 | |
| Salaries Expense | 20,000 | |
| General Admin Expense | 7,000 | |
| Rent Expense | 7,000 | |
| Depreciation Expense | 10,000 | |
| Bad Debt Expense | 1,800 | |
| Income Tax Expense | 1,000 | |
| Total | 368,300 | 368,300 |

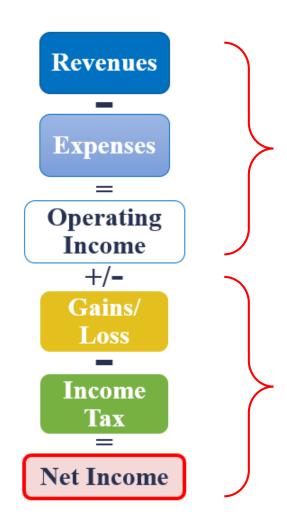
- This is the adjusted trial balance of Minion Co
- Let's prepare the financial statements of Minion Co (exclude Statement of Cash Flow):
 - 1) Income Statement
 - 2) Statement of Changes in Equity
 - 3) Statement of Financial Position
- You can download the "Minion Working File" excel sheet from Canvas to help in the preparation of the AJEs, Adjusted Trial Balance, Worksheet and the Financial Statements.

STEP 1: Prepare Income Statement

- Identify all revenue and expenses
- Revenues Expenses = Net Income

Income Statement Format

The General Format of an Income Statement:



Sales Revenues

- Cost of Good Sold
 Gross Profit (also known as Gross Margin)
- Operating ExpensesOperating Income
- +/- Non-operating Income/Expense
- +/- Interest Income/Interest Expense
- +/- Other Gain/Loss
- Income Tax Expense
- +/- Non-recurring events
 Net Income



Preparing Financial Statements Minion Co IS

| Account Types | | ısted |
|-----------------------------|---------|---------|
| | Debit | Credit |
| Cash | 130,000 | |
| Accounts Receivable | 45,000 | |
| Allowance for Bad Debts | | 1,800 |
| Inventory | 18,300 | |
| Prepaid Expenses | 7,000 | |
| Property, Plant & Equipment | 100,000 | |
| Accumulated Depreciation | | 30,000 |
| Accounts Payable | | 44,000 |
| Income Tax Payable | | 2,500 |
| Unearned Revenue | | 11,000 |
| Dividends Payable | | 4,500 |
| Long-term Debt | | 50,000 |
| Common Stock | | 120,000 |
| Retained earnings | | 31,000 |
| Dividends Declared | 4,500 | |
| Sales Revenue | | 73,500 |
| Cost of Sales | 16,700 | |
| Salaries Expense | 20,000 | |
| General Admin Expense | 7,000 | |
| Rent Expense | 7,000 | |
| Depreciation Expense | 10,000 | |
| Bad Debt Expense | 1,800 | |
| Income Tax Expense | 1,000 | |
| Total | 368,300 | 368,300 |

STEP 1: Prepare your Income Statement

| Minion Co | | | | |
|--------------------------|---------------|--|--|--|
| Income Statement | | | | |
| For the Year Ended Decen | nber 31, 2022 | | | |
| | | | | |
| Sales Revenue | \$ 73,500 | | | |
| Cost of Sales | \$ 16,700 | | | |
| Gross Profit | \$ 56,800 | | | |
| Less Expenses: | | | | |
| Salaries Expense | \$ 20,000 | | | |
| General Admin Expense | \$ 7,000 | | | |
| Rent Expense | \$ 7,000 | | | |
| Depreciation Expense | \$ 10,000 | | | |
| Bad Debt Expense | \$ 1,800 | | | |
| Operating Income | \$ 11,000 | | | |
| Income Tax Expense | \$ 1,000 | | | |
| Net Income | \$ 10,000 | | | |



Preparing Financial Statements Minion Co SCE

| Account Types | Adjı | ısted | |
|--------------------|-------|---------|--|
| | Debit | Credit | |
| Common Stock | | 120,000 | |
| Retained earnings | | 31,000 | |
| Dividends Declared | 4,500 | | |

| Minion Co | | | | | |
|---------------------------|--------|--------|--|--|--|
| Income Statement | | | | | |
| For the Year Ended Decemb | er 31, | 2020 | | | |
| | | | | | |
| Sales Revenue | \$ | 73,500 | | | |
| Cost of Sales | \$ | 16,700 | | | |
| Gross Profit | \$ | 56,800 | | | |
| Less Expenses: | | | | | |
| Salaries Expense | \$ | 20,000 | | | |
| General Admin Expense | \$ | 7,000 | | | |
| Rent Expense | \$ | 7,000 | | | |
| Depreciation Expense | \$ | 10,000 | | | |
| Bad Debt Expense | \$ | 1,800 | | | |
| Operating Income | \$ | 11,000 | | | |
| Income Tax Expense | \$ | 1,000 | | | |
| Net Income | \$ | 10,000 | | | |
| | | | | | |

STEP 2: Prepare your Statement of Changes in Equity

| | 1411111011 | CU | | | |
|--------------------------------------|------------|------------|------------|--|--|
| Statement of Changes in Equity | | | | | |
| For the Year Ended December 31, 2022 | | | | | |
| | Share | Retained | Total | | |
| | Capital | Earnings | Equity | | |
| Beginning Balance | \$120,000 | \$ 31,000 | \$151,000 | | |
| Net Income | | \$ 10,000 | \$ 10,000 | | |
| Dividends Declared | | \$ (4,500) | \$ (4,500) | | |
| Ending Balance | \$120,000 | \$ 36,500 | \$156,500 | | |

Minion Co

Beg RE + Net Income – Dividends = Ending RE (\$31,000 + \$10,000 - \$4,500 = \$36,500)

Statement of Financial Position (Classified)

Recall the general format of a Statement of Financial Position:

(1) Assets

- Current Assets: to be used, or turned into cash, within a year
 - e.g. cash, receivables, short term assets, inventory, office supplies, prepaid expenses
- Noncurrent Assets: to be used for more than a year
 - e.g. long-term investment, fixed assets, intangible assets (such as goodwill)

(2) Liabilities

- Current Liabilities : to be resolved within a year
 - e.g accounts payable, salaries payable, current portion of debt, unearned revenue
- Noncurrent Liabilities
 - e.g. long term notes payable (long-term debt), bonds payable, mortgages payable

(3) Owners' Equity

- Share Capital
- Retained Earnings



Preparing Financial Statements Minion Co SFP

STEP 3: Prepare your Statement of Financial Position

| Account Types | Adjusted | | |
|-----------------------------|----------|--------|--|
| | Debit | Credit | |
| Cash | 130,000 | | |
| Accounts Receivable | 45,000 | | |
| Allowance for Bad Debts | | 1,800 | |
| Inventory | 18,300 | | |
| Prepaid Expenses | 7,000 | | |
| Property, Plant & Equipment | 100,000 | | |
| Accumulated Depreciation | | 30,000 | |
| Accounts Payable | | 44,000 | |
| Income Tax Payable | | 2,500 | |
| Unearned Revenue | | 11,000 | |
| Dividends Payable | | 4,500 | |
| Long-term Debt | | 50,000 | |

From adjusted trial balance, extract the account balance of all the assets & liabilities accounts.

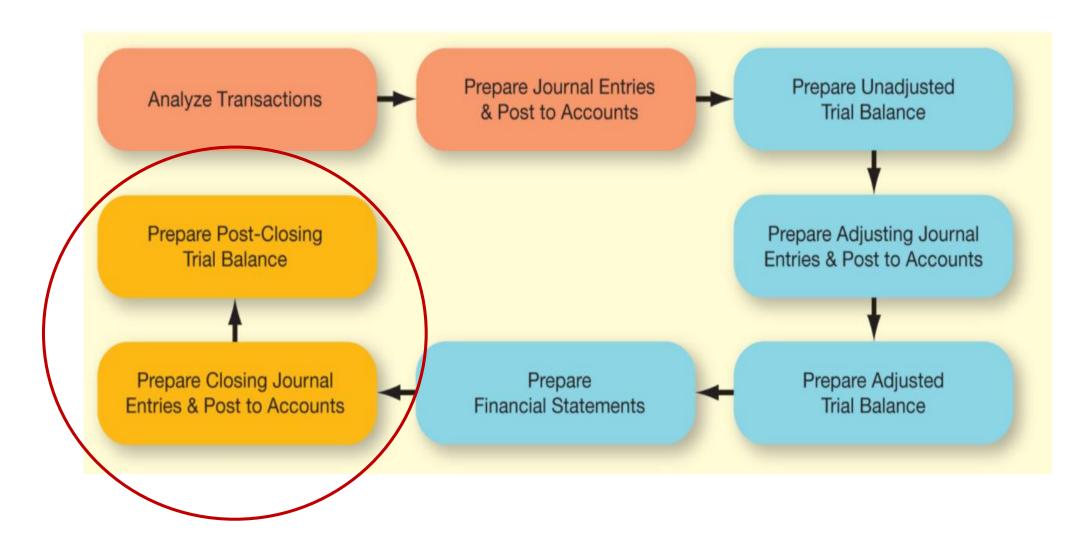
Statement of Changes in Equity For the Year Ended December 31, 2020 Share Total Retained Capital **Earnings** Equity Beginning Balance \$ 31,000 \$151,000 \$120,000 Net Income \$ 10,000 \$ 10,000 Dividends Declared \$ (4.500) \$ (4,500) \$120,000 **Ending Balance** \$ 36,500 \$156,500

Minion Co

Use the Statement of Changes in Equity to help complete the equity portion.

| Minion Co | | |
|--|------------|------------|
| Statement of Financial Position | | |
| At December 31 | , 2022 | |
| Assets | | |
| Current Assets | | |
| Cash | \$ 130,000 | |
| Accounts Receivables (net) | \$ 43,200 | |
| Inventory | \$ 18,300 | |
| Prepaids | \$ 7,000 | |
| Total Current Assets | | \$ 198,500 |
| Non-current Assets | | |
| Property, Plant & Equipment (net) | \$ 70,000 | |
| Total Non-current Assets | | \$ 70,000 |
| Total Assets | | \$ 268,500 |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | \$ 44,000 | |
| Income Tax Payable | \$ 2,500 | |
| Unearned Revenue | \$ 11,000 | |
| Dividends Payable | \$ 4,500 | |
| Total Current Liabilities | | \$ 62,000 |
| Non-current Liabilities | | |
| Long-term Debt | \$ 50,000 | |
| Total Non-current Liabilities | | \$ 50,000 |
| Total Liabilities | | \$ 112,000 |
| Stockholders' Equity | | |
| Share Capital | | 120,000 |
| Retained Earnings | (| \$ 36,500 |
| Total Equity | | 156,500 |
| Total Liabilities & Shareholders' Equity | | \$ 268,500 |

The Accounting Cycle



Closing the Books Permanent versus Temporary Accounts

Real (Permanent) accounts:

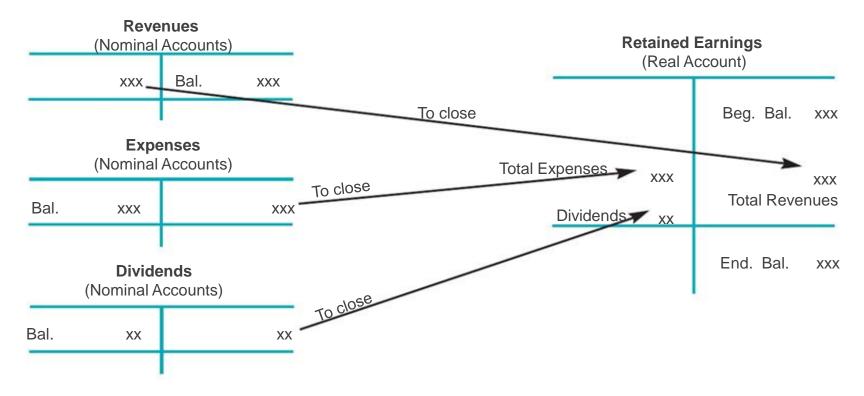
- Balance Sheet accounts
 - Assets
 - Liabilities
 - Stockholders' Equity (Share Capital, Retained Earnings)
- Accounts **not closed** at end of accounting period.
- Ending balance carried over to the next accounting period (i.e. next period's beginning balance)

Nominal (Temporary) accounts:

- Income statement accounts
 - Revenues
 - Expenses
 - Gains / Losses
 - Dividends
- Accounts <u>closed</u> at the end of the accounting period to Retained Earnings.
- Ending balance <u>reset to zero</u>, thus next accounting period beginning balance is zero.

The Closing Process

• Close ALL revenue, expense and dividend account balances to Retained Earnings at the end of the accounting period.



Note on Dividends:

- Dividends are not expenses and will not be reported on the income statement and statement of comprehensive income.
- They are distributions of the company's earnings to stockholders.
- To be covered in Chapter 12.

Closing the Books

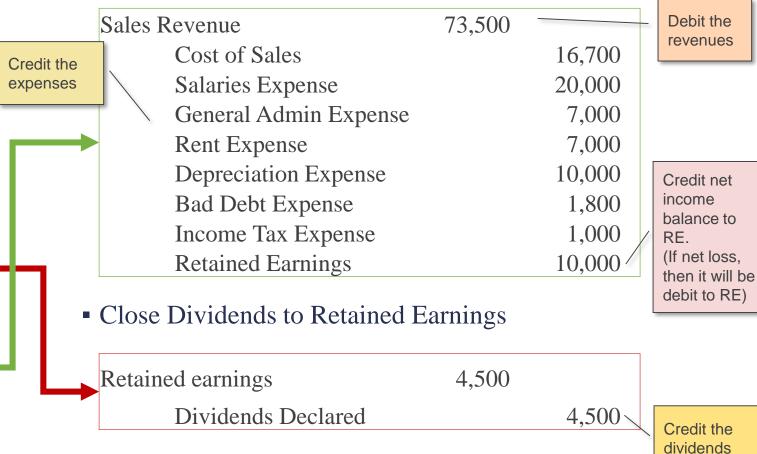
Minion Co Closing Journal Entries



| Account Types | Adjusted | | |
|---------------------------------|----------|---------|----------|
| 0 1 | Debit | Credit | |
| Cash | 130,000 | | |
| Accounts Receivable | 45,000 | | |
| Allowance for Bad Debts | | 1,800 | |
| Inventory | 18,300 | | . |
| Prepaid Expenses | 7,000 | | |
| Property, Plant & Equipment | 100,000 | | |
| Accumulated Depreciation | | 30,000 | |
| Accounts Payable | | 44,000 | |
| Income Tax Payable | | 2,500 | |
| Unearned Revenue | | 11,000 | |
| Dividends Payable | | 4,500 | |
| Long-term Debt | | 50,000 | |
| Common Stock | | 120,000 | |
| Retained earnings | | 31,000 | |
| Dividends Declared | 4,500 | |) |
| Sales Revenue | | 73,500 | Π |
| Cost of Sales | 16,700 | | |
| Salaries Expense | 20,000 | | |
| General Admin Expense | 7,000 | | |
| Rent Expense | 7,000 | | |
| Depreciation Expense | 10,000 | | |
| Bad Debt Expense | 1,800 | | |
| Income Tax Expense | 1,000 | | |
| Total | 368,300 | 368,300 | |

To close Minion Co. books on 31st December 2022:

Close revenue & expense accounts to Retained Earnings:



Closing the Books Minion Co Post-closing Trial Balance

| Account Types | Adjusted | |
|-----------------------------|----------|---------|
| | Debit | Credit |
| Cash | 130,000 | |
| Accounts Receivable | 45,000 | |
| Allowance for Bad Debts | | 1,800 |
| Inventory | 18,300 | |
| Prepaid Expenses | 7,000 | |
| Property, Plant & Equipment | 100,000 | |
| Accumulated Depreciation | | 30,000 |
| Accounts Payable | | 44,000 |
| Income Tax Payable | | 2,500 |
| Unearned Revenue | | 11,000 |
| Dividends Payable | | 4,500 |
| Long-term Debt | | 50,000 |
| Common Stock | | 120,000 |
| Retained earnings | | 31,000 |
| Dividends Declared | 4,500 | |
| Sales Revenue | | 73,500 |
| Cost of Sales | 16,700 | |
| Salaries Expense | 20,000 | |
| General Admin Expense | 7,000 | |
| Rent Expense | 7,000 | |
| Depreciation Expense | 10,000 | |
| Bad Debt Expense | 1,800 | |
| Income Tax Expense | 1,000 | |
| Total | 368,300 | 368,300 |

- After closing, all nominal (temporary) accounts will have zero balance.
- Ending RE = Beg RE + NI Dividends

$$= \$31,000 + \$10,000 - \$4,500$$

After Closing

| | Post-Closing Trial | | |
|-----------------------------|--------------------|---------|--|
| Account Types | Balance | | |
| | Debit | Credit | |
| Cash | 130,000 | | |
| Accounts Receivable | 45,000 | | |
| Allowance for Bad Debts | | 1,800 | |
| Inventory | 18,300 | | |
| Prepaid Expenses | 7,000 | | |
| Property, Plant & Equipment | 100,000 | | |
| Accumulated Depreciation | | 30,000 | |
| Accounts Payable | | 44,000 | |
| Income Tax Payable | | 2,500 | |
| Unearned Revenue | | 11,000 | |
| Dividends Payable | | 4,500 | |
| Long-term Debt | | 50,000 | |
| Common Stock | | 120,000 | |
| Retained earnings | | 36,500 | |

The Accounting Cycle



We have completed the Accounting Cycle!

Goals for Today (Chapter 04 – Part 2)

Concepts

- Importance of periodic reporting
- Importance of accrual accounting
- Adjustments and their purposes

Accounting Procedures

- Prepare adjusting entries
- Prepare adjusted trial balance
- Prepare financial statements from adjusted trial balance
- Closing the books

Financial Analysis

Profit Margin

Assessing Profitability Profit Margin

Profit Margin

Profit Margin = Net Profit

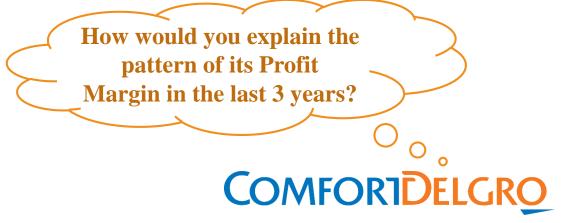
Net Sales

- *Profitability* ratio that measures much how much net profit is generated from each dollar of sales.
- Also known as "Return on Sales"
- Useful for assessing company's operating efficiency in generating profit from its sales activity
- High profit margin is an indicator of future growth

Net Profit Margin An example: ComfortDelGro

| IS | 2021 \$'mil | 2020* \$'mil |
|---|----------------|-----------------|
| Revenue | 3,538.3 | 3,242.6 |
| Staff costs | (1,711.9) | (1,550.1) |
| Depreciation and amortisation | (401.6) | (432.0) |
| Repairs and maintenance costs | (312.1) | (301.0) |
| Fuel and electricity costs | (264.2) | (182.0) |
| Contract services | (141.2) | (126.0) |
| Materials and consumables costs | (95.5) | (94.2) |
| Road tax and licence fees | (84.7) | (81.0) |
| Insurance premiums and accident claims | (81.1) | (85.7) |
| Premises costs | (80.2) | (77.6) |
| Utilities and communication costs | (17.3) | (18.9) |
| Advertising production and promotion costs | (16.9) | (12.7) |
| Net loss on disposal of vehicles, premises and equipmen | t (14.7) | (11.2) |
| Provision for impairment on vehicles and goodwill | (9.0) | (48.3) |
| Other operating costs | (97.9) | (100.2) |
| Total Operating Costs | (3,328.3) | (3,120.9) |
| Operating Profit | 210.0 | 121.7 |
| Net Income from Investments | 6.2 | 8.8 |
| Finance Costs | (11.3) | (14.7) |
| Profit before Taxation | 204.9 | 115.8 |
| Taxation | (44.9) | (24.1) |
| Profit after Taxation | 160.0 | 91.7 |

| | 2021 | 2020 | 2019 |
|---------------|-------|-------|-------|
| Profit Margin | 4.52% | 2.83% | 8.16% |
| Net Profit | 160 | 92 | 318 |
| Sales Revenue | 3,538 | 3,243 | 3,901 |



Profit Margin ComfortDelGro vs Uber

Let's compare ComfortDelGro with its competitor Uber:

| ComfortDelGro | 2021 | 2020 | 2019 |
|---------------|-------|-------|-------|
| Profit Margin | 4.52% | 2.83% | 8.16% |
| Net Profit | 160 | 92 | 318 |
| Sales Revenue | 3,538 | 3,243 | 3,901 |

| Uber | 2021 | 2020 | 2019 |
|---------------|---------|---------|-------------|
| Profit Margin | -48.73% | -60.76% | - 65.43% |
| Net Profit | -8,506 | -6,768 | -8,506 |
| Sales Revenue | 17,455 | 11,139 | 13,000 |

- Even though ComfortDelGro's profit margin declined from 8.1% in 2019 to 2.8% in 2020, it was still able to maintain a positive margin in 2020, and almost doubled it to 4.5% in 2021.
- Uber is unprofitable! Negative profit margin in the last three years.
- Q: Do you think Uber's negative net profit margin is still an indicator of its growth? Will Uber ever be profitable?

Take Away for Lecture 04

- Adjusted Trial balance
- Preparing Financial Statements using Adjusted Trial Balance
 - Income Statement
 - Statement of Changes in Equity
 - Statement of Financial Position
- Closing the Books
- •Financial ratio: Profit Margin



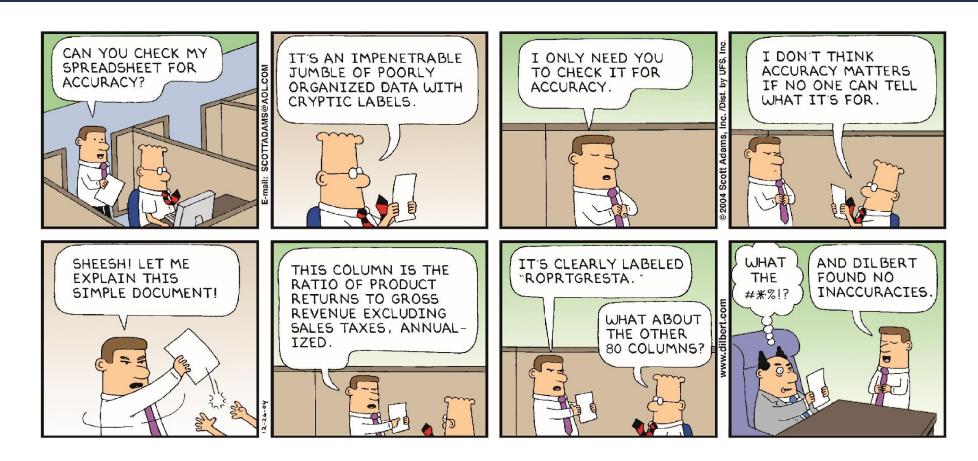
Next week's Lecture 05

Internal Controls & Financial Statements Integrity (Chapter 5)

- Frauds
- Safeguarding your accounting system internal controls
- Roles of auditors
- Earnings management
- Accounting scandal cases



More fun accounting awaits you next week!



Post any questions/discussion in the Canvas Discussion Forum for Lecture 04.

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