CHAPTER 6: FINANCIAL STATEMENTS AND THE CLOSING PROCESS

SUMMARY

1.   The information needed to prepare the income statement is found in the Income Statement columns of the work sheet. Revenue is shown first, followed by an itemized and totaled list of expenses. Net income may be calculated or copied from the Income Statement columns of the work sheet.

2.   Two approaches to listing the expenses in the income statement are:

   a.   the expenses could be listed in the same order that they appear in the chart of accounts.
   b.   the expenses could be listed in descending order, by dollar amount.

3.   The Balance Sheet columns of the work sheet provide most of the information needed to prepare a statement of owner's equity. The capital account balance and the drawing account balance are in the Balance Sheet columns of the work sheet. The net income for the year can be found either on the work sheet at the bottom of the Balance Sheet columns or on the income statement. Additional investments must be identified in the owner's capital account.

4.   If additional investments are made during the year, the owner's capital account in the general ledger must be reviewed. The owner's capital account in the general ledger contains the beginning balance. The additional investments will also be shown in the owner's capital account in the general ledger.

5.   The work sheet and the statement of owner's equity are used to prepare the balance sheet. The asset and liability amounts can be found in the Balance Sheet columns of the work sheet. The ending balance for the owner's capital has been computed on the statement of owner's equity. This amount should be copied from the statement of owner's equity to the balance sheet.

6.   A permanent account is an account in which the balance is brought forward for each new period. Assets, liabilities, and the owner's capital account accumulate information across accounting periods. Their balances are brought forward for each new period. All accounts reported on the balance sheet are permanent accounts.

7.   Three types of temporary accounts are revenue, expense, and drawing accounts. These accounts accumulate information for a specific accounting period.

8.   The four steps in the closing process are:

   Step 1: Close revenue accounts to Income Summary.
   Step 2: Close expense accounts to Income Summary.
   Step 3: Close Income Summary to the owner's capital account.
   Step 4: Close Drawing to the owner's capital account.

9.   The net effect of the four closing entries on the balance of the owner's capital account is that the balance from Income Summary is transferred to the owner's capital account and the drawing account is closed to the owner's capital account. Upon completion of the four steps, all temporary accounts have zero balances and the earnings and withdrawals for the period have been transferred to the owner's capital account. This same amount, the increase or decrease in capital, is calculated on the statement of owner's equity.

10.   The purpose of the post-closing trial balance is to prove the equality of the debit and credit balances in the general ledger accounts, after posting the closing entries.

11.   The 10 steps in the accounting cycle are:

   During the Accounting Period

   1.   Analyze source documents.
   2.   Journalize the transactions.
   3.   Post to the ledger accounts.

   End of Accounting Period

   4.   Prepare a trial balance.
   5.   Determine and prepare the needed adjustments on the work sheet.
   6.   Complete an end-of-period work sheet.
   7.   Journalize and post the adjusting entries.
   8.   Prepare an income statement, a statement of owner's equity, and a balance sheet.
   9.   Journalize and post the closing entries.
   10.   Prepare a post-closing trial balance.

Problem 6-7A

1.

Megaffin's Repairs		
Income Statement		
For Month Ended January 31, 20--		

2.

Megaffin's Repairs		
Statement of Owner's Equity		
For Month Ended January 31, 20--		

3.

Megaffin's Repairs		
Balance Sheet		
January 31, 20--		

Problem 6-8A

1.

	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1		*Adjusting Entries*				1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12
13						13
14						14
15						15
16						16
17						17
18						18

Problem 6-8A (Continued)

2.

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1			*Closing Entries*				1
2							2
3							3
4							4
5							5
6							6
7							7
8							8
9							9
10							10
11							11
12							12
13							13
14							14
15							15
16							16
17							17
18							18
19							19
20							20
21							21
22							22
23							23

GENERAL LEDGER

1. and 2.

ACCOUNT   Cash   ACCOUNT NO.   101

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓			3 6 7 3 00	

ACCOUNT   Accounts Receivable   ACCOUNT NO.   122

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓			1 4 5 0 00	

ACCOUNT   Supplies   ACCOUNT NO.   141

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓			7 0 0 00	

ACCOUNT   Prepaid Insurance   ACCOUNT NO.   145

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓			9 0 0 00	

ACCOUNT Delivery Equipment ACCOUNT NO. 185

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓			3 2 0 0 00	

ACCOUNT Accumulated Depreciation—Delivery Equipment ACCOUNT NO. 185.1

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT

ACCOUNT Accounts Payable ACCOUNT NO. 202

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓				1 2 0 0 00

ACCOUNT Wages Payable ACCOUNT NO. 219

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT

ACCOUNT Don Megaffin, Capital ACCOUNT NO. 311

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓				8 0 0 0 00

ACCOUNT Don Megaffin, Drawing   ACCOUNT NO. 312

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Jan.	31	Balance	✓			1 1 0 0 00	

ACCOUNT Income Summary   ACCOUNT NO. 313

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

ACCOUNT Repair Fees   ACCOUNT NO. 401

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Jan.	31	Balance	✓				4 7 0 0 00

ACCOUNT Wages Expense   ACCOUNT NO. 511

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Jan.	31	Balance	✓			1 7 5 0 00	

ACCOUNT Advertising Expense   ACCOUNT NO. 512

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Jan.	31	Balance	✓			2 0 0 00	

ACCOUNT   Rent Expense   ACCOUNT NO. 521

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓			6 4 0 00	

ACCOUNT   Supplies Expense   ACCOUNT NO. 523

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT

ACCOUNT   Telephone Expense   ACCOUNT NO. 525

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓			5 0 00	

ACCOUNT   Insurance Expense   ACCOUNT NO. 535

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT

ACCOUNT   Gas and Oil Expense   ACCOUNT NO. 538

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20-- Jan.	31	Balance	✓			2 0 0 00	

ACCOUNT   Depreciation Expense—Delivery Equipment   ACCOUNT NO. 541

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

ACCOUNT   Miscellaneous Expense   ACCOUNT NO. 549

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Jan.	31	Balance	✓			3 7 00	

3.

Megaffin's Repairs
Post-Closing Trial Balance
January 31, 20--

ACCOUNT	ACCT. NO.	DEBIT BALANCE	CREDIT BALANCE