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FINANCIAL ACCOUNTING

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IFRS EDITION

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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
Weygandt • Kimmel • Kieso

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.

Using a Worksheet

**Learning
Objective 1**
Prepare a
worksheet.

Worksheet

- ◆ Multiple-column form used in preparing financial statements.
- ◆ Not a permanent accounting record.
- ◆ May be a computerized worksheet using an electronic spreadsheet program such as Excel.
- ◆ 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

Illustration 4-2

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)

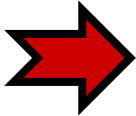
Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200				15,200				15,200	
Supplies	2,500			(a) 1,500	1,000				1,000	
Prepaid Insurance	600			(b) 50	550				550	
Equipment	5,000				5,000				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>
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	40	₺ 4,960
Prepaid insurance		550
Supplies		1,000
Accounts receivable		200
Cash		15,200
Total assets		<u>₺21,910</u>

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

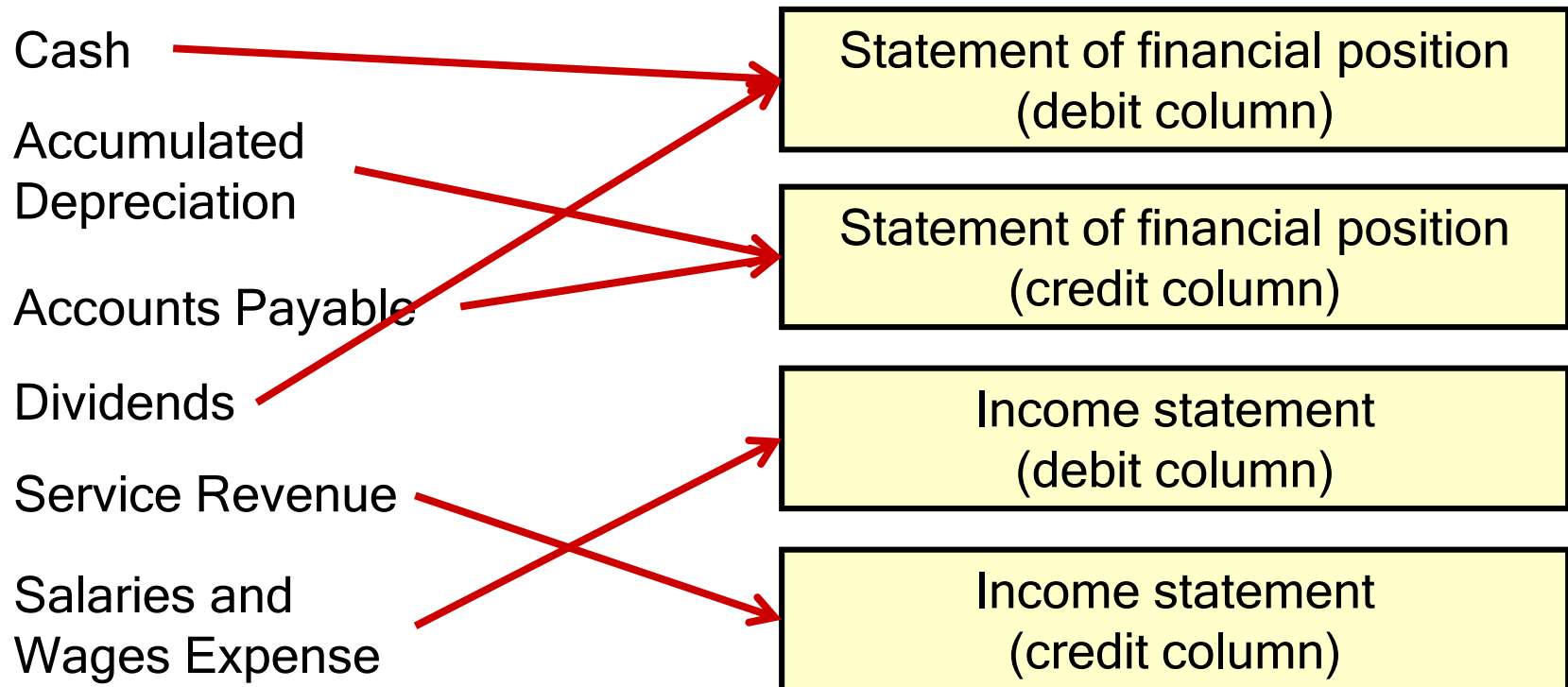
Preparing Adjusting Entries from a Worksheet

- ◆ 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.



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.



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