

Chapter 4

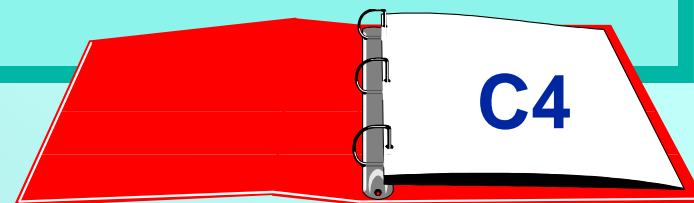
Power Notes



Completing the Accounting Cycle

Learning Objectives

1. Work Sheet
2. Financial Statements
3. Adjusting and Closing Entries
4. Fiscal Year
5. Accounting Cycle
6. Financial Analysis and Interpretation



Chapter 4

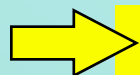
Power Notes



Completing the Accounting Cycle

Slide # Power Note Topics

- 3 • The Work Sheet
- 18 • Financial Statements
- 22 • The Closing Process
- 28 • Post-Closing Trial Balance
- 31 • Accounting Cycles
- 43 • Working Capital and Current Ratio



Note: To select a topic, type the slide # and press Enter.

The Work Sheet

Accounts	Trial Balance		Adjustments		Adjusted TB	
	Dr	Cr	Dr	Cr	Dr	Cr

Prepared from general ledger.
Accounts are listed in order: A, L, OE, R, E

The Work Sheet

Accounts	Trial Balance		Adjustments		Adjusted TB	
	Dr	Cr	Dr	Cr	Dr	Cr

Adjustments are entered here. Two possibilities:

1. Deferrals – Existing balances are changed.
2. Accruals – New information is entered.

The Work Sheet

Accounts	Trial Balance		Adjustments		Adjusted TB	
	Dr	Cr	Dr	Cr	Dr	Cr

**Adjustments are combined with the trial balance.
Account balances are now adjusted.**

NetSolutions - Work Sheet - Two Months Ended 12/31/02

Account	Trial Balance		Adjustments		Adj. Trial Balance	
	Debit	Credit	Debit	Credit	Debit	Credit
11 Cash	2,065				2,065	
12 Accounts Receivable	2,220		(e) 500		2,720	
14 Supplies	2,000			(a) 1,240	760	
15 Prepaid Insurance	2,400			(b) 100	2,300	
17 Land	20,000				20,000	
18 Office Equipment	1,800				1,800	
19 Accumulated Depr.		0		(f) 50		50
21 Accounts Payable		900				900
22 Wages Payable		0		(d) 250		250
23 Unearned Rent		360	(c) 120			240
31 Chris Clark, Capital		25,000				25,000
32 Chris Clark, Drawing	4,000				4,000	
41 Fees Earned		16,340		(e) 500		16,840
42 Rent Revenue		0		(c) 120		120
51 Wages Expense	4,275		(d) 250		4,525	
52 Rent Expense	1,600				1,600	
53 Depreciation Expense	0		(f) 50		50	
54 Utilities Expense	985				985	
55 Supplies Expense	800		(a) 1,240		2,040	
56 Insurance Expense	0		(b) 100		100	
59 Misc. Expense	455				455	
	42,600	42,600	2,260	2,260	43,400	43,400

NetSolutions - Work Sheet - Two Months Ended 12/31/02

Account	Trial Balance		Adjustments		Adj. Trial Balance	
	Debit	Credit	Debit	Credit	Debit	Credit
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56 Insurance Expense	0		(b) 100		100	
59 Misc. Expense	455				455	
	42,600	42,600	2,260	2,260	43,400	43,400

NetSolutions - Work Sheet - Two Months Ended 12/31/02

Adj. Trial Balance

Income Statement

Balance Sheet

Account	Debit	Credit	Debit	Credit	Debit	Credit
11 Cash	2,065				2,065	
12 Accounts Receivable	2,720				2,720	
14 Supplies	760				760	
15 Prepaid Insurance	2,300				2,300	
17 Land	20,000				20,000	
18 Office Equipment	1,800				1,800	
19 Accumulated Depr.		50				50
21 Accounts Payable		900				900
22 Wages Payable		250				250
23 Unearned Rent		240				240
31 Chris Clark, Capital		25,000				25,000
32 Chris Clark, Drawing	4,000				4,000	
41 Fees Earned		16,840		16,840		
42 Rent Revenue		120		120		
51 Wages Expense	4,525		4,525			
52 Rent Expense	1,600		1,600			
53 Depreciation Expense	50		50			
54 Utilities Expense	985		985			
55 Supplies Expense	2,040		2,040			
56 Insurance Expense	100		100			
59 Misc. Expense	455		455			
	43,400	43,400	9,755	16,960	43,645	16,440
Net Income			7,205			7,205
			16,960	16,960	43,645	43,645

NetSolutions - Work Sheet - Two Months Ended 12/31/02

Account	Adj. Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
11 Cash	2,065				2,065	
12 Accounts Receivable	2,720				2,720	
14 Supplies	760				760	
15 Prepaid Insurance	2,300				2,300	
17 Land	20,000				20,000	
18 Office Equipment	1,800				1,800	
19 Accumulated Depr.		50				50
21 Accounts Payable		900				900
22 Wages Payable		250				250
23 Unearned Rent		240				240
31 Chris Clark, Capital		25,000				25,000
32 Chris Clark, Drawing	4,000				4,000	
41 Fees Earned		16,840		16,840		
42 Rent Revenue		120		120		
51 Wages Expense	4,525		4,525			
52 Rent Expense	1,600		1,600			
53 Depreciation Expense	50		50			
54 Utilities Expense	985		985			
55 Supplies Expense	2,040		2,040			
56 Insurance Expense	100		100			
59 Misc. Expense	455		455			
	43,400	43,400	9,755	16,960	43,645	16,440
Net Income			7,205			7,205
			16,960	16,960	43,645	43,645

NetSolutions - Work Sheet - Two Months Ended 12/31/02

Adj. Trial Balance

Income Statement

Balance Sheet

Account	Debit	Credit	Debit	Credit	Debit	Credit
11 Cash	2,065				2,065	
12 Accounts Receivable	2,720				2,720	
14 Supplies	760				760	
15 Prepaid Insurance	2,300				2,300	
17 Land	20,000				20,000	
18 Office Equipment	1,800				1,800	
19 Accumulated Depr.		50				50
21 Accounts Payable		900				900
22 Wages Payable		250				250
23 Unearned Rent		240				240
31 Chris Clark, Capital		25,000				25,000
32 Chris Clark, Drawing	4,000				4,000	
41 Fees Earned		16,840		16,840		
42 Rent Income		120		120		
51 Wages Expense	4,525		4,525			
52 Rent Expense	1,600		1,600			
53 Depreciation Expense	50		50			
54 Utilities Expense	985		985			
55 Supplies Expense	2,040		2,040			
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59 Misc. Expense	455		455			
	43,400	43,400	9,755	16,960	43,645	16,440
Net Income			7,205			7,205
			16,960	16,960	43,645	43,645

NetSolutions
Income Statement
For Two Months Ended December 31, 2002

Fees earned	\$16,840	
Rent revenue	<u>120</u>	
Total revenues		\$16,960
Expenses:		
Wages expense	\$ 4,525	
Supplies expense	2,040	
Rent expense	1,600	
Utilities expense	985	
Insurance expense	100	
Depreciation expense	50	
Miscellaneous expense	<u>455</u>	
Total expenses		<u>9,755</u>
Net income		<u><u>\$ 7,205</u></u>

NetSolutions
Statement of Owner's Equity
For Two Months Ended December 31, 2002

Chris Clark, capital, November 1, 2002		\$ 0
Investment on November 1, 2002	\$25,000	
Net income for November and December	<u>7,205</u>	
	\$32,205	
Less withdrawals	<u>4,000</u>	
Increase in owner's equity		<u>28,205</u>
Chris Clark, capital, December 31, 2002		<u>\$28,205</u>

**NetSolutions
Balance Sheet
December 31, 2002**

ASSETS

Current assets:

Cash	\$ 2,065
Accounts receivable	2,720
Supplies	760
Prepaid insurance	<u>2,300</u>
Total current assets	<u>\$ 7,845</u>

**Property, plant, and
equipment:**

Land	\$20,000
Office equipment	1,800
Less accum. depr.	(50)
Total property, plant, and equipment	<u>\$21,750</u>
Total assets	<u><u>\$29,595</u></u>

**NetSolutions
Balance Sheet
December 31, 2002**

LIABILITIES

Current liabilities:

Accounts payable	\$ 900
Wages payable	250
Unearned rent	<u>240</u>
Total liabilities	\$ 1,390

OWNER'S EQUITY

Chris Clark, capital	<u>28,205</u>
Total liabilities and owner's equity	<u><u>\$29,595</u></u>

The Closing Process

Wages Expense

Bal. 4,525 |

Rent Expense

Bal. 1,600 |

Depreciation Expense

Bal. 50 |

Utilities Expense

Bal. 985 |

Supplies Expense

Bal. 2,040 |

Insurance Expense

Bal. 100 |

Miscellaneous Expense

Bal. 455 |

Income Summary

Fees Earned

Bal. 16,840

Rent Revenue

Bal. 120

Chris Clark, Capital

Bal. 25,000

Chris Clark, Drawing

Bal. 4,000 |

Note: The balances shown are adjusted balances before closing. The following sequence demonstrates the closing process.

The Closing Process

<u>Wages Expense</u>	
Bal.	4,525
<u>Rent Expense</u>	
Bal.	1,600
<u>Depreciation Expense</u>	
Bal.	50
<u>Utilities Expense</u>	
Bal.	985
<u>Supplies Expense</u>	
Bal.	2,040
<u>Insurance Expense</u>	
Bal.	100
<u>Miscellaneous Expense</u>	
Bal.	455

<u>Income Summary</u>	
	16,960
Total Revenues	

<u>Fees Earned</u>	
16,840	Bal. 16,840
<u>Rent Revenue</u>	
120	Bal. 120

Close Revenues

<u>Chris Clark, Capital</u>	
	Bal. 25,000
<u>Chris Clark, Drawing</u>	
Bal.	4,000

The Closing Process

<u>Wages Expense</u>	
Bal. 4,525	4,525
<u>Rent Expense</u>	
Bal. 1,600	1,600
<u>Depreciation Expense</u>	
Bal. 50	50
<u>Utilities Expense</u>	
Bal. 985	985
<u>Supplies Expense</u>	
Bal. 2,040	2,040
<u>Insurance Expense</u>	
Bal. 100	100
<u>Miscellaneous Expense</u>	
Bal. 455	455

<u>Income Summary</u>	
9,755	16,960
Total Expenses	Total Revenues

<u>Chris Clark, Capital</u>	
	Bal. 25,000
<u>Chris Clark, Drawing</u>	
Bal. 4,000	

<u>Fees Earned</u>	
16,840	Bal. 16,840
<u>Rent Revenue</u>	
120	Bal. 120

Close Revenues

Close Expenses

The Closing Process

Wages Expense	
Bal. 4,525	4,525
Rent Expense	
Bal. 1,600	1,600
Depreciation Expense	
Bal. 50	50
Utilities Expense	
Bal. 985	985
Supplies Expense	
Bal. 2,040	2,040
Insurance Expense	
Bal. 100	100
Miscellaneous Expense	
Bal. 455	455

Income Summary	
9,755	16,960
7,205	
Closed	

Fees Earned	
16,840	Bal. 16,840
Rent Income	
120	Bal. 120

Chris Clark, Capital	
	Bal. 25,000
	7,205
	Net Income
Chris Clark, Drawing	
Bal. 4,000	

Close Revenues

Close Expenses

Close Income Summary

The Closing Process

Wages Expense	
Bal. 4,525	4,525
Rent Expense	
Bal. 1,600	1,600
Depreciation Expense	
Bal. 50	50
Utilities Expense	
Bal. 985	985
Supplies Expense	
Bal. 2,040	2,040
Insurance Expense	
Bal. 100	100
Miscellaneous Expense	
Bal. 455	455

Income Summary	
9,755	16,960
7,205	
Closed	

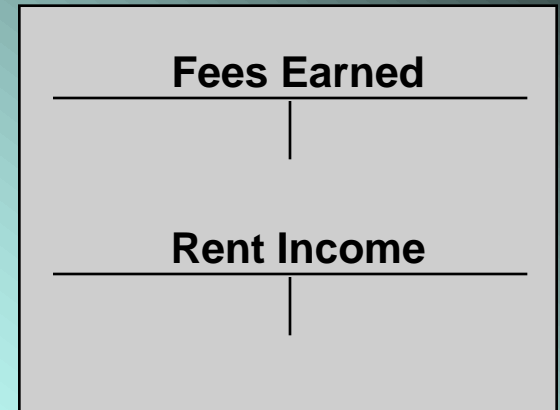
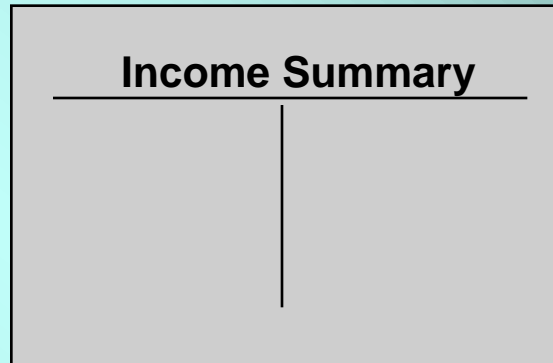
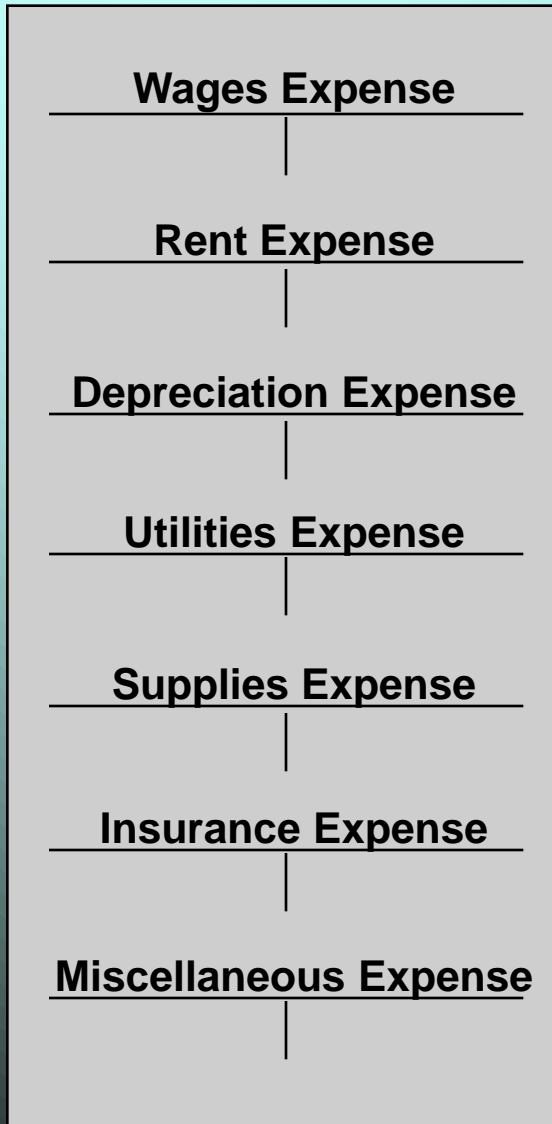
Fees Earned	
16,840	Bal. 16,840
Rent Income	
120	Bal. 120

Chris Clark, Capital	
4,000	Bal. 25,000
Drawing	7,205
	Net Income

Chris Clark, Drawing	
Bal. 4,000	4,000
Closed	

- Close Revenues
- Close Expenses
- Close Income Summary
- Close Drawing

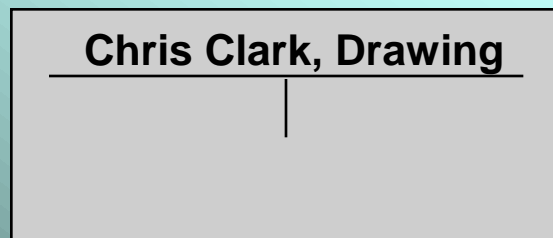
The Closing Process



Chris Clark, Capital	
4,000	Bal. 25,000
	7,205
	Bal. 28,205

Drawing

Net Income



All temporary accounts now have zero balances and are ready for the next accounting period.

**NetSolutions
Post-Closing Trial Balance
December 31, 2002**

Assets

11 Cash	2,065	
12 Accounts Receivable	2,720	
14 Supplies	760	
15 Prepaid Insurance	2,300	
17 Land	20,000	
18 Office Equipment	1,800	
19 Accum. Depreciation		50
21 Accounts Payable		900
22 Wages Payable		250
23 Unearned Rent		240
31 Chris Clark, Capital		28,205
	<u>29,645</u>	<u>29,645</u>

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Liabilities

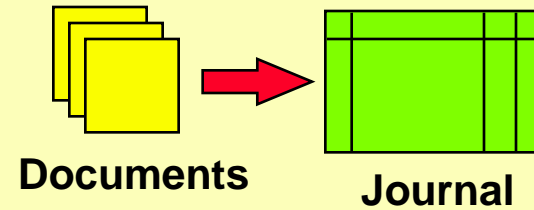
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**Owner's
Equity**

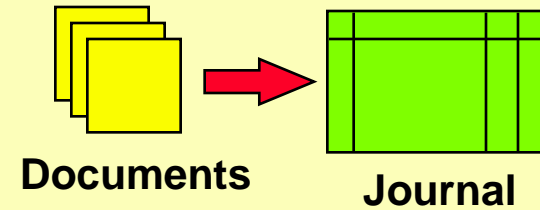
Manual Accounting Cycle

1. Transactions are analyzed and recorded in journal.

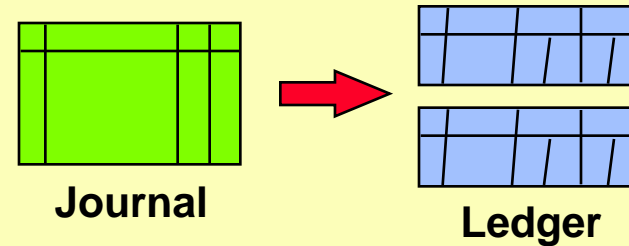


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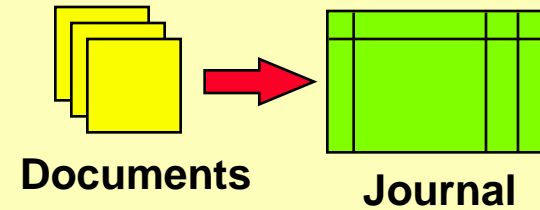


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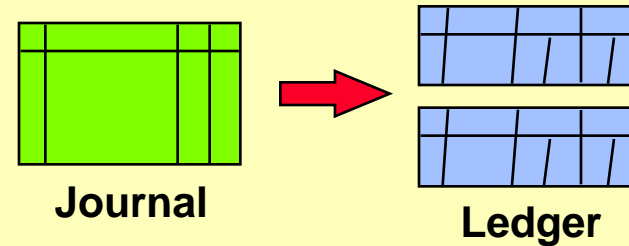


Manual Accounting Cycle

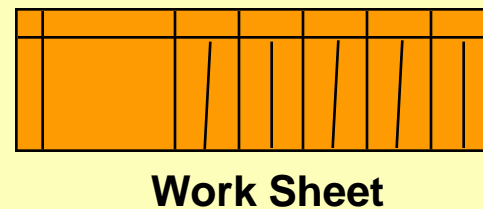
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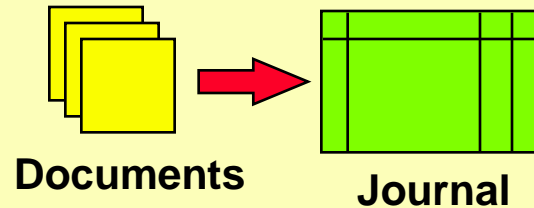


3. Trial balance is prepared, adjustment data is organized, work sheet is completed.

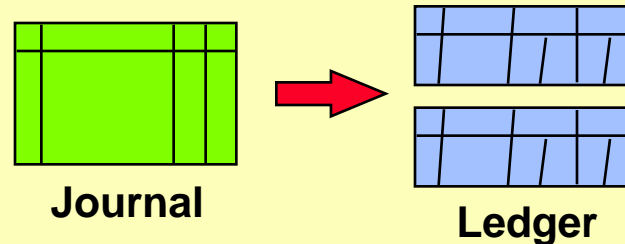


Manual Accounting Cycle

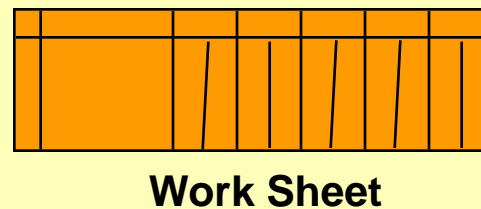
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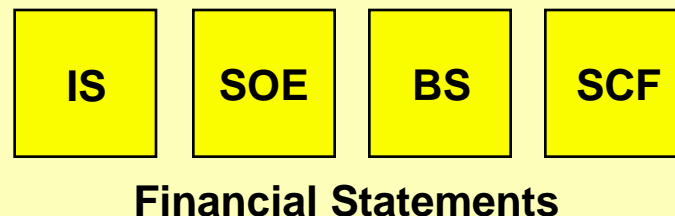
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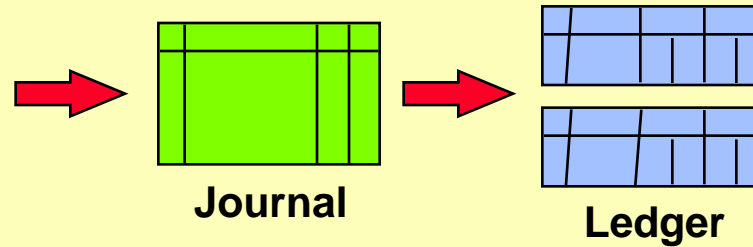


4. Financial statements are prepared and distributed.



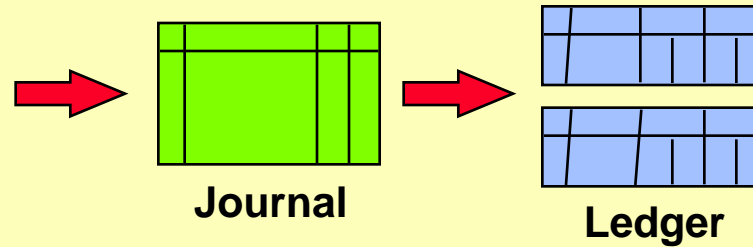
Manual Accounting Cycle

5. Adjusting entries are journalized and posted to ledger.

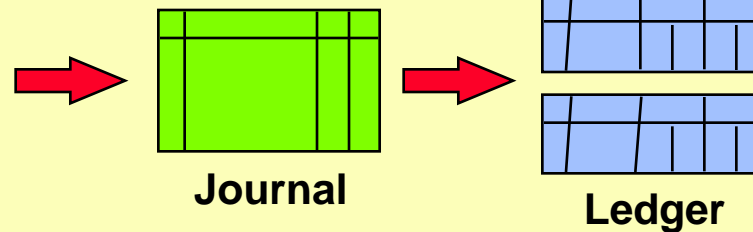


Manual Accounting Cycle

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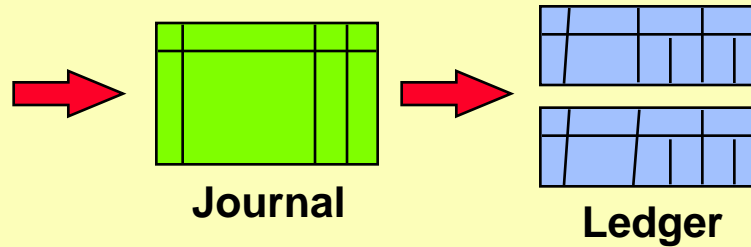


6. Closing entries are journalized and posted to ledger.

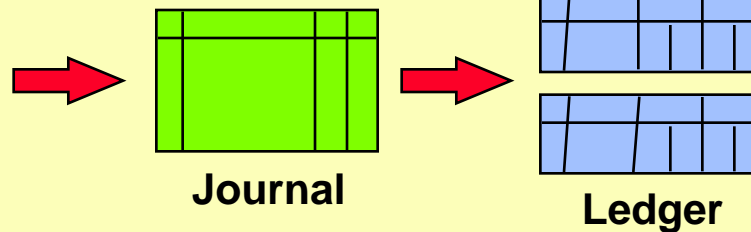


Manual Accounting Cycle

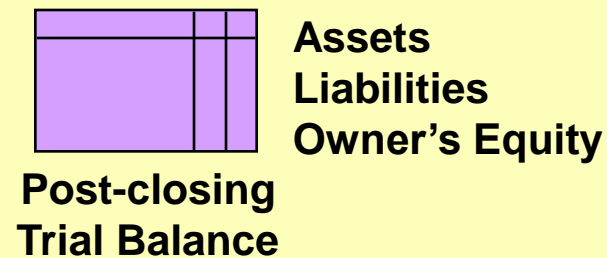
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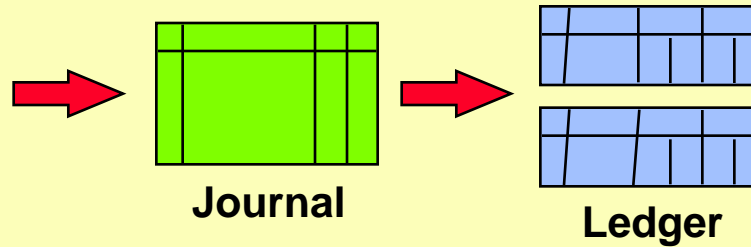


7. Post-closing trial balance is prepared.

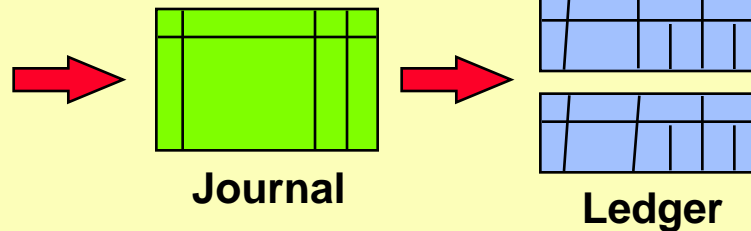


Manual Accounting Cycle

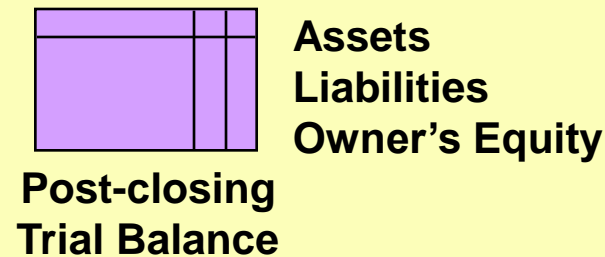
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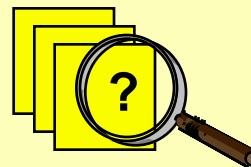
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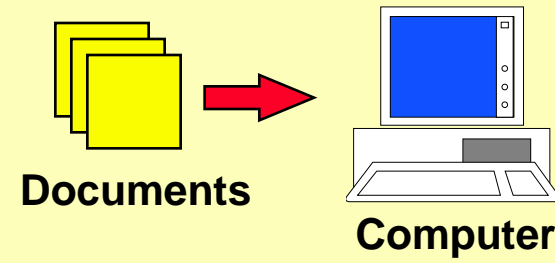


8. Reports are analyzed and interpreted for decision-making purposes.



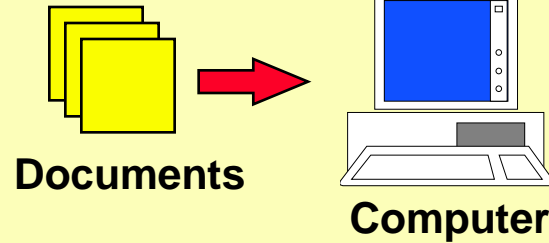
Computer Accounting Cycle

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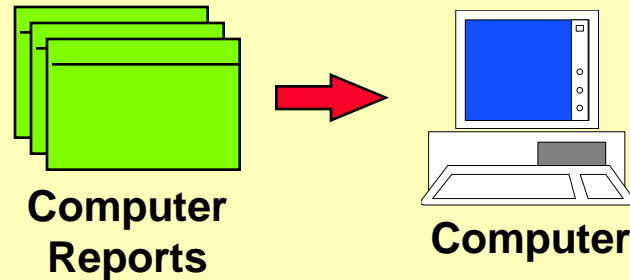


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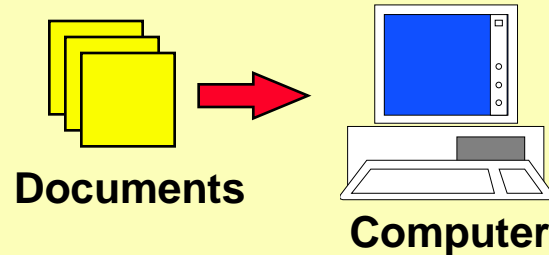


2. Preliminary reports are analyzed, adjustments are prepared and entered in the computer.

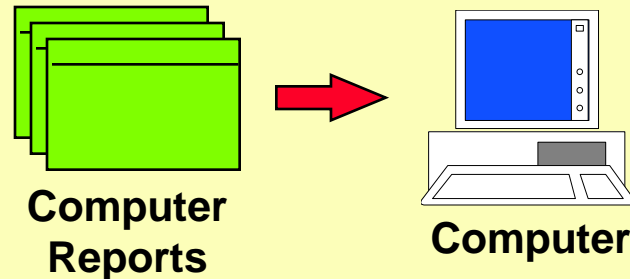


Computer Accounting Cycle

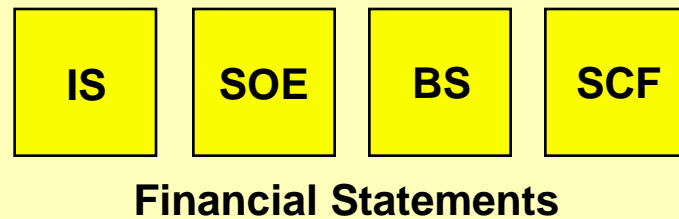
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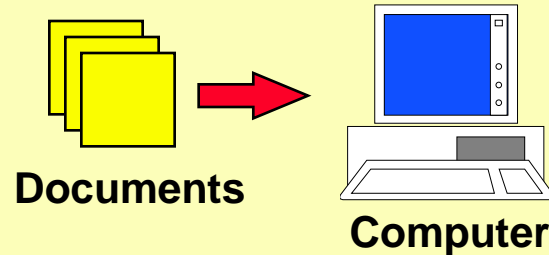


3. Financial statements are printed and distributed.

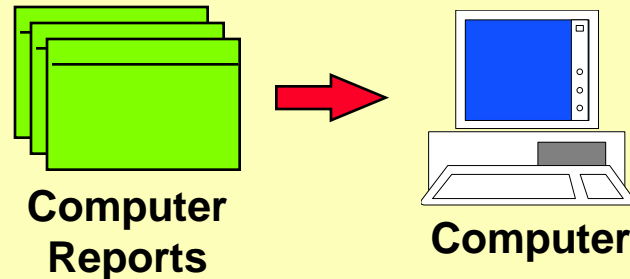


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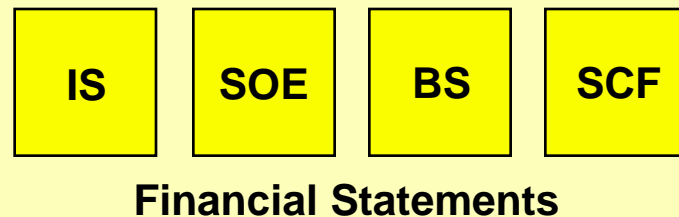
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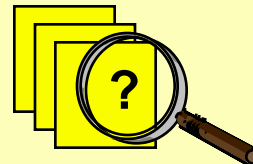
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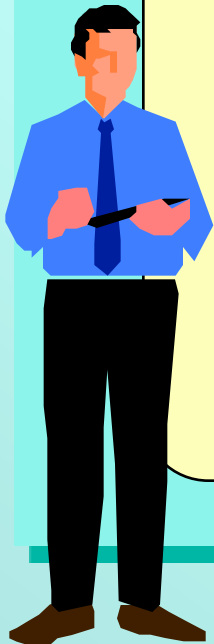


Solvency Analysis

Solvency is the ability of a business to meet its financial obligations (debts) as they are due.

Solvency analysis focuses on the ability of a business to pay or otherwise satisfy its **current** and **noncurrent liabilities**.

This ability is normally assessed by examining **balance sheet** relationships.



Solvency Measures — The Short-Term Creditor

Working Capital and Current Ratio

	2003	2002
Current assets	\$550,000	\$533,000
Current liabilities	210,000	243,000

Solvency Measures — The Short-Term Creditor

Working Capital and Current Ratio

	2003	2002
Current assets	\$550,000	\$533,000
Current liabilities	210,000	243,000
Working capital	\$340,000	\$290,000

Use: To indicate the ability to meet currently maturing obligations

Solvency Measures — The Short-Term Creditor

Working Capital and Current Ratio

	2003	2002
Current assets	\$550,000	\$533,000
Current liabilities	210,000	243,000
Working capital	<u>\$340,000</u>	<u>\$290,000</u>
Current ratio	2.6 to 1	2.2 to 1

Divide
current
assets by
current
liabilities

Use: To indicate the ability to meet
currently maturing obligations

Working Capital and Current Ratio

Objective: Analyze and interpret the financial solvency of a business by computing the working capital and the current ratio.

Working Capital (WC)

Current Assets minus
Current Liabilities

Current Ratio (CR)

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Example

NetSolutions $WC = \$7,845 - \$1,390 = \$6,455$
 $CR = \$7,845 / \$1,390 = 5.6$

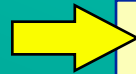
Chapter 4

Power Notes



Completing the Accounting Cycle

This is the last slide in Chapter 4.



Note: To see the topic slide, type 2 and press Enter.

