Financial Accounting
Chapter 4
Completing the Accounting Cycle

I. Review of information we have covered.
   A. Analysis of transactions from source documents
   B. Record entries in general journal (journalizing)
   C. Post journal entries to ledger
   D. Prepare trial balance
   E. Prepare necessary adjustments
   F. Prepare adjusted trial balance
   G. Prepare financial statements

II. Preparation of Worksheet
   A. Definition
      1. Working paper used by accountants
      2. Not a part of the "formal" accounting records, is optional.
   B. Purposes
      1. Gathers adjusting entry information onto one work paper
      2. Enables you to summarize effects of adjusted journal entries on accounts before posting to ledger
      3. Aids in preparing Financial Statements
      4. Aids in preparing closing entries
   C. Mechanics of Preparation
      1. Begin with unadjusted trial balance
      2. Enter adjusting entries in adjustments columns
         a. Note how letters tie together the corresponding debits and credits
         b. If an account is needed for adjustments that is not in original trial balance, add the account on next available line of worksheet
         c. Note that adjusting journal entries have only been entered on worksheet -- not in ledger accounts yet.
      3. Adjusted Trial Balance columns
         a. Balance in these columns represent the final adjusted balance
4. Extensions of amounts in adjusted trial balance columns to Income Statement or Balance Sheet columns.
   a. Is the balance a debit or credit?
   b. Which financial statement is the account reported on?

5. Foot Income Statement debit and credit columns and Balance Sheet debit and credit columns
   a. These will likely NOT BALANCE!!
   b. However, difference between Income Statement debit and credit columns should equal difference between Balance Sheet debit and credit columns.

D. Financial Statements can be prepared directly from information on worksheet.

III. Classified Balance Sheets

A. Assets
   1. Current assets--those expecting to be converted to cash or sold or used up within one year or the operating cycle, whichever is longer.
      a. Shown on Balance Sheet in order of liquidity.
   2. Long term investments.
   3. Property plant and equipment--items with a useful life of more than one year, used in the business and not intended for sale.
   4. Intangible assets--no physical substance--convey right to holder.

B. Liabilities
   1. Current--obligations expected to be paid within one year or the operating cycle from current assets or through the creation of other current liabilities.
   2. Long-term

C. Working capital and current ratio

IV. Closing Entries

A. Entries made to "close" revenue and expense accounts and transfer net income and drawing to capital. (Updates the capital account balance)
   1. Revenue and expense accounts are temporary or nominal accounts
      a. Balance Sheet accounts are permanent or real

   2. They are created to assist in determining net income for a period
      a. Accumulate revenues and expenses for a period of time

   3. So at end of a period (generally fiscal year) they have served purpose and should be "zeroed" out (closed)

   4. This way they start next period at zero.
B. Four basic closing entries
   1. Close revenues into "Income Summary"
      a. "Income Summary" is an account only used when closing entries are prepared.
   2. Close expenses into "Income Summary"
   3. Close "Income Summary" into Capital account
   4. Close "Withdrawals" into Capital account

C. Closing entries can be prepared directly from information on worksheet

V. Final steps in Accounting Cycle

A. Post adjusting entries (Enter in ledger accounts)

B. Post closing entries (Enter in ledger accounts)

C. Prepare post closing trial balance

D. Reversing entries (optional) (See appendix to chapter)

E. See page 148 for good review of Accounting Cycle