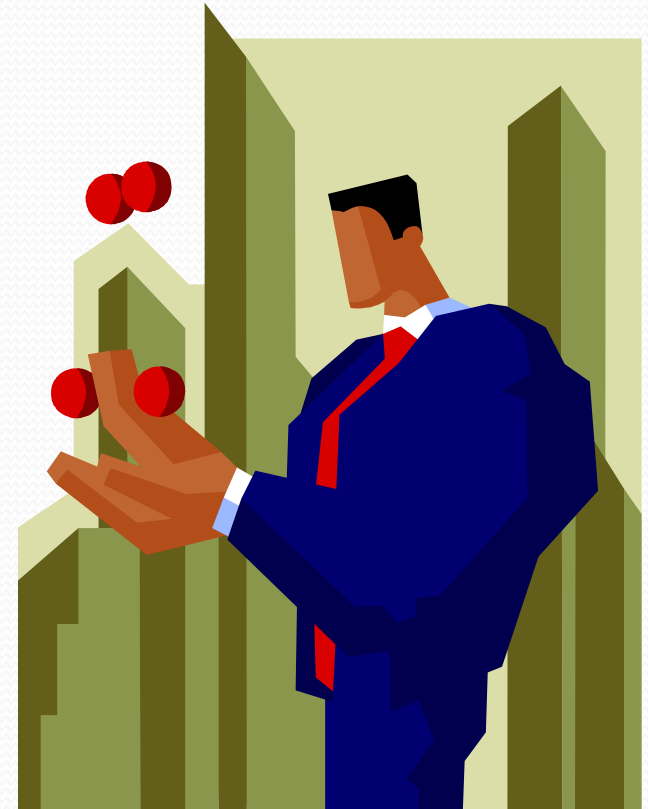


Chapter

5

THE ACCOUNTING CYCLE: Reporting Financial Results

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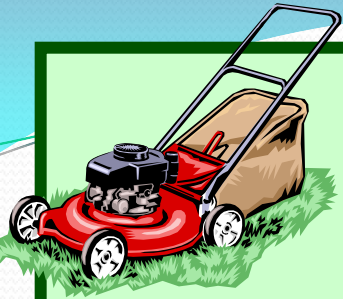
**JJ's Lawn Care Service
Adjusted Trial Balance
May 31, 2003**

Cash	\$	3,925	
Accounts receivable		75	
Tools & equipment		2,650	
Accumulated depr.: tools & eq.			\$ 50
Truck		15,000	
Accumulated depr.: truck			250
Notes payable			13,000
Accounts payable			150
Capital stock			8,000
Dividends		200	
Sales revenue			750
Gasoline expense		50	
Depr. exp.: tools & eq.		50	
Depr. exp.: truck		250	
Total	\$	22,200	\$ 22,200

**This is the
Adjusted Trial
Balance for JJ's.**



**Now, let's
prepare the
financial
statements for
JJ's Lawn Care
Service for May.**



JJ's Lawn Care Service Income Statement

For the month ending May 31, 2003

Sales revenue		\$ 750
Operating expenses:		
Gasoline expense	\$ 50	
Depr. exp.: tools & eq.	50	
Depr. exp.: truck	250	350
Net income		\$ 400

Net income also appears on the
Statement of Owner's Equity.

Statement of Retained Earnings

This statement summarizes the increases and decreases in Retained Earnings during the period.



•Business Earnings



•Dividends
•Business Losses



JJ's Lawn Care Service Statement of Retained Earnings For the Month Ended May 31, 2003

Retained earnings, May 1, 2003	\$ -
Add: Net income for May	400
	<hr/>
Subtotal	\$ 400
Less: Dividends	200
	<hr/>
Retained earnings, May 31, 2003	<u><u>\$ 200</u></u>

Now, let's prepare the Balance Sheet.



JJ's Lawn Care Service
Balance Sheet
May 31, 2003

Assets

Cash		\$ 3,925
Accounts receivable		75
Tools & equipment	\$ 2,650	
Less: Accum. depr.: tools & eq.	50	2,600
Truck	\$ 15,000	
Less: Accum. depr.: truck	250	14,750
Total assets		\$ 21,350

Liabilities & Stockholders' Equity

Liabilities:		
Notes payable		\$ 13,000
Accounts payable		150
Total liabilities		\$ 13,150
Stockholders' equity:		
Capital stock	\$ 8,000	
Retained earnings	200	
Total stockholders' equity		8,200
Total liabilities & stockholders' equity		\$ 21,350

**Next, let's
prepare the
Statement of
Cash Flows
for JJ's Lawn
Care Service
for May.**



JJ's Lawn Care Service
Statement of Cash Flows
For the Month Ended May 31, 2003

Cash flows from operating activities:

Cash received from revenue transactions	\$ 750	
Cash paid for expenses	(50)	
Net cash provided by operating activities		\$ 700

Cash flows from investing activities:

Purchase of lawn mower	\$ (2,500)	
Purchase of truck	(2,000)	
Collection for sale of repair parts	75	
Payment for repair parts	(150)	
Net cash used by investing activities		(4,575)

Cash flows from financing activities:

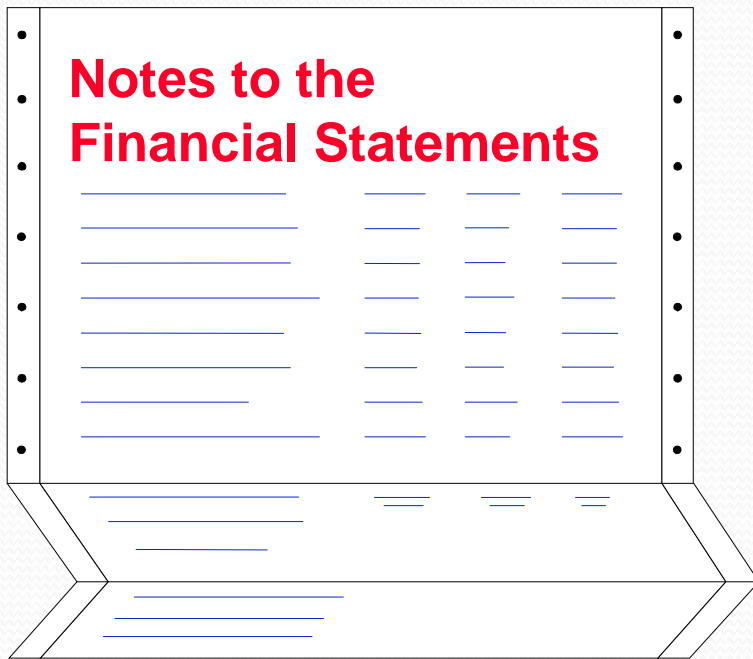
Investment by owners	\$ 8,000	
Dividends	(200)	
Net cash provided by financing activities		7,800

Increase in cash for month **\$ 3,925**

Cash balance, May 1, 2003 **-**

Cash balance, May 31, 2003 **\$ 3,925**

Drafting Notes to the Financial Statements



Examples of Items Disclosed

- **Lawsuits pending**
- **Scheduled plant closings**
- **Governmental investigations**
- **Significant events occurring after the balance sheet date**
- **Specific customers that account for a large portion of revenue**
- **Unusual transactions and related party transactions**

Closing the Temporary Equity

Accounts

- ① Close Revenue accounts to Income Summary.
- ② Close Expense accounts to Income Summary.
- ③ Close Income Summary account to Retained Earnings.
- ④ Close Dividends to Retained Earnings.

The **closing** process gets the **temporary accounts** ready for the next accounting period.



Closing Entries for Revenue Accounts
Since Sales Revenue has a credit balance, the closing entry requires a debit to the Sales Revenue account.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
May	31	Sales Reveune	750	
		Income Summary		750
		To close the revenue account.		

Closing Entries for Revenue Accounts

Income Summary	
	750
	750

Sales Revenue	
750	750
	-



Closing Entries for Expense Accounts

Since expense accounts have a debit balance, the closing entry requires a credit to the expense accounts.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
May	31	Income Summary	350	
		Gasoline Expense		50
		Depreciation Exp.: Tools & Equipment		50
		Depreciation Exp.: Truck		250
		To close the expense accounts.		

Closing Entries for Expense Accounts

Gasoline Exp.	
50	50
	-

Depr. Exp.: Tools & Equipment	
50	50
	-

Depr. Exp.: Truck	
250	250
	-

Income Summary	
350	750
	400

Net Income

Closing the Income Summary Account
Since Income Summary has a \$400 credit balance,
the closing entry requires a debit to Income
Summary.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
May	31	Income Summary	400	
		Retained Earnings		400
		To close Income Summary.		

Closing the Income Summary Account

Retained Earnings	
	-
	400
	400

Income Summary	
350	750
400	
	-

The balance in Income Summary is now **zero**.

Closing the Dividends Account

Since the Dividends account has a debit balance, the closing entry requires a credit to the Dividends account.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
May	31	Retained Earnings	200	
		Dividends		200
		To close the Dividends account.		

Closing the Dividends Account

Dividends	
200	200
	-



Retained Earnings	
200	-
	400
	200

**JJ's Lawn Care Service
After-Closing Trial Balance
May 31, 2003**

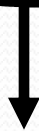
Cash	\$ 3,925		
Accounts receivable	75		
Tools & equipment	2,650		
Accumulated depr.: tools & equipment		\$ 50	
Truck	15,000		
Accumulated depr.: truck			250
Notes payable		13,000	
Accounts payable		150	
Capital stock		8,000	
Retained earnings		200	
Total	\$ 21,650	\$ 21,650	

**After all
closing
entries are
made, JJ's
After-Closing
Trial Balance
looks like
this.**



Evaluating the Business

Evaluating Profitability



Did the business earn a profit or loss in the current period?

What is the business's future potential for a profit?

Evaluating Solvency



Does the business have assets available to pay debts as they are due?

Evaluating the Business



**Focusing
Management's
Attention**

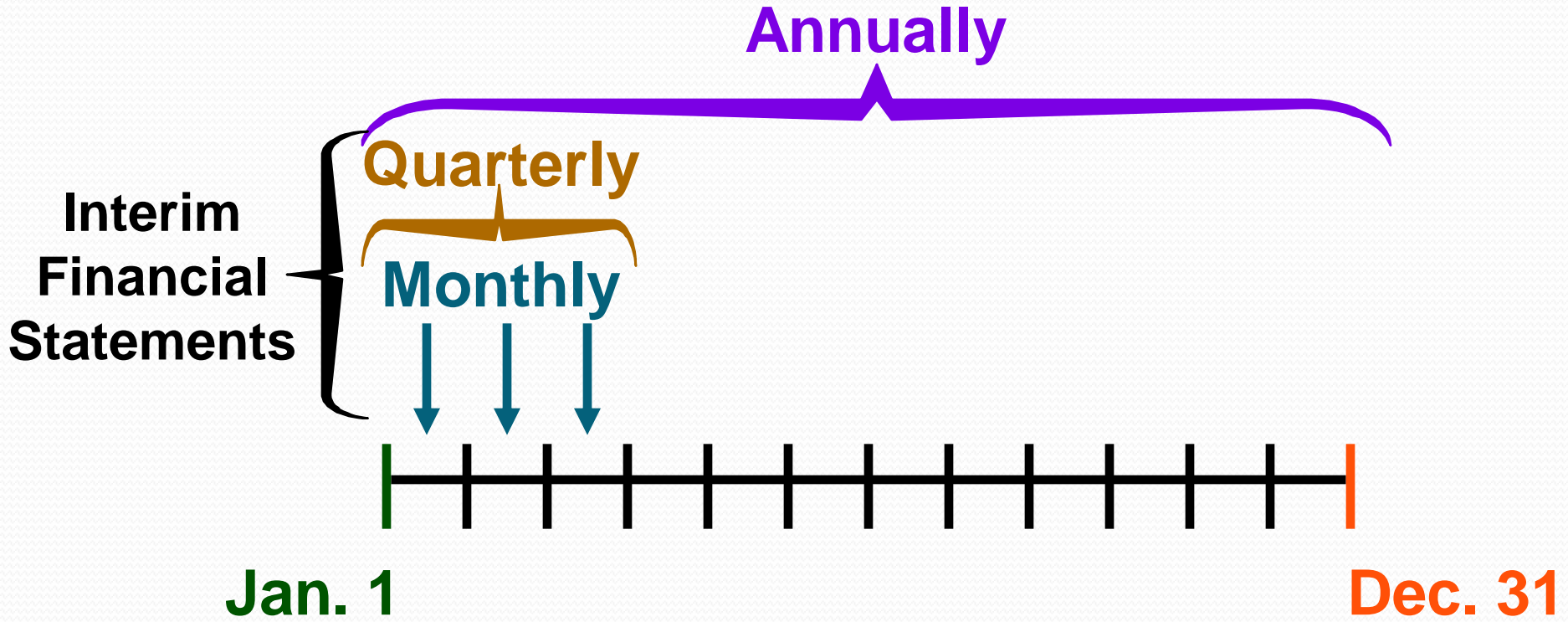
**Are product lines
profitable?**

**Are resources being
used efficiently?**

**Are production
processes efficient?**

Preparing Financial Statements Covering Different Periods of Time

Many companies prepare financial statements at various points throughout the year.



Reference

Williams et al. 2011. *Financial and Managerial Accounting: The Basis for Business Decision* 16 ed. New York: McGraw-Hill.