

Accounting for Managers

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MGM341

Lecture (2)
Basic Financial Statements
& Closing of Accounts



Learning outcomes

- LO 1** Identify the income statement (Profit & loss).
- LO 2** Explain the statement of changes in owner's Equity.
- LO 3** Describe the classified balance sheet(Statement of financial position).
- LO 4** State the different types of Accounts & closing entries.

The Four Basic Financial Statements

Financial Statements are prepared directly from the Trial Balance.

Companies prepare four financial statements:



**Income Statement
(Profit & loss
statement)**

Period of time

**Changes in
owner's Equity
Statement**

Period of time

**Statement of
Financial Position
(Balance Sheet)**

Point in time

**Statement
of Cash Flows**

Period of time

Income Statement

- Reports **revenues** and **expenses** for a specific period of time
- Lists revenues first, followed by expenses
- Shows net income (or net loss)
- Does not include investment and withdrawal transactions between owner and business in measuring net income

Business Name....
Single-Step income statement
for the year ended Dec. 31, 2022

Revenues :	
Sales Revenue	x
Service Revenue	x
Fees Earned	x
Commission Revenue	x
Consulting revenue	x
Dividends Revenue	x
Rental revenue	x
Total Revenues	xx
Expenses:	
Salary expenses	(x)
Wages expenses	(x)
Rent expenses	(x)
Utility expense	(x)
Repair expense	
Insurance expense	(x)
Interest expense	(x)
Depreciation expense	(x)
Advertising expense	(x)
Supplies expense	(x)
Total expenses	(xx)
Net income	xx

**Revenues and expenses determine if a net income
or net loss occurs as follows:**

- a. Revenues $>$ Expenses: Net Income(**Profit**).**
- b. Revenues $<$ Expenses: Net Income (**loss**).**

Changes in Owner's Equity Statement

- Reports **changes** in owner's equity for a specific period of time
- Time period is the same as that covered by the income statement

Business Name.... Changes in Owner's equity statement For the year ended Dec 31.2024	
Beginning Capital	×
Add (+)	+
Additional Investment	×
Net income (Profit)from the income statement	×
Less (-)	
Drawings (Withdrawals)	(×)
Net income (Loss)from the income statement	
Ending Capital	xx

Statement of Financial Position (**Balance sheet**)

- Reports **assets, liabilities, and owner's equity** at a specific date
- Lists assets at top, followed by liabilities and owner's equity
- Total assets **must equal** total owner's equity and liabilities
- Snapshot of company's financial condition at a specific moment in time (usually month-end or year-end)

Assets		
Current assets		
Cash	XX	
Short-term investment	XX	
Account receivable	XX	
Notes receivable	XX	
Inventories	XX	
Prepaid expenses	XX	
Total current assets		XX
Property, plant, and equipment (Fixed Assets)		
Land	XX	XX
Building (-) Accumulated Depreciation	XX	
Equipment (-) Accumulated Depreciation	XX	
Machinery (-) Accumulated Depreciation	XX	
Furniture (-) Accumulated Depreciation	XX	
Total property, plant, and equipment		XX
Intangible assets		
Goodwill	XX	
Copyright	XX	
Trademark	XX	
Total intangible assets		XX
Total assets	XX	
Liabilities & owner's equity		
Liabilities		
Current liabilities		XX
Notes payable	XX	XX
Account payable	XX	
Unearned revenue	XX	
Total current liabilities		XX
Long term liabilities		
Mortgage payable	XX	
Bank loan payable	XX	
Total long-term liabilities		XX
Total liabilities		XX
Owner's equity		
Capital From the changes in owner's equity statement		XX
Total liabilities & owner's equity		XX

Example (1)

Mohamed Emad has the following Activities during the year:

Service revenue \$52800- Rent expense \$4800 - wages expense \$33080 - advertising expense \$5400- utilities expense \$3600 - Mohamed withdrawals \$2800- Cash \$6200- Accounts receivable \$3000-supplies \$400- land 4000- Accounts payable \$1800 - Mohamed beginning capital \$8680

Required

1. Prepare the income statement.
2. Prepare the statement of owner's equity.
3. Prepare the balance sheet for Mohamed Emad proprietorship.

Mohamed Emad Single-Step income statement for the year ended Dec. 31, 2022	
Revenues :	
Service Revenue	52800
Expenses:	
Rent expenses	(4800)
Wages expenses	(33080)
Advertising expense	(5400)
Utility expense	(3600)
Total expenses	(46880)
Net income	5920

Mohamed Emad Owner's equity statement For the year ended Dec 31.2022	
Beginning Capital	8680
Add (+)	+
Additional Investment	0
Net income (Profit)	5920
Less (-)	
Drawings (Withdrawals)	(2800)
Ending Capital	11800

Mohamed Emad Balance Sheet At the year ended Dec 31.2022		
Assets		
Current assets:		
Cash	6200	
Accounts receivable	3000	
Supplies	400	
		9600
Fixed Assets		
Land	4000	4000
Total Assets		13600
Liabilities and owner's's equity		
Short term liabilities		
Accounts Payable		1800
Long term liabilities		
Loans (If found)		
Owner's equity		
Capital		11800
Total liabilities and Owner's equity		13600

Example(2)

Given the following trial balance:

**FastForward
Trial Balance
December 31, 2011**

	<u>Debits</u>	<u>Credits</u>
Cash	\$ 4,350	
Accounts receivable	-	
Supplies	9,720	
Prepaid Insurance	2,400	
Equipment	26,000	
Accounts payable		\$ 6,200
Unearned consulting revenue		3,000
C. Taylor, Capital		30,000
Owner's Withdrawals	200	
Consulting revenue		5,800
Rental revenue		300
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense	230	
Total	<u>\$ 45,300</u>	<u>\$ 45,300</u>

Instructions

1. Prepare the income statement.
2. Prepare the statement of owner's equity.
3. Prepare the statement of financial position.

FASTFORWARD Income Statement For the Month Ended December 31, 2011		
Revenues:		
Consulting revenue	\$ 5,800	
Rental revenue	<u>300</u>	
Total revenues		\$ 6,100
Expenses:		
Rent expense	1,000	
Salaries expense	1,400	
Utilities expense	<u>230</u>	
Total expenses		<u>2,630</u>
Net income		<u><u>\$ 3,470</u></u>

STATEMENT OF OWNER'S EQUITY

Connections

FASTFORWARD Statement of Owner's Equity For the Month Ended December 31, 2011		
C. Taylor, Capital 12/1/11	\$	-
Net income for December		3,470
Plus: Investments by Owner		30,000
		<u>33,470</u>
Less: Owner Withdrawals		200
C. Taylor, Capital, 12/31/11	\$	<u>33,270</u>

FASTFORWARD Income Statement For the Month Ended December 31, 2011			
Revenues:			
Consulting revenue	\$	5,800	
Rental revenue		<u>300</u>	
Total revenues			\$ 6,100
Expenses:			
Rent expense		1,000	
Salaries expense		1,400	
Utilities expense		<u>230</u>	
Total expenses			<u>2,630</u>
Net income			<u>\$ 3,470</u>

BALANCE SHEET

FASTFORWARD Statement of Owner's Equity For the Month Ended December 31, 2011	
C. Taylor, Capital 12/1/11	\$ -
Net income for December	3,470
Plus: Investments by Owner	30,000
	<u>33,470</u>
Less: Owner Withdrawals	200
C. Taylor, Capital, 12/31/11	<u>\$ 33,270</u>

FASTFORWARD Balance Sheet December 31, 2011	
Assets	
Cash	\$ 4,350
Supplies	9,720
Prepaid insurance	2,400
Equipment	<u>26,000</u>
Total assets	<u>\$ 42,470</u>
Liabilities	
Accounts payable	\$ 6,200
Unearned revenue	<u>3,000</u>
Total liabilities	9,200
Equity	
C. Taylor, Capital	\$ 33,270
Total equity	<u>33,270</u>
Total liabilities and equity	<u>\$ 42,470</u>

Connections

Example(3)

Given the following trial balance:

Account title	Dr	Cr
Cash	100,000	
Accounts receivable	30,000	
Building	90,000	
Accumulated Depreciation -Building		20,000
Equipment	350,000	
Accumulated Depreciation -Equipment		50,000
Notes payable		60,000
Accounts Payable		90,000
Zaher ,Capital		280,000
Zaher , Withdrawals	30,000	
Service revenue		140,000
Salaries expense	20,000	
Insurance expense	8,000	
Advertising expense	9,000	
Rent expense	3,000	
Total	640,000	640,000

Instructions

1. Prepare the income statement.
2. Prepare the statement of owner's equity.
3. Prepare the statement of financial position.

income statement for the year ended Dec. 31, 2022	
Revenues :	
Service Revenue	140000
Expenses:	
Salaries Expense	(20000)
Insurance expenses	(8000)
Advertising Expense	(9000)
Rent expense	(3000)
Total expenses	(40000)
Net income (Profit)	100,000

Owner's equity statement For the year ended Dec 31.2022	
Beginning Capital	280,000
Add (+)	+
Additional Investment	Zero
Net income (Profit)	100,000
Less (-)	
Drawings (Withdrawals)	(30,000)
Ending Capital	350,000

Balance Sheet		
At the year ended Dec 31.2022		
Assets		
Fixed assets (Non-Current Assets) :		
Building	90,000	70,000
(-) Accumulated Depreciation	(20,000)	
Equipment	350,000	300,000
(-) Accumulated Depreciation	(50,000)	
Current Assets		
Cash		100,000
Accounts receivable		30,000
Total Assets		500,000
Liabilities and stockholder's equity		
Short term liabilities		
Accounts payable		90,000
Notes payable		60,000
Long term liabilities		
Loans (If found)		
Owner's equity		
Capital		350,000
Total liabilities and Owner's equity		500,000

DO IT! Financial Statement Items

Presented below is selected information related to Li Fashions at December 31, 2020. Li reports financial information monthly.

Equipment	HK\$10,000	Utilities Expense	HK\$4,000
Cash	8,000	Accounts Receivable	9,000
Service Revenue	36,000	Salaries and Wages Expense	7,000
Rent Expense	11,000	Notes Payable	16,500
Accounts Payable	2,000	Owner's Drawings	5,000

- Determine the total assets at December 31, 2020.**
- Determine the net income reported for December 2020.**
- Determine the owner's equity at December 31, 2020.**

Multiple Choice Questions

1. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner's capital (1/1/14)	102,000
Owner's drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

What is the company's net income for the year ending December 31, 2014?

- a. \$12,000
- b. \$28,000
- c. \$42,000
- d. \$133,000

income statement for the year ended Dec. 31, 2014	
Revenues :	
Service Revenue	133000
Expenses:	
Advertising Expense	(21000)
Depreciation expenses	(12000)
Insurance Expense	(3000)
Rent expense	(17000)
Salaries & wages expense	(32000)
Supplies expense	(6000)
Total Expenses	(91000)
Net income (Profit)	42000

The correct Answer is

C

2. Misra Company compiled the following financial information as of December 31, 2023:

Revenues	\$340,000
Owner's Capital (1/1/23)	140,000
Equipment	80,000
Expenses	250,000
Cash	90,000
Owner's Drawings	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	70,000

Misra's owner's equity on December 31, 2023 is

- a. \$90,000.
- b. \$140,000.
- c. \$210,000.
- d. \$250,000.

**income statement
for the year ended Dec. 31, 2023**

Revenues :	340,000
Less (-)	(-)
Expenses	250000
Net income (Profit)	90,000

**Owner's equity statement
For the year ended Dec 31.2023**

Beginning Owner's Capital	140,000
Add (+)	+
Additional Investment	Zero
Net income (Profit)	90,000
Less (-)	
Drawings (Withdrawals)	(20,000)
Ending Owner's Capital	210,000

The correct Answer is

C

3.The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner’s capital (1/1/14)	102,000
Owner’s drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

What are total current assets at December 31, 2014?

- a. \$26,000
- b. \$36,000
- c. \$32,000
- d. \$42,000

Total current assets =
Accounts receivable
11,000+ Cash 15,000+
Prepaid insurance
6000+ Supplies 4000
= \$36000

The correct Answer is
B

4.The following information is for Bright Eyes Auto Supplies:

Bright Eyes Auto Supplies
Balance Sheet
December 31, 2014

Cash	\$ 40,000	Accounts Payable	\$ 130,000
Prepaid Insurance	80,000	Salaries and Wages Payable	50,000
Accounts Receivable	100,000	Mortgage Payable	<u>150,000</u>
Inventory	140,000	Total Liabilities	330,000
Land Held for Investment	180,000		
Land	250,000		
Building	\$200,000		
Less Accumulated		Owner's Capital	<u>740,000</u>
Depreciation	<u>(60,000)</u>		
Trademark	140,000		
Total Assets	<u>\$1,070,000</u>	Total Liabilities and	
		Owner's Equity	<u>\$1,070,000</u>

The total dollar amount of liabilities to be classified as current liabilities is

- a. \$50,000.
- b. \$130,000.
- c. \$180,000.
- d. \$330,000.

Total current liabilities

=

Accounts payable
130,000+
Salaries & Wages
payable 50,000+
= \$180,000

The correct Answer is

C

5 .The income statement for the year 2023 of Nour Emad Co. contains the following information:

Revenues	\$70,000
Expenses:	
Salaries and Wages Expense	\$45,000
Rent Expense	12,000
Advertising Expense	10,000
Supplies Expense	6,000
Utilities Expense	2,500
Insurance Expense	<u>2,000</u>
Total expenses	<u>77,500</u>
Net income (loss)	<u>\$ (7,500)</u>

At **January 1**, 2023, **Nour** reported owner's equity of \$50,000. Owner drawings for the year totalled \$10,000. **At December 31, 2023, the company will report owner's equity of**

- a. \$17,500.
- b. \$32,500.
- c. \$40,000.
- d. \$42,500.

Owner's equity statement For the year ended Dec 31.2023	
Beginning Owner's Capital	50,000
Add (+)	+
Additional Investment	Zero
Net income (loss)	(7500)
Less (-)	
Drawings (Withdrawals)	(10,000)
Ending Owner's Capital	32,500

The correct Answer is
b

6. The income statement and balance sheet columns of Iron and Wine Company's worksheet reflect the following totals:

	<u>Income Statement</u>		<u>Balance Sheet</u>	
	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>
Totals	\$72,000	\$44,000	\$60,000	\$88,000

The net income (or loss) for the period is

- a. \$28,000 loss.
- b. \$28,000 income.
- c. \$24,000 income.
- d. not determinable.

The correct Answer is

a

7. Misra Company compiled the following financial information as of December 31, 2014:

Revenues	\$340,000
Owner's Capital (1/1/14)	140,000
Equipment	80,000
Expenses	250,000
Cash	90,000
Owner's Drawings	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	70,000

Misra's **assets on December 31, 2014 are**

- a. \$180,000.
- b. \$250,000.
- c. \$360,000.
- d. \$490,000.

$$\begin{aligned} \text{Total Assets} &= \\ &\text{Equipment } 80,000 + \\ &\text{Cash } 90,000 + \text{Supplies} \\ &\text{10,000} + \text{Accounts} \\ &\text{receivable } 70,000 \\ &= \$250,000 \end{aligned}$$

The correct Answer is
b

8. As of December 31, 2014, Callexico Company has assets of \$42,000 and owner's equity of \$20,000. What are the liabilities for Callexico Company as of December 31, 2014?

- a. \$22,000.
- b. \$20,000.
- c. \$42,000.
- d. \$62,000.

The correct Answer is a

9. Net income results when

- a. Assets > Liabilities.
- b. Revenues = Expenses.
- c. Revenues > Expenses.
- d. Revenues < Expenses.

The correct Answer is C

10. Owner's capital at the end of the period is equal to

- a. owner's capital at the beginning of the period plus net income minus liabilities.
- b. owner's capital at the beginning of the period plus net income minus drawings.
- c. net income.
- d. assets plus liabilities.

The correct Answer is b

Closing the Books

TEMPORARY

These accounts are closed

All revenue accounts

All expense accounts

Owner's drawings account

PERMANENT

These accounts are not closed

All asset accounts

All liability accounts

Owner's capital account

Preparing Closing Entries

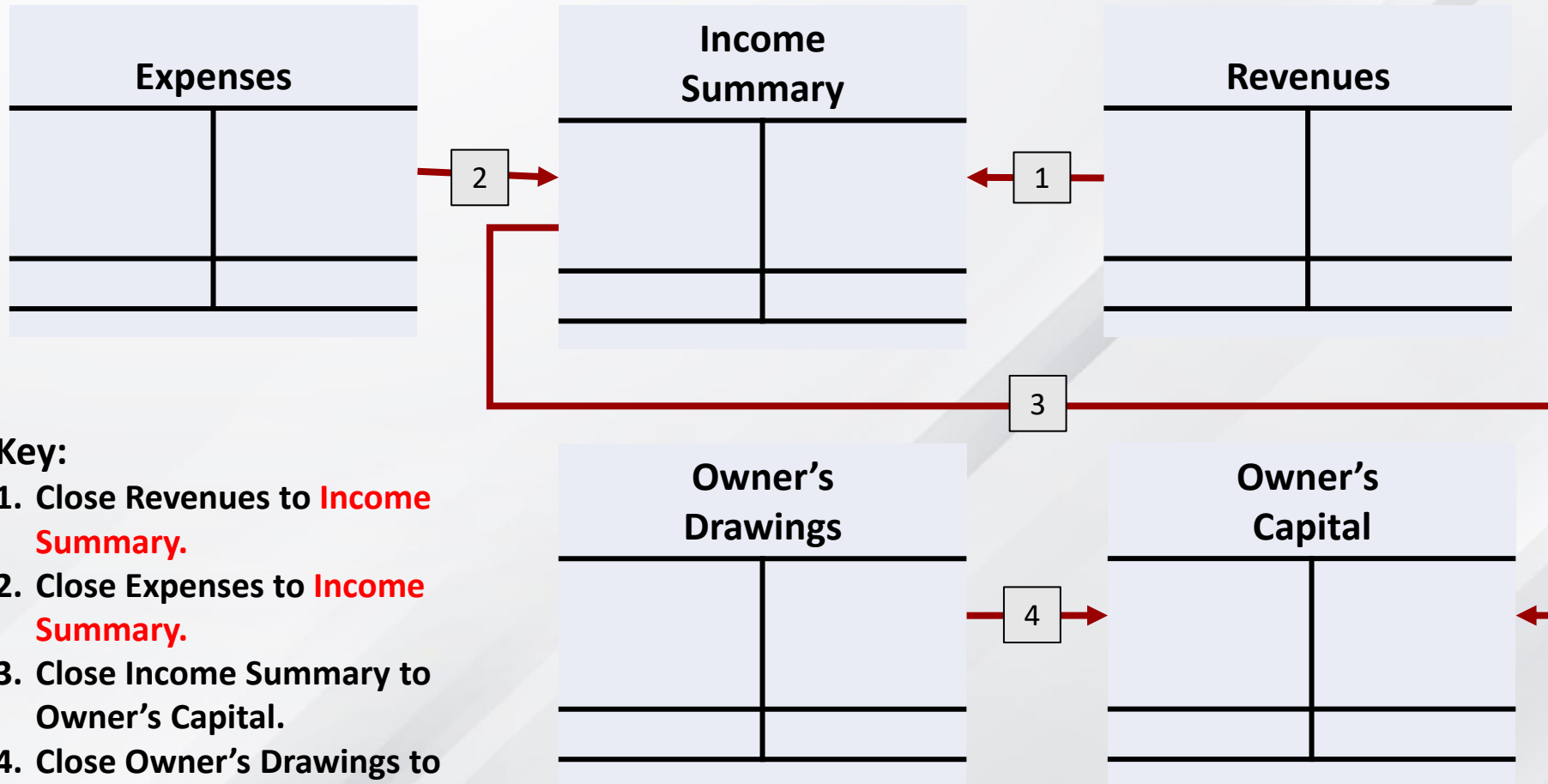
Closing entries formally recognize in the ledger the transfer of:

- Net income (or net loss) to owner's capital
- Owner's drawings to owner's capital

Produce a zero balance in each temporary account.

Companies generally journalize and post closing entries only at end of the annual accounting period.

Preparing Closing Entries



Key:

1. Close Revenues to **Income Summary**.
2. Close Expenses to **Income Summary**.
3. Close Income Summary to Owner's Capital.
4. Close Owner's Drawings to Owner's Capital.

Example (1) Closing Entries

Hancock Heating has the following balances in selected accounts of its adjusted trial balance.

Accounts Payable	€27,000	Owner's Drawings	€15,000
Service Revenue	98,000	Owner's Capital	42,000
Rent Expense	22,000	Accounts Receivable	38,000
Salaries and Wages Expense	51,000	Supplies Expense	7,000

Prepare the closing entries at December 31.

Service Revenue	98,000	
Income Summary		98,000

Accounts Payable	€27,000	Owner's Drawings	€15,000
Service Revenue	98,000	Owner's Capital	42,000
Rent Expense	22,000	Accounts Receivable	38,000
Salaries and Wages Expense	51,000	Supplies Expense	7,000

Prepare the closing entries at December 31.

Income Summary	80,000	
Salaries and Wages Expense		51,000
Rent Expense		22,000
Supplies Expense		7,000

Accounts Payable	€27,000	Owner's Drawings	€15,000
Service Revenue	98,000	Owner's Capital	42,000
Rent Expense	22,000	Accounts Receivable	38,000
Salaries and Wages Expense	51,000	Supplies Expense	7,000

Prepare the closing entries at December 31.

Income Summary	18,000	
Owner's Capital		18,000
Owner's Capital	15,000	
Owner's Drawings		15,000

Example (2)

Yazici Advertising
Adjusted Trial Balance
October 31, 2020

	Debit	Credit
Cash	₺15,200	
Accounts Receivable	200	
Supplies	1,000	
Prepaid Insurance	550	
Equipment	5,000	
Accumulated Depreciation—Equipment		₺ 40
Notes Payable		5,000
Accounts Payable		2,500
Interest Payable		50
Unearned Revenue		800
Salaries and Wages Payable		1,200
Owner's Capital		10,000
Owner's Drawings	500	
Service Revenue		10,600
Salaries and Wages Expense	5,200	
Supplies Expense	1,500	
Rent Expense	900	
Insurance Expense	50	
Interest Expense	50	
Depreciation Expense	40	
	₺30,190	₺30,190

Required:
Prepare the closing
entries

Closing Entries

Date	Account Titles and Explanations		Debit	Credit
2020 Oct. 31	Service Revenue Income Summary (To close revenue account)		10,600	10,600
31	Income Summary Supplies Expense Depreciation Expense Insurance Expense Salaries and Wages Expense Rent Expense Interest Expense (To close expense accounts)		7,740	1,500 40 50 5,200 900 50

Multiple Choice Questions

1.The closing entry process consists of closing

- a. all asset and liability accounts.
- b. out the owner's capital account.
- c. all permanent accounts.
- d. all temporary accounts.

The correct Answer is d

2. In preparing closing entries

- a. each revenue account will be credited.
- b. each expense account will be credited.
- c. the owner's capital account will be debited if there is net income for the period.
- d. the owner's drawings account will be debited.

The correct Answer is b

3.In order to close the owner's drawings account, the

- a. income summary account should be debited.
- b. income summary account should be credited.
- c. owner's capital account should be credited.
- d. owner's capital account should be debited.

The correct Answer is d

4.The income statement for the month of June, 2014 of Camera Enterprises contains the following information:

Revenues	\$7,000
Expenses:	
Salaries and Wages Expense	\$3,000
Rent Expense	1,500
Advertising Expense	800
Supplies Expense	300
Insurance Expense	<u>100</u>
Total expenses	<u>5,700</u>
Net income	<u>\$1,300</u>

The correct Answer is d

The entry to close the revenue account includes a

- a. debit to Income Summary for \$1,300.
- b. credit to Income Summary for \$1,300.
- c. debit to Income Summary for \$7,000.
- d. credit to Income Summary for \$7,000.

76. The income statement for the month of June, 2014 of Camera Obscura Enterprises contains the following information:

Revenues	\$7,000
Expenses:	
Salaries and Wages Expense	\$3,000
Rent Expense	1,500
Advertising Expense	800
Supplies Expense	300
Insurance Expense	<u>100</u>
Total expenses	<u>5,700</u>
Net income	<u>\$1,300</u>

The correct Answer is **b**

The entry to close the expense accounts includes a

- a. debit to Income Summary for \$1,300.
- b. credit to Rent Expense for \$1,500.
- c. credit to Income Summary for \$5,700.
- d. debit to Salaries and Wages Expense for \$3,000.



Thank You