

## The Accounting Cycle

- ① Originating Transaction Data
- ② Journalizing
- ③ Posting
- ④ Trial Balance
- ⑤ Worksheet (6 column worksheet)
- ⑥ Generate some financial Statements

Topic 2

PREPARING the FINANCIAL STATEMENTS

from a completed worksheet

and

presents some new GAAP's for reporting the

Income  
Statement

Balance Sheet

# COMPLETED WORKSHEET

*J. Emery Real Estate  
Worksheet  
For the Month Ended October 31, 19-1*

ACCOUNT TITLE	ACCT. NO.	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	101	711065.00				711065.00	
Accts. Rec. / Pat. Rogers	103	6000.00				6000.00	
Accts. Rec. / K. Sobue	104	4000.00				4000.00	
Accts. Rec. / Shannon Nurt	105	15000.00				15000.00	
Automobile	110	15000.00				15000.00	
Furniture	112	9000.00				9000.00	
Office Equipment	114	8000.00				8000.00	
Bank Loan Payable	201		16000.00				16000.00
Accts. Pay. / Bell Equip Co.	202		3000.00				3000.00
Accts. Pay. / The City of	203		2000.00				2000.00
Accts. Pay. / Ryan Equip Co.	204		3000.00				3000.00
J. Emery, Capital	301		63000.00				63000.00
J. Emery, Drawings	302	2000.00				2000.00	
Commissions Collected	401		51800.00		51800.00		
Rent Expense	501	16000.00		16000.00			
Telephone Expense	502	4000.00		4000.00			
Utilities Expense	503	59500.00		59500.00			
Salaries Expense	504	45000.00		45000.00			
Advertising Expense	505	20000.00		20000.00			
		138800.00	138800.00	87950.00	51800.00	130065.00	87000.00
					87950.00		
Net Income					43065.00		43065.00
						130065.00	130065.00

Now that the worksheet is complete the first financial statement to be prepared is the **INCOME STATEMENT**.

- all the information needed is found under the Income Statement heading

J. Emery Real Estate Worksheet For the Month Ended October 31, 19-1		
ACCOUNT TITLE	INCOME STATEMENT	
	DEBIT	CREDIT
Commissions Earned		51 800
Rent Expense	1 600	
Telephone Expense	40	
Utilities Expense	595	
Salaries Expense	4 500	
Advertising Expense	2 000	
	8 735	51 800
		8 735
Net Income		43 065

J. Emery Real Estate Income Statement For the Month Ended October 31, 19-1		
<i>Revenue:</i>		
Commissions Earned		51 800
<i>Expenses:</i>		
Rent Expense	1 600	
Telephone Expense	40	
Utilities Expense	595	
Salaries Expense	4 500	
Advertising Expense	2 000	
Total Expenses	8 735	
Net Income		43 065



### PREPARING THE RELATED BALANCE SHEET

- as we learned earlier the related balance sheet is prepared after the income statement
- the information needed is found in the columns headed Balance Sheet on the worksheet
- in Chapter 2 the balance sheet was prepared with the assets on the left side and the claims against the assets on the right

$$A = L + OE$$

There is more than one way to report a balance sheet

Account form: a balance sheet with assets on the left side, and the claims against them on the right. (What we have been using)

Report form: a balance sheet with assets, liabilities, and owner's equity arranged vertically.

**REPORT FORM**

J. Emery Real Estate Worksheet For the Month Ended October 31, 19-1		
ACCOUNT TITLE	BALANCE SHEET	
	DEBIT	CREDIT
Cash	71 065	
Acct. Rec./Pat Rogers	6 000	
Accts. Rec./R. Scobie	4 000	
Accts. Rec./Shannon Dev.	15 000	
Automobile	15 000	
Furniture	9 000	
Office Equipment	8 000	
Bank Loan Payable		16 000
Accts. Pay./Bell Furn. Co.		3 000
Accts. Pay./The City Press		2 000
Accts. Pay./Ryan Equip. Co.		3 000
J. Emery, Capital		63 000
J. Emery, Drawing	2 000	
<b>Net Income</b>	130 065	87 000
		43 065
	130 065	130 065

J. Emery Real Estate Balance Sheet as at October 31, 19-1		
<b>Assets</b>		
<i>Current Assets: current</i>		
Cash		71 065.00
Accounts Receivable:		
Pat Rogers	6 000.00	
R. Scobie	4 000.00	
Shannon Development Co.	15 000.00	25 000.00
<b>Total Current Assets:</b>		115 065.00
<i>Fixed Assets (at cost): Fixed</i>		
Automobile		15 000.00
Furniture		9 000.00
Office Equipment		8 000.00
<b>Total Fixed Assets:</b>		32 000.00
<b>Total Assets:</b>		147 065.00
<b>Liabilities</b>		
<i>Current Liabilities: current</i>		
Bank Loan Payable (on demand)		16 000.00
Accounts Payable:		
Bell Furniture Co.	3 000.00	
The City Press	2 000.00	
Ryan Equipment Co.	3 000.00	8 000.00
<b>Total Liabilities:</b>		24 000.00
<b>Owner's Equity</b>		
J. Emery, Capital		63 000.00
Add: Net Income		87 065.00
<b>Total Owner's Equity:</b>		150 065.00
<b>Total Liabilities and Owner's Equity:</b>		147 065.00

**OWNER'S EQUITY**

J. Emery, Capital  
Add: Net Income

\$ 63 000.00  
43 065.00  
106 065.00  
2 000.00

Less: J. Emery Drawing  
Total Owner's Equity  
Total Liabilities and  
Owner's Equity

104 065.00  
\$ 130 065.00

## Report form

- Heading - the same, answers Who, What, When (As At)
- Body placed vertically  $A = L + OE$
- Easier to prepare because you do not need to balance the totals of  $A = L + OE$  on the same line

No matter which form is used, all balance sheets should provide useful information about the assets, the liabilities, and the owner's equity

Simple Form of a Balance Sheet  
- the way we prepared balance sheets in  
earlier chapters

VS

Classified Balance Sheet

What  
is  
different  
?



**Classified Balance Sheet:** one in which assets and liabilities are reported under meaningful groups or classes.

Assets - as many as 6 classes, but only two are shown CURRENT and FIXED ASSETS

Liabilities - as many as 4 classes, but only one class, current liabilities is shown. (a second class is presented later)

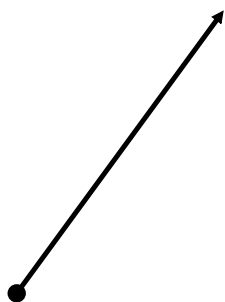
## REPORTING CURRENT ASSETS

- the meaning of current assets reflects the liquidity order of reporting assets - how easily they can be converted into cash.

Current Assets: <i>Easily converted to Cash.</i>	
Cash	\$6 000
Canada Savings Bonds	20 000
Accounts Receivable	<u>1 200</u>
Total Current Assets	\$27 200

Why would Canada Savings Bonds be reported before Accounts Receivable?

Current Assets: assets which can be converted into cash within one year of the balance sheet date (introductory definition) WHY?



actually includes assets which are not converted into cash  
(example: Accts. Rec.)

## REPORTING FIXED ASSETS

Vehicles

Furniture

Building

Land

What do they all have in common?

They will be used for an extended period of time



## Fixed Assets

long lived, more than one year, they are operational assets, plant assets or property, plant and equipment.

- more permanent in nature
- not normally converted into cash

Instead kept in business to assist in revenue making activities for several years after the balance sheet date.

Fixed Assets always reported under a separate heading in the Balance Sheet

Fixed Assets: tangible, long-lived assets held for use within the firm to support revenue-making activities for several years beyond the balance sheet date

*J. Emery Real Estate  
Balance Sheet  
as at October 31, 2016*

<i>Assets</i>			
<i>Current Assets:</i>			
Cash		\$1,000,000	
<i>Accounts Receivable:</i>			
Pat Rogers	\$6,000.00		
R. Scott	4,000.00		
Shannon Development Co.	15,000.00	2,500,000	
<b>Total Current Assets</b>			<b>4,525,000</b>
<i>Fixed Assets (at cost):</i>			
Automobile		\$150,000	
Furniture		90,000	
Office Equipment		80,000	
<b>Total Fixed Assets</b>			<b>320,000</b>
<b>Total Assets</b>			<b>4,845,000</b>
<i>Liabilities</i>			
<i>Current Liabilities:</i>			
Bank Loan Payable (on demand)		\$160,000	
<i>Accounts Payable:</i>			
Bill Furniture Co.	\$3,000.00		
The City of Vancouver	2,000.00		
Ryan Equipment Co.	3,000.00	50,000	
<b>Total Liabilities</b>			<b>245,000</b>
<i>Owner's Equity</i>			
J. Emery Capital		\$4,500,000	
Add: Ret. Earnings		50,000	
		10,000	
<b>Total Owner's Equity</b>			<b>4,600,000</b>
<b>Total Liabilities and Owner's Equity</b>			<b>4,845,000</b>

On Page 175 (text)

**NOTICE**  
"at cost" after  
Fixed Assets

Why???

The purchase price  
is listed.

## "at cost" Why?

- because of a very important GAAP called the cost principle.

### GAAP for Cost (introductory definition)

All assets purchased by a business must be recorded as follows:

- (1) The cost of all assets is the original purchase price.
- (2) The original cost values of assets must be retained throughout the accounting cycle.

**COST PRICE (or historical cost price):**

the price agreed upon by buyer and seller

The **COST PRINCIPLE** ensures readers that the Balance Sheets shows what it cost to purchase the assets



Example:

2000 - Purchased Land for \$20 000

2010 - Land now valued at \$50 000

In 2010 what would the land be valued at in the Balance Sheet??

20 000  
↑  
cost price

Remember, to avoid any confusion (at cost) is always shown after the title Fixed Assets.

- A line is drawn below the last listed fixed assets
- A line is drawn after Total Fixed Assets

Fixed Assets (at cost)	
Automobile	\$150 000
Furniture	90 000
Office Equipment	<u>80 000</u>
Total Fixed Assets	<u>\$320 000</u>

## REPORTING CURRENT LIABILITIES

-like assets, liabilities are reported on the balance sheet under groups, or classes of accounts.

A common group is:

**Current Liabilities:** debts owing which fall due within one year of the balance sheet date

... and the business expects to pay within one year of the balance sheet date.

Why is Bank Loan Payable reported first in the Current Liabilities section of a Balance Sheet?

Amounts owing to creditors

**NOTE:**

**ANY DEBT WHICH WILL BE PAID OUT OF CURRENT FUNDS (FUNDS AVAILABLE UNDER CURRENT ASSETS) SHOULD BE INCLUDED IN CURRENT LIABILITIES.**

**Long Term Liabilities:** debts which, in the ordinary course of business, are not liquidated within one year of the balance sheet date



*J. Emery Real Estate  
Balance Sheet  
as at October 31, 19-1*

<i>Assets</i>			
<i>Current Assets:</i>			
Cash		\$110,000	
<i>Accounts Receivable:</i>			
Pat Rogers	\$6,000.00		
R. Scott	4,000.00		
Shannon Development Co.	15,000.00	25,000.00	
<i>Total Current Assets</i>			154,000
<i>Fixed Assets (at cost):</i>			
Automobile		\$15,000.00	
Furniture		9,000.00	
Office Equipment		8,000.00	
<i>Total Fixed Assets</i>			32,000
<i>Total Assets</i>			186,000
<i>Liabilities</i>			
<i>Current Liabilities:</i>			
Bank Loan Payable (on demand)		\$10,000.00	
<i>Accounts Payable:</i>			
Hill Furniture Co.	\$3,000.00		
The City News	2,000.00		
Ryan Equipment Co.	3,000.00	8,000.00	
<i>Total Liabilities</i>			20,000
<i>Owner's Equity</i>			
J. Emery Capital		\$65,000.00	
Add: Ret. Earnings		45,000.00	
		110,000.00	
<i>Total Owner's Equity</i>			166,000
<i>Total Liabilities and Owner's Equity</i>			186,000

Only one class of Liabilities, total commonly shown as Total Liabilities.

When more than one class of liabilities is reported, the total of each class should be shown

### **CLASSIFIED BALANCE SHEET IN ACCOUNT FORM**

- when the balance sheet is to be included in a published annual report most Canadian businesses prefer to use the report form described earlier

- however some still prefer the account form with two pages

left page - **Assets**

right page - **Liabilities & OE**

$$A = L + OE$$

**CLASSIFIED BALANCE SHEET IN ACCOUNT FORM**

Southview Cleaning Shop  
Balance Sheet  
as at December 31, 19—

ASSETS	LIABILITIES	OWNER'S EQUITY
<b>Current Assets</b> Cash ..... \$ 2 250.00 Government of Canada Bonds ..... 10 000.00 Accounts Receivable Alma Services ..... \$2 000.00 Vancouver Auto ..... 2 800.00 Total Current Assets ..... 17 050.00  <b>Fixed Assets (at cost)</b> Land (security for mortgage payable) ..... 10 000.00 Building (security for mortgage payable) ..... 50 000.00 Dry Cleaning Equipment ..... 20 000.00 Delivery Equipment ..... 12 000.00 Office Equipment ..... 5 000.00 Total Fixed Assets ..... 97 000.00  <b>Total Assets</b> ..... <u>\$114 050.00</u>	<b>Current Liabilities</b> Bank Loan Payable (on demand) ..... \$ 2 000.00 Accounts Payable: Bute Supply Co. .... \$1 500.00 Kingsway Ltd. .... 3 500.00 Property Taxes Payable ..... 200.00 Current portion of mortgage payable ..... 1 000.00 Total Current Liabilities ..... 8 200.00  <b>Long-Term Liabilities</b> 10% Mortgage Payable, due 1999 (secured by land and building) ..... \$20 000.00 Less current portion ..... 1 000.00 Total Long-Term Liabilities ..... 19 000.00 <b>Total Liabilities</b> ..... <u>\$ 27 200.00</u>	L.A. Fortier, Capital ..... \$71 850.00 Add: Net Income for Year ..... 40 000.00 111 850.00 Less: Withdrawals ..... 25 000.00 Total Owner's Equity ..... 86 850.00 <b>Total Liabilities and Owner's Equity</b> ..... <u>\$114 050.00</u>

subcolumns (individual accounts)

subtotals enclosed within between two single lines

columns (lists totals)

## Reviewing Steps in the Accounting Cycle

- Step 1 :       originating the transaction data
- Step 2:       journalizing
- Step 3:       posting
- Step 4:       preparing the trial balance
- Step 5:       preparing the worksheet
- Step 6:       preparing financial statements