

# BACHELOR of ECONOMICS



**Thammasat University  
Faculty of Economics  
Bachelor of Economics (International Program)**

## AC201 Fundamental Accounting

Semester 1/2012

### Course Materials

**Topic:**

Chapter 4 Adjustments, Financial Statements, and the Quality of Earnings

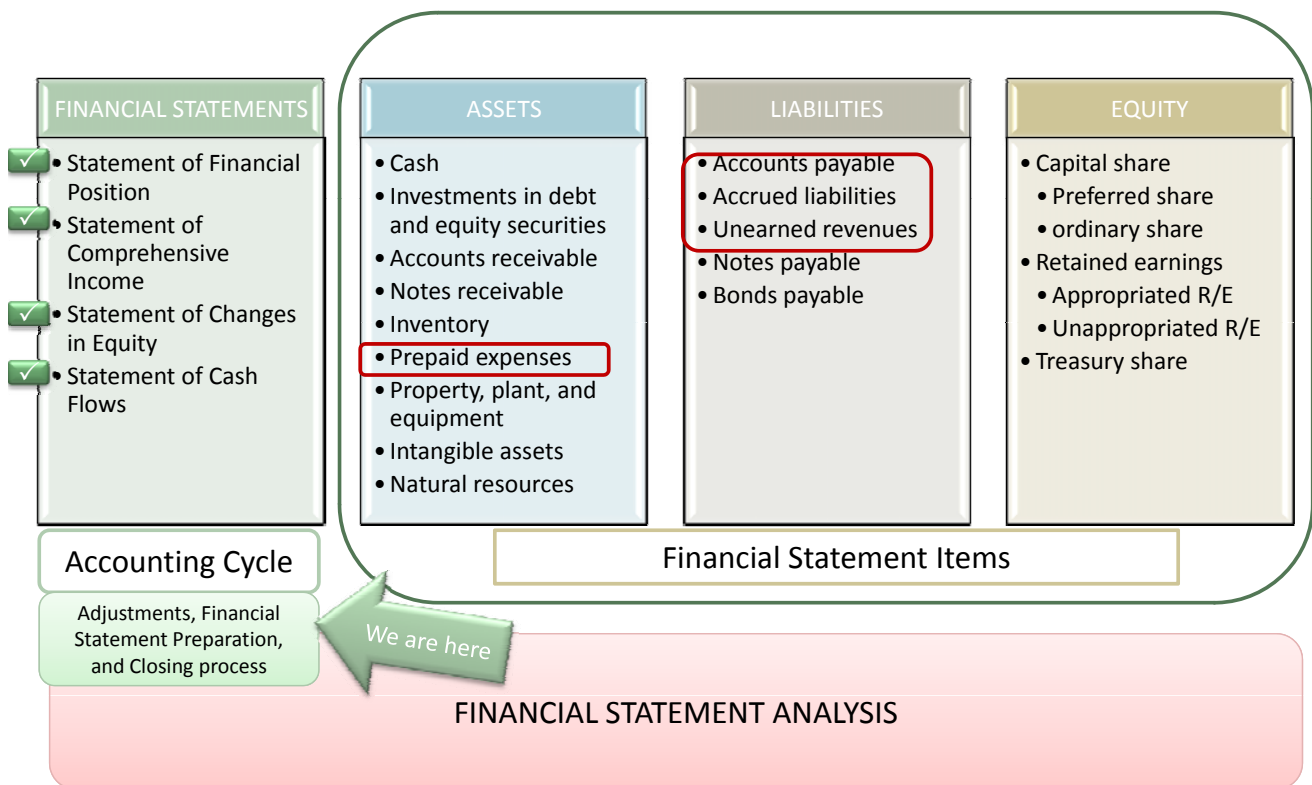
**Session:**

Session #6

**Instructor:**

Assistant Professor Dr. Orapan Yolrabil





AC201 Fundamental Accounting

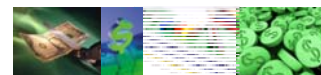


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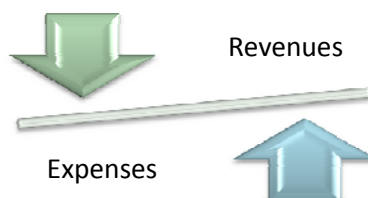
**CHAPTER 4:  
ADJUSTMENTS,  
FINANCIAL STATEMENTS, AND  
THE QUALITY OF EARNINGS**

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Department of Accounting  
Thammasat Business School  
Thammasat University



## Nature of the Adjusting Process

- Under the **accrual basis of accounting**, revenues are reported in the Statement of Comprehensive Income in the period in which they are earned.
  - The accounting concept supporting this reporting of revenues is called the **revenue recognition concept**.
- Under the **accrual basis of accounting**, expenses are reported in the same period as the revenues to which they relate.
  - The accounting concept supporting reporting revenues and related expenses in the same period is called the **matching concept**, or matching principle.
    - By matching revenues and expenses, net income for the period is properly reported on the Statement of Comprehensive Income.



3



## The Adjusting Process

- Under the accrual basis, some accounts in the ledger require updating or adjusting.
  - This updating is required for the following reasons:
    - Some expenses are not recorded daily.
    - Some revenues and expenses are incurred as time passes rather than as separate transactions.
    - Some revenues and expenses may be unrecorded.
- The analysis and updating of accounts at the end of the period before the financial statements are prepared is called **the adjusting process**.
  - The journal entries that bring the accounts up to date at the end of the accounting period are called **adjusting entries**.
    - All adjusting entries affect at least one Statement of Comprehensive Income account and one Statement of financial position account.

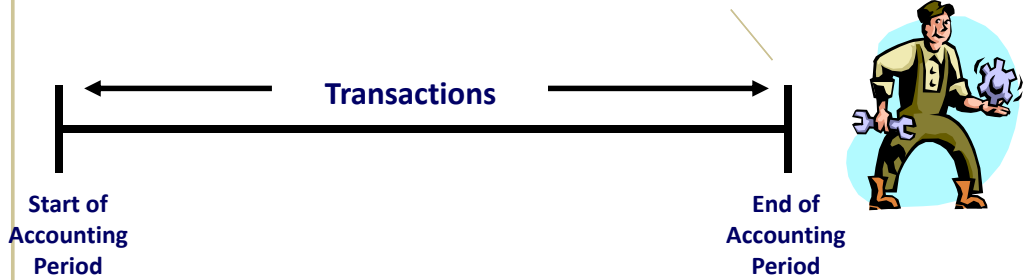
4



## Adjusting Entries

At the end of the accounting period, adjusting journal entries are recorded to update accounts for proper revenue recognition and expense matching.

**ADJUSTING ENTRIES** are entries necessary at the end of the accounting period to measure all revenues and expenses of that period.

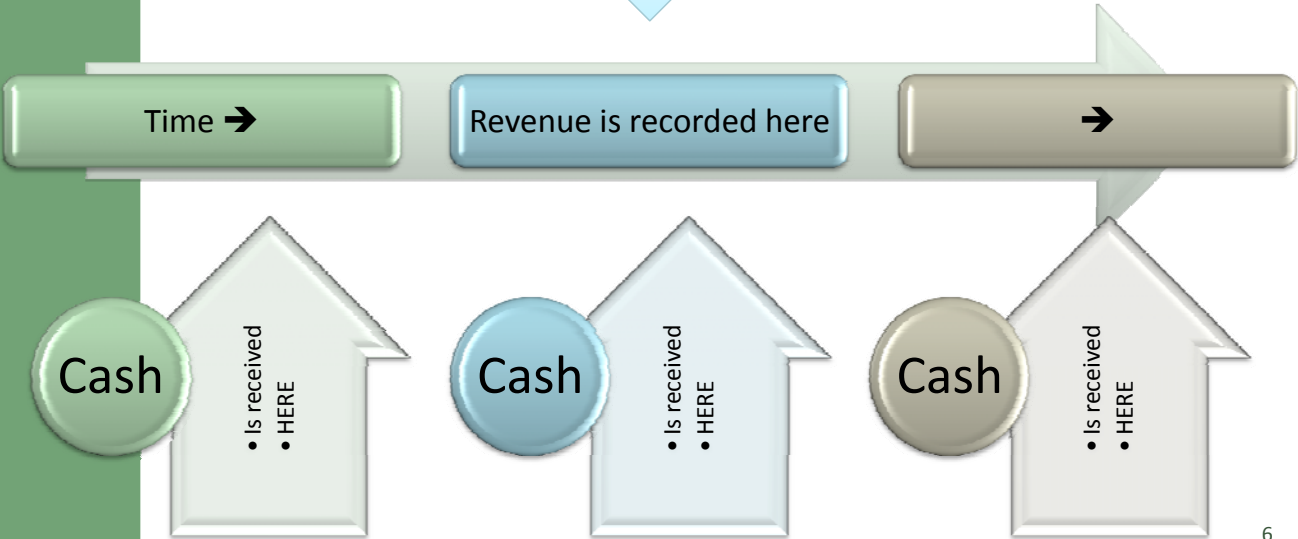


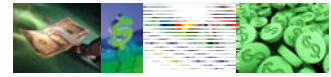
At the end of the period, some transactions or events remain unrecorded. Because of this, several accounts in the ledger need adjustments before their balances appear in the financial statements.



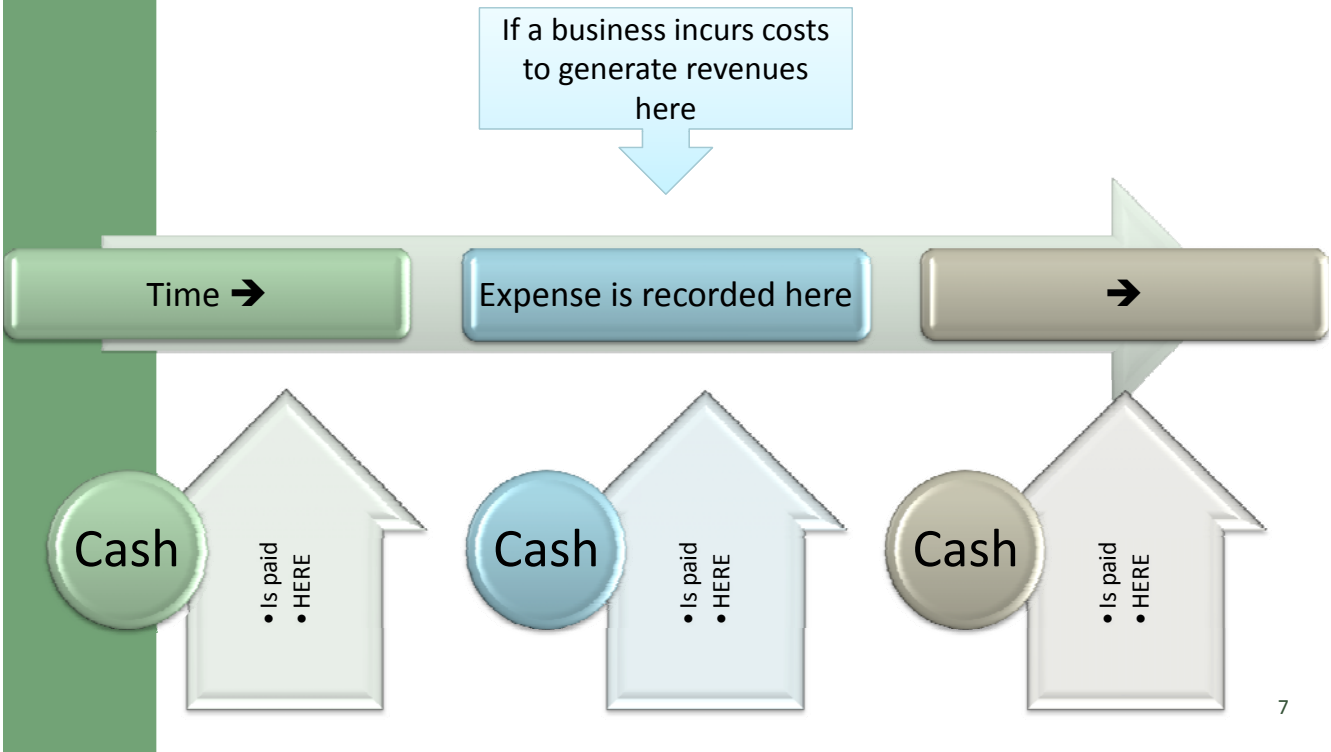
## Recording Revenues versus Cash Receipts

If a business delivers goods or services here

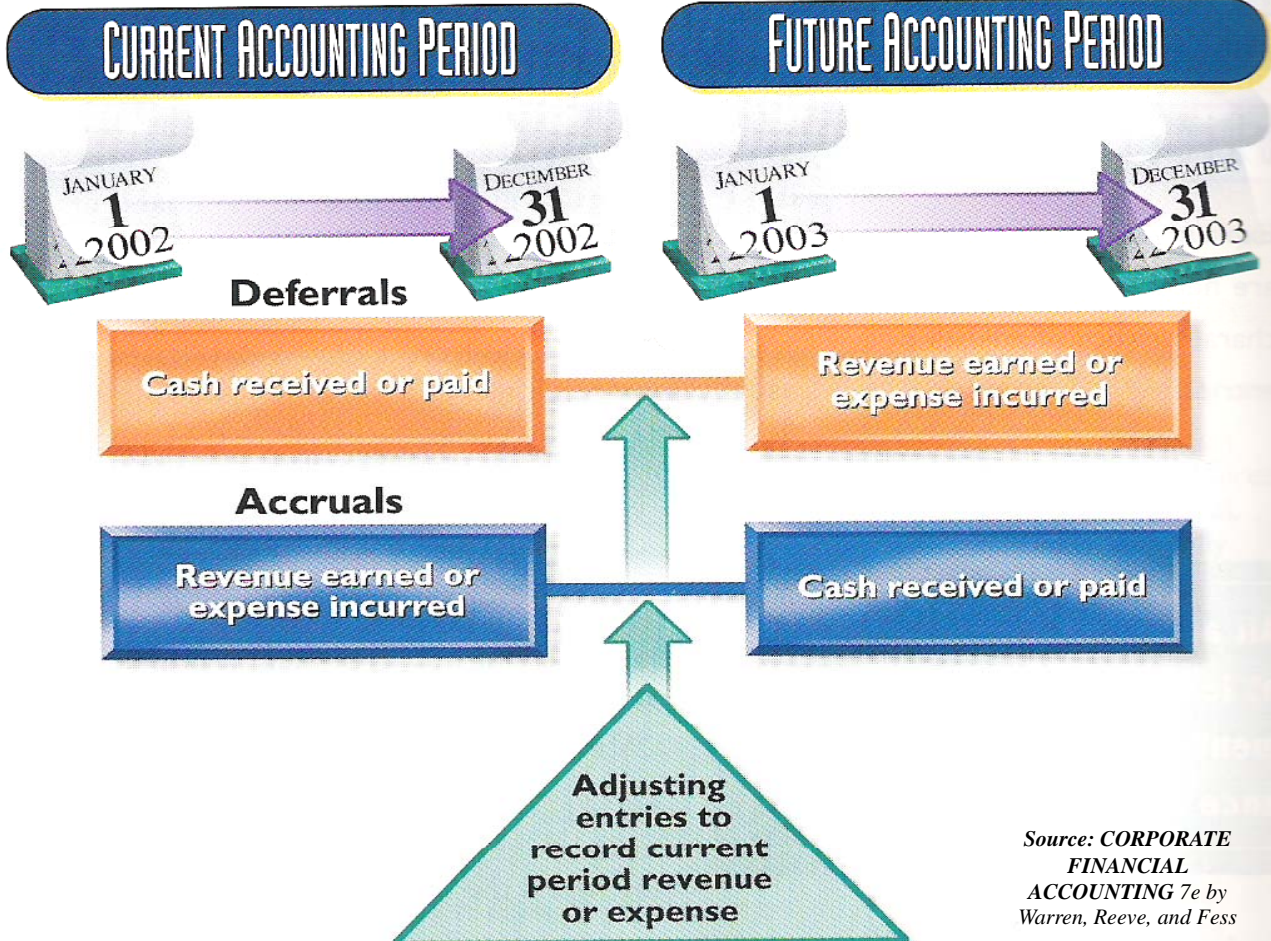




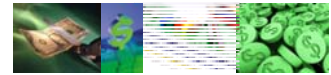
## Recording Expenses versus Cash Payments



7



Source: CORPORATE FINANCIAL ACCOUNTING 7e by Warren, Reeve, and Fess



## Framework for Adjustments

# Adjusting Entries

## Deferrals

Prepaid  
Expenses

Unearned  
Revenues

Transactions where cash is paid  
or received BEFORE a related expense  
or revenue is recognized

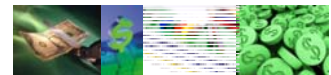
## Accruals

Accrued  
Expenses

Accrued  
Revenues

Transactions where cash is paid  
or received AFTER a related expense  
or revenue is recognized

9



## Types of Adjustments

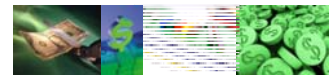
### Revenues

- Unearned revenues
  - Previously recorded liabilities that were created when cash was received in advance, and that must be adjusted for the amount of revenue actually earned during the period.
- Accrued revenues
  - Revenues that were earned but not recorded because cash was received after the services were performed or goods were delivered.

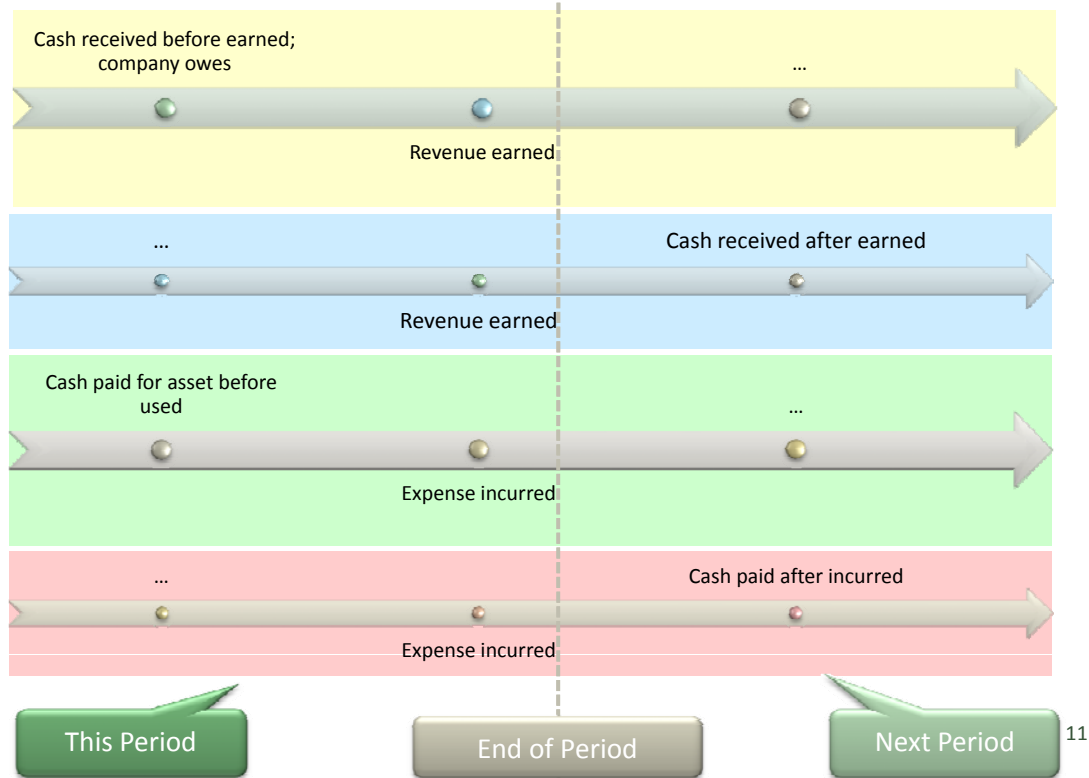
### Expenses

- Prepaid expenses
  - Previously recorded assets, such as Preaid rent, Supplies, and Equipment, that were created when cash was paid in advance and that must be adjusted for the amoutn of expense actually incurred during the period through use of the assets.
- Accrued expenses
  - Expenses that were incurred but were not recorded because cash was paid after the goods or services were used.

10



## Types of Adjusting Entries



### Deferred Expenses or Prepaid Expenses

Cash paid | Expenses incurred

Dr. Prepaid expenses (A ↑)

Cr. Cash (A ↓)

Dr. Expenses (Exp ↑ E ↓)

Cr. Prepaid Expenses (A ↓)

### Accrued Expenses or Payables

Expenses incurred | Cash Paid

Dr. Expenses (Exp ↑ E ↓)

Cr. Payables (L ↑)

Dr. Payables (L ↓)

Cr. Cash (A ↓)

### Deferred Revenues or Unearned Revenues

Cash Received | Revenues Earned

Dr. Cash (A ↑)

Cr. Unearned Revenues (L ↑)

Dr. Unearned Revenues (L ↓)

Cr. Revenues (Rev ↑ E ↑)

### Accrued Revenues or Receivables

Revenues Earned | Cash Received

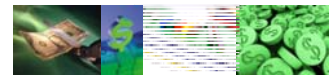
Dr. Receivables (A ↑)

Cr. Revenues (Rev ↑ E ↑)

Dr. Cash (A ↑)

Cr. Receivable (A ↓)

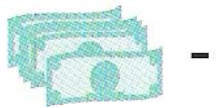
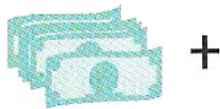
Adjusting Entries



## Deferrals

Past

Cash received  
before earned



Cash paid  
before incurred



Now



Revenue earned over time

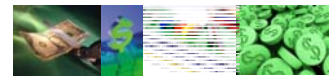
Expenses incurred over time

Record  
adjusting  
entries

End of the  
Accounting Period

Source: *FINANCIAL ACCOUNTING 4e* by Libby, Libby, and Short

13



## Deferred Revenues and Deferred Expenses

### • *Deferred Revenues*

- Deferred revenues are previously recorded liabilities that need to be adjusted at the end of the period to reflect the amount of revenue earned.

- Examples: Unearned Ticket Revenue, Unearned Subscription Revenue.

- Adjusting Entry:

↓ Liability and ↑ Revenue

### • *Deferred Expenses*

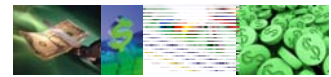
- Deferred expenses are previously acquired assets that need to be adjusted at the end of the accounting period to reflect the amount of expense incurred in using the assets to generate revenue.

- Examples: Supplies, Prepaid expenses, Buildings and equipment.

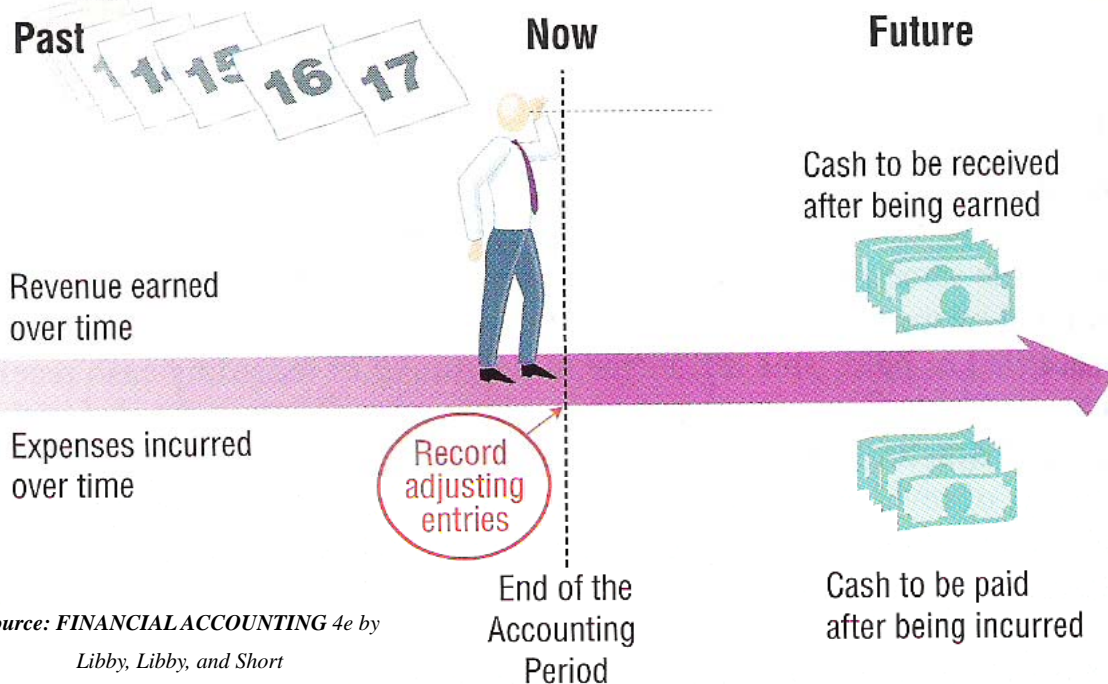
- Adjusting Entry:

↑ Expense and ↓ Asset

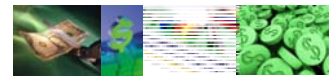
14



## Accruals



15



## Accrued Revenues and Accrued Expenses

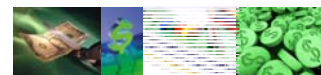
### ● *Accrued Revenues*

- Accrued revenues are previously unrecorded revenues that need to be adjusted at the end of the accounting period to reflect the amount earned and its related receivable account.
  - Examples: Interest receivable, Rent receivable.
  - Adjusting Entry:
    - ↑Asset and ↑Revenue

### ● *Accrued Expenses*

- Accrued expenses are previously unrecorded expenses that need to be adjusted at the end of the accounting period to reflect the amount incurred and its related payable account.
  - Examples: Interest payable, Wages payable.
  - Adjusting Entry:
    - ↑Expense and ↑Liability

16



## Illustration – Part 3

### Part 3: Adjusting Entries and Financial Statement Preparation

#### Information:

- The trial balance for Terrific Lawn Corporation on April 30, 20X9, based the unadjusted balances is as follows:



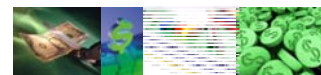
17



**Terrific Lawn Maintenance Corporation  
Unadjusted Trial Balance  
At April 30, 20X9  
In Baht**

|                     | Debit         | Credit        |
|---------------------|---------------|---------------|
| Cash                | 5,032         |               |
| Accounts Receivable | 1,700         |               |
| Prepaid Expense     | 300           |               |
| Land                | 3,750         |               |
| Equipment           | 4,600         |               |
| Accounts Payable    |               | 220           |
| Notes Payable       |               | 3,700         |
| Unearned Revenue    |               | 1,600         |
| Contributed Capital |               | 9,000         |
| Retained Earnings   |               | 0             |
| Mowing Revenue      |               | 5,200         |
| Interest Revenue    |               | 12            |
| Wages Expense       | 3,900         |               |
| Fuel Expense        | 410           |               |
| Interest Expense    | 40            |               |
|                     | <b>19,732</b> | <b>19,732</b> |

18



## Illustration – Information

- Additional information follows:
  - One-fourth of the 1,600 Baht cash received from the city at the beginning of April for future mowing service has been earned in April. The 1,600 Baht in Unearned Revenue represents four months of service (April through July).
  - Insurance costing 300 Baht providing coverage for six months (April through September) paid by Terrific Lawn at the beginning of April has been partially used in April.
  - Mowers, edgers, rakes, and hand tools (equipment) have been used in April to generate revenues. The company estimates 300 Baht in depreciation each year.
  - Wages have been paid through April 28. Employees worked the last two days of April and will be paid in May. Wages accrue at 200 per day.
  - An extra telephone line was installed in April in an estimated cost of 52 Baht, including hookup and usage charges. The bill will be received and paid in May.
  - Interest accrued on the outstanding notes payable at an annual rate of 12 percent. The 3,700 Baht in principal has been outstanding all month.
  - The estimated income tax rate for Terrific Lawn is 35 percent.
- Required:
  - Identify the type of adjustments related to each transaction. Determine the amount for the adjustment. Record the adjusting journal entries for April. Prepare an Statement of Comprehensive Income, statement of shareholders' equity, and Statement of Financial Position from the amounts in the adjusted trial balance.

19

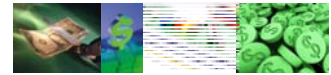


## Illustration – Deferred Revenue

- **Transaction r.**
  - One-fourth of the 1,600 Baht cash received from the city at the beginning of April for future mowing service has been earned in April. The 1,600 Baht in Unearned Revenue represents four months of service (April through July).
    - Step 1: Identify type of adjustment → Deferred Revenue or Unearned Revenue
    - Step 2: Determine the amount →  $1,600 / 4 = 400$
    - Step 3: Record the adjusting entry

| Item | General Journal                        | Debit                      | Credit   |
|------|--|----------------------------|--|
| r.   | Dr. Unearned Revenue (L-)              | 400                        |  |
|      | Cr. Mowing Revenue (Rev+, E+)          |                            | 400  |
|      | <i>To record mowing revenue earned</i> |                            |  |
|      | A =                                    | L                          | + E  |
|      |  | Unearned Revenue (L+) -400 | Retained Earnings (Mowing Revenue) (REV+, E+) +400 |

20



## Illustration – Deferred Expense

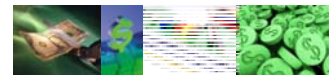
### Transaction s.

- Insurance costing 300 Baht providing coverage for six months (April through September) paid by Terrific Lawn at the beginning of April has been partially used in April.
  - Step 1: Identify type of adjustment → Deferred Expense or Prepaid Expense
  - Step 2: Determine the amount →  $300 / 6 = 50$
  - Step 3: Record the adjusting entry

| Item | General Journal                             | Debit | Credit |
|------|---|-------|--------|
| s.   | Dr. Insurance Expense (Exp+, E-)            | 50    |        |
|      | Cr. Prepaid Expense (A-)                    |       | 50     |
|      | <i>To record insurance expense incurred</i> |       |        |

| A                    | =   | L | + | E  |     |
|----------------------|-----|---|---|--|-----|
| Prepaid Expense (A-) | -50 |   |   | Retained Earnings (Insurance Expense) (EXP+, E-) | -50 |



## Illustration – Deferred Expense

### Transaction t.

- Mowers, edgers, rakes, and hand tools (equipment) have been used in April to generate revenues. The company estimates 300 Baht in depreciation each year.
  - Step 1: Identify type of adjustment → Deferred Expense
  - Step 2: Determine the amount →  $300 / 12 = 25$
  - Step 3: Record the adjusting entry

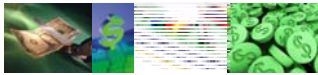
| Item | General Journal                            | Debit | Credit |
|------|--|-------|--------|
| t.   | Dr. Depreciation Expense (Exp+, E-)        | 25    |        |
|      | Cr. Accumulated Depreciation (XA+, A-)     |       | 25     |
|      | <i>To record depreciation on equipment</i> |       |        |

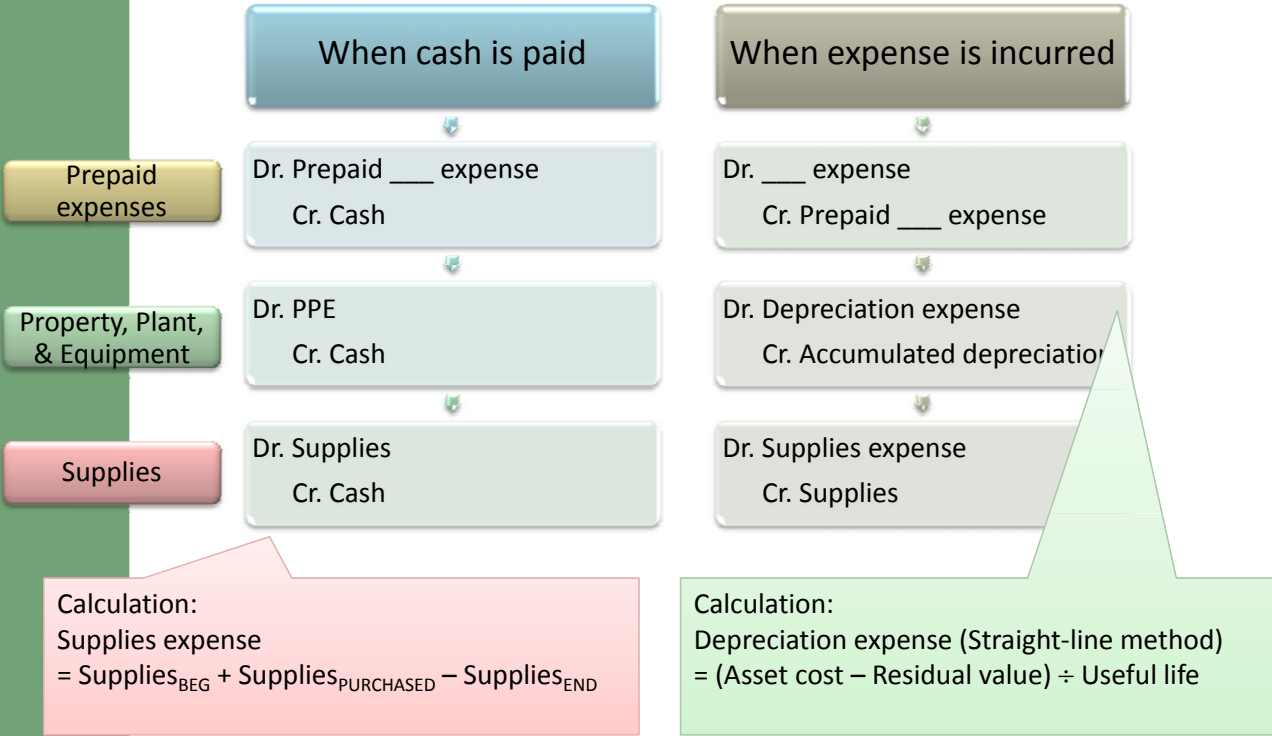
| A                                  | =   | L | + | E   |     |
|------------------------------------|-----|---|---|---|-----|
| Accumulated Depreciation (XA+, A-) | -25 |   |   | Retained Earnings (Depreciation Expense) (EXP+, E-) | -25 |

**Contra-Account:** An account that is an offset to, or reduction of, the primary account.

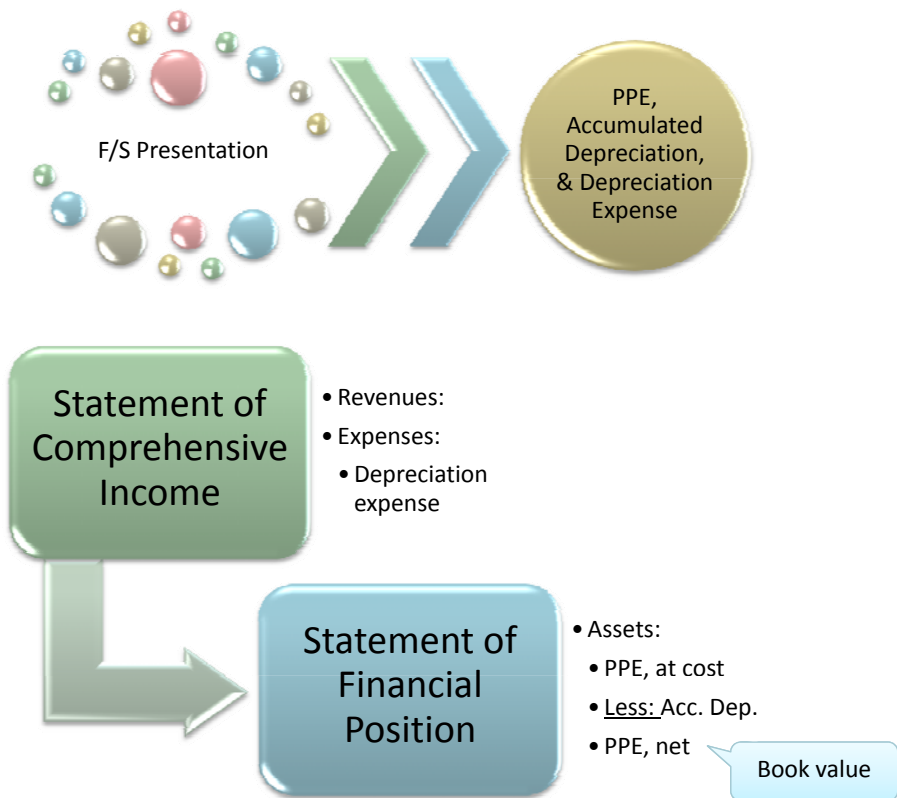
**Depreciation:** Process of allocating the cost of property, plant, and equipment over their productive lives using a systematic and rational allocation of the cost of assets over their useful lives.

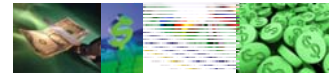


## Additional Issues: Deferred expenses



## Additional Issues: Deferred expenses (Cont.)





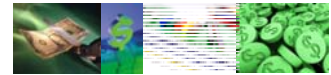
## Illustration – Accrued Expense

### Transaction u.

- Wages have been paid through April 28. Employees worked the last two days of April and will be paid in May. Wages accrue at 200 per day.
  - Step 1: Identify type of adjustment → Accrued Expense
  - Step 2: Determine the amount →  $200 \times 2 = 400$
  - Step 3: Record the adjusting entry

| Item | General Journal               | Debit | Credit |
|------|-------------------------------|-------|--------|
| u.   | Dr. Wages Expense (Exp+, E-)  | 400   |        |
|      | Cr. Wages Payable (L+)        |       | 400    |
|      | <i>To record unpaid wages</i> |       |        |

|   |   |                         |   |   |
|---|---|-------------------------|---|---|
| A | = | L                       | + | E   |
|   |   | Wages Payable (L+) +400 |   | Retained Earnings (Wages Expense) (EXP+, E-) -400 |



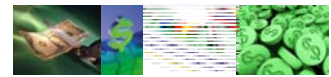
## Illustration – Accrued Expense

### Transaction v.

- An extra telephone line was installed in April in an estimated cost of 52 Baht, including hookup and usage charges. The bill will be received and paid in May.
  - Step 1: Identify type of adjustment → Accrued Expense
  - Step 2: Determine the amount → 52
  - Step 3: Record the adjusting entry

| Item | General Journal                   | Debit | Credit |
|------|-----------------------------------|-------|--------|
| v.   | Dr. Utilities Expense (Exp+, E-)  | 52    |        |
|      | Cr. Utilities Payable (L+)        |       | 52     |
|      | <i>To record unpaid utilities</i> |       |        |

|   |   |                            |   |  |
|---|---|----------------------------|---|--|
| A | = | L                          | + | E  |
|   |   | Utilities Payable (L+) +52 |   | Retained Earnings (Utilities Expense) (EXP+, E-) -52 |



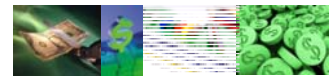
### Illustration – Accrued Expense

Transaction w.

- Interest accrued on the outstanding notes payable at an annual rate of 12 percent. The 3,700 Baht in principal has been outstanding all month.
  - Step 1: Identify type of adjustment → Accrued Expense
  - Step 2: Determine the amount →  $3,700 \times 12\% / 12 = 37$
  - Step 3: Record the adjusting entry

| Item | General Journal                  | Debit | Credit |
|------|----------------------------------|-------|--------|
| w.   | Dr. Interest Expense (Exp+, E-)  | 37    |        |
|      | Cr. Interest Payable (L+)        |       | 37     |
|      | <i>To record unpaid interest</i> |       |        |

| A | = | L                         | + | E   |
|---|---|---------------------------|---|---|
|   |   | Interest Payable (L+) +37 |   | Retained Earnings (Interest Expense) (EXP+, E-) -37 |



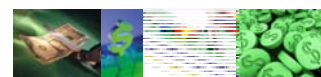
### Illustration – Accrued Expense

Transaction x.

- The estimated income tax rate for Terrific Lawn is 35 percent.
  - Step 1: Identify type of adjustment → Accrued Expense
  - Step 2: Determine the amount →

|                        | Calculation of Pretax Income |              |                            |
|------------------------|------------------------------|--------------|----------------------------|
|                        | Revenues                     | Expenses     |                            |
| Unadjusted Totals      | 5,212                        | 4,350        | From trial balance         |
| r.                     | 400                          |              |                            |
| s.                     |                              | 50           |                            |
| t.                     |                              | 25           |                            |
| u.                     |                              | 400          |                            |
| v.                     |                              | 52           |                            |
| w.                     |                              | 37           |                            |
| <b>Adjusted Totals</b> | <b>5,612</b>                 | <b>4,914</b> | <b>= 698 Pretax Income</b> |

Income Tax Expense  
 =  $698 \times 35\% = 244$



## Illustration - Accrued Expense

- Step 3: Record the adjusting entry

| Item | General Journal                            | Debit | Credit |
|------|--|-------|--------|
| x.   | Dr. Income Tax Expense (Exp+, E-)          | 244   |        |
|      | Cr. Income Tax Payable (L+)                |       | 244    |
|      | <i>To record unpaid income tax expense</i> |       |        |

| A | = | L                            | + | E  |
|---|---|------------------------------|---|--|
|   |   | Income Tax Payable (L+) +244 |   | Retained Earnings (Income Tax Expense) (EXP+, E-) -244 |



## Account Balances

| Cash (A)     |       |
|--------------|-------|
| 4/1/X9 bal.  | 0     |
| a.           | 9,000 |
| i.           | 1,600 |
| l.           | 3,500 |
| q.           | 1,262 |
| b.           | 200   |
| d.           | 5,000 |
| h.           | 90    |
| j.           | 300   |
| m.           | 3,900 |
| o.           | 740   |
| p.           | 100   |
| 4/30/X9 bal. | 5,032 |

| Accounts Payable (L) |     |
|----------------------|-----|
| 4/1/X9 bal.          | 0   |
| p.                   | 100 |
| n.                   | 320 |
| 4/30/X9 bal.         | 220 |

| Contributed Capital (E) |       |
|-------------------------|-------|
| 4/1/X9 bal.             | 0     |
| a.                      | 9,000 |
| 4/30/X9 bal.            | 9,000 |

| Accounts Receivable (A) |       |
|-------------------------|-------|
| 4/1/X9 bal.             | 0     |
| k.                      | 5,200 |
| l.                      | 3,500 |
| 4/30/X9 bal.            | 1,700 |

| Unearned Revenue (L) |       |
|----------------------|-------|
| 4/1/X9 bal.          | 0     |
| r.                   | 400   |
| i.                   | 1,600 |
| 4/30/X9 bal.         | 1,200 |

| Retained Earnings (E) |   |
|-----------------------|---|
| 4/1/X9 bal.           | 0 |
| 4/30/X9 bal.          | 0 |

| Notes Receivable (A) |       |
|----------------------|-------|
| 4/1/X9 bal.          | 0     |
| f.                   | 1,250 |
| q.                   | 1,250 |
| 4/30/X9 bal.         | 0     |

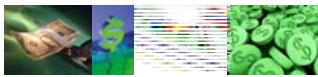
| Notes Payable (L) |       |
|-------------------|-------|
| 4/1/X9 bal.       | 0     |
| o.                | 700   |
| b.                | 400   |
| e.                | 4,000 |
| 4/30/X9 bal.      | 3,700 |

| Mowing Revenue (Rev) |       |
|----------------------|-------|
| 4/1/X9 bal.          | 0     |
| k.                   | 5,200 |
| r.                   | 400   |
| 4/30/X9 bal.         | 5,600 |

| Prepaid Expense (A) |     |
|---------------------|-----|
| 4/1/X9 bal.         | 0   |
| j.                  | 300 |
| s.                  | 50  |
| 4/30/X9 bal.        | 250 |

| Wages Payable (L) |     |
|-------------------|-----|
| 4/1/X9 bal.       | 0   |
| u.                | 400 |
| 4/30/X9 bal.      | 400 |

| Interest Revenue (Rev) |    |
|------------------------|----|
| 4/1/X9 bal.            | 0  |
| q.                     | 12 |
| 30                     |    |
| 4/30/X9 bal.           | 12 |



## Account Balances (Cont.)

| Equipment (A) |       |
|---------------|-------|
| 4/1/X9 bal.   | 0     |
| b.            | 600   |
| e.            | 4,000 |
| 4/30/X9 bal.  | 4,600 |

| Utilities Payable (L) |    |
|-----------------------|----|
| 4/1/X9 bal.           | 0  |
| u.                    | 52 |
| 4/30/X9 bal.          | 52 |

| Wages Expense (Exp) |       |
|---------------------|-------|
| 4/1/X9 bal.         | 0     |
| m.                  | 3,900 |
| u.                  | 400   |
| 4/30/X9 bal.        | 4,300 |

| Accumulated Depreciation (XA) |    |
|-------------------------------|----|
| 4/1/X9 bal.                   | 0  |
| t.                            | 25 |
| 4/30/X9 bal.                  | 25 |

| Interest Payable (L) |    |
|----------------------|----|
| 4/1/X9 bal.          | 0  |
| w.                   | 37 |
| 4/30/X9 bal.         | 37 |

| Fuel Expense (Exp) |     |
|--------------------|-----|
| 4/1/X9 bal.        | 0   |
| h.                 | 90  |
| n.                 | 320 |
| 4/30/X9 bal.       | 410 |

| Land (A)     |       |
|--------------|-------|
| 4/1/X9 bal.  | 0     |
| d.           | 5,000 |
| f.           | 1,250 |
| 4/30/X9 bal. | 3,750 |

| Income Tax Payable (L) |     |
|------------------------|-----|
| 4/1/X9 bal.            | 0   |
| x.                     | 244 |
| 4/30/X9 bal.           | 244 |

| Interest Expense (Exp) |    |
|------------------------|----|
| 4/1/X9 bal.            | 0  |
| o.                     | 40 |
| w.                     | 37 |
| 4/30/X9 bal.           | 77 |

| Depreciation Expense (Exp) |    |
|----------------------------|----|
| 4/1/X9 bal.                | 0  |
| t.                         | 25 |
| 4/30/X9 bal.               | 25 |

| Utilities Expense (Exp) |    |
|-------------------------|----|
| 4/1/X9 bal.             | 0  |
| u.                      | 52 |
| 4/30/X9 bal.            | 52 |

31

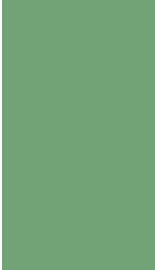


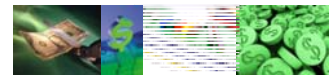
## Account Balances (Cont.)

| Insurance Expense (Exp) |    |
|-------------------------|----|
| 4/1/X9 bal.             | 0  |
| s.                      | 50 |
| 4/30/X9 bal.            | 50 |

| Income Tax Expense (Exp) |     |
|--------------------------|-----|
| 4/1/X9 bal.              | 0   |
| x.                       | 244 |
| 4/30/X9 bal.             | 244 |

|        |   |       |   |       |
|--------|---|-------|---|-------|
| A      | = | L     | + | E     |
| 15,307 |   | 5,853 |   | 9,454 |





## Adjusted Trial Balance

### Adjusted Trial Balance

- The trial balance which is prepared after all the adjusting entries have been posted.
  - Used to verify the equality of the total debit balances and total credit balances before preparing the financial statements.



33

| Terrific Lawn Maintenance Corporation |               |               |
|---------------------------------------|---------------|---------------|
| Adjusted Trial Balance                |               |               |
| At April 30, 20X9                     |               |               |
| In Baht                               |               |               |
|                                       | Debit         | Credit        |
| Cash                                  | 5,032         |               |
| Accounts Receivable                   | 1,700         |               |
| Notes Receivable                      | 0             |               |
| Prepaid Expense                       | 250           |               |
| Land                                  | 3,750         |               |
| Equipment                             | 4,600         |               |
| Accumulated Depreciation              |               | 25            |
| Accounts Payable                      |               | 220           |
| Wages Payable                         |               | 400           |
| Utilities Payable                     |               | 52            |
| Notes Payable                         |               | 3,700         |
| Interest Payable                      |               | 37            |
| Income Tax Payable                    |               | 244           |
| Unearned Revenue                      |               | 1,200         |
| Contributed Capital                   |               | 9,000         |
| Retained Earnings                     |               | 0             |
| Mowing Revenue                        |               | 5,600         |
| Interest Revenue                      |               | 12            |
| Wages Expense                         | 4,300         |               |
| Fuel Expense                          | 410           |               |
| Insurance Expense                     | 50            |               |
| Utilities Expense                     | 52            |               |
| Depreciation Expense                  | 25            |               |
| Interest Expense                      | 77            |               |
| Income Tax Expense                    | 244           |               |
|                                       | <b>20,490</b> | <b>20,490</b> |

A

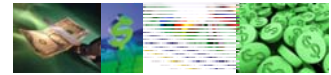
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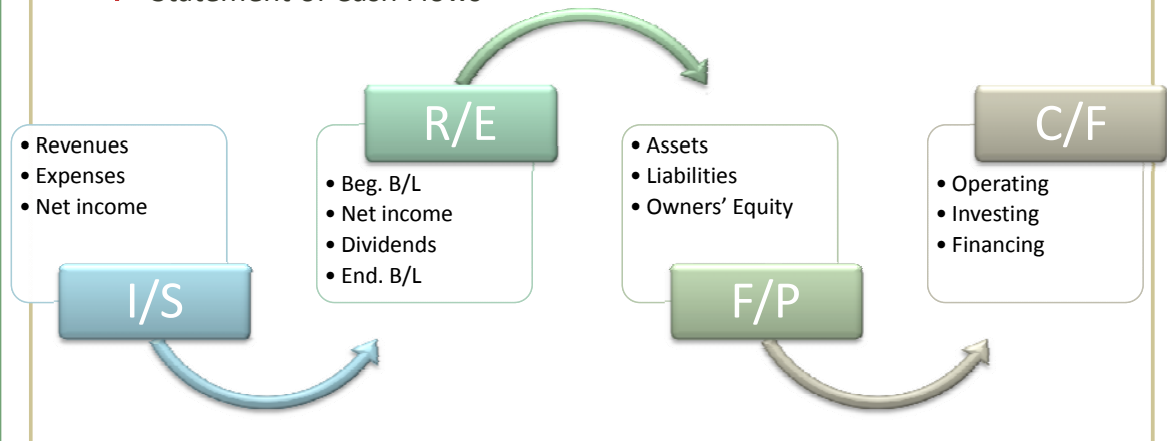
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## Preparation of Financial Statements

### Order of Financial Statement Presentation

- Statement of Comprehensive Income
- Statement of Retained Earnings/ Statement of Changes in Owners' Equities
- Statement of Financial Position
- Statement of Cash Flows



35

**Terrific Lawn Corporation**  
**Statement of Income**  
**For the Month Ended April 30, 20X9**  
**In Baht**

|                           |        |            |
|---------------------------|--------|------------|
| <b>Operating Revenues</b> |        |            |
| Mowing Revenue            |        | 5,600      |
| <b>Operating Expenses</b> |        |            |
| Fuel Expense              | -410   |            |
| Wages Expense             | -4,300 |            |
| Insurance Expense         | -50    |            |
| Utilities Expense         | -52    |            |
| Depreciation Expense      | -25    |            |
|                           | -4,837 |            |
| <b>Operating Income</b>   |        | <b>763</b> |
| <b>Other items</b>        |        |            |
| Interest Revenue          |        | 12         |
| Interest Expense          |        | -77        |
|                           |        | -65        |
| <b>Pretax Income</b>      |        | <b>698</b> |
| Income Tax Expense        |        | -244       |
| <b>Net Income</b>         |        | <b>454</b> |

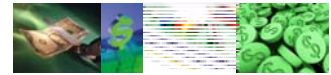
36

| <b>Terrific Lawn Corporation</b>                 |            |
|--|------------|
| <b>Statement of Retained Earnings</b>            |            |
| <b>For the Month Ended April 30, 20X9</b>        |            |
| <b>In Baht</b>                                   |            |
| Retained Earnings, April 1, 20X9 Balance         | 0          |
| + Net Income                                     | 454        |
| - Dividends                                      | 0          |
| <b>Retained Earnings, April 30, 20X9 Balance</b> | <b>454</b> |

| <b>Terrific Lawn Corporation</b>                    |                                |                              |              |
|---|--------------------------------|------------------------------|--------------|
| <b>Statement of Changes in Stockholders' Equity</b> |                                |                              |              |
| <b>For the Month Ended April 30, 20X9</b>           |                                |                              |              |
| <b>In Baht</b>                                      |                                |                              |              |
|   | <b>Contributed<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Total</b> |
| April 1, 20X9 Balance                               | 0                              | 0                            | 0            |
| Stock Issuance                                      | 9,000                          |                              | 9,000        |
| Net Income  |                                | 454                          | 454          |
| Dividends   |                                | 0                            | 0            |
| <b>April 30, 20X9 Balance</b>                       | <b>9,000</b>                   | <b>454</b>                   | <b>9,454</b> |

37

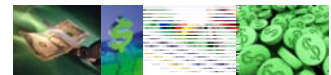
| <b>Terrific Lawn Corporation</b>                       |       |               |
|--|-------|---------------|
| <b>Statement of Financial Position</b>                 |       |               |
| <b>At April 30, 20X9</b>                               |       |               |
| <b>In Baht</b>   |       |               |
| <b>Assets</b>  |       |               |
| <i>Current Assets</i>                                  |       |               |
| Cash   | 5,032 |               |
| Accounts Receivable                                    | 1,700 |               |
| Prepaid Expense  | 250   |               |
| Total current assets                                   |       | 6,982         |
| <i>Noncurrent Assets</i>                               |       |               |
| Equipment (net of accumulated depreciation of 25 Baht) | 4,575 |               |
| Land   | 3,750 |               |
| Total noncurrent assets                                |       | 8,325         |
| <b>Total assets</b>                                    |       | <b>15,307</b> |
| <b>Liabilities</b>                                     |       |               |
| <i>Current Liabilities</i>                             |       |               |
| Accounts Payable                                       | 220   |               |
| Wages Payable  | 400   |               |
| Utilities Payable                                      | 52    |               |
| Interest Payable                                       | 37    |               |
| Notes Payable  | 3,700 |               |
| Income Tax Payable                                     | 244   |               |
| Unearned Revenue                                       | 1,200 |               |
| Total current liabilities                              |       | 5,853         |
| <i>Noncurrent Liabilities</i>                          |       |               |
| -  | 0     |               |
| Total noncurrent liabilities                           |       | 0             |
| <b>Total liabilities</b>                               |       | <b>5,853</b>  |
| <b>Stockholders' Equity</b>                            |       |               |
| Contributed Capital                                    | 9,000 |               |
| Retained Earnings                                      | 454   |               |
| <b>Total stockholders' equity</b>                      |       | <b>9,454</b>  |
| <b>Total liabilities and stockholders' equity</b>      |       | <b>15,307</b> |



## Statement of Cash Flows



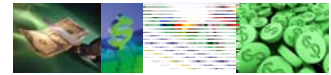
39



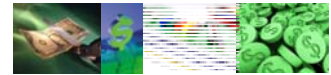
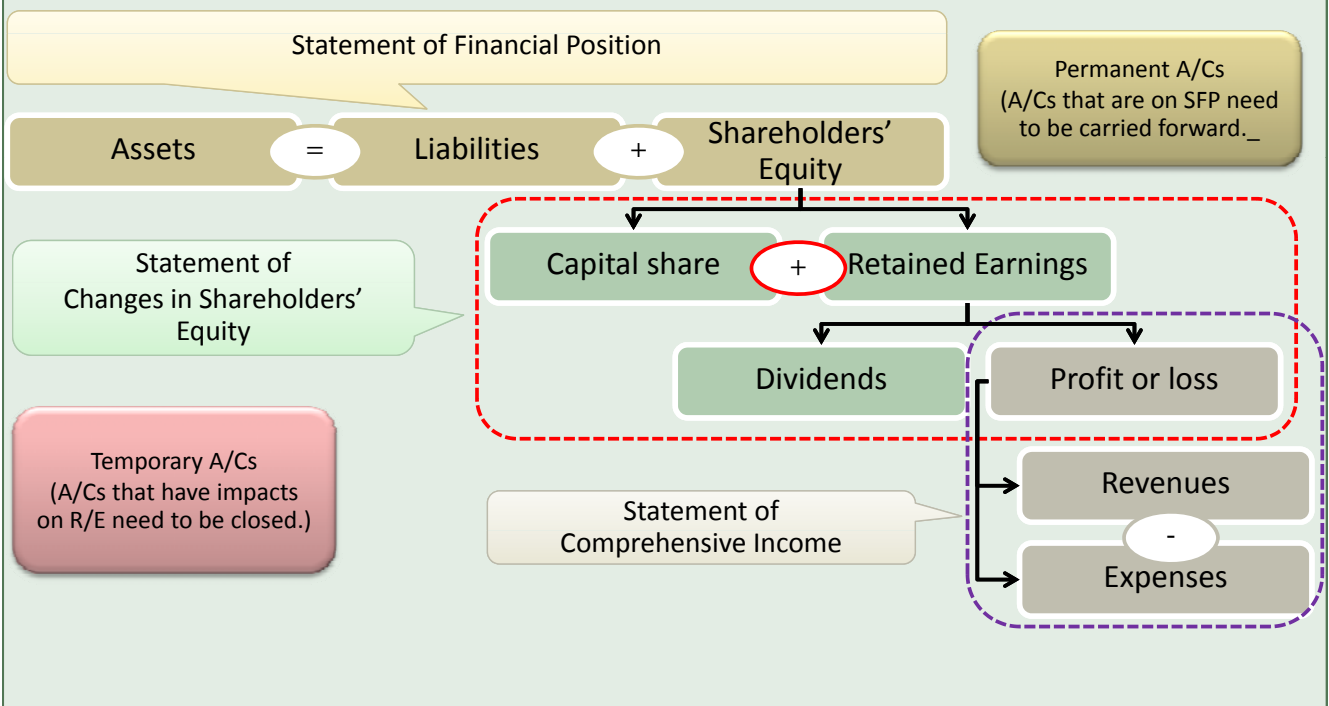
## Closing Entries

- **The balances of accounts reported on the Statement of Financial Position are carried forward from year to year.**
  - Because they are relatively permanent, these accounts are called **permanent accounts** or **real accounts**.
- **The balances of the accounts reported on the Statement of Comprehensive Income are not carried forward from year to year.**
  - Because these accounts report amounts for only one period, they are called **temporary accounts** or **nominal accounts**.
    - At the beginning of next period, temporary accounts should have zero balances.
      - To achieve this, temporary account balances are transferred to permanent accounts at the end of the accounting period.
        - » The entries that transfers these balances are called **closing entries**. The transfer process is called the closing process and is sometimes referred to as closing the books.

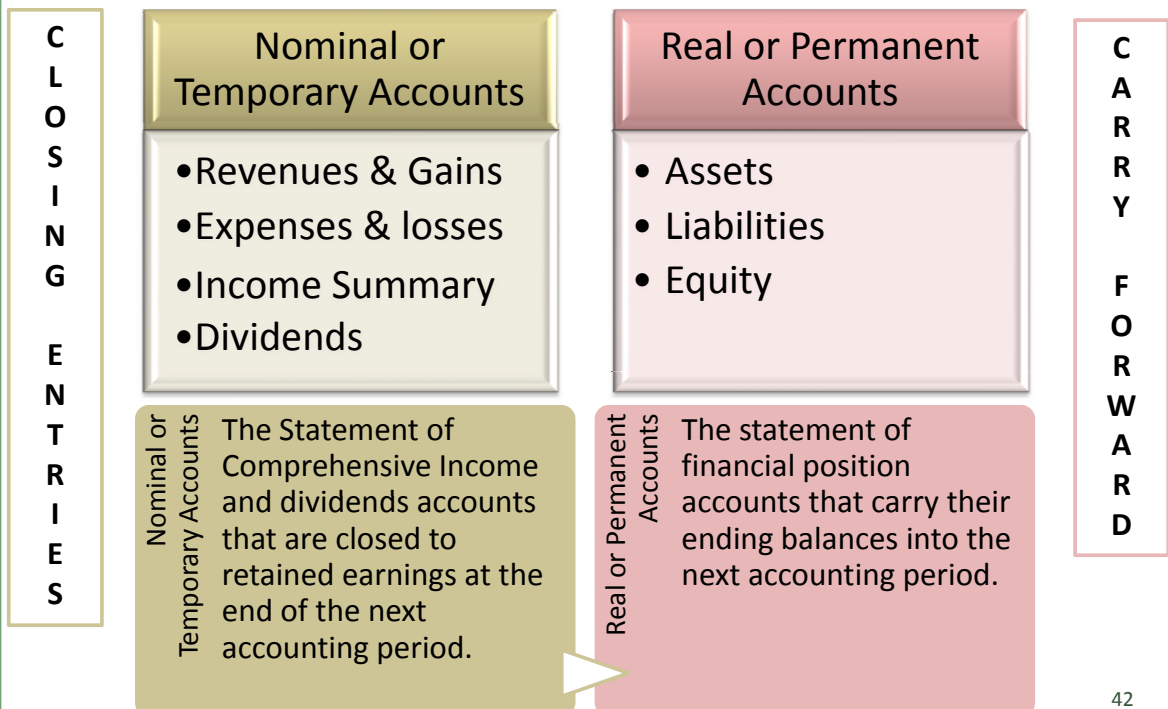
40



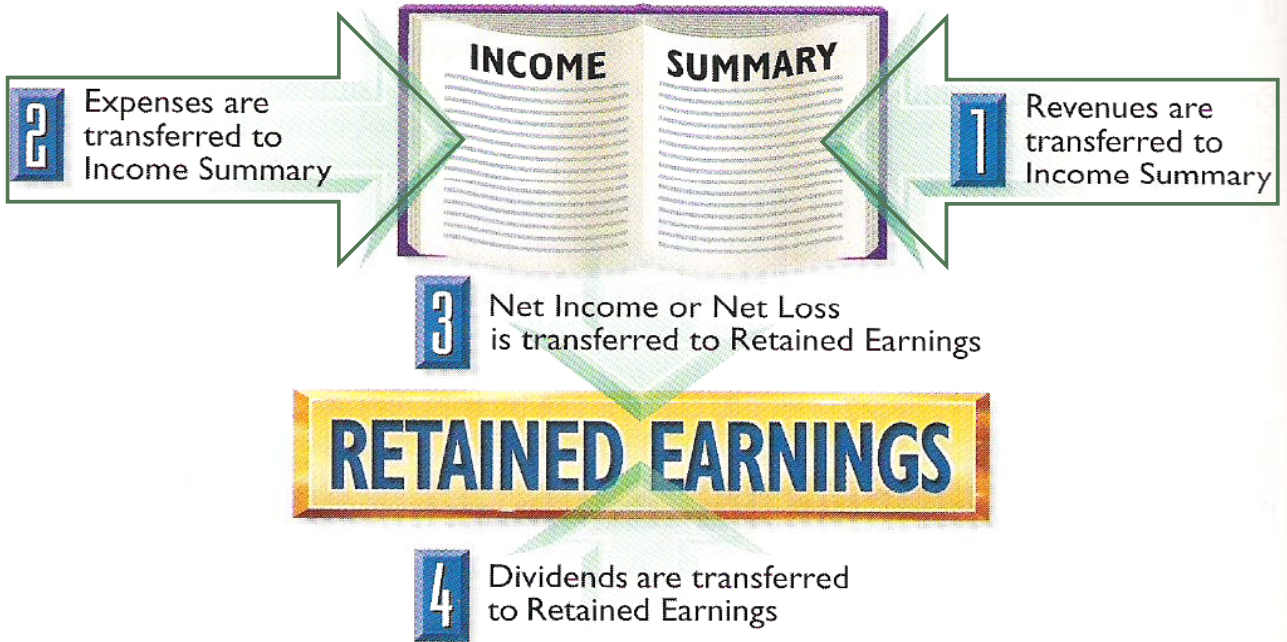
## Relationships among Various Types of Accounts



## Temporary and Permanent Accounts

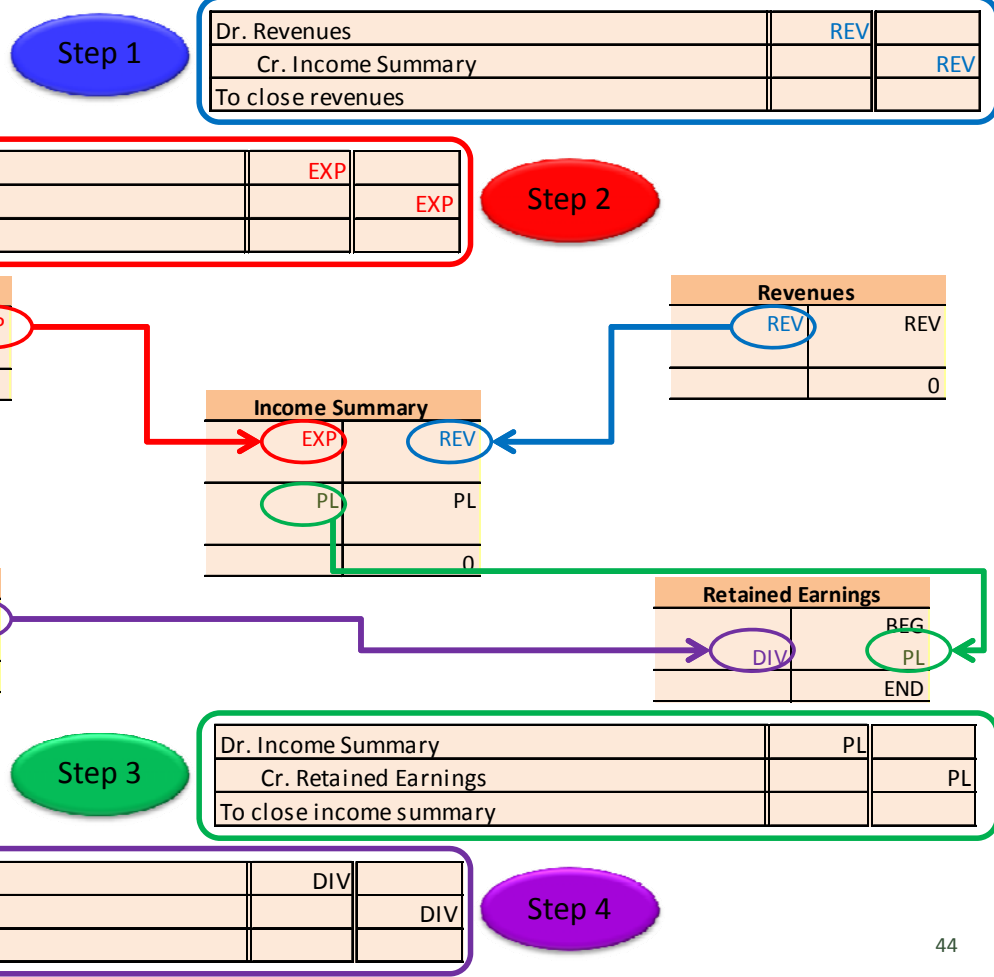


# THE CLOSING PROCESS



**Closing Entries:** Made at the end of the accounting period to transfer balances in temporary accounts to retained earnings and to establish a zero balance in each of the temporary accounts.

4-3



44

**Terrific Lawn Maintenance Corporation**  
**Adjusted Trial Balance**  
**At April 30, 20X9**  
**In Baht**

|                          | Debit         | Credit        |
|--------------------------|---------------|---------------|
| Cash                     | 5,032         |               |
| Accounts Receivable      | 1,700         |               |
| Notes Receivable         | 0             |               |
| Prepaid Expense          | 250           |               |
| Land                     | 3,750         |               |
| Equipment                | 4,600         |               |
| Accumulated Depreciation |               | 25            |
| Accounts Payable         |               | 220           |
| Wages Payable            |               | 400           |
| Utilities Payable        |               | 52            |
| Notes Payable            |               | 3,700         |
| Interest Payable         |               | 37            |
| Income Tax Payable       |               | 244           |
| Unearned Revenue         |               | 1,200         |
| Contributed Capital      |               | 9,000         |
| Retained Earnings        |               | 0             |
| Mowing Revenue           |               | 5,600         |
| Interest Revenue         |               | 12            |
| Wages Expense            | 4,300         |               |
| Fuel Expense             | 410           |               |
| Insurance Expense        | 50            |               |
| Utilities Expense        | 52            |               |
| Depreciation Expense     | 25            |               |
| Interest Expense         | 77            |               |
| Income Tax Expense       | 244           |               |
|                          | <b>20,490</b> | <b>20,490</b> |

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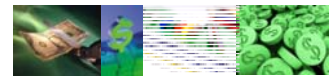
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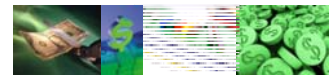


AC201 Fundamental Accounting



**Illustration - Closing Entries**

| Date   | General Journal -- Closing Entries                  | Debit | Credit |
|--------|---|-------|--------|
| End of | Dr. Mowing revenue                                  | 5,600 |        |
| Period | Interest revenue                                    | 12    |        |
|        | Cr. Income summary                                  |       | 5,612  |
|        | <i>To close revenue accounts to income summary</i>  |       |        |
|        | Dr. Income summary                                  | 5,158 |        |
|        | Cr. Fuel expense                                    |       | 410    |
|        | Wages expense                                       |       | 4,300  |
|        | Insurance expense                                   |       | 50     |
|        | Utilities expense                                   |       | 52     |
|        | Depreciation expense                                |       | 25     |
|        | Interest expense                                    |       | 77     |
|        | Income taxes expense                                |       | 244    |
|        | <i>To close expense accounts to income summary</i>  |       |        |
|        | Dr. Income summary                                  | 454   |        |
|        | Cr. Retained Earnings                               |       | 454    |
|        | <i>To close income summary to retained earnings</i> |       |        |
|        | Dr. Retained earnings                               | -     |        |
|        | Cr. Dividends                                       |       | -      |
|        | <i>To close dividends to retained earnings</i>      |       |        |



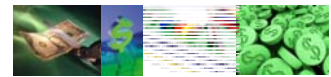
## Post-Closing Trial Balance

### Post-closing Trial Balance:

- It should be prepared as the last step in the accounting cycle to check that debits equal credits and all temporary accounts have been closed.
  - The purpose of the post-closing (after closing) trial balance is to verify that the ledger is in balance at the beginning of the next period.
    - The accounts and amounts should agree exactly with the accounts and amounts listed on the Statement of Financial Position at the end of the period.



47



## Illustration – Post-Closing Trial Balance

| Terrific Lawn Maintenance Corporation<br>Post-Closing Trial Balance<br>At April 30, 20X9<br>In Baht |               |               |
|---|---------------|---------------|
|   | Debit         | Credit        |
| Cash  | 5,032         |               |
| Accounts Receivable   | 1,700         |               |
| Notes Receivable  | 0             |               |
| Prepaid Expense   | 250           |               |
| Land  | 3,750         |               |
| Equipment   | 4,600         |               |
| Accumulated Depreciation  |               | 25            |
| Accounts Payable  |               | 220           |
| Wages Payable   |               | 400           |
| Utilities Payable   |               | 52            |
| Notes Payable   |               | 3,700         |
| Interest Payable  |               | 37            |
| Income Tax Payable  |               | 244           |
| Unearned Revenue  |               | 1,200         |
| Contributed Capital   |               | 9,000         |
| Retained Earnings   |               | 454           |
|   | <b>15,332</b> | <b>15,332</b> |

48