

BOOST YOUR SKILLS IN **ACCOUNTING AND BOOKKEEPING**

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# Financial Statements and Closing Entries

# LEARNING OBJECTIVES

- Prepare an income statement
- Prepare a statement of owner's equity
- Prepare a balance sheet
- Identify the sections of a statement of cash flows
- Record closing entries

# Income Statement

- Subtracts expenses from revenue to display either a Net Income or Net Loss
- Lists both expenses and revenues from largest to smallest

**Auto Repair Center  
Income Statement  
For the Month Ended June 30, 2027**

<b>Revenues:</b>	
Sales Revenue	\$ 27,500
Service Revenue	3,500
<b>Total Revenue</b>	<b>\$ 31,000</b>
<b>Expenses:</b>	
Salaries Expense	\$ 2,750
Rent Expense	1,200
Utilities Expense	800
Telephone Expense	550
<b>Total Expenses</b>	<b>5,300</b>
<b>Net Income</b>	<b>\$ 25,700</b>

Lists of individual account balances

Totals of individual accounts listed

# Statement of Owner's Equity

Displays additions to equity (net income, owner investments) and deductions from equity (net loss, owner withdrawals)

Auto Repair Center Statement of Owner's Equity For the Month Ended June 30, 2027		
Pawel Krawiec, Capital, June 1		\$ 225,000
Add: Net Income	\$ 25,700	
Investment	<u>5,000</u>	
	30,700	
Less: Pawel Krawiec, Drawing	<u>5,000</u>	
Increase in Owner's Equity		<u>25,700</u>
Pawel Krawiec, Capital, June 30		<u>\$ 250,700</u>

# Balance Sheet

Illustrates that the accounting equation is in balance

Auto Repair Center Balance Sheet June 30, 2027		
<b>Assets:</b>		
Cash	\$ 175,000	
Accounts Receivable	31,800	
Merchandise Inventory	7,500	
Buildings	22,000	
Land	35,700	
<b>Total Assets</b>		<u><u>\$ 272,000</u></u>
<b>Liabilities:</b>		
Accounts Payable	21,300	
<b>Owner's Equity:</b>		
Pawel Krawiec, Capital	250,700	
<b>Total Liabilities &amp; Owner's Equity</b>		<u><u>\$ 272,000</u></u>

# Statement of Cash Flows

Contains three sections in which cash-related activity is displayed:

- **Operating Activities:** Standard revenue-generating operations of the business
- **Investing Activities:** Cash transactions involving long-term assets
- **Financing Activities:** Cash transactions related to stocks, bonds, withdrawals, and long-term liabilities

# Statement of Cash Flows—Example

This statement displays a decrease in cash of \$3,140 during the period.

Auto Repair Center Statement of Cash Flows For the Month Ended June 30, 2027		
<b>Operating Activities:</b>		
Cash Received from Customers		\$ 34,800
Cash Paid for Merchandise Inventory	\$ 25,200	
Cash Paid for Salaries Expense	3,000	
Cash Paid for General & Admin Exp.	2,840	\$ 31,040
<b>Net Cash Flow from Operating Activities</b>		<b>\$ 3,760</b>
<b>Investing Activities</b>		
Cash Received for Sale of Equipment		12,100
Cash Paid for Buildings	5,000	
Cash Paid for Land	9,000	\$ 14,000
<b>Net Cash Flow Used By Investing Activities</b>		<b>\$ (1,900)</b>
<b>Financing Activities</b>		
Cash Paid for Withdrawals		5,000
<b>Net Cash Flow Used By Financing Activities</b>		<b>\$ (5,000)</b>
<b>Decrease in Cash Balance</b>		<b>(3,140)</b>
<b>Beginning Cash Balance</b>		<b>178,140</b>
<b>Ending Cash Balance</b>		<b>\$ 175,000</b>

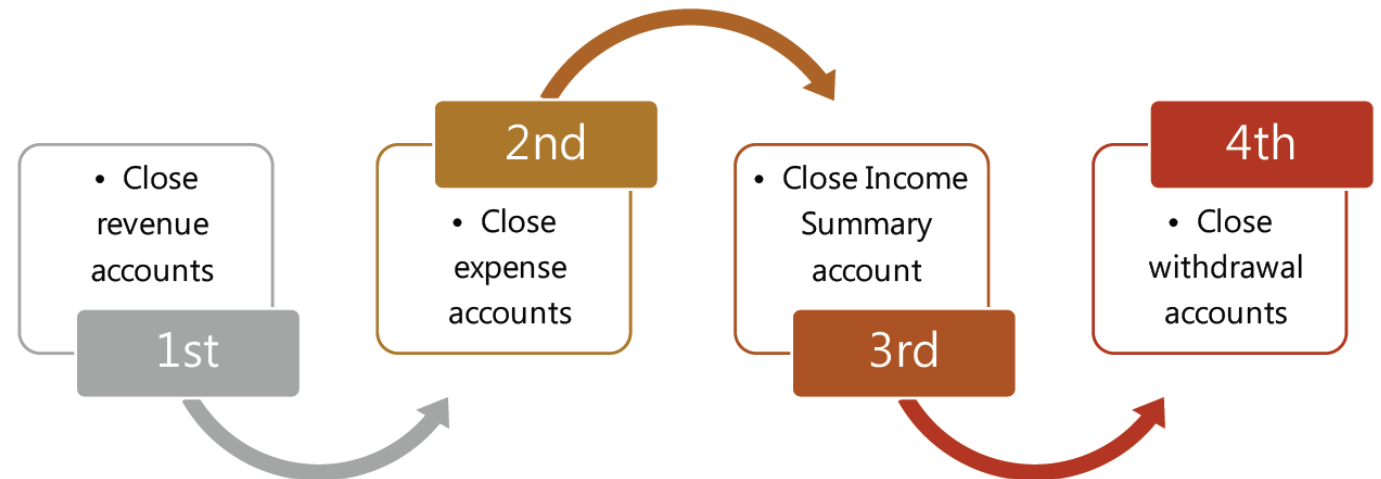
# Closing Entries

- Closing entries close (zero out) temporary accounts.
  - They transfer balance of temporary accounts to owner's capital account.
  - They ensure temporary accounts begin subsequent periods with a \$0 balance.
- Temporary accounts include:
  - Revenues
  - Expenses
  - Owner withdrawals



# Closing Entries (cont.)

- **Revenues/expenses:** Closed to Income Summary
  - Income Summary: Holding account used to facilitate the closing entry process; always has a \$0 balance at the end of the closing process
- **Income Summary:** Closed to owner's capital account
- **Owner's withdrawal account:** Closed to owner's capital account.



# Post-Closing Trial Balance

- Completed after the recording of the closing entries
- Excludes all temporary accounts

Auto Repair Center Post-Closing Trial Balance June 30, 2027		
	Debit	Credit
Cash	\$ 175,000	
Accounts Receivable	31,800	
Merchandise Inventory	7,500	
Buildings	22,000	
Land	35,700	
Accounts Payable		\$ 21,300
Pawel Krawiec, Capital		250,700
	<u>\$ 272,000</u>	<u>\$ 272,000</u>