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Financial Statements and Closing Entries

LEARNING OBJECTIVES

- Prepare an income statement
- Prepare a statement of retained earnings (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 a net income or net loss
- Lists expenses and revenue from largest to smallest

The diagram shows an income statement for an Auto Repair Centre for the month of June 2027. It lists revenues and expenses, with annotations highlighting that individual account balances are listed and their totals are calculated.

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

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 Centre		
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	5,000	
	<hr/>	
	30,700	
Less: Pawel Krawiec, Drawing	5,000	
	<hr/>	
Increase in Owner's Equity		25,700
Pawel Krawiec, Capital, June 30		<hr/> <u>\$ 250,700</u>

Balance Sheet

Illustrates that the accounting equation is in balance

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

Statement of Cash Flows

Displays cash-related activity in three sections:

- **Operating Activities:** The 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.

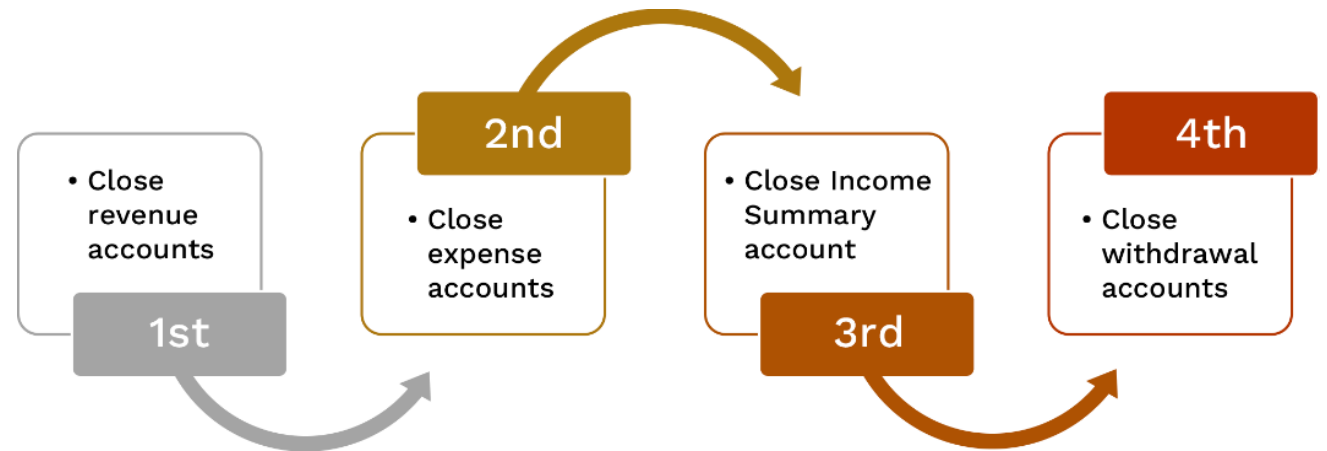
Auto Repair Centre Statement of Cash Flows For the Month Ended June 30, 2027		
Operating Activities:		
Cash Received from Customers		\$ 34,800
Cash Paid for Merchandise Inventory	\$ 25,200	
Cash Paid for Salaries Expense	3,000	
Cash Paid for General & Admin Exp.	2,840	\$ 31,040
Net Cash Flow from Operating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

Closing Entries

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

Closing Entries (cont.)

- Revenue/expenses: Closed to Income Summary
 - Income Summary: Holding account; has \$0 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 closing entries are recorded
- Excludes all temporary accounts

Auto Repair Centre		
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>