

Completion of the Accounting Cycle

- Collect transaction data from business documents
- Analyze transactions and journalize
- Post to ledgers

Accounting Cycle During Period

- Prepare unadjusted trial balance
- Prepare worksheet
- Prepare financial statements
- Journalize and post adjustments
- Journalize and post closing entries
- Prepare post closing trial balance

Accounting Cycle End of Period

- Working paper that bridges the gap between the accounting records and the financial statements
- Determines the effect of end-of-period adjustments
- Determines net income
- Sets up information for closing entries

Worksheet

- Enter the heading
- Enter account numbers, titles, and general ledger balances in Trial Balance columns
- Enter adjustments in Adjustments columns

Preparing the Worksheet

- Calculate the Adjusted Trial Balance columns
- Extend amounts from Adjusted Trial Balance columns to the Income Statement or Balance Sheet columns

Preparing the Worksheet

- Subtotal the four financial statement columns
- Determine the amount that will balance the Income Statement and Balance Sheet columns
- Enter this amount below the subtotals to balance the columns

Preparing the Worksheet

- Revenue, expense, and dividend accounts accumulate changes in owners' equity during an accounting period
- At the end of the period, we must transfer these changes to Retained Earnings

Closing Entries

- Transfer the revenue account balances to Income Summary
- Transfer the expense account balances to Income Summary
- Transfer the Income Summary balance to Retained Earnings
- Transfer the Dividends balance to Retained Earnings

Steps in Closing

- To study changes in Return on Assets
- Separate into two components
- Profit Margin
 - Net income divided by Total revenues
- Total Asset Turnover
 - Total revenues divided by Average total assets

Analyzing Information

- Separation shows that a company can generate Return on Assets by either
- Earning a high profit margin by controlling expenses for a given revenue
- Earning higher revenues for a given investment in assets

Analyzing Information
