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|  | Chapter 22 | End-of-Fiscal Period Work  for a Corporation |

Memo

To:My Awesome Advanced Accounting Students

From:Mrs. Cleary

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Re:Chapter 22 Learning Guide

**Lesson 22-1 – Preparing Adjusting Entries (Page 672)**

**Bridge:**

* End-of-the-fiscal period work must be done before financial statements can be prepared.
* An unadjusted trial balance proves that debits still equal credits in the general ledger at the end of the month. It also gives you a list of the accounts that need to be adjusted (brought up to date) at the end of the month.
* Chapter 15 covered adjusting entries.
* Recording adjusting entries and preparing an adjusted trial balance will begin the end-of-fiscal-period work for a corporation so the financial statements can be prepared.
* Adjustments are generally made in the order that accounts are listed in the general ledger.
* Calculating federal income tax was covered in Chapter 15.
* The adjusted trial balance proves the equality of debits and credits after adjusting entries have been posted.

**Reading Guide** *(Please key your answers to the following questions.)*

1. What are the two methods used to determine the amount of each adjustment?
2. How is the amount of the adjustment to merchandise inventory calculated?
3. How is the amount of the adjustment for Prepaid Insurance adjusted?
4. Please finish this sentence: The adjusted trial balance is used to complete…
5. Please complete the following table:

|  |  |  |
| --- | --- | --- |
| **22-1 Sample Transactions** | **Account(s) Debited** | **Account(s) Credited** |
| Adjusting entry for Uncollectible Accounts |  |  |
| Adjusting Entry for Interest Receivable |  |  |
| Adjusting entry for Merchandise Inventory if Merchandise Inventory is larger. |  |  |
| Adjusting entry for Supplies—Office |  |  |
| Adjusting entry for Prepaid Insurance |  |  |
| Adjusting entry for Office Equipment—Depreciation Expense |  |  |
| Adjusting entry for Interest Expense |  |  |
| Adjusting entry for Unearned Rent Income |  |  |
| Adjusting entry for Federal Income Tax Expense |  |  |

**Lesson 22-2 – Preparing an Income Statement, Statement of Stockholders’ Equity, and Balance Sheet (Page 685)**

**Bridge:**

* Chapter 16 covered preparing an income statement, statement of stockholders’ equity and a balance sheet for a corporation.
* This lesson covers an income statement with details about three additional accounts: rental income, gains and losses from the sale of plant assets, and accruals for interest payable that are reported after income from operations. (Please check out the illustration on page 686.)
* A balance sheet reports assets, liabilities, and owners’ equity of a specific date.

**Reading Guide** *(Please key your answers to the following questions.)*

1. In the illustration of the statement of stockholders’ equity shown on page 687, in addition to the capital stock and retained earnings sections, what are the two additional sections?
2. This lesson covers the changes in the Balance Sheet. What is different in the liabilities section?
3. The Stockholders’ Equity section has been expanded. What has been added?

**Lesson 22-3 – Preparing a Statement of Cash Flows (Page 691)**

**Bridge:**

* You have prepared an income statement, statement of stockholders’ equity, and a balance sheet. These financial reports are report information on an accrual basis, that is, revenue is recorded when earned, not when cash is received.
* This lesson introduces a statement of cash flows. This report uses the cash basis of accounting.
* The statement of cash flows allows the reader to understand how cash is acquired and how it is used by a company.

**Reading Guide** *(Please key your answers to the following questions.)*

1. Please define cash flow.
2. What is the purpose of a statement of cash flows?
3. What is the one major way a statement of cash flows is different from other financial statements?
4. What are the three separate types of cash inflow and cash outflow activities summarized in a statement of cash flows?
5. Of the three activities, which is the most important of the three business activities?
6. Why are some of the numbers on a statement of cash flows surrounded with parenthesis?

|  |  |  |
| --- | --- | --- |
| **Activity** | **Cash Inflows** | **Cash Outflows** |
| Operating |  |  |
| Investing |  |  |
| Financing |  |  |

1. Please complete the following table by adding one or two examples of each activity.
2. A statement of cash flows has three columns for numbers. What goes in each column?
3. How is the net change in cash verified? What should the total be equal to?

**Lesson 22-4 – Preparing Closing and Reversing Entries (Page 697)**

**Bridge:**

* A previous chapter covered closing entries. This lesson covers some new ones
* After financial statements are prepared, the adjusted trial balance is used to journalize closing entries for a corporation.
* As for closing entries, let the acronym “SEND” guide you. You need four closing entries: “S”: Sales and all income statement accounts with a normal credit balance; “E”: Expenses and all income statement accounts with a normal debit balance; “N”: the net income is credited to Retained Earnings; and “D”: Dividends are debited to Retained Earnings.

**Reading Guide** *(Please key your answer to the following questions.)*

1. Will the balance of the Income Summary account have a debit balance or a credit balance if there is a net loss?
2. What is the rule for determining whether an adjusting entry should be reversed?
3. In reviewing Sun Treasures’ adjusting entries in our textbook, which three asset or liability accounts need reversing entries?
4. Which reversing entry is unique to a corporation?
5. What are the 13 steps of the Accounting Cycle for a merchandising business organized as a corporation?
6. Please complete the following table:

|  |  |  |
| --- | --- | --- |
| **22-4 Sample Transactions** | **Account(s) Debited** | **Account(s) Credited** |
| Reversing entry for Interest Receivable |  |  |
| Reversing entry for Interest Payable |  |  |
| Reversing entry for Federal Income Tax Payable |  |  |