

- ◆ **Deferred revenues:** revenues received in cash before they are earned are recorded as liabilities and recorded as revenues when earned or at SFP date.
 - when received: *Cash*
Def. Rev
 - AJE: *Def Rev*
Revenue
- ◆ **Accrued revenues:** revenues earned but not invoiced to customer and not received in cash must be recorded when earned or at the SFP date.
 - AJE: *(Accrued) Receivable*
Revenue
 - when received: *Cash*
(Accrued) Receivable
- ◆ **Accrued expenses:** expenses incurred but not invoiced by supplier and not yet paid must be recorded when incurred or at the SFP date.
 - AJE : *Exp.*
(Accrued) Liability
 - when paid: *(Accrued) Liability*
Cash

Notice: AJE never affect Cash!!!

Nature and Purpose of the Adjusted TB

- ◆ prepared after all AJEs have been journalized and posted. Shows the balance of all accounts (generally in order of the F/S presentation).
- ◆ to prove that the **total debit** balances and **total credit** balances are still equal after the AJE have been made.
- ◆ F/S will be prepared from the adjusted TB.

Closing Entries and a Post-Closing TB

- ◆ **Permanent accounts** are asset, liability and shareholder equity accounts (SFP accounts).: do not close!
- ◆ **Temporary accounts** are all expense and revenue accounts (I/S accounts) and the dividends account: must close to set back to 0 for next period.
- ◆ **Closing entries**
 - To close revenue accounts:
Revenues (all the cr accounts)
Income Summary
 - To close expenses
Income Summary
Exp.(all the dr accounts)
 - To close Income Summary:
Income summary (dr or cr)
RE (dr or cr)
 - To close Dividends :
RE
Div.

$$\text{ROE} = \frac{\text{NI}}{\text{Average SE}}$$

$$\text{Net (profit) Margin ratio} = \frac{\text{NI}}{\text{Revenues}}$$

$$\text{EPS (basic)} = \frac{\text{NI to CS}}{\text{Average O/S \#CS}}$$

P4-6

Req. 1 December 31, 2015 Adjusting Entries:

(a)

(b)

(c)

(d)

(e)

Req. 2

Transaction	Effect on NI	Effect on Cash
<i>a.</i>		
<i>b.</i>		
<i>c.</i>		
<i>d.</i>		
<i>e.</i>		

An adjusted TB would be prepared before doing F/S. Skip and do F/S

Req. 3- SNI by nature

MITAKIS INC.
Statement of Earnings
For the Year Ended December 31, 2015

MITAKIS INC.
Statement of Financial Position
As at December 31, 2015

Assets		Liabilities

		Shareholders' Equity

Total assets	<u><u>\$44,750</u></u>	Total liabilities and shareholders' equity <u><u>\$44,750</u></u>

Req. 4

If the cost of the service supplies in 2015 is not included among the period's expenses, then the EBT would be overstated by \$700, the income tax expense would be overstated by \$209 (\$700 x 29.9%*) approximately, and net earnings would be overstated by \$491. This error equals about 7.1 % of net earnings and is usually judged to be a material error since it exceeds the normal threshold of 5 % (but this is very relative; depends on other factors)

*Income tax rate = \$2,950 / \$9,850 = 0.299 (or 29.9%)

Req. 5

December 31, 2015 Closing Entries:

(a)	Service revenue	48,000	
	Income Summary		48,000
(b)	Income Summary	41,100	
	Supplies expense		700
	Insurance expense		450
	Depreciation expense		3,000
	Wages expense		1,100
	Other expenses		32,900
	Income tax expense		2,950
(c)	Income Summary	6,900	
	Retained earnings		6,900