GLOBAL EDITION

FINANCIAL ACCOUNTING

INTERNATIONAL FINANCIAL REPORTING STANDARDS

12E

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Digital Resources for Students

Your new textbook provides 12-month access to digital resources that include an Appendices, the Excel in Practice Data Files, and more. Refer to the preface in the textbook for a detailed list of resources.

Follow the instructions below to register for the Companion Website for C. William (Bill) Thomas, Wendy M. Tietz, Themin Suwardy, Koh Wei Chern, Walter T. Harrison Jr., and Charles T. Horngren's *Financial Accounting, International Financial Reporting Standards,* Twelfth Edition, Global Edition.

1. Go to https://media.pearsoncmg.com/intl/ge/2023/cws/ge_harrison_fa_12/cw/login/sign-in.php
2. Click Register and follow the on-screen instructions to create a login name and password.

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Use the login name and password you created during registration to start using the online resources that accompany your textbook.

IMPORTANT:

This prepaid subscription does not include access to Pearson MyLab Accounting, which is available at www.myaccountinglab.com for purchase.

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You can see this in the Retained Earnings T-account as well:

Retained Earnings	
Dividends	Beginning retained earnings
	Net income
	Ending retained earnings

This formula is the key to preparing the closing entries. We will use this formula, but we will do it *inside* the Retained Earnings T-account.

From the trial balance given in the problem, we know that beginning Retained Earnings is $52,000. The first component of the formula is already in the T-account.

The next component is net income, which is *not* yet in the Retained Earnings account. We can place all the components of net income into the Retained Earnings account and come out with the net income number at the bottom. Remember:

Revenues − Expenses = Net income

This means that we need to get all of the revenues and expenses into the Retained Earnings account.

a. We start with our revenue T-account (service revenue as shown)

Service Revenue	
	Bal. 495,000

In order to clear out or reset all the Income Statement accounts so that they are empty to begin the next year, the first step is to *debit* each revenue account for the amount of its *credit* balance. Service Revenue has a *credit* balance of $495,000, so to bring that to zero, we need to *debit* Service Revenue for $495,000.

This means that we have part of our first closing entry:

A1

	A	B	C	D	E	F
1	1.	Service Revenue	495,000			
2		???		495,000		
3						

What is the credit side of this entry? The reason we started with Service Revenue was to help calculate net income in the Retained Earnings account. So the other side of the entry must go to Retained Earnings:

A1

	A	B	C	D	E	F
1	1.	Service Revenue	495,000			
2		Retained Earnings		495,000		
3						

b. The second step is to credit each expense account for the amount of its debit balance to bring each expense account to zero.

In this case, we have five different expenses:

Salary Expense

Bal.	259,000	

Supplies Expense

Bal.	3,000	

Rent Expense

Bal.	34,000	

Depreciation Expense—Building

Bal.	12,000	

Miscellaneous Expense

Bal.	8,000	

The sum of all the expenses will go to the debit side of the Retained Earnings account:

A1

	A	B	C	D	E	F
1	2.	Retained Earnings	316,000			
2		Salary Expense		259,000		
3		Supplies Expense		3,000		
4		Rent Expense		34,000		
5		Depreciation Expense—Building		12,000		
6		Miscellaneous Expense		8,000		
7						

The last component of the Retained Earnings formula is dividends. There is a Dividends account:

Dividends

Bal.	7,000	

c. The final step in the closing process is to transfer Dividends to the debit site of the Retained Earnings account.

The Dividends account has a *debit* balance of $7,000, so to bring that to zero, we need to *credit* Dividends by $7,000. The balancing debit will go to Retained Earnings:

A1

	A	B	C	D	E	F
1	3.	Retained Earnings	7,000			
2		Dividends		7,000		
3						

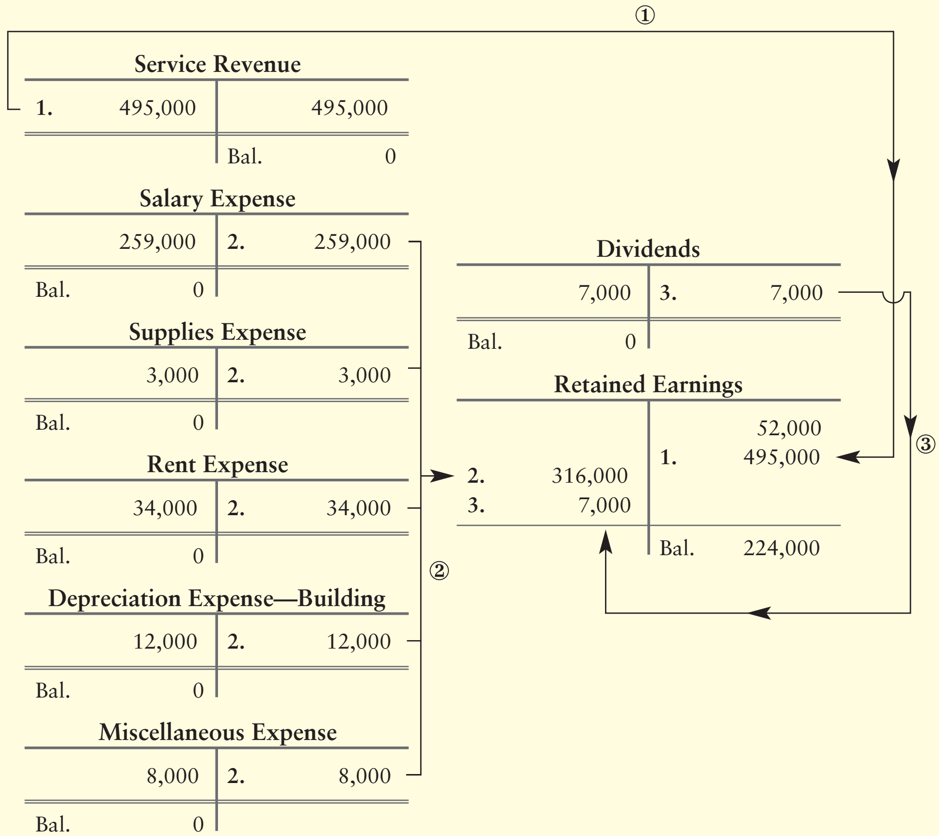
This entry subtracts Dividends from Retained Earnings. Retained Earnings now holds the following data:

Retained Earnings

Expenses	2.	316,000		52,000	**Beginning retained earnings**
Dividends	3.	7,000	1.	495,000	Revenue Net income
			Bal.	224,000	**Ending retained earnings**

The formula to update Retained Earnings has now been re-created inside the Retained Earnings T-account.

The following accounts are included in the closing process:



Notice that each temporary account (the Revenues, the Expenses, and Dividends), now has a zero balance.

➤ Requirement 5

Prepare Cloud Break's Income Statement and the Statement of Changes in Equity for the year ended June 30, 20X6, and the Balance Sheet at June 30, 20X6. Draw arrows linking the three financial statements.

Part 1	Part 2	Part 3	Part 4	Part 5	Demo Doc Complete

A1

	A	B	C
1	**Cloud Break Consulting, Inc.** **Income Statement**	**Year Ended** **June 30, 20X6**	
2	**Revenue:**		
3	Service revenue		$ 495,000
4	**Expenses:**		
5	Salary expense	$ 259,000	
6	Rent expense	34,000	
7	Depreciation expense—building	12,000	
8	Supplies expense	3,000	
9	Miscellaneous expense	8,000	
10	Total expenses		316,000
11	**Net income**		$ 179,000
12			
13			

	A	B
1	**Cloud Break Consulting, Inc. Statement of Changes in Equity**	**Year Ended June 30, 20X6**
2	Total equity, June 30, 20X5	$ 102,000
3	Add: Net income	179,000
4		281,000
5	Less: Dividends	(7,000)
6	Retained earnings, June 30, 20X6	$ 274,000
7		
8		

	A	B	C	D	E
1	**Cloud Break Consulting, Inc. Balance Sheet**	**As at June 30, 20X6**			
2	**Assets**			**Liabilities**	
3	Cash		$ 131,000	Accounts payable	$ 159,000
4	Accounts receivable		119,000	Salary payable	4,000
5	Supplies		1,000	Unearned service revenue	10,000
6	Prepaid rent		18,000	Total liabilities	173,000
7	Land		45,000		
8	Building	$ 300,000)		**Shareholders' Equity**	
9	Less: Accumulated			Share capital	50,000
10	depreciation	(167,000)	133,000	Retained earnings	224,000
11				Total Shareholders' equity	274,000
12				Total liabilities and	
13	Total assets		$ 447,000	Shareholders' equity	$ 447,000
14					
15					

RELATIONSHIPS AMONG THE FINANCIAL STATEMENTS

The arrows in these statements show how the financial statements relate to each other. Follow the arrow that takes the ending balance of total equity to the Balance Sheet.

1. Net income from the Income Statements is reported as an increase to Retained Earnings (equity) on the Statement of Changes in Equity. A net loss would be reported as a decrease to Retained Earnings (equity). Any dividends paid will also reduce Retained Earnings (equity).
2. The new total equity (and Ending Retained Earnings) from the Statement of Changes in Equity is transferred to the Balance Sheet.

4 Presentation of Financial Statements

SPOTLIGHT | Lenovo www.lenovo.com

Back in 2005, Lenovo acquired IBM's Personal Computer (PC) business for about $2 billion, becoming the third largest PC maker in the world. Fast forward to today, Lenovo is now the largest PC maker in the world, with a revenue of over US$60 billion and an estimated worldwide market share of just below 25%. Lenovo's vision is to "to deliver smarter technology for all … to create a more inclusive, trustworthy and sustainable digital society for everyone, everywhere." Let's have a look at how Lenovo communicates with its shareholders.

VoronStudio/Shutterstock

	A	B	C
1	**Lenovo Group Limited Consolidated Income Statement**	**For Year Ended**	
2	**(Adapted, in millions of US$)**	**Mar 31, 2020**	**Mar 31, 2021**
3	Revenue	$ 50,716	$ 60,742
4	Cost of goods sold	(42,359)	(50,974)
5	Gross profit	8,357	9,768
6	Selling and distribution expenses	(2,972)	(3,045)
7	Administrative expenses	(2,525)	(2,984)
8	Research and development expenses	(1,336)	(1,454)
9	Other operating income/(expenses)–net	(86)	(104)
10	Operating profit	1,439	2,180
11	Finance income	48	35
12	Finance costs	(454)	(409)
13	All other non-operating income/(expenses)–net	(15)	(32)
14	Income tax expense	(213)	(461)
15	Profit or net income for the year	$ 805	$ 1,313
16			

	A	B	C
1	**Lenovo Group Limited Consolidated Balance Sheet**	**As at**	
2	**(Adapted, in millions of US$)**	**Mar 31, 2020**	**Mar 31, 2021**
3	Cash and cash equivalents	$ 3,617	$ 3,128
4	Trade and notes receivables	6,275	8,477
5	Deposits, prepayments and other receivables	3,559	4,978
6	Inventories	4,947	6,381
7	All other current assets	335	373
8	Total current assets	18,733	23,335
9	Property, Plant and Equipment	1,398	1,574
10	Rights-of-use lease assets	812	893
11	Intangible assets	7,985	8,405
12	Other noncurrent assets	3,199	3,783
13	Total noncurrent assets	13,395	14,655
14	Total assets	$ 32,128	$ 37,991
15	Trade and notes payable	8,968	11,106
16	Other payables and accruals	9,026	13,178
17	Deferred revenue	819	1,047
18	Borrowings	3,295	698
19	Current income tax liabilities	357	395
20	Other current liabilities	793	946
21	Total current liabilities	23,258	27,371
22	Borrowings	1,565	3,300
23	Deferred revenue	865	1,183
24	Retirement benefit obligations	458	432
25	Noncurrent income tax liabilities	343	391
26	Other noncurrent liabilities	1,580	1,702
27	Total noncurrent liabilities	4,811	7,008
28	Total liabilities	$ 28,069	$ 34,380
29	Share capital	3,186	3,204
30	Reserves	12	355
31	Other equity items	862	52
32	Total equity	4,059	3,611
33	Total liabilities and equity	$ 32,128	$ 37,991
34			