

# End of Period Activities

by Sophia



## WHAT'S COVERED

This tutorial will cover the series of activities that occur at the end of an accounting period.

Our discussion breaks down as follows:

## 1. Time Periods and Reporting

The time period assumption is that businesses must have consistent periods of reporting, and that these periods are consecutive--monthly, quarterly, or annually.

So, how do you determine your report timing? Well, law dictates report timing for publicly traded companies; they have SEC requirements to report quarterly and annually. Therefore, in order to be SEC compliant, publicly traded companies have to report quarterly as well as annually.

Privately owned companies, on the other hand, don't have an SEC requirement, so they don't have that same regulatory requirement to report every quarter. However, they do have to report annually for tax purposes.

Now, it is important to report consistently to ensure report accuracy. At the end of the reporting period, a business provides accurate reporting, and in order to do this, their data needs to be complete. The way to ensure that the data is complete and accurate is through the use of the trial balance, which we will discuss next.

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## 2. Trial Balance Worksheet

The trial balance worksheet is a listing of all the general ledger accounts. It details all account balances, and the debits and the credits for the individual general ledger accounts.



### HINT

Remember, total debits must always equal total credits.

In a trial balance worksheet, the sections include:

- Trial Balance
- Adjustments

- Adjusted Trial Balance
- Income Statements
- Balance Sheet
- Closing Entries

## 2a. Trial Balance

Here is a sample trial balance worksheet, below. As mentioned, the trial balance worksheet has a list of all the general ledger accounts, which you can see on the left. It also details the debits and credits, and the balances within those general ledger accounts. The trial balance worksheet is used in preparing a trial balance to ensure that accurate data is provided.

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## 2b. Adjustments

Once you have the trial balance, you can begin to make your adjustments. You will adjust for any accruals and prepaids, and correct any errors and omissions. This is also where you perform your matching, making sure that your revenues are matched with your expenses.

| Accounts                             | Trial Balance  |                | Adjustments  |              |
|--------------------------------------|----------------|----------------|--------------|--------------|
|                                      | Dr.            | Cr.            | Dr.          | Cr.          |
| Cash                                 | 100,000        |                |              |              |
| Accounts Receivable                  | 10,000         |                |              |              |
| Supplies                             | 1,000          |                |              | 500          |
| Prepaid Insurance                    | 5,000          |                |              | 1,000        |
| Buildings                            | 50,000         |                |              |              |
| Accumulated Depreciation - Buildings |                | 10,000         |              | 1,000        |
| Accounts Payable                     |                | 5,000          |              |              |
| Notes Payable                        |                | 25,000         |              |              |
| Common Stock                         |                | 100,000        |              |              |
| Retained earnings, 1/1/18            |                | 12,000         |              |              |
| Owner Drawings                       | 2,000          |                |              |              |
| Sales                                |                | 150,000        |              |              |
| Salaries Expense                     | 121,500        |                |              |              |
| Advertising Expense                  | 10,000         |                |              |              |
| Interest Expense                     | 2,500          |                |              |              |
| Totals                               | <b>302,000</b> | <b>302,000</b> |              |              |
| Depreciation Expense - Buildings     |                |                | 1,000        |              |
| Insurance Expense                    |                |                | 1,000        |              |
| Supplies Expense                     |                |                | 500          |              |
| Totals                               |                |                | <b>2,500</b> | <b>2,500</b> |

## 2c. Adjusted Trial Balance

After you've made all of your adjustments, you can prepare your adjusted trial balance. The adjusted trial balance is going to be the source for your financial statements.

| Accounts                             | Trial Balance |         | Adjustments |       | Adjusted Trial Balance |         |  |  |  |  |  |  |  |  |
|--------------------------------------|---------------|---------|-------------|-------|------------------------|---------|--|--|--|--|--|--|--|--|
|                                      | Dr.           | Cr.     | Dr.         | Cr.   | Dr.                    | Cr.     |  |  |  |  |  |  |  |  |
| Cash                                 | 100,000       |         |             |       | 100,000                |         |  |  |  |  |  |  |  |  |
| Accounts Receivable                  | 10,000        |         |             |       | 10,000                 |         |  |  |  |  |  |  |  |  |
| Supplies                             | 1,000         |         |             | 500   |                        | 500     |  |  |  |  |  |  |  |  |
| Prepaid Insurance                    | 5,000         |         |             | 1,000 |                        | 4,000   |  |  |  |  |  |  |  |  |
| Buildings                            | 50,000        |         |             |       | 50,000                 |         |  |  |  |  |  |  |  |  |
| Accumulated Depreciation - Buildings |               | 10,000  |             | 1,000 |                        | 11,000  |  |  |  |  |  |  |  |  |
| Accounts Payable                     |               | 5,000   |             |       |                        | 5,000   |  |  |  |  |  |  |  |  |
| Notes Payable                        |               | 25,000  |             |       |                        | 25,000  |  |  |  |  |  |  |  |  |
| Common Stock                         |               | 100,000 |             |       |                        | 100,000 |  |  |  |  |  |  |  |  |
| Retained earnings, 1/1/18            |               | 12,000  |             |       |                        | 12,000  |  |  |  |  |  |  |  |  |
| Owner Drawings                       | 2,000         |         |             |       | 2,000                  |         |  |  |  |  |  |  |  |  |
| Sales                                |               | 150,000 |             |       |                        | 150,000 |  |  |  |  |  |  |  |  |
| Salaries Expense                     | 121,500       |         |             |       | 121,500                |         |  |  |  |  |  |  |  |  |
| Advertising Expense                  | 10,000        |         |             |       | 10,000                 |         |  |  |  |  |  |  |  |  |
| Interest Expense                     | 2,500         |         |             |       | 2,500                  |         |  |  |  |  |  |  |  |  |
| Totals                               | 302,000       | 302,000 |             |       |                        |         |  |  |  |  |  |  |  |  |
| Depreciation Expense - Buildings     |               |         | 1,000       |       | 1,000                  |         |  |  |  |  |  |  |  |  |
| Insurance Expense                    |               |         | 1,000       |       | 1,000                  |         |  |  |  |  |  |  |  |  |
| Supplies Expense                     |               |         | 500         |       | 500                    |         |  |  |  |  |  |  |  |  |
| Totals                               |               |         | 2,500       | 2,500 | 303,000                | 303,000 |  |  |  |  |  |  |  |  |

## 2d. Income Statements

Now that you have your adjusted trial balance, you can prepare your financial statements; this trial balance worksheet can be used to prepare your income statement. The income statement comprises all of your revenues and expenses, and it is also where you can identify your net income. As you can see in this example, your net income is \$13,500, which is the difference between your credits and debits.

| Accounts                             | Trial Balance |         | Adjustments |       | Adjusted Trial Balance |         | Income Statements |         |  |  |  |  |  |  |
|--------------------------------------|---------------|---------|-------------|-------|------------------------|---------|-------------------|---------|--|--|--|--|--|--|
|                                      | Dr.           | Cr.     | Dr.         | Cr.   | Dr.                    | Cr.     | Dr.               | Cr.     |  |  |  |  |  |  |
| Cash                                 | 100,000       |         |             |       | 100,000                |         |                   |         |  |  |  |  |  |  |
| Accounts Receivable                  | 10,000        |         |             |       | 10,000                 |         |                   |         |  |  |  |  |  |  |
| Supplies                             | 1,000         |         |             | 500   |                        | 500     |                   |         |  |  |  |  |  |  |
| Prepaid Insurance                    | 5,000         |         |             | 1,000 |                        | 4,000   |                   |         |  |  |  |  |  |  |
| Buildings                            | 50,000        |         |             |       | 50,000                 |         |                   |         |  |  |  |  |  |  |
| Accumulated Depreciation - Buildings |               | 10,000  |             | 1,000 |                        | 11,000  |                   |         |  |  |  |  |  |  |
| Accounts Payable                     |               | 5,000   |             |       |                        | 5,000   |                   |         |  |  |  |  |  |  |
| Notes Payable                        |               | 25,000  |             |       |                        | 25,000  |                   |         |  |  |  |  |  |  |
| Common Stock                         |               | 100,000 |             |       |                        | 100,000 |                   |         |  |  |  |  |  |  |
| Retained earnings, 1/1/18            |               | 12,000  |             |       |                        | 12,000  |                   |         |  |  |  |  |  |  |
| Owner Drawings                       | 2,000         |         |             |       | 2,000                  |         |                   |         |  |  |  |  |  |  |
| Sales                                |               | 150,000 |             |       |                        | 150,000 |                   | 150,000 |  |  |  |  |  |  |
| Salaries Expense                     | 121,500       |         |             |       | 121,500                |         | 121,500           |         |  |  |  |  |  |  |
| Advertising Expense                  | 10,000        |         |             |       | 10,000                 |         | 10,000            |         |  |  |  |  |  |  |
| Interest Expense                     | 2,500         |         |             |       | 2,500                  |         | 2,500             |         |  |  |  |  |  |  |
| Totals                               | 302,000       | 302,000 |             |       |                        |         |                   |         |  |  |  |  |  |  |
| Depreciation Expense - Buildings     |               |         | 1,000       |       | 1,000                  |         | 1,000             |         |  |  |  |  |  |  |
| Insurance Expense                    |               |         | 1,000       |       | 1,000                  |         | 1,000             |         |  |  |  |  |  |  |
| Supplies Expense                     |               |         | 500         |       | 500                    |         | 500               |         |  |  |  |  |  |  |
| Totals                               |               |         | 2,500       | 2,500 | 303,000                | 303,000 | 136,500           | 150,000 |  |  |  |  |  |  |
| Net Income                           |               |         |             |       |                        |         | 13,500            |         |  |  |  |  |  |  |
| Totals                               |               |         |             |       |                        |         | 150,000           | 150,000 |  |  |  |  |  |  |

## 2e. Balance Sheet

So, after you have your income statement, you can prepare your balance sheet. The balance sheet has all of your assets, liabilities, and equity--all of your permanent accounts.

| Accounts                             | Trial Balance |         | Adjustments |       | Adjusted Trial Balance |         | Income Statements |         | Balance Sheet |         |  |  |  |  |
|--------------------------------------|---------------|---------|-------------|-------|------------------------|---------|-------------------|---------|---------------|---------|--|--|--|--|
|                                      | Dr.           | Cr.     | Dr.         | Cr.   | Dr.                    | Cr.     | Dr.               | Cr.     | Dr.           | Cr.     |  |  |  |  |
| Cash                                 | 100,000       |         |             |       | 100,000                |         |                   |         | 100,000       |         |  |  |  |  |
| Accounts Receivable                  | 10,000        |         |             |       | 10,000                 |         |                   |         | 10,000        |         |  |  |  |  |
| Supplies                             | 1,000         |         |             | 500   |                        | 500     |                   |         | 500           |         |  |  |  |  |
| Prepaid Insurance                    | 5,000         |         |             | 1,000 |                        | 4,000   |                   |         | 4,000         |         |  |  |  |  |
| Buildings                            | 50,000        |         |             |       | 50,000                 |         |                   |         | 50,000        |         |  |  |  |  |
| Accumulated Depreciation - Buildings |               | 10,000  |             | 1,000 |                        | 11,000  |                   |         |               | 11,000  |  |  |  |  |
| Accounts Payable                     |               | 5,000   |             |       |                        | 5,000   |                   |         |               | 5,000   |  |  |  |  |
| Notes Payable                        |               | 25,000  |             |       |                        | 25,000  |                   |         |               | 25,000  |  |  |  |  |
| Common Stock                         |               | 100,000 |             |       |                        | 100,000 |                   |         |               | 100,000 |  |  |  |  |
| Retained earnings, 1/1/18            |               | 12,000  |             |       |                        | 12,000  |                   |         |               | 12,000  |  |  |  |  |
| Owner Drawings                       | 2,000         |         |             |       | 2,000                  |         |                   |         | 2,000         |         |  |  |  |  |
| Sales                                |               | 150,000 |             |       |                        | 150,000 |                   | 150,000 |               |         |  |  |  |  |
| Salaries Expense                     | 121,500       |         |             |       | 121,500                |         | 121,500           |         |               |         |  |  |  |  |
| Advertising Expense                  | 10,000        |         |             |       | 10,000                 |         | 10,000            |         |               |         |  |  |  |  |
| Interest Expense                     | 2,500         |         |             |       | 2,500                  |         | 2,500             |         |               |         |  |  |  |  |
| Totals                               | 302,000       | 302,000 |             |       |                        |         |                   |         |               |         |  |  |  |  |
| Depreciation Expense - Buildings     |               |         | 1,000       |       | 1,000                  |         | 1,000             |         |               |         |  |  |  |  |
| Insurance Expense                    |               |         | 1,000       |       | 1,000                  |         | 1,000             |         |               |         |  |  |  |  |
| Supplies Expense                     |               |         | 500         |       | 500                    |         | 500               |         |               |         |  |  |  |  |
| Totals                               |               |         | 2,500       | 2,500 | 303,000                | 303,000 | 136,500           | 150,000 |               |         |  |  |  |  |
| Net Income                           |               |         |             |       |                        |         | 13,500            |         |               | 13,500  |  |  |  |  |
| Totals                               |               |         |             |       |                        |         | 150,000           | 150,000 | 166,500       | 166,500 |  |  |  |  |

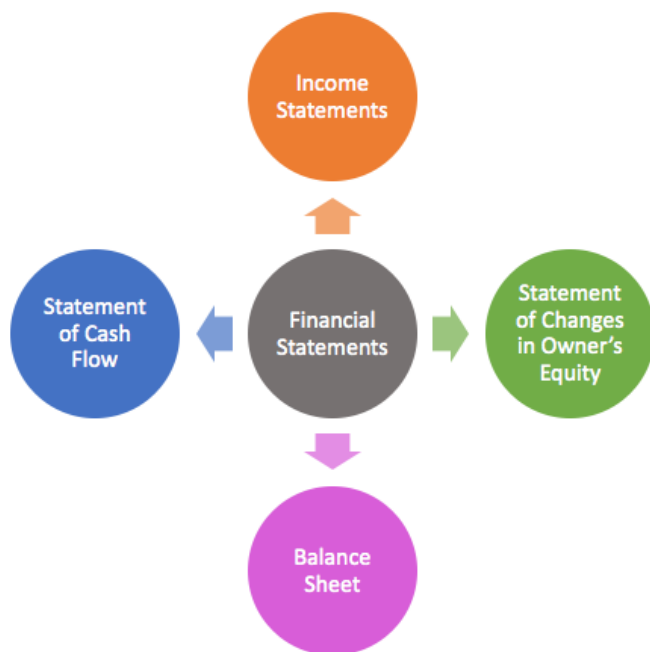
## 2f. Closing Entries

Once you have your financial statements, that part is complete. You can move on to making your closing entries. You can close out your temporary accounts--which are your revenues and expenses--for the period to start fresh for the next period.

| Accounts                             | Trial Balance |         | Adjustments |       | Adjusted Trial Balance |         | Income Statements |         | Balance Sheet |         | Closing Entries |         |
|--------------------------------------|---------------|---------|-------------|-------|------------------------|---------|-------------------|---------|---------------|---------|-----------------|---------|
|                                      | Dr.           | Cr.     | Dr.         | Cr.   | Dr.                    | Cr.     | Dr.               | Cr.     | Dr.           | Cr.     | Dr.             | Cr.     |
| Cash                                 | 100,000       |         |             |       | 100,000                |         |                   |         | 100,000       |         |                 |         |
| Accounts Receivable                  | 10,000        |         |             |       | 10,000                 |         |                   |         | 10,000        |         |                 |         |
| Supplies                             | 1,000         |         |             | 500   | 500                    |         |                   |         | 500           |         |                 |         |
| Prepaid Insurance                    | 5,000         |         |             | 1,000 | 4,000                  |         |                   |         | 4,000         |         |                 |         |
| Buildings                            | 50,000        |         |             |       | 50,000                 |         |                   |         | 50,000        |         |                 |         |
| Accumulated Depreciation - Buildings |               | 10,000  |             | 1,000 |                        | 11,000  |                   |         |               | 11,000  |                 |         |
| Accounts Payable                     |               | 5,000   |             |       |                        | 5,000   |                   |         |               | 5,000   |                 |         |
| Notes Payable                        |               | 25,000  |             |       |                        | 25,000  |                   |         |               | 25,000  |                 |         |
| Common Stock                         |               | 100,000 |             |       |                        | 100,000 |                   |         |               | 100,000 |                 |         |
| Retained earnings, 1/1/18            |               | 12,000  |             |       |                        | 12,000  |                   |         |               | 12,000  |                 |         |
| Owner Drawings                       | 2,000         |         |             |       | 2,000                  |         |                   |         | 2,000         |         |                 | 2,000   |
| Sales                                |               | 150,000 |             |       |                        | 150,000 |                   | 150,000 |               |         | 150,000         |         |
| Salaries Expense                     | 121,500       |         |             |       | 121,500                |         | 121,500           |         |               |         |                 | 121,500 |
| Advertising Expense                  | 10,000        |         |             |       | 10,000                 |         | 10,000            |         |               |         |                 | 10,000  |
| Interest Expense                     | 2,500         |         |             |       | 2,500                  |         | 2,500             |         |               |         |                 | 2,500   |
| Totals                               | 302,000       | 302,000 |             |       |                        |         |                   |         |               |         |                 |         |
| Depreciation Expense - Buildings     |               |         | 1,000       |       | 1,000                  |         | 1,000             |         |               |         |                 | 1,000   |
| Insurance Expense                    |               |         | 1,000       |       | 1,000                  |         | 1,000             |         |               |         |                 | 1,000   |
| Supplies Expense                     |               |         | 500         |       | 500                    |         | 500               |         |               |         |                 | 500     |
| Totals                               |               |         | 2,500       | 2,500 | 303,000                | 303,000 | 136,500           | 150,000 |               |         |                 |         |
| Net Income                           |               |         |             |       |                        |         | 13,500            |         |               | 13,500  |                 |         |
| Totals                               |               |         |             |       |                        |         | 150,000           | 150,000 | 166,500       | 166,500 |                 |         |
| Income Summary                       |               |         |             |       |                        |         |                   |         |               |         | 11,500          |         |
|                                      |               |         |             |       |                        |         |                   |         |               |         | 150,000         | 150,000 |

### 3. Financial Statements

The financial statements are the final step in the reporting process. There are four main financial statements:



A statement of changes in owner's equity is sometimes referred to as a statement of retained earnings. It's important to note that there is a specific order to the preparation of the financial statements:

1. Income statement.
2. Statement of changes in owner's equity: This is because the net income from your income statement flows into your statement of changes in owner's equity.
3. Balance sheet: It happens at this point in the order because the ending balance in the owner's equity from the statement of changes in owner's equity feeds into the balance sheet.

4. Statement of cash flows: This contains the ending cash balance, which is obtained from the balance sheet.

As you can see, the reason behind the specific order to the financial statements is because information from one financial statement flows into the succeeding one.



## SUMMARY

Today we learned about **time periods and reporting**, including the different reporting requirements. We walked through a **trial balance worksheet**, from the trial balance all the way through to the closing entries. Lastly, we discussed the four main **financial statements**, including the source of the financial statements, as well as their sequence. We learned how the net income from the income statement feeds into the statement of changes in owner's equity, the statement of changes of owner's equity feeds into the balance sheet, and the balance sheet provides the ending cash balance for the statement of cash flows.

Source: Adapted from Sophia instructor Evan McLaughlin.