9/8

- The financial statements can be prepared from the adjusted trial balance.
- The income statement lists the revenue and expense.
- The statement of retained earnings shows the changes in retained earnings.
- The balance sheet reports assets, liabilities, and stockholders' equity.

Closing the Books

- Prepares the accounts for next period
- Temporary accounts are set to zero and closed into Retained earnings
- Permanent accounts are not closed
- Because revenues and expenses relate to a limited period, they are called temporary accounts.
- Temporary
  - Closed
  - Revenues, expenses and dividends
- The permanent accounts are not closed at the end of the period because they carry over to the next period.
- Permanent
  - Not closed
  - Assets, liabilities and equity
- Closing entries transfer the revenue, expense, and dividends balances to Retained Earnings. Here are the steps to close the books of a company:

1) Debit each revenue account for the amount of its credit balance. Credit Retained earnings for the sum of the revenues. Now the sum of the revenues is in Retained earnings.

2) Credit each expense account for the amount of its debit balance. Debit Retained earnings for the sum of the expenses. The sum of the expenses is now in Retained earnings.

3) Credit the Dividends account for the amount of its debit balance. Debit Retained earnings. This entry places the dividends amount in the debit side of Retained earnings.

- Current Ratio
  - It divides total current assets by total current liabilities, taken from the balance sheet.
  - The current ratio measures the company's ability to pay current liabilities with current assets.
  - Strong current ratio is 1.50
- Debt Ratio
  - It is the ratio of total liabilities to total assets.
  - The debt ratio indicates the proportion of a company's assets that is financed with debt.
  - Low debt ratio is better than a high debt ratio