

WHAT'S BEHIND STATEMENTS OF CHANGES IN OWNERS' EQUITY?

LEARNING OBJECTIVES

After completing this module you will be able to:

- Trace the financial-statement effects of entries to line items on balance sheets, income statements and statements of changes in owners' equity.
- Record dividend and closing entries and create statements of changes in owners' equity.



Key take-aways:

- The power of learning entries is that it helps you better interpret numbers and connect them to the underlying business activities. The entries are the “connective glue” that ties the financial statements to the business. The Record-Keeping and Reporting (R&R) Map illustrates these connections.
- The effects of some entries, like recording dividends and closing entries, are disclosed directly on the statements. Knowing the related entries not only helps you connect what you see to the business activity, moreover, they also help you know the effects that aren't disclosed - the other side of the entry - such as dividends payable and cash. This also helps you connect what you see on one statement to another.

Key terms:

- **Closing entries** - Entries to transfer income account balances to permanent owners' equity accounts, leaving income account balances at zero at the end of the reporting period. For example, entries to transfer net income account balances to retained earnings.
- **Dividends** - Distribution (usually cash) of a company's retained earnings to its shareholders.
- **Owners' equity** - Owners' claims on entity's assets. Total owners' equity is the accounting or book value of the owners' claims, which generally differs from fair values. Also called stockholders' equity or shareholders' equity.
- **Retained earnings** - Net profits and losses (earnings) the company has accumulated since it started less the accumulated distributions of earnings to owners in the form of dividends or share repurchases. Also called Retained losses.
- **Reserves** - Other comprehensive income the company has accumulated since it started. Also called surplus, accumulated other comprehensive income, and other comprehensive income.

Figure 1 Common Entries Behind Statements of Changes in Owners' Equity

This figure demonstrates how the affects of dividend and closing entries are disclosed on the statement.

BISCHOFF GLOBAL SPORTSWEAR STATEMENT OF CHANGES IN EQUITY				
	Share Capital	Retained Earnings	Reserves	Total
<i>(In Millions)</i>				
December 31, 2011	\$180	\$179	\$16	\$375
Comprehensive income				
Profit (loss)		76		76
Other comprehensive income			24	24
Total		<u>76</u>	<u>24</u>	<u>100</u>
Common stock issued	7			7
Dividends declared		(23)		(23)
Other	27	7	(7)	34
December 31, 2012	\$214	\$239	\$33	\$486
Comprehensive income				
Profit (loss)		89		89
Other comprehensive income			24	24
Total		<u>89</u>	<u>24</u>	<u>113</u>
Common stock issued	10			10
Dividends declared		(25)		(25)
Other	29	7	(7)	36
December 31, 2013	\$253	\$310	\$50	\$613

Dividend
entries

Closing
entries

Figure 2 Record-Keeping and Reporting (R&R) Map — Phase 2

This figure illustrates how entries in the balance-sheet-equation matrix flows into the statements.

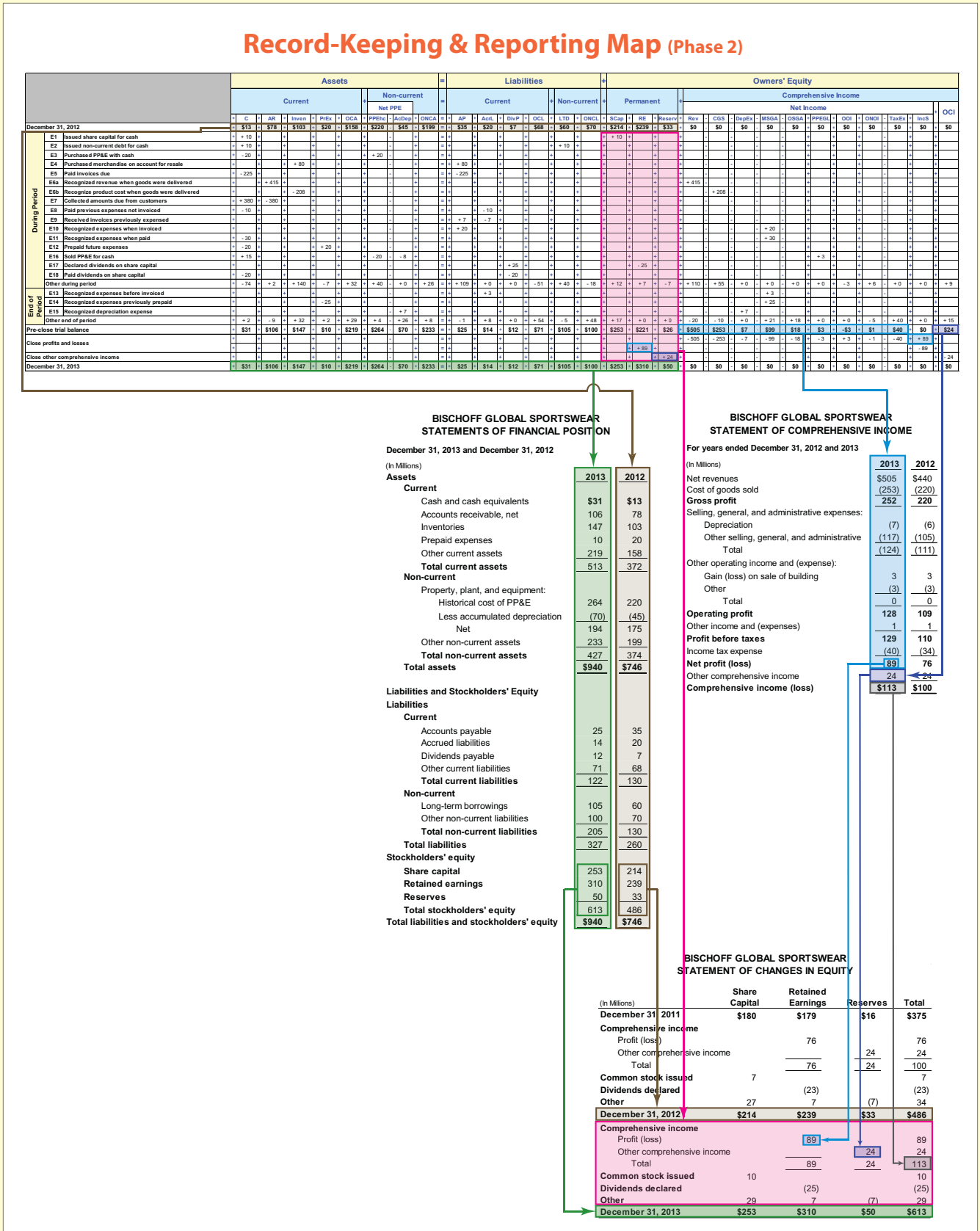


Figure 3 Accounting is not a spectator sport — it's game time

This figure lists Scenic route menus for additional information.

