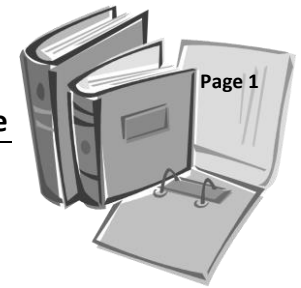


Absolute Advantage Publishing

A Review of the Accounting Cycle

PART I: Journal, Ledger, and Trial Balance



1. Journalize Business Transactions

Review the business transactions below for Absolute Advantage Publishing and then record these transactions in the journal.

Adam Smith started a book publishing business, Absolute Advantage Publishing, at the beginning of August 2018. These are the business transactions for the first month of operation for the business.

ASSUME THAT ALL TRANSACTIONS ARE IN CASH, UNLESS OTHERWISE SPECIFIED.

- Aug 1 Adam Smith started up Absolute Advantage Publishing by investing \$100,000 in the business. R1.
2 Paid rent for the month, \$5,000. C1.
3 Purchased equipment for \$12,000; paid \$2,000 in cash and \$10,000 on account. C2/M1.
4 Purchased supplies on account, \$15,000. M2.
5 Paid \$600 in advance for a six month insurance policy. C3.
18 Paid wages to employees of \$12,000. C4.
22 Sold \$10,000 of books to customers on account. S1.
29 Customers paid \$25,000 in advance for books that will not be delivered until next month (hint: these revenues have not yet been earned). T1.
30 Received a total of \$50,000 in cash from customers for books sold during the month. T2.
31 Adam Smith withdrew \$5,400 at the end of the month for personal use. C5.

PLEASE USE A PENCIL FOR YOUR WORK ON THIS PROBLEM!

Chart of Accounts

These are the account names and numbers that you should use throughout the problem.

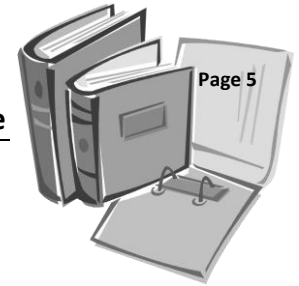
Some of these accounts will be used for adjusting & closing entries later.

Account Name	Number
ASSETS	
Cash	11
Accounts Receivable	12
Supplies	13
Prepaid Insurance	14
Equipment	15
Accumulated Depr. – Equip.	16
LIABILITIES	
Accounts Payable	21
Wages Payable	22
Unearned Revenues	23
OWNER'S EQUITY	
Adam Smith, Capital	31
Adam Smith, Drawing	32
INCOME SUMMARY	33
REVENUES	
Book Revenues	41
EXPENSES	
Depreciation Expense	51
Insurance Expense	52
Rent Expense	53
Supplies Expense	54
Wages Expense	55

Absolute Advantage Publishing

A Review of the Accounting Cycle

PART I: Journal, Ledger, and Trial Balance



PREPAID INSURANCE					Account No. 14					
Date	Item	Post. Ref.	Debit			Credit			Balance	
									Debit	Credit
	<i>Adjusting</i>									

EQUIPMENT					Account No. 15					
Date	Item	Post. Ref.	Debit			Credit			Balance	
									Debit	Credit

ACCUMULATED DEPRECIATION – EQUIPMENT					Account No. 16					
Date	Item	Post. Ref.	Debit			Credit			Balance	
									Debit	Credit
	<i>Adjusting</i>									

ACCOUNTS PAYABLE					Account No. 21					
Date	Item	Post. Ref.	Debit			Credit			Balance	
									Debit	Credit

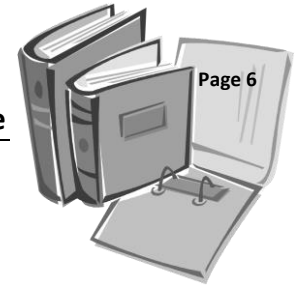
WAGES PAYABLE					Account No. 22					
Date	Item	Post. Ref.	Debit			Credit			Balance	
									Debit	Credit
	<i>Adjusting</i>									

UNEARNED REVENUES					Account No. 23					
Date	Item	Post. Ref.	Debit			Credit			Balance	
									Debit	Credit
	<i>Adjusting</i>									

Absolute Advantage Publishing

A Review of the Accounting Cycle

PART I: Journal, Ledger, and Trial Balance



ADAM SMITH, CAPITAL						Account No. 31								
Date	Item	Post. Ref.	Debit			Credit			Balance					
									Debit			Credit		
	<i>Closing</i>													
	<i>Closing</i>													

ADAM SMITH, DRAWING						Account No. 32								
Date	Item	Post. Ref.	Debit			Credit			Balance					
									Debit			Credit		
	<i>Closing</i>													

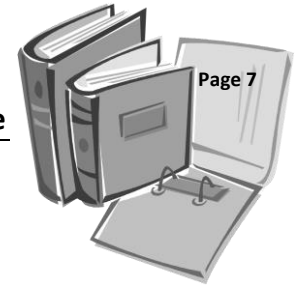
INCOME SUMMARY						Account No. 33								
Date	Item	Post. Ref.	Debit			Credit			Balance					
									Debit			Credit		
	<i>Closing</i>													
	<i>Closing</i>													
	<i>Closing</i>													

BOOK REVENUES						Account No. 41								
Date	Item	Post. Ref.	Debit			Credit			Balance					
									Debit			Credit		
	<i>Adjusting</i>													
	<i>Closing</i>													

Absolute Advantage Publishing

A Review of the Accounting Cycle

PART I: Journal, Ledger, and Trial Balance



DEPRECIATION EXPENSE						Account No. 51								
Date	Item	Post. Ref.	Debit			Credit			Balance					
									Debit			Credit		
	<i>Adjusting</i>													
	<i>Closing</i>													

INSURANCE EXPENSE						Account No. 52								
Date	Item	Post. Ref.	Debit			Credit			Balance					
									Debit			Credit		
	<i>Adjusting</i>													
	<i>Closing</i>													

RENT EXPENSE						Account No. 53								
Date	Item	Post. Ref.	Debit			Credit			Balance					
									Debit			Credit		
	<i>Closing</i>													

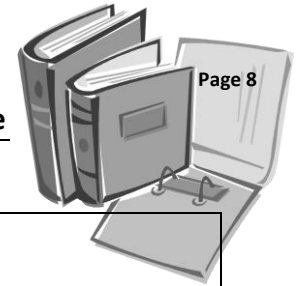
SUPPLIES EXPENSE						Account No. 54								
Date	Item	Post. Ref.	Debit			Credit			Balance					
									Debit			Credit		
	<i>Adjusting</i>													
	<i>Closing</i>													

WAGES EXPENSE						Account No. 55								
Date	Item	Post. Ref.	Debit			Credit			Balance					
									Debit			Credit		
	<i>Adjusting</i>													
	<i>Closing</i>													

Absolute Advantage Publishing

A Review of the Accounting Cycle

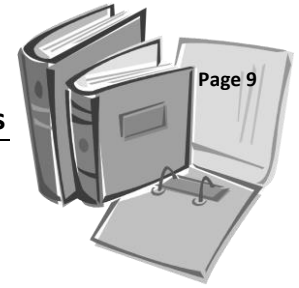
PART I: Journal, Ledger, and Trial Balance



3a. Prepare Trial Balance

Use the ending balances in the ledger accounts to prepare a trial balance. Total up debits and credits to make sure it balances!

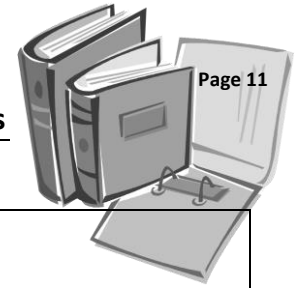
Absolute Advantage Publishing Trial Balance August 31, 2018		Debit			Credit		
Cash							
Accounts Receivable							
Supplies							
Prepaid Insurance							
Equipment							
Accumulated Depr. – Equip.							
Accounts Payable							
Wages Payable							
Unearned Revenues							
Adam Smith, Capital							
Adam Smith, Drawing							
Book Revenues							
Depreciation Expense							
Insurance Expense							
Rent Expense							
Supplies Expense							
Wages Expense							
TOTAL							



ADJUSTING ENTRIES

The adjusting entries for Absolute Advantage Publishing in August 2018 are listed below.
Use this information to complete Part II of the packet.

- ADJ1 Completed inventory at the end of the month and found that there were \$12,500 of supplies on hand. Record the supplies expense for the month.
- ADJ2 The equipment purchased earlier in the month for \$12,000 has a useful life of 10 years. Record depreciation expense for one month.
- ADJ3 Record insurance expense for one month on the policy purchased at the beginning of August.
- ADJ4 At the end of the month, there were \$10,000 in wages accrued but not yet paid to employees.
- ADJ5 Unexpectedly, \$8,000 of books were delivered to customers who had paid in advance earlier in the month. Adjust unearned revenues and book revenues for this transaction.

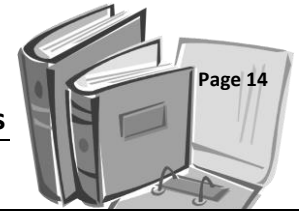


3c. Prepare Work Sheet: Part II

Copy adjusted trial balance data in first columns and then transfer to appropriate I/S and B/S columns.

Absolute Advantage Publishing Work Sheet: Part II For the Month Ended August 31, 2018

	ADJUSTED TRIAL BALANCE				INCOME STATEMENT				BALANCE SHEET			
	Debit		Credit		Debit		Credit		Debit		Credit	
Cash												
Accounts Receivable												
Supplies												
Prepaid Insurance												
Equipment												
Accumulated Depr. – Equip.												
Accounts Payable												
Wages Payable												
Unearned Revenues												
Adam Smith, Capital												
Adam Smith, Drawing												
Book Revenues												
Depreciation Expense												
Insurance Expense												
Rent Expense												
Supplies Expense												
Wages Expense												



4. Prepare Financial Statements
Balance Sheet

Absolute Advantage Publishing
Balance Sheet
August 31, 2018

<u>CURRENT ASSETS:</u>										<u>CURRENT LIABILITIES:</u>									
Cash	\$									Accounts Payable	\$								
Accounts Receivable	\$									Wages Payable	\$								
Supplies	\$									Unearned Revenues	\$								
Prepaid Insurance	\$									Total Current Liabilities							\$		
Total Current Assets						\$													
<u>PLANT, PROPERTY & EQUIP:</u>										<u>OWNER'S EQUITY:</u>									
Equipment	\$									Adam Smith, Capital (Ending)							\$		
Less: Accumulated Depr.-Equip	\$																		
Total Plant, Property & Equip						\$													
Total Assets						\$				Total Liabilities & Owner's Equity							\$		

5. Journalize & Post Adjusting Entries

Use the Journal and Ledger from Part I to complete these entries.

The "Item" description has already been completed for you to show it is an adjusting entry.

