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 2020. 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.
 - Paid wages to employees of \$12,000. C4.
 - Earned fees of \$10,000 from customers on account. \$1.
 - Customers paid \$25,000 in advance for publishing services that will not be completed until next month (hint: these revenues have not yet been earned). T1.
 - Received fees earned of \$50,000 in cash from customers during the month. T2.
 - 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	
Fees Earned	41
EXPENSES	
Depreciation Expense	51
Insurance Expense	52
Rent Expense	53
Supplies Expense	54
Wages Expense	55

A Review of the Accounting Cycle

PART I: Journal, Ledger, and Trial Balance

e Page 2

Review your rules of debt and credit and remember these helpful hints:

- When ASSETS are increased: Debit
- When ASSETS are decreased: Credit
- REVENUES are Credits
- EXPENSES are Debits

(you can figure out most transactions knowing these four things)

	Journal								F	Page 1
Da	ate	Description	Doc. No.	Post. Ref.	De	bit		Cre	dit	
Aug	1									
	2									
	3									
	4									
	5									
	18									
	22									
	29									
	30									
	31									

Journal (Adjusting Entries)

Description

A Review of the Accounting Cycle

Date

31

31

31

31

31

Aug

	P	٩R	T I	: Jour	n	al,	
			Pa	age 2	1		
	Cr	edi	t				

ART I: Journal, Ledger, and Trial Balance



STOP

Do not fill in journal pages 2 and 3 until you get to the adjusting and closing entries (pages 14 and 15 at the end of the packet).

GO ON TO THE NEXT PAGE ...

	Page 3						al (Closing Entries)	Journal	
	it	Credit		Debit	Post. Ref.	Doc. No.	Description	ite	Da
Α								31	Aug
								31	
В									
С								31	
D								31	

Doc. Post.

No.

Ref.

Debit

PART I: Journal, Ledger, and Trial Balance

2. Post Transactions to Ledger

Post journal entries to the ledger. Include post references. Some lines/accounts will not be used until adjusting and closing entries.

CASH														-	Acco	unt	N	ο. :	11
		Post.												Bala	nce				
Date	Item	Ref.		ebi	it		Cr	edi	t		D	ebi	it			Cı	edi	t	

ACCOUN	NTS RECEIVABLE												A	Acco	unt	t N	o. 1	L 2
		Post.											Bala	nce				
Date	Item	Ref.	D	ebi	t		Cı	edit		Debit Credit								

SUPPLI	ES													- 1	Ассо	un	t N	o.	13
			Post.											Bala	nce				
Date		Item	Ref.	De	bit		Cı	redi	t		D	ebi	it			С	redi	it	
		Adjusting																	

A Review of the Accounting Cycle

PREPAII	O INSURANCE													-	Acco	un	t N	ο.	14
		Post.												Bala	nce				
Date	Item	Ref.	C)ebi	it		Cr	edi	it		C)eb	it			С	redi	it	
	Adjusting																		

EQL	JIPN	1EN	Γ													P	Ассо	un	t N	o. 1	L 5
				Post.												Bala	nce				
D	Date		Item	Ref.	D	ebi	t		Cre	edi	t	Debit					Cı	redi	t		

ACCUMULA	ATED DEPRECIATION	ON – EQ	UIPMENT				,	Account N	o. 16
		Post.					Bala	ince	
Date	Item	Ref.	Debit	Cred	it	Do	ebit	Credi	it
	Adjusting								

ACCOU	NTS	PAYABLE													F	Acco	unt	: No	o. :	21
			Post.												Bala	nce				
Date		Item	Ref.	C)ebi	it		Cr	edi	t		C)eb	it			Cı	edi	t	

WAGES	PAYABLE				,	Account No. 22
		Post.			Bala	
Date	Item	Ref.	Debit	Credit	Debit	Credit
	Adjusting					

UNEAR	NED	REVENUES											-	Acco	un	t N	o.	23
			Post.										Bala	nce				
Date		Item	Ref.	D	ebit		C	red	it)eb	it			С	red	it	
		Adjusting																



Closing

A Review of the Accounting Cycle

ADAM SN	IITH, CAPITAL												P	cco	unt	t N	ο. :	31
		Post.											Bala	nce				
Date	Item	Ref.	De	bit		Cı	red	it		D	ebi	t			Cı	redi	t	
																		ı
	Closina								•									

ADAM S	MITH, DRAWING													-	Ассо	un	t N	о.	32
		Post.												Bala	nce				
Date	Item	Ref.	D	ebi	t		Cr	edi	t		D	eb	it			C	red	it	
	Closing																		

INCOME S	SUMMARY										A	Acco	unt	N	o. 3	33
Date	Item	Post. Ref.	D	ebit		Cre	dit		D	ebi	Bala	nce	Cr	redi	t	
	Closing															
	Closing															
	Closing															

EES EARNI	ED											4	Acco	unt	: No	ο.	4
Data	lk	Post.	D-	L:A		C	! :			_ L	••	Bala	nce	<u> </u>	!:		
Date	Item	Ref.	De	bit		Cr	edi	τ		Peb	Iτ			Ci	edi	τ	F
																	Ī
										<u> </u>							Ļ
	Adjusting																
	Closing																Ī



A Review of the Accounting Cycle

DEPRECIA	TION EXPENSE													1	Acco	un	t N	ο.	51
		Post.												Bala	nce				
Date	Item	Ref.	C)ebi	it		Cr	edi	t		D	ebi	it			Cı	redi	it	
	Adjusting																		
	Closing																		

INSURA	NCE EXPENSE												P	Acco	un	t N	ο.	52
		Post.											Bala	nce				
Date	Item	Ref.	De	ebit		Cı	red	it		D	eb	it			C	red	it	
	Adjusting																	
	Closing																	

RENT EX	KPENSE													I	Acco	un	t N	o. !	53
		Post.												Bala	nce				
Date	Item	Ref.	D	ebi	t		Cı	red	it		D	eb	it			Cı	redi	it	
	Closing																		

SUPPLII	S EXPENSE											Α	Acco	unt	: No	o. !	54
		Post.										Bala	nce				
Date	Item	Ref.	Dek	oit		Cr	edit		D	ebi	t			Cr	edi	t	
	Adjusting																
	Closing																

WAGES	EXPENSE												Α	Acco	unt	t N	ο. Ι	55
		Post.											Bala	nce				
Date	Item	Ref.	De	ebit		C	red	it		D	ebi	it			Cı	redi	t	
	Adjusting																	
	Closing																	



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, 2020

	Debit	Credit
Cash		
Accounts Receivable		
Supplies		
Prepaid Insurance		
Equipment		
Accumulated Depr. – Equip.		
Accounts Payable		
Wages Payable		
Unearned Revenues		
Adam Smith, Capital		
Adam Smith, Drawing		
Fees Earned		
Depreciation Expense		
Insurance Expense		
Rent Expense		
Supplies Expense		
Wages Expense		
TOTAL		

PART II: Adjusting Entries and Financial Statements



ADJUSTING ENTRIES

The adjusting entries for Absolute Advantage Publishing in August 2020 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 put 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 Fees Earned for this transaction.

A Review of the Accounting Cycle

PART II: Adjusting Entries and Financial Statements

Page 10

3b. Prepare Work Sheet: Part I

Copy trial balance data to first columns and then fill in adjustment data. Add across.

Absolute Advantage Publishing Work Sheet: Part I For the Month Ended August 31, 2020

aujustinent uata. Auu across.			Т	RIAL	BAL	ANC	Ε			AD.	JUST	MEN	ITS					STEE ALAN			
		De	ebit			Cr	edit		Dek	oit			Cred	dit		Del	bit		Cr	edit	
Cash																					
Accounts Receivable																					
Supplies																					
Prepaid Insurance																					
Equipment																					
Accumulated Depr. – Equip.																					
Accounts Payable																					
Wages Payable																					
Unearned Revenues																					
Adam Smith, Capital																					
Adam Smith, Drawing																					
Fees Earned																					
Depreciation Expense																					
Insurance Expense																					
Rent Expense																					
Supplies Expense																					
Wages Expense																					
TOTAL																					

A Review of the Accounting Cycle

PART II: Adjusting Entries and Financial Statements

Page 11

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, 2020

ransfer to appropriate I/S and B/S columns.				ADJUSTED TRIAL BALANCE						INCOME STATEMENT						BALANCE SHEET									
		D	ebit			С	redit				Debi	t			Cre	edit			De	bit			Cr	edit	_
Cash																									
Accounts Receivable																									Ī
Supplies																									1
Prepaid Insurance																									Ī
Equipment																									Ť
Accumulated Depr. – Equip.																									Ť
Accounts Payable																									+
Wages Payable																									T
Unearned Revenues																									Ī
Adam Smith, Capital																									Ť
Adam Smith, Drawing																									Ť
Fees Earned																			1 1						
Depreciation Expense																		Ī							
Insurance Expense																		Ī							
Rent Expense																		Ī							
Supplies Expense																		T							
Wages Expense																		T							
																									T
																									t
						-			+									\parallel	+	+					+

A Review of the Accounting Cycle

PART II: Adjusting Entries and Financial Statements

4. <u>Prepare Financial Statements</u> Income Statement

Absolute Advantage Publishing Income Statement For the Month Ended August 31, 2020 Page 12

REVENUES:	
Fees Earned	\$
EXPENSES:	
Depreciation Expense	\$
Insurance Expense	\$
Rent Expense	\$
Supplies Expense	\$
Wages Expense	\$
Total Expenses	\$
NET INCOME	\$

A Review of the Accounting Cycle

PART II: Adjusting Entries and Financial Statements

Page 13

4. <u>Prepare Financial Statements</u> Statement of Owner's Equity

Absolute Advantage Publishing Statement of Owner's Equity For the Month Ended August 31, 2020

		Ш		
ADAM SMITH, CAPITAL (Beginning)		\$	0	
ADD: NET INCOME	\$			_
ADD: INVESTMENTS	\$		1	_
LESS: WITHDRAWALS	\$		1	_
TOTAL CHANGES TO OWNER'S EQUITY		\$		
ADAM SMITH, CAPITAL (Ending)		\$		
				_
			1	_

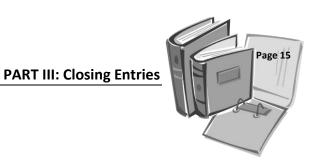
PART II: Adjusting Entries and Financial Statements

4 Dunneys Financial Chat		_						8	1	7
4. Prepare Financial Stat Balance Sheet	ements	<u> </u>		А	te Advantage Publishing Balance Sheet August 31, 2020					
CURRENT ASSETS:					CURRENT LIABILITIES:					
Cash	\$				Accounts Payable	\$				
Accounts Receivable	\$				Wages Payable	\$				
Supplies	\$				Unearned Revenues	\$				
Prepaid Insurance	\$				Total Current Liabilities			\$		
Total Current Assets				\$						
PLANT, PROPERTY & EQUIP:					OWNER'S EQUITY:					
Equipment	\$				Adam Smith, Capital (Ending)			\$		
Less: Accumulated DeprEquip	\$									
Total Plant, Property & Equip				\$						
Total Assets				\$	Total Liabilities & Owner's Equity			\$		

5. Journalize & Post Adjusting Entries

Use the <u>Journal</u> and <u>Ledger</u> from Part I to complete these entries.

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



6. <u>Journalize & Post Closing Entries</u>

Refer to the information in the adjusted trial balance for Absolute Advantage Publishing (in Part II) to complete the closing journal entries (in Part I). Post these closing entries to the appropriate ledger accounts. Remember, the purpose of closing entries is to zero out the temporary accounts (revenues, expenses and drawing), and move those amounts into the capital account.

7. Prepare Post-Closing Trial Balance

Complete the post-closing trial balance to the right. Note that you should have zeros in all of the temporary accounts (revenues, expenses and drawing).

CLOSING PROCESS

- A. Revenues transferred to Income Summary.
- B. Expenses transferred to Income Summary.
- C. Income Summary (net income) transferred to Capital.
- D. Drawing transferred to Capital.

Absolute Advantage Publishing Post-Closing Trial Balance August 31, 2020

Debit	Credit
	Debit