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 2014. 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.
 - 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.
 - Received a total of \$50,000 in cash from customers for books sold 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	
Book Revenues	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

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								P	age 1
Da	ate	Description	Doc. No.	Post. Ref.	De	bit		Cre		
Aug	1									
	2									
	3									
	4									
	5									
	18									
	22									
	29									
	30									
	31									<u> </u>

A Review of the Accounting Cycle

	PA	RT	· 1:	Jou	nal, Ledger, and Trial Balance	Page 3
			Pa	ige 2		W Say
1	Cre	dit				

	Journ	nal (Adjusting Entries)						F	Page 2
Da	ite	Description	Doc. No.	Post. Ref.	Debi	t	Cre	edit	
Aug	31								
	24								
	31							+	
	31								
	31								
	31								

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					nal (Closing Entries)	Journ	
		Cred	Debit	Post. Ref.	Doc. No.	Description	Date	D
Α							31	Aug
							31	
В								
<u> </u>							31	
С								
D							31	

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															A	Acco	unt	t N	o. :	11
		Post.													Bala	nce				
Date	Item	Ref.		D	ebi	it		Cr	edit	t		D	ebi	it			Cı	redi	it	
			-				-									-				

ACCOUN	NTS	RECEIVABLE				_			_				Δ	Acco	unt	: N	ο. :	12
			Post.										Bala	nce				
Date		Item	Ref.	De	bit		Cr	edit		D	ebi	t			Cr	redi	it	

SUPPLII	ES			_										Δ	cco	unt	: No	o. 1	13
			Post.										В	Bala	nce				
Date		Item	Ref.		De	ebit		Cre	edit		D	ebit				Cr	redi	t	
		Adjusting																	

A Review of the Accounting Cycle

PREPAI	D INSURANCE															1	Acco	unt	: N	ο. :	14
		Post.														Bala	nce				
Date	Date Item Ref. Debit Cre												C)eb	it			Cı	redi	t	
	Adjusting																				

EQUIPN	/IEN	Г													A	Ассо	un	t N	o. 1	L5
			Post.												Bala	nce				
Date		Item	Ref.	D)ebi	it		Cre	edi	it		D	eb	it			С	redi	it	

ACCUMUL	ATED DEPRECIATION	ON – EQ	UIPMENT			Account No. 16
		Post.			Bala	nce
Date	Item	Ref.	Debit	Credit	Debit	Credit
	Adjusting					

ACCOU	NTS	PAYABLE													A	Acco	unt	: No	o. 2	21
			Post.												Bala	nce				
Date		Item	Ref.	C)ebi	it		Cr	edit	:		D	ebi	it			Cı	redi	t	

WAGES	PAYAB	BLE										P	Acco	unt	No	. 2	2
			Post.									Bala	nce				
Date		Item	Ref.	De	ebit		C	redi	t	De	bit			Cr	edit		
		Adjusting															

UNEAR	NED	REVENUES											P	Acco	unt	t No	ο. :	23
			Post.										Bala	nce				
Date		Item	Ref.	De	bit		Cr	edit		D	ebi	it			Cı	redi	t	
		Adjusting																



A Review of the Accounting Cycle

ADAM SM	TH, CAPITAL													I	Ассо	un	t N	ο. :	31
Date	Item	Post. Ref.	C)ebi	t		Cr	edi	t		C)eb	it	Bala	nce	C	red	it	
	Closing																		
	Closing																		

ADAM :	SMITH, DR	AWING													A	Acco	ınt	: N	o. 3	32
			Post.												Bala	nce				
Date		Item	Ref.	D	ebi	it		Cr	edi	it		D	ebi	it			Cr	redi	t	
		Closing																		

INCOME S	SUMMARY											A	Acco	unt	: No	o. 3	33
Date	Item	Post. Ref.	D	ebit	t		Cre	dit		D	ebi	Bala	nce	Cr	redi	t	
	Closing																
	Closing																
	Closing																

BOOK RE	VENUES												A	cco	uni	t N	ο.	41
Date	Item	Post. Ref.	De	ebit		С	red	it		D	ebi	it	Bala	nce	C	red	it	
	2 // //																	
	Adjusting																	
	Closing																	



A Review of the Accounting Cycle

DEPRECIA	TION EXPENSE											-	Acco	unt	t No	o. :	51
		Post.										Bala	nce				
Date	Item	Ref.	Del	bit		Cı	redi	t	[Deb	it			Cı	redi	t	
	Adjusting																
	Closing																

INSURA	NCE EXPENSE													-	ccoı	ınt	: N	o. !	52
		Post.												Bala	nce				
Date	Item	Ref.	D	ebi	t		Cr	edi	it		D	eb	it			Cı	redi	t	
	Adjusting																		
	Closing																		

RENT EXP	PENSE													P	cco	unt	t N	o. !	53
Date	Item	Post. Ref.	D	ebit	t		Cr	ed	it		D	eb	it	Bala	nce	Cı	redi	ít	
		-																	
	Closing																		

SUPPLIE	ES EXPENSE											P	Acco	unt	t No	o. !	54
		Post.										Bala	nce				
Date	Item	Ref.	De	bit		Cr	edit		D	ebi	it			Cı	redi	t	
	Adjusting																
	Closing																

WAGES	EXPENSE										-	Acco	unt	: No	. 5	55
		Post.									Bala	nce				
Date	Item	Ref.	Deb	it		Cr	redi	t	D	ebit			Cı	edit		
	Adjusting															
	Closing															



A Review of the Accounting Cycle

PART I: Journal, Ledger, and Trial Balance

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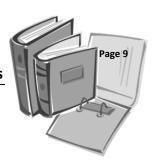
3a. Prepare Trial Balance

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, 2014

		С	ebit		Cre	dit	•	
Cash								
Accounts Receiv	vable							
Supplies								
Prepaid Insuran	се							
Equipment								
Accumulated Do	epr. – Equip.							
Accounts Payab	le							
Wages Payable								
Unearned Reve	nues							
Adam Smith, Ca	pital							
Adam Smith, Dr	awing							
Book Revenues								
Depreciation Ex	pense							
Insurance Expe	nse							
Rent Expense								
Supplies Expens	Se .							
Wages Expense								
	TOTAL							

PART II: Adjusting Entries and Financial Statements



ADJUSTING ENTRIES

The adjusting entries for Absolute Advantage Publishing in August 2014 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 book revenues 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, 2014

adjustment data. Add across.		T	RIAL	BALA	ANCE	•				ADJ	UST	MEN	ITS						STEE ALAN			
	D	ebit			Cre	edit		Debit			Credit			Debit				Cre	edit			
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																						

A Review of the Accounting Cycle

PART II: Adjusting Entries and Financial Statements

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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, 2014

	ADJUSTED TRIAL BALANCE						INCOME STATEMENT						BALANCE SHEET										
	D	ebit			Cre	dit			Debit				Credit			Debit					Cre	dit	_
ash																							
ccounts Receivable																							
upplies																							
repaid Insurance															Ī								
quipment																							
ccumulated Depr. – Equip.																							Ī
ccounts Payable																							Ī
Vages Payable																							Ī
nearned Revenues																							
dam Smith, Capital																							
dam Smith, Drawing															Ī								
ook Revenues																			'				
epreciation Expense																							
nsurance Expense																							
ent Expense																							
upplies Expense																							
Vages Expense																							
		\dagger																$ \cdot $					
																		H					F

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, 2014 Page 12

REVENUES: \$ Book Revenues \$ EXPENSES: Depreciation Expense \$ Insurance Expense \$ Rent Expense \$ Supplies Expense \$ Wages Expense \$ Total Expenses \$ NET INCOME \$		 		 	
Book Revenues \$ \$					
EXPENSES: \$ \$ Depreciation Expense \$ \$ Insurance Expense \$ \$ Rent Expense \$ \$ Supplies Expense \$ \$ Wages Expense \$ \$ Total Expenses \$ \$	<u>REVENUES</u> :				
Depreciation Expense \$	Book Revenues			\$	
Depreciation Expense \$					
Insurance Expense \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	EXPENSES:				
Rent Expense \$ Supplies Expense	Depreciation Expense	\$			
Supplies Expense \$	Insurance Expense	\$			
Wages Expense \$ Total Expenses \$ \$	Rent Expense	\$			
Total Expenses \$	Supplies Expense	\$			
	Wages Expense	\$			
NET INCOME \$	Total Expenses			\$	
NET INCOME \$ \$					
	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, 2014

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

PART II: Adjusting Entries and Financial Statements

Page 14

4 Duanana Financial Chat							J.	
4. Prepare Financial State Balance Sheet	ements		Ab	solute Advantage Publishing Balance Sheet August 31, 2014				
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.

A Review of the Accounting Cycle

PART III: Closing Entries

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, 2014

	D	ebi	t		Cre	dit	\Box
Cash							
Accounts Receivable							
Supplies							T
Prepaid Insurance							
Equipment							T
Accumulated Depr. – Equip.							
Accounts Payable							T
Wages Payable							T
Unearned Revenues							T
Adam Smith, Capital							
Adam Smith, Drawing							
Book Revenues							
Depreciation Expense							
Insurance Expense							
Rent Expense							
Supplies Expense							
Wages Expense							
TOTAL							