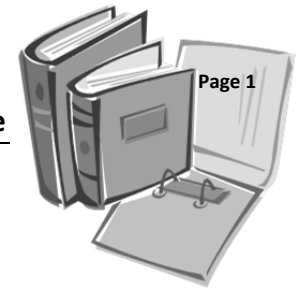


Absolute Advantage Publishing

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 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.
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.

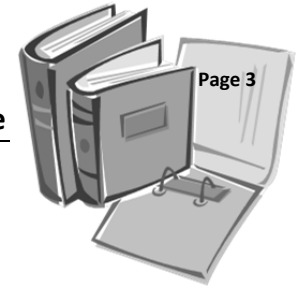
Some of these accounts will be used for adjusting & closing entries later.

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



Journal (Adjusting Entries)											Page 2	
Date		Description	Doc. No.	Post. Ref.	Debit				Credit			
Aug	31											
	31											
	31											
	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 ...

Journal (Closing Entries)											Page 3	
Date		Description	Doc. No.	Post. Ref.	Debit				Credit			
Aug	31											
	31											
	31											
	31											

A

B

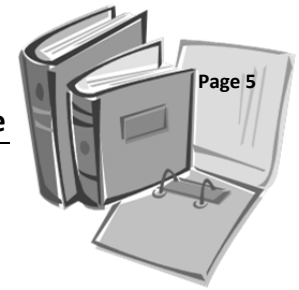
C

D

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

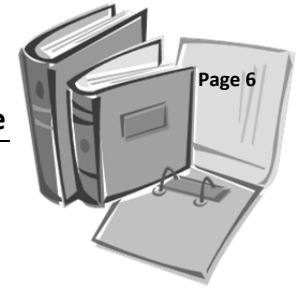
WAGES PAYABLE					Account No. 22					
Date	Item	Post. Ref.	Debit			Credit			Balance	
									Debit	Credit
	<i>Adjusting</i>									

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>													

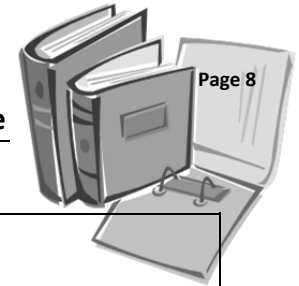
INCOME SUMMARY							Account No. 33							
Date	Item	Post. Ref.	Debit				Credit				Balance			
											Debit		Credit	
	<i>Closing</i>													
	<i>Closing</i>													
	<i>Closing</i>													

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

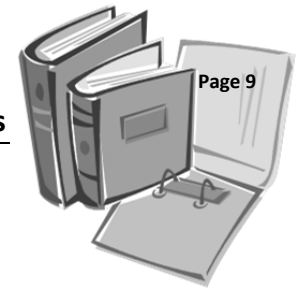


3a. Prepare Trial Balance

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

	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						

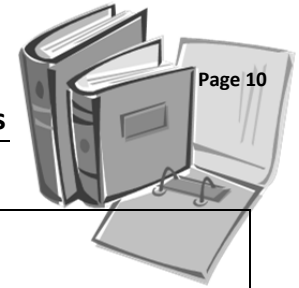


ADJUSTING ENTRIES

The adjusting entries for Absolute Advantage Publishing in August 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 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.

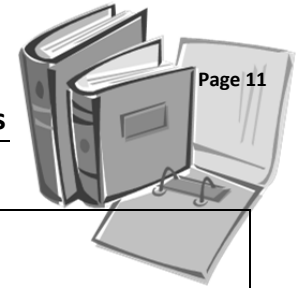


3b. Prepare Work Sheet: Part I

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**

	TRIAL BALANCE				ADJUSTMENTS				ADJUSTED TRIAL BALANCE							
	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																
TOTAL																

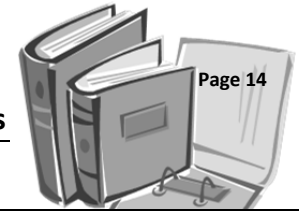


3c. Prepare Work Sheet: Part II

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			
	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

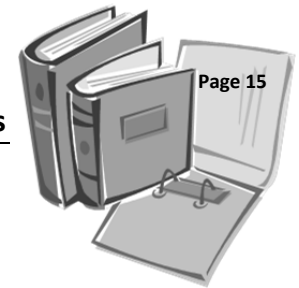
Absolute Advantage Publishing
Balance Sheet
August 31, 2014

<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.



6. Journalize & Post Closing Entries

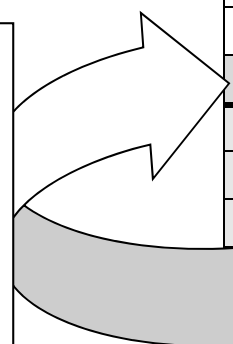
Refer to the information in the adjusted trial balance for Absolute Advantage Publishing (in Part II) to complete the closing journal entries (in Part I). Post these closing entries to the appropriate ledger accounts. Remember, the purpose of closing entries is to zero out the temporary accounts (revenues,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