#### 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.
  - Paid wages to employees of \$12,000. C4.
  - Sold \$10,000 of books to customers on account. S1.
  - 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								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									

A Review of the Accounting Cycle

PART	۱: Jo	urna	l, Led	lger,	and	Trial	Bal	ance

	Journ	nal (Adjusting Entries)								Page	2
Da	ite	Description	Doc. No.	Post. Ref.	Debi	t		Cr	edit		
Aug	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 ...

	Page 3	F	 					al (Closing Entries)	Journ	
	:	Credit		bit	De	ost. Ref.		Description	ate	Da
Α									31	Aug
									31	
В										
_									31	
С									24	
ח									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														1	Acco	unt	: N	ο. :	11
		Post.												Bala	nce				
Date	Item	Ref.		ebi	it		Cr	edi	t		D	ebi	it			Cı	edi	t	

ACCOU	NTS	RECEIVABLE														A	Acco	unt	t N	o. 1	.2
			Post.													Bala	nce				
Date		Item	Ref.	Debit						Cr	edit	t	D	ebi	it			Cı	redi	t	

SUPPLII	ES												-	Ассо	un	t N	o.	13
			Post.										Bala	nce				
Date		Item	Ref.	De	ebit		Cı	edit		D	ebi	it			C	redi	it	
		Adjusting																

## A Review of the Accounting Cycle

PREPAI	D INSURANCE													-	Acco	un	t N	ο.	14
		Post.												Bala	nce				
Date	Item	Ref.	D	ebi	it	Credit				D	ebi	it			Cı	redi	t		
	Adjustin	9																	

EQUIPM	1ENT														P	Ассо	un	t N	o. 1	.5
			Post.												Bala	nce				
Date		Item	Ref.	D	ebi	t		Cı	redi	it		C	)eb	it			C	redi	it	
											1	1								

ACCUM	IULA	TED DEPRECIATION									P	Acco	unt	: No	o. 1	.6					
	Post.															Bala	nce				
Date		Item	Ref.		Debit					Cre	dit		D	ebi	t			Cr	edi	t	
		Adjusting																			

ACCOU	NTS	PAYABLE														A	Acco	unt	t N	o. :	21
			Post.													Bala	nce				
Date		Item	Ref.					Cr	edit	t		C	ebi	it			Cı	redi	t		

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

UNEAR	NED REVENU	ES													-	Acco	unt	t N	ο. Ί	23
		Pos	it.												Bala	nce				
Date	Ite	m Re	f.	D	ebi	t		Cr	edi	t		D	ebi	it			Cı	redi	it	
																				1
	Adju	ting																		



## A Review of the Accounting Cycle

ADAM SM	ITH, CAPITAL													A	Acco	unt	t N	o.	31
		Post.												Bala	nce				
Date	Item	Ref.	C	)ebi	t		Cı	redi	t		D	)eb	it			Cı	redi	it	
	Closing																		
	Closina																		

ADAM	SMIT	H, DRAWING													I	Acco	un	t N	o. :	32
			Post.												Bala	nce				
Date		Item	Ref.	D	ebi	t		Cr	ed	it		D	eb	it			Cı	red	it	
		Closing																		

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

<b>SOOK REVE</b>	NUES		•		•	•				•				-	Acco	unt	t N	ο.	4:
		Post.												Bala	nce				
Date	Item	Ref.	De	bit			Cı	red	it		D	)ebi	it			Cı	redi	it	
																			L
	Adjusting																		
	Closing																		
	2.534.9																		l



## A Review of the Accounting Cycle

DEPRECIA	ATION EXPENSE													-	Acco	un	t N	о.	51
		Post.												Bala	nce				
Date	Item	Ref.	C	)ebi	it		Cr	edi	t		D	ebi	it			Cı	red	it	
	Adjusting																		
	Closing																		

INSURAN	ICE EXPENSE												-	Ассо	unt	t N	o.	52
		Post.											Bala	nce				
Date	Item	Ref.	D	ebi	t		Cre	edit	<u> </u>	[	Deb	it			Cı	redi	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																		

SUPPLIES	EXPENSE													P	Acco	uni	t N	ο.	54
Date	Item	Post. Ref.	D	ebi	t		C	redi	t		C	)eb	it	Bala	nce	Cı	redi	t	
	Adjusting		Ī																
	Closing																		

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



A Review of the Accounting Cycle

PART I: Journal, Ledger, and Trial Balance

Page 8

## 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 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** 

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## 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, 2018

aujustinent uata. Auu across.			TRIAL BALANCE					ADJUSTMENTS					ADJUSTED TRIAL BALAN										
		Debi	t			Cre	edit			Deb	it			Cred	lit		De	bit			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													İ										

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, 2018

transfer to appropriate I/S and B/S columns.		ADJUSTED TRIAL BALANCE						INCOME STATEMENT					BALANCE SHEET											
		D	ebi	t		Cred	dit			Deb	oit			Cre	dit			Del	bit			Cr	edit	
Cash																								
Accounts Receivable																								
Supplies																•						$\prod$	$\top$	1
Prepaid Insurance																•						$\prod$	$\dagger$	T
Equipment																•						T	Ť	T
Accumulated Depr. – Equip.																•						T	Ť	T
Accounts Payable																•						$\prod$	+	
Wages Payable																•						$\prod$	$\top$	1
Unearned Revenues																•						$\prod$	$\top$	1
Adam Smith, Capital																•						$\prod$	$\top$	1
Adam Smith, Drawing																							T	T
Book Revenues																								
Depreciation Expense																	Ī							
Insurance Expense																	Ī							
Rent Expense																	Ī							
Supplies Expense																	Ī							
Wages Expense																								
																						П		Τ
		$\dagger$													$\dagger \dagger$							$\dagger \dagger$	+	$\dagger$
		+													+				+			++	+	+

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, 2018 Page 12

REVENUES:                               Book Revenues                             EXPENSES:                             Depreciation Expense                             Insurance Expense                             Rent Expense					
Book Revenues					
EXPENSES:  Depreciation Expense \$	<u>REVENUES</u> :				
Depreciation Expense \$   \$	Book Revenues			\$	
Depreciation Expense \$   \$					
Insurance Expense \$	<u>EXPENSES</u> :				
	Depreciation Expense				
Rent Expense \$	Insurance Expense	\$			
	Rent Expense	\$			
Supplies Expense \$	Supplies Expense	\$			
Wages Expense \$	Wages Expense	\$			
Total Expenses \$	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, 2018

	<del>                                     </del>	
ADAM SMITH, CAPITAL (Beginning)	\$	0 (
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.	Prepare Financial Statements
	Balance Sheet

Absolute Advantage Publishing Balance Sheet August 31, 2018

CURRENT ASSETS:			CURRENT LIABILITIES:				
Cash	\$		Accounts Payable	\$			
Accounts Receivable	\$		Wages Payable	\$			
Supplies	\$		Unearned Revenues	\$			
Prepaid Insurance	\$		Total Current Liabilities			\$	
Total Current Assets		\$		1			
PLANT, PROPERTY & EQUIP:			OWNER'S EQUITY:	1			
Equipment	\$		Adam Smith, Capital (Ending)	1		\$	
Less: Accumulated DeprEquip	\$						
Total Plant, Property & Equip		\$		1			
Total Assets		\$	Total Liabilities & Owner's Equity			\$	
			1				

## 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, 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		