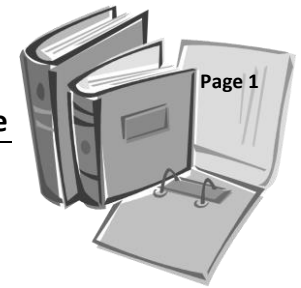


Absolute Advantage Publishing

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.

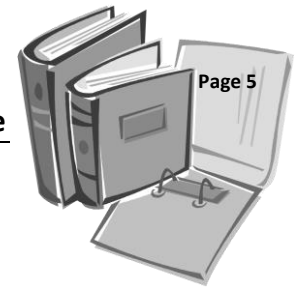
Some of these accounts will be used for adjusting & closing entries later.

| 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 |
| | | | | | | | | | | |

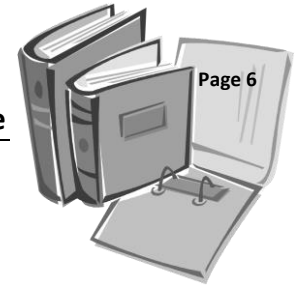
| WAGES PAYABLE | | | | | Account No. 22 | | | | | |
|---------------|------------------|------------|-------|--|----------------|--------|--|--|---------|--------|
| Date | Item | Post. Ref. | Debit | | | Credit | | | Balance | |
| | | | | | | | | | Debit | Credit |
| | <i>Adjusting</i> | | | | | |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

| 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> | | | | | | | | | | | | | |

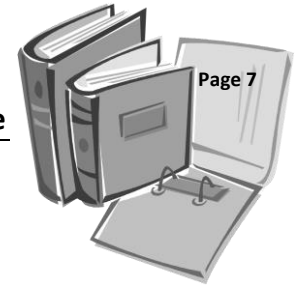
| INCOME SUMMARY | | | | | | Account No. 33 | | | | | | | | |
|----------------|----------------|------------|-------|--|--|----------------|--|--|---------|--|--|--------|--|--|
| Date | Item | Post. Ref. | Debit | | | Credit | | | Balance | | | | | |
| | | | | | | | | | Debit | | | Credit | | |
| | <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> | | | | | | | | | | | | | |

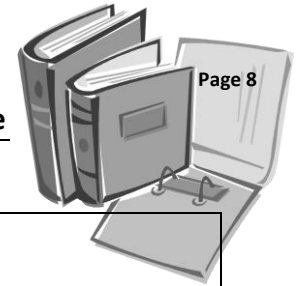
| SUPPLIES EXPENSE | | | | | | Account No. 54 | | | | | | | | |
|------------------|------------------|------------|-------|--|--|----------------|--|--|---------|--|--|--------|--|--|
| Date | Item | Post. Ref. | Debit | | | Credit | | | Balance | | | | | |
| | | | | | | | | | Debit | | | Credit | | |
| | <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

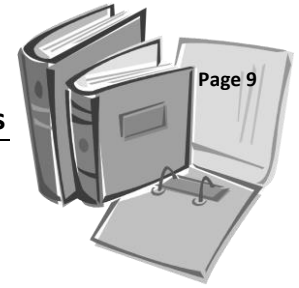
PART I: Journal, Ledger, and Trial Balance



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!

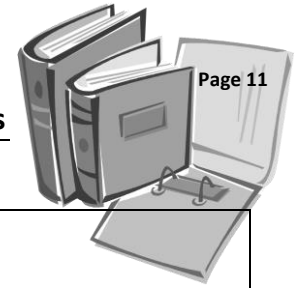
| Absolute Advantage Publishing Trial Balance August 31, 2018 | | Debit | | | Credit | | |
|---|--|-------|--|--|--------|--|--|
| Cash | | | | | | | |
| Accounts Receivable | | | | | | | |
| Supplies | | | | | | | |
| Prepaid Insurance | | | | | | | |
| Equipment | | | | | | | |
| Accumulated Depr. – 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.

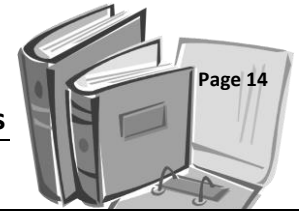


3c. Prepare Work Sheet: Part II

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.

