



# THE ACCOUNTING CYCLE CONTINUED

## Chapter 4

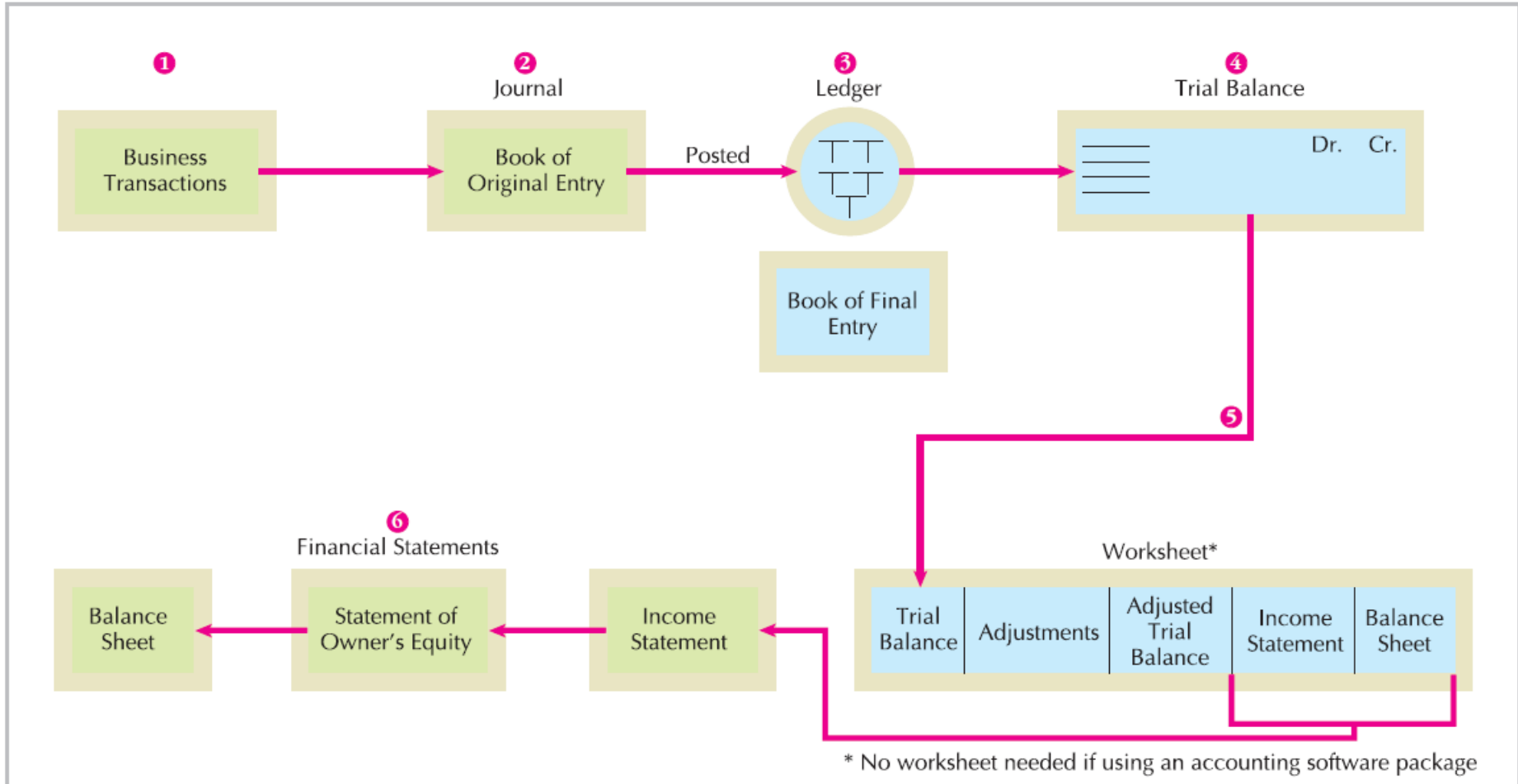
# Learning Objectives

1. Adjustments: prepaid rent, office supplies, depreciation on equipment, and accrued salaries.
2. Preparing the adjusted trial balance on the worksheet.
3. Preparing the income statement and balance sheet sections of the worksheet.
4. Preparing financial statements from the worksheet.

# Learning Objective 1

Adjustments: prepaid rent, office supplies, depreciation on equipment, and accrued salaries.

# Parts of the Manual Accounting Cycle



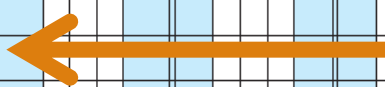
# Step 5 of the Accounting Cycle: Preparing a Worksheet

- Used to organize and check data
- Used to find and correct errors before financial statements are prepared
- Thought of as scrap paper
- Contains columns for Trial Balance, Adjustments, Adjusted Trial Balance, Income Statement, Balance Sheet

# Step 5 of the Accounting Cycle: Preparing a Worksheet

## CLARK'S WORD PROCESSING SERVICES WORKSHEET FOR MONTH ENDING MAY 31, 200X

Account Titles	Trial Balance				Adjustments		Adjusted Trial Balance		Income Statement	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.		
Cash	615500									
Accounts Receivable	500000									
Office Supplies	60000									
Prepaid Rent	120000									
Word Processing Equipment	600000									
Accounts Payable		335000								
Brenda Clark, Capital		1000000								
Brenda Clark, Withdrawals	62500									
Word Processing Fees		800000								
Office Salaries Expense	130000									
Advertising Expense	25000									
Telephone Expense	22000									
	<b>2135000</b>	<b>2135000</b>								



Trial Balance Column taken from the ledger

# Adjusting Entries

- Internal transactions
- Bring accounts up-to-date
- Recognize revenues and expenses in the proper accounting period



# Items That Need to be Adjusted

- Office supplies
- Prepaid Items (rent, advertising)
- Equipment (depreciation, accumulated depreciation)
- Expenses (salaries, rent, supplies)



# How to Analyze and Adjust Accounts

- Office Supplies Account
- Purchases of supplies = \$600
- Inventory of supplies = \$100
- Supplies used = \$500
- Supplies used become an expense

Office Supplies 114	
600	500
100	
↑	
This amount is supplies on hand.	

Office Supplies Exp. 514	
500	
This amount is supplies used up.	

# How to Analyze and Adjust Accounts

- Prepaid Rent Account
- Paid rent 3 months in advance = \$1,200
- One month's rent = \$400
- Rent used = \$400
- Rent used becomes an expense

Prepaid Rent 115	
1200	400
800	

Rent Expense 515	
400	

# How to Analyze and Adjust Accounts

- Word processing equipment
- Expected to help produce revenue
- Equipment is allocated over its useful life
- $$\frac{\text{Historical Cost} - \text{Residual Value}}{\text{Estimated Years of Usefulness}} = \text{Depreciation per Year}$$
- $$\frac{\$6,000 - \$1,200}{5 \text{ Years}} = \$960 \text{ per year}$$
- \$960 per year = \$80 per month
- Depreciation becomes an expense

# How to Analyze and Adjust Accounts

- Keep a running total of the depreciation taken
- Called Accumulated Depreciation

- 1 Historical cost of \$6,000 of equipment is not changed.
- 2 Amount of accumulated depreciation is \$80.
- 3 This figure shows the unused amount of the equipment that may be depreciated in future periods of time. This figure, the cost of the asset less its accumulated depreciation, is often termed *book value* or *carrying value*.

CLARK'S WORD PROCESSING SERVICES BALANCE SHEET MAY 31, 200X		
Assets		
-----		XXXX
Word Processing Equip.	\$6,000	
Less Accumulated Depreciation	<u>80</u>	5,920

# How to Analyze and Adjust Accounts

- Salaries Accrued Account
- John worked May 28, 29, 30, and 31
- This \$350 is an expense in May
- Accrued salaries payable is credited until paid

Office Salaries Exp. 511

1,300

**350**

Salaries Payable 212

**350**

Account Titles	Trial Balance				Adjustments			
	Dr.		Cr.		Dr.		Cr.	
Cash	6	155	500					
Accounts Receivable	5	000	000					
Office Supplies		6	000				(A)	50000
Prepaid Rent	1	200	000				(B)	40000
Word Processing Equipment	6	000	000					
Accounts Payable				3	350	000		
B. Clark, Capital				1	000	000		
B. Clark, Withdrawals	6	25	000					
Word Processing Fees				8	000	000		
Office Salaries Expense	1	300	000			(D)	35000	
Advertising Expense		2	500					
Telephone Expense		2	200					
	<b>21</b>	<b>35</b>	<b>000</b>	<b>21</b>	<b>35</b>	<b>000</b>		
Office Supplies Expense						(A)	50000	
Rent Expense						(B)	40000	
Depreciation Exp., W. P. Equip.						(C)	8000	
Accum. Deprec., W. P. Equip.							(C)	8000
Salaries Payable							(D)	35000
						<b>1</b>	<b>33</b>	<b>000</b>
						<b>1</b>	<b>33</b>	<b>000</b>

## Learning Objective 2

Preparing the adjusted trial balance on the worksheet.

# Adjusted Trial Balance

- Summarize the information in the trial balance and adjustments.
- Numbers are totaled from the trial balance and adjustments.
- Two debits will be added together.
- Two credits will be added together.
- A debit and a credit will take the difference.



# Adjusted Trial Balance

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	61 5500				61 5500	
Accounts Receivable	50 0000				50 0000	
Office Supplies	6 0000			(A) 5 0000	10 0000	
Prepaid Rent	12 0000			(B) 4 0000	8 0000	
Word Processing Equipment						
Accounts Payable						3 5000
B. Clark, Capital		10 000000				10 000000
B. Clark, Withdrawals	6 2500				6 2500	
Word Processing Fees		8 000000				8 000000
Office Salaries Expense	13 00000		(D) 3 5000		16 50000	
Advertising Expense						
Telephone Expense						
	<u>213 5000</u>	<u>213 5000</u>				
Office Supplies Expense			(A) 5 0000		5 0000	
Rent Expense			(B) 4 0000		4 0000	
Depreciation Exp., W. P. Equip.			(C) 8 000		8 000	
Accum. Deprec., W. P. Equip.				(C) 8 000		8 000
Salaries Payable				(D) 3 5000		3 5000
			<u>133 000</u>	<u>133 000</u>	<u>217 8000</u>	<u>217 8000</u>

A Debit minus A Credit = Difference

A Debit and A Debit = Added

# Learning Objective 3

Preparing the income statement and balance sheet sections of the worksheet.

# The Income Statement Section

Account Titles	Adjusted Trial Balance		Income Statement	
	Dr.	Cr.	Dr.	Cr.
Cash	615500			
Accounts Receivable	500000			
Office Supplies	10000			
Prepaid Rent	80000			
Word Processing Equipment	600000			
Accounts Payable		335000		
B. Clark, Capital		1000000		
B. Clark, Withdrawals	62500			
Word Processing Fees		800000		800000
Office Salaries Expense	165000		165000	
Advertising Expense	25000		25000	
Telephone Expense	22000		22000	
Office Supplies Expense	50000		50000	
Rent Expense	40000		40000	
Depreciation Exp., W. P. Equip.	8000		8000	
Accum. Deprec., W. P. Equip.		8000		
Salaries Payable		35000		
	<b>2178000</b>	<b>2178000</b>	<b>310000</b>	<b>800000</b>
Net Income			490000	
			<b>800000</b>	<b>800000</b>

Net Loss would be added below the credit column to equalize the columns





# Learning Objective 4

Preparing financial statements  
from the worksheet.

# Financial Statements are Prepared from the Worksheet

- To ensure the accuracy of the figures, we double-check that:
  1. All entries are recorded in the appropriate column.
  2. The correct amounts are entered in the proper places.
  3. The addition is correct across the columns.
  4. The columns are added correctly.

# Preparing the Income Statement

- When preparing the income statement, it is important to remember the following:
  1. Every figure on the formal statement is on the worksheet.
  2. No debit or credit columns appear on the formal statement.
  3. The inside column on financial statements is used for subtotaling.
  4. Withdrawals do not go on the income statement; they go on the statement of owner's equity.

# Preparing the Statement of Owner's Equity

- Check and verify if additional investments were made.
- Check the Capital account to determine if the amount is correct.
- Note how Net Income and Withdrawals aid in calculating the new figure for Capital.



# Preparing the Balance Sheet

- ❑ Remember that the totals on the worksheet do *not* match the totals on the balance sheet.
- ❑ Information is grouped differently on the formal statement.
- ❑ Accumulated Depreciation is subtracted from Equipment.
- ❑ Withdrawals are subtracted from Owner's Equity.

# Summary of the chapter

- When completing a worksheet, we list the original trial balance, add adjustments, complete an adjusted trial balance, and then decide which titles go on the income statement and balance sheet. Since we do not have columns for statement of owner's equity, withdrawals and net income will be placed on the balance sheet columns to arrive at a new figure for capital. Remember, it is the old figure for capital that is placed on the worksheet.

# Summary of the chapter

- Any item not listed on the original trial balance will be listed below the trial balance. This will happen when we make adjustments. Note that when we list each title below the trial balance, it will be increasing in value.
- There are no debits or credits on the formal financial statements. The three financial statements are made from the last four columns of the worksheet.

# Summary of the chapter

- The income statement is made up of revenues and expenses. Use the inside column for subtotalling. All numbers found on the income statement are also found on the worksheet.
- Note under assets how the inside column is used to calculate store equipment less accumulated depreciation. When the financial report is prepared, there are no debits or credits.

# Summary of the chapter

- The worksheet is prepared in terms of debits and credits, not the formal financial statements. The inside column of the financial statements is for subtotalling. The worksheet uses the old figure for Capital while the balance sheet uses the figure from the statement of owner's equity for the new figure of Capital. Many of the numbers on the statement of owner's equity and balance sheet will not be found on the worksheet since there are no debits or credits on formal financial statements.

# Questions



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