

Chapter 2

Accounting Cycle

ACCOUNTING INFORMATION SYSTEM

Accounting Information System (AIS)

- ◆ Collects and processes transaction data.
- ◆ Disseminates financial information to interested parties.
- ◆ Varies widely from business to business.
 - ▶ Nature of business
 - ▶ Type of transactions
 - ▶ Size of business
 - ▶ Volume of data
 - ▶ Informational demands

ACCOUNTING INFORMATION SYSTEM

Helps management answer such questions as:

- ◆ How much and what kind of debt is outstanding?
- ◆ Were our sales higher this period than last?
- ◆ What assets do we have?
- ◆ What were our cash inflows and outflows?
- ◆ Did we make a profit last period?
- ◆ Are any of our product lines or divisions operating at a loss?
- ◆ Can we safely increase our dividends to shareholders?
- ◆ Is our rate of return on net assets increasing?

ACCOUNTING INFORMATION SYSTEM

Debits and Credits

- ◆ An **account** shows the effect of transactions on a given asset, liability, equity, revenue, or expense account.
- ◆ **Double-entry** accounting system (two-sided effect).
- ◆ Recording done by debiting at least one account and crediting another.
- ◆ **DEBITS must equal CREDITS.**
- ◆ Debit = “Left”
- ◆ Credit = “Right”

Debits and Credits Summary

Normal
Balance
Debit

Normal
Balance
Credit

Liabilities	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Assets	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Equity	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Expense	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Revenue	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

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Debits and Credits Summary

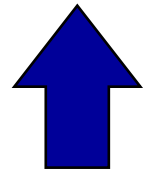
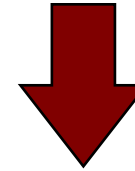
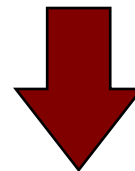
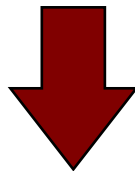
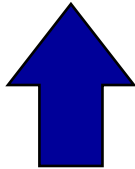
Statement of Financial Position

Income Statement

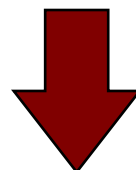
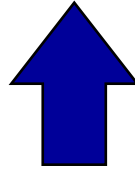
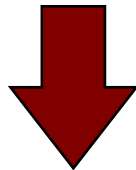
Asset = Liability + Equity

Revenue - Expense

Debit

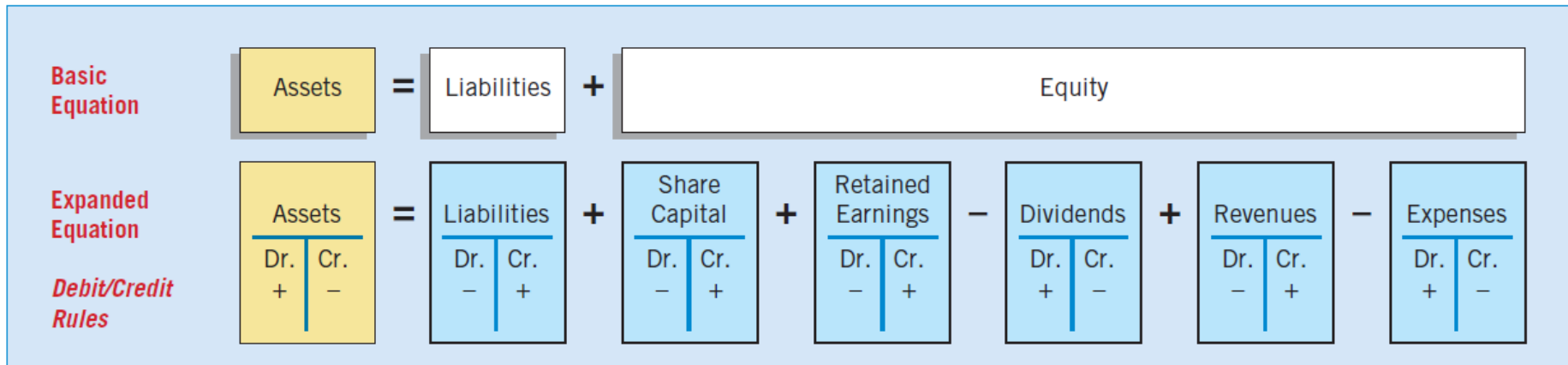


Credit



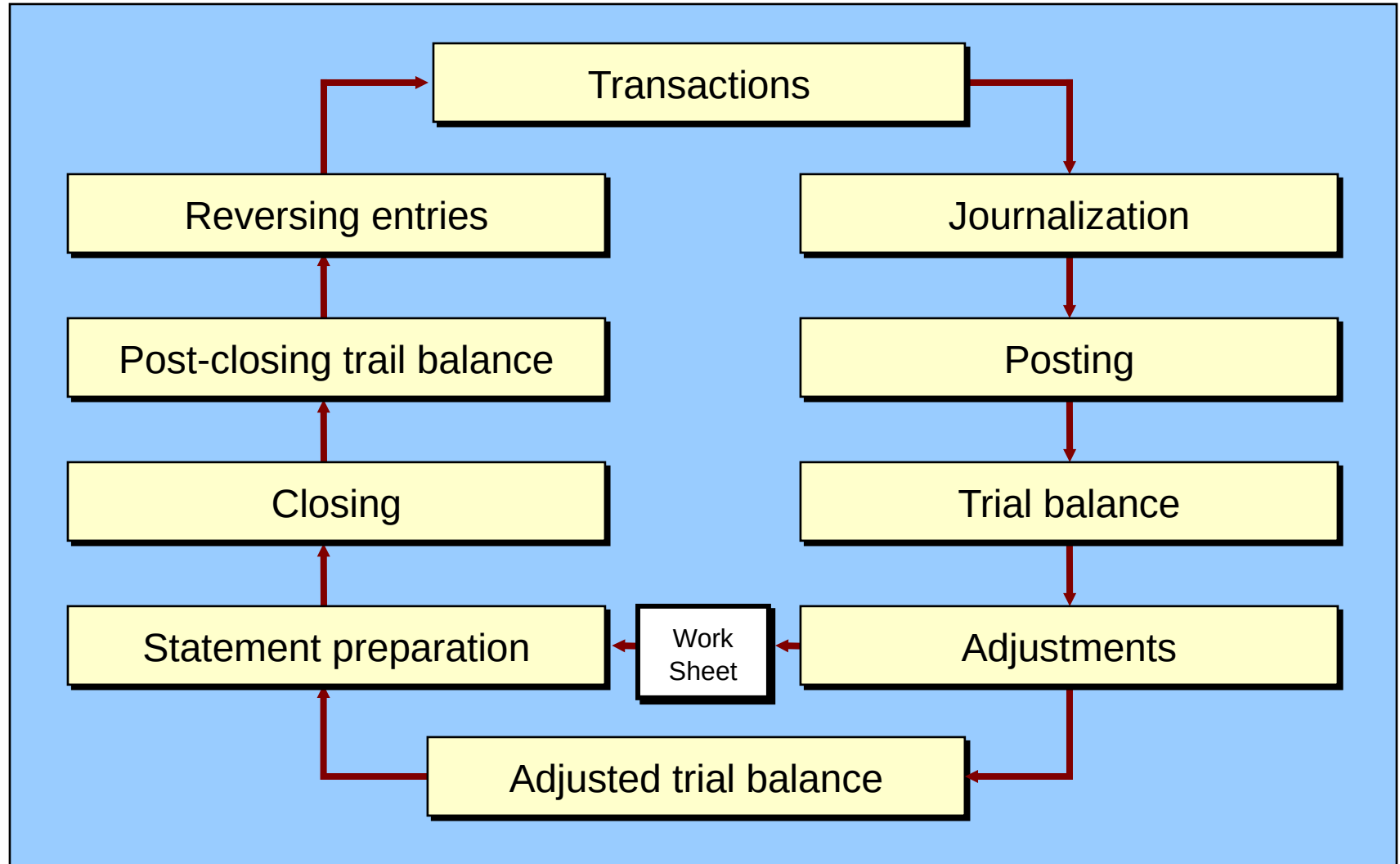
The Accounting Equation

Relationship among the assets, liabilities and equity of a business:



The equation must be in balance after every transaction.
For every **Debit** there must be a **Credit**.

THE ACCOUNTING CYCLE



THE ACCOUNTING CYCLE

Identifying and Recording Transactions and Other Events

An item should be recognized in the financial statements if it

1. meets the definition of an element,
2. is probable that any future economic benefit associated with the item will flow to or from the entity, and
3. has a cost or value that can be measured reliably.

Journalizing

General Journal – a chronological list of transactions and other events, expressed in terms of debits and credits to accounts.

Journal Entries are recorded in the journal.

September 1: Shareholders invested ₱15,000 cash in the corporation in exchange for ordinary shares.

GENERAL JOURNAL				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
2015 Sept. 1	Cash Share Capital—Ordinary (Issued ordinary shares for cash)		15,000	15,000

Posting

Posting – The process of transferring amounts from the journal to the ledger accounts.

ILLUSTRATION 3-7

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2015 Sept. 1	Cash Share Capital—Ordinary (Issued ordinary shares for cash)		15,000	15,000	

ILLUSTRATION 3-8

GENERAL LEDGER						No.101
Cash						
Date	Explanation	Ref.	Debit	Credit	Balance	

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2015 Sept.1	Cash	101	15,000		
	Share Capital – Ordinary (Issued ordinary shares for cash)	311		15,000	

1

2

4

3

GENERAL LEDGER

Cash					No.101
Date	Explanation	Ref.	Debit	Credit	Balance
2015 Sept.1		J1	15,000		15,000

Share Capital – Ordinary					No.311
Date	Explanation	Ref.	Debit	Credit	Balance
2015 Sept.1		J1		15,000	15,000

Posting

An Expanded Example

The purpose of transaction analysis is

- (1) to identify the type of account involved, and
- (2) to determine whether a debit or a credit is required.

Keep in mind that every journal entry affects one or more of the following items: assets, liabilities, equity, revenues, or expense.

Posting

1. October 1: Shareholders invest ₦100,000 cash in an advertising venture to be known as Pioneer Advertising Agency Inc.

Oct. 1	Cash	100,000	
	Share Capital—Ordinary		100,000

Cash		Share Capital—Ordinary	
Debit	Credit	Debit	Credit
100,000			100,000

Posting

- 2. October 1:** Pioneer purchases office equipment costing ₪50,000 by signing a 3-month, 12%, ₪50,000 note payable.

Oct. 1	Equipment	50,000	
	Notes payable		50,000

Equipment		Notes Payable	
Debit	Credit	Debit	Credit
50,000			50,000

Posting

3. October 2: Pioneer receives a ₺12,000 cash advance from KC, a client, for advertising services that are expected to be completed by December 31.

Oct. 2	Cash	12,000	
	Unearned Service Revenue		12,000

Cash		Unearned Service Revenue	
Debit	Credit	Debit	Credit
100,000			12,000
12,000			

Posting

4. October 3: Pioneer pays ₪9,000 office rent, in cash, for October.

Oct. 3	Rent Expense	9,000	
	Cash		9,000

Cash		Rent Expense	
Debit	Credit	Debit	Credit
100,000		9,000	
12,000	9,000		

- | | | | |
|--------|-------------------|-------|-------|
| Oct. 4 | Prepaid Insurance | 6,000 | |
| | Cash | | 6,000 |

LO 4

- | | | | |
|--------|------------------|--------|--------|
| Oct. 5 | Supplies | 25,000 | |
| | Accounts Payable | | 25,000 |

LO 4

Posting

7. October 9: Pioneer signs a contract with a local newspaper for advertising inserts (flyers) to be distributed starting the last Sunday in November. Pioneer will start work on the content of the flyers in November. Payment of ₪7,000 is due following delivery of the Sunday papers containing the flyers.

A business transaction has not occurred. There is only an agreement between Pioneer Advertising and the newspaper for the services to be provided in November. Therefore, no journal entry is necessary in October.

8. October 20: Pioneer's board of directors declares and pays a ₺5,000 cash dividend to shareholders.

Cash		Dividends	
Debit	Credit	Debit	Credit
100,000	9,000	5,000	
12,000	6,000		
	5,000		

Posting

- 9. October 26:** Employees are paid every four weeks. The total payroll is ₪2,000 per day. The pay period ended on Friday, October 26, with salaries of ₪40,000 being paid.

Oct. 26	Salaries and Wages Expense	40,000
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Cash	40,000
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Cash		Salaries and Wages Expense	
Debit	Credit	Debit	Credit
100,000		40,000	
12,000	9,000		
	6,000		
	5,000		
	40,000		

Posting

10. October 31: Pioneer receives ₦28,000 in cash and bills Copa Company ₦72,000 for advertising services of ₦100,000 provided in October.

Oct. 31	Cash	28,000	
	Accounts Receivable	72,000	
	Service Revenue		100,000

Cash		Accounts Receivable		Service Revenue	
Debit	Credit	Debit	Credit	Debit	Credit
100,000	9,000	72,000			100,000
12,000	6,000				
28,000	5,000				
	40,000				
80,000					

Trial Balance

A Trial Balance

- ◆ List of each account and its balance in the order in which they appear in the ledger.
- ◆ Debit balances listed in the left column and credit balance in the right column.
- ◆ Used to prove the mathematical equality of debit and credit balances.
- ◆ Uncovers errors in journalizing and posting.

PIONEER ADVERTISING AGENCY INC.
TRIAL BALANCE
OCTOBER 31, 2015

	<u>Debit</u>	<u>Credit</u>
Cash	₱ 80,000	
Accounts Receivable	72,000	
Supplies	25,000	
Prepaid Insurance	6,000	
Equipment	50,000	
Notes Payable		₱ 50,000
Accounts Payable		25,000
Unearned Service Revenue		12,000
Share Capital—Ordinary		100,000
Dividends	5,000	
Service Revenue		100,000
Salaries and Wages Expense	40,000	
Rent Expense	9,000	
	<u>₱287,000</u>	<u>₱287,000</u>

Adjusting Entries

Makes it possible to:

- ◆ Report on the statement of financial position the appropriate assets, liabilities, and equity at the statement date.
- ◆ Report on the income statement the proper revenues and expenses for the period.
 - ▶ **Revenues** are recorded in the period in which services are performed.
 - ▶ **Expenses** are recognized in the period in which they are incurred.

Adjusting Entries

Types of Adjusting Entries

Deferrals

1. **Prepaid Expenses.**
Expenses paid in cash before they are used or consumed.
2. **Unearned Revenues.**
Cash received before services are performed.

Accruals

3. **Accrued Revenues.**
Revenues for services performed but not yet received in cash or recorded.
4. **Accrued Expenses.**
Expenses incurred but not yet paid in cash or recorded.

Adjusting Entries for Deferrals

Deferrals are expenses or revenues that are recognized at a date later than the point when cash was originally exchanged.

Two types of deferrals

- ◆ Prepaid expenses
- ◆ Unearned revenues

If a company does not make an adjustment for these deferrals,

- ◆ the asset and liability are overstated, and
- ◆ the related expense and revenue are understated.

ADJUSTING ENTRIES

Prepaid Expenses



Unearned Revenues



Adjusting Entries for Prepaid Expenses

Prepaid Expenses. Assets paid for and recorded before a company uses them.

Cash Payment

BEFORE

Expense Recorded

Prepayments often occur in regard to:

- ◆ Insurance
- ◆ Supplies
- ◆ Advertising
- ◆ Rent
- ◆ Buildings and equipment

Supplies. Pioneer purchased advertising supplies costing ₦25,000 on October 5. Prepare the journal entry to record the purchase of the supplies.

Supplies		Cash	
Debit	Credit	Debit	Credit
25,000			25,000

Adjusting Entries for Prepaid Expenses

Supplies. An inventory count at the close of business on October 31 reveals that £10,000 of supplies are still on hand.

Oct. 31	Supplies Expense	15,000	
	Supplies		15,000

Supplies		Supplies Expense	
Debit	Credit	Debit	Credit
25,000	15,000	15,000	
10,000			

Adjusting Entries for Prepaid Expenses

Statement Presentation:

Supplies identifies that portion of the asset's cost that will provide future economic benefit.



PIONEER ADVERTISING AGENCY INC. Statement of Financial Position October 31, 2015

<u>Assets</u>		
Equipment	₱50,000	
Less: Accumulated depreciation— equipment	<u>400</u>	₱49,600
Supplies		10,000
Prepaid insurance		5,500
Accounts receivable	74,000	
Less: Allowance for doubtful accounts	<u>1,600</u>	72,400
Cash		80,000
Total assets		<u>₱217,500</u>
<u>Equity and Liabilities</u>		
Equity		
Share capital—ordinary	₱100,000	
Retained earnings	<u>28,000</u>	
Total equity		₱128,000
Liabilities		
Notes payable	50,000	
Accounts payable	25,000	
Unearned service revenue	8,000	
Salaries and wages payable	6,000	
Interest payable	<u>500</u>	
Total liabilities		89,500
Total equity and liabilities		<u>₱217,500</u>

Adjusting Entries for Prepaid Expenses

Statement Presentation:

Supplies expense shows a balance of ₱15,000, which equals the cost of supplies used in October



PIONEER ADVERTISING AGENCY INC. Income Statement For the Month Ended October 31, 2015

Revenues		
Service revenue		₱106,000
Expenses		
Salaries and wages expense	₱46,000	
Supplies expense	15,000	
Rent expense	9,000	
Insurance expense	500	
Interest expense	500	
Depreciation expense	400	
Bad debt expense	1,600	
Total expenses		<u>73,000</u>
Net income		<u>₱ 33,000</u>

Adjusting Entries for Prepaid Expenses

Insurance. On Oct. 4th, Pioneer paid ₦6,000 for a one-year fire insurance policy, beginning October 1. Show the entry to record the purchase of the insurance.

Oct. 4	Prepaid Insurance	6,000	
	Cash		6,000

Prepaid Insurance		Cash	
Debit	Credit	Debit	Credit
6,000			6,000

Insurance. An analysis of the policy reveals that ₦500 ($₦6,000 \div 12$) of insurance expires each month. Thus, Pioneer makes the following adjusting entry.

Prepaid Insurance		Insurance Expense	
Debit	Credit	Debit	Credit
6,000	500	500	
5,500			

Adjusting Entries for Prepaid Expenses

Statement Presentation:

Prepaid Insurance represents the unexpired cost for the remaining 11 months of coverage.



PIONEER ADVERTISING AGENCY INC. Statement of Financial Position October 31, 2015			
<u>Assets</u>			
Equipment	₱50,000		
Less: Accumulated depreciation— equipment		400	₱49,600
Supplies			10,000
Prepaid insurance			5,500
Accounts receivable	74,000		
Less: Allowance for doubtful accounts	1,600		72,400
Cash			80,000
Total assets			₱217,500
<u>Equity and Liabilities</u>			
Equity			
Share capital—ordinary	₱100,000		
Retained earnings		28,000	
Total equity			₱128,000
Liabilities			
Notes payable	50,000		
Accounts payable	25,000		
Unearned service revenue	8,000		
Salaries and wages payable	6,000		
Interest payable		500	
Total liabilities			89,500
Total equity and liabilities			₱217,500

Adjusting Entries for Prepaid Expenses

Statement Presentation:

Insurance expense identifies that portion of the asset's cost that expired in October.



PIONEER ADVERTISING AGENCY INC. Income Statement For the Month Ended October 31, 2015

Revenues		
Service revenue		₱106,000
Expenses		
Salaries and wages expense	₱46,000	
Supplies expense	15,000	
Rent expense	9,000	
Insurance expense	500	
Interest expense	500	
Depreciation expense	400	
Bad debt expense	1,600	
Total expenses		<u>73,000</u>
Net income		<u><u>₱ 33,000</u></u>

Adjusting Entries for Prepaid Expenses

Depreciation. Pioneer estimates depreciation on its office equipment to be ₪400 per month. Pioneer recognizes depreciation for October by the following adjusting entry.

Oct. 31	Depreciation Expense	400	
	Accumulated Depreciation		400

Depreciation Expense		Accumulated Depreciation	
Debit	Credit	Debit	Credit
400			400

Adjusting Entries for Prepaid Expenses

Statement Presentation:

Accumulated Depreciation—is a contra asset account.



PIONEER ADVERTISING AGENCY INC. Statement of Financial Position October 31, 2015

<u>Assets</u>		
Equipment	₺50,000	
Less: Accumulated depreciation— equipment	<u>400</u>	₺49,600
Supplies		10,000
Prepaid insurance		5,500
Accounts receivable	74,000	
Less: Allowance for doubtful accounts	<u>1,600</u>	72,400
Cash		<u>80,000</u>
Total assets		<u>₺217,500</u>
<u>Equity and Liabilities</u>		
Equity		
Share capital—ordinary	₺100,000	
Retained earnings	<u>28,000</u>	
Total equity		₺128,000
Liabilities		
Notes payable	50,000	
Accounts payable	25,000	
Unearned service revenue	8,000	
Salaries and wages payable	6,000	
Interest payable	<u>500</u>	
Total liabilities		<u>89,500</u>
Total equity and liabilities		<u>₺217,500</u>

Adjusting Entries for Prepaid Expenses

Statement Presentation:

Depreciation expense identifies that portion of the asset's cost that expired in October.



PIONEER ADVERTISING AGENCY INC. Income Statement For the Month Ended October 31, 2015

Revenues		
Service revenue		₱106,000
Expenses		
Salaries and wages expense	₱46,000	
Supplies expense	15,000	
Rent expense	9,000	
Insurance expense	500	
Interest expense	500	
Depreciation expense	400	
Bad debt expense	1,600	
Total expenses		<u>73,000</u>
Net income		<u>₱ 33,000</u>

Adjusting Entries for Unearned Revenues

Receipt of cash before the services are performed is recorded as a liability called **unearned revenues**.

Cash Receipt

BEFORE

Revenue Recorded

Unearned revenues often occur in regard to:

- ◆ Rent
- ◆ Airline tickets
- ◆ Tuition
- ◆ Magazine subscriptions
- ◆ Customer deposits

Unearned Revenue. Pioneer received ₦12,000 on October 2 from KC for advertising services expected to be completed by December 31. Show the journal entry to record the receipt on Oct. 2nd.

Cash		Unearned Service Revenue	
Debit	Credit	Debit	Credit
12,000			12,000

Adjusting Entries for Unearned Revenues

Unearned Revenues. An evaluation of the service Pioneer performed for Knox during October, the company determines that it should recognize 4,000 of revenue in October.

Oct. 31 Unearned Service Revenue 4,000
 Service Revenue 4,000

Service Revenue		Unearned Service Revenue	
Debit	Credit	Debit	Credit
	100,000		12,000
	4,000	4,000	
			8,000

Adjusting Entries for Unearned Revenues

Statement Presentation:

Unearned service revenue represents the remaining advertising services expected to be performed in the future.



PIONEER ADVERTISING AGENCY INC. Statement of Financial Position October 31, 2015

<u>Assets</u>		
Equipment	₱50,000	
Less: Accumulated depreciation— equipment	<u>400</u>	₱49,600
Supplies		10,000
Prepaid insurance		5,500
Accounts receivable	74,000	
Less: Allowance for doubtful accounts	<u>1,600</u>	72,400
Cash		<u>80,000</u>
Total assets		<u>₱217,500</u>
<u>Equity and Liabilities</u>		
Equity		
Share capital—ordinary	₱100,000	
Retained earnings	<u>28,000</u>	
Total equity		₱128,000
Liabilities		
Notes payable	50,000	
Accounts payable	25,000	
Unearned service revenue	8,000	
Salaries and wages payable	6,000	
Interest payable	<u>500</u>	
Total liabilities		<u>89,500</u>
Total equity and liabilities		<u>₱217,500</u>

Adjusting Entries for Unearned Revenues

Statement Presentation:

Service revenue shows total revenue recognized in October.



PIONEER ADVERTISING AGENCY INC. Income Statement For the Month Ended October 31, 2015

Revenues		
Service revenue		₱106,000
Expenses		
Salaries and wages expense	₱46,000	
Supplies expense	15,000	
Rent expense	9,000	
Insurance expense	500	
Interest expense	500	
Depreciation expense	400	
Bad debt expense	1,600	
Total expenses		<u>73,000</u>
Net income		<u><u>₱ 33,000</u></u>

Adjusting Entries for Accruals

Accruals are made to record

- ◆ **revenues** for services performed and
- ◆ **expenses** incurred in the current accounting period.

Without an accrual adjustment, the

- ◆ revenue account (and the related asset account) or the
- ◆ expense account (and the related liability account) are understated.

ADJUSTING ENTRIES

Accrued Revenues

Asset	
Debit Adjusting Entry (+)	

Revenue	
	Credit Adjusting Entry (+)

Accrued Expenses

Expense	
Debit Adjusting Entry (+)	

Liability	
	Credit Adjusting Entry (+)

Adjusting Entries for Accrued Revenues

Revenues recorded for services performed for which cash has yet to be received at statement date are **accrued revenues**.

Adjusting entry results in:

Revenue Recorded

BEFORE

Cash Receipt

Accrued revenues often occur in regard to:

- ◆ Rent
- ◆ Interest
- ◆ Services performed

Adjusting Entries for Accrued Revenues

Accrued Revenues. In October Pioneer performed services worth ₺2,000 that were not billed to clients on or before October 31. Pioneer makes the following adjusting entry.

Oct. 31	Accounts Receivable	2,000	
	Service Revenue		2,000

Accounts Receivable		Service Revenue	
Debit	Credit	Debit	Credit
72,000			100,000
2,000			4,000
74,000			2,000
			106,000

Adjusting Entries for Accrued Revenues

ILLUSTRATION 3-35

PIONEER ADVERTISING AGENCY INC.
Income Statement
For the Month Ended October 31, 2015

Revenues	
Service revenue	₱106,000
Expenses	
Salaries and wages expense	₱46,000
Supplies expense	15,000
Rent expense	9,000
Insurance expense	500
Interest expense	500
Depreciation expense	400
Bad debt expense	1,600
Total expenses	73,000
Net income	₱ 33,000

PIONEER ADVERTISING AGENCY INC.
Statement of Financial Position
October 31, 2015

<u>Assets</u>	
Equipment	₱50,000
Less: Accumulated depreciation— equipment	400
Supplies	10,000
Prepaid insurance	5,500
Accounts receivable	74,000
Less: Allowance for doubtful accounts	1,600
Cash	80,000
Total assets	₱217,500
<u>Equity and Liabilities</u>	
Equity	
Share capital—ordinary	₱100,000
Retained earnings	28,000
Total equity	₱128,000
Liabilities	
Notes payable	50,000
Accounts payable	25,000
Unearned service revenue	8,000
Salaries and wages payable	6,000
Interest payable	500
Total liabilities	89,500
Total equity and liabilities	17,500

Statement Presentation

Adjusting Entries for Accrued Expenses

Expenses incurred but not yet paid in cash or recorded.

Adjusting entry results in:

Expense Recorded

BEFORE

Cash Payment

Accrued expenses often occur in regard to:

◆ Rent

◆ Taxes

◆ Interest

◆ Salaries

Adjusting Entries for Accrued Expenses

Accrued Interest. Pioneer signed a three-month, 12%, note payable in the amount of ₪50,000 on October 1. The note requires interest at an annual rate of 12 percent. Three factors determine the amount of the interest accumulation:

1		2		3		
Face Value of Note	x	Annual Interest Rate	x	Time in Terms of One Year	=	Interest
₪50,000	x	12%	x	1/12	=	₪500

Adjusting Entries for Accrued Expenses

Accrued Interest. Pioneer signed a three-month, 12%, note payable in the amount of ₪50,000 on October 1. Prepare the adjusting entry on Oct. 31 to record the accrual of interest.

Oct. 31	Interest Expense	500
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Interest Payable	500
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Interest Expense		Interest Payable	
Debit	Credit	Debit	Credit
500			500

Adjusting Entries for Accrued Expenses

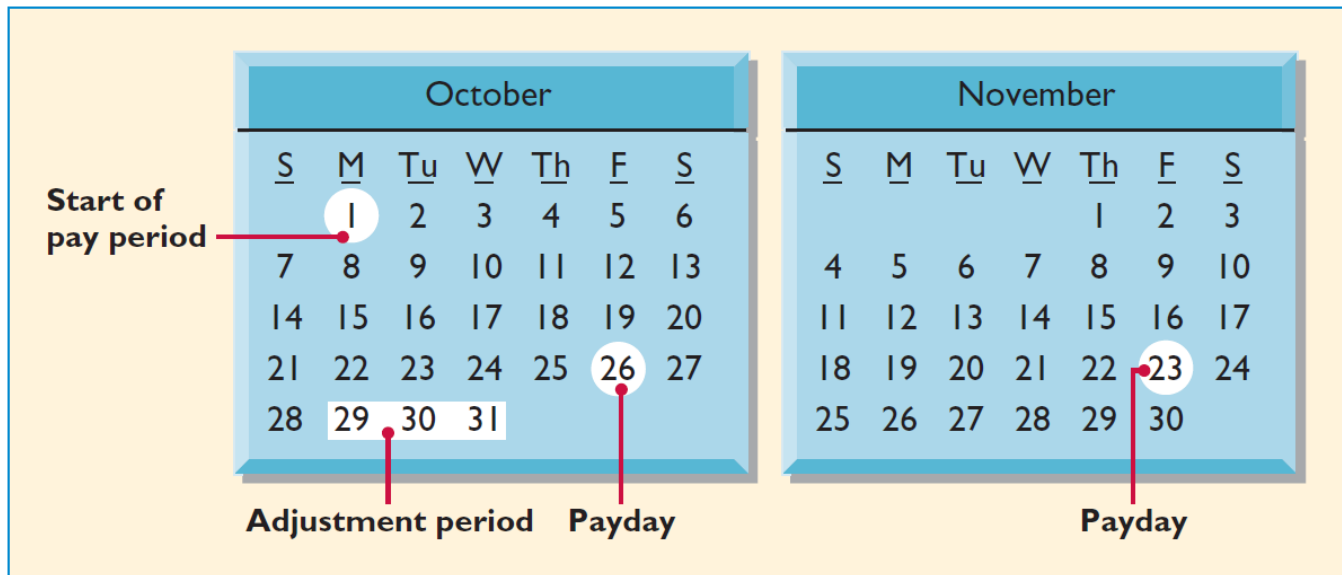
ILLUSTRATION 3-35

PIONEER ADVERTISING AGENCY INC. Income Statement For the Month Ended October 31, 2015		
Revenues		
Service revenue		₱106,000
Expenses		
Salaries and wages expense	₱46,000	
Supplies expense	15,000	
Rent expense	9,000	
Insurance expense	500	
Interest expense	500	
Depreciation expense	400	
Bad debt expense	1,600	
Total expenses		<u>73,000</u>
Net income		<u>₱ 33,000</u>

PIONEER ADVERTISING AGENCY INC. Statement of Financial Position October 31, 2015		
<u>Assets</u>		
Equipment	₱50,000	
Less: Accumulated depreciation— equipment	<u>400</u>	₱49,600
Supplies		10,000
Prepaid insurance		5,500
Accounts receivable	74,000	
Less: Allowance for doubtful accounts	<u>1,600</u>	72,400
Cash		80,000
Total assets		<u>₱217,500</u>
<u>Equity and Liabilities</u>		
Equity		
Share capital—ordinary	₱100,000	
Retained earnings	<u>28,000</u>	
Total equity		₱128,000
Liabilities		
Notes payable	50,000	
Accounts payable	25,000	
Unearned service revenue	8,000	
Salaries and wages payable	6,000	
Interest payable	<u>500</u>	
Total liabilities		89,500
Total equity and liabilities		<u>₱17,500</u>

Statement Presentation

Adjusting Entries for Accrued Expenses



Accrued Salaries. At October 31, the salaries and wages for these days represent an accrued expense and a related liability to Pioneer. The employees receive total salaries of ₦10,000 for a five-day work week, or ₦2,000 per day.

Adjusting Entries for Accrued Expenses

Accrued Salaries. Employees receive total salaries of ₱10,000 for a five-day work week, or ₱2,000 per day. Prepare the adjusting entry on Oct. 31 to record accrual for salaries.

Oct. 31	Salaries and Wages Expense	6,000
---------	----------------------------	-------

Salaries and Wages Payable	6,000
----------------------------	-------

Salaries and Wages Expense		Salaries and Wages Payable	
Debit	Credit	Debit	Credit
40,000			6,000
6,000			
46,000			

Adjusting Entries for Accrued Expenses

ILLUSTRATION 3-35

PIONEER ADVERTISING AGENCY INC.
Income Statement
For the Month Ended October 31, 2015

Revenues	
Service revenue	₱106,000
Expenses	
Salaries and wages expense	₱46,000
Supplies expense	15,000
Rent expense	9,000
Insurance expense	500
Interest expense	500
Depreciation expense	400
Bad debt expense	1,600
Total expenses	<u>73,000</u>
Net income	<u>₱ 33,000</u>

PIONEER ADVERTISING AGENCY INC.
Statement of Financial Position
October 31, 2015

<u>Assets</u>	
Equipment	₱50,000
Less: Accumulated depreciation— equipment	<u>400</u> ₱49,600
Supplies	10,000
Prepaid insurance	5,500
Accounts receivable	74,000
Less: Allowance for doubtful accounts	<u>1,600</u> 72,400
Cash	80,000
Total assets	<u>₱217,500</u>
<u>Equity and Liabilities</u>	
Equity	
Share capital—ordinary	₱100,000
Retained earnings	<u>28,000</u>
Total equity	₱128,000
Liabilities	
Notes payable	50,000
Accounts payable	25,000
Unearned service revenue	8,000
Salaries and wages payable	6,000
Interest payable	<u>500</u>
Total liabilities	89,500
Total equity and liabilities	<u>17,500</u>

Statement Presentation

Adjusting Entries for Accrued Expenses

Accrued Salaries. On November 23, Pioneer will again pay total salaries of ₱40,000. Prepare the entry to record the payment of salaries on November 23.

Nov. 23	Salaries and Wages Payable	6,000	
	Salaries and Wages Expense	34,000	
	Cash		40,000

Salaries and Wages Expense		Salaries and Wages Payable	
Debit	Credit	Debit	Credit
34,000		6,000	6,000

Adjusting Entries for Accrued Expenses

Bad Debts. Assume Pioneer reasonably estimates a bad debt expense for the month of ₧1,600. It makes the adjusting entry for bad debts as follows.

Oct. 31	Bad Debt Expense	1,600	
	Allowance for Doubtful Accounts		1,600

Accounts Receivable		
Oct. 31	72,000	
31	2,000	
Oct. 31	Bal. 74,000	

Allowance for Doubtful Accounts		
	Oct. 31	Adj. 1,600
	Oct. 31	Bal. 1,600

Bad Debt Expense		
Oct. 31	Adj. 1,600	
Oct. 31	Bal. 1,600	

Adjusting Entries for Accrued Expenses

ILLUSTRATION 3-35

PIONEER ADVERTISING AGENCY INC. Income Statement For the Month Ended October 31, 2015			
Revenues			
Service revenue		₱106,000	
Expenses			
Salaries and wages expense	₱46,000		
Supplies expense	15,000		
Rent expense	9,000		
Insurance expense	500		
Interest expense	500		
Depreciation expense	400		
Bad debt expense	1,600		
Total expenses		73,000	
Net income			₱ 33,000



PIONEER ADVERTISING AGENCY INC. Statement of Financial Position October 31, 2015			
<u>Assets</u>			
Equipment		₱50,000	
Less: Accumulated depreciation— equipment		400	₱49,600
Supplies			10,000
Prepaid insurance			5,500
Accounts receivable	74,000		
Less: Allowance for doubtful accounts	1,600		72,400
Cash			80,000
Total assets			₱217,500
<u>Equity and Liabilities</u>			
Equity			
Share capital—ordinary		₱100,000	
Retained earnings		28,000	
Total equity			₱128,000
Liabilities			
Notes payable		50,000	
Accounts payable		25,000	
Unearned service revenue		8,000	
Salaries and wages payable		6,000	
Interest payable		500	
Total liabilities			89,500
Total equity and liabilities			₱17,500

Statement Presentation

Adjusted Trial Balance

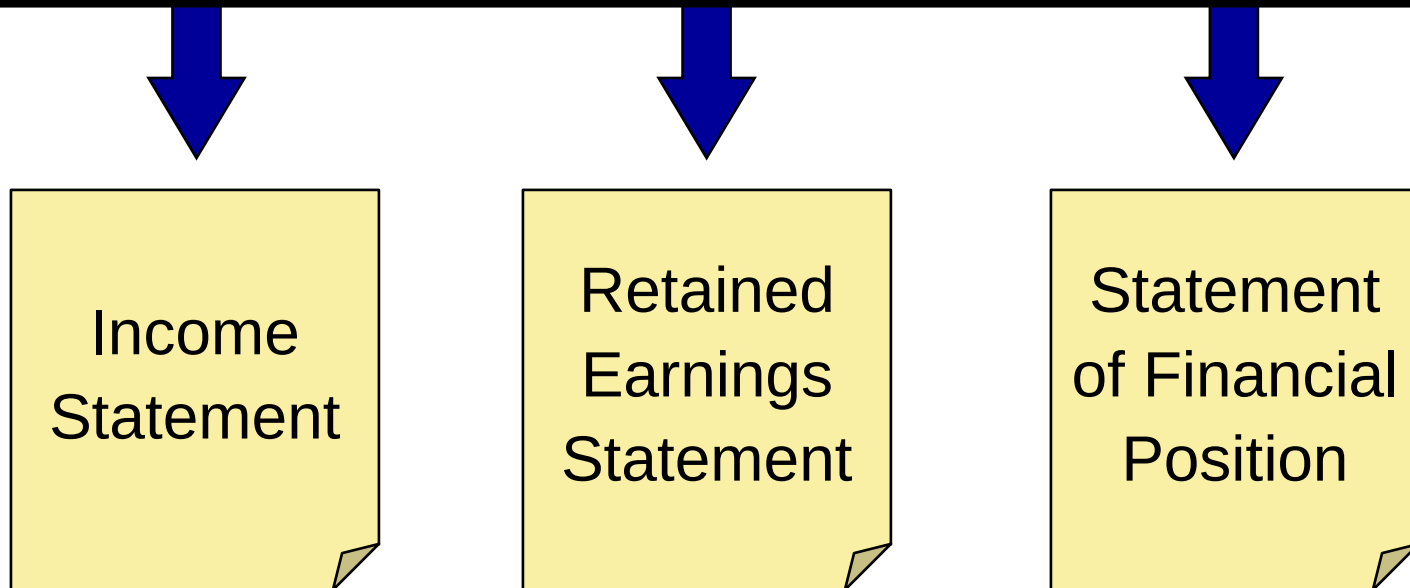
Shows the balance of all accounts, after adjusting entries, at the end of the accounting period.

Proves the equality of the total debit and credit balances

PIONEER ADVERTISING AGENCY INC. ADJUSTED TRIAL BALANCE OCTOBER 31, 2015		
	Debit	Credit
Cash	₪ 80,000	
Accounts Receivable	74,000	
Allowance for Doubtful Accounts		₪ 1,600
Supplies	10,000	
Prepaid Insurance	5,500	
Equipment	50,000	
Accumulated Depreciation—Equipment		400
Notes Payable		50,000
Accounts Payable		25,000
Unearned Service Revenue		8,000
Salaries and Wages Payable		6,000
Interest Payable		500
Share Capital—Ordinary		100,000
Dividends	5,000	
Service Revenue		106,000
Salaries and Wages Expense	46,000	
Supplies Expense	15,000	
Rent Expense	9,000	
Insurance Expense	500	
Interest Expense	500	
Depreciation Expense	400	
Bad Debt Expense	1,600	
	<u>₪297,500</u>	<u>₪297,500</u>

Preparing Financial Statements

Financial Statements are prepared directly from the Adjusted Trial Balance.



PIONEER ADVERTISING AGENCY INC.

Adjusted Trial Balance
October 31, 2015

Account	Debit	Credit
Cash	₺80,000	
Accounts Receivable	74,000	
Allowance for Doubtful Accounts		₺ 1,600
Supplies	10,000	
Prepaid Insurance	5,500	
Equipment	50,000	
Accumulated Depreciation— Equipment		400
Notes Payable		50,000
Accounts Payable		25,000
Unearned Service Revenue		8,000
Salaries and Wages Payable		6,000
Interest Payable		500
Share Capital—Ordinary		100,000
Retained Earnings		-0-
Dividends	5,000	
Service Revenue		106,000
Salaries and Wages Expense	46,000	
Supplies Expense	15,000	
Rent Expense	9,000	
Insurance Expense	500	
Interest Expense	500	
Depreciation Expense	400	
Bad Debt Expense	1,600	
	<u>₺297,500</u>	<u>₺297,500</u>

PIONEER ADVERTISING AGENCY INC. Income Statement For the Month Ended October 31, 2015

Revenues	
Service revenue	₺106,000
Expenses	
Salaries and wages expense	₺46,000
Supplies expense	15,000
Rent expense	9,000
Insurance expense	500
Interest expense	500
Depreciation expense	400
Bad debt expense	1,600
Total expenses	<u>73,000</u>
Net income	<u>₺ 33,000</u>

PIONEER ADVERTISING AGENCY INC. Retained Earnings Statement For the Month Ended October 31, 2015

Retained earnings, October 1	₺ -0-
Add: Net income	<u>33,000</u>
	33,000
Less: Dividends	<u>5,000</u>
Retained earnings, October 31	<u>₺28,000</u>

To the statement of
financial position

PIONEER ADVERTISING AGENCY INC.
Adjusted Trial Balance
October 31, 2015

Account	Debit	Credit
Cash	₹80,000	
Accounts Receivable	74,000	
Allowance for Doubtful Accounts		₹ 1,600
Supplies	10,000	
Prepaid Insurance	5,500	
Equipment	50,000	
Accumulated Depreciation— Equipment		400
Notes Payable		50,000
Accounts Payable		25,000
Unearned Service Revenue		8,000
Salaries and Wages Payable		6,000
Interest Payable		500
Share Capital—Ordinary		100,000
Retained Earnings		—0—
Dividends	5,000	
Service Revenue		106,000
Salaries and Wages Expense	46,000	
Supplies Expense	15,000	
Rent Expense	9,000	
Insurance Expense	500	
Interest Expense	500	
Depreciation Expense	400	
Bad Debt Expense	1,600	
	<u>₹297,500</u>	<u>₹297,500</u>

PIONEER ADVERTISING AGENCY INC.
Statement of Financial Position
October 31, 2015

<u>Assets</u>	
Equipment	₹50,000
Less: Accumulated depreciation— equipment	<u>400</u> ₹49,600
Supplies	10,000
Prepaid insurance	5,500
Accounts receivable	74,000
Less: Allowance for doubtful accounts	<u>1,600</u> 72,400
Cash	80,000
Total assets	<u>₹217,500</u>
<u>Equity and Liabilities</u>	
Equity	
Share capital—ordinary	₹100,000
Retained earnings	<u>28,000</u>
Total equity	₹128,000
Liabilities	
Notes payable	50,000
Accounts payable	25,000
Unearned service revenue	8,000
Salaries and wages payable	6,000
Interest payable	<u>500</u>
Total liabilities	89,500
Total equity and liabilities	<u>₹217,500</u>

Balance at Oct. 31
from retained earnings
statement in Illustration 3-34

Closing Entries

Basic Process

- ◆ Reduce the balance of nominal (temporary) accounts to zero in preparation for the next period's transactions.
- ◆ Transfer all revenue and expense account balances (income statement accounts) to Retained Earnings.
- ◆ Statement of financial position (**asset**, **liability**, and **equity**) accounts are not closed.
- ◆ Dividends are closed directly to Retained Earnings.
- ◆ Income Summary account may be used however it has no effect on the financial statements.

Closing Entries

PIONEER ADVERTISING AGENCY INC.
ADJUSTED TRIAL BALANCE
OCTOBER 31, 2015

	Debit	Credit
Cash	₺ 80,000	
Accounts Receivable	74,000	
Allowance for Doubtful Accounts		₺ 1,600
Supplies	10,000	
Prepaid Insurance	5,500	
Equipment	50,000	
Accumulated Depreciation—Equipment		400
Notes Payable		50,000
Accounts Payable		25,000
Unearned Service Revenue		8,000
Salaries and Wages Payable		6,000
Interest Payable		500
Share Capital—Ordinary		100,000
Dividends	5,000	
Service Revenue		106,000
Salaries and Wages Expense	46,000	
Supplies Expense	15,000	
Rent Expense	9,000	
Insurance Expense	500	
Interest Expense	500	
Depreciation Expense	400	
Bad Debt Expense	1,600	
	<u>₺297,500</u>	<u>₺297,500</u>

Closing Journal Entries:

Retained Earnings 5,000

Dividends 5,000

Service Revenue 106,000

Salaries & Wages Expense
46,000

Supplies Expense 15,000

Rent Expense 9,000

Insurance Expense 500

Interest Expense 500

Depreciation Expense 400

Bad Debt Expense 1,600

Retained Earnings 33,000

PIONEER ADVERTISING AGENCY INC.
POST-CLOSING TRIAL BALANCE
OCTOBER 31, 2015

Account	Debit	Credit
Cash	₪ 80,000	
Accounts Receivable	74,000	
Allowance for Doubtful Accounts		₪ 1,600
Supplies	10,000	
Prepaid Insurance	5,500	
Equipment	50,000	
Accumulated Depreciation—Equipment		400
Notes Payable		50,000
Accounts Payable		25,000
Unearned Service Revenue		8,000
Salaries and Wages Payable		6,000
Interest Payable		500
Share Capital—Ordinary		100,000
Retained Earnings		28,000
	₪219,500	₪219,500

Accounting Cycle Summarized

1. Enter the transactions of the period in appropriate journals.
2. Post from the journals to the ledger (or ledgers).
3. Prepare an unadjusted trial balance (trial balance).
4. Prepare adjusting journal entries and post to the ledger(s).
5. Prepare a trial balance after adjusting (adjusted trial balance).
6. Prepare the financial statements from the adjusted trial balance.
7. Prepare closing journal entries and post to the ledger(s).
8. Prepare a trial balance after closing (post-closing trial balance).
9. Prepare reversing entries (optional) and post to the ledger(s).

UPTOWN CABINET CORP.
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2015

Net sales		₺400,000
Cost of goods sold		<u>316,000</u>
Gross profit on sales		84,000
Selling expenses		
Salaries and wages expense (sales)	₺20,000	
Advertising expense	<u>10,200</u>	
Total selling expenses	30,200	
Administrative expenses		
Salaries and wages expense (general)	₺19,000	
Depreciation expense	6,700	
Property tax expense	5,300	
Rent expense	4,300	
Bad debt expense	1,000	
Telephone and Internet expense	600	
Insurance expense	<u>360</u>	
Total administrative expenses	37,260	
Total selling and administrative expenses		<u>67,460</u>
Income from operations		16,540
Other revenues and gains		
Interest revenue		<u>800</u>
		17,340
Other expenses and losses		
Interest expense		<u>1,700</u>
Income before income taxes		15,640
Income tax		<u>3,440</u>
Net income		<u><u>₺ 12,200</u></u>

**Merchandising
Company**

Financial Statements of a Merchandising Company

UPTOWN CABINET CORP.
RETAINED EARNINGS STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2015

Retained earnings, January 1	₱16,200
Add: Net income	<u>12,200</u>
	28,400
Less: Dividends	<u>2,000</u>
Retained earnings, December 31	<u><u>₱26,400</u></u>

Financial Statements of a Merchandising Company

UPTOWN CABINET CORP. STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2015

Assets			
Non-current assets			
Property, plant, and equipment			
Equipment		₺67,000	
Less: Accumulated depreciation—equipment		18,700	
Total property, plant, and equipment			₺ 48,300
Current assets			
Inventory		40,000	
Prepaid insurance		540	
Prepaid rent		500	
Notes receivable	₺16,000		
Accounts receivable	41,000		
Interest receivable	800		
Less: Allowance for doubtful accounts	<u>3,000</u>	54,800	
Cash		<u>1,200</u>	
Total current assets			<u>97,040</u>
Total assets			<u>₺145,340</u>
Equity and Liabilities			
Equity			
Share capital—ordinary, ₺5.00 par value, issued and outstanding, 10,000 shares		₺50,000	
Retained earnings		<u>26,400</u>	
Total equity			₺ 76,400
Non-current liabilities			
Bonds payable, due June 30, 2022		30,000	
Current liabilities			
Notes payable	₺20,000		
Accounts payable	13,500		
Property taxes payable	2,000		
Income taxes payable	<u>3,440</u>		
Total current liabilities		<u>38,940</u>	
Total liabilities			<u>68,940</u>
Total equity and liabilities			<u>₺145,340</u>