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

LO 1

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?

LO 1

ACCOUNTING INFORMATION SYSTEM

Debits and Credits

- An a**ccount** 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”

LO 2

Debits and Credits Summary

Normal Balance **Debit**

Normal Balance **Credit**

Assets

Debit / Dr.	Credit / Cr.
↑	↓
Normal Balance	

Chapter 3-23

Liabilities

Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

Equity

Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

Chapter 3-25

Expense

Debit / Dr.	Credit / Cr.
↑	↓
Normal Balance	

Chapter 3-27

Revenue

Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

Chapter 3-26

LO 2

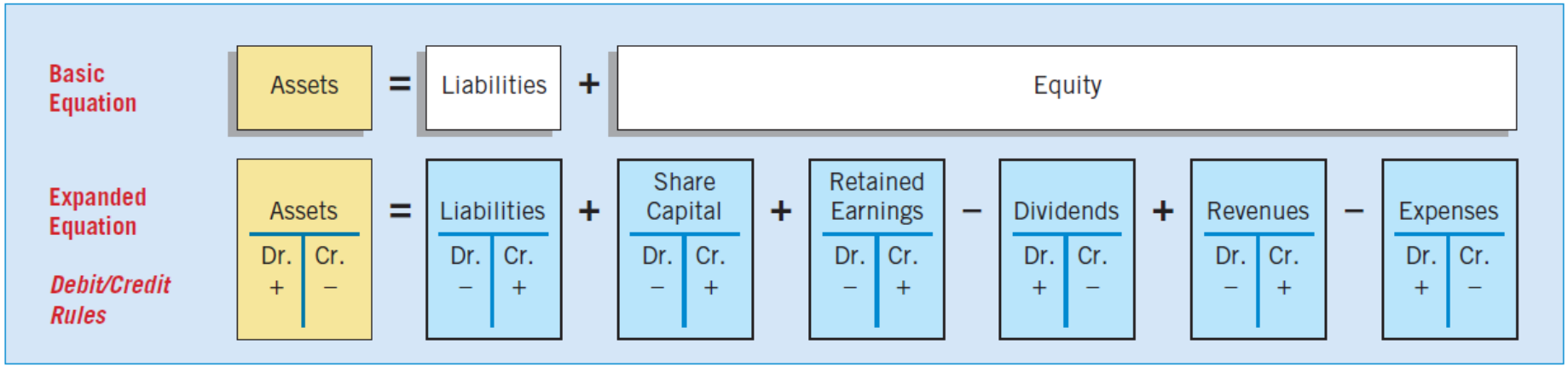
Debits and Credits Summary

	Statement of Financial Position				Income Statement	
	Asset	= Liability	+ Equity		Revenue	- Expense
Debit	↑	↓	↓		↓	↑
Credit	↓	↑	↑		↑	↓

LO 2

The Accounting Equation

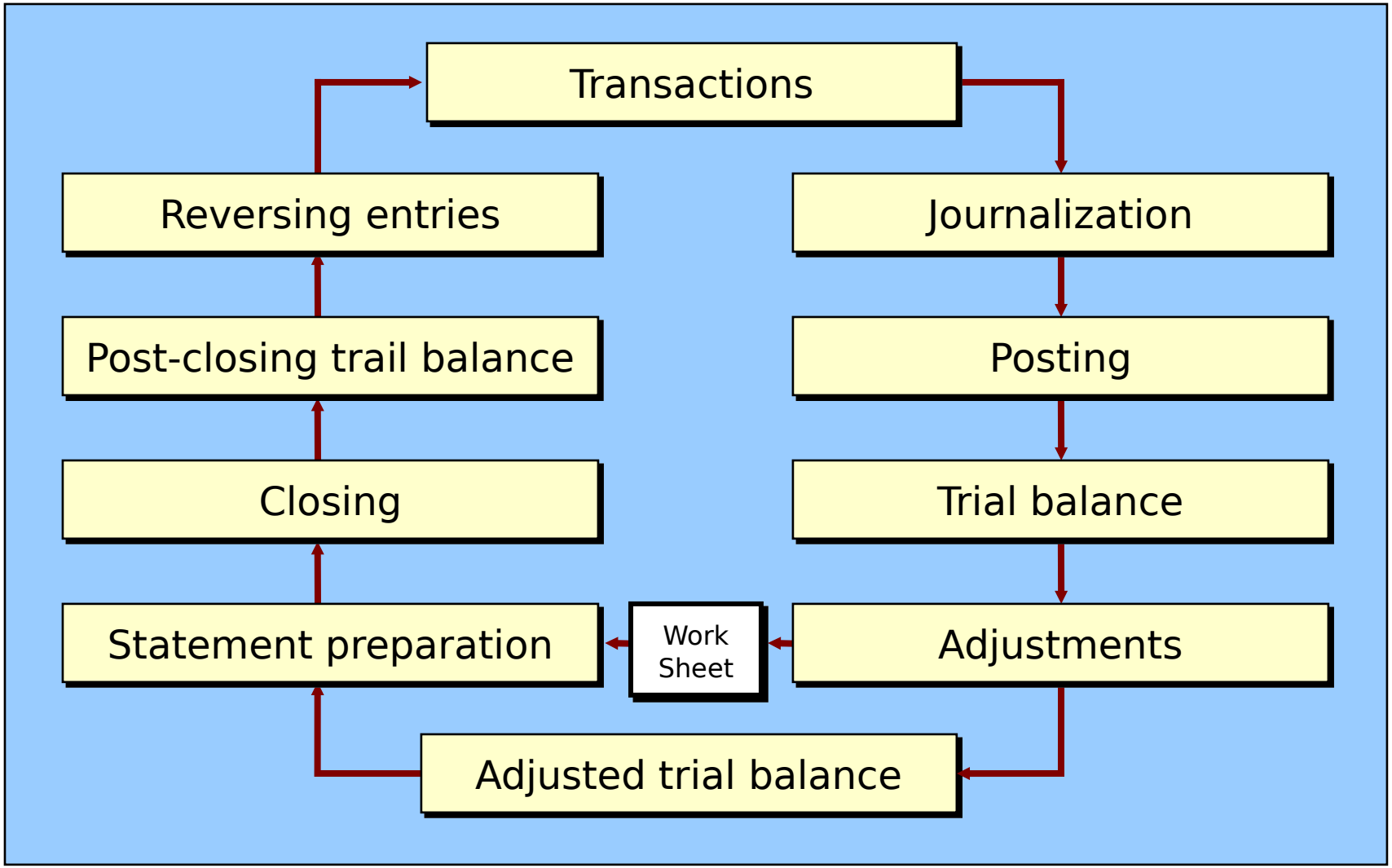
Relationship among the assets, liabilities and equity of a business:



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

LO 2

THE ACCOUNTING CYCLE



LO 3

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.

LO 3

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

LO 4

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

Cash					No.101
Date	Explanation	Ref.	Debit	Credit	Balance

Advance slide in presentation mode to reveal answers.

LO 4

GENERAL JOURNAL J1

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

1 2 3 4

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

LO 4

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	
Debit	Credit
100,000	

Share Capital—Ordinary	
Debit	Credit
	100,000

LO 4

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	
Debit	Credit
50,000	

Notes Payable	
Debit	Credit
	50,000

LO 4

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	
Debit	Credit
100,000	
12,000	

Unearned Service Revenue	
Debit	Credit
	12,000

LO 4

Posting

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

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

Cash	
Debit	Credit
100,000	**9,000**
12,000	

Rent Expense	
Debit	Credit
9,000	

LO 4

Posting

5. October 4: Pioneer pays ₺6,000 for a one-year insurance policy that will expire next year on September 30.

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

Cash	
Debit	Credit
100,000	**9,000**
12,000	**6,000**

Prepaid Insurance	
Debit	Credit
6,000	

LO 4

Posting

6. October 5: Pioneer purchases, for ₺25,000 on account, an estimated 3-month supply of advertising materials from Aero Supply.

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

Supplies	
Debit	Credit
25,000	

Accounts Payable	
Debit	Credit
	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.

Posting

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

Oct. 20	Dividends	5,000	
	Cash		5,000

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

Dividends	
Debit	Credit
5,000	

LO 4

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

Cash 40,000

Cash	
Debit	Credit
100,000	**9,000**
12,000	**6,000**
	5,000
	40,000

Salaries and Wages Expense	
Debit	Credit
40,000	

LO 4

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.

LO 4

PIONEER ADVERTISING AGENCY INC.
TRIAL BALANCE
OCTOBER 31, 2015

	Debit	Credit
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	
	₺287,000	₺287,000

LO 4

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.

LO 5

Adjusting Entries

Types of Adjusting Entries

Deferrals	Accruals
1. **Prepaid Expenses.** Expenses paid in cash before they are used or consumed.	3. **Accrued Revenues.** Revenues for services performed but not yet received in cash or recorded.
2. **Unearned Revenues.** Cash received before services are performed.	4. **Accrued Expenses.** Expenses incurred but not yet paid in cash or recorded.

LO 5

Adjusting Entries for Deferrals

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

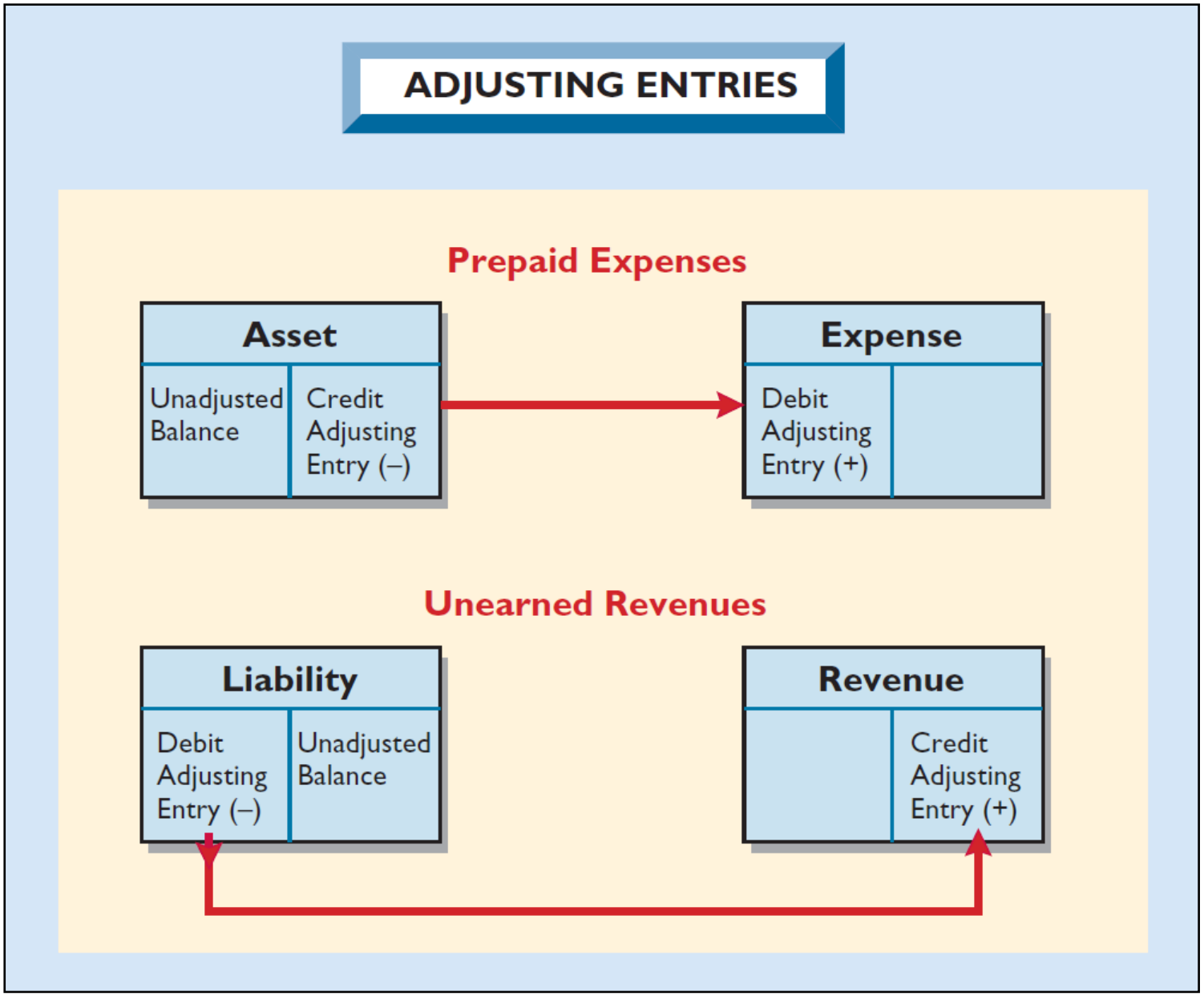
Two types of deferrals

- 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.

LO 5


ADJUSTING ENTRIES
Prepaid Expenses
Asset
Unadjusted Balance
Credit Adjusting Entry (–)
Expense
Debit Adjusting Entry (+)
Unearned Revenues
Liability
Debit Adjusting Entry (–)
Unadjusted Balance
Revenue
Credit Adjusting Entry (+)

LO 5

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

LO 5

Adjusting Entries for Prepaid Expenses

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

Oct. 5	Supplies	25,000	
	Cash		25,000

Supplies	
Debit	Credit
25,000	

Cash	
Debit	Credit
	25,000

LO 5

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	
Debit	Credit
25,000	**15,000**
10,000	

Supplies Expense	
Debit	Credit
15,000	

LO 5

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

Assets		
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
Equity and Liabilities		
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:

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		73,000
Net income		₺ 33,000

LO 5

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	
Debit	Credit
6,000	

Cash	
Debit	Credit
	6,000

LO 5

Adjusting Entries for Prepaid Expenses

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

Oct. 31	Insurance Expense	500	
	Prepaid Insurance		500

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

Insurance Expense	
Debit	Credit
500	

LO 5

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

Assets		
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
Equity and Liabilities		
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		73,000
Net income		₺ 33,000

LO 5

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	
Debit	Credit
400	

Accumulated Depreciation	
Debit	Credit
	400

LO 5

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

Assets		
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
Equity and Liabilities		
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:

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		73,000
Net income		₺ 33,000

LO 5

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

Adjusting Entries for Unearned Revenues

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.

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

Cash	
Debit	Credit
12,000	

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

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

LO 5

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

Assets		
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
Equity and Liabilities		
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 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		73,000
Net income		₺ 33,000

LO 5

Adjusting Entries for Accruals

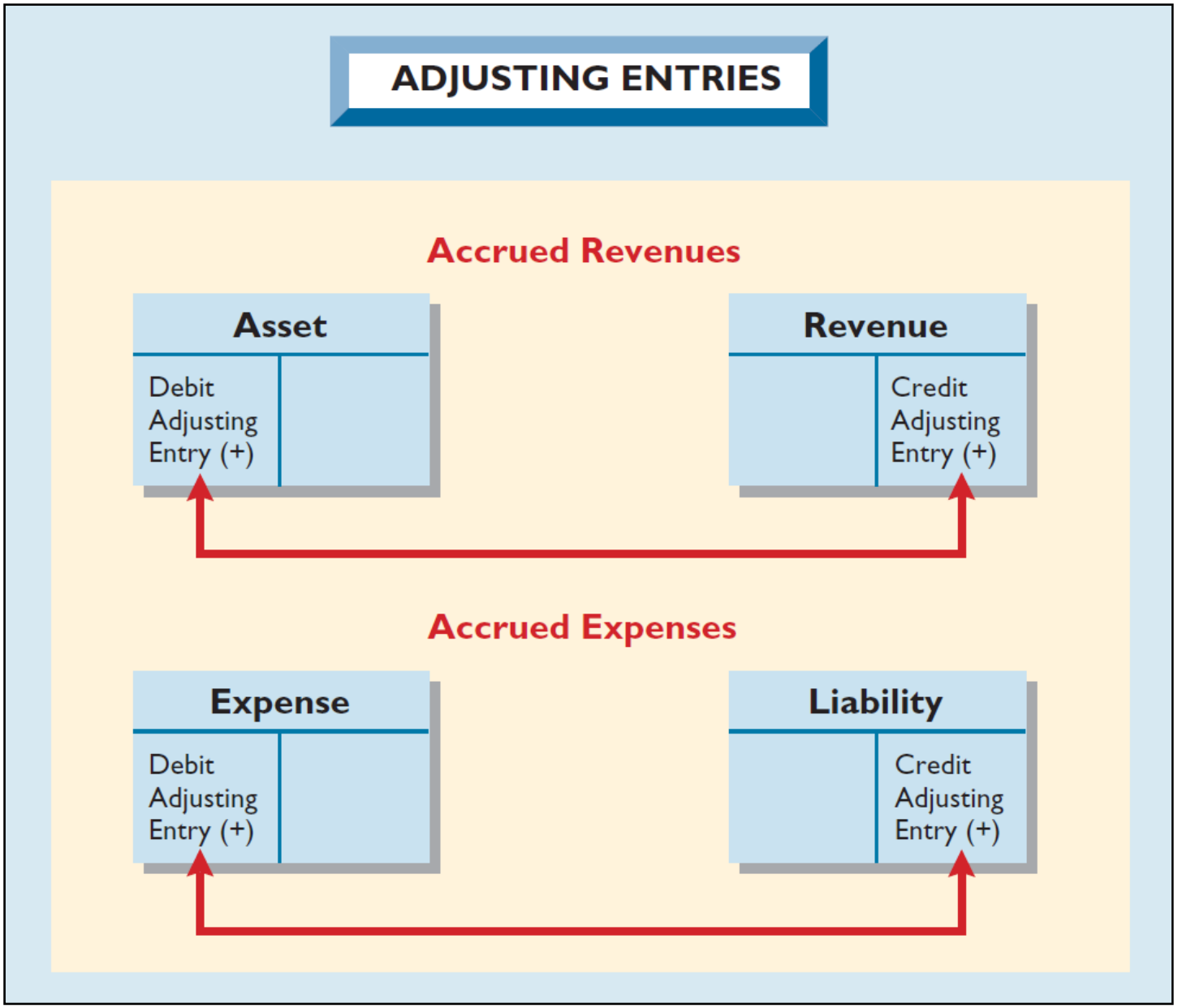
Accruals are made to record

- **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.

LO 5


ADJUSTING ENTRIES
Accrued Revenues
Asset
Debit
Adjusting
Entry (+)
Revenue
Credit
Adjusting
Entry (+)
Accrued Expenses
Expense
Debit
Adjusting
Entry (+)
Liability
Credit
Adjusting
Entry (+)

LO 5

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

LO 5

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	
Debit	Credit
72,000	
2,000	
74,000	

Service Revenue	
Debit	Credit
	100,000
	4,000
	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

Assets		
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
Equity and Liabilities		
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

LO 5

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
- Interest
- Taxes
- 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

LO 5

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	
	Interest Payable		500

Interest Expense	
Debit	Credit
500	

Interest Payable	
Debit	Credit
	500

LO 5

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

Assets		
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Supplies		10,000
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Share capital—ordinary	₺100,000	
Retained earnings	28,000	
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Liabilities		
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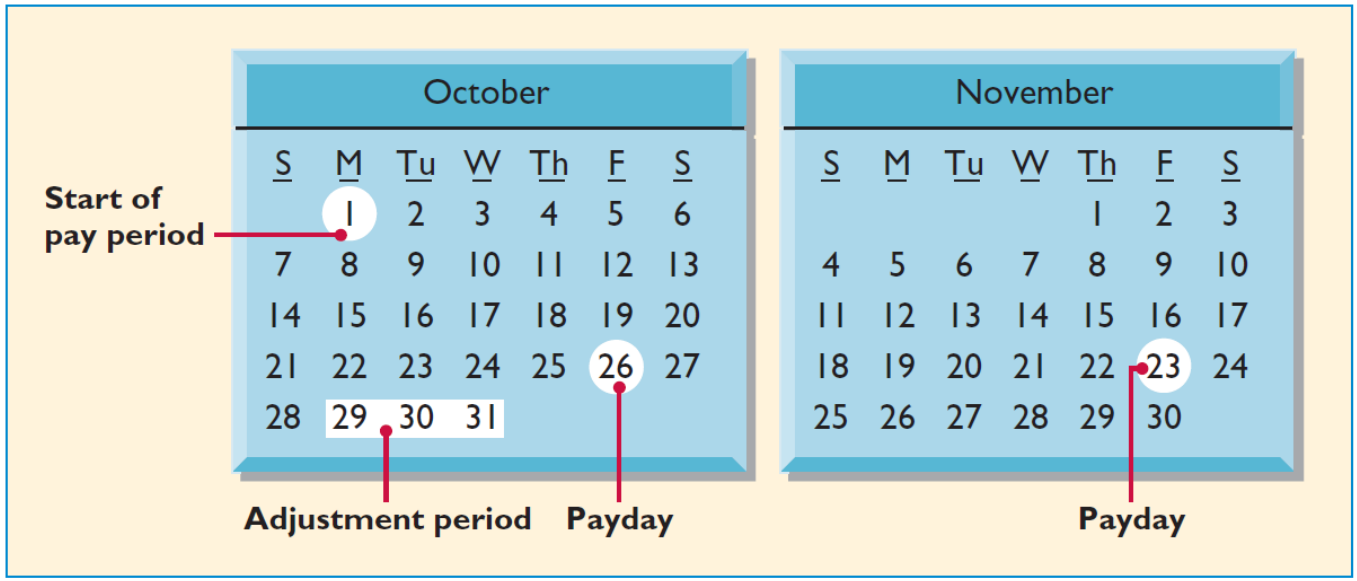
Unearned service revenue	8,000	
Salaries and wages payable	6,000	
Interest payable	500	
Total liabilities		89,500
Total equity and liabilities		17,500

Statement Presentation

LO 5

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.

LO 5

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

Debit	Credit
40,000	
6,000	
46,000	

Salaries and Wages Payable

Debit	Credit
	6,000

LO 5

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

Assets		
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
Equity and Liabilities		
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

LO 5

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	
Debit	Credit
34,000	

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

LO 5

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	

LO 5

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

Assets		
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
Equity and Liabilities		
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

LO 5

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	
	৳297,500	৳297,500

Preparing Financial Statements

Financial Statements are prepared directly from the Adjusted Trial Balance.

- Income Statement
- Retained Earnings Statement
- Statement of Financial Position

LO 6

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	
	৳297,500	৳297,500

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.
Retained Earnings Statement
For the Month Ended October 31, 2015

Retained earnings, October 1	৳ –0–
Add: Net income	33,000
	33,000
Less: Dividends	5,000
Retained earnings, October 31	৳28,000

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	
	₺297,500	₺297,500

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

Assets

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

Equity and Liabilities

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

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

LO 6

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.

LO 7

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	
	₺297,500	₺297,500

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

LO 7

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

LO 7

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).

LO 7

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

Net sales			৳400,000
Cost of goods sold			316,000
Gross profit on sales			84,000
Selling expenses			
Salaries and wages expense (sales)		৳20,000	
Advertising expense		10,200	
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	360		
Total administrative expenses		37,260	
Total selling and administrative expenses			67,460
Income from operations			16,540
Other revenues and gains			
Interest revenue			800
			17,340
Other expenses and losses			
Interest expense			1,700
Income before income taxes			15,640
Income tax			3,440
Net income			৳ 12,200

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	12,200
	28,400
Less: Dividends	2,000
Retained earnings, December 31	₺26,400

LO 8

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	3,000	54,800	
Cash		1,200	
Total current assets			97,040
Total assets			৳145,340
Equity and Liabilities			
Equity			
Share capital—ordinary, ৳5.00 par value, issued and outstanding, 10,000 shares		৳50,000	
Retained earnings		26,400	
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	3,440		
Total current liabilities		38,940	
Total liabilities			68,940
Total equity and liabilities			৳145,340