

Teacher Version

College Accounting

11th Edition

4 Adjusting Entries and the Work Sheet

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FIGURE 1

The accounting cycle
by chapter

Chapter 1	{	Analysis of Business Transactions Assets = Liabilities + Owner's Equity Assets = Liabilities + Capital - Drawings + Revenue - Expenses																						
Chapter 2	{	Analysis of Business Transactions <table><tr><td>Assets</td><td>=</td><td>Liabilities</td><td>+</td><td>Capital</td><td>-</td><td>Drawings</td><td>+</td><td>Revenue</td><td>-</td><td>Expenses</td></tr><tr><td>+ -</td><td></td><td>- +</td><td></td><td>- +</td><td></td><td>+ -</td><td></td><td>- +</td><td></td><td>+ -</td></tr></table>	Assets	=	Liabilities	+	Capital	-	Drawings	+	Revenue	-	Expenses	+ -		- +		- +		+ -		- +		+ -
Assets	=	Liabilities	+	Capital	-	Drawings	+	Revenue	-	Expenses														
+ -		- +		- +		+ -		- +		+ -														
Chapter 3	{	Journalize and Post Business Transactions Prepare a Trial Balance																						
Chapter 4	{	Gather the Adjustment Data Complete a Work Sheet Journalize and Post Adjusting Entries Prepare Financial Statements																						
Chapter 5	{	Journalize and Post Closing Entries Prepare a Post-Closing Trial Balance																						

You
are
Here

**You
are
Here**

Learning Objective

1

Define fiscal period and fiscal year and explain the accounting cycle.

- A fiscal period is any period of time covering a complete accounting cycle.
- A fiscal year is a fiscal period consisting of twelve consecutive months.
- A fiscal year does not have to coincide with the calendar year.
- For income tax purposes, any period of twelve consecutive months may be selected. However, you must be consistent from year to year.
- ***The accounting cycle*** represents the sequence of steps in the accounting process completed during the fiscal period.

The Work Sheet

- The **work sheet** is a tool (working paper) used by accountants to record necessary adjustments and provide up-to-date account balances needed to help in preparing financial statements.
- The heading consists of three lines:
 1. The name of the company
 2. The title of the working paper
 3. The period of time covered

	A	B	C	D	E	F	G	H	I	J	K
1	Conner's Whitewater Adventures										
2	Work Sheet										
3	For Month Ended June 30, 20—										
4											
5	TRIAL BALANCE			ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
6	ACCOUNT NAME	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
7											

The Columns of the Work Sheet

Trial Balance Columns

- Assuming **normal balances**, the account classifications are listed in the Trial Balance Debit and Credit columns of the work sheet:

Adjusted Trial Balance Columns

- The adjusted trial balance columns are merely extensions of the Trial Balance Columns, plus or minus any adjustment amounts.

The Columns of the Work Sheet

Income Statement Columns

- An income statement contains the revenues minus the expenses.
- Revenue accounts have credit balances, so they are recorded in the Income Statement Credit column.
- Expense accounts have debit balances, so they are recorded in the Income Statement Debit column.

The Columns of the Work Sheet

Income Statement Columns

	A	B	C	D	E	F	G	H	I
1	Conner's Whitewater Adventures								
2	Work Sheet								
3	For Month Ended June 30, 20—								
4									
5		TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT	
6	ACCOUNT NAME	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
7		Assets				Assets			
8			Liabilities				Liabilities		
9			Capital				Capital		
10		Drawing				Drawing			
11			Revenue				Revenue		Revenue
12		Expenses				Expenses		Expenses	
13									

The Columns of the Work Sheet

Balance Sheet Columns

- Asset accounts have debit balances, so they are recorded in the Balance Sheet Debit column.
- Liability accounts have credit balances, so they are recorded in the Balance Sheet Credit column.
- The **Capital** account has a credit balance, so it is recorded in the Balance Sheet Credit column.
- **Drawing** is a deduction from **Capital**, thus it has a debit balance and is recorded in the Balance Sheet Debit column.

The Columns of the Work Sheet

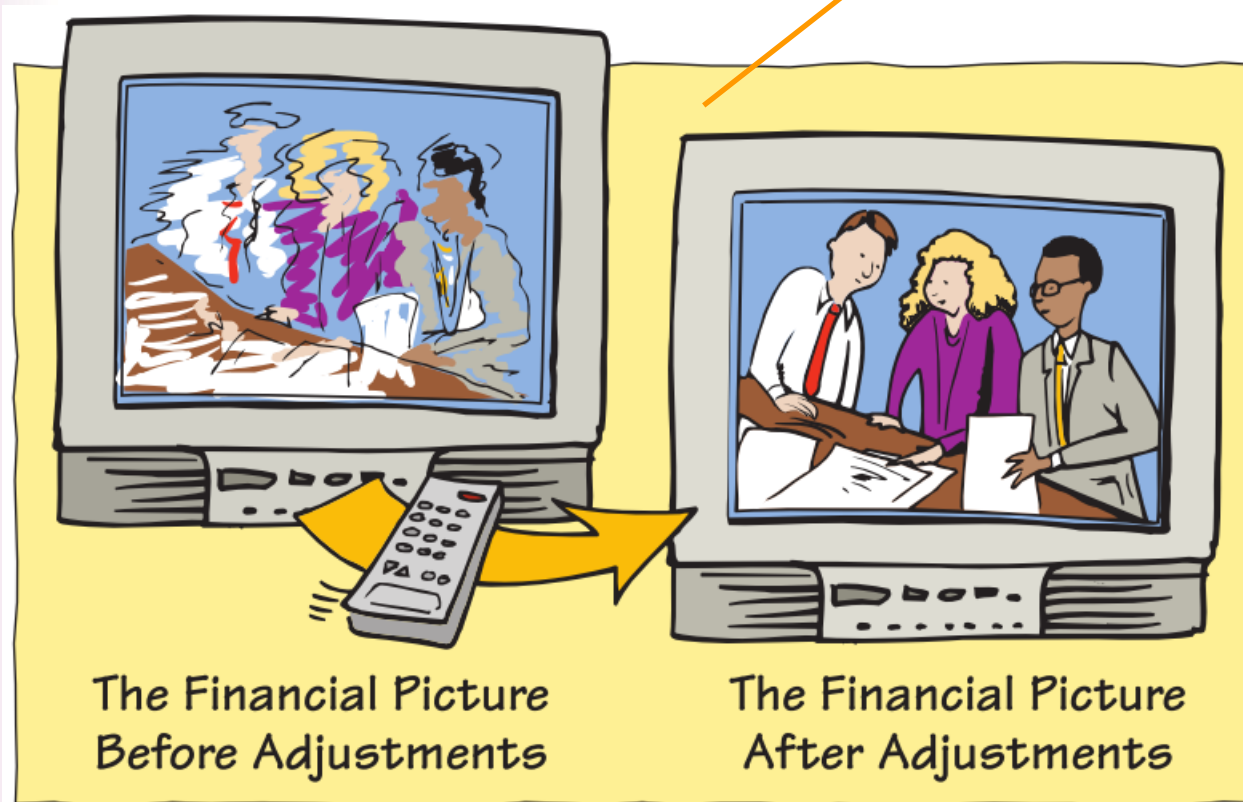
Balance Sheet Columns

	A	B	C	D	E	F	G	H	I	J	K
1	Conner's Whitewater Adventures										
2	Work Sheet										
3	For Month Ended June 30, 20—										
4											
5		TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
6	ACCOUNT NAME	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
7		Assets				Assets				Assets	
8			Liabilities				Liabilities				Liabilities
9			Capital				Capital				Capital
10		Drawing				Drawing				Drawing	
11			Revenue				Revenue		Revenue		
12		Expenses				Expenses		Expenses			
13											

Adjustments

- *Adjustments* are a way of updating the ledger accounts.
- Adjustments may be considered *internal transactions*.
- They are determined after the trial balance has been prepared.
- Adjustments are first recorded on the work sheet when using a manual accounting system.

Without adjustments the financial statements would be out of focus.



Common accounts that need adjusting

Supplies

*The amount of supplies used during the period is deducted from the **Supplies** account and added to **Supplies Expense**.*

Supplies			
		+	—
(Old)	Balance	675	Adjusting 460
(New)	Balance	215	

Count supplies on hand
and determine the value
(\$215)

Supplies Expense			
		+	—
Adjusting	460		

The difference is the amount used
during the period, or supplies expense
(\$675 – 215 = \$460)

Prepaid Insurance

*The \$1,875 balance in **Prepaid Insurance** represents the premium paid in advance for a three-month liability insurance policy.*

Prepaid Insurance			
		+	−
(Old)	Balance	1,875	Adjusting 625
(New)	Balance	1,250	

Cost of insurance that remains paid in advance.

Insurance Expense			
		+	−
Adjusting	625		

$1,875 \text{ per year} \div 3 \text{ months} = \625 per month

Depreciation of Equipment

On the balance sheet, the balance of **Accumulated Depreciation** is deducted from the balance of the related asset account.

Conner's Whitewater Adventures Partial Balance Sheet June 30, 20—		
Assets		
Equipment	\$51,300	
Less Accumulated Depreciation	<u>512</u>	<u>\$50,788</u>

Accumulated Depreciation, Equipment, is contrary to, or a deduction from, Equipment, so we call it a **contra account**.

Wages Expense

- Why is this adjustment necessary?
 - The end of the pay period rarely falls on the same day as the end of the fiscal period.
- What are accrued wages?
 - Accrued wages are the unpaid wages owed to employees for the time between the end of the last pay period and the end of the fiscal period.
- What accounts are used?
 - Wages Expense (DR)
 - Wages Payable (CR)

Mixed Accounts

- Each adjusting entry contains an income statement account (revenue or expense) and a balance sheet account (asset, contra asset, or liability).
- Accountants refer to these accounts as ***mixed accounts***, which are accounts with balances that are partly income statement and partly balance sheet amounts.

Placement of Accounts on the Work Sheet:

Capital and Drawing Account Balances

J. Conner, Capital		J. Conner, Drawing	
—	+	+	—
Debit	Credit	Debit	Credit
	Balance	Balance	

- Drawing is deducted from **Capital**.
- Capital account normal balance is a **Credit** balance.
- **Drawing** is a contra account.
- Drawing account normal balance is a **Debit** balance.

Placement of Accounts on the Work Sheet:

Capital and Drawing Account Balances

Equipment		Accumulated Depreciation, Equipment	
+	—	—	+
Debit	Credit	Debit	Credit
Balance			Balance

- **Equipment** is an asset.
- Equipment account normal balance is a **Debit** balance.
- **Accumulated Depreciation, Equipment** is deducted from Equipment.
- Accumulated Depreciation, Equipment account normal balance is a **Credit** balance.

Placement of Accounts on the Work Sheet: Capital and Drawing Account Balances

	A	B	C	D	E	F	G	H	I	J	K
1				5				INCOME STATEMENT		BALANCE SHEET	
2				6	ACCOUNT NAME	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
3				7				Assets	Accum. Depr.		
4				8				+	+		
5	TRIAL BALANCE			9				Drawing	Liabilities		
6	ACCOUNT NAME	DEBIT	Assets	10					+		
7			+	11		Expenses			Capital		
8			Drawing	12							
9			+	13			Revenue				
10			Expenses	14		Total	Total		Total	Total	
11				15	Net Loss		NL		NL		
12				16		Total	Total		Total	Total	
13				17							
14			Total	18		Totals equal each other.			Totals equal each other.		
15	Net Income			19							
16				20							
17				21							
18											
19											

- **Net Income (or loss)** is the difference between revenue and expenses.
- Net Income is added to the **Capital** account (credit)
- Net Loss is deducted from the **Capital** account (debit)

Steps in Completion of the Work Sheet

STEPS IN THE COMPLETION OF THE WORK SHEET

The recommended steps to complete the work sheet are as follows:

- STEP 1.** Complete the Trial Balance columns, total, and rule (single-underline before double-underlining totals).
- STEP 2.** Complete the Adjustments columns, total, and rule.
- STEP 3.** Complete the Adjusted Trial Balance columns, total, and rule.
- STEP 4.** Record balances in the Income Statement and Balance Sheet columns and total each column.
- STEP 5.** Record net income or net loss in the Income Statement columns by subtracting the smaller side from the larger side and adding the difference to the smaller side, total, and rule.
- STEP 6.** Record net income or net loss in the Balance Sheet columns by subtracting the smaller side from the larger side and adding the difference to the smaller side (the amount should be the same as the difference between the Income Statement column totals—if not, there is an error), total, and rule.

Figure 2

Partial work sheet for
Conner's Whitewater
Adventures

	A	B	C	D	E
1	Conner's				
2					
3		Step 1		Step 2	
4					
5		TRIAL BALANCE		ADJUSTMENTS	
6	ACCOUNT NAME	DEBIT	CREDIT	DEBIT	CREDIT
7			<i>Accum. Depr.</i>		
8		<i>A + Draw. + E</i>	<i>+ L + Cap. + R</i>		
9	Cash	55,890.00			
10	Accounts Receivable	4,250.00			
11	Supplies	675.00			(a) 460.00
12	Prepaid Insurance	1,875.00			(b) 625.00
13	Equipment	51,300.00			
14	Accounts Payable		3,425.00		
15	J. Conner, Capital		95,200.00		
16	J. Conner, Drawing	3,500.00			
17	Income from Tours		23,320.00		
18	Wages Expense	2,360.00		(d) 472.00	
19	Rent Expense	1,250.00			
20	Advertising Expense	620.00			
21	Utilities Expense	225.00			
22		121,945.00	121,945.00		
23	Supplies Expense			(a) 460.00	
24	Insurance Expense			(b) 625.00	
25	Depr. Exp., Equip.			(c) 512.00	
26	Accum. Depr., Equip.				(c) 512.00
27	Wages Payable				(d) 472.00
28				2,069.00	2,069.00

Figure 3

Work sheet with steps of completion explained for Conner's Whitewater Adventures

	A	B	C	D	E	F	G	H	I	J
1	Conner's Whitewater Adventures									
2	Work Sheet									
3		Step 1		Step 2		Step 3				
4										
5		TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE				
6	ACCOUNT NAME	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT			
7			<i>Accum. Depr.</i>				<i>Accum. Depr.</i>			
8		<i>A + Draw. + E</i>	<i>+ L + Cap. + R</i>			<i>A + Draw. + E</i>	<i>+ L + Cap. + R</i>			
9	Cash	55,890.00				55,890.00		No adjustment, so carry over directly.		
10	Accounts Receivable	4,250.00				4,250.00				
11	Supplies	675.00			(a) 460.00	215.00		$675 - 460 = 215$		
12	Prepaid Insurance	1,875.00			(b) 625.00	1,250.00		$1,875 - 625 = 1,250$		
13	Equipment	51,300.00				51,300.00		No adjustment, so carry over directly.		
14	Accounts Payable		3,425.00				3,425.00			
15	J. Conner, Capital		95,200.00				95,200.00			
16	J. Conner, Drawing	3,500.00				3,500.00				
17	Income from Tours		23,320.00				23,320.00			
18	Wages Expense	2,360.00		(d) 472.00		2,832.00		$2,360 + 472 = 2,832$		
19	Rent Expense	1,250.00				1,250.00		No adjustment, so carry over directly.		
20	Advertising Expense	620.00				620.00				
21	Utilities Expense	225.00				225.00				
22		121,945.00	121,945.00							
23	Supplies Expense			(a) 460.00		460.00		$0 + 460 = 460$		
24	Insurance Expense			(b) 625.00		625.00		$0 + 625 = 625$		
25	Depr. Exp., Equip.			(c) 512.00		512.00		$0 + 512 = 512$		
26	Accum. Depr., Equip.				(c) 512.00		512.00	$0 + 512 = 512$		
27	Wages Payable				(d) 472.00		472.00	$0 + 472 = 472$		
28				2,069.00	2,069.00	122,929.00	122,929.00			
29										

Figure 4

Work sheet for Conner's Whitewater Adventures—Excel version

	A	B	C	D	E	F	G	H	I	J	K
1	Conner's Whitewater Adventures										
2	Work Sheet										
3	For Month Ended June 30, 20—										
4											
5		TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
6	ACCOUNT NAME	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
7			Accum. Depr.				Accum. Depr.				Accum. Depr.
8		A + Draw. + E	+ L + Cap. + R			A + Draw. + E	+ L + Cap. + R	E	R	A + Draw.	+ L + Cap.
9	Cash	55,890.00				55,890.00				55,890.00	
10	Accounts Receivable	4,250.00				4,250.00				4,250.00	
11	Supplies	675.00			(a) 460.00	215.00				215.00	
12	Prepaid Insurance	1,875.00			(b) 625.00	1,250.00				1,250.00	
13	Equipment	51,300.00				51,300.00				51,300.00	
14	Accounts Payable		3,425.00				3,425.00				3,425.00
15	J. Conner, Capital		95,200.00				95,200.00				95,200.00
16	J. Conner, Drawing	3,500.00				3,500.00				3,500.00	
17	Income from Tours		23,320.00				23,320.00		23,320.00		
18	Wages Expense	2,360.00		(d) 472.00		2,832.00		2,832.00			
19	Rent Expense	1,250.00				1,250.00		1,250.00			
20	Advertising Expense	620.00				620.00		620.00			
21	Utilities Expense	225.00				225.00		225.00			
22		121,945.00	121,945.00								
23	Supplies Expense			(a) 460.00		460.00		460.00			
24	Insurance Expense			(b) 625.00		625.00		625.00			
25	Depr. Exp., Equip.			(c) 512.00		512.00		512.00			
26	Accum. Depr., Equip.				(c) 512.00		512.00				512.00
27	Wages Payable				(d) 472.00		472.00				472.00
28				2,069.00	2,069.00	122,929.00	122,929.00	6,524.00	23,320.00	116,405.00	99,609.00
29	Net Income							16,796.00			16,796.00
30								23,320.00	23,320.00	116,405.00	116,405.00
31											
32											

Step 1
In the Account name column, lists the accounts that have balances. Enter the account balances in the Trial Balance columns. Total and rule the columns.

Step 2
Enter the adjustments, labeling each adjustment as (a), (b), (c), and so on. Total and rule the columns.
(a) Supplies used, \$460
(b) Insurance expired, \$625
(c) Depr. of equip, \$512
(d) Accrued wages, \$472

Step 3
Carry amounts across from the Trial Balance columns, plus or minus any amounts appearing in the Adjustments columns. Total and rule the columns.

Step 4
From the top of the Adjusted Trial Balance columns, go down line by line, carrying each amount over to the Income Statement or Balance Sheet columns. Total the columns.

Step 5
Write *Net Income* or *Net Loss* in the Account Name column and the amount in the appropriate Income Statement column. Total and rule the columns.

Step 6
Enter the net income or loss amount in the appropriate Balance Sheet column. Total, balance, and rule the columns.

Finding Errors in the Income Statement and Balance Sheet Columns

- STEP 1.** Check that the amount of the net income or loss is recorded in the correct columns. For example, net income is placed in the Income Statement Debit column and the Balance Sheet Credit column.
- STEP 2.** Verify the addition of all columns.
- STEP 3.** Check that the appropriate amounts have been recorded in the Income Statement and Balance Sheet columns. For example, asset amounts should be listed in the Balance Sheet Debit column, expense amounts should be listed in the Income Statement Debit column, and so on.
- STEP 4.** Verify by adding or subtracting across each line that the amounts carried over from the Trial Balance columns through the Adjustments columns into the Adjusted Trial Balance columns are correct.
- STEP 5.** Verify that the correct amounts of the revenue and expense accounts are transferred to the Income Statement columns.
- STEP 6.** Verify that the correct amounts of assets, liabilities, and owner's equity accounts are transferred to the Balance Sheet columns.

Journalizing Adjusting Entries

- The work sheet is not a journal, so we must **journalize adjusting entries** to update the ledger accounts.
- Take the information for these entries directly from the **Adjustments columns** of the work sheet.
- Debit and credit exactly the same accounts and amounts from the work sheet to the journal.
- Many adjustments are made to follow the **matching principle**. In other words, revenues earned in one period are matched with the expenses associated with that revenue.

GENERAL JOURNAL

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Date	Description	Post. Ref.	Debit	Credit
20—	Adjusting Entries			
June 30	Supplies Expense	513	4 6 0 00	
	Supplies	115		4 6 0 00
30	Insurance Expense	516	6 2 5 00	
	Prepaid Insurance	117		6 2 5 00

ACCOUNT <u>Prepaid Insurance</u>					ACCOUNT NO. <u>117</u>			
Date	Item	Post. Ref.	Debit	Credit	Balance			
20—					Debit	Credit		
June 10		2	1 8 7 5 00		1 8 7 5 00			00
30	Adj.	4		6 2 5 00	1 2 5 0 00			00

ACCOUNT <u>Insurance Expense</u>					ACCOUNT NO. <u>516</u>			
Date	Item	Post. Ref.	Debit	Credit	Balance			
20—					Debit	Credit		
June 30	Adj.	4		6 2 5 00		6 2 5 00		

Learning Objective

Completion of the Financial Statements

Since we have completed the work sheet for Conner's Whitewater Adventures, we can now prepare the income statement, the statement of owner's equity, and the balance sheet by taking the figures directly from the work sheet.

6

Prepare (a) an income statement involving more than one revenue account and a net loss, (b) a statement of owner's equity with an additional investment and either a net income or a net loss, and (c) a balance sheet for a business having more than one accumulated depreciation account.

Income Statement Involving More than One Revenue Account and a Net Loss

- When an organization has more than one distinct source of revenue, a separate revenue account is set up for each source.
- Harris Miniature Golf's income statement is an example of a company that has more than one revenue account.

Harris Miniature Golf Income Statement For Month Ended September 30, 20—		
Revenue:		
Admissions Fees	\$2,624	
Concession Fees	1,512	
Total Revenue		\$ 4,136
Expenses:		
Wages Expense	\$3,123	
Supplies Expense	317	
Advertising Expense	1,000	
Rent Expense	1,900	
Miscellaneous Expense	128	
Total Expenses		6,468
Net Loss		<u><u>\$(2,332)</u></u>

Learning Objective

- 6** Prepare (a) an income statement involving more than one revenue account and a net loss, (b) a statement of owner's equity with an additional investment and either a net income or a net loss, and (c) a balance sheet for a business having more than one accumulated depreciation account.

L. A. Grand Company Statement of Owner's Equity For Month Ended April 30, 20—

L. A. Grand, Capital, April 1, 20—		\$86,000
Investment during April	\$ 8,000	
Net Income for April	6,200	
Subtotal	\$14,200	
Less Withdrawals for April	4,000	
Increase in Capital		10,200
L. A. Grand, Capital, April 30, 20—		<u>\$96,200</u>

J. D. Ross Company Statement of Owner's Equity For Month Ended October 31, 20—

J. D. Ross, Capital, October 1, 20—		\$75,000
Investment during October	\$10,000	
Net Loss for October	1,500	
Subtotal	\$ 8,500	
Less Withdrawals for October	5,100	
Increase in Capital		3,400
J. D. Ross, Capital, October 31, 20—		<u>\$78,400</u>

Learning Objective

- 6** Prepare (a) an income statement involving more than one revenue account and a net loss, (b) a statement of owner's equity with an additional investment and either a net income or a net loss, and (c) a balance sheet for a business having more than one accumulated depreciation account.

Moreland Clinic Balance Sheet December 31, 20—		
Assets		
Cash		\$ 31,345
Supplies		175
Land		25,000
Building	\$339,100	
Less Accumulated Depreciation	112,200	226,900
Equipment	\$114,800	
Less Accumulated Depreciation	87,600	27,200
Total Assets		<u>\$310,620</u>
Liabilities		
Accounts Payable		\$ 7,380
Owner's Equity		
W. Moreland, Capital		303,240
Total Liabilities and Owner's Equity		<u>\$310,620</u>