

# Accounting Principles

Prepared by Dr. Mohamed Hamouda

## Lecture 9

جامعة الجميع الذكية

تسعى لتكون الكيان الأول الذي يتبنى مبدأ المجتمع التعليمي  
التعاوني ويقدم العلم مقابل العمل لتنمية وبناء المجتمعات.

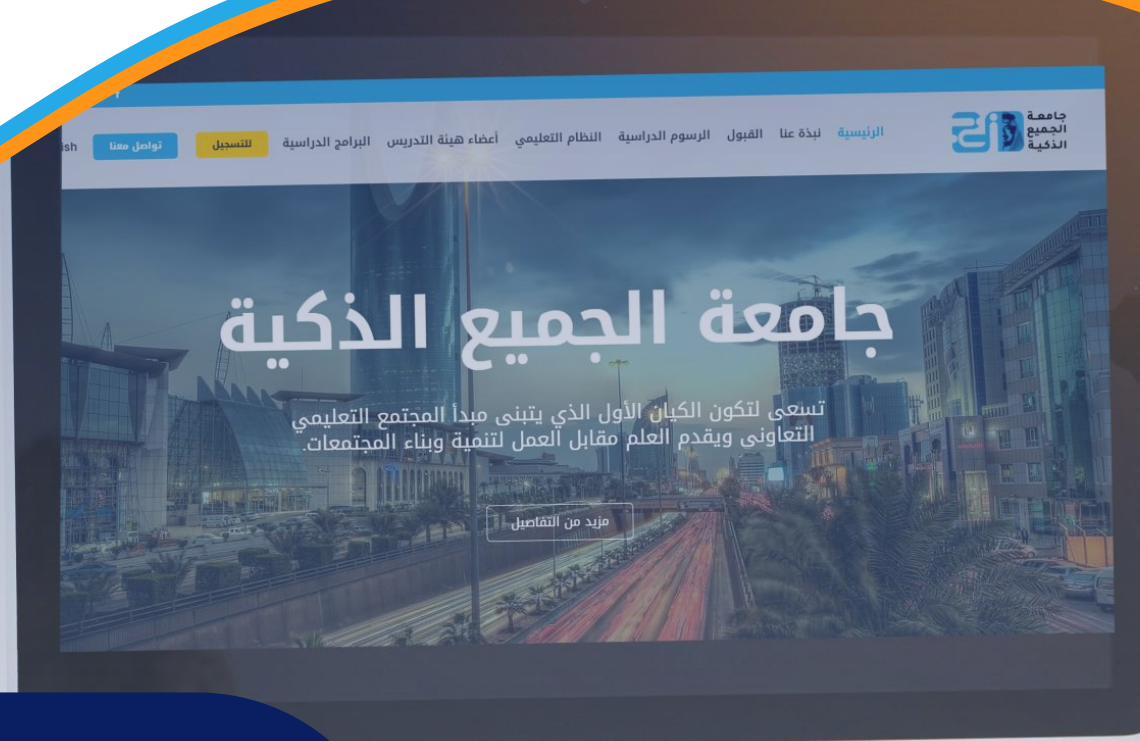
## Completing the Accounting Cycle



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# Accounting Principles

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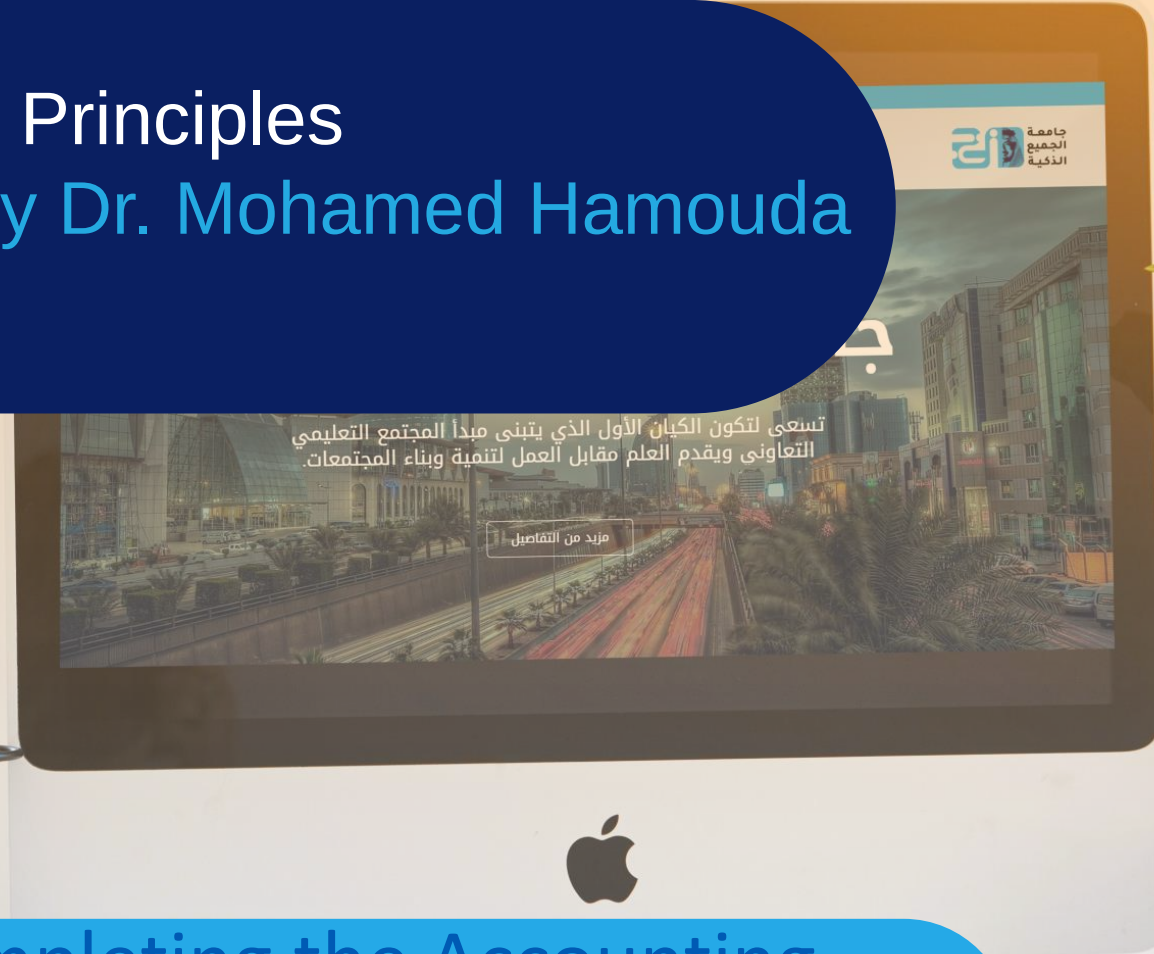
## Lecture 9

## Completing the Accounting Cycle

# Accounting Principles

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## Lecture 9



## Completing the Accounting Cycle

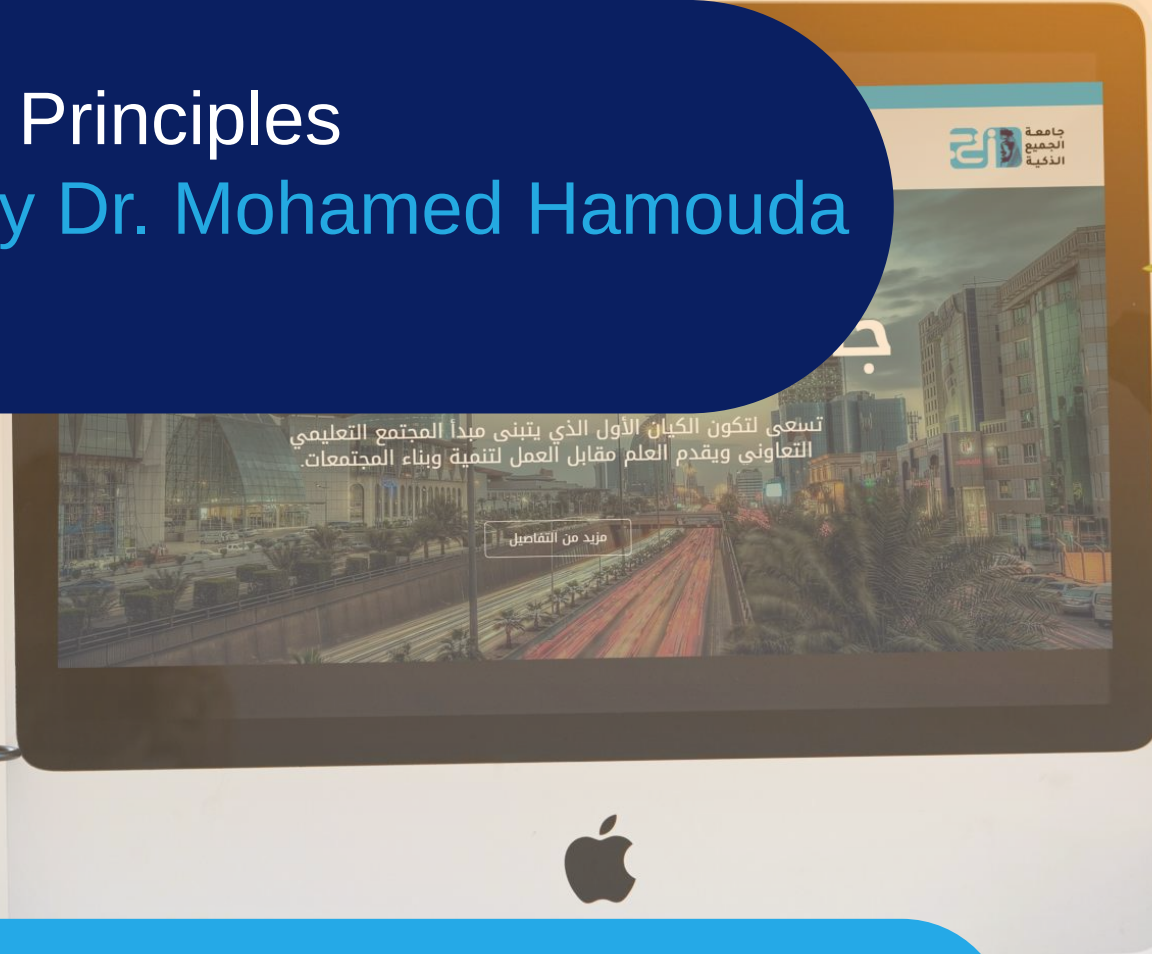


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# Accounting Principles

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## Lecture 9



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## RECAP

# Building Blocks of Analysis

Ability to meet  
short-term  
obligations and  
to efficiently  
generate  
revenues

**Liquidity  
and  
Efficiency**

Ability to  
generate future  
revenues and  
meet long-term  
obligations

**Solvency**

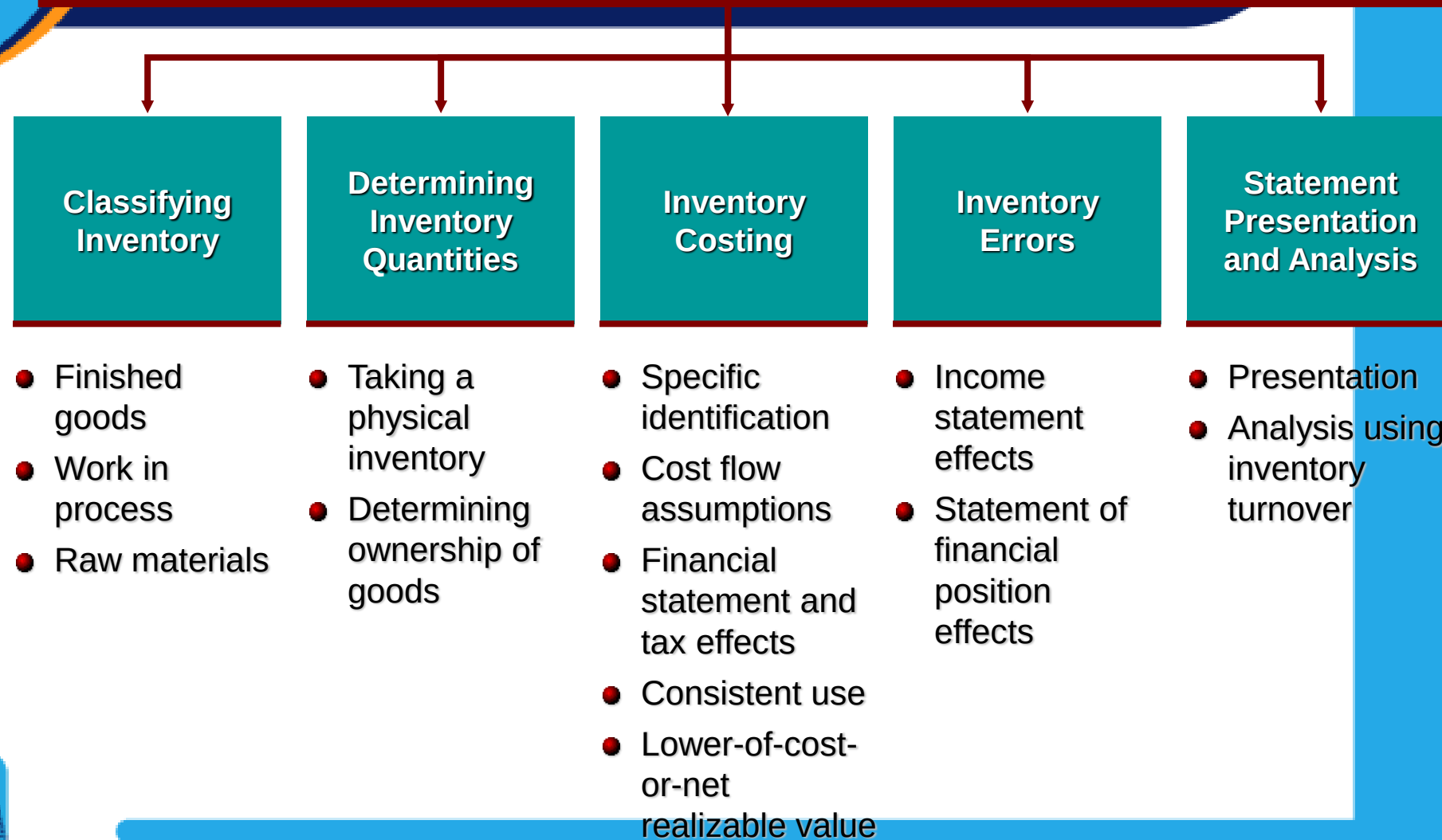
Ability to provide  
financial rewards  
sufficient to  
attract and retain  
financing

**Profitability**

Ability to  
generate  
positive  
market  
expectations

**Market**

# Inventories



# Allowance Method

At the end of each period, **estimate** total bad debts expected to be realized from that period's sales.



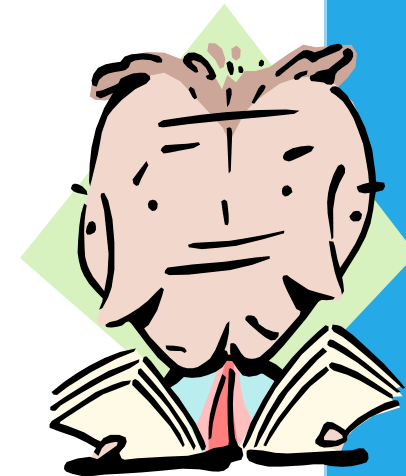
Two advantages to the allowance method:

1. It records estimated bad debts expense in the period when the related sales are recorded.
2. It reports accounts receivable on the balance sheet at the estimated amount of cash to be collected.

# Estimating Bad Debts Expense

## Two Methods

1. Percent of Sales Method
2. Accounts Receivable Methods
  - Percent of Accounts Receivable
  - Aging of Accounts Receivable



# Plant Assets

Tangible in Nature



Actively Used in Operations



Expected to Benefit Future Periods



Called Property, Plant, & Equipment

# Statement of Cash Flows

## The Statement of Cash Flows: Usefulness and Format

- Usefulness
- Classifications
- Significant noncash activities
- Format
- Corporate life cycle
- Preparation
- Indirect and direct methods

## Preparing the Statement of Cash Flows—Indirect Method

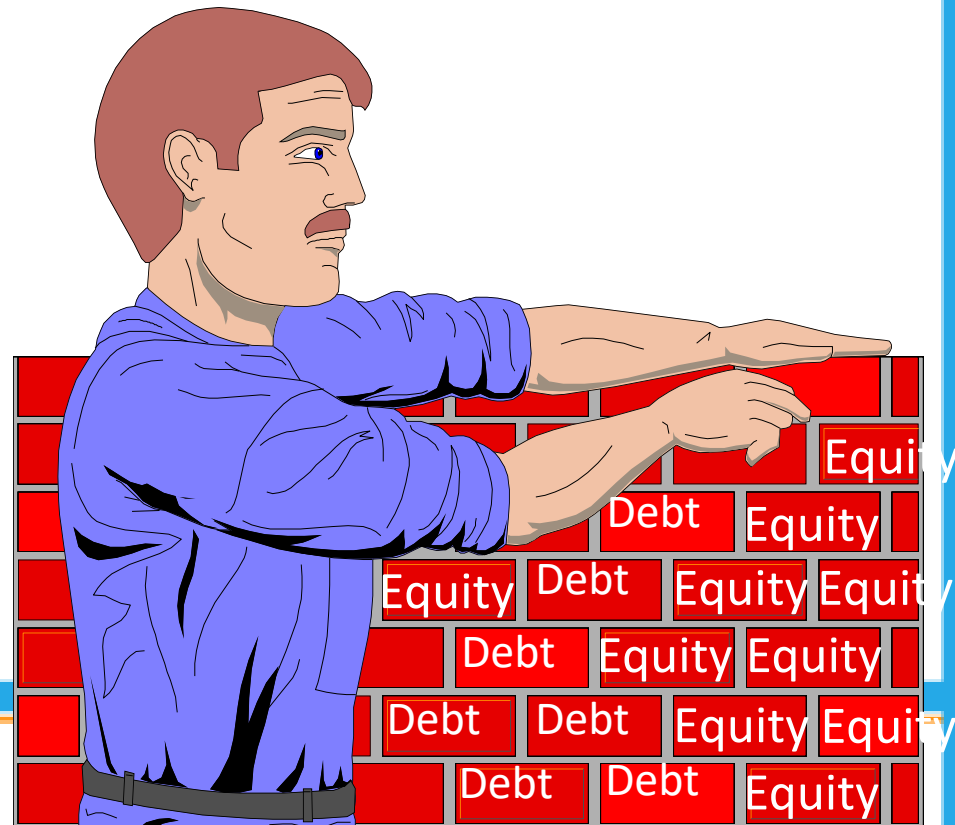
- Step 1: Operating activities
- Step 2: Investing and financing activities
- Step 3: Net change in cash

## Using Cash Flows to Evaluate a Company

- Free cash flow
- Assessing liquidity and solvency

# Capital Structure and Dividend Policy Decisions

- The combination of debt and equity used to finance a firm



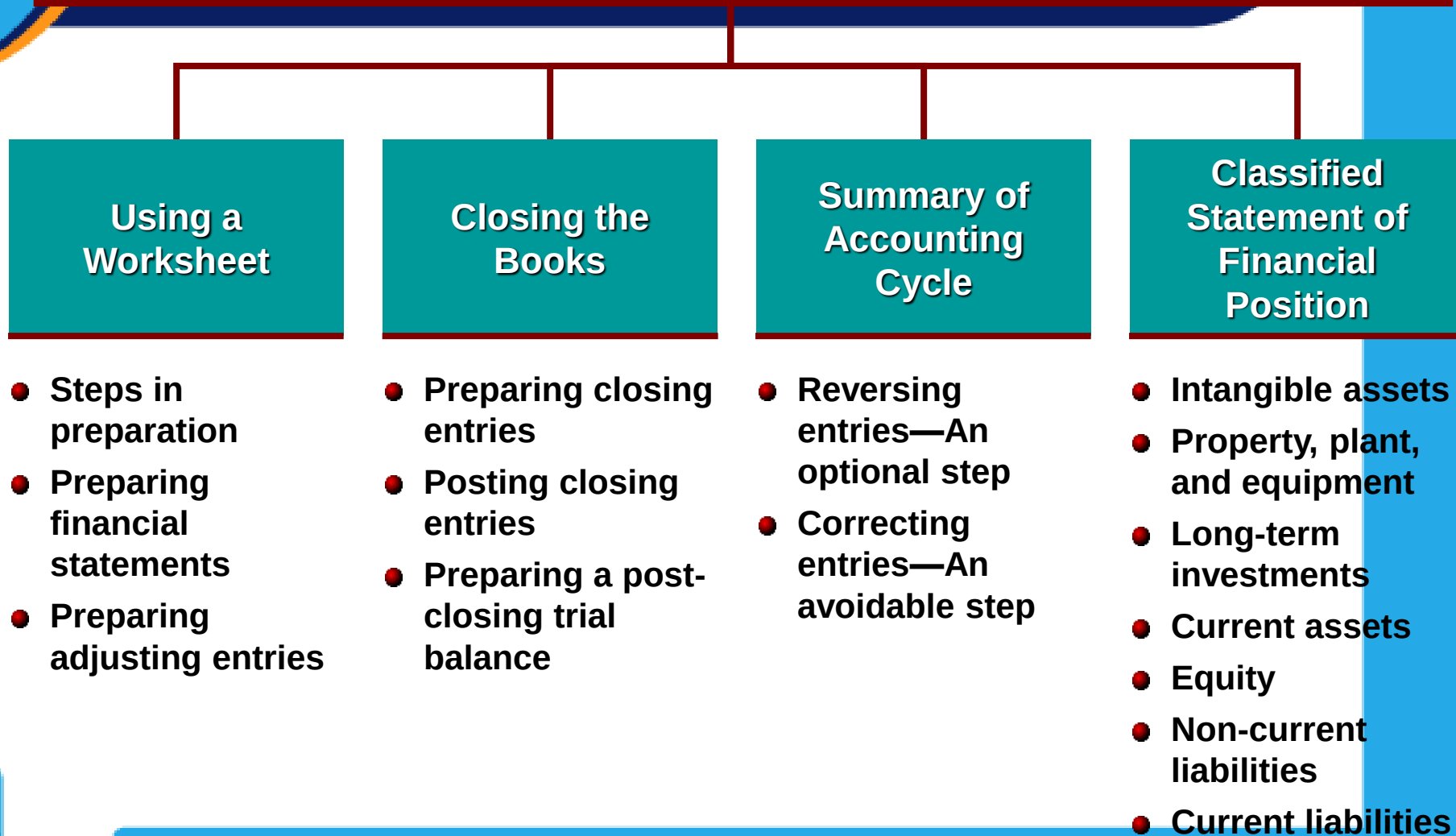
- The optimal mix of debt, preferred stock, and common equity with which the firm plans to finance its investments May change over time
- Trade-off between risk and return to achieve goal of maximizing the price of the stock



- 1. Firm's business risk
- 2. Firm's tax position
- 3. Financial flexibility
- 4. Managerial attitude

# Completing the Accounting Cycle

## Completing the Accounting Cycle



# Using A Worksheet

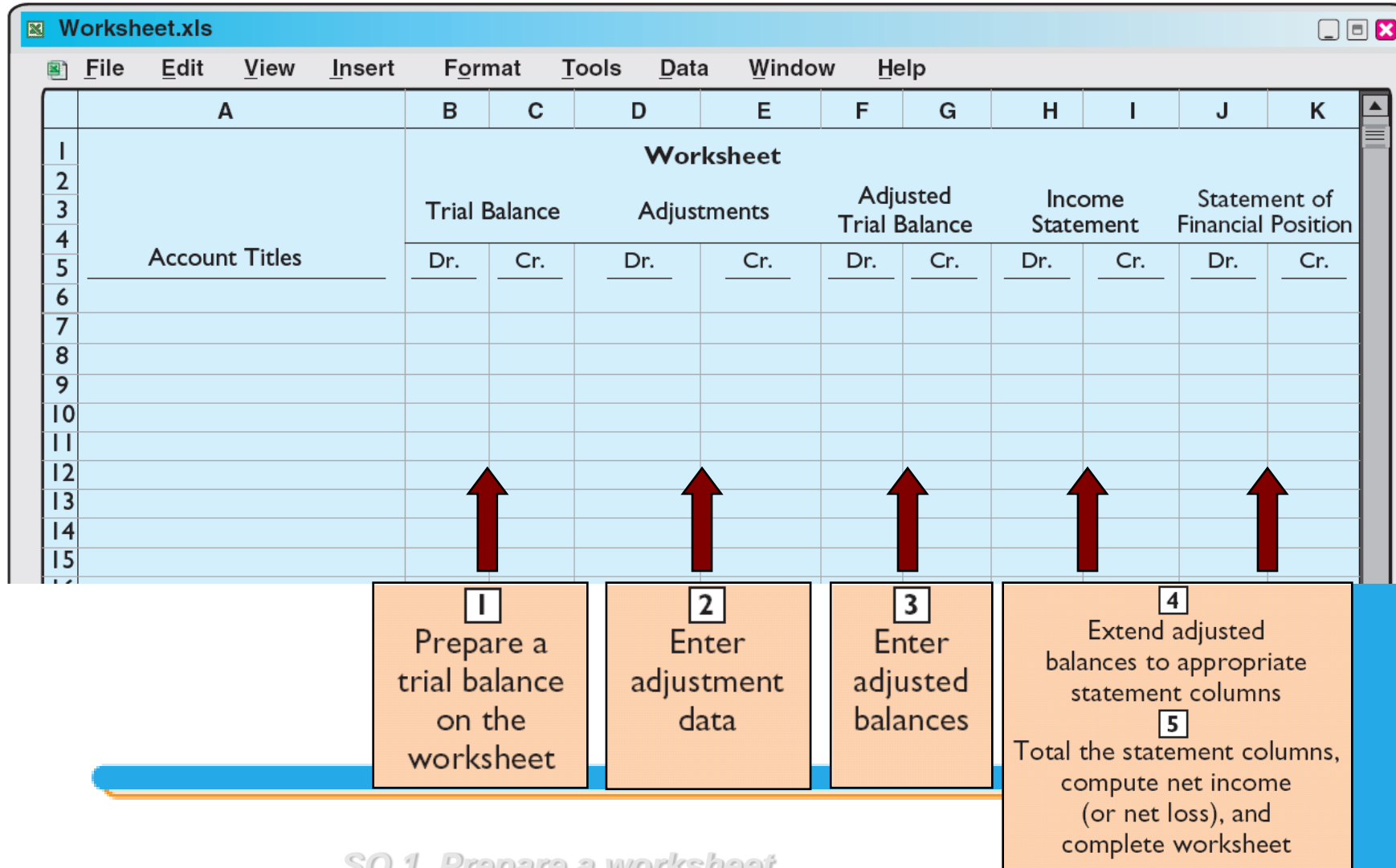
## Worksheet

- A multiple-column form used in preparing financial statements.
- Not a permanent accounting record.
- Five step process.
- Use of worksheet is optional.

# Chapter 9

## Steps in Preparing a Worksheet

Illustration 4-1



## Steps in Preparing a Worksheet

### Illustration:

**Illustration 4-2**  
Preparing a trial balance

| <b>PIONEER ADVERTISING AGENCY INC.</b><br><b>Worksheet</b><br><b>For the Month Ended October 31, 2011</b> |               |        |             |     |                        |     |                  |     |                                 |     |
|-----------------------------------------------------------------------------------------------------------|---------------|--------|-------------|-----|------------------------|-----|------------------|-----|---------------------------------|-----|
| Account Titles                                                                                            | Trial Balance |        | Adjustments |     | Adjusted Trial Balance |     | Income Statement |     | Statement of Financial Position |     |
|                                                                                                           | Dr.           | Cr.    | Dr.         | Cr. | Dr.                    | Cr. | Dr.              | Cr. | Dr.                             | Cr. |
| Cash                                                                                                      | 15,200        |        |             |     |                        |     |                  |     |                                 |     |
| Advertising Supplies                                                                                      | 2,500         |        |             |     |                        |     |                  |     |                                 |     |
| Prepaid Insurance                                                                                         | 600           |        |             |     |                        |     |                  |     |                                 |     |
| Office Equipment                                                                                          | 5,000         |        |             |     |                        |     |                  |     |                                 |     |
| Notes Payable                                                                                             |               | 5,000  |             |     |                        |     |                  |     |                                 |     |
| Accounts Payable                                                                                          |               | 2,500  |             |     |                        |     |                  |     |                                 |     |
| Unearned Revenue                                                                                          |               | 1,200  |             |     |                        |     |                  |     |                                 |     |
| Share Capital                                                                                             |               | 10,000 |             |     |                        |     |                  |     |                                 |     |
| Dividends                                                                                                 | 500           |        |             |     |                        |     |                  |     |                                 |     |
| Service Revenue                                                                                           |               | 10,000 |             |     |                        |     |                  |     |                                 |     |
| Salaries Expense                                                                                          | 4,000         |        |             |     |                        |     |                  |     |                                 |     |
| Rent Expense                                                                                              | 900           |        |             |     |                        |     |                  |     |                                 |     |
| Totals                                                                                                    | 28,700        | 28,700 |             |     |                        |     |                  |     |                                 |     |

# Steps in Preparing a Worksheet

## 1. Prepare a Trial Balance on the Worksheet

| Account Titles       | Trial Balance |               | Adjustments |     | Adjusted Trial Balance |     | Income Statement |     | Statement of Financial Position |     |
|----------------------|---------------|---------------|-------------|-----|------------------------|-----|------------------|-----|---------------------------------|-----|
|                      | Dr.           | Cr.           | Dr.         | Cr. | Dr.                    | Cr. | Dr.              | Cr. | Dr.                             | Cr. |
| Cash                 | 15,200        |               |             |     |                        |     |                  |     |                                 |     |
| Advertising Supplies | 2,500         |               |             |     |                        |     |                  |     |                                 |     |
| Prepaid Insurance    | 600           |               |             |     |                        |     |                  |     |                                 |     |
| Office Equipment     | 5,000         |               |             |     |                        |     |                  |     |                                 |     |
| Notes Payable        |               | 5,000         |             |     |                        |     |                  |     |                                 |     |
| Accounts Payable     |               | 2,500         |             |     |                        |     |                  |     |                                 |     |
| Unearned Revenue     |               | 1,200         |             |     |                        |     |                  |     |                                 |     |
| Share Capital        |               | 10,000        |             |     |                        |     |                  |     |                                 |     |
| Dividends            | 500           |               |             |     |                        |     |                  |     |                                 |     |
| Service Revenue      |               | 10,000        |             |     |                        |     |                  |     |                                 |     |
| Salaries Expense     | 4,000         |               |             |     |                        |     |                  |     |                                 |     |
| Rent                 | 900           |               |             |     |                        |     |                  |     |                                 |     |
| Totals               | <u>28,700</u> | <u>28,700</u> |             |     |                        |     |                  |     |                                 |     |

Include all accounts with balances.

Trial balance amounts come directly from ledger accounts.

# Chapter 9

## Steps in Preparing a Worksheet

### Illustration 3-22

General journal showing adjusting entries

### Adjusting Journal Entries (Chapter 3)

| GENERAL JOURNAL |                                           |      |       |        | J2 |
|-----------------|-------------------------------------------|------|-------|--------|----|
| Date            | Account Titles and Explanation            | Ref. | Debit | Credit |    |
| 2011            | <u>Adjusting Entries</u>                  |      |       |        |    |
| Oct. 31         | Advertising Supplies Expense              | 631  | 1,500 |        |    |
|                 | Advertising Supplies                      | 126  |       | 1,500  |    |
|                 | (To record supplies used)                 |      |       |        |    |
| 31              | Insurance Expense                         | 722  | 50    |        |    |
|                 | Prepaid Insurance                         | 130  |       | 50     |    |
|                 | (To record insurance expired)             |      |       |        |    |
| 31              | Depreciation Expense                      | 711  | 40    |        |    |
|                 | Accumulated Depreciation—Office Equipment | 158  |       | 40     |    |
|                 | (To record monthly depreciation)          |      |       |        |    |
| 31              | Unearned Revenue                          | 209  | 400   |        |    |
|                 | Service Revenue                           | 400  |       | 400    |    |
|                 | (To record revenue for services provided) |      |       |        |    |
| 31              | Accounts Receivable                       | 112  | 200   |        |    |
|                 | Service Revenue                           | 400  |       | 200    |    |
|                 | (To record revenue for services provided) |      |       |        |    |
| 31              | Interest Expense                          | 905  | 50    |        |    |
|                 | Interest Payable                          | 230  |       | 50     |    |
|                 | (To record interest on notes payable)     |      |       |        |    |
| 31              | Salaries Expense                          | 726  | 1,200 |        |    |
|                 | Salaries Payable                          | 212  |       | 1,200  |    |
|                 | (To record accrued salaries)              |      |       |        |    |

# Steps in Preparing a Worksheet

## 2. Enter the Adjustments in the Adjustments Columns

| Account Titles               | Trial Balance |        | Adjustments |           | Adjusted Trial Balance |     | Income Statement |     | Statement of Financial Position |     |
|------------------------------|---------------|--------|-------------|-----------|------------------------|-----|------------------|-----|---------------------------------|-----|
|                              | Dr.           | Cr.    | Dr.         | Cr.       | Dr.                    | Cr. | Dr.              | Cr. | Dr.                             | Cr. |
| Cash                         | 15,200        |        |             |           |                        |     |                  |     |                                 |     |
| Advertising Supplies         | 2,500         |        |             | (a) 1,500 |                        |     |                  |     |                                 |     |
| Prepaid Insurance            | 600           |        |             | (b) 50    |                        |     |                  |     |                                 |     |
| Office Equipment             | 5,000         |        |             |           |                        |     |                  |     |                                 |     |
| Notes Payable                |               | 5,000  |             |           |                        |     |                  |     |                                 |     |
| Accounts Payable             |               | 2,500  |             |           |                        |     |                  |     |                                 |     |
| Unearned Revenue             |               | 1,200  | (d) 400     |           |                        |     |                  |     |                                 |     |
| Share Capital                |               | 10,000 |             |           |                        |     |                  |     |                                 |     |
| Dividends                    | 500           |        |             |           |                        |     |                  |     |                                 |     |
| Service Revenue              |               | 10,000 |             | (d) 400   |                        |     |                  |     |                                 |     |
|                              |               |        |             | (e) 200   |                        |     |                  |     |                                 |     |
| Salaries Expense             | 4,000         |        | (g) 1,200   |           |                        |     |                  |     |                                 |     |
| Rent                         | 900           |        |             |           |                        |     |                  |     |                                 |     |
| Totals                       | 28,700        | 28,700 |             |           |                        |     |                  |     |                                 |     |
| Advertising Supplies Expense |               |        | (a) 1,500   |           |                        |     |                  |     |                                 |     |
| Insurance Expense            |               |        | (b) 50      |           |                        |     |                  |     |                                 |     |
| Accumulated Depreciation     |               |        |             | (c) 40    |                        |     |                  |     |                                 |     |
| Depreciation Expense         |               |        | (c) 40      |           |                        |     |                  |     |                                 |     |
| Accounts Receivable          |               |        | (e) 200     |           |                        |     |                  |     |                                 |     |
| Interest Expense             |               |        | (f) 50      |           |                        |     |                  |     |                                 |     |
| Interest Payable             |               |        |             | (f) 50    |                        |     |                  |     |                                 |     |
| Salaries Payable             |               |        |             | (g) 1,200 |                        |     |                  |     |                                 |     |
| Totals                       |               |        | 3,440       | 3,440     |                        |     |                  |     |                                 |     |

### Adjustments Key:

- (a) Supplies Used.
- (b) Insurance Expired.
- (c) Depreciation Expensed.
- (d) Service Revenue Earned.
- (e) Service Revenue Accrued.
- (f) Interest Accrued.
- (g) Salaries Accrued.

Enter adjustment amounts, total adjustments columns, and check for equality.

Add additional accounts as needed.

# Steps in Preparing a Worksheet

## 3. Complete the Adjusted Trial Balance Columns

| Account Titles               | Trial Balance |        | Adjustments |                    | Adjusted Trial Balance |        | Income Statement |     | Statement of Financial Position |     |
|------------------------------|---------------|--------|-------------|--------------------|------------------------|--------|------------------|-----|---------------------------------|-----|
|                              | Dr.           | Cr.    | Dr.         | Cr.                | Dr.                    | Cr.    | Dr.              | Cr. | Dr.                             | Cr. |
| Cash                         | 15,200        |        |             |                    | 15,200                 |        |                  |     |                                 |     |
| Advertising Supplies         | 2,500         |        |             | (a) 1,500          | 1,000                  |        |                  |     |                                 |     |
| Prepaid Insurance            | 600           |        |             | (b) 50             | 550                    |        |                  |     |                                 |     |
| Office Equipment             | 5,000         |        |             |                    | 5,000                  |        |                  |     |                                 |     |
| Notes Payable                |               | 5,000  |             |                    |                        | 5,000  |                  |     |                                 |     |
| Accounts Payable             |               | 2,500  |             |                    |                        | 2,500  |                  |     |                                 |     |
| Unearned Revenue             |               | 1,200  | (d) 400     |                    |                        | 800    |                  |     |                                 |     |
| Share Capital                |               | 10,000 |             |                    |                        | 10,000 |                  |     |                                 |     |
| Dividends                    | 500           |        |             |                    | 500                    |        |                  |     |                                 |     |
| Service Revenue              |               | 10,000 |             | (d) 400<br>(e) 200 |                        | 10,600 |                  |     |                                 |     |
| Salaries Expense             | 4,000         |        | (g) 1,200   |                    | 5,200                  |        |                  |     |                                 |     |
| Rent                         | 900           |        |             |                    | 900                    |        |                  |     |                                 |     |
| Totals                       | 28,700        | 28,700 |             |                    |                        |        |                  |     |                                 |     |
| Advertising Supplies Expense |               |        | (a) 1,500   |                    | 1,500                  |        |                  |     |                                 |     |
| Insurance Expense            |               |        | (b) 50      |                    | 50                     |        |                  |     |                                 |     |
| Accumulated Depreciation     |               |        |             | (c) 40             |                        | 40     |                  |     |                                 |     |
| Depreciation Expense         |               |        | (c) 40      |                    | 40                     |        |                  |     |                                 |     |
| Accounts Receivable          |               |        | (e) 200     |                    | 200                    |        |                  |     |                                 |     |
| Interest Expense             |               |        | (f) 50      |                    | 50                     |        |                  |     |                                 |     |
| Interest Payable             |               |        |             | (f) 50             |                        | 50     |                  |     |                                 |     |
| Salaries Payable             |               |        |             | (g) 1,200          |                        | 1,200  |                  |     |                                 |     |
| Totals                       |               |        | 3,440       | 3,440              | 30,190                 | 30,190 |                  |     |                                 |     |

Total the adjusted trial balance columns and check for equality.

# Steps in Preparing a Worksheet

## 4. Extend Amounts to Financial Statement Columns

| Account Titles               | Trial Balance |               | Adjustments  |                    | Adjusted Trial Balance |               | Income Statement |               | Statement of Financial Position |     |
|------------------------------|---------------|---------------|--------------|--------------------|------------------------|---------------|------------------|---------------|---------------------------------|-----|
|                              | Dr.           | Cr.           | Dr.          | Cr.                | Dr.                    | Cr.           | Dr.              | Cr.           | Dr.                             | Cr. |
| Cash                         | 15,200        |               |              |                    | 15,200                 |               |                  |               |                                 |     |
| Advertising Supplies         | 2,500         |               |              | (a) 1,500          | 1,000                  |               |                  |               |                                 |     |
| Prepaid Insurance            | 600           |               |              | (b) 50             | 550                    |               |                  |               |                                 |     |
| Office Equipment             | 5,000         |               |              |                    | 5,000                  |               |                  |               |                                 |     |
| Notes Payable                |               | 5,000         |              |                    |                        | 5,000         |                  |               |                                 |     |
| Accounts Payable             |               | 2,500         |              |                    |                        | 2,500         |                  |               |                                 |     |
| Unearned Revenue             |               | 1,200         | (d) 400      |                    |                        | 800           |                  |               |                                 |     |
| Share Capital                |               | 10,000        |              |                    |                        | 10,000        |                  |               |                                 |     |
| Dividends                    | 500           |               |              |                    | 500                    |               |                  |               |                                 |     |
| Service Revenue              |               | 10,000        |              | (d) 400<br>(e) 200 |                        | 10,600        |                  | 10,600        |                                 |     |
| Salaries Expense             | 4,000         |               | (g) 1,200    |                    | 5,200                  |               | 5,200            |               |                                 |     |
| Rent                         | 900           |               |              |                    | 900                    |               | 900              |               |                                 |     |
| <b>Totals</b>                | <b>28,700</b> | <b>28,700</b> |              |                    |                        |               |                  |               |                                 |     |
| Advertising Supplies Expense |               |               | (a) 1,500    |                    | 1,500                  |               | 1,500            |               |                                 |     |
| Insurance Expense            |               |               | (b) 50       |                    | 50                     |               | 50               |               |                                 |     |
| Accumulated Depreciation     |               |               |              | (c) 40             |                        | 40            |                  |               |                                 |     |
| Depreciation Expense         |               |               | (c) 40       |                    | 40                     |               | 40               |               |                                 |     |
| Accounts Receivable          |               |               | (e) 200      |                    | 200                    |               |                  |               |                                 |     |
| Interest Expense             |               |               | (f) 50       |                    | 50                     |               | 50               |               |                                 |     |
| Interest Payable             |               |               |              | (f) 50             |                        | 50            |                  |               |                                 |     |
| Salaries Payable             |               |               |              | (g) 1,200          |                        | 1,200         |                  |               |                                 |     |
| <b>Totals</b>                |               |               | <b>3,440</b> | <b>3,440</b>       | <b>30,190</b>          | <b>30,190</b> | <b>7,740</b>     | <b>10,600</b> |                                 |     |

Extend all revenue and expense account balances to the income statement columns.

# Steps in Preparing a Worksheet

## 4. Extend Amounts to Financial Statement Columns

| Account Titles               | Trial Balance |        | Adjustments |                    | Adjusted Trial Balance |        | Income Statement |        | Statement of Financial Position |        |
|------------------------------|---------------|--------|-------------|--------------------|------------------------|--------|------------------|--------|---------------------------------|--------|
|                              | Dr.           | Cr.    | Dr.         | Cr.                | Dr.                    | Cr.    | Dr.              | Cr.    | Dr.                             | Cr.    |
| Cash                         | 15,200        |        |             |                    | 15,200                 |        |                  |        | 15,200                          |        |
| Advertising Supplies         | 2,500         |        |             | (a) 1,500          | 1,000                  |        |                  |        | 1,000                           |        |
| Prepaid Insurance            | 600           |        |             | (b) 50             | 550                    |        |                  |        | 550                             |        |
| Office Equipment             | 5,000         |        |             |                    | 5,000                  |        |                  |        | 5,000                           |        |
| Notes Payable                |               | 5,000  |             |                    |                        | 5,000  |                  |        |                                 | 5,000  |
| Accounts Payable             |               | 2,500  |             |                    |                        | 2,500  |                  |        |                                 | 2,500  |
| Unearned Revenue             |               | 1,200  | (d) 400     |                    |                        | 800    |                  |        |                                 | 800    |
| Share Capital                |               | 10,000 |             |                    |                        | 10,000 |                  |        |                                 | 10,000 |
| Dividends                    | 500           |        |             |                    | 500                    |        |                  |        | 500                             |        |
| Service Revenue              |               | 10,000 |             | (d) 400<br>(e) 200 |                        | 10,600 |                  | 10,600 |                                 |        |
| Salaries Expense             | 4,000         |        | (g) 1,200   |                    | 5,200                  |        | 5,200            |        |                                 |        |
| Rent                         | 900           |        |             |                    | 900                    |        | 900              |        |                                 |        |
| Totals                       | 28,700        | 28,700 |             |                    |                        |        |                  |        |                                 |        |
| Advertising Supplies Expense |               |        | (a) 1,500   |                    | 1,500                  |        | 1,500            |        |                                 |        |
| Insurance Expense            |               |        | (b) 50      |                    | 50                     |        | 50               |        |                                 |        |
| Accumulated Depreciation     |               |        |             | (c) 40             |                        | 40     |                  |        |                                 | 40     |
| Depreciation Expense         |               |        | (c) 40      |                    | 40                     |        | 40               |        |                                 |        |
| Accounts Receivable          |               |        | (e) 200     |                    | 200                    |        |                  |        | 200                             |        |
| Interest Expense             |               |        | (f) 50      |                    | 50                     |        | 50               |        |                                 |        |
| Interest Payable             |               |        |             | (f) 50             |                        | 50     |                  |        |                                 | 50     |
| Salaries Payable             |               |        |             | (g) 1,200          |                        | 1,200  |                  |        |                                 | 1,200  |
| Totals                       |               |        | 3,440       | 3,440              | 30,190                 | 30,190 | 7,740            | 10,600 | 22,450                          | 19,590 |

Extend all asset, liability, and equity account balances to the statement of financial position columns.

SO 1 Prepare a worksheet.

# Chapter 9

## Steps in Preparing a Worksheet

### 5. Total Columns, Compute Net Income (Loss)

| Account Titles               | Trial Balance |        | Adjustments |                    | Adjusted Trial Balance |        | Income Statement |        | Statement of Financial Position |        |
|------------------------------|---------------|--------|-------------|--------------------|------------------------|--------|------------------|--------|---------------------------------|--------|
|                              | Dr.           | Cr.    | Dr.         | Cr.                | Dr.                    | Cr.    | Dr.              | Cr.    | Dr.                             | Cr.    |
| Cash                         | 15,200        |        |             |                    | 15,200                 |        |                  |        | 15,200                          |        |
| Advertising Supplies         | 2,500         |        |             | (a) 1,500          | 1,000                  |        |                  |        | 1,000                           |        |
| Prepaid Insurance            | 600           |        |             | (b) 50             | 550                    |        |                  |        | 550                             |        |
| Office Equipment             | 5,000         |        |             |                    | 5,000                  |        |                  |        | 5,000                           |        |
| Notes Payable                |               | 5,000  |             |                    |                        | 5,000  |                  |        |                                 | 5,000  |
| Accounts Payable             |               | 2,500  |             |                    |                        | 2,500  |                  |        |                                 | 2,500  |
| Unearned Revenue             |               | 1,200  | (d) 400     |                    |                        | 800    |                  |        |                                 | 800    |
| Share Capital                |               | 10,000 |             |                    |                        | 10,000 |                  |        |                                 | 10,000 |
| Dividends                    | 500           |        |             |                    | 500                    |        |                  |        | 500                             |        |
| Service Revenue              |               | 10,000 |             | (d) 400<br>(e) 200 |                        | 10,600 |                  | 10,600 |                                 |        |
| Salaries Expense             | 4,000         |        | (g) 1,200   |                    | 5,200                  |        | 5,200            |        |                                 |        |
| Rent                         | 900           |        |             |                    | 900                    |        | 900              |        |                                 |        |
| Totals                       | 28,700        | 28,700 |             |                    |                        |        |                  |        |                                 |        |
| Advertising Supplies Expense |               |        | (a) 1,500   |                    | 1,500                  |        | 1,500            |        |                                 |        |
| Insurance Expense            |               |        | (b) 50      |                    | 50                     |        | 50               |        |                                 |        |
| Accumulated Depreciation     |               |        |             | (c) 40             |                        | 40     |                  |        |                                 | 40     |
| Depreciation Expense         |               |        | (c) 40      |                    | 40                     |        | 40               |        |                                 |        |
| Accounts Receivable          |               |        | (e) 200     |                    | 200                    |        |                  |        | 200                             |        |
| Interest Expense             |               |        | (f) 50      |                    | 50                     |        | 50               |        |                                 |        |
| Interest Payable             |               |        |             | (f) 50             |                        | 50     |                  |        |                                 | 50     |
| Salaries Payable             |               |        |             | (g) 1,200          |                        | 1,200  |                  |        |                                 | 1,200  |
| Totals                       |               |        | 3,440       | 3,440              | 30,190                 | 30,190 | 7,740            | 10,600 | 22,450                          | 19,590 |
| Net income                   |               |        |             |                    |                        |        | 2,860            |        |                                 | 2,860  |
| Totals                       |               |        |             |                    |                        |        | 10,600           | 10,600 | 22,450                          | 22,450 |

Compute Net Income or Net Loss.

SO 1 Prepare a worksheet.

# Steps in Preparing a Worksheet

## Review Question

Net income is shown on a worksheet in the:

- a. income statement debit column only.
- b. statement of financial position debit column only.
- c. income statement credit column and statement of financial position debit column.
- ☒ d. income statement debit column and statement of financial position credit column.

### Worksheet

- Income statement is prepared from the income statement columns.
- Statement of financial position and retained earnings statement are prepared from the statement of financial position columns.

Companies journalize and post adjusting entries.

Illustration 4-4

## PIONEER ADVERTISING AGENCY

Income Statement  
For the Month Ended October 31, 2011

|                              |              |                 |
|------------------------------|--------------|-----------------|
| Revenues                     |              |                 |
| Service revenue              |              | \$10,600        |
| Expenses                     |              |                 |
| Salaries expense             | \$5,200      |                 |
| Advertising supplies expense | 1,500        |                 |
| Rent expense                 | 900          |                 |
| Insurance expense            | 50           |                 |
| Interest expense             | 50           |                 |
| Depreciation expense         | 40           |                 |
| Total expenses               | <u>7,740</u> |                 |
| Net income                   |              | <u>\$ 2,860</u> |



Illustration 4-4

## PIONEER ADVERTISING AGENCY INC.

### Retained Earnings Statement For the Month Ended October 31, 2011

|                               |                       |
|-------------------------------|-----------------------|
| Retained earnings, October 1  | \$ -0-                |
| Add: Net income               | <u>2,860</u>          |
|                               | 2,860                 |
| Less: Dividends               | <u>500</u>            |
| Retained earnings, October 31 | <u><u>\$2,360</u></u> |

Illustration 4-4

### PIONEER ADVERTISING AGENCY INC.

Statement of Financial Position  
October 31, 2011

| <u>Assets</u>                  |           |                 |
|--------------------------------|-----------|-----------------|
| Office equipment               | \$5,000   |                 |
| Less: Accumulated depreciation | <u>40</u> | \$ 4,960        |
| Prepaid insurance              |           | 550             |
| Advertising supplies           |           | 1,000           |
| Accounts receivable            |           | 200             |
| Cash                           |           | <u>15,200</u>   |
| Total assets                   |           | <u>\$21,910</u> |
| <u>Equity and Liabilities</u>  |           |                 |
| Equity                         |           |                 |
| Share capital                  |           | \$10,000        |
| Retained earnings              |           | <u>2,360</u>    |
| Liabilities                    |           |                 |
| Notes payable                  |           | 5,000           |
| Accounts payable               |           | 2,500           |
| Interest payable               |           | 50              |
| Unearned revenue               |           | 800             |
| Salaries payable               |           | <u>1,200</u>    |
| Total liabilities              |           | <u>9,550</u>    |
| Total equity and liabilities   |           | <u>\$21,910</u> |

### Adjusting Entries

- The adjusting entries are prepared from the adjustments columns of the worksheet.
- Journalizing and posting of adjusting entries follows the preparation of financial statements when a worksheet is used.

# Chapter 9

## Preparing Adjusting Entries from a Worksheet

### Illustration 3-22

General journal showing adjusting entries

### Adjusting Journal Entries (Chapter 3)

| GENERAL JOURNAL |                                           |      |       |        | J2 |
|-----------------|-------------------------------------------|------|-------|--------|----|
| Date            | Account Titles and Explanation            | Ref. | Debit | Credit |    |
| 2011            | <u>Adjusting Entries</u>                  |      |       |        |    |
| Oct. 31         | Advertising Supplies Expense              | 631  | 1,500 |        |    |
|                 | Advertising Supplies                      | 126  |       | 1,500  |    |
|                 | (To record supplies used)                 |      |       |        |    |
| 31              | Insurance Expense                         | 722  | 50    |        |    |
|                 | Prepaid Insurance                         | 130  |       | 50     |    |
|                 | (To record insurance expired)             |      |       |        |    |
| 31              | Depreciation Expense                      | 711  | 40    |        |    |
|                 | Accumulated Depreciation—Office Equipment | 158  |       | 40     |    |
|                 | (To record monthly depreciation)          |      |       |        |    |
| 31              | Unearned Revenue                          | 209  | 400   |        |    |
|                 | Service Revenue                           | 400  |       | 400    |    |
|                 | (To record revenue for services provided) |      |       |        |    |
| 31              | Accounts Receivable                       | 112  | 200   |        |    |
|                 | Service Revenue                           | 400  |       | 200    |    |
|                 | (To record revenue for services provided) |      |       |        |    |
| 31              | Interest Expense                          | 905  | 50    |        |    |
|                 | Interest Payable                          | 230  |       | 50     |    |
|                 | (To record interest on notes payable)     |      |       |        |    |
| 31              | Salaries Expense                          | 726  | 1,200 |        |    |
|                 | Salaries Payable                          | 212  |       | 1,200  |    |
|                 | (To record accrued salaries)              |      |       |        |    |

# Closing the Books

At the end of the accounting period, the company makes the accounts ready for the next period.

Illustration 4-5

## TEMPORARY

These accounts are closed

All revenue accounts

All expense accounts

Dividends

## PERMANENT

These accounts are not closed

All asset accounts

All liability accounts

Equity