



مجموعة جامعة
الجميع الذكية
للتعليم القابضة

MIDOCEAN
UNIVERSITY
BY EVERYONE'S SMART UNIVERSITY

Principles of Accounting

Lecture 9 Completing the Accounting Cycle

MGM 227

Prepared by
Dr. Hoda Metwally

www.midocean.ae

The accounting equation

$$A = L + E \text{ or}$$

$$A - L = L + E - L$$

$$A - L = E$$

'Account' Format $A = L + E$

Assets

=

Liabilities

+

Equity

'Narrative' Format $A - L = E$

Assets

-

Liabilities

=

Equity

Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Owner capital contributions +
Profit (Income – Expenses) -
Drawings

We know that:

- Every transaction must have TWO sides.
- Every transaction must be analysed in terms of the accounting equation so that it ALWAYS remains in balance -
 - Assets – may go up or down
 - Liabilities – may go up or down
 - Equity:
 - Capital contributions – may go up or down
 - Income – may go up or down
 - Expenses – may go up or down
 - Drawings – may go up or down

Changes in the Accounting Equation/Debits and Credits

Assets = Liabilities + Equity

 Debits =  Credits

WHICH BECOMES:

Assets + Expenses + Drawings = Liabilities + (Capital contributions + Income)

 All Debits =  All Credits

Ledger Account

Three basic parts

- title
- place for recording increases
- place for recording decreases

Account Title					
Date	Explanation	Amount	Date	Explanation	Amount
←	Debit (Dr) side		←	Credit (Cr) side	
		→			→

Comprehensive Problem

On 1 July 2018 Nicole Andreou opened a beauty parlour. The following transactions occurred during the first month of operations.

July	2	Andreou invested \$120 000 in the business by depositing cash into a business cheque account with the Eastpac Bank.
	2	Paid \$1800 for the first month's rent.
	3	Purchased equipment by an online bank transfer for \$32 000 and signed a commercial loan agreement for \$38 000.
	4	Purchased supplies for \$8400.
	6	Paid advertising expense of \$890.
	16	Recorded beauty services revenue for the first half of the month of \$3250 in cash and \$620 on credit.
	20	Paid insurance expense for July of \$480 using an online bank transfer.
	23	Received a \$140 payment from customers who paid on credit in the first half of the month.
	28	Andreou withdrew \$560 cash for personal living expenses.
	31	Recorded revenue for the second half of the month of \$3680 in cash and \$580 on credit.
	31	Paid telephone account of \$330 by electronic transfer.

Use the following account titles and numbers:

Cash at Bank, 100; Accounts Receivable, 101; Supplies, 102; Equipment, 103; Loan Payable, 200; Nicole Andreou, Capital, 300; Nicole Andreou, Drawings, 301; Revenue, 400; Rent Expense, 500; Advertising Expense, 501; Insurance Expense, 502; Telephone Expense, 503.

Required:

- a) Prepare the general journal entries to record the transactions.
- b) Post the entries from the general journal to the correct general ledger accounts.
- c) Prepare a trial balance as at 31 July 2018.
- d) Prepare an Income Statement, Statement of Changes in Equity and the Balance Sheet for the period ending 31 July 2018.

• **General Journal**

• <u>Date</u>	<u>Details</u>	<u>Debit (\$)</u>	<u>Credit (\$)</u>
• 2 July	Cash at Bank	120 000	
•	Nicole Andreou, Capital		120 000
-----**Cash invested by the owner-----			
• 2 July	Rent expense	1 800	
•	Cash at Bank		1 800
-----**Rent paid -----			
• 3 July	Equipment	70 000	
•	Cash at Bank		32 000
	Loan payable		38 000
-----**Equipment purchased for cash and loan payable-----			

• 4 July	Supplies	8 400	
		Cash at Bank	8 400
-----**Supplies purchased-----			
• 6 July	Advertising expense		890
		Cash at Bank	890
-----**Cash paid for advertising -----			
• 16 July	Cash at Bank	3 250	
	Accounts Receivable	620	
		Revenue	3 870
-----**Revenue for first half of month-----			

• 20 July	Insurance expense	480	
	Cash at Bank		480
-----**Cash paid for insurance-----			
23 July	Cash at Bank	140	
	Accounts receivable		140
-----**Receipt of payment from customers-----			
• 28 July	Nicole <u>Andreou</u> , Drawings	560	
	Cash at Bank		560
• **Drawings by owner			

• 31 July	Cash at Bank	3 680	
	Accounts Receivable	580	
	Revenue		4 260

-----**Revenue for second part of the month-----

• 31 July	Telephone expense	330	
	Cash at Bank		330

-----**Telephone expenses paid -----

Cash at Bank - 100

2/07	Nicole Andreou – Capital	120 000	2/07	Rent expense	1 800
			3/07	Equipment	32 000
			4/07	Supplies	8 400
			6/07	Advertising expense	890
16/07	Revenue	3 250	20/07	Insurance expense	480
	Accounts Receivable		28/07	Nicole Andreou – Drawings	560
23/07		140	31/07	Telephone expenses	330
31/07	Revenue	3 680		Bal c/f	82 610
		<u>.</u>			<u>127 070</u>
		127 070			
	Bal b/d	82 610			

Accounts Receivable					
16/07	Revenue	\$620	23/07	Cash	\$140
31/07	Revenue	580		Bal c/f	1 060
		<u>1 200</u>			<u>1 200</u>
	Bal c/d	1 060			

Supplies – 102		
4/07	Cash at Bank	\$8 400

Equipment – 103		
3/7	Cash and loan payable	\$70 000

Loan payable – 200		
3/7	Equipment	38 000

• **Nicole Andreou, Capital – 300**

		2/7	Cash at Bank	
			120 000	

Nicole Andreou, Drawings - 301

28/7	Cash at Bank	\$560	
------	--------------	-------	--

Revenue – 400

		16/7	Cash & Accounts receivable	\$3 870
	Bal c/f	8 130	31/07	Cash & Accounts receivable
				4 260
		<u>8 130</u>		<u>8 130</u>
			Bal c/d	8 130

Rent expense – 500

2/7	Cash at Bank	1 800
-----	--------------	-------

Advertising expense – 501

6/7	Cash at Bank	890
-----	--------------	-----

Insurance expense

20/7	Cash at Bank	480
------	--------------	-----

Telephone expense

31/07	Cash at Bank	330
-------	--------------	-----

NICOLE ANDREOU BEAUTY SALON
Trial Balance
as at 31 July 2018

Account	Account No.	Debit	Credit
Cash at Bank	100	\$82 610	
Accounts Receivable	101	1 060	
Supplies	102	8 400	
Equipment	103	70 000	
Loan Payable	200		\$38 000
Nicole Andreou, Capital	300		120 000
Nicole Andreou, Drawings	301	560	
Revenue	400		8 130
Rent Expense	500	1 800	
Advertising Expense	501	890	
Insurance Expense	502	480	
Telephone Expense	503	330	
		<u>\$166 130</u>	<u>\$166 130</u>

d) Preparation of Financial statements

NICOLE ANDREOU BEAUTY SALON		
Income Statement		
For the month ended 31 July 2018		
INCOME		
Revenue		\$8 130
EXPENSES		
Rent expense	\$1 800	
Advertising expense	890	
Insurance expense	480	
Telephone expense	330	
		3 500
PROFIT		\$4 630

NICOLE ANDREOU BEAUTY SALON
Statement of Changes in Equity
For the month ended 31 July 2018

N. Andreou, Capital – 1 July 2018	\$0
Add: Capital contribution	120 000
Profit	4 630
	124 630
Less: Drawings	560
N. Andreou, Capital – 31 July 2018	\$124 070

NICOLE ANDREOU BEAUTY SALON
Balance Sheet
As at 31 July 2018

ASSETS

Cash at bank	\$82 610
Accounts Receivable	1 060
Supplies	8 400
Equipment	70 000
TOTAL ASSETS	\$162 070

LIABILITIES

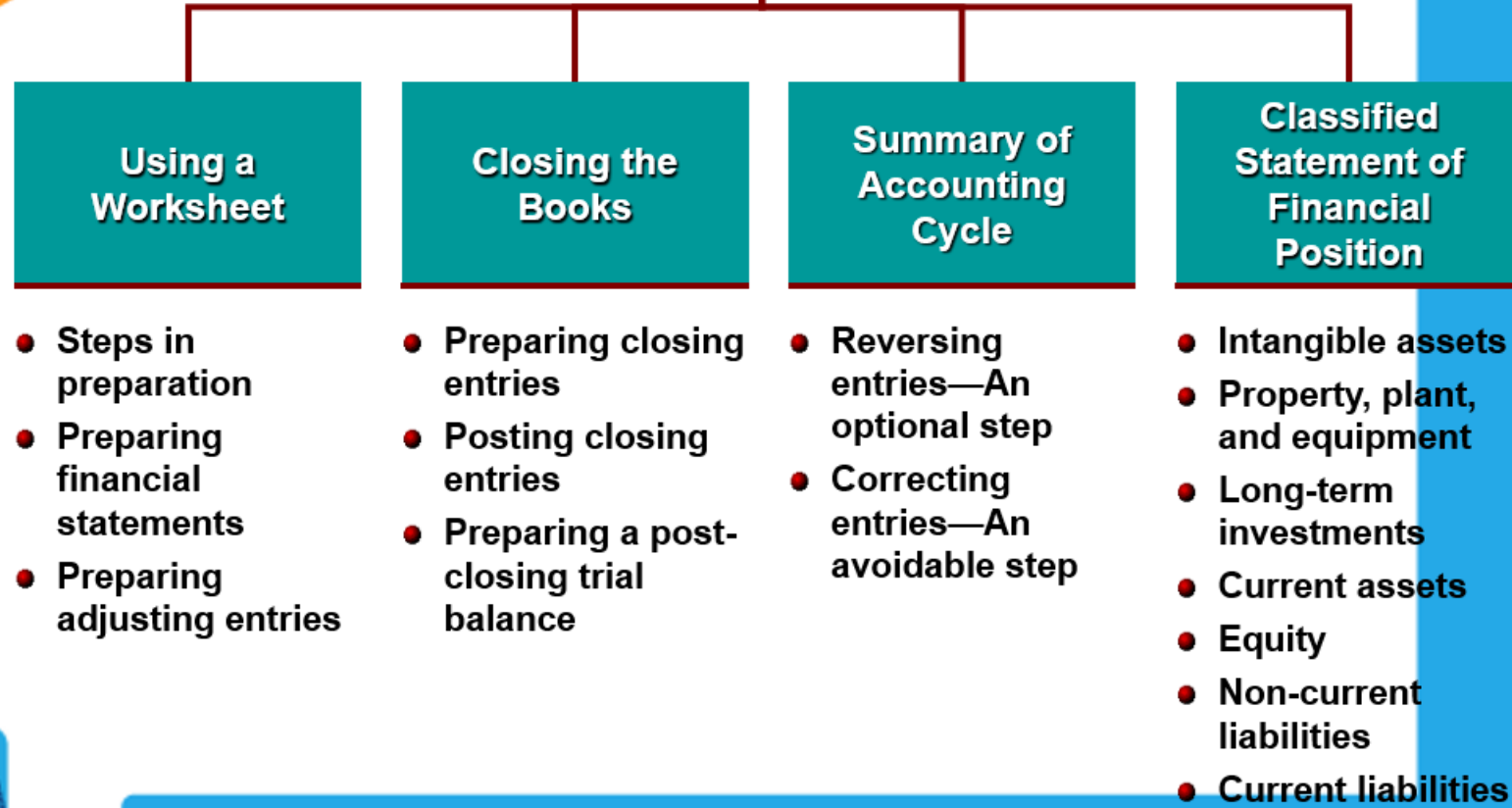
Loan payable	38 000
TOTAL LIABILITIES	38 000
NET ASSETS	\$124 070

EQUITY

N. Andreou, Capital	\$124 070
TOTAL EQUITY	\$124 070

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.

Steps in Preparing a Worksheet

Illustration 4

Worksheet.xls

	A	B	C	D	E	F	G	H	I	J	K
1	Worksheet										
2		Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
3											
4	Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											

1	Prepare a trial balance on the worksheet
2	Enter adjustment data
3	Enter adjusted balances
4	Extend adjusted balances to appropriate statement columns
5	Total the statement columns, compute net income (or net loss), and complete worksheet

CO 1 Prepare a worksheet

Steps in Preparing a Worksheet

Illustration:

Illustration 4-2
Preparing a trial balance

PIONEER ADVERTISING AGENCY INC. Worksheet For the Month Ended October 31, 2011										
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	28,700	28,700								

Trial balance amounts come directly from ledger accounts.

Include all accounts with balances.

Steps in Preparing a Worksheet

Illustration 3-22
General journal
showing adjusting
entries

Adjusting Journal Entries

2011

GENERAL JOURNAL					J2
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2010	<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 (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.

SO 1 Prepare a worksheet.

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 (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				
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				
Totals			3,440	3,440	30,190	30,190	7,740	10,600		

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

SO 1 Prepare a worksheet.

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 (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.

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 (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.

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.

Preparing Financial Statements from a Worksheet

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.

Preparing Financial Statements from a Worksheet

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> </u>	<u>7,740</u>
Net income		<u><u>\$ 2,860</u></u>

Preparing Financial Statements from a Worksheet

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> </u>	<u>7,740</u>
Net income		<u><u>\$ 2,860</u></u>

Preparing Financial Statements from a Worksheet

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>

Preparing Financial Statements from a Worksheet

PIONEER ADVERTISING AGENCY INC.

Statement of Financial Position
October 31, 2011

Assets

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><u>\$21,910</u></u>

Equity and Liabilities

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><u>\$21,910</u></u>

Preparing Adjusting Entries from a Worksheet

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.

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

Thank You