

# Accounting Principles

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## Chapter 4

### **Completing the Accounting Cycle**

# Chapter Outline

## Learning Objectives

**LO 1** Prepare a worksheet.

**LO 2** Prepare closing entries.

**LO 3** Review the steps in the accounting cycle and how to prepare correcting entries.

**LO 4** Identify the sections of a classified balance sheet.

# Accounting Process (Partial)





# THE WORKSHEET

# The Worksheet

- Multiple-column form used in the adjustment process and preparing financial statements
- Not a permanent accounting record
- Prepared using a five step process
- Use of worksheet is optional

# The Worksheet

[illegible]

## Step 1 Prepare a Trial Balance on the Worksheet

**Pioneer Advertising  
Worksheet  
For the Month Ended October 31, 2020**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200									
Supplies	2,500									
Prepaid Insurance	600									
Equipment	5,000									
Notes Payable		5,000								
Accounts Payable		2,500								
Unearned Service Revenue		1,200								
Owner's Capital		10,000								
Owner's Drawings	500									
Service Revenue		10,000								
Salaries and Wages Expense	4,000									
Rent Expense	900									
Totals	28,700	28,700								

Include all accounts with balances.

Trial balance amounts come directly from ledger accounts.

# Step 2 Enter Adjustments

**The adjustments are the same as in Illustration 3.23 of chapter 3.**

- a. Pioneer debits an additional account, Supplies Expense, \$1,500 for the cost of supplies used, and credits Supplies \$1,500.
- b. Pioneer debits an additional account, Insurance Expense, \$50 for the insurance that has expired, and credits Prepaid Insurance \$50.
- c. The company needs two additional depreciation accounts. It debits Depreciation Expense \$40 for the month's depreciation, and credits Accumulated Depreciation—Equipment \$40.
- d. Pioneer debits Unearned Service Revenue \$400 for services performed, and credits Service Revenue \$400.
- e. Pioneer debits an additional account, Accounts Receivable, \$200 for services performed but not billed, and credits Service Revenue \$200.
- f. The company needs two additional accounts relating to interest. It debits Interest Expense \$50 for accrued interest, and credits Interest Payable \$50.
- g. Pioneer debits Salaries and Wages Expense \$1,200 for accrued salaries, and credits an additional account, Salaries and Wages Payable, \$1,200.



# Step 2 Enter Adjustments in Adjustment Columns

Pioneer Advertising  
Worksheet  
For the Month Ended October 31, 2020

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200									
Supplies	2,500			(a) 1,500						
Prepaid Insurance	600			(b) 50						
Equipment	5,000									
Notes Payable		5,000								
Accounts Payable		2,500								
Unearned Service Revenue		1,200	(d) 400							
Owner's Capital		10,000								
Owner's Drawings	500									
Service Revenue		10,000		(d) 400						
				(e) 200						
Salaries and Wages Expense	4,000		(g) 1,200							
Rent Expense	900									
Totals	28,700	28,700								
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 and Wages Payable				(g) 1,200						
Totals			3,440	3,440						
Add additional accounts as needed.										

**Adjustments Key:**

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

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

# Step 2 Enter Adjustments in Adjustment Columns

**Pioneer Advertising  
Worksheet  
For the Month Ended October 31, 2020**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200									
Supplies	2,500			(a) 1,500						
Prepaid Insurance	600			(b) 50						
Equipment	5,000									
Notes Payable		5,000								
Accounts Payable		2,500								
Unearned Service Revenue		1,200	(d) 400							
Owner's Capital		10,000								
Owner's Drawings	500									
Service Revenue		10,000		(d) 400						
				(e) 200						
Salaries and Wages Expense	4,000		(g) 1,200							
Rent Expense	900									
Totals	28,700	28,700								
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 and Wages Payable				(g) 1,200						
Totals			3,440	3,440						
Add additional accounts as needed.										

**Adjustments Key:**

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

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

# Step 3 Enter Adjusted Balances in the Adjusted Trial Balance Columns

Pioneer Advertising  
Worksheet  
For the Month Ended October 31, 2020

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200				15,200					
Supplies	2,500			(a) 1,500	1,000					
Prepaid Insurance	600			(b) 50	550					
Equipment	5,000				5,000					
Notes Payable		5,000				5,000				
Accounts Payable		2,500				2,500				
Unearned Service Revenue		1,200	(d) 400			800				
Owner's Capital		10,000				10,000				
Owner's Drawings	500				500					
Service Revenue		10,000		(d) 400		10,600				
				(e) 200						
Salaries and Wages Expense	4,000		(g) 1,200		5,200					
Rent Expense	900				900					
Totals	28,700	28,700								
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 and Wages Payable				(g) 1,200		1,200				
Totals			3,440	3,440	30,190	30,190				
Check equality of adjusted trial balance columns.										



# Step 4 Extend Adjusted Trial Balance Amounts to Appropriate Financial Statement Columns

Pioneer Advertising  
Worksheet  
For the Month Ended October 31, 2020

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200				15,200				15,200	
Supplies	2,500			(a) 1,500	1,000				1,000	
Prepaid Insurance	600			(b) 50	550				550	
Equipment	5,000				5,000				5,000	
Notes Payable		5,000				5,000				5,000
Accounts Payable		2,500				2,500				2,500
Unearned Service Revenue		1,200	(d) 400			800				800
Owner's Capital		10,000				10,000				10,000
Owner's Drawings	500				500				500	
Service Revenue		10,000		(d) 400		10,600		10,600		
				(e) 200						
Salaries and Wages Expense	4,000		(g) 1,200		5,200		5,200			
Rent Expense	900				900		900			
Totals	28,700	28,700								
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 and Wages Payable				(g) 1,200		1,200				1,200
Totals			3,440	3,440	30,190	30,190				

Extend adjusted trial balance amounts to appropriate financial statement columns.

# Step 5 Total the Statement Columns, Compute the Net Income (or Net Loss), and Complete the Worksheet

**Pioneer Advertising  
Worksheet  
For the Month Ended October 31, 2020**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	15,200				15,200				15,200	
Supplies	2,500			(a) 1,500	1,000				1,000	
Prepaid Insurance	600			(b) 50	550				550	
Equipment	5,000				5,000				5,000	
Notes Payable		5,000				5,000				5,000
Accounts Payable		2,500				2,500				2,500
Unearned Service Revenue		1,200	(d) 400			800				800
Owner's Capital		10,000				10,000				10,000
Owner's Drawings	500				500				500	
Service Revenue		10,000		(d) 400		10,600		10,600		
				(e) 200						
Salaries and Wages Expense	4,000		(g) 1,200		5,200		5,200			
Rent Expense	900				900		900			
Totals	28,700	28,700								
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 and Wages 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.



# Correcting Entries

# Correcting Entries—An Avoidable Step

- Unnecessary if accounting records are free of errors
- Made whenever an error is discovered



# Correcting Entries—An Avoidable Step

**Case 1:** On May 10, Mercato Co. journalized and posted a \$50 cash collection on account from a customer as a debit to Cash \$50 and a credit to Service Revenue \$50. The company discovered the error on May 20.

<b>Incorrect entry</b>	Cash	50	
	Service Revenue		50
<b>Correct entry</b>	Cash	50	
	Accounts Receivable		50
<b>Correcting entry</b>	Service Revenue	50	
	Accounts Receivable		50



# Correcting Entries—An Avoidable Step

**Case 2:** On May 10, 18, Mercato purchased on account equipment costing \$450. The transaction was journalized and posted as a debit to Equipment \$45 and a credit to Accounts Payable \$45. The error was discovered on June 3.

<b>Incorrect entry</b>	Equipment	45	
	Accounts Payable		45
<b>Correct entry</b>	Equipment	450	
	Accounts Payable		450
<b>Correcting entry</b>	Equipment (450-45)	405	
	Accounts Payable (450-45)		405

# Correcting Entries—An Avoidable Step

**Case 3:** A collection of \$3,000 from a client on account was debited to Cash \$200 and credited to Service Revenue \$200.

<b>Incorrect entry</b>	Cash	200	
	Service Revenue		200
<b>Correct entry</b>	Cash	3000	
	Accounts Receivable		3000
<b>Correcting entry</b>	Cash (3000-200)	2800	
	Service Revenue	200	
	Accounts Receivable		3000