

The Accounting Cycle & The Work Sheet

Six Basic Steps of the Accounting Cycle

1. Transactions are analyzed, recorded in the journal and posted to the ledger.
2. A trial balance is prepared, adjustment data are assembled, and Adjusted trial balance is prepared.
3. An **optional work sheet** is completed.
4. Financial statements are prepared.
5. Closing entries are journalized and posted.
6. A post-closing trial balance is prepared.

The Work Sheet

A columnar spreadsheet for summarizing information needed to adjust and close the books.

It is only an accounting tool and NOT part of the formal accounting records.

When completed, information for preparing financial statements can be taken directly from the Work Sheet.

Proforma Worksheet

[illegible]

Discussion Case for Work Sheet

- The following balances are extracted from the books of M/s Sarita Ad for the month ending December 31, 20XX (Amount in 00' Rs.), engaged in space rental and advertising services:
- Cash – 2,000; Accounts Receivable – 2,220; Supplies- 2,060; Prepaid Insurance – 3,600; Land – 20,000; Computers & Printers– 2,100; Accounts Payable – 1,300; Unearned Rent – 720; Sarita, Capital- 27,000; Sarita, Drawings- 3,500; Fees Earned – 15,340; Wages Expense – 4,275; Rent Expense – 1,960; Utilities Expense – 985; Supplies Expense – 800; Miscellaneous Expense – 860.
- **Month-end Adjustments:**
 - a) Month end supplies on hand was Rs.760.
 - b) Prepaid Insurance needed to be adjusted for the month (paid for 2 years).
 - c) Unearned rent was collected for 3 months beginning on December 1, 20XX.
 - d) Outstanding wages for the month was Rs.365.
 - e) Outstanding Fees at the end of December was Rs.550.
 - f) As per estimation, Computers & Printers were depreciated by Rs.100 during the month.

Required: Show the Work Sheet by recording the above transactions & prepare the final financial statements. Complete the Accounting Cycle by passing the required closing entries.

M/s Sarita Ad
Work Sheet
For the Month Ended December 31, 20XX (Rs. In 00's)

		Trial Balance		Adjustments		Adjusted Trial Balance	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000					
2	Accounts Receivable	2,220					
3	Supplies	2,060					
4	Prepaid Insurance	3,600					
5	Land	20,000					
6	Computers & printers	2,100					
7	Accounts Payable		1,300				
8	Unearned Rent		720				
9	Sarita, Capital		27,000				
10	Sarita, Drawings	3,500					
11	Fees Earned		15,340				
12	Wages Expense	4,275					
13	Rent Expense	1,960					
14	Utilities Expense	985					
15	Supplies Expense	800					
16	Miscellaneous Expense	860					
17		44,360	44,360				
18							
19	The Unadjusted Trial Balance						
20							
21							
22							

Adjustments

a) Month end supplies on hand was Rs.760.

- a) The **Supplies** account has a debit of Rs. 2,060. A count of supplies at the end of the period reveals that Rs. 760 is on hand. Therefore, Rs. 1,300 in supplies was used during the period.
- The Supplies Account is reduced by Rs. 1,300 & Supplies Expenses is enhanced by Rs. 1,300
 - Debit Supplies Expenses A/c - Rs. 1,300
 - Credit Supplies A/c - Rs. 1,300

M/s Sarita Ad
Work Sheet
For the Month Ended December 31, 20XX (Rs. In 00's)

		Trial Balance		Adjustments		Adjusted Trial Balance	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000					
2	Accounts Receivable	2,220					
3	Supplies	2,060			(a) 1,300		
4	Prepaid Insurance	3,600					
5	Land	20,000					
6	Computers & printers	2,100					
7	Accounts Payable		1,300				
8	Unearned Rent		720				
9	Sarita, Capital		27,000				
10	Sarita, Drawings	3,500					
11	Fees Earned		15,340				
12	Wages Expense	4,275					
13	Rent Expense	1,960					
14	Utilities Expense	985					
15	Supplies Expense	800		(a) 1,300			
16	Miscellaneous Expense	860					
17		44,360	44,360				
18							
19							
20							
21							
22							

Adjustments

b) **Prepaid Insurance need to be adjusted for the month.**

- b) The **Prepaid Insurance** account has a debit balance of Rs. 3,600, which represents prepayment of insurance for 24 months beginning December 1. Thus, the insurance expense for this month is Rs. 150 (Rs. 3,600 \div 24).
- Prepaid Insurance as an asset is now reduced by Rs.150 and Insurance Expense is now generated for Rs.150 for this adjustment.
 - Debit Insurance Expense A/c – Rs.150
 - Credit Prepaid Insurance A/c – Rs. 150

M/s Sarita Ad
Work Sheet
For the Month Ended December 31, 20XX (Rs. In 00's)

		Trial Balance		Adjustments		Adjusted Trial Balance	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000					
2	Accounts Receivable	2,220					
3	Supplies	2,060			(a) 1,300		
4	Prepaid Insurance	3,600			(b) 150		
5	Land	20,000					
6	Computers & Printers	2,100					
7	Accounts Payable		1,300				
8	Unearned Rent		720				
9	Sarita, Capital		27,000				
10	Sarita, Drawing	3,500					
11	Fees Earned		15,340				
12	Wages Expense	4,275					
13	Rent Expense	1,960					
14	Utilities Expense	985					
15	Supplies Expense	800		(a) 1,300			
16	Miscellaneous Expense	860					
17		44,360	44,360				
18	Insurance Expense			(b) 150			
19							
20							
21							
22							

Accounts are added as needed.

Adjustments

c) Unearned rent was collected for 3 months beginning on December 1.

- c) The **Unearned Rent** account has a credit balance of Rs.720, which represents the receipt of three-months' rent beginning with December 1. Thus, the rent revenue for December is Rs.240.
- Now Rent Revenue has been generated by Rs.240 for the month & thus the Unearned Rent amount should be decreased by Rs.240.
 - Debit Unearned Rent A/c - Rs.240
 - Credit Rent Revenue A/c – Rs.240

M/s Sarita Ad
Work Sheet
For the Month Ended December 31, 20XX (Rs. In 00's)

		Trial Balance		Adjustments		Adjusted Trial Balance	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000					
2	Accounts Receivable	2,220					
3	Supplies	2,060			(a) 1,300		
4	Prepaid Insurance	3,600			(b) 150		
5	Land	20,000					
6	Computers & printers	2,100					
7	Accounts Payable		1,300				
8	Unearned Rent		720	(c) 240			
9	Sarita, Capital		27,000				
10	Sarita, Drawings	3,500					
11	Fees Earned		15,340				
12	Wages Expense	4,275					
13	Rent Expense	1,960					
14	Utilities Expense	985					
15	Supplies Expense	800		(a) 1,300			
16	Miscellaneous Expense	860					
17		44,360	44,360				
18	Insurance Expense			(b) 150			
19	Rent Revenue				(c) 240		
20							
21							
22							

Adjustments

d) Outstanding wages for the month was Rs.365.

d) Wages accrued but not paid at the end of December total Rs.365.

- Now, Wage Expense shall be increased by this outstanding amount of Rs.365 & a new liability as 'Wages Payable' is created.
- Debit Wage Expense A/c - Rs. 365
- Credit Wage Payable A/c - Rs. 365

M/s Sarita Ad
Work Sheet
For the Month Ended December 31, 20XX (Rs. In 00's)

		Trial Balance		Adjustments		Adjusted Trial Balance	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000					
2	Accounts Receivable	2,220					
3	Supplies	2,060			(a) 1,300		
4	Prepaid Insurance	3,600			(b) 150		
5	Land	20,000					
6	Computers & printers	2,100					
7	Accounts Payable		1,300				
8	Unearned Rent		720	(c) 240			
9	Sarita, Capital		27,000				
10	Sarita, Drawings	3,500					
11	Fees Earned		15,340				
12	Wages Expense	4,275		(d) 365			
13	Rent Expense	1,960					
14	Utilities Expense	985					
15	Supplies Expense	800		(a) 1,300			
16	Miscellaneous Expense	860					
17		44,360	44,360				
18	Insurance Expense			(b) 150			
19	Rent Revenue				(c) 240		
20	Wages Payable				(d) 365		
21							
22							

Adjustments

e) Outstanding Fees at the end of December was Rs.550.

e) Fees accrued at the end of December, but not recorded, total Rs.550.

- Fees Receivable (Accounts Receivable) becomes Rs.550 & the revenue earned in terms of fees comes out to be Rs.550.
- Debit Accounts Receivable A/c - Rs.550
- Credit Fees Earned A/c - Rs.550

M/s Sarita Ad
Work Sheet
For the Month Ended December 31, 20XX (Rs. In 00's)

		Trial Balance		Adjustments		Adjusted Trial Balance	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000					
2	Accounts Receivable	2,220		(e) 550			
3	Supplies	2,060			(a) 1,300		
4	Prepaid Insurance	3,600			(b) 150		
5	Land	20,000					
6	Computers & printers	2,100					
7	Accounts Payable		1,300				
8	Unearned Rent		720	(c) 240			
9	Sarita, Capital		27,000				
10	Sarita, Drawings	3,500					
11	Fees Earned		15,340		(e) 550		
12	Wages Expense	4,275		(d) 365			
13	Rent Expense	1,960					
14	Utilities Expense	985					
15	Supplies Expense	800		(a) 1,300			
16	Miscellaneous Expense	860					
17		44,360	44,360				
18	Insurance Expense			(b) 150			
19	Rent Revenue				(c) 240		
20	Wages Payable				(d) 365		
21							
22							

Adjustments

f) Computers & Printers depreciated by Rs.100 during the month

- f) Depreciation of the Computers & Printers are Rs.100 for December.
- Depreciation Expenses becomes Rs.100 & the Accumulated Depreciation, Computers & Printers come out to be Rs.100.
 - Debit Depreciation A/c - Rs.100
 - Credit Accumulated Depn., Comp & Print A/c - Rs.100

M/s Sarita Ad
Work Sheet
For the Month Ended December 31, 20XX (Rs. In 00's)

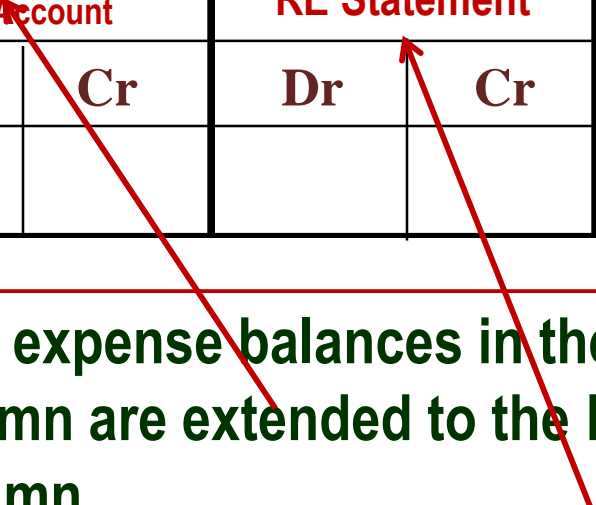
		Trial Balance		Adjustments		Adjusted Trial Balance	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000					
2	Accounts Receivable	2,220		(e) 550			
3	Supplies	2,060			(a) 1,300		
4	Prepaid Insurance	3,600			(b) 150		
5	Land	20,000					
6	Computers & printers	2,100					
7	Accounts Payable		1,300				
8	Unearned Rent		720	(c) 240			
9	Sarit, Capital		27,000				
10	Sarit, Drawing	3,500					
11	Fees Earned		16,340		(e) 550		
12	Wages Expense	4,275		(d) 365			
13	Rent Expense	1,960					
14	Utilities Expense	985					
15	Supplies Expense	800		(a) 1,300			
16	Miscellaneous Expense	860					
17		44,360	44,360				
18	Insurance Expense			(b) 150			
19	Rent Revenue				(c) 240		
20	Wages Payable				(d) 365		
21	Depreciation Expense			(f) 100			
22	Accum. Depreciation				(f) 100		

		Trial Balance		Adjustments		Adjusted Trial Balance	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000					
2	Accounts Receivable	2,220		(e) 550			
3	Supplies	2,060			(a) 1,300		
4	Prepaid Insurance	3,600			(b) 150		
5	Land	20,000					
6	Computers & printers	2,100					
7	Accounts Payable		1,300				
8	Unearned Rent		720	(c) 240			
9	Sarit, Capital		27,000				
10	Sarit, Drawing	3,500					
11	Fees Earned		15,340		(e) 550		
12	Wages Expense	4,275		(d) 365			
13	Rent Expense	1,960					
14	Utilities Expense	985					
15	Supplies Expense	800		(a) 1,300			
16	Miscellaneous Expense	860					
17		44,360	44,360				
18	Insurance Expense			(b) 150			
19	Rent Revenue				(c) 240		
20	Wages Payable				(d) 365		
21	Depreciation Expense			(f) 100			
22	Accum. Depreciation				(f) 100		
23				2,705	2,705		
24							
25							

		Adjusted Trial Balance		Income Statement/ Profit & Loss Account		Balance Sheet	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000					
2	Accounts Receivable	2,770					
3	Supplies	760					
4	Prepaid Insurance	3,450					
5	Land	20,000					
6	Computers & printers	2,100					
7	Accounts Payable		1,300				
8	Unearned Rent		480				
9	Sarita, Capital		27,000				
10	Sarita, Drawings	3,500					
11	Fees Earned		15,890				
12	Wages Expense	4,640					
13	Rent Expense	1,960					
14	Utilities Expense	985					
15	Supplies Expense	2,100					
16	Miscellaneous Expense	860					
17							
18	Insurance Expense	150					
19	Rent Revenue		240				
20	Wages Payable		365				
21	Depreciation Expense	100					
22	Accum. Depreciation		100				
23		45,375	45,375				
24							
25							

The Work Sheet.....

Accounts	Income Statement/ P&L Account		RE Statement		Balance Sheet	
	Dr	Cr	Dr	Cr	Dr	Cr



The diagram consists of two red arrows. The first arrow starts at the 'Cr' column of the 'Income Statement/P&L Account' and points diagonally down to the 'Cr' column of the 'RE Statement'. The second arrow starts at the 'Dr' column of the 'RE Statement' and points diagonally down to the 'Dr' column of the 'Balance Sheet'.

1. Revenue and expense balances in the Adjusted Trial Balance column are extended to the Profit & Loss Account column.
2. If the credit total in the P&L A/c is more, it is a net profit; & it should be entered in the Credit column of RE Statement & *vice-versa*.

The Work Sheet.....

Accounts	P&L Account		RE Statement(SOCE)		Balance Sheet	
	Dr	Cr	Dr	Cr	Dr	Cr

Asset, liability, owner's equity, and drawing balances in the Adjusted Trial Balance column are extended to the Balance Sheet column.

For the present example, RE Statement has not been considered

		Adjusted Trial Balance		Income Statement/ Profit & Loss Account		Balance Sheet	
	Account Title	Debit	Credit	Debit	Credit	Debit	Credit
1	Cash	2,000				2,000	
2	Accounts Receivable	2,770				2,770	
3	Supplies	760				760	
4	Prepaid Insurance	3,450				3,450	
5	Land	20,000				20,000	
6	Computers & printers	2,100				2,100	
7	Accounts Payable		1,300				1,300
8	Unearned Rent		480				480
9	Sarita, Capital		27,000				27,000
10	Sarita, Drawings	3,500				3,500	
11	Fees Earned		15,890		15,890		
12	Wages Expense	4,640		4,640			
13	Rent Expense	1,960		1,960			
14	Utilities Expense	985		985			
15	Supplies Expense	2,100		2,100			
16	Miscellaneous Expense	860		860			
17							
18	Insurance Expense	150		150			
19	Rent Revenue		240		240		
20	Wages Payable		365				365
21	Depreciation Expense	100		100			
22	Accum. Depreciation		100				100
23		45,375	45,375	10,795	16,130	34,580	29,245
24	Net Income			5,335			5,335
25				16,130	16,130	34,580	34,580

The Financial Statements

M/s Sarita Ad
Income Statement
For the Month Ended December 31, 20XX

Fees earned	Rs.15,890	
Rent revenue	<u>240</u>	
Total revenues		Rs.16,130
Expenses:		
Wages expense	Rs. 4,640	
Rent expense	1,960	
Utilities expense	985	
Supplies expense	2,100	
Insurance expense	150	
Depreciation expense	100	
Miscellaneous expense	<u>860</u>	
Total expenses		<u>10,795</u>
Net income		<u><u>5,335</u></u>

M/s Sarita Ad
Statement of Changes in Owners' Equity
(through Retained Earnings)
For the Month Ended December 31, 20XX

- Opening Balance of Retained Earnings – NIL
 - Add, Net Margin (Income Statement) - 5,335
 - Less, Dividend Distributed - NIL
 - Closing Balance of Retained Earnings - 5,335
-
- **Capital, Sarita:**
 - Opening Balance - 27,000
 - Add, Retained Earnings – 5,335
 - Less, Drawings - (3,500)
 - Closing Balance - 28,835

M/s Sarita Ad
Balance Sheet as on December 31, 20XX

Assets

Current assets:

Cash	Rs.2,000	
Accounts receivable	2,770	
Supplies	760	
Prepaid insurance	<u>3,450</u>	
Total current assets		8,980

Property, plant, and
equipment:

Land	20,000	
Comp & Printers.	2,100	
Less accum. depreciation	<u>100</u>	<u>2,000</u>
Total property, plant and equipment		<u>22,000</u>
Total assets		<u><u>30,980</u></u>

Liabilities

Current liabilities:

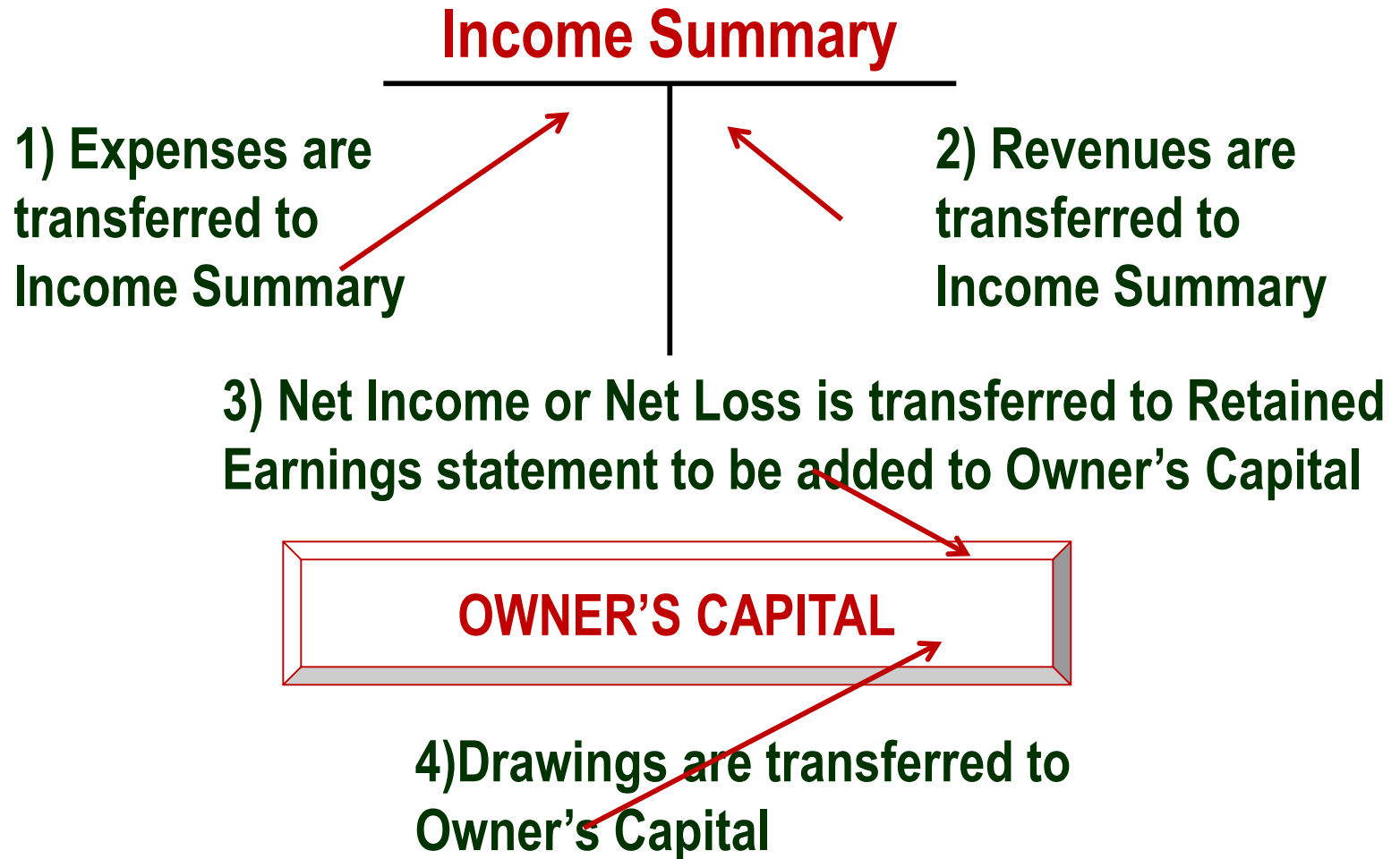
Accounts payable	Rs.1,300	
Wages payable	365	
Unearned rent	<u>480</u>	
Total liabilities		2,145

Owner's Equity (After adjustment)

Sarita, Capital	<u>28,835</u>
Total liabilities and owner's equity	<u><u>30,980</u></u>

Closing Entries

The Closing Process



The Closing Process

- **Step 1:** Debit each revenue account for the amount of its balance, and credit **Income (Summary) Statement** for the total Amount
- Since Revenue account always shows Credit Balance, if we debit this revenue account, which is Temporary in nature, it will nullify itself.
- Debit Fees Revenue15,890
- Debit Rent Revenue.....240
- Credit Income Statement.....16,130
- (All revenue accounts closed)

The Closing Process

- **Step 2: Debit Income (Summary) Statement** for the total expenses and credit each expense account for its balance
- Since an Expense Account always shows Debit Balance, if we credit this Expense Account, which is Temporary in nature, it will nullify itself.

• Debit Income Statement.....	10,795
Credit Wages expense	4,640
Rent expense	1,960
Utilities expense	985
Supplies expense	2,100
Insurance expense	150
Depreciation expense	100
Miscellaneous expense	860

The Closing Process

- **Step 3:** Debit **Income (Summary) Statement** for the amount of its balance (in this case, the net income) and credit the Retained Earnings account – reverse the entry for recording net loss
- Debit Income Statement.....5,335
- Credit Retained Earnings.....5,335

Post-closing Trial Balance

After the closing entries are posted, all of the temporary accounts have zero balances.

M/s Sarita Ad					
Post-Closing Trial Balance					
December 31, 20XX					
Cash	2	000	00		
Accounts Receivable	2	770	00		
Supplies		760	00		
Prepaid Insurance	3	450	00		
Land	20	000	00		
Computers & Printers	2	100	00		
Accumulated Depreciation				100	00
Accounts Payable				1300	00
Wages Payable				365	00
Unearned Rent				480	00
Sarita, Capital				28	835 00
	31	080	00	31	080 00