

UNIT 4 ADJUSTMENTS, WORKSHEET, AND STATEMENTS

Our Accounting Tutors will help you learn.

Adjusting Entries are needed because it is uneconomical to make changes daily to some accounts, and for others, vital information is not known until the end of the account period. When analyzing these September 30 Adjusting Entries, consider the relevant account balances listed in the Trial Balance, the change described in the transaction descriptions, and the relevant Journal Entries on page 8.

I. DEBITS AND CREDITS

II. TRIAL BALANCE

<u>ASSETS</u>		=	<u>LIABILITIES</u>		+	<u>OWNER'S EQUITY</u>																																	
DR.	CR.		DR.	CR.		DR.	CR.	DR.	CR.																														
+	-		-	+		-	+																																
<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2"><u>WITHDRAWALS</u></td> <td></td> <td colspan="2"><u>EXPENSES</u></td> <td></td> <td colspan="2"><u>REVENUE</u></td> <td></td> <td></td> </tr> <tr> <td>DR.</td><td>CR.</td><td></td><td>DR.</td><td>CR.</td><td></td><td>DR.</td><td>CR.</td><td>DR.</td><td>CR.</td> </tr> <tr> <td>+</td><td>-</td><td></td><td>+</td><td>-</td><td></td><td>-</td><td>+</td><td>-</td><td>+</td> </tr> </table>										<u>WITHDRAWALS</u>			<u>EXPENSES</u>			<u>REVENUE</u>				DR.	CR.		DR.	CR.		DR.	CR.	DR.	CR.	+	-		+	-		-	+	-	+
<u>WITHDRAWALS</u>			<u>EXPENSES</u>			<u>REVENUE</u>																																	
DR.	CR.		DR.	CR.		DR.	CR.	DR.	CR.																														
+	-		+	-		-	+	-	+																														

Business Book Mall has material to enhance your career.

Quick Clean Laundry Service
Trial Balance
September 30, 1991

Cash	\$117
Accounts Receivable	5
Prepaid Advertising	50
Laundry Supplies	25
Laundry Equipment	48
Accounts Payable	\$ 30
Unearned Laundry Revenue	20
Capital, Darin Jones	150
Withdrawals, Darin Jones	20
Laundry Revenue	150
Washer/Dryer Expense	75
Telephone Expense	10
	<u>\$350</u>
	<u>\$350</u>

III. ADJUSTING JOURNAL ENTRIES

Sample Problem Adjustments - Wednesday, September 30, 1991

ANALYZING TRANSACTIONS

JOURNALIZING TRANSACTIONS

Assets = Liabilities + Owner's Equity

- a. One month of scheduled advertising appeared in the school newspaper. See transaction 2 page 8.

<u>Prepaid Advertising</u>	<u>Advertising Expense</u>
10	10

- b. A count of Laundry Supplies revealed \$5 worth on hand.

<u>Laundry Supplies</u>	<u>Laundry Supply Expense</u>
20	20

- c. Depreciation was taken on \$48 of equipment with a useful life of 4 years.

<u>Accumulated Depreciation, Laundry Equipment</u>	<u>Depreciation Expense, Laundry Equipment</u>
1	1

Note: Depreciation is accumulated and subtracted from the relevant asset on the Balance Sheet.

- d. On Friday, October 2nd, Darin would pay his first employee, who worked Monday, Wednesday and Friday, \$15 for the week.

<u>Salaries Payable</u>	<u>Salaries Expense</u>
10	10

- e. Laundry Services for one of the two students who had paid in advance had been performed as of 9/30/91.

<u>Unearned Laundry Revenue</u>	<u>Laundry Revenue</u>
10	10

- f. On Tuesday, September 29, services had been finished for 3 students who promised to pay \$10 each on 10/5.

<u>Accounts Receivable</u>	<u>Laundry Revenue</u>
30	30

	DR.	CR.
a. Advertising Expense	10	
Prepaid Advertising		10
To record advertising expired.		
b. Laundry Supply Expense	20	
Laundry Supplies		20
To record Laundry Supplies used.		
c. Depreciation Expense, Laundry Equipment	1	
Accumulated Depreciation, Laundry Equipment		1
September's Depreciation recorded.		
d. Salaries Expense	10	
Salaries Payable		10
To record salaries earned but not paid.		
e. Unearned Laundry Revenue	10	
Laundry Revenue		10
To record Laundry Fees earned.		
f. Accounts Receivable	30	
Laundry Revenue		30
To record Laundry Fees earned.		

IV. WORKSHEET

A worksheet begins with a Trial Balance. Adjustments based upon data accumulated during the period are made. Horizontal extensions, with like balances being added and unlike balances being subtracted, result in an Adjusted Trial Balance. Each account is then extended to the proper (similar) column of the Income Statement or Balance Sheet. Income is then added to both the Income Statement and Balance Sheet to prove the Worksheet.

	Trial Balance	Adjustments	Adjusted Trial Balance	Income Statement	Balance Sheet
Cash	117		117		117
Accounts Receivable	5	(f) 30	35		35
Prepaid Advertising	50	(a) 10	40		40
Laundry Supplies	25	(b) 20	5		5
Laundry Equipment	48		48		48
Accounts Payable			30		30
Unearned Laundry Revenue	20	(e) 10	10		10
Capital, Darin Jones	150		150		150
Withdrawals - Darin Jones	20		20		20
Laundry Revenue			190	190	
Washer/Dryer Expense	75		75	75	
Telephone Expense	10		10	10	
	<u>350</u>				
Advertising Expense		(a) 10	10	10	
Laundry Supplies Expense		(b) 20	20	20	
Depreciation Expense, Laundry Equipment		(c) 1	1	1	
Accumulated Depreciation, Laundry Equipment		(c) 1	1		1
Salaries Expense		(d) 10	10	10	
Salaries Payable		(d) 10	10		10
		<u>81</u>	<u>81</u>	<u>126</u>	<u>265</u>
			<u>391</u>	<u>190</u>	<u>201</u>
				<u>64</u>	<u>64</u>
				<u>190</u>	<u>265</u>

Note: Income represents the net changes in assets and liabilities occurring during the period. Because Revenue (asset increases) were greater than expenses (asset decreases or liability increases), the debit column of the Balance Sheet is higher than the credit column by an amount equal to net income. This occurred because equity changes have been temporarily stored in Income Statement accounts. The Closing Process, explained in the next unit, will formally increase Owner's Equity by the proper amount.

V. ACCOUNTING STATEMENTS

Note: Section V has been arranged to show how Balance Sheet accounts come from the top of the Trial Balance, and Income Statement accounts come from the bottom of the Trial Balance.

Quick Clean Laundry Service Income Statement For the Month Ended Sept. 30, 1991	
Revenue:	
Laundry Revenue	\$190
Operating Expenses:	
Advertising	\$10
Salaries	10
Washer/Dryer	75
Telephone	10
Laundry Supplies	20
Depreciation, Laundry Equipment	1
Total Operating Expenses	<u>126</u>
Net Income	<u>\$ 64</u>

Quick Clean Laundry Service Adjusted Trial Balance September 30, 1991	
Cash	\$117
Accounts Receivable	35
Prepaid Advertising	40
Laundry Supplies	5
Laundry Equipment	48
Accumulated Depreciation, Laundry Equipment	\$ 1
Accounts Payable	30
Salaries Payable	10
Unearned Laundry Revenue	10
Capital, Darin Jones	150
Withdrawals, Darin Jones	20
Laundry Revenue	190
Advertising Expense	10
Salaries Expense	10
Washer/Dryer Expense	75
Telephone Expense	10
Laundry Supply Expense	20
Depreciation Expense, Laundry Equipment	1
	<u>\$391</u> <u>\$391</u>

Quick Clean Laundry Service Balance Sheet September 30, 1991	
ASSETS	
Current Assets:	
Cash	\$117
Accounts Receivable	35
Prepaid Advertising	40
Laundry Supplies	5
Plant and Equipment:	
Laundry Equipment	\$48
Less Accumulated Depreciation	1
Depreciation	<u>47</u>
Total Assets	<u>\$244</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 30
Salaries Payable	10
Unearned Laundry Revenue	<u>10</u>
Total Current Liabilities	\$ 50
OWNER'S EQUITY	
Capital Sept. 1	\$150
Net Income	64
Withdrawals	<u>20</u> <u>44</u>
Capital Sept. 30	<u>194</u>
Total Liabilities + Owner's Equity	<u>\$244</u>

Note: Now that the concept of normal balances has been firmly established; that is assets and expenses have debit balances and revenues, liabilities, equity, and contra assets (accumulated depreciation) have credit balances, it will no longer be necessary to restrict statement presentations to two columns with debit balances always to the left of credit balances. The above statements have been so constructed.