12 Work Sheet and Adjusting Entries

CHAPTER REVIEW

1. Prepare an adjustment for supplies.

    When supplies are bought during the year, they are recorded by debiting (increasing) Supplies. At the end of the year, an inventory is taken to determine the amount of supplies left. An adjusting entry is made for the amount used (total minus amount left) by debiting Supplies Expense and crediting Supplies.

2. Prepare an adjustment for merchandise inventory under the periodic inventory system.

    The adjustment for merchandise inventory under the periodic inventory system requires two adjusting entries. In the first adjusting entry (to remove the beginning inventory), debit Income Summary and credit Merchandise Inventory. In the second adjusting entry (to enter the ending inventory), debit Merchandise Inventory and credit Income Summary.

3. Prepare an adjustment of unearned revenue.

    For revenue received in advance, an adjustment is required to separate the portion that has been earned from the portion that is unearned. We assume that the amount of cash received in advance was originally recorded as unearned revenue, which is a liability. In the adjusting entry for the amount actually earned, debit the unearned revenue account (Unearned Course Fees) and credit the revenue account (Course Fees Income).

4. Record the adjustment data in a work sheet (including merchandise inventory, unearned revenue, supplies used, expired insurance, depreciation, and accrued wages or salaries).

    In the Adjustments columns of the work sheet, record the following adjusting entries:

    For merchandise inventory, first, debit Income Summary and credit Merchandise Inventory (to remove the beginning inventory); next, debit Merchandise Inventory and credit Income Summary (to enter the ending inventory).

    For unearned revenue: debit the unearned revenue account and credit the revenue account (to record revenue earned).

    For supplies used: debit Supplies Expense and credit Supplies.

    For expired insurance: debit Insurance Expense and credit Prepaid Insurance.

    For depreciation: debit Depreciation Expense and credit Accumulated Depreciation.

    For accrued salaries or wages: debit Salaries Expense or Wages Expense and credit Salaries Payable or Wages Payable.

5. Complete the work sheet.

    Carry the Income Summary account from the Adjustments columns into the Income Statement columns as two separate figures. For merchandise inventory, record the amount of the ending inventory in the Balance Sheet Debit column. For unearned revenue, record the unearned revenue account in the Balance Sheet Credit column and the revenue account in the Income Statement Credit column.

6. Journalize the adjusting entries for a merchandising business under the periodic inventory system.

    Take the adjusting entries recorded in the journal directly from the Adjustments columns of the work sheet.

7. Journalize the adjusting entry for merchandise inventory under the perpetual inventory system.

    Assuming that the amount of the physical count of the stock of merchandise is less than the recorded amount, the adjusting entry is a debit to Cost of Good Sold (account) and a credit to Merchandise Inventory for the amount of the difference. On the other hand, if the physical count of the stock of merchandise is more than the recorded amount, the adjusting entry is to debit Merchandise Inventory and credit Cost of Goods Sold (account) for the amount of the difference.