# Assessment 3 Template

## Completing the Accounting Cycle

*Respond to the following seven questions using grammatically correct language. Save the document and submit it in the courseroom.*

1. How are revenues and expenses reported on the income statement under the cash basis of accounting and the accrual basis of accounting?

*[Answer here]*

Revenues and expenses are reported on the income statement when they are earned and when revenues are earned and cash is not received, the assets accounts receivable is recorded.

Revenues can be described as what the company receives after selling its goods and services while expenses is the costs involved with production. Under accrual accounting, revenue and expenses are recorded when they occur while under cash basis of accounting they are documented once the cash exchange has occurred.

2. Which events during an accounting period trigger the recording of normal journal entries and which event triggers the making of adjusting entries? Please explain why adjusting entries are necessary at the end of an accounting period.

*[Answer here]*

The recording of normal journal entries is triggered by effective processing of business’s financial transaction during the accounting period. The making of adjusting entries is triggered by the need to correct any accounts before preparing the official statement during the accounting period. Adjusting entries are necessary at the end of an accounting period because a single transaction can affect revenues and expenses in more than a single accounting period. Examples of events that trigger the recording of normal journal entries during an accounting period is receiving income as a cash payment from a client for a product or services rendered to them which is recorded in the cash receipts journal.

3. Give an example of an adjusting journal entry for each of the following transactions.

* Equal growth of an expense and a liability.
* Earning of revenue that was previously recorded as unearned revenue.
* Equal growth of an asset and revenue.
* Increase in an expense and decrease in an asset.

*[Answer here]*

Equal growth of an expense and a liability- an adjusting entry will debit growth of expense and credit growth of a liability.

Earning of revenue that was previously recorded as unearned revenue- the balance in the unearned revenue account (in the debit side) reduces and the revenue account (in the credit side) balance is increased

Equal growth of an asset and revenue- the assets increases (in the debit side) and the revenue increases (in the credit side)

Increase in an expense and decrease in an asset-an adjusting entry will debit increase in expense and credit a decrease in an asset

4. The balance in the equipment account is $1,375,000, and the balance in the accumulated depreciation equipment account is $725,000. What is the book value of the equipment and does that amount mean that the equipment has a loss in real value of $725,000? Explain your response.

*[Answer here]*

Book value=original asset cost-accumulated depreciation

=$1,375,000-$725,000=$650,000

Yes, it means that the equipment has a lost its real value. A loss in real value for the equipment shows that the equipment has depreciated over time. Accumulated depreciation is the total amount of depreciation of a fixed asset that has been charged since the asset was bought and used. The results show that the equipment’s value has reduced by $650,000 since it was purchased and used.

5. After the Adjusted Trial Balance columns of a work sheet have been totaled, which account balances are extended to the Income Statement columns, the Statement of Retained Earnings columns, and the Balance Sheet columns?

*[Answer here]*

After the adjusted Trial Balance columns of a work sheet have been totaled, accounts balances extended to the income statement columns include revenue and expense accounts. In the income statements, expenses are substrated from the revenues to obtain the net income. The accounts extended to the statement of retained earnings columns include the net income, dividends and the retain earnings at the beginning of the accounting period. The retain earnings at the end of the period is obtained by subtracting the dividends from retained earnings at the beginning and adding the answer to the net income. The accounts extended to the balance sheet columns are: asset, liability, and owner’s equity accounts.

6. Current assets and current liabilities for a company are:

* Current assets: 2013—$262,500; 2014—$310,500.
* Current liabilities: 2013—$150,000; 2014—$172,500.

Determine the current ratio for 2013 and 2014. Does the change in the current ratio from 2013 to 2014 indicate a favorable or unfavorable trend?

*[Answer here]*

Current ratio =current assets/current liabilities

2013=$262,500/$150,000=1.75

2014=$310,500/172,500=1.8

The change in the current ratio indicates a favorable trend as an increase shows that the company is more capable of paying off short-term debts.

7. Rearrange the following steps in the accounting cycle in proper order:

* Financial statements are prepared.
* An adjusted trial balance is prepared.
* Adjustment data are assembled and analyzed.
* Adjusting entries are journalized.
* Closing entries are journalized and posted to the ledger.
* An unadjusted trial balance is prepared.
* Transactions are posted to the ledger.
* Transactions are analyzed and recorded in the general journal.
* An optional end-of-period work sheet is prepared.
* A post-closing trial balance is prepared.

*[Answer here]*

**• Adjustment data are assembled and analyzed.**

**• Transactions are posted to the ledger**

**. Adjusting entries are journalized.**

**• Transactions are analyzed and recorded in the general journal**

**• An unadjusted trial balance is prepared.**

**• Adjusting entries are journalized**

**• An adjusted trial balance is prepared**

**• Financial statements are prepared**

**• A post-closing trial balance is prepared**

**• An optional end-of-period work sheet is prepared.**