

American Institute of Professional Bookkeepers (AIPB)

- Administers **Certified Bookkeeper (CB)** exam.
- \$210 fee to take exams*:
 - Test 1 – Prometrics Testing Center
 - Part 1 - Adjusting entries (1 hour)
 - Part 2 - Correction of errors (1 hour)
 - Test 2 – Prometrics Testing Center
 - Part 1 - Payroll (1 hour)
 - Part 2 - Depreciation (1 hour)
 - Test 3 – Inventory – in class
 - Test 4 – Internal controls – in class
- Purchase of book entitles you to take tests 3 & 4 (in class)
- If pass 3&4 they'll hold for 1 year (while you pass 1 & 2)
- If pass tests 1-4, then have 3 years to earn experience.

*Non programmable calculators allowed on proctored exams

**Encouraged to pay now so follow through. If wait until after semester, then price increases to \$260 to take the tests.

** Membership \$39 for 1 year & sell textbooks for \$254 to members (\$314 others).

Accrual basis of accounting

- Accrue expenses when incurred (not when cash paid)
 - Debit expense & credit liability
- Accrue revenues when earned (not when cash rec'd)
 - Debit receivable & credit revenue

Adjusting entries – necessary to update asset and liability accounts and related expense or revenue accounts.

- Always involve an income statement and balance sheet account.
- Never involve cash account

Types of Adjustments

- **Accruals** – recording revenues and expenses where cash hasn't been received or paid (interest expense, salary expense, interest revenue, commission revenue, rent revenue, etc.)
- **Deferrals** – adjusting supplies, prepaid rent, prepaid advertising, unearned revenue accounts at the end of the period.
- **Other end of period entries**
 - Depreciation expense
 - Bad debt expense

Adjusting Entry to Unearned Revenue

- On 11/1 a \$12,000 advance payment was received from Jones Co. for consulting services to be performed from 11/1 to 1/31. What journal entry is required 11/1 and adjusting entry 11/30?

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
11/1	Cash	12,000	
	Unearned Revenue (Jones - Advance)		12,000

Unearned Rev	$\frac{\$12,000}{3 \text{ months}}$	= \$4,000 month
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11/30	Unearned Revenue	4,000	
	Consulting Revenue (12,000/3months – jones)		4,000

Unearned Revenue		Cons. Revenue		Cash	
4,000	12,000		4,000	12,000	
	8,000				

Adjusting Entry for Interest Expense

Formula for Calculating Interest

**Amount
Borrowed
(Face Value)**

x

**Annual
Interest
Rate**

x

**Portion of
Year
Expired**

=

Interest

\$150,000

x

8%

x

4/12

=

\$1,000

Date

Account

Dr.

Cr.

12/31/0X

Interest Expense

1,000

Interest Payable

1,000

(4/12 * 8% * 150k)

On 3/1/04, Prestige Realty borrowed \$200,000 signing a 5 year note. Interest payments of 9% are due each March 1st. What journal entry is required 3/1/04 and adjusting entry 12/31/04 assuming no adjusting entries were made this year?

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
3/1/04	Cash	200,000	
	Note Payable		200,000
	(5 yr 9% note due 3/1/09)		

Face Value		Annual Rate		Portion Yr		Interest
\$200,000	x	9%	x	10/12	=	\$15,000

12/31/04	Interest Expense	15,000	
	Interest Payable		15,000
	(10/12 * 9% * 200k)		

3/1/05	Interest Expense	3,000	
	Interest Payable	15,000	
	Cash		18,000
	(annual payment)		

New Terminology: Sections 1-4

- Defer means to postpone
- If cash received before you've earned revenue, you "defer" or postpone revenue recognition
- Deferred revenue - liability account also known as
 - Unearned revenue
 - Revenue received in advance
 - Revenue collected in advance

New Issues

- Original entry “wrong”
 - Paid rent in advance and debit rent expense
 - Receive cash in advance and credit revenue
- Correcting entries different – DRAW T-ACCOUNTS!!

Prepaid Rent

On 5/1 you pay 12 months rent in advance (\$12,000) and debit rent expense. What is journal entry on 12/31 if no previous adjustments have been made?

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
5/1	Rent Expense	12,000	
	Cash		12,000
	(12mo's prepaid – ck#2353)		
12/31	Prepaid Rent	4,000	
	Rent Expense		4,000
	(8 months rent expired; 4 left)		

<u>Prepaid Rent</u>	
4,000	

<u>Rent Expense</u>	
12,000	4,000
<hr/>	<hr/>
8,000	

Unearned Revenue

On 11/1 you receive \$6,000 in advance and credit service revenue. What is journal entry on 12/31 if you have completed 40% of the work and no adjustments have been previously recorded?

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
11/1	Cash	6,000	
	Service Revenue (3 months work)		6,000
12/31	Service Revenue	3,600	
	Unearned Revenue (8 months rent expired; 4 left)		3,600

Unearned Revenue

3,600

Service Revenue

3,600	6,000
2,400	

2,400

Adjusting Entry to Office Supplies

- On 10/1 you purchased \$2,500 of office supplies with cash.
- On 10/31 there are \$800 of office supplies left.
- What entry is required 10/1 and adjusting entry 10/31?

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
10/1	Supplies	2,500	
	Cash		2,500
	(Buy supplies)		

Supplies Purchased	2,500
Supplies Remaining	<u>(800)</u>
Supplies Used	1,700

10/31	Supplies Expense	1,700	
	Supplies		1,700
	(Adjust for supplies used)		

<u>Supplies (125)</u>		<u>Supplies Expense (528)</u>		<u>Cash (101)</u>	
10/1	2,500	10/31	1,700	Beg. Bal.	10,000
	<u>800</u>				<u>2,500</u>
					7,500

Adjusting Entry to Prepaid Rent

- On 8/1 you signed a 1 year lease and paid 6 months rent in advance (\$6,000 total). What journal entry is required 8/1 and adjusting entry required 8/30?

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
8/1	Prepaid Rent	6,000	
	Cash		6,000
	(Prepay 6 months)		

Prepaid Rent	$\frac{\$6,000}{6 \text{ months}}$	= \$1,000 month
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8/30	Rent Expense	1,000	
	Prepaid Rent		1,000
	(Rent used up)		

Prepaid Rent		Rent Expense	Cash	
1-Aug	6,000	30-Aug 1,000	Beg. Bal. 15,000	1-Aug 6,000
	5,000		9,000	

Adjusting Entries & Long-Lived Assets

- **Depreciation** – Allocating the cost of an asset to an expense account over the asset’s useful life (not an attempt to estimate asset’s market value)

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
12/31	Depreciation Expense	1,000	
	Accumulated Depreciation –Auto (Depreciate automobile)		1,000

- **Accumulated Depreciation** – Shows total amount of depreciation taken over the life of an asset thus far
 - “Contra-asset” (Reduces asset’s net value)

Equipment (original cost)	24,000
Accumulated Depreciation	<u>(8,000)</u>
Book Value	16,000

Direct Write-off Method

- Write off A/R when determined uncollectible

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
4/5	Bad Debt Expense	550	
	A/R - Hansen		550
	(Hansen bankrupt-write off account)		

- Don't estimate bad debts or use an allowance.
- Required by IRS for tax purposes.

NOT GAAP:

- Violates matching principle (expense recorded in different period than sales).
- Overstates assets (doesn't reduce A/R by amount of uncollectible A/R)

Allowance Method (GAAP)

- **Estimate uncollectible accounts (bad debts) & record same period as sales (matching principle)**

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
12/31	Bad Debt Expense	2,200	
	Allowance for Doubtful Accts		2,200
	<i>(Estimate bad debts 1% sales)</i>		

Balance Sheet

Cash		\$4,800
Accounts receivable	\$200,000	
Allowance for doubtful accounts	<u>(12,000)</u>	
Net realizable value (net A/R)		188,000

Contra asset: reduces A/R balance

Journal Entries - Allowance Method

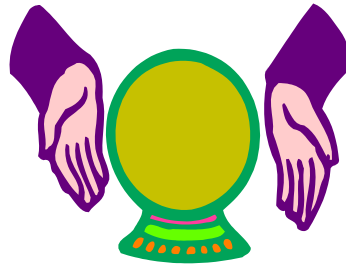
<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
12/31	Bad Debt Expense	2,200	
	Allowance for Doubtful Accts		2,200
	<i>(Estimate bad debts 1% sales)</i>		
1/20	Allowance for Doubtful Accts	200	
	A/R-Jones Co.		200
	<i>(Jones flees country w/o account)</i>		



With allowance method, writing off uncollectible accounts doesn't affect income statement or net A/R.

Estimating Bad Debts

1. Percentage of sales (Income Statement Approach)
 - Credit Sales x percentage = bad debt expense
2. Percentage of A/R (Balance Sheet Approach) – 2 Step method
 - A/R x percentage = desired allowance balance
 - Desired allowance balance +/- current balance = bad debt exp.



Percentage of Sales (Income Statement Approach)

Rosario's sales revenue for 2009 was \$900,000 including credit sales of \$500,000. Based on past experience Rosario estimates that 1.5% of credit sales are uncollectible. The allowance account has a credit balance of \$1,500.

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
12/31	Bad Debt Expense	7,500	
	Allowance for Doubtful Accts		7,500
	(Estimate bad debts 1.5% * 500k)		

On 1/15/03, Jones skips town owing \$50.

1/20	Allowance for Doubtful Accts	50	
	A/R-Jones Co.		50
	(Jones fleas country- w/o account)		

Percentage A/R (Balance Sheet Approach)

John Corp A/R balance is \$112,000 and it expects 3.5% of its A/R are uncollectible. John's allowance account currently has an \$1,100 credit balance.

\$112,000 * .035 = 3,920 desired allowance balance

Accounts Receivable	Allowance Doubtful Accounts	Bad Debt Expense
112,000	1,100 2,820	2,820
	3,920	

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
12/31	Bad Debt Expense	2,820	
	Allowance for Doubtful Accts		2,820
	(Estimate Bad debts - 112k * .035 = 3,920 – 1,100 = 2,820)		

Balance Sheet Presentation

Accounts Receivable	\$112,000
Allowance for Doubtful Accounts	(3,920)
Net Receivable (Realizable) Value	\$108,080

The Worksheet

Not a formal report like income statement, statement of owner's equity and balance sheet.

Accountant's sketchpad: Used to show changes and results of those changes in one place.

It is used to help prepare adjusting entries and financial statements.

After worksheet completed, accountant must journalize and post adjusting entries shown on the worksheet

Worksheet – Starting Point

Account Titles	Trial Balance		Adjustments		Adj. Trial Bal.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash, Accts. Rec.	11,155					
Office Supplies	600					
Prepaid Rent	1,200					
Equipment	6,000					
Accounts Payable		3,350				
B. Clark, Capital		10,000				
B. Clark, Withdrawals	625					
Fees		8,000				
Salaries Expense	1,300					
Other Expenses	470					
	21,350	21,350				
Office Supplies Expense						
Rent Expense						
Depreciation Expense						
Accum. Depreciation						
Salaries Payable						
Totals						
Net income						

Adjustments

Account Titles	Trial Balance		Adjustments		Adj. Trial Bal.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash, Accts. Rec.	11,155					
Office Supplies	600			(a) 500		
Prepaid Rent	1,200			(b) 400		
Equipment	6,000					
Accounts Payable		3,350				
B. Clark, Capital		10,000				
B. Clark, Withdrawals	625					
Fees		8,000				
Salaries Expense	1,300		(d) 350			
Other Expenses	470					
	21,350	21,350				
Office Supplies Expense			(a) 500			
Rent Expense			(b) 400			
Depreciation Expense			(c) 80			
Accum. Depreciation				(c) 80		
Salaries Payable				(d) 350		
Totals						
Net income						

Adjusted Trial Balance

Account Titles	Trial Balance		Adjustments		Adj. Trial Bal.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash, Accts. Rec.	11,155				11,155	
Office Supplies	600			(a) 500	100	
Prepaid Rent	1,200			(b) 400	800	
Equipment	6,000				6,000	
Accounts Payable		3,350				3,350
B. Clark, Capital		10,000				10,000
B. Clark, Withdrawals	625				625	
Fees		8,000				8,000
Salaries Expense	1,300		(d) 350		1,650	
Other Expenses	470				470	
	21,350	21,350				
Office Supplies Expense			(a) 500		500	
Rent Expense			(b) 400		400	
Depreciation Expense			(c) 80		80	
Accum. Depreciation				(c) 80		80
Salaries Payable				(d) 350		350
Totals			1,330	1,330	21,780	21,780
Net income						

Income Statement and Balance Sheet

Account Titles	Adj. Trial Bal.		Inc. Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash, Accts. Rec.	11,155				11,155	
Office Supplies	100				100	
Prepaid Rent	800				800	
Equipment	6,000				6,000	
Accounts Payable		3,350				3,350
B. Clark, Capital		10,000				10,000
B. Clark, Withdrawals	625				625	
Fees		8,000		8,000		
Salaries Expense	1,650		1,650			
Other Expenses	470		470			
Office Supplies Expense	500		500			
Rent Expense	400		400			
Depreciation Expense	80		80			
Accum. Depreciation		80				80
Salaries Payable		350				350
Totals	21,780	21,780	3,100	8,000	18,680	13,780
Net income			4,900			4,900
			8,000	8,000	18,680	18,680

New Terminology: Sections 5-8

- Supplies = Supplies on Hand
= Unused Supplies
- Prepaid Expense = Deferred Expense
- Prepaid Insurance = Unexpired Insurance
= Prepaid Insurance Expense
= Deferred Insurance Expense

New Terminology: Sections 5-8

- Operational assets = assets that can be depreciated
- $\text{Cost} - \text{salvage} = \text{depreciable base}$

New Terminology: Sections 5-8

- Income Statement = earnings statement
= profit and loss statement
= P&L