

UIL 2017 Capital Conference
UIL Accounting Worksheet: A Tool for
Accrual and Deferral Adjusting Entries

What WE Will Do in This Session:

1. Examine the most common complaint about Merchandise Inventory on the Worksheet
2. Modify the worksheet format to “Write Down What You Know”
3. Compare T-account format (vertical) to worksheet format (horizontal)
4. Adjust a deferred expense account and examine the puzzle of Supplies on the Worksheet
5. Examine two formats to analyze insurance and adjust the deferred expense account
6. Adjust a deferred revenue account
7. Make an adjusting entry for an expense accrual
8. Make an adjusting entry for a revenue accrual
9. Discuss worksheet puzzle strategy clues
10. Learn the shortcut to calculate worksheet column subtotals
11. Analyze the tip for where to write Net Income (or Net Loss) on the worksheet form and the relationship to the theory of the Capital account.

Abbreviations used in this instruction:

TB = trial balance
ATB = Adjusted Trial Balance
ADJ = Adjustment
AJE = Adjusting Journal Entry

Merchandise Inventory

Given information in narrative form: Merchandise Inventory on December 31, 2013 was \$14,260.

Question: What was Merchandise Inventory on January 1, 2013?

Common Complaint: There is not enough information to solve this!

Hint: Always look for clues in Income Summary.

Beg.	Fine's Auto Parts						
Bal.	Worksheet						
Jan. 1	For the Year Ended December 31, 2013						
	Account Title	Trial Balance		Adjustments		Adjusted Trial Balance	
		Debit	Credit	Debit	Credit	Debit	Credit
	Merchandise Inventory						
	Income Summary						1,570

1. Write the 12-31-13 balance of \$14,260 in the ATB Debit column on the line for Merchandise Inventory.
2. Always look at Income Summary for clues about the ADJ for ending Merchandise Inventory. How did \$1,570 end up in the ATB Credit column? There must have been an AJE:

	DR	CR
Merchandise Inventory	1,570	
Income Summary		1,570

3. Plot this AJE on the worksheet.
4. Calculate beginning inventory: ending inventory 14,260 – adj 1,570 = 12,690
5. Write the beginning inventory 12,690 in the TB column for Merchandise Inventory.

Modifying the Worksheet Form: Use Available Space to “Write Down What You Know”

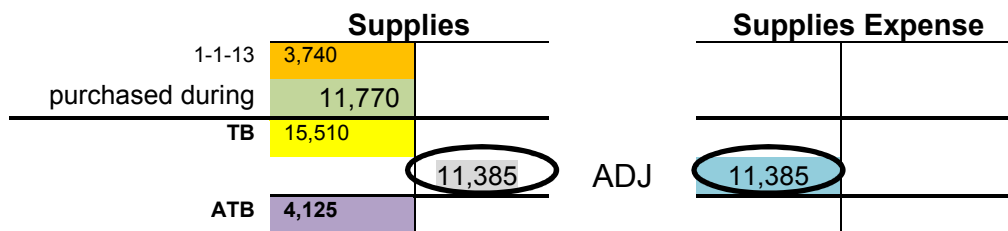
Set up T-accounts only when one is needed. Use the worksheet instead of a T-account whenever possible. Remember, on the “modified” worksheet, the contents in a row from left to right has the same “flow” as a T-account has from top to bottom.

Practice “modifying” the worksheet form to write down what you know about:

- Beginning of the Fiscal Period Balance—use the margin space to the left of the Account Title
- Activity During the Fiscal Period—use the available leftover space in the Account Title column

Adjusting the Deferred Expense (or Prepaid Expense) known as Supplies

Visualize the following T-accounts (vertical) and compare to the placement on the worksheet (horizontal):



Beg.	Vicky's Gift Shop						
Bal.	Worksheet						
Jan. 1	For the Year Ended December 31, 2013						
	Account Title	Trial Balance		Adjustments		Adjusted Trial Balance	
		Debit	Credit	Debit	Credit	Debit	Credit
	3,740 Supplies	11,770	15,510		11,385	4,125	
	Supplies Expense			11,385		11,385	

Students should know WHERE these numbers came from. For example, the beginning balance of Supplies is found in the General Ledger, in the asset account called Supplies. They will also find the amount we purchased during the period in the General Ledger Account as well.

The Ending Balance was determined when someone actually counted and examined the COST of what is still on hand.

Students should know that the amount of Supplies (asset) in the UNadjusted Trial Balance is always beginning inventory PLUS what we bought during the period (which is the ending balance in the general ledger account BEFORE AJE's. The ending inventory is in the Adjusted Trial Balance because this belongs on the Balance Sheet. The difference between the Unadjusted Trial Balance and the Adjusted Trial Balance is Expense.

How Supplies Could Be Tested:**Reference UIL Accounting District 2016-D1 Table 3**

Sometimes in the narrative you are provided with:

Office Supplies:

Inventory on January 1, 2015.....	\$2,615
Purchased during 2015.....	3,721
Inventory on December 31, 2015.....	2,450

The questions are:

What was the balance of Office Supplies on the unadjusted trial balance?
 What was the balance of Office Supplies in the adjusted trial balance?
 What is the amount of Office Supplies Expense in the adjusted trial balance?

The objective is to test:

Do you know where the given “numbers” came from?
 Do you know where the given “numbers” belong on the worksheet?
 Are you able to calculate the amount of the expense?

Reference UIL Accounting Invitational 2016-A Table 1

Sometimes you are given on the worksheet:

Supplies in the Unadjusted Trial Balance debit column \$4,905
 Supplies in the Adjusted Trial Balance debit column \$720
 Supplies Expense in the Adjusted Trial Balance debit column \$4,185

The question is:

What was the balance of Supplies in the general ledger at the beginning of the fiscal year?

Always look for additional pieces to the puzzle given in the narrative:
 Supplies purchased throughout the year 2015 totaled \$4,290

Remember to “Write Down What You Know” on the worksheet AS you read the narrative. Then check the item off in the narrative, so you won’t go back and feel the need to read it again.

Adjusting the Deferred Expense Known as Prepaid Insurance

Strategy Tip: Practice viewing a (horizontal) row on the “modified” worksheet as you would the (vertical) T-account. Eventually you won’t need to draw T-accounts to solve a worksheet problem; you will “see” the T-account on the “modified” worksheet row.

Reference UIL Accounting State 2012-S Table 2

(We are preparing a worksheet for the twelve months ended December 31, 2011. On the worksheet form in the test, there is NOTHING on the lines for Prepaid Insurance or Insurance Expense. Totally blank.)

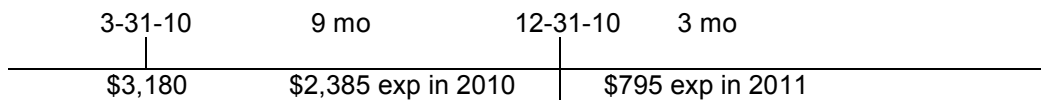
Given:

There is only one insurance policy. It is always a twelve month policy and was paid as follows: March 31, 2010 for \$3,180 and March 31, 2011 for \$3,720

Questions:

What was the amount in the Unadjusted Trial Balance for Prepaid Insurance?
 What was the balance of Prepaid Insurance on January 2, 2011?
 How should the insurance premium paid on March 31, 2010 be allocated to expense in the years 2010, 2011, and 2012?

First Solving Approach: Use a Timeline



On Calculator:

$\$3,180 / 12 \text{ mo} \times 9 \text{ mo} = \$2,385$
 $\$3,180 - 2,385 = \795

Alternative Solving Approach: Use a Chart

		Per Mo	2010 Exp	2011 Exp	2012 Exp
3-31-10	\$3,180	\$265	2,385	795	
3-31-11	\$3,720	\$310		2790	930
				3,585	

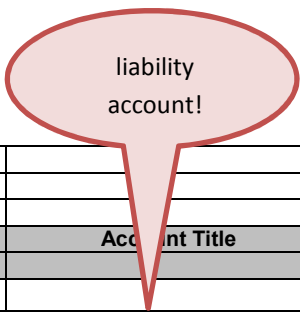
	Prepaid Insurance		Insurance Expense
1-1-11	795		
bought during 2011	3,720		
12-31-11 TB	4,515		
	3,585	ADJ	3,585
12-31-11 ATB	930		

Adjust the Deferred Revenue account usually called Unearned Revenue:

Assume that by year-end, one-fourth of the project is performed and accepted by the customer.

Unearned Revenue		2,000
		2,000
500	AJE	
1,500	ATB	

Revenue		
500		



	Honest Abe, CPA						
Beg. Bal.	Worksheet						
Jan. 1	For the Year Ended December 31, 2016						
	Account Title	Trial Balance		Adjustments		Adjusted Trial Balance	
		Debit	Credit	Debit	Credit	Debit	Credit
	Unearned Revenue		2,000	500			1,500
	Revenue		142,500		500		143,000

Make an adjusting entry to ACCRUE an expense incurred:

Here are some examples of expenses that accrue daily: salaries of employees who have worked but not yet been paid; property taxes owed; and interest on an interest-bearing note payable that has been incurred but not yet paid.

Let's look at a salary accrual.

No one works on Saturdays or Sundays.

The last payday was Monday, October 29 that covered the days of October 22-26.

We want to prepare financial statements for the month of October.

OCTOBER						
M	T	W	T	F	S	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

Need to Accrue

The work performed by employees on Monday, Oct. 29 through Wednesday, Oct. 31 will be paid on Monday, November 5. If no accrual entry is made, the expense on the income statement for October will be understated. The liabilities on the balance sheet dated October 31 will be understated.

Assume that employees earn wages of \$600 per day. We need to accrue salary expense of \$1,800 (\$600 x 3 days). The entry would be:

Account Title	Debit	Credit
Salary Expense	1,800	
Accrued Salary Payable		1,800

Make an adjusting entry to accrue revenue earned:

We have performed work (\$800) which was completed on December 30. However, we have not yet billed the client. We want this earned income to be reflected in the financial statements.

Account Title	Debit	Credit
Accrued Revenue Receivable	800	
Revenue		800

Worksheet “Puzzle” Strategy Clues:

Just like in math class where we learned to solve problems in “number” format AND in “word” format, many UIL Accounting contest problems are presented in “word” format.

Given	Translation
Received on account from customers	Credit Accounts Receivable
Paid on account to vendors	Debit Accounts Payable

Given:

Purchases of merchandise for the year: on account 196,080
cash 36,014

What do you have?

Total Purchases that belongs on the worksheet in the TB and ATB columns
(196,080 + 36,014 = Purchases 232,094)

If on the worksheet form you are given the Sales account balance and in the narrative you are given “charge sales,” you can then calculate “cash sales.”

Make sure students understand the Capital account as it appears in the General Ledger (beginning balance PLUS owner contributions = ending balance) and the relationship on the worksheet form (only the ending balance appears on the worksheet in BOTH the TB and the ATB columns).

When one of the “givens” in the narrative states what the gross profit percentage is, you should hear DING, DING, DING! I will need this to solve the Cost of Merchandise Sold puzzle after I write down what I know about the accounts involved.

After you have done all you can to a worksheet, and you still have ONE account balance that is unknown, sometimes you just have to plug the difference. For example, you are missing Sales Tax Payable (which has a normal credit balance). Using the ADJUSTED Trial Balance, add up all the debits. From this debit total, subtract all the known credit balances to arrive at the remaining missing credit balance.

When you have done all you can to the worksheet using the narrative information and you end up with TWO unknown account balances (one with a normal debit balance and the other with a normal credit balance), it may appear there is no way to solve with two unknowns. Look for a GIVEN worksheet column subtotal that will help you plug either the debit balance or credit balance.

Students should know the worksheet format so well, they can solve a worksheet WITHOUT the actual worksheet form.

A great time-saver is to calculate worksheet column subtotals

WITHOUT

extending each account balance into its proper Balance Sheet or Income Statement column.

It is done visually.

The final worksheet in this document is color-coded to show you how to visualize.

Beg. Bal. Jan. 1		Fine's Auto Parts Worksheet For the Year Ended December 31, 2013					
Account Title		Trial Balance		Adjustments		Adjusted Trial Balance	
		Debit	Credit	Debit	Credit	Debit	Credit
	Cash in Bank	8,661			25	8,636	
	Accounts Receivable	9,654				9,654	
	Merchandise Inventory	12,690		1,570		14,260	
3,740	Supplies 11,770	15,510			11,385	4,125	
1,575	Prepaid Insurance 5,016	6,591			4,501	2,090	
	Equipment & Store Shelving	25,410				25,410	
	Accounts Payable		26,430				26,430
	Sales Tax Payable		1,610				1,610
20,810	Brent Fine, Capital 5,000		25,810				25,810
	Brent Fine, Drawing	14,400				14,400	
	Income Summary				1,570		1,570
	Sales		215,230				215,230
	Sales Discounts	1,451				1,451	
	Sales Returns & Allowances	3,279				3,279	
	Purchases	129,931				129,931	
	Transportation In	3,812				3,812	
	Purchases Discounts		4,260				4,260
	Purchases Returns & Allow.		3,718				3,718
	Rent Expense	18,000				18,000	
	Utilities Expense	7,436				7,436	
	Advertising Expense	2,580				2,580	
	Salaries Expenses	16,000				16,000	
	Payroll Tax Expense	1,523				1,523	
	Miscellaneous Expense	130		25		155	
	Supplies Expense			11,385		11,385	
	Insurance Expense			4,501		4,501	
		277,058	277,058	17,481	17,481	278,628	278,628

Fine's Auto Parts										
Worksheet										
For the Year Ended December 31, 2013										
Account Title	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash in Bank					8,636					
Accounts Receivable					9,654					
Merchandise Inventory					14,260					
Supplies					4,125					
Prepaid Insurance					2,090					
Equip. & Store Shelving					25,410					
Accounts Payable						26,430				
Sales Tax Payable						1,610				
Brent Fine, Capital						25,810				
Brent Fine, Drawing					14,400					
Income Summary						1,570				
Sales						215,230				
Sales Discounts					1,451					
Sales Ret. & Allow.					3,279					
Purchases					129,931					
Transportation In					3,812					
Purchases Discounts						4,260				
Purchases Ret. & Allow.						3,718				
Rent Expense					18,000					
Utilities Expense					7,436					
Advertising Expense					2,580					
Salaries Expenses					16,000					
Payroll Tax Expense					1,523					
Miscellaneous Expense					155					
Supplies Expense					11,385					
Insurance Expense					4,501					
					278,628	278,628	200,053	224,778	78,575	53,850
Net Income							24,725			24,725
							224,778	224,778	78,575	78,575

Tip for Worksheet Net Income/Loss:

Net Income increases Capital. We increase Capital with a credit. So net income is ALWAYS written in the Balance Sheet CREDIT column, under the first subtotal line.

If you write net income in the credit column of the Balance Sheet, you will DEBIT the Income Statement column.

A net loss decreases Capital. We decrease Capital with a debit. So net loss is written in the Debit column of Balance Sheet; therefore, it will also be written in the Credit column of the Income Statement.

Then "AUTOMAGICALLY" all of the final totals of the last four columns of the worksheet will come out correctly in balance respectively.