

Accounting Cycle Project [C4-6]

Fast Deliveries, Incorporated (FDI)

ACC250
Central Michigan University

Overview

- ▶ FDI was organized in December last year.
- ▶ The balance sheet at the beginning of the current year is provided.
- ▶ Two employees are hired at a monthly salary of \$2,200 each.

**Fast Deliveries, Inc.
Balance Sheet at Jan 1**

Assets		Liab. & SHE	
Cash	\$10,900	Accts Payable	\$500
Accts Receivable	800		
Supplies	400	SHE:	
		Common Stock	11,000
		Ret. Earnings	600
Total Assets	\$12,100	Total Liab. & SHE	\$12,100

Journal Entry Task

- ▶ We will analyze all January transactions and prepare journal entries.
- ▶ We will make adjustment journal entries at the end of Jan.

Transactions

Transaction 1: January 1

\$5,700 is paid for 12 months' insurance starting January 1. (Record as an asset.)

▶ Jan 1, 2025

Transactions

Transaction 1: January 1

\$5,700 is paid for 12 months' insurance starting January 1. (Record as an asset.)

▶ Jan 1, 2025

▶ Prepaid Insurance	.....	\$5,700
Cash	.....	\$5,700

Transactions

Transaction 1: January 1

\$5,700 is paid for 12 months' insurance starting January 1. (Record as an asset.)

▶ Jan 1, 2025

▶ Prepaid Insurance	.....	\$5,700
Cash	.....	\$5,700

Transaction 2: January 2

\$4,200 is paid for 12 months of rent beginning January 1. (Record as an asset.)

▶ Jan 2, 2025

Transactions

Transaction 1: January 1

\$5,700 is paid for 12 months' insurance starting January 1. (Record as an asset.)

▶ Jan 1, 2025

▶	Prepaid Insurance	.....	\$5,700
	Cash	.....	\$5,700

Transaction 2: January 2

\$4,200 is paid for 12 months of rent beginning January 1. (Record as an asset.)

▶ Jan 2, 2025

▶	Prepaid Rent	.....	\$4,200
	Cash	.....	\$4,200

Transactions

Transaction 3: January 3

FDI borrows \$30,000 cash from First State Bank at 6% annual interest; this note is payable in two years.

▶ Jan 3, 2025

Transactions

Transaction 3: January 3

FDI borrows \$30,000 cash from First State Bank at 6% annual interest; this note is payable in two years.

▶ Jan 3, 2025

▶ Cash	.....	\$30,000
Notes Payable	.....	\$30,000

Transactions

Transaction 3: January 3

FDI borrows \$30,000 cash from First State Bank at 6% annual interest; this note is payable in two years.

▶ Jan 3, 2025

▶ Cash	.....	\$30,000
Notes Payable	.....	\$30,000

Transaction 4: January 4

A delivery van is purchased using cash. The total cost was \$24,000.

▶ Jan 4, 2025

Transactions

Transaction 3: January 3

FDI borrows \$30,000 cash from First State Bank at 6% annual interest; this note is payable in two years.

▶ Jan 3, 2025

▶ Cash	.....	\$30,000
Notes Payable	.....	\$30,000

Transaction 4: January 4

A delivery van is purchased using cash. The total cost was \$24,000.

▶ Jan 4, 2025

▶ Vehicles	.....	\$24,000
Cash	.....	\$24,000

Transactions

Transaction 5: January 5

Stockholders contribute \$6,000 of additional cash to FDI for its common stock.

- ▶ Jan 5, 2025

Transactions

Transaction 5: January 5

Stockholders contribute \$6,000 of additional cash to FDI for its common stock.

▶ Jan 5, 2025

▶ Cash	.....	\$6,000
Common Stock	.....	\$6,000

Transactions

Transaction 5: January 5

Stockholders contribute \$6,000 of additional cash to FDI for its common stock.

▶ Jan 5, 2025

▶ Cash	.....	\$6,000
Common Stock	.....	\$6,000

Transaction 6: January 6

Additional supplies costing \$1,000 are purchased on account and received.

▶ Jan 6, 2025

Transactions

Transaction 5: January 5

Stockholders contribute \$6,000 of additional cash to FDI for its common stock.

▶ Jan 5, 2025

▶ Cash	.....	\$6,000
Common Stock	.....	\$6,000

Transaction 6: January 6

Additional supplies costing \$1,000 are purchased on account and received.

▶ Jan 6, 2025

▶ Supplies	.....	\$1,000
Accounts Payable	.....	\$1,000

Transactions

Transaction 7: January 7

\$600 of accounts receivable arising from last year's December sales are collected.

- ▶ Jan 7, 2025

Transactions

Transaction 7: January 7

\$600 of accounts receivable arising from last year's December sales are collected.

▶ Jan 7, 2025

▶ Cash	.....	\$600
Accounts Receivable	.....	\$600

Transactions

Transaction 7: January 7

\$600 of accounts receivable arising from last year's December sales are collected.

▶ Jan 7, 2025

▶ Cash	.....	\$600
Accounts Receivable	.....	\$600

Transaction 8: January 8

\$400 of accounts payable from December of last year are paid.

▶ Jan 8, 2025

Transactions

Transaction 7: January 7

\$600 of accounts receivable arising from last year's December sales are collected.

▶ Jan 7, 2025

▶ Cash	.....	\$600
▶ Accounts Receivable	.....	\$600

Transaction 8: January 8

\$400 of accounts payable from December of last year are paid.

▶ Jan 8, 2025

▶ Accounts Payable	.....	\$400
▶ Cash	.....	\$400

Transactions

Transaction 9: January 9

Performed services for customers on account. Sent invoices totaling \$10,400.

- ▶ Jan 9, 2025

Transactions

Transaction 9: January 9

Performed services for customers on account. Sent invoices totaling \$10,400.

▶ Jan 9, 2025

▶ Accounts Receivable	.....	\$10,400
Service Revenue	.....	\$10,400

Transactions

Transaction 9: January 9

Performed services for customers on account. Sent invoices totaling \$10,400.

▶ Jan 9, 2025

▶	Accounts Receivable	.....	\$10,400
	Service Revenue	.....	\$10,400

Transaction 10: January 10

\$7,600 of services are performed for customers who paid immediately in cash.

▶ Jan 10, 2025

Transactions

Transaction 9: January 9

Performed services for customers on account. Sent invoices totaling \$10,400.

▶ Jan 9, 2025

▶	Accounts Receivable	.....	\$10,400
	Service Revenue	.....	\$10,400

Transaction 10: January 10

\$7,600 of services are performed for customers who paid immediately in cash.

▶ Jan 10, 2025

▶	Cash	.....	\$7,600
	Service Revenue	.....	\$7,600

Transactions

Transaction 11: January 16

\$2,200 of salaries are paid for the first half of the month.

- ▶ Jan 11, 2025

Transactions

Transaction 11: January 16

\$2,200 of salaries are paid for the first half of the month.

▶ Jan 11, 2025

▶ Salaries and Wages Expense	.....	\$2,200
Cash	.....	\$2,200

Transactions

Transaction 11: January 16

\$2,200 of salaries are paid for the first half of the month.

▶ Jan 11, 2025

▶ Salaries and Wages Expense	.....	\$2,200
Cash	.....	\$2,200

Transaction 12: January 20

FDI receives \$3,500 cash from a customer for an advance order for services to be provided later in January and in February.

▶ Jan 12, 2025

Transactions

Transaction 11: January 16

\$2,200 of salaries are paid for the first half of the month.

▶ Jan 11, 2025

▶ Salaries and Wages Expense	.....	\$2,200
Cash	.....	\$2,200

Transaction 12: January 20

FDI receives \$3,500 cash from a customer for an advance order for services to be provided later in January and in February.

▶ Jan 12, 2025

▶ Cash	.....	\$3,500
Deferred Revenue	.....	\$3,500

Transactions

Transaction 13: January 25

\$4,500 is collected from customers on account (see January 9 transaction).

▶ Jan 13, 2025

Transactions

Transaction 13: January 25

\$4,500 is collected from customers on account (see January 9 transaction).

▶ Jan 13, 2025

▶ Cash	.....	\$4,500
▶ Accounts Receivable	.....	\$4,500

Adjustments at the End of January

Adjustment Entry 1

\$1,200 bill arrives for January utility services. Payment is due February 15.

- ▶ Jan 31, 2025

Adjustments at the End of January

Adjustment Entry 1

\$1,200 bill arrives for January utility services. Payment is due February 15.

▶ Jan 31, 2025

▶ Utilities Expense	.....	\$1,200
Accounts Payable	.....	\$1,200

Adjustments at the End of January

Adjustment Entry 1

\$1,200 bill arrives for January utility services. Payment is due February 15.

▶ Jan 31, 2025

▶ Utilities Expense	.....	\$1,200
Accounts Payable	.....	\$1,200

Adjustment Entry 2

Supplies on hand on January 31 are counted and determined to have cost \$250.

▶ Jan 31, 2025

Adjustments at the End of January

Adjustment Entry 1

\$1,200 bill arrives for January utility services. Payment is due February 15.

▶ Jan 31, 2025

▶ Utilities Expense	.....	\$1,200
Accounts Payable	.....	\$1,200

Adjustment Entry 2

Supplies on hand on January 31 are counted and determined to have cost \$250.

▶ Jan 31, 2025

▶ Supplies Expense	.....	\$1,150
Supplies	.....	\$1,150

Adjustments at the End of January

Adjustment Entry 3

As of January 31, FDI had completed 60% of the deliveries for the customer who paid in advance on January 20.

- ▶ Jan 31, 2025

Adjustments at the End of January

Adjustment Entry 3

As of January 31, FDI had completed 60% of the deliveries for the customer who paid in advance on January 20.

▶ Jan 31, 2025

▶	Deferred Revenue	.....	\$2,100
	Service Revenue	.....	\$2,100

Adjustments at the End of January

Adjustment Entry 3

As of January 31, FDI had completed 60% of the deliveries for the customer who paid in advance on January 20.

▶ Jan 31, 2025

▶	Deferred Revenue	.....	\$2,100
	Service Revenue	.....	\$2,100

Adjustment Entry 4

Accrue one month of interest on the bank loan. Yearly interest is determined by multiplying the amount borrowed by the annual interest rate (expressed as 0.06). For convenience, calculate January interest as one-twelfth of the annual interest.

▶ Jan 31, 2025

Adjustments at the End of January

Adjustment Entry 3

As of January 31, FDI had completed 60% of the deliveries for the customer who paid in advance on January 20.

▶ Jan 31, 2025

▶	Deferred Revenue	.....	\$2,100
	Service Revenue	.....	\$2,100

Adjustment Entry 4

Accrue one month of interest on the bank loan. Yearly interest is determined by multiplying the amount borrowed by the annual interest rate (expressed as 0.06). For convenience, calculate January interest as one-twelfth of the annual interest.

▶ Jan 31, 2025

▶	Interest Expense	.....	\$150
	Interest Payable	.....	\$150

Adjustments at the End of January

Adjustment Entry 5

Assume the van will be used for 4 years, after which it will have no value. Thus, each year, one-fourth of the van's benefits will be used up, which implies annual depreciation equal to one-fourth of the van's total cost. Record depreciation for the month of January, equal to one-twelfth of the annual depreciation expense.

- ▶ Jan 31, 2025

Adjustments at the End of January

Adjustment Entry 5

Assume the van will be used for 4 years, after which it will have no value. Thus, each year, one-fourth of the van's benefits will be used up, which implies annual depreciation equal to one-fourth of the van's total cost. Record depreciation for the month of January, equal to one-twelfth of the annual depreciation expense.

▶ Jan 31, 2025

▶ Depreciation Expense	.....	\$500
Accumulated Depreciation	.....	\$500

Adjustments at the End of January

Adjustment Entry 5

Assume the van will be used for 4 years, after which it will have no value. Thus, each year, one-fourth of the van's benefits will be used up, which implies annual depreciation equal to one-fourth of the van's total cost. Record depreciation for the month of January, equal to one-twelfth of the annual depreciation expense.

▶ Jan 31, 2025

▶ Depreciation Expense	.....	\$500
Accumulated Depreciation	.....	\$500

Adjustment Entry 6

Salaries earned by employees for the period from January 16 to 31 are \$1,100 per employee and will be paid on February 3.

▶ Jan 31, 2025

Adjustments at the End of January

Adjustment Entry 5

Assume the van will be used for 4 years, after which it will have no value. Thus, each year, one-fourth of the van's benefits will be used up, which implies annual depreciation equal to one-fourth of the van's total cost. Record depreciation for the month of January, equal to one-twelfth of the annual depreciation expense.

▶ Jan 31, 2025

▶ Depreciation Expense	.....	\$500
Accumulated Depreciation	.....	\$500

Adjustment Entry 6

Salaries earned by employees for the period from January 16 to 31 are \$1,100 per employee and will be paid on February 3.

▶ Jan 31, 2025

▶ Salaries and Wages Expense	.....	\$2,200
Salaries and Wages Payable	.....	\$2,200

Adjustments at the End of January

Adjustment Entry 7

Adjust the prepaid asset accounts (for rent and insurance) as needed.

- ▶ Jan 31, 2025

Adjustments at the End of January

Adjustment Entry 7

Adjust the prepaid asset accounts (for rent and insurance) as needed.

▶ Jan 31, 2025

▶ Insurance Expense	.....	\$475
Prepaid Insurance	.....	\$475

Adjustments at the End of January

Adjustment Entry 7

Adjust the prepaid asset accounts (for rent and insurance) as needed.

▶ Jan 31, 2025

▶ Insurance Expense	.....	\$475
Prepaid Insurance	.....	\$475
▶ Rent Expense	.....	\$350
Prepaid Rent	.....	\$350

Summary

- ▶ We reviewed FDI's balance sheet and all January transactions.
- ▶ We made proper adjustment journal entries.
- ▶ Journal entries were prepared for various transactions, including assets, liabilities, revenues, expenses, and adjusting entries.
- ▶ These entries will be used to update the general ledger and financial statements.

What's next?

- ▶ Make a set of T-accounts (i.e., General Ledger).
- ▶ Trial balances, with and without adjustments considered.
- ▶ Financial statements, with and without adjustments considered.
 - ▶ Income Statement
 - ▶ Statement of Retained Earnings
 - ▶ Balance Sheet