Report format

B. Asha Grocers

Income Statement

for the Month ended 31 July, 20X1

	shs.	*shs.*	*shs.*
Sales			370,000
less: Sales returns			8,000
Net sales			362,000
Cost of goods sold:			
Opening stock		500,000	
Purchases	500,000		
Carriage inwards	5,000		
Total purchases	505,000		
less: Purchase returns	6,000		
Net purchases		499,000	
Cost of good available for sale		999,000	
less: Closing stock		800,000	
Cost of goods sold			199,000
Gross profit			163,000
Operating expenses:			
Rent		10,000	
Wages		6,000	
Depreciation – furniture		500	
Doubtful debts		9,600	
Electricity		1,400	
Shop supplies		6,000	
Total operating expenses			33,500
Net profit			129,500

The report format is also known as the vertical format because it read vertically and flows from the top to bottom.

Closing entries

Revenue and expense accounts

Revenue and expense accounts are temporary accounts. At the end of the accounting period these accounts are closed and are summarized in the Income Statement. The net result which is profit or loss is carried on to the Balance Sheet. Net profit increases equity while losses erode the equity base. The entries to record the closing entries for B. Asha Grocer's revenue and expense accounts would be as follows:

Date	*Description*	*Folio*	*Debit*	*Credit*
20X1				
Jul 31	Sales		370,000	
	Trading, Profit and Loss			370,000
	To close sales to the Trading, Profit and Loss account			
	Purchase Returns		6,000	
	Trading, Profit and Loss			6,000
	To close Purchase Returns to the Trading, Profit and Loss account			

Since in both journal entries above the Trading, Profit and Loss Account is being credited, a compound journal entry is normally prepared as follows:

Date	*Description*	*Folio*	*Debit*	*Credit*
20X1				
Jul 31	Sales		370,000	
	Purchase Returns		6,000	
	Trading, Profit and Loss			376,000
	To close Sales and Purchase Returns to the Trading, Profit and Loss Account.			

The compound journal entry is a standard feature of closing entries. The compound journal entry to close expense accounts is as follows:

example as a debit in the wages expense account. However, if wages for the last week of the previous accounting period were accrued, the payment for those wages should instead be recorded in an accrued wages account to offset a liability. This kind of situation often creates problems in the first month of the new accounting period.

Reversing entries have been devised to circumvent such problems. Reversing entries reverse the effects of adjusting entries so that bookkeeping can proceed in the new accounting period as if no adjusting entries were made. Nevertheless, not all adjusting entries need reversing. The depreciation and provision for depreciation adjustments for example, do not affect routine recording of transactions. These kind of adjusting entries do not need reversing.

Reversing entries for Accrued Expenses

Example

The following ledger accounts were opened for the payment and accrual of electricity expenses in Chapter Five:

Electricity Expense Account no. 00

Date	Details	Fol.	Debit	Date	Details	Fol.	Credit
20X1				20X1			
Jan1	Cash		60,000	Dec31	Profit and Loss		128,000
Dec31	Accrued Electricity Expense		68,000				
			128,000				128,000

Accrued Electricity Expense Account no. 00

Date	Details	Fol.	Debit	Date	Details	Fol.	Credit
20X1				20X1			
Dec31	Balance		68,000	Dec31	Electricity Expense		68,000
			68,000				68,000
				20X2			
				Jan1	Balance		68,000

Assuming on January 1st 20X2, TANESCO brought bills amounting to shs. 80,000 covering the period from July, 20X1 to January, 20X2. If B. Asha Grocers paid the bills immediately, not all of the shs. 80,000 is expense for 20X2. Of that amount only shs. 12,000 is electricity charge for January, the remainder of shs. 68,000 is towards settling an outstanding liability of bills unpaid in 20X1. The payment of shs. 80,000 would be recorded in a general journal as follows:

	shs.	shs.
Cash	300,000	
Accounts receivable	310,000	
Service supplies stocks	7,000	
Prepaid insurance	8,000	
Service truck - 5 years life, no salvage value	200,000	
Accumulated depreciation – service truck		80,000
Other assets	104,000	
Accounts payable		20,000
Bank loan - 10% each December 31		100,000
Capital		300,000
Retained earnings		95,000
Drawings	20,000	
Service revenues		750,000
Other expenses	396,000	
Total	**1,345,000**	**1,345,000**

Information not yet recorded at December 31, 20X1:

i) The supplies inventory count on December 31, 20X1, reflected shs. 20,000 remaining on hand; to be used in 20X2.

ii) Insurance expired during 20X1, shs. 4,000

iii) Depreciation expense for 20X1, shs. 40,000

iv) Wages earned by employees not yet paid on December 31, 20X1, shs. 5,000.

Required:

Note: A worksheet should be used.

a) Complete the financial statements for 20X1 to include the effects of the transactions listed above.

b) Give the 20X1 adjusting entries.

c) Give the 20X1 closing entries.

2. The trial balance of Makini & Co. at December 31, the end of the current financial year and the data needed to determine year end adjustments are presented below: