

**ACC 201 Milestone Two Guidelines and Rubric**

**Overview:** In this milestone, you will move through the next phase of the accounting cycle by creating the trial balance, adjusting entries, and adjusted trial balance. Completing the adjusting entries implements the matching, timing, and periodicity of the generally accepted accounting principles. Omission of this step will show a higher net income than there actually is, which could cause users of the financial statements to make an incorrect decision and suffer financially.

**Prompt:** You will find the provided data for your second milestone in the appendix at the end of this document. The data have been separated from the prompt so that you can more easily view the full scope of this assignment. Links have been provided to help you locate the information.

Specifically, the following critical elements must be addressed:

- I. **Incorporate the feedback** that you received from your Milestone One submission on Steps 1–4.
  - A. Step One: Complete the “July Journal Entries” tab in your workbook using the [Step One data](#) in the appendix.
  - B. Step Two: Complete the “August Journal Entries” tab in your workbook using the [Step Two data](#) in the appendix.
  - C. Step Three: Complete the “September Journal Entries” tab in your workbook using the [Step Three data](#) and [updated scenario information](#) in the appendix. Note that there was an additional line of products added this month, so you must first complete the “Inventory Valuation” tab in your workbook and copy the journal entries from the inventory evaluation page into your journal for this month to ensure the impact of merchandising is reflected in your reporting.
  - D. Step Four: Transfer posted entries to T accounts.
- II. **Apply the accrual basis of accounting** to correctly create adjusting entries in the preparation of financial statements:
  - A. **Step Five:** Prepare the unadjusted trial balance. Note that you should use the T account balances completed in the previous step to prepare the unadjusted trial balance portion of the “Trial Balance” tab in your workbook.
  - B. **Step Six:** Complete the “Adjusting Entries” tab in your workbook using the [Step Six data](#) in the appendix. Note that you should take the adjusting entries from this worksheet and enter them into the “Trial Balance” tab in your workbook.
  - C. **Step Seven:** Apply adjusting entries to create the adjusted trial balance. Note that the adjusting entries from Step Six will apply to affected accounts in the unadjusted trial balance to arrive at the adjusted trial balance.

**Rubric**

**Guidelines for Submission:** Your completed accounting workbook should have all tabs fully and accurately populated in the [provided Excel template](#).

Critical Elements	Evident (100%)	Not Evident (0%)	Value
<b>Incorporate the Feedback</b>	Fully incorporates feedback from Milestone One on Steps 1–4 of the workbook	Fails to incorporate feedback from Milestone One on Steps 1–4 of the workbook	25

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<b>Apply the Accrual Basis of Accounting: Step Five</b>	Prepares the unadjusted trial balance	Does not prepare the unadjusted trial balance	25
<b>Apply Accrual Basis of Accounting: Step Six</b>	Prepares the adjusting entries	Does not prepare the adjusting entries	25
<b>Apply Accrual Basis of Accounting: Step Seven</b>	Prepares the adjusted trial balance	Does not prepare the adjusted trial balance	25
<b>Total</b>			<b>100%</b>

**Appendix: Workbook Data for Milestone Two**

[Step One Data](#) (Click on the link to return to the prompt.)

The following events occur in July, 2018:

July 1: You take \$10,000 from your personal savings account and buy common stock in Peyton Approved.

July 1: Purchase \$6,500 in baking supplies from vendor, on account.

July 3: Your parents lend the company \$10,000 cash in exchange for a two-year, 6% note payable. Interest and the principal are repayable at maturity.

July 7: Enter into a lease agreement for bakery space. The agreement is for 1 year. The rent is \$1,500 per month, and the last month's rent payment of \$1,500 is required at time of lease agreement. The payment was made in cash. Lease period is effective July 1, 2018, through June 30, 2019.

July 10: Pay \$375 to the county for a business license.

July 11: Purchase a cash register for \$250 (deemed to be not material enough to qualify as depreciable equipment—use misc. exp.).

July 13: You have baking equipment, including an oven and mixer, which you have been using for your home-based business and will now start using in the bakery. You estimate that the equipment is currently worth \$6,000, and you transfer the equipment into the business in exchange for additional common stock. The equipment has a 5-year useful life.

July 13: Pay \$200 for business cards/flyers/posters/ads to use for advertising.

July 14: Pay \$300 for office supplies.

July 15: Hire part-time helper to be paid \$12 per hour. Pay periods are the 1<sup>st</sup> through the 15<sup>th</sup> and 16<sup>th</sup> through the end of the month, with paydays being the 20<sup>th</sup> for the first pay period and the 5<sup>th</sup> of the following month for the second pay period. (No entry is required on this date; it is here for informational purposes only.)

July 30: Received telephone bill for July in amount of \$75. Payment is due on August 10.

July 31: Pay \$2,400 for a 12-month insurance policy. Policy effective dates are August 1, 2018, through July 31, 2019.

July 31: Accrue wages earned for employee for period of 16<sup>th</sup> through 31<sup>st</sup> of July ([Wage calculations table](#) provided below).

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July 31: Total July bakery sales were \$15,000. \$5,000 of these sales are on accounts receivable.

[Step Two Data](#) (Click on the link to return to the prompt.)

The following events occur in August, 2018:

August 5: Paid employee for period ending 7/31.

August 8: Receive payments from customers towards accounts receivable in amount of \$3,800.

August 10: Paid July telephone bill.

August 15: Purchase additional baking supplies in amount of \$5,000 from vendor, on account.

August 15: Accrue wages earned for employee from period of 1<sup>st</sup> through 15<sup>th</sup> of August ([Wage calculations table](#) provided below).

August 15: Pay rent on bakery space.

August 18: Receive payments from customers towards accounts receivable in amount of \$3,000.

August 20: Paid \$8,500 toward baking supplies vendor payable.

August 20: Pay employee for period ending 8/15.

August 22: \$300 in office supplies purchased.

August 31: Received telephone bill for August in amount of \$75. Payment is due on September 10.

August 31: Accrue wages earned for employee for period of August 16<sup>th</sup> through August 31<sup>st</sup> ([Wage calculations table](#) provided below).

August 31: August bakery sales total \$20,000. \$7,500 of this total is on accounts receivable.

[Step Three](#) (Click on the link to return to the prompt.)

Updated Scenario: Many customers have been asking for more hypoallergenic products, so in September you start carrying a line of hypoallergenic shampoos on a trial basis. The following information relates to the purchase and sales of the shampoo:

- You use the perpetual inventory method. You are uncertain as to which valuation method to use—**FIFO**, **LIFO**, or **weighted average**, so you calculate inventory using all three and then decide which one you would like to choose.

Data: The following events occur in September, 2018:

September 1: Paid dividends to self in amount of \$10,000.

September 5: Pay employee for period ending 8/31.

September 7: Purchase merchandise for resale. See “Inventory Valuation” tab for details.

September 8: Receive payments from customers toward accounts receivable in amount of \$4,000.

September 10: Pay August telephone bill.

September 11: Purchase baking supplies in amount of \$7,000 from vendor on account.

September 13: Paid on supplies vendor account in amount of \$5,000.

September 15: Accrue employee wages for period of September 1 through September 15.

September 15: Pay rent on bakery space: \$1,500.

September 15: Record merchandise sales transaction. See “Inventory Valuation” tab for details.

September 15: Record impact of sales transaction on COGS and the inventory asset. See “Inventory Valuation” tab for details.

September 20: Pay employee for period ending 9/15.

September 20: Purchase merchandise inventory for resale to customers. See “Inventory Valuation” tab for details.

September 24: Record sales of merchandise to customers. See “Inventory Valuation” tab for details.

September 24: Record impact of sales transaction on COGS and the inventory asset. See “Inventory Valuation” tab for details.

September 30: Purchase merchandise inventory for resale to customers. See “Inventory Valuation” tab for details.

September 30: Accrue employee wages for period of September 16<sup>th</sup> through September 30<sup>th</sup>

September 30: Total September bakery sales are \$20,000. \$6,000 of these sales are on accounts receivable.

[Step Six Data](#) (Click on the link to return to the prompt.)

On September 30, the following adjustments must be made:

- *[Note: This is a sample.] Depreciation of baking equipment transferred to company on 7/13. Assume a half month of depreciation in July using the straight-line method.*
- Accrue interest for note payable. Assume a full month of interest for July. (6% annual interest on \$10,000 loan from parents.)
- Record insurance used for the year.
- Actual baking supplies on-hand as of September 30 are \$1,100.
- Office supplies on-hand as of September 30 are \$50.

Wage calculation data:

Month	Hours	Rate	Pay
31 Jul.	10	12	120
15 Aug.	40	12	480
31 Aug.	35	12	420
15 Sep.	38	12	456
30 Sep.	40	12	480