

Accounting Notes

Adjusting Entries

Accounting Methods:

Accrual Basis Accounting - revenues and expenses are recorded when revenue is earned or when expenses are incurred whether or not cash is received or paid.

Cash Basis Accounting - revenues and expenses are not recorded until cash is either received or paid.

Accounting Principles and Concepts:

Revenue Principle - the basis for when to record revenues and for how much

Matching Principle - recording of all expenses during an accounting period that were incurred in earning the revenues for the same period.

Time Period Concept - ensures that accounting information is reported at regular intervals.

Adjusting Entries:

Adjusting entries can be divided into five categories:

- (1) Deferred (Prepaid) Expenses
- (2) Depreciation of assets
- (3) Accrued Expenses
- (4) Accrued Revenues
- (5) Deferred (Unearned) Revenues

Questions to ask yourself when doing adjusting entries:

- (1) What is the current balance?
- (2) What should the balance be?
- (3) How much is the adjustment?

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Deferred (Prepaid) Expenses - includes miscellaneous assets that are paid for in advance and then expire or get used up in the near future. Debit an expense account and credit the prepaid asset account. (Examples include Rent, Insurance, and Supplies)

Adjusting Journal entry:

? Expense	\$xxx	
Prepaid Asset	\$xxx	the value of the asset that was used up

Depreciation of Plant Assets - the allocation of a plant asset's cost to an expense account as it is used over its useful life. Debit an expense account and credit a contra-asset account.

Why use Accumulated Depreciation instead of just crediting the original asset account?

- (1) If the original asset account was used then the original cost of the asset would not be reflected in any of the asset accounts.
- (2) The original cost is needed when assets are sold or disposed
- (3) The original cost of the asset must be reported on the income tax return of the company

Adjusting Journal entry:

Depreciation Expense, _____	\$xxx	
Accumulated Depreciation, _____	\$xxx	

Accrued Expenses - Expenses that a business incurs before they pay them
Debit an expense account and credit a liability account
(Examples include Wages and Interest)

Adjusting Journal Entry:

? Expense	\$xxx	
? Payable	\$xxx	for the amount owed

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Accrued Revenues - revenues that a business has earned but has not yet received payment for.
Debit an asset account and credit a revenue account.
(Examples include Interest)

Adjusting Journal Entry:

_____ Receivable	\$xxx	
_____ Revenue		\$xxx

Deferred (Unearned) Revenues - cash collected from customers before work is done by the business. The business has a liability to provide a product or service to the customer.
Debit a liability account and credit a revenue account.

Adjusting Journal Entry:

Unearned Revenue	\$xxx	for the value of services
Revenue	\$xxx	or products provided

Adjusted Trial Balance - a list of all ledger accounts with their adjusted balances. These amounts are used in creating the financial statements.