

# Module 6 – Intro to Adjusting Entries

- Entries required at the end of each accounting period to recognize on accrual basis:
  - Revenues earned for the period
  - Expenses that match the revenue earned
  - And to report proper amounts for asset, liability, and owners' equity accounts



# Intro to Adjusting Entries

- Difficult because it is not signaled by a specific event such as the receipt of a bill or the receipt of cash from a customer
- Two step analysis
  - Determine if amounts recorded for all assets and liabilities are correct
  - Determine what revenue or expense adjustments are required as a result of changes in assets and liabilities



# Types of Adjusting Entries

- Areas where adjusting entries are common
  - Unrecorded Receivables
  - Unrecorded Liabilities
  - Prepaid Expenses
  - Unearned Revenues

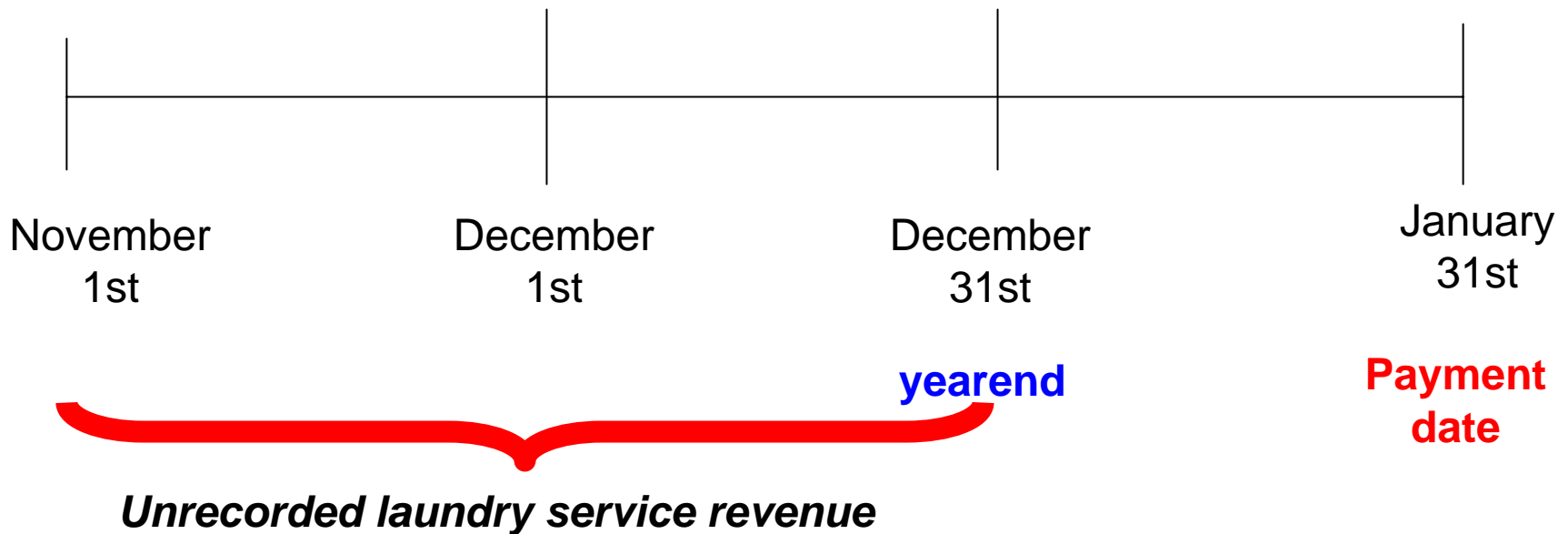


# Unrecorded or Accrued Receivables

- Revenues earned during a period that have not been recorded by the end of that period
  - If earned but cash hasn't been collected than a 'receivable exists'
  - For example...a company contracts for a service such as laundry service. In the contract the bill is paid quarterly. So...



# Unrecorded receivables example



12/31	Accounts Receivable	400	
	Laundry Service Revenue		400

*Note: adjusting entry to record revenue recognized for the period*



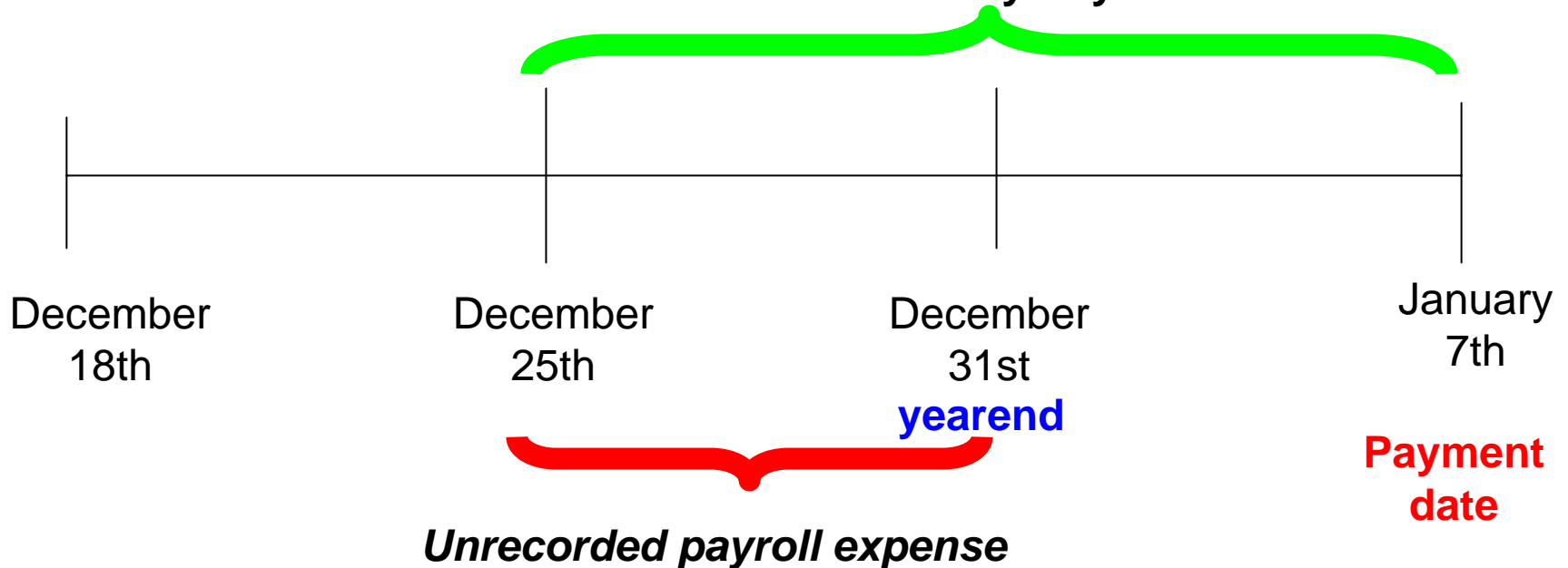
# Unrecorded or Accrued Expenses

- Expenses incurred during a period that have not been recorded by the end of that period
  - For Example...A pay period for your employees straddles the end of the fiscal year.....



# Unrecorded expenses example

Bi-weekly Payroll



12/31	Payroll Expense	500	
	Wages Payable		500

*Note: adjusting entry to record payroll expense for the period*



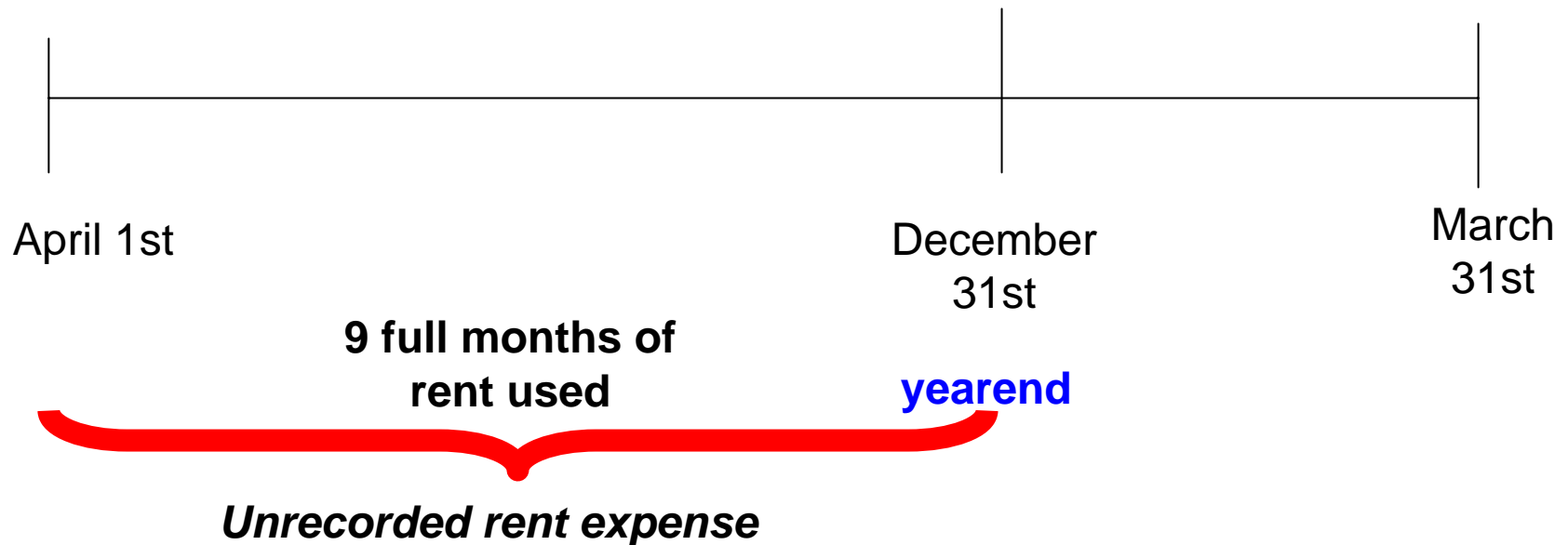
# Prepaid Expenses

- Payments made in advance for items normally charged to expense
  - For example...
    - Rent paid for the year
    - Insurance premium paid for the year





# Prepaid expenses example



12/31	Rent Expense	900	
	Prepaid Rent Expense		900

*Note: adjusting entry to record rent expense for the period*

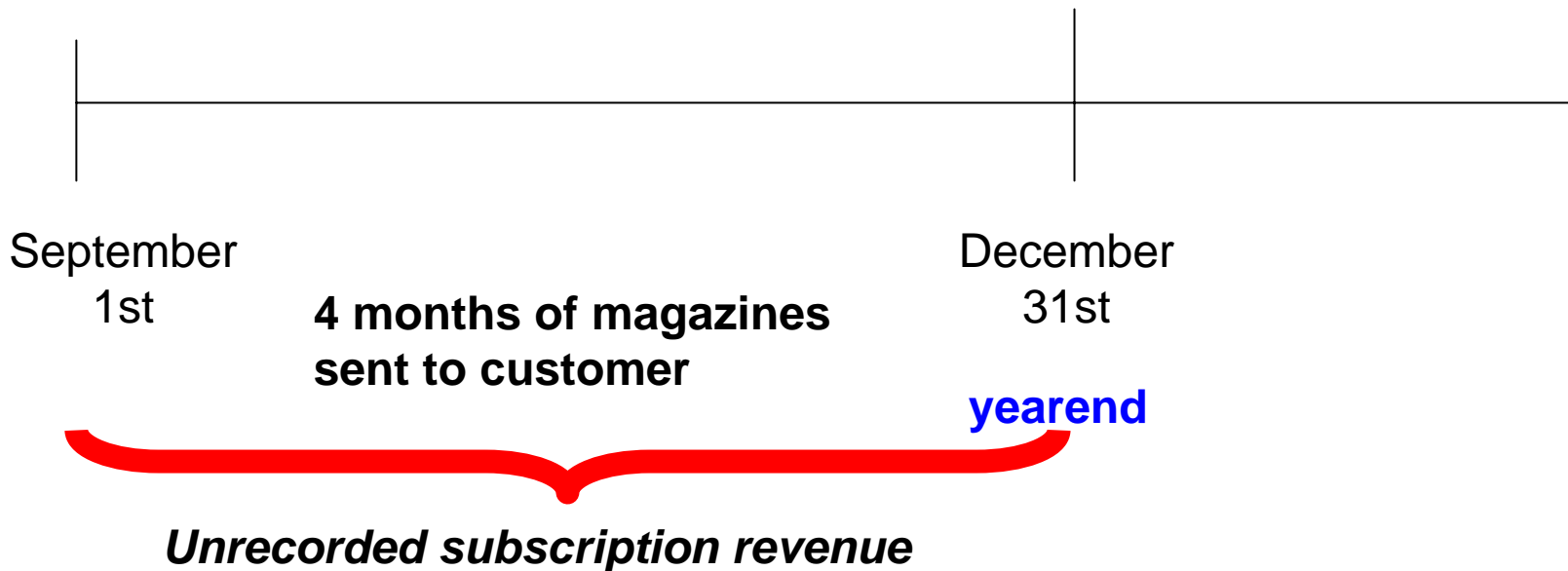


# Unearned Revenue

- Cash amounts received before they have been earned
  - For example...magazine subscriptions
    - You pay up front for a year or more
    - Until the magazine is sent to you the Publisher has not yet earned the cash you sent in at the beginning of the subscription



# Unearned revenue example



12/31	Unearned Revenue	20	
	Subscription Revenue		20

*Note: adjusting entry to record revenue recognized for the period*



# Problem – Adjusting Entries

1. On July 1, 2003, the company paid a three-year premium of \$7,200 on an insurance policy that is effective July 1, 2003, and expires June 30, 2006
2. On February 1, 2003, Boswell paid its property taxes for the year February 1, 2003, to January 31, 2004. The Tax bill was \$1,800.



# Adjusting Entries – solution #1

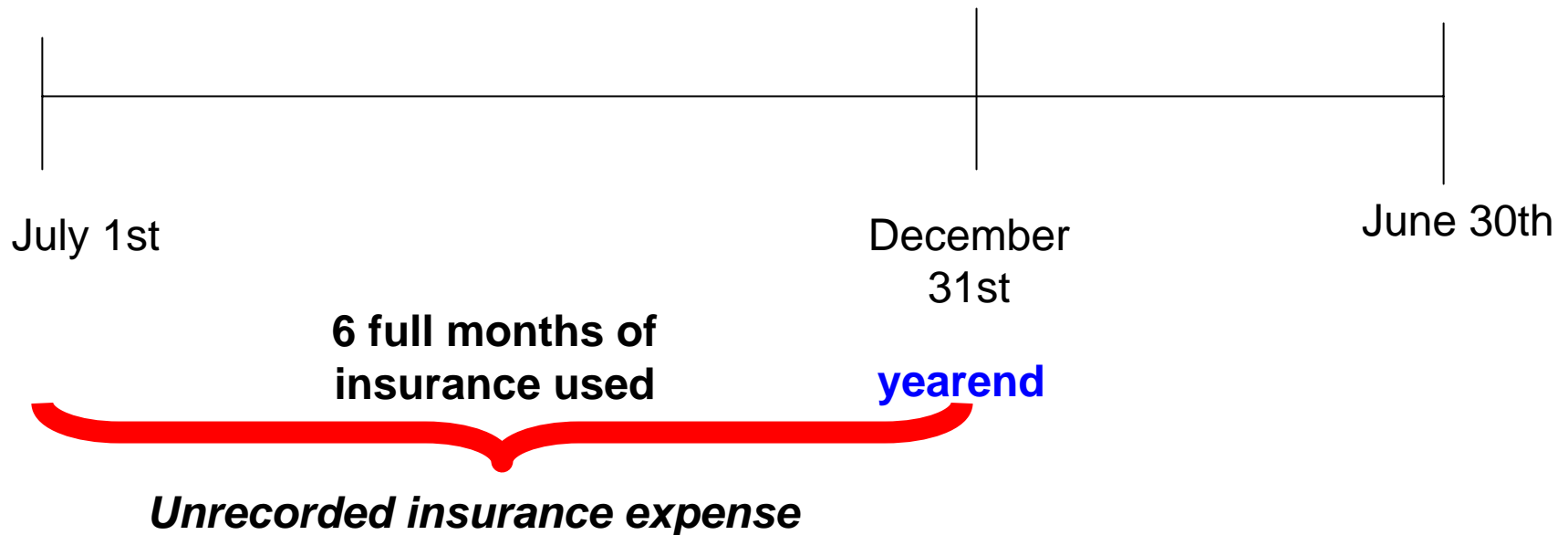
Sometimes it helps to understand the adjusting entry by preparing the original entries. So the company purchases 3 years of insurance for \$7,200

7/1/03 Prepaid Insurance	\$7,200
Cash	\$7,200

*Note: purchased 3 years of insurance*



# This is a Prepaid expenses example



12/31	Insurance Expense	\$1,200	
	Prepaid Insurance Expense		\$1,200

*Note: adjusting entry to record insurance expense for the period*



# Adjusting Entries – solution #2

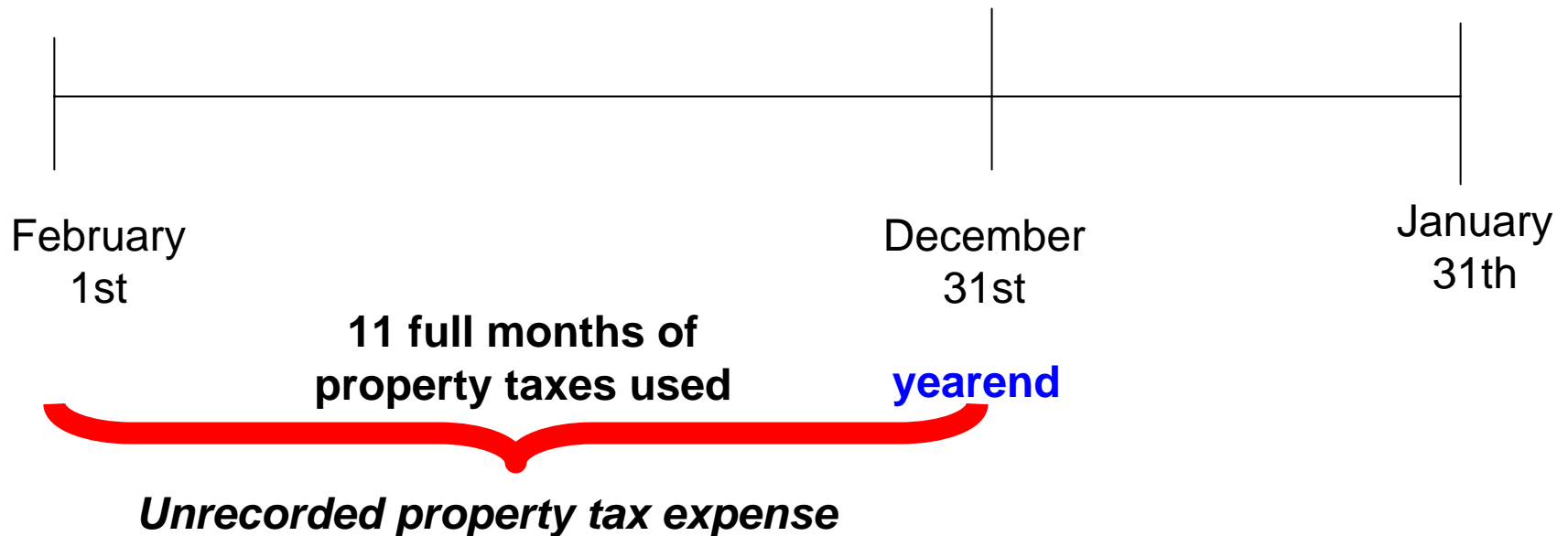
Sometimes it helps to understand the adjusting entry by preparing the original entries. The company paid its taxes in advance

2/1/03	Prepaid Property tax Exp	\$1,800	
	Cash		\$1,800

*Note: paid 1 year of property taxes in advance*



# This is another Prepaid expenses example



12/31	Property Tax Expense	\$1,650	
	Prepaid Property Tax Expense		\$1,650

*Note: adjusting entry to record property tax expense for the period*





# Problem – Adjusting Entries

3. On May 1, 2003, the company paid \$180 for a three year subscription to an advertising journal. The subscription starts May 1, 2003 and expires April 30, 2006.
4. Boswell received \$1,800 on September 15, 2003, in return for which the company agreed to provide consulting services for 18 months beginning immediately



# Adjusting Entries – solution #3

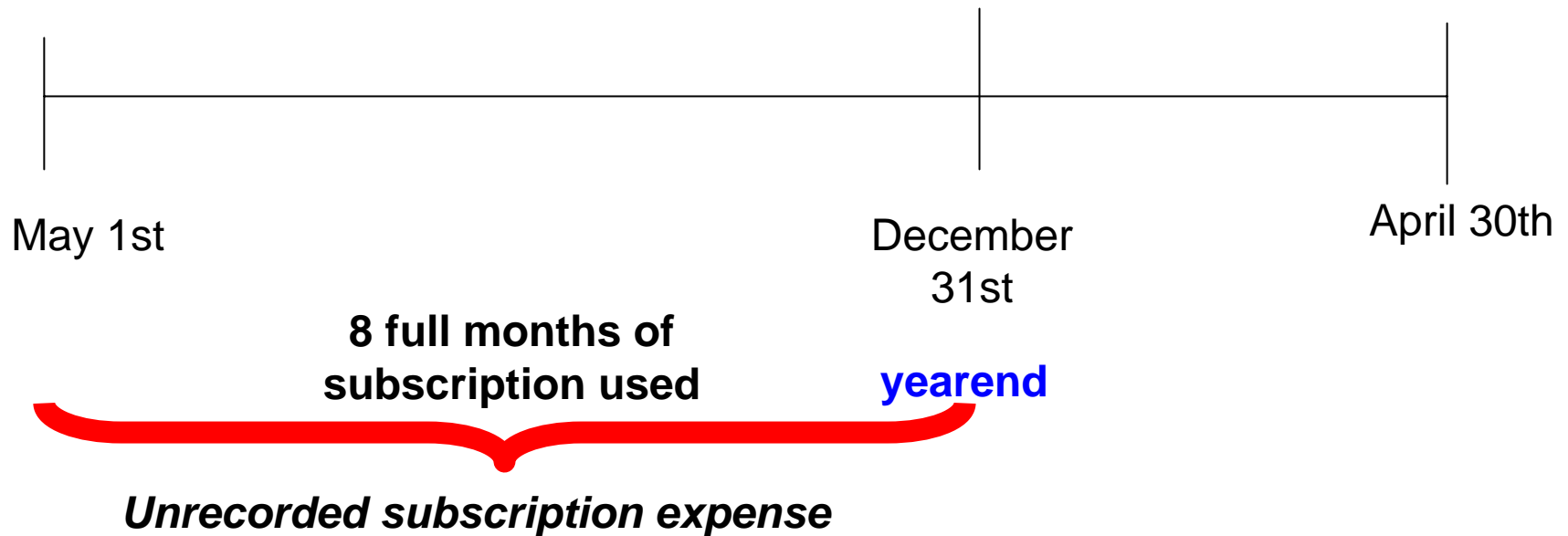
Sometimes it helps to understand the adjusting entry by preparing the original entries. The company paid 3 years of subscription to an advertising journal

5/1/03	Prepaid Subscription Exp	\$180	
	Cash		\$180

*Note: paid 3 years for an advertising journal subscription*



# This is another Prepaid expenses example



12/31	Subscription Expense	\$40	
	Prepaid Subscription Expense		\$40

*Note: adjusting entry to record subscription expense for the period*



# Adjusting Entries – solution #4

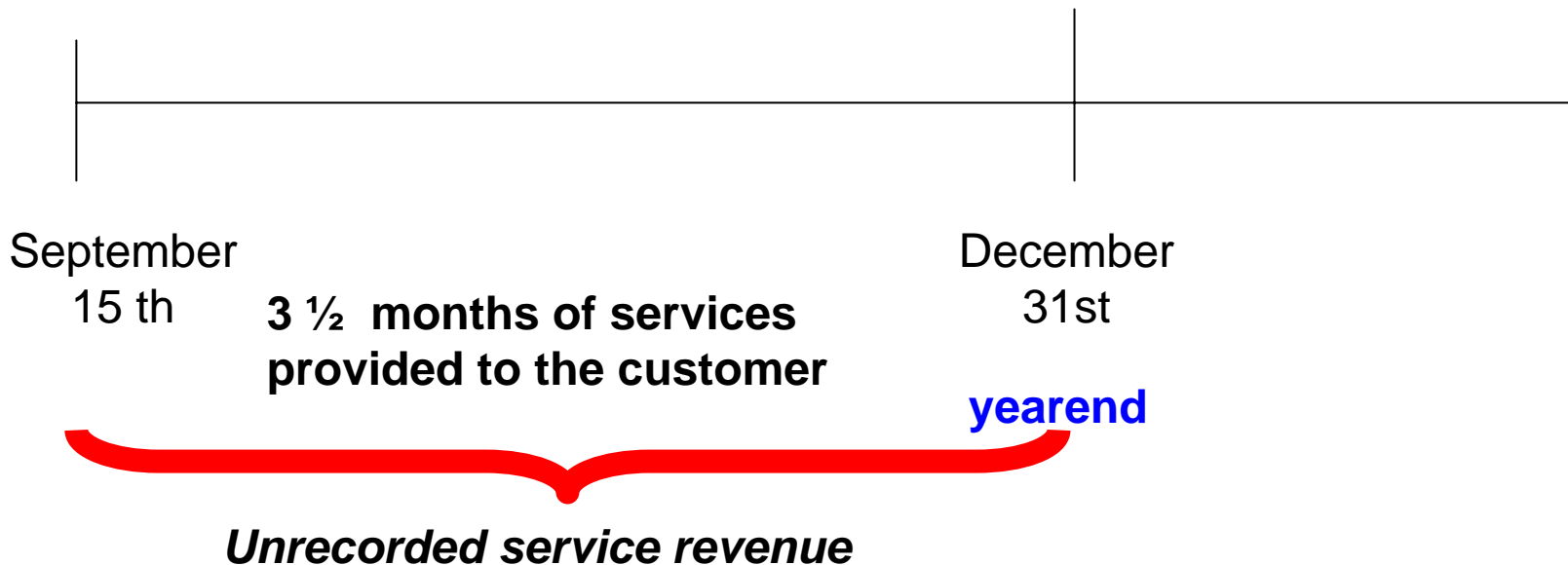
Sometimes it helps to understand the adjusting entry by preparing the original entries. Received money for services yet to be completed.

9/15/03 Cash	\$1800	
	Unearned Revenue	\$1800

*Note: cash received for 18 month service contract*



# Unearned revenue example



12/31	Unearned Revenue	\$350	
	Service Revenue		\$350

*Note: adjusting entry to record revenue recognized for the period*



# Problem – Adjusting Entries

5. Boswell rented part of its office space to Bristle Brush Company. Bristle paid \$1,200 on November 1, 2003, for the next six months' rent.
6. Boswell loaned \$100,000 to a client. On November 1 the client paid \$24,000, which represents two years' interest in advance (November 1, 2003 through October 31, 2005)



# Adjusting Entries – solution #5

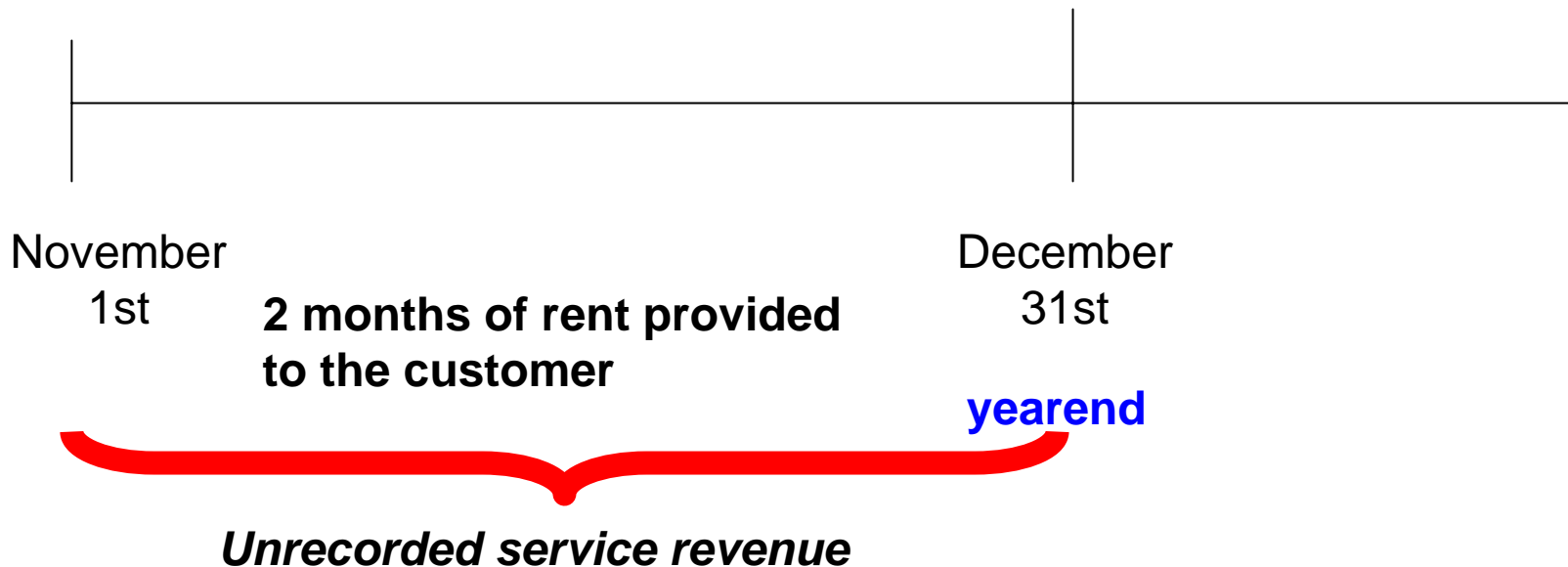
Sometimes it helps to understand the adjusting entry by preparing the original entries. The company was paid 6 months of rent in advance

11/1/03 Cash	\$1,200
Unearned Rent Revenue	\$1,200

*Note: received 6 months of rent in advance*



# Unearned revenue example



12/31	Unearned Rent Revenue	\$400	
	Rent Revenue		\$400

*Note: adjusting entry to record revenue recognized for the period*





# Adjusting Entries – solution #6

Sometimes it helps to understand the adjusting entry by preparing the original entries. The company received 2 years of interest revenue in advance

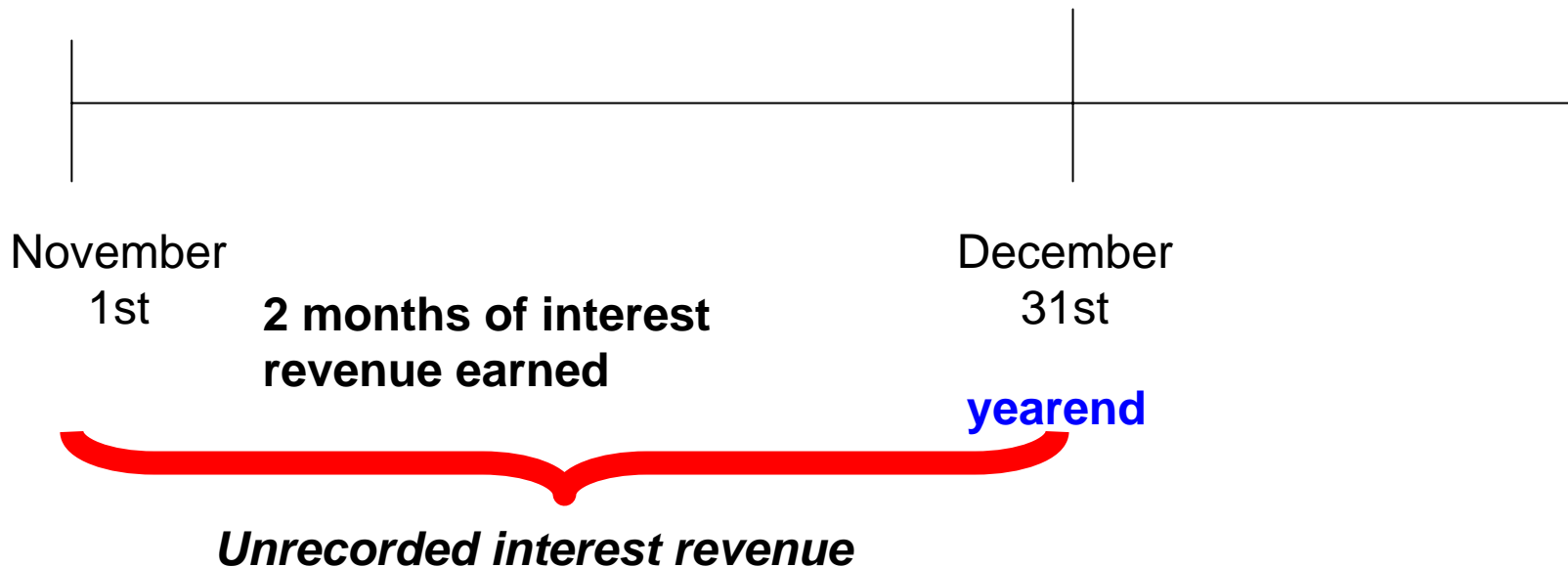
11/1/03 Cash                      \$24,000

  Unearned Interest Rev \$24,000

*Note: received 2 years of interest revenue from a client*



# Unearned revenue example



12/31	Unearned Interest Revenue	\$2,000	
	Interest Revenue		\$2,000

*Note: adjusting entry to record revenue recognized for the period*

