

## Chapter 5 & 6

# Accounting Adjustment /Preparing Working /Papers Closing Accounts



## 8 steps of the accounting cycle include the following:

1. Transaction Analysis
2. Recoding Transactions in General Journal
3. Posting
4. Preparing Trial Balance
5. Adjusting Accounts
6. Preparing Working Papers
7. Closing Accounts
8. Preparing Financial Statements

# Adjusting Entries

## ADJUSTING ENTRIES

### MEANING

These are the journal entries that are made on the last day of an accounting period to ensure that accounts are in line with the accrual method of accounting and the matching principle.

### NEED FOR ADJUSTING ENTRIES

- Ensures that Income statement only reports revenues/losses/expenses that is earned/incurred during accounting period.
- Receivables and liabilities in balance sheet represent true amount

#### :: BENEFITS ::

It helps the company to calculate exact revenue and expenses, updated financial statement, to fix error and to calculate exact expense

### TYPES OF ADJUSTING ENTRIES

- Accrued Revenues
- Accrued Expenses
- Deferred Expense
- Depreciation Expense
- Deferred Revenue
- Doubtful Accounts or Bad Debts

Adjusting entries affect one real account and atleast one nominal account. Further, it should be noted that not all entries that the company records at end of an accounting period are adjusting entry.

# Adjusting journal entry

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- ▶ When a transaction is started in one accounting period and ended in a later period, an adjusting journal entry is required to properly account for the transaction.
- ▶ Adjusting journal entries can also refer to financial reporting that corrects a mistake made previously in the accounting period.



# Adjusting journal entry

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- ▶ Adjusting journal entries can also refer to financial reporting that corrects a mistake made previously in the accounting period.
- ▶ Adjusting journal entries are used to record transactions that have occurred but have not yet been appropriately recorded in accordance with the accrual method of accounting.



# Types of Adjusting Journal Entries

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## 1. Accruals

- ▶ Accruals are revenues and expenses that have not been received or paid, respectively, and have not yet been recorded through a standard accounting transaction.
- ▶ For instance, an accrued expense may be rent that is paid at the end of the month, even though a firm is able to occupy the space at the beginning of the month that has not yet been paid.



# Types of Adjusting Journal Entries

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## An accrued expense

- ▶ also known as accrued liabilities, is an accounting term that refers to an expense that is recognized on the books before it has been paid.
- ▶ The expense is recorded in the accounting period in which it is incurred.



# Types of Adjusting Journal Entries

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## 2. Deferrals

- ▶ Deferrals refer to revenues and expenses that have been received or paid in advance, respectively, and have been recorded, but have not yet been earned or used.
- ▶ Unearned revenue, for instance, accounts for money received for goods not yet delivered.



# Adjusting Entries Example

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Adjusting Journal Entry			
Date	Account Name	Debit	Credit
December 31	Prepaid Rent	1,000.00	
	-Cash		1,000.00
To record prepayment of rent.			

## Example

— Paul pays his \$1,000 January rent in December.

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# Adjusting Entries Example

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Adjusting Journal Entry			
Date	Account Name	Debit	Credit
December 31	Utilities Expense	200.00	
	-Accrued Expenses		200.00
To record accrued expenses.			

Paul's December electric bill was \$200 and is due January 15th.

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# Adjusting Entries Example

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Adjusting Journal Entry			
Date	Account Name	Debit	Credit
December 31	Depreciation Expense	2,000.00	
	-Accumulated Depreciation		2,000.00
To record depreciation expense for the year.			

Paul's leasehold improvement depreciation is \$2,000 for the year.

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