

Chapter 4: Adjusting Entries



Going Concern Assumption Explained

The going concern assumption indicates that a business will continue its operations into the foreseeable future. This **supports financial reporting**, ensuring assets are valued accurately and liabilities are recognized appropriately.

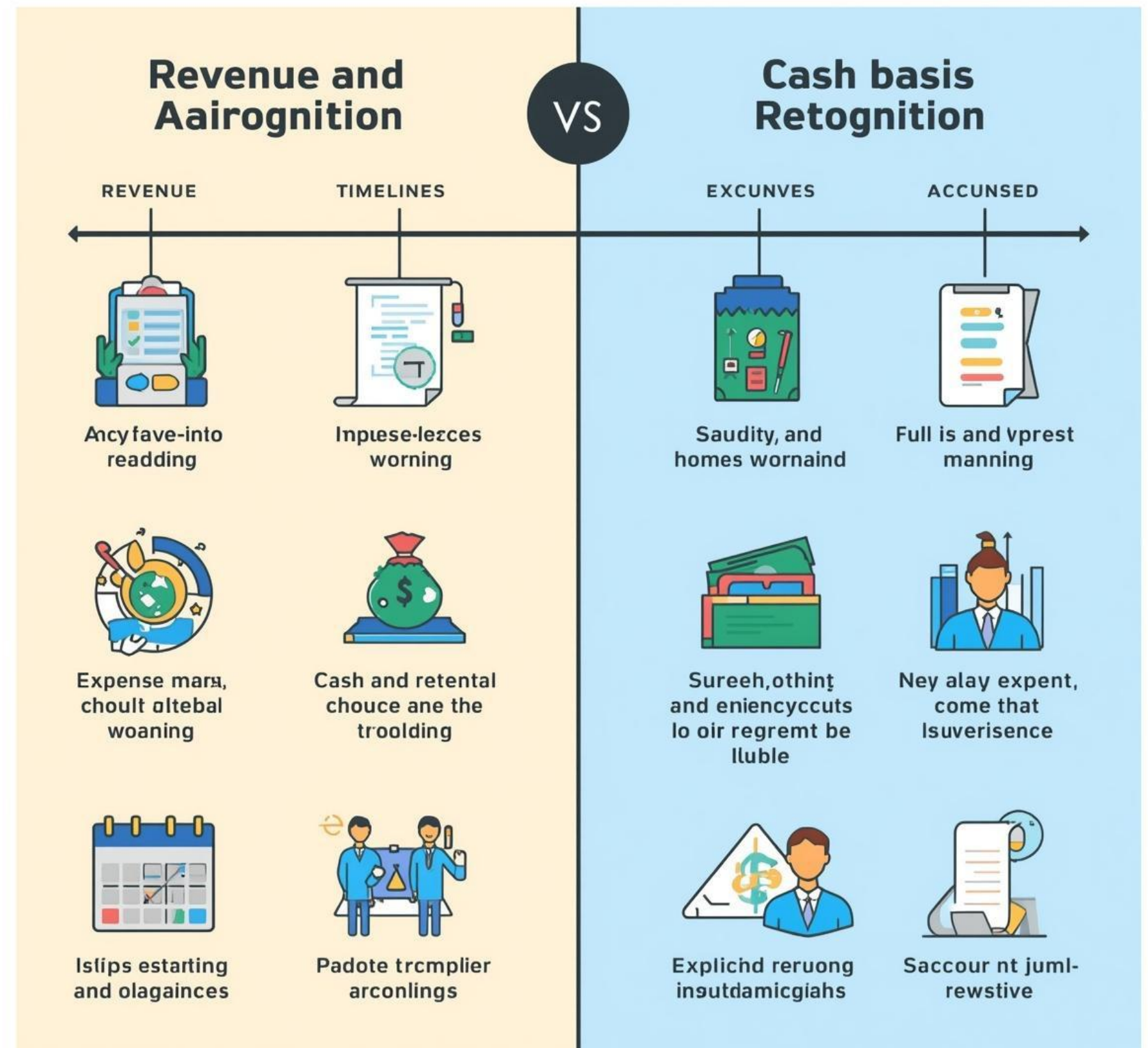
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Accrual Basis of Accounting

The accrual basis of accounting recognizes revenue when earned and expenses when incurred, not necessarily when cash is received or paid, ensuring accurate financial reporting and adherence to the matching principle.

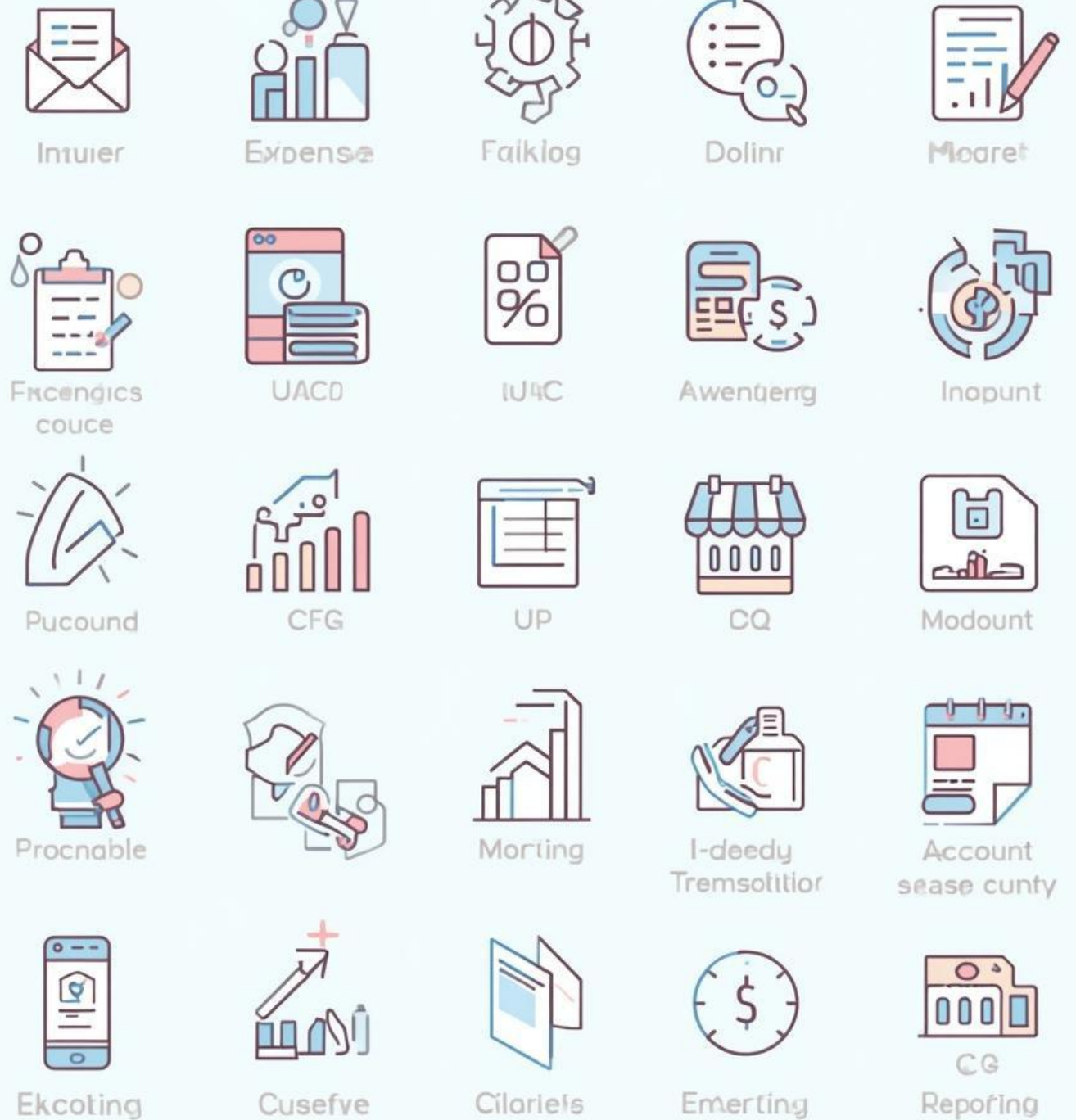
ACCURAL VERSUS CASH BASIS ACCOUNTING



Importance of Adjusting Entries

Adjusting entries are essential for updating account balances and ensuring accurate financial statements, as they reflect accrued revenues and expenses, maintaining compliance with the accrual basis of accounting.

Period End Tasks



Types of Adjusting Entries Explained

Adjusting entries are classified into four categories: accrued revenues, accrued expenses, deferred revenues, and deferred expenses, ensuring accurate financial reporting and compliance with the accrual principle in accounting.

Classification Of Adjusting Entries

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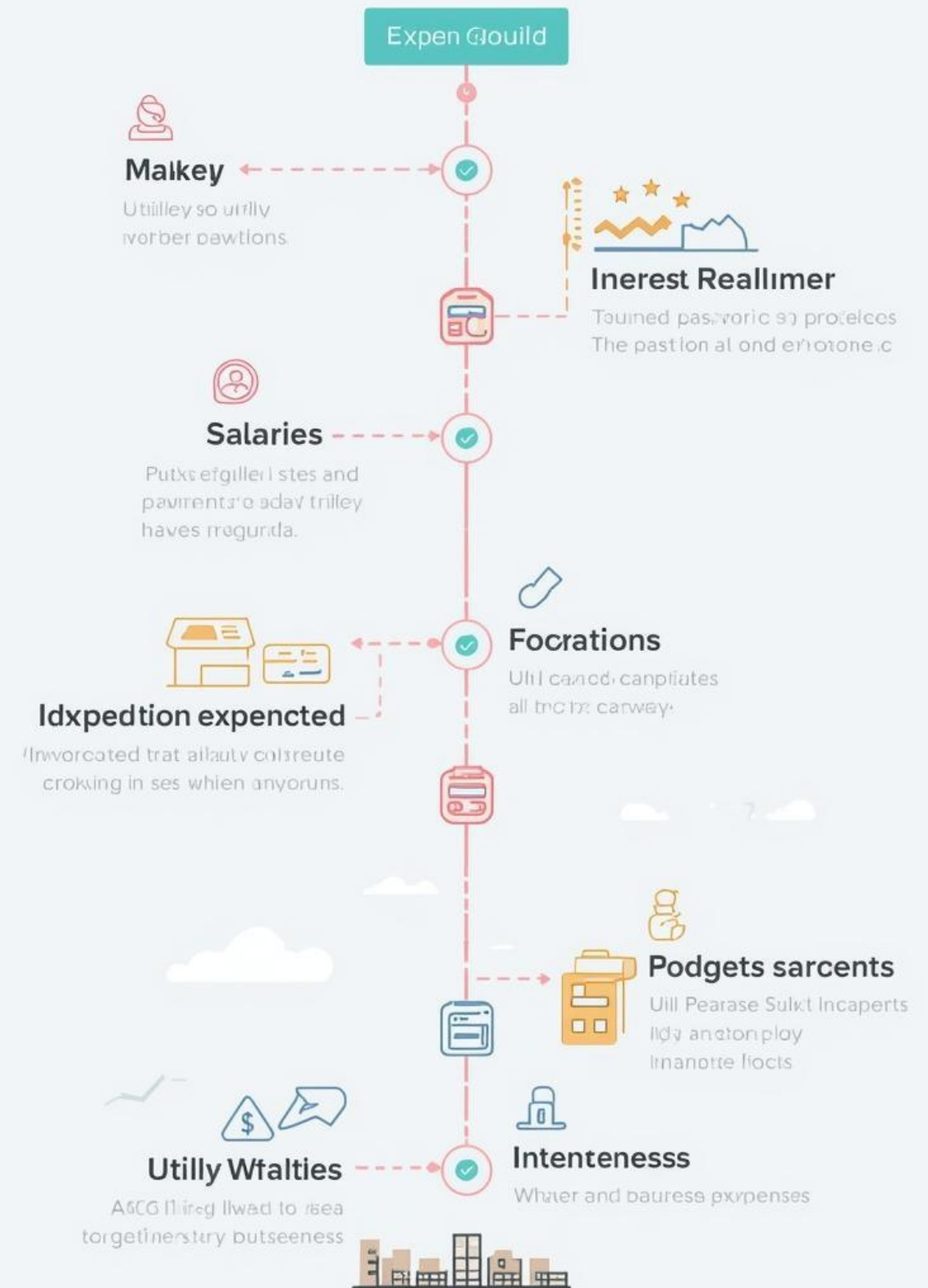


Accrued Expenses: Recognizing Financial Obligations

Accrued expenses represent costs incurred but not yet paid, such as salaries and utilities. These liabilities ensure that financial statements reflect true obligations, maintaining accurate accounting practices at period-end.

Expense Timeline

Recognizes expenses from expense accounts as if your expenses arrive to for completion from proper expense. In proper.



Journalizing Accrued Expenses

Adjusting entries for accrued expenses reflect **liabilities incurred** during the period but not yet paid. These entries ensure accurate reporting of financial obligations and affect the overall profit for the accounting period.



Impact of Accrual Adjustments

Accrual adjustments enhance financial accuracy by ensuring that revenues and expenses are matched to the correct periods, thereby improving the reliability and comparability of financial statements for stakeholders.



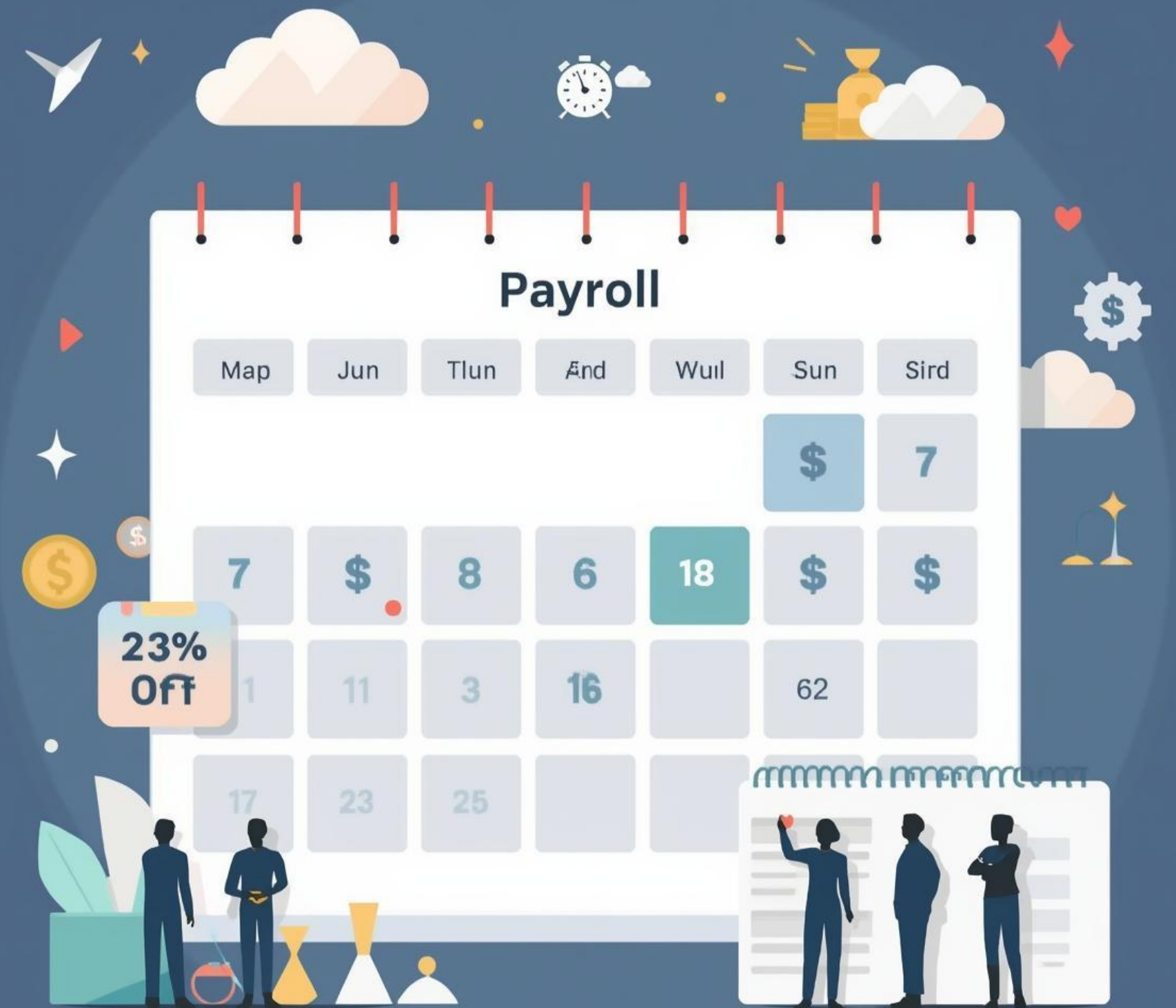
Accrued Service Revenue Case Study

A small service firm provided consulting services in December but issued invoices in January. This situation requires an adjusting entry to recognize revenue earned during December, ensuring accurate financial reporting.



Understanding Accrued Salaries Expense

Accrued salaries reflect wages owed to employees for work completed but not yet paid, ensuring liabilities are recognized and expenses accurately reported in the correct accounting period to maintain financial integrity.



Adjusting Entries Timeline

Trial Balance

The trial balance is prepared to ensure that total debits equal total credits, serving as a preliminary check before adjusting entries are made for accuracy.

Adjusting Entries

Adjusting entries are then recorded to update account balances for accrued revenues and expenses, ensuring that financial statements reflect the accurate financial position of the business.

Adjusted Trial Balance

An adjusted trial balance is created after all adjusting entries are recorded, providing a new snapshot of account balances that will be used to prepare financial statements.

Financial Statements

Finally, financial statements are prepared based on the adjusted trial balance, presenting the company's financial performance and position to stakeholders for informed decision-making.

Chapter Summary and Key Takeaways

This chapter emphasized the **importance of adjusting entries** for accurate financial reporting under the going concern and accrual basis, focusing on accrued revenues and expenses for correct period recognition.



Exercise

1. Accrued Service Revenue
2. Accrued Salaries Expense

