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SEM: 2ND **ASSIGNMENT: ACCOUNTING**

The Need for Adjusting Entries

- We have studied about the importance of adjusting entries in accounting. Some transactions affect the revenue or expenses of more than one period. Therefore adjusting entries are needed at the end of each period. The purpose of these entries is to assign to each period the appropriate amount of revenue and expenses.

Types Of Adjusting Entries

Most adjusting entries fall into one of four general categories

- Entries to apportion recorded costs
- Entries to apportion un-earned revenue
- Entries to record un-recorded expenses
- Entries to record un-recorded revenue

Now we will discuss about these four points.

Apportioning Recorded Costs

When a business makes an expenditure that will benefit more then one accounting period. The amount is usually debited to an asset account. At the end of each period benefitting from this expenditure, an adjusting entry is made. To transfer an appropriate portion of the cost from the asset account to expense account. Examples of these kind of entries are Pre-paid expenses and depreciation cost.

What are Pre-paid Expenses ?

Payments in advance are often made for such items like insurance, rent, supplies etc. Pre-paid expenses are assets ,they become expense only as the goods or services are used up.

What is Shop Supplies?

Example

As supplies are purchased, there costs is debited to the asset account. Adjusting entries at December 31, the balance of shop supplies account were $1800 on dec 1st . now remaining supplies are of amount $1200 on dec 31st . This indicates that supplies of amount $600 have been used in December

- December 31st
- Supplies Expenses...........$600
- Shop Supplies.................$1200
- This adjusting entry serves two purposes:

I. It changes to expense the cost of supplies used

II. It reduces the balance of the shop supplies account to $1200, the amount of supplies estimated to be on hand at dec 31st

Insurance Policies

- These policies provide a service over a period of time.
- Assume that on Feb 1st a business purchased one year insurance policy for $18,000
- $18,000 Cash converted in to insurance policy of worth $18,000
- Insurance policy is for 1 year there for 1/12 of the cost of $1500 p/m.
- The inherence expense for the month of December is recorded by following adjusting entries

Assets	Expense
16500	1500

Depreciation Of Buildings

- The monthly depreciation expense is based on the following facts:
- Estimated cost of building is $36,000
- Life time of building is 20 years (240 months)
- Using the straight line method of depreciation, the cost assumed to expire each month is 1/240 of $36,000 or $ 150

Depreciation Of Tools & Equipment

- Let suppose depreciation time of tools & equipment is 5 years (60 months) using straight line method.
- Total value of tool & equipment is $15,000
- The depreciated value of tools by year end will be $12,000

Depreciation Of Tools & Equipment

- Let suppose depreciation time of tools & equipment is 5 years (60 months) using straight line method.
- Total value of tool & equipment is $15,000
- The depreciated value of tools by year end will be $12,000

2. Apportioning Unearned Revenue

- When customers pay in advance to avail a service in later accounting periods.

- For example Health Club Member ship, Air line tickets in advance of a schedule, etc
- For accounting purposes amounts collected in advance do not represent revenue
- Because these amounts have not yet been earned.
- Amounts collected from customers in advance are recorded by debiting the cash account and crediting an unearned revenue account
- The balance of an unearned revenue account is considered to be a liability
- because company will have to offer its services to its clients.
- It appears in liability section of a balance sheet not in the income statement

Apportioning Unearned Revenue
Examples

- Airline tickets
- Offering space on rent
- Membership fees

Recording Un-Recorded Expenses

- Wages
- Interest Expenses
- Airport Shuttle aggrement
- 1500 p/m
- 15 days......750