جـامعة
المَـنارة
MANARA UNIVERSITY

قيود التسوية

Adjusting Entries

- Prepared at end of an accounting period
- Assign:
  - Revenues to the period when earned
  - Expenses to the period when incurred
- Update asset and liability accounts
- Need to properly measure:
  - Net Income
  - Assets and Liabilities

Rules

- Never involve cash
- Either increase revenue or increase an expense
- Accrued" means amount must be recorded

Types of Adjusting Entries

- Prepaid expenses
- Depreciation
- Accrued expenses
- Accrued revenues
- Unearned revenues

Prepaid expenses

- Advance payments of expenses
- Examples:
  - Rent
  - Insurance
  - Supplies

- Recorded as an asset
- Adjusting entry records amount used as an expense

Depreciation

- Allocation of a plant asset's cost to expense over its useful life
- Land is not depreciated

Accumulated Depreciation

- Contra asset
    - Normal credit balance
    - Always paired with related account
- Holds sum of all depreciation recorded on a plant asset
- Book value:
    - Cost minus accumulated depreciation

Accrued Expenses

- Expenses incurred before payment is made
    - Results in a liability
- Opposite of a prepaid expense
- Examples:
    - Salaries
    - Interest

Accrued Revenues

- Revenue earned before cash is received
- Results in a receivable

Unearned Revenue

- Cash is collected before revenue is earned
    - Results in a liability as the company owes a product or service or they will have to give the money back
- Also called deferred revenue

5.1. An insurance policy covering a 2-year period was purchased on November 1 for $600. The amount was debited to Prepaid Insurance. Show the adjusting entry for the 2-month period ending December 31.

SOLUTION

Insurance Expense	50*	
Prepaid Insurance		50

$^*\dfrac{\$600}{2\text{ years}} \times \dfrac{2\text{ months}}{12\text{ months}} = \$50$

5.2. Taxes of $900 were debited to Prepaid Taxes representing payment made for a 6-month period beginning December 1. What adjustment is needed on December 31?

SOLUTION

Tax Expense	150*	
Prepaid Taxes		150

*$900 × 1/6

5.3. Based on Prob. 5.2, explain the balances of each of the two accounts.

SOLUTION

Tax Expense: The balance of $150 represents the amount of the expense for 1 month and would appear in the income statement as a general expense.

Prepaid Taxes: The balance of $750 represents future payments for the next 5 months and would appear as a current asset in the balance sheet.

5.4. On December 1, 19X8, Big John Construction Company issued a $10,000, ninety-day, 12 percent note. Big John's year ends December 31. What is the year-end adjusting entry for Interest Expense?

SOLUTION

Dec. 31
Dec. 1
30 days accrued interest

Interest Expense	100	
Interest Payable		100

5.5. On January 1, 19X8, Hill Top Farm purchased a 3-year fire insurance policy for $3,600, paying cash. The entry made on January 1, 19X8, was a debit to Prepaid Insurance and a credit to Cash. What is the year-end adjusting entry?

SOLUTION

Insurance Expense	1,200*	
Prepaid Insurance		1,200

*$3,600 × 1/3 = $1,200

5.6. Hill Top Apartments rented an apartment on November 1, 19X8, for 6 months, receiving $3,000 in advance. The entry made on November 1 was

Cash	3,000	
Rental Income		3,000

What would the year-end adjusting entry be?

SOLUTION

Rental Income	2,000	
Unearned Rent		2,000*

*Four months' rent had not yet been earned from January to April 30, 19X9 ($500 × 4 = $2,000).

5.7. On April 1, 19X8, Luckey Printing Company purchased a new printing press for $7,000, paying cash. The printing press is being depreciated by the straight-line method over a 5-year period with no salvage value. Show the year-end adjusting entry.

SOLUTION

Depreciation Expense	1,050*	
Accumulated Depreciation (Printing Press)		1,050

$*\frac{\$7{,}000}{5} = \$1{,}400 \qquad \$1{,}400 \times \frac{9}{12} = \underline{\underline{\$1{,}050}}$

5.8. On September 1, \$2,400 was paid; this represented an advance payment for 6 months' rent of a new factory office. The account Prepaid Rent was debited for this transaction. (*a*) What adjusting entry is necessary in order to show the true value of the accounts at the end of the year? (*b*) What amount will appear as an asset in the balance sheet as of the end of the year?

SOLUTION

(*a*)

Rental Expense	1,600*	
Prepaid Rent		1,600

*\$2,400 ÷ 6 × 4 months

(*b*) The amount of Prepaid Rent appearing in the current asset section of the balance sheet will be \$800 (\$2,400–\$1,600), representing future payments for 2 months, January and February of the following year.

5.9. A purchase of \$900 was debited to Office Supplies. A count of the supplies at the end of the period showed \$500 still on hand. Make the adjusting entry at the end of the period.

SOLUTION

Office Supplies Expense	400	
Office Supplies		400

5.10. Below is the opening balance of the Store Supplies account at the beginning of the year. After taking an inventory count of the remaining supplies, it was discovered that \$750 had been used during the year. (*a*) Post the adjusting entry. (*b*) In what statements will the account balances be reflected?

Stores Supplies		Store Supplies Expense	
Bal. 2,250			

SOLUTION

(*a*)

Store Supplies		Store Supplies Expense	
Bal. 2,250	750 ⟷	750	

(*b*) Store Supplies: Appears in the balance sheet as a current asset with a balance of $1,500. Store Supplies Expense: Appears in the income statement as an operating expense of $750.

5.11. Machinery costing $12,000, purchased November 30, is being depreciated at the rate of 10 percent per year. Show the adjusting entry for December 31.

SOLUTION

Depreciation Expense, Machinery	100*	
Accumulated Depreciation, Machinery		100

*$12,000 × 10% per year × $\frac{1}{12}$ year = $100

5.12. How would the information in Prob. 5.11 be presented in the balance sheet?

SOLUTION

Fixed Assets:

Machinery	12,000	
Less: Accumulated Depreciation, Machinery	100	11,900

5.13. The business received $6,000 as an advance payment for work to be done for a customer. At the end of the year, $4,000 of the services had been performed. (*a*) Prepare the adjusting entry if the original amount had been credited to Unearned Income. (*b*) What type of account is Unearned Income?

SOLUTION

(*a*)

Unearned Income	4,000	
Service Income		4,000

(*b*) It is unrealized income and therefore a liability.

5.14. A business pays weekly salaries of $10,000 on Friday for a 5-day week. Show the adjusting entry when the fiscal period ends on (*a*) Tuesday; (*b*) Thursday.

(*a*)

(*b*)

SOLUTION

(a)	Salaries Expense	4,000*	
	Salaries Payable		4,000
(b)	Salaries Expense	8,000*	
	Salaries Payable		8,000

*($10,000 ÷ 5 days) = $2,000 per day. Tuesday = $2,000 × 2.
Thursday = $2,000 × 4.

5.15. On September 1, Mary Sudol borrowed $8,000 for 6 months at 15 percent interest from the First National Bank. What is the necessary adjusting entry to record the accrued interest as of December 31, the end of the fiscal year?

SOLUTION

Interest Expense	400*	
Interest Payable		400

*Interest is calculated for 4 months, September 1–December 31.

$$\$8{,}000 \times \frac{15}{100} \times \frac{4 \text{ months}}{12 \text{ months}} = \$400$$

5.16. The Willet Wilkinson Company's before-closing trial balance shows service revenue of $10,000 and interest income of $2,000. The expenses are salaries, $6,000; rent, $2,000; depreciation, $1,500; and interest, $500. Give the closing entries to be made to Income Summary for (a) income and (b) expense.

(a)			
(b)			

SOLUTION

(*a*)	Service Income	10,000	
	Interest Income	2,000	
	Income Summary		12,000
(*b*)	Income Summary	10,000	
	Salaries Expense		6,000
	Rent Expense		2,000
	Depreciation Expense		1,500
	Interest Expense		500

5.17. Using Prob. 5.16(*a*) and (*b*), prepare the closing entry for net income, and (*c*) post the transactions to the Income Summary and to the Capital account. Finally, close out the applicable account.

Income Summary

(*b*) 10,000	(*a*) 12,000
(*c*) ?	

Willet Wilkinson, Capital

	Bal. 20,000

SOLUTION

Income Summary	2,000	
Willet Wilkinson, Capital		2,000

Income Summary

(*b*) 10,000	(*a*) 12,000
(*c*) 2,000	
12,000	12,000

Willet Wilkinson, Capital

	Bal. 20,000
	(*c*) 2,000

5.18. If all the revenue and expense accounts have been closed at the end of the fiscal year, what do the debit and credit figures in the account below indicate? What is the net profit or loss?

Income Summary

98,000	102,000

SOLUTION

The debit amount represents $98,000 of expenses, whereas the credit amount of $102,000 depicts income for the period. The net balance of the account, $4,000 ($102,000 − $98,000), shows the net income for the period and will be closed out to the Capital account.

5.19. Listed below in various selected T accounts are the account balances. Prepare the closing entries. Remember, not all accounts are to be closed out.

Cash

7,700	

Supplies

1,500	

Supplies Expense

700	

Rent Expense		John King, Drawing		Wage Expense	
1,200		12,000		22,000	

Fees Earned		Interest Expense		Equipment	
	47,550	450		11,700	

Depreciation Expense		Miscellaneous Expense		John King, Capital	
950		215			25,000

SOLUTION

Dec. 31	Fees Earned	47,550	
	Income Summary		47,550
31	Income Summary	25,515	
	Wage Expense		22,000
	Rent Expense		1,200
	Depreciation Expense		950
	Interest Expense		450
	Miscellaneous Expense		215
	Supplies Expense		700
31	Income Summary	22,035	
	John King, Capital		22,035
31	John King, Capital	12,000	
	John King, Drawing		12,000

Note: The Supplies account and the Equipment account do not affect the closing entries.

5.20. After all revenue and expense accounts were closed at the end of the fiscal year, the Income Summary account had a debit total of \$100,000 and a credit total of \$150,000. The Drawing account for William Whyte had a debit balance of \$35,000. Journalize the closing entries.

SOLUTION

Income Summary	50,000	
William Whyte, Capital		50,000
William Whyte, Capital	35,000	
William Whyte, Drawing		35,000

5.21. Listed below are the ending balances of Chin Ling Dry Cleaners.

(*a*) Prepare the end-of-year closing entries. The beginning balance in Chin Ling's Capital account is \$11,500. Ending balances are as follows:

Dry Cleaning Sales	\$27,000	Supplies Expense	4,000
Wages Expense	12,000	Depreciation Expense	2,000
Rent Expense	7,000	Chin Ling, Drawing	4,000

(*b*) What would Chin Ling's, Capital account balance be after the closing entries?

(*a*)

(*b*) Chin Ling, Capital

SOLUTION

(*a*)

Dec. 31	Dry Cleaning Sales	27,000	
	Income Summary		27,000
31	Income Summary	25,000	
	Wages Expense		12,000
	Rent Expense		7,000
	Supplies Expense		4,000
	Depreciation Expense		2,000
31	Income Summary	2,000	
	Chin Ling, Capital		2,000
31	Chin Ling, Capital	4,000	
	Chin Ling, Drawing		4,000

(*b*)

Chin Ling, Capital

4,000	11,500
	2,000
	Bal. 9,500

5.22. Based on the balances below, prepare entries to close out (*a*) revenue accounts, (*b*) expense accounts, (*c*) the Income Summary account, (*d*) the Drawing account.

P. Silver, Capital		$22,000
P. Silver, Drawing	$6,000	
Service Income		12,000
Interest Income		1,500
Salaries Expense	8,000	
Rent Expense	4,000	
Depreciation Expense	3,000	
Interest Expense	2,000	

(*a*)			
(*b*)			
(*c*)			
(*d*)			

SOLUTION

(*a*)	Service Income	12,000	
	Interest Income	1,500	
	Income Summary		13,500
(*b*)	Income Summary	17,000	
	Salaries Expense		8,000
	Rent Expense		4,000
	Depreciation Expense		3,000
	Interest Expense		2,000
(*c*)	P. Silver, Capital	3,500*	
	Income Summary		3,500
(*d*)	P. Silver, Capital	6,000	
	P. Silver, Drawing		6,000

*3,500 represents a net loss and is debited to the Capital account.

5.23. Post the transactions shown in Prob. 5.22.

Capital

		Bal.	22,000

Salaries Expense

Bal.	8,000		

Drawing

Bal.	6,000		

Rent Expense

Bal.	4,000		

Service Income

		Bal.	12,000

Depreciation Expense

Bal.	3,000		

Interest Income

		Bal.	1,500

Interest Expense

Bal.	2,000		

Income Summary

SOLUTION

Capital

(c)	3,500	Bal.	22,000
(d)	6,000		

Salaries Expense

Bal.	8,000	(b)	8,000

Drawing

Bal	6,000	(d)	6,000

Rent Expense

Bal.	4,000	(b)	4,000

Service Income

(a)	12,000	Bal.	12,000

Depreciation Expense

Bal.	3,000	(b)	3,000

Interest Income

(a)	1,500	Bal.	1,500

Interest Expense

Bal.	2,000	(b)	2,000

Income Summary

(b)	17,000	(a)	13,500
		(c)	3,500
	17,000		17,000

Note that all income and expense accounts have been closed out. No balances exist in any of the above accounts except Capital, which now has a balance of $12,500.

5.24. Listed below are T accounts of the Kapela Realty Co. with the balances before adjusting. Make the necessary adjusting entries. (The year ends December 31, 19X8.)

Supplies

1,250	

Prepaid Advertising

975	

Prepaid Insurance

2,400	

Unearned Rent Income

	6,000

Accumulated Depreciation

	1,600

Adjustments at year end:

(a) Depreciation Expense, $800.
(b) Inventory of store supplies on December 31, $300.
(c) Insurance was for 2 years, starting July 1, 19X8.
(d) Rent income received was for 3 months, starting on December 1, 19X8.
(e) Advertising was for 3 months, starting November 1, 19X8.

SOLUTION

Adjusting Entries

	Dec. 31			
(*a*)		Depreciation Expense	800	
		Accumulated Depreciation		800
(*b*)		Supplies Expense	950	
		Supplies		950
(*c*)		Insurance Expense	600	
		Prepaid Insurance		600
(*d*)		Unearned Rent Income	2,000	
		Rent Income		2,000
(*e*)		Advertising Expense	650	
		Prepaid Advertising		650