

Principles of Accounting

Lecture 6

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Subject code: MGM 227

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A background collage of five vertical panels. The first panel shows hands typing on a laptop. The second panel shows a laptop screen with a play button icon. The third panel shows a target icon and a laptop screen. The fourth panel shows an open book and a magnifying glass icon. The fifth panel is a solid light blue color.

Principles of Accounting

MGM 227

Chapter 3: The Adjusting Process

Prepared by:
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Learning objectives:

- 1 Differentiate between cash basis accounting and accrual basis accounting
- 2 Define and apply the time period concept, revenue recognition, and matching principles
- 3 Explain the purpose of and journalize and post adjusting entries
- 4 Explain the purpose of and prepare an adjusted trial balance
- 5 Identify the impact of adjusting entries on the financial statements

3

Explain the purpose of and journalize and post adjusting entries
“**exercises**”

Identifying types of adjusting entries

A select list of transactions for Anuradha's Goals follows:

-
- Apr. 1 Paid six months of rent, \$4,800.
 - 10 Received \$1,200 from customer for six-month service contract that began April 1.
 - 15 Purchased a computer for \$1,000.
 - 18 Purchased \$300 of office supplies on account.
 - 30 Work performed but not yet billed to customer, \$500.
 - 30 Employees earned \$600 in salaries that will be paid May 2.
-

- April 1: Deferred expense
- 10: Deferred revenue
- 15: Deferred expense
- 18: Deferred expense
- 30: Accrued revenue
- 30: Accrued expense

For each transaction, identify what type of adjusting entry would be needed. Select from the following four types of adjusting entries: deferred expense, deferred revenue, accrued expense, and accrued revenue.

Journalizing and posting adjusting entries for prepaid rent

On September 1, Big Fan of Toledo prepaid six months of rent, \$3,300.

Requirements

1. Record the journal entry for the September 1 payment.
2. Record the adjusting entry required at September 30.
3. Using T-accounts, post the journal entry and adjusting entry to the accounts involved and show their balances at September 30. (Ignore the Cash account.)

Requirement 1

Date	Accounts and Explanation	Debit	Credit
Sep. 1	Prepaid Rent Cash <i>To record rent paid in advance.</i>	3,300	3,300

Requirement 3

Prepaid Rent			
Sep. 1	3,300	550	Sep. 30
Bal.	2,750		

Rent Expense			
Sep. 30	550		
Bal.	550		

Requirement 2

Date	Accounts and Explanation	Debit	Credit
Sep. 30	Rent Expense Prepaid Rent <i>To record rent expense.</i>	550 *	550 *

* Calculations:

$$\begin{array}{rcl}
 \$3,300 & \text{Rent prepaid on September 1 for 6 months} & \\
 \div 6 & \text{months} & \\
 \hline
 \$ 550 & \text{Rent expense for September} &
 \end{array}$$

Journalizing and posting an adjusting entry for office supplies

On November 1, Carlisle Equipment had a beginning balance in the Office Supplies account of \$600. During the month, Carlisle purchased \$2,300 of office supplies. At November 30, Carlisle Equipment had \$500 of office supplies on hand.

Requirements

1. Open the Office Supplies T-account, and enter the beginning balance and purchase of office supplies.
2. Record the adjusting entry required at November 30.
3. Post the adjusting entry to the two accounts involved, and show their balances at November 30.

S3-7 Requirement 1

Office Supplies			
Nov. 1	600		
	2,300		

Requirement 3

Office Supplies			
Nov. 1	600	2,400	Nov. 30
	2,300		
Bal.	500		

Requirement 2

Date	Accounts and Explanation	Debit	Credit
Nov. 30	Supplies Expense Office Supplies <i>To record office supplies used.</i>	2,400*	2,400*

* Calculations:

\$ 600	Office supplies beginning balance
2,300	Office supplies purchased during the month
2,900	Office supplies balance before adjustment
(500)	Office supplies on hand
<u>\$2,400</u>	Office supplies used

Journalizing and posting an adjusting entry for depreciation and determining book value

On October 1, Orlando Gold Exchange paid cash of \$57,600 for computers that are expected to remain useful for three years. At the end of three years, the value of the computers is expected to be zero.

Requirements

1. Calculate the amount of depreciation for the month of October using the straight-line depreciation method.
2. Record the adjusting entry for depreciation on October 31.
3. Post the purchase of October 1 and the depreciation on October 31 to T-accounts for the following accounts: Computer Equipment, Accumulated Depreciation—Computer Equipment, and Depreciation Expense—Computer Equipment. Show their balances at October 31.
4. What is the computer equipment's book value on October 31?

Requirement 1

$$\begin{aligned}
 \text{Straight-line depreciation per month} &= (\text{Cost} - \text{Residual Value}) / \text{Useful Life} \\
 &= (\$57,600 - \$0) \div 3 \text{ years} \\
 &= \$19,200 \text{ per year} / 12 \text{ months} \\
 &= \underline{\underline{\$1,600}}
 \end{aligned}$$

S3-8, cont.
Requirement 2



Date	Accounts and Explanation	Debit	Credit
Oct. 31	Depreciation Expense—Computer Equipment Accumulated Depreciation—Computer Equipment <i>To record depreciation on computer equipment.</i>	1,600	1,600

Requirement 3

Computer Equipment		Accumulated Depreciation— Computer Equipment	
Oct. 1	57,600		1,600
Bal.	57,600		1,600

Depreciation Expense— Computer Equipment	
Oct. 31	1,600
Bal.	1,600

Requirement 4

Computer Equipment	\$ 57,600
Less: Accumulated Depreciation—Computer Equipment	(1,600)
Book value of computer equipment	<u>\$ 56,000</u>

Journalizing and posting an adjusting entry for unearned revenue

Eastside Magazine collects cash from subscribers in advance and then mails the magazines to subscribers over a one-year period.

Requirements

1. Record the journal entry to record the original receipt of \$180,000 cash.
2. Record the adjusting entry that *Eastside Magazine* makes to record earning \$8,000 in subscription revenue that was collected in advance.
3. Using T-accounts, post the journal entry and adjusting entry to the accounts involved and show their balances after adjustments. (Ignore the Cash account.)

Requirement 1

Date	Accounts and Explanation	Debit	Credit
	Cash	180,000	
	Unearned Revenue		180,000
	<i>To record unearned subscription revenue.</i>		

Requirement 2

Date	Accounts and Explanation	Debit	Credit
	Unearned Revenue	8,000	
	Subscription Revenue		8,000
	<i>To record subscription revenue earned that was collected in advance.</i>		

Requirement 3

Unearned Revenue	
8,000	180,000
	172,000 Bal.

Subscription Revenue	
	8,000
	8,000 Bal.

S3-10 Journalizing and posting an adjusting entry for accrued salaries expense

Birch Park Senior Center has a weekly payroll of \$12,500. December 31 falls on Wednesday, and Birch Park Senior Center will pay its employees the following Monday (January 5) for the previous full week. Assume Birch Park Senior Center has a five-day workweek and has an unadjusted balance in Salaries Expense of \$620,000.

Requirements

1. Record the adjusting entry for accrued salaries on December 31.
2. Post the adjusting entry to the accounts involved, and show their balances after adjustments.
3. Record the journal entry for payment of salaries made on January 5.

Requirement 1

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Salaries Expense	7,500*	
	Salaries Payable		7,500*
	<i>To accrue salaries expense.</i>		

* Calculations:

$$\begin{array}{rcl} \$12,500 & \text{Payroll for a 5-day work week} & \\ \div 5 & \text{work days} & \\ \hline \$2,500 & \text{Salaries expense per work day} & \end{array}$$

Thus,

$$\begin{array}{rcl} \$2,500 & \text{Salaries expense per work day} & \\ \times 3 & \text{work days} & \\ \hline \$7,500 & \text{Salaries expense for Monday through Wednesday} & \end{array}$$

Requirement 2

Salaries Payable		Salaries Expense	
	7,500	Dec. 31.	7,500
	7,500	Bal.	627,500

Requirement 3

Date	Accounts and Explanation	Debit	Credit
Jan. 5	Salaries Expense	5,000*	
	Salaries Payable	7,500	
	Cash		12,500
	<i>To record payment of salaries.</i>		

* Calculations:

$$\begin{array}{rcl} \$2,500 & \text{Salaries expense per work day} & \\ \times 2 & \text{work days} & \\ \hline \$5,000 & \text{Salaries expense for Thursday through Friday} & \end{array}$$

S3-11 Journalizing and posting an adjusting entry for accrued interest expense

Resort Travel borrowed \$33,000 on September 1, 2018, by signing a one-year note payable to State One Bank. Resort's interest expense on the note payable for the remainder of the fiscal year (September through November) is \$355.

Requirements

1. Record the adjusting entry to accrue interest expense at November 30, 2018.
2. Post the adjusting entry to the T-accounts of the two accounts affected by the adjustment.

S3-11

Requirement 1

Date	Accounts and Explanation	Debit	Credit
Nov. 30	Interest Expense Interest Payable <i>To accrue interest expense.</i>	355	355

Requirement 2

Interest Payable		Interest Expense	
	355 Nov. 30	Nov. 30	355
	355 Bal.	Bal.	355

S3-12 Journalizing an adjusting entry for accrued revenue

At the end of June, Gerber Dental had performed \$9,000 of dental services but has not yet billed customers.

Record the adjusting entry for accrued revenue.

Date	Accounts and Explanation	Debit	Credit
June 30	Accounts Receivable	9,000	
	Service Revenue		9,000
	<i>To accrue service revenue.</i>		



Explain the purpose of and prepare
an adjusted trial balance

SMART TOUCH LEARNING
Adjusted Trial Balance
December 31, 2018

Adjusted Trial Balance

A list of all the accounts with their
adjusted balances.

Account Title	Balance	
	Debit	Credit
Cash	\$ 12,200	
Accounts Receivable	1,800	
Office Supplies	100	
Prepaid Rent	2,000	
Land	20,000	
Building	60,000	
Accumulated Depreciation—Building		\$ 250
Furniture	18,000	
Accumulated Depreciation—Furniture		300
Accounts Payable		200
Utilities Payable		100
Salaries Payable		1,200
Interest Payable		100
Unearned Revenue		400
Notes Payable		60,000
Common Stock		48,000
Dividends	5,000	
Service Revenue		17,500
Rent Expense	3,000	
Salaries Expense	4,800	
Supplies Expense	400	
Utilities Expense	100	
Depreciation Expense—Building	250	
Depreciation Expense—Furniture	300	
Interest Expense	100	
Total	\$ 128,050	\$ 128,050

This chapter began with the *unadjusted* trial balance. After the adjustments have been journalized and posted, the account balances are updated and an **adjusted trial balance** can be prepared by listing all the accounts with their adjusted balances. Remember, the purpose of a trial balance is to ensure that total debits equal total credits. Even if the trial balance balances, it does not guarantee that a mistake has not been made. For example, an adjusting entry could have been recorded for the incorrect amount or could have been omitted entirely. The equality of the trial balance ensures only that each posted transaction had an equal debit and credit amount.

The adjusted trial balance for Smart Touch Learning is shown in **Exhibit 3-5**.



Identify the impact of adjusting
entries on the financial statements

Type of Adjusting Entry	Description	Adjusting Entry		Impact on Financial Statements if Adjusting Entries Are Not Made
Deferred Expenses	Advance cash payments of future expenses.	Expense Asset*	DR CR	Income Statement: expenses understated net income overstated Balance Sheet: assets overstated equity overstated
Deferred Revenues	Advance cash receipts of future revenues.	Liability Revenue	DR CR	Income Statement: revenues understated net income understated Balance Sheet: liabilities overstated equity understated
Accrued Expenses	An expense that has been incurred but not paid.	Expense Liability	DR CR	Income Statement: expenses understated net income overstated Balance Sheet: liabilities understated equity overstated
Accrued Revenues	A revenue that has been earned but cash has not yet been collected.	Asset Revenue	DR CR	Income Statement: revenues understated net income understated Balance Sheet: assets understated equity understated

*If recording depreciation: the contra asset, Accumulated Depreciation, is credited.

Remember: Net income increases Retained Earnings, an equity account. Therefore, if net income is overstated, then equity will also be overstated. And if net income is understated, then equity will also be understated.

The adjusted trial balance is used to prepare the financial statements. If adjusting entries are not recorded, the ledger accounts will not reflect the correct balances and the adjusted trial balance will be incorrect. Remember, adjusting entries are completed to ensure that all Revenues and expenses for the accounting period examined have been recorded. In addition, adjusting entries update the balance sheet accounts so that all accounts are properly valued. Exhibit 3-6 summarizes the impact on the financial statements had the adjusting entries not been recorded.

S3-13 Preparing an adjusted trial balance

Seth's Tax Services had the following accounts and account balances after adjusting entries. Assume all accounts have normal balances.

Cash	\$	?	Equipment	\$ 11,000
Land	26,000		Accounts Receivable	4,950
Utilities Payable	150		Office Supplies	700
Accounts Payable	3,700		Common Stock	22,600
Accumulated Depreciation—Equipment	1,800		Utilities Expense	1,650
Service Revenue	75,000		Unearned Revenue	900
Supplies Expense	1,100		Depreciation Expense—Equipment	1,900
Dividends	14,000		Salaries Expense	5,600

Prepare the adjusted trial balance for Seth's Tax Services as of December 31, 2018.

SETH'S TAX SERVICES

Adjusted Trial Balance

December 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	\$ 37,250	
Accounts Receivable	4,950	
Office Supplies	700	
Land	26,000	
Equipment	11,000	
Accumulated Depreciation—Equipment		\$ 1,800
Accounts Payable		3,700
Utilities Payable		150
Unearned Revenue		900
Common Stock		22,600
Dividends	14,000	
Service Revenue		75,000
Salaries Expense	5,600	
Depreciation Expense—Equipment	1,900	
Supplies Expense	1,100	
Utilities Expense	1,650	
Total	<u>\$ 104,150</u>	<u>\$ 104,150</u>

S3-14 Determining the effects on financial statements

In recording adjusting entries, Reagan Financial Advisors failed to record the adjusting entries for the following situations:

- Office supplies on hand, \$100.
- Accrued revenues, \$5,000.
- Accrued interest expense, \$250.
- Depreciation, \$800.
- Unearned revenue that has been earned, \$550.

Determine the effects on the income statement and balance sheet by identifying whether assets, liabilities, equity, revenue, and expenses are either overstated or understated. Use the following table. Adjustment *a* has been provided as an example.

Adjustment	Balance Sheet			Income Statement	
Not Recorded	Assets	Liabilities	Equity	Revenue	Expenses
(a)	Overstated		Overstated		Understated

Adjustment Not Recorded	Balance Sheet			Income Statement	
	Assets	Liabilities	Equity	Revenue	Expenses
a.	Overstated		Overstated		Understated
b.	Understated		Understated	Understated	
c.		Understated	Overstated		Understated
d.	Overstated		Overstated		Understated
e.		Overstated	Understated	Understated	

The unadjusted trial balance as of December 31, 2018, the end of the annual accounting period for Super Employment Services, follows:

SUPER EMPLOYMENT SERVICES Unadjusted Trial Balance December 31, 2018		
	Balance	
Account Title	Debit	Credit
Cash	\$ 6,000	
Accounts Receivable	5,000	
Office Supplies	1,000	
Land	10,000	
Building	40,000	
Accumulated Depreciation—Building		\$ 30,000
Furniture	10,000	
Accumulated Depreciation—Furniture		4,000
Accounts Payable		2,000
Salaries Payable		
Unearned Revenue		8,000
Common Stock		12,000
Dividends	25,000	
Service Revenue		60,000
Salaries Expense	16,000	
Supplies Expense		
Depreciation Expense—Building		
Depreciation Expense—Furniture		
Advertising Expense	3,000	
Total	<u>\$ 116,000</u>	<u>\$ 116,000</u>

Data needed for the adjusting entries include the following:

- a. Office Supplies on hand at year-end, \$200.
- b. Depreciation on furniture, \$2,000.
- c. Depreciation on building, \$1,000.
- d. Salaries owed but not yet paid, \$500.
- e. Accrued service revenue, \$1,300.
- f. \$3,000 of the unearned revenue has been earned.

Requirements

1. Open the ledger accounts in T-account form with their unadjusted balances as shown on the unadjusted trial balance. (See Learning Objective 3)
2. Journalize Super's adjusting entries at December 31, 2018. Use the letter (*a*, *b*, and so on) as the date. (See Learning Objective 3)
3. Post the adjusting entries to T-accounts. Determine the ending balances in the T-accounts on December 31, 2018. (See Learning Objective 3)
4. Prepare an adjusted trial balance. (See Learning Objective 4)

Requirement 2

Date	Accounts and Explanations	Debit	Credit
2018			
(a) Dec. 31	Supplies Expense (\$1,000 – \$200)	800	
	Office Supplies		800
	<i>To record office supplies used.</i>		
(b) 31	Depreciation Expense—Furniture	2,000	
	Accumulated Depreciation—Furniture		2,000
	<i>To record depreciation expense on furniture.</i>		
(c) 31	Depreciation Expense—Building	1,000	
	Accumulated Depreciation—Building		1,000
	<i>To record depreciation expense on building.</i>		
(d) 31	Salaries Expense	500	
	Salaries Payable		500
	<i>To accrue salaries expense.</i>		
(e) 31	Accounts Receivable	1,300	
	Service Revenue		1,300
	<i>To accrue service revenue.</i>		
(f) 31	Unearned Revenue	3,000	
	Service Revenue		3,000
	<i>To record service revenue earned that was collected in advance.</i>		

Requirements 1 and 3

ASSETS

Cash		Building	
Bal.	6,000	Bal.	40,000
Accounts Receivable		Accumulated Depreciation—Building	
Bal.	5,000		30,000 Bal.
(e)	1,300		1,000 (c)
Bal.	6,300		31,000 Bal.
Office Supplies		Furniture	
Bal.	1,000	Bal.	10,000
	800 (a)		
Bal.	200		
Land		Accumulated Depreciation—Furniture	
Bal.	10,000		4,000 Bal.
			2,000 (b)
			6,000 Bal.

LIABILITIES

Accounts Payable		
	2,000	Bal.
Salaries Payable		
	500	(d)
	500	Bal.
Unearned Revenue		
(f)	3,000	8,000 Bal.
		5,000 Bal.

EQUITY

Common Stock		Salaries Expense	
	12,000 Bal.	Bal.	16,000
		(d)	500
		Bal.	16,500
Dividends		Supplies Expense	
Bal.	25,000	(a)	800
		Bal.	800
Service Revenue		Depreciation Expense—Building	
	60,000 Bal.	(c)	1,000
	1,300 (e)	Bal.	1,000
	3,000 (f)		
	64,300 Bal.		
		Depreciation Expense—Furniture	
		(b)	2,000
		Bal.	2,000
		Advertising Expense	
		Bal.	3,000

SUPER EMPLOYMENT SERVICES

Adjusted Trial Balance

December 31, 2018

Requirement 4

Account Title	Balance	
	Debit	Credit
Cash	\$ 6,000	
Accounts Receivable	6,300	
Office Supplies	200	
Land	10,000	
Building	40,000	
Accumulated Depreciation—Building		\$ 31,000
Furniture	10,000	
Accumulated Depreciation—Furniture		6,000
Accounts Payable		2,000
Salaries Payable		500
Unearned Revenue		5,000
Common Stock		12,000
Dividends	25,000	
Service Revenue		64,300
Salaries Expense	16,500	
Supplies Expense	800	
Depreciation Expense—Building	1,000	
Depreciation Expense—Furniture	2,000	
Advertising Expense	3,000	
Total	<u>\$ 120,800</u>	<u>\$ 120,800</u>

1. Which of the following is true of accrual basis accounting and cash basis accounting?
 - a. Accrual accounting records revenue only when it is earned.
 - b. Accrual accounting is not allowed under GAAP.
 - c. Cash basis accounting records all transactions.
 - d. All of the above are true.

2. Get Fit Now gains a client who prepays \$540 for a package of six physical training sessions. Get Fit Now collects the \$540 in advance and will provide the training later. After four training sessions, what should Get Fit Now report on its income statement assuming it uses the accrual basis accounting method?
 - a. Service revenue of \$360
 - b. Service revenue of \$540
 - c. Unearned service revenue of \$360
 - d. Cash of \$180

3. The revenue recognition principle requires
 - a. time to be divided into annual periods to measure revenue properly.
 - b. revenue to be recorded only after the business has satisfied its performance obligation.
 - c. expenses to be matched with revenue of the period.
 - d. revenue to be recorded only after the cash is received.

4. Adjusting the accounts is the process of
 - a. subtracting expenses from revenues to measure net income.
 - b. recording transactions as they occur during the period.
 - c. updating the accounts at the end of the period.
 - d. zeroing out account balances to prepare for the next period.
5. Which of the following is an example of a deferral (or prepaid) adjusting entry?
 - a. Recording the usage of office supplies during the period.
 - b. Recording salaries expense for employees not yet paid.
 - c. Recording revenue that has been earned but not yet received.
 - d. Recording interest expense incurred on a notes payable not due until next year.
8. A & D Window Cleaning performed \$450 of services but has not yet billed customers for the month. If A & D fails to record the adjusting entry, what is the impact on the financial statements?
 - a. balance sheet: assets understated; equity overstated
income statement: expense understated
 - b. balance sheet: liabilities overstated; equity understated
income statement: revenues understated
 - c. balance sheet: assets overstated, equity understated
income statement: expenses understated
 - d. balance sheet: assets understated, equity understated
income statement: revenues understated

6. Assume that the weekly payroll of In the Woods Camping Supplies is \$300. December 31, end of the year, falls on Tuesday, and In the Woods will pay its employee on Friday for the full week. What adjusting entry will In the Woods make on Tuesday, December 31? (Use five days as a full workweek.)

Date	Accounts and Explanation	Debit	Credit
a.	Salaries Expense	120	
	Salaries Payable		120
b.	Salaries Payable	300	
	Salaries Expense		300
c.	Salaries Expense	120	
	Cash		120
d.	<i>No adjustment is needed because the company will pay the payroll on Friday.</i>		

7. The adjusted trial balance shows
- a. amounts that may be out of balance.
 - b. account balances after adjustments.
 - c. assets and liabilities only.
 - d. revenues and expenses only.

Demonstration of E3-19

Popular Advertising Agency completed the following selected transactions during July 2018:

- Jul. 1 Prepaid rent for three months, \$6,000
- 4 Received and paid electricity bill, \$1,000
- 10 Received cash for service rendered to customers, \$5,000
- 15 Paid cash for computer equipment, \$20,000
- 20 Service rendered on account, \$10,000
- 31 Made the adjusting entry for rent (from July 1).
- 31 Accrued salary expense, \$3,000
- 31 Recorded depreciation for July on computer equipment, \$170

Requirements

1. Show whether each transaction would be handled as a revenue or an expense using both the cash basis and accrual basis accounting systems.
2. Calculate the amount of net income or net loss for Popular Advertising Agency under the accrual basis and cash basis accounting systems for July.
3. Considering your results from Requirement 2, which method gives the best picture of the true earnings of Popular Advertising Agency? Why?

Demonstration of E3-19-Req. 1

Amount of Revenue (Expense) for July		
Date	Cash Basis Amount of Revenue (Expense)	Accrual Basis Amount of Revenue (Expense)
Jul. 1	(\$6,000)	(\$0)
Jul. 4	(1,000)	(1,000)
Jul. 10	5,000	5,000
Jul. 15	(20,000)	0
Jul. 20	0	10,000
Jul. 31	0	(2,000)*
Jul. 31	0	(3,000)
Jul. 31	0	(170)

*Rent prepaid on July 1 for 3 months	\$6,000
Months	÷3
Rent expense for July	<u>\$2,000</u>

Demonstration of E3-19-Req. 3

Net income (loss) under cash basis is (\$22,000)

Calculation:

$$\begin{aligned}\text{Net Income (Loss)} &= \text{Total Revenues} - \text{Total Expenses} \\ &= \$5,000 - (\$6,000 + \$1,000 + \$20,000) \\ &= \$5,000 - \$27,000 \\ &= (\$22,000)\end{aligned}$$

Net income (loss) under accrual basis is \$8,830

Calculation:

$$\begin{aligned}\text{Net Income (Loss)} &= \text{Total Revenues} - \text{Total Expenses} \\ &= \$5,000 + \$10,000 - (\$1,000 + \$2,000 + \$3,000 + \$170) \\ &= \$15,000 - \$6,170 \\ &= \$8,830\end{aligned}$$

Accrual basis accounting gives the best picture of the true earnings of Popular Advertising, because revenues are recorded when earned and expenses are recorded when incurred, as dictated by the revenue recognition principle and the matching principle

Demonstration of E3-25 & E3-26

The unadjusted trial balance for Bright Solutions Company, a tutoring service, is as follows:

BRIGHT SOLUTIONS COMPANY		
Unadjusted Trial Balance		
December 31, 2018		
Account Title	Balance	
	Debit	credit
Cash	\$1,500	
Office Supplies	4,000	
Prepaid Insurance	1,200	
Equipment	35,000	
Accumulated Depreciation—Equipment		\$14,000
Accounts Payable		3,700
Salaries Payable		
Unearned Revenue		2,000
Common Stock		10,000
Dividends	5,000	
Service Revenue		27,000
Salaries Expense	10,000	
Supplies Expense		
Depreciation Expense—Equipment		
Insurance Expense		
Total	<u>\$56,700</u>	<u>\$56,700</u>

Demonstration of E3-25 & E3-26

During the 12 months ended December 31, 2018, Bright Solutions:

- a. used office supplies of \$2,500.
- b. used prepaid insurance of \$600.
- c. depreciated equipment, \$700.
- d. accrued salaries expense of \$500 that hasn't been paid yet.
- e. earned \$1,000 of unearned revenue.

Requirements

- | | |
|-------|--|
| E3-25 | <ol style="list-style-type: none">1. Open a T-account for each account using the unadjusted balances.2. Journalize the adjusting entries using the letter and December 31 date in the date column.3. Post the adjustments to the T-accounts, entering each adjustment by letter. Show each account's adjusted balance. |
| E3-26 | <p>Prepare an adjusted trial balance.</p> |

Demonstration of E3-25-Req. 1

Cash	
Bal.	1,500

Office Supplies	
Bal.	4,000

Insurance Expense	

Prepaid Insurance	
Bal.	1,200

Equipment	
Bal.	35,000

Supplies Expense	

Accumulated Depreciation -Equipment	
	14,000 Bal.

Accounts Payable	
	3,700 Bal.

Depreciation Expense—Equipment	

Demonstration of E3-25-Req. 1

Common Stock	
	10,000 Bal.

Dividends	
Bal.	5,000

Service Revenue	
	27,000 Bal.

Salaries Expense	
Bal.	10,000

Salaries Payable	

Unearned Revenue	
	2,000 Bal.

Demonstration of E3-25-Req. 2 & 3

a. Used office supplies of \$2,500.

Date	Accounts and Explanation	Debit	Credit
a. Dec. 31	Supplies Expense	2,500	
	Office Supplies		2,500
	<i>To record office supplies used.</i>		

Office Supplies			
Bal.	4,000	2,500	a.

Supplies Expense		
a.	2,500	

Demonstration of E3-25-Req. 2 & 3

b. Used prepaid insurance of \$600

Date	Accounts and Explanation	Debit	Credit
b. Dec. 31	Insurance Expense	600	
	Prepaid Insurance		600
	<i>To record insurance expense.</i>		

Insurance Expense	
b.	600

Prepaid Insurance	
Bal.	1,200
	600 b.

Demonstration of E3-25-Req. 2 & 3

c. Depreciated equipment, \$700

Date	Accounts and Explanation	Debit	Credit
c. Dec. 31	Depreciation Expense—Equipment	700	
	Accumulated Depreciation—Equipment		700
	<i>To record depreciation on equipment.</i>		

Depreciation Expense—Equipment	
c.	700

Accumulated Depreciation -Equipment	
	14,000 Bal.
	700 c.

Demonstration of E3-25-Req. 2 & 3

d. Accrued salaries expense of \$500 that hasn't been paid yet.

Date	Accounts and Explanation	Debit	Credit
d. Dec. 31	Salaries Expense	500	
	Salaries Payable		500
	<i>To accrue salaries expense.</i>		

Salaries Expense		
Bal.	10,000	
d.	500	

Salaries Payable		
	500	d.

Demonstration of E3-25-Req. 2 & 3

e. Earned \$1,000 of unearned revenue.

Date	Accounts and Explanation	Debit	Credit
e. Dec. 31	Unearned Revenue	1,000	
	Service Revenue		1,000
	<i>To record service revenue earned that was collected in advance.</i>		

Unearned Revenue			
e.	1,000	2,000	Bal.

Service Revenue			
		27,000	Bal.
		1,000	e.

Demonstration of E3-25-Req. 3

Cash		
Bal.	1,500	
Bal.	1,500	

Office Supplies		
Bal.	4,000	2,500 a.
Bal.	1,500	

Salaries Expense		
Bal.	10,000	
d.	500	
Bal.	10,500	

Prepaid Insurance		
Bal.	1,200	600 b.
Bal.	600	

Equipment		
Bal.	35,000	
Bal.	35,000	

Depreciation Expense—Equipment		
c.	700	
Bal.	700	

Insurance Expense		
b.	600	
Bal.	600	

Supplies Expense		
a.	2,500	
Bal.	2,500	

Common Stock		
	10,000	Bal.
	10,000	Bal.

Demonstration of E3-25-Req. 3

Accumulated Depreciation -Equipment	
	14,000 Bal.
	700 c.
	14,700 Bal.

Accounts Payable	
	3,700 Bal.
	3,700 Bal.

Salaries Payable	
	500 d.
	500 Bal.

Unearned Revenue	
e.	1,000
	2,000 Bal.
	1,000 Bal.

Dividends	
Bal.	5,000
Bal.	5,000

Demonstration of E3-26

BRIGHT SOLUTIONS COMPANY		
Adjusted Trial Balance		
December 31, 2018		
Account Title	Balance	
	Debit	Credit
Cash	\$1,500	
Office Supplies	1,500	
Prepaid Insurance	600	
Equipment	35,000	
Accumulated Depreciation—Equipment		\$14,700
Accounts Payable		3,700
Salaries Payable		500
Unearned Revenue		1,000
Common Stock		10,000
Dividends	5,000	
Service Revenue		28,000
Salaries Expense	10,500	
Supplies Expense	2,500	
Depreciation Expense—Equipment	700	
Insurance Expense	600	
Total	<u>\$57,900</u>	<u>\$57,900</u>



Thank You