BOOST YOUR SKILLS IN ACCOUNTING AND BOOKKEEPING



Adjusting Entries



LEARNING OBJECTIVES

- Format and complete a trial balance
- Record adjusting entries
- Calculate depreciation using the straight-line method
- Calculate depreciation using the double-declining balance method

Trial Balances

- Summarize account balances
- Include a debit column and a credit column
- Confirm total debits equal total credits
- Three trial balances are completed during each period:
 - Unadjusted trial balance
 - Adjusted trial balance
 - Post-closing trial balance

Trial Balance—Example

Accounts are listed in the following order:

- Assets
- Liabilities
- Capital
- Withdrawals
- Revenue
- Expenses

	Nathan's D Unadjusted			The
	March 3			stat
		 Debit	 Credit	
Cash		\$ 12,300		
Accounts Receival	ble	2,200		
Supplies		500		
Furniture		1,000		
Equipment		20,000		
Accounts Payable			\$ -	
Nathaniel H. Sper	icer, Capital		35,000	
Nathaniel H. Sper	icer, Drawing	400		A si
Service Revenue			3,350	(the
Rent Expense		1,700		add
Advertising Exper	ise	 250		the
		\$ 38,350	\$ 38,350	
				1

The title lines show the company name, statement name, and the date completed.

A single underline signals a calculation (the figures above the line are being added). A double underline indicates the final total within the statement.

Adjusting Entries

These are recorded at the end of the period, after completion of the unadjusted trial balance.

ADJUSTING JOURNAL ENTRIES: TYPES				
Journal Entry Type	Definition			
Deferred expense	Expenses paid for in advance and subsequently incurred			
Deferred revenue	Cash received in advance of revenue being earned			
Accrued expense	Expenses incurred prior to being paid off			
Accrued revenue	Revenue earned prior to the receipt of cash			
Depreciation	Estimated loss in value that an asset experiences over time			

Impact of Adjusting Entries

Each category of adjusting entry has specific impacts on different types of accounts.

ADJUSTI	ADJUSTING JOURNAL ENTRIES: IMPACT ON ACCOUNTS						
	Total Revenues	Total Expenses	Net Income	Owner's Capital	Total Assets	Total Liabilities	
Deferred Expenses	n/a	\uparrow	\checkmark	\checkmark	\checkmark	n/a	
Deferred Revenues	\uparrow	n/a	\uparrow	\uparrow	n/a	\checkmark	
Accrued Expenses	n/a	\uparrow	\checkmark	\downarrow	n/a	\uparrow	
Accrued Revenues	\uparrow	n/a	\uparrow	\uparrow	\uparrow	n/a	

Reversing Entries

- These are optional journal entries.
- They simplify the recording process.
- They are often recorded for accrued expenses and accrued revenues.
- They are the reverse of the associated adjusting entry.
- They are recorded on the first day of the period following the recording of the associated adjusting entry.

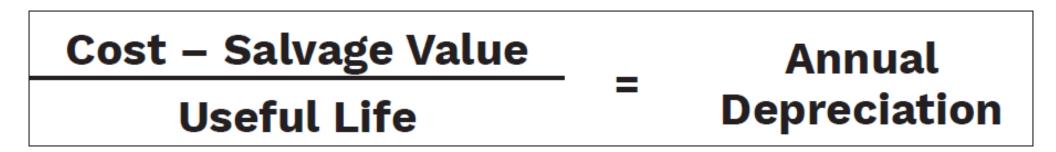
Depreciation

- Definition: the estimated loss in value experienced by a fixed asset
- Two primary methods are used to calculate depreciation:
 - Straight-line method
 - Double-declining balance method
- The book value of an asset is calculated by subtracting the accumulated depreciation from the original cost.

Straight-Line Depreciation

Under this method, the same amount of depreciation is recorded for each full year of an asset's useful life. It requires two estimates:

- Useful life: Number of years the company expects to use the asset
- Salvage value: The amount the company expects to receive for the asset at the time of disposal



Double-Declining Balance Depreciation

- Under this accelerated method, more depreciation is recorded in the early years of the asset's life.
- Calculation requires a three-step process:
 - Determine the straight-line rate: Divide "1" by the useful life.
 - Determine the first year's depreciation: Multiply the asset's cost by double the straight-line rate.
 - Determine subsequent years' depreciation: Subtract the accumulated depreciation from the cost, and then multiply by double the straight-line rate.

Double-Declining Balance Depreciation—Example

The depreciation of an asset with a \$2,500 cost, 5-year useful life, and \$250 salvage value is shown:

	Beginning Book Value	Double-Declining Rate	Depreciation Expense	Accumulated Depreciation	Ending Book Value
Year #1	\$2,500	40%	\$1,000	\$1,000	\$1,500
Year #2	\$1,500	40%	\$600	\$1,600	\$900
Year #3	\$900	40%	\$360	\$1,960	\$540
Year #4	\$540	40%	\$216	\$2,176	\$324
Year #5	\$324	40%	*\$74	\$2,250	\$250

* \$324 (Y5 Beginning Book Value) - \$250 (Salvage Value) = \$74 (Y5 Depreciation)

Recording the Depreciation Adjusting Entry

This type of entry increases Accumulated Depreciation.

 Accumulated Depreciation is a contra-asset account that increases via a credit and decreases via a debit.

9/30	Depreciation Expense	260	
	Accumulated Depreciation		260
	Adjusting entry for depreciation e	expense	

Adjusted Trial Balance

- These are completed after the recording of the adjusting entries.
- This is the version that is used to subsequently complete the financial statements.

Nathan's Donut School Adjusted Trial Balance March 31, 2027					
		Debit	Credit		
Cash	\$	12,300			
Accounts Receivable		2,350			
Supplies		185			
Furniture		1,000			
Equipment		20,000			
Accounts Payable			\$	-	
Wages Payable				750	
Nathaniel H. Spencer, Capital				35,000	
Nathaniel H. Spencer, Drawing		400			
Service Revenue				3,500	
Rent Expense		1,700			
Wages Expense		750			
Supplies Expense		315			
Advertising Expense		250			
	\$	39,250	\$	39,250	