

## ACCT 101 - Chapter 3

- I. Matching Concept
  - A. Accounting period concept
  - B. Cash Basis
  - C. Accrual Basis
  - D. Matching Concept/Principle
  
- II. Adjusting Process
  - A. Deferred Expenses
  - B. Deferred Revenue
  - C. Accrued Expenses
  - D. Accrued Revenues

III. Recording Adjusting Entries

A. Supplies – the amount of supplies used during the period should be recorded as an expense; the amount of supplies on hand should be recorded as an asset.

Fastforward purchased a total of \$9,720 of supplies during 2021. As of December 31, 2021, only \$8,670 in supplies were on hand.

Supplies	Supplies Expense
9,720	

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021						1
2	Dec	31					2
3							3
4							4

B. Prepaid Expenses – these expenses (usually insurance, rent or advertising) are paid for in advance but can not be expensed until they have been used or have expired.

Fastforward purchased a 24-month insurance policy on December 1, 2021, for \$2,400.

Prepaid Insurance	Insurance Expense
2,400	

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021						1
2	Dec	31					2
3							3
4							4

- C. Unearned Revenue – if money is received from customers before the services are performed, we must wait until the services are performed to record the amount as revenue. When the money is received it is unearned and an adjustment is needed to record any revenue earned by then end of the accounting period.

On December 26, 2021, Fastforward received \$3,000 from a customer for 60 days of consulting services.

Unearned Consulting Revenue	Consulting Revenue
3,000	5,800

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021					1
2	Dec 31					2
3						3
4						4

- D. Accrued Expenses – if expenses are incurred prior to payment, the expense must be recorded in the accounting period in which it was used or incurred.

Fastforward's employee is paid \$70 per day each Friday for that week. The last pay day of 2021 was Friday, December 26.

Salaries Payable	Salaries Expense
	1,400

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021					1
2	Dec 31					2
3						3
4						4

- E. Accrued Revenues - all revenue earned during the accounting period must be recorded as revenue. If any revenues have been earned but not yet recorded, and adjustment is needed.

Fastforward agreed to provide \$2,700 in consulting services for December 11, 2021, to January 10, 2022. Payment will be received in full upon completion of the contract on January 10, 2022. As of December 31, 2021, 20 days of the contract had been earned.

Accounts Receivable	Consulting Revenue
	6,050

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021					1
2	Dec 31					2
3						3
4						4

- F. Depreciation - the assets we buy we use to produce revenue. As we use the assets to produce revenue we must record and expense for the use of the equipment in the same accounting period in which the revenue was earned. So, we spread the cost of the asset over the number of months that we will use the equipment to earn revenue. This process is called Depreciation.

The depreciation you are familiar with usually means "a decrease in value". Accounting depreciation means "using up the usefulness of an asset". Fastforward purchased equipment in early December 2021 for \$26,000. The equipment is expected to have a useful life of 5 years and an estimated residual value of \$8,000.

Need 3 pieces of information:

Cost:

Residual Value:

Useful Life:

Equipment	Accumulated Depreciation - Equipment	Depreciation Expense

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021						1
2	Dec	31					2
3							3
4							4

G. Adjusted Trial Balance – the adjusting journal entries have changed the account balances that are to be reported in the financial statements. An Adjusted Trial Balance must be prepared to update the account balance to include all adjustments.

#### IV. Closing Entries

- A. The next and last step in the accounting cycle is the Closing Process. The purpose of the closing process is to “zero” out the nominal, or temporary, accounts so they start the new year with a zero balance.

We also need to update the Retained Earnings account so that the ending Retained Earnings balance in the General Ledger matches what we have calculated on the Statement of Retained Earnings.

- B. What accounts need to be closed?
1. Nominal/Temporary Accounts
    - a.
    - b.
    - c.
  2. Permanent Accounts
    - a.
    - b.
    - c.

3. Income Summary – a pass-through, or dummy, account that is used only during the closing process. It should have a zero balance at the start of the closing process and a zero balance at the end of the closing process. It will never appear on a financial statement.

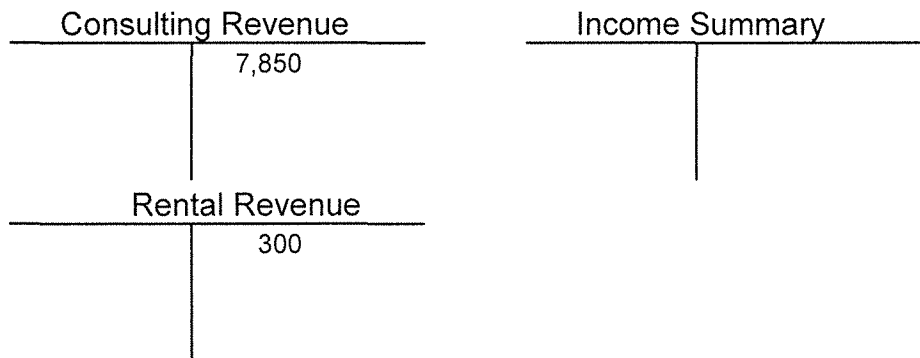
V. The Closing Process

A. The order of the closing process is important. You should perform the steps in the following order:

- 1.
- 2.
- 3.
- 4.

B. The closing process is a game of opposites. For accounts with a normal *credit* balance, we will *debit* to zero out; for accounts with a normal *debit* balance we will *credit* to zero out.

1. Close Revenue



	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021						1
2	Dec	31					2
3							3
4							4

## 2. Close Expenses

Depreciation Expense	
300	

Income Summary	
	8,150

Salaries Expense	
1,610	

Insurance Expense	
100	

Rent Expense	
1,000	

Supplies Expense	
1,050	

Utilities Expense	
305	

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021						1
2	Dec	31					2
3							3
4							4
5							5
6							6
7							7
8							8

**3. Close Income Summary**

This entry will change depending on whether the company had a Net Income or a Net Loss.

a. Net Income

DR    Income Summary  
 CR            Retained Earnings

(hint: Net Income increases equity; equity increases with a credit)

b. Net Loss

DR    Retained Earnings  
 CR            Income Summary

(hint: Net Loss decreases Equity; Equity decreases with a debit)

Retained Earnings	Income Summary
0	4,365      8,150

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021					1
2	Dec 31					2
3						3
4						4

**4. Close Dividends**

Retained Earnings	Dividends
0 3,785	200

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021					1
2	Dec 31					2
3						3
4						4

5. Post the closing entries to the General Ledger



VI. Post Closing Trial Balance – well, once again debits and credits have been flying around. Therefore, we need to prepare another Trial Balance to make sure our accounting equation is still in balance before we begin recording the transactions for the new year and that the closing process has been completed correctly.

A. Prepare a Post-Closing Trial Balance

Fastforward  
Post-Closing Trial Balance  
December 31, 2021

Account	Debit	Credit
Cash	4,275	
Accounts Receivable	1,800	
Supplies	8,670	
Prepaid Insurance	2,300	
Equipment	26,000	
Accumulated Depreciation - Equip		300
Accounts Payable		6,200
Salaries Payable		210
Unearned Consulting Revenue		2,750
Common Stock		30,000
Retained Earnings		3,585
	43,045	43,045

## VII. Classified Balance Sheet

We are going to categorize, or classify, the accounts on the Balance Sheet based on how soon the accounts will be received (assets) or paid (liabilities).

Why? you ask. Actually, it makes a big difference. It is important for owners, investors and managers to know when money is due to be received and when money is due to be paid.

### A. Current Assets

- 1.
- 2.
- 3.
- 4.
- 5.

### B. Property, Plant & Equipment (Fixed Assets)

- 1.
- 2.
- 3.
- 4.
- 5.

### C. Long-Term Investments

- 1.
- 2.

D. Current Liabilities

1.

2.

3.

4.

5.

6.

E. Long-term Liabilities

1.

2.

F. Owner's Equity

1.

2.



