ACCT 100 - Chapter 12

There are several adjusting entries in Chapter 12. We will not be covering all of the adjusting entries; you will only be responsible for the adjusting entries we discuss in class (which includes the adjusting entries we discussed in Chapter 5.

I. Adjusting Entries for a Merchandising Company

A. Accrual Basis of Accounting

1. Revenue is recognized when earned, not necessarily when the cash is received.
2. Expenses are recognized when incurred or used, not necessarily when cash is paid.

Therefore, we must make adjustments to update the accounts so the financial statements include all transactions that happened up to and including the last day of the accounting period, even if the cash has already been received or paid, or if it will be received or paid in the future.

B. New Accounts Introduced

	Account Name	Type	Normal Balance	Used to:
1.				
2.				

C. Adjustments discussed previously:

1. Supplies
2. Prepaid Expenses
3. Depreciation

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	20X1						1
2	Dec	31	Supplies Expense				2
3			Supplies				3
4							4
5		31	Advertising Expense				5
6			Prepaid Advertising				6
7							7
8		31	Depreciation Expense				8
9			Accumulated Depreciation				9
10							10

II. The Adjustments

1. **Inventory** is the account used to report the total amount of merchandise on hand on the balance sheet date. We only use the Inventory account once a year, to make the year-end adjustment.

   Additions to inventory throughout the year are debited to the Purchases account. At the end of the year, we will take a physical count of the inventory in stock. The amount counted will be the amount reported on the balance sheet in the asset account Inventory.

   Since we have not used the Inventory account since the end of the previous year, the adjustment will be a two-step process:

   1. Close the beginning inventory balance

Inventory	
52,000	

Income Summary	

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	20X1						1
2	Dec	31					2
3							3
4							4

After the first step, the inventory account should have a zero balance.

2. Increase inventory to $47,000, the amount counted at the end of the year

Inventory	
52,000	52,000

Income Summary	
52,000	

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	20X1						1
2	Dec	31					2
3							3
4							4

The amount of the second step should be the balance reported in the balance sheet for inventory.

2. Accrued Expenses - expenses that have already happened, but we have not paid for them yet. The most common accrued expense is for Wages Expense. This is an accrued expense when our employees work in the current accounting period but will be paid in the next accounting period.

   Our employees are paid every Friday. They were paid on Friday, December 27, 20X1, for the week ending Dec. 27, 20X1. The next pay day is Friday, January 3, 20X2. Our employees earn a combined $600 per day.

   If our employees work in December of 20X1, the expense needs to be recorded in December 20X1. (Note: we will ignore the payroll taxes in the adjustments.)

Wages Expense	
78,490	

Wages Payable	

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	20X1						1
2	Dec	31					2
3							3
4							4

3. Unearned Income – in some cases we may receive money from our customers before we actually earn the revenue. When this happens we will credit an account called Unearned Revenue. At the end of the year we will need to make an adjustment to transfer from the Unearned Revenue account any amount that we have earned by the end of the year.

   Simpson Antiques publishes a weekly magazine. We had received a total of $45,000 from subscribers in advance. By December 31, 20X1, $18,000 of the income had been earned.

Unearned Subscriptions Income	
	45,000

Subscriptions Income	

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	20X1						1
2	Dec	31					2
3							3
4							4

General Journal

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1							1
2							2
3							3
4							4
5							5
6							6
7							7
8							8
9							9
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12							12
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General Journal

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
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Record the adjusting journal entries that must be made for Sarah Nade Consulting on June 30, 2022. The company has a June 30 fiscal year-end.

1. Merchandise Inventory, before adjustment, has a balance of $7,700. The newly counted inventory balance is $8,200.

2. Unearned Seminar Fees has a balance of $6,200, representing prepayment by customers or five seminars to be conducted in June, July, and August 2022. Two seminars had been conducted by June 30, 2022.

3. Prepaid Insurance has a balance of $9,840 for six months of insurance paid in advance on May 1, 2022.

4. Store Equipment costing $7,000 was purchased on March 31, 2022. It has a salvage value of $520, and a useful life of six years. The equipment will be depreciated using the straight-line method.

5. Employees have earned $890 that has not been paid at June 30, 2022.
6. Prepaid Rent has a balance of $6,900 for six months rent paid in advance on March 1, 2022.

7. The supplies account in the general ledger has a balance of $1,486. A count of supplies on hand at June 30, 2022 indicated $360 of supplies remain.
8. Merchandise Inventory, before adjustment, has a balance of $6,500. The newly counted inventory balance is $7,000.

9. Unearned Seminar Fees has a balance of $5,000, representing prepayment by customers or 8 seminars to be conducted in June, July, and August 2022. Three seminars had been conducted by June 30, 2022.

10. Prepaid Insurance has a balance of $6,000 for six months of insurance paid in advance on April 30, 2022.

11. Store Equipment costing $15,840 was purchased on March 31, 2022. It has a salvage value of $400, and a useful life of six years. The equipment will be depreciated using the straight-line method.

12. Employees have earned $150 that has not been paid at June 30, 2022.

13. Prepaid Rent has a balance of $5,100 for 6 months rent paid in advance on March 1, 2019.

14. The supplies account in the general ledger has a balance of $300. A count of supplies on hand at June 30, 2019 indicated $100 of supplies remain.

General Journal

	DATE		DESCRIPTION	PR	DEBIT	CREDIT	
1							1
2							2
3							3
4							4
5							5
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