ACCT 100 - Chapter 5

I. Adjusting Entries - So far we have done the following:

A. Accrual Basis of Accounting says we must include in revenue and expense any and all amounts that happened in that accounting period, regardless of when cash changes hands.

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.

B. New Accounts Introduced

	Account Name	Type	Normal Balance	Used to:
1.				
2.				
3.				
4.				

II. The Adjustments

1. Supplies – when we purchased supplies, we debited the asset account supplies. This asset account is used to report the amount of supplies the company owns as of the balance sheet date. If we have used some of the supplies, the amount of supplies used should be reported as an expense and the asset account should be decreased to report the actual amount of supplies the company has on hand as of the balance sheet date.

   Eli's Consulting Service purchased $1,500 of supplies on November 28, 20X1. As of December 31, 20X1, only $1,000 in supplies were left.

Supplies	
1,500	

Supplies Expense	

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

2. Prepaid Rent – On November 30, 20X1, Eli's Consulting Services paid for two months of rent in advance. The $8,000 was debited to the asset account Prepaid Rent because the rent will not be an expense to Eli's until she has occupied the space for the month. Once the month is over then the rent becomes and expense.

Prepaid Rent	
8,000	

Rent Expense	

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

3. Depreciation Expense – the assets we buy we use to produce revenue. As we use the assets, we create an expense, therefore, we must spread the cost of the asset into expense over the number of years we think the assets will continue to produce revenues for us. 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".

   Need 3 pieces of information:

Equipment	Accumulated Depreciation - Equipment	Depreciation Expense

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

Eli's Consulting
T-Accounts
For the Month Ended December 31, 20X1

Cash

111,350	

Accounts Receivable

5,000	

Supplies

1,500	

Prepaid Rent

8,000	

Equipment

11,000	

Accumulated Depreciation - Equipment

Accounts Payable

	3,500

Eli's, Capital

	100,000

Eli's, Drawing

5,000	

Fees Income

	47,000

Salaries Expense

8,000	

Utilities Expense

650	

Rent Expense

Supplies Expense

Depreciation Expense

Eli's Consulting
Trial Balance
December 31, 20X1

Account	Debit	Credit
Cash	111,350	
Accounts Receivable	5,000	
Supplies	1,500	
Prepaid Rent	8,000	
Equipment	11,000	
Accounts Payable		3,500
Eli's, Capital		100,000
Eli's, Drawing	5,000	
Fees Income		47,000
Salaries Expense	8,000	
Utilities Expense	650	
	150,500	150,500

Eli's Consulting
Adjusted Trial Balance
December 31, 20X1

Account	Debit	Credit
Cash		
Accounts Receivable		
Supplies		
Prepaid Rent		
Equipment		
Accumulated Depreciation		
Accounts Payable		
Eli's, Capital		
Eli's, Drawing		
Fees Income		
Salaries Expense		
Utilities Expense		
Supplies Expense		
Rent Expense		
Depreciation Expense		

P5.4B

The Wealth Management Company
T-Accounts
For the Month Ended June 30, 20X1

Cash

39,400	

Accounts Receivable

12,200	

Supplies

15,200	

Prepaid Advertising

28,800	

Prepaid Rent

72,000	

Equipment

96,000	

Accumulated Depreciation - Equipment

Accounts Payable

	21,600

Irene Karafaith Capital

	120,200

Irene Karafaith, Drawing

8,000	

Fees Income

	147,600

Advertising Expense

Depreciation Expense - Equipment

Rent Expense

Salaries Expense

15,200	

Supplies Expense

Utilities Expense

2,600	

Account	Debit	Credit

General Journal

	DATE		DESCRIPTION	PR	DEBIT	CREDIT	
1							1
2							2
3							3
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General Journal

	DATE		DESCRIPTION	PR	DEBIT	CREDIT	
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General Journal

	DATE		DESCRIPTION	PR	DEBIT	CREDIT	
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General Journal

	DATE		DESCRIPTION	PR	DEBIT	CREDIT	
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