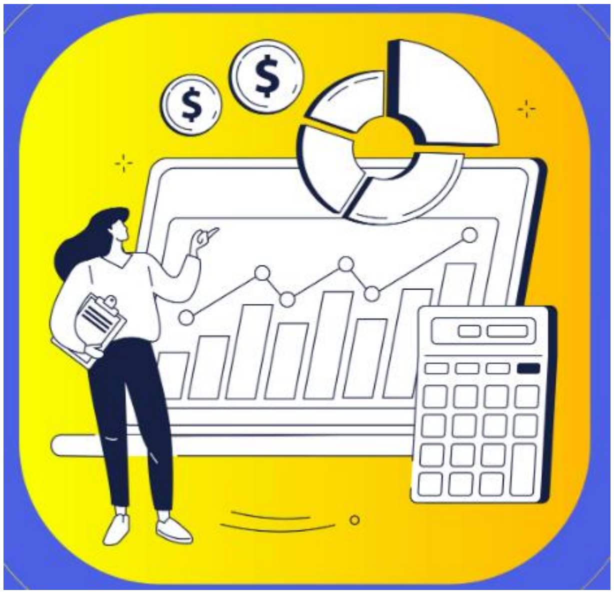
Adjusting Entries

lecture 4



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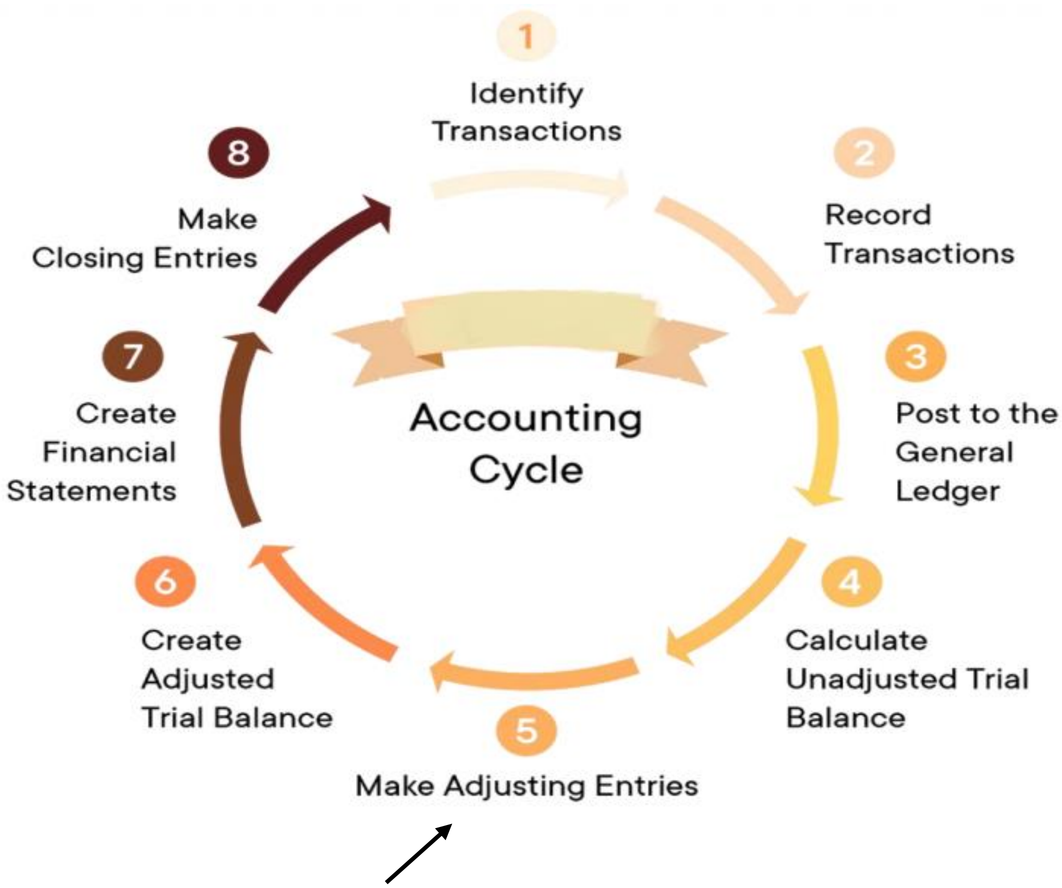
Adjusting Entries



<u>Adjusting Entries :</u> In order for revenues to be recorded in the period in which services are performed and for expenses to be recognized in the period in which they are incurred, companies make adjusting entries .

<u>Explain the purpose of adjusting entries.</u>

For purposes of measuring income and preparing financial statements, the life of a business is divided into a series of accounting periods. This practice enables decision makers to company, the financial statements of successive periods and to identify significant trends.

Types of Adjusting Entries

1. **Prepaid expenses :** Expenses paid in cash before they are used or consumed
2. **Accrued expenses :** Expenses incurred but not yet paid in cash or recorded.
3. **Unearned revenues :** Cash received before services are performed.
4. **Accrued revenues :** Revenues for services performed but not yet received in cash or recorded.

1- Prepaid expenses

Expenses paid in cash before they are used or consumed .

Example 1 /

On Dec 31 , 2012 the trial balance appeared in the records of Ali co. 24,000 I.D. prepaid rent the rent paid for two years, starting from 1\1\2012 .

Required : Record adjusting entry.

Sol /

24,000 ÷2 =12,000

Rent exp. 12,000

Prepaid rent 12,000