

LESSON

6-2 Planning Adjusting Entries on a Work Sheet



Learning Objectives

- LO3** Analyze and explain the adjustments for supplies and prepaid insurance.
- LO4** Complete the Adjustments columns of a work sheet.

Planning Adjustments on a Work Sheet

LO3

- Cash paid for an expense in one fiscal period that is not used until a later period is called a **prepaid expense**.
- Reporting income when it is earned and expenses when they are incurred is called the **accrual basis of accounting**.
 - Generally accepted accounting principles (GAAP) require the use of the accrual basis of accounting.
- Reporting income when the cash is received and expenses when the cash is paid is called the **cash basis of accounting**.
- Changes recorded on a work sheet to update general ledger accounts at the end of a fiscal period are called **adjustments**.

Supplies Adjustment on a Work Sheet

LO3

AFTER ADJUSTMENT

Supplies Expense			
Adj. (a)	530.00		
Supplies			
Jan. 31 Bal.	620.00	Adj. (a)	530.00
<i>(New Bal.</i>	<i>90.00)</i>		

Supplies Adjustment on a Work Sheet

LO3

		1				2				3				4			
ACCOUNT TITLE		TRIAL BALANCE				ADJUSTMENTS											
		DEBIT		CREDIT		DEBIT		CREDIT									
5	<i>Supplies</i>	6	2	0	00							(a)	5	3	0	00	
19	<i>Supplies Expense</i>									(a)	5	3	0	00			

Diagram annotations:

- Red circle 2 with arrow pointing to the credit amount (53000) in the *Supplies* row under column 4.
- Red circle 1 with arrow pointing to the debit amount (53000) in the *Supplies Expense* row under column 7.
- Red circle 3 with arrow pointing to the label (a) in the *Supplies Expense* row under column 7.

1. Write the debit amount in the Adjustments Debit column on the line with the account title Supplies Expense.
2. Write the credit amount in the Credit column on the line with the account title Supplies.
3. Label the two parts of this adjustment with a small letter *a* in parentheses.

Prepaid Insurance Adjustment on a Work Sheet

LO3

AFTER ADJUSTMENT

Insurance Expense			
Adj. (b)	150.00		
Prepaid Insurance			
Jan. 31 Bal.	900.00	Adj. (b)	150.00
<i>(New Bal.</i>	<i>750.00)</i>		

Prepaid Insurance Adjustment on a Work Sheet

LO3

		1				2				3				4			
ACCOUNT TITLE		TRIAL BALANCE				ADJUSTMENTS											
		DEBIT		CREDIT		DEBIT		CREDIT									
6	<i>Prepaid Insurance</i>	9	0	0	00					(b)	1	5	0	00			
17	<i>Insurance Expense</i>							(b)	1	5	0	00					

2 Credit

3 Label

1 Debit

1. Write the debit amount in the Adjustments Debit column on the line with the account title Insurance Expense.
2. Write the credit amount in the Credit column on the line with the account title Prepaid Insurance.
3. Label the two parts of this adjustment with a small letter *b* in parentheses.

Proving the Adjustments Columns of a Work Sheet

LO4

Delgado Web Services																			
Work Sheet																			
For Month Ended January 31, 20--																			
		1				2				3				4					
ACCOUNT TITLE		TRIAL BALANCE								ADJUSTMENTS									
		DEBIT				CREDIT				DEBIT				CREDIT					
5	Supplies	6	2	0	00							(a)	5	3	0	00			
6	Prepaid Insurance	9	0	0	00							(b)	1	5	0	00			
17	Insurance Expense									(b)	1	5	0	00					
18	Miscellaneous Expense	4	5	00															
19	Supplies Expense									(a)	5	3	0	00					
20		8	0	4	5	00	8	0	4	5	00	6	8	0	00	6	8	0	00

1 Single Rule

2 Totals

3 Double Rule

1. Rule a single line across the two Adjustments columns on the same line as the single line for the Trial Balance columns.
2. Add both the Adjustments Debit and Credit columns.
3. Rule double lines across both Adjustments columns.

Lesson 6-2 Audit Your Understanding

1. Explain how the concept of Matching Expenses with Revenue relates to adjustments.

ANSWER

An expense should be reported in the same fiscal period that it is used to produce revenue.

Lesson 6-2 Audit Your Understanding

2. List the four questions asked in analyzing an adjustment on a work sheet.

ANSWER

1. What is the balance of the account to be adjusted?
2. What should the balance be for this account?
3. What must be done to correct the account balance?
4. What adjustment is made?