

Principles of Accounting I



ACCT-1104

Adjusting Entries Review

Click Here to Proceed



How to Use this Reivew

For each transaction you are given, write your answer on a piece of paper. Once you have answered the problem, click the **Proceed Button**  to reveal the answer. Click the **Question Mark**  icon if you want more information on how the problem was solved.



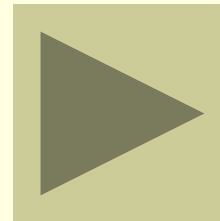
Question 1

- ABC Company shows a balance of \$3,000 in the Supplies (asset) account. A physical count indicates \$1,000 of supplies on hand at the end of the fiscal period. Journalize the required adjustment for supplies.



Question 1 - Answer

Supplies Expense	2000	
Supplies		2000



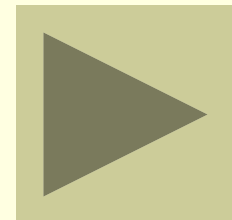
Question 1 - Explanation

Supplies Expense	2000	
Supplies		2000

This adjustment is for the supplies that have been used during the fiscal period but not yet recorded. Any time an asset is used, an **expense** account will be debited and an asset account will be credited. In this case, the expense is *Supplies Expense* and the asset is *Supplies*.

The amount of the adjustment is calculated as the difference between the beginning supplies balance and the ending supplies balance.

Beginning Balance	\$3,000
Ending Balance	<u>1,000</u>
Supplies Used (Expense)	2,000



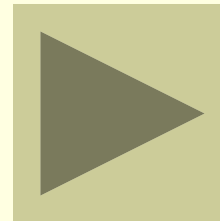
Question 2

- ABC Company paid \$2,400 for a two-year insurance policy on January 1 of the current year. Prepare the required adjustment for the expired insurance at the end of the current year.



Question 2 - Answer

Insurance Expense	1200	
Prepaid Insurance		1200



Question 2 - Explanation

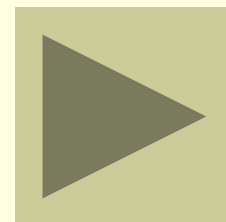
Insurance Expense	1200	
Prepaid Insurance		1200

This adjustment involves a prepaid item, specifically, prepaid insurance. Prepaid items are assets. As prepaid items get used up, the asset is converted into an expense. An adjusting entry is required to recognize the expense (debit Insurance Expense) and reduce the used asset (credit Prepaid Insurance).

The amount for this entry is calculated by dividing the total payment (\$2400) by the period covered (24 months), then multiplying the monthly amount (\$100) by the months in this period (12).

$\$2400/24 = \100 per month (insurance expires at \$100/month)

12 months in the current year X \$100 = \$1200 insurance expense



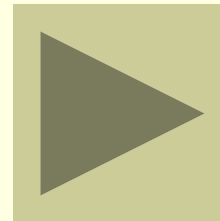
Question 3

- ABC Company has a \$10,000 note payable due March 15 of next year. The note originated on July 1 of the current year and bears interest at the rate of 5%. Prepare the required journal entry to recognize interest expense.



Question 3 - Answer

Interest Expense	250	
Interest Payable		250



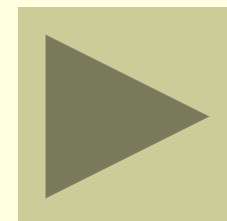
Question 3 - Explanation

Interest Expense	250	
Interest Payable		250

This is an example of an adjustment requiring an *accrual*. While interest has been accruing (building up) on this note, it has not been recorded. The expense must be recognized (debit Interest Expense) and the amount of interest to be paid upon maturity is accrued in a liability account (credit Interest Payable).

Interest is calculated as Principal X Rate X Time.

Principal	\$10,000
Interest Rate	<u>.05</u>
Annual Interest	500
Time Period covered (July 1 – Dec 31)	6/12 months
Interest Expense	\$250



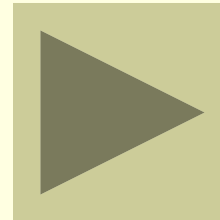
Question 4

- ABC Company received \$36,000 on January 1 of the current year for a project to be completed over the next two years. Journalize the adjustment to recognize the income earned on this project at the end of the current year.



Question 4 - Answer

Unearned Fees	18000	
Fees Earned		18000



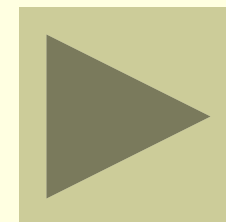
Question 4 - Explanation

Unearned Fees	18000	
Fees Earned		18000

This is an example of an adjustment for unearned revenue now earned. When the cash for this project was received, the Cash account was debited and the Unearned Fees account (a liability) was credited. As work is completed on the project the liability decreases (debit Unearned Fees) and the revenue increases (credit Fees Earned).

The amount of fees earned at year-end is calculated as follows:

Amount Received	\$36,000
Divided by Period Covered	<u>24</u> months
Earnings per Month	\$1,500
Months of Work in this Period	12
Fees Earned	\$18,000



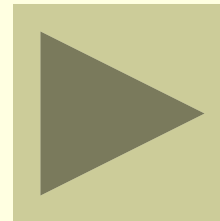
Question 5

- ABC Company has performed \$12,000 of services that have not been billed as of fiscal year-end. Prepare the adjusting entry to record the fees earned.



Question 5 - Answer

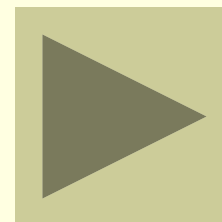
Accounts Receivable	12000	
Fees Earned		12000



Question 5 - Explanation

Accounts Receivable	12000	
Fees Earned		12000

This is an example of accrued earnings. In this situation fees have been earned but not yet billed and therefore not recorded. Since the fees will be paid at a later date, debit Accounts Receivable for the and credit the appropriate revenue account (in this case, Fees Earned) for the amount **earned** (\$12,000 in this case).



End of Review

