

Adjusting Entry Examples

ADJUSTING ENTRIES

Adjusting entries are prepared to adjust account balances from cash basis to accrual basis. During the period, some transactions are recorded using cash basis and these transactions are adjusted at the end of the period to reflect the accrual basis accounting.

Adjusting Entries for Rent Expense

Exercise 1

On September 1, 20x1, Entity A entered into an agreement to rent office space for a year and paid \$36,000 for a six-month rent. Prepare journal entries on the following dates:

September 1, 20x1

Paid \$36,000 rent for a six-month period from September 1, 20x1 to February 28, 20x2

Prepaid rent	36,000	
Cash		36,000

December 31, 20x1

Record the rent expense for the period from September 1, 20x1 to December 31, 20x1

Rent expense	24,000	
Prepaid rent		24,000

[Note] Monthly rent expense = $\$36,000 / 6 \text{ months} = \$6,000$

Rent expense for the period from September 1 to December 31 = $\$6,000 \times 4 = \$24,000$

Adjusting Entries for Supplies Expense

Exercise 2

On December 1, 20x1, Entity B purchased \$4,500 supplies and recorded as an asset. On December 31, 20x1, Entity B checked supplies and found \$1,200 in the inventory. Prepare journal entries on the following dates:

December 1, 20x1

Supplies	4,500	
Cash		4,500

December 31, 20x1

Supplies expense	3,300	
Supplies		3,300

[Note]

Supplies consumed during December = \$4,500 - \$1,200 = \$3,300

Exercise 3

On December 1, 20x1, Entity C purchased \$3,000 supplies and recorded as supplies expense.

On December 31, 20x1, Entity C checked supplies and found \$1,000 in inventory. Prepare journal entries on the following dates:

December 1, 20x1

Supplies expense	4,500	
Cash		4,500

December 31, 20x1

	Debit	Credit
Supplies	1,200	
Supplies expense		1,200

[Note]

Supplies left in the inventory at December 31, 20x1 = \$1,200

Adjusting Entries for Insurance Expense

Exercise 4

On December 1, 20x1, Entity D signed a new insurance contract and paid \$6,300 insurance premium for a three-month period from December 1 20x1 to February 20x2. Prepare journal entries on the following dates:

December 1, 20x1

Prepaid insurance	6,300	
Cash		6,300

December 31, 20x1

Insurance expense	2,100	
Prepaid insurance		2,100

[Note]

Insurance expense for December 20x1 = \$6,300 / 3 months = \$2,100

The balances of prepaid insurance account are as follows:

Balance at December 1, 20x1 = \$6,300

Balance at December 31, 20x1 = \$6,300 - \$2,100 = \$4,200

Adjusting Entries for Salaries Expense

Exercise 5

On December 16, 20x1, Entity E hired a new staff with a monthly salary of \$4,600. Monthly salary is paid on the 15th of each month. Prepare journal entries on the following dates:

December 16, 20x1

No journal entry is prepared when a new staff is hired.

December 31, 20x1

Salaries expense	2,300	
Salaries payable		2,300

[Note]

Salaries expense = $\$4,600 / 2 = \$2,300$

Adjusting Entries for Unearned Revenue

Exercise 6

On November 9, 20x1, Entity G received \$1,200 from a subscriber to a magazine issued by the entity. Each issue of the magazine is published and sent to subscribers on the first day of each month. Prepare journal entries on the following dates:

November 9, 20x1

Cash	12,000	
Unearned subscription revenue		12,000

December 1, 20x1

Unearned subscription revenue	1,000	
Subscription revenue		1,000