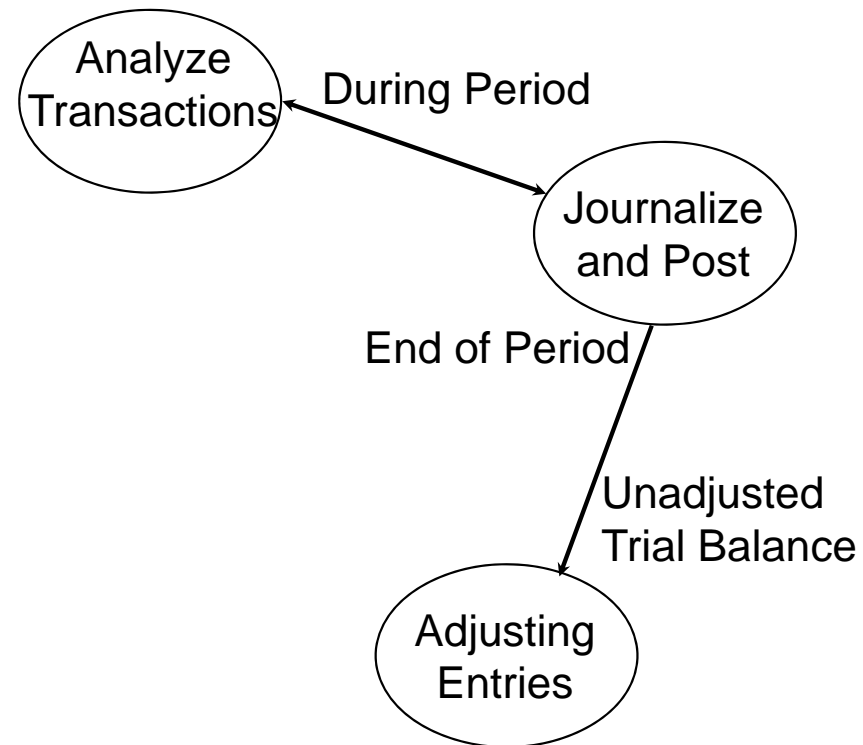


# The Accounting Cycle

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# Adjusting Entries

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- **Adjusting entries**
  - Internal transactions that update account balances in accordance with accrual accounting prior to the preparation of financial statements
- **Deferred Revenues and Expenses**
  - Update *existing* account balances to reflect current accounting values
  - Cash flow in past; record revenue/expense now
- **Accrued Revenues and Expenses**
  - Create *new* account balances to reflect unrecorded assets or liabilities
  - Record revenue/expense now; cash flow in future

## Deferred Expenses

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- **Question:** Are there any assets that have been “used up” this period and should be expensed?
- **Examples:**
  - Prepaid Rent
  - Prepaid Insurance
  - Depreciation or amortization
- **Journal Entry:**
  - Dr. Expense
  - Cr. Prepaid Asset

## Deferred Revenues

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- **Question:** Are there any liabilities that have been fulfilled by delivery of goods or services that should be recognized as revenue?
- **Examples:**
  - Unearned rental revenue
  - Deferred subscription revenue
- **Journal Entry:**  
Dr. Unearned Revenue Liability  
    Cr. Revenue

# Accrued Expenses

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- **Question:** Have any expenses accumulated during the period that have not yet been recorded?
- **Examples:**
  - Income Taxes Payable
  - Interest Payable
  - Salaries and Wages Payable
- **Journal Entry:**
  - Dr. Expense
  - Cr. Payable Liability

# Accrued Revenue

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- **Question:** Have any revenues accumulated during the period that have not yet been recorded?
- **Examples:**
  - Interest Receivable
  - Rent Receivable
- **Journal Entry:**  
Dr. Receivable Asset  
    Cr. Revenue

# Depreciation and Amortization

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- **Allocate the original cost of a long-lived asset over its useful life**
  - Matches the total cost of asset to the revenues it generates over its period of use
- **Terminology**
  - Tangible assets (physical assets) require depreciation
  - Intangible assets (abstract assets) require amortization

# Depreciation and Amortization

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- **Accounting Procedure**

- Depreciation is not deducted from the tangible asset account. Rather, it is recorded in a Contra Asset Account (XA) called Accumulated Depreciation, which
  - has a credit balance
  - is subtracted from PP&E on the balance sheet to get the “Net Book Value”
- Amortization is often (but not always) deducted directly from the intangible asset account

- **Straight-line Depreciation:**

- Depreciation expense =  $(\text{Original Cost} - \text{Salvage Value}) / \text{Useful Life}$



# Super T-account

Assets		Liabilities & Shareholders' Equity			
Assets		Liabilities		Contributed Capital	
Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
+	-	-	+	-	+
Contra Assets		Retained Earnings			
Dr.	Cr.	Dr.		Cr.	
-	+	-		+	
		Expenses		Revenues	
		Dr.	Cr.	Dr.	Cr.
		+	-	-	+