

Examples: Following are examples of some situations where you need to pass adjusting entries:

1. Expenses were initially recorded as prepaid in the general ledger, but a portion of them has now been incurred/expired by the closing date.
2. Expenses were initially recorded as expenses in the ledger, but a portion of them is still prepaid/unused at the closing date.
3. Income was initially recorded as unearned in the general ledger, but a portion of it has been earned by the closing date.
4. Income was initially recorded as earned in the general ledger, but a portion of it remains unearned at the closing date.
5. Accrued Revenue: No entries have been made in the general ledger; we must record it at the closing date.
6. Accrued Expense: No entries have been made in the general ledger; we need to record the expense at the closing date.

1. Expenses were initially recorded as prepaid in the general ledger, but a portion of them has now been incurred/expired by the closing date:

A company paid Rs.12,000 for an annual insurance premium on May 1, 2023, and initially recorded it as "prepaid insurance" at Rs.12,000. However, by the end of the year, seven months have passed, and Rs.7,000 worth of insurance coverage has been used. An adjusting entry is required to recognize the Rs.7,000 as an expense for the period, reflecting the portion of the insurance that has been incurred or expired.

Debit: Insurance Expense	(Rs.7,000)
Credit: Prepaid Insurance	(Rs.7,000)

2. Expenses were initially recorded as expenses in the ledger, but a portion of them is still prepaid/unused at the closing date:

A business initially recorded office rent expenses of Rs.24,000 for the entire year. However, they only used Rs.18,000 worth of rent by the end of the year, leaving Rs.6,000 unutilized. An adjusting entry is necessary to recognize the unutilized portion of Rs.6,000 as a prepaid expense, representing rent paid for the following year.

Debit: Prepaid Rent	(Rs.6,000)
Credit: Rent Expense	(Rs.6,000)

3. Income was initially recorded as unearned in the general ledger, but a portion of it has been earned by the closing date:

A tuition center offers annual tuition packages for Rs.10,000 each. During the year, they provided lessons worth Rs.500,000 to 50 students and initially recorded this as "unearned tuition fee income."

Debit: Cash	(Rs.500,000)	
	Credit: Unearned Tuition Fee income	(Rs.500,000)

By the end of the year, 30 students completed a full year of tuition, while 20 will receive tuition for another six months. An adjusting entry is needed to recognize the Rs.300,000 as earned income because the services have been provided.

Debit: Unearned Tuition fee income (Rs.300,000)	
	Credit: Tuition fee income (Rs.300,000)

4. Income was initially recorded as earned in the general ledger, but a portion of it remains unearned at the closing date:

A consulting firm billed a client Rs.36,000 for a year-long project and initially recorded the receipt as income.

Debit: Cash	(Rs. 36000)	
	Credit: Consulting Fee Income	(Rs. 36000)

However, by the end of the financial year, they had only completed three months of work, worth Rs.9,000. The remaining nine months' worth of fees, Rs.27,000, is unearned income because the services are yet to be provided. An adjusting entry is needed to defer the recognition of the unearned portion.

Debit: Unearned Revenue	(Rs.27,000)	
	Credit: Revenue (Income)	(Rs.27,000)

5. Accrued Revenue: No entries have been made in the general ledger; we must record it at the closing date:

A marketing agency completed an advertising campaign for a client in November, but the billing won't occur until January. The agency records the accrued revenue for November's work at the end of the year to reflect the revenue that should be recognized, even though the client hasn't been billed yet.

Debit: Advertising Fee receivable	(Rs.00,000)
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Credit: Advertising fee income	(Rs.00,000)
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6. Accrued Expense: No entries have been made in the general ledger; we need to record the expense at the closing date:

A company received a utility bill for December in January 01, 2024 but needs to account for the expense in December 31, 2023. An adjusting entry is made in December 2023 to record the accrued expense, reflecting the cost of the utilities used in December even though the bill wasn't received until January.

Debit: Utility bill expenses	(Rs.00,000)
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Credit: Utility bill payable	(Rs.00,000)
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