

# ADJUSTMENTS

P R E P A R E D   B Y :   L U I S   M E I N G

## OBJECTIVES:

01

**Accrual and Cash Basis Accounting**

02

**Periodicity Concept**

03

**Adjusting Process**

04

**Adjusting Entries**



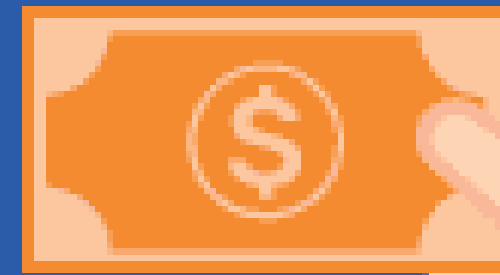
# Cash Basis Accounting



- an accounting method that recognizes revenues and expenses at the time cash is received or paid out



# Cash Basis Accounting



Record income  
when you receive it.



Record an expense  
when you pay it.

# Accrual Basis Accounting

- a method that allows a company to record revenue before receiving payment for goods or services sold and record expenses as they are incurred



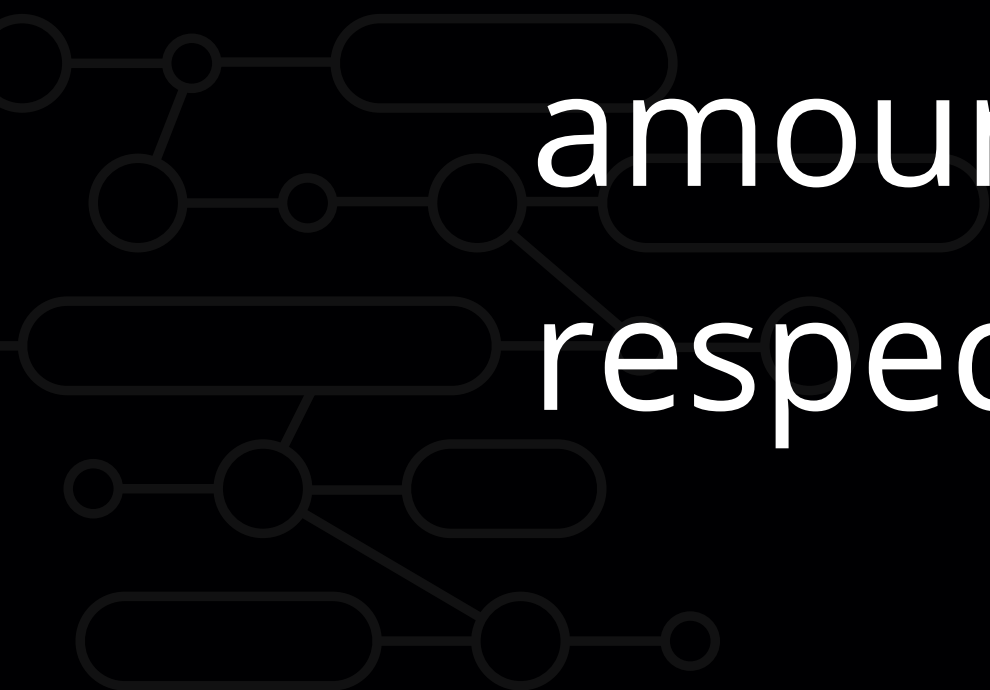
# Accrual Accounting

*[ə-'krü-əl ə-'kaun-tɪŋ]*

A financial accounting method in which revenues and expenses are recorded when a transaction occurs rather than when money is exchanged.

# Periodicity

- an accounting assumption so that a company's activities can be divided up into annual, quarterly, and monthly amounts that will be reported on the respective financial statements





# Periodicity

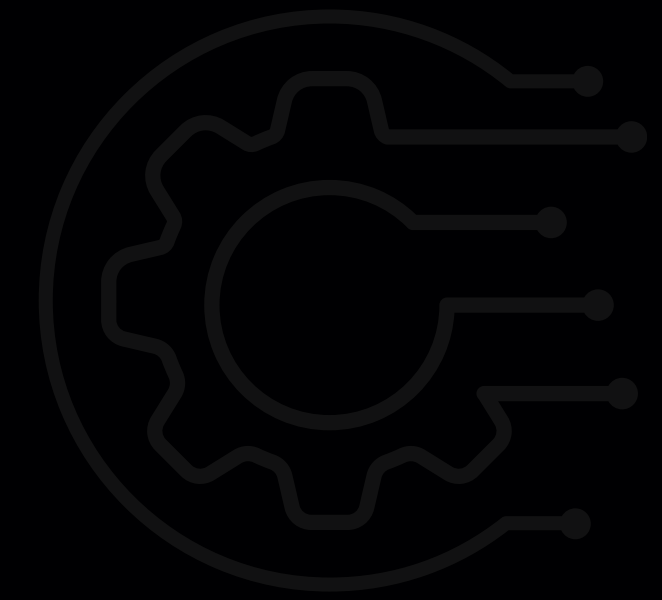


- allows companies to divide their financial activity into distinct accounting periods, such as weeks, months, or years

TRADING ACCOUNT  
( For the period ending 31-03-2022 )



# Accounting Period



- an established range of time where accounting functions are performed, aggregated, and analyzed
- may consist of weeks, months, quarters, calendar years, or fiscal years





# Accounting Period

Calendar Year	Fiscal Year	4-4-5 Calendar Year
<ul style="list-style-type: none"><li>✓ January 1st – December 31st</li><li>✓ 12 months</li><li>✓ Aligns with most other events</li></ul>	<ul style="list-style-type: none"><li>✓ Flexible start and end dates</li><li>✓ 12 months</li><li>✓ Based on business's fiscal year</li></ul>	<ul style="list-style-type: none"><li>✓ Quarterly</li><li>✓ 12 months</li><li>✓ End date always same day of the week</li></ul>

## 2.2 Accounting Period

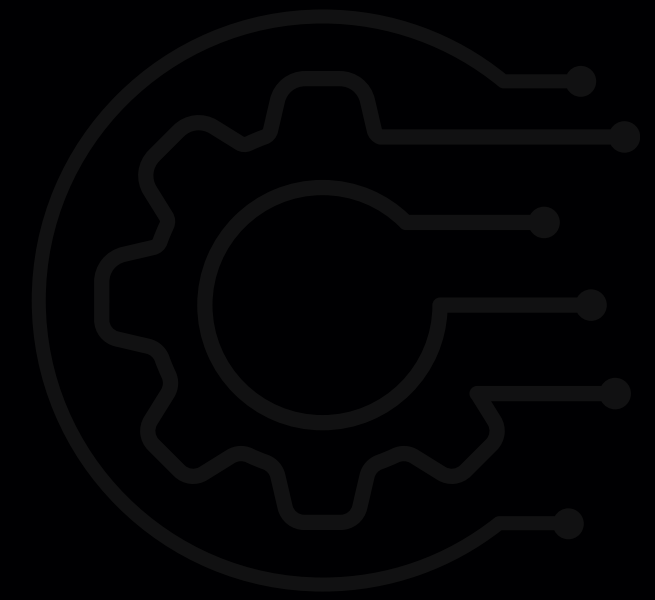


# Commercial Year

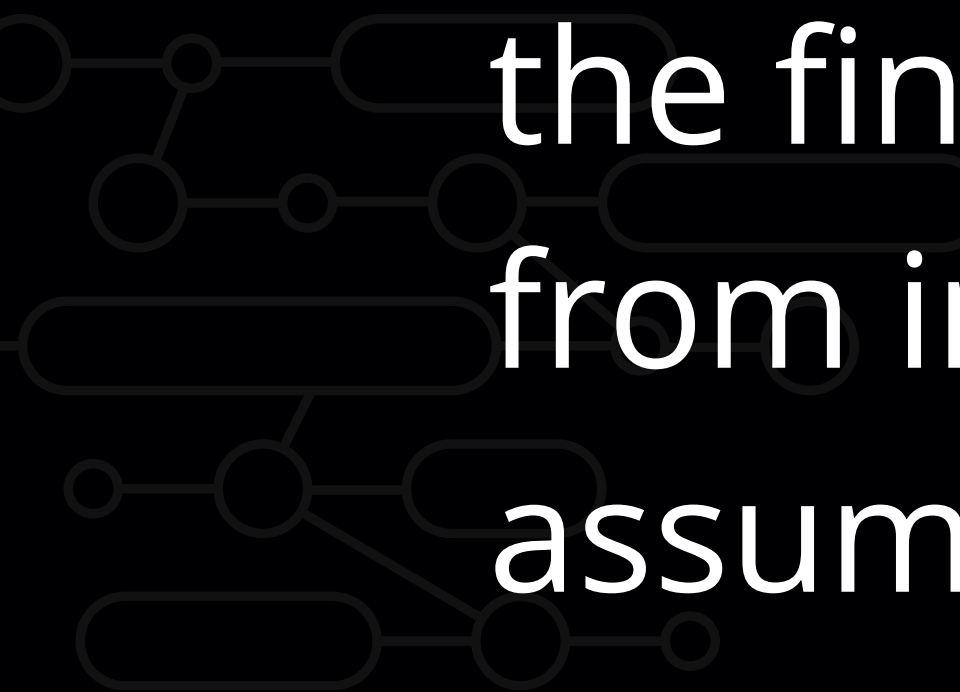
*[kə-'mər-shəl 'yir]*

A 360-day period composed of 12 months of 30 days that is used by some businesses and non-profit organizations to internally track changes in accounts.

# Adjusting Process



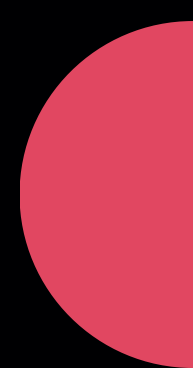
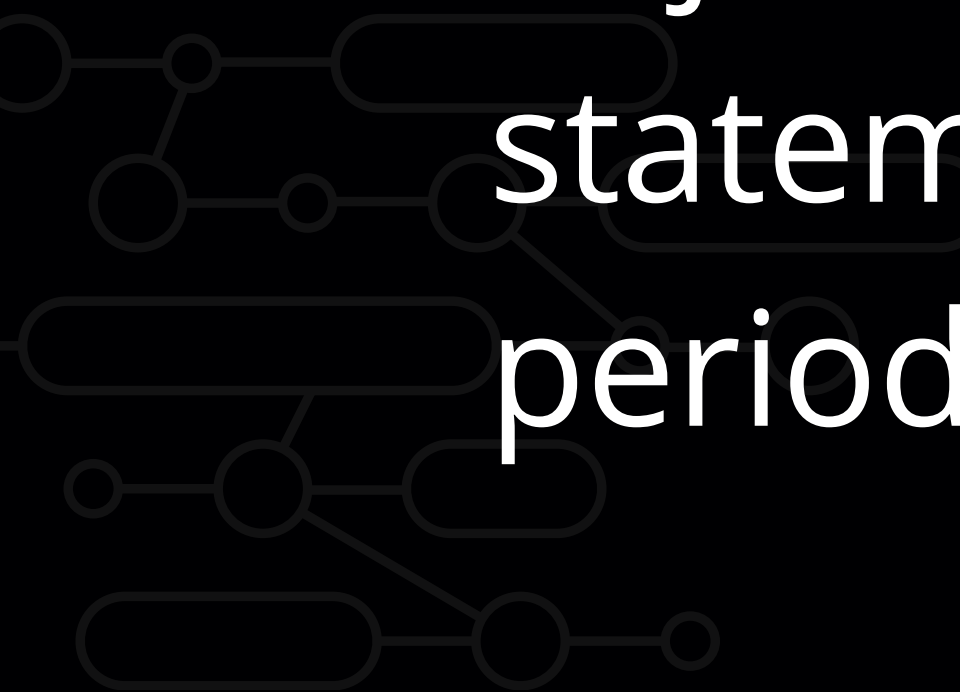
- process of adjusting entries in financial accounts to reflect actual transactions
- is to correct errors and misstatements in the financial statements, which can result from inaccurate records or faulty assumptions



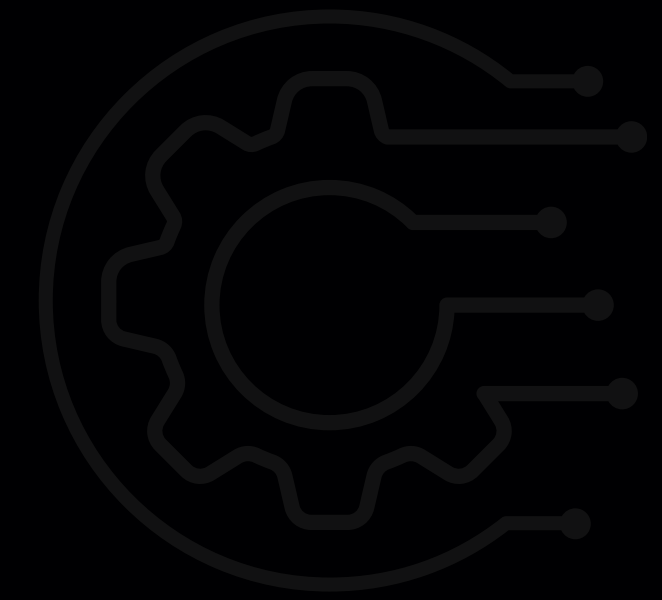
# Adjusting Process



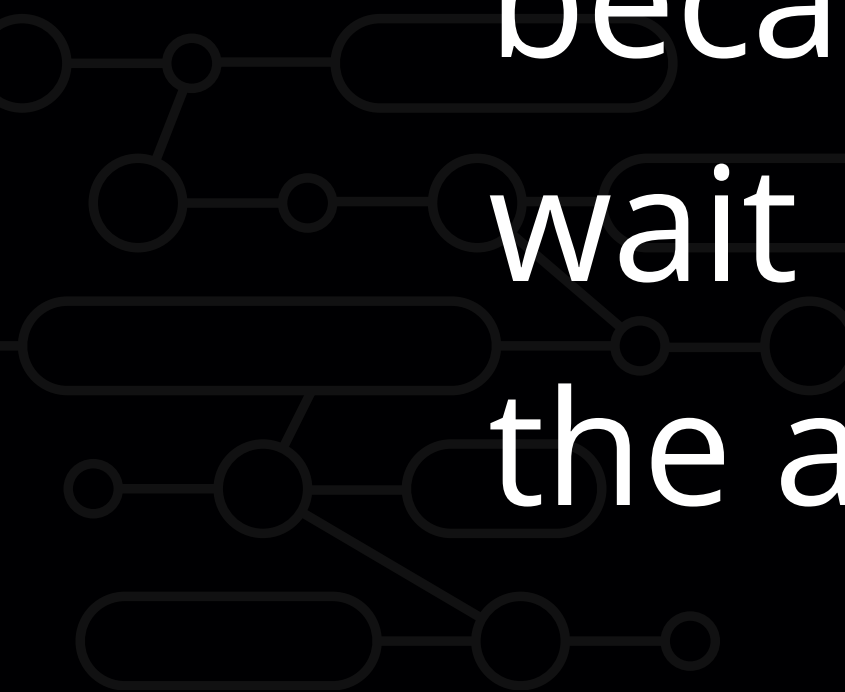
- three primary steps in the adjusting process: verifying accounts, making adjustments, and issuing an income statement and balance sheet for a given period



# Adjusting Entry



- reflect economic activity that has taken place but has not yet been recorded because it is either more convenient to wait until the end of the period to record the activity



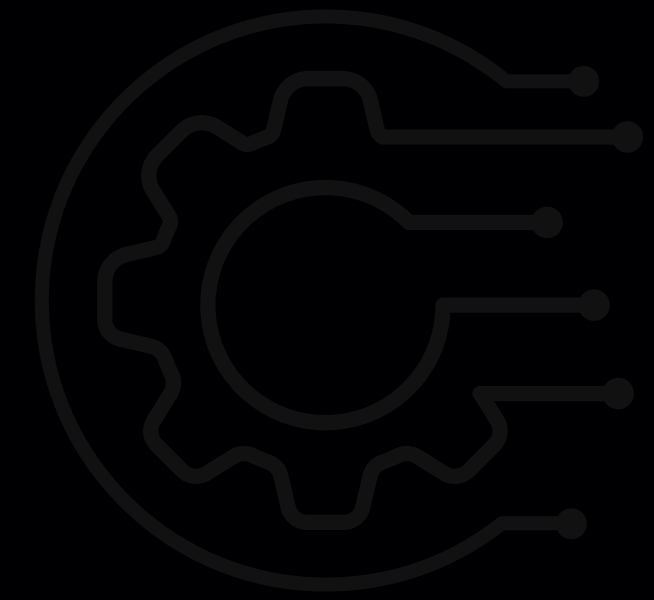
# Deferral



- are used to put off revenue — meaning, the amount to be collected, and expenses, or the amount to be paid

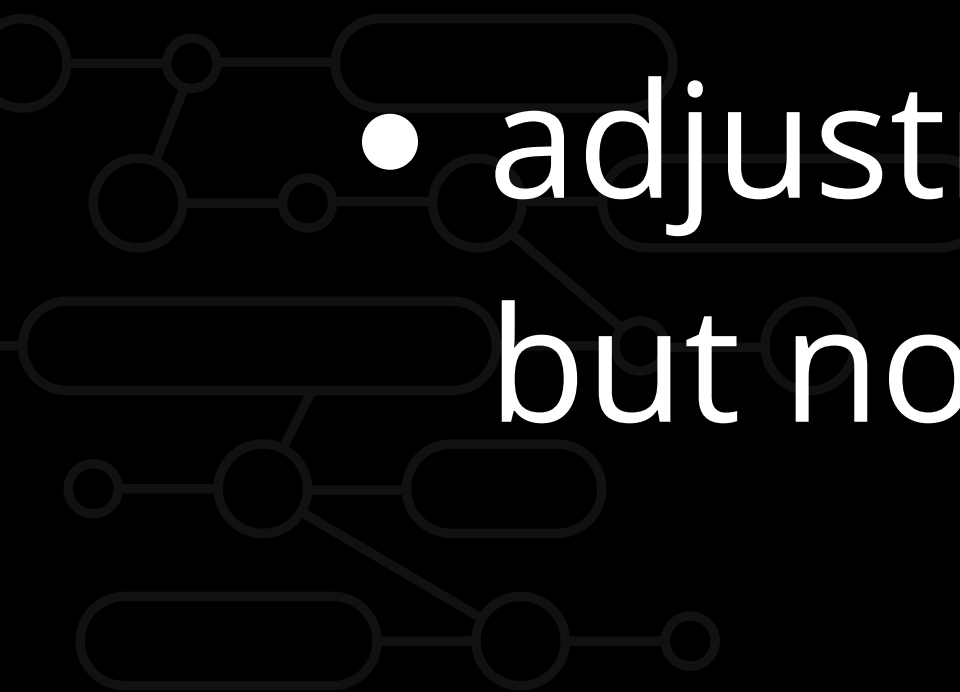




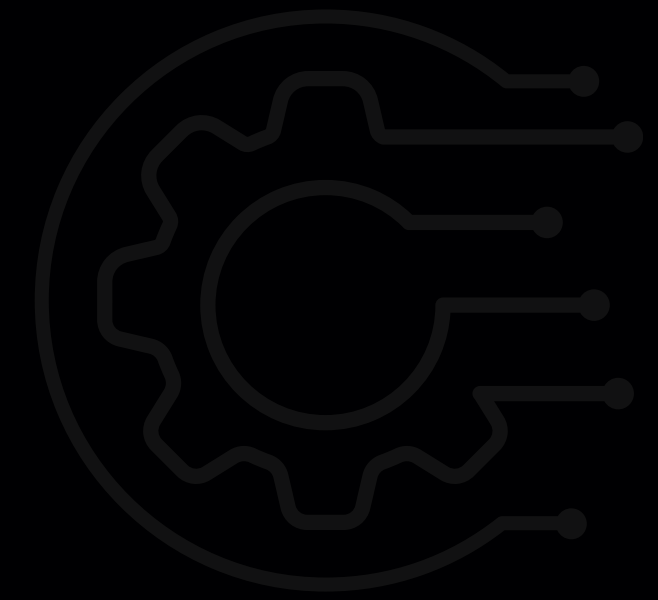


# Accruals

- recording of revenue when earned and expenses when incurred
- adjustments made for expenses incurred but not yet paid for



# Bad Debts



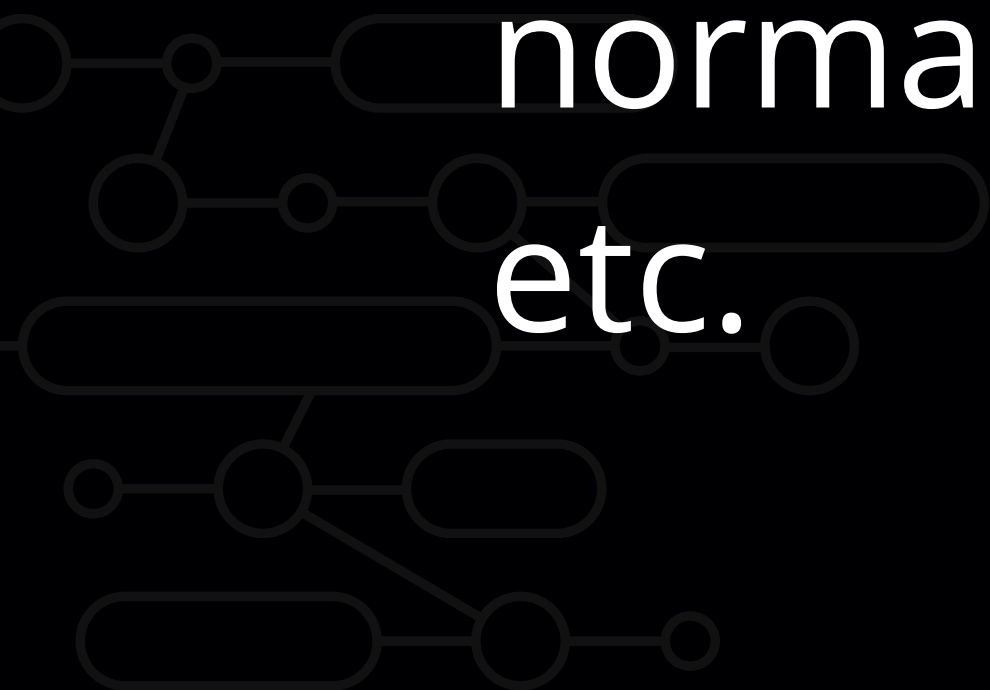
- partially or fully irrecoverable debts
- when you write off bad debt, you simply acknowledge that you have suffered a loss



# Depreciation



- to record the reduction in the value of the fixed assets due to normal wear and tear, normal usage or technological changes, etc.



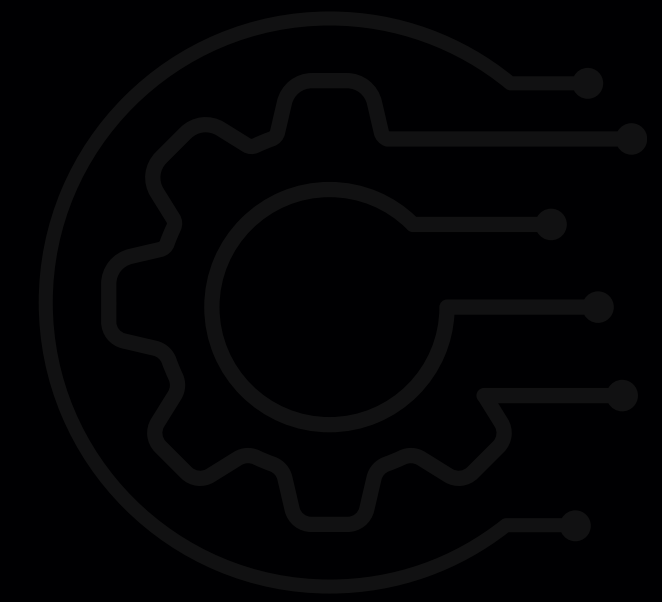
# Adjusting Entries



- ABC company starts their accounting period every 5th of the month and ends on the 4th of the next month.



# Adjusting Entries



- It is now the 5th of November and they carried over 150,000 cash; 1,500,000 of office equipment; 2,000,000 of land; 7,000,000 of their building; 500,000 of prepaid insurance; 1,000 salaries payable; 5,000,000 of inventory; and 5,000,000 of accumulated depreciation for their building.

## 4.1 Adjusting Entries

# Adjusting Entries



Date	Description	Dr	Cr
05/11/2023	Cash	150,000	
	Office Eqpt	1,500,000	
	Land	2,000,000	
	Building	7,000,000	
	Prepaid Ins	500,000	
	Invty	5,000,000	
	Salaries Payable		1,000
	Accumulated Dep		5,000,000
	Common Stock		11,149,000
	To rec intl bal		

# Adjusting Entries



- Their engineers told them that their building has a salvage value of 1,000,000 and should be depreciated by 100,000 monthly. Their accountants plan this at the end of the period.





# Adjusting Entries



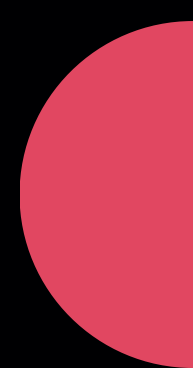
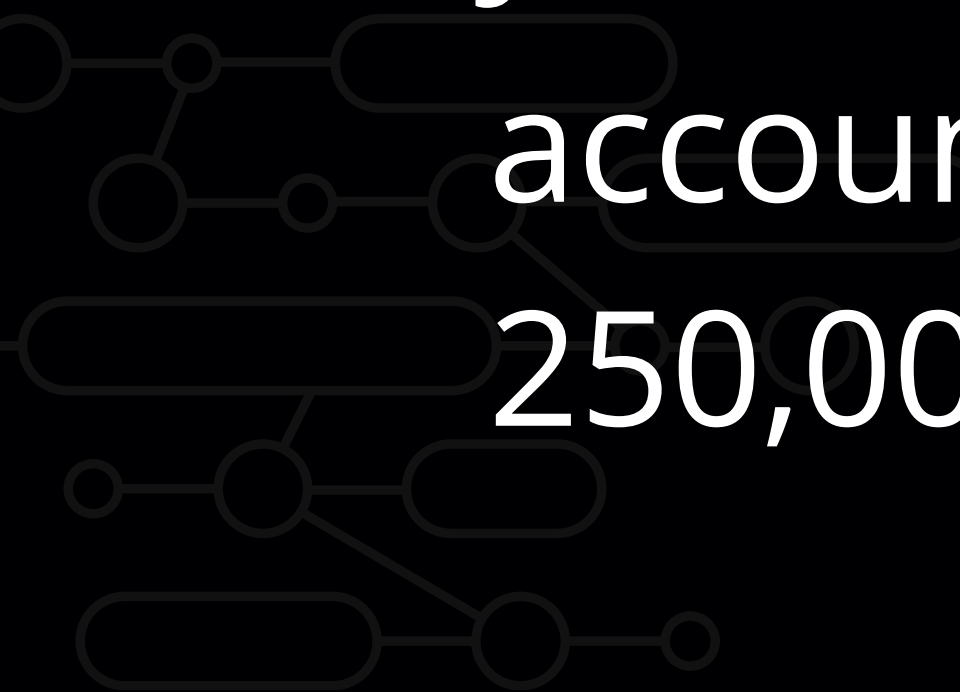
Date	Description	Dr	Cr
04/12/2023	Dep Exp Accumulated Dep To rec building dep	100,000	100,000



# Adjusting Entries



- They pay their insurance for their employees in advance for 1 year every January. Their insurer charges their account on every 28th of the month for 250,000.



# Adjusting Entries



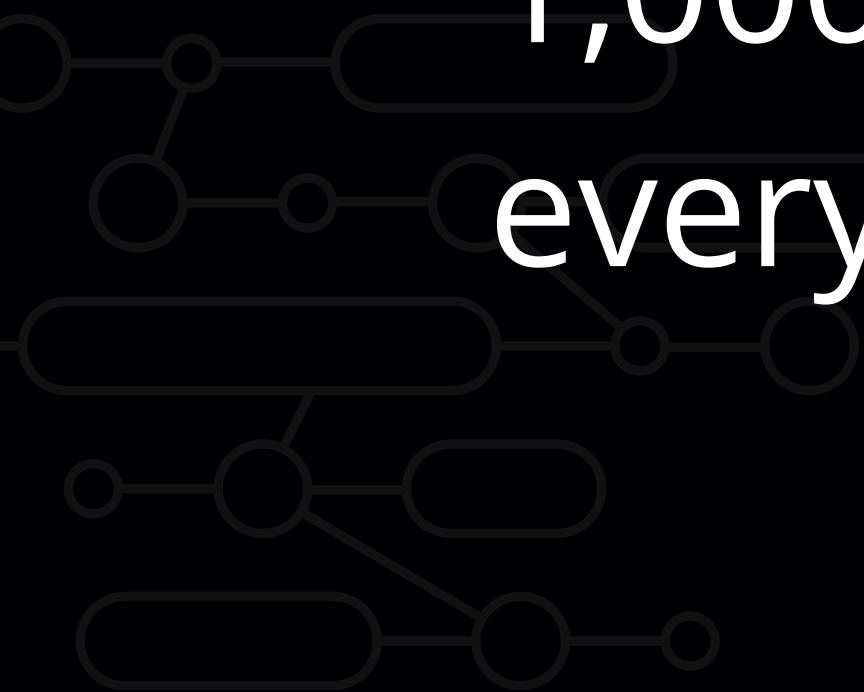
Date	Description	Dr	Cr
28/11/2023	Ins Exp Prepaid Ins To rec ins charge	250,000	250,000



# Adjusting Entries



- They also pay housekeeping services to another company that charges them 1,000 for every day where they charge every 3rd of the month for a lump sum.



# Adjusting Entries



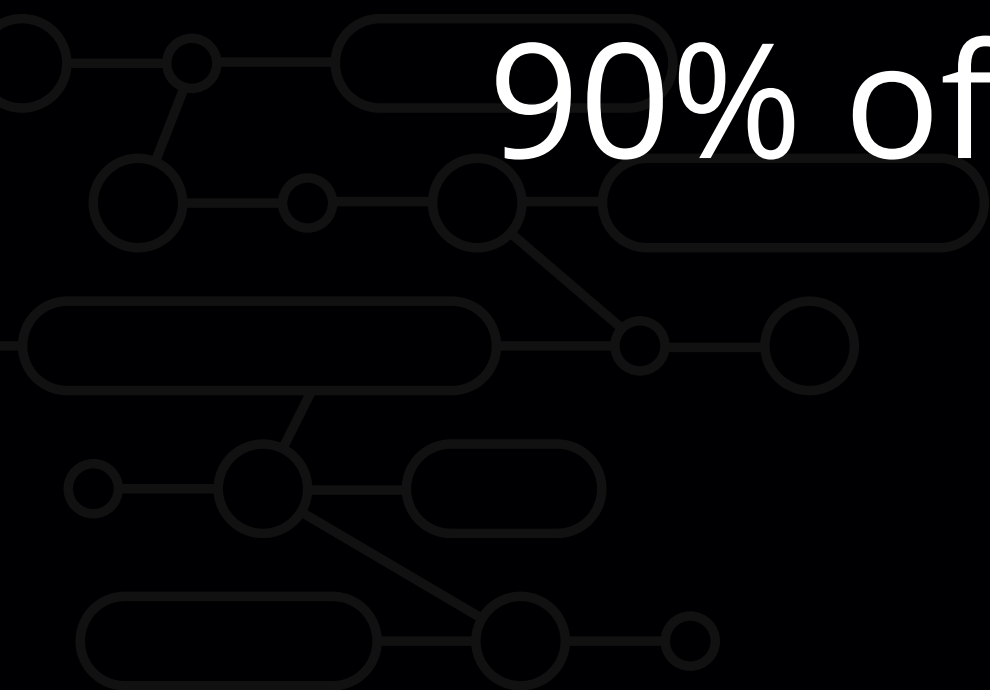
Date	Description	Dr	Cr
03/12/2023	Salaries Exp	29,000	
	Salaries Payable	1,000	
	Cash		30,000
	To rec salaries		



# Adjusting Entries



- Assume that they received sales for 5,000,000 every end of the month where 90% of this is the cost of sales.



# Adjusting Entries



Date	Description	Dr	Cr
30/11/2023	COGS	4,000,000	
	Cash	5,000,000	
	Sales		5,000,000
	Invty		4,000,000
	To rec sales		



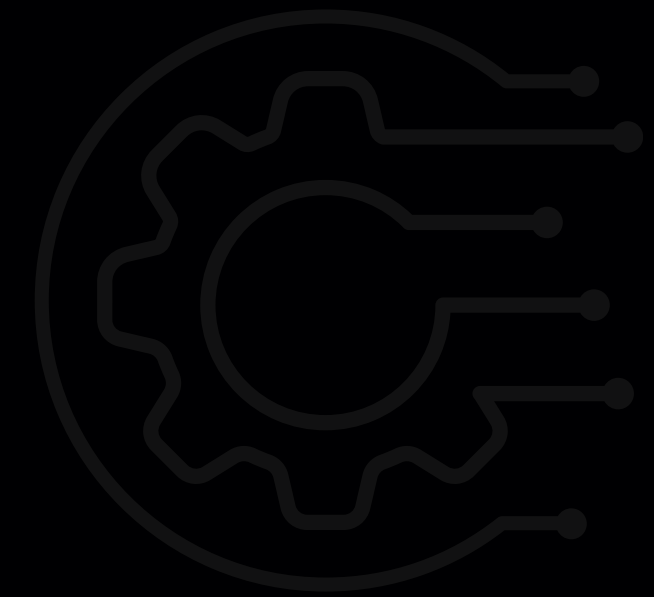
# Adjusting Entries



- What are the account balances? The UTB?  
The last adjustments?



## 4.1 Adjusting Entries



# Adjusting Entries

Date	Description	Dr	Cr
4 12 2023	Dep Exp Accumulated Dep To rec building dep	100,000.00	100,000
	Salaries Exp Salaries Payable To rec building dep	1,000.00	1,000
	Ins Exp Prepaid Ins To rec insurance exp	50,000.00	50,000.00

**ABC Co.**  
**Worksheet**  
**As of Dec. 4, 2023**

Accounts	UTB		Adjustments		ATB	
	dr	cr	dr	cr	dr	cr
Accumulated Dep		5,000,000.00		100,000.00		5,100,000.00
Building	7,000,000.00				7,000,000.00	
Cash	5,120,000.00				5,120,000.00	
Invty	1,000,000.00				1,000,000.00	
Land	2,000,000.00				2,000,000.00	
Office Eqpt	1,500,000.00				1,500,000.00	
Prepaid Ins	250,000.00			50,000.00	200,000.00	
Salaries Payable				1,000.00		1,000.00
Common Stock		11,149,000.00				11,149,000.00
Sales		5,000,000.00				5,000,000.00
COGS	4,000,000.00				4,000,000.00	
Salaries Exp	29,000.00		1,000.00		30,000.00	
Ins Exp	250,000.00		50,000.00		300,000.00	
Total UTB	21,149,000.00	21,149,000.00				
Dep Exp			100,000.00		100,000.00	
Total Adj			151,000.00	151,000.00		
Total ATB					21,250,000.00	21,250,000.00