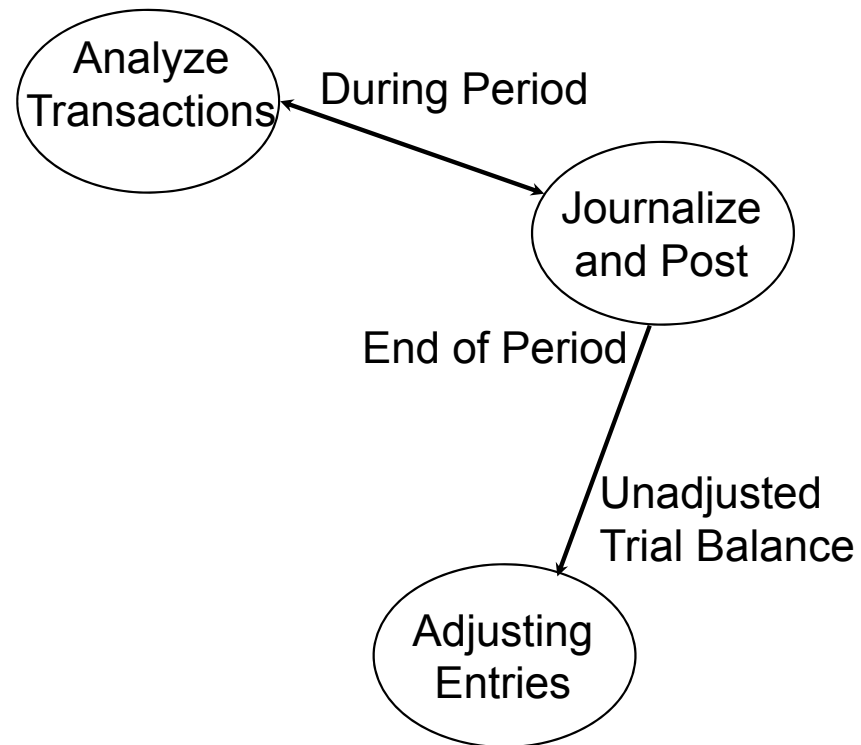


The Accounting Cycle



Adjusting Entries

- **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

- **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

- **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

- **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

- **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

- **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

- **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.
		+	-	-	+