Laiba Fatima
22K-5195
BSE-3A

Accounting Assignment 2

- Need for Adjusting Entries

Adjusting entries are very important to match revenues and expenses to the appropriate accounting period. It is also important to prevent double-counting or ~~omiss abssen~~ any skipping of income and expenses. It is also necessary so to recognize unearned revenued & to recognize prepaid expenses Basically it is necessary to update all account balances before financial statements can be prepared

- Types of Adjusting Entries

1. Accrued Expense
2. Accrued Revenue
3. Depreciation
4. Bad debts
5. Merchandise Inventory
6. Prepaid Expenses /Advance /Unexpired
7. Unearned Revenue
8. Accrued Interest
9. Accrue Income Taxes
10. Accrued Utilities

• Adjusting Entries and Timing Differences

Timing Difference are inconsistencies betwen when transactions are recorded for financial purposes and when they are recorded for tax purposes.

Timing Differences can be either tempo~~ry~~ary or permanent

Temporary : Differences arise because income and expenses are recognized in different periods ~~of~~ for financial accounting

Permanent : these do not reverse

• Adjusting Entries and Accounting Principles

- also known as Generally Accepted Accounting Principles (GAAP) are a set of guidelines.

1. Accrual Principle : Revenue / Expense are recognized when they ~~revenu~~ are earned.
2. Matching Principle : Expense should be matched with revenue in same accounting period
3. Consistency Principle : company should use the same accounting methods to ensure consistency
4. Revenue Recognition Principle : Revenue are recognized when they are realized & earned