



# Adjusting and Closing Entries

## - Accounting Principles

2022. 3.

Dr. Yangin Yoon

# Agenda

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- Recap the last class
- Financial Statements
- Media Examples
- Cash Accounting vs. Accrual Accounting
- Accounting Official Terms
- Exercise

# Recap the last class

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- Format of Accounting Records rule #1
  - Asset (Left)
  - Liability (Right)
  - Equity (Right)
- Income Statement
- Balance sheet

Asset	Liability Equity
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- Let's make our own simple examples!

### Example #2) *Borrowing a money*

It was established with \$5,000 of cash, and AP Bakery borrowed \$800 from a bank. There is no other transactions. ( We assume there is no time value of money.)

Cash	\$5,000	Capital Stock	\$5,000
Cash	\$800	Bank Loan	\$800

In the above example, “Cash” is asset and “Bank Loan” is liability.

Asset	Liability Equity
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## Example #2)

It was established with \$5,000 of cash, and AP Bakery borrowed \$800 from a bank. There is no other transactions. ( We assume there is no time value of money.)

Cash	\$5,000	Capital Stock	\$5,000
Cash	\$800	Bank Loan	\$800

## → Balance Sheet of AP Bakery

ASSETS		LIABILITIES AND EQUITY	
		LIABILITIES	
Cash	\$5,800	Bank Loan	\$800
		TOTAL LIABILITIES	\$800
		EQUITY	
		Capital Stock	\$5,000
		TOTAL EQUITY	\$5,000
TOTAL ASSETS	\$5,800	TOTAL LIABILITIES and EQUITY	\$5,800

Asset	Liability Equity
-------	---------------------

#### Example #4) *Renting a shop with deposit*

It was established with \$5,000 of cash, and AP Bakery bought new chairs by paying \$200.

And AP Bakery rented a shop by giving \$1,000 deposit.

Cash	\$5,000	Capital Stock	\$5,000
Chair	\$200	Cash	\$200
Deposit	\$1,000	Cash	\$1,000

In the above example, “Cash” is asset and “Deposit” is **also asset**.

→ **Increasing asset** is on **the left side**.

**Decreasing assets** is on **the right side**.

Asset	Liability Equity
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Example #7) *Providing Consulting service*

ST Consulting was established with \$20,000. There were following events.

	Mar. 1st~Mar.30th
Consulting Revenue (Cash)	\$1,000
Electricity Expense (Cash)	\$700

Cash	\$20,000	Capital Stock	\$20,000
Cash	\$1,000	Revenue (gain)	\$1,000
Electricity Expense	\$700	Cash	\$700

Asset

Liability

Equity

More examples)

The company buys land by paying \$10,000 of cash.

Land

\$10,000

Cash

\$10,000

The company borrows money (\$5,000) from a bank.

Cash

\$5,000

Bank Loan

\$5,000

The company pays interest expense by paying \$150 of cash.

Interest Expense

\$150

Cash

\$150

The company repays the whole bank loan.

Bank Loan

\$5,000

Cash

\$5,000



# Homework #1

- The homework will be posted on E-class
- Due date is March 21, 09:59 AM

- *Example*

Let's assume that you are the head of accounting department of ABC Inc. The following are transactions of ABC Inc. Please **make general entries** on each transaction.

(Tr#1)

ABC Inc. issued stocks. The capital stock was increased by \$1,000. The company received \$1,000 of cash for this.


Any Questions?  
(Recap)

# Financial Statements

- Korean Companies:

<https://dart.fss.or.kr/>

<https://kind.krx.co.kr/>



종목명	종목명	종목명	종목명
요성화학	타인에대한채무보증결정	03-11 18:10	
요성티앤씨	타인에대한채무보증결정	03-11 18:09	
셀트리온	기타 경영사항(자율공시)	03-11 18:07	
	자기주식매매 실행내역(유가증권시장)	03-11 18:07	
	대량매매내역(유가증권시장)	03-11 18:06	
	일일 회전을 상위 20종목-ELW포함(유가증권시장)	03-11 18:05	
	일일 회전을 상위 20종목-ELW제외(유가증권시장)	03-11 18:05	

# Financial Statements

- Korean Companies:

- Samsung Electronics (삼성전자)

- NAVER

NAVER/사업보고서/2022.03.04 - Google Chrome  
dart.fss.or.kr/dsa001/main.do?rcpNo=20220304000687

DART NAVER

본문 | 2022.03.04 사업보고서 | 첨부 | \*첨부선택\*

문서목차

- I. 사업보고서
  - 1. 대표이사 등의 확인
  - 1. 회사의 개요
    - 1. 회사의 개요
    - 2. 회사의 연혁
    - 3. 자본금 변동사항
    - 4. 주식의 총수 등
    - 5. 장원에 관한 사항
- II. 사업의 내용
  - 1. 사업의 개요
  - 2. 주요 제품 및 서비스
  - 3. 원재료 및 생산설비
  - 4. 매출 및 수주상황
  - 5. 위험관리 및 파생거래
  - 6. 주요계약 및 연구개발활동
  - 7. 기타 참고사항
- III. 재무에 관한 사항
  - 1. 요약재무정보
  - 2. 연결재무제표
  - 3. 연결재무제표 주석
  - 4. 재무제표
  - 5. 재무제표 주석
  - 6. 배당에 관한 사항
  - 7. 증권에 발행을 통한 자금조달
  - 8. 기타 재무에 관한 사항
- IV. 이사의 경영진단 및 분석의견
- V. 회계감사인의 감사의견 등

사업보고서

(제 23 기)

사업연도 2021년 01월 01일 부터 2021년 12월 31일 까지

금융위원회  
한국거래소 귀중 2022년 03월 04일

제출대상법인 유형 : 주권상장법인  
면제사유발생 : 해당사항 없음

회 사 명 : 네이버 주식회사  
대 표 이 사 : 한 성 속

본 집 소 재 지 : 경기도 성남시 분당구 불정로6(그린팩토리)  
(전 화)1588-3830  
(홈페이지) http://www.naver.com

NAVER/사업보고서/2022.03.04 - Google Chrome  
dart.fss.or.kr/dsa001/main.do?rcpNo=20220304000687

DART NAVER

본문 | 2022.03.04 사업보고서 | 첨부 | \*첨부선택\*

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1. 요약재무정보

가. 요약연결재무정보

(단위: 백만원)

구 분	제23기 (2021년 12월말)	제22기 (2020년 12월말)	제21기 (2019년 12월말)
[유동자산]	5,527,878	10,544,859	5,643,714
· 현금및현금성자산	2,781,396	1,600,304	3,740,514
· 단기금융상품	673,556	291,292	289,911
· 매출채권및기타채권	1,454,661	986,626	1,211,073
· 기타	618,265	7,666,237	402,216
[비유동자산]	28,163,128	6,469,580	6,655,813
· 투자자산	24,611,518	4,346,018	3,487,003
· 유형자산	2,111,262	1,684,563	1,596,271
· 무형자산	932,152	105,136	341,443
· 기타비유동자산	506,196	333,863	1,231,096
자산총계	33,691,006	17,014,239	12,299,527
[유동부채]	3,923,319	7,911,751	3,773,119
[비유동부채]	5,740,311	847,356	2,022,482
부채총계	9,663,630	8,759,107	5,795,601
[지배기업 소유주지분]	23,535,637	7,367,219	5,805,228
· 자본금	16,481	16,481	16,481
· 자본잉여금	1,490,214	1,793,273	1,575,308
· 기타자본구성요소	-1,051,466	-1,097,349	-1,498,652
· 이익잉여금	23,080,408	6,654,814	5,712,091

# Media Examples

- News articles

<http://www.newsfreezone.co.kr/news/articleView.html?idxno=363042>

<https://www.mk.co.kr/star/musics/view/2022/02/184456/>

<https://m.mk.co.kr/news/stock/view/2022/02/143443/>

<https://news.mt.co.kr/mtview.php?no=2019032514074829210>

<https://www.etoday.co.kr/news/view/2069777>

<https://news.einfomax.co.kr/news/articleView.html?idxno=4082054>

e.g.) Tangible Assets, Marketing expense, Interest expense, etc.

Any Questions?

# Consulting Company Case

- Setting
  - Jane, Sam, and Tom and studied Data-mining at the same university.
  - Three of them decided to open a big data consulting firm.
  - They invested their own money:  
Jane (\$12,000), Sam (\$6,000), Tom (\$2,000)
  - They made a corporation for their consulting business. (The name of the corporation is “ST Consulting”)
  - *They ran their business from November to December (multiple periods).*

Asset

Liability  
Equity

### Example #9) *Providing Consulting service – on-credit revenue*

**ST Consulting** was established with \$20,000, and \$9,000 bank loan.

There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000	\$6,000
Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

→ Excel file for details



# Cash Accounting vs. Accrual Accounting

- ST Consulting borrowed \$10,000 with 5% annual interest rate from a Bank on Oct. 1<sup>st</sup>, 2021.
  - The borrowing period is one year.
  - The principal (\$10,000) and its interest (\$500) will be paid on Sep. 30th, 2022 by cash.

→ What is the interest expense during the year 2021?

*Option #1) Zero*

*Option #2)  $\$500 * 3 / 12 = \$125$*

*Option #3) \$500*

# Cash Accounting vs. Accrual Accounting

- ST Consulting borrowed \$10,000 with 5% annual interest rate from a Bank on Oct. 1<sup>st</sup>, 2021.
    - The borrowing period is one year.
    - The principal (\$10,000) and its interest (\$500) will be paid on Sep. 30th, 2022 by cash.
- How should ST consulting make its accounting record for its interest expense?

Dec.31., 2021

Interest Expense    \$125

Unpaid Interest Expense \$125

# Cash Accounting vs. Accrual Accounting

- ST Consulting rented a shop with \$10,000 of deposit and \$500 of monthly fee for two years from Dec. 1<sup>st</sup>, 2021 to Nov. 30<sup>th</sup>, 2023.
    - ST Consulting paid \$10,000 of cash as deposit on Dec. 1<sup>st</sup>, 2021.
    - And ST Consulting also paid \$1,500 of cash for its three-month rent fee in advance as cash on Dec. 1<sup>st</sup>, 2021.
- Accounting Records on Dec. 1<sup>st</sup>, 2021?

Dec.1., 2021

Deposit	\$10,000	Cash	\$10,000
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Dec.1., 2021

Pre-paid Rent Fee	\$1,500	Cash	\$1,500
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# Cash Accounting vs. Accrual Accounting

- ST Consulting rented a shop with \$10,000 of deposit and \$500 of monthly fee for two years from Dec. 1<sup>st</sup>, 2021 to Nov. 30<sup>th</sup>, 2023.
  - ST Consulting paid \$10,000 of cash as deposit on Dec. 1<sup>st</sup>, 2021.
  - And ST Consulting also paid \$1,500 of cash for its three-month rent fee in advance as cash on Dec. 1<sup>st</sup>, 2021.

→ Accounting Records on Dec. 1<sup>st</sup>, 2021?

Dec.1., 2021

Deposit	\$10,000	Cash	\$10,000
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Dec.1., 2021

Pre-paid Rent Fee	\$1,500	Cash	\$1,500
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→ Accounting Records on Dec. 31<sup>st</sup>, 2021?

Dec.31., 2021

Rent Expense	\$500	Pre-paid Rent Fee	\$500
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# Accounting Official Terms

- Journal Entry (General Journal Entry)

- Left Item: Credit

- Right Item: Debit

- Example of Journal Entry

(Cr) Cash            \$2,000

(Dr) Bank Loan    \$2,000

# Accounting Official Terms

- Trial Balance
  - Aggregated all journal entries
- Adjusting Entries
  - Reflecting accrual accounting
  - Examples:

Dec.31., 2021

Interest Expense	\$125	Unpaid Interest Expense	\$125
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Dec.31., 2021

Rent Expense	\$500	Pre-paid Rent Fee	\$500
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# Accounting Official Terms

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- Types of Adjusting Entries
  - 1) Unrecorded receivables
  - 2) Unrecorded liabilities
  - 3) Prepaid expenses
  - 4) Unearned revenues

# Accounting Official Terms

- Trial Balance
- Adjusted Trial Balance
  - Trial Balance + Adjusting Entries
- Closing Entries
  - Moving revenue accounts and expense accounts into one equity account
  - After closing entries, there will be zero balance amounts in revenue and expense accounts
  - Example:

Revenue (gain)	\$5,000
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Salary Expense	\$2,000
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Earnings	\$3,000
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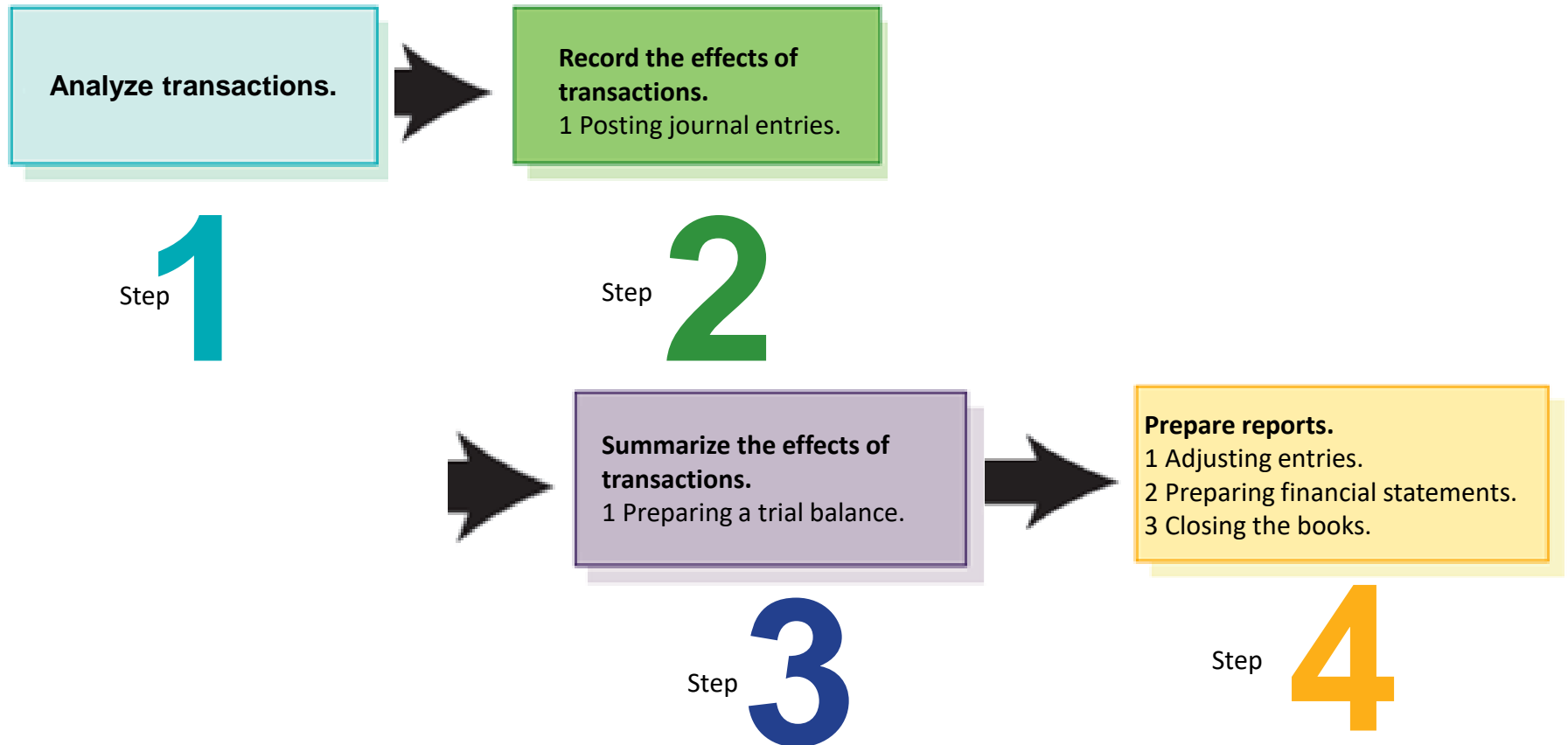


# Accounting Official Terms

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- After adding adjusting entries and closing entries, we can get balance sheet.
- Revisit the previous MS-Excel example

# Accounting Cycle



Any Questions?

# Exercise

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- Record the following transactions in journal entry form.
  - a. Provided services for \$3,200 on account.
  - b. Borrowed \$32,000 from a bank.
  - c. Issued stock for \$7,200.
  - d. Purchased equipment costing \$120,000; with cash of \$32,000 and a note for the remainder.
  - e. Paid off the loan of \$32,000 plus \$400 interest.

# Exercise

- Record the following transactions in journal entry form.

a.	Accounts Receivable	3,200	
	Services Revenue		3,200
b.	Cash	32,000	
	Notes Payable (or Bank Loan)		32,000
c.	Cash	7,200	
	Capital Stock		7,200
d.	Equipment	120,000	
	Cash		32,000
	Notes Payable		88,000
e.	Notes Payable (or Bank Loan)	32,000	
	Interest Expense	400	
	Cash		32,400

# Exercise

- Telecon, Inc. was established a few years ago. Telecon, Inc., experienced the following transactions during May 2017. Prepare the appropriate journal entries to record these transactions.

May 8    Paid monthly rent of \$4,000.

11    Purchased equipment for \$160,000, paying 40% in cash and signing a note for the balance.

15    Provided services costing \$15,000 for \$25,000 cash.

21    Purchased a 2-year insurance policy for \$10,000.

25    Paid \$8,000 on account.

28    Collected \$5,000 in accounts receivable.

29    Sold an additional 500 shares of capital stock for \$20,000.

30    Paid utilities of \$3,000.

# Exercise

- Telecon, Inc. was established a few years ago. Telecon, Inc., experienced the following transactions during May 2017. Prepare the appropriate journal entries to record these transactions.

May 8	Rent Expense	4,000	
	Cash		4,000
11	Equipment	160,000	
	Cash		64,000
	Notes Payable		96,000
15	Cash	25,000	
	Sales Revenue		25,000
	Cost of Goods Sold	15,000	
	Inventory		15,000
21	Prepaid Insurance	10,000	
	Cash		10,000

# Exercise

- Telecon, Inc. was established a few years ago. Telecon, Inc., experienced the following transactions during May 2017. Prepare the appropriate journal entries to record these transactions.

May 25	Accounts Payable	8,000	
	Cash		8,000
28	Cash	5,000	
	Accounts Receivable		5,000
29	Cash	20,000	
	Capital Stock		20,000
30	Utilities Expense	3,000	
	Cash		3,000



Asset

Liability  
Equity

Example ) *Providing Consulting service – on-credit revenue*

**ST Consulting** was established with \$20,000, and \$9,000 bank loan.  
There were following events.

	Nov. 1st~Nov.30th	Dec. 1st ~ Dec. 31st	Jan. 1st ~ Jan. 31st
Consulting Revenue (Cash)	\$1,000	\$5,000	\$6,000
Consulting Revenue (on credit, pay later)	\$0	\$1,000	\$2,000
Salary Expense (Cash)	\$2,000	\$2,000	\$2,000
Interest Expense (Cash)	\$40	\$40	\$40

## Balance Sheet at the end of three months

	Nov.	Dec.	Jan.			Nov.	Dec.	Jan.
ASSETS					LIABILITIES			
Cash	27,960	30,920	34,880		Bank Loan	9,000	9,000	9,000
Receivable		1,000	3,000		EQUITY			
					Capital Stock	20,000	20,000	20,000
					Earnings	(1,040)	2,920	8,880
					Total Equity	18,960	22,920	28,880
Total	27,960	31,920	37,880		Total	27,960	31,920	37,880

Any Questions?