E4-2. Identifying Adjusting Entries from Unadjusted Trial Balance

1. Based on the information in the unadjusted trial balance, list types of adjustments on the balance sheet that may need to be adjusted at December 31 and the related income statement account for each (no computations are necessary). You may need to make assumptions.

Types	Accounts
Deferred Revenues: Deferred Revenue may need to be adjusted for any revenue earned during the period	Revenue
Accrued Revenues: Interest may be earned on Short-term Investments Any unrecorded sales or services provided will need to be recorded	Interest and other income Revenue
Deferred Expenses: Prepaid expenses and other current assets may be used Additional use of buildings, Network, computer, and office equipment during the period will need to be recorded	Marketing and sales / General and administrative Cost of revenue
Accrued Expenses: Lease expense incurred on operating lease liabilities There are likely many other accrued expenses to be recorded, including wages, warranties, and utilities; pension, and contingencies Income taxes must be computed for the period and accrued	Lease expense General and administrative Provision for income taxes (income tax expense)

2. Which accounts should be closed at the end of the year? Why?

Temporary accounts that accumulate during the period are closed at the end of the year to the permanent account Retained Earnings. These include: Revenue, Interest and other income, Cost of revenue, Research and development expense, Marketing and sales, General and administrative, Provision for income taxes (income tax expense).

E4-4. Recording Adjusting Entries

1. What is the annual reporting period for this company?
   The annual reporting period for this company is January 1 through December 31.
2. Identify whether each transaction results in adjusting a deferred or an accrued account. Using the process illustrated in the chapter, prepare the required adjusting entry for transactions (a) and (b). Include appropriate dates and write a brief explanation of each entry.

(a) 1. Interest expense is incurred.
2. Cash will be paid in the next period to the bank for using the borrowed funds in the current period -- an accrued expense needs to be recorded.
3. Amount: $60,000 principal x .10 rate x 10 months/12 months = $5,000

(Date) December 31		
Interest expense (+E, –SE)	5,000	
Interest payable (+L)		5,000
To record interest accrued at year-end.		

(b) 1. Utilities expense is incurred.
2. Cash will be paid in the future – an accrued expense needs to be recorded.
3. Amount: $360 given

(Date) December 31		
Utilities expense (+E, –SE)	360	
Utilities payable (+L)		360
To record utilities incurred at year-end.		

3. Why are these adjustments made?

Adjusting entries are necessary at the end of the accounting period to ensure that all revenues earned and expenses incurred and the related assets and liabilities are measured properly. The entries above are accruals; entries (a) and (b) are both accrued expenses (incurred but not yet recorded). In applying the accrual basis of accounting, expenses should be recognized when incurred in generating revenues.

E4-8. Recording Seven Typical Adjusting Entries

Prepare the adjusting entries that should be recorded for Trotman's Variety Store at December 31 of the current year.

a.	Wages expense (+E, −SE)	2,700	
	Wages payable (+L)		2,700
b.	Office supplies expense (+E, −SE)	675	
	Office supplies (−A)		675
c.	Rent receivable (+A)	1,120	
	Rent revenue (+R, +SE)		1,120
d.	Depreciation expense (+E, −SE)	12,100	
	Accumulated depreciation (+XA, −A)		12,100
e.	Insurance expense (+E, −SE)	600	
	Prepaid insurance (−A)		600
f.	Unearned rent revenue (−L)	3,200	
	Rent revenue (+R, +SE)		3,200
g.	Repair accounts receivable (+A)	800	
	Repair shop revenue (+R, +SE)		800

E4-10. Determining Financial Statement Effects of Seven Typical Adjusting Entries

(Refer to E4-8.)

Required:
For each of the transactions in E4-8, indicate the amount and the direction of effects of the adjusting entry on the elements of the balance sheet and income statement. Using the following format, indicate + for increase, − for decrease, and NE for no effect.

	Balance Sheet			Income Statement		
Transaction	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses	Net Income
a	NE	+2,700	–2,700	NE	+2,700	–2,700
b	–675	NE	–675	NE	+675	–675
c	+1,120	NE	+1,120	+1,120	NE	+1,120
d	–12,100	NE	–12,100	NE	+12,100	–12,100
e	–600	NE	–600	NE	+600	–600
f	NE	–3,200	+3,200	+3,200	NE	+3,200
g	+800	NE	+800	+800	NE	+800