

Matching Principle

All revenues must be recorded in the accounting period in which the goods are sold or services are rendered and all expenses must be recorded in the accounting period in which they are incurred to produce such revenues

Chapter 3 Muğan-Akman 2007 3-39

Adjusting Entries

- Some journal entries are made at the end of the accounting period just to separate the effect of an event into its proper periods.
- Each adjusting entry affects:
 - 1) a revenue or expense account
 - 2) an asset or liability account (except cash)
- Examples include:
 1. Recognition of accrued revenues and receivables,
 2. Interest calculations,
 3. Recognition of accrued expenses and payables,
 4. Allocation of prepaid operating costs, and
 5. Recognition of depreciation.

When do we need adjusting entries?

Prepayments	Accruals
1. Allocation of costs between accounting periods	3. Expenses incurred but not recorded
2. Allocation of unearned revenues between accounting periods	4. Revenues earned but not recorded

Trial Balance

Express Travel Agency Trial Balance 31-Jan-2007		
Accounts	Debit	Credit
Cash	TL 102.280	
Accounts Receivable	7.500	
Office Supplies	2.500	
Prepaid Rent	600	
Prepaid Insurance	120	
Office Furniture and Equipment	15.000	
Bank Loan		TL 15.000
Accounts Payable		5.000
Unearned Revenues		7.500
Capital		100.000
Withdrawal	3.000	
Commission Revenues		12.500
Salary Expenses	9.000	
Total	<u>TL 140.000</u>	<u>TL 140.000</u>

Adjusting Entries

Prepayments	Accruals
1. Allocation of costs between accounting periods	3. Expenses incurred but not recorded
2. Allocation of unearned revenues between accounting periods	4. Revenues earned but not recorded

Chapter 3

Mugan-Akman 2007

7-39

Adjustment (1) Prepaid Rent

Date	Account Title and Description	Debit	Credit
31-Jan	Rent Expense (Income Statement)	200	
	Prepaid Rent (Balance Sheet)		200
To record rent expense incurred in January			

Prepaid Rent			
	1-Jan	600	
	31-Jan	200	
Balance	400		

Rent Expense	
31-Jan	200
Balance	200

Chapter 3

Mugan-Akman 2007

8-39

Adjustment (2) Prepaid Insurance

Date	Account Title and Description	Debit	Credit
31-Jan	Insurance Expense	10	
	Prepaid Insurance		10
To record insurance expense incurred in			

Prepaid Insurance			
	3-Jan	120	
	31-Jan	10	
Balance	110		

Insurance Expense	
31-Jan	10
Balance	10

Chapter 3

Mugan-Akman 2007

9-39

Adjusting Entries

1. Allocation of costs between accounting periods	3. Expenses incurred but not recorded
2. Allocation of unearned revenues between accounting periods	4. Revenues earned but not recorded

Adjustment (5) Unearned Revenues

Date	Account Title and Description	Debit	Credit
31-Jan	Unearned Revenues	4,500	
	Commission Revenues		4,500
To record commissions earned in January			

Unearned Revenues			
31-Jan	4500	22-Jan	7500
		Balance	3000
Commission Revenues			
		31-Jan	12500
		31-Jan	4500
		Balance	17000

Adjusting Entries

1. Allocation of costs between accounting periods	3. Expenses incurred but not recorded
2. Allocation of unearned revenues between accounting periods	4. Revenues earned but not recorded

Adjustment (6) Accrued Salary Expense

Date	Account Title and Description	Debit	Credit
31-Jan	Salary Expense	2,500	
	Salaries Payable		2,500
To record salaries for the services received			

Salaries Payable	
	31-Jan 2500
	Balance 2500

Salary Expense	
24-Jan	9000
31-Jan	2500
Balance	11500

Chapter 3

Mugan-Akman 2007

16-39

Adjustment (7) Accrued Interest Expense

Date	Account Title and Description	Debit	Credit
31-Jan	Interest Expense	210	
	Interest Payable		210
To record interest expense of the bank loan incurred but not paid			

Interest Payable	
	31-Jan 210
	Balance 210

Interest Expense	
31-Jan	210
Balance	210

Chapter 3

Mugan-Akman 2007

17-39

Adjusting Entries

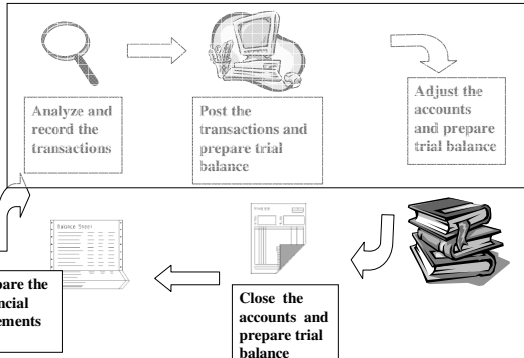
1. Allocation of costs between accounting periods	3. Expenses incurred but not recorded
2. Allocation of unearned revenues between accounting periods	4. Revenues earned but not recorded

Chapter 3

Mugan-Akman 2007

18-39

Accounting Cycle



Chapter 3

Mugan-Akman 2007

22-39

Steps to Close Accounts

- Close temporary accounts with credit balances to income summary
- Close temporary accounts with debit balances to income summary
- Close income summary
- Close dividends or owners' withdrawals

Chapter 3

Mugan-Akman 2007

23-39

Express Travel Agency Adjusted Trial Balance 31-Jan-07		
Accounts	Debit	Credit
Cash	TL 102,280	
Accounts Receivable	7,500	
Fees Receivable	3,450	
Office Supplies	2,000	
Prepaid Rent	400	
Prepaid Insurance	110	
Office Furniture and Equipment	15,000	
Accumulated Depreciation		TL 250
Bank Loan		15,000
Accounts Payable		5,000
Unearned Revenues		3,000
Salaries Payable		2,500
Interest Payable		210
Capital		100,000
Withdrawals	3,000	
Commission Revenues		17,000
Service Revenues		3,450
Salary Expenses	11,500	
Rent Expense	200	
Insurance Expense	10	
Supplies Expense	500	
Depreciation Expense	250	
Interest Expense	210	
Total	TL 146,410	TL 146,410

Chapter 3

Mugan-Akman 2007

24-39

Closing Credit Balances

Date	Account Title and Description	Debit	Credit
31 Jan 2007	Commission Revenues	17.000	
	Service Revenues	3.450	
	Income Summary		20.450
	To close revenue accounts		

Express Travel Agency Adjusted Trial Balance 31-Jan-07

Accounts	Debit	Credit
Cash	TL 102.280	
Accounts Receivable	7.500	
Fees Receivable	3.450	
Office Supplies	2.000	
Prepaid Rent	400	
Prepaid Insurance	110	
Office Furniture and Equipment	15.000	
Accumulated Depreciation		TL 250
Bank Loan		15.000
Accounts Payable		5.000
Unearned Revenues		3.000
Salaries Payable		2.500
Interest Payable		210
Capital		100.000
Withdrawals	3.000	
Commission Revenues		17.000
Service Revenues		3.450
Salary Expenses	11.500	
Rent Expense	200	
Insurance Expense	10	
Supplies Expense	500	
Depreciation Expense	250	
Interest Expense	210	
Total	TL 146.410	TL 146.410

Closing Debit Balances

Date	Account Title and Description	Debit	Credit
31 Jan 2007	Income Summary	12.670	
	Salary Expense		11.500
	Rent Expense		200
	Insurance Expense		10
	Supplies Expense		500
	Depreciation Expense		250
	Interest Expense		210
	To close expense accounts		

Closing Income Summary

Income Summary			
31-Jan	12670	31-Jan	20450
		Balance	7780

Date	Account Title and Description	Debit	Credit
31 Jan 2007	Income Summary	7.780	
	Capital		7.780
	To close income summary account		

Chapter 3

Mugan-Akman 2007

28-39

Closing Withdrawals

Date	Account Title and Description	Debit	Credit
31 Jan 2007	Capital	3.000	
	Withdrawals		3.000
	To close withdrawals account		

Chapter 3

Mugan-Akman 2007

29-39

Express Travel Agency Post Closing Trial Balance 31 January 2007

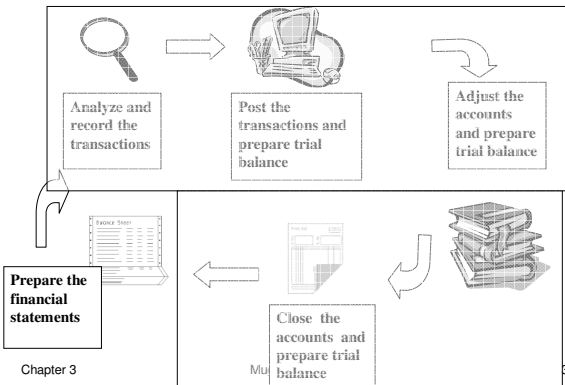
Accounts	Debit	Credit
Cash	TL 102.280	
Accounts Receivable	7.500	
Fees Receivable	3.450	
Office Supplies	2.000	
Prepaid Rent	400	
Prepaid Insurance	110	
Office Furniture and Equipment	15.000	
Accumulated Depreciation		TL 250
Bank Loan		15.000
Accounts Payable		5.000
Unearned Revenues		3.000
Salaries Payable		2.500
Interest Payable		210
Capital		104.780
Withdrawals	0	
Commission Revenues		0
Service Revenues		0
Salary Expenses	0	
Rent Expense	0	
Insurance Expense	0	
Supplies Expense	0	
Depreciation Expense	0	
Interest Expense	0	
Total	TL 130.740	TL 130.740

Chapter 3

Mugan-Akman 2007

30-39

Accounting Cycle



Chapter 3

31-39

Express Travel Agency Income Statement For the Month Ended 31-Jan-07

Commission Revenues	TL 17.000
Service Revenues	3.450
Total Revenues	20.450
Salary Expense	11.500
Rent Expense	200
Insurance Expense	10
Supplies Expense	500
Depreciation Expense	250
Interest Expense	210
Total Expenses	12.670
Net Income	TL 7.780

Chapter 3

Mugan-Akman 2007

32-39

Express Travel Agency Balance Sheet as of 31-Jan-07

Assets		Liabilities and Owners' Equity	
Cash	102.280	Bank Loans	15.000
Accounts Receivable	7.500	Account Payable	5.000
Fees Receivable	3.450	Salaries Payable	2.500
Office Supplies	2.000	Unearned Revenues	3.000
Prepaid Rent	400	Interest Payable	210
Prepaid Insurance	110	Total Liabilities	25.710
Office Furniture and Equipment	15.000	Owners' Equity	
Accumulated Depreciation	- 250	Capital	104.780
		Total Owners' Equity	104.780
Total Assets	TL 130.490	Total Liabilities and Owners' Equity	TL 130.490

Chapter 3

Mugan-Akman 2007

33-39

Appendix 3

Closing Entries for Limited Liability Corporations and Corporations

Chapter 3

Mugan-Akman 2007

34-39

Cradle Corporation Adjusted Trial Balance 31-Dec-04			
Cash	TL 2.160		
Accounts Receivable	1.250		
Office Supplies	475		
Prepaid Insurance	200		
Equipment	3.400		
Accumulated Depreciation- Equipment		TL 700	
Accounts Payable		400	
Unearned Revenue		300	
Salaries Payable		120	
Share Capital		4.870	
Revenues		3.360	
Salary Expense	1.620		
Rent Expense	400		
Insurance Expense	40		
Office Supplies Expense	105		
Depreciation Expense	100		
	TL 9.750	TL 9.750	

Chapter 3

Mugan-Akman 2007

35-39

Closing Credit Balances

Date	Account Title and Description	Debit	Credit
31 Dec 2004	Revenues	3.360	
	Period Income/Loss		3.360
	To close revenue accounts		

Chapter 3

Mugan-Akman 2007

36-39

Closing Debit Balances

Date	Account Title and Description	Debit	Credit
31 Dec 2004	Period Income/Loss	2.265	
	Salary Expense		1.620
	Rent Expense		400
	Insurance Expense		40
	Supplies Expense		105
	Depreciation Expense		100
	To close expense accounts		

Chapter 3

Mugan-Akman 2007

37-39

Closing Income Summary

Period Income/Loss			
31.Dec.04	2265	31.Dec.04	3360
		Balance	1095

Date	Account Title and Description	Debit	Credit
31 Jan 2004	Period Income/Loss	1.095	
	Net Income For the Period		1.095
	To close income summary account		

Chapter 3

Mugan-Akman 2007

38-39



Chapter 3

Mugan-Akman 2007

39-39
