

ACC 300 · CLASS 2 · THU 9/3 · ROOM 136, BRODY HALL

Before-class trivia

What animal holds the record for the longest annual migration?

Don't look it up—guessing is more fun.



Adjusting the records at period end

Use period-end evidence to determine the required balances, record adjusting entries, and trace the effects of omitted entries.

UNIT 1

The reporting system and the accounting cycle

How do transactions become financial statements, and who sets the rules for what those statements report?

Learning objective for this meeting

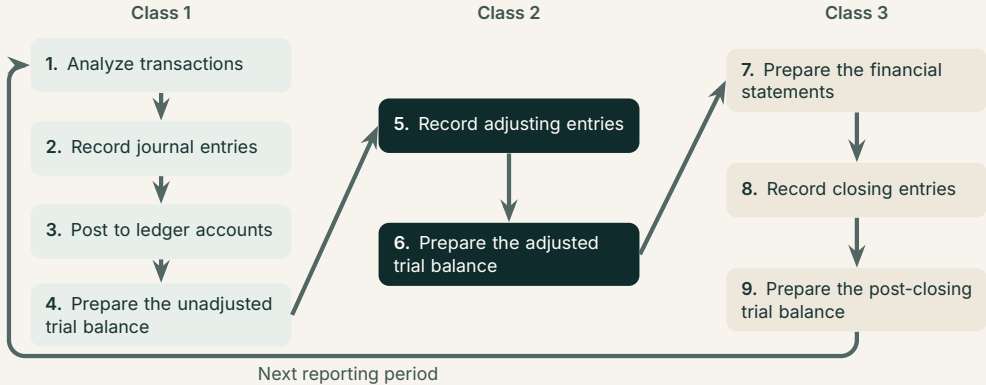
By the end of class, you should be able to:

1.2

- **Sort** a period-end economic event into its adjustment type.
- **Compute** the adjustment.
- **State** how omitting the entry affects net income, assets, liabilities, and equity.

Adjusting entries update the records before reporting

The same cycle repeats for each reporting period.



Are Red Cedar's June 30 records ready?

- Red Cedar is preparing its June 30 financial statements.
- Its trial balance has equal debit and credit totals.
- Red Cedar processes payroll weekly.
- After the last June payroll, employees earn another \$900 through June 30.
- The next payday is July 3, so the \$900 and the related payable are not yet recorded.

Are these balances ready for the June financial statements?

Red Cedar's June 30 balances are not ready

The records omit a June expense and liability.



US GAAP requires accrual accounting

Recognition follows economic activity, not cash timing.

Revenue

Report revenue when the company earns it.

(Covered in Chapter 8.)

Expense

Report expense when the company uses a resource or service or incurs an obligation.

Cash timing does not determine the reporting period under US GAAP

Cash basis

Recording is based on cash receipts and payments. It is not permitted under US GAAP.

Accrual basis

Recording is based on the underlying economic activity; cash may move earlier or later.

Common reasons adjusting entries are required

An adjusting entry records period-end information that the ledger does not yet report correctly.

ACTIVITY NOT RECORDED

Accrued revenue or accrued expense records activity that has occurred.

RECORDED BALANCE OUT OF DATE

Prepaid expense or unearned revenue updates an existing asset or liability.

ALLOCATION OR ESTIMATION

Depreciation and other estimates use a measurement method and current evidence.

An adjustment may reflect more than one of these reasons.

Determine the adjustment from required and recorded balances

Compare the required and recorded balances to determine the adjustment

1. Determine the **required balance**.
Use contracts, timesheets, counts, or schedules available at the reporting date.
2. Find the **recorded balance**.
Identify the amount currently in the ledger account.
3. Prepare and record the adjusting entry.
Use the difference to determine the amount and direction of the account change.

After the entry is posted, the account should report the required balance.

Timing adjustments have four patterns

		CASH TIMING	
		Cash first: deferral	Activity first: accrual
COMPANY'S ROLE	Provides goods or services	Unearned (deferred) revenue Reduce the liability as the company performs.	Accrued revenue Record revenue and the related asset.
	Receives or uses resources or services	Prepaid expense Reduce the asset as the company uses it.	Accrued expense Record an expense and a payable.

Accrued revenue: service comes before cash

		CASH TIMING	
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Example: Red Cedar completes a \$1,200 tour on June 30 and bills the customer July 2.

iClicker question 1 of 5

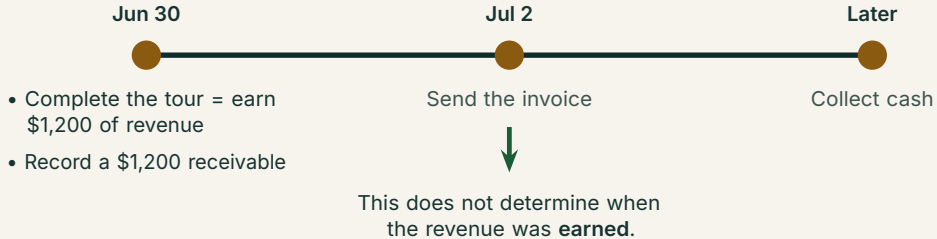
Red Cedar completed a \$1,200 tour on June 30. It will bill the customer on July 2.

What should Red Cedar report at June 30?

- A. No revenue and no receivable
- B. Revenue of \$1,200 and a receivable of \$1,200
- C. Cash of \$1,200 and revenue of \$1,200
- D. Unearned revenue of \$1,200

iClicker answer 1 of 5

Answer B · Service before cash creates accrued revenue



Record the revenue and receivable on June 30

DATE	ACCOUNT	DEBIT	CREDIT
Jun 30	Accounts Receivable	1,200	
	Service Revenue		1,200

Accounts Receivable

The debit records Red Cedar's \$1,200 right to collect.

Service Revenue

The credit records the revenue earned when Red Cedar completed the tour.

Earned refers to the applicable revenue-recognition requirements

Course shorthand

Throughout this course, **earned** means the applicable US GAAP revenue-recognition requirements are met.

Later detail

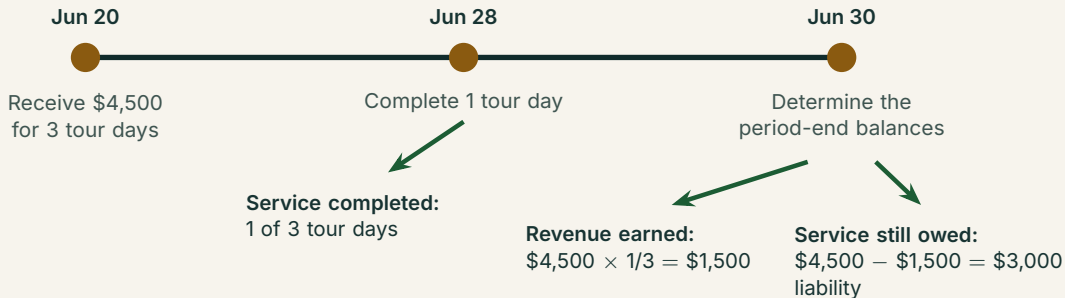
Chapter 8 explains when a performance obligation is satisfied.

Unearned revenue: cash comes before service

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Example: Red Cedar receives \$4,500 before completing the 3 tour days.

Cash can arrive before Red Cedar earns revenue



From Class 1: record cash received before performance

June 20: a resort paid \$4,500 before Red Cedar provided 3 tour days.

DATE	ACCOUNT	DEBIT	CREDIT
Jun 20	Cash	4,500	
	Unearned Service Revenue		4,500

Unearned Service Revenue is a **liability**: Red Cedar owes the resort 3 tour days. Begin the June 30 adjustment with its \$4,500 balance.

Record the \$1,500 earned by June 30

Red Cedar completed 1 of the 3 tour days.

DATE	ACCOUNT	DEBIT	CREDIT
Jun 30	Unearned Service Revenue	1,500	
	Service Revenue		1,500

Why Cash is not included: Red Cedar recorded the \$4,500 cash receipt on June 20. The June 30 entry adjusts the liability and records the revenue earned.

Prepaid expense: cash comes before resource use

		CASH TIMING	
		Cash first: deferral	Activity first: accrual
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Example: Red Cedar paid \$3,600 on June 1 for 12 months of insurance.

iClicker question 2 of 5

On June 1, Red Cedar paid \$3,600 for a 12-month policy and debited Prepaid Insurance. What June 30 entry records 1 month of coverage?

CHOICE	ACCOUNT	DEBIT	CREDIT
A	Prepaid Insurance	300	
	Cash		300
B	Insurance Expense	3,300	
	Prepaid Insurance		3,300
C	Insurance Expense	300	
	Prepaid Insurance		300
D	Prepaid Insurance	3,300	
	Insurance Expense		3,300

iClicker answer 2 of 5

Answer C · One month of coverage costs \$300

$$\$3,600 \div 12 \text{ months} = \$300 \text{ per month}$$

DATE	ACCOUNT	DEBIT	CREDIT	Prepaid Insurance			
Jun 30	Insurance Expense	300		DEBIT		CREDIT	
	Prepaid Insurance		300	Jun 1	3,600	Jun 30	300
				Balance	3,300		

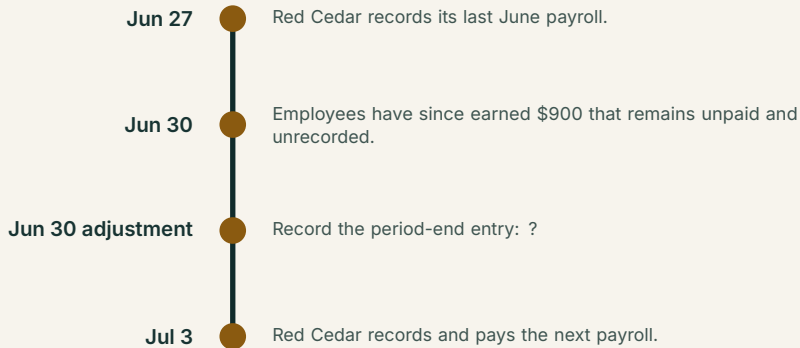
The adjustment records \$300 of June insurance expense. Prepaid Insurance ends at \$3,300 (\$3,600 – \$300).

Accrued expense: service comes before cash

		CASH TIMING	
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Example: After the last June payroll, employees earn \$900 that remains unpaid at June 30.

Payroll timing leaves June wages unrecorded



iClicker question 3 of 5

After Red Cedar's last June payroll, employees earn another \$900 through June 30. The next payroll is July 3.

Which entry records the June expense and the June 30 obligation?

CHOICE	ACCOUNT	DEBIT	CREDIT
A	Wages Expense	900	
	Cash		900
B	Wages Expense	900	
	Wages Payable		900
C	Wages Payable	900	
	Cash		900
D	No entry		

iClicker answer 3 of 5

Answer B · Debit Wages Expense and credit Wages Payable for \$900

DATE	ACCOUNT	DEBIT	CREDIT
Jun 30	Wages Expense	900	
	Wages Payable		900

Record the expense in June, when Red Cedar incurred it.

Why Cash is not included: Red Cedar will record and pay the next payroll on July 3. That payment will reduce Wages Payable and Cash.

Some period-end entries require allocation or estimation

ACTIVITY NOT RECORDED

Accrued revenue or accrued expense records activity that has occurred.

RECORDED BALANCE OUT OF DATE

Prepaid expense or unearned revenue updates an existing asset or liability.

ALLOCATION OR ESTIMATION

Depreciation and other estimates use a measurement method and current evidence.

Depreciation allocates recorded cost using a method and supported estimates.

Depreciation combines a recorded cost with estimated inputs

RECORDED FACT

Equipment cost
\$30,000

ESTIMATED INPUTS

Useful life: 5 years
Salvage value: \$0

METHOD

Straight-line
Allocate cost evenly over
the estimated useful life.

This example uses supplied assumptions. Unit 6 addresses how companies support and revise depreciation estimates.

iClicker question 4 of 5

Method	Straight-line
Equipment cost	\$30,000
Estimated salvage value	\$0
Estimated useful life	5 years
Time in use during June	1 full month

What is the depreciation expense for June?

- A. \$500
- B. \$6,000
- C. \$29,500
- D. \$30,000

iClicker answer 4 of 5

Answer A · Red Cedar records \$500 of depreciation expense for June

Straight-line depreciation expense

$(\text{Cost} - \text{salvage value}) \div \text{useful life} \times \text{portion of year}$

Red Cedar: $(\$30,000 - \$0) \div 5 \text{ years} \times 1/12 = \500

DATE	ACCOUNT	DEBIT	CREDIT
Jun 30	Depreciation Expense	500	
	Accumulated Depreciation		500

Depreciation Expense

The debit allocates \$500 of the equipment's cost to June.

Accumulated Depreciation

The credit records a contra-asset; Equipment remains at its \$30,000 historical cost.

Carrying amount

$\$30,000 - \$500 = \$29,500$

iClicker question 5 of 5

After Red Cedar records its last June payroll, employees earn another \$900 through June 30. Red Cedar omits the adjustment for those unpaid wages.

What happens to the June financial statements?

- A. Net income is too low; liabilities are too high.
- B. Net income is too high; assets are too low.
- C. Net income is too high; liabilities are too low.
- D. Nothing; the trial balance still has equal totals.

iClicker answer 5 of 5

Answer C · Missing wages overstate net income and understate liabilities

ENTRY OMITTED AT JUNE 30

DATE	ACCOUNT	DEBIT	CREDIT
Jun 30	Wages Expense	900	
	Wages Payable		900

Missing debit to Wages Expense

Expense is \$900 too low.
Net income and equity are \$900 too high.

Missing credit to Wages Payable

Liabilities are \$900 too low.
Assets are not affected.

Net income flows into equity. The two \$900 overstatements describe the same missing expense; do not add them together.

Apply the omission analysis to accrued revenue

- Red Cedar completed a \$1,200 tour on June 30.
- Its right to payment became unconditional when it completed the tour.
- Red Cedar did not record the revenue or the receivable.

Before continuing, decide which statement amounts are too high, too low, or unaffected.

Omitted revenue understates assets and net income

Red Cedar omitted the June 30 entry for the completed \$1,200 tour.

ENTRY OMITTED AT JUNE 30

DATE	ACCOUNT	DEBIT	CREDIT
Jun 30	Accounts Receivable	1,200	
	Service Revenue		1,200

Missing debit to Accounts Receivable

Assets are \$1,200 too low.
Liabilities are not affected.

Missing credit to Service Revenue

Revenue is \$1,200 too low.
Net income and equity are \$1,200 too low.

Net income flows into equity. The two \$1,200 understatements describe the same missing revenue; do not add them together.

Prepare adjustments and analyze omissions

PREPARE A REQUIRED ADJUSTMENT

1. Determine the required balances from current evidence.
2. Compare the required and recorded balances.
3. Record the difference.

ANALYZE AN OMITTED ADJUSTMENT

1. Reconstruct the missing journal entry.
2. Trace each missing debit and credit to the financial statements.

Both tasks begin by identifying the event, reporting period, and affected accounts.

NEXT MEETING · TUE 9/8

Statements and closing entries

Required before Tuesday: Read Chapter 2 on the course site.

Optional equivalent: Kieso Chapter 2, section 2.3, pages 2-23 through 2-36.

Due Fri., Sep. 4, 11:59 PM: Submit the introduction assignment in D2L.

Optional practice: Chapter 2 practice and focused lessons are on the course site.