

What are Adjusting Journal Entries?

Worksheet

Adjusting journal entries are period-end entries that recognize accrued or deferred revenues and expenses so financial statements follow the accrual basis and the matching principle.

Questions

1. Which of these is an example of an accrued expense?
 - A) Rent paid in advance
 - B) Wages earned by employees but not yet paid
 - C) Cash received for future services
 - D) Supplies purchased and used immediately
2. A company pays \$6,000 for a 6-month insurance policy. What is the adjusting entry after 1 month?
 - A) Debit Insurance Expense 6,000
 - B) Debit Insurance Expense 1,000, Credit Prepaid Insurance 1,000
 - C) Debit Cash 1,000
 - D) Debit Prepaid Insurance 1,000
3. What principle do adjusting entries enforce?
 - A) Conservatism
 - B) Matching principle
 - C) Materiality
 - D) Going concern
4. Unearned revenue is initially recorded as
 - A) An asset
 - B) A liability
 - C) An expense
 - D) Equity
5. On Jan 1, a company pays \$12,000 for a 12-month insurance policy, recorded as Prepaid Insurance. What's the adjusting entry at the end of January?
6. Employees earned \$3,500 in wages during the last week of December, to be paid in January. What adjusting entry is needed on Dec 31?
7. A company received \$6,000 on Nov 1 for a 6-month service contract, recorded as Unearned Revenue. What's the adjusting entry at Dec 31 (2 months elapsed)?
8. Define: What is an adjusting entry?
9. Define: What are the 4 main types of adjusting entries?
10. Define: Why are adjusting entries needed?

Answer Key

1. B) Wages earned by employees but not yet paid - Accrued expenses are incurred but not yet paid - like unpaid wages at period end.
2. B) Debit Insurance Expense 1,000, Credit Prepaid Insurance 1,000 - $6,000/6 = 1,000$ per month is expensed, reducing the prepaid asset.
3. B) Matching principle - Adjusting entries align revenue and expense recognition with the period they relate to.
4. B) A liability - Cash received before service delivery is a liability (an obligation to perform).
5. Monthly expense = $12,000 / 12 = 1,000$ Debit Insurance Expense 1,000 Credit Prepaid Insurance 1,000
6. Wages are incurred but unpaid accrued expense Debit Wages Expense 3,500 Credit Wages Payable 3,500
7. Monthly revenue earned = $6,000 / 6 = 1,000$ 2 months elapsed $1,000 \times 2 = 2,000$ earned Debit Unearned Revenue 2,000 Credit Service Revenue 2,000
8. A period-end journal entry that updates accounts so revenues/expenses match the period they're earned/incurred.
9. Accrued revenue, accrued expense, prepaid expense (deferral), and unearned revenue (deferral).
10. Because accrual accounting requires the matching principle - cash timing doesn't always match when revenue/expense is truly earned or incurred.

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