

Adjusting Entries: Journalize The Following Adjusting Entries On December 31. Show All Calculations.

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Understanding the importance of adjusting entries is fundamental in maintaining accurate financial statements. They ensure that revenues and expenses are recorded in the correct accounting period, adhering to the matching principle and revenue recognition principles. This article provides a comprehensive guide on how to journalize various adjusting entries as of December 31, including detailed calculations and explanations. Whether you're a student, accounting professional, or business owner, mastering adjusting entries is essential for accurate financial reporting.

What Are Adjusting Entries?

Adjusting entries are journal entries made at the end of an accounting period to allocate income and expenses to the correct period. They are necessary because certain transactions may not be recorded daily or may require correction before preparing financial statements.

Key Objectives of Adjusting Entries:

- To update account balances before preparing financial statements.
- To recognize revenues earned but not yet received.
- To record expenses incurred but not yet paid.
- To correct errors or account for accrued and deferred items.

Types of Adjusting Entries

There are primarily four types of adjusting entries:

1. Accrued Revenues: Revenues earned but not yet received or recorded.
2. Accrued Expenses: Expenses incurred but not yet paid or recorded.
3. Deferred Revenues (Unearned Revenues): Cash received before revenue is earned.
4. Deferred Expenses (Prepaid Expenses): Cash paid before expense is incurred.

Understanding these categories helps in recognizing the appropriate method and

calculation for each adjusting entry.

Common Adjusting Entries on December 31

Let's explore typical adjusting entries with detailed calculations, illustrating how to journalize them properly.

1. Accrued Revenues

Scenario:
A company has earned \$5,000 in consulting fees that will be billed next period. No entry has been made yet.

Calculation:
Revenues earned but not received or recorded:

- Amount: \$5,000

Adjusting Entry:
Debit Accounts Receivable \$5,000
Credit Consulting Revenue \$5,000

Journal Entry:

Date	Account Title	Debit	Credit
-----	-----	-----	-----
Dec 31	Accounts Receivable	\$5,000	
	Consulting Revenue		\$5,000

2. Accrued Expenses

Scenario:
Employees earned \$2,000 in wages that will be paid in the next period.

Calculation:
Wages expense incurred but not paid:

- Amount: \$2,000

Adjusting Entry:
Debit Wages Expense \$2,000
Credit Wages Payable \$2,000

Journal Entry:

Date	Account Title	Debit	Credit
-----	-----	-----	-----
Dec 31	Wages Expense	\$2,000	
	Wages Payable		\$2,000

3. Deferred Revenues (Unearned Revenue)

Scenario:

A client paid \$12,000 in advance for services to be provided over 6 months starting December 1. The company recognizes revenue monthly.

Calculation:

Monthly revenue: $\$12,000 / 6 \text{ months} = \$2,000$

As of December 31 (one month passed):

- Revenue earned: \$2,000

Adjusting Entry:

Debit Unearned Revenue \$2,000

Credit Service Revenue \$2,000

Journal Entry:

Date	Account Title	Debit	Credit
-----	-----	-----	-----
Dec 31	Unearned Revenue	\$2,000	
	Service Revenue		\$2,000

4. Prepaid Expenses

Scenario:

A company paid \$6,000 for a one-year insurance policy on December 1.

Calculation:

Monthly insurance expense: $\$6,000 / 12 \text{ months} = \500

As of December 31 (one month):

- Expense incurred: \$500

Adjusting Entry:

Debit Insurance Expense \$500

Credit Prepaid Insurance \$500

Journal Entry:

Date	Account Title	Debit	Credit
Dec 31	Insurance Expense	\$500	
	Prepaid Insurance		\$500

Detailed Steps for Journalizing Adjusting Entries

To ensure accuracy, follow these steps:

Step 1: Identify the account affected

Step 2: Determine whether the account needs to be debited or credited

Step 3: Calculate the amount based on the transaction details

Step 4: Record the journal entry with proper account titles and amounts

Practical Examples with Calculations

Let's walk through additional examples involving complex calculations to reinforce understanding.

Example 1: Depreciation Expense

Scenario:

A company owns equipment costing \$48,000 with an estimated useful life of 8 years. No depreciation has been recorded yet.

Calculation:

Annual depreciation expense: $\$48,000 / 8 \text{ years} = \$6,000$

For December 31 (assuming a full year):

- Depreciation expense: \$6,000

Adjusting Entry:

Date	Account Title	Debit	Credit
Dec 31	Depreciation Expense	\$6,000	
	Accumulated Depreciation—Equipment		\$6,000

Example 2: Supplies Used

Scenario:

A supplies account shows a balance of \$1,200. An inventory count on December 31 reveals \$300 of supplies remain.

Calculation:

Supplies used during the period: $\$1,200 - \$300 = \$900$

Adjusting Entry:

Date	Account Title	Debit	Credit
Dec 31	Supplies Expense	\$900	
	Supplies		\$900

Benefits of Proper Adjustment Entries

Properly journalized adjusting entries offer numerous advantages:

- Accurate Financial Statements: Ensures revenues and expenses are recorded in the correct period, providing a true picture of financial health.
- Compliance: Meets generally accepted accounting principles (GAAP) and regulatory standards.
- Informed Decision-Making: Reliable data helps management make sound business decisions.
- Audit Preparedness: Well-maintained records facilitate smoother audits.

Common Mistakes to Avoid When Journalizing Adjusting Entries

While adjusting entries are crucial, several common errors can compromise their accuracy:

- Failing to identify the correct accounts affected.
- Incorrect calculations of amounts based on time or usage.
- Omitting necessary adjusting entries, leading to misstated financials.
- Recording adjustments in the wrong accounting period.

To prevent these, always double-check calculations, understand the nature of each transaction, and ensure entries align with supporting documentation.

Conclusion

Mastering the art of journalizing adjusting entries on December 31 is vital for accurate financial reporting. By understanding the different types of adjustments—accrued revenues, accrued expenses, deferred revenues, and prepaid expenses—and performing precise calculations, accountants can ensure that financial statements reflect the true financial position of the business. Remember to follow a systematic approach: identify the affected accounts, determine the correct amounts, and record the entries meticulously. Regular practice with real-world scenarios enhances proficiency, leading to greater confidence in handling adjusting entries effectively.

In summary:

- Adjusting entries are necessary to match revenues and expenses to the correct period.
- Each type of adjustment has specific characteristics and calculation methods.
- Proper journalizing involves detailed calculations and correct account selection.
- Accurate adjustments contribute to transparent and compliant financial reporting.

By adhering to these principles and practices, you can confidently journalize December 31 adjusting entries, ensuring your financial statements are precise and reliable.

Frequently Asked Questions

What is the purpose of adjusting entries at the end of the accounting period?

Adjusting entries are made to update the accounts to reflect the accurate financial position and performance of the company, ensuring revenues and expenses are recorded in the correct period according to the matching and accrual principles.

How do you journalize an adjusting entry for accrued revenues on December 31?

To journalize accrued revenues, debit Accounts Receivable and credit Revenue for the amount earned but not yet received. For example, if \$5,000 of services were performed but not billed, the entry is: Dr. Accounts Receivable \$5,000; Cr. Revenue \$5,000.

What is the calculation process for adjusting entries related to prepaid expenses?

Calculate the portion of the prepaid expense that has been used up during the period. For example, if a \$12,000 insurance policy is for 12 months, and one month has passed, the adjusting entry is: Debit Insurance Expense \$1,000; Credit Prepaid Insurance \$1,000.

How do you adjust for accrued expenses, and what is the typical journal entry?

For accrued expenses, estimate the amount incurred but not yet paid, then debit the expense account and credit a liability account like Accounts Payable. For example, if \$2,000 of wages are owed but unpaid, the entry is: Dr. Wages Expense \$2,000; Cr. Wages Payable \$2,000.

Why are adjusting entries necessary for depreciation, and how are they journalized?

Adjusting entries for depreciation allocate the cost of a fixed asset over its useful life to match expenses with revenues. For example, if a machine costing \$60,000 has a useful life of 5 years, annual depreciation is \$12,000. The entry is: Dr. Depreciation Expense \$12,000; Cr. Accumulated Depreciation \$12,000.

Additional Resources

Adjusting Entries: Journalize The Following Adjusting Entries On December 31 — Show All Calculations

In the realm of accounting, especially within the accrual basis system, adjusting entries are pivotal to ensuring that financial statements accurately reflect a company's financial position and performance at the end of an accounting period. These entries help align revenues and expenses to the correct periods, thereby adhering to the matching principle and providing stakeholders with reliable information.

This article dives deep into the concept of adjusting entries, illustrating how to journalize them effectively with detailed calculations. Whether you're a student, an accountant, or a financial professional, understanding these entries is essential for accurate bookkeeping and financial reporting.

Understanding Adjusting Entries

What Are Adjusting Entries?

Adjusting entries are journal entries made at the end of an accounting period—here, December 31—to record transactions that have occurred but are not yet reflected in the accounts. They are necessary because the initial journal entries may not fully capture all revenues earned or expenses incurred within the period.

Purpose of Adjusting Entries

- To recognize revenues earned but not yet received (accrued revenues).

- To record expenses incurred but not yet paid (accrued expenses).
- To allocate prepaid expenses to the period they benefit (prepaid expenses).
- To record unearned revenues that are now earned (unearned revenues).
- To account for depreciation and amortization of assets.

Key Characteristics

- Typically involve one income statement account and one balance sheet account.
- Do not involve cash transactions at the time of adjustment.
- Are made before preparing financial statements.

Common Types of Adjusting Entries

Before we proceed to journalize specific entries, it's important to familiarize ourselves with the typical types:

1. Accrued Revenues

Revenues earned but not yet received or recorded.

Example: Services performed but not yet billed.

2. Accrued Expenses

Expenses incurred but not yet paid or recorded.

Example: Salaries payable, interest expense.

3. Prepaid Expenses

Payments made in advance for expenses.

Example: Insurance, rent.

4. Unearned Revenues

Cash received before services are performed.

Example: Subscription payments received in advance.

5. Depreciation and Amortization

Allocating the cost of fixed assets over their useful lives.

Step-by-Step Guide to Journalizing Adjusting

Entries

To illustrate the process, we'll use hypothetical data and perform all calculations explicitly. The goal is to understand not only what entries to make but how to derive the figures needed.

Sample Data for December 31 Adjustments

Suppose a company, XYZ Corporation, has the following data:

Item	Description	Amount
1	Salaries earned by employees but not yet paid as of December 31	\$2,400
2	Insurance premium paid on December 1 for 12 months	\$12,000
3	Services performed but not yet billed to clients, amounting to	\$3,000
4	Revenue received in advance for a one-year subscription starting December 1,	\$6,000
5	Office supplies on hand December 31 valued at \$500; beginning supplies were \$2,000, with purchases of \$1,200 during the period	

Journalizing Each Adjusting Entry

Below, we will examine each scenario, perform all relevant calculations, and journalize the entries accordingly.

1. Accrued Salaries Expense

Scenario:
Employees earned \$2,400 in salaries by December 31, but the company has not yet paid them.

Calculation:
Since the salaries are earned but not paid, record the expense and a liability.

Journal Entry:

Account Title	Debit	Credit

Salaries Expense	\$2,400	
Salaries Payable	\$2,400	

Explanation:

This entry recognizes the salaries earned in December but not paid, increasing expenses and liabilities.

2. Prepaid Insurance

Scenario:

The company paid \$12,000 on December 1 for a year's insurance coverage.

Calculation:

Number of months covered from December 1 to December 31: 1 month.

Monthly insurance expense:

$\frac{\$12,000}{12 \text{ months}} = \$1,000$

Insurance expense for December:

$\$1,000$

Journal Entry:

Account Title	Debit	Credit
-----	-----	-----
Insurance Expense	\$1,000	
Prepaid Insurance	\$1,000	

Explanation:

This adjusts the prepaid insurance account to reflect one month of expense, reducing the asset.

3. Services Performed but Not Billed (Accrued Revenue)

Scenario:

Services worth \$3,000 were performed but not billed by December 31.

Calculation:

Revenue recognized in December: \$3,000.

Journal Entry:

Account Title	Debit	Credit
---------------	-------	--------

----- ----- -----
Accounts Receivable \$3,000
Service Revenue \$3,000

Explanation:

This records revenue earned but not yet billed, increasing assets and revenue.

4. Unearned Revenue Recognized

Scenario:

Received \$6,000 in advance on December 1 for a one-year subscription starting December 1.

Calculation:

Number of months elapsed in December: 1 month.

Monthly revenue:

$\frac{\$6,000}{12} = \500

Adjusting Entry:

Account Title Debit Credit
----- ----- -----
Unearned Revenue \$500
Subscription Revenue \$500

Explanation:

This recognizes the revenue earned in December by reducing the unearned revenue liability.

5. Supplies Expense

Scenario:

Beginning supplies: \$2,000

Purchases during period: \$1,200

Supplies on hand at December 31: \$500

Calculation:

Supplies used during the period:

$\text{Supplies used} = \text{Beginning supplies} + \text{Purchases} - \text{Ending supplies}$

$$\text{\\[= \\$2,000 + \\$1,200 - \\$500 = \\$2,700 \\}$$

Journal Entry:

Account Title	Debit	Credit
Supplies Expense	\$2,700	
Supplies		\$2,700

Note:

If the supplies account was originally debited with the purchases and the remaining supplies are counted at \$500, the adjusting entry recognizes the supplies used.

Summary of All Adjusting Entries in Journal Form

Date	Account Titles and Explanation	Debit	Credit
Dec 31	Salaries Expense	\$2,400	
	Salaries Payable		\$2,400
	(To record salaries earned but unpaid)		
Dec 31	Insurance Expense	\$1,000	
	Prepaid Insurance		\$1,000
	(To record insurance expense for December)		
Dec 31	Accounts Receivable	\$3,000	
	Service Revenue		\$3,000
	(To record services performed but not billed)		
Dec 31	Unearned Revenue	\$500	
	Subscription Revenue		\$500
	(To recognize revenue earned from subscription)		
Dec 31	Supplies Expense	\$2,700	
	Supplies		\$2,700
	(To record supplies used during period)		

Final Thoughts and Best Practices

Adjusting entries are a critical component of accurate financial reporting. Properly journalizing these entries requires:

- Understanding the nature of each transaction to determine whether it's an accrual, deferral, or depreciation.
- Performing precise calculations to allocate amounts correctly.
- Ensuring the timing aligns with the accounting period to reflect true income and expenses.

- Documenting assumptions and calculations for audit trails and clarity.

Key Tips:

- Always review supporting documentation, such as invoices, contracts, and physical counts.
- Use trial balances and account summaries to verify the accuracy of adjustments.
- Remember that adjusting entries do not involve cash; they adjust the books to match economic events.

Conclusion

Mastering the art of adjusting entries is fundamental for any accountant aiming to produce reliable financial statements. By systematically analyzing each transaction, performing meticulous calculations, and journalizing the entries with clarity, professionals can ensure that the financial reports truly reflect the company's operations as of December 31.

Through detailed explanation and step-by-step calculations, this guide demonstrates that adjusting entries are not merely procedural tasks but vital tools for financial integrity. Whether dealing with accrued expenses, unearned revenues, or asset depreciation, understanding how to journalize these adjustments accurately is essential for sound accounting practice.

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