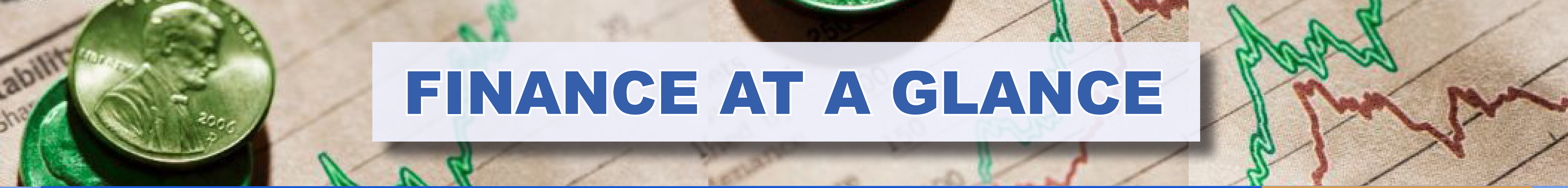

FINANCE AT A GLANCE

Journalizing the adjusting entries

Lesson 55

The adjusting entries that we analyzed and wrote accounting entries for in the last lesson will now have to be journalized in the same way we did in Lesson 45.

1. The Company estimates that its electricity and telephone bills in January amount to approximately $550. The billings from the electric and telephone companies for January consumption are yet to be received as of January 31, 2010.

   Transaction analysis:

   The estimate of $550 for Utilities in January is an expense, and involves a debit entry. (Please see definition 3.)

   Since the actual payment takes place past January, an Accrued liability is incurred, and is recorded as a credit entry. (Please see definition 5.)

   Adjusting entries:

Dr	Utilities	550	
Cr	Accrued liabilities		550

2. The advertising agency informs the Company that the campaigns in January are worth only $2,000, because of the postponement of what is supposed to have been the last program for the month. The excess $500 is being allocated for the following month's campaign.

   Transaction analysis:

   The Sales and marketing expenses are overbooked by $500. Reducing the already booked Sales and marketing expenses by $500 means a reversal of $500. This is a credit entry.

   (Please see definition 4 in Lesson 40.)

   The $500 being carried over to the next month's marketing programs is in effect a prepayment of future expenses. This is recognized as in increase in assets called Prepaid expenses. This is a debit entry.

   (Please see definition 1.)

Date	Description	Post Ref.	Debit	Credit
Jan. 31, 2010	Utilities		550	
	Accrued liabilities			550
	Provision for expected utilities expenses for the month.			

Adjusting entries:

Dr	Prepaid expenses	500	
Cr	Sales and marketing expenses		500

3. The useful life of the office equipment is estimated to be 5 years or 60 months. We assume that the wear and tear of such equipment in January amounts to 1/60 of its acquisition value, and that is $4,168 (which based on $250,000 divided by 60 months).

   Transaction analysis:

   The wear and tear being ascribed to the month of January is booked as Depreciation, an expense. This is a debit entry. (Please see definition 3.) The matching entry is an increase in Accumulated depreciation. Since Accumulated depreciation is a contra asset, an increase in it is a credit entry. (Please see Lesson 53.)

   Adjusting entries:

Dr	Depreciation	4,168	
Cr	Accumulated depreciation		4,168

The posting of the adjusting entries into the T-accounts will be done in the next lesson.

Jan. 31, 2010	Prepaid expenses		500	
	Sales and marketing expenses			500
	Recognition of prepaid sales and marketing expenses arising from postponement of activities already paid for.			
Jan. 31, 2010	Depreciation		4,168	
	Accumulated depreciation			4,168
	Recognition of depreciation of office equipment.			