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FINANCIAL ACCOUNTING 3e

IFRS EDITION

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PREVIEW OF CHAPTER 3

ADJUSTING THE ACCOUNTS

Timing Issues	The Basics of Adjusting Entries	The Adjusted Trial Balance and Financial Statements
• Fiscal and calendar years • Accrual- vs. cash-basis accounting • Recognizing revenues and expenses	• Types of adjusting entries • Adjusting entries for deferrals • Adjusting entries for accruals • Summary of basic relationships	• Preparing the adjusted trial balance • Preparing financial statements

CHAPTER

3 Adjusting the Accounts

LEARNING OBJECTIVES

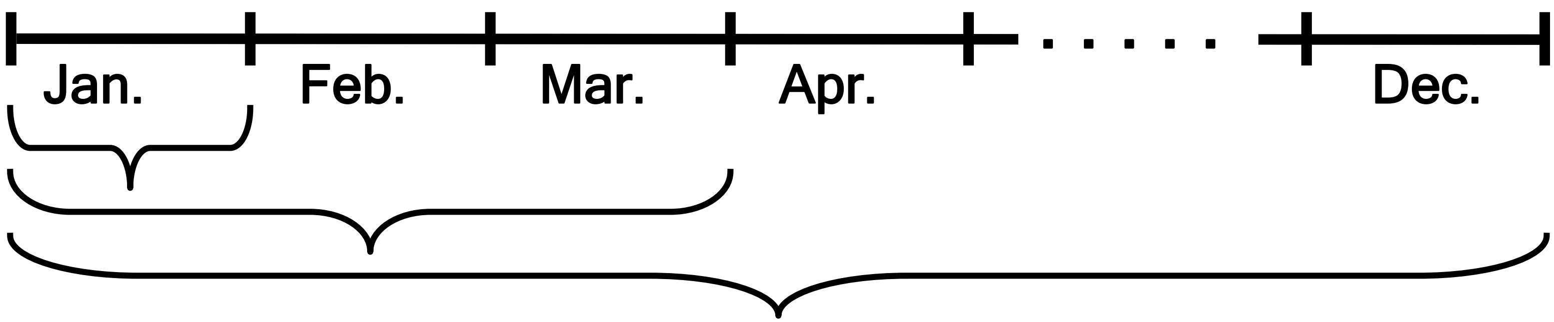
After studying this chapter, you should be able to:

1. Explain the time period assumption.
2. Explain the accrual basis of accounting.
3. Explain the reasons for adjusting entries.
4. Identify the major types of adjusting entries.
5. Prepare adjusting entries for deferrals.
6. Prepare adjusting entries for accruals.
7. Describe the nature and purpose of an adjusted trial balance.

Timing Issues

Learning Objective 1
Explain the time period assumption.

Accountants divide the economic life of a business into artificial time periods (**Time Period Assumption**).



- Generally a month, a quarter, or a year.
- Also known as the "*Periodicity Assumption*"

Fiscal and Calendar Years

- Monthly and quarterly time periods are called **interim periods**.
- Most large companies must prepare both **quarterly** and **annual** financial statements.
- **Fiscal Year** = Accounting time period that is **one year** in length.
- **Calendar Year** = January 1 to December 31.

Fiscal and Calendar Years

Question

The time period assumption states that:

a. companies must wait until the calendar year is completed to prepare financial statements.

b. companies use the fiscal year to report financial information.

c. the economic life of a business can be divided into artificial time periods.

d. companies record information in the time period in which the events occur.

Accrual- versus Cash-Basis Accounting

Accrual-Basis Accounting

- Transactions recorded in the **periods in which the events occur**.
- Companies **recognize revenues when they perform services** (rather than when they receive cash).
- **Expenses** are recognized when **incurred** (rather than when paid).

Learning Objective 2
Explain the accrual basis of accounting.

Accrual- versus Cash-Basis Accounting

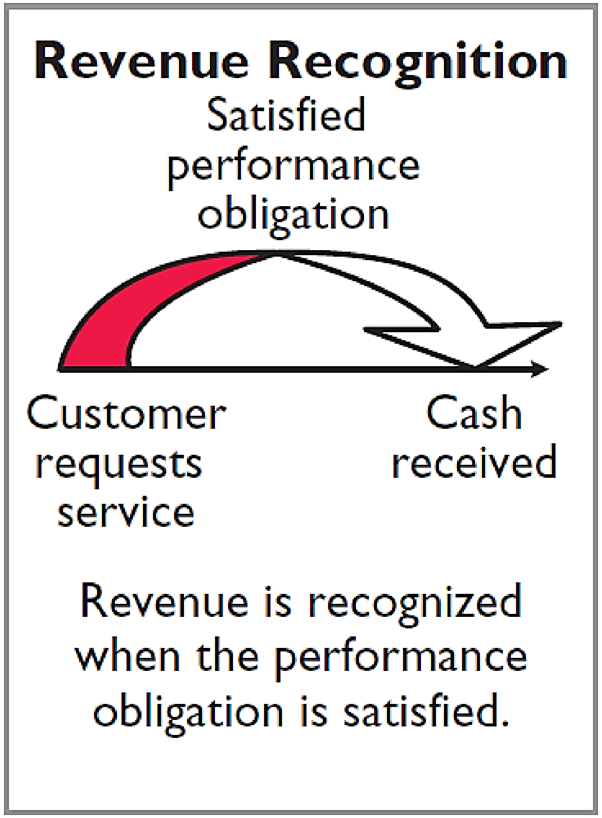
Cash-Basis Accounting

- **Revenues** are recorded when **cash is received**.
- **Expenses** are recorded when **cash is paid**.
- **Cash-basis accounting is not in accordance with International Financial Reporting Standards (IFRS).**

Recognizing Revenues and Expenses

REVENUE RECOGNITION PRINCIPLE

Recognize revenue in the accounting period in which the **performance obligation is satisfied**.



Recognizing Revenues and Expenses

EXPENSE RECOGNITION PRINCIPLE

Match expenses with revenues in the period when the company makes efforts to generate those revenues.

"Let the expenses follow the revenues."

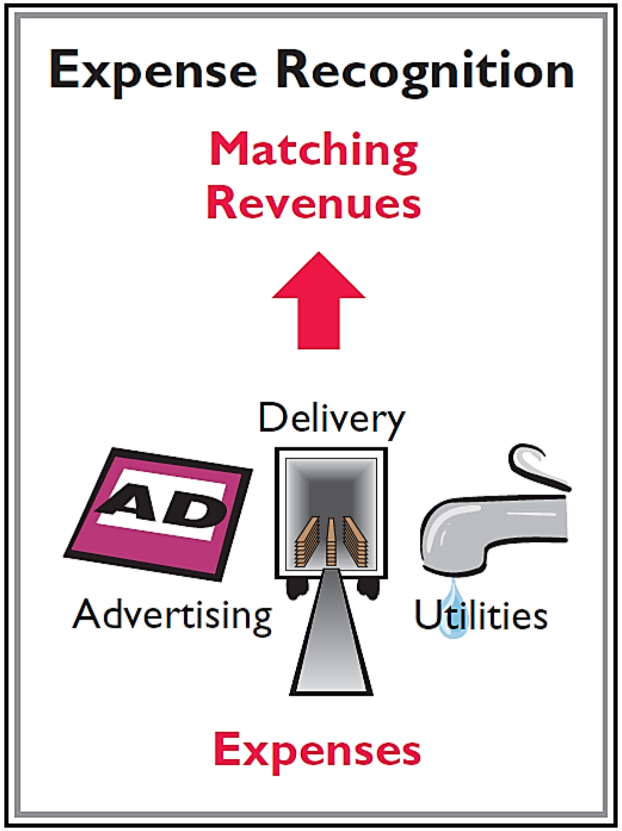
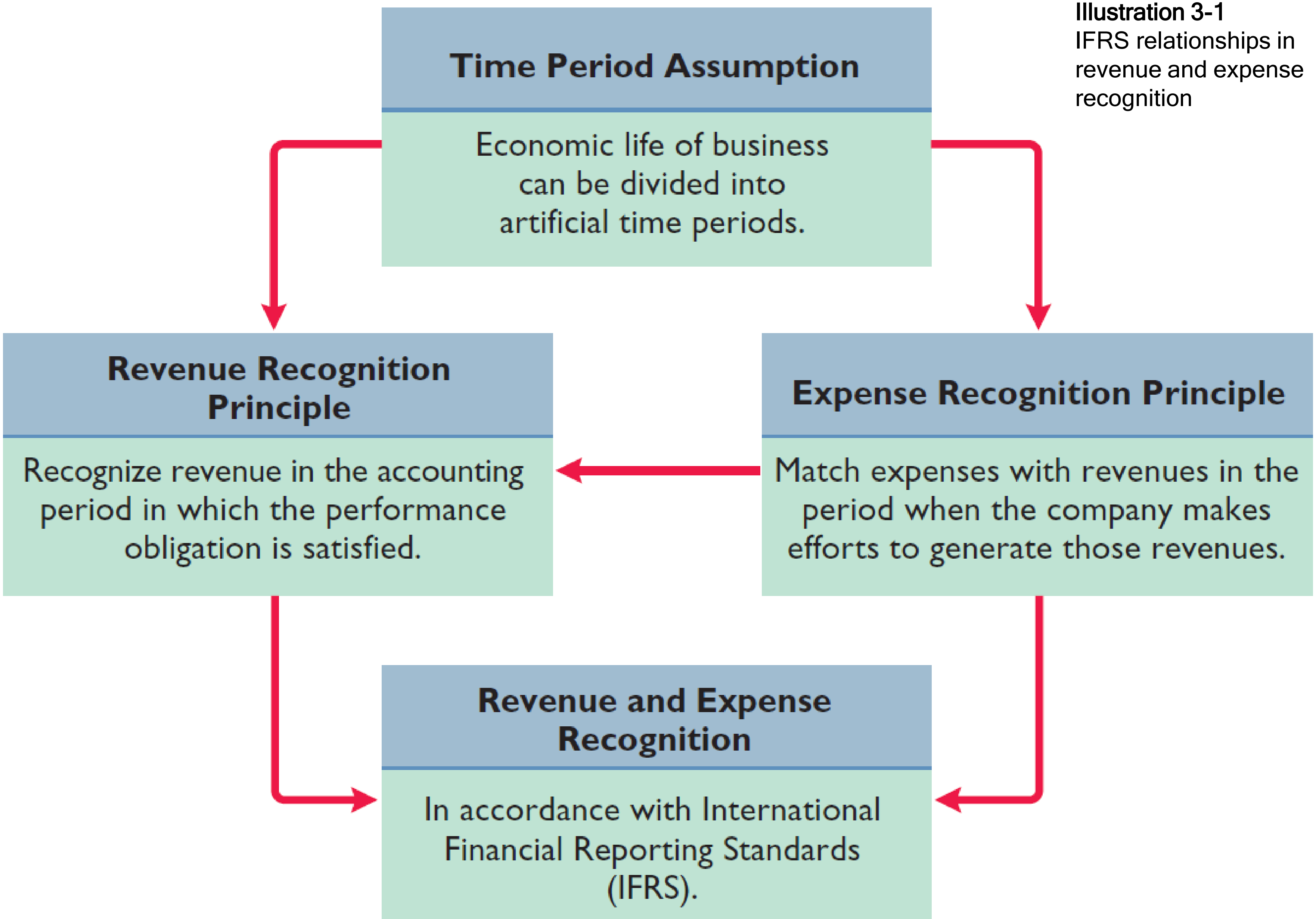


Illustration 3-1
IFRS relationships in revenue and expense recognition



LO 2

Recognizing Revenues and Expenses

Question

The revenue recognition principle states that:

a. revenue should be recognized in the accounting period in which a performance obligation is satisfied.

b. expenses should be matched with revenues.

c. the economic life of a business can be divided into artificial time periods.

d. the fiscal year should correspond with the calendar year.

ETHICS INSIGHT

Krispy Kreme (USA)

Cooking the Books?

Allegations of abuse of the revenue recognition principle have become all too common in recent years. For example, it was alleged that Krispy Kreme (USA) sometimes doubled the number of doughnuts shipped to wholesale customers at the end of a quarter to boost quarterly results. The customers shipped the unsold doughnuts back after the beginning of the next quarter for a refund. Conversely, Computer Associates International (USA) was accused of backdating sales—that is, reporting a sale in one period that did not actually occur until the next period in order to achieve the earlier period's sales targets.

> DO IT!

A list of concepts is provided in the left column below, with a description of the concept in the right column below. There are more descriptions provided than concepts. Match the description of the concept to the concept.

1. __f__ Accrual-basis accounting.
2. __e__ Calendar year.
3. __c__ Time period assumption.
4. __b__ Expense recognition principle.

(a) Monthly and quarterly time periods.

(b) Efforts (expenses) should be matched with results (revenues).

(c) Accountants divide the economic life of a business into artificial time periods.

(d) Companies record revenues when they receive cash and record expenses when they pay out cash.

(e) An accounting time period that starts on January 1 and ends on December 31.

(f) Companies record transactions in the period in which the events occur.

LO 2

The Basics of Adjusting Entries

Learning Objective 3
Explain the reasons for adjusting entries.

Adjusting Entries

- Ensure that the **revenue recognition** and **expense recognition** principles are followed.
- Necessary because the **trial balance may not contain up-to-date** and complete data.
- **Required** every time a company prepares financial statements.
- Will include **one income statement account** and **one statement of financial position account**.

Adjusting Entries

Question

Adjusting entries are made to ensure that:

a. expenses are recognized in the period in which they are incurred.

b. revenues are recorded in the period in which services are performed.

c. statement of financial position and income statement accounts have correct balances at the end of an accounting period.

d. All the responses above are correct.

Types of Adjusting Entries

Learning Objective 4
Identify the major types of adjusting entries.

Deferrals	Accruals
1. **Prepaid Expenses.** Expenses paid in cash before they are used or consumed.	1. **Accrued Revenues.** Revenues for services performed but not yet received in cash or recorded.
2. **Unearned Revenues.** Cash received before services are performed.	2. **Accrued Expenses.** Expenses incurred but not yet paid in cash or recorded.

Illustration 3-2
Categories of adjusting entries

YAZICI ADVERTISING A.Ş.
Trial Balance
October 31, 2017

	Debit	Credit
Cash	₺ 15,200	
Supplies	2,500	
Prepaid Insurance	600	
Equipment	5,000	
Notes Payable		₺ 5,000
Accounts Payable		2,500
Unearned Service Revenue		1,200
Share Capital—Ordinary		10,000
Retained Earnings		–0–
Dividends	500	
Service Revenue		10,000
Salaries and Wages Expense	4,000	
Rent Expense	900	
	₺28,700	₺28,700

Illustration 3-3
Trial balance

Each account is analyzed to determine whether it is complete and up-to-date for financial statement purposes.

LO 4

Adjusting Entries for Deferrals

Learning Objective 5
Prepare adjusting entries for deferrals.

Deferrals are **expenses or revenues** that are recognized at a date later than the point when cash was originally exchanged. There are **two types**:

- Prepaid expenses and
- Unearned revenues.

PREPAID EXPENSES

Payments of expenses that will benefit more than one accounting period.

Cash Payment BEFORE **Expense Recorded**

Prepayments often occur in regard to:

- insurance
- supplies
- advertising
- rent
- buildings and equipment

PREPAID EXPENSES

- Expire either with the passage of time or through use.
- Adjusting entry:
  - **Increase** (debit) to an **expense account** and
  - **Decrease** (credit) to an **asset account**.

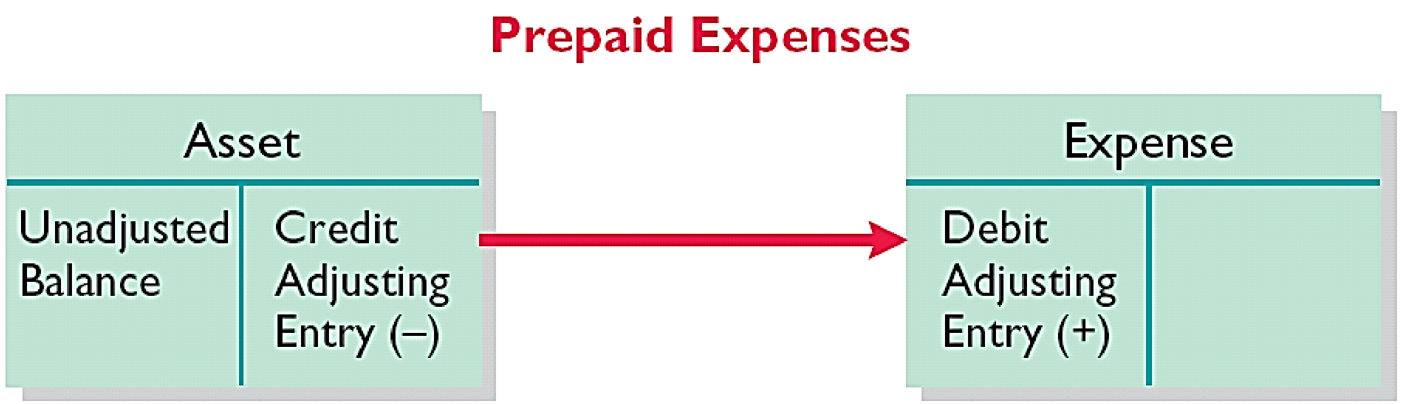


Illustration 3-4
Adjusting entries for prepaid expenses

LO 5

PREPAID EXPENSES

Illustration: Yazici Advertising Inc. Inc. purchased supplies costing ₺2,500 on October 5. Yazici recorded the purchase by increasing (debiting) the asset Supplies. This account shows a balance of ₺2,500 in the October 31 trial balance. An inventory count at the close of business on October 31 reveals that ₺1,000 of supplies are still on hand.

Oct. 31	Supplies Expense	1,500	
	Supplies		1,500

Basic Analysis

The expense Supplies Expense is increased ₺1,500, and the asset Supplies is decreased ₺1,500.

Equation Analysis

Assets	=	Liabilities	+	Equity
Supplies	=			Supplies Expense
−₺1,500				−₺1,500

Debit–Credit Analysis

Debits increase expenses: debit Supplies Expense ₺1,500.
Credits decrease assets: credit Supplies ₺1,500.

Journal Entry

Oct. 31	Supplies Expense	1,500	
	Supplies		1,500
	(To record supplies used)		

Posting

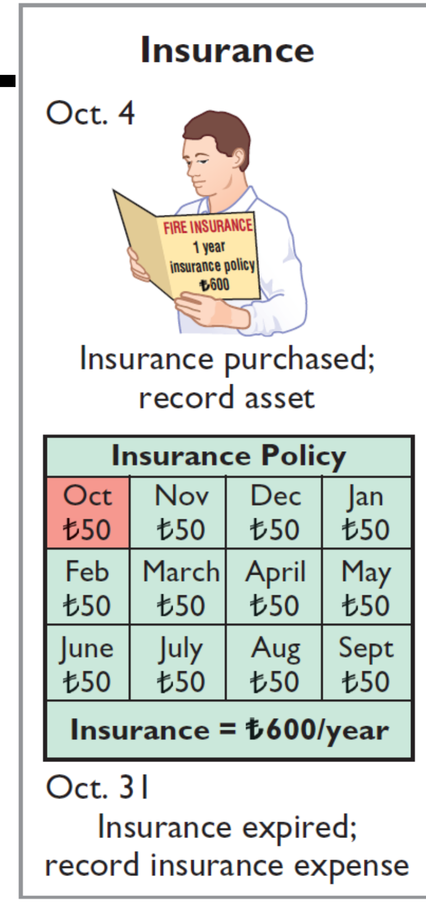
Supplies			126
Oct. 5	2,500	Oct. 31	Adj. 1,500
Oct. 31	Bal. 1,000		

Supplies Expense			631
Oct. 31	Adj. 1,500		
Oct. 31	Bal. 1,500		

Illustration 3-5
Adjustment for supplies

PREPAID EXPENSES

Illustration: On October 4, Yazici Advertising Inc. paid ₺600 for a one-year fire insurance policy. Coverage began on October 1. Yazici recorded the payment by increasing (debiting) Prepaid Insurance. This account shows a balance of ₺600 in the October 31 trial balance. Insurance of ₺50 (₺600 ÷ 12) expires each month.



Oct. 31	Insurance Expense	50	
	Prepaid Insurance		50

Basic Analysis	The expense Insurance Expense is increased ₺50, and the asset Prepaid Insurance is decreased ₺50.

Equation Analysis

Assets	=	**Liabilities**	+	**Equity**
Prepaid Insurance	=			Insurance Expense
−₺50				−₺50

Debit–Credit Analysis

Debits increase expenses: debit Insurance Expense ₺50.
Credits decrease assets: credit Prepaid Insurance ₺50.

Journal Entry

Oct. 31	Insurance Expense	50	
	Prepaid Insurance		50
	(To record insurance expired)		

Posting

Prepaid Insurance			130
Oct. 4	600	Oct. 31	**Adj. 50**
Oct. 31	Bal. 550		

Insurance Expense			722
Oct. 31	**Adj. 50**		
Oct. 31	Bal. 50		

Illustration 3-6
Adjustment for insurance

PREPAID EXPENSES

DEPRECIATION

- **Buildings**, **equipment**, and **motor vehicles** (assets that provide service for many years) are **recorded as assets**, rather than an expense, on the date acquired.
- **Depreciation** is the process of **allocating the cost of an asset to expense** over its **useful life**.
- Depreciation **does not attempt** to report the actual change in the **value of the asset**.

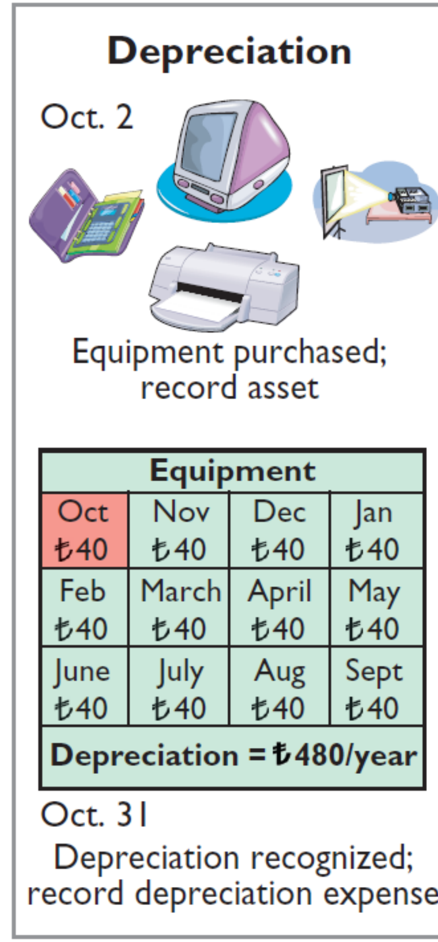
PREPAID EXPENSES

Illustration: For Yazici Advertising, assume that depreciation on the equipment is ₺480 a year, or ₺40 per month.

Oct. 31

Depreciation Expense	40	
Accumulated Depreciation		40

Accumulated Depreciation is called a **contra asset account**.



• **HELPFUL HINT**
All contra accounts have increases, decreases, and normal balances opposite to the account to which they relate.

Basic Analysis

The expense Depreciation Expense is increased ₺40, and the contra asset Accumulated Depreciation—Equipment is increased ₺40.

Equation Analysis

Assets	=	Liabilities	+	Equity
Accumulated Depreciation—Equipment	=			Depreciation Expense
−₺40				−₺40

Debit–Credit Analysis

Debits increase expenses: debit Depreciation Expense ₺40.
Credits increase contra assets: credit Accumulated Depreciation—Equipment ₺40.

Journal Entry

Oct. 31	Depreciation Expense	40	
	Accumulated Depreciation—Equipment		40
	(To record monthly depreciation)		

Posting

Equipment			157
Oct. 2	5,000		
Oct. 31	Bal. 5,000		

Accumulated Depreciation—Equipment			158
		Oct. 31	Adj. 40
		Oct. 31	Bal. 40

Depreciation Expense			711
Oct. 31	Adj. 40		
Oct. 31	Bal. 40		

Illustration 3-7
Adjustment for depreciation

LO 5

PREPAID EXPENSES

Statement Presentation

- Accumulated Depreciation is a **contra asset account** (credit).
- **Appears just after** the account it offsets (Equipment) on the balance sheet.
- **Book value** is the difference between the cost of any depreciable asset and its accumulated depreciation.

Equipment	₺ 5,000
Less: Accumulated depreciation—equipment	40
	₺4,960

Illustration 3-8
Statement of financial position presentation of accumulated depreciation

PREPAID EXPENSES

Accounting for Prepaid Expenses			
Examples	**Reason for Adjustment**	**Accounts Before Adjustment**	**Adjusting Entry**
Insurance, supplies, advertising, rent, depreciation	Prepaid expenses recorded in asset accounts have been used.	Assets overstated. Expenses understated.	Dr. Expenses Cr. Assets or Contra Asset

Illustration 3-9
Accounting for prepaid expenses

UNEARNED REVENUES

Receipt of cash that is recorded as a liability because the service has not been performed.

Cash Receipt BEFORE **Revenue Recorded**

Unearned revenues often occur in regard to:

- Rent
- Airline tickets
- Magazine subscriptions
- Customer deposits

UNEARNED REVENUES

- Adjusting entry is made to **record the revenue** for services performed during the period and to show the liability that remains at the end of the accounting period.
- Results in a **decrease** (debit) to a **liability account** and an **increase** (credit) to a **revenue account**.

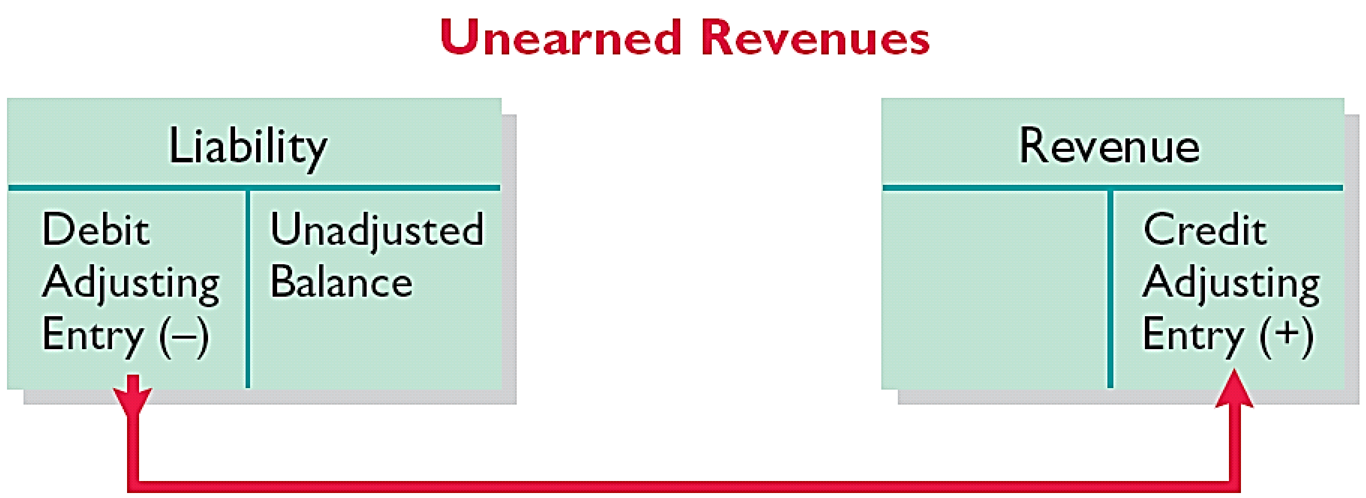


Illustration 3-10
Adjusting entries for unearned revenues

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UNEARNED REVENUES

Illustration: Yazici Advertising Inc. received ₺1,200 on October 2 from R. Knox for advertising services expected to be completed by December 31. Unearned Service Revenue shows a balance of ₺1,200 in the October 31 trial balance. Analysis reveals that the company performed ₺400 of services in October.

Oct. 31	Unearned Service Revenue	400	
	Service Revenue		400

Basic Analysis

The liability Unearned Service Revenue is decreased ₺400, and the revenue Service Revenue is increased ₺400.

Equation Analysis

Assets	=	Liabilities	+	Equity
		Unearned Service Revenue		Service Revenue
		−₺400		+₺400

Debit–Credit Analysis

Debits decrease liabilities: debit Unearned Service Revenue ₺400.
Credits increase revenues: credit Service Revenue ₺400.

Journal Entry

Oct. 31	Unearned Service Revenue	400	
	Service Revenue		400
	(To record revenue for services performed)		

Posting

Unearned Service Revenue			209
Oct. 31	Adj. 400	Oct. 2	1,200
		Oct. 31	Bal. 800

Service Revenue			400
		Oct. 3	10,000
		31	Adj. 400
		Oct. 31	Bal. 10,400

Illustration 3-11
Service revenue accounts after adjustment

UNEARNED REVENUES

Accounting for Unearned Revenues			
Examples	**Reason for Adjustment**	**Accounts Before Adjustment**	**Adjusting Entry**
Rent, magazine subscriptions, customer deposits for future service	Unearned revenues recorded in liability accounts are now recognized as revenue for services performed.	Liabilities overstated. Revenues understated.	Dr. Liabilities Cr. Revenues

Illustration 3-12
Accounting for unearned revenues

ACCOUNTING ACROSS THE ORGANIZATION

Turning Gift Cards into Revenue

Those of you who are marketing majors (and even most of you who are not) know that gift cards are among the hottest marketing tools in merchandising today. Customers at stores such as **Marks & Spencer plc** (GBR) purchase gift cards and give them to someone for later use. Although these programs are popular with marketing executives, they create accounting questions. Should revenue be recorded at the time the gift card is sold, or when it is exercised? How should expired gift cards be accounted for?

Source: Robert Berner, "Gift Cards: No Gift to Investors," *BusinessWeek* (March 14, 2005), p. 86.

> DO IT!

The ledger of Zhu Company on March 31, 2017, includes these selected accounts before adjusting entries are prepared.

(amounts in thousands)	Debit	Credit
Prepaid Insurance	¥ 3,600	
Supplies	2,800	
Equipment	25,000	
Accumulated Depreciation–Equipment		¥ 5,000
Unearned Service Revenue		9,200

An analysis of the accounts shows the following.

1. Insurance expires at the rate of ¥100 per month.
2. Supplies on hand total ¥800.
3. The equipment depreciates ¥200 a month.
4. One-half of the unearned service revenue was performed in March.

Prepare the adjusting entries for the month of March.

> DO IT!

The ledger of Zhu Company on March 31, 2017, includes these selected accounts before adjusting entries are prepared.

(amounts in thousands)	Debit	Credit
Prepaid Insurance	¥ 3,600	
Supplies	2,800	
Equipment	25,000	
Accumulated Depreciation–Equipment		¥ 5,000
Unearned Service Revenue		9,200

Prepare the adjusting entries for the month of March.

1. Insurance expires at the rate of ¥100 per month.

Insurance Expense	100	
Prepaid Insurance		100

> DO IT!

The ledger of Zhu Company on March 31, 2017, includes these selected accounts before adjusting entries are prepared.

(amounts in thousands)	Debit	Credit
Prepaid Insurance	¥ 3,600	
Supplies	2,800	
Equipment	25,000	
Accumulated Depreciation–Equipment		¥ 5,000
Unearned Service Revenue		9,200

Prepare the adjusting entries for the month of March.

2. Supplies on hand total ¥800.

	Debit	Credit
Supplies Expense	2,000	
Supplies		2,000

LO 5

> DO IT!

The ledger of Zhu Company on March 31, 2017, includes these selected accounts before adjusting entries are prepared.

(amounts in thousands)	Debit	Credit
Prepaid Insurance	¥ 3,600	
Supplies	2,800	
Equipment	25,000	
Accumulated Depreciation–Equipment		¥ 5,000
Unearned Service Revenue		9,200

Prepare the adjusting entries for the month of March.

3. The equipment depreciates ¥200 a month.

Depreciation Expense	200	
Accumulated Depreciation–Equipment		200

> DO IT!

The ledger of Zhu Company on March 31, 2017, includes these selected accounts before adjusting entries are prepared.

(amounts in thousands)	Debit	Credit
Prepaid Insurance	¥ 3,600	
Supplies	2,800	
Equipment	25,000	
Accumulated Depreciation–Equipment		¥ 5,000
Unearned Service Revenue		9,200

Prepare the adjusting entries for the month of March.

4. One-half of the unearned service revenue was performed in March.

Unearned Service Revenue	4,600	
Service Revenue		4,600

Adjusting Entries for Accruals

Learning Objective 6
Prepare adjusting entries for accruals.

Accruals are made to record

- Revenues for services performed but not yet recorded at the statement date (**accrued revenues**).

OR

- Expenses incurred but not yet paid or recorded at the statement date (**accrued expenses**).

ACCRUED REVENUES

Revenues for services performed but not yet received in cash or recorded.

Revenue Recorded BEFORE **Cash Receipt**

Accrued revenues often occur in regard to:

- Rent
- Interest
- Services performed

ACCRUED REVENUES

- Adjusting entry records the **receivable** that exists and records the **revenues for services performed**.
- Adjusting entry:
  - **Increases** (debits) an **asset account** and
  - **Increases** (credits) a **revenue account**.

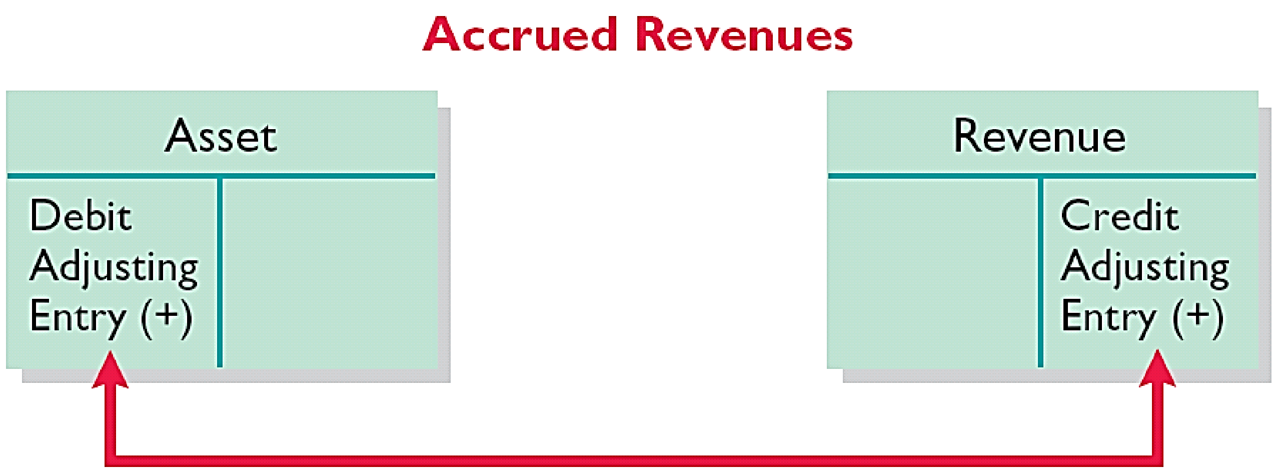

Illustration 3-13
Adjusting entries for accrued revenues

ACCRUED REVENUES

Illustration: In October, Yazici Advertising Inc. performed services worth ₺200 that were not billed to clients in October.

Accrued Revenues

Revenue and receivable are recorded for unbilled services

Oct. 31

	Accounts Receivable	200	
	Service Revenue		200

On November 10, Yazici receives cash of ₺200 for the services performed.

Nov. 10	Cash	200	
	Accounts Receivable		200

Basic Analysis

The asset Accounts Receivable is increased ₺200, and the revenue Service Revenue is increased ₺200.

Equation Analysis

Assets	=	Liabilities	+	Equity
Accounts Receivable				Service Revenue
+₺200				+₺200

Debit–Credit Analysis

Debits increase assets: debit Accounts Receivable ₺200.
Credits increase revenues: credit Service Revenue ₺200.

Journal Entry

Oct. 31	Accounts Receivable	200	
	Service Revenue		200
	(To record revenue for services performed)		

Posting

Accounts Receivable 112

Oct. 31	Adj. 200		
Oct. 31	Bal. 200		

Service Revenue 400

		Oct. 3	10,000
		31	400
		31 Adj.	200
		Oct. 31 Bal.	10,600

Illustration 3-14
Adjustment for accrued revenue

ACCRUED REVENUES

Accounting for Accrued Revenues			
Examples	**Reason for Adjustment**	**Accounts Before Adjustment**	**Adjusting Entry**
Interest, rent, services performed but not collected	Services performed but not yet recorded.	Assets understated. Revenues understated.	Dr. Assets Cr. Revenues

Illustration 3-15
Accounting for accrued revenues

ACCRUED EXPENSES

Expenses incurred but not yet paid in cash or recorded.

Expense Recorded BEFORE **Cash Payment**

Accrued expenses often occur in regard to:

- Interest
- Taxes
- Salaries

ACCRUED EXPENSES

- Adjusting entry records the obligation and recognizes the expense.
- Adjusting entry:
  - **Increase** (debit) an **expense account** and
  - **Increase** (credit) a **liability account**.

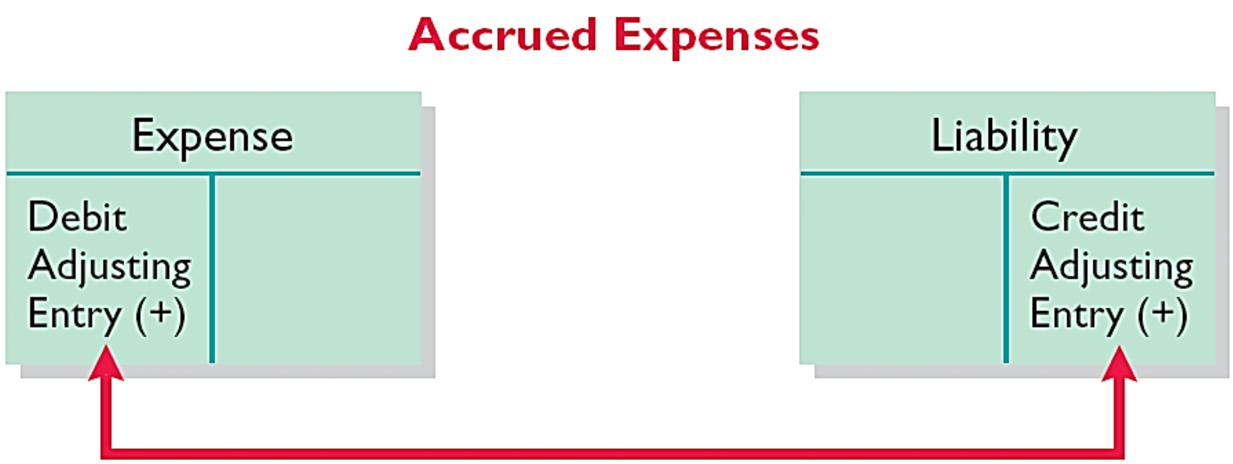

Illustration 3-16
Adjusting entries for accrued expenses

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ACCRUED INTEREST

Illustration: Yazici Advertising Inc. signed a three-month note payable in the amount of ₺5,000 on October 1. The note requires Yazici to pay interest at an annual rate of 12%.

Illustration 3-17
Formula for computing interest

Face Value of Note	×	Annual Interest Rate	×	Time in Terms of One Year	=	Interest
₺5,000	×	12%	×	$\frac{1}{12}$	=	₺50

Oct. 31	Interest Expense	50	
	Interest Payable		50

Basic Analysis

The expense Interest Expense is increased ₺50, and the liability Interest Payable is increased ₺50.

Equation Analysis

Assets	=	Liabilities	+	Equity
		Interest Payable		Interest Expense
		+₺50		−₺50

Debit–Credit Analysis

Debits increase expenses: debit Interest Expense ₺50.
Credits increase liabilities: credit Interest Payable ₺50.

Journal Entry

Oct. 31	Interest Expense	50	
	Interest Payable		50
	(To record interest on notes payable)		

Posting

Interest Expense		905
Oct. 31	Adj. 50	
Oct. 31	Bal. 50	

Interest Payable		230
	Oct. 31	Adj. 50
	Oct. 31	Bal. 50

Illustration 3-18
Adjustment for accrued interest

ACCRUED SALARIES AND WAGES

Illustration: Yazici paid salaries and wages on October 26; the next payment of salaries will not occur until November 9. The employees receive total salaries of ₺2,000 for a five-day work week, or ₺400 per day. Thus, accrued salaries at October 31 are ₺1,200 (₺400 x 3 days).

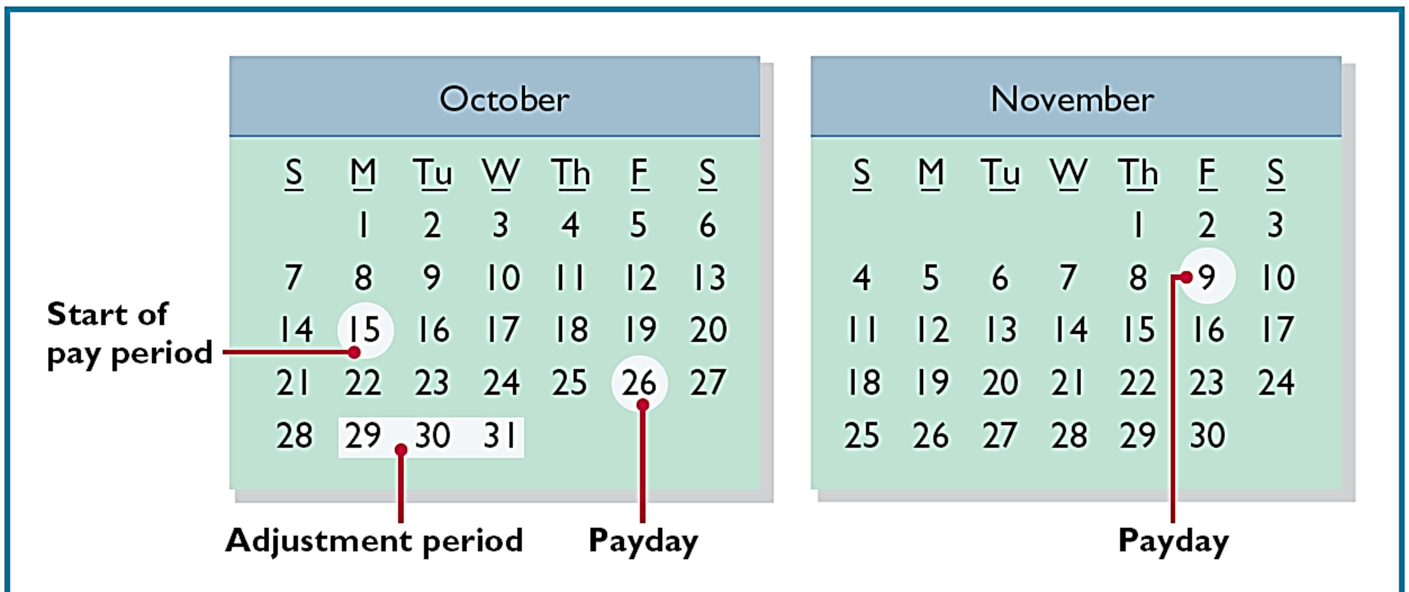

Illustration 3-19
Calendar showing Yazici's pay periods

LO 6

Basic Analysis	The expense Salaries and Wages Expense is increased ₺1,200, and the liability account Salaries and Wages Payable is increased ₺1,200.

Equation Analysis

Assets	=	Liabilities	+	Equity
		Salaries and Wages Payable		Salaries and Wages Expense
		+₺1,200		−₺1,200

Debit–Credit Analysis

Debits increase expenses: debit Salaries and Wages Expense ₺1,200.
Credits increase liabilities: credit Salaries and Wages Payable ₺1,200.

Journal Entry

Oct. 31	Salaries and Wages Expense	1,200	
	Salaries and Wages Payable		1,200
	(To record accrued salaries and wages)		

Posting

Salaries and Wages Expense 726				
Oct. 26		4,000		
31	**Adj.**	**1,200**		
Oct. 31	Bal.	5,200		

Salaries and Wages Payable 212			
	Oct. 31	**Adj.**	**1,200**
	Oct. 31	Bal.	1,200

Illustration 3-20
Adjustment for accrued salaries and wages

ACCRUED EXPENSES

Accounting for Accrued Expenses

Examples	Reason for Adjustment	Accounts Before Adjustment	Adjusting Entry
Interest, rent, salaries	Expenses have been incurred but not yet paid in cash or recorded.	Expenses understated. Liabilities understated.	Dr. Expenses Cr. Liabilities

Illustration 3-21
Accounting for accrued expenses

People, Plant, and Profit Insight

Got Junk?

Do you have an old computer or two that you no longer use? How about an old TV that needs replacing? Many people do. Approximately 163,000 computers and televisions become obsolete each day. Yet, estimates indicate that only 11% of computers are recycled and 75% of all computers ever sold are sitting in storage somewhere, waiting to be disposed of. Each of these old TVs and computers is loaded with lead, cadmium, mercury, and other toxic chemicals. If you have one of these electronic gadgets, you have a responsibility, and a probable cost, for disposing of it. Companies have the same problem, but their discarded materials may include lead paint, asbestos, and other toxic chemicals.

> DO IT!

Micro Computer Services began operations on August 1, 2017. At the end of August 2017, management prepares monthly financial statements. The following information relates to August.

1. At August 31, the company owed its employees ¥8,000 in salaries and wages that will be paid on September 1.
2. On August 1, the company borrowed ¥300,000 from a local bank on a 15-year mortgage. The annual interest rate is 10%.
3. Revenue for services performed but unrecorded for August totaled ¥11,000.

Prepare the adjusting entries needed at August 31, 2017.

> DO IT!

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1. At August 31, the company owed its employees ¥8,000 in salaries and wages that will be paid on September 1.

Salaries and Wages Expense	**8,000**	
Salaries and Wages Payable		**8,000**

2. On August 1, the company borrowed ¥300,000 from a local bank on a 15-year mortgage. The annual interest rate is 10%.

Interest Expense	**2,500**	
Interest Payable		**2,500**

3. Revenue for services performed but unrecorded for August totaled ¥11,000.

Accounts Receivable	**11,000**	
Service Revenue		**11,000**

Summary of Basic Relationships

Type of Adjustment	Accounts Before Adjustment	Adjusting Entry
Prepaid expenses	Assets overstated. Expenses understated.	Dr. Expenses Cr. Assets or Contra Assets
Unearned revenues	Liabilities overstated. Revenues understated.	Dr. Liabilities Cr. Revenues
Accrued revenues	Assets understated. Revenues understated.	Dr. Assets Cr. Revenues
Accrued expenses	Expenses understated. Liabilities understated.	Dr. Expenses Cr. Liabilities

Illustration 3-22
Summary of adjusting entries

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