Adjusting Entries

Adjusting entries are journal entries recorded at the end of an accounting period to adjust the ending balances in various general ledger accounts.This generally involves the matching of revenues and expenses under the matching principle.

Common Transactions Requiring Adjusting Entries:

- To record depreciation and amortization for the period
- To record an allowance for doubtful accounts
- To adjust inventory values
- To record a reserve for sales returns
- To record any accrued revenue
- To record previously billed but unearned revenue as a liability
- To record any accrued expenses
- To record any previously paid but unused expenditures as prepaid expenses
- To adjust cash balances for any reconciling items noted in the bank reconciliation

As shown in the preceding list, adjusting entries are most commonly of three types, which are:

- *Accruals. To record a revenue or expense that has not yet been recorded through a standard accounting transaction.*
- *Deferrals. To defer a revenue or expense that has been recorded, but which has not yet been earned or used.*
- *Estimates. To estimate the amount of a reserve, such as the allowance for doubtful accounts.*

Adjusting entry normally affects both balance sheet accounts and income statement accounts (revenues and expenses).

Manual Accounting System

In a manual accounting system to record adjusting entries the following procedure is used:

1. Prepare A Trial Balance Worksheet

2. Make Adjustments and record in the General Journal
3. Post to General Ledger Accounts
4. Prepare an Adjusted Trial Balance

Computer Accounting System

In a computerized accounting system adjusting journal entries are entered in a journal (input screen) and all the affected accounts are automatically updated.