Adjusting Entries Illustration

Financial Accounting

The information necessary for preparing the 2012 year-end adjusting entries for ELM Advertising Agency appears below. ELM's fiscal year-end is December 31.

a. On July 1, 2012, ELM receives $5,000 from a customer for advertising services to be given evenly over the next 10 months. ELM credits Unearned Revenue.

b. At the beginning of the year, ELM's depreciable equipment has a cost of $30,000, a five-year life, and no salvage value. The equipment is depreciated evenly (straight-line depreciation method) over the five years.

c. On May 1, 2012, the company pays $3,600 for a two-year fire and liability insurance policy and debits Prepaid Insurance.

d. On September 1, 2012, the company borrows $10,000 from a local bank and signs a note. Principal and interest at 12% will be paid on August 31, 2013.

e. At year-end there is a $2,200 debit balance in the Supplies (asset) account. Only $900 of supplies remains on hand.

Required:

Record the necessary adjusting entries on December 31, 2012. No prior adjustments have been made during 2012.

Event	General Journal	Debit	Credit
a.	Unearned Revenue	3,000	
	Service Revenue		3,000
	$5000/10 months = $500 per month x 6 months (July 1- December 31) = $3,000		
b.	Depreciation Expense	6,000	
	Accumulated Depreciation		6,000
	$30,000 /5 years = $6,000		
c.	Insurance Expense	1,200	
	Prepaid Insurance		1,200
	$3,600/24 months = $150 per month x 8 months (May 1 – December 31)		
d.	Interest Expense	400	
	Interest Payable		400
	$10,000 x .12 = $1,200 x4 months = $4,800/ 12 months = $400		
e.	Supplies Expense	1,300	
	Supplies		1,300
	$2,200 - $900 = $1,300		