ACCOUNTING 2001  
CLASS 5 REVIEW EXERCISE  
(Answer these questions and check answers as soon as possible after each class)

Class 5 Key Concepts:  Introduction to Adjusting Entries

ADJUSTING ENTRIES (CHAPTER 3)

EXAMPLE #1  On December 1, 2011 Casio Company paid $12,000 for insurance coverage for six months. Prepaid Insurance (a real account) was debited. The Company adjusts and closes its accounting records of December 31.

a. Prepare the general journal entry required to record the payment of insurance on December 1, 2011.

b. As of December 31, 2011, what should the adjusted balances in Prepaid Insurance and Insurance Expense be?

Prepaid Insurance $   Insurance Expense $


c. Prepare the general journal entry required to adjust Prepaid Insurance on December 31, 2011.

d. Prepare T-accounts to demonstrate the correctness of your adjusting entry.

<table>
<thead>
<tr>
<th>Prepaid Insurance</th>
<th>Insurance Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/1</td>
<td>12/1</td>
</tr>
<tr>
<td>12,000</td>
<td>Adj.</td>
</tr>
<tr>
<td>Adj.</td>
<td>12/31 Bal.</td>
</tr>
<tr>
<td>12/31 Bal.</td>
<td>12/31 Bal.</td>
</tr>
</tbody>
</table>

e. If the adjusting entry is NOT made, what will be the impact (overstated, understated, no effect) on each of the following:
   Total revenues on the income statement
   Total expenses on the income statement
   Net income on the income statement
   Total assets on the balance sheet
   Total liabilities on the balance sheet
   Total owners’ equity on the balance sheet

EXAMPLE #2  On December 1, 2011, Casio Company paid $12,000 for insurance coverage for six months. Insurance Expense (a temporary account) was debited. The Company adjusts and closes its accounting records on Dec 31

a. Prepare the general journal entry required to record the payment of insurance on December 1, 2011.

b. As of December 31, 2011, what should the adjusted balances in Prepaid Insurance and Insurance Expense be?

Prepaid Insurance $   Insurance Expense $


c. Prepare the general journal entry required to adjust Insurance Expense on December 31, 2011.

d. Prepare T-accounts to demonstrate the correctness of your adjusting entry.

<table>
<thead>
<tr>
<th>Prepaid Insurance</th>
<th>Insurance Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adj.</td>
<td>12/1</td>
</tr>
<tr>
<td>$12,000</td>
<td>Adj.</td>
</tr>
<tr>
<td>12/31 Bal.</td>
<td>12/31 Bal.</td>
</tr>
</tbody>
</table>

e. If the adjusting entry is NOT made, what will be the impact (overstated, understated, no effect) on each of the following:
   Total revenues on the income statement
   Total expenses on the income statement
   Net income on the income statement
   Total assets on the balance sheet
   Total liabilities on the balance sheet
   Total owners’ equity on the balance sheet
Answers to Class 5 Review Quiz

ADJUSTING ENTRIES (Chapter 3)

EXAMPLE #1 On December 1, 2011, Casio Company paid $12,000 for insurance coverage for six months. Prepaid Insurance (a real account) was debited. The Company adjusts and closes its accounting records of December 31.

a. Prepare the general journal entry required to record the payment of insurance on December 1, 2011.

Prepaid Insurance 12,000
Cash 12,000

b. As of December 31, 2011, what should the adjusted balances in Prepaid Insurance and Insurance Expense be?

Prepaid Insurance $10,000
Insurance Expense $2,000

c. Prepare the general journal entry required to adjust Prepaid Insurance on December 31, 2011.

Insurance Expense 10,000
Prepaid Insurance 10,000

d. Prepare T-accounts to demonstrate the correctness of your adjusting entry.

<table>
<thead>
<tr>
<th></th>
<th>Prepaid Insurance</th>
<th>Insurance Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/1</td>
<td>12,000</td>
<td>Adj.</td>
</tr>
<tr>
<td></td>
<td>Adj.</td>
<td>12,000</td>
</tr>
<tr>
<td>12/31 Bal.</td>
<td>10,000</td>
<td>12/31 Bal.</td>
</tr>
<tr>
<td></td>
<td>2,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>

e. If the adjusting entry is NOT made, what will be the impact (overstated, understated, no effect) on each of the following:

Total revenues on the income statement 0
Total expenses on the income statement 2,000
Net income on the income statement -2,000
Total assets on the balance sheet 2,000
Total liabilities on the balance sheet 0
Total owners’ equity on the balance sheet -2,000

EXAMPLE #2 On December 1, 2011, Casio Company paid $12,000 for insurance coverage for six months. Insurance Expense (a temporary account) was debited. The Company adjusts and closes its accounting records on Dec 31st.

a. Prepare the general journal entry required to record the payment of insurance on December 1, 2011.

Insurance Expense 12,000
Cash 12,000

b. As of December 31, 2011, what should the adjusted balances in Prepaid Insurance and Insurance Expense be?

Prepaid Insurance $10,000
Insurance Expense $2,000

c. Prepare the general journal entry required to adjust Insurance Expense on December 31, 2011.

Prepaid Insurance 10,000
Insurance Expense 10,000

d. Prepare T-accounts to demonstrate the correctness of your adjusting entry.

<table>
<thead>
<tr>
<th></th>
<th>Prepaid Insurance</th>
<th>Insurance Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adj.</td>
<td>10,000</td>
<td>12/1</td>
</tr>
<tr>
<td></td>
<td>Adj.</td>
<td>$12,000</td>
</tr>
<tr>
<td></td>
<td>12/31 Bal.</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>12/31 Bal.</td>
<td>2,000</td>
</tr>
</tbody>
</table>

e. If the adjusting entry is NOT made, what will be the impact (overstated, understated, no effect) on each of the following:

Total revenues on the income statement 0
Total expenses on the income statement +10,000
Net income on the income statement -10,000
Total assets on the balance sheet -10,000
Total liabilities on the balance sheet 0
Total owners’ equity on the balance sheet -10,000