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Summary of Adjustments and Financial Statement Links


Category	BEFORE Adjusting		
	Balance Sheet	Income Statement	Adjusting Entry
Prepaid expenses [†]	Asset overstated Equity overstated	Expense understated	Dr. Expense Cr. Asset*
Unearned revenues [†]	Liability overstated Equity understated	Revenue understated	Dr. Liability Cr. Revenue
Accrued expenses	Liability understated Equity overstated	Expense understated	Dr. Expense Cr. Liability
Accrued revenues	Asset understated Equity understated	Revenue understated	Dr. Asset Cr. Revenue

* For depreciation, the credit is to Accumulated Depreciation (contra asset).

[†] Exhibit assumes that prepaid expenses are initially recorded as assets and that unearned revenues are initially recorded as liabilities.

7. Adjusted Trial Balance

- ★ The adjusted trial balance combines the “unadjusted” trial balance account balances with the adjustments we make.
- ★ **Be careful when doing the math!**
- ★ For example, look at **Entry b**. It is the entry to adjust the supplies account for the physical inventory taken at the year end.

 **FastForward - Trial Balance - December 31, 2007**

	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
Cash	3,950				3,950		
Accounts receivable	-		f	1,800		1,800	
Supplies	9,720			b	1,050	8,670	
Prepaid insurance	2,400			a	100	2,300	
Equipment	26,000					26,000	
Accum. depr. - Equip.				c	375		375
Accounts payable		6,200					6,200
Salaries payable				e	210		210
Unearned revenue		3,000	d	250			2,750
Common Stock		30,000					30,000
Retained Earnings							
Dividends	600						600
Consulting revenue		5,800		d	250		7,850
Rental revenue		300		f	1,800		300
Depr. expense			c	375			375
Salaries expense		1,400	e	210			1,610
Insurance expense			a	100			100
Rent expense		1,000					1,000
Supplies expense			b	1,050			1,050
Utilities expense		230					230
Totals	\$45,300	\$45,300	\$3,785	\$3,785	\$47,685	\$47,685	

Finally, the totals are determined.

- ★ The supplies account on the “unadjusted” trial balance is \$9,720. Our adjustment reduced the supplies on hand, so the adjusted trial balance account is \$8,670.

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