discuss and explain bookkeeping adjusting entries

Adjusting entries are special bookkeeping journal entries made at the end of an accounting period to update account balances so they follow accrual accounting rules like the matching principle and revenue recognition. They ensure revenues and expenses show up in the correct period, and that assets and liabilities are stated at accurate amounts before financial statements are prepared. [1] [2] [3] [4]

What adjusting entries are

- Adjusting entries are end-of-period journal entries that update previously recorded balances so the accounts reflect all income earned and expenses incurred for that period. [2] [5]
- They do not usually record new external transactions; instead they fine-tune the books so financial statements are accurate and complete under accrual accounting. [3] [6]

Why adjusting entries are needed

- Under accrual accounting, revenues are recognized when earned and expenses when incurred, not when cash moves, and adjusting entries are what make this happen in the ledger. [7] [2]
- Without them, some revenues or expenses would be missing or in the wrong period, causing misstated profit, assets, and liabilities and unreliable financial statements. [8] [5]

Main types of adjusting entries

Most adjusting entries fall into these categories. [4] [5]

- **Accrued revenues**: Revenue earned but not yet billed or collected (e.g., work done in December invoiced in January), so debit a receivable and credit revenue. [2] [4]
- Accrued expenses: Expenses incurred but not yet paid or recorded (e.g., wages owed at month-end), so debit expense and credit a payable or accrued liability. [6] [2]
- Prepaid expenses (deferrals): Cash paid in advance (rent, insurance) first recorded as an asset, then adjusted to expense as time passes. [4] [7]
- Unearned (deferred) revenues: Cash received before earning it (subscriptions, deposits) first recorded as a liability, then adjusted to revenue as the service is provided. [5] [4]
- Depreciation and other estimates: Periodic allocation of long-term asset cost, or estimates like bad debts or inventory reserves, adjusting expenses and related contra-accounts. [1] [5]

How adjusting entries fit in the accounting cycle

- Adjusting entries are recorded after regular daily entries and after preparing the unadjusted trial balance, but before preparing the adjusted trial balance and financial statements.[3] [5]
- Each adjusting entry affects at least one income statement account (revenue or expense) and one balance sheet account (asset, liability, or equity), so period profit and ending balances both become accurate.[8] [6]

Practical tips when making adjusting entries

- Review accounts that commonly need adjustment—receivables, payables, prepaid items, unearned revenue, fixed assets, and estimates—at the end of each period.[1] [2]
- Document the reason, calculation, and support for each adjustment and, in a business setting, have another person review significant entries to reduce errors or fraud risk.[2] [1]

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1. https://www.solvexia.com/blog/adjusting-entries
2. https://www.netgain.tech/accounting-finance-glossary/adjusting-entries
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