

COMM1140

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- Dr Cash
- Cr Dividend Revenue

NOTE: do NOT record dividends as an expense in the income statement (instead, they are deducted directly from retained profits)

This is because all expenses need to be related to the generation of revenue (ie. matching principle)

Accrual Accounting Adjustments

	Deferrals (Cash first)	Accruals (Transaction first)
Seller (Cash Paid to)	Unearned revenue <ul style="list-style-type: none"> ● Dr Cash (+A) ● Cr Unearned Revenue (+L) <ul style="list-style-type: none"> ● Dr Unearned Revenue (-L) ● Cr _____ revenue (+R) <ul style="list-style-type: none"> ○ (Adjusting entry) 	Accrued Revenue <ul style="list-style-type: none"> ● Dr ___ Receivable (+A) ● Cr ___ Revenue (+R) <ul style="list-style-type: none"> ○ (Adjusting entry) <ul style="list-style-type: none"> ● Dr Cash (+A) ● Cr ___ Receivable (-A)
Customer (Cash Payer)	Prepayment <ul style="list-style-type: none"> ● Dr Prepaid _____ (+A) ● Cash (-A) <ul style="list-style-type: none"> ● Dr ___ Expense (+E) ● Cr Prepaid _____ (-A) <ul style="list-style-type: none"> ○ (Adjusting entry) 	Accrued Expense <ul style="list-style-type: none"> ● Dr ___ Expense (+E) ● Cr ___ Payable (+L) <ul style="list-style-type: none"> ○ (Adjusting entry) <ul style="list-style-type: none"> ● Dr ___ Payable (-L) ● Cr Cash (-A)

Unearned revenue

- Cash received before earned

Prepayment

- Cash paid before incurred

Accrued revenue

- Cash received after earned
- They've delivered the service or good, but have not received cash yet

Accrued Expense

- Cash paid after incurred

Adjusting Entry:

- There must be revenue or an expense in the journal entry

- Cash does not appear in adjusting entry

Example:

- On June 1 borrowed \$120,000 from the bank with 4% per annum interest to be repaid in 1 year. What's the journal entry on June 30?
 - June 1
 - Dr Cash 120,000
 - Cr Bank Loan/Notes Payable/Loan Payable 120,000
 - June 30
 - Dr Interest Expense 400
 - Cr Interest Payable 400
 - 400 comes from:
 - $(120,000 \times 0.04) / 12$ (ie. monthly interest)

Impact without Adjustment Entry

Unearned Revenue:

- Liability is higher → overstatement
- Revenue is lower → understatement
 - Understate Profit + Equity

Prepayment:

- Expense is lower → understatement
- Asset is higher → understatement of prepaid asset
 - Overstate Profit + Equity

Accrued Revenue:

- Asset is lower → understatement
- Revenue is lower → understatement
 - Understate Profit + Equity

Accrued Expense:

- Liability is lower → understatement
- Expense is lower → understatement
 - Overstate Profit + Equity

Final Exam

Question 1: Financial Statement Preparation

Week 1 - 4 Content → See Week 5 Quiz Content