

Chapter 3 Outline

The Need for Adjustments
Cash versus Accrual Accounting
Classification of Adjusting Entries
Deferral Adjustments Illustrated
 Prepaid Insurance/Insurance Expense
 Depreciation Expense
 Unearned Revenues
Accrual Adjustments Illustrated
 Accrued Wages Payable
 Accrued Utilities
 Accrued Assets
Failure to Prepare Adjustments
Comprehensive Illustration—Adjustments

Competencies

1. Explain the need for and timing of accounting adjustments, and distinguish between cash basis accounting and accrual basis accounting. (pp. 79–81)
2. Describe the major classes of accounting adjustments and use them to classify adjustments. (pp. 81–82)
3. Demonstrate how to enter deferral adjustments, and use straight-line depreciation for adjusting depreciation expense. (pp. 82–85, 89–95)
4. Demonstrate how to enter accrual adjustments. (pp. 85–88, 89–95)
5. Explain how a failure to make accounting adjustments affects financial statements. (pp. 88–89)