**Activity 2.4.1 – Preparing Adjusting Entries**

Purpose: Demonstrate ability to adjust supplies and prepaid insurance for the fiscal period.

Have your students add these terms to their index cards on a ring:

* Worksheet
* Trial balance
* Adjustments
* Income statement
* Net income
* Net loss
* Net profit

Demonstrate adjusting entries using 4 clear jars. Label them: Supplies Expense, Insurance Expense, Supplies, and Prepaid Insurance. Have some marbles available and place them in the Prepaid Insurance jar and the Supplies jar. Explain as you add the marbles that we have purchased some insurance that is considered an asset, because we prepaid it. Supplies are also prepaid, because we haven’t used those yet so they are also an asset.

At the end of the fiscal period though, we do not have as many supplies and some of the insurance has expired. We need to adjust. In accounting, we are guided by concepts and we must follow the concept Matching Expenses with Revenue during the fiscal period. We cannot wait until another fiscal period to show the use of those supplies.

Ask the class, “How can we show that we have fewer supplies?” Take some marbles out of the supplies jar. We are crediting supplies to take them out, but what account would be debited? Do a similar demonstration with insurance.

Have your students complete the drill on calculating the adjustments.

Problem 1: Supplies Inventory at the end of the fiscal period, $180.00

Prepaid Insurance valuation at the end of the fiscal period, $1000.00

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Trial Balance** | **Adjustments** |
|  |  | **Debit** | **Credit** | **Debit** | **Credit** |
| 1 | Prepaid Insurance | 1,400 |  |  |  |
| 2 | Supplies | 500 |  |  |  |
| 3 |  |  |  |  |  |
| 4 | Insurance Expense |  |  |  |  |
| 5 | Supplies Expense |  |  |  |  |
| 6 | Totals |  |  |  |  |

Problem 2: Supplies Inventory at the end of the fiscal period, $700.00

Prepaid Insurance valuation at the end of the fiscal period, $1000.00

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Trial Balance** | **Adjustments** |
|  |  | **Debit** | **Credit** | **Debit** | **Credit** |
| 1 | Prepaid Insurance | 1,500 |  |  |  |
| 2 | Supplies | 1,200 |  |  |  |
| 3 |  |  |  |  |  |
| 4 | Insurance Expense |  |  |  |  |
| 5 | Supplies Expense |  |  |  |  |
| 6 | Totals |  |  |  |  |

Problem 3: Supplies Inventory at the end of the fiscal period, $125.00

Prepaid Insurance valuation at the end of the fiscal period, $600.00

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Trial Balance** | **Adjustments** |
|  |  | **Debit** | **Credit** | **Debit** | **Credit** |
| 1 | Prepaid Insurance | 900 |  |  |  |
| 2 | Supplies | 435 |  |  |  |
| 3 |  |  |  |  |  |
| 4 | Insurance Expense |  |  |  |  |
| 5 | Supplies Expense |  |  |  |  |
| 6 | Totals |  |  |  |  |