Q: Explain the accrual basis of accounting and the reasons for adjusting entries.

The time period assumption assumes that the economic life of a business is divided into artificial time periods. Accrual-basis accounting means that companies record events that change a company's financial statements in the periods in which those events occur, rather than in the periods in which the company receives or pays cash. Companies make adjusting entries at the end of an accounting period. Such entries ensure that companies recognize revenues in the period in which the performance obligation is satisfied and recognize expenses in the period in which they are incurred. The major types of adjusting entries are deferrals (prepaid expenses and unearned revenues) and accruals (accrued revenues and accrued expenses).

Q: Prepare adjusting entries for deferrals.

Deferrals are either prepaid expenses or unearned revenues. Companies make adjusting entries for deferrals to record the portion of the prepayment that represents the expense incurred or the revenue for services performed in the current accounting period.

Q: Prepare adjusting entries for accruals.

Accruals are either accrued revenues or accrued expenses. Companies make adjusting entries for accruals to record revenues for services performed and expenses incurred in the current accounting period that have not been recognized through daily entries.

Q: Discuss financial reporting concepts.

To be judged useful, information should have the primary characteristics of relevance and faithful representation. In addition, it should be comparable, consistent, verifiable, timely, and understandable. The monetary unit assumption requires that companies include in the accounting records only transaction data that can be expressed in terms of money.

The economic entity assumption states that economic events can be identified with a particular unit of accountability.

The time period assumption states that the economic life of a business can be divided into artificial time periods and that meaningful accounting reports can be prepared for each period.

The going concern assumption states that the company will continue in operation long enough to carry out its existing objectives and commitments.

The historical cost principle states that companies should record assets at their cost.

The fair value principle indicates that assets and liabilities should be reported at fair value.

The revenue recognition principle requires that companies recognize revenue in the accounting period in which the performance obligation is satisfied.

The expense recognition principle dictates that efforts (expenses) be matched with results (revenues). The full disclosure principle re quires that companies disclose circumstances and events that matter to financial statement users.

The cost constraint weighs the cost that companies incur to provide a type of information against its benefits to financial statement users

You are asked to prepare the following accrued adjusting entries at December 31, 2024 in the book of Mr. Wahid.

1. Service provided but not received Tk 1,000
2. Utilities expense incurred but not paid Tk. 1500
3. Wages unpaid Tk. 2,000
4. Purchased an equipment on December 1 for Tk. 50,000, paying Tk. 20,000 in cash and signing a 30,000, 3-year note payable. The equipment depreciates Tk. 500 per month. Interest is Tk. 400 per month.
5. Purchased a one-year malpractice insurance policy on December 1 for Tk. 12,000.
6. Purchased 2,600 of supplies. On December 31, determined that 800 of supplies were on hand.

Mr. Wahid

Adjusting Entries

For the month ended December 31st 2024

Date	Accounts titles and explanation	Ref.	Debit	Credit
Dec: 31	Accounts Receivable Service Revenue (to adjust service revenue not yet received)		1,000	 1,000
Dec: 31	Utilities expense		1,500	

	Accounts payable (To record unpaid utilities expense)			1,500
Dec: 31	Wages Expense Wages payable (To adjust wages payable)		2,000	2,000
Dec: 31	Depreciation expense Accumulated Depreciation (To adjust depreciation expense)		500	500
Dec: 31	Interest Expense Interest payable (To adjust interest payable)		400	400
Dec:31	Insurance expense Prepaid insurance (12000/12=1000) (To adjust insurance expense)		1,000	1,000
Dec: 31	Supplies expense Supplies (To adjust supplies expense)		1,800	1,800
Total			8,200	8,200