

Adjustment	Income Statement			Balance Sheet		
	Revenue	Expenses	Net Income	Assets	Liabilities	Owners' Equity
Type I Converting Assets to Expenses	No effect	Increase	Decrease	Decrease	No effect	Decrease
Type II Converting Liabilities to Revenue	Increase	No effect	Increase	No effect	Decrease	Increase
Type III Accruing Unpaid Expenses	No effect	Increase	Decrease	No effect	Increase	Decrease
Type IV Accruing Uncollected Revenue	Increase	No effect	Increase	Increase	No effect	Increase

EXHIBIT 4-8
The Effects of Adjusting Entries on the Financial Statements

**OVERNIGHT AUTO SERVICE
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DECEMBER 31, 2018**

Date	Account Titles and Explanation	Debit	Credit
2018			
Dec. 31	Supplies Expense	600	
	Shop Supplies		600
	December shop supplies adjustment.		
31	Insurance Expense	1,500	
	Unexpired Insurance		1,500
	December Insurance adjustment.		
31	Depreciation Expense: Building	150	
	Accumulated Depreciation: Building		150
	December depreciation adjustment on buildings (\$36,000 ÷ 240 mo.).		
31	Depreciation Expense: Tools and Equipment	200	
	Accumulated Depreciation: Tools and Equipment		200
	December depreciation adjustment on tools and equipment (\$12,000 ÷ 60 mo.).		
31	Unearned Rent Revenue	3,000	
	Rent Revenue Earned		3,000
	December unearned revenue adjustment (\$9,000 ÷ 3 mo.).		
31	Wages Expense	1,950	
	Wages Payable		1,950
	December adjustment to accrue wages payable.		
31	Interest Expense	30	
	Interest Payable		30
	December adjustment to accrue interest payable (\$4,000 × .09 × 1/2)		
31	Accounts Receivable	750	
	Repair Service Revenue		750
	December adjustment to accrue repair service revenue		
31	Income Taxes Expense	4,020	
	Income Taxes Payable		4,020
	December adjustment to accrue income taxes payable.		

EXHIBIT 4-9
Adjusting Entries

A-1-10E
Adjusting entries are recorded only at the end of the period

After these adjustments are posted to the ledger, Overnight's ledger accounts will be up-to-date (except for the balance in the Retained Earnings account).⁹ The company's adjusted trial balance at December 31, 2018, appears in Exhibit 4-10. (For emphasis, those accounts affected by the month-end adjusting entries are shown in red.)

Overnight's financial statements are prepared directly from the adjusted trial balance. Note the order of the accounts: All balance sheet accounts are followed by the statement of retained earnings accounts and then the income statement accounts. In Chapter 5, we illustrate exactly how these three financial statements are prepared.

EXHIBIT 4-10
Adjusted Trial Balance

OVERNIGHT AUTO SERVICE
ADJUSTED TRIAL BALANCE
DECEMBER 31, 2018

	Cash	\$ 18,592	
	Accounts receivable	7,250	
	Shop supplies	1,200	
	Unexpired insurance	3,000	
	Tools and equipment	12,000	
	Accumulated depreciation: tools and equipment		\$ 2,200
	Building	36,000	
	Accumulated depreciation: building		1,650
<i>Balance sheet accounts</i>	Land	52,000	
	Notes payable		4,000
	Accounts payable		2,690
	Wages payable		1,950
	Income taxes payable		5,580
	Interest payable		30
	Unearned rent revenue		6,000
	Capital stock		80,000
<i>Statement of retained earnings accounts</i>	Retained earnings (Note: still must be updated for transactions recorded in the accounts listed below. Closing entries serve this purpose.)		0
	Dividends	14,000	
	Repair service revenue		172,000
	Rent revenue earned		3,000
<i>Income statement accounts</i>	Advertising expense	3,900	
	Wages expense	58,750	
	Supplies expense	7,500	
	Depreciation expense: building	1,650	
	Depreciation expense: tools and equipment	2,200	
	Utilities expense	19,400	
	Insurance expense	15,000	
	Interest expense	30	
	Income taxes expense	26,628	
		<u>\$279,100</u>	<u>\$279,100</u>

⁹The balance in the Retained Earnings account will be brought up-to-date during the closing process discussed in Chapter 5.