

# Adjustments Simplified

**(Remember: Never use the CASH account)**

**Step 1: Determine whether a Revenue Account or Expense Account will be used:**

**Revenue (Earned)**  
(Credit normal balance)      or      **Expense (Used)**  
(Debit normal balance)

**Step 2: Determine whether an Asset, Liability or Equity Is adjusted**

**Asset**      or      **Liability**  
(Accrued Revenue)      (Unearned Revenue)  
**Debit**      **Debit**

**Asset**      or      **Liability**  
(Prepaid Asset)      (Accrued Expense)  
**Credit**      **Credit**

**Step 3: Determine Amount**

**Step 4: What type of Adjustment Is it\***

**Accrual**      **Deferral**      **Deferral**      **Accrual**

**Step 5: Prepare the journal entry:**

Account Name	Debit	Credit
Supplies Expense (STEP 1)	220	
Supplies (STEP 2 - Asset)		220

Example: Supplies has a \$300 debit unadjusted balance. At the end of the period there is only \$80 of supplies on hand. What type of adjustment is this?

**STEP 4:** This is a Prepaid Asset adjustment making it a Deferral Adjustment      0

**\*NOTE Definitions:**      **DEFERRAL:** Postpone (put off) recognizing revenue or expense AFTER receipt of cash, or payment of cash, respectively.  
**ACCRUAL:** Recognize revenue or expense BEFORE receipt of cash, or payment of cash, respectively.