

# Accounting 1 Virtual Learning

# HS/PrePaid Insurance Adjustment

April 14, 2020



## How to handle prepaid Insurance adjustments!

### Lesson Objectives:

- 1. Plan the adjustment for prepaid insurance
- 2. Journalize and post the adjusting entry for PP Insurance



#### **Lesson Introduction**

Adjustments are needed to bring changes in the accounting system to bring all account balances up to date. In most cases, insurance is paid ahead of time. Many business/people pay for things like car, house, business insurance in either 6 of 12 month chunks. Meaning you might pay \$1200 in January to cover your car insurance for the months of January, February, March, April, May and June at \$200 per month.

So, at the end of January, you have used \$200 worth of the insurance and the balance of PrePaid INsurance needs to be adjusted to show the new balance of \$1000.



#### **Lesson Activity**

Every transaction has 2 parts, a debit and credit. Prepaid Insurance is an asset to the business until used. So the normal balance side of this account would be what? Debit or credit?

Create T-account and show the beginning balance of \$1200 in the Prepaid Insurance account.

Now, you need to adjust this account at the end of January showing you used \$200 of the insurance. Show this on the T-account. The other part of the transaction is Insurance Expense. Fill in the T-account for this part of the transaction.



### **Lesson Activity continued**

Now you need to journalize the adjustment and post it to the Prepaid Insurance account.

 The pic of the Prepaid account is linked to a google doc or you can write it out.
 DATE
 ITEM
 POST. REF.
 DEBIT
 CREDIT
 BALANCE

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