



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 or 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.



