Chapter 9 Kafa Sweaters

1. Matching revenues with expenses in a specific accounting period is done to provide an accurate picture of the financial health of a company. The matching concept is a Generally Accepted Accounting Principle in Canada. There are two major ways to match revenues and expenses.

   - When a product is sold or a service is rendered, the cost of the goods sold or service rendered is expensed.

   - When costs (e.g., insurance, taxes, etc.) cannot be directly related to the product sold (Cost of Goods Sold) or service rendered, these costs are expensed in the accounting period usually (monthly) when they contribute to revenue earned.

2. The adjustment that is required to Prepaid Expenses at the end of an accounting period is to allocate the portion of the prepaid expense that is used up to the expense during the accounting period; e.g., monthly, quarterly, etc. The expense amount is then deducted from the asset (Prepaid Expense). This process matches revenues with expenses.

3. Accrued expenses are expenses that have occurred, but where the cost has **not** been recorded in an accounting period. For example, salaries/wages, automotive gasoline costs, hydro and water costs are incurred on a daily basis but may not be paid until a later date. At the end of an accounting period, these unpaid expenses must be recorded (accrued) with an adjusting entry for proper matching to revenues earned in the period.

4. Accrued interest is interest income earned but not received (an asset account Interest Receivable) or interest expense incurred but not paid (a liability account Interest Payable). The amount of accrued interest is adjusted at the end of an accounting period for proper matching of revenue and expenses.

5. Reasons for backing up are:

   - Data errors may occur during year-end closing procedures.
   - Payroll errors may occur and a backup device will allow you to make changes and print T4 slips again.
   - Year-end audit adjustments can be made on the backup copy to print revised financial statements.

6. The benefit of using recurring entries is that they reduce the amount of work you enter to record transactions that occur on a regular or random basis.