For example, consider the following sequence of entries and their effects on the Wages Expense account:

1. Adjusting Entry

		Dr.	Cr.
July 31	Wages Expense	720	
	Wages Payable		720

2. Closing Entry

		Dr.	Cr.
July 31	Income Summary	5,520	
	Wages Expense		5,520

3. Reversing Entry

		Dr.	Cr.
Aug. 1	Wages Payable	720	
	Wages Expense		720

4. Payment Entry

		Dr.	Cr.
Aug. 23	Wages Expense	4,800	
	Cash		4,800

Wages Expense   Account No. 511

Date	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
July 26	J2	4,800		4,800	
31	J3		720	5,520	
31	J4		5,520	—	
Aug. 1	J5		720		720
23	J6	4,800		4,080	

Entry **1** adjusted Wages Expense to accrue $720 in the July accounting period.

Entry **2** closed the $5,520 in Wages Expense for July to Income Summary, leaving a zero balance.

Entry **3**, the reversing entry, set up a credit balance of $720 on August 1 in Wages Expense, which is the expense recognized through the adjusting entry in July (and also reduced the liability account Wages Payable to a zero balance). The reversing entry always sets up an abnormal balance in the income statement account and produces a zero balance in the balance sheet account.

Entry **4** recorded the $4,800 payment of wages as a debit to Wages Expense, automatically leaving a balance of $4,080, which represents the correct wages expense to date in August. The reversing entry simplified the process of making the payment entry on August 23.

Reversing entries apply to any accrued expenses or revenues. Miller Design Studio's only accrued expense was wages expense. An adjusting entry for the company's accrued revenue (Design Revenue) would require the following reversing entry:

		Dr.	Cr.
Aug. 1	Design Revenue	400	
	Accounts Receivable		400
	Reversed the adjusting entry for accrued revenue earned		

STOP & APPLY >

Which of the following accounts after adjustment will most likely require reversing entries:

a. Salaries Payable
b. Accumulated Depreciation
c. Interest Payable

d. Supplies
e. Taxes Payable

SOLUTION
a., c., and e.