

Reversing entries essay sample



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Entries put into accounting paperwork are used to provide a log of every credit or debit that affects the business in terms of their financial standing. Having the option to reverse a journal entry does provide several advantages. According to Shelia Shanker of smallbusiness.chron the top four advantages are listed below: Accuracy - it allows you to show all accounts up to date. Simplicity- anyone could do it. It is simply changing a debit to a credit or vice versa. Efficiency- using the correct accounting software, the reversals can be put in to be automatically reversed on a certain date. Correction- fixing an entry that was entered by mistake or incorrectly, by reversing the wrong and entering the right information, makes it easier than having to do an adjustment. (Shanker, 2013)

Now that we know the advantages, let's take a look at some of the disadvantages of reversing journal entries. As with anything, there is always an upside and a downside. Janet Grischy from www.life123.com talks about several disadvantages: Under- or Overstatement of Liabilities or Assets- in the time frame between the first entry and the reversed the books will show the wrong information for liabilities and assets. More entries to make- require more work to be done in order to keep the financial statements accurate. Room for mistakes- failing to reverse the correct entry, or failing to notice an adjusting entry, in appropriate entry of data, which will cause misstated financial account statements.(Grischy, 2013)

Why are reversing entries optional?

The optional use of reversing entries is going to depend on the business itself and the wishes or practices of that business. It is not wrong or right to

use or not to use the reversing of entries practice. Different business' or accounting firms have different views and policy in regards to every aspect of the accounting cycle and it is basically left up to choice or the business. There are other ways to make the books correct without reversing an entry and this is what makes this practice optional.

References:

Kimmel, P. D., Weygandt, J. J., & Kieso, D. E. (2011). Financial accounting: Tools for business decision making (6th ed.). Hoboken, NJ: John Wiley & Sons.

Grischy, Janet, Transactions and Reversing Entries, © 2013 Life123, Inc. All rights reserved. An IAC Company. <http://www.life123.com/career-money/small-business/cpa/transactions-reversing-entries.shtml>

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