

ACC1701XA
SEMESTER 1 2025 /2026
POST LECTURE SUPPLEMENT

LECTURE 05

In-class Exercise: Jinu'nFrens Inc.

In-class Exercise:
Fixing Errors in Jinu'nFrens Inc.'s FS



We will work through the following In-class Exercise together in detail. I encourage you to take a few minutes to preview the questions before class. If you would like to challenge yourself, you might even try drafting answers to some of the questions in advance. ☺

During the year-end audit, the auditors found some errors in Jinu'nFrens Inc.'s financial statements. For the following independent scenarios: (1) Prepare the necessary journal entries to correct each error and (2) Explain the effects of the errors on the FS if they are not corrected.

- a) No adjusting entry was made for salaries of \$15,000 that were earned in December but will not be paid until January.

In-class Exercise (continued):
Fixing Errors in Jinu'nFrens Inc.'s FS

- b) On November 1, Jinu'nFrens made an insurance payment of \$12,000 for a twelve month policy. On November 1, the full \$12,000 was debited to insurance expense. No adjusting entries were made to insurance expense at year end.
- c) In December, Jinu'nFrens received a \$5,000 prepayment for services that will be performed in January. Cash was debited and service revenue was credited when the cash was received.
- d) A collection of \$15,000 cash on its accounts receivables was recorded twice.
- e) Jinu'nFrens borrowed \$20,000 from a bank by signing a note. The transaction was recorded as \$200,000.
- f) Jinu'nFrens credited the cash account when it recorded depreciation expense of \$35,000.
- g) The acquisition of inventory for \$40,000 was recorded to the supplies account (asset).



In-class Activity: Jinu'nFrens Inc.

Part (a)

(a) No adjusting entry was made for salaries of \$15,000 that were earned in December but will not be paid until January.

	Incorrect entries entered:	Correct entries should have been:
Dec 31		Salaries Expense 15,000 Salaries Payable 15,000
Bal @	Salaries Expense (NI) 0	Salaries Expense (NI) 15,000
Dec 31	Salaries Payable (SFP) 0	Salaries Payable (SFP) 15,000

Correcting journal entry:

Salaries Expense	15,000
Salaries Payable	15,000

Effect on your FS of not correcting this error:

IS: Expenses understated by 15k, Net Income overstated by 15k
 SFP: Liabilities understated by 15k, Equity overstated by 15k



In-class Activity: Jinu'nFrens Inc.

Part (b)

(b) On November 1, Jinu'nFrens paid an insurance payment of \$12,000 for a twelve month policy. On November 1, the full \$12,000 was debited to insurance expense. No adjusting entries were made to insurance expense at year end.

	Incorrect entries entered:	Correct entries should have been:
Nov 1	Insurance Expense 12,000 Cash 12,000	Prepaid Insurance 12,000 Cash 12,000
Dec 31		Insurance Exp (Nov & Dec) 2,000 Prepaid Insurance 2,000
Bal @	Prepaid Insurance 0	Prepaid Insurance 10,000
Dec 31	Insurance Expense 12,000	Insurance Expense 2,000

Correcting journal entry:

Prepaid Insurance	10,000
Insurance Expense	10,000

Effect on your FS of not correcting this error:

IS: Expenses overstated by 10k, Net Income understated by 10k
 SFP: Assets understated by 10k, Equity understated by 10k

In-class Activity: Jinu'nFrens Inc.

Part (c)

(c) In December, Jinu'nFrens received a \$5,000 prepayment for services that will be performed in January. Cash was debited and service revenue was credited when the cash was received.

Incorrect entries entered:		Correct entries should have been:		
Dec	Cash	5,000	Cash	5,000
	Service Revenue	5,000	Unearned Revenue	5,000
Bal @	Unearned Revenue	0	Unearned Revenue	5,000
Dec 31	Service Revenue	5,000	Service Revenue	0

Correcting journal entry:

Service Revenue	5,000
Unearned Revenue	5,000

Effect on your FS of not correcting this error:

- IS: Revenue overstated by 5k, Net Income overstated by 5k
 SFP: Liabilities understated by 5k, Equity overstated by 5k

In-class Activity: Jinu'nFrens Inc.

Part (d)

(d) A collection of \$15,000 cash on its accounts receivables was recorded twice.

Incorrect entries entered:		Correct entries should have been:		
Cash	15,000	Cash	15,000	
AR		AR		
Cash	15,000			
AR	15,000			
Bal @	Cash	30,000	Cash	15,000
Dec 31	Accounts Receivable	(30,000)	Accounts Receivable	(15,000)

Correcting journal entry:

Accounts Receivable	15,000
Cash	15,000

Effect on your FS of not correcting this error:

- IS: No Effect (assuming error does not affect bad debt* expense calculation)
 SFP: No overall effect - but Cash (assets) overstated by 15k, AR (assets) understated by 15k

* Note: We will cover allowance for bad debts in lecture 06 when we cover the topic on "Receivables"

In-class Activity: Jinu'nFrens Inc.

Part (e)

(e) Jinu'nFrens Company borrowed \$20,000 from a bank by signing a note. The transaction was recorded as \$200,000.

Incorrect entries entered:		Correct entries should have been:	
Cash	200,000	Cash	20,000
Notes Payable	200,000	Notes Payable	20,000
<i>Bal @</i>	<i>Cash</i>	<i>Cash</i>	<i>20,000</i>
<i>Dec 31</i>	<i>Notes Payable</i>	<i>Notes Payable</i>	<i>20,000</i>

Correcting journal entry:

Notes Payable (200k – 20k)	180,000
Cash	180,000

Effect on your FS of not correcting this error:

IS: No Effect. (assuming error does not affect interest expense)

SFP: Assets overstated by 180, Liabilities overstated by 180k

In-class Activity: Jinu'nFrens Inc.

Part (f)

(f) Jinu'nFrens credited the cash account when it recorded depreciation expense of \$35,000.

Incorrect entries entered:		Correct entries should have been:	
Depreciation Expense	35,000	Depreciation Expense	35,000
Cash	35,000	Accumulated Depr	35,000
<i>Bal @</i>	<i>Cash</i>	<i>Cash</i>	<i>0</i>
<i>Dec 31</i>	<i>Accumulated Depr</i>	<i>Accumulated Depr</i>	<i>(35,000)</i>

Correcting journal entry:

Cash	35,000
Accumulated Depr	35,000

Effect on your FS of not correcting this error:

IS: No Effect.

SFP: No overall effect – but Cash (asset) understated by 35k,

Accum. Dept (contra-asset) understated by 35k (i.e. overstatement of the net PPE account)

In-class Activity: Jinu'nFrens Inc.

Part (g)

(g) The acquisition of inventory for \$40,000 was inadvertently recorded to the supplies account (asset).

	Incorrect entries entered:		Correct entries should have been:	
	Supplies 40,000		Inventory 40,000	
	Cash / AP 40,000		Cash / AP 40,000	
Bal @	Inventory 0		Inventory 40,000	
Dec 31	Supplies 40,000		Supplies 0	

Correcting journal entry:

Inventory	40,000
Supplies	40,000

Effect on your FS of not correcting this error:

IS: No Effect. (assuming the 40k inventory was not sold during the period)

SFP: No overall effect – but inventory understated by 40k, supplies overstated by 40k.
