**Question 13 Solution**

**(42 marks)**

Sarah Lumin is the owner of Luminosity Beauty Clinic and has provided the following financial information as 30 June 2022. Disregard GST.

**Additional information**

* Fees include payment of $3,000 for one month’s fee paid in advance on   
  1 June 2022.
* Allowance for doubtful debts to be set at 5% of net debtors.
* Accounts receivable of $1,200 was written off as a bad debt.
* Interest on investment is at 10% pa and is due on 1 July 2022.
* Wages owing $450.
* Stock of supplies on hand is $12,000.
* Twelve months Insurance of $6,400 was paid on 31 March 2022.

**Workings:**

Allowance doubtful debts balance: 19,300 net debtors **(2)** x 5% **(1)** = 965

Insurance 6,400(1) x 3/12 (1)= 1,600 expense

Interest on investment 15,000 (1) x 10% (1) = 1,500

**Required:**

Solutions

1. Prepare the following ledger accounts for the 30 June 2022: (34 marks)

**Allowance for Doubtful Debts**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2022**  **Jun 30** | **Bad Debts** | **$**  **2 700** | **2022**  **Jun 30** | **Opening Bal** | **$**  **1 250** |
|  | **Bal c/d** | **965** |  | **Doubtful Debts** | **2 415** |
|  |  | **3 665** |  |  | **3 665** |
|  |  |  |  | **Bal b/d** | **965** |

**Stock of Supplies**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2022**  **Jun 30** | **Opening Bal** | **$**  **59 000** | **2022**  **Jun 30** | **Supplies Expense** | **$**  **47 000** |
|  |  |  |  | **Bal c/d** | **12 000** |
|  |  | **59 000** |  |  | **59 000** |
|  | **Bal b/d** | **12 000** |  |  |  |

**Fees**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2022**  **Jun 30** | Unearned Fees | 3 000 | **2022**  **Jun 30** | Opening Balance | 190 000 |
|  | Balance – P & L | 187 000 |  |  |  |
|  |  | 190 000 |  |  | 190 000 |

**Wages**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2022**  **Jun 30** | Opening Bal | 53 000 | **2022**  **Jun 30** | Balance - P & L | 53 450 |
|  | Accrued Wages | 450 |  |  |  |
|  |  | **53 450** |  |  | **53 450** |
|  |  |  |  |  |  |

**Prepaid Insurance**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2022**  **Jun 30** | Opening Bal | 3 000 | **2022**  **Jul 30** | Insurance Expense | 1 600 |
|  |  |  | Jun 30 | Balance – P & L | 1 400 |
|  |  | **3 000** |  |  | **3 000** |
|  |  |  |  |  |  |

**Interest on Investment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Detail | Debit | Date | Detail | Credit |
| 2022  Jun 30 | Accrued Interest | 1 500 | 2022  Jun 30 | Balance – P & L | 1 500 |
|  |  |  |  |  |  |

**Profit and Loss Account**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Detail | Debit | Date | Detail | Credit |
| 2022  Jun 30 | Doubtful Debts | 2 415 | 2022  Jun 30 | Fees | 187 000 |
|  | Stock of Supplies | 47 000 |  | Interest on Investment | 1 500 |
|  | Wages | 52 550 |  | Other Income | 9 950 |
|  | Insurance | 1 600 |  | Gain on Asset | 7 500 |
|  | Electricity | 12 900 |  |  |  |
|  | Interest on Mortgage | 12,000 |  |  |  |
|  | Luandry Expense | 27,500 |  |  |  |
|  | Mobile Phone | 5,000 |  |  |  |
|  | **Capital (Profit)** | **44,985** |  |  |  |
|  |  | **205 950** |  |  | **205 950** |

1. Serena Lumin does not understand why unearned fees income of $3,000 is recorded as a current liability and not income. Explain to Serena the nature of unearned fees income using the Framework definition. (3 marks)

|  |
| --- |
| Liability is a present obligation of the entity to transfer an economic resource as a result of past events. **(1)**  Unearned fees is a present obligation because an agreement has been made to provide a service in the near future**.** The past event is the receipt of payment. **(1)** The economic transfer is money (payment) to be transferred and paid. **(1)** |