Ideally, the tenant should have added $5,000 pre-payment as an asset under the **Pre-Paid Rent Account (**which is an asset account) and then after each month, there should be a decrease from this account towards the **Rent Expenses Account (**which is a liability account).

The implication of the errors, thus, mainly depends on the accounting period of the tenant.

Suppose the tenant prepares a balance sheet on December 31st. Then the expense towards the rent should have been $5,000/2 = $2,500 ideally since this is paid for two months. However, in preparing the balance sheet, he/she has added $5,000 in the expense.

This leads to $5,000 - $2,500 = $2,500 increase in the expenditure. This leads to an understatement of the income by $2,500, which is a quite a huge amount and can have profound implications. Thus, as a young accountant, you should try to rectify this mistake.

But consider an alternate scenario. If the tenant prepares his balance sheet on January 31st, then the entire asset account is to be ideally transferred to the expenses account.

This means, that the entry (which is “incorrect”) is, in fact, a shorthand method of writing the expenses. In this case, the balance sheet remains accurate, and you can be assured that the balance comes out to be correct, coincidentally.

However, if this mistake continues in future, then balance sheets might be incorrect. Thus, as a young account you should try to rectify the mistakes and add adjusting entries to correct the entries, whatever be the outcome.