

## Tutorial 9 – Year End Adjustments

### Section A:

1. Explain the following items, giving an example in each case. How are they treated in the accounts?

- Accrued income
- Income in advance
- Accrued expense
- Prepaid expense

#### Accrued expenses (+) Current Liability

**Explanation** - Expense incurred, but not yet paid. It is to be included from the yearly expense.

**Example** - Electricity bill for Dec 2021 that was only received and paid in Jan 2022. This should be included as Dec 2021 expenses and disclosed as a current liability in the SFP as at 31 Dec 2021.

#### Prepaid expenses (-) Current Asset

**Explanation** - Expenses not yet incurred, but have been paid. It is to be excluded from the yearly expense.

**Example** - Rental expense for Jan 2022 paid in Dec 2021. This should be excluded from the 2021 expenses and disclosed as a current asset in the SFP as at 31 Dec 2021.

#### Accrued Income / Income Receivable (+) Current Asset

**Explanation** - Income earned, but not yet received. It is to be included at this yearly income.

**Example** - Commission for the year ended 31 Dec 2013 but only received in Feb 2014. This should be included as year 2013 income and appear as a current asset in the SFP as at 31 Dec 2013.

#### Income Received in Advance (-) Current Liability

**Explanation** - Income not yet earned, but have been received. It is to be excluded at this yearly income.

**Example** - Rental income for Jan 2014 received in Dec 2013. This should be excluded from year 2013 income and disclosed as a current liability in the SFP as at 31 Dec 2013.

### Question 2

The following is an extract of the Statement of Financial Position of Gaya Sdn Bhd:

#### Statement of Financial Position (extract) as at 31 May 2021

	RM
<u>Current assets</u>	
Prepaid advertising expenses	1,280
Accrued rental received	2,000
<u>Current liability</u>	
Unpaid electricity expenses	120

#### Receipts and payments account (extract) for the year ended 31 May 2022

<u>Receipts</u>	RM	<u>Payments</u>	RM
Rent received	10,000	Advertising	600
		Electricity	1,000

Additional information:

- Advertising in arrears/owing should have been paid earlier (**accrued advertising - 200**) as at **31 May 2022** amounted to RM200.  
**Dr Advertising Cr Accrued Advertising**
- Electricity bill of RM150 has been paid in advance as at **31 May 2022** (**prepaid electricity - 150**).  
**Dr prepaid electricity 150, Cr electricity**
- According to the rental agreement, the monthly rental is RM1,000 per month. As at **31 May 2022**, 4 months' rental has yet to be received. (**accrued rental - 4000**)

**Required:**

Prepare and balance off the following accounts for the year ended 31 May 2022:

- Prepaid advertising expenses account (asset)
- Advertising expenses account
- Accrued advertising account
- Accrued rental received account
- Rental received account
- Accrued electricity account
- Electricity account
- Prepaid electricity account

**Question 3:**

The Trial Balance for Ravi as at 31 March is as follows:

	DR RM	CR RM
Inventory 1 April (b/d)	8,200	
Purchases and Sales	26,000	40,900
Rent (+400)	4,400	
Insurance (-300) Transfer to C.A.	1,600	
Salary	9,990	
Motor vehicle at cost	9,000	
Commission received (+350)		3,650
Rental received (-1200)		6,000
Trade receivables and payables	1,160	2,100
Bank	1,500	
Accumulated Depreciation: motor vehicle		1,200
Capital at 1 April (b/d)		19,700
Drawings	11,700	
	<u>73,550</u>	<u>73,550</u>

At 31 March there was:

- Inventory valued at 31 March at cost prices RM9,100 (closing inv.)
- Rent of RM400 not yet paid (accrual rent +400) CL

- Insurance inclusive RM300 paid in advance (insurance paid in advance -300) CA
- Commission of RM350 not yet received for the month of March (commission receivable +350) CL
- 15 months rental was received which inclusive 3 months deposit (3/15) rental received in advance (3/15 \* 6000) = 1200 (-) CL
- The motor vehicle is to be depreciated at 20% at cost which amounts to RM1,800.

**Required:**

- Ledger accounts for year ended 31 March

- Rent account

Rent Account					
		RM			RM
31-Mar	Bank	4400	31-Mar	SPL	4800
	bal c/d	400			
		<u>4800</u>			<u>4800</u>

- Insurance account

Insurance Account					
		RM			RM
31-Mar	Bank	1600	31-Mar	SPL	1300
				bal c/d	300
		<u>1600</u>			<u>1600</u>

- Commission received account

Commission Received Account					
		RM			RM
31-Mar	SPL	4000	31-Mar	Bank	3650
				bal c/d	350
		<u>4000</u>			<u>4000</u>

iv) Rental received account

Rental Received Account					
		RM			RM
31-Mar	SPL	4800	31-Mar	Bank	6000
	bal c/d	1200			
		6000			6000

(b) Prepare extracts of the Statement of Profit or Loss for the year ended 31 March

Statement of Profit or Loss for the year ended 31 March					
		RM	RM	RM	
Sales				40900	
<b>Less: COGS</b>					
opening inventories		8200			
purchase		26000	34200		
closing inventories			-9100	25100	
Gross Profit				15800	
<b>Add: Income</b>					
commission received			4000		
rental received			4800	8800	
<b>Less: Expenditure</b>					
Rent			4800		
Insurance			1300		
Salary			9990		
Depreciation: Motor Vehicles			1800	17890	
Net Profit				6710	

(c) Statement of Financial Position as at that date.

Statement of Financial Position as at 31 March			
	RM	RM	RM
<b>Current Asset</b>			
Closing Inventories		9100	
Bank		1500	
Trade Receivables		1160	11760
<b>Non-current Asset</b>			
Motor Vehicle		9000	
prepaid insurance		300	
commission receivable		350	
less: depreciation		-3000	6650
			18410
<b>Equity</b>			
Capital		19700	
add: net profit		6710	
less: drawings		-11700	14710
<b>Current liability</b>			
Trade Payables		2100	
accrual rent		400	
rental received in advance		1200	3700
			18410

**Section B: Extra exercise questions (for students' own practice)****Question 1:**

The Forward Looking Agency paid commission to its business partner at the end of every 3 months. The commission payment for the year ended 31 December was as follows:

Amount	RM7,000	RM8,000	RM7,500	RM9,000
Due on	31 March	30 June	30 September	31 December
<b>Paid on</b>	31 March	3 July	5 October	7 January (Accrued)

**Required:**

- (a) Prepare a Commission Account (Expenses) for the above transaction. Show the posting to the Accrued Commission Account (Accrued Expenses: Current liability).

Commission Account					
		RM			RM
31-Mar	Bank	7000			
31-Jul	Bank	8000			
5-Oct	Bank	7500			
31-Dec	Accrual Commission	9000	31-Dec	SPL	31500
		31500			31500
Accrued Commission Account					
		RM			RM
31-Dec	bal c/d	9000	31-Dec	commission	9000

- (b) Prepare journal entries for the above adjustment and posting to the Statement of Profit or Loss.

Date	Particulars	Debit (DR)	Credit (CR)
31 Dec	Dr Commission Cr Accrued Commission (liability) (Commission not yet paid)	9000	9000
31 Dec	Dr SPL Cr Commission (Commission account closed)	31500	31500

**Question 2:**

Insurance for a New Day Enterprise is at **RM24,000 (2000 each month)** per annum starting from 1 March, to be paid in advance at the beginning of each quarter year (3, 6, 9, 12). The financial year for Daya ended 31 December each year. The detail of payment as below:

Amount	RM6,000	RM6,000	RM6,000	RM6,000
Due	1 March	1 June	1 September	1 December
Paid	1 March	3 July	28 August	8 December

**Required:**

- (a) Prepare an Insurance Account for the above transaction. Show the posting to Prepaid Insurance Account.

Insurance Account			
	RM		RM
1-Mar Bank (march, apr, m)	6000	31-Dec SPL	20000
3-Jul Bank (june, july, aug)	6000	prepaid insurance (Jan & Feb)	4000
28-Aug Bank (sept, oct, nov)	6000		
8-Dec Bank (dec, jan, feb)	6000		
	24000		24000
Prepaid Insurance Account			
	RM		RM
31-Dec insurance	4000	31-Dec bal c/d	4000

- (b) Prepare journal entries for the above adjustment and posting to the Statement of Profit or Loss.

Date	Particulars	Debit (DR)	Credit (CR)
31 Dec	Dr Prepaid Insurance Cr Insurance (Insurance paid in the next financial year)	4000	4000
31 Dec	Dr SPL Cr Insurance (Insurance account closed)	20000	20000

**Question 3:**

Mayday Enterprise opened a fixed deposit account with Sime Bank Berhad on **1 March**. The initial deposit was RM60,000 at an interest of 5% per annum ( $60000 \times 0.05 = 3000$ ). The term of the deposit was 1 year, and the interest received to be credited to the company's current account at the **end** of **every six months** ( $3000 \times \frac{1}{2} = 1500$ ). Assume that Maju Enterprise's financial year ended 31 December each year.

**Required:**

- (a) Prepare an Interest Received Account for the above transaction. Show the posting to Accrued Interest Received Account / Interest Receivable Account.

Interest Received Account (Income)			
	RM		RM
1-Dec SPL	2500	31-Aug Bank (March - Aug)	1500
		31-Dec Interest receivables	1000
	2500		2500
Interest Receivable Account			
	RM		RM
31-Dec interest received	1000	31-Dec bal c/d	1000

- (b) Prepare journal entries for the above adjustment and posting to Statement of Profit or Loss.

Date	Particulars	Debit (DR)	Credit (CR)
31 Dec	Dr Interest Receivables Cr Interest Received (Interest not yet received)	1000	1000
31 Dec	Dr SPL Cr Interest Received (Interest Received account closed)	2500	2500

**Question 4:**

Wata Trading left part of its warehouse to another company on **1 May**. The annual rental of RM24,000 (**2000 each month**) to be paid in advance at the beginning of each quarter year. Assume that Jaya Trading's financial year ended 31 December each year.

**Required:**

- (a) Prepare a Rent Received Account for the above transaction. Show the posting to Rent Received in Advance Account.

Rent Received Account							
			RM				RM
31-Dec	SPL		16000	1-May	Bank(may,june,jul)		6000
	Rent received in advance		2000	Aug-01	Bank(aug,sept,oct)		6000
				1-May	Bank(nov,dec,jan)		6000
			<u>18000</u>				<u>18000</u>
Rent Received in Advance Account							
			RM				RM
31-Dec	bal c/d		<u>2000</u>	31-Dec	rent received		<u>2000</u>

- (b) Prepare journal entries for the above adjustment and posting to the Statement of Profit or Loss.

Date	Particulars	Debit (DR)	Credit (CR)
<b>31 Dec</b>	Dr Rent Received	2000	
	Cr Rent Received in Advance		2000
	(Rent Received for next financial year)		
<b>31 Dec</b>	Dr SPL	16000	
	Cr Rent Received		16000
	(Rent Received account closed)		