Topic 2: ADJUSTING for Prepayments

2.1 Robo Toys retails electronic parts. Financial reports are prepared to Sept 30 each year. The following relates to the year to Sep 30, 2018.

Jan1: Paid business licence $14400 for a year to Dec31, 2018 [#211]

May1: Paid rent on new office space $4800 for a year to Apr 30, 2019 [#212]

Jul1: Paid shipping and freight insurance $1800 for the quarter to Sep30, 2018 [#213]

Required

1. Record the above in the Cash Payments Journal of Robo Toys
2. Prepare BDA in GJ.
3. Explain the impact on financial reports if the entire payment on May1 was treated as an expense.

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| **Cash Payment Journal** | | | | | | | | |
| **Date**  **2018** | **Acct Debited** | **Chq**  **no.** | **Bank** | **Disc.**  **Revenue** | **Creditors Control** | **Stock Control** | **Wages** | **Sundries** |
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|  |  | **General** | **Ledger** | **Subsidiary** | **Ledger** |
| **Date** | **Details** | **Debit** | **Credit** | **Debit** | **Credit** |
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| Income statement | Balance Sheet | Cash Flow Statement |
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Solutions

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| **Cash Payment Journal** | | | | | | | | |
| **Date**  **2018** | **Acct Debited** | **Chq**  **no.** | **Bank** | **Disc.**  **Revenue** | **Creditors Control** | **Stock Control** | **Wages** | **Sundries** |
| Jan1 | Prepaid Licence | 211 | 14400 |  |  |  |  | 14400 |
| Apr1 | Prepaid Rent | 212 | 4800 |  |  |  |  | **4800** |
| Jul1 | Prepaid Shipping & Freight Insurance | 213 | 1800 |  |  |  |  | 1800 |

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|  |  | **General** | **Ledger** | **Subsidiary** | **Ledger** |
| **Date** | **Details** | **Debit** | **Credit** | **Debit** | **Credit** |
| 2018 |  |  |  |  |  |
| Sep30 | Business Licence Exp | 10800 |  |  |  |
|  | Prepaid Licence |  | 10800 |  |  |
|  | ( \* $14400) |  |  |  |  |
|  |  |  |  |  |  |
|  | Rent Exp | 2000 |  |  |  |
|  | Prepaid Rent |  | 2000 |  |  |
|  | ( \* $4800) |  |  |  |  |
|  |  |  |  |  |  |
|  | Shipping & Freight Insurance Exp | 1800 |  |  |  |
|  | Prepaid Shipping & Freight Insurance |  | 1800 |  |  |

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| Income statement | Balance Sheet | Cash Flow Statement |
| Expense overstated by $2800  Net Profit Understated $2800 | Current Asset understated by $2800 | No effect |

2.2 Dewy Lip Shines retails lipsticks and other related products. The business commenced on Jan 1, 2017 and prepares reports to June 30 each year.

They rented an office space at Megamall for $300 a month on Feb 1 2017. Rent is paid 6-months in advance twice yearly on Feb 1 and Aug1.

1. Prepare Balance Day adjustments in the books on Jun30 2017 and Jun 30 2018.
2. Draw up the Prepaid Rent Account for y/e Jun30, 2017 and Jun 30, 2018.

Solutions

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|  |  | **General** | **Ledger** | **Subsidiary** | **Ledger** |
| **Date** | **Details** | **Debit** | **Credit** | **Debit** | **Credit** |
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| Prepaid Rent Expense | | | | | |
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Solutions

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|  |  | **General** | **Ledger** | **Subsidiary** | **Ledger** |
| **Date** | **Details** | **Debit** | **Credit** | **Debit** | **Credit** |
| 2017 |  |  |  |  |  |
| Jun 30 | Rent Exp | 1500 |  |  |  |
|  | Prepaid Rent |  | 1500 |  |  |
|  | ($300\*5 mts) |  |  |  |  |
| 2018 |  |  |  |  |  |
| Jun30 | Rent Exp | 3600 |  |  |  |
|  | Prepaid Rent |  | 3600 |  |  |
|  | ($300\*12 mts) |  |  |  |  |

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| Prepaid Rent Expense | | | | | |
| 2016 |  |  | 2016 |  |  |
| Feb 1 | Bank | 1800 | Jun30 | Rent exp | 1500 |
|  |  |  |  | Balance | 300 |
|  |  | 1800 |  |  | 1800 |
| 2016 |  |  | 2017 |  |  |
| Jul1 | Balance | 300 |  |  |  |
| Aug1 | Bank | 1800 | Jun30 | Rent Exp | 3600 |
| Feb1 | Bank | 1800 |  | Balance | 300 |
|  |  | 3900 |  |  | 3900 |
| 2017 |  |  |  |  |  |
| Jul1 | Balance | 300 |  |  |  |
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2.3 Bustext pays insurance in advance in March for the 12-month period April 1 – Mar 31 each year. Reports are prepared annually on June 30.

You are provided the following details:

Jul 1, 2015 Prepaid Insurance Account $2700

Rental charge was increased to $3960 and this was settled in 30 March 2016 for the year to Mar 31, 2017

1. Prepare Gen Jnl entries to adjust and close relevant accounts on jun30, 2016
2. Draw up the Prepaid Insurance Account as at June 30, 2016 after all entries have been posted.

Solutions

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|  |  | **General** | **Ledger** | **Subsidiary** | **Ledger** |
| **Date** | **Details** | **Debit** | **Credit** | **Debit** | **Credit** |
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| Prepaid Insurance Account | | | | | |
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Solutions

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|  |  | **General** | **Ledger** | **Subsidiary** | **Ledger** |
| **Date** | **Details** | **Debit** | **Credit** | **Debit** | **Credit** |
| 2016 |  |  |  |  |  |
| Jun 30 | Insurance Expense | 3690 |  |  |  |
|  | Prepaid Insurance |  | 3690 |  |  |
|  | ( \* $3600 + \*$3960 |  |  |  |  |
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| Prepaid Insurance Account | | | | | |
|  |  |  |  |  |  |
| 2015 |  |  |  |  |  |
| Jul1 | Balance | 2700 |  |  |  |
| 2016 |  |  | 2016 |  |  |
| Mar30 | Bank | 3960 | Jun30 | Insurance Exp | 3690 |
|  |  |  |  | Balance | 2970 |
|  |  | 3900 |  |  | 3900 |
| 2016 |  |  |  |  |  |
| Jul1 | Balance | 2970 |  |  |  |
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2.4 You are provided the following extract Trial Balance of Busy Bee Pty, retailing bee keeping apparatus. Reports are prepared annually on Dec 31.

Pre Adjustment Trial Balance as at Dec 31, 2018

|  |  |  |
| --- | --- | --- |
|  | DEBIT | CREDIT |
| Prepaid Rent expense | 17000 |  |
| Prepaid Insurance Expense | 19200 |  |
| Prepaid Sales |  | 900 |
|  |  |  |
|  |  |  |

1. Prepaid Rent at Dec 31 is $3000.
2. The balance in the Prepaid Insurance at Jan1, 2018 was $1200. Insurance Expense is paid in advance annually on 1st Feb.
3. Busy Bee Pty received an order of $2500 in November from Nature Pure, a long term customer for goods to be delivered in late December. Nature Pure had paid a deposit of $900 [rec 551]. The goods have already been delivered[ Inv BB 99]. Busy Bee Pty applies a mark-up of 150%.

Required:

Prepare the BDA on Dec31, 2018 as well as any other entries in the journals provided below.

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|  |  | **General** | **Ledger** | **Subsidiary** | **Ledger** |
| **Date** | **Details** | **Debit** | **Credit** | **Debit** | **Credit** |
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Sales Journal

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| --- | --- | --- | --- | --- | --- |
| Date | Debtor | Invoice | Cost of | Sales | Debtors Control |
| 2018 |  | Number | Sales |  |  |
|  | Nature Pure |  |  |  |  |

Solutions

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|  |  | **General** | **Ledger** | **Subsidiary** | **Ledger** |
| **Date** | **Details** | **Debit** | **Credit** | **Debit** | **Credit** |
| 2018 |  |  |  |  |  |
| Dec31 | Rent Exp | 14000 |  |  |  |
|  | Prepaid Rent Exp |  | 14000 |  |  |
|  | (17000-3000) |  |  |  |  |
|  |  |  |  |  |  |
|  | Insurance EXp | 17700 |  |  |  |
|  | Prepaid Insurance |  |  |  |  |
|  | $1200 + \*$18000 |  | 17700 |  |  |
|  |  |  |  |  |  |
|  | Prepaid Sales | 900 |  |  |  |
|  | Sales |  | 900 |  |  |

Sales Journal

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| --- | --- | --- | --- | --- | --- |
| Date | Debtor | Invoice | Cost of | Sales | Debtors Control |
| 2018 |  | Number | Sales |  |  |
|  | Nature Pure | BB99 | **1000 (w1)** | **1600(w2)** | **1600** |

W1: $2500/250% W2: $2500 - 900