

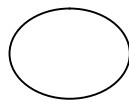
Accounting 212

Unit five: Adjusting the accounts Accruals and Prepayments



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.....: المدرسة

الرقم التسلسلي



Unit four: Adjusting the accounts Accruals and Prepayment

KEY TERM INTRODUCED

Adjusting:..... تسوية Prepayments:..... مقدم Unearned revenue: ايراد مقدم Prepaid:.....مقدم	Accruals:مستحق Opening Inventory: بضاعة أول المدة Ending Inventory: بضاعة آخر المدة
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Adjusting: this process of adjusting is essentially the same as analysis and records the transactions. The adjusting entry must be journalized and posted to the accounts ledgers.

Rules of debit and credit:

Assets, Expenses, Drawings

Debit	Credit
+	-
Balance	

Liabilities, Owner's Capital, Revenues

Debit	Credit
-	+
	Balance

Income Statement	Balance Sheet

Work sheet

Account title	Trial Balance		Income Statement		Balance Sheet	
	Dr	Cr	Dr	Cr	Dr	Cr

Work sheet

Account Titles	Unadjusted Trail balance		Adjustment		Adjusted Trail balance		Income Statement		Balance Sheet	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr

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Example 1:

* The company has the following adjustments at the end of the year:

1. The ending inventory is BD14,500.
2. The annually depreciation for equipment is BD800.
3. Jehad who owed her BD500 become bankrupt and the company decided to write-off.

Required:

1. Prepare Adjustment entries.
2. Complete a work sheet.

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General Journal

Date	Explanation	Debit	Credit

Work Sheet

Account titles	Unadjusted trail Balance		Adjustment		Adjustment Trail Balance		Income Statement		Balance Sheet	
	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
Cash	15,000									
Acc. Receivable	4,500									
Supplies	460									
Equipment	14,800									
Notes Payable		2,000								
Acc. Payable		11,100								
Ali, capital		13,000								
sales		17,810								
Salaries expenses	6,000									
Rent expenses	1,900									
Purchase	1,250									
Total	43,910	43,910								

Example 2:

At the end of Dec.31, 2010, Nasser Company has the following unadjusted trial balance. The company has the following adjustments at the end of the year:

- 1. The ending inventory is BD12,000.
- 2. One of the accounts (Bader Trading) could not pay his balance of BD600 and decided to write -off.
- 3. Depreciation on building is 10%.

Required:

- 1. Prepare Adjustment entries.
- 2. Complete a work sheet.

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General Journal

Date	Details	Debit	Credit

Work Sheet

Account Titles	Unadjusted trail balance		Adjustment		Adjustment trail balance		Income Statement		Balance Sheet	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Cash	63,500									
Acc. Receivable	4,600									
Notes Receivable	400									
Inventory	13,000									
Supplies	7,500									
Building	50,000									
Capital		85,000								
Drawing	10,000									
Customer Advances		1,500								
Rent revenue		8,000								
Sales		263,000								
Sales return	6,000									
Purchases	151,000									
Carriage inwards	2,500									
Salaries Expenses	49,000									
Total	357,500	357,500								

Accountings classify:

Exercise 1:

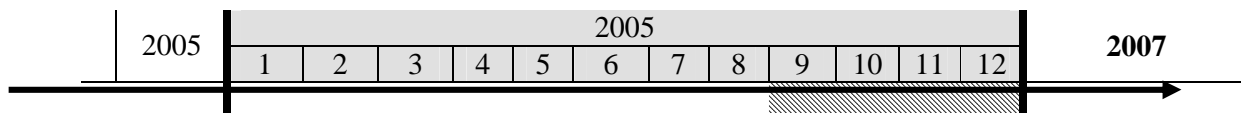
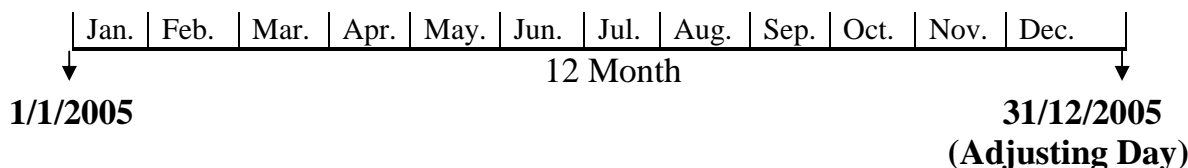
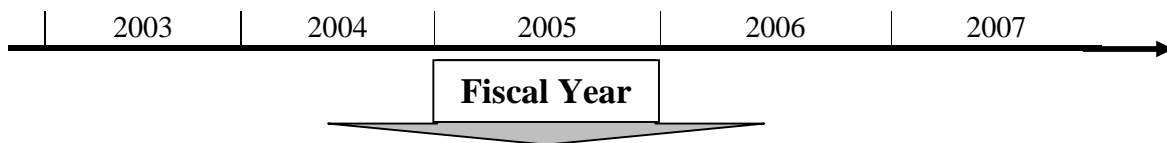
Classify the following into Assets and Liabilities

1. **Prepaid expenses:** such as (Prepaid Insurance, Prepaid Rent...) They are classified as
2. **Unearned Revenues:** such as (Customer Advance, Unearned Revenue...) They are classified as
3. **Accrued expenses:** such as (Rent Payable, Accrued Salaries...) They are classified as
4. **Accrued Revenue:** such as (Accrued Rent Revenue, Accrued Interest Revenue) They are classified as

Revenues accounts	Expenses accounts
Rent revenue	Salaries expense
Commission income	Wages expense
Interest revenue	Rent expenses
Service revenue	Insurance expenses
Sales	Interest expenses
	Supplies expenses
	Depreciation expenses

Adjusting the accounts

Years Line and Going Concern:



خطوات الإجابة:

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Exercises 1:

Identify the correlated account for the following adjustments data:

1. Monthly salaries are BD750

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2. Accrued Interest on notes receivable BD60.

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3. The monthly Rent earned is BD300.

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4. There is a credit provided services invoice of BD1200 but not billed yet.

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5. Accrued Commission BD400.

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6. Interest on Notes receivable is 10% which issues on 30 September 2006.

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7. There is a credit Sales invoice of BD1,500 not recorded in the current year.

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8. Accrued rent earned BD400.

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9. Supplies used BD500.

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10. Wages Payable BD300

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11. Interest on Notes Payable is 10% which issues on 30 September 2006.

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Example 1:

Work Sheet

Account Title	Unadjusted Trail Balance		Adjustments		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Supplies	1,200							
Total	26,580	26,580						

An analysis reveals the following adjusting information at Dec. 31, 2011
 - Supplies remain on hand BD500.



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Or - Supplies used BD700

Exercises 2:

Find out the amounts indicated by blanks in columns below. The amounts in each column constitute separate question.

Question	A	B	C	D
Supplies on 1 st January	800	1,000	750
Supplies purchased during the month	600	500	500
Supplies remaining stock (on hand)	200	150	700
Supplies expense for the month	900	850	900

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Example 2:

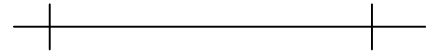
Work Sheet

Account Title	Unadjusted Trail Balance		Adjustment		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Prepaid insurance	1,200							
Salaries expenses	8,000							
Total	26,580	26,580						

Isa Advertising Agency accumulated the following data at Dec. 31, 2011
 - Insurance was paid for 6 month at 1st Dec.2011.



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Or - A Monthly Insurance expense was BD200 started on 1st Dec. 2011.


Or - Expired Insurance for the period BD200.

Example 3:

Work Sheet

Account Title	Unadjusted Trail Balance		Adjustment		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Prepaid Rent	2,400							
Salaries expenses	8,000							
Total	26,580	26,580						

Isa Advertising Agency accumulated the following data at Dec. 31, 2011
 - A Monthly rent expense was BD200 started at 1st July. 2011.

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Or - Rent was paid for whole year (1st July 2011 through 30th Jun., 2012).


Or – Rent expired for the period BD1,200.

Example 4:

Work Sheet

Account Title	Unadjusted Trail Balance		Adjustment		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Unearned Rent Revenue		7,200						
Salaries expenses	8,000							
Total	26,580	26,580						

Isa Advertising Agency accumulated the following data at Dec. 31, 2011
 - The monthly Rent revenue is BD600 started on 1st August, 2011.

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Or - Unearned Rent Revenue was received for whole year at 1st August.

Example 5:

Work Sheet

Account Title	Unadjusted Trail Balance		Adjustment		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Customer advance		7,200						
Salaries expenses	8,000							
Total	26,580	26,580						

An analysis reveals the following adjusting information at Dec. 31, 2011
 - 25% of customer advance has been copiloted.



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Example 6:

Work Sheet

Account Title	Unadjusted Trail Balance		Adjustment		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Rent Revenue		7,200						
Salaries expenses	14,300							
Total	26,580	26,580						

An analysis reveals the following adjusting information at Dec. 31, 2011

- Monthly Salaries expenses are BD1,300.



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Or- Salaries expenses for Dec. still not paid BD1,300.

Or - The annually salaries expenses BD15,600

Or- Salaries expenses of BD1,300 not paid yet.

Or- Salaries payable BD1,300

Or- Accrued Salaries BD1,300.

Example 7:

Work Sheet

Account Title	Unadjusted Trail Balance		Adjustment		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Rent expenses	3,300							
Salaries expenses	14,300							
Total	26,580	26,580						

An analysis reveals the following adjusting information at Dec. 31, 2011

- The company pays BD300 rent per month.



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Or- Rent expenses for Dec. still not paid BD300.

Or- The annually rent expenses is BD3,600.

Or- Rent payable BD300

Example 8:

Work Sheet

Account Title	Unadjusted Trail Balance		Adjustment		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Note receivable	2,000							
Salaries expenses	14,300							
Total	26,580	26,580						

An analysis reveals the following adjusting information at Dec. 31, 2011
 - Interest on Note receivable is BD100.



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Or- Note receivable not received till Dec. 31, 2010 with 10% annually issued on July 1st, 2010.

Or- Note receivable dated on July 1st 30, 2010 for 10% annually interest but not received yet.


Example 9:

Work Sheet

Account Title	Unadjusted Trail Balance		Adjustment		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Salaries expenses	14,300							
Total	26,580	26,580						

An analysis reveals the following adjusting information at Dec. 31, 2011

- The building has been sublet on Oct. 1st at monthly rent for BD1,500.


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Or- Rent revenue has not been received till the closing date BD4,500

Or-Accrued rent revenue BD4,500.

Or- The rent revenue for this year is BD4,500.

Example 10:

Work Sheet

Account Title	Unadjusted Trail Balance		Adjustment		Adjusted Trail Balance		Income	
	Dr	Cr	Dr	Cr	Dr	Cr	DR	C
Notes Payable		10,000						
Total	26,580	26,580						

An analysis reveals the following adjusting information at Dec. 31, 2011

- Note Payable dated on Oct. 1st, 2011 for 10% annually interest but not paid yet.



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Or- Interest in Note Payable is BD100.

Or-Accrued Interest on Notes Payable is BD100.

Exercise 3

Isa advertising Agency accumulated the following adjusted data.

1. Advertising supplies of BD1,100 have been used.
2. Expired insurance for the period is BD120.

Required:

Prepare the adjusting entries where needed.

General Journal

Date	Details	Debit	Credit

Exercise 4:

Youaif Bin Ali cleaning service' trial Balance on June. 30, 2010, shows the following balances for selected accounts:

Account	BD
Office Furniture	12,000
Prepaid rent	600
Office supplies	750
Notes Payable	10,000
Customer advances	1,200
Account Receivable	1,800
Office equipments	4,000
Accumulated Depreciation - Office equipments	600

An analysis reveals the following adjusting information:

1. Depreciation on office furniture is BD1,200 annually.
2. Rent expired for one month is BD200.
3. A supply used during the period was BD500.
4. 30% of customer advances have been completed.
5. The annual depreciation for Office equipment is BD300.
6. Service provided but unbilled at March 31, 2010 total BD900.

Required:

Prepare the adjusting entries for the month of June and show your calculations where needed.

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General Journal

Date	Details	Debit	Credit

Exercise 5

The ledger of Yousif photo Agency on September 30, 2010 include the following selected accounts:

Account	Debit BD	Credit BD
Supplies	450	
Prepaid insurance	600	
Machinery	16,000	
Accumulated dep. - Machinery		4,000
Notes Payable		8,000
Sales		1,200
Service Revenue		3,600
Salaries expenses	760	

The following data papered on September 30,, 2010:

1. Expired insurance for the period is BD150.
2. Supplies on hand at September 30 totaled BD75.
3. The depreciation change for machinery is BD250.
4. There is a credit sales invoice of BD1,200 not recorded in the current year.

Required:

Prepare the adjusting entries for the month of September 30,, 2010 assuming that adjusting entries are made quarterly (each three month).

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General Journal

Date	Details	Debit	Credit

Exercise 6:

At the end of Dec., 2004. Ali Delivery Service has the following unadjusted trial balance. The company has the following adjustments at the end of the year:

- 1. The ending inventory is BD2,500.
- 2. The monthly rent expense is BD200.
- 3. Supplies in hand BD160.
- 4. Deprecation on Equipment is BD300.
- 5. The monthly Salary is BD600.
- 6. Interest on note Payable is BD200.

Required:

Prepare Adjustment entries and complete a work sheet.

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General Journal

Date	Details	Debit	Credit

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Work Sheet
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Account titles	Unadjusted trail Balance		Adjustment		Adjustment Trail Balance		Income Statement		Balance Sheet	
	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
Cash	15,000									
Acc. Receivable	4,500									
Supplies	460									
Equipment	14,800									
Notes Payable		2,000								
Acc. Payable		11,100								
Ali, capital		13,000								
sales		17,810								
Salaries expenses	6,000									
Rent expenses	1,900									
Purchase	1,250									
Total	43,910	43,910								

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Exercise 7:

At the end of Dec.31, 2010. Nasser Company has the following unadjusted trial balance. The company has the following adjustments at the end of the year:

1. Supplies on hand BD361.
2. Insurance expired during December, BD135.
3. Accrued wages, (unpaid), BD265.
4. Depreciation on the equipment is BD400 per quarter.

Required:

1. Prepare Adjustment entries.
2. Prepare a work sheet.

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General Journal

Date	Details	Debit	Credit

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Work Sheet

Account titles	Unadjusted trail Balance		Adjustment		Adjustment Trail Balance		Income Statement		Balance Sheet	
	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
Cash	3840									
Accounts Receivable	2625									
Supplies	1311									
Prepaid Insurance	1620									
Equipment	17025									
Account payable		2370								
M, Sharif , Capital		22290								
M, Sheriff , Drawing	2745									
Fees Earned		9444								
Advertising expense	512									
Rent expense	1695									
Utilities expense	996									
Wages expense	1735									
	34104	34104								

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Exercise 8:

Fatima Company, unadjusted trial balance on Dec.31,2004 is as following & the company has the following adjustments at the end of the year:

1. Depreciation on the Building if the building have a 10 years useful live and have a salvage value of BD2,250 (using the straight line method in depreciation).
2. Accrued rent (unpaid) BD400.
3. Insurance Expired BD300.
4. Supplies used during the year 500.
5. There was a further bad debt of BD200.

Required:

1. Prepare Adjustment entries.
2. Complete a work sheet.

Solution:

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General Journal

Date	Details	Debit	Credit

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Work sheet

Account titles	Unadjusted trail Balance		Adjustment		Adjustment Trail Balance		Income Statement		Balance Sheet	
	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
Cash	22,500									
Acc. Receivable	1,700									
Supplies	850									
Prepaid Insurance	600									
Building	4,000									
Account payable		2,200								
Fatima, Capital		25,000								
Fatima, Drawing	110									
Fees Earned		3,300								
Rent expense	450									
Wages expense	70									
Adverting expense	80									
General expense	140									
	30,500	30,500								

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Accounting 212

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Exercise 9:

Zainab Company, unadjusted trial balance on Dec.31,2004 is as following:

*** The company has the following adjustments at the end of the year:**

1. Depreciation of store equipment is BD190.
2. Advertising supplies on hand is BD900.
3. Office salaries due but not paid, BD2000.
4. The Rent Expenses Monthly is BD400.
5. The Electricity bill has not yet received but it's expected to be BD120.
6. The prepaid cleaning shows an amount which was paid on 1st Feb. for whole year.

Required:

1. Prepare Adjustment entries.

2. Prepare a work sheet.

Solution:

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General Journal

Date	Details	Debit	Credit

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Work sheet

Account titles	Unadjusted trail Balance		Adjustment		Adjustment Trail Balance		Income Statement		Balance Sheet	
	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
Cash	13,500									
Accounts Receivable	5,000									
Advertising supplies	7,500									
Store Equipment	1,900									
Accum. Dept. S. Equipment.		570								
Zainab, Capital		33,000								
Zainab, Drawing	5,000									
Account payable		9,000								
Service revenue		11,330								
Prepaid Cleaning Expenses	3,000									
Office Salaries Expenses	12,500									
Rent Expenses	4,000									
Electricity Expenses	1,500									
	53,900	53,900								

Accounting 212

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