

FREE SAMPLE: THE FIRST QUESTION

Question One (9 marks)

(a) At balance day, 31 March, the following adjustments are needed. Complete the general journal entry for each one. Use the account names shown; narrations are not required.

(i) Record the invoices issued on balance day for fees received that have not yet been recorded: \$1 863 including GST.

(ii) Adjust the Allowance for doubtful debts. Accounts receivable after all write-offs are \$14 900. The allowance is to be 2% of accounts receivable; the existing allowance has a credit balance of \$220.

[4 marks]

(b) Insurance paid during the year totalled \$3 000, recorded as a debit balance in the Insurance general ledger account at 31 March. The payment covers 12 months, and 2 months of the cover are unexpired (belong to next year).

Complete the Insurance general ledger account for 31 March, including the balancing figure after each entry and the closing entry.

[5 marks]

THE WORKED ANSWER TO THAT QUESTION

Question 1 (9 marks) [Adjustments in the general journal and general ledger]

(a) At balance day, 31 March, the following adjustments are needed. Complete the general journal entry for each one. Use the account names shown; narrations are not required. (i) Record the invoices issued on balance day for fees received that have not yet been recorded: \$1 863 including GST. (ii) Adjust the Allowance for doubtful debts. Accounts receivable after all write-offs are \$14 900. The allowance is to be 2% of accounts receivable; the existing allowance has a credit balance of \$220.

(a) Answer: (i) Dr Accounts receivable \$1 863; Cr Fees received \$1 620; Cr GST (payable) \$243. (ii) Dr Doubtful debts \$78; Cr Allowance for doubtful debts \$78.

- Evidence level: Excellence (records each adjustment with equal debits and credits and a correctly calculated figure).
- Entry (i): The fees are earned this year, so they are revenue now (invoice basis): debit Accounts receivable for the full amount, credit Fees received \$1 620 and GST (payable) \$243. Entry: Dr Accounts receivable \$1 863; Cr Fees received \$1 620; Cr GST (payable) \$243.
- Entry (ii): Required allowance = $\$14\,900 \times 2\% = \298 . This is \$78 more than the existing \$220, so increase the allowance: debit Doubtful debts, credit Allowance for doubtful debts \$78. Entry: Dr Doubtful debts \$78; Cr Allowance for doubtful debts \$78.
- Check: in each entry total debits equal total credits.

KEY TAKEAWAY

Every adjustment is a journal entry with equal debits and credits: identify the two accounts, work out the amount (watch GST and rates), then debit the right one.

(b) Insurance paid during the year totalled \$3 000, recorded as a debit balance in the Insurance general ledger account at 31 March. The payment covers 12 months, and 2 months of the cover are unexpired (belong to next year). Complete the Insurance general ledger account for 31 March, including the balancing figure after each entry and the closing entry.

(b) Answer: Insurance: Prepayments \$500 cr (balance \$2 500 dr); Income summary \$2 500 cr (balance 0)

- Evidence level: Merit (calculates the prepayment, balances the account and closes it).
- Prepayment = $\$3\,000 \times 2/12 = \500 (the unexpired part is an asset).
- Insurance account: 31/03 Balance \$3 000 dr. Prepayments cr \$500, balance \$2 500 dr. Income summary (closing entry) cr \$2 500, balance 0.
- Expense for the year = $\$3\,000 - \$500 = \$2\,500$. Debit the Prepayments account for \$500.

KEY TAKEAWAY

A ledger account is finished by balancing after every entry and ending at 0 with a closing entry; the adjustment account (Prepayments, Accrued expenses or Revenue received in advance) is the contra entry.

LOS: Adjustments in the general journal and general ledger (91176)

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