 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY**

**NOTES AND ACTIVITIES**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **SUBJECT** | ACCOUNTING | | **GRADE** | | 10 | **DATE** |  | | | |
| **TOPIC** | FINANCIAL ACCOUNTING OF A SOLE TRADER- FINAL ACCOUNTS AND YEAR ADJUSTMENTS | | | | | | **Term** | 2 | **Week** | 7 |
| **TIME ALLOCATION** | | 1 Week | | |  |  | | --- | --- | | **TIPS TO KEEP HEALTHY** | | |  |  | | 1. | **WASH YOUR HANDS** thoroughly with soap and water for at least 20 seconds. Alternatively, use hand sanitizer with an alcohol content of at least 60%. | |  |  | | 2. | **PRACTICE SOCIAL DISTANCING** – keep a distance of 1m away from other people. | |  |  | | 3. | **PRACTISE GOOD RESPIRATORY HYGIENE**: cough or sneeze into your elbow or tissue and dispose of the tissue immediately after use. | |  |  | | 4. | **WEAR A MASK AND TRY NOT TO TOUCH YOUR FACE.** The virus can be transferred from your hands to your nose, mouth and eyes. It can then enter your body and make you sick. | |  |  | | 5. | **STAY AT HOME.** | | | | | | | |
| **INSTRUCTIONS** | See requirements per activity | | |
| **RESOURCES** | **USE YOUR TEXTBOOK(S) & PREVIOUS ACTIVITIES** | | | | | | | | | |

**ACCOUNTING CYCLE IS AS FOLLOWS :**

1. Source documents > 2. Subsidiary journal > 3. Posting to ledgers >

4**.** Pre-adjustment > 5. Year – end adjustment > 6. Post – adjustment trial balance >

7. Closing transfers and final accounts > 8. Post – closing trial balance >

9. Financial statement

**IN GRADE 10 YOU WILL DO THE FOLLOWING YEAR-END ADJUSTMENTS**

Trading stock deficit / surplus; Consumable stores on hand; Depreciation (on cost price; on diminishing balance methods); Bad debts; Bad debts recovered; Correction of errors / omissions; Accrued income (receivable); Income received in advance (deferred income); Expenses prepaid; Accrued expenses (payable); Interest on mortgage loan (capitalised)

**Year-end adjustments**

**Introduction**

According to the matching concept of GAAP, the net profit that is calculated at the end of the financial year, must present activities for that specific financial year, namely each item of income and expense must be accounted for in respect of each month that it has existed. The process of matching is accounted for in the books of a business through adjustment journal entries. To adjust/ match the nominal account with the financial year, the following accounts are used:

|  |  |  |
| --- | --- | --- |
| **Name of account** | **Classification** | **Purpose** |
| Accrued income/Income receivable | Asset | Used in an income account that is short of amounts to make up the financial year. According to the matching principle, all income for the financial year must be brought into account during the current financial period even if this income has not yet been received . |

**Example:**

Rent income amounts to R1000 per month, the amount to be shown as income is R12000 (R1000x12months), even though all the rent may not have been received. For example, if the tenant paid the rent for 11 months only, the amount received is R11000 but the **income receivable** for the year will be shown as R12 000.A journal entry for the amount owing for one month must be made. The amount owing is recorded in the **Accrued income account/Income Receivable account.** As this amount is owing to the business, the Income receivable account is classified as an asset and the income account increases by the amount owing. The above can be illustrated as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Current financial period | | | | | | | | | | | |
|  | | | | | | | | | | |  |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | **12** |
| 2019  March1 | 2019  April | 2019  May | 2019  June | 2019  July | 2019  Aug | 2019  Sept | 2019  Oct | 2019  Nov | 2019  Dec | 2020  Jan | **2020**  **Feb28** |
| 2000 | 2000 | 2000 | 20000 | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 | **2000** |

**Amount received in the current period: R22000**

**Income for the current period: R24000**

**Income receivable/Accrued income: R 2000**

Note: The name of the account could either be Income receivable/Accrued income

The amount shown in the Pre-Adjustment Balance (R22000) is the amount actually received,

but the income for the year is R24 000.This is calculated as follows:

R22000÷11months =R2000 per month x12 months =R24000p.a./for the year

Illustrative example

|  |
| --- |
| On 28 February 2020 the following totals appeared in the Pre-Adjustment Trial Balance of Zee Stores  Rent income R22000  Commission income R 4500  **Adjustments:**  (i) Part of the building has been let to a tenant since the beginning of the financial year. The rent  for February has not yet been received.  (ii) R4 000 is still owing in respect of commission income.  **Required:**  1. Prepare journal entries for the adjustments  2. Post to the General Ledger  3. Show the effect of the above adjustments on the Accounting equation. Use the following  headings:  No: ACCOUNT DEBIT ACCOUNT CREDIT ASSETS =OWNER’S EQUITY + LIABILITIES |

SOLUTION

GENERAL JOURNAL-FEBRUARY 2020

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| JV | Date | Details | Fol | Debit | Credit | Debtors control | | Creditors  control | |
| 1  2 | 28 | Accrued income/Income receivable  Rent income  Rent for February not yet received | B14  N8  B14  N9 | 2000  4000 | 2000  4000 | Dr | Cr | Dr | Cr |
|  |  |  |  |
| Accrued income/Income receivable  Commission income  Amount owing in respect of commission |
|  |

**GENERAL LEDGER OF ZEE STORES**

**BALANCE SHEET ACCOUNTS SECTION**

**Dr ACCRUED INCOME/INCOME RECEIVABLE B14 Cr**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  Feb | 28 | Rent income  Commission income |  | GJ1  GJ1 | 2000  4000 |  |  |  |  |  |  |

**NOMINAL ACCOUNTS SECTION**

**Dr RENT INCOME N8 Cr**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  Feb | 28 | Profit and Loss account | GJ1 | 24000 |  | 2020  Feb | 28 | Total  Accrued income/Income receivable | b/f  GJ1 | 22000  2000 |
|  |  |  |  | **24000** |  |  |  |  |  | **24000** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Account debit** | **Account credit** | **Assets** | **Owner’s Equity** | **Liabilities** |
| (i)  (ii) | Accrued income/Income receivable  Accrued income/Income receivable | Rent income  Commission income | + 2000  +4000 | +2000  +4000 | 0  0 |

**INCOME RECEIVED IN ADVANCE/DEFERRED INCOME**

|  |  |  |
| --- | --- | --- |
| **Name of account** | **Classification** | **Purpose** |
| Income received in advance | Liability | Used in an income account that has amounts exceeding the months of the financial year**.** Often income relating to the next accounting period is received in the current accounting period, e.g. a tenant may pay his rent in advance as per lease agreement. |

**Example**

If the rental agreement stipulates that rent of R1500 be paid monthly in advance, then the amount received in the current financial year will amount to R19 500 (R1500x13 months). The income in respect of rent for the current financial period is R18 000 (R1500x12). The amount received for the next financial year is recorded in the **Income received in advance account/Deferred income account** and is classified as a liability. The above example can be illustrated as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Current financial period | | | | | | | | | | | | |
|  | | | | | | | | | | |  | **Next financial period** |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | **13** |
| 2019  March1 | 2019  April | 2019  May | 2019  June | 2019  July | 2019  Aug | 2019  Sept | 2019  Oct | 2019  Nov | 2019  Dec | 2020  Jan | 2020  Feb28 | **2020**  **March** |
| 1500 | 1500 | 1500 | 1500 | 1500 | 1500 | 1500 | 1500 | 1500 | 1500 | 1500 | 1500 | **1500** |

**Amount paid in the current period: R19500**

**Income for the current period: R18000**

**Income received in advance/Deferred income: R 1500**

Note: The name of account could either be Income received in advance/Deferred income.

The amount shown in the Pre-Adjustment Trial Balance (R19500) is the amount actually

received, but the income for the year is R18000.This is calculated as follows:

( R19500 ÷13 months =R1500 per month x12 months =R18 000 per annum/per year).

Illustrative example

|  |
| --- |
| On 28 February 2020, the following totals appeared in the Pre –Adjustment Trial Balance of Zee Stores  Rent income R 39000  Fee income R 16 500  **Adjustments:**  (i) Part of the building has been let to a tenant since the beginning of the financial year. The  tenant paid the March 2020 rent in February 2020.  (ii) R3 300 was received in advance in respect of fee income.  **Required:**  1. Prepare journal entries for adjustments.  2. Post to General Ledger.  3. Show effect of the above adjustments on the Accounting equation. Use the following headings:  No; ACCOUNT DEBIT; ACCOUNT CREDIT; ASSETS; OWNER’S EQUITY; LIABILITIES |

Solution

SOLUTION

GENERAL JOURNAL-FEBRUARY 2020

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| J/V | Day | Details | Fol | Debit | Credit | Debtors control | | Creditors control | |
| 1  2 | 28 | Rent income  Income received in advance /deferred income  Amount received in advance | N10  B15  N11  B15 | 3000  3300 | 3000  3300 | Debit | Credit | Debit | Credit |
|  |  |  |  |
| Fee income  Income received in advance/deferred income  Amount received in advance |
|  |

**GENERAL LEDGER OF ZEE STORES**

**BALANCE SHEET ACCOUNTS SECTION**

**Dr INCOME RECEIVED IN ADVANCE/DEFERED INCOME B15 Cr**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | 2020  Feb | 28 | Rent income  Fee income | GJ1  GJ1 | 3000  3300 |

**NOMINAL ACCOUNTS SECTION**

**Dr RENT INCOME N10 Cr**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  Feb | 28 | Income received in advance/Deferred income | GJ1 | 3000 |  | 2020  Feb | 28 | Total | b/f | 39000 |
|  |  | Profit &loss account | GJ1 | 36000 |  |  |  |  |  |  |
|  |  |  |  | **39000** |  |  |  |  |  | **39000** |

**Dr FEE INCOME N11 Cr**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  Feb | 28 | Income received in advance/Deferred income | GJ1 | 3300 |  | 2020  Feb | 28 |  | Total | b/f | 16500 |
|  |  | Profit &Loss account | GJ | 13200 |  |  |  |  |  |  |  |
|  |  |  |  | **16500** |  |  |  |  |  |  | **16500** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Account debit** | **Account credit** | **Assets** | **Owner’s Equity** | **Liabilities** |
| (i)  (ii) | Rent income  Fee income | Income received in advance/Deferred income  Income received in advance/Deferred income |  | * 3000 * 3300 | + 3000  +3300 |

**ACTIVITY 1-INCOME ADJUSTMENTS**

The following information was taken from the accounting records of Sophie Traders on 28 February 2020, the last day of the accounting period.

**Required:**

1. Complete the relevant adjustment entries on 28 February 2020.

2. Prepare the following accounts in the general ledger of Sophie Traders:

Balance sheet accounts

* Accrued income
* Income received in advance/Deferred income

Nominal accounts

* Commission income
* Rent income

The accounts must be properly balanced/closed off on 28 February 2020, the last day of the financial year.

3. Show the effect of the above adjustments on the Accounting equation. Use the following headings:

NO; ACCOUNT DEBIT; ACCOUNT CREDIT; ASSETS; OWNER’S EQUITY;LIABILITIES

**Information:**

List of accounts from the General Ledger of Sophie Traders on 28 February 2020:

|  |  |  |
| --- | --- | --- |
| **Balance sheet accounts section** | **Debits** | **Credits** |
| Fixed deposit: MB Bank [6%p.a.] | 85 000 |  |
| **Nominal accounts section** |  |  |
| Commission income |  | 130 000 |
| Rent income |  | 14 000 |

**Additional information and adjustments on 28 February 2020**

1. The commission income for February 2020, R15 000 has not yet been received.
2. The rent for March & April 2020 has been received in advance.

**ACTIVITY 1- ANSWER BOOK**

**1. GJ**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **J/V** | **Date** | **Details**  **Adjustment Journal Entries** |  | **Debits** | **Credits** |
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**General ledger of Sophie Traders**

**2. Balance Sheet Accounts Section**

**Accrued Income**

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**Income received in advance/Deferred income**

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**Nominal Accounts Section**

**Commission Income**

|  |  |  |  |  |  |  |  |  |  |  |
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**Rent income**

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**3. ACCOUNTING EQUATION**

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| --- | --- | --- | --- | --- | --- |
| **No.** | **Account debit** | **Account credit** | **Assets** | **Owner’s Equity** | **Liabilities** |
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**Activity 2**

The following information was taken from the accounting records of Katlin Traders

On 28 February 2020, the last day of the accounting period.

**Required:**

1. Complete the relevant adjustment entries on 28 February 2020
2. Prepare the following accounts in the General Ledger of Katlin Traders:

Balance sheet accounts

* Accrued income
* Income received in advance/Deferred income

Nominal accounts

* Fee income
* Rent income

The accounts must be properly balanced/closed off on 28 February 2020, the last day of the financial year.

3. Show the effect of the above adjustments on the Accounting equation. Use the following headings:

NO; ACCOUNT DEBIT; ACCOUNT CREDIT; ASSETS; OWNER’S EQUITY; LIABILITIES

**Information:**

**List of accounts from the General Ledger of Katlin Traders on 28 February 2020:**

|  |  |  |
| --- | --- | --- |
| **Balance sheet accounts section** | **Debits** | **Credits** |
| Fixed deposit: Frere Bank[8%p.a] | 125000 |  |
| **Nominal accounts section** |  |  |
| Fee income |  | 28 000 |
| Rent income |  | 72 800 |

**Additional information and adjustments on 28 February 2020:**

1. The fee income for February 2020, R2 000 was still outstanding.
2. The rent for March 2020 has been received in advance.

**ACTIVITY 2- ANSWER BOOK**

**1. GJ**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **J/V** | **Date** | **Details**  **Adjustment Journal Entries** |  | **Debits** | **Credits** |
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**General ledger of Katlin Traders**

**2. Balance Sheet Accounts Section**

**Accrued Income**

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**Income received in advance/Deferred income**

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**Nominal Accounts Section**

**Fee Income**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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**Rent income**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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**3. ACCOUNTING EQUATION**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Account debit** | **Account credit** | **Assets** | **Owner’s Equity** | **Liabilities** |
|  |  |  |  |  |  |
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|  |  |  |  |  |  |

**ACCURED EXPENSE/EXPENSE PAYABLE**

|  |  |  |
| --- | --- | --- |
| **Name of account** | **Classification** | **Purpose** |
| Accrued expense /Expenses payable | Liability | Used in an expense account that is used to make up the financial year. According to the matching principle, all expenses for a financial year must be brought into account during the current financial period, even if this expense has not yet been paid. |

**Example**

If the telephone account has not been paid for the last month of the financial period, this amount becomes an expense payable. A journal entry for the amount owing for one month must be made. The amount owing is recorded in the **Accrued expense account/Expense payable account**. As this amount is owing by the business, the Accrued expense account is classified as a liability and the expense account increases by the amount owing. Assume that the total amount paid in respect of telephone to amounts R15 100. The account for February 2020 has not yet been paid, R1200.This can be illustrated as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Current financial period | | | | | | | | | | | |
|  | | | | | | | | | | | **Accrued expense/**  **Expense payable** |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | **12** |
| 2019  March1 | 2019  April | 2019  May | 2019  June | 2019  July | 2019  Aug | 2019  Sept | 2019  Oct | 2019  Nov | 2019  Dec | 2020  Jan | **2020**  **Feb28** |
| **Amount paid R15 100** | | | | | | | | | | | **1200** |

**Amount paid in the current period: R15 100**

**Expense for the current period: R1 6300**

**Accrued expense /Expense payable: R 1200**

**Note:** The name of account could either be Accrued expense/Expense payable.

The amount shown in the Pre-Adjustment Trial Balance (R15100) is the amount actually

paid, but the expense for the year is R16 300.This is calculated as follows:

(R15100 +R1200 =R16300 per annum/per year).

Illustrative example:

|  |
| --- |
| On 28 February 2020, the following appeared in the Pre-adjustment trial Balance of Acetic Stores  Water and electricity R14500  Repairs R 4000  **Adjustments:**  (i) The February 2020 water and electricity account, R1 230, has not yet been paid.  (ii) An account for repairs, R500, is still outstanding.  **Required:**  1. Prepare journal entries for adjustments.  2. Post to General Ledger.  3. Show effect of the above adjustments on the Accounting equation. Use the following headings:  No; ACCOUNT DEBIT; ACCOUNT CREDIT; ASSETS; OWNER’S EQUITY; LIABILITIES |

Solution

SOLUTION

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|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| J/V | Day | Details | Fol | Debit | Credit | Debtors control | | Creditors control | |
| 1  2 | 28 | Water & electricity  Accrued expense/Expenses payable  Accrued expense amount not yet paid | N12  B8  N13  B8 | 1230  500 | 1230  500 | Debit | Credit | Debit | Credit |
|  |  |  |  |
| Repairs  Accrued expense/Expenses payable  Accrued expense amount not yet paid |
|  |

**GENERAL LEDGER OF ACETIC STORES**

**BALANCE SHEET ACCOUNTS SECTION**

**Dr ACCRUED EXPENSE/EXPENSES PAYABLE B8 Cr**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | 2020  Feb | 28 | Water & electricity  Repairs | GJ1  GJ1 | 1230  500 |

**NOMINAL ACCOUNTS SECTION**

**Dr WATER & ELECRTICITY N12 Cr**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  Feb | 28 | Total  Accrued expense/Expenses payable | b/f  GJ1 | 14500  1230 |  | 2020 | 28 | Profit and Loss account | GJ1 | 15730 |
|  |  |  |  | **15730** |  |  |  |  |  | **15730** |

**Dr REPAIRS N13 Cr**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  Feb | 28 | Total  Accrued expense/Expenses payable | b/f  GJ1 | 4000  500 |  | 2020  Feb | **28** | Profit and Loss account | GJ1 | 4500 |
| **4500** | **4500** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Account debit** | **Account credit** | **Assets** | **Owner’s Equity** | **Liabilities** |
| (i)  (ii) | Water and  electricity  Repairs | Accrued expenses/Expenses payable  Accrued expenses/Expenses payable |  | -1230  -500 | +1230  +500 |

**PREPAID EXPENSE**

|  |  |  |
| --- | --- | --- |
| **Name of account** | **Classification** | **Purpose** |
| Prepaid expense | Asset | Used in an expense account that has amounts exceeding the months of the financial year. Any expense paid in the current accounting period but which concerns the next accounting period is called a **prepaid expense.** According to matching principle, only expenses of a financial year must be brought into account during the current financial period, any expense for the next financial period is treated as **prepaid expense** and is shown as an asset in the financial statements |

**EXAMPLE**

If the insurance premium has been paid for the next financial period, this amount becomes a prepaid expense. A journal entry for the amount paid in advance must be made. This amount is recorded in the Prepaid expenses account. As this amount has been paid in advance and relates to the next accounting period the Prepaid expenses account is classified as an asset and the expenses account decreases. Assume that the monthly amount paid in respect of insurance is R3000. The premium for the first month of the next financial year has been paid in the current accounting period. This can be illustrated as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Current financial period | | | | | | | | | | | | |
|  | | | | | | | | | | |  | **Next financial period** |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | **13** |
| 2019  March1 | 2019  April | 2019  May | 2019  June | 2019  July | 2019  Aug | 2019  Sept | 2019  Oct | 2019  Nov | 2019  Dec | 2020  Jan | 2020  Feb28 | **2020**  **March** |
| 3000 | 3000 | 3000 | 3000 | 3000 | 3000 | 3000 | 3000 | 3000 | 3000 | 3000 | 3000 | **3000** |

**Amount paid in the current period: R39 000**

**Expense for the current period: R36 000**

**Prepaid expense R 3000**

**Note**: The amount shown in the Pre-Adjustment Trial Balance (R39000) is the amount actually

paid, but the expense for the year is R36 000.This is calculated as follows:

(R 39000 –R3000 =R36000 per annum/per year).

|  |
| --- |
| Illustrative example  On 28 February 2020, the following appeared in the Pre-Adjustment Trial Balance Karabo Stores:  Insurance R 23 200  Rates R 14 500  **Adjustments:**  (i) The insurance amount includes an annual insurance contract for R2R 4000 taken for the period 1  September 2019 to 31 August 2020  (ii) The rates amount includes R2500 in respect of the next financial year.  **Required:**  1. Prepare journal entries for adjustments.  2. Post to General Ledger.  3. Show effect of the above adjustments on the Accounting equation. Use the following headings:  No; ACCOUNT DEBIT; ACCOUNT CREDIT; ASSETS; OWNER’S EQUITY; LIABILITIES |

Solution

SOLUTION

GENERAL JOURNAL-FEBRUARY 2020

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| J/V | Day | Details | Fol | Debit | Credit | Debtors control | | Creditors control | |
| 1  2 | 28 | Prepaid expenses  Insurance  Amount paid in advance | B9  N14  B9  N15 | 12000  2500 | 12000  2500 | Debit | Credit | Debit | Credit |
|  |  |  |  |
| Prepaid expenses  Rates  Amount paid in advance |
|  |

Workings for Insurance prepaid :1 September 2019-31August 2020 =12months

Financial year end: 28 February 2020

Number of months for the next financial period: 1 March 2020-31 August 2020=6months

Insurance paid for 12months see adjustment number (i) R24000÷12=R2000per monthx6months =R12000

**GENERAL LEDGER OF KARABO STORES**

**BALANCE SHEET ACCOUNTS SECTION**

**Dr PREPAID EXPENSES B9 Cr**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  Feb | 28 | Insurance  Rates | GJ1  GJ1 | 12000  2500 |  |  |  |  |  |  |

**NOMINAL ACCOUNTS SECTION**

**Dr Insurance N14 Cr**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  Feb | 28 | Total | b/f | 23 200 |  | 2020  Feb | 28 | Prepaid expenses | GJ1 | 12 000 |
|  |  |  |  |  |  |  |  | Profit and loss account | GJ1 | 11200 |
|  |  |  |  | **23200** |  |  |  |  |  | **23200** |

**Dr RATES N15 Cr**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  Feb | 28 | Total | b/f | 14500 |  | 2020  Feb | 28 | Prepaid expenses | GJ1 | 2500 |
|  |  |  |  |  |  |  |  | Profit and loss account |  | 12000 |
|  |  |  |  | 14500 |  |  |  |  |  | 14500 |

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| --- | --- | --- | --- | --- | --- |
| **No.** | **Account debit** | **Account credit** | **Assets** | **Owner’s Equity** | **Liabilities** |
| (i)  (ii) | Prepaid expenses  Prepaid expenses | Insurance  Rates | +12000  +2500 | +12000  +2500 | 0  0 |

**ACTIVITY 3- EXPENSE ADJUSTMENTS**

The following information was taken from the accounting records of Bisto Traders on 28 February 2020, the last of the accounting period.

**Required:**

1. Complete the relevant adjustments entries on 28 February 2020.
2. Prepare the following accounts in the General Ledger of Bisto Traders

Balance sheet accounts

* Accrued expense
* Prepaid expense

Nominal accounts

* Water & electricity
* Rates and municipal services
* Rent expense
* Advertising

The accounts must be properly balanced/closed off on 28 February 2020, the last day of financial year.

3. Show effect of the above adjustments on the Accounting equation. Use the following

headings: No; ACCOUNT DEBIT; ACCOUNT CREDIT; ASSETS; OWNER’S EQUITY; LIABILITIES

**Information:**

List of accounts from the General Ledger of Bisto Traders on 28 February 2020.

|  |  |  |
| --- | --- | --- |
| **Balance sheet accounts section** | **Debits** | **Credits** |
| Mortgage loan : East Bank[12%p.a.] |  | 300 000 |
| Nominal accounts section |  |  |
| Water & electricity | 8 850 |  |
| Rates and municipal services | 10 000 |  |
| Rent expense | 40 700 |  |
| Advertising | 4500 |  |
|  |  |  |

**Additional information and adjustments on 28 February 2020:**

1. The water and electricity account for February 2020, R900 is still outstanding.
2. An amount of R500 has been paid in advance for an advertising campaign scheduled for March 2020.
3. Rates and municipal services include an amount of R3900 paid for the period 1 October 2019 to 30 September 2020.
4. The rent for February 2020 has not yet been paid.

**ACTIVITY 3- ANSWER BOOK**

**1. GJ**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **J/V** | **Date** | **Details**  **Adjustment Journal Entries** |  | **Debits** | **Credits** |
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**General ledger of BistoTraders**

**2. Balance Sheet Accounts Section**

**Accrued Expense/Expenses payable**

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**Prepaid Expenses**

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**Nominal Accounts Section**

**Water and Electricity**

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**Rates and Municipal Services**

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**Rent Expense**

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**Advertising**

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**3. ACCOUNTING EQUATION**

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| **No.** | **Account debit** | **Account credit** | **Assets** | **Owner’s Equity** | **Liabilities** |
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**Activity 4**

The following information was taken from the accounting records of Bhuwa Traders on 28 February 2020, the last day of the accounting period.

**Required:**

1. Complete the relevant adjustments entries on 28 February 2020.

2. Prepare the following accounts in the General Ledger of Bhuwa Traders:

Balance sheet accounts

* Accrued expense
* Prepaid expense

Nominal accounts

* Advertising
* Insurance
* Stationery

The accounts must be properly balanced/closed off on 28 February 2020, the last day of the financial year.

3. Show the effect of the above adjustments on the Accounting equation. Use the following

headings: No; ACCOUNT DEBIT; ACCOUNT CREDIT; ASSETS; OWNER’S EQUITY;

LIABILITIES

**Information:**

List of accounts from the General Ledger of Bhuwa Traders on 28 February 2020

|  |  |  |
| --- | --- | --- |
| **Balance sheet accounts section** | **Debits** | **Credits** |
| Mortgage loan: Northern Bank [14%p.a.] |  | 450 000 |
| **Nominal accounts section** |  |  |
| Advertising | 7000 |  |
| Insurance | 8500 |  |
| Stationery | 3250 |  |
|  |  |  |

**Additional information and adjustments on 28 February 2020:**

1. Stationery, R250 to be used during March 2020 has already been paid for and recorded.
2. Insurance includes an amount of R1 500 paid for the period 1 September 2019 to 31 August 2020.
3. An amount of R360 is owed for advertising during February 2020

**ACTIVITY 4- ANSWER BOOK**

**1. GJ**

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| --- | --- | --- | --- | --- | --- |
| **J/V** | **Date** | **Details**  **Adjustment Journal Entries** |  | **Debits** | **Credits** |
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**General ledger of Bhuwa Traders**

**2. Balance Sheet Accounts Section**

**Accrued Expenses/Expenses payable**

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**Prepaid Expenses**

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**Nominal Accounts Section**

**Advertising**

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**Insurance**

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**Stationery**

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**3. ACCOUNTING EQUATION**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Account debit** | **Account credit** | **Assets** | **Owner’s Equity** | **Liabilities** |
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