



ADJUSTING ENTRIES

B.COM. PART 1

Q:1

M/S Nishat Traders closes their books on December 31 each year. Some of the account included in their pre-closing trial balance dated December 31, 1995 were as under:-

<u>Debit Balance</u>		<u>Credit Balance</u>	
Account Receivable	Rs. 40,000	Interest Revenue	Rs. 500
Allowance for bed debts	2,000	Rent Revenue	7,500
Office supplies inventory	1,000	Sales Revenue	20,000
Merchandise inventory	50,000		
Prepaid Insurance	2,400		
Sales return & allowance	5,000		
Salaries expenses	22,000		
Purchases	100,000		

Following further information is also available:-

- Inventory of office supplies on December 31, was Rs. 300.
- Insurance expense during the period Rs. 1,800.
- Rebate in original selling price was granted to a customer on defective goods amounting to Rs. 500. This amount had been charged to sales revenue.
- A typewriter was purchased at a cost of Rs. 1,000 during the year, wrongly charged to purchases account.
- Salaries amounting to Rs. 2,000 were outstanding on December 31. Salaries paid in advance during the period. (already charged to salary expense) amounted to Rs. 2,500.
- Rent was collected in advance from a tenant for six months beginning October 1, 1995. The amount so collected was Rs. 3,000.
- Interest on fixed deposit amounting to Rs. 500 was accrued on December 31.
- Allowance for bed debts are estimated at Rs. 2000.
- Inventory of Merchandise on December 31 was Rs. 60,000.

REQUIREMENTS:

- Give necessary adjusting entries in the light of available information.
- Make posting to affected ledger accounts and show the adjusted balance therein.

Q:2

The Accountant for National Company, Karachi, omitted adjusting entries in regard to the items below at the end of the year.

- Accrued salary payable Rs. 1,000.
- Depreciation of equipment Rs. 1,600.
- Accrued interest receivable Rs. 240.
- Bad debts. Expenses Rs. 400.
- Prepaid insurance Rs. 900. All premium payments have been recorded by debits to the insurance expense account.
- Prepaid interest Rs. 60. All interest payments have been recorded by debits to the interest expenses A/c.
- Unearned interest Rs. 96. All interest payments have been recorded by credits to the interest income A/c.
- Accrued commission payable Rs. 700.
- Earned rental income Rs. 1,200. All rent received has been recorded by credits to the unearned rent.

REQUIREMENT:

Pass the necessary adjusting entries on December 31, 1995.

Q:3

In analyzing the accounts of Reyaz the adjusting data listed below are determined on December 31, 1995, what adjusting entry would be recorded for each item.

- (a) The prepaid insurance account show a debit balance of Rs. 450 representative the cost of a three year the insurance policy dated September 1, 1995.
- (b) On November 1, rental revenue was credited for Rs. 600 representing income for a 3-month period beginning on that date.
- (c) Purchases of Advertising material for Rs. 4,000 during the year was recorded and debited to the advertising expenses account. On December 31, 1995 advertising material of Rs. 600 are on hand.
- (d) On August 1, 1995 Rs. 750 was paid as rent for a six-month period beginning on that date. The expenses account was debited at the time pf payment.
- (e) Interest expense includes Rs. 400 applicable to the following year.
- (f) Accrued Interest on Notes payable amounted to Rs. 120.
- (g) Prepaid advertising has a debit balance of Rs. 1456 on December 31, 1995 which represent the advance payment on October 13 of yearly contract for an amount of space of 52 consecutive issue of weekly publication. As of December 31 advertisement had appeared in 12 issues of the publication.
- (h) Unearned rent has a credit balance of Rs. 1,395 composed of the following items:
 - i) January I balance of Rs. 375 representing rent for January through May.
 - ii) A credit of Rs. 1,020 represents payment for annual rent at Rs. 85 a month, beginning June 1.

REQUIREMENT:

Prepare the adjusting entries as of December 31, 1995.

Q:4

The Fayyaz Co. show among other items the following balances on December 31, 1992.

	<u>Debit</u>	<u>Credit</u>
Account Receivable	35,000	
Allowance for bed debts		430
10 % Bonds of House Building Finance Corporation	30,000	
Building	95,000	
Accumulated Depreciation		1,500
Un-expired Insurance	430	
Notes Payable		7,500
Unearned Rent		1,400
Advertising Expenses	3,000	
Interest Revenue		2,000

Data for adjustment:

- (i) After careful examination of the account receivable it was estimated that an allowance for bed debts should be brought up to 2% of the Account Receivable.
- (ii) Interest on the Bonds of House Building Finance Corporation is collected semi annually on March 1 and September 1.
- (iii) Building is depreciated 3% per year. There were building addition during the year costing Rs. 15,000. The company computes depreciation on asset acquisitions during the year at one half the annual rate.
- (iv) Examination of policies showed Rs. 130 prepaid on December 31.
- (v) Rs. 7,500 note was issued on August 31, 1992 and bears 12% interest which is payable upon maturity of the note i.e. on August 31, 1993.

REQUIREMENT:

Prepare the journal entries to adjust the books on December 31, 1992.

Q:5

Net Income reported for the current year by Aftab Trading Company is Rs. 136,000. This amount failed to reflect the following adjustment.

- (a) Accrued salary at the year-end was Rs. 5,700.
- (b) Un-expired Insurance premium was Rs. 3,800. When insurance premium were paid, the amount had been debited to the Insurance expense account.
- (c) Rent Received on property owned is always credited upon receipt to rent revenue account. At the end of the year this revenue account included Rs. 1,200 that was unearned.
- (d) Accrued taxes payable of Rs. 2,200 was omitted.
- (e) The balance of the account receivable at year-end was Rs. 6,000. The normal un-collectible accounts receivable loss is 2% of the balance of the accounts receivable the end of the year. The allowance for bad debts account showed a credit balance of Rs. 50.
- (f) The depreciation 12% per year on the office equipment that cost Rs. 15,000 was omitted.
- (g) The salary expense account had total debits for the year of Rs. 38,000. At the end of the year accrued salaries amounted to Rs. 1,600 and salaries paid in advance amounted to Rs. 2,000.

REQUIREMENT:

- (i) Prepare adjusting journal entries from the above data.
- (ii) Compute the Net Income after adjusting the above data.

Ans. 129,230**Q:6**

Umair Company reported net income of Rs. 50,490 for the year ending December 31, 1982. An analysis of the records discloses that the following item were omitted for consideration when the net income was determined:-

- (a) Rs. 85 expired out of prepaid insurance.
- (b) The amount of office supplies based on physical count on December 31, 1983 was Rs. 250. Purchase of office supplies was debited to office supplies expenses account.
- (c) Salaries earned by office workers but not paid amounted to Rs. 500.
- (d) Accrued interest receivable on investment Rs. 350.
- (e) A new equipment acquired on July 1, 1982 at a cost of Rs. 25,000 was overlooked at the time of recording depreciation. This asset will last 10 years with salvage value of Rs. 1,000. (Use straight-line method).
- (f) Rent income unearned at the close of the year amounted to Rs. 650. The original credit was to rent revenue account.
- (g) Wages amounting to Rs. 2,500 chargeable to machinery installation is still lying in the salaries and wages expenses account.
- (h) Of a prepayment of Rs. 1,000 for advertising space in a local newspaper, 60% has been used and the remainder will be used in the following year. The original debit was to advertising expense.
- (i) Ayaz Rs. 10,000 and Shazad Rs. 2,000 accounts receivable accounts considered un-collectible but the write off as overlooked. The company uses the allowance method.

REQUIREMENT:

Prepare adjusting journal entries from the above data.

Q:7

The following are selected accounts as of December 31, 1992 of Saad Company:-

	<u>Debit</u>	<u>Credit</u>
Accounts Receivable	6,800	
Allowance for bad debts		173
Factory supplies	1,400	
Office supplies	240	
Prepaid Insurance	300	
Building	30,000	
Accumulated Depreciation – Building		5,700
Tools	3,800	
Loan Payable		8,000

The following additional information is available as 31, 1992 for adjustment.

- An analysis of account receivable as of December 31, 1992 indicates that accounts in the amount of Rs. 225 will not be collected.
- Factory supplies on hand are valued at cost Rs. 300.
- Office supplies used in the amount of Rs. 200.
- Insurance expired in the amount of Rs. 175.
- Depreciation of building is computed at 10% of the reduced balance.
- The inventory of tools is valued at Rs. 3,100.
- Loan payable due September 30, 1998 bears 5% interest per annum. Interest is payable March 31 and September 30 each year.

REQUIREMENT:

Give adjusting entries in the proper form.

Q:8

The selected accounts listed below appear in the ledger of Nadeem Company on December 31, 1995.

	<u>Debit</u>	<u>Credit</u>
Supplies	600	
Prepaid insurance	1,100	
Rental Income		56,500
Salaries and commission Expenses	16,200	
Taxes expenses	2,800	
Advertising Expenses	3,300	
Interest Income		450
Interest expenses	640	

The following information relations to adjustment on December 31, 1995 was obtained from physical inventories, Supplementary records and other sources:

- Interest accrued on Notes receivable on December 31, 1995 Rs. 65.
- Inventory of supplies on December 31, 1995 Rs. 220.
- The insurance register indicates that Rs. 450 of insurance has expired during the year.
- Of a prepayment of Rs. 1,000 for advertising space in a local newspaper, 40% has been used and remainder will be used in the following year.
- Salaries and commission accrued on December 31, 1995 Rs. 1,820.
- Taxes accrued on December 31, 1995 Rs. 1,650.
- Rent income include Rs. 2,960 applicable to the following year.

REQUIREMENT:

Give adjusting entries from the foregoing data.

Q:9

- (a) The five-day weekly payroll salesman of the Ayaz Company amounts to Rs. 15,000. All salesmen are paid up to date at the close of the business each Friday. If December 31 falls of Wednesday, what year-end adjusting entry is needed?
- (b) The Khalid Company purchased a three-year insurance policy on August 1, 1992 and debited the entire cost of Rs. 6,480 to Un-expired insurance. The books were not adjusted or closed until the end of the year. Give the adjusting entry at December 31, 1992.
- (c) Office supplies on hand in the Ashraf Company amounted to Rs. 7,704 at the beginning of the year. During the year additional office supplies were purchased at a cost of Rs. 18,732 and charged to inventory of office supplies. At the end of the year a physical count showed that supplies on hand amounted to Rs. 9,744.
- (d) On March 15, 1995 Farrukh Company paid insurance for three year period, beginning. April 1, They recorded the payment as follows.

March 15	Prepaid Insurance	12,960
	Cash	12,960

- (e) Uzair Company received rent of Rs. 28,800 for one year beginning March 1, 1993. They recorded the transactions as follows:-

March 1,	Cash	28,800
	Unearned Rent	28,800

REQUIRED:

- (i) What adjustment is required on December 31? What reversing entry, if any would you make? If not why?
- (ii) What nominal account could be debited instead of prepaid insurance? What adjustment entry, if any, would you make? What reversing entry, if any, would you make?

Q:10

- (a) Ashfaq and Company purchased a three-year fire insurance policy on September 1 and recorded payment of the full three-year premium of Rs. 3,960 by debiting un-expired insurance. The accounts were not adjusted and closed until the end of the year. Give the necessary adjusting entry at December 31.
- (b) The books of Island and Company have debit balance of Rs. 4,160 at December 31, in prepaid advertising, which represent the advance payment on September 1, of a yearly contract for space in 52 consecutive issue of a weekly publication. As of December 31 of the current fiscal year. Journalize the reversing if any, if not why?
- (c) The weekly salaries paid by Rehan and Sons to its sales staff each Friday for a 5-day workweek amounted to Rs. 8,000. Draft the necessary adjusting entry at year-end assuming that December 31 falls on Tuesday. Also draft the journal entry for the payment by Rehan and Sons of a weekly salaries on January 3, the first payday of the New Year.
- (d) Farhan & Sons records unearned commission initially as a liability, the unearned commission account is having credit balance. On May 1, 1982 commission received at Rs. 520, a month for 12 month and recorded in the above account on the same date. Give the necessary adjusting entry as on December 31, 1982. Also give the necessary closing journal entry in proper form as on December 31, 1982. Give the reversing entry if any, if not why?

Q:11

The Farrukh Store reported net income of Rs. 142,000 for the year ending January 31, 1983. The following Adjustments were omitted from consideration:-

- Accrued salaries at year-end were Rs. 3,500. Accrued interest on investment was Rs. 250.
- Adjustment for depreciation of new plant asset acquired on August 1, 1982 at a cost of Rs. 24,000 was overlooked. The estimated life is 12 years with no scrap value.
- Un-expired insurance Rs. 800. The amount was debited initially to the insurance expense account.
- Advertising paid in advance was Rs. 1,600 at the year-end. It had been debited to the advertising expenses account.

REQUIREMENT:

140,150

- Prepare adjusting journal entries from the above data.
- Compute the net income for the period after giving effect to the above data.

Q:12

The USF Company wishes to enter receipts and payments for prepaid items in such a manner that adjustment at the end of the period will not require reversing entry at the beginning of the new period. Enter the following 1992 transactions in the desired manner and give the adjusting entries on December 31, 1992.

- An insurance policy covering a two-year period was purchased for Rs. 426 on April 1, 1992.
- Office supplies purchased on March 12 Rs. 3400 of which Rs. 3,000 was used.
- The company entered into an advertising contract on May 1, covering a one-year period and paid the entire advertising charge of Rs. 7,200 as an advance.
- Rent of Rs. 3,000 on a portion of building was received on September 1. The payment represents an advance on the 1992 rental, which will finally be determined as a 2% of the tenant's sale. The tenant sales amounted to Rs. 230,000 for 1992. The rental percentage is 1% on sales up to Rs. 100,000 and 2% on sales in excess of the amount.

Q:13

The information prescribed below was obtained from a review of the ledger (before adjustments) and other records of Shahrukh Traders at the end of the current year ended December 31.

- Prepaid advertising has a debit balance of Rs. 6,500 at December 31, which represents the advance payment on June 1 of a yearly contract for a uniform amount of space in 52 consecutive issues of a weekly publication. As of December 31, advertisement had appeared in 30 issues.
- Unearned rent has a credit balance of Rs. 14,100 composed of the following:-
 - January 1 balance of Rs. 2,700 representing rent for three months January through March and a credit of Rs. 11,400 representing advance collection for twelve months beginning from April.
- Mortgage Note Payable has a credit balance of Rs. 50,000 at December 31, interest at the rate of 9% is payable semi annually on July 31 and January 31, No entry has been made for the interest accrued since the last semi annual payment on July 31.
- On December premium have been paid on insurance policies during the year, they have been debited to prepaid insurance, which has a balance of Rs. 1,236 at December 31. Details of premium expirations are as follows:

<u>POLICY NO.</u>	<u>PREMIUM COST PER MONTH</u>	<u>PERIOD IN EFFECT DURING YEAR</u>
8115-A	Rs. 25	January 1 to June 30
2101-D	Rs. 27	July 1 to December 31
8822-D	Rs. 12	January 1 to December 31
9173-D	Rs. 30	January 1 to April 30
2101-D	Rs. 29	May 1 to December 31

INSTRUCTIONS:

- (i) Journalize the adjusting entries as of December 31 of the current fiscal year (show computation).
- (ii) Journalize the reversing entries that should be made as of January 1 of the succeeding fiscal year.

Q:14

Faisal Company adjusts and closes its accounts on December 31. On November 30, 1991 Faisal Company signed a note payable and borrowed Rs. 12,000 from a bank for a period of six months at an annual interest rate of 10%.

REQUIREMENTS:

- (i) How much is the total interest expense over the life of the note? How much is the monthly interest expense?
- (ii) In the company's annual balance sheet at December 31, 1991, what is the amount of the liability to the bank?
- (iii) Prepare the journal entry to record issuance of the note on November 30, 1991.
- (iv) Prepare the adjusting entry to accrue interest on the note on November 30, 1991.
- (v) Assume the company prepared a balance sheet at March 31, 1992: state the amount of the liability to the bank at this data.

Q:15

Hill Corporation adjusts and closes its accounts at the end of the calendar year. Prepare the adjusting entries required at December 31 based on the following information. (Not all of these items may require entries).

- (a) A bank loan had been obtained on September 1. Accrued interest on the loan at December 31 amounts to Rs. 4,800. No interest expense has yet been recorded.
- (b) Depreciation of office equipment is based on an estimated life of five years. The balance in the Office Equipment account is Rs. 25,000; no change has occurred in the account during the year.
- (c) Interest receivable on Pakistan Government bonds owned at December 31 amounts to Rs. 2,300. This accrued interest revenue has not been recorded.
- (d) The company's policy is to pay all employees up to date each Friday. Since December 31 fell on Monday, there was a liability to employees at December 31 for one day's amounting Rs. 2,800.

Q:16

The Inn by the Bay adjusts and closes its accounts once a year on December 31. Most guests of the hotel pay at the time they check out, and the amounts collected are credited to Rental Revenue. Advance of receipt few guest pay in advance for rooms and these amounts are credited to Unearned Rental Revenue at the time. The following information is available as a source for preparing adjusting entries at December 31.

- (a) Depreciation on the Inn's building is based upon an estimated useful life of 40 years. The original cost of the building was Rs. 1,660,000.
- (b) Depreciation on furnishing is based upon a 10 years life. Total cost of furnishing is Rs. 296,000.
- (c) On December 31, the Inn entered into an agreement to host the National Building Suppliers annual convention in June of the following year. The Inn expects to earn revenue of at least Rs.60,000 from this convention.
- (d) On November 1, The Inn had borrowed Rs.100,000 for 90 days from Bay shore Bank. Interest on this loan is to be computed at the annual rate of 9% and is payable when the loan becomes due.
- (e) On December 16, a suite of rooms was rented to a corporation on a long-term basis at a monthly rental of Rs.4,800. Two months rent of Rs.9,600 was collected in advance and credited to Unearned Rental Revenue. At December 31, Rs.2,400 of this amount representing on half month's rent, was considered to be earned and the remainder of Rs.7,200 was considered to be unearned.

- (f) As of December 31, the hotel has earned Rs.18,090 rental revenue from current guests who will not be billed until they are ready to check out (Debit Rent Receivable).
- (g) Salaries earned by employees at December 31 but not yet paid amounts to Rs 11,600.

REQUIREMENT:

For each of the above numbered paragraphs, draft a separate adjusting journal entry (including explanation) if the information indicated that an adjusting entry is needed. One or more of the above paragraph may not require any adjusting entry.

Q:17

Nick Charles operates a private investigation business called Nick Charles .Investigations some clients are required to pay in advance for the company's services, while others are billed after the service have been rendered. Advance payments are credited to an account entitled. Unearned Retainer Fees, which represents unearned revenue. The business adjusts and closes its accounts each month At May 31st the trial balance appeared as follows:

NICK CHARLES INVESTIGATIONS TRIAL BALANCE MAY 31ST 19----

	<u>Debit</u>	<u>Credit</u>
Cash	Rs.14,100	
Fees receivable	25,200	
Prepaid rent	3,600	
Office supplies	700	
Office equipment	11,400	
Accumulated depreciation office equipment		Rs.3,800
Accounts payable		2,600
Unearned retainer fees		16,000
Telephone expenses	800	
Travel expenses	2,300	
Salaries expenses	13,000	

OTHER DATE:

- (a) On May 1st the business moved into a new office and paid the first three months rent in advance.
- (b) Investigative services rendered during the month but not yet collected or billed to clients amounted to Rs.1800.
- (c) Office supplies on hand May 31st amounted to Rs.400.
- (d) The useful life of the office equipment was estimated at five years.
- (e) Fees of Rs.4,300 were earned during the month performing services for client who had paid in advance.
- (f) Salaries earned by employees during the month but not yet recorded or paid amounted to Rs.1,100.

INSTRUCTIONS:

- (i) Prepare the adjusting entries required at May 31.
- (ii) Determine the amounts of revenue that should appear in the company's income statement for the month ended May 31st 19__.