



March 30- April 3, 2020

SUPPLEMENTARY LESSON

TOPIC: Adjustment for Prepayments

Prepaid Expenses are item of expenses paid in advance but not yet used. At the end of the year it is subject for adjustment in order to take up the expired portion and the unexpired portion from the advance payment. The expire/used portion is represented by the Expense Account and the unexpired/unused portion represented by prepaid account. There are two methods in recording prepaid expenses. These are the asset method and the expense method.

To illustrate: Assumed that on Nov. 1, 2019 Malvar Repair Shop paid rent in advance for six month, P 24,000.

Journal Entry	ASSET METHOD		EXPENSE METHOD	
Oct. 1, 2019	Prepaid Rent	P 24,000	Rent Expense	P 24,000
	Cash	P 24,000	Cash	P 24,000
	To record payment of rent in advance			

On December 31, 2019, adjustment should be made. The advance payment of rent depleted into used and unused portion. The used portion amounted to P 8,000 and the unused portion amounted to P 16,000. What must be adjusting entry at the end of the year?

Adjusting Journal Entry	ASSET METHOD		EXPENSE METHOD	
Dec. 31, 2019	Rent Expense	P 8,000	Prepaid Rent	P 16,000
	Prepaid Rent	P 8,000	Rent Expenses	P 16,000
	To take up the expired portion		To take up the unexpired portion	

Adjustment for Pre-Collected Income

Pre-collected income is income collected in advance but not yet earned. At the end of the year, it is subject for adjustment to take up the earned and unearned portion from the advance collection. There are two methods of recording pre-collected income. These are the income method and expense method.

To illustrate: On October 15, 2019 the company collected P 25,000 service income in advance.

Journal Entry	INCOME METHOD		LIABILITY METHOD	
Oct. 15, 2019	Cash	P 25, 000	Cash	P 25,000
	Service Income	P 25,000	Unearned Service Income	P 25,000
	To record advance collection of service income			

Data for Adjustment: On December 31, 2019 from the advance collection of service income,

P 15,000 was already earned. What will be the adjusting entry?

Adjusting Journal Entry	INCOME METHOD	LIABILITY METHOD
Dec. 31, 2019	Service Income P 10,000	Unearned Service Income P 15,000
	Unearned Service Income P 10,000	Service Income P 15,000
	To take up the unearned income	To take up the income earned

Adjustment for Accruals

Accruals are usually unrecorded items. There are two types of accruals. These are accrued income or revenues and accrued expenses. Accrued revenues are revenues earned by the business but not yet due for collection while accrued expenses are expenses incurred but not yet due for payment. Because of this, they are both unrecorded income and expenses at the same time considered as receivables and collectibles for the year, that why adjusting entries must be prepared at the end of the year.

Pro-forma adjusting journal entries

DATE	PARTICULARS	DEBIT	CREDIT
	ACCRUED _____ REVENUE	P XXXX	
	_____ REVENUE		P XXXX
	TO BRING INTO RECORD ACCRUED INCOME		

DATE	PARTICULARS	DEBIT	CREDIT
	SALARIES EXPENSE	P XXXX	
	ACCRUED _____ EXPENSES		P XXXX
	TO BRING INTO RECORD ACCRUED EXPENSES		

To illustrate: Assumed that on Dec. 31, 2019 the following were the data for adjustments:

Data for adjustments:

1. Accrued service income amounted to P 15, 000 will be on due on January 15, 2020.
2. Accrued salaries expense amounted to P 6,700 already incurred but due or payable on January 1, 2020.

Adjusting journal entries:

DATE	PARTICULARS	DEBIT	CREDIT
Dec. 31	ACCRUED SERVICE INCOME	P 15,000	
	SERVICE iNCOME		P 15,000
	TO BRING INTO RECORD ACCRUED SERVICE INCOME		

DATE	PARTICULARS	DEBIT	CREDIT
Dec. 31	SALARIES EXPENSE	P 6,700	
	ACCRUED SALRIES EXPENSE		P 6,700
	TO BRING INTO RECORD ACCRUED INCOME		

ACTIVITY 1

From the given trial balance of Lavandero Dry Cleaners, you are required to prepare the necessary adjusting journal entries . Use you journals or notebook to answer this.

Lavandero Dry Cleaners  
Unadjusted Trial Balance  
Dec. 31, 2015

ACCOUNT TITLES	DEBIT	CREDIT
CASH	P 50,000	
ACCOUNTS RECEIVABLE	10,500	
LAUNDRY SUPPLIES	25,000	
PREPAID INSURANCE	24,000	
LAUNDRY EQUIPMENT	100,000	
DELIVERY EQUIPMENT	350,000	
ACCOUNTS PAYABLE		P 50,500
NOTES PAYABLE		27,000
ANDRES, CAPITAL		399,100
ANDRES, DRAWING	5,000	
LAUNDRY SERVICE INCOME		235,000
SALARIES EXPENSE	42,100	
RENT EXPENSE	80,000	
UTILITIES EXPENSE	25,000	
	<u>P 711,600</u>	<u>P 711,600</u>

Data for adjustments on Dec. 31, 2015

1. Bad debts is P 5% of the Accounts receivables
2. Out of prepaid insurance, P 20,000 has been used
3. Laundry Equipment depreciates at 10 % per annum
4. Delivery Equipment was bought last July 1, 2015 with a scrap value of P 30,000 and estimated useful life of 10 years
5. Salaries expense incurred but still accrued, P 3,500
6. From Rent Expense of P 80,000 the amount of P 20,000 still prepaid
7. Accrued service income P 2.500



March 30- Aril 3, 2020

SUPPLEMENTARY LESSON

Topic: Ten Column Worksheet

A worksheet is known as the scratch paper of the accountant necessary in the preparation of the financial statement. This is used to segregate the account titles into financial statement. Based on our previous lesson the worksheet prepared consist of 6 Columns only. The Trial Balance columns, Income Statement and Balance Sheet. Since adjusting entries already discussed we can now prepare a ten column worksheet instead of six column by this time. See illustration below of a ten column worksheet

Business Name  
 Work sheet  
 Date

ACCOUNT TITLES	UNADJUSTED TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DR.	CR.	DR.	CR	DR.	DR.	CR	DR.	DR.	CR.

Steps in Preparing Worksheet

1. Copy the trial balance before adjustment in the unadjusted trial balance
2. Enter all the adjusting journal entries in the adjustments columns. If the debit account in the adjusting journal entry is not in the list of the account titles write the account after the line space for total and write the amount opposite on the debit money column in the adjustments. If the adjusting journal account is existing from the list proceed to the said account opposite in the adjustment column and write the amount of the account debited. Then enter the account credited of the adjusting journal entry on the credit money column in the adjustments column. If the account credited is not in the list write also the account in the account title column.
3. After you have entered all the adjusting journal entries in the Adjustments Columns, get the total debits and total credits then double rule.
4. Proceed to Adjusted Trial Balance columns. Starting from the first account check the balance of the said account in the unadjusted trial balance and opposite the Adjustment column if there is adjustments if none, just copy the balance of the said account in the trial balance. If let say in the unadjusted there is a debit balance and in the adjustment column there is a debit amount in the said account therefore add and place the total on the debit. But for example in the unadjusted trial balance the balance is debit and in the adjustment the amount is credited therefore subtract and the difference is the amount to be reflected in the adjusted trial balance column. See example below as illustrated:
5. Get the total debits and total credits in the Adjusted Trial Balance. (Make sure that all adjusting entries are included in getting totals)
6. Enter all the account balances classified under income statement and balance sheet taken from the Adjusted Trial Balance.
7. Get the total debit and the total credits of the income statement and Balance sheet.

8. Take the difference between the total debit and credit of the income statement and place the difference on the side which is greater and label this as net income or loss. Repeat the same procedure in the balance sheet. See illustrations below.

Assumed that the adjusting journal entries were given as shown below

Adjusting Journal entries: (Transfer all these adjusting journal entries in the adjustments column.

See illustrations in the worksheet)

1. Bad debts expense P 605  
    Allowance for Bad debts P 605
2. Insurance Expense 600  
    Prepaid Insurance 600
3. Accrued Service Income 200  
    Service Income 200
4. Prepaid Rent 2,000  
    Rent Expense 2,000

ACCOUNT TITLES	UNADJUSTED TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DR.	CR.	DR.	CR.	DR.	CR.	CR.	DR.	DR.	CR.
CASH	22,000				22,000					22,000
ACCOUNTS RECEIVABLE	12,100				12,100					12,100
PREPAID INSURANCE	2,400			600	1,800					1,800
EQUIPMENT	20,000				20,000					20,000
ACCOUNTS PAYABLE		10,000				10,000				10,000
CAPITAL		30,000				30,000				30,000
DRAWING	500				500					500
SERVICE INCOME		50,000		200	50,200			50,200		
SALARIES EXPENSE	20,000				20,000		20,000			
UTILITIES EXPENSE	5,000				5,000		5,000			
RENT EXPENSE	8,000			2,000	6,000		6,000			
<b>TOTALS</b>	<b>90,000</b>	<b>90,000</b>								
BAD DEBTS EXPENSE			605		605		605			
ALLOWANCE FOR BAD DEBTS				605		605				605
INSURANCE EXPENSE			600		600		600			
ACCRUED SERVICE INCOME			200		200				200	
PREPAID RENT			2,000		2,000					2,000
			<b>3,405</b>	<b>3,405</b>	<b>90,805</b>	<b>90,805</b>	<b>32,205</b>	<b>50,200</b>	<b>58,600</b>	<b>40,605</b>
NET INCOME							<b>17,995</b>			<b>17,995</b>
							<b>50,200</b>	<b>50,200</b>	<b>58,600</b>	<b>58,600</b>

## ACTIVITY 2

From the given trial balance of Lavandero Dry Cleaners, you are required to prepare the 10 column of worksheet. Use your answered adjusting journal entries in activity 1.

Lavandero Dry Cleaners  
Unadjusted Trial Balance  
Dec. 31, 2015

ACCOUNT TITLES	DEBIT	CREDIT
CASH	P 50,000	
ACCOUNTS RECEIVABLE	10,500	
LAUNDRY SUPPLIES	25,000	
PREPAID INSURANCE	24,000	
LAUNDRY EQUIPMENT	100,000	
DELIVERY EQUIPMENT	350,000	
ACCOUNTS PAYABLE		P 50,500
NOTES PAYABLE		27,000
ANDRES, CAPITAL		399,100
ANDRES, DRAWING	5,000	
LAUNDRY SERVICE INCOME		235,000
SALARIES EXPENSE	42,100	
RENT EXPENSE	80,000	
UTILITIES EXPENSE	25,000	
	<u>P 711,600</u>	<u>P 711,600</u>



