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الشيخ تميم بن حمد آل ثاني

أمير دولة قطر

النشيد الوطني

قَسَمًا بِمَنْ رَفَعَ السَّمَاءَ	قَسَمًا بِمَنْ نَشَرَ الضِّيَاءَ
قَطَرٌ سَتَبْقَى حُرَّةً	تَسْمُو بِرُوحِ الْأَوْفِيَاءِ
سِيرُوا عَلَى نَهْجِ الْأَلَى	وَعَلَى ضِيَاءِ الْأَنْبِيَاءِ
قَطَرٌ بِقَلْبِي سِيرَةٌ	عِزٌّ وَأَمْجَادُ الْإِبَاءِ
قَطَرُ الرِّجَالِ الْأَوَّلِينَ	حُمَاتُنَا يَوْمَ النِّدَاءِ
وَحُمَائِمُ يَوْمِ السَّلَامِ	جَوَائِحُ يَوْمِ الْفِدَاءِ

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Qatar Banking Studies and Business Administration
Independent Secondary School
PO Box 31202
DOHA QATAR

Telephone: +974 44876351

Facsimile: +974 42417211

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About this Learner Resource

The purpose of this Learner Resource is to provide you with the underpinning knowledge required to assist you in completing assessment/s in Prepare Financial Reports.

This Learner Resource also contains activities for you to test your knowledge and examples of skills application.

Throughout this Learner Resource you will see icons that identify important information, provide opportunities to test your knowledge and practice skills as well as suggested times to begin a formal assessment. These icons are displayed as follows:



Inform

This icon is used to highlight important information, notes, research or training and assessment tips.



Practice

This icon is used to highlight an ideal time to test your knowledge or practise what you have learnt.

How will I be assessed?

In order to achieve competency in Prepare Financial Reports you will need to demonstrate the skills and knowledge required for the unit.

Your Copyright

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Your teacher will decide with you how and when you will be assessed.

About this unit:

Welcome to the Learner Resource for Prepare Financial Reports. In this Learner Resource you will be learning about the performance outcomes, skills and knowledge required to record general journal adjustment entries and to prepare end of period financial reports.

It is suggested that to meet all the requirements of Prepare Financial Reports you will need to complete the following tasks:

- Read the information contained in this Learner Resource.
- Complete the activities.
- Complete all the required assessment/s for this unit.

The topics in this Learner Resource are:

- Review of the accounting process.
- Record general journal entries for balance day adjustments.
- Prepare final general ledger accounts.
- Maintain asset register.
- Accounting for non-current assets.
- Prepare end of period financial reports.



Introduction



You are about to commence a vocational course where you will be required to demonstrate your competency in recording general journal adjustment entries and preparing end of period financial reports.



Review of the accounting process:

The accounting process begins with the processing of the business documents that provide evidence of the business transaction.

Information from the business document is then summarised into specific journals (purchases, purchases returns and allowances, sales, sales returns and allowances, cash receipts, cash payments and general journal).

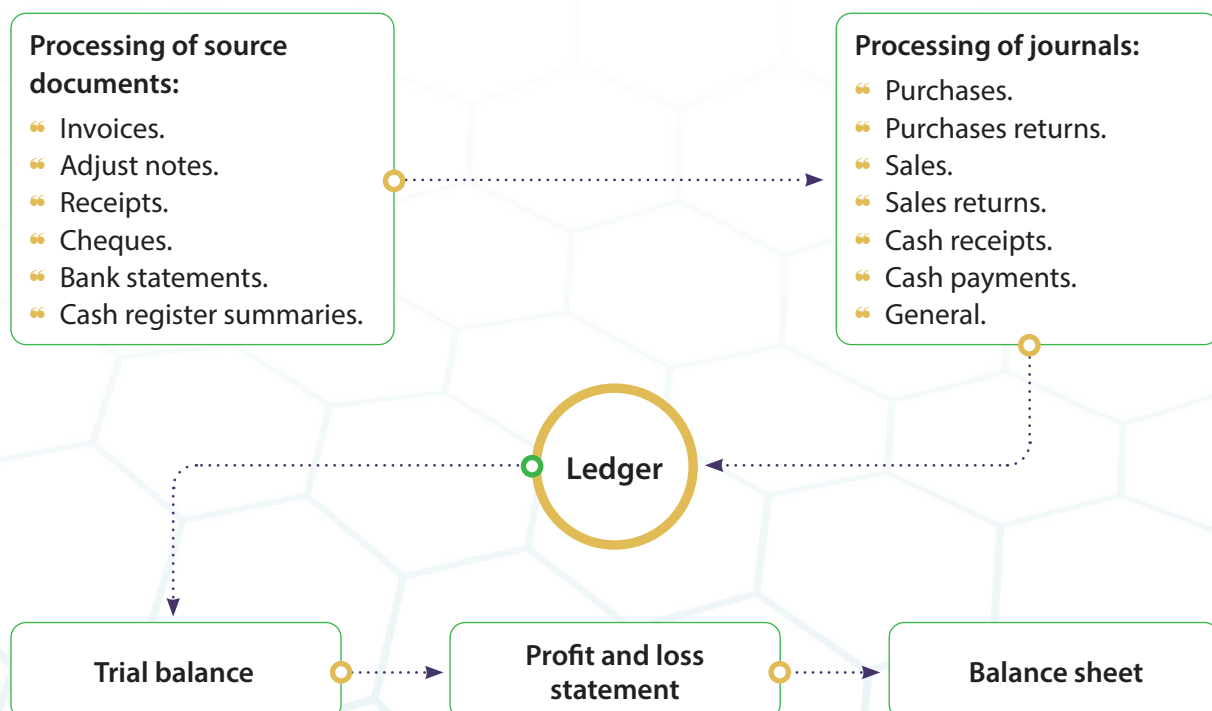
The journals are then posted to the ledger where individual accounts keep a continuous record of balances.

A trial balance is prepared to check that transactions have been correctly entered into the ledger and the rules for double entry have been followed.

A profit and loss statement is prepared. Expenses are calculated and deducted from the total revenues to determine how much profit the business has made.

A balance sheet is prepared. This reports the assets and liabilities of the business and indicates the net worth of the owners of the business.

Refer to the diagram below for a summary of the accounting process.



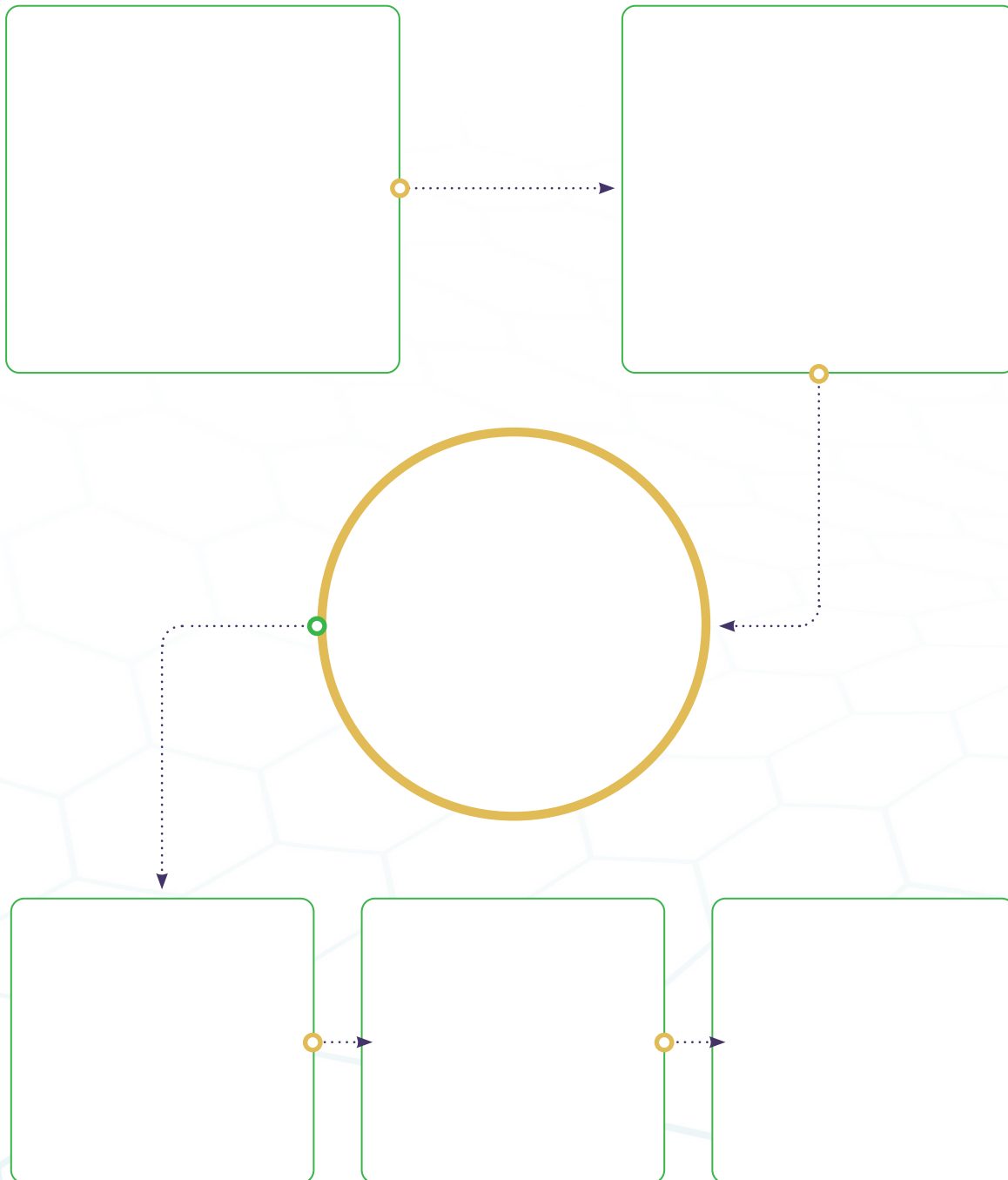


Practice

Practice activity 1

In the boxes below, write in the stages of the accounting process.

Accounting process:



Banking



Record general journal entries for balance day adjustments:

Although the profit of a business can only really be determined at the end of the life of the business, many interested parties cannot wait until then to know what profit the business is making. Owners, managers, banks, taxation offices, all need to know profit figures on a regular basis.

That is why the life of the business is divided into arbitrary time periods, eg monthly, quarterly, annually and profit and loss statements and balance sheets are prepared accordingly. However, many business transactions do not fit neatly into these time periods and flow through the end of the month or year etc.

Most businesses will adopt the financial year as their accounting period. In Qatar the financial year is from 1 April through to 31 March the following year. In Australia the end of the financial year is 30 June and in America it is 30 September.

Adjustments must therefore be made to the recorded figures at the end of the year if we want to determine an accurate profit or loss for the year. Because these adjustments are made on balance day, they are called balance day adjustments.

At the end of each accounting period, the aim is to calculate a profit figure that is as accurate as possible.

Net profit for an accounting period is equal to the revenues that have been earned in that period less the expenses that have been incurred in earning that revenue.

Often we will earn revenue but not actually receive payment until a later period. This occurs when we allow credit to our customers. We will earn revenue at the time that we sell goods to them. However, because they have a credit account with us, they may not pay for another month or even longer. For example if we assume the Qatar financial year and we sell goods to customers on the 20th March 2012 and the customer does not pay us until 30 April 2012, we will record the revenue as being earned in the financial year ended 31 March 2012, not the next financial year when they actually pay us.

The same thing applies to expenses. For example, we pay our rent expense in advance. At the end of the financial year, we only account for the rent expense that we have incurred and not what we have actually paid.

This process of matching revenues and expenses to the accounting period to which they apply is called the 'matching process'.

Accrual accounting is the method of accounting that records all revenue earned (whether received or owing) and all expenses incurred (whether paid or owing).

Accrual accounting results in balance day adjustments being made to ensure revenues and expenses are recognised in the correct accounting period.

Balance day adjustments are book entries only, made on the last day of the accounting period. They will be reversed on the first day of the next accounting period. The adjustment serves the purpose of adding those items that are not already recorded but should be and deducting those items that have been included that should not be.

We will now look at some examples of accruals and prepayments. These can be both revenues and expenses.

Accruals:

Accruals means owing. This term relates to those transactions that have taken place and should be recorded and either the expense has not been paid or the revenue has not been received.

Accrued expenses:

Accrued expenses are liabilities because they represent amounts still owing. Assume that wages (QR 10,000.00) are paid on Thursday every week.

However, the end of the accounting period falls on Tuesday 31 March. We will pay our employees as normal on Thursday 2 April.

See the diagram below for an explanation of the calculation of the balance day adjustment to be recorded.

•

Banking



Sunday	Monday	Tuesday	Wednesday	Thursday
29 March	30 March	31 March	1 April	2 April
QR 6,000.00 owing (2,000 x 3)			QR 10,000.00 paid	
Balance day				
Present accounting period			Next accounting period	

The payment of QR 10,000.00 will be recorded on 2 April. However, this means that QR 6,000.00 applies to the current accounting period ending on 31 March, while QR 4,000.00 applies to the next accounting period.

To match the expense to the relevant accounting period, we need to record QR 6,000.00 as an expense this year and QR 4,000.00 next year.

To do this we prepare the following general journal entry.

General journal:

Date	Particulars	Debit	Credit
31 March	Wages	6,000.00	
	Accrued expenses		6,000.00
(Wages adjustment at 31 March)			

The effect of this general journal entry is to increase our wage expense account by QR 6000 as well as create a liability account called accrued expenses.



Example

The balance of the freight account at 31 March 2012 is QR 12,550.00. During March, the company delivered 5 shipments of completed products. However, they have not yet received the invoice for freight charges for March. As the freight expense of QR 2,500.00 was incurred in this financial year, a balance day adjustment is required.

General journal:

Date	Particulars	Debit	Credit
31 March	Freight	2,500.00	
	Accrued expenses		2,500.00
(Freight adjustment at 31 March)			

General ledger:

Date	Particulars	Debit	Credit	Balance
Freight expenses account				
31 March	Balance			12,550.00 Dr
	Accrued expenses	2,500.00		15,050.00 Dr



Practice

Practice activity 2

The balance of the Wage expense account at 31 March 2012 is QR 225,150.00. Weekly wages of QR 4,250.00 are paid by the business on a Wednesday of each week. March 31 is a Monday. Prepare the general journal entry for the balance day adjustment and show the general ledger account for Wages.

General journal:

Date	Particulars	Debit	Credit

General ledger:

Date	Particulars	Debit	Credit	Balance
<i>Wages account</i>				



Accrued revenue:

Accrued revenue is an asset because it represents revenue still owing to us.

Assume that we receive commission on the monthly sales we make. We submit our schedule of sales every month and are paid at the end of the first week of the next month. At the end of March we are owed QR 8,355.00. Our commission revenue account at 31 March has a balance of QR 103,800.00.

Although we will not receive the commission revenue until the end of the first week of the next accounting period, we have earned the commission during the current accounting period. Therefore we need to record the balance day adjustment.

General journal:

Date	Particulars	Debit	Credit
31 March	Accrued revenue	8,355.00	
	Commission revenue		8,355.00
(Commission revenue adjustment at 31 March)			

The effect of this general journal entry is to increase our commission revenue account by QR 8,355.00 as well as create an asset account called accrued revenue.



Example

The balance of interest revenue at 31 March is QR 2,455. At 31 March interest has not been recorded on a term deposit of QR 30,000 invested on 1 January for 12 months at 5% simple interest.



Calculation

The annual interest on this investment will be QR 1,500 (QR 30,000 X 5%). The time period between 1 January and 31 March represents three months or $\frac{1}{4}$ of the year, therefore the interest owing is QR 375 (QR 1,500 X $\frac{1}{4}$).

General journal:

Date	Particulars	Debit	Credit
31 March	Accrued revenue	375.00	
	Interest revenue		375.00
(March interest revenue owing)			

General ledger:

Date	Particulars	Debit	Credit	Balance
Interest revenue account				
31 March	Balance			2,455.00 Cr
	Accrued revenue		375.00	2,830.00 Cr



Practice

Practice activity 3

The business earns rent revenue from renting part of its premises to another company. Rent is charged at QR 6,500.00 per month and the agreement has been in place since 1 October. At 31 March, five months rent has been received.

Prepare the general journal entry required to record this balance day adjustment and show the Rent Revenue account in the general ledger.

General journal:

Date	Particulars	Debit	Credit

General ledger:

Date	Particulars	Debit	Credit	Balance
<i>Rent revenue account</i>				

Prepayments:

Prepayments relate to those transactions that have already been recorded in the ledger, but need to be apportioned to the appropriate accounting periods.

Prepaid expenses:

Prepaid expenses are amounts owing to the business and are therefore assets. Benefits from these prepayments will occur over future accounting periods.

Assume that on 1 December we paid an annual insurance premium of QR 4,800.00.

See below for the calculation of the prepaid amount.



Inform

Calculation

The premium for 12 months is QR 4,800.00. This means the monthly amount will be QR 400.00 ($\text{QR } 4,800.00 \div 12$). December through to March represents four months of insurance used up. Therefore eight months insurance is unused or paid in advance ($\text{QR } 400.00 \times 8$). The balance day adjustment will be for QR 3,200.00.

Because the QR 4,800.00 annual premium covers more than the current accounting period it must be apportioned between the current and future accounting periods. Four months will be apportioned to the current period and 8 months apportioned to the next accounting periods. Because the insurance has already been paid, the balance day adjustment has to decrease the insurance expense and at the same time creates an asset for the prepaid insurance.

General journal:

Date	Particulars	Debit	Credit
31 March	Prepaid expense	3,200.00	
	Insurance		3,200.00
(Insurance adjustment at 31 March)			



Example

The business has prepaid an annual maintenance contract on its photocopier for 12 months from 1 November for QR 2,400.00.

General journal:

Date	Particulars	Debit	Credit
31 March	Prepaid expense	1,400.00	
	Maintenance expenses		1,400.00
(Maintenance expense adjustment at 31 March)			

General ledger:

Date	Particulars	Debit	Credit	Balance
Maintenance expense account				
1 November	Bank	2,400.00		2,400.00 Dr
31 March	Prepaid expenses		1,400.00	1,000.00 Dr



Practice

Practice activity 4

Advertising in a business magazine that is published and distributed every three months was paid on 1 February. The magazine is current from 1 February through to 30 April. Enquiries and sales from the advertising occur equally throughout the three month period. The amount paid on 1 February was QR 6,000.00.

Prepare the general journal entry to record the balance day adjustment and show how the Advertising account will appear in the general ledger.

General journal:

Date	Particulars	Debit	Credit

General ledger:

Date	Particulars	Debit	Credit	Balance
Advertising account				
31 March	Balance			24,400.00 Dr

Prepaid revenue:

Prepaid revenue represents revenue that has been received by the business prior to completion or performance of the service or sale taking place. These are amounts that the business has not yet earned and are therefore liabilities. Performance of the service or sale of goods will occur in future accounting periods.



Rent agreements often require the tenant to pay their rent one month in advance. Therefore landlords will often have received rent for the next month. When this occurs on balance day, an adjustment will have to be made for the rent received in advance.

Assume we own a building and rent out office space to other businesses. We have contracts in place that result in us receiving QR 52,000.00 per month in advance.

General journal:

Date	Particulars	Debit	Credit
31 March	Rent revenue	52,000.00	
	Prepaid revenue		52,000.00
(Rent adjustment at 31 March)			



Example

On 31 March the balance in the Rent revenue account was QR 385,780.00. On 1 March, the tenant in Shop 2 paid the business QR 3,600.00 rent for the months of March, April and May.

General journal:

Date	Particulars	Debit	Credit
31 March	Rent revenue	2,400.00	
	Prepaid revenue		2,400.00
(Rent adjustment at 31 March)			

General ledger:

Date	Particulars	Debit	Credit	Balance
Rent revenue account				
31 March	Balance			385,780.00 Cr
	Prepaid revenue	2,400.00		383,380.00 Cr



Practice

Practice activity 5

The balance of the Service Fees Revenue account at 31 March is QR 45,980.00. A client paid for services in advance of QR 2,350.00 on 15 January. A review of the client's job card revealed that QR 1,800.00 had been earned at 31 March.

Prepare the general journal entry to record the balance day adjustment and show how the service fees account will appear in the general ledger.

General journal:

Date	Particulars	Debit	Credit

General ledger:

Date	Particulars	Debit	Credit	Balance
Service revenue account				
	Balance			
31 March				Dr



Prepare final general ledger accounts:

In the previous section we learnt how to prepare balance day adjustments. These adjustments are the result of matching revenues and expenses to the appropriate accounting period. Once we have completed this matching process and adjusted our revenues and expenses accordingly, we can prepare the profit and loss statement. The profit and loss statement will now more accurately reflect the true net profit figure for the period.

To determine whether the business has made a profit or a loss, an additional account is introduced into the ledger – the profit and loss account.

As you are already aware, to determine the net profit figure we deduct all the expenses from the revenue.

In the ledger, this is done in the profit and loss account. All adjusted revenues and expenses are closed off and transferred to the profit and loss account. The profit or loss is then transferred to the capital account.

An example of the general journal entries to close off the ledger accounts is shown below.

Date	Particulars	Debit	Credit
31 March	<i>Profit and loss</i>	25,140.00	
	<i>Advertising</i>		2,500.00
	<i>Cartage</i>		3,650.00
	<i>Cleaning</i>		1,800.00
	<i>Stationery</i>		4,555.00
	<i>Wages</i>		635.00 12
<i>(Close off expense accounts to profit and loss)</i>			
31 March	<i>Sales</i>	25,210.00	
	<i>Service fees</i>	14,525.00	
	<i>Commission</i>	8,630.00	
	<i>Profit and loss</i>		48,365.00
<i>(Close off revenue accounts to profit and loss)</i>			



Example

The following ledger accounts show the balances as at 31 March after any balance day adjustments.

Show the closing general journal entries and post to the ledger.

Ledger of Gharrafa bookshop:

Date	Particulars	Debit	Credit	Balance
Service fees revenue				
31 March	Balance			36,000.00 Cr
Interest revenue				
31 March	Balance			400.00 Cr
Electricity				
31 March	Balance			600.00 Dr
Stationery				
31 March	Balance			800.00 Dr
Wages				
31 March	Balance			4,000.00 Dr
Cash at bank				
31 March	Balance			55,255.00 Dr
Furniture				
31 March	Balance			12,356.00 Dr
Capital				
31 March	Balance			36,620.00 Cr



General journal of Gharrafa bookshop:

Date	Particulars	Debit	Credit
31 March	Service Fees	36,000.00	
	Interest revenue	400.00	
	Profit and loss		36,400.00
(Close off revenue accounts to profit and loss)			
31 March	Profit and loss	5,400.00	
	Electricity		600.00
	Stationery		800.00
	Wages		4,000.00
(Close off expense accounts to profit and loss)			

Following is an extract of the ledger showing only revenue and expense accounts after posting the above general journal entries.

Ledger of Gharrafa bookshop:

Date	Particulars	Debit	Credit	Balance
<i>Service fees revenue</i>				
31 March	Balance			36,000.00 Cr
	Profit and loss	36,000.00		-
<i>Interest revenue</i>				
31 March	Balance			400.00 Cr
	Profit and loss	400.00		-
<i>Electricity</i>				
31 March	Balance			600.00 Dr
	Profit and loss		600.00	-

Banking



Date	Particulars	Debit	Credit	Balance
Stationery				
31 March	Balance			800.00 Dr
	Profit and loss		800.00	-
Wages				
31 March	Balance			4,000.00 Dr
	Profit and loss		4,000.00	-
Profit and loss account				
31 March	Service fees revenue		36,000.00	36,000.00 Cr
	Interest revenue		400.00	36,400.00 Cr
	Electricity	600.00		35,800.00 Cr
	Stationery	800.00		35,000.00 Cr
	Wages	4,000.00		31,000.00 Cr

The following general journal entry will be prepared to transfer the profit from the profit and loss account to the capital account.

General journal of Gharrafa bookshop:

Date	Particulars	Debit	Credit
31 March	Profit and loss	31,000.00	
	Capital		31,000.00

(Transfer the net profit to the capital account)

Following is an extract of the ledger showing only the profit and loss and capital accounts.

Ledger of Gharrafa bookshop (extract)

Date	Particulars	Debit	Credit	Balance
<i>Profit and loss account</i>				
31 March	Service fees revenue		36,000.00	36,000.00 Cr
	Interest revenue		400.00	36,400.00 Cr
	Electricity	600.00		35,800.00 Cr
	Stationery	800.00		35,000.00 Cr
	Wages	4,000.00		31,000.00 Cr
	Capital	31,000.00		-
<i>Capital account</i>				
31 March	Balance			36,620.00 Cr
	Profit and loss		31,000.00	67,620.00 Cr





Practice

Practice activity 6

The following ledger accounts show the balances as at 31 March after balance day adjustments.

Show the closing general journal entries and the entry to transfer the profit or loss to the profit and loss account and post to the ledger extract.

Ledger of Office Outfitters:

Date	Particulars	Debit	Credit	Balance
Service fees				
31 March	Balance			45,850.00 Cr
Commission revenue				
31 March	Balance			22,150.00 Cr
Supplies				
31 March	Balance			15,655.00 Dr
Wages				
31 March	Balance			12,180.00 Dr
Vehicle expenses				
31 March	Balance			4,200.00 Dr
Equipment repairs				
31 March	Balance			1,255.00 Dr
Cash at bank				
31 March	Balance			82,635.00 Dr
Equipment				
31 March	Balance			37,145.00 Dr
Vehicle				
31 March	Balance			68,545.00 Dr
Capital				
31 March	Balance			153,615.00 Cr



General journal of Office Outfitters:

Ledger of Office Outfitters (extract)

Date	Particulars	Debit	Credit	Balance
Service fees				
31 March	Balance			45,850.00 Cr

Banking



Date	Particulars	Debit	Credit	Balance
Commission revenue				
31 March	Balance			22,150.00 Cr
Supplies				
31 March	Balance			15,655.00 Dr
Wages				
31 March	Balance			12,180.00 Dr
Vehicle expenses				
31 March	Balance			4,200.00 Dr
Equipment repairs				
31 March	Balance			1,255.00 Dr
Profit and loss				

Date	Particulars	Debit	Credit	Balance
Capital				
31 March	Balance			153,615.00 Cr



Example

The following interim trial balance has been prepared. You are required to:

- prepare the general journal entries for the balance day adjustments below.
- prepare the general journal entry to transfer profit or loss from the profit and loss account to the capital account.
- post all general journal entries to the ledger.

Trial Balance of M Al Atalya as at 31 March 2012:

Account name	Debit	Credit
Service fees		19,500.00
Administration fees received		1,250.00
Rent expense	2,500.00	
Freight	1,860.00	
Wages	6,000.00	
Cash at bank	97,000.00	
Al Emadi contracting	6,000.00	
GST Paid	845.00	
Office equipment	5,000.00	
Furniture	8,000.00	
Al Dafna furniture		5,000.00
GST collected		1,455.00
Capital		100,000.00
	\$127,205.00	\$127,205.00

Banking



Balance day adjustments as at 31 March.

- Rent prepaid to 30 April \$500.00.
- Service fees received in advance \$1,000.00.
- Administration fees still owing \$650.00.
- Advertising expenses owing \$400.00.

General journal of M Al Atalya:

Date	Particulars	Debit	Credit
31 March	Prepaid expenses	500.00	
	Rent		500.00
<i>(Prepaid rent)</i>			
31 March	Service fees	1,000.00	
	Prepaid revenue		1,000.00
<i>(Service fees received in advance)</i>			
31 March	Accrued revenue	650.00	
	Administration fees		650.00
<i>(Administration fees still owing)</i>			
31 March	Advertising	400.00	
	Accrued expenses		400.00
<i>(Advertising fees still owing)</i>			
31 March	Service fees	18,500.00	
	Administration fees	1,900.00	
	Profit and loss		20,400.00
<i>(Transfer revenue accounts to profit and loss)</i>			
31 March	Profit and loss	10,260.00	
	Rent expense		2,000.00
	Freight		1,860.00
	Wages		6,000.00
	Advertising		400.00
<i>(Transfer expense accounts to profit and loss)</i>			

Date	Particulars	Debit	Credit
31 March	Profit and loss	10,140.00	
	Capital		10,140.00
<i>(Transfer net profit to capital account)</i>			

Ledger of M Al Atalya (extract)

Date	Particulars	Debit	Credit	Balance
<i>Service fees</i>				
31 March	Balance			19,500.00 Cr
	Prepaid revenue	1,000.00		18,500.00 Cr
	Profit and loss	18,500.00		–
<i>Administration fees</i>				
31 March	Balance			1,250.00 Cr
	Accrued revenue		650.00	1,900.00 Cr
	Profit and loss	1,900.00		–
<i>Rent expense</i>				
31 March	Balance			2,500.00 Dr
	Prepaid expenses		500.00	2,000.00 Dr
	Profit and loss		2,000.00	–
<i>Freight</i>				
31 March	Balance			1,860.00 Dr
	Profit and loss		1,860.00	–
<i>Wages</i>				
31 March	Balance			6,000.00 Dr
	Profit and loss		6,000.00	–
<i>Advertising</i>				
31 March	Accrued expenses	400.00		400.00 Dr
	Profit and loss		400.00	–

Date	Particulars	Debit	Credit	Balance
Profit and loss				
31 March	Service fees		18,500.00	18,500.00 Cr
	Administration fees		1,900.00	20,400.00 Cr
	Rent expenses	2,000.00		18,400.00 Cr
	Freight	1,860.00		16,540.00 Cr
	Wages	6,000.00		10,540.00 Cr
	Advertising	400.00		10,140.00 Cr
	Capital	10,140.00		–
Capital				
31 March	Balance			100,000.00 Cr
	Profit and loss		10,140.00	110,140.00 Cr

Reversing entries:

As we have seen, balance day adjustments are prepared so that we can prepare an accurate estimate of the profit or loss that a business incurs for a period of time. These balance day adjustments are only book entries and are prepared on the last day of the accounting period.

Therefore, they must be reversed on the first day of the next accounting period.

Refer back to the example of accrued wages on pages 8 and 9. The balance day adjustment of \$6,000.00 has the effect of including \$6,000.00 as a wage expense in the current accounting period. If this is not reversed, it will also be included in the next accounting period when the full \$10,000.00 is paid.

The following example shows the original balance day adjustment on 31 March as well as the reversing entry on 1 April. Look at how these are recorded in the ledger.

General journal:

Date	Particulars	Debit	Credit
31 March	Wages	6,000.00	
	Accrued expenses		6,000.00
(Wages adjustment at 31 March)			
1 April	Accrued expenses	6,000.00	
	Wages		6,000.00
(Reversing entry)			

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Wages				
31 March	Balance			19,500.00 Dr
	Accrued expenses	6,000.00		25,500.00 Dr
	Profit and loss	25,500.00		–
1 April	Accrued expenses		6,000.00	6,000.00 Cr



Example

The following interim trial balance has been prepared. You are required to:

- prepare the general journal entries for the balance day adjustments below on 31 March.
- prepare the general journal entry to transfer profit or loss to the profit and loss account on 31 March.
- post all general journal entries to the ledger on 31 March.
- show the reversing general journal entries on 1 April.
- post these reversing entries to the ledger.

Trial Balance as at 31 March 2012:

Account name	Debit	Credit
<i>Service fees</i>		122,550.00
<i>Interest received</i>		2,845.00
<i>Stationary</i>	12,500.00	
<i>Freight in</i>	8,160.00	
<i>Telephone</i>	4,510.00	
<i>Insurance</i>	7,000.00	
<i>Al Emadi contracting</i>	16,000.00	
<i>GST Paid</i>	1,845.00	
<i>Office equipment</i>	15,000.00	
<i>Vehicle</i>	28,000.00	
<i>Premises</i>	173,835.00	
<i>Al Dafna furniture</i>		12,000.00
<i>GST collected</i>		1,455.00
<i>Capital</i>		128,000.00
	\$266,850.00	\$266,850.00

Balance day adjustments as at 31 March.

- Telephone account owing \$400.00.
- Service fees received in advance \$1,050.00.
- Interest owing for one month (\$30,000.00 invested at 4% pa).
- Stationery supplies on hand \$450.00.

General journal:

Date	Particulars	Debit	Credit
31 March	Telephone	400.00	
	Accrued expenses		400.00
(Accrued telephone expenses)			
31 March	Service fees	1,050.00	
	Prepaid revenue		1,050.00
(Service fees received in advance)			
31 March	Accrued revenue	100.00	
	Interest		100.00
(Interest on investment still owing)			
31 March	Prepaid expenses	450.00	
	Stationery		450.00
(Stationery on hand)			
31 March	Service fees	121,500.00	
	Interest	2,945.00	
	Profit and loss		124,455.00
(Transfer revenue accounts to profit and loss)			
31 March	Profit and loss	32,120.00	
	Stationery		12,050.00
	Freight		8,160.00
	Telephone		4,910.00
	Insurance		7,000.00
(Transfer expense accounts to profit and loss)			
31 March	Profit and loss	92,325.00	
	Capital		92,325.00
(Transfer net profit to capital account)			
1 April	Accrued expenses	400.00	
	Telephone		400.00
(Reversing entry)			

Date	Particulars	Debit	Credit
1 April	Prepaid revenue	1,050.00	
	Service fees		1,050.00
(Reversing entry)			
1 April	Interest	100.00	
	Accrued		100.00
(Reversing entry)			
1 April	Stationery	450.00	
	Prepaid expenses		450.00
(Reversing entry)			

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Service fees				
31 March	Balance			122,550.00 Cr
	Prepaid revenue	1,050.00		121,500.00 Cr
	Profit and loss	121,500.00		–
1 April	Prepaid revenue		1,050.00	1,050.00 Cr
Interest revenue				
31 March	Balance			2,845.00 Cr
	Accrued revenue		100.00	2,945.00 Cr
	Profit and loss	2,945.00		–
1 April	Accrued revenue	100.00		100.00 Dr
Stationery				
31 March	Balance			12,500.00 Dr
	Prepaid expenses		450.00	12,050.00 Dr
	Profit and loss		12,050.00	–
1 April	Prepaid expenses	450.00		450.00 Dr

Date	Particulars	Debit	Credit	Balance
Freight in				
31 March	Balance			8,160.00 Dr
	Profit and loss		8,160.00	–
Telephone				
31 March	Balance			4,510.00 Dr
	Accrued expenses	400.00		4,910.00 Dr
	Profit and loss		4,910.00	–
1 April	Accrued expenses		400.00	400.00 Cr
Insurance				
31 March	Accrued expenses	7,000.00		7,000.00 Dr
	Profit and loss		7,000.00	–
Profit and Loss				
31 March	Service fees		121,500.00	121,500.00 Cr
	Interest		2,945.00	124,445.00 Cr
	Stationery	12,050.00		112,395.00 Cr
	Freight	8,160.00		104,235.00 Cr
	Telephone	4,910.00		99,325.00 Cr
	Advertising	7,000.00		92,325.00 Cr
	Capital	92,325.00		–
Capital				
31 March	Balance			128,000.00 Cr
	Profit and loss		92,325.00	220,325.00 Cr
Accrued revenue				
31 March	Interest	100.00		100.00 Dr
1 April	Interest		100.00	–

Date	Particulars	Debit	Credit	Balance
Prepaid expenses				
31 March	Stationery	450.00		450.00 Dr
1 April	Stationery		450.00	—
Accrued expenses				
31 March	Telephone	400.00		400.00 Cr
1 April	Telephone		400.00	—
Prepaid Revenue				
31 March	Service fees	1,050.00		1,050.00 Cr
1 April	Service fees		1,050.00	—





Practice

Practice activity 7

The following interim trial balance has been prepared. You are required to:

- prepare the general journal entries for the balance day adjustments below
- prepare the closing general journal entries
- prepare the general journal entry to transfer profit or loss to the profit and loss account
- show the effect of the above entries in the ledger
- prepare the reversing general journal entries
- record these entries in the ledger.

Trial Balance of Al Atalya Finance as at 31 March 2012

Account name	Debit	Credit
<i>Service fees</i>		45,308.00
<i>Commission revenue</i>		755.00
<i>Supplies expense</i>	3,854.00	
<i>Distribution expenses</i>	2,106.00	
<i>Wages</i>	14,525.00	
<i>Rent</i>	1,852.00	
<i>Insurance</i>	8,964.00	
<i>Cash at bank</i>	55,730.00	
<i>Accounts receivable</i>	19,862.00	
<i>Office equipment</i>	25,393.00	
<i>Furniture</i>	12,084.00	
<i>Accounts payable</i>		98,307.00
<i>Capital</i>		
	\$144,370.00	\$144,370.00

Balance day adjustments as at 31 March.

- Commission revenue received in advance \$255.00.
- Service fees owing \$4,390.00.
- Wages still owing \$650.00.
- Prepaid insurance \$350.00.

General journal of Office Outfitters

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Service fees				
31 March	Balance			45,308.00 Cr
Commission revenue				
31 March	Balance			755.00 Cr
Supplies expense				
31 March	Balance			3,854.00 Dr
Distribution expenses				
31 March	Balance			2,106.00 Dr
Wages				
31 March	Balance			14,525.00 Dr
Rent				
31 March	Balance			1,852.00 Dr
Insurance				
31 March	Balance			8,964.00 Dr

Banking



Date	Particulars	Debit	Credit	Balance
Profit and loss				
31 March				
Capital				
31 March	Balance			98,307.00 Cr
Accrued revenue				
31 March				
Prepaid expenses				
31 March				
Accrued expenses				
31 March				
Prepaid revenue				
31 March				

Bad and doubtful debts:

Whenever a business sells goods on credit, it is inevitable that a certain percentage of accounts receivable will fail to pay their debts. These bad debts will occur despite the efforts of the credit department to screen people before credit is allowed.



Practice

Practice activity 8

Abdul Al-Saady owes our business \$800.00. We have contacted him several times about his outstanding account. We believe that he has closed his business and left town, so your supervisor has asked you to write off his account as a bad debt.

Record the general journal entry below to write off this bad debt on 1 January.

General journal:

Date	Particulars	Debit	Credit

The problem with bad debts is that some of them occur in the accounting period after the period in which the credit sale took place. Let's assume that in the example above, the credit sale occurred on 15 June. After six months we decide we will not be able to collect our money so we write the account off as a bad debt on 1 January. Because the credit sale and the bad debt transaction both occur within the current accounting period, there is no problem in matching the expense to the correct accounting period.

However let's assume we sold goods on credit to Mohamed Rachmann on 12 December. However, we do not find out until 5 May that he has been declared bankrupt and will not be able to pay his debts. You can see that the sale takes place in one accounting period (prior to 31 March) and the bad debt is written off in the next accounting period (after 31 March).

To overcome this problem, on the 31 March each year, we should look at our accounts receivable to determine what value of our debts may not pay us.

These debts are considered to be 'doubtful'. This is a special balance day adjustment.

A 'provision for doubtful debts' is established so that the doubtful debt expense can be recorded against profits in the period in which the sale is made - matching process - and the provision is established so that future debts from this period can be written off against this account.

The general journal entry to record doubtful debts is as follows:

General journal:

Date	Particulars	Debit	Credit
31 March	Doubtful debts	250.00	
	Provision for doubtful debts		250.00
(Provide for doubtful debts at 31 March)			

The effect of this entry is to increase the amount of expenses for the period to enable proper matching to occur. This is done through the doubtful debts expense account.

A negative asset account called the 'provision for doubtful debt' is created. This has the effect of decreasing the Accounts Receivable account in the balance sheet.

Balance Sheet (extract)

Current Assets	\$	\$
Cash at bank		12,740.00
Accounts receivable	14,800.00	
Less provision for doubtful debts	250.00	14,550.00
Inventories		25,365.00

The doubtful debts journal entry will be an estimate only, as we never know exactly on balance day how many of our debtors will not be able to pay us.

Look at the following example.



Example

31 January	We are advised that a debtor is to be declared bankrupt. He owes us \$150.00. The debt was incurred on 12 November.
31 March	The balance of our accounts receivable is \$33,250.00. We estimate doubtful debts to be \$2,760.00.

Prepare the general journal entries to record these transactions.

General journal:

Date	Particulars	Debit	Credit
31 January	Bad debts	150.00	
	Accounts receivable		150.00
(Wrote off an account receivable as a bad debt)			
31 March	Doubtful debts	2,760.00	
	Provision for doubtful debts		2,760.00
(Provide for doubtful debts)			

On 31 March both the bad debts and doubtful debts will be transferred to the profit and loss account. This has the effect of matching the expenses, both bad and doubtful debts, to the relevant accounting period.

General journal:

Date	Particulars	Debit	Credit
31 March	Profit and loss	2,910.00	
	Bad debts		150.00
	Doubtful debts		2,760.00
(Transfer expenses to profit and loss)			

On 1 April we need to reverse the book entry for doubtful debts recorded on 31 March.

The general journal and ledger entries would be as follows:

General journal:

Date	Particulars	Debit	Credit
3 May	Provision for doubtful debts	2,760.00	
	Bad debts		2,760.00
(Write off bad debts against the provision)			

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Provision for doubtful debts				
31 March	Doubtful Debts		2,760.00	2,760.00 Cr
3 May	Bad debts	2,760.00		–

This entry has the effect of reversing the provision for doubtful debts entry and at the same time decrease the bad debts account. This occurs so that when debts incurred in previous periods are actually written off in subsequent periods, they will be offset by the provision that had been recorded in previous periods. If this is not done, the debt would be written of twice - once as doubtful and again as a bad debt.

Steps to accounting for bad and doubtful debts:

- Write off bad debts as they occur during the accounting period.
- On balance day, create a provision for doubtful debts based on the value of the accounts receivable account.
- Transfer both bad and doubtful debts accounts to profit and loss account as part of the normal closing entries.
- On the first day of the new accounting period, transfer the provision for doubtful debts to the bad debts account.



Example

On 1 April 2011 (beginning of the financial year), the balance of the provision for doubtful debts account was \$30,000.00. During the year \$140,000.00 worth of bad debts had been written off. At 31 March 2012, the balance of the accounts receivable account was \$430,000.00 and 5% of this is the amount of the provision.

The general journal entries and ledger postings to adjust the provision for doubtful debts and to record the new provision are as follows:

General journal:

Date	Particulars	Debit	Credit
1 April	Provision for doubtful debts	30,000.00	
	Bad debts		30,000.00
<i>(Reverse provision for doubtful debts)</i>			
During year	Bad debts	140,000.00	
	Accounts receivable		140,000.00
<i>(Write off bad debts)</i>			
31 March	Doubtful debts	21,500.00	
	Provision for doubtful debts		21,500.00
<i>(Estimate of doubtful debts)</i>			

Date	Particulars	Debit	Credit
31 March	<i>Bad debts</i>	110,000.00	
	<i>Doubtful debts</i>	21,500.00	
	<i>Profit and loss</i>		131,500.00
<i>(Transfer of expenses to profit and loss)</i>			

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
<i>Bad debts</i>				
1 April	<i>Provision for doubtful debts</i>		30,000.00	30,000.00 Cr
During year	<i>Accounts receivable</i>	140,000.00		110,000.00 Dr
31 March	<i>Profit and loss</i>		000.00 110	–
<i>Doubtful debts</i>				
31 March	<i>Provision for doubtful debts</i>	21,500.00		21,500.00 Dr
	<i>Profit and loss</i>		21,500.00	–
<i>Accounts receivable</i>				
31 March	<i>Balance</i>			430,000.00 Dr
<i>Provision for doubtful debts</i>				
1 April	<i>Balance</i>			30,000.00 Dr
	<i>Bad Debts</i>	30,000.00		–
31 March	<i>Doubtful debts</i>		21,500.00	21,500.00 Cr



Practice

Practice activity 9

On 1 April 2011, Al-Ashqar Motor Repairs has total accounts receivable of \$50,000.00 and the Provision for doubtful debts has a credit balance of \$1,400.00. During the 2012 financial year, the following transactions took place.

17 June	Wrote off S Marty's account of \$1,540.00 as a bad debt.
26 November	M Wang advised us that she could pay only \$110.00 of a total debt of \$1,140.00. We decided to write the balance off as a bad debt.
31 March	Desirable provision for doubtful debts is 3% of the accounts receivable balance at the end of the financial year.

During the year, the total service fees provided on credit to accounts receivable were \$210,000.00 and the total receipts from accounts receivable was \$205,000.00.

For the period ending 31 March 2012, show the following:

- reversing entry to transfer the opening provision for doubtful debts to bad debts
- general journal entries to write off bad debts during the year
- general journal entry to provide for doubtful debts
- closing general journal entry to transfer bad and doubtful debts to profit and loss
- ledger extract showing the Accounts Receivable, Provision for doubtful debts, Bad debts and Doubtful debts accounts for the 2013 financial year.

Maintain asset register:

Current assets are cash or other assets of the business entity that can be consumed or converted into cash within 12 months after the end of the last reporting period.

Non-current assets are assets other than current assets purchased by the business that are not intended for resale but are used within the operations of the business to earn revenue. They will usually be used for more than one accounting period.

When classifying non-current assets in the balance sheet, they are grouped under the following headings:

Non-current assets		
Property, plant and equipment	Intangible assets	Investments
<i>Land</i>	<i>Goodwill</i>	<i>Government securities</i>
<i>Buildings</i>	<i>Patents</i>	<i>Shares in companies</i>
<i>Furniture</i>	<i>Trademarks</i>	
<i>Machinery</i>	<i>Copyrights</i>	
<i>Motor vehicles</i>	<i>Brand names</i>	
<i>Office equipment</i>		

In this section we will focus on those items listed as property, plant and equipment.

These assets require a high degree of control over their purchase, storage and disposal. The most important control is an Asset register.

The register may consist of cards – one for each individual asset - or a computer file consisting of separate records for each individual asset. The exact detail kept on each card will depend on the business's policy, but could contain some or all of the following information:

- Name of the asset.
- Date of purchase.
- Supplier.
- Make of the asset.
- Location.
- Estimated useful life.
- Method of depreciation.
- Insurance details.
- Depreciation rate.
- Original cost, including GST.
- Annual depreciation.
- Accumulated depreciation.
- Repairs and maintenance.
- Method of disposal.
- Proceeds of disposal.





Practice

Practice activity 10

Complete the asset register on the next page using the information below.

Type of asset	<i>Toyota Hilux</i>
Model	<i>SR5</i>
Location	<i>Maintenance depot</i>
Registration number	<i>458251</i>
Supplier name	<i>Mannai Motors</i>
Supplier address	<i>PO Box 1458</i>
Invoice number	<i>2574W4</i>
Invoice date	<i>1 July 2010</i>
Invoice amount	<i>QR 135,000.00</i>
Method of depreciation	<i>Diminishing balance</i>
Rate of depreciation	<i>%22</i>
Useful life	<i>4 Years</i>
Estimated residual value	<i>QR 35,000.00</i>



Asset register:

Type of asset:		Model:	
Location:		Serial or Registration numbers:	
Supplier:		Invoice number:	
Cost of asset:		Invoice date:	
Method of depreciation:		Useful life (years):	
Depreciation %:		Disposal value:	

Depreciation schedule:

Opening balance		Annual depreciation		Accumulated depreciation		Closing balance	
Date	QR	Date	QR	Date	QR	Date	QR
1 Apr 2011	135,000	31 Dec 2011	22,275	31 Dec 2011	22,275	31 Dec 2011	112,725
1 Jan 2012	112,725	31 Dec 2012	24,800	31 Dec 2012	47,075	31 Dec 2012	87,925

You will see in the example above, the depreciation schedule has been completed for you. We will now examine the concept of depreciation.

Depreciation:

Depreciation is the allocation of the cost of the asset over the life of the asset. Let's assume the cost of an asset is \$10,000.00 and we estimate we will use the asset for five years and that the asset will have no value at the end of its useful life. The depreciation charge would be \$2,000.00 per year. This means that we allocate the cost of the asset equally over the period of five years that we will use the asset to generate revenue. The depreciation is treated as an asset and is therefore transferred to the profit and loss account along with all other expense accounts.

The following factors determine the depreciation charge include:

- the total cost of the asset.
- the asset's anticipated useful life.
- the asset's anticipated residual value.
- the method of calculating the depreciation charge.

The total cost of the asset must include all costs incurred in bringing the asset into a location and condition ready for use. This could include costs such as transporting the asset to its final location, electrical and engineering installation costs etc.

The anticipated useful life of the asset will be an estimate of the number of years that the asset will be used in the business to generate income.

The residual value will be an estimate of how much the asset will be worth when we dispose of it at the end of its useful life ie its trade-in or scrap value.

The two methods of depreciation we will use are the straight line and diminishing balance methods.

Calculation of straight line method of depreciation:

The following information is required to determine the annual depreciation charge using the straight line method.

- Original cost of the asset.
- Useful life.
- Residual value.



Example

Let's assume a business purchases a machine on 1 April 2011 for \$12,000.00. The business plans to use the machine for three years and believes it can dispose of the machine for \$3,000.00 at the end of its life. Calculate the annual depreciation charge.

The method of calculating the depreciation charge is:

- $\text{Depreciation} = (\text{original cost} - \text{residual value}) / \text{estimated useful life}.$

Therefore,

- $\text{Depreciation} = (\$12,000.00 - \$3,000.00) / 3$
- $\text{Depreciation} = \$3,000.00 \text{ per year}.$

This means that the depreciable cost of the asset (original cost minus the disposal value) is allocated equally over the three years that the machine will be used.

The depreciation charge each year will be \$3,000.00.

When an asset is purchased part of the way through the year, a proportionate amount of the depreciation charge will be made. In the example above, if the machine was purchased on 1 October, then the depreciation charge in the first year would have only been \$1,500.00. Because the machine was only available to generate revenue for six months of the year, we can only charge a proportionate amount of depreciation (50%).



Practice

Practice activity 11

Calculate the annual depreciation charge for the following scenario. A business purchases an equipment on 1 April 2011 for \$16,000.00. The business plans to use the machine for three years and believes it can dispose of the machine for \$1,000.00 at the end of its life. Calculate the annual depreciation charge.



Practice

Practice activity 12

Calculate the annual depreciation charge for the following scenario. A business purchases a machine on 1 June 2011 for \$20,000.00. The business plans to use the machine for three years and believes it can dispose of the machine for \$2,000.00 at the end of its life. Calculate the depreciation charge for years one, two, three and four.

Assume 31 March is the end of the financial year.

Year 1	
Year 2	
Year 3	
Year 4	



Calculation of diminishing balance method of depreciation:

The following information is required to determine the annual depreciation charge using the diminishing balance method.

- Original cost of the asset
- Accumulated depreciation charges
- Rate of depreciation



Example

Let's assume a business purchases a machine on 1 April 2011 for \$12,000.00. The business plans to use the machine for five years and believes it can dispose of the machine for \$4,000.00 at the end of its life. The rate of depreciation is 20% diminishing balance. Calculate the depreciation charges for the first three years.

The method of calculating the depreciation charge is:

- $\text{Depreciation} = (\text{original cost} - \text{accumulated depreciation}) \times \text{Depreciation rate.}$

Therefore,

- Depreciation Year 1 = $(\$12,000.00 - 0) 20\% = \$2,400.00$
- Depreciation Year 2 = $(\$12,000.00 - \$2,400.00) 20\% = \$1,920.00$
- Depreciation Year 3 = $(\$12,000.00 - \$4,320.00) 20\% = \$1,536.00$

Note that with the diminishing balance method, even if you are supplied with the estimated life of the asset and the residual value, you do not include these in the calculation.

Note also that the accumulated depreciation figure is the total of the depreciation that has been charged so far.



Practice

Practice activity 13

Calculate the depreciation charges for the following scenario.

A business purchases and equipment on 1 April 2011 for \$16,000.00. The business plans to use the machine for six years and believes it can dispose of the machine for \$1,000.00 at the end of its life. 10% diminishing balance method is used. Calculate the depreciation charges for years one, two and three.

Year 1	
Year 2	
Year 3	

Where an asset is purchased during the accounting period, a pro rata adjustment is made using the diminishing balance method also.



Practice

Practice activity 14

A business purchases a machine on 1 June 2011 for \$20 000. The business plans to use the machine for five years and believes it can dispose of the machine for \$2,000.00 at the end of its life. Calculate the depreciation charge for years one, two and three. Company policy states that the diminishing balance method of depreciation at 15% is to be used.

Year 1	
Year 2	
Year 3	





Practice

Practice activity 15

Complete the asset register on the next page using the information below. Complete the depreciation schedule for the four years.

Type of asset	<i>Toyota Landcruiser</i>
Model	<i>Prado</i>
Location	<i>Sales office</i>
Registration number	<i>528471</i>
Supplier name	<i>Mannai Motors</i>
Supplier address	<i>PO Box 1458</i>
Invoice number	<i>9852SW</i>
Invoice date	<i>1 April 2010</i>
Invoice amount	<i>QR 155,000.00</i>
Method of depreciation	<i>Straight Line</i>
Rate of depreciation	
Useful life	<i>4 Years</i>
Estimated residual value	<i>QR 55,000.00</i>

Asset register:

Type of asset:		Model:	
Location:		Serial or Registration numbers:	
Supplier:		Invoice number:	
Cost of asset:		Invoice date:	
Method of depreciation:		Useful life (years):	
Depreciation %:		Disposal value:	

Depreciation schedule:

Opening balance		Annual depreciation		Accumulated depreciation		Closing balance	
Date	QR	Date	QR	Date	QR	Date	QR



Practice

Practice activity 16

Complete the Asset Register on the next page using the information below.

Complete the depreciation schedule for the first three years.

Type of asset	Printing Machine
Model	2012 Deluxe
Location	Print Room
Registration number	S5552487
Supplier name	Qatar Machine Distributors
Supplier address	PO Box 8524
Invoice number	88541
Invoice date	1 January 2010
Invoice amount	QR 45 000
Method of depreciation	Diminishing Balance
Rate of depreciation	15%
Useful life	8 Years
Estimated residual value	QR 5,000.00

Asset register:

Type of asset:		Model:	
Location:		Serial or Registration numbers:	
Supplier:		Invoice number:	
Cost of asset:		Invoice date:	
Method of depreciation:		Useful life (years):	
Depreciation %:		Disposal value:	

Depreciation schedule:

Opening balance		Annual depreciation		Accumulated depreciation		Closing balance	
Date	QR	Date	QR	Date	QR	Date	QR

Accounting for non-current assets:

Once the amount of depreciation has been determined using the most suitable method, an entry must be made in the accounting records.

The standard general journal entry to record depreciation is as follows:

General journal:

31 March	Depreciation of...	XXXX	
	Accumulated depreciation of...		XXXX
(Depreciation of for the year)			

Before we go on, let's review the entries to record the purchase of non-current assets. When non-current assets are bought for cash, the purchase will be recorded in the cash payments journal. When the purchase of the asset is on credit, then a general journal entry will be recorded.

Look at the examples below to familiarise yourself with these entries.



Example

Furniture costing \$13,860.00 (including GST) was purchased for cash, cheque 992 on 1 April 2011.

Show the journal entry to record the purchase of the furniture.

Cash payments journal (extract)

Date	Ref	Particulars	Purch	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank
1 Apr	Ch 992	Gulf Furnishings			12,600	1,260		13,860



Example

Machinery was purchased on credit (Invoice No 2154) from AB Contracting wll on 1 April 2010. The contract price was \$16,720.00 and AB Contracting wll agreed to terms of 90 days.

Show the journal entry to record the purchase of the machinery.

General journal:

1 April	Machinery	15,200.00	
	GST Paid	1,520.00	
	AB Contracting wll		16,720.00
(Purchase of machinery on credit, Invoice No 2154)			

We will now move on to accounting for the depreciation of non-current assets. Refer to the activity above where we purchased Machinery on 1 April for \$16,720.00 (including GST).

The company estimates that the machinery will be used for eight years and will have a residual value of \$3,200.00. Company policy states that all machinery is to be depreciated using the straight line method and motor vehicles depreciated using the diminishing balance method at 20%.

According to company policy, the machinery is to be depreciated using the straight line method. The calculation for this will be as follows:

$$\begin{aligned}
 \text{Depreciation amount} &= (\text{original cost} - \text{residual value}) / \text{estimated useful life} \\
 &= (15\,200 - 3\,200) / 8 \\
 &= 1\,500 \text{ per annum}
 \end{aligned}$$

It is important to keep in mind that the depreciation calculation will only involve the cost of the asset excluding GST. It should also include any other costs incurred in getting the asset into location and in working condition.

The accounting entries to record this depreciation expense are as follows:

General journal:

31 March	Depreciation of Machinery	1,500.00	
	Accumulated depreciation of machinery		1,500.00
(Depreciation of machinery for the year)			

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Depreciation of machinery				
31 March	Accumulated depreciation of machinery	1,500.00		1,500.00 Dr
	Profit and Loss		1,500.00	–
Accumulated depreciation of machinery				
31 March	Depreciation of machinery		1,500.00	1,500.00 Cr

At the end of the accounting period, the depreciation expense will be transferred to the profit and loss account in the same way as other expenses.

The Accumulated depreciation account will appear in the non-current assets section of the balance sheet and will be deducted from the original cost of the asset. See an illustration of this below.

Balance sheet (extract)

Non-current assets	\$	\$
Machinery	15,200.00	
Less accumulated depreciation of machinery	1,500.00	13,700.00



Example

A machine is purchased on 1 October 2010 for \$35,200.00 (including GST). The supplier, Gulf Engineering has agreed to credit terms of 60 days. Costs associated with the installation of the machine of \$3,300.00 (including GST) were paid in cash on 1 October to Gulf Engineering (cheque 566).

Banking



The estimated life of the machine is five years and the residual value is \$5,000.00.

Company policy states that machinery is to be depreciated using the straight line method of depreciation.

Show the following:

- General journal entry to record the purchase of the machine.
- General journal entries to record the depreciation of machinery for the 2011 and 2012 financial years.
- Ledger extract showing accounts for Machinery, Depreciation of machinery and Accumulated depreciation of machinery for 2011 and 2012.
- Balance sheet extract showing Machinery account as at 31 March 2011 and 2012.

General journal:

Date	Particulars	Debit	Credit
1 October	Machinery	32,000.00	
	GST Paid	3,200.00	
	Gulf engineering		35,200.00
(Purchase of machinery on credit)			

Cash payments journal (extract)

Date	Ref	Particulars	Purchases	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank
1 Oct	Ch 566	Gulf Engineering			3,000	300		3,300

Depreciation amount = (original cost – residual value)/estimated useful life
 = (35,000.00 – 5,000.00)/5
 = 6,000.00 per annum

General journal:

Date	Particulars	Debit	Credit
2011			
31 March	Depreciation of machinery	3,000.00	
	Accumulated depreciation of machinery		3,000.00
(Depreciation of machinery for six months of the year)			
2012			
31 March	Depreciation of machinery	6,000.00	
	Accumulated depreciation of machinery		6,000.00
(Depreciation of machinery for the year)			

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Depreciation of machinery				
31 March 2011	Accumulated depreciation of machinery	3,000.00		3,000.00 Dr
	Profit and loss		3,000.00	–
31 March 2012	Accumulated depreciation of machinery	6,000.00		6,000.00 Dr
	Profit and loss		6,000.00	–
Accumulated depreciation of machinery				
31 March 2011	Depreciation of machinery		3,000.00	3,000.00 Cr
	Depreciation of machinery		6,000.00	9,000.00 Cr

Balance Sheet (extract) 2011

Non-current assets	\$	\$
Machinery	35,000.00	
Less accumulated depreciation of machinery	3,000.00	32,000.00

Balance Sheet (extract) 2012

Non-current assets	\$	\$
Machinery	35,000.00	
Less accumulated depreciation of machinery	9,000.00	26,000.00

Banking





Equipment is purchased on 1 January 2011 for \$22,000.00 (including GST). The supplier, Blackwater Inc, has agreed to credit terms of 60 days. Costs associated with the installation of the equipment of \$4,400.00 (including GST) were paid in cash on 1 January to Blackwater Inc (cheque 616).

How the following:

- General journal entry to record the purchase of the equipment.
- General journal entries to record the depreciation of equipment for the 2011 and 2012 financial years.
- Ledger extract showing accounts for Equipment, Depreciation of equipment and Accumulated depreciation of equipment for 2011 and 2012.
- Balance sheet extract showing Equipment account as at 31 March 2011 and 2012.

General journal:

Date	Particulars	Debit	Credit

Cash payments journal (extract)

Date	Ref	Particulars	Purchases	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Depreciation of equipment				
Equipment				
Accumulated depreciation of equipment				

Balance sheet (extract) 2011

Non-current assets	\$	\$

Balance sheet (extract) 2012

Non-current assets	\$	\$



Example

A vehicle is purchased on 1 July 2010 for \$44,000.00 (including GST). The supplier, Gulf Fleet Sales has agreed to credit terms of 30 days. Costs associated with the installation of air conditioning of \$2,200.00 (including GST) were paid in cash on 1 July to Gulf Fleet Sales (cheque 781)

The estimated life of the vehicle is five years and the residual value is \$10,000.00. Company policy states that vehicles are to be depreciated using the diminishing balance method of depreciation of 20%.

Show the following:

- general journal entry to record the purchase of the vehicle.
- general journal entries to record the depreciation of vehicle for the 2011 and 2012 financial years.
- ledger extract showing accounts for Vehicle, Depreciation of vehicle and Accumulated depreciation of vehicle for 2011 and 2012.
- Balance sheet extract showing Vehicle account as at 31 March 2011 and 2012.

General journal:

Date	Particulars	Debit	Credit
1 July	Vehicle	40,000.00	
	GST Paid	4,000.00	
	Gulf Fleet Sales		44,000.00
(Purchase of vehicle on credit)			

Cash payments journal (extract)

Date	Ref	Particulars	Purchases	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank
1 Jul	781	Gulf Fleet Sales			2,000		200	2,200



Depreciation = (original cost - accumulated depreciation) × Depreciation rate
Therefore,

Depreciation Year 1 = (\$42,000.00 – 0) 20%

= \$8,400.00

Nine months = \$6,300.00

Depreciation Year 2 = (\$42 000 – \$6 300) 20%

= \$7 140

General journal:

Date	Particulars	Debit	Credit
2011			
31 March	Depreciation of Vehicle	6,300.00	
	Accumulated depreciation of vehicle		6,300.00
(Depreciation of vehicle for nine months of the year)			
2012			
31 March	Depreciation of Vehicle	7,140.00	
	Accumulated depreciation of vehicle		7,140.00
(Depreciation of vehicle for the year)			

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Depreciation of vehicle				
31 March 2011	Accumulated depreciation of vehicle	6,300.00		6,300.00 Dr
	Profit and loss		6,300.00	–
31 March 2012	Accumulated depreciation of vehicle	7,140.00		7,140.00 Dr
	Profit and loss		7,140.00	–
Accumulated depreciation of vehicle				
31 March 2012	Depreciation of vehicle		6,300.00	6,300.00 Cr
	Depreciation of vehicle		7,140.00	13,440.00 Cr

Balance sheet (extract) 2011

Non-current assets	\$	\$
Vehicle	42,000.00	
Less accumulated depreciation of machinery	6,300.00	35,700.00

Balance Sheet (extract) 2012

Non-current assets	\$	\$
Vehicle	42,000.00	
Less accumulated depreciation of machinery	13,440.00	28,560.00



Practice

Practice activity 18

A vehicle is purchased on 1 October 2010 for \$38,500.00 (including GST). The supplier, Manai Motors has agreed to credit terms of 45 days. Costs associated with the installation of communication and navigation systems of \$3,520.00 (including GST) were paid in cash on 1 October to Manai Motors (cheque 284).

The estimated life of the vehicle is five years and the residual value is \$10,000.00. Company policy states that vehicles are to be depreciated using the diminishing balance method of depreciation of 25%.

Show the following:

- General journal entry to record the purchase of the vehicle.
- General journal entries to record the depreciation of vehicle for the 2011 and 2012 financial years.
- Ledger extract showing accounts for vehicle, depreciation of vehicle and accumulated depreciation of vehicle for 2011 and 2012.
- Balance sheet extract showing vehicle account as at 31 March 2011 and 2012.

Calculation:

General journal:

Date	Particulars	Debit	Credit

Cash payments journal (extract)

Date	Ref	Particulars	Purchases	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Depreciation of equipment				
Equipment				
Accumulated depreciation of equipment				

Banking



Balance sheet (extract) 2011

Non-current assets	\$	\$

Balance sheet (extract) 2012

Non-current assets	\$	\$

Disposal of non-current assets:

From time to time non-current assets will be sold or disposed of. At this point in time it is most unlikely that the asset will be disposed of for its written-down book value. There will be a difference between the book value and the market value. Accounting standards require the difference, which will either be a gain or loss, should be transferred to the profit and loss account.

The balance sheet (extract) of a business shows the following:

Balance sheet (extract) 2012

Non-current assets	\$	\$
<i>Equipment</i>	<i>15,000.00</i>	
<i>Less accumulated depreciation of equipment</i>	<i>10,500.00</i>	<i>4,500.00</i>

On 1 April the equipment is sold for \$5,000.00 excluding GST. This means that because the written down value of the equipment is \$4,500.00 and we receive \$5,000.00, we will make a gain on disposal of \$500.00.

However, if the equipment was sold for \$3500 excluding GST, there would be a loss on disposal of \$1000.

This gain or loss on disposal would be transferred to the profit and loss account in the period in which the asset was disposed.

Recording the disposal of a non-current asset generally involves the following steps:

- Depreciate the asset for that part of the current accounting period that the asset had been used to generate revenue.
- Transfer the total original cost of the asset to the disposal account.
- Transfer the accumulated depreciation that relates to that asset (including current year depreciation) to the disposal account.
- Record the disposal price received for the asset
- Determine any gain or loss on disposal and transfer to the profit and loss account.



Example

On 30 September 2011, Ahmad Motors had a machine with a capitalised value of \$5,000.00. At this date, the machine was sold for \$1,000.00 cash.

On 1 April 2011 the accumulated depreciation of the machine had a credit balance of \$2,800.00. The machine was subject to the diminishing balance method of depreciation of 30%.

Step 1

General journal:

Date	Particulars	Debit	Credit
2011			
30 September	Depreciation of machine	330.00	
	Accumulated depreciation of machine		330.00
(Depreciation of machine for six months of the year)			

Step 2

General journal:

Date	Particulars	Debit	Credit
2011			
30 September	Disposal of machine	5,000.00	
	Machine		5,000.00
(Transfer original cost of machine to disposal account)			

Banking



Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Machine				
30 September 2011	Balance			5,000.00 Dr
	Disposal		5,000.00	–
Disposal of machine				
30 September 2011	Machine	5,000.00		5,000.00 Dr

Step 3

General journal:

Date	Particulars	Debit	Credit
2011			
30 September	Accumulated depreciation of machine	3,130.00	
	Disposal of machine		3,130.00
(Transfer accumulated depreciation to disposal account)			

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Accumulated depreciation of machine				
30 September 2011	Balance			2,800.00 Cr
	Depreciation of machine		330.00	3,130.00 Cr
	Disposal of machine	3,130.00		–
Disposal of machine				
30 September 2011	Machine	5,000.00		5,000.00 Dr
	Accumulated depreciation		3,130.00	1,870.00 Dr

Step 4

Cash receipts journal (extract)

Date	Ref	Particulars	Purchases	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank
30 Sep	812	Second Hand Machines wll			1,000.00			1,000.00

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Bank				
30 Sept 2011	Disposal of machine	1 000		1 000 Dr
Disposal of machine				
30 Sept 2011	Machine	5,000.00		5,000.00 Dr
	Accumulated depreciation		3,130.00	1,870.00 Dr
	Cash at Bank		1,000.00	870.00 Dr

Step 5

General journal:

Date	Particulars	Debit	Credit
30 Sept	Loss on disposal	870.00	
	Disposal of machine		870.00
(Transfer loss to loss on disposal account)			
31 March	Profit and loss	870.00	
	Loss on disposal		870.00
(Transfer expenses to profit and loss account)			

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Disposal of machine				
30 Sept	Machine	5,000.00		5 000 Dr
	Accumulated depreciation		3,130.00	1 870 Dr
	Cash at bank		1,000.00	870 Dr
	Loss on disposal		870.00	–
Loss on disposal				
30 Sept	Disposal of machine	870.00		870.00 Dr
31 Mar	Profit and loss		870.00	–



Example

Office furniture is purchased on 1 January 2010 for \$17,600.00 (including GST). The supplier, Gulf office supplies has agreed to credit terms of 60 days. Costs associated with the installation of the furniture of \$2,200.00 (including GST) were paid in cash on 1 January 2010 to Gulf Office Supplies (cheque 126).

The estimated life of the furniture is four years and the residual value is \$2,000.00.

Company policy states that office furniture should be depreciated using the straight line method of depreciation.

On 1 October 2011, office furniture with a capitalised cost of \$9,000.00 was sold for \$6,600.00 including GST to Gulf second hand Supplies.

Show the following:

- General journal entry to record the purchase of the office furniture
- General journal entries to record the depreciation of office furniture and disposal of office furniture for the 2010, 2011 and 2012 financial years
- Ledger extract showing accounts for office furniture, depreciation of office furniture and accumulated depreciation of office furniture for 2010, 2011 and 2012
- Balance sheet extract showing the office furniture account as at 31 March 2010, 2011 and 2012.

General journal:

Date	Particulars	Debit	Credit
2010			
1 January	Office furniture	16,000.00	
	GST Paid	1,600.00	
	Gulf office supplies		17,600.00
(Purchase of office furniture on credit)			

Cash payments journal (extract)

Date	Ref	Particulars	Purchases	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank
1 Jan	126	Gulf Office Supplies			2,000	200		2,200

Depreciation amount = (original cost – residual value)/estimated useful life
 = (18,000.00 – 2,000.00)/4
 = 4,000.00 per annum
 Three months = 1,000.00

General journal:

Date	Particulars	Debit	Credit
2010			
31 Mar	Depreciation of office furniture	1,000.00	
	Accumulated depreciation of office furniture		1,000.00
<i>(Depreciation of machinery for six months of the year)</i>			
31 Mar	Profit and loss	1,000.00	
	Depreciation of office furniture		1,000.00
<i>(Transfer expenses to profit and loss)</i>			
2011			
31 Mar	Depreciation of office furniture	4,000.00	
	Accumulated depreciation of office furniture		4,000.00
<i>(Depreciation of machinery for six months of the year)</i>			
31 Mar	Profit and loss	4,000.00	
	Depreciation of office furniture		4,000.00
<i>(Transfer expenses to profit and loss)</i>			
2012			
1 Oct	Depreciation of office furniture	1,000.00	
	Accumulated depreciation of office furniture		1,000.00
<i>(Depreciation of machinery for six months of the year)</i>			
1 Oct	Disposal of office furniture	9,000.00	
	Office furniture		9,000.00
<i>(Transfer original cost to disposal account)</i>			
2012 (continued)			
1 Oct	Accumulated depreciation of office furniture	3,500.00	
	Disposal of office furniture		3,500.00
<i>(Transfer accumulated depreciation to disposal account)</i>			
1 October	Disposal of office furniture	500.00	
	Gain on disposal		500.00

Date	Particulars	Debit	Credit
(Record gain on disposal of office furniture)			
31 Mar	Depreciation of Office furniture	2,000.00	
	Accumulated depreciation of office furniture		2,000.00
(Depreciation of office furniture)			
31 Mar	Profit and Loss	3,000.00	
	Depreciation of office furniture		3,000
(Transfer expenses to profit and loss)			
31 Mar	Gain on disposal	500.00	
	Profit and loss		500.00
(Transfer revenues to profit and loss)			

Cash receipts journal (extract)

Date	Ref	Particulars	Purchases	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank
1 Oct	222	Gulf Secondhand Supplies			6,000.00	600.00		6,600.00

Ledger (extract)

Date	Particulars	Debit	Credit	Balance
Office furniture				
1 Jan 2010	Gulf office supplies	16,000.00		16,000.00 Dr
	Cash at bank	2,000.00		18,000.00 Dr
1 Oct 2011	Disposal of office furniture		9,000.00	9,000.00 Dr
Accumulated depreciation of office furniture				
31 Mar 2011	Depreciation of office furniture		1,000.00	1,000.00 Cr
31 Mar 2011	Depreciation of office furniture		4,000.00	5,000.00 Cr
1 Oct 2011	Depreciation of office furniture		1 000	6,000.00 Cr
1 Oct 2011	Disposal of office furniture	3,500.00		2,500.00 Cr
31 Mar 2011	Depreciation of office furniture		2,000.00	4,500.00 Cr

Date	Particulars	Debit	Credit	Balance
Depreciation of office furniture				
31 Mar 2011	Accumulated depreciation of office furniture	1,000.00		1,000.00 Dr
	Profit and loss		1,000.00	–
31 Mar 2012	Accumulated depreciation of office furniture	4,000.00		4,000.00 Dr
	Profit and loss		4,000.00	–
1 Oct 2012	Accumulated depreciation of office furniture	1,000.00		1,000.00 Dr
31 Mar 2012	Accumulated depreciation of office furniture	2,000.00		3,000.00 Dr
	Profit and loss		3,000.00	–
Disposal of office furniture				
	Office furniture	9,000.00		9,000.00 Dr
1 Oct 2012	Accumulated depreciation of office furniture		3,500.00	5,500.00 Dr
	Cash at bank		6,000.00	500.00 Cr
	Gain on disposal	500.00		–
Gain on disposal				
1 Oct 2012	Disposal of office furniture		500.00	500.00 Cr
31 Mar 2012	Profit and loss	500.00		–

Balance sheet (extract) 2010

Non-current assets	\$	\$
Office furniture	18,000.00	
Less Accumulated depreciation of office furniture	1,000.00	17,000.00

Balance sheet (extract) 2011

Non-current assets	\$	\$
Office furniture	18,000.00	
Less accumulated depreciation of office furniture	5,000.00	13,000.00

Balance sheet (extract) 2012

Non-current assets	\$	\$
Office furniture	9,000.00	
Less accumulated depreciation of office furniture	4,500.00	4,500.00



Practice

Practice activity 19

Equipment is purchased on 1 October 2010 for \$16,500.00 (including GST). The supplier, W and B Contracting has agreed to credit terms of 45 days. Costs associated with the installation of the equipment of \$1,100.00 (including GST) were paid in cash on 1 October to W and B Contracting (cheque 305).

The estimated life of the equipment is three years and the residual value is \$4,000.00.

Company policy states that equipment should be depreciated using the straight line method of depreciation.

On 1 January 2012, equipment with a capitalised cost of \$8,000.00 was sold for \$5,500.00 including GST to Printing Specialists.

Show the following:

- Journal entries to record the purchase of the equipment
- General journal entries to record the depreciation of equipment and disposal of equipment for the 2011 and 2012 financial years
- Ledger extract showing accounts for equipment, depreciation of equipment and accumulated depreciation of equipment for 2011 and 2012.
- Balance sheet extract showing the equipment account as at 31 March 2011 and 2012.

General journal:

Date	Particulars	Debit	Credit

Cash payments journal (extract)

Date	Ref	Particulars	Purchases	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank



.....

Date	Particulars	Debit	Credit

Cash receipts journal (extract)

Date	Ref	Particulars	Purchases	Accounts Payable	Sundry Expenses	GST Paid	Details	Bank

General ledger (extract)

Date	Particulars	Debit	Credit	Balance
Equipment				
Accumulated depreciation of equipment				
Depreciation of equipment				

Prepare end of period financial reports:

Financial reports are prepared at the end of the accounting period for distribution to interested parties. Common financial reports are the profit and loss statement (sometimes called the revenue statement) and the balance sheet.

You have prepared 'closing' entries that enable the profit and loss account to be created within the ledger. The information in the profit and loss account is exactly the same as what goes into the profit and loss statement. The profit and loss statement however, will be prepared in narrative form so that non-accountants can more easily read the report.

The 'closing' process results in all the revenue and expense accounts in the ledger having zero balances at the end of the accounting period. The only accounts left open with balances will be asset, liability and owner's equity accounts and these accounts are used to prepare the Balance Sheet.

You will be familiar with the profit and loss statement below.

Profit and loss statement for Garden Designs: for the year ended 31 March 2012

Profit and loss statement	\$	\$
Revenue		
Service fees revenues	152,350.00	
Commission revenue	27,850.00	180,200.00
Less expenses		
Advertising	2,548.00	
Freight	1,271.00	
Sales wages	41,250.00	
Administration wages	26,328.00	
Rent	35,910.00	
Electricity	2,158.00	
Insurance	4,793.00	
Interest expense	1,004.00	
Bad debts	2,100.00	117,362.00
Net profit		\$62,838.00

The profit and loss statement is usually classified in order to provide more meaningful information. The grouping of items into categories gives the reader a clearer guide to the financial results of the business. Both revenues and expenses can be classified. In the example above, there is no need to classify the revenues any further as there are only two items. However, our expenses can be classified into selling expenses, administration expenses and financial expenses. Although these are common expense classifications, it will depend on the nature of the business as to what the classification headings will be.

The profit and loss statement shown previously is set out below using these classifications. You can see that all the selling expenses are grouped together under the heading for selling expenses, administration expenses are grouped together under the heading for administration expenses and financial expenses are grouped together under the heading for finance expenses.

Profit and loss statement for Garden Designs:
for the year ended 31 March 2012

Profit and loss statement	\$	\$	\$
Revenue			
Service fees revenues		152,350.00	
Commission revenue		27,850.00	180,200.00
Less expenses			
Selling expenses			
Advertising	2,548.00		
Freight	1,271.00		
Sales wages	41,250.00	45,069.00	
Administration expenses			
Administration wages	26,328.00		
Rent	35,910.00		
Electricity	2,158.00		
Insurance	4,793.00	69,189.00	
Financial expenses			
Interest expense	1,004.00		
Bad debts	2,100.00	3,104.00	117,362.00
Net profit			\$62 838.00

Now let's look at the balance sheet. You will be familiar with the format of the balance sheet below.

Balance sheet for Garden Designs:

as at 31 March 2012

Balance sheet	\$	\$
Assets		
Cash at bank	104,150.00	
Petty cash	50.00	
Accounts receivable	22,144.00	
Vehicles	15,840.00	
Furniture	12,900.00	
Equipment	5,400.00	
Shares in ABC wll	12,000.00	
Goodwill	20,000.00	\$192,484.00
Liabilities		
Accounts payable	14,705.00	
GST clearing	12,255.00	
Loan QNB	10,000.00	
Mortgage QNB	90,000.00	126,960.00
Owner's equity		
Capital	55,100.00	
Add net profit	10,424.00	65,52.00
		\$192,484.00

The balance sheet can also be classified just like the profit and loss statement. Assets will be classified as current assets, property plant and equipment, investments and intangibles. Liabilities will be classified as current liabilities and non-current liabilities. Look at the examples on the following page.

Current assets

Assets that will be consumed or converted to cash within one accounting period eg bank, petty cash, accounts receivable, inventories, prepaid expenses, accrued revenue.

Property, plant and equipment	<i>Assets that are acquired for use in the operation of the business and are not intended for resale eg vehicles, plant, equipment, machinery, furniture, land, premises etc.</i>
Investments	<i>Items that are to be held for longer than one accounting period eg shares in other companies, long term investment deposits.</i>
Intangibles	<i>These are items that lack physical substance. This category includes items such as goodwill, patents, licences, copyrights, trademarks etc.</i>
Current liabilities	<i>These liabilities will be paid within one accounting period from the current date eg bank overdraft, accounts payable, GST clearing.</i>
Non-current liabilities	<i>These items are long term debts eg mortgages and loans.</i>

Now let's see what the balance sheet will look like using the above classifications.

Balance Sheet for Garden Designs:
as at 31 March 2012

Balance sheet	\$	\$	\$
Current assets			
Cash at bank	104,150.00		
Petty cash	50.00		
Accounts receivable	22,144.00	126,344.00	
Property, plant and equipment			
Vehicles	15,840.00		
Furniture	12,900.00		
Equipment	5,400.00	34,140.00	
Investments			
Shares in ABC wll		12,000.00	
Intangibles			
Goodwill		20,000.00	\$192,484.00
Current liabilities			
Accounts payable	14,705.00		
GST clearing	12,255.00	26,960.00	

Balance sheet	\$	\$	\$
Non-current liabilities			
Loan QNB	10,000.00		
Mortgage QNB	90,000.00	100,000.00	126,960.00
Owner's equity			
Capital		55,100.00	
Add net profit		10,424.00	65,524.00
			\$192,484.00



Example

You are given the following trial balance and adjustments.

Trial balance of Ahmed Industries:

as at 31 March 2012

	Debit	Credit
Service fees		212,541.00
Commission revenue		122,014.00
Interest revenue		1,436.00
Advertising	2,132.00	
Administration expenses	4,558.00	
Sales wages	21,384.00	
Administration wages	41,827.00	
Stationery	1,080.00	
Electricity	6,839.00	
Insurance	3,658.00	
Interest expense	2,553.00	
Bad debts	1,205.00	
Cash at bank	147,869.00	
Accounts receivable	52,144.00	
Provision for doubtful debts		0
Equipment	63,384.00	

	Debit	Credit
<i>Accumulated depreciation of equipment</i>		25,314.00
<i>Premises</i>	138,454.00	
<i>Accounts payable</i>		35,617.00
<i>GST clearing</i>		14,930.00
<i>Loan – IQB</i>		35,000.00
<i>Capital</i>		45,235.00
<i>Drawings</i>	5,000.00	
	\$492,087.00	\$492,087.00

Balance day adjustments:

- Insurance prepaid \$500.00
- Sales Wages owing \$1,244.00
- Interest revenue owing \$400.00
- Commission revenue received in advance \$235.00
- Stocktake reveals stationery of \$500.00 on hand
- Provision for doubtful debts to be 2% of closing accounts receivable balance.
- Equipment to be depreciated using the diminishing balance method of 15%

You are required to prepare the following:

- General journal entries to record the balance day adjustments.
- Fully classified profit and loss statement for the year ended 31 March 2012.
- Fully classified balance sheet as at 31 March 2012.

Round all calculations up to the nearest dollar.

General journal for Ahmed Industries

Date	Particulars	Debit	Credit
31 March	<i>Prepaid expenses</i>	500.00	
	<i>Insurance</i>		500.00
(Prepaid insurance)			
31 March	<i>Sales wages</i>	1,244.00	
	<i>Accrued expenses</i>		1,244.00
(Sales wages owing)			

Date	Particulars	Debit	Credit
31 March	Accrued Revenue	400.00	
	Interest Revenue		400.00
(Interest revenue owing)			
31 March	Commission revenue	235.00	
	Prepaid revenue		235.00
(Commission revenue received in advance)			
31 March	Prepaid expenses	500.00	
	Stationery		500.00
(Stationery on hand)			
31 March	Doubtful Debts	1,043	
	Provision for doubtful debts		1,043
(Creation of provision for doubtful debts)			
31 Mar	Depreciation of equipment	5,711	
	Provision for depreciation of equipment		5,711
(Provision for depreciation of equipment)			

Profit and loss statement for Ahmed Industries:

For the year ended 31 March 2012

Profit and loss statement	\$	\$	\$
Revenue			
Service fees revenues		212,541.00	
Commission revenue		121,779.00	
Interest revenue		1,836.00	336,156.00
Less expenses			
Selling expenses			
Advertising	2,132.00		
Sales wages	22,628.00	24,760.00	
Administration expenses			
Administration expenses	4,558.00		
Administration wages	41,827.00		
Stationery	580.00		
Electricity	6,839.00		



Profit and loss statement	\$	\$	\$
<i>Insurance</i>	3,158.00		
<i>Depreciation of equipment</i>	5,711.00	62,673.00	
Financial expenses			
<i>Interest expense</i>	2,553.00		
<i>Bad debts</i>	1,205.00		
<i>Doubtful Debts</i>	1,043.00	4,801.00	92,234.00
<i>Net profit</i>			\$243,922.00

Balance for Ahmed Industries:
as at 31 March 2012

Balance sheet	\$	\$	\$	\$
Current assets				
<i>Cash at bank</i>		147,869.00		
<i>Accounts receivable</i>	52,144.00			
<i>Less provision for doubtful debts</i>	1,043.00	51,101.00		
<i>Prepaid expenses</i>		1,000.00		
<i>Accrued revenue</i>		400.00	200,370.00	
Property, plant and equipment				
<i>Equipment</i>	63,384.00			
<i>Less provision for depreciation</i>	31,025.00	32,359.00		
<i>Premises</i>		138,454.00	170,813.00	\$371,183.00
Current liabilities				
<i>Accounts payable</i>		35,617.00		
<i>GST clearing</i>		14,930.00		
<i>Accrued expenses</i>		1,244.00		
<i>Prepaid revenue</i>		235.00	52,026.00	
Non-current liabilities				
<i>Loan – IQB</i>			35,000.00	
Owner's equity				
<i>Capital</i>	45,235.00			
<i>Add net profit</i>	243,922.00	289,157.00		
<i>Less drawings</i>		5,000.00	284,157.00	\$371,183.00



Practice

Practice activity 20

You are given the following trial balance and adjustments.

Trial balance of Qatar International:
as at 31 March 2012

Account name	Debit	Credit
Service fees		265,417.00
Commission revenue		55,418.00
Rent revenue		135,600.00
Advertising	14,582.00	
Packaging expenses	2,110.00	
Sales wages	35,850.00	
Office wages	41,250.00	
Stationery	5,690.00	
Telephone	7,014.00	
Insurance	4,538.00	
Interest expense	3,284.00	
Bad debts	1,445.00	
Cash at bank	215,840.00	
Accounts receivable	35,982.00	
Provision for doubtful debts		0
Machinery	42,588.00	
Accumulated depreciation of equipment		14,820.00
Premises	210,000.00	
Accounts payable		25,900.00
GST Clearing		15,800.00
Loan – Doha bank		55,000.00
Capital		107,218.00
Drawings	55,000.00	
	\$675,173.00	\$675,173.00



- Advertising prepaid \$1,500.00
- Office Wages owing \$3,000.00
- Rent revenue owing \$1,200.00
- Commission revenue received in advance \$1,420.00
- Telephone to be divided equally between Selling and Administration.
- Provision for doubtful debts to be 2.5% of closing accounts receivable balance
- Machinery to be depreciated using the diminishing balance method of 20%

- General journal entries to record the balance day adjustments.
- Fully classified profit and loss statement for the year ended 31 March 2012.
- Fully classified balance sheet as at 31 March 2012. Round all calculations up to the nearest dollar.

General journal for Qatar International:



Profit and loss statement for Qatar International:
for the Year ended 31 March 2012

Profit and loss statement	\$	\$	\$

Balance sheet of Qatar International:
as at 31 March 2012

Balance sheet	\$	\$	\$	\$



Comprehensive Example

You are supplied with the ledger of Al Dayna Financial Services on 31 March 2012.

The following balance day adjustments are to be recorded.

- An invoice for \$15,000.00 for newspaper advertising was paid on 1 January. The invoice was for advertisements to appear in the newspaper for the period 1 January to 30 June.
- 5% commission is received for insurance services provided. This commission is received at the end of the month after the service is provided. Insurance services for the month of March were \$5,000.00.
- Rent revenue of \$450.00 is received monthly in advance.
- Freight for March that is still unpaid \$325.00.
- It is decided to provide for doubtful debts at 2% of the accounts receivable balance at 31 March.
- Office furniture and equipment to be depreciated using the diminishing balance method of 15%.
- Buildings to be depreciated using the straight line method at 2.5%

Ledger of al Dayna financial services:

Date	Particulars	Debit	Credit	Balance
Service fees				
31 March	Balance			99,000.00Cr
Rent revenue				
31 March	Balance			1,850.00 Cr
Commission revenue				
31 March	Balance			750.00 Cr
Advertising				
31 March	Balance			25,000.00 Dr



Date	Particulars	Debit	Credit	Balance
Freight				
31 March	Balance			750.00 Dr
Interest expense				
31 March	Balance			1,000.00 Dr
Delivery van expenses				
31 March	Balance			750.00 Dr
Insurance				
31 March	Balance			2 500.00 Dr
Packaging expenses				
31 March	Balance			250.00 Dr
Depreciation of office furniture				
Depreciation of equipment				
Sales salaries				
31 March	Balance			1,000.00 Dr
Office salaries				
31 March	Balance			1,000.00 Dr
Depreciation of buildings				
Bad debts				
31 March	Balance			500.00 Dr

Date	Particulars	Debit	Credit	Balance
Electricity				
31 March	Balance			250.00 Dr
Doubtful debts				
Cash at bank				
31 March	Balance			2,000.00 Dr
Cash in hand				
31 March	Balance			100.00 Dr
Accounts receivable				
31 March	Balance			2,610.00 Dr
Provision for doubtful debts				
Land				
31 March	Balance			59,900.00 Dr
Office furniture				
31 Mar	Balance			8,000.00 Dr
Accumulated depreciation of office furniture				
31 March	Balance			4,500.00 Cr
Buildings				
31 March	Balance			15,550.00 Dr
Accumulated depreciation of buildings				
31 March	Balance			3,000.00 Cr

Date	Particulars	Debit	Credit	Balance
Equipment				
31 March	Balance			2,000.00 Dr
Accumulated depreciation of equipment				
31 March	Balance			900.00 Cr
Shares in ABC				
31 March	Balance			2,000.00 Dr
Trademarks				
31 March	Balance			3,000.00 Dr
Goodwill				
31 March	Balance			15,000.00 Dr
Accounts payable				
31 March	Balance			1000.00 Cr
GST clearing				
31 March	Balance			150.00 Cr
Loan QIB				
31 March	Balance			10,000.00 Cr
Capital				
31 March	Balance			23,010.00 Cr
Drawings				
31 March	Balance			1,000.00 Dr
Prepaid expenses				
Accrued revenue				

Date	Particulars	Debit	Credit	Balance
Accrued expenses				
Prepaid revenue				
Profit and loss				
31 March				

You are required to prepare the following:

- General journal entries to record the balance day adjustments
- Post the general journal entries to the ledger
- Prepare the closing general journal entries
- Post the closing entries to the ledger and show the profit and loss account
- Fully classified profit and loss statement for the period ended 31 March 2012
- Fully classified balance sheet as at 31 March 2012
- Round all calculations up to the nearest dollar.

Ledger of al Dayna financial services:

Date	Particulars	Debit	Credit	Balance
Service fees				
31 March	Balance			99,000.00 Cr
	Profit and loss	99,000.00		—
Rent revenue				
31 March	Balance			1,850.00 Cr
	Prepaid revenue	450.00		1,400.00 Cr
	Profit and loss	1,400.00		—
Commission revenue				
31 March	Balance			750.00 Cr
	Accrued revenue		250.00	1,400.00 Cr
	Profit and loss	1,000		—

Date	Particulars	Debit	Credit	Balance
Advertising				
	Balance			25,000.00 Dr
31 March	Prepaid expenses		7 500.00	17,500.00 Dr
	Profit and loss		17,500.00	–
Freight				
	Balance			750.00 Dr
31 March	Accrued expenses	325.00		1 075.00 Dr
	Profit and loss		1,075.00	–
Interest expense				
31 March	Balance			1,000.00 Dr
	Profit and loss		1,000.00	–
Delivery van expenses				
31 March	Balance			750.00 Dr
	Profit and loss		750.00	–
Insurance				
31 March	Balance			2 500.00 Dr
	Profit and loss		2,500.00	–
Packaging expenses				
31 March	Balance			250.00 Dr
	Profit and loss		250.00	–
Depreciation of office furniture				
31 March	Accumulated Depreciation of office furniture	475.00		475.00 Dr
	Profit and loss		475.00	–
Depreciation of equipment				
31 March	Accumulated Depreciation of equipment	165.00		165.00 Dr
	Profit and loss		165.00	–
Sales salaries				
31 March	Balance			1,000.00 Dr
	Profit and loss		1 000.00	–

Banking



Date	Particulars	Debit	Credit	Balance
Office salaries				
31 March	Balance			1,000.00 Dr
	Profit and loss		1 000.00	–
Depreciation of buildings				
31 March	Accumulated Depreciation of buildings	389.00		389.00 Dr
	Profit and loss		389.00	–
Bad debts				
31 March	Balance			500.00 Dr
	Profit and loss		500.00	–
Electricity				
31 March	Balance			250.00 Dr
	Profit and loss		250.00	–
Doubtful debts				
31 March	Provision for doubtful debts	131.00		131.00 Dr
	Profit and loss		131.00	–
Cash at bank				
31 March	Balance			2,000.00 Dr
Cash in hand				
31 March	Balance			100.00 Dr
Accounts receivable				
31 March	Balance			2,610.00 Dr
Provision for doubtful debts				
31 March	Doubtful debts		131.00	131.00 Cr
Land				
31 March	Balance			59,900.00 Dr
Office furniture				
31 Mar	Balance			8,000.00 Dr
Accumulated depreciation of office furniture				
31 March	Balance			4,500.00 Cr
	Depreciation of office furniture		475.00	4 975.00 Cr

Date	Particulars	Debit	Credit	Balance
Buildings				
31 March	Balance			15,550.00 Dr
Accumulated depreciation of buildings				
31 March	Balance			3,000.00 Cr
	Depreciation of buildings		389.00	3,389.00 Cr
Equipment				
31 March	Balance			2,000.00 Dr
Accumulated depreciation of equipment				
31 March	Balance			900.00 Cr
	Depreciation of equipment		165.00	1,065.00 Cr
Shares in ABC				
31 March	Balance			2,000.00 Dr
Trademarks				
31 March	Balance			3,000.00 Dr
Goodwill				
31 March	Balance			15,000.00 Dr
Accounts payable				
31 March	Balance			1,000.00 Cr
GST clearing				
31 March	Balance			150.00 Cr
Loan QIB				
31 March	Balance			10,000.00 Cr
Capital				
31 March	Balance			23,010.00 Cr
	Profit and loss		74,415.00	97,425.00 Cr
	Drawings	1,000.00		96,425.00 Cr
Drawings				
31 March	Balance			1,000.00 Dr
	Capital		1,000.00	–
Prepaid expenses				
31 March	Advertising	7,500.00		7,500.00 Dr

Banking



Ledger of al Dayna financial services:

Date	Particulars	Debit	Credit	Balance
Accrued revenue				
31 March	Commission Revenue	250.00		250.00 Dr
Accrued expenses				
31 March	Freight		325.00	325.00 Cr
Prepaid revenue				
31 March	Rent revenue		450.00	450.00 Cr
Profit and loss				
31 March	Service fees		99,000.00	99,000.00 Cr
	Rent revenue		1,400.00	100,400.00 Cr
	Commission revenue		1,000.00	101,400.00 Cr
	Advertising	17,500.00		83,900.00 Cr
	Freight	1,075.00		82,825.00 Cr
	Interest expense	1,000.00		81,825.00 Cr
	Delivery van expenses	750.00		81,075.00 Cr
	Insurance	2,500.00		78,575.00 Cr
	Packaging expenses	250.00		78,325.00 Cr
	Depreciation of office furniture	475.00		77,850.00 Cr
	Depreciation of equipment	165.00		77,685.00 Cr
	Sales salaries	1,000.00		76,685.00 Cr
	Office salaries	1,000.00		75,685.00 Cr
	Depreciation of buildings	389.00		75,296.00 Cr
	Bad debts	500.00		74,796.00 Cr
	Electricity	250.00		74,546.00 Cr
	Doubtful debts	131.00		74,415.00 Cr
	Capital		74,415.00	–

General journal of Al Dayna Financial Services:

Date	Particulars	Debit	Credit
31 March	Prepaid expenses	7,500.00	
	Advertising		7,500.00
(Prepaid advertising)			
31 March	Accrued revenue	250.00	
	Commission revenue		250.00
(Commission revenue owing)			
31 March	Rent revenue	450.00	
	Prepaid revenue		450.00
(Revenue received in advance)			
31 March	Freight	325.00	
	Accrued expenses		325.00
(Freight owing)			
31 March	Doubtful debts	131.00	
	Provision for doubtful debts		131.00
(Provision for doubtful debts to be 2%)			
31 March	Depreciation of office furniture	475.00	
	Accumulated depreciation of office furniture		475.00
(Provision for depreciation of office furniture)			
31 March	Depreciation of equipment	165.00	
	Accumulated depreciation of equipment		165.00
(Provision for depreciation of equipment)			
31 March	Depreciation of buildings	389.00	
	Accumulated depreciation of buildings		389.00
(Provision for depreciation of buildings)			
31 March	Service fees	99,000.00	
	Rent revenue	1,400.00	
	Commission revenue	1,000.00	
	Profit and loss		101,400.00
(Transfer revenues to profit and loss)			

Date	Particulars	Debit	Credit
31 March	Profit and loss	26,985.00	
	Advertising		17,500.00
	Freight		1,075.00
	Interest expense		1,000.00
	Delivery van expenses		750.00
	Insurance		2,500.00
	Packaging expenses		250.00
	Depreciation of office furniture		475.00
	Depreciation of equipment		165.00
	Sales salaries		1000.00
	Office salaries		1000.00
	Depreciation of buildings		389.00
	Bad debts		500.00
	Electricity		250.00
	Doubtful debts		131.00
(Transfer expenses to profit and loss)			
31 March	Profit and loss	74,415.00	
	Capital		74,415.00
(Transfer net profit to capital)			
31 March	Capital	1,000.00	
	Drawings		1,000.00
(Transfer drawings to capital)			

Profit and loss statement for Al Dayna Financial Services:
for the Year ended 31 March 2012

Profit and loss statement	\$	\$	\$
Revenue			
Service fees revenues		99,000.00	
Commission revenue		1,400.00	
Interest revenue		1,000.00	101,400.00
Less expenses			
Selling expenses			
Advertising	17,500.00		
Freight	1,075.00		
Delivery van expenses	750.00		
Packaging expenses	250.00		
Sales salaries	1,000.00	20,575.00	
Administration expenses			
Insurance	2,500.00		
Depreciation of office furniture	475.00		
Depreciation of equipment	165.00		
Office salaries	1,000.00		
Electricity	500.00		
Depreciation of building	389.00	5,029.00	
Financial expenses			
Interest expense	1,000.00		
Bad debts	250.00		
Doubtful debts	131.00	1,381.00	26,985.00
Net profit			\$74,415.00

Balance sheet of Al Dayna Financial Services:
as at 31 March 2012

Balance sheet	\$	\$	\$	\$
Current assets				
Cash at bank		2,000.00		
Cash in hand		100.00		
Accounts receivable	2,610.00			
Less provision for doubtful debts	131.00	2,479.00		
Prepaid expenses		7,500.00		
Accrued revenue		250.00	12,329.00	
Property, plant and equipment				
Land		59,900.00		
Office furniture	8,000.00			
Less provision for depreciation	4,975.00	3,025.00		
Buildings	15,550.00			
Less provision for depreciation	3,389.00	12,161.00		
Equipment	2,000.00			
Less provision for depreciation	1,065.00	935.00	76,021.00	
Investments				
Shares in ABC			2,000.00	
Intangibles				
Trademarks		3,000.00		
Goodwill		15,000.00	18,000.00	108,350.00
Current liabilities				
Accounts payable		1,000.00		
GST Clearing		150.00		
Accrued expenses		325.00		
Prepaid revenue		450.00	1,925.00	
Non-current liabilities				
Loan – IQB			10,000.00	
Owner's equity				
Capital	23,010.00			
Add net profit	74,415.00	97,425.00		
Less drawings		1,000.00	96,425.00	\$108,350.00





Practice

Practice activity 21

You are supplied with the ledger of Gulf Consultancy on 31 March 2012. The following balance day adjustments are to be recorded.

- An office stocktake reveals that there is \$5,000.00 worth of stationery on hand on 31 March
- We receive \$12,500.00 rent revenue each month in advance. The April payment has been received.
- The Term Deposit earns 4% interest. Interest is payable quarterly but the interest for the March quarter has not yet been received.
- Distribution expenses for March that are still unpaid \$3,000.00.
- It is decided to provide for doubtful debts at 3% of the accounts receivable balance at 31 March.
- Computers and office furniture are both depreciated using the diminishing balance method. Computers are depreciated at 30% and office furniture at 15%.
- Buildings to depreciated using the straight line method at 2%

Ledger of Gulf Consultancy:

Date	Particulars	Debit	Credit	Balance
Service fees				
31 March	Balance			351,000.00 Cr
Rent revenue				
31 March	Balance			155,250.00 Cr
Interest revenue				
31 March	Balance			15,875.00 Cr



Date	Particulars	Debit	Credit	Balance
Distribution expenses				
31 March	Balance			25,255.00 Dr
Electricity				
31 March	Balance			12,943.00 Dr
Insurance expense				
31 March	Balance			12,862.00 Dr
Interest expense				
31 March	Balance			22,197.00 Dr
Rates				
31 March	Balance			15,631.00 Dr
Office wages				
31 March	Balance			86,627.00 Dr
Depreciation of computers				
Depreciation of office furniture				

Date	Particulars	Debit	Credit	Balance
Sales wages				
31 March	Balance			62,387.00 Dr
Telephone				
31 March	Balance			8,618.00 Dr
Depreciation of buildings				
Bad debts				
31 March	Balance			2,842.00 Dr
Stationery				
31 March	Balance			18,910.00 Dr
Doubtful debts				
Cash at bank				
31 March	Balance			184,535.00 Dr
Cash in hand				
31 March	Balance			200.00 Dr

Date	Particulars	Debit	Credit	Balance
Accounts receivable				
31 March	Balance			42,600 Dr
Provision for doubtful debts				
31 March	Balance			500.00 Cr
Land				
31 March	Balance			59,900.00 Dr
Computers				
31 March	Balance			48,000.00 Dr
Accumulated depreciation of computers				
31 March	Balance			24,500.00 Cr
Buildings				
31 March	Balance			200,000.00 Dr
Accumulated depreciation of buildings				
31 March	Balance			35,500.00 Cr
Office furniture				
31 March	Balance			22,000.00 Dr

Date	Particulars	Debit	Credit	Balance
Accumulated depreciation of office furniture				
31 March	Balance			2,900.00 Cr
Term deposit (expire 2016)				
31 March	Balance			50,000.00 Dr
Copyright				
31 March	Balance			30,000.00 Dr
Goodwill				
31 March	Balance			50,000 Dr
Accounts payable				
31 March	Balance			21,000.00 Cr
GST Clearing				
31 March	Balance			5,150.00 Cr
Mortgage – Commercial bank				
31 March	Balance			100,000.00 Cr
Capital				
31 March	Balance			368,832.00 Cr

Date	Particulars	Debit	Credit	Balance
Drawings				
31 March	Balance			125,000.00 Dr
Prepaid expenses				
Accrued revenue				
Accrued expenses				
Prepaid revenue				
Profit and loss				
31 March				

You are required to prepare the following:

- General journal entries to record the balance day adjustments
- Post the general journal entries to the ledger
- Prepare the closing general journal entries
- Post the closing entries to the ledger and show the profit and loss account
- Fully classified profit and loss statement for the period ended 31 March 2012
- Fully classified balance sheet as at 31 March 2012 Round all calculations up to the nearest dollar.

General journal of Gulf consultancy:

Banking



Profit and loss statement of Office Outfitters:
for the period ended 31 March

as at 31 March



Revision

Accounting

Macys' Co. completed these transactions during December 2019:

- Dec.**
- 1** Ahmed invested \$400,000 cash, and \$15,000 Equipment.
 - 2** Purchased Furniture for \$70,000 by paying \$40,000 cash and sign a note for the remaining.
 - 3** Completed work for \$10,000 on account.
 - 4** Provided a service to another client and received \$5,000.
 - 5** Purchased supplies for \$4,000 on credit.
 - 10** Completed a \$20,000 cash project for a client.
 - 15** Paid the liabilities created on December 2nd .
 - 16** Purchased Equipment for \$10,000 on account.
 - 20** Completed work for another client for \$10,000 on credit.
 - 25** Paid the liabilities created on December 5th.
 - 26** Ahmed signed a notes payable for \$15,000 and received the amount.
 - 27** Received cash for work completed on December 20th.
 - 28** Ahmed withdrew \$5,000 for personal use.
 - 29** Paid \$2,000 for this month's utility bill.
 - 30** Paid \$5,000 for an advertisement to publish in December 2019.
 - 30** Paid \$2,000 for this month's telephone bill.
 - 31** Paid \$15,000 for December salaries.
 - 31** Paid \$5,000 for December rent.

Required:

- 1** Record in the general journal, and post into ledger accounts then prepare the Trial Balance.
- 2** Prepare the Financial Statements.

Macys' Co.

General Journal



Macys' Co.

General Journal

Banking



General Ledger:

[illegible]

Equipment				
Date	Explanation	Debit	Credit	Balance
Furniture				
Date	Explanation	Debit	Credit	Balance
Accounts Payable				
Date	Explanation	Debit	Credit	Balance
Notes Payable				
Date	Explanation	Debit	Credit	Balance
Ahmed, Capital				
Date	Explanation	Debit	Credit	Balance
Ahmed, Withdrawal				
Date	Explanation	Debit	Credit	Balance

Banking



Revenue				
Date	Explanation	Debit	Credit	Balance
Utilities Expenses				
Date	Explanation	Debit	Credit	Balance
Advertisement Expenses				
Date	Explanation	Debit	Credit	Balance
Telephone Expenses				
Date	Explanation	Debit	Credit	Balance
Salaries Expenses				
Date	Explanation	Debit	Credit	Balance
Rent Expenses				
Date	Explanation	Debit	Credit	Balance

Macys' Co.

Trial Balance

December 31, 2019

The chart displays the percentage of respondents who believe the economy is getting better, worse, or staying about the same from 2009 to 2014. The 'Banking' line is highlighted in dark grey. The 'Better' line is light blue, the 'Worse' line is light green, and the 'About the same' line is light orange. The 'Banking' line starts at approximately 45% in 2009, rises to 55% in 2010, and then fluctuates between 45% and 55% through 2014.

Year	Better	Worse	About the same	Banking
2009	45	45	10	45
2010	55	35	10	55
2011	50	40	10	50
2012	45	45	10	45
2013	50	40	10	50
2014	55	35	10	55



Macys' Co.		
Income Statement		
For the Year Ended December 31, 2019		
Revenue:		
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	<hr/>	
Total Revenue	
Expenses:		
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	<hr/>	
Total Expenses	
Net Income (Loss)	

Macys'Co.		
Statement of Changes in Owner's Equity		
For the Year Ended December 31, 2019		
Ahmed, Capital – 1/1/2019		0
Plus: Investment by owner	
Net Income (loss)	
	<hr/>
Total	
Less: Ahmed, Withdrawal	
	<hr/>
Ahmed, Capital – 31/12/2019	

Macys' Co.	
Balance Sheet	
December 31, 2019	
Assets	
Assets:	
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Total Assets

Liabilities and Owner's Equity	
Liabilities:	
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Total Liabilities

Owner's Equity	
Ahmed, Capital

Total Liabilities and Owner's Equity



Adjustments

Activity 1

The following information relates to Macys' Electronics on December 31, 2008. The company, which uses the calendar year as its annual reporting period, initially records prepaid and unearned items in balance sheet accounts.

- a** The company's weekly payroll is \$8,750, paid each Friday for a five - day workweek. Assume December 31, 2008, falls on a Monday, but the employees will not be paid their wages until Friday, January 4, 2009.
- b** On October 1, 2008, the company agreed to work on a new housing development. The company is received \$120,000 on October 1 in advance of future installation of similar alarm systems in 24 new homes. That amount was credited to the Unearned Services Revenue account. Between October 1 and December 31, work on 20 homes was completed.
- c** On September 1, 2008, the company purchased a 12-month insurance policy for \$1,800. The transaction was recorded with an \$1,800 debit to Prepaid Insurance.
- d** On December 29, 2008, the company completed a \$7,000 service that has not been billed and not recorded as of December 31, 2008.
- e** The \$2,000 in the Prepaid Rent account represents rent for December.

Required:

- Prepare any necessary adjusting entries on December 2008 ,31, in relation to transactions and events a through e.



Macys' Electronics

General Journal - Adjustments

Industry	Percentage of respondents who believe the government should do more to protect the environment
Manufacturing	~45%
Retail	~48%
Healthcare	~52%
Education	~55%
Technology	~58%
Finance	~62%
Banking	~85%



Activity 2

Wells Technical Institute (WTI), a school owned by Wells, provides training to individuals who pay tuition directly to the school. WTI also offers training to groups in off-site locations. Its unadjusted trial balance as of December 2008 ,31, follows. Descriptions of items a through h that require adjusting entries on December 2008 ,31, follow.

Additional Information Items:

- a** An analysis of the school's insurance policies shows that \$2,400 of coverage has expired.
- b** An inventory count shows that teaching supplies costing \$2,800 are available at year-end 2008, and supplies balance is \$5,000.
- c** Annual depreciation on the equipment is \$13,200.
- d** Annual depreciation on the furniture is \$7,200.
- e** On November 1, the school agreed to do a special six-month course (starting immediately) for a client. The contract calls for a monthly fee of \$2,500. and the client paid the first five months' fees in advance. When the cash was received, the Unearned Training Fees account was credited. The fee for the sixth month will be recorded when it is collected in 2009.
- f** On October 1, the school agreed to teach a four - month class (beginning immediately) for an individual for \$3,000 tuition per month payable at the end of the class. The services are being provided as agreed, and no payment has yet been received.
- g** The school's two employees are paid weekly. As of the end of the year. two days' wages have accrued at the rate of \$100 per day for each employee.
- h** The \$2,000 in the Prepaid Rent account represents rent for December.

Required:

- Prepare any necessary adjusting entries on December 2008 ,31, in relation to transactions and events a through h.



Wells Technical Institute

General Journal - Adjustments

Banking

Year	Banking (Getting Better)	Banking (Getting Worse)	Banking (Staying About the Same)
2009	45%	45%	10%
2010	40%	50%	10%
2011	45%	45%	10%
2012	40%	50%	10%
2013	45%	45%	10%
2014	45%	45%	10%



Activity 3

Record the required daily and adjusting entries.

Dec. 1 Ahmed invested \$400,000 cash, and \$15,000 Equipment.

Daily Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- Received \$15,000 from customer for work will perform at the end of the month.

Daily Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- \$10,000 of the unearned revenue had been earned.

Adjusting Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- Paid \$12,000 cash for the premium on an 6-months insurance policy.

Daily Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- Two months for the premium insurance expired.

Adjusting Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- Prepaid \$12,000 cash for 4-months' rent for an office.

Daily Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- One month rent expired.

Adjusting Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- Purchased supplies for \$7,000 on credit.

Daily Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- An inventory count shows that supplies costing \$5,000 are available at year-end.

Adjusting Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- Ahmed signed a long-term notes payable for \$30,000 with 6% annual interest.

Daily Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- Accrued interest on notes payable is \$150.

Adjusting Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

- Unpaid \$1,000 for this month's salary.

Adjusting Entry:

Macys' Co.			
General Journal			
Date	Account Name	Debit	Credit

Quiz

Success System completed these transactions during October 2017:

- Oct.**
- 1** Seif invested \$50,000 cash, \$20,000 equipment, and \$5,000 supplies.
 - 2** Received \$20,000 from customer for work will perform at the end of the month.
 - 2** Paid \$12,000 cash for the premium on a 12-months insurance policy.
 - 3** Prepaid \$12,000 cash for 6-months' rent for an office.
 - 4** Purchased supplies for \$10,000 on credit.
 - 10** Completed a \$10,000 project for a client and immediately received the money.
 - 20** Complete works for another client for \$20,000 on credit.
 - 25** Received \$10,000 cash for future services to be provided to a customer.
 - 28** Seif withdrew \$5,000 for personal use.
 - 29** Paid \$500 cash for this month's utility bill.
 - 30** Seif signed a note for \$50,000 with 10% annual interest to be paid on April 29.
 - 31** Paid \$700 cash for this month's telephone bill.

Required:

- Prepare General Journal.



Adjustments for Success System on December 2017 ,31

- Unpaid \$10,000 December's salaries.
- Calculate the insurance expense.
- Calculate the rent expense.
- An inventory count shows that supplies costing \$5,000 are available at year-end.
- The depreciation expense for the equipment is \$900.
- One third of the unearned revenue had been earned.
- Accrued interest on saving account yearly total \$1,500.
- Calculate the accrued interest on notes payable.
- Wrote off the account receivable created on Oct. 20th.

Required:

- Prepare the adjusting entries in the general journal.



Success System

General Journal



Success System

General Journal

Industry	Percentage
Banking	65



Success System

General Journal - Adjustments



Activity 4

Following is the unadjusted trial balance for Alkawari Institute as of December 31, 2011, which initially records prepaid expenses and unearned revenues in balance sheet accounts.

Unadjusted Trial Balance on December 2011 ,31

Accounts	DR	CR
Cash.	50,000	
Accounts receivable.	0	
Teaching supplies.	60,000	
Prepaid insurance.	18,000	
Prepaid rent.	2,600	
Professional library.	10,000	
Accumulated depreciation - Professional library.		1,500
Equipment.	30,000	
Accumulated depreciation - Equipment		16,000
Accounts payable.		12,200
wages payable.		0
Unearned training revenue.		27,600
Alkawari, Capital.		68,500
Alkawari, Withdrawals.	20,000	
Tuition Revenue.		105,000
Training Revenue.		62,000
Depreciation expense - Professional library.	0	
Depreciation expense - Equipment.	0	
wages expense.	43,200	
Insurance expense.	0	
Rent expense.	28,600	
Teaching supplies expense.	0	
Advertising expense.	18,000	
Utilities expense.	12,400	
Totals	292,800	292,800

Additional Information Items:

- a** An analysis of the Institute's insurance policies shows that \$6,500 of coverage has not expired.
- b** An inventory count shows that teaching supplies costing \$2,500 are available at year-end 2011.
- c** Annual depreciation of the equipment is \$4,000.
- d** Annual depreciation of the professional library is \$2,000.
- e** On November 1, the Institute agreed to do a special four-month course (starting immediately) for a client. The contract calls for \$16,000 fees, and the client paid the fees in advance.
- f** On October 15, the Institute agreed to teach a four-month class (beginning immediately) to four clients for \$2,000 tuition per month payable at the end of the class. The class started on October 15, but no payment has yet been received.
- g** The Institute's employee is paid weekly. As of the end of the year, three days' wages have accrued at the rate of \$180 per day.
- h** The balance in the Prepaid Rent account represents rent for December.

Required:

- Prepare the adjusting journal entries for items a through h.

Alkawari Institute

General Journal - Adjustments

Year	Banking (%)	Other (%)
2009	~45	~45
2010	~40	~40
2011	~45	~45
2012	~40	~40
2013	~45	~45
2014	~45	~45



Depreciation

On January 1, 2008, equipment was purchased for \$100,000 cash. The equipment has an estimated useful life of 5 years and an estimated residual value of \$5,000.

Required:

- Compute the depreciation Expense for year 2008 and prepare the depreciation table using the **Straight-Line** method.

Straight-Line Method

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Year	Depreciation Expense	Accumulated Depreciation	Book Value

On January 1, 2008, equipment was purchased for \$100,000 cash. The equipment has an estimated useful life of 5 years and an estimated salvage value of \$5,000.

Required:

- Compute the depreciation Expense for year 2008 and prepare the depreciation table using the **Double-Declining-Balance** method.

Double-Declining-Balance Method

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Year	Depreciation Expense	Accumulated Depreciation	Book Value



Activity 6

On October 1, 2010, equipment was purchased for \$90,000 cash, and paid \$10,000 installation fees. The equipment has an estimated useful life of 5 years and an estimated salvage value of \$20,000.

Required:

- Computethe depreciation Expense for year 2010 and prepare the depreciation table using the **Straight - Line** method and **Double - Declining** Method.

Straight-Line Method

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Double-Declining-Balance Method

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Activity 7

In early January 2017, LabTech purchases computer equipment for \$147,000 to use in operating activities for the next four years. It estimates the equipment's salvage value at \$30,000.

Required:

- Compute the depreciation Expense for year 2017 and prepare the depreciation table using the **Straight-Line** method.

Straight-Line Method

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Activity 8

After the success of the company's first two months, Mohamed continues to operate Business Solutions. The November 30, 2011, balances of **Business Solutions** reflecting its transactions for October and November of 2011 follows.

Business Solutions		
<i>November 30, 2011</i>		
Accounts	DR	CR
Cash	38,264	
Accounts receivable	12,618	
Computer supplies	2,545	
Prepaid insurance	2,220	
Prepaid rent	3,300	
Office Equipment	8,000	
Accumulated depreciation - Office Equipment		0
Computer Equipment	20,000	
Accumulated depreciation - Computer Equipment		0
Accounts payable		0
Wages payable		0
Unearned computer services revenue		0
Mohamed, Capital		73,000
Mohamed, Withdrawals	5,600	
Computer services Revenue		25,659
Depreciation expense - Office Equipment	0	
Depreciation expense - Computer Equipment	0	
Wages expense	2,625	
Insurance expense	0	
Rent expense	0	
Computer supplies expense	0	
Advertising expense	1,728	
Mileage expense	704	
Miscellaneous expense	250	
Repair expense- computer	805	
Totals	98,659	98,659

Business Solutions had the following transactions and events in December 2011.

- Dec. 2** Paid \$1,025 cash to Gulf Mall for Business Solutions' share of mall advertising costs.
- 3** Paid \$500 cash for minor repairs to the company's computer.
- 4** Received \$3,950 cash from Aly's Engineering Co. for the receivable from November.
- 10** Paid cash to your secretary for six days of work at the rate of \$125 per day.
- 14** Notified by Aly's Engineering Co. that Business Solutions' bid of \$7,000 on a future project has been accepted. Aly's paid a \$1,500 cash advance to Business Solutions.
- 15** Purchased \$1,100 of computer supplies on credit.
- 16** Sent a reminder to Jarir Co. to pay the fee for services recorded on November 8.
- 20** Completed a project for Q Auto and received \$5,625 cash.
- 28** Received \$3,000 cash from Jarir Co. on its receivable.
- 29** Reimbursed for business automobile mileage (600 miles at \$0.30 per mile).
- 31** Mohamed withdrew \$1,500 cash from the company for personal use.

The following additional facts are collected for use in making adjusting entries prior to preparing financial statements for the company's first three months:

- a** The December 31 inventory count of computer supplies shows \$580 still available.
- b** Three months have expired since the 12-month insurance premium was paid in advance.
- c** As of December 31, the secretary has not been paid for four days of work at \$125 per day.
- d** The company's computer is expected to have a four-year life with no salvage value.
- e** The office equipment is expected to have a five-year life with no salvage value.
- f** Three of the four months' prepaid rent has expired.

Required:

- 1** Prepare the ledger accounts with balances from the unadjusted trial balance.
- 2** Prepare journal entries to record each of the December transactions and events for Business Solutions and post those entries to the accounts in the ledger.
- 3** Prepare adjusting entries to reflect **a through f.** and post those entries to the accounts in the ledger.
- 4** Prepare the adjusted trial balance as of December 31, 2011.

General Ledger:

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

..... Banking



Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

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Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

..... Banking



Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

..... Banking



Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

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Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

Date	Explanation	Debit	Credit	Balance

..... Banking



Business Solutions

General Journal



Business Solutions

General Journal

Date	Account Name	Debit	Credit
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The chart displays the percentage of respondents who believe the economy is getting better, worse, or staying about the same from 2009 to 2014. The 'Banking' series is highlighted in teal. The data is as follows:

Year	Banking (Getting Better)	Banking (Getting Worse)	Banking (Staying About the Same)
2009	35%	45%	20%
2010	35%	45%	20%
2011	35%	45%	20%
2012	35%	45%	20%
2013	35%	45%	20%
2014	35%	45%	20%



Business Solutions

General Journal - Adjustments



Business Solutions

Adjusted Trial Balance

For the Year Ended December 31, 2011

Activity 9

Nomo Co. purchases a used machine for \$167,000 cash on January 1 and readies it for use the next day at an \$3,420 cost. On January 3, it is installed on a required operating platform costing \$1,080, and it is further readied for operations. The company predicts the machine will be used for six years and have a \$14,600 salvage value.

Required:

- Calculate the depreciation expense for the first year and prepare the depreciation table under the **Straight-Line and Double-Declining Methods**.

Straight-Line Method

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Double-Declining-Balance Method

[illegible]

Activity 10

Wells Technical Institute (WTI), a school owned by Wells, provides training to individuals who pay tuition directly to the school. He starts his business on October 1, 2008. Descriptions of items (a) through (h) that require adjusting.

i An analysis of the school's insurance policies provides the following facts.

Policy	Date of Purchase	Months of Coverage	Cost
A	January 1, 2009	24	\$ 14,400

j An inventory count shows that supplies costing \$2,800 are available at year-end, and supplies balance is \$5,000.

k Annual depreciation of the equipment is \$13,200.

l Compute the depreciation expense for the furniture if the cost is \$60,000, useful life 4 years, salvage value \$5,000 and the date of purchased on October 1, 2008. Using Double-Declining Method.

m On November 1, the institute agreed to do a special six-month training course (starting immediately) for a client. The contract calls for a monthly fee of \$2,500. and the client paid the six months' fees in advance.

n The accrued interest on saving account is \$1,500.

o The institute's two employees are paid weekly. As of the end of the year. two days' wages have accrued at the rate of \$100 per day for each employee.

p The \$2,000 in the Prepaid Rent account represents rent for September.

q The accrued interest on note payable is \$800.

Required:

- Prepare any necessary adjusting entries.

Wells Technical Institute

General Journal - Adjustments

Date	Account Name	Debit	Credit
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Banking



Depreciation

Qatar Company was purchased Equipment on January 1, 2010, for \$40,000 on credit. The company paid installation cost \$10,000

Required:

- 1 Compute and complete the depreciation table using the **Straight - Line** Method if the salvage value 10% from the cost and the useful life 5 Years.
- 2 Compute and complete the depreciation table using the **Double - Declining Method**.

Straight-Line Method

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Double-Declining Method

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Depreciation

Activity 11

On January 2, Jarir Co. purchases and installs a new machine costing \$312,000 with a five-year life and an estimated \$28,000 salvage value. Management estimates the machine will produce 1,136,000 units of product during its life. Actual production of units is as follows: **year1**, 245,600; **year2**, 230,400; **year3**, 227,000; **year4**, 232,600; and **year5**, 200,400.

Required:

- Prepare a table and compute depreciation for each year for the machine under units of production method.

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Activity 12

Macys' Co. purchases a used equipment for \$280,000 on credit on January 1 and paid for shipping \$10,000 and installation required \$22,000. The company predicts the equipment will be used for 5 years and have a \$15,000 salvage value. Management estimates the machine will produce 1,136,000 units of product during its life. Actual production of units is as follows: **year1** 245,600; **year2** 230,400; **year3** 227,000; **year4** 232,600; and **year5** 211,200.

Depreciation is to be charged on a units of production basis. On December 31, at the end of its fifth year in operations, it is disposed of.

Required:

- 1 Prepare journal entries to record the machine's purchase and the cost for installation. Cash is paid for all costs incurred.
- 2 Compute and record depreciation of the machine on December 31 of (a) its first year in operations and (b) the year of its disposal.
- 3 Prepare journal entries to record the equipment's disposal under each of the following separate assumptions:
 - a it is sold for \$78,100 cash at the end of the fourth year.
 - b it is sold for \$138,250 cash at the end of the third year.
 - c it is destroyed in a fire and the insurance company pays \$10,000 cash to settle the loss claim at the end of the fifth year.

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Activity 13

On January 1, 2020, JFK purchases an equipment for \$130,000 on account and readies it for use the next day at a cost of \$3,390. On January 3, it is installed at a cost of \$4,800, and it is further readied for operations. Management estimates the equipment will be used for seven years and have an \$18,000 salvage value. Depreciation is to be charged on a straight-line method. On December 31, at the end of its sixth year of use, the machine is disposed of.

Required:

- 1 Compute and prepare journal entry to record the equipment's purchase.
- 2 Prepare the depreciation table for the equipment.
- 3 Prepare journal entry to record depreciation of the equipment on December 31, 2022.
- 4 Prepare journal entries to record the equipment's disposal under each of the following separate assumptions:
 - a it is sold for \$35,170 cash;
 - b it is sold for \$40,170 cash; and
 - c it is destroyed in a fire and the insurance company pays \$10,000 cash to settle the loss claim.

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Activity 14

On January 1, JFK Co. purchases a new equipment costing \$200,000 on account, with a four - year life and an estimated \$20,000 salvage value. On the same day the company paid for shipping and installation \$10,000. Management estimates the equipment will produce 475,000 units of product during its life. Actual production of units is as follows:

year1, 121,400; **year2**, 122,400; **year3**, 119,600; and **year4**, 118,200.

The total number of units produced by the end of year 4 exceeds the original estimate - this difference was not predicted.

(The equipment must not be depreciated below its estimated salvage value.)

Required:

- 1 Compute and prepare the journal entry to record the equipment's purchase.
- 2 Prepare the depreciation table for the equipment under units of production method.
- 3 Prepare the journal entries to record the equipment's disposal under each of the following separate assumptions:
 - a it is sold for \$20,000 cash;
 - b it is sold for \$50,000 cash;
 - c it is sold for \$10,000 cash.

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Activity 15

On January 1, 2000 JFK Company purchased an equipment for \$150,000, terms 2/10, n/60, FOB shipping point, with a five-year life and an estimated \$31,900 salvage value. The seller paid the \$2,000 freight charges, adding the amount to the invoice and bringing its total to \$152,000. The equipment requires special setup and power connections costing \$2,500 which was paid. Another \$400 is paid to assemble the equipment and get it into operation. New workers will be hired by the company for the new equipment at \$1,000 monthly wages. The company paid for this equipment within the cash discount period.

Management estimates the equipment will produce 400,000 units of product during its life. Actual production of units is as follows:

year1, 120,000; **year2**, 110,000; **year3**, 130,000; **year4**, 100,000; and **year5**, 40,000. The total number of units produced by the end of year 4 exceeds the original estimate - this difference was not predicted.

Required:

- 1 Prepare the journal entry to record the equipment's purchase.
- 2 Prepare the depreciation table for the equipment under units of production method.
- 3 Prepare the journal entries to record the equipment's disposal under each of the following separate assumptions:
 - a it is sold for \$31,900 cash;
 - b it is sold for \$51,900 cash;
 - c it is sold for \$21,900 cash.

Activity 16

On January 2000 ,1 JFK Company purchased an equipment for \$95,000, terms 2/10, n/60, FOB shipping point, , with a four-year life and an estimated Nil salvage value. The company paid the \$1,000 freight charges. Another payment of \$4,000 to setup the equipment and get it into operation. New workers already hired by the company for the new equipment at \$2,000 monthly wages. The company paid for this equipment on February 25.

Management estimates the equipment will produce 200,000 units of product during its life. Actual production of units is as follows:

year1, 70,000; **year2**, 70,000; **year3**, no production; and **year4**, 60,000.

Required:

- 1 Prepare the journal entry to record the equipment's purchase.
- 2 Prepare the depreciation table for the equipment under units of production method.
- 3 Prepare the journal entries to record the equipment's disposal under each of the following separate assumptions:
 - a The equipment needed extensive repairs, and it was not worth repairing. The company disposed of the equipment, receiving nothing in return.
 - b it is sold for \$10,000 cash; and

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Bad Debts

Activity 17

Macys' company began operations on January 1, 2007. During its first two years, the company completed a number of transactions involving provide a service on credit, accounts receivable collections, and bad debts. These transactions are summarized as follows.

- On July 16, Macys' complete a work for \$950 on credit to JCPenney and \$1,000 on account to Matrix.

Date	Accounts	Dr	Cr

- On July 31, Macys' collects \$500 from JCPenney and \$800 from Matrix, Inc.

Date	Accounts	Dr	Cr

Bad Debts - Direct Method

- On August 4, Macys' determines it cannot collect \$200 from Matrix.

- On September 9, Matrix decides to pay \$200 that was written off.

Bad Debts – Allowance Method

Macys' has Accounts Receivable balance of \$1,400,000 at the end of 2007. The accounting manager estimates %4 of Accounts Receivable will prove uncollectible.

- What is Bad Debts Expense for 2007?

Date	Accounts	Dr	Cr

- On March 4, 2008 Macys' determines it cannot collect \$5,000 from a credit customer.

Date	Accounts	Dr	Cr

- On September 9, 2008 the customer decides to pay \$5,000 that was written off.

Date	Accounts	Dr	Cr

Activity 18

- At December 31, Green Tea Company reports the following results for its calendar-year.

Total Revenue	\$2,000,000
Credit Revenue	40%

- Its year-end unadjusted trial balance includes the following items.

Accounts receivable	\$195,000 debit
Allowance for doubtful accounts	\$3,000 debit

Required:

- 1 Prepare the adjusting entry to record Bad Debts Expense assuming uncollectibles are estimated to be 5% of credit revenue.
- 2 Prepare the adjusting entry to record Bad Debts Expense assuming uncollectibles are estimated to be 5% of year-end accounts receivable.



Green Tea Company

General Journal

The chart displays the percentage of respondents who believe the economy is getting better, worse, or staying about the same from 2009 to 2014. The 'Banking' line is highlighted in dark grey. The 'Better' line is light blue, the 'Worse' line is light green, and the 'About the same' line is light orange. The 'Banking' line starts at approximately 45% in 2009, rises to 55% in 2010, and then fluctuates between 45% and 55% through 2014.

Year	Better	Worse	About the same	Banking
2009	45	45	10	45
2010	55	35	10	55
2011	50	40	10	50
2012	45	45	10	45
2013	50	40	10	50
2014	55	35	10	55



Activity 19

At each calendar year-end, Green Tea Co. uses the percent of accounts receivable method to estimate bad debts. On December 31, 2017, it has outstanding accounts receivable of \$53,000, and it estimates that 4% will be uncollectible.

Required:

Prepare the adjusting entry to record bad debts expense for year 2017 under the assumption that the Allowance for Doubtful Accounts has.

- 1 a \$915 credit balance before the adjustment.
- 2 a \$1,332 debit balance before the adjustment.



Green Tea Company

General Journal

The chart displays the percentage of respondents who believe the economy is getting better, worse, or staying about the same from 2009 to 2014. The 'Banking' line is highlighted in dark grey. The y-axis represents the percentage of respondents (0 to 100), and the x-axis represents the year (2009 to 2014). A dashed horizontal line is drawn at the 50% mark.

Year	Banking (Getting Better)	Banking (Getting Worse)	Banking (Staying About the Same)
2009	45	45	10
2010	55	35	10
2011	50	40	10
2012	55	35	10
2013	50	40	10
2014	55	35	10



Activity 20

Green Tea Company began operations on January 1, 2016. During its first two years, the company completed a number of transactions involving service on credit, accounts receivable collections, and bad debts. These transactions are summarized as follows.

2016

- 1 Provide services to credit customers for \$1,803,750.
- 2 Wrote off \$20,300 of uncollectible accounts receivable.
- 3 Received \$789,200 cash in payment of accounts receivable.
- 4 In adjusting the accounts on December 31, the company estimated that 1.5% of accounts receivable will be uncollectible.

2017

- 1 Provide services to credit customers for \$1,825,700.
- 2 Wrote off \$28,800 of uncollectible accounts receivable.
- 3 Received \$1,304,800 cash in payment of accounts receivable.
- 4 In adjusting the accounts on December 31, the company estimated that 1.5% of accounts receivable will be uncollectible.

Required:

- Prepare journal entries to record Green Tea 2016 and 2017 transactions.

Green Tea Company

General Journal

Green Tea Company

General Journal



Activity 21

Macys' Company began operations on January 2007 ,1. During its first two years, the company completed a number of transactions involving service on credit, accounts receivable collections, and bad debts. These transactions are summarized as follows.

2007

- 1 Provide services to credit customers for \$1,345,400.
- 2 Wrote off \$18,300 of uncollectible accounts receivable.
- 3 Received \$669,200 cash in payment of accounts receivable.
- 4 In adjusting the accounts on December 31, the company estimated that 3% of accounts receivable will be uncollectible.

2008

- 1 Provide services to credit customers for \$1,525,600.
- 2 Wrote off \$27,800 of uncollectible accounts receivable.
- 3 Received \$1,204,600 cash in payment of accounts receivable.
- 4 In adjusting the accounts on December 31, the company estimated that 5% of accounts receivable will be uncollectible.

Required:

- Prepare journal entries to record Macys' 2007 and 2008 transactions.

Macys' Company

General Journal



Macys' Company

General Journal

The chart displays the percentage of respondents who believe the economy is getting better, worse, or staying about the same from 2009 to 2014. The 'Banking' line is highlighted in dark grey. The 'Better' line is light blue, the 'Worse' line is light green, and the 'About the same' line is light orange. The 'Banking' line starts at approximately 45% in 2009, rises to 55% in 2010, and then fluctuates between 45% and 55% through 2014.

Year	Better	Worse	About the same	Banking
2009	45	45	10	45
2010	55	35	10	55
2011	50	40	10	50
2012	45	45	10	45
2013	50	40	10	50
2014	55	35	10	55



Closing Entries

Activity 22

Comp Service		
Adjusted Trial Balance		
Account Name	Debit	Credit
Cash	50,000	
Accounts Receivable	56,000	
Allowance for doubtful Accounts		10,000
Prepaid Insurance	9,500	
Prepaid Rent	1000	
Furniture	12,000	
Accumulated Depreciation - Furniture		8,000
Equipment	40,000	
Accumulated Depreciation - Equipment		24,000
Accounts Payable		15,000
Salaries Payable		1,000
Unearned Training Revenue		10,000
Paul, Capital		100,000
Paul, Withdrawals	30,000	
Service Revenue		90,000
Rent Revenue		92,000
Depreciation of Expense - Furniture	4,000	
Depreciation of Expense - Equipment	16,000	
Salaries Expense	45,000	
Insurance Expense	8,500	
Rent Expense	33,400	
Office Supplies Expense	20,000	
Advertising Expense	12,200	
Utilities Expense	12,400	
Total	350,000	350,000

Required:

- 1 Prepare the Income statement, Owners' Equity, and Balance Sheet for Dec. 31, 2011
- 2 Record closing temporary accounts and prepare post-closing trial balance.



Comp Service	
Income Statement	
For the Year Ended December 31, 2011	
Revenue:	
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Total Revenue	

Expenses:	
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Total Expenses	

Net Income (Loss)	



Comp Service

Statement of Changes in Owner's Equity

For the Year Ended December 31, 2011

Paul, Capital – 1/1/2011	0
Plus: Investment by owner
Net Income (loss)

Total
Less: Paul, Withdrawal

Paul, Capital – 31/12/2011



Comp Service	
Balance Sheet	
December 31, 2011	
Assets	
Assets:	
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Total Assets
Liabilities and Owner's Equity	
Liabilities:	
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Total Liabilities
Owner's Equity	
Paul, Capital - 31/12/2011
Total Liabilities and Owner's Equity



Comp Service

General Journal-Closing Entries



Comp Services		
<i>Post-Closing Trial Balance</i>		
December 31, 2011		
Account Name	Debit	Credit
Total		

Activity 23

Augustus Institute		
<i>Adjusted Trial Balance</i>		
For the Year Ended December 31, 2011		
Account Name	Debit	Credit
Cash	60,000	
Accounts Receivable	55,750	
Allowance for doubtful Accounts		10,000
Prepaid Insurance	9,500	
Prepaid Rent	0	
Furniture	12,000	
Accumulated Depreciation - Furniture		4,000
Equipment	40,000	
Accumulated Depreciation - Equipment		16,000
Accounts Payable		11,200
Salaries Payable		450
Unearned Training Revenue		7,000
Augustus, Capital		94,000
Augustus, Withdrawals	20,000	
Tuition Revenue		127,950
Training Revenue		86,600
Depreciation of Expense - Furniture	4,000	
Depreciation of Expense - Equipment	16,000	
Salaries Expense	44,650	
Insurance Expense	9,500	
Rent Expense	33,400	
Office Supplies Expense	20,000	
Advertising Expense	19,000	
Utilities Expense	13,400	
Total	350,200	350,200

Required:

- 1 Prepare the Income statement, Owners' Equity, and Balance Sheet for Dec. 31, 2011
- 2 Record closing temporary accounts and prepare post-closing trial balance.

[illegible]

Augustus Institute	
Statement of Changes in Owner's Equity	
For the Year Ended December 31, 2011	
Augustus, Capital – 1/1/2011	0
Plus:
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Total
Less:

Augustus, Capital 31/12/2011



Augustus Institute

Balance Sheet

December 31, 2011

Assets

Assets:

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Total Assets

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Liabilities and Owner's Equity

Liabilities:

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Total Liabilities

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Owner's Equity

Paul, Capital - 31/12/2011

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Total Liabilities and Owner's Equity

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Augustus Institute

General Journal-Closing Entries



Comp Services

Post-Closing Trial Balance

December 31, 2011

