

Adjustment

to

Financial

Statements

Accrual and Prepayments

Preparation of financial statements

Adjustments to draft financial statements

Candidates should have an understanding of:

- how to calculate and record the adjustments needed and the effect on financial statements in respect of:
 - accruals and prepayments of income and expenses
 - irrecoverable debts, irrecoverable debts recovered and allowance for irrecoverable debts
 - depreciation
 - inventory valuation
 - correction of errors



2 Daniel, a retailer, receives rent from a tenant.

The balance on the rent receivable account on 1 January 2019 was \$700. This represented rent received in advance at the beginning of the year.

During the year ended 31 December 2019 Daniel received total rent of \$4800 covering the 12-month period beginning 1 March 2019.

REQUIRED

(a) Prepare the rent receivable account for the year ended 31 December 2019.

Rent receivable account

	\$		\$

[4]

(b) State in which section of the income statement for the year ended 31 December 2019 Daniel's rent receivable should appear.

..... [1]

(c) State in which section of the statement of financial position at 31 December 2019 the balance of the rent receivable account should appear.

..... [1]

- 3 Noor, a sole trader, was preparing her business’s financial statements for the year ended 31 December 2018.

The following information is available.

At 1 January 2018

	\$
General expenses prepaid	480

During the year ended 31 December 2018

	\$
General expenses paid	12 400
Insurance premiums paid	6 480
Rent received	5 460

At 31 December 2018

- 1 General expenses, \$1210, were due but unpaid.
- 2 Insurance premiums paid included \$630 covering the six months ended 31 January 2019.
- 3 Rent receivable of \$1200 for the three months ended 28 February 2019 had not yet been received.
- 4 Inventory had been valued at a cost of \$11 400. However, it included several damaged items which had a selling price of \$840. All goods are sold with a mark-up of 50%. The damaged items could be sold but would require repairs costing \$360.

REQUIRED

- (a) Calculate the amount to be recorded in the income statement for the year ended 31 December 2018 for each of the following items.

- (i) General expenses

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..... [3]

- (ii) Insurance

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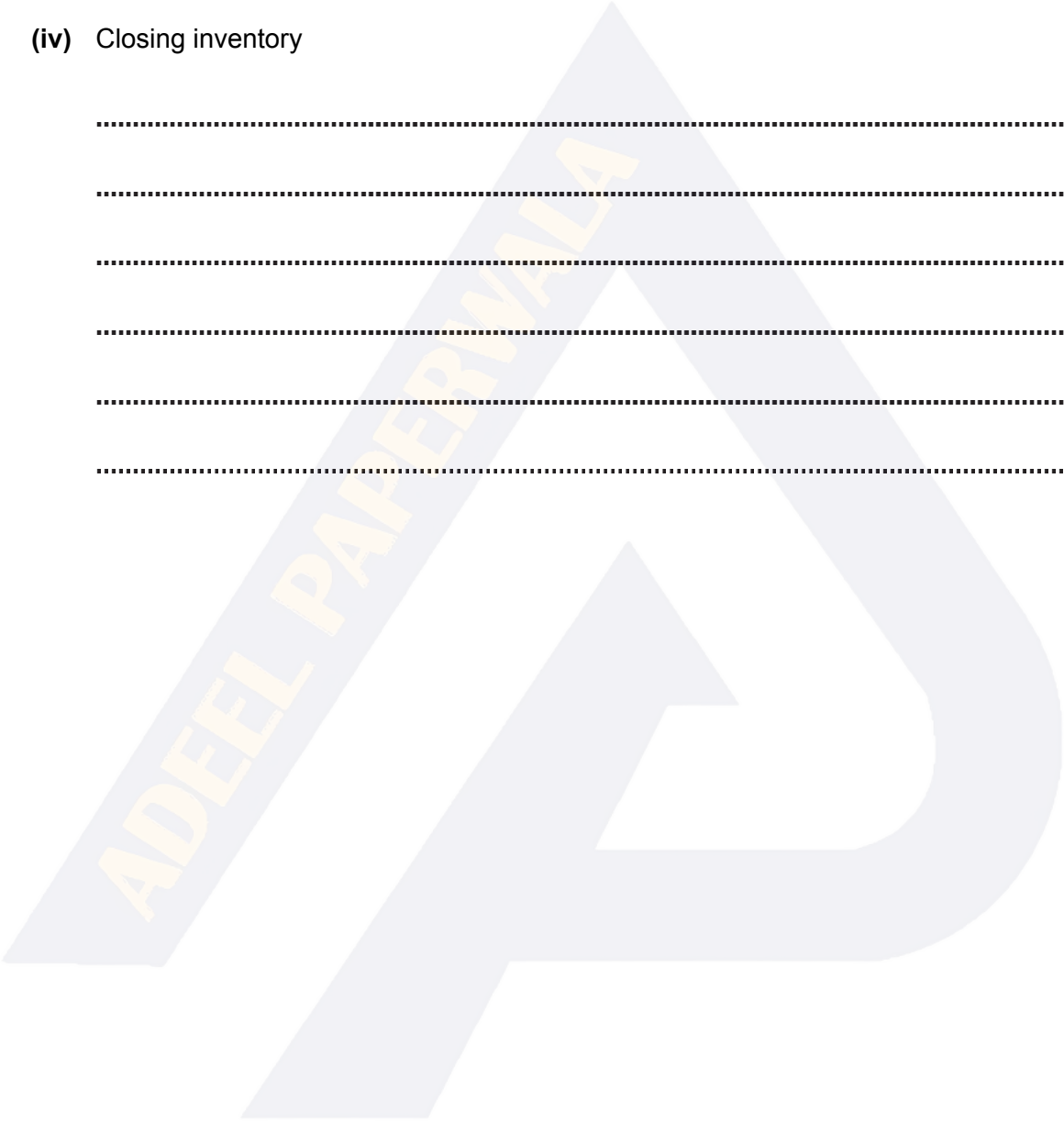
..... [1]

(iii) Rent receivable

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..... [1]

(iv) Closing inventory

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..... [3]



1 Francesco is a sole trader who runs a small bicycle distribution business. He does not keep full accounting records.

(b) Explain the accounting treatment at the year-end in the income statement and statement of financial position of:

Prepayments

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Accruals

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..... [4]

