

3-1A – 5 types of Adjustments

This problem explores 5 common types of adjusting journal entries. All problems relate to ABC Company, which has a fiscal year-end of December 31.

a.) Prepaid expenses - Insurance

ABC Company purchases a one-year insurance policy on June 1, 2017 for \$1,800 cash.

Required

Record the entry for the purchase of insurance and for the year-end adjustment.

b.) Depreciation

ABC Company purchases a vehicle on August 31, 2017 for \$15,000 cash. The vehicle is expected to be useful for 10-years, after which time it will have no residual value. The company wishes to use straight-line depreciation.

Required

Record the journal entry for the purchase of the vehicle and for the year-end adjustment.

c.) Accrued expenses - Interest

On May 1, 2017, ABC Company borrows \$10,000 from the bank and signs a note payable. The debt carries annual interest of 10% and is repaid in full (with interest) on July 31, 2018.

Required

Record the journal entry for the initial borrowing, the year-end adjustment and the repayment of the debt.

d.) Accrued revenues

As at December 31, 2017, ABC Company had provided 3 months of consulting service to a client at a rate of \$1,000 per month, but had not yet billed the client or collected any money. On January 31, 2018 the client was billed for four months of service and paid one week later on February 8, 2018.

Required

Record the journal entry for the year-end adjustment, and any other entries required.

e.) Unearned revenues

A client pre-pays ABC Company on November 1, 2017 for five months of consulting service (from November through the end of March). The company pays \$15,000. ABC Company earns the money evenly over the life of the project, and has fulfilled its obligations up to December 31.

Required

Record the journal entry November 1 and for the year-end adjustment.