

Problem 1

Following are three separate transactions that pertain to prepaid items. Evaluate each item and prepare the journal entries that would be needed for the initial recording and subsequent end-of-20X3 adjusting entry. Assume the company uses the balance sheet approach, and the initial recording is to an asset account. The company has a calendar year-end and does not make any adjusting entries prior to December 31.

- 1) The company purchased an 18-month insurance policy for \$9,000 on June 1, 20X3.
- 2) The company started 20X3 with \$10,000 in supplies (this was previously recorded, and you do not need to make an entry for the beginning balance), purchased \$15,000 in supplies during the year, and found only \$6,500 in supplies on hand at the end of 20X3.
- 3) The company paid \$1,200 to rent a truck. The rental period began on December 16, 20X3, and ends on February 14, 20X4.

Worksheet 1

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Jun. 1			
Dec. 30			

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Various			
Dec. 31			

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 16			
Dec. 31			

Solution 1

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Jun. 1	Prepaid Insurance	9,000	
	Cash		9,000
	<i>Purchased 18-month policy</i>		
Dec. 30	Insurance Expense	3,500	
	Prepaid Insurance		3,500
	<i>To record expiration of 7 months of coverage (7/18 X \$9,000)</i>		

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Various	Supplies	15,000	
	Cash		15,000
	<i>Purchased supplies</i>		
Dec. 31	Supplies Expense	18,500	
	Supplies		18,500
	<i>To record supplies used (\$10,000 beginning + \$15,000 purchased - \$6,500 remaining)</i>		

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 16	Prepaid Rent	1,200	
	Cash		1,200
	<i>Rented a truck for 60 days</i>		
Dec. 31	Rent Expense	300	
	Prepaid Rent		300
	<i>To record use of truck for 15 days (15/60 X \$1,200)</i>		