Accounting Units 3 & 4

Chapter 13 Prepaid and accrued expenses

Aboriginal and Torres Strait Islander content has been excluded as accuracy cannot be guaranteed, and it is better to be respectful than cover the entire curriculum inaccurately.

Significant effort has been made to ensure this content is legal. Please send any areas of concern to admin@vwx.au with appropriate document/legal references so errors can be verified and changes be made.

Contents

Chapter 13 Prepaid and accrued expenses — 13A Prepaid expenses

Theory

Balance day adjustments and the reporting period. A business divides its life into equal **reporting periods** — usually a year ending on **balance day** (often 30 June) — so that it can measure a profit for each period. This is the **period assumption**. Under the **accrual basis** assumption, the profit of a period is measured by matching the **revenues earned** against the **expenses incurred** in earning them, *regardless of when the cash is received or paid*. Because cash often changes hands in a **different** period from the one in which the benefit is earned or consumed, some accounts must be **adjusted on balance day** before the reports are prepared. A **balance day adjustment (BDA)** is a General Journal entry, dated balance day, that brings an account up to date so that the Income Statement reports the period's true profit and the Balance Sheet reports each asset and liability faithfully. A **prepaid expense** is one such adjustment.

What a prepaid expense is. A **prepaid expense** arises when a business **pays in advance** for a service it will consume over **future** periods — for example, paying twelve months of **insurance**, six months of **rent**, or a year's **advertising** up front. At the moment of payment the business has **not yet consumed** the benefit: what it holds is a **present economic resource** — the right to the insurance cover still to run, the right to occupy the premises, the right to the advertising yet to appear — **controlled as a result of a past event** (the payment already made), and that right has the **potential to produce future economic benefits**. It therefore meets the definition of an **asset**, so the payment is recorded as an asset — **Prepaid Insurance**, **Prepaid Rent**, **Prepaid Advertising** — and **not** immediately as an expense.

The asset approach. Under the **asset approach**, the **whole** GST-exclusive amount paid is recorded in the **Prepaid expense asset** account at the time of payment. As each period passes and part of the service is **used up (expires)**, the used portion is transferred out of the asset and into the matching **expense** account by a balance day adjustment. In this way the asset account always reports the **unexpired** benefit still to come, and the expense account reports only the portion **consumed in the current period**.

Recording the payment — GST is recorded in full at the time of payment. When the business pays for the service it receives a **tax invoice** for the whole amount, so the **entire GST** is recorded **at the time of payment** through the **GST Clearing** account — it is *not* spread over the life of the prepayment. If the cash paid is **GST-inclusive**, the GST is **one-eleventh** of the amount paid and the **GST-exclusive** cost (which goes to the Prepaid asset) is **ten-elevenths**:

$$\text{GST} = \frac{\text{GST-inclusive payment}}{11}, \text{GST-exclusive cost} = \text{GST-inclusive payment} \times \frac{10}{11}$$

The payment entry therefore **debits the Prepaid expense asset** with the GST-exclusive cost, **debits GST Clearing** with the GST, and **credits Bank** with the total cash paid.

The balance day adjustment — transferring the expired portion. By balance day, some months of the service have been **consumed**. The BDA transfers the **expired** portion out of the asset and into the expense:

- **Debit the expense** (**Insurance**, **Rent expense** or **Advertising**) with the amount used up.
- **Credit the Prepaid expense asset** with the same amount, reducing it to the unexpired balance.

There is **no GST** in this entry: the GST was already recorded in full at the time of payment, and the adjustment is an **internal transfer** between two of the business's own accounts, not a new purchase.

The expired amount is found by **apportioning** the GST-exclusive cost over the life of the prepayment, and the **unexpired** balance left in the asset is the remainder:

$$\text{Expense (expired)} = \text{GST-exclusive cost} \times \frac{\text{months used}}{\text{total months paid}}, \text{Prepaid (unexpired)} = \text{GST-exclusive cost} \times \frac{\text{total month}}{\text{total month}}$$

Reporting. After the adjustment:

- the **expired** portion is reported as an **expense** in the **Income Statement** for the period (Insurance, Rent expense or Advertising, among the other expenses); and

- the **unexpired** balance remains as an **asset** — **Prepaid Insurance / Rent / Advertising** — in the **Balance Sheet** as at balance day. It is a **current asset** so far as the business expects to consume that benefit **within the next twelve months**, which is the whole balance whenever the prepayment runs for twelve months or less. If the cover extends **beyond** twelve months from balance day — a 24-month policy, say — only the **next twelve months'** portion is a **current asset** and the remainder is reported as a **non-current asset**.

Why the asset approach upholds the qualitative characteristics. Splitting the payment this way keeps the reports faithful and relevant. Recognising only the **consumed** portion as an expense of the period upholds the **period assumption** and the **accrual basis** — the period is charged with the cost it actually used, not the whole amount that merely happened to be *paid* this period. Carrying the **unexpired** portion forward as an asset is a **faithful representation** of the economic resource the business still controls at balance day, and reporting each period's profit on only the portion consumed makes the profit figure **relevant** to decision making.

Worked model. *Brookvale Signs* reports annually to 30 June. On **1 April 2026** it paid **$6 600** (including **$600** GST) for a **12-month** insurance policy effective from 1 April 2026 (**EFT 4471**). The GST-exclusive cost is $6 600 × 10/11 = **$6 000**, recorded in the asset **Prepaid Insurance**; the $600 GST is recorded in **GST Clearing** at the time of payment. By balance day, **1 April to 30 June = 3 months** of cover have **expired**, so the expense used is $6 000 × 3/12 = **$1 500**, leaving an unexpired $6 000 × 9/12 = **$4 500** in the asset.

General Journal

Date 2026	Details	Debit $	Credit $
1 Apr	Prepaid Insurance	6 000	
	GST Clearing	600	
	Bank		6 600
	Payment for 12 months insurance in advance (EFT 4471)		
30 Jun	Insurance	1 500	
	Prepaid Insurance		1 500
	Insurance expired — 3 months to balance day		

Prepaid Insurance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Apr 2026	Bank	6 000	30 Jun 2026	Insurance	1 500
			30 Jun 2026	Balance c/d	4 500
		6 000			**6 000**
1 Jul 2026	Balance b/d	4 500			

Insurance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2026	Prepaid Insurance	1 500	30 Jun 2026	Profit and Loss Summary	1 500

Income Statement (extract)

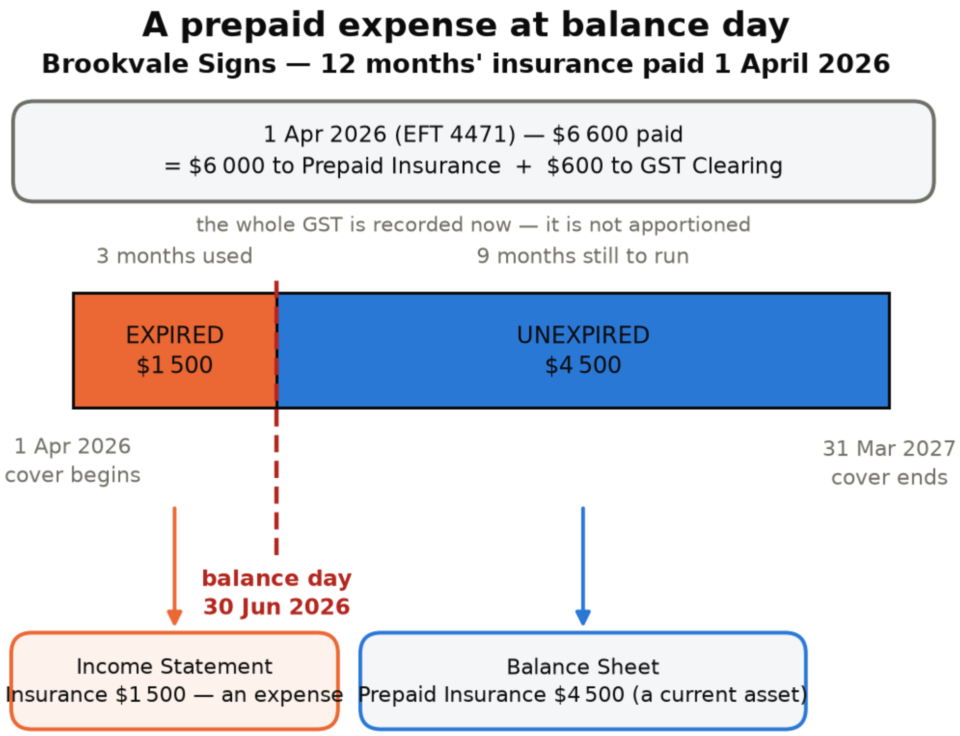
Income Statement (extract) for the year ended 30 June 2026	$
Other Expenses	

Income Statement (extract) for the year ended 30 June 2026	$
Insurance	1 500

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Assets	
Prepaid Insurance	4 500

The $1 500 expired portion is reported as an Insurance **expense** for the year, reducing profit, while the unexpired **$4 500** is reported as a **current asset**, ready to be consumed over the next nine months.



Brookvale Signs' 12-month insurance policy cut at balance day — three months expired, nine unexpired

The bar is drawn in proportion to the months, so the $1 500 expired really is a third of the $4 500 carried forward. The figure also fixes the place of the GST: the whole $600 is recorded on **1 April**, when the tax invoice is paid, and takes no part in the apportionment that follows.

Worked examples (scaffolded)

Example 1 — recording the payment (with GST) and the balance day adjustment

Cliffside Fitness reports annually to 30 June. On 1 May 2026 it paid $7 920 (including $720 GST) for a 12-month insurance policy effective 1 May 2026 (**EFT 2210**). Record the payment and the balance day adjustment, post to the Prepaid Insurance account, and prepare the report extracts.

Working	Comment
GST = $7 920 ÷ 11 = **$720**; **GST-exclusive cost** = $7 920 × 10/11 = **$7 200**.	The tax invoice covers the whole payment, so all $720 GST is recorded now through GST Clearing.
Payment: **Dr Prepaid Insurance $7 200; Dr GST Clearing $720; Cr Bank $7 920.**	Under the asset approach the whole GST-exclusive cost goes to the asset — nothing is expensed yet.
Months expired by 30 June: 1 May → 30 June = **2 months**.	Only the cover already used up becomes an expense of this period.

Working	Comment
Insurance expense = $7 200 × 2/12 = **$1 200**.	Apportion the GST-exclusive cost over the 12 months paid.
BDA: **Dr Insurance $1 200; Cr Prepaid Insurance $1 200** (no GST).	An internal transfer of the expired portion; the GST was already recorded at payment.
Prepaid Insurance remaining = $7 200 − $1 200 = **$6 000**.	Reported as a current asset; the $1 200 is reported as an expense.

General Journal

Date 2026	Details	Debit $	Credit $
1 May	Prepaid Insurance	7 200	
	GST Clearing	720	
	Bank		7 920
	Payment for 12 months insurance in advance (EFT 2210)		
30 Jun	Insurance	1 200	
	Prepaid Insurance		1 200
	Insurance expired — 2 months to balance day		

Prepaid Insurance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May 2026	Bank	7 200	30 Jun 2026	Insurance	1 200
			30 Jun 2026	Balance c/d	6 000
		7 200			**7 200**
1 Jul 2026	Balance b/d	6 000			

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Expenses	
Insurance	1 200

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Assets	
Prepaid Insurance	6 000

Example 2 — a six-month prepayment and a 31 December balance day

Harborline Studios reports annually to 31 December. On 1 November 2025 it paid $26 400 (including $2 400 GST) for **six months** of rent in advance, effective 1 November 2025 (**EFT 3305**). Record the payment and the balance day adjustment, post to both ledger accounts, and prepare the report extracts.

Working	Comment
GST = $26 400 ÷ 11 = **$2 400**; **GST-exclusive cost** =	GST is one-eleventh of the GST-inclusive cash paid; the

Working	Comment
$26 400 × 10/11 = **$24 000**.	rest is the cost of the rent.
Payment: **Dr Prepaid Rent $24 000; Dr GST Clearing $2 400; Cr Bank $26 400.**	The whole $24 000 is an asset — the rent has not yet been used.
Months expired by 31 December: 1 November → 31 December = **2 months** of **6**.	Two of the six months paid for have been consumed.
Rent expense = $24 000 × 2/6 = **$8 000**.	Apportion over the six months of the prepayment, not twelve.
BDA: **Dr Rent expense $8 000; Cr Prepaid Rent $8 000** (no GST).	Transfer only the expired two months to expense.
Prepaid Rent remaining = $24 000 − $8 000 = **$16 000** (4 months).	Reported as a current asset at 31 December 2025.

General Journal

Date 2025	Details	Debit $	Credit $
1 Nov	Prepaid Rent	24 000	
	GST Clearing	2 400	
	Bank		26 400
	Payment for 6 months rent in advance (EFT 3305)		
31 Dec	Rent expense	8 000	
	Prepaid Rent		8 000
	Rent expired — 2 months to balance day		

Prepaid Rent

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Nov 2025	Bank	24 000	31 Dec 2025	Rent expense	8 000
			31 Dec 2025	Balance c/d	16 000
		24 000			**24 000**
1 Jan 2026	Balance b/d	16 000			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
31 Dec 2025	Prepaid Rent	8 000	31 Dec 2025	Profit and Loss Summary	8 000

Income Statement (extract)

Income Statement (extract) for the year ended 31 December 2025	$
Other Expenses	
Rent expense	8 000

Balance Sheet (extract)

Balance Sheet (extract) as at 31 December 2025	$
Current Assets	
Prepaid Rent	16 000

Worked examples (unscaffolded)

Example 3 — recording and reporting a prepaid advertising contract

Ridgeway Motors reports annually to 31 December. On 1 September 2025 it paid $5 280 (including $480 GST) for a 12-month advertising contract effective 1 September 2025 (**EFT 6612**). Record the payment and the balance day adjustment in the General Journal, and prepare the Income Statement and Balance Sheet extracts.

The GST-exclusive cost is $5 280 × 10/11 = $4 800 (asset **Prepaid Advertising**) and the GST is $5 280 ÷ 11 = $480 (recorded in full at payment). By 31 December, 1 September → 31 December = 4 months have expired, so the Advertising expense is $4 800 × 4/12 = $1 600, leaving $4 800 − $1 600 = $3 200 unexpired.

General Journal

Date 2025	Details	Debit $	Credit $
1 Sep	Prepaid Advertising	4 800	
	GST Clearing	480	
	Bank		5 280
	Payment for 12-month advertising contract in advance (EFT 6612)		
31 Dec	Advertising	1 600	
	Prepaid Advertising		1 600
	Advertising expired — 4 months to balance day		

Income Statement (extract)

Income Statement (extract) for the year ended 31 December 2025	$
Other Expenses	
Advertising	1 600

Balance Sheet (extract)

Balance Sheet (extract) as at 31 December 2025	$
Current Assets	
Prepaid Advertising	3 200

∴ $1 600 of advertising is reported as an expense for the year and $3 200 remains as a current asset.

Example 4 — working backwards from the expense (a 24-month policy)

Marlow Logistics reports annually to 30 June. On 1 March 2026 it paid for a **24-month** insurance policy in advance, effective 1 March 2026. At 30 June 2026 the Insurance expense transferred to the Income Statement was $4 000. Determine the monthly cost, the GST-exclusive amount paid, the GST and the total cash paid, and the closing Prepaid Insurance balance, and state how that balance is classified in the Balance Sheet.

By balance day, 1 March → 30 June = 4 months have expired, so the monthly cost is $4 000 ÷ 4 = $1 000. Over the 24 months of the policy the GST-exclusive cost paid was $1 000 × 24 = $24 000, the GST was $24 000 × 10% = $2 400, and the total cash paid was $24 000 + $2 400 = $26 400. The closing Prepaid Insurance is the unexpired 20 months: $24 000 − $4 000 = $20 000. The reconstructed payment entry is:

General Journal

Date 2026	Details	Debit $	Credit $
1 Mar	Prepaid Insurance	24 000	
	GST Clearing	2 400	
	Bank		26 400
	Payment for 24-month insurance policy in advance		

Because the policy still has **20 months** to run at balance day, the $20 000 asset is **split** in the Balance Sheet: the next twelve months' cover, 12 × $1 000 = $12 000, is a **current asset**, and the remaining 8 months, 8 × $1 000 = $8 000, is a **non-current asset**.

∴ the total cash paid was $26 400, and the closing Prepaid Insurance at 30 June 2026 is $20 000 — reported as a $12 000 current asset and an $8 000 non-current asset.

Practice questions — scaffolded

Question 1

Fernbrook Grocers reports annually to 30 June. On 1 April 2026 it paid $4 400 (including $400 GST) for a 12-month insurance policy effective 1 April 2026 (**EFT 1180**).

a. Record the payment on 1 April 2026 in the General Journal.

b. Record the balance day adjustment on 30 June 2026 in the General Journal.

c. State the amount reported for Insurance in the Income Statement and for Prepaid Insurance in the Balance Sheet as at 30 June 2026.

Question 2

Oakhaven Bakery reports annually to 30 June. On 1 February 2026 it paid $9 900 (including $900 GST) for 12 months of rent in advance, effective 1 February 2026 (**EFT 2043**).

a. Calculate the GST-exclusive cost of the rent and the GST recorded at the time of payment.

b. Record the payment and the balance day adjustment in the General Journal.

c. State the Rent expense reported in the Income Statement and the Prepaid Rent reported in the Balance Sheet as at 30 June 2026.

Question 3

Seaview Dental reports annually to 31 December. On 1 October 2025 it paid $1 320 (including $120 GST) for a six-month advertising campaign, effective 1 October 2025 (**EFT 5567**).

a. Record the payment and the balance day adjustment in the General Journal.

b. Post the entries to the Prepaid Advertising account, showing the balance carried down and brought down.

c. State the closing balance of Prepaid Advertising at 31 December 2025 and the report in which it appears.

Question 4

Grovemont Hardware reports annually to 30 June. On 1 March 2026 it paid $10 560 (including $960 GST) for a 12-month insurance policy effective 1 March 2026 (**EFT 7781**).

a. Record the payment and the balance day adjustment in the General Journal.

b. Post the entries to the Prepaid Insurance account and the Insurance account.
c. State the report in which each of these two accounts appears.

Question 5

Pinehill Clinic reports annually to 30 June. On 1 May 2026 it paid $3 960 (including $360 GST) for six months of rent in advance, effective 1 May 2026 (**EFT 8890**).

a. Calculate the Rent expense for the year and the Prepaid Rent at 30 June 2026.
b. Prepare the Income Statement extract and the Current Assets extract of the Balance Sheet.
c. Identify the **two** accounting assumptions that together require only the expired portion to be reported as an expense this period, and explain in one sentence how each of them applies.

Question 6

Westgate Tyres reports annually to 30 June. On 1 April 2026 it paid $15 840 (including $1 440 GST) for a 12-month insurance policy effective 1 April 2026 (**EFT 3361**). By 30 June 2026, 3 months have expired.

a. Explain why, under the asset approach, the whole GST-exclusive payment is first recorded as an asset (Prepaid Insurance) rather than as an expense.
b. Referring to the period assumption and the accrual basis, explain why only $3 600 is reported as Insurance expense for the year.
c. State the amount of GST recorded at the time of payment, and explain why no GST is recorded in the balance day adjustment.

Practice questions — unscaffolded

Question 7

Ashford Printing reports annually to 30 June. On 1 June 2026 it paid $6 600 (including $600 GST) for a 12-month insurance policy effective 1 June 2026 (**EFT 1290**). Record the payment and the balance day adjustment in the General Journal, and state the amounts reported for Insurance and for Prepaid Insurance.

Question 8

Baymont Storage reports annually to 31 December. On 1 September 2025 it paid $19 800 (including $1 800 GST) for 12 months of rent in advance, effective 1 September 2025 (**EFT 4402**). Record the payment and the balance day adjustment in the General Journal, and state the Rent expense and the Prepaid Rent reported at 31 December 2025.

Question 9

Crestwood Realty reports annually to 31 December. On 1 November 2025 it paid $16 500 (including $1 500 GST) for a six-month advertising campaign, effective 1 November 2025 (**EFT 6710**). Record the balance day adjustment in the General Journal, and prepare the Income Statement extract and the Current Assets extract of the Balance Sheet as at 31 December 2025.

Question 10

Dalewood Motors reports annually to 30 June. On 1 April 2026 it paid $13 200 (including $1 200 GST) for a 12-month insurance policy effective 1 April 2026 (**EFT 3345**). Prepare the Prepaid Insurance account and the Insurance account (showing any balance carried down and brought down), and state the closing balance of Prepaid Insurance.

Question 11

Elmgrove Supplies reports annually to 30 June. On 1 March 2026 it paid $7 920 (including $720 GST) for a 12-month insurance policy effective 1 March 2026 (**EFT 5501**). At 30 June 2026 its other current assets are Bank $5 000 and Inventory $18 000. Prepare the Income Statement extract for Insurance and the Current Assets extract of the Balance Sheet (Bank, Inventory, Prepaid Insurance and Total Current Assets).

Question 12

Foxton Freight reports annually to 30 June. On 1 January 2026 it paid $26 400 (including $2 400 GST) for a **24-month** insurance policy effective 1 January 2026 (**EFT 7788**). Record the payment and the balance day adjustment in the General Journal, state the Insurance expense and the Prepaid Insurance reported at 30 June 2026, and show how the Prepaid Insurance is classified in the Balance Sheet.

Question 13

Glenwood Tools reports annually to 30 June. On 1 May 2026 it paid for a 12-month insurance policy in advance, effective 1 May 2026. The Insurance expense reported for the year ended 30 June 2026 was $1 400. Calculate the monthly premium, the GST-exclusive amount paid, the GST and total cash paid, and the Prepaid Insurance balance at 30 June 2026. (You are not required to prepare any journal or ledger.)

Question 14

Hartwell Clinic reports annually to 31 December. On 1 October 2025 it paid $3 300 (including $300 GST) for a six-month insurance policy, effective 1 October 2025 (**EFT 2298**). Calculate the Insurance expense reported in the Income Statement for the year ended 31 December 2025 and the Prepaid Insurance reported in the Balance Sheet as at 31 December 2025.

Question 15

Explain why, under the **asset approach**, the full GST-exclusive payment for insurance paid in advance is recorded as an **asset** at the time of payment rather than as an expense, and — referring to a relevant **qualitative characteristic** (relevance and/or faithful representation) — explain why only the expired portion is transferred to the expense account at balance day.

Question 16

Lockridge Joinery reports annually to 30 June. On 1 December 2025 the owner paid $13 200 (including $1 200 GST) for 12 months of rent in advance (**EFT 4180**) and recorded the whole $13 200 as Rent expense, arguing that the full amount was paid in cash this year. Explain why this treatment is incorrect, referring to the **period assumption** and the **accrual basis**; state the Rent expense and the Prepaid Rent that should be reported at 30 June 2026; and state the effect of the owner's treatment on the reported profit, assets and liabilities for the year ended 30 June 2026.

Question 17

Ironbark Gym reports annually to 31 December. On 1 August 2025 it paid $10 560 (including $960 GST) for a 12-month advertising contract effective 1 August 2025 (**EFT 9931**). Record the payment and the balance day adjustment in the General Journal, prepare the Prepaid Advertising account, and prepare the Income Statement extract and the Current Assets extract of the Balance Sheet as at 31 December 2025.

Question 18

Juniper Wholesale reports annually to 30 June. During the year ended 30 June 2026 it made two prepayments: on 1 March 2026 it paid $26 400 (including $2 400 GST) for six months of rent in advance (**EFT 1150**), and on 1 May 2026 it paid $6 600 (including $600 GST) for 12 months of insurance (**EFT 1225**). At 30 June 2026 its other current assets are Bank $7 000 and Inventory $15 000. Record both payments and both balance day adjustments in the General Journal, and prepare the Income Statement extract (Insurance and Rent expense) and the Current Assets extract of the Balance Sheet (including Total Current Assets).

Answers

1.
    c. Insurance \$1 000; Prepaid Insurance \$3 000
2.
    a. GST-exclusive \$9 000; GST \$900 c. Rent expense \$3 750; Prepaid Rent \$5 250
3.
    c. Prepaid Advertising \$600 (Balance Sheet, current asset)
4.
    c. Prepaid Insurance → Balance Sheet (current asset); Insurance → Income Statement (expense)
5.
    a. Rent expense \$1 200; Prepaid Rent \$2 400 c. Period assumption and accrual basis (see solutions)
6.
    c. GST \$1 440 (recorded in full at payment); no GST in the BDA (internal transfer)
7. Insurance \$500; Prepaid Insurance \$5 500
8. Rent expense \$6 000; Prepaid Rent \$12 000
9. Advertising \$5 000; Prepaid Advertising \$10 000
10. Prepaid Insurance \$9 000 (closing balance); Insurance \$3 000
11. Insurance \$2 400; Prepaid Insurance \$4 800; Total Current Assets \$27 800
12. Insurance \$6 000; Prepaid Insurance \$18 000 (current \$12 000; non-current \$6 000)
13. Monthly \$700; GST-exclusive \$8 400; GST \$840; total cash \$9 240; Prepaid Insurance \$7 000
14. Insurance \$1 500; Prepaid Insurance \$1 500
15. See solutions
16. Rent expense \$7 000; Prepaid Rent \$5 000; profit understated by \$6 200 (see solutions)
17. Advertising \$4 000; Prepaid Advertising \$5 600
18. Insurance \$1 000; Rent expense \$16 000; Prepaid Insurance \$5 000; Prepaid Rent \$8 000; Total Current Assets \$35 000

Fully-worked solutions

Question 1

GST-exclusive cost = \$4 400 × 10/11 = \$4 000; GST = \$4 400 ÷ 11 = \$400. Expired 1 Apr → 30 Jun = 3 months, so Insurance = \$4 000 × 3/12 = \$1 000; Prepaid Insurance remaining = \$4 000 − \$1 000 = \$3 000.

General Journal

Date 2026	Details	Debit \$	Credit \$
1 Apr	Prepaid Insurance	4 000	
	GST Clearing	400	
	Bank		4 400
	Payment for 12 months insurance in advance (EFT 1180)		
30 Jun	Insurance	1 000	
	Prepaid Insurance		1 000
	Insurance expired — 3 months to balance day		

c. Insurance reported in the Income Statement = **\$1 000**; Prepaid Insurance reported in the Balance Sheet as at 30 June 2026 = **\$3 000** (a current asset).

Question 2

a. GST-exclusive cost = $9 900 × 10/11 = **$9 000**; GST = $9 900 ÷ 11 = **$900**.

b. Expired 1 Feb → 30 Jun = 5 months, so Rent expense = $9 000 × 5/12 = $3 750; Prepaid Rent = $9 000 − $3 750 = $5 250.

General Journal

Date 2026	Details	Debit $	Credit $
1 Feb	Prepaid Rent	9 000	
	GST Clearing	900	
	Bank		9 900
	Payment for 12 months rent in advance (EFT 2043)		
30 Jun	Rent expense	3 750	
	Prepaid Rent		3 750
	Rent expired — 5 months to balance day		

c. Rent expense reported = **$3 750**; Prepaid Rent reported as at 30 June 2026 = **$5 250**.

Question 3

GST-exclusive cost = $1 320 × 10/11 = $1 200; GST = $120. Expired 1 Oct → 31 Dec = 3 months of 6, so Advertising = $1 200 × 3/6 = $600; Prepaid Advertising = $1 200 − $600 = $600.

General Journal

Date 2025	Details	Debit $	Credit $
1 Oct	Prepaid Advertising	1 200	
	GST Clearing	120	
	Bank		1 320
	Payment for 6-month advertising campaign in advance (EFT 5567)		
31 Dec	Advertising	600	
	Prepaid Advertising		600
	Advertising expired — 3 months to balance day		

Prepaid Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct 2025	Bank	1 200	31 Dec 2025	Advertising	600
			31 Dec 2025	Balance c/d	600
		1 200			**1 200**
1 Jan 2026	Balance b/d	600			

c. Closing Prepaid Advertising at 31 December 2025 = **$600**, reported as a **current asset** in the Balance Sheet.

Question 4

GST-exclusive cost = \$10 560 × 10/11 = \$9 600; GST = \$960. Expired 1 Mar → 30 Jun = 4 months, so Insurance = \$9 600 × 4/12 = \$3 200; Prepaid Insurance = \$9 600 − \$3 200 = \$6 400.

General Journal

Date 2026	Details	Debit \$	Credit \$
1 Mar	Prepaid Insurance	9 600	
	GST Clearing	960	
	Bank		10 560
	Payment for 12 months insurance in advance (EFT 7781)		
30 Jun	Insurance	3 200	
	Prepaid Insurance		3 200
	Insurance expired — 4 months to balance day		

Prepaid Insurance

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
1 Mar 2026	Bank	9 600	30 Jun 2026	Insurance	3 200
			30 Jun 2026	Balance c/d	6 400
		9 600			**9 600**
1 Jul 2026	Balance b/d	6 400			

Insurance

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
30 Jun 2026	Prepaid Insurance	3 200	30 Jun 2026	Profit and Loss Summary	3 200

c. **Prepaid Insurance** is a **current asset**, reported in the **Balance Sheet**; **Insurance** is an **expense**, reported in the **Income Statement**.

Question 5

a. GST-exclusive cost = \$3 960 × 10/11 = \$3 600. Expired 1 May → 30 Jun = 2 months of 6, so Rent expense = \$3 600 × 2/6 = **\$1 200**; Prepaid Rent = \$3 600 − \$1 200 = **\$2 400**.

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	\$
Other Expenses	
Rent expense	1 200

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	\$
Current Assets	
Prepaid Rent	2 400

c. The **period assumption** and the **accrual basis**. The period assumption divides the life of the business into reporting periods, so this year's Income Statement may only be charged with the rent that belongs to this year;

the accrual basis then recognises an expense when the benefit is **consumed (incurred)** rather than when the cash is paid, so only the 2 of the 6 months used up by 30 June are reported as Rent expense and the unused 4 months are carried forward as an asset.

Question 6

a. At the time of payment the business has **not yet consumed** the insurance cover. What it holds is a **present economic resource** — the right to 12 months of cover — **controlled as a result of a past event** (the payment already made), and that right has the **potential to produce future economic benefits**. It therefore meets the definition of an **asset**, so under the asset approach the whole GST-exclusive \$14 400 (= \$15 840 × 10/11) is recorded in **Prepaid Insurance** rather than being expensed immediately.

b. Under the **period assumption**, only the cost relating to the **current** reporting period should be reported as an expense of that period; under the **accrual basis**, an expense is recognised when the benefit is **consumed (incurred)**, not when the cash is paid. Only 3 of the 12 months have expired by 30 June, so only \$14 400 × 3/12 = **\$3 600** has been consumed and is reported as Insurance expense; the remaining \$10 800 is unexpired cover carried forward as an asset.

c. GST recorded at the time of payment = **\$1 440** (= \$15 840 ÷ 11), recorded in full through GST Clearing because the tax invoice for the whole payment is received then. **No GST** is recorded in the balance day adjustment, because that entry is an **internal transfer** of the expired cost from the asset to the expense — it is not a purchase, so it creates no new GST.

Question 7

GST-exclusive cost = \$6 600 × 10/11 = \$6 000; GST = \$600. Expired 1 Jun → 30 Jun = 1 month, so Insurance = \$6 000 × 1/12 = \$500; Prepaid Insurance = \$6 000 − \$500 = \$5 500.

General Journal

Date 2026	Details	Debit \$	Credit \$
1 Jun	Prepaid Insurance	6 000	
	GST Clearing	600	
	Bank		6 600
	Payment for 12 months insurance in advance (EFT 1290)		
30 Jun	Insurance	500	
	Prepaid Insurance		500
	Insurance expired — 1 month to balance day		

∴ Insurance reported = **\$500**; Prepaid Insurance reported = **\$5 500**.

Question 8

GST-exclusive cost = \$19 800 × 10/11 = \$18 000; GST = \$1 800. Expired 1 Sep → 31 Dec = 4 months of 12, so Rent expense = \$18 000 × 4/12 = \$6 000; Prepaid Rent = \$18 000 − \$6 000 = \$12 000.

General Journal

Date 2025	Details	Debit \$	Credit \$
1 Sep	Prepaid Rent	18 000	
	GST Clearing	1 800	
	Bank		19 800

Date 2025	Details	Debit $	Credit $
	Payment for 12 months rent in advance (EFT 4402)		
31 Dec	Rent expense	6 000	
	Prepaid Rent		6 000
	Rent expired — 4 months to balance day		

∴ Rent expense = **$6 000**; Prepaid Rent at 31 December 2025 = **$12 000**.

Question 9

GST-exclusive cost = $16 500 × 10/11 = $15 000. Expired 1 Nov → 31 Dec = 2 months of 6, so Advertising = $15 000 × 2/6 = $5 000; Prepaid Advertising = $15 000 − $5 000 = $10 000.

General Journal

Date 2025	Details	Debit $	Credit $
31 Dec	Advertising	5 000	
	Prepaid Advertising		5 000
	Advertising expired — 2 months to balance day		

Income Statement (extract)

Income Statement (extract) for the year ended 31 December 2025	$
Other Expenses	
Advertising	5 000

Balance Sheet (extract)

Balance Sheet (extract) as at 31 December 2025	$
Current Assets	
Prepaid Advertising	10 000

Question 10

GST-exclusive cost = $13 200 × 10/11 = $12 000; GST = $1 200. Expired 1 Apr → 30 Jun = 3 months, so Insurance = $12 000 × 3/12 = $3 000; Prepaid Insurance = $12 000 − $3 000 = $9 000.

Prepaid Insurance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Apr 2026	Bank	12 000	30 Jun 2026	Insurance	3 000
			30 Jun 2026	Balance c/d	9 000
		12 000			**12 000**
1 Jul 2026	Balance b/d	9 000			

Insurance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2026	Prepaid Insurance	3 000	30 Jun 2026	Profit and Loss Summary	3 000

∴ the closing balance of Prepaid Insurance carried down to 1 July 2026 is **$9 000**.

Question 11

GST-exclusive cost = $7 920 × 10/11 = $7 200. Expired 1 Mar → 30 Jun = 4 months, so Insurance = $7 200 × 4/12 = $2 400; Prepaid Insurance = $7 200 − $2 400 = $4 800. Total Current Assets = $5 000 + $18 000 + $4 800 = $27 800.

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Expenses	
Insurance	2 400

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$	$
Current Assets		
Bank		5 000
Inventory		18 000
Prepaid Insurance		4 800
Total Current Assets		**27 800**

Question 12

GST-exclusive cost = $26 400 × 10/11 = $24 000; GST = $2 400. Expired 1 Jan → 30 Jun = 6 months of 24, so Insurance = $24 000 × 6/24 = $6 000; Prepaid Insurance = $24 000 − $6 000 = $18 000.

General Journal

Date 2026	Details	Debit $	Credit $
1 Jan	Prepaid Insurance	24 000	
	GST Clearing	2 400	
	Bank		26 400
	Payment for 24-month insurance policy in advance (EFT 7788)		
30 Jun	Insurance	6 000	
	Prepaid Insurance		6 000
	Insurance expired — 6 months to balance day		

∴ Insurance reported = **$6 000**; Prepaid Insurance at 30 June 2026 = **$18 000** (the unexpired 18 months). The monthly cost is $24 000 ÷ 24 = $1 000, so because the policy still runs 18 months past balance day the asset is **split** in the Balance Sheet: the next twelve months, 12 × $1 000 = **$12 000**, is a **current asset**, and the final 6 months, **$6 000**, is a **non-current asset**.

Question 13

Expired 1 May → 30 Jun = 2 months, and the Insurance expense for those months was $1 400, so the monthly premium = $1 400 ÷ 2 = **$700**. Over the 12 months paid, the GST-exclusive amount = $700 × 12 = **$8 400**; the GST = $8 400 × 10% = **$840**; the total cash paid = $8 400 + $840 = **$9 240**. The Prepaid Insurance at 30 June 2026 = $8 400 − $1 400 = **$7 000** (the unexpired 10 months).

Question 14

GST-exclusive cost = $3 300 × 10/11 = $3 000; GST = $300. Expired 1 Oct → 31 Dec = 3 months of 6, so Insurance = $3 000 × 3/6 = **$1 500**; Prepaid Insurance = $3 000 − $1 500 = **$1 500**.

∴ Insurance reported in the Income Statement for the year ended 31 December 2025 = **$1 500**, and Prepaid Insurance reported in the Balance Sheet as at 31 December 2025 = **$1 500** (the unexpired 3 months).

Question 15

At the time of payment the business has **paid for a service it has not yet consumed**. The right to the insurance cover still to run is a **present economic resource** the business **controls as a result of a past event** (the payment already made), and it has the **potential to produce future economic benefits**, so it meets the definition of an **asset**. Under the asset approach the whole GST-exclusive payment is therefore recorded in the Prepaid Insurance **asset** account, because nothing has yet been used up, so no expense has yet been incurred.

At balance day only the **expired** portion is transferred to the expense account. Recognising only the consumed portion upholds **relevance** — the period's profit reflects the cost the business actually used to help earn this period's revenue, so it is useful for decision making. Carrying the **unexpired** portion forward as an asset upholds **faithful representation** — the Balance Sheet reports the future benefit that genuinely remains, so neither profit nor assets are overstated, and the information is complete, neutral and free from material error.

Question 16

The owner is incorrect on two counts. First, the $13 200 is not all expense: the **$1 200 GST** (= $13 200 ÷ 11) is never an expense at all — it is recorded in full through **GST Clearing** at the time of payment, because the tax invoice for the whole payment is received then. The cost of the rent is the GST-exclusive $13 200 × 10/11 = **$12 000**. Second, not even that $12 000 belongs to this year. Under the **period assumption**, the life of the business is divided into reporting periods and each period is charged with only the expenses that **relate to that period**; under the **accrual basis**, an expense is recognised when the benefit is **consumed (incurred)**, not when the cash is paid.

Expired 1 Dec → 30 Jun = 7 of the 12 months, so Rent expense = $12 000 × 7/12 = **$7 000**, and the unexpired 5 months, $12 000 − $7 000 = **$5 000**, is carried forward as the current asset **Prepaid Rent**.

The owner's treatment therefore charged $13 200 to Rent expense instead of $7 000, so for the year ended 30 June 2026:

- **expenses are overstated by $6 200**, and **profit and owner's equity are understated by $6 200**;
- **assets are understated by $5 000** — the Prepaid Rent asset has not been recognised; and
- **liabilities are overstated by $1 200** — the GST paid was not debited to GST Clearing, so the amount shown as owing to the ATO has not been reduced by the input tax credit.

These effects are consistent with the accounting equation: assets −$5 000 = liabilities +$1 200 plus owner's equity −$6 200.

Question 17

GST-exclusive cost = $10 560 × 10/11 = $9 600; GST = $960. Expired 1 Aug → 31 Dec = 5 months of 12, so Advertising = $9 600 × 5/12 = $4 000; Prepaid Advertising = $9 600 − $4 000 = $5 600.

General Journal

Date 2025	Details	Debit $	Credit $
1 Aug	Prepaid Advertising	9 600	
	GST Clearing	960	

Date 2025	Details	Debit $	Credit $
	Bank		10 560
	Payment for 12-month advertising contract in advance (EFT 9931)		
31 Dec	Advertising	4 000	
	Prepaid Advertising		4 000
	Advertising expired — 5 months to balance day		

Prepaid Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Aug 2025	Bank	9 600	31 Dec 2025	Advertising	4 000
			31 Dec 2025	Balance c/d	5 600
		9 600			**9 600**
1 Jan 2026	Balance b/d	5 600			

Income Statement (extract)

Income Statement (extract) for the year ended 31 December 2025	$
Other Expenses	
Advertising	4 000

Balance Sheet (extract)

Balance Sheet (extract) as at 31 December 2025	$
Current Assets	
Prepaid Advertising	5 600

Question 18

Rent (1 Mar): GST-exclusive = $26 400 × 10/11 = $24 000; GST = $2 400; expired 1 Mar → 30 Jun = 4 months of 6, so Rent expense = $24 000 × 4/6 = $16 000; Prepaid Rent = $24 000 − $16 000 = $8 000. *Insurance (1 May):* GST-exclusive = $6 600 × 10/11 = $6 000; GST = $600; expired 1 May → 30 Jun = 2 months, so Insurance = $6 000 × 2/12 = $1 000; Prepaid Insurance = $6 000 − $1 000 = $5 000. Total Current Assets = $7 000 + $15 000 + $5 000 + $8 000 = $35 000.

General Journal

Date 2026	Details	Debit $	Credit $
1 Mar	Prepaid Rent	24 000	
	GST Clearing	2 400	
	Bank		26 400
	Payment for 6 months rent in advance (EFT 1150)		
1 May	Prepaid Insurance	6 000	
	GST Clearing	600	

Date 2026	Details	Debit $	Credit $
	Bank		6 600
	Payment for 12 months insurance in advance (EFT 1225)		
30 Jun	Insurance	1 000	
	Prepaid Insurance		1 000
	Insurance expired — 2 months to balance day		
30 Jun	Rent expense	16 000	
	Prepaid Rent		16 000
	Rent expired — 4 months to balance day		

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Expenses	
Insurance	1 000
Rent expense	16 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$	$
Current Assets		
Bank		7 000
Inventory		15 000
Prepaid Insurance		5 000
Prepaid Rent		8 000
Total Current Assets		**35 000**

Chapter 13 Prepaid and accrued expenses — 13B Accrued expenses and the adjusted Trial Balance

Theory

Balance day adjustments and the accrual basis. A business measures its profit for a **reporting period** — usually the year ended on **balance day**, 30 June. Under the **accrual basis** assumption, profit is found by matching the **revenues earned** in the period against the **expenses incurred** in earning them, *regardless of when the cash is received or paid*. Most expenses are recorded from a source document (an **EFT**, a cheque, an invoice) at the moment cash changes hands. But at balance day some expenses have already been **incurred** — the benefit has been used up in the current period — even though **no cash has yet been paid** and no document has been recorded. A **balance day adjustment (BDA)** is a General Journal entry made on balance day that brings these amounts into the records, so the Income Statement reports the period's true profit and the Balance Sheet reports every asset and liability faithfully.

Section 13A dealt with a **prepaid expense** — cash paid *in advance* of the benefit, recorded first as an **asset** and then adjusted **down** as the benefit is consumed. This section deals with the mirror image, the **accrued expense**, and then shows how the **adjusted Trial Balance** confirms the ledger still balances once every adjustment has been made.

What is an accrued expense? An **accrued expense** is an expense that has been **incurred during the current period but not yet paid** at balance day. The business has already received and used the benefit (a month's electricity, a fortnight's wages, June's cleaning), so the cost belongs to this period's profit — but because it has not been paid, nothing has been recorded. At balance day, therefore:

- an **expense** of the current period is **understated** (it has not been recorded), and
- a **liability** exists — a **present obligation** to pay for a benefit already received.

The balance day adjustment for an accrued expense. A single General Journal entry corrects both:

- **Debit** the **expense** account — increasing the expense reported in this period's Income Statement.
- **Credit** an **Accrued <expense>** account — a **current liability** in the Balance Sheet, being the amount owed for the benefit already consumed.

No GST is recorded at balance day. The accrual is an internal recognition of an expense the business has incurred; it is **not a payment**, and the entry is made from an internal **memo**, not from a source document recording a transaction with the supplier. For an accrued expense the **GST is recorded at the time of payment**, so at balance day the expense and the liability are recorded at their **GST-exclusive** amount and **GST Clearing is not touched**. (Wages and interest are not subject to GST at all, at any stage.)

Worked model — the accrual entry. At 30 June 2026 **Brookvale Automotive** has run an online advertising campaign through June costing **$400**; the agency will not be paid until July (**Memo 18**).

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Advertising	400	
	Accrued advertising		400
	Advertising incurred but not yet paid at balance day; no GST until paid (Memo 18)		

Paying an accrued expense in the next period. When the business pays the account in the new period, the payment settles the liability carried forward — and because a **tax invoice is now being paid**, the **GST is recorded at this point**. For a GST-bearing expense the cash paid is the **GST-inclusive** amount, made up of the accrued (GST-exclusive) expense plus 10% GST. The entry is:

- **Debit Accrued <expense>** — the GST-exclusive amount accrued last period — removing the liability.

- **Debit GST Clearing** — the GST, which is exactly **1/11 of the GST-inclusive payment** — recording the input tax credit.
- **Credit Bank** — the full GST-inclusive amount paid.

The **expense account is not touched again**: the whole expense was recognised last period, in the period it was incurred. Recording it a second time would double-count it.

Worked model — paying the accrual. On 8 July 2026 Brookvale Automotive pays the advertising account of **$440** (including GST) by **EFT 512**. GST = 1/11 × $440 = **$40**, so the GST-exclusive amount is $400 — exactly the liability carried forward.

General Journal

Date 2026	Details	Debit $	Credit $
8 Jul	Accrued advertising	400	
	GST Clearing	40	
	Bank		440
	Payment of accrued advertising account, including $40 GST (EFT 512)		

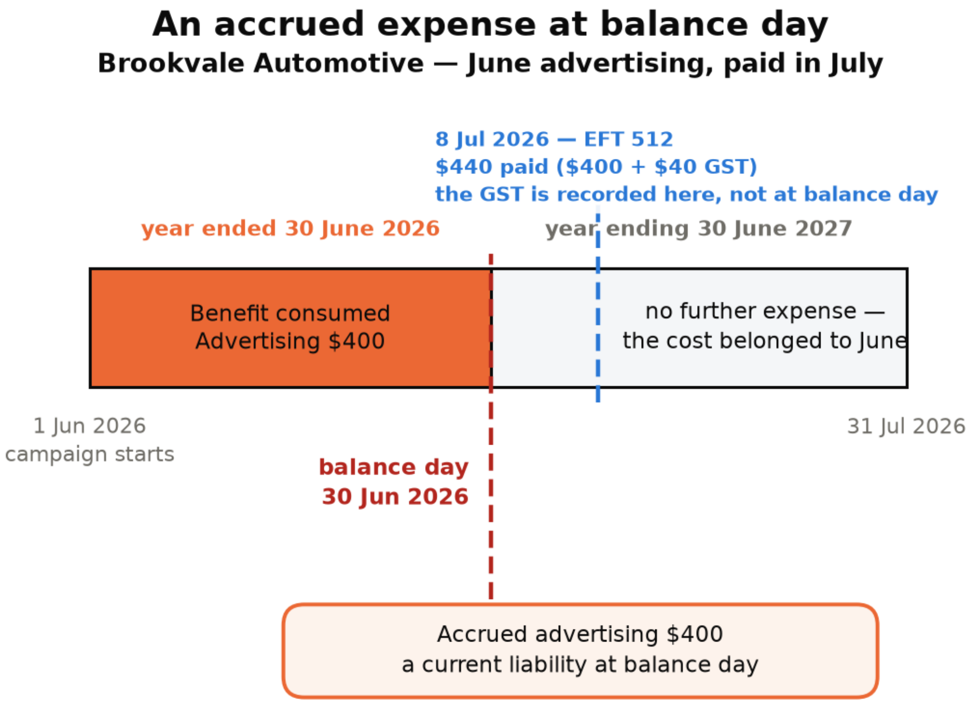
Tracing the **Accrued advertising** liability through both periods shows the account created, carried down, brought down and finally settled:

Accrued advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Balance c/d	400	30 Jun	Advertising	400
8 Jul	Bank	400	1 Jul	Balance b/d	400

The liability is created on 30 June (credit *Advertising* $400), carried into the new period as **Balance b/d $400** on 1 July, and cleared when the account is paid on 8 July (debit *Bank* $400) — leaving a **nil balance**. No expense is recorded in July; the $400 expense belonged to the year ended 30 June 2026.

Why no GST at balance day — the reasoning. The accrual upholds the **accrual basis** and the **period** assumption: the advertising benefit was consumed in the year ended 30 June 2026, so the expense must be reported in **that** period, matched against the revenue it helped to earn. The **GST**, however, is brought to account **when the account is paid**. At balance day nothing has been paid — there is only the business's own recognition, on a memo, of a cost incurred — so **GST Clearing is not touched**. The GST is recorded in July, when the account is settled and the input tax credit is claimed.



Brookvale Automotive's June advertising — the expense in one reporting period, the cash and the GST in the next

Set beside the prepaid timeline in Section 13A, the mirror is exact: there the cash came first and the benefit followed; here the benefit came first and the cash follows. The $400 expense belongs to the year in which the advertising actually ran, and the liability carries that obligation across balance day. The $40 GST sits on the far side of the line, recorded on 8 July when the account is paid.

The adjusted (post-adjustment) Trial Balance. A **Trial Balance** lists every General Ledger balance in a Debit or Credit column and totals the two; because every transaction was recorded with equal debits and credits, the totals must agree. Balance day adjustments are posted to the ledger *after* the ordinary (**unadjusted**) Trial Balance is prepared, so a business then prepares an **adjusted Trial Balance** — a fresh listing that includes the effect of every BDA — to confirm the ledger **still balances** before the reports are prepared.

Each type of adjustment keeps the Trial Balance in balance:

- A **prepaid** adjustment (Dr expense; Cr Prepaid <expense>) moves an amount **from a prepaid asset into an expense** — both are debit-balance accounts, so the **debit total is unchanged**.
- An **accrued** adjustment (Dr expense; Cr Accrued <expense>) **increases an expense (debit)** and **creates a liability (credit)** by the same amount — so **both** column totals rise equally.

Worked model — the adjusted Trial Balance. At 30 June 2026 the **unadjusted** Trial Balance of Brookvale Automotive is below. Two balance day adjustments are then required: (1) of the **$4 800 Prepaid insurance** asset, **$1 600** has expired and is now an expense (**Memo 17**); and (2) the **$400 accrued advertising** recorded above (**Memo 18**).

Unadjusted Trial Balance of Brookvale Automotive as at 30 June 2026

Account	Debit $	Credit $
Bank	21 400	
Accounts Receivable	13 200	
Inventory	38 000	
Prepaid insurance	4 800	
Shop equipment	45 000	
Accounts Payable		9 400
GST Clearing		3 000

Account	Debit $	Credit $
Loan – Meridian Bank		30 000
Capital		65 000
Drawings	16 000	
Sales		200 000
Cost of Sales	96 000	
Wages	52 000	
Rent expense	18 000	
Advertising	3 000	
Total	**307 400**	**307 400**

General Journal — balance day adjustments

Date 2026	Details	Debit $	Credit $
30 Jun	Insurance	1 600	
	Prepaid insurance		1 600
	Insurance consumed during the period transferred to expense (Memo 17)		
30 Jun	Advertising	400	
	Accrued advertising		400
	Advertising incurred but not yet paid at balance day; no GST until paid (Memo 18)		

After posting, **Prepaid insurance** falls to $3 200 and a new **Insurance** expense of $1 600 appears; **Advertising** rises to $3 400 and a new **Accrued advertising** liability of $400 appears. The adjusted Trial Balance still foots:

Adjusted Trial Balance of Brookvale Automotive as at 30 June 2026

Account	Debit $	Credit $
Bank	21 400	
Accounts Receivable	13 200	
Inventory	38 000	
Prepaid insurance	3 200	
Shop equipment	45 000	
Accounts Payable		9 400
GST Clearing		3 000
Accrued advertising		400
Loan – Meridian Bank		30 000
Capital		65 000
Drawings	16 000	
Sales		200 000
Cost of Sales	96 000	
Wages	52 000	
Rent expense	18 000	

Account	Debit $	Credit $
Advertising	3 400	
Insurance	1 600	
Total	**307 800**	**307 800**

∴ total debits = total credits = **$307 800**, so the ledger is still arithmetically balanced after the adjustments and the reports can be prepared.

Worked examples (scaffolded)

Example 1 — the accrual entry and the subsequent payment

Rivergum Café reports to 30 June 2026. A contract cleaner serviced the premises during late June for **$300** (GST-exclusive); the account had not been paid at balance day (**Memo 12**). On 6 July 2026 the café paid the cleaning account of **$330** (including GST) by **EFT 204**.

Working	Comment
The cleaning benefit was **consumed in June**, so $300 is an expense of the year ended 30 June 2026.	The accrual basis recognises the expense in the period it is *incurred*, not when it is paid.
Dr Cleaning $300; Cr Accrued cleaning $300 — no GST.	An accrued expense: an expense (Cleaning) and a liability (Accrued cleaning). Nothing is paid at balance day, so GST Clearing is untouched.
On payment, GST = 1/11 × $330 = **$30**; GST-exclusive amount = $300.	The GST is recorded when the account is paid, and is exactly one-eleventh of the GST-inclusive payment.
Dr Accrued cleaning $300; Dr GST Clearing $30; Cr Bank $330.	The liability ($300) is removed, the GST ($30) is recorded, and Bank falls by the full $330. The expense is **not** touched again.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Cleaning	300	
	Accrued cleaning		300
	Cleaning incurred but not yet paid at balance day; no GST until paid (Memo 12)		
6 Jul	Accrued cleaning	300	
	GST Clearing	30	
	Bank		330
	Payment of accrued cleaning account, including $30 GST (EFT 204)		

Accrued cleaning

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Balance c/d	300	30 Jun	Cleaning	300
6 Jul	Bank	300	1 Jul	Balance b/d	300

Example 2 — preparing the adjusted Trial Balance

Kestrel Traders reports to 30 June 2026. Its **unadjusted** Trial Balance is below. At balance day, of the **$8 000 Prepaid rent** asset **$2 000** has expired (**Memo 5**), and **$800** of advertising has been incurred but not yet paid (**Memo 6**). Record the two adjustments and prepare the adjusted Trial Balance.

Unadjusted Trial Balance of Kestrel Traders as at 30 June 2026

Account	Debit $	Credit $
Bank	15 000	
Accounts Receivable	9 000	
Inventory	33 000	
Prepaid rent	8 000	
Office equipment	26 000	
Accounts Payable		7 000
GST Clearing		2 000
Loan – Ashfield Finance		20 000
Capital		43 000
Drawings	12 000	
Sales		150 000
Cost of Sales	72 000	
Wages	41 000	
Advertising	6 000	
Total	**222 000**	**222 000**

Working	Comment
Prepaid rent: Dr Rent expense $2 000; Cr Prepaid rent $2 000.	The expired portion moves from the asset into a new Rent expense; both are debit balances, so the debit total is unchanged.
Accrued advertising: Dr Advertising $800; Cr Accrued advertising $800 (no GST).	Advertising rises to $6 800; a new $800 liability is created; both totals rise by $800.
Adjusted debit total = $222 000 − $2 000 (asset) + $2 000 (Rent expense) + $800 = **$222 800**.	The prepaid transfer nets to zero on the debit side; the accrual adds $800 to each side.
Adjusted credit total = $222 000 + $800 = **$222 800**.	The two totals still agree, confirming the ledger balances after adjustment.

General Journal — balance day adjustments

Date 2026	Details	Debit $	Credit $
30 Jun	Rent expense	2 000	
	Prepaid rent		2 000
	Prepaid rent consumed during the period transferred to expense (Memo 5)		
30 Jun	Advertising	800	
	Accrued advertising		800
	Advertising incurred but not yet paid at balance day; no GST until paid (Memo 6)		

Adjusted Trial Balance of Kestrel Traders as at 30 June 2026

Account	Debit $	Credit $
Bank	15 000	
Accounts Receivable	9 000	
Inventory	33 000	
Prepaid rent	6 000	
Office equipment	26 000	
Accounts Payable		7 000
GST Clearing		2 000
Accrued advertising		800
Loan – Ashfield Finance		20 000
Capital		43 000
Drawings	12 000	
Sales		150 000
Cost of Sales	72 000	
Wages	41 000	
Advertising	6 800	
Rent expense	2 000	
Total	**222 800**	**222 800**

Worked examples (unscaffolded)

Example 3 — accrual then payment for a security expense

Tolland Fitness reports to 30 June 2026. At balance day it owes **$500** for June security monitoring that has not been paid (**Memo 21**). On 9 July 2026 it pays the security account of **$550** (including GST) by **EFT 337**.

The balance day adjustment recognises the incurred expense and the liability, with no GST: Dr Security $500; Cr Accrued security $500. When the account is paid, GST = 1/11 × $550 = $50 (GST-exclusive $500), so Dr Accrued security $500, Dr GST Clearing $50, Cr Bank $550. Security expense is not touched again.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Security	500	
	Accrued security		500
	Security incurred but not yet paid at balance day; no GST until paid (Memo 21)		
9 Jul	Accrued security	500	
	GST Clearing	50	
	Bank		550
	Payment of accrued security account, including $50 GST (EFT 337)		

∴ the $500 expense is reported in the year ended 30 June 2026, and the $550 payment in July clears the liability and records the $50 GST.

Example 4 — explaining why no GST is recorded at balance day

Marlow Print reports to 30 June 2026. Electricity of **$600** was used during June but the tax invoice will not be paid until July (**Memo 15**). Record the balance day adjustment, then explain why no GST is recorded even though electricity is a GST-bearing expense.

The adjustment is Dr Electricity $600; Cr Accrued electricity $600.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Electricity	600	
	Accrued electricity		600
	Electricity incurred but not yet paid at balance day; no GST until paid (Memo 15)		

No GST is recorded because the balance day adjustment is **not a payment** — it is the business's own recognition, on a memo, under the **accrual basis**, of an expense **incurred** in the year ended 30 June 2026 so that it is matched to the period in which the electricity was consumed. The GST (an input tax credit) is recorded **when the account is paid** in July; at that point GST = 1/11 × $660 = $60 would be debited to GST Clearing. Recording the expense at its **GST-exclusive $600** now keeps the current period's profit faithful without anticipating the payment on which the GST is recorded.

∴ the $600 electricity is an accrued expense of the current period, recorded without GST; the GST is recognised only on payment next period.

Practice questions — scaffolded

Question 1

Camden Grocers reports to 30 June 2026. At balance day it has incurred **$700** of advertising that has not been paid (**Memo 15**). On 7 July 2026 it pays the advertising account of **$770** (including GST) by **EFT 233**.

a. Record the balance day adjustment for the accrued advertising in the General Journal.

b. Record the payment of the advertising account on 7 July in the General Journal.

c. State the amount of GST recorded on 7 July, and explain in one sentence why no GST was recorded at balance day.

Question 2

Ardenwood Studios reports to 30 June 2026. At balance day rent expense of **$900** has been incurred but not paid (**Memo 9**). On 5 July 2026 the account of **$990** (including GST) is paid by **EFT 141**.

a. Record the balance day adjustment in the General Journal.

b. Post both the adjustment and the 5 July payment to the **Accrued rent** account, showing the balance carried down at 30 June and brought down at 1 July.

c. State the balance of the Accrued rent account immediately after 5 July, and name the report in which the account appears at 30 June.

Question 3

Fernbrook Supplies reports to 30 June 2026. Its unadjusted Trial Balance is below. At balance day, **$1 000** of the Prepaid insurance asset has expired (**Memo 6**), and **$500** of advertising has been incurred but not paid (**Memo 7**).

Unadjusted Trial Balance of Fernbrook Supplies as at 30 June 2026

Account	Debit $	Credit $
Bank	12 000	

Account	Debit $	Credit $
Accounts Receivable	8 000	
Inventory	30 000	
Prepaid insurance	3 000	
Shop fittings	22 000	
Accounts Payable		6 000
GST Clearing		1 000
Loan – Brightside Bank		25 000
Capital		42 000
Drawings	10 000	
Sales		120 000
Cost of Sales	60 000	
Wages	35 000	
Rent expense	14 000	
Total	**194 000**	**194 000**

a. Record the two balance day adjustments in the General Journal.

b. Prepare the adjusted Trial Balance as at 30 June 2026.

c. State the total of the adjusted Trial Balance, and explain what the equal totals confirm.

Question 4

Halston Café reports to 30 June 2026. At balance day it owes **$450** for cleaning carried out in June (**Memo 22**). On 9 July 2026 it pays the cleaning account of **$495** (including GST) by **EFT 318**.

a. Record the balance day adjustment in the General Journal.

b. Record the 9 July payment in the General Journal.

c. State the effect of the balance day adjustment on the Income Statement and on the Balance Sheet for the year ended 30 June 2026.

Question 5

Bexley Electrical reports to 30 June 2026. At balance day electricity of **$380** has been used but not paid (**Memo 11**).

a. Define an **accrued expense**.

b. Record the balance day adjustment in the General Journal.

c. Explain, with reference to the **accrual basis** and the **period** assumption, why the $380 is recorded as an expense in the year ended 30 June 2026.

Question 6

Thornbury Timber reports to 30 June 2026. At balance day two amounts are owing: wages of **$1 200** (**Memo 30**) and rent expense of **$800** (**Memo 31**).

a. Record the balance day adjustment for the accrued **wages** in the General Journal.

b. Record the balance day adjustment for the accrued **rent** in the General Journal.

c. When each is paid next period, the wages payment is **$1 200** and the rent payment is **$880**. Explain why the rent payment includes GST but the wages payment does not.

Practice questions — unscaffolded

Question 7

Larkhill Trading reports to 30 June 2026. At balance day advertising of **$640** has been incurred but not yet paid (**Memo 14**). Record the balance day adjustment in the General Journal.

Question 8

Merriton Café reports to 30 June 2026. At balance day cleaning of **$520** is owing (**Memo 19**); the account of **$572** (including GST) is paid by **EFT 205** on 6 July 2026. Record both the balance day adjustment and the payment in the General Journal.

Question 9

Pinevale Motors reports to 30 June 2026. At balance day rent expense of **$1 100** is owing (**Memo 27**); the account of **$1 210** (including GST) is paid by **EFT 512** on 4 July 2026. Record the balance day adjustment in the General Journal, then prepare the **Accrued rent** account, showing the entry, the balance carried down and brought down, and the 4 July payment.

Question 10

Harlow Trading reports to 30 June 2026. Its unadjusted Trial Balance is below. At balance day, **$600** of the Prepaid advertising asset has expired (**Memo 7**), and wages of **$1 200** have been incurred but not paid (**Memo 8**). Record the two adjustments in the General Journal and prepare the adjusted Trial Balance as at 30 June 2026.

Unadjusted Trial Balance of Harlow Trading as at 30 June 2026

Account	Debit $	Credit $
Bank	9 500	
Accounts Receivable	11 500	
Inventory	44 000	
Prepaid advertising	2 400	
Motor vehicle	28 000	
Accounts Payable		8 400
GST Clearing		2 000
Loan – Kingsford Finance		35 000
Capital		60 000
Drawings	14 000	
Sales		150 000
Cost of Sales	84 000	
Wages	46 000	
Rent expense	16 000	
Total	**255 400**	**255 400**

Question 11

Oakmont Retail reports to 30 June 2026. Its unadjusted Trial Balance is below. At balance day, **$2 500** of the Prepaid rent asset has expired, and electricity of **$700** has been incurred but not paid (**Memo 13**). Prepare the adjusted Trial Balance as at 30 June 2026.

Unadjusted Trial Balance of Oakmont Retail as at 30 June 2026

Account	Debit $	Credit $
Bank	18 000	
Accounts Receivable	7 000	
Inventory	36 000	
Prepaid rent	5 000	

Account	Debit $	Credit $
Equipment	40 000	
Accounts Payable		10 000
GST Clearing		4 000
Loan – Dalton Bank		30 000
Capital		60 000
Drawings	20 000	
Sales		180 000
Cost of Sales	100 000	
Wages	54 000	
Advertising	4 000	
Total	**284 000**	**284 000**

Question 12

Ridgeway Café reports to 30 June 2026. Its **Accrued security** account showed a credit **Balance b/d** of **$720** on 1 July 2026. On 8 July 2026 the café paid the security account of **$792** (including GST) by **EFT 408**. Record the 8 July payment in the General Journal, and state the amount of GST recorded.

Question 13

Vale Fitness accrues electricity of **$480** at 30 June 2026 (**Memo 8**). Explain why **no GST** is recorded in the balance day adjustment, even though electricity is a GST-bearing expense when it is paid.

Question 14

Denton Hardware accrues wages of **$1 400** at 30 June 2026. Explain, with reference to the **accrual basis** and the **period (reporting period)** assumption, why the business records this expense at balance day rather than in July when the wages are paid.

Question 15

Stanmore Logistics reports to 30 June 2026. At balance day wages of **$1 500** are owing to employees (**Memo 25**); they are paid on 3 July 2026 by **EFT 119**. Record the balance day adjustment and the 3 July payment in the General Journal, and explain why no GST appears in either entry.

Question 16

On 5 July 2026 *Ellwood Print* paid **$770** (including GST) by **EFT 260** to settle an electricity account that had been accrued at 30 June 2026. Calculate the GST recorded on 5 July and the amount of the accrued electricity expense that had been recognised at balance day. (You are not required to prepare the journal.)

Question 17

Sandhurst Trading reports to 30 June 2026. Its unadjusted Trial Balance is below. At balance day, **$1 200** of the Prepaid insurance asset has expired, and advertising of **$600** has been incurred but not paid (**Memo 10**). Prepare the adjusted Trial Balance as at 30 June 2026, and state the report in which the **Accrued advertising** account appears and how it is classified.

Unadjusted Trial Balance of Sandhurst Trading as at 30 June 2026

Account	Debit $	Credit $
Bank	14 000	
Accounts Receivable	10 000	
Inventory	41 000	
Prepaid insurance	3 600	

Account	Debit $	Credit $
Office equipment	24 000	
Accounts Payable		9 000
GST Clearing		3 000
Loan – Renshaw Finance		28 000
Capital		50 000
Drawings	13 000	
Sales		150 000
Cost of Sales	78 000	
Wages	39 000	
Rent expense	15 000	
Advertising	2 400	
Total	**240 000**	**240 000**

Question 18

Whitfield Supplies reports to 30 June 2026. Its unadjusted Trial Balance is below. At balance day, **$1 000** of the Prepaid rent asset has expired, and advertising of **$560** has been incurred but not paid (**Memo 12**). Prepare the adjusted Trial Balance as at 30 June 2026. Then, on 7 July 2026 the accrued advertising account of **$616** (including GST) is paid by **EFT 620**; record that payment in the General Journal.

Unadjusted Trial Balance of Whitfield Supplies as at 30 June 2026

Account	Debit $	Credit $
Bank	16 000	
Accounts Receivable	9 000	
Inventory	35 000	
Prepaid rent	4 000	
Shop equipment	32 000	
Accounts Payable		8 500
GST Clearing		2 000
Loan – Corven Bank		30 000
Capital		58 000
Drawings	18 000	
Sales		150 000
Cost of Sales	88 000	
Wages	43 000	
Advertising	3 500	
Total	**248 500**	**248 500**

Answers

1.
    c. GST $70; no GST at balance day because GST is recorded only when the account is paid.
2.
    b. Account nil after 5 July c. Balance nil after 5 July; at 30 June it is a **current liability** in the Balance Sheet.
3.
    b. See solutions c. Total **$194 500**; equal totals confirm the ledger is arithmetically balanced after the adjustments.
4.
    c. Increases **Cleaning expense $450** (Income Statement); creates an **Accrued cleaning $450** current liability (Balance Sheet).
5.
    a. See solutions b. Dr Electricity $380; Cr Accrued electricity $380 c. See solutions.
6.
    a. Dr Wages $1 200; Cr Accrued wages $1 200 b. Dr Rent expense $800; Cr Accrued rent $800 c. See solutions.
7. Dr Advertising $640; Cr Accrued advertising $640.
8. BDA Dr Cleaning $520; Cr Accrued cleaning $520. Payment Dr Accrued cleaning $520, Dr GST Clearing $52; Cr Bank $572.
9. GST on payment $110; Accrued rent nil after 4 July.
10. Adjusted Trial Balance total **$256 600**.
11. Adjusted Trial Balance total **$284 700**.
12. GST $72; Dr Accrued security $720, Dr GST Clearing $72; Cr Bank $792.
13. See solutions.
14. See solutions.
15. No GST in either entry (wages are not subject to GST); see solutions.
16. GST $70; accrued electricity $700.
17. Adjusted Trial Balance total **$240 600**; Accrued advertising is a **current liability** in the Balance Sheet.
18. Adjusted Trial Balance total **$249 060**; payment Dr Accrued advertising $560, Dr GST Clearing $56; Cr Bank $616.

Fully-worked solutions

Question 1

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Advertising	700	
	Accrued advertising		700
	Advertising incurred but not yet paid at balance day; no GST until paid (Memo 15)		

General Journal

Date 2026	Details	Debit $	Credit $
7 Jul	Accrued advertising	700	
	GST Clearing	70	
	Bank		770

Date 2026	Details	Debit $	Credit $
	Payment of accrued advertising account, including $70 GST (EFT 233)		

c. GST recorded on 7 July = 1/11 × $770 = **$70**. No GST was recorded at balance day because the adjustment is not a payment — for an accrued expense the GST is recorded **at the time of payment**, in July.

Question 2

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Rent expense	900	
	Accrued rent		900
	Rent incurred but not yet paid at balance day; no GST until paid (Memo 9)		

Accrued rent

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Balance c/d	900	30 Jun	Rent expense	900
5 Jul	Bank	900	1 Jul	Balance b/d	900

c. Immediately after the 5 July payment the Accrued rent account has a **nil balance** (the $900 Balance b/d is offset by the $900 debit for Bank). At 30 June it is a **current liability**, reported in the **Balance Sheet**.

Question 3

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Insurance	1 000	
	Prepaid insurance		1 000
	Prepaid insurance consumed during the period transferred to expense (Memo 6)		
30 Jun	Advertising	500	
	Accrued advertising		500
	Advertising incurred but not yet paid at balance day; no GST until paid (Memo 7)		

Adjusted Trial Balance of Fernbrook Supplies as at 30 June 2026

Account	Debit $	Credit $
Bank	12 000	
Accounts Receivable	8 000	
Inventory	30 000	
Prepaid insurance	2 000	
Shop fittings	22 000	

Account	Debit $	Credit $
Accounts Payable		6 000
GST Clearing		1 000
Accrued advertising		500
Loan – Brightside Bank		25 000
Capital		42 000
Drawings	10 000	
Sales		120 000
Cost of Sales	60 000	
Wages	35 000	
Rent expense	14 000	
Insurance	1 000	
Advertising	500	
Total	**194 500**	**194 500**

c. Total = **$194 500**. Equal debit and credit totals confirm that, after the balance day adjustments, the ledger is still **arithmetically balanced** (every entry has an equal debit and credit), so the reports can be prepared from these figures.

Question 4

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Cleaning	450	
	Accrued cleaning		450
	Cleaning incurred but not yet paid at balance day; no GST until paid (Memo 22)		

General Journal

Date 2026	Details	Debit $	Credit $
9 Jul	Accrued cleaning	450	
	GST Clearing	45	
	Bank		495
	Payment of accrued cleaning account, including $45 GST (EFT 318)		

c. The adjustment **increases Cleaning expense by $450** in the Income Statement for the year ended 30 June 2026 (reducing net profit by $450), and **creates an Accrued cleaning liability of $450**, a current liability reported in the Balance Sheet as at 30 June 2026.

Question 5

a. An **accrued expense** is an expense that has been **incurred during the current period but not yet paid** at balance day; it represents both an expense of the period and a present obligation (a liability) to pay for the benefit already received.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Electricity	380	
	Accrued electricity		380
	Electricity incurred but not yet paid at balance day; no GST until paid (Memo 11)		

c. Under the **accrual basis**, an expense is recognised in the period in which it is **incurred** (when the benefit is consumed), not when it is paid. The electricity was used up during the year ended 30 June 2026, so under the **period** assumption — which requires each period's profit to include the revenues earned and the expenses incurred **in that period** — the $380 must be reported as an expense of the year ended 30 June 2026, matched against the revenue it helped to earn, even though it is not paid until July.

Question 6

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Wages	1 200	
	Accrued wages		1 200
	Wages incurred but not yet paid at balance day (Memo 30)		

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Rent expense	800	
	Accrued rent		800
	Rent incurred but not yet paid at balance day; no GST until paid (Memo 31)		

c. **Rent** is a **GST-bearing** expense: when the rent account is paid the business is settling a tax invoice, so 10% GST applies and the $880 payment includes GST of 1/11 × $880 = $80. **Wages**, however, are **not subject to GST** — an employee's wages are not a taxable supply — so the $1 200 wages payment carries **no GST** at any stage. (In both cases the balance day adjustment itself carried no GST, because GST is recorded only on payment.)

Question 7

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Advertising	640	
	Accrued advertising		640
	Advertising incurred but not yet paid at balance day; no GST until paid (Memo 14)		

Question 8

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Cleaning	520	
	Accrued cleaning		520
	Cleaning incurred but not yet paid at balance day; no GST until paid (Memo 19)		
6 Jul	Accrued cleaning	520	
	GST Clearing	52	
	Bank		572
	Payment of accrued cleaning account, including $52 GST (EFT 205)		

GST on payment = 1/11 × $572 = **$52**.

Question 9

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Rent expense	1 100	
	Accrued rent		1 100
	Rent incurred but not yet paid at balance day; no GST until paid (Memo 27)		

Accrued rent

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Balance c/d	1 100	30 Jun	Rent expense	1 100
4 Jul	Bank	1 100	1 Jul	Balance b/d	1 100

On 4 July the account of $1 210 (including GST) is paid: Dr Accrued rent $1 100, Dr GST Clearing $110 (= 1/11 × $1 210), Cr Bank $1 210. The Accrued rent account then has a **nil balance**.

Question 10

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Advertising	600	
	Prepaid advertising		600
	Prepaid advertising consumed during the period transferred to expense (Memo 7)		
30 Jun	Wages	1 200	
	Accrued wages		1 200
	Wages incurred but not yet paid at balance day (Memo 8)		

Adjusted Trial Balance of Harlow Trading as at 30 June 2026

Account	Debit $	Credit $
Bank	9 500	
Accounts Receivable	11 500	
Inventory	44 000	
Prepaid advertising	1 800	
Motor vehicle	28 000	
Accounts Payable		8 400
GST Clearing		2 000
Accrued wages		1 200
Loan – Kingsford Finance		35 000
Capital		60 000
Drawings	14 000	
Sales		150 000
Cost of Sales	84 000	
Wages	47 200	
Rent expense	16 000	
Advertising	600	
Total	**256 600**	**256 600**

Question 11

The prepaid rent adjustment is Dr Rent expense $2 500; Cr Prepaid rent $2 500 (Prepaid rent falls to $2 500). The accrued electricity adjustment is Dr Electricity $700; Cr Accrued electricity $700.

Adjusted Trial Balance of Oakmont Retail as at 30 June 2026

Account	Debit $	Credit $
Bank	18 000	
Accounts Receivable	7 000	
Inventory	36 000	
Prepaid rent	2 500	
Equipment	40 000	
Accounts Payable		10 000
GST Clearing		4 000
Accrued electricity		700
Loan – Dalton Bank		30 000
Capital		60 000
Drawings	20 000	
Sales		180 000
Cost of Sales	100 000	
Wages	54 000	
Advertising	4 000	
Rent expense	2 500	
Electricity	700	
Total	**284 700**	**284 700**

Question 12

General Journal

Date 2026	Details	Debit $	Credit $
8 Jul	Accrued security	720	
	GST Clearing	72	
	Bank		792
	Payment of accrued security account, including $72 GST (EFT 408)		

GST recorded = 1/11 × $792 = **$72**. The $720 debit to Accrued security clears the liability carried forward from 30 June, leaving the account with a nil balance.

Question 13

No GST is recorded in the balance day adjustment because the adjustment is **not a payment** — it is the business's own recognition, on a memo, under the accrual basis, of an expense **incurred** in the year ended 30 June 2026. For an accrued expense the GST (an input tax credit) is recorded **at the time of payment**, which here is July, when the electricity account is settled. At balance day the electricity is therefore recorded at its **GST-exclusive $480** (Dr Electricity $480; Cr Accrued electricity $480), and GST Clearing is left untouched until payment. Recording GST now would anticipate a payment that has not yet been made and would misstate the GST owed to, or claimable from, the ATO at balance day.

Question 14

Under the **accrual basis**, profit is measured by matching the expenses **incurred** in a period against the revenues **earned** in that period, regardless of when cash is paid. The employees worked during the year ended 30 June 2026, so the $1 400 of wages is a cost **incurred** in that period. The **period (reporting period)** assumption requires the life of the business to be divided into set periods and each period's profit to include **all** the revenues earned and expenses incurred **within it**. If the business delayed recording the wages until they were paid in July, the year ended 30 June 2026 would **understate its expenses and overstate its profit**, and the next period would carry an expense that does not belong to it. Recording the accrual at balance day places the expense in the correct period and recognises the liability owed to employees.

Question 15

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Wages	1 500	
	Accrued wages		1 500
	Wages incurred but not yet paid at balance day (Memo 25)		
3 Jul	Accrued wages	1 500	
	Bank		1 500
	Payment of accrued wages (EFT 119)		

No GST appears in either entry because **wages are not subject to GST** — an employee's labour is not a taxable supply, so no GST is charged and no input tax credit arises. (Even for a GST-bearing expense there would be no GST in the balance day adjustment; here there is also no GST on payment.)

Question 16

The $770 payment is GST-inclusive, so the GST is one-eleventh of it:

$$\text{GST} = 1/11 \times \$770 = \$70.$$

The accrued electricity expense recognised at balance day was the **GST-exclusive** amount:

$$\$770 - \$70 = \$700.$$

∴ GST recorded on 5 July = **$70**, and the accrued electricity expense at 30 June 2026 was **$700**.

Question 17

The prepaid insurance adjustment is Dr Insurance $1 200; Cr Prepaid insurance $1 200 (Prepaid insurance falls to $2 400). The accrued advertising adjustment is Dr Advertising $600; Cr Accrued advertising $600 (Advertising rises to $3 000).

Adjusted Trial Balance of Sandhurst Trading as at 30 June 2026

Account	Debit $	Credit $
Bank	14 000	
Accounts Receivable	10 000	
Inventory	41 000	
Prepaid insurance	2 400	
Office equipment	24 000	
Accounts Payable		9 000
GST Clearing		3 000
Accrued advertising		600
Loan – Renshaw Finance		28 000
Capital		50 000
Drawings	13 000	
Sales		150 000
Cost of Sales	78 000	
Wages	39 000	
Rent expense	15 000	
Advertising	3 000	
Insurance	1 200	
Total	**240 600**	**240 600**

The **Accrued advertising** account is reported in the **Balance Sheet** as at 30 June 2026, classified as a **current liability** (a present obligation the business expects to settle within the next 12 months).

Question 18

The prepaid rent adjustment is Dr Rent expense $1 000; Cr Prepaid rent $1 000 (Prepaid rent falls to $3 000). The accrued advertising adjustment is Dr Advertising $560; Cr Accrued advertising $560 (Advertising rises to $4 060).

Adjusted Trial Balance of Whitfield Supplies as at 30 June 2026

Account	Debit $	Credit $
Bank	16 000	
Accounts Receivable	9 000	
Inventory	35 000	
Prepaid rent	3 000	

Account	Debit $	Credit $
Shop equipment	32 000	
Accounts Payable		8 500
GST Clearing		2 000
Accrued advertising		560
Loan – Corven Bank		30 000
Capital		58 000
Drawings	18 000	
Sales		150 000
Cost of Sales	88 000	
Wages	43 000	
Advertising	4 060	
Rent expense	1 000	
Total	**249 060**	**249 060**

On 7 July 2026 the accrued advertising account of $616 (including GST) is paid:

General Journal

Date 2026	Details	Debit $	Credit $
7 Jul	Accrued advertising	560	
	GST Clearing	56	
	Bank		616
	Payment of accrued advertising account, including $56 GST (EFT 620)		

GST recorded = 1/11 × $616 = **$56**; the $560 debit clears the Accrued advertising liability carried forward, leaving a nil balance.