Accounting Units 3 & 4

Chapter 16 Unearned and accrued revenues

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.

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Theory

A business does not always receive cash **at the same time** as it earns its revenue. Sometimes a customer pays **in advance** — the cash arrives **before** the goods are supplied or the service is provided. A gym is paid twelve months of membership up front; a landlord receives a quarter's rent before the tenant occupies the premises; a publisher collects a year's magazine subscriptions on 1 January. In each case the business is holding cash for something it has **not yet done**.

Unearned revenue is cash received **in advance** of the goods being supplied or the service being performed. Under the **accrual basis** assumption, revenue is recognised **when it is earned** — when the business has provided the goods or service — **not** when the cash is received. So at the moment the cash comes in, **none of it is revenue yet**. Instead it is a **liability**.

Why unearned revenue is a liability. A **liability** is a **present obligation** of the business to transfer an economic resource as a result of a past event. When a business accepts cash in advance it takes on an obligation: it must **either provide the goods or service** in the future **or refund the cash**. That present obligation — owed to the customer as a result of the past receipt — meets the definition of a liability. It is named **Unearned Revenue** (some businesses call it Revenue Received in Advance or Prepaid Revenue). As the business does the work, the obligation is progressively discharged and the amount is progressively **earned**.

Current or non-current? A **current liability** is one that is **reasonably expected to be settled within twelve months** after the end of the reporting period. Most advances are for twelve months or less, so Unearned Revenue is usually a **current liability** in full. But where the advance covers goods or services still to be provided **more than twelve months after balance day** — a two-year lease, for example — the liability must be **split**: the portion to be earned in the **next twelve months** is a **current liability**, and the remainder is a **non-current liability**.

The liability approach. Under the **liability approach**, the whole advance receipt is credited to a **liability** account (Unearned Revenue) when the cash is received, and the earned portion is transferred to a **revenue** account **only as it is earned**. The two events are:

1. **Receipt of the advance** — record the cash and set up the liability.
2. **The balance day adjustment** — transfer the portion **earned** by balance day out of the liability and into revenue, leaving the **unearned** portion in the liability.

GST — no GST is recorded at the time of the deposit. GST is brought to account when the business **makes the supply** — when it actually provides the goods or performs the service. Cash received **in advance** is received *before* the supply is made, so **no GST is recorded at the time of the deposit**. The **whole amount received** is debited to **Bank** and credited to **Unearned Revenue**; **GST Clearing is not touched at all**. The liability therefore carries the **GST-inclusive** amount the customer has paid.

The GST is brought to account **later — as the revenue is earned**. The balance day adjustment transfers the earned portion **out of** Unearned Revenue and splits it two ways:

- **Debit Unearned Revenue** with the **GST-inclusive** portion earned (reducing the liability);
- **Credit** the appropriate **Revenue** account with the **GST-exclusive** revenue — **10/11** of the portion earned; and
- **Credit GST Clearing** with the **GST** — an exact **1/11** of the portion earned.

This one rule covers **every** advance receipt: annual fees, memberships, subscriptions, rent in advance, and a **deposit** that secures a future sale. A deposit is simply an advance on which **nothing has been earned** by balance day, so the whole deposit sits in Unearned Revenue and the split happens later, when the sale is **completed**: the deposit is then applied to the sale, the balance owing is recorded, and GST is credited on the **full** sale price.

$$\text{Closing Unearned Revenue} = \text{Amount received in advance} - \text{Amount earned to balance day (including GST)}$$

Recording the advance receipt. For an advance of $13 200 received in cash:

General Journal

Date 2026	Details	Debit $	Credit $
1 May	Bank	13 200	
	Unearned Revenue		13 200
	Membership fees received 12 months in advance; no GST at the time of the deposit (Rec. 214)		

Bank rises by the full $13 200 banked, and the whole $13 200 the business has **not yet earned** is set up as the liability **Unearned Revenue**. **GST Clearing is not credited** — the memberships have not yet been provided, so no supply has been made.

The balance day adjustment. At balance day the business asks: *how much of the advance has now been earned?* Only the portion for which the goods have been supplied or the service provided is revenue; the rest remains a liability. The earned portion is transferred with **one** General Journal entry, and it is at this point that the GST is brought to account.

This upholds the **accrual basis** and the **reporting period** assumption: the revenue earned is recognised in the period it was earned, and the amount still owed to customers is carried forward as a liability. Reporting the unearned amount as a liability (rather than as revenue) also upholds **faithful representation** — profit is not overstated by revenue the business has not yet earned.

Cross-referencing the ledger. In the **Unearned Revenue** account the cross-reference for the balance day adjustment is the **revenue account** (for example *Membership Revenue*) — **not** GST Clearing — even though GST Clearing is also credited in that entry.

Worked model. *Meridian Fitness* reports annually to 30 June and is registered for GST. On 1 May 2026 it received $13 200 for **12 months** of gym membership commencing 1 May 2026 (**Receipt 214**). No GST is recorded at the time of the deposit, so the whole $13 200 is credited to Unearned Revenue and the membership is $13 200 ÷ 12 = **$1 100 per month including GST**. By balance day (30 June 2026) **2 months** (May and June) have been provided, so 2 × $1 100 = **$2 200** (including GST) has been earned: **Membership Revenue $2 000** and **GST Clearing $200** (1/11 of $2 200). **$11 000** remains unearned.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Unearned Revenue	2 200	
	Membership Revenue		2 000
	GST Clearing		200
	Membership revenue earned for 2 months to balance day; GST brought to account on the supply made (adjusting entry)		

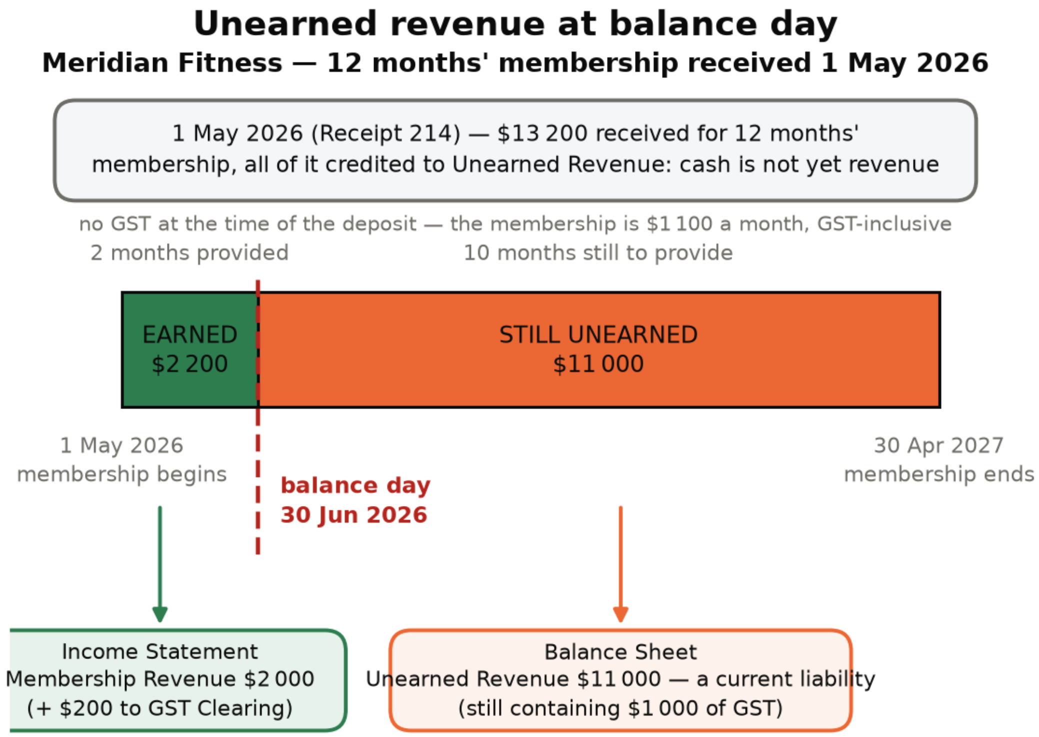
Unearned Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Membership Revenue	2 200	1 May	Bank	13 200
30 Jun	Balance c/d	11 000			
			1 Jul	Balance b/d	11 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Liabilities	
Unearned Revenue	11 000

The $2 000 earned is reported as revenue in the Income Statement, and the $11 000 not yet earned is a **current liability** — the obligation to provide the remaining 10 months of membership. That $11 000 is GST-inclusive: it still contains $1 000 of GST that will be brought to account as the memberships are provided.



Meridian Fitness' 12-month membership at balance day — two months earned, ten still to provide

The membership runs on past balance day, and the segments are drawn in proportion to the months, so the $2 200 earned is one sixth of the $13 200 received. Compare the shape with the prepaid expense in Section 13A: it is the same cut at the same point, but the unexpired portion here is a **liability** the business still owes as service, not an asset it still holds — and that remaining $11 000 is GST-inclusive, still carrying $1 000 of GST to be brought to account as the memberships are provided.

Worked examples (scaffolded)

Example 1 — an advance received in cash: receipt, adjustment and reporting

Harbourview Storage reports annually to 30 June and is registered for GST. On 1 March 2026 it received $11 880 for **12 months** of self-storage commencing 1 March 2026 (**Receipt 51**). Record the receipt and the balance day adjustment, prepare the Unearned Revenue account, and show how the liability is reported.

Working	Comment
The whole $11 880 received is credited to **Unearned Revenue**: Dr **Bank** $11 880; Cr **Unearned Revenue** $11 880.	**No GST at the time of the deposit** — the storage has not yet been provided, so no supply has been made. GST Clearing is untouched.
Storage is $11 880 ÷ 12 = **$990 per month including GST**. 1 March to 30 June = **4 months**, so the amount earned = 4 × $990 = **$3 960 (including GST)**.	Only the portion for which the service has been **provided** by balance day is earned.
Split the $3 960: GST = $3 960 ÷ 11 = **$360**; revenue = $3 960 − $360 = **$3 600**.	GST is an exact **1/11** of a GST-inclusive amount. This is when the GST is brought to account.
Adjustment: Dr **Unearned Revenue** $3 960; Cr **Storage**	The earned portion leaves the liability; the revenue and

Working	Comment
Revenue $3 600; Cr **GST Clearing** $360.	the GST are recognised together.
Closing **Unearned Revenue** = $11 880 − $3 960 = **$7 920**.	The 8 months still to be provided remain an obligation — a **current liability**.

General Journal

Date 2026	Details	Debit $	Credit $
1 Mar	Bank	11 880	
	Unearned Revenue		11 880
	Storage fees received 12 months in advance; no GST at the time of the deposit (Rec. 51)		
30 Jun	Unearned Revenue	3 960	
	Storage Revenue		3 600
	GST Clearing		360
	Storage revenue earned for 4 months to balance day; GST brought to account (adjusting entry)		

Unearned Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Storage Revenue	3 960	1 Mar	Bank	11 880
30 Jun	Balance c/d	7 920			
			1 Jul	Balance b/d	7 920

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Liabilities	
Unearned Revenue	7 920

Example 2 — an advance quoted "plus GST": what is actually banked, and what is recorded

Cardinia Publishing reports annually to 30 June and is registered for GST. On 1 April 2026 it received **$6 000 plus GST** for **12 months** of magazine subscriptions commencing 1 April 2026 (**Receipt 300**). Record the receipt and the balance day adjustment, and prepare the Current Liabilities extract of the Balance Sheet.

Working	Comment
The subscription is priced **excluding** GST, so the customer pays $6 000 + 10% × $6 000 = **$6 600**.	The **price** is quoted plus GST, so $6 600 is the cash actually banked.
Dr **Bank** $6 600; Cr **Unearned Revenue** $6 600.	Even though the price was quoted plus GST, **no GST is recorded at the time of the deposit** — the magazines have not yet been delivered. The whole $6 600 is the liability.
Subscriptions are $6 600 ÷ 12 = **$550 per month including GST**. 1 April to 30 June = **3 months**, so earned = 3 × $550 = **$1 650 (including GST)**.	Three months of magazines have been delivered by balance day.
Split the $1 650: GST = $1 650 ÷ 11 = **$150**; revenue = **$1 500**. Adjustment: Dr **Unearned Revenue** $1 650; Cr	The GST on the three months delivered is brought to

Working	Comment
Subscription Revenue $1 500; Cr **GST Clearing** $150.	account now.
Closing **Unearned Revenue** = $6 600 − $1 650 = **$4 950** (current liability).	Nine months of subscriptions remain to be supplied.

General Journal

Date 2026	Details	Debit $	Credit $
1 Apr	Bank	6 600	
	Unearned Revenue		6 600
	Subscriptions received 12 months in advance; no GST at the time of the deposit (Rec. 300)		
30 Jun	Unearned Revenue	1 650	
	Subscription Revenue		1 500
	GST Clearing		150
	Subscription revenue earned for 3 months to balance day; GST brought to account (adjusting entry)		

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Liabilities	
Unearned Revenue	4 950

Worked examples (unscaffolded)

Example 3 — rent received in advance: the Unearned Revenue account

Ashfield Property reports annually to 30 June and is registered for GST. On 1 February 2026 it received $15 840 for **8 months** of rent on commercial premises commencing 1 February 2026 (**Receipt 77**). Record the two entries and prepare the Unearned Revenue account.

No GST is recorded at the time of the deposit, so the whole $15 840 is credited to Unearned Revenue and the rent is $15 840 ÷ 8 = $1 980 per month including GST. By 30 June, 5 months (February to June) have been provided, so 5 × $1 980 = $9 900 has been earned: Rent Revenue $9 000 and GST Clearing $900 (1/11 of $9 900). $5 940 remains unearned.

General Journal

Date 2026	Details	Debit $	Credit $
1 Feb	Bank	15 840	
	Unearned Revenue		15 840
	Rent received 8 months in advance; no GST at the time of the deposit (Rec. 77)		
30 Jun	Unearned Revenue	9 900	
	Rent Revenue		9 000

Date 2026	Details	Debit $	Credit $
	GST Clearing		900
	Rent revenue earned for 5 months to balance day; GST brought to account (adjusting entry)		

Unearned Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Rent Revenue	9 900	1 Feb	Bank	15 840
30 Jun	Balance c/d	5 940			
			1 Jul	Balance b/d	5 940

∴ $9 000 of rent revenue is earned in the year ended 30 June 2026, $900 of GST is brought to account, and **$5 940** is reported as a current liability — the obligation to provide the remaining 3 months of occupancy.

Example 4 — a deposit: nothing earned at balance day, and the completed sale

Lakemont Boatyard reports annually to 30 June and is registered for GST. On 20 June 2026 it received a **$3 000 deposit** to secure a major engine service booked for 10 July 2026 (**Receipt 410**). The agreed price for the service is **$8 000 plus GST**. The service was completed on 10 July 2026 and the customer paid the balance in cash that day (**Receipt 455**). Record the deposit, show how it is reported at balance day, and record the completion of the service.

No GST is recorded when the deposit is received, and the whole $3 000 is credited to Unearned Revenue. At 30 June the service has not been performed, so the full $3 000 is still **unearned** and is reported as a **current liability** — no balance day adjustment is needed. The service is completed on 10 July: the total price is $8 000 + $800 GST = $8 800, the $3 000 deposit is applied to it, and the balance of $8 800 − $3 000 = $5 800 is banked. It is at this point that the GST is brought to account.

General Journal

Date	Details	Debit $	Credit $
20 Jun 2026	Bank	3 000	
	Unearned Revenue		3 000
	Deposit received to secure an engine service; no GST at the time of the deposit (Rec. 410)		
10 Jul 2026	Unearned Revenue	3 000	
	Bank	5 800	
	Service Revenue		8 000
	GST Clearing		800
	Engine service completed; deposit applied and balance received; GST brought to account (Rec. 455)		

∴ at 30 June 2026 the $3 000 deposit is a **current liability** (Unearned Revenue), because the boatyard still has a present obligation to perform the service; it becomes revenue — and attracts GST — only when the service is provided.

Practice questions — scaffolded

Question 1

Brookhaven Gym reports annually to 30 June and is registered for GST. On 1 May 2026 it received $7 920 for **12 months** of membership commencing 1 May 2026 (**Receipt 60**).

a. State the amount credited to Unearned Revenue on 1 May, and calculate the monthly membership (including GST) and the amount earned by 30 June (including GST).
b. Record the receipt on 1 May in the General Journal (with narration).
c. Record the balance day adjustment on 30 June and state the closing balance of Unearned Revenue.

Question 2

Delta Software reports annually to 30 June and is registered for GST. On 1 March 2026 it received **$16 800 plus GST** for a **12-month** software licence commencing 1 March 2026 (**Receipt 118**).

a. Calculate the amount banked, the amount credited to Unearned Revenue, the monthly fee (including GST) and the revenue earned by 30 June.
b. Record the receipt and the balance day adjustment in the General Journal.
c. Prepare the Current Liabilities extract of the Balance Sheet as at 30 June 2026.

Question 3

Riverbend Storage reports annually to 30 June and is registered for GST. On 1 February 2026 it received $19 800 for **12 months** of storage commencing 1 February 2026 (**Receipt 205**).

a. Calculate the amount earned by 30 June (showing the revenue and the GST separately) and the closing balance of Unearned Revenue.
b. Prepare the Unearned Revenue account for the year ended 30 June 2026 (balanced, with the balance carried down).
c. State the classification of Unearned Revenue and the amount reported in the Balance Sheet.

Question 4

Parkside Tennis reports annually to 30 June and is registered for GST. On 24 June 2026 it received a **$1 500 deposit** to reserve the centre for a corporate tournament to be held on 12 July 2026 (**Receipt 140**).

a. Record the receipt of the deposit in the General Journal (with narration).
b. Explain, in one sentence, why no GST is recorded at the time of the deposit.
c. State how the deposit is reported in the Balance Sheet as at 30 June 2026, and why.

Question 5

Brightwater Rentals reports annually to 30 June and is registered for GST. On 1 May 2026 it received $5 280 for **6 months** of equipment rental commencing 1 May 2026 (**Receipt 88**).

a. Calculate the monthly rental (including GST), the amount earned by 30 June (showing the revenue and the GST separately) and the closing balance of Unearned Revenue.
b. Record the balance day adjustment in the General Journal.
c. State the report in which each of Rent Revenue, GST Clearing and Unearned Revenue appears.

Question 6

Coastal Coaching reports annually to 30 June and is registered for GST. On 1 April 2026 it received **$8 400 plus GST** for a **12-month** coaching program commencing 1 April 2026 (**Receipt 27**).

a. Define **unearned revenue**, and explain why it is recorded as a **liability** rather than as revenue when the cash is received.

b. Explain the purpose of the balance day adjustment for unearned revenue, referring to the **accrual basis** and the **reporting period**.

c. State the amount of revenue earned by 30 June and name the account debited and the two accounts credited in the adjusting entry.

Practice questions — unscaffolded

Question 7

Summit Gym reports annually to 30 June and is registered for GST. On 1 September 2025 it received $26 400 for **12 months** of membership commencing 1 September 2025 (**Receipt 90**). Record the receipt and the balance day adjustment in the General Journal, and state the closing balance of Unearned Revenue at 30 June 2026.

Question 8

Verity Publishing reports annually to 30 June and is registered for GST. On 1 December 2025 it received **$13 200 plus GST** for **12 months** of subscriptions commencing 1 December 2025 (**Receipt 410**). Record the receipt and the balance day adjustment in the General Journal, and prepare the Current Liabilities extract of the Balance Sheet as at 30 June 2026.

Question 9

Roslyn Storage reports annually to 30 June and is registered for GST. On 1 July 2025 its **Unearned Revenue** account showed a **Balance b/d of $23 100**, being storage received in advance at **$1 100 per month including GST** for storage still to be provided. During the year ended 30 June 2026 the business provided **12 months** of that storage. Prepare the Unearned Revenue account for the year (balanced, with the balance carried down), and state the amount reported in the Balance Sheet as at 30 June 2026.

Question 10

Harbourline Charters reports annually to 30 June and is registered for GST. On 25 June 2026 it received a **$5 000 deposit** to secure a private charter booked for 8 August 2026 (**Receipt 61**). The agreed charter fee is **$12 000 plus GST**, with the balance payable within 30 days of the charter (**Invoice 340**). Record the receipt of the deposit, state how it is reported at 30 June 2026, and record the completion of the charter on 8 August 2026.

Question 11

Grandview Leasing reports annually to 30 June and is registered for GST. On 1 April 2026 it received $52 800 for a **24-month** commercial lease commencing 1 April 2026 (**Receipt 300**). Record the receipt and the balance day adjustment in the General Journal, then prepare the liabilities extract of the Balance Sheet as at 30 June 2026, classifying the closing Unearned Revenue correctly and justifying the split.

Question 12

Delmont Storage reports annually to 30 June and is registered for GST. Its balance day adjustment on 30 June 2026 **debited Unearned Revenue $3 300**, crediting **Storage Revenue $3 000** and **GST Clearing $300**, and represented **4 months** of a **12-month** storage advance received on 1 March 2026. Using this information, calculate: (a) the monthly storage fee including GST; (b) the amount banked on 1 March; (c) the closing balance of Unearned Revenue at 30 June 2026; and (d) the GST still to be brought to account on that closing balance as the storage is provided. (You are not required to prepare any journal or ledger.)

Question 13

Fernlea Subscriptions reports annually to 30 June and is registered for GST. On 1 April 2026 it received **$21 600 plus GST** for **12 months** of subscriptions commencing 1 April 2026 (**Receipt 500**). Record the receipt and the balance day adjustment in the General Journal, prepare the Unearned Revenue account, and prepare the Income Statement extract (revenue earned) and the Current Liabilities extract of the Balance Sheet.

Question 14

Rivergum Events reports annually to 30 June and is registered for GST. On 18 June 2026 it received a **$4 500 deposit** to secure catering for a wedding booked for 5 July 2026 (**Receipt 72**). Record the receipt of the deposit in the General Journal, explain why no GST is recorded at the time of the deposit, and state how the deposit is reported at 30 June 2026.

Question 15

Explain why cash received in advance is recorded as **Unearned Revenue** (a liability) rather than as revenue. In your answer, refer to the **definition of a liability** and to the **accrual basis** assumption.

Question 16

A business received $13 200 in advance for 12 months of services and, at balance day three months later, recorded the full $13 200 as revenue. Explain why this is **incorrect**, referring to the **reporting period** assumption and to the effect on **profit** and on the **Balance Sheet**. State the correct amount of revenue, the correct amount of GST and the correct closing liability.

Question 17

Explain the effect of the balance day adjustment for unearned revenue on the **Income Statement**, on **total liabilities** in the Balance Sheet, and on the **accounting equation**. State whether the adjustment changes the business's **Bank** balance, and explain why, referring to the **accrual basis** assumption.

Question 18

Ridgeway Gym reports annually to 30 June and is registered for GST. On 1 July 2025 its **Unearned Revenue** account showed a **Balance b/d of $4 400**, being membership received in advance at **$550 per month including GST** for the 8 months July 2025 to February 2026. On 1 April 2026 it received a further $19 800 for **12 months** of membership commencing 1 April 2026 (**Receipt 815**). The opening $4 400 was fully earned by 28 February 2026. Record the 1 April receipt and the balance day adjustment for the **total revenue earned** during the year in the General Journal, prepare the Unearned Revenue account, and prepare the Income Statement extract (revenue earned) and the Current Liabilities extract of the Balance Sheet.

Answers

1.
   a. Unearned Revenue $7 920; $660 per month including GST; earned $1 320 including GST c. Dr Unearned Revenue $1 320, Cr Membership Revenue $1 200, Cr GST Clearing $120; closing Unearned Revenue $6 600
2.
   a. Banked $18 480; Unearned Revenue $18 480; $1 540 per month; earned $6 160 including GST (revenue $5 600 + GST $560) c. Unearned Revenue $12 320
3.
   a. Earned $8 250 including GST (Storage Revenue $7 500 + GST $750); closing Unearned Revenue $11 550 c. Current liability; $11 550
4.
   b. The tournament has not yet been held, so no supply has been made and no GST is brought to account until it is c. Current liability $1 500
5.
   a. $880 per month; earned $1 760 including GST (Rent Revenue $1 600 + GST $160); closing $3 520 c. Rent Revenue → Income Statement; GST Clearing and Unearned Revenue → Balance Sheet
6.
   c. Revenue earned $2 100; Dr Unearned Revenue $2 310, Cr Coaching Revenue $2 100 and Cr GST Clearing $210
7. Revenue earned $20 000 (GST $2 000); closing Unearned Revenue $4 400
8. Banked $14 520; revenue earned $7 700 (GST $770); closing Unearned Revenue $6 050
9. Revenue earned $12 000 (GST $1 200); closing Unearned Revenue $9 900
10. Current liability $5 000 at 30 June; on 8 August Dr Unearned Revenue $5 000 and Dr Accounts Receivable $8 200, Cr Charter Revenue $12 000 and Cr GST Clearing $1 200
11. Revenue earned $6 000 (GST $600); closing Unearned Revenue $46 200 — **current liability $26 400** and **non-current liability $19 800**
12.
    a. $825 per month b. $9 900 c. $6 600 d. $600
13. Revenue earned $5 400 (GST $540); closing Unearned Revenue $17 820
14. Current liability $4 500 (no GST at the time of the deposit)
15. See solutions
16. Correct revenue $3 000 and GST $300; correct closing liability $9 900; profit overstated by $10 200
17. See solutions
18. Total revenue earned $8 500 (GST $850); closing Unearned Revenue $14 850

Fully-worked solutions

Question 1

a. **No GST is recorded at the time of the deposit**, so the whole receipt is credited to Unearned Revenue: **$7 920**. Monthly membership = $7 920 ÷ 12 = **$660 including GST**. 1 May to 30 June = 2 months, so the amount earned = 2 × $660 = **$1 320 including GST**.

General Journal

Date 2026	Details	Debit $	Credit $
1 May	Bank	7 920	
	Unearned Revenue		7 920
	Membership received 12 months in advance; no GST at the time of the deposit (Rec. 60)		

c. Split the $1 320 earned: GST = $1 320 ÷ 11 = $120; revenue = $1 320 − $120 = $1 200.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Unearned Revenue	1 320	
	Membership Revenue		1 200
	GST Clearing		120
	Membership revenue earned for 2 months to balance day; GST brought to account		

Closing **Unearned Revenue** = $7 920 − $1 320 = **$6 600**.

Question 2

a. GST on the price = 10% × $16 800 = $1 680, so the amount banked = $16 800 + $1 680 = **$18 480**. No GST is recorded at receipt, so Unearned Revenue is credited with the whole **$18 480**; monthly = $18 480 ÷ 12 = **$1 540 including GST**; 1 March to 30 June = 4 months, so the amount earned = 4 × $1 540 = **$6 160 including GST — Licence Fee Revenue $5 600** and **GST Clearing $560**.

General Journal

Date 2026	Details	Debit $	Credit $
1 Mar	Bank	18 480	
	Unearned Revenue		18 480
	Software licence fee received 12 months in advance; no GST at the time of the deposit (Rec. 118)		
30 Jun	Unearned Revenue	6 160	
	Licence Fee Revenue		5 600
	GST Clearing		560
	Licence fee revenue earned for 4 months to balance day; GST brought to account		

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Liabilities	
Unearned Revenue	12 320

Closing Unearned Revenue = $18 480 − $6 160 = **$12 320**.

Question 3

a. Monthly = $19 800 ÷ 12 = $1 650 including GST; 1 February to 30 June = 5 months, so the amount earned = 5 × $1 650 = **$8 250 including GST**. GST = $8 250 ÷ 11 = **$750**; **Storage Revenue** = $8 250 − $750 = **$7 500**. Closing Unearned Revenue = $19 800 − $8 250 = **$11 550**.

Unearned Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Storage Revenue	8 250	1 Feb	Bank	19 800
30 Jun	Balance c/d	11 550			
			1 Jul	Balance b/d	11 550

c. The remaining 7 months of storage (to 31 January 2027) will be provided within twelve months of balance day, so Unearned Revenue is a **current liability**, reported in the Balance Sheet at **$11 550**.

Question 4

General Journal

Date 2026	Details	Debit $	Credit $
24 Jun	Bank	1 500	
	Unearned Revenue		1 500
	Deposit received to reserve the centre; no GST at the time of the deposit (Rec. 140)		

b. GST is brought to account only when the business **makes the supply**, and at 24 June the tournament has not yet been held, so no supply has been made and no GST is recorded.

c. The $1 500 is reported as a **current liability** (Unearned Revenue), because at 30 June the centre still has a **present obligation** to provide the tournament booking (or refund the deposit) and will do so within twelve months; it is not yet revenue.

Question 5

a. Monthly rental = $5 280 ÷ 6 = **$880 including GST**; 1 May to 30 June = 2 months, so the amount earned = 2 × $880 = **$1 760 including GST**. GST = $1 760 ÷ 11 = **$160**; **Rent Revenue** = **$1 600**. Closing Unearned Revenue = $5 280 − $1 760 = **$3 520**.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Unearned Revenue	1 760	
	Rent Revenue		1 600
	GST Clearing		160
	Rental revenue earned for 2 months to balance day; GST brought to account		

c. **Rent Revenue** is a revenue, reported in the **Income Statement**; **GST Clearing** (a **current liability** where, as here, GST collected exceeds GST paid) and **Unearned Revenue** are both reported in the **Balance Sheet**.

Question 6

a. **Unearned revenue** is cash received **in advance** of the goods being supplied or the service being performed. It is recorded as a **liability** because, on receiving the cash, the business takes on a **present obligation** to either provide the goods/service in the future or refund the cash; none of it is revenue until it is **earned**.

b. Under the **accrual basis**, revenue is recognised in the **reporting period** in which it is **earned** — not when the cash is received. The balance day adjustment transfers only the portion **earned** by balance day into revenue, leaving the unearned portion as a liability, so that the period's profit includes only revenue actually earned and the Balance Sheet reports the remaining obligation faithfully.

c. The amount banked = $8 400 + 10% × $8 400 = $9 240, so the monthly fee = $9 240 ÷ 12 = $770 including GST, and 3 months (1 April to 30 June) are earned = 3 × $770 = $2 310 including GST. Revenue earned = $2

310 − ($2 310 ÷ 11) = **$2 100**. The adjusting entry **debits Unearned Revenue $2 310** and credits **Coaching Revenue $2 100** and **GST Clearing $210**.

Question 7

The whole $26 400 is credited to Unearned Revenue on 1 September 2025 (no GST at the time of the deposit). Monthly = $26 400 ÷ 12 = $2 200 including GST; 1 September 2025 to 30 June 2026 = 10 months, so the amount earned = 10 × $2 200 = $22 000 including GST — **Membership Revenue $20 000** and **GST Clearing $2 000** ($22 000 ÷ 11).

General Journal

Date	Details	Debit $	Credit $
1 Sep 2025	Bank	26 400	
	Unearned Revenue		26 400
	Membership received 12 months in advance; no GST at the time of the deposit (Rec. 90)		
30 Jun 2026	Unearned Revenue	22 000	
	Membership Revenue		20 000
	GST Clearing		2 000
	Membership revenue earned for 10 months to balance day; GST brought to account		

Closing **Unearned Revenue** = $26 400 − $22 000 = **$4 400** — the 2 months (July and August 2026) still to be provided.

Question 8

GST on the price = 10% × $13 200 = $1 320, so the amount banked = **$14 520**, all of which is credited to Unearned Revenue. Monthly = $14 520 ÷ 12 = $1 210 including GST; 1 December 2025 to 30 June 2026 = 7 months, so the amount earned = 7 × $1 210 = $8 470 including GST — **Subscription Revenue $7 700** and **GST Clearing $770** ($8 470 ÷ 11). Closing Unearned Revenue = $14 520 − $8 470 = $6 050.

General Journal

Date	Details	Debit $	Credit $
1 Dec 2025	Bank	14 520	
	Unearned Revenue		14 520
	Subscriptions received 12 months in advance; no GST at the time of the deposit (Rec. 410)		
30 Jun 2026	Unearned Revenue	8 470	
	Subscription Revenue		7 700
	GST Clearing		770
	Subscription revenue earned for 7 months to balance day; GST brought to account		

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Liabilities	
Unearned Revenue	6 050

Question 9

Amount earned = 12 months × $1 100 = $13 200 including GST — **Storage Revenue $12 000** and **GST Clearing $1 200** ($13 200 ÷ 11). Closing Unearned Revenue = $23 100 − $13 200 = $9 900 (the 9 months still to be provided, to 31 March 2027).

Unearned Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2026	Storage Revenue	13 200	1 Jul 2025	Balance b/d	23 100
30 Jun 2026	Balance c/d	9 900			
			1 Jul 2026	Balance b/d	9 900

Amount reported in the Balance Sheet as at 30 June 2026 = **$9 900** (a current liability).

Question 10

The deposit is received with **no GST** and credited in full to Unearned Revenue; at 30 June the charter has not been provided, so the $5 000 is reported as a **current liability**. The charter is completed on 8 August 2026: the fee is $12 000 + $1 200 GST = $13 200, the $5 000 deposit is applied to it, and the balance of $13 200 − $5 000 = $8 200 is owed by the customer on credit. The GST is brought to account now, on the completed supply.

General Journal

Date 2026	Details	Debit $	Credit $
25 Jun	Bank	5 000	
	Unearned Revenue		5 000
	Deposit received to secure a private charter; no GST at the time of the deposit (Rec. 61)		
8 Aug	Unearned Revenue	5 000	
	Accounts Receivable	8 200	
	Charter Revenue		12 000
	GST Clearing		1 200
	Charter completed; deposit applied and balance charged on credit; GST brought to account (Inv. 340)		

At 30 June 2026 the $5 000 is a **current liability** (Unearned Revenue).

Question 11

The whole $52 800 is credited to Unearned Revenue (no GST at the time of the deposit). Monthly = $52 800 ÷ 24 = $2 200 including GST; 1 April to 30 June = 3 months, so the amount earned = 3 × $2 200 = $6 600 including GST — **Rent Revenue $6 000** and **GST Clearing $600**. Closing Unearned Revenue = $52 800 − $6 600 = $46 200.

General Journal

Date 2026	Details	Debit $	Credit $
1 Apr	Bank	52 800	
	Unearned Revenue		52 800
	Lease received 24 months in advance; no GST at the time of the deposit (Rec. 300)		
30 Jun	Unearned Revenue	6 600	
	Rent Revenue		6 000
	GST Clearing		600
	Rent revenue earned for 3 months to balance day; GST brought to account		

The lease runs from 1 April 2026 to 31 March 2028, so at 30 June 2026 there are **21 months** still to be provided. A **current liability** is one expected to be settled **within twelve months** of balance day: the 12 months from 1 July 2026 to 30 June 2027 = 12 × $2 200 = **$26 400** is current, and the remaining 9 months from 1 July 2027 to 31 March 2028 = 9 × $2 200 = **$19 800** is **non-current** ($26 400 + $19 800 = $46 200).

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Liabilities	
Unearned Revenue	26 400
Non-Current Liabilities	
Unearned Revenue	19 800

Question 12

a. The $3 300 debited to Unearned Revenue is the GST-inclusive amount earned over 4 months, so the monthly storage fee = $3 300 ÷ 4 = **$825 including GST**.

b. Amount banked on 1 March = $825 × 12 months = **$9 900** (the whole receipt was credited to Unearned Revenue, because no GST is recorded at the time of the deposit).

c. Closing Unearned Revenue = $9 900 − $3 300 = **$6 600**.

d. That closing balance is GST-inclusive, so the GST still to be brought to account as the remaining 8 months of storage are provided = $6 600 ÷ 11 = **$600**.

Question 13

GST on the price = 10% × $21 600 = $2 160, so the amount banked = **$23 760**, all credited to Unearned Revenue. Monthly = $23 760 ÷ 12 = $1 980 including GST; 1 April to 30 June = 3 months, so the amount earned = 3 × $1 980 = $5 940 including GST — **Subscription Revenue $5 400** and **GST Clearing $540** ($5 940 ÷ 11). Closing Unearned Revenue = $23 760 − $5 940 = $17 820.

General Journal

Date 2026	Details	Debit $	Credit $
1 Apr	Bank	23 760	
	Unearned Revenue		23 760
	Subscriptions received 12 months in advance; no GST at the time of the deposit (Rec. 500)		

Date 2026	Details	Debit $	Credit $
30 Jun	Unearned Revenue	5 940	
	Subscription Revenue		5 400
	GST Clearing		540
	Subscription revenue earned for 3 months to balance day; GST brought to account		

Unearned Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Subscription Revenue	5 940	1 Apr	Bank	23 760
30 Jun	Balance c/d	17 820			
			1 Jul	Balance b/d	17 820

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Revenue	
Subscription Revenue	5 400

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Liabilities	
Unearned Revenue	17 820

Question 14

General Journal

Date 2026	Details	Debit $	Credit $
18 Jun	Bank	4 500	
	Unearned Revenue		4 500
	Deposit received to secure wedding catering; no GST at the time of the deposit (Rec. 72)		

No GST is recorded because GST is brought to account only when the business **makes the supply**: at 18 June the catering has not been provided, so there is no supply yet and the whole $4 500 is credited to Unearned Revenue. The GST will be brought to account on 5 July, when the wedding is catered and the full sale is recorded. At 30 June 2026 the catering has still not been provided, so the $4 500 is reported as a **current liability** (Unearned Revenue) — the obligation to provide the catering or refund the deposit.

Question 15

Cash received in advance is recorded as **Unearned Revenue**, a **liability**, because on receiving the cash the business takes on a **present obligation** to transfer an economic resource — it must **provide the goods or service** in the future, or **refund** the cash — as a result of the past receipt. That present obligation meets the **definition of a liability**.

Under the **accrual basis**, revenue is recognised only **when it is earned** (when the goods are supplied or the service is performed), not when the cash is received. At the moment of receipt the business has not yet earned anything, so recording the amount as revenue would overstate profit. Recording it as a liability defers recognition until the revenue is earned, when the balance day adjustment transfers the earned portion into revenue and brings the GST on that portion to account.

Question 16

Recording the full $13 200 as revenue is **incorrect** because, under the **reporting period** assumption and the accrual basis, only the revenue **earned within the period** may be recognised. The monthly amount is $13 200 ÷ 12 = $1 100 including GST, and at balance day only **3 of the 12 months** of service have been provided, so only 3 × $1 100 = $3 300 (including GST) has been earned — **revenue of $3 000** and **GST of $300**.

Treating the whole $13 200 as revenue **overstates profit** by $13 200 − $3 000 = **$10 200** in the Income Statement, and **understates liabilities** in the Balance Sheet by the same $10 200: the $9 900 still owed to customers is not reported as **Unearned Revenue**, and the $300 of GST brought to account on the three months already provided is not reported in **GST Clearing**. The correct treatment recognises **$3 000** as revenue and **$300** as GST Clearing, and reports **$9 900** as a current liability (Unearned Revenue), upholding faithful representation.

Question 17

The adjustment **debits Unearned Revenue** with the GST-inclusive portion earned, and **credits** the revenue account with the GST-exclusive revenue and **GST Clearing** with the GST.

- **Income Statement:** revenue increases by the **GST-exclusive** amount earned, so **net profit increases** by that amount. Only the portion actually earned in the period is recognised.
- **Total liabilities:** Unearned Revenue **decreases** by the GST-inclusive amount transferred, while GST Clearing **increases** by the GST. The **net decrease in total liabilities** therefore equals the GST-exclusive revenue recognised.
- **Accounting equation:** assets are **unchanged**; liabilities **fall** by the revenue amount and owner's equity **rises** by the same amount (through net profit), so assets = liabilities + owner's equity still holds.
- **Bank:** the adjustment does **not** change the Bank balance. The cash was received earlier, when the advance was banked; the balance day adjustment is an internal transfer recorded on a memorandum, with no cash movement. This is exactly what the **accrual basis** requires — revenue is recognised in the period it is **earned**, which is not necessarily the period in which the cash is received.

Question 18

The opening $4 400 (8 months at $550 including GST) was fully earned by 28 February 2026, so all $4 400 is transferred out of Unearned Revenue this year — **Membership Revenue $4 000** and **GST Clearing $400** ($4 400 ÷ 11).

The 1 April receipt of $19 800 is credited in full to Unearned Revenue (no GST at the time of the deposit). Monthly = $19 800 ÷ 12 = $1 650 including GST, and 3 months (April to June) are earned = 3 × $1 650 = $4 950 including GST — **Membership Revenue $4 500** and **GST Clearing $450**.

Total debited to Unearned Revenue = $4 400 + $4 950 = **$9 350**; **total revenue earned this year** = $4 000 + $4 500 = **$8 500**; **total GST brought to account** = $400 + $450 = **$850**; **closing Unearned Revenue** = ($4 400 + $19 800) − $9 350 = **$14 850**.

General Journal

Date	Details	Debit $	Credit $
1 Apr 2026	Bank	19 800	
	Unearned Revenue		19 800
	Membership received 12 months in advance; no GST at the time of the		

Date	Details	Debit $	Credit $
	deposit (Rec. 815)		
30 Jun 2026	Unearned Revenue	9 350	
	Membership Revenue		8 500
	GST Clearing		850
	Membership revenue earned during the year ($4 400 opening advance + $4 950 new advance); GST brought to account		

Unearned Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2026	Membership Revenue	9 350	1 Jul 2025	Balance b/d	4 400
30 Jun 2026	Balance c/d	14 850	1 Apr 2026	Bank	19 800
			1 Jul 2026	Balance b/d	14 850

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Revenue	
Membership Revenue	8 500

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Liabilities	
Unearned Revenue	14 850

The remaining 9 months of membership run to 31 March 2027 — within twelve months of balance day — so the whole $14 850 is a **current liability**.

Chapter 16 Unearned and accrued revenues — 16B Accrued revenue

Theory

A business reports its profit for a set **reporting period**, usually a year ending on **balance day** (often 30 June). Under the **accrual basis** assumption, revenue is recognised in the period in which it is **earned** — regardless of when the cash is received. Most revenue is recorded when a source document (a receipt or an invoice) arrives, but at balance day some revenue has been **earned but not yet received**, and no document has yet triggered an entry. A **balance day adjustment (BDA)** brings this revenue into the records so that the Income Statement reports the period's true profit and the Balance Sheet reports every asset faithfully.

Accrued revenue is **revenue that has been earned during the current reporting period but has not yet been received in cash at balance day**. Common examples are rent from subletting part of the premises, commission earned as a selling agent, and fees for services already provided — wherever the customer pays **in arrears** (after the business has earned the revenue).

The balance day adjustment — no GST. Accruing the revenue requires **one** General Journal entry on balance day:

- **Debit Accrued Revenue** — a **current asset** — with the amount earned but not yet received.
- **Credit the revenue account** (for example **Rent Revenue**) — recognising the revenue in the period it was earned.

There is **no GST** on this entry. GST is recorded on a transaction evidenced by a **source document** — for a **credit sale** that document is the **sales invoice**, so GST Clearing is credited then, before any cash arrives. For **accrued revenue**, no invoice has been issued and no cash has been received at balance day: the adjustment is only the business's own recognition (a memo) that revenue has been **earned**, so no GST has yet been brought to account. Only the **GST-exclusive** revenue earned is accrued, and the GST is recorded **at the time of receipt** in the following period.

Why Accrued Revenue is an asset. At balance day the business has a **present economic resource — the right to receive cash — controlled as a result of a past event** (the use or service already provided), with the **potential to produce future economic benefits**. It is a **current asset** because the cash is expected to be received within the next twelve months.

Receiving the accrued revenue in the subsequent period. When the cash arrives in the following period, the entry is:

- **Debit Bank** with the full **GST-inclusive** amount received.
- **Credit Accrued Revenue** to **clear the asset** — the revenue was already recognised last period, so it is **not** recognised again now.
- **Credit GST Clearing** with the GST. The GST is **1/11 of the GST-inclusive receipt** (an exact fraction). This is the point at which the GST is recorded.

If **further** revenue has been earned in the new period and is collected in the **same** receipt, that extra amount is credited to the **revenue account** (it is earned this period), and the GST covers the whole receipt.

Reporting. The revenue earned during the period — **including** the accrued portion — is reported in the **Income Statement** (as **Other Revenue**). **Accrued Revenue** is reported as a **current asset** in the Balance Sheet.

Worked model. *Harborview Traders* sublets storage space to a tenant for $600 per month (plus GST), payable monthly in arrears. At 30 June 2026 the June rent of $600 has been earned but has not yet been received (Memo 63).

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	600	
	Rent Revenue		600
	Rent revenue earned but not yet received at balance		

Date 2026	Details	Debit $	Credit $
	day (Memo 63)		

On 12 July 2026 the tenant pays the June rent of $600 plus $60 GST — a total of $660 (Receipt 118):

General Journal

Date 2026	Details	Debit $	Credit $
12 Jul	Bank	660	
	Accrued Revenue		600
	GST Clearing		60
	June rent received; GST recorded on receipt (Receipt 118)		

The GST is recorded **now**, not at balance day: 1/11 × $660 = **$60**. The receipt clears the Accrued Revenue asset:

Accrued Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Rent Revenue	600	30 Jun	Balance c/d	600
1 Jul	Balance b/d	600	12 Jul	Bank	600

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Revenue	
Rent Revenue	600

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Assets	
Accrued Revenue	600

The $600 of rent revenue is reported in the period it was **earned**, and the right to receive the cash is reported as a **current asset** — even though the cash (and the GST) is not received until July.

Worked examples (scaffolded)

Example 1 — accruing revenue at balance day and reporting the asset

Kingsway Traders acts as a selling agent for a manufacturer and earns commission on the sales it makes. At 30 June 2026, commission of $450 (plus GST) has been earned but has not yet been received (Memo 58). Record the balance day adjustment and show how the asset is reported.

Working	Comment
Revenue earned but not received → accrue it: **Dr Accrued Revenue $450; Cr Commission Revenue $450**.	The accrual basis recognises the revenue in the period it was *earned*, not when the cash arrives.
No GST is recorded at balance day.	For accrued revenue the GST is recorded at the time of receipt — no invoice has been issued and no cash received yet.

Working	Comment
Accrued Revenue is a **current asset** ($450).	A present right to receive $450 cash, expected within twelve months.
Commission Revenue ($450) is reported in the Income Statement; Accrued Revenue ($450) in the Balance Sheet.	The revenue is earned this period; the asset is carried into the next.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	450	
	Commission Revenue		450
	Commission earned but not yet received at balance day (Memo 58)		

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Assets	
Accrued Revenue	450

Example 2 — the subsequent receipt, with GST recorded on receipt

Meridian Wholesale had accrued fees revenue of $800 at 30 June 2026 (the balance day adjustment has already been recorded). On 15 July 2026 it received the $800 owing plus GST (Receipt 204). Record the receipt and post it to the Accrued Revenue account.

Working	Comment
GST = 1/11 × receipt = 10% × $800 = **$80**, so the cash received is $800 + $80 = **$880**.	The GST is recorded *now*, at the time of receipt.
Dr Bank $880 (the full GST-inclusive amount).	Cash increases by the whole amount banked.
Cr Accrued Revenue $800 — clears the asset.	The revenue was recognised last period; it is **not** recognised again.
Cr GST Clearing $80.	The GST liability to the ATO is recorded on receipt.
Entry balances: Dr $880 = Cr ($800 + $80).	Debits equal credits.

General Journal

Date 2026	Details	Debit $	Credit $
15 Jul	Bank	880	
	Accrued Revenue		800
	GST Clearing		80
	Accrued fees received; GST recorded on receipt (Receipt 204)		

Accrued Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Fees Revenue	800	30 Jun	Balance c/d	800
1 Jul	Balance b/d	800	15 Jul	Bank	800

After the receipt the Accrued Revenue account is **nil** — the asset has been converted into cash.

Worked examples (unscaffolded)

Example 3 — a multi-period accrual and a receipt spanning two periods

Seabreeze Traders sublets part of its premises for $500 per month (plus GST), payable every three months in arrears. The last payment covered the period to 30 April 2026, so at 30 June 2026 two months' rent (May and June) has been earned but not received (Memo 71). On 31 July 2026 the tenant pays the three months to 31 July — May, June and July — plus GST (Receipt 233). Record the balance day adjustment and the receipt.

At balance day two months are earned: 2 × $500 = $1 000 is accrued (no GST). The 31 July receipt covers three months ($1 500): $1 000 clears the Accrued Revenue asset, $500 is rent revenue earned in July, and the GST is 1/11 × $1 650 = $150, so $1 650 is received.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	1 000	
	Rent Revenue		1 000
	Two months' rent (May, June) earned but not received (Memo 71)		
31 Jul	Bank	1 650	
	Accrued Revenue		1 000
	Rent Revenue		500
	GST Clearing		150
	Three months' rent to 31 July received; GST recorded on receipt (Receipt 233)		

∴ the $1 000 accrued at balance day is cleared, $500 of rent revenue is recognised in July, and $150 of GST is recorded on receipt (the whole receipt is $1 650).

Example 4 — explaining the asset and the timing of the GST

Northcliff Trading provided services during June 2026 and earned service revenue of $1 200 (plus GST) that had not been received at 30 June 2026 (Memo 66). The $1 200 plus GST was received on 10 July 2026 (Receipt 141). Record the balance day adjustment and the receipt, then explain why Accrued Revenue is an asset and why the GST is recorded on 10 July rather than at balance day.

The GST on receipt is 1/11 × $1 320 = $120, so $1 320 is received.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	1 200	
	Service Revenue		1 200
	Service revenue earned but not received at balance day (Memo 66)		
10 Jul	Bank	1 320	
	Accrued Revenue		1 200
	GST Clearing		120

Date 2026	Details	Debit $	Credit $
	Accrued service revenue received; GST recorded on receipt (Receipt 141)		

Accrued Revenue is an **asset** because at 30 June 2026 the business has a **present right to receive $1 200 in cash**, arising from a **past event** (the service already provided), and that right has the **potential to produce future economic benefits**; it is **current** because the cash is expected within twelve months. **No GST** is recorded at balance day because for accrued revenue the GST is brought to account **at the time of receipt**: at 30 June *Northcliff Trading* has issued no invoice and received no cash for the $1 200, so no GST liability to the ATO has yet arisen and only the GST-exclusive revenue earned is accrued. When the cash is received on 10 July, the GST of $120 (1/11 of the $1 320 received) is recorded in **GST Clearing**.

∴ the revenue is recognised in the year ended 30 June 2026, while the GST is recorded when the cash is received in July 2026.

Practice questions — scaffolded

Question 1

Fairwind Traders sublets office space for $700 per month (plus GST), payable monthly in arrears. At 30 June 2026 the June rent has been earned but not received (Memo 80).

a. Record the balance day adjustment in the General Journal.
b. Name the element and classification of the Accrued Revenue account.
c. State the report in which the rent revenue and the Accrued Revenue are each reported.

Question 2

Glenmore Wholesale had accrued commission revenue of $540 at 30 June 2026 (the balance day adjustment has been recorded). On 8 July 2026 it received the amount owing plus GST (Receipt 190).

a. Calculate the GST and the total cash received.
b. Record the receipt in the General Journal.
c. Post the receipt to the Accrued Revenue account and state its balance afterwards.

Question 3

Oakhaven Traders earned fees revenue of $960 (plus GST) that had not been received at 30 June 2026 (Memo 74).

a. Record the balance day adjustment in the General Journal.
b. Post the adjustment to the Accrued Revenue account, showing the balance carried down.
c. Explain in one sentence why Accrued Revenue is classified as an asset.

Question 4

Riverton Trading accrued rent revenue of $650 at 30 June 2026 (Memo 69). On 11 July 2026 it received the $650 plus GST (Receipt 155).

a. Record the balance day adjustment in the General Journal.
b. Record the receipt in the General Journal.
c. State the report in which the Accrued Revenue account and the Rent Revenue account each appear.

Question 5

Cedar Point Traders sublets part of its warehouse for $400 per month (plus GST), payable every three months in arrears. At 30 June 2026 two months' rent has been earned but not received (Memo 77). On 31 July 2026 it received three months' rent (May, June, July) plus GST (Receipt 219).

a. Calculate the accrued revenue at 30 June 2026.

b. Record the receipt on 31 July in the General Journal.

c. State the amount credited to Accrued Revenue in the receipt entry, and explain in one sentence why that account is credited.

Question 6

Windermere Traders earned service revenue of $880 (plus GST) that had not been received at 30 June 2026 (Memo 82). At that date its other current assets were Bank $4 200 and Inventory $9 000.

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

b. Prepare the Current Assets extract of the Balance Sheet.

c. Explain why no GST is recorded at balance day but GST is recorded when the cash is received.

Practice questions — unscaffolded

Question 7

Ashford Traders sublets space for $720 per month (plus GST), payable monthly in arrears. At 30 June 2026 the June rent has been earned but not received (Memo 88). Record the balance day adjustment in the General Journal and state the report in which the rent revenue and the Accrued Revenue are each reported.

Question 8

Belhaven Wholesale had accrued commission revenue of $630 at 30 June 2026. On 9 July 2026 it received the amount owing plus GST (Receipt 172). Record the receipt in the General Journal and state the amount of GST recorded.

Question 9

Crestwood Trading earned fees revenue of $1 040 (plus GST) that had not been received at 30 June 2026 (Memo 91). The amount plus GST was received on 13 July 2026 (Receipt 208). Record the balance day adjustment and the receipt in the General Journal, and prepare the Accrued Revenue account.

Question 10

Dovecote Traders sublets part of its premises for $550 per month (plus GST), payable every three months in arrears. At 30 June 2026 two months' rent has been earned but not received (Memo 95). On 31 July 2026 it received three months' rent plus GST (Receipt 240). Record the balance day adjustment and the receipt in the General Journal, and state the value of Accrued Revenue reported as a current asset at 30 June 2026.

Question 11

Elmwood Traders sublets space and, during the year ended 30 June 2026, received and recorded rent revenue of $6 600 (GST-exclusive). At 30 June 2026 a further $900 of rent (plus GST) has been earned but not received (Memo 84). At that date its other current assets are Bank $8 000 and Inventory $15 000. Record the balance day adjustment in the General Journal, and prepare the Income Statement extract for rent revenue and the Current Assets extract of the Balance Sheet.

Question 12

On 12 July 2026 *Fernbank Trading* received $858 in full settlement of commission revenue that had been earned but not received at 30 June 2026; the receipt included GST (Receipt 167). Calculate the commission revenue that had been accrued at balance day and the GST, and record the receipt in the General Journal.

Question 13

Greenfield Wholesale earned fees revenue of $1 150 (plus GST) that had not been received at 30 June 2026 (Memo 99). The amount plus GST was received on 15 July 2026 (Receipt 251). Record the balance day adjustment and the receipt in the General Journal, prepare the Accrued Revenue account, and state the fees revenue reported in the Income Statement for the year ended 30 June 2026.

Question 14

Hartley Traders sublets part of its premises for $480 per month (plus GST), payable every three months in arrears. At 30 June 2026 two months' rent has been earned but not received (Memo 102). On 31 July 2026 it received three months' rent plus GST (Receipt 260). Record the receipt in the General Journal, prepare the Accrued Revenue account, and state the value of Accrued Revenue reported at 30 June 2026.

Question 15

Explain why Accrued Revenue is reported as a **current asset** in the Balance Sheet. In your answer, refer to the definition of an asset and to why it is classified as **current**.

Question 16

A student argues that GST should be recorded on the accrued revenue at balance day, at the same time as the revenue is recognised. Explain why GST is **not** recorded at balance day but is instead recorded when the cash is received in the following period.

Question 17

Ivywood Trading earned service revenue of $1 320 (plus GST) that had not been received at 30 June 2026 (Memo 108). The amount plus GST was received on 14 July 2026 (Receipt 275). Record the balance day adjustment and the receipt in the General Journal, and explain, with reference to the **accrual basis**, why the revenue is reported in the year ended 30 June 2026 even though the cash is received in July 2026.

Question 18

Jamesford Traders sublets space and, during the year ended 30 June 2026, received and recorded rent revenue of $13 750 (GST-exclusive). At 30 June 2026 a further $1 250 of rent (plus GST) has been earned but not received (Memo 111). On 10 July 2026 the $1 250 plus GST was received (Receipt 168). At 30 June 2026 the business's other current assets are Bank $10 000 and Inventory $18 000. Record the balance day adjustment and the receipt in the General Journal, prepare the Accrued Revenue account, and prepare the Income Statement extract for rent revenue and the Current Assets extract of the Balance Sheet.

Answers

1.
   a. Dr Accrued Revenue $700; Cr Rent Revenue $700 (no GST) b. Asset — a current asset c. Rent Revenue → Income Statement (Other Revenue); Accrued Revenue → Balance Sheet (current asset)
2.
   a. GST $54; cash received $594 b. Dr Bank $594; Cr Accrued Revenue $540; Cr GST Clearing $54 c. Nil balance
3.
   a. Dr Accrued Revenue $960; Cr Fees Revenue $960 b. $960 Dr (balance b/d)
4.
   a. Dr Accrued Revenue $650; Cr Rent Revenue $650 b. Dr Bank $715; Cr Accrued Revenue $650; Cr GST Clearing $65 c. Accrued Revenue → Balance Sheet; Rent Revenue → Income Statement
5.
   a. $800 b. Dr Bank $1 320; Cr Accrued Revenue $800; Cr Rent Revenue $400; Cr GST Clearing $120 c. $800
6.
   a. Dr Accrued Revenue $880; Cr Service Revenue $880 b. Total Current Assets $14 080
7. Dr Accrued Revenue $720; Cr Rent Revenue $720; Rent Revenue → Income Statement, Accrued Revenue → Balance Sheet
8. Dr Bank $693; Cr Accrued Revenue $630; Cr GST Clearing $63; GST $63
9. Dr/Cr $1 040 at balance day; cash received $1 144; Accrued Revenue nil after receipt
10. Accrued revenue $1 100; receipt Dr Bank $1 815; Cr Accrued Revenue $1 100; Cr Rent Revenue $550; Cr GST Clearing $165
11. Rent Revenue $7 500; Accrued Revenue $900; Total Current Assets $23 900
12. Commission $780; GST $78; Dr Bank $858; Cr Accrued Revenue $780; Cr GST Clearing $78
13. Cash received $1 265; Fees Revenue $1 150
14. Accrued revenue $960; receipt Dr Bank $1 584; Cr Accrued Revenue $960; Cr Rent Revenue $480; Cr GST Clearing $144
15. See solutions
16. See solutions
17. Dr Bank $1 452; Cr Accrued Revenue $1 320; Cr GST Clearing $132
18. Rent Revenue $15 000; Accrued Revenue $1 250; Total Current Assets $29 250

Fully-worked solutions

Question 1

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	700	
	Rent Revenue		700
	Rent revenue earned but not yet received at balance day (Memo 80)		

b. **Accrued Revenue** is an **asset** — specifically a **current asset**, because the cash is expected to be received within twelve months.

c. **Rent Revenue** is reported in the **Income Statement** (as Other Revenue); **Accrued Revenue** is reported in the **Balance Sheet** as a current asset.

Question 2

a. GST = 10% × $540 = **$54**; cash received = $540 + $54 = **$594** (and 1/11 × $594 = $54).

General Journal

Date 2026	Details	Debit $	Credit $
8 Jul	Bank	594	
	Accrued Revenue		540
	GST Clearing		54
	Accrued commission received; GST recorded on receipt (Receipt 190)		

Accrued Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Commission Revenue	540	30 Jun	Balance c/d	540
1 Jul	Balance b/d	540	8 Jul	Bank	540

After the receipt the Accrued Revenue account has a **nil** balance.

Question 3

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	960	
	Fees Revenue		960
	Fees revenue earned but not yet received at balance day (Memo 74)		

Accrued Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Fees Revenue	960	30 Jun	Balance c/d	960
1 Jul	Balance b/d	960			

The account carries a **$960 Dr** balance into the new period.

c. Accrued Revenue is an asset because it is a **present right to receive cash** (a resource controlled by the business as a result of a past event) with the **potential to produce future economic benefits**.

Question 4

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	650	
	Rent Revenue		650
	Rent revenue earned but not yet received at balance day (Memo 69)		

General Journal

Date 2026	Details	Debit $	Credit $
11 Jul	Bank	715	
	Accrued Revenue		650
	GST Clearing		65
	Accrued rent received; GST recorded on receipt (Receipt 155)		

The GST is 1/11 × $715 = **$65**.

c. **Accrued Revenue** appears in the **Balance Sheet** (current asset); **Rent Revenue** appears in the **Income Statement** (Other Revenue).

Question 5

a. Two months earned but not received = 2 × $400 = **$800** accrued (no GST).

General Journal

Date 2026	Details	Debit $	Credit $
31 Jul	Bank	1 320	
	Accrued Revenue		800
	Rent Revenue		400
	GST Clearing		120
	Three months' rent to 31 July received; GST recorded on receipt (Receipt 219)		

The receipt covers three months ($1 200): $800 clears the asset, $400 is July's rent, and GST is 1/11 × $1 320 = $120.

c. **$800** is credited to Accrued Revenue. That account is credited to **clear the asset** created at balance day — the $800 of revenue was recognised last period, so on receipt the asset is removed rather than the revenue being recognised a second time.

Question 6

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	880	
	Service Revenue		880
	Service revenue earned but not yet received at balance day (Memo 82)		

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Assets	
Bank	4 200
Accrued Revenue	880
Inventory	9 000
Total Current Assets	**14 080**

c. No GST is recorded at balance day because for accrued revenue the GST is brought to account **at the time of receipt**: at balance day no invoice has been issued and no cash received for the $880, so the adjustment recognises only the **GST-exclusive** revenue earned. When the cash is received in the next period, the receipt records the GST (1/11 of the amount received) by crediting **GST Clearing**.

Question 7

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	720	
	Rent Revenue		720
	Rent revenue earned but not yet received at balance day (Memo 88)		

Rent Revenue ($720) is reported in the **Income Statement** (Other Revenue); **Accrued Revenue** ($720) is reported in the **Balance Sheet** as a current asset.

Question 8

GST = 1/11 × $693 = 10% × $630 = **$63**; cash received = $630 + $63 = $693.

General Journal

Date 2026	Details	Debit $	Credit $
9 Jul	Bank	693	
	Accrued Revenue		630
	GST Clearing		63
	Accrued commission received; GST recorded on receipt (Receipt 172)		

∴ the GST recorded on receipt is **$63**.

Question 9

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	1 040	
	Fees Revenue		1 040
	Fees revenue earned but not yet received at balance day (Memo 91)		
13 Jul	Bank	1 144	
	Accrued Revenue		1 040
	GST Clearing		104
	Accrued fees received; GST recorded on receipt (Receipt 208)		

The GST on receipt is 1/11 × $1 144 = $104, so $1 144 is received.

Accrued Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Fees Revenue	1 040	30 Jun	Balance c/d	1 040
1 Jul	Balance b/d	1 040	13 Jul	Bank	1 040

Question 10

Two months earned but not received = 2 × $550 = **$1 100** accrued at balance day.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	1 100	
	Rent Revenue		1 100
	Two months' rent earned but not received at balance day (Memo 95)		
31 Jul	Bank	1 815	
	Accrued Revenue		1 100
	Rent Revenue		550
	GST Clearing		165
	Three months' rent to 31 July received; GST recorded on receipt (Receipt 240)		

The receipt covers three months ($1 650): $1 100 clears the asset, $550 is July's rent, and GST is 1/11 × $1 815 = $165. **Accrued Revenue** reported as a current asset at 30 June 2026 = **$1 100**.

Question 11

Total Rent Revenue = $6 600 received-and-recorded + $900 accrued = **$7 500**; Total Current Assets = $8 000 + $900 + $15 000 = **$23 900**.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	900	
	Rent Revenue		900
	Rent revenue earned but not yet received at balance day (Memo 84)		

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Revenue	
Rent Revenue	7 500

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Assets	
Bank	8 000

Balance Sheet (extract) as at 30 June 2026	$
Accrued Revenue	900
Inventory	15 000
Total Current Assets	**23 900**

Question 12

The receipt is GST-inclusive, so GST = 1/11 × $858 = **$78**, and the commission accrued (GST-exclusive) = $858 − $78 = **$780** (check: 10% × $780 = $78).

General Journal

Date 2026	Details	Debit $	Credit $
12 Jul	Bank	858	
	Accrued Revenue		780
	GST Clearing		78
	Accrued commission received; GST recorded on receipt (Receipt 167)		

Question 13

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	1 150	
	Fees Revenue		1 150
	Fees revenue earned but not yet received at balance day (Memo 99)		
15 Jul	Bank	1 265	
	Accrued Revenue		1 150
	GST Clearing		115
	Accrued fees received; GST recorded on receipt (Receipt 251)		

The GST on receipt is 1/11 × $1 265 = $115, so $1 265 is received.

Accrued Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Fees Revenue	1 150	30 Jun	Balance c/d	1 150
1 Jul	Balance b/d	1 150	15 Jul	Bank	1 150

Fees revenue reported in the Income Statement for the year ended 30 June 2026 = **$1 150** (recognised when earned, even though the cash arrives in July).

Question 14

Two months earned but not received = 2 × $480 = **$960** accrued at balance day.

General Journal

Date 2026	Details	Debit $	Credit $
31 Jul	Bank	1 584	
	Accrued Revenue		960
	Rent Revenue		480
	GST Clearing		144
	Three months' rent to 31 July received; GST recorded on receipt (Receipt 260)		

The receipt covers three months ($1 440): $960 clears the asset, $480 is July's rent, and GST is 1/11 × $1 584 = $144.

Accrued Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Rent Revenue	960	30 Jun	Balance c/d	960
1 Jul	Balance b/d	960	31 Jul	Bank	960

Accrued Revenue reported as a current asset at 30 June 2026 = **$960**.

Question 15

Accrued Revenue is reported as a **current asset** because it satisfies the definition of an asset: it is a **present economic resource** — the **right to receive cash** — that the business **controls as a result of a past event** (the rent, commission or service already earned), and it has the **potential to produce future economic benefits** (the cash the business will collect). It is classified as **current** because the business expects to **receive the cash within the next twelve months** (the following reporting period), so it is not a non-current asset. Reporting it as a current asset upholds **faithful representation**, because the business genuinely holds this resource at balance day, and it would be understated if the earned-but-unreceived revenue were left out of the report.

Question 16

Although the revenue is **recognised** at balance day, the GST is **not** recorded then. GST is recorded on a transaction evidenced by a **source document**: for a **credit sale** that document is the sales invoice, so GST Clearing is credited at the time of the sale, before the cash is received. For **accrued revenue**, no invoice has been issued and **no cash has been received** at balance day — the adjustment is the business's own recognition (a memo) that revenue has been **earned** — so no GST has yet been brought to account, and only the **GST-exclusive** revenue earned is accrued (Dr Accrued Revenue; Cr Revenue). When the cash is received in the following period, the receipt records the GST — **1/11 of the GST-inclusive amount received** — by crediting **GST Clearing** (Dr Bank; Cr Accrued Revenue; Cr GST Clearing). Recording GST at balance day would overstate the GST liability before any GST obligation had arisen.

Question 17

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	1 320	
	Service Revenue		1 320
	Service revenue earned but not yet received at balance day (Memo 108)		
14 Jul	Bank	1 452	
	Accrued Revenue		1 320
	GST Clearing		132
	Accrued service revenue		

Date 2026	Details	Debit $	Credit $
	received; GST recorded on receipt (Receipt 275)		

The GST on receipt is 1/11 × $1 452 = $132, so $1 452 is received.

Under the **accrual basis**, revenue is recognised in the reporting period in which it is **earned**, regardless of when the cash is received. *Ivywood Trading* **earned** the $1 320 of service revenue by providing the service **before 30 June 2026**, so the revenue belongs to — and is reported in — the year ended 30 June 2026, even though the cash (and the GST) is not received until 14 July 2026. To leave it out until July would understate this year's profit and overstate next year's, misrepresenting the performance of each period.

Question 18

Total Rent Revenue = $13 750 received-and-recorded + $1 250 accrued = **$15 000**; Total Current Assets = $10 000 + $1 250 + $18 000 = **$29 250**.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	1 250	
	Rent Revenue		1 250
	Rent revenue earned but not yet received at balance day (Memo 111)		
10 Jul	Bank	1 375	
	Accrued Revenue		1 250
	GST Clearing		125
	Accrued rent received; GST recorded on receipt (Receipt 168)		

The GST on receipt is 1/11 × $1 375 = $125, so $1 375 is received.

Accrued Revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun	Rent Revenue	1 250	30 Jun	Balance c/d	1 250
1 Jul	Balance b/d	1 250	10 Jul	Bank	1 250

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Revenue	
Rent Revenue	15 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$
Current Assets	
Bank	10 000
Accrued Revenue	1 250
Inventory	18 000

Balance Sheet (extract) as at 30 June 2026	$
Total Current Assets	**29 250**

Topic 5 Test A — Recording and analysis

Reading time: 10 minutes · Writing time: 50 minutes · 50 marks · A scientific calculator may be used.

This test is cumulative over Chapters 13–16 (balance day adjustments, non-current assets, depreciation methods and disposal, and unearned and accrued revenues). Show all working. GST is 10%.

Question 1 (12 marks)

Rothbury Traders is a trading business that reports for the year ended 30 June and is registered for GST. It also holds customers' storage fees received in advance (**Unearned Revenue**) and sublets part of its premises. The following **unadjusted Trial Balance** was prepared at 30 June 2026, before any balance day adjustments:

Account	Debit $	Credit $
Bank	25 000	
Accounts Receivable	15 000	
Inventory	40 000	
Prepaid insurance	4 800	
Delivery vehicle (at cost)	48 000	
Accumulated Depreciation – Delivery vehicle		16 000
Accounts Payable		12 000
GST Clearing		4 000
Unearned Revenue		9 000
Loan – Hume Finance		30 000
Capital		70 000
Drawings	20 000	
Sales		200 000
Rent Revenue		14 000
Cost of Sales	120 000	
Wages	60 000	
Rent expense	16 000	
Advertising	6 200	
Total	**355 000**	**355 000**

The following balance day adjustments have not yet been recorded (all amounts are GST-exclusive):

- The **Prepaid insurance** of $4 800 was a 12-month policy paid on 1 April 2026; the cover from 1 April to 30 June has expired (**Memo 41**).
- **Wages** of $2 000 have been incurred but not paid at balance day (**Memo 42**).
- The **Delivery vehicle** (residual value $8 000, useful life 5 years) is depreciated by the straight-line method; a full year's depreciation is to be recorded (**Memo 43**).
- The **Unearned Revenue** of $9 000 was storage received 12 months in advance on 1 May 2026; the storage provided from 1 May to 30 June has been earned (transfer to **Storage Revenue**) (**Memo 44**).
- Rent of $1 000 from subletting has been earned in June but not yet received at balance day (**Memo 45**).

a. Record the five balance day adjustments in the General Journal (narrations required). 8 marks

b. Prepare the adjusted Trial Balance of Rothbury Traders as at 30 June 2026. 4 marks

Question 2 (8 marks)

Pinnacle Freight reports for the year ended 30 June and is registered for GST. On **1 October 2025** it acquired a delivery truck, paying **$72 000 (plus GST)** for the truck and **$6 000 (plus GST)** to fit a refrigeration unit that makes the truck ready for its deliveries. It paid a **$15 800 deposit** by EFT and financed the balance with a loan from **Ardenne Finance** (**EFT 5182; Loan agreement**). On the same day it paid, by a separate EFT, **$1 100 registration** (GST-free) and **$1 800 (plus GST)** for the first year's insurance (**EFT 5183**). The truck has an estimated residual value of **$8 000** and a useful life of **5 years**, and is depreciated by the straight-line method.

a. State the cost of the truck, then record the purchase of the truck and the registration and insurance in the General Journal. 5 marks

b. Prepare a depreciation schedule for the first three reporting periods, and state the carrying amount of the truck at 30 June 2027. 3 marks

Question 3 (10 marks)

Kirraway Couriers reports for the year ended 30 June and is registered for GST. It owns a delivery van bought on **1 July 2023** for **$46 000** (estimated residual value $6 000, useful life 4 years, straight-line). On **1 January 2026** it traded the van in on a new van priced at **$54 000 plus GST**; the supplier allowed **$18 000** on the old van (**Memo 26, Tax Invoice 6185**) and the balance was financed by a loan from **Delta Finance**.

a. Calculate the depreciation to be recorded from the last balance day to the trade-in date, and record it in the General Journal. 2 marks

b. Record the trade-in in the General Journal (the cost transfer, the accumulated-depreciation transfer, the purchase of the new van, and the profit or loss on disposal). 5 marks

c. Prepare the Disposal account, balanced. 2 marks

d. State the profit or loss on disposal, and state whether the van had been over- or under-depreciated. 1 mark

Question 4 (9 marks)

Vantage Logistics is deciding how to depreciate a new delivery vehicle costing **$48 000**, with an estimated residual value of **$3 000** and a useful life of **4 years**. It is comparing the **straight-line** method with the **reducing balance** method at **50% per annum**. The owner expects the vehicle to be driven hardest when new, to lose value quickly, and to need increasing repairs as it ages.

a. Prepare a depreciation schedule for the full four-year life under **each** method. 4 marks

b. Model the effect on **Year 1 net profit** of choosing the reducing balance method rather than the straight-line method. 2 marks

c. State the total depreciation over the four years under each method, and explain why the two totals are equal. 1 mark

d. Recommend a depreciation method for this vehicle and justify your recommendation, with reference to the pattern of economic benefit. 2 marks

Question 5 (6 marks)

Refer to the trade-in of the delivery van by *Kirraway Couriers* in **Question 3**, which produced a loss on disposal.

a. State what a loss on disposal reveals about the depreciation previously charged on the van, and state whether the loss on disposal is a trading loss. 2 marks

b. Discuss why a profit or loss on disposal arises even when the estimates of useful life and residual value were made carefully, and explain — with reference to one relevant qualitative characteristic — why the loss must be reported in the year of the trade-in rather than ignored. 4 marks

Question 6 (5 marks)

On **1 July 2025** *Halloran Manufacturing* acquired a machine for **$27 000 (plus GST)** and paid a further **$3 000 (plus GST)** to install it. The machine has **no residual value**, a useful life of **5 years**, and is depreciated by the straight-line method. The bookkeeper is unsure whether the $3 000 installation should be **capitalised** (added to the cost of the machine) or recorded as an **expense** of the year.

a. Model the effect on the year ended 30 June 2026 **net profit** of expensing the $3 000 installation rather than capitalising it. 2 marks

b. Model the effect on the **carrying amount** of the machine at 30 June 2026 of expensing rather than capitalising the installation. 2 marks

c. State the effect on the depreciation reported in each of the following four years. 1 mark

Topic 5 Test A — solutions

Question 1

a. GST-exclusive amounts throughout; the depreciation, wages, unearned-revenue and accrued-revenue adjustments carry **no GST**.

- Prepaid insurance expired 1 Apr → 30 Jun = 3 months: \$4 800 × 3/12 = **\$1 200**.
- Depreciation of the delivery vehicle = (\$48 000 − \$8 000) ÷ 5 = **\$8 000**.
- Storage earned 1 May → 30 Jun = 2 months: \$9 000 ÷ 12 × 2 = **\$1 500**.

General Journal

Date 2026	Details	Debit \$	Credit \$
30 Jun	Insurance expense	1 200	
	Prepaid insurance		1 200
	Prepaid insurance expired — 3 months to balance day (Memo 41)		
30 Jun	Wages	2 000	
	Accrued wages		2 000
	Wages incurred but not yet paid at balance day (Memo 42)		
30 Jun	Depreciation – Delivery vehicle	8 000	
	Accumulated Depreciation – Delivery vehicle		8 000
	Depreciation of delivery vehicle for the year ended 30 June 2026 (Memo 43)		
30 Jun	Unearned Revenue	1 500	
	Storage Revenue		1 500
	Storage revenue earned for 2 months to balance day (Memo 44)		
30 Jun	Accrued Revenue	1 000	
	Rent Revenue		1 000
	Rent revenue earned but not yet received at balance day (Memo 45)		

b. Prepaid insurance falls to \$3 600; Wages rise to \$62 000; Accumulated Depreciation rises to \$24 000; Unearned Revenue falls to \$7 500; Rent Revenue rises to \$15 000; new accounts Insurance expense \$1 200, Depreciation – Delivery vehicle \$8 000, Accrued wages \$2 000, Accrued Revenue \$1 000 and Storage Revenue \$1 500 appear.

Adjusted Trial Balance of Rothbury Traders as at 30 June 2026

Account	Debit \$	Credit \$
Bank	25 000	
Accounts Receivable	15 000	
Inventory	40 000	

Account	Debit $	Credit $
Prepaid insurance	3 600	
Accrued Revenue	1 000	
Delivery vehicle (at cost)	48 000	
Accumulated Depreciation – Delivery vehicle		24 000
Accounts Payable		12 000
GST Clearing		4 000
Accrued wages		2 000
Unearned Revenue		7 500
Loan – Hume Finance		30 000
Capital		70 000
Drawings	20 000	
Sales		200 000
Rent Revenue		15 000
Storage Revenue		1 500
Cost of Sales	120 000	
Wages	62 000	
Rent expense	16 000	
Advertising	6 200	
Insurance expense	1 200	
Depreciation – Delivery vehicle	8 000	
Total	**366 000**	**366 000**

∴ the adjusted Trial Balance foots at **$366 000** = $366 000, so the ledger is still arithmetically balanced after the five adjustments.

Question 2

a. The truck $72 000 and the refrigeration unit $6 000 are both needed to get the truck ready for use, so they are **capitalised**: cost of the truck = **$78 000**. Registration ($1 100, GST-free) and insurance ($1 800) are **running costs**, expensed. GST on the truck = 10% × $78 000 = $7 800 (GST-inclusive $85 800); loan = $85 800 − $15 800 deposit = $70 000. GST on the insurance = $180.

General Journal

Date 2025	Details	Debit $	Credit $
1 Oct	Motor vehicle	78 000	
	GST Clearing	7 800	
	Bank		15 800
	Loan – Ardenne Finance		70 000
	Purchase of delivery truck incl. refrigeration unit; deposit and loan finance (EFT 5182)		
1 Oct	Vehicle registration	1 100	
	Insurance	1 800	
	GST Clearing	180	

Date 2025	Details	Debit $	Credit $
	Bank		3 080
	Registration (GST-free) and first-year insurance on the truck (EFT 5183)		

b. Annual depreciation = ($78 000 − $8 000) ÷ 5 = $14 000. Held 1 Oct 2025 → 30 Jun 2026 = 9 months, so the first period = $14 000 × 9/12 = $10 500; the next two periods are full years of $14 000.

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			78 000
30 Jun 2026	10 500	10 500	67 500
30 Jun 2027	14 000	24 500	53 500
30 Jun 2028	14 000	38 500	39 500

∴ carrying amount at 30 June 2027 = **$53 500**.

Question 3

Annual depreciation = ($46 000 − $6 000) ÷ 4 = $10 000. Accumulated to 30 June 2025 = 2 × $10 000 = $20 000.

a. Depreciation 1 Jul 2025 → 1 Jan 2026 = 6 months = $10 000 × 6/12 = **$5 000**.

General Journal

Date 2026	Details	Debit $	Credit $
1 Jan	Depreciation – Delivery van	5 000	
	Accumulated Depreciation – Delivery van		5 000
	Depreciation for 6 months to the trade-in date (Memo 26)		

b. Accumulated depreciation at the trade-in = $20 000 + $5 000 = $25 000; carrying amount = $46 000 − $25 000 = $21 000. GST on the new van = 10% × $54 000 = $5 400 (inclusive $59 400); loan balance = $59 400 − $18 000 = $41 400. Profit/loss = $18 000 allowance − $21 000 carrying amount = **$3 000 loss**.

General Journal

Date 2026	Details	Debit $	Credit $
1 Jan	Disposal	46 000	
	Delivery van		46 000
	Cost of the old van transferred to Disposal (Memo 26)		
1 Jan	Accumulated Depreciation – Delivery van	25 000	
	Disposal		25 000
	Accumulated depreciation transferred to Disposal (Memo 26)		
1 Jan	Delivery van	54 000	

Date 2026	Details	Debit $	Credit $
	GST Clearing	5 400	
	Disposal		18 000
	Loan – Delta Finance		41 400
	New van purchased; $18 000 trade-in allowance, $41 400 financed by loan (Tax Invoice 6185)		
1 Jan	Loss on disposal of asset	3 000	
	Disposal		3 000
	Loss on the trade-in transferred to the Income Statement (Memo 26)		

Disposal

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2026			2026		
1 Jan	Delivery van	46 000	1 Jan	Accumulated Depreciation – Delivery van	25 000
			1 Jan	Delivery van	18 000
			1 Jan	Loss on disposal of asset	3 000
		46 000			46 000

d. **Loss on disposal of $3 000** (allowance $18 000 < carrying amount $21 000). The van had been **under-depreciated** — too little depreciation had been charged over its life, so its carrying amount was left above the amount the market allowed. No GST is calculated on the $18 000 trade-in allowance; GST of $5 400 applies only to the new van.

Question 4

a. Straight-line = ($48 000 − $3 000) ÷ 4 = $11 250 per year. Reducing balance applies 50% to the carrying amount each year.

Straight-line

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
At acquisition			48 000
1	11 250	11 250	36 750
2	11 250	22 500	25 500
3	11 250	33 750	14 250
4	11 250	45 000	3 000

Reducing balance (50% per annum)

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
At acquisition			48 000
1	24 000	24 000	24 000
2	12 000	36 000	12 000

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
3	6 000	42 000	6 000
4	3 000	45 000	3 000

b. In Year 1 reducing balance records $24 000 against straight-line's $11 250. Because depreciation is an expense, choosing reducing balance would **reduce Year 1 net profit by $12 750** ($24 000 − $11 250) relative to straight-line.

c. Total depreciation over the four years = **$45 000** under **each** method (both write the vehicle down from $48 000 to the $3 000 residual value). The totals are equal because both methods allocate the same **depreciable amount** (cost − residual = $45 000) over the asset's life; only the **timing** of the expense differs.

d. The **reducing balance** method is recommended. The vehicle provides its **greatest economic benefit when new** and loses value fastest early on, so a front-loaded charge ($24 000, then $12 000) **matches the depreciation to the pattern of benefit** and gives a more relevant, faithful measure of profit. As repair costs **rise** in later years, the **falling** depreciation charge helps keep the total cost of running the vehicle more even across its life. Straight-line, which spreads the cost evenly, would suit an asset consumed evenly (such as fittings), not this vehicle.

Question 5

a. A **loss on disposal** means the van was traded in for **less** (the $18 000 allowance) than its $21 000 carrying amount, so **too little depreciation had been charged** over its life — the van had been **under-depreciated**. It is **not** a trading loss: the business does not trade in its non-current assets. It is a **correction** of the earlier depreciation estimate, recognised at the point of disposal.

b. Depreciation is a good-faith **estimate** based on the asset's expected **useful life** and **residual value**, neither of which can be known with certainty until the asset is finally disposed of. Because the amount an asset actually realises depends on its condition and the state of the second-hand market at the moment of disposal, some difference between the carrying amount and the proceeds (or allowance) is **normal and unavoidable**, even when the estimates were made carefully — so a small profit or loss on disposal does not by itself indicate an error. Under the **period assumption**, however, each period's profit must include the expenses incurred in that period; the $3 000 shortfall is the under-depreciation of the van finally recognised in the year of the trade-in. Reporting it as an other expense in that year upholds **faithful representation**: the reported result is **complete**, **free from material error** and **neutral** (without bias), and Net Profit is not overstated. Ignoring the $3 000 would overstate the period's Net Profit and misrepresent the result of using and disposing of the asset, misleading users. (A large or repeated loss would be a signal to **review** the useful-life and residual-value estimates for the future.)

Question 6

a. **Capitalise:** cost = $27 000 + $3 000 = $30 000; Year 1 depreciation = $30 000 ÷ 5 = **$6 000**, so $6 000 is charged against this year's profit. **Expense:** the $3 000 installation is written off now, and depreciation is $27 000 ÷ 5 = $5 400, so the total charged against this year's profit = $3 000 + $5 400 = **$8 400**. ∴ expensing rather than capitalising **reduces the year ended 30 June 2026 net profit by $2 400** ($8 400 − $6 000); that is, net profit is understated by $2 400.

b. **Capitalise:** carrying amount at 30 June 2026 = $30 000 − $6 000 = **$24 000**. **Expense:** the machine is recorded at $27 000, so carrying amount = $27 000 − $5 400 = **$21 600**. ∴ expensing rather than capitalising **understates the carrying amount by $2 400** ($24 000 − $21 600) in the Balance Sheet.

c. In each of the following four years the depreciation would be **$600 lower** ($6 000 − $5 400), so the net profit of each of those years would be correspondingly **overstated by $600**. (The $300 GST is unaffected — it is debited to GST Clearing either way.)

Topic 5 Test B — Short-answer recording

Reading time: 10 minutes · Writing time: 45 minutes · 40 marks · A scientific calculator may be used.

This test is cumulative over Chapters 13–16. All businesses report for the year ended 30 June and are registered for GST. Show all working. GST is 10%.

Question 1 (5 marks)

Denby Hardware reports to 30 June 2026. On **1 March 2026** it paid **$8 580 (including $780 GST)** for a 12-month insurance policy effective 1 March 2026 (**EFT 2465**). At 30 June 2026 it has also used **$620** of electricity that has not yet been paid (**Memo 38**).

a. Record the payment of the insurance on 1 March 2026 in the General Journal. 2 marks

b. Record the balance day adjustment for the insurance on 30 June 2026 in the General Journal. 2 marks

c. Record the balance day adjustment for the accrued electricity on 30 June 2026. 1 mark

Question 2 (4 marks)

Larkspur Cafe reports to 30 June 2026. At balance day it owes **$640** for cleaning carried out in June (**Memo 28**). On **5 July 2026** it pays the cleaning account of **$704 (including GST)** by **EFT 311**.

a. Record the balance day adjustment on 30 June 2026 in the General Journal. 1 mark

b. Record the payment on 5 July 2026 in the General Journal. 2 marks

c. State the amount of GST recorded on 5 July 2026. 1 mark

Question 3 (5 marks)

Tarnook Engineering bought a grinder on **1 July 2023** for **$40 000**, expecting a useful life of **5 years** and a residual value of **$5 000**. It depreciates by the straight-line method and records depreciation at balance day by memo (**Memo 35**).

a. Calculate the annual depreciation of the grinder. 1 mark

b. Record the balance day adjustment for the year ended 30 June 2026 in the General Journal. 2 marks

c. State the accumulated depreciation and the carrying amount of the grinder at 30 June 2026. 2 marks

Question 4 (5 marks)

Rivendale Media bought a camera rig on **1 July** for **$23 000** and depreciates it by the **reducing balance** method at **25% per annum**. Round each year's depreciation to the nearest dollar.

a. Prepare a depreciation schedule for the first three years. 4 marks

b. State the carrying amount of the camera rig at the end of Year 3. 1 mark

Question 5 (6 marks)

Bellhaven Freight depreciates a delivery truck by the straight-line method: cost **$56 000**, estimated residual value **$6 000**, useful life **5 years**. Its Accumulated Depreciation at the last balance day, 30 June 2025, was **$30 000**. On **30 September 2025** the truck was sold for **$20 900 cash (including GST)** (**Memo 36; Rec. 132**).

a. Calculate the depreciation from 1 July 2025 to the date of disposal and record it in the General Journal. 1 mark

b. Record the disposal in the General Journal (the cost transfer, the accumulated-depreciation transfer, the cash proceeds, and the profit or loss on disposal). 4 marks

c. State the profit or loss on disposal. 1 mark

Question 6 (5 marks)

Summit Storage reports to 30 June 2026. On **1 April 2026** it received **$15 600** for **12 months** of storage commencing 1 April 2026 (**Receipt 96**).

a. Record the receipt on 1 April 2026 in the General Journal. 2 marks

b. Record the balance day adjustment on 30 June 2026 in the General Journal. 2 marks

c. State the closing balance of Unearned Revenue and the report in which it appears. 1 mark

Question 7 (5 marks)

Kelmot Traders sublets part of its premises for **$840 per month (plus GST)**, payable monthly in arrears. At 30 June 2026 the June rent has been earned but not received (**Memo 92**). On **12 July 2026** the tenant pays the June rent plus GST (**Receipt 174**).

a. Record the balance day adjustment on 30 June 2026 in the General Journal. 2 marks

b. Record the receipt on 12 July 2026 in the General Journal. 2 marks

c. Explain, in one sentence, why no GST is recorded at balance day but GST is recorded on 12 July. 1 mark

Question 8 (5 marks)

On **1 August 2026** *Nordvale Joinery* bought a thicknesser for **$25 000 (plus GST)** and paid **$3 000 (plus GST)** for delivery and installation that make the machine ready for use. It paid a **$5 800 deposit** by EFT and financed the balance with a loan from **Wardell Finance** (**EFT 8215; Loan agreement**).

a. State the cost of the thicknesser. 1 mark

b. Record the purchase in the General Journal. 3 marks

c. State the amount of the loan liability created. 1 mark

Topic 5 Test B — solutions

Question 1

GST-exclusive insurance cost = $8 580 × 10/11 = $7 800; GST = $8 580 ÷ 11 = $780. Expired 1 Mar → 30 Jun = 4 months, so Insurance = $7 800 × 4/12 = $2 600.

General Journal

Date 2026	Details	Debit $	Credit $
1 Mar	Prepaid Insurance	7 800	
	GST Clearing	780	
	Bank		8 580
	Payment for 12 months insurance in advance (EFT 2465)		

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Insurance	2 600	
	Prepaid Insurance		2 600
	Insurance expired — 4 months to balance day		

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Electricity	620	
	Accrued electricity		620
	Electricity incurred but not yet paid at balance day; no GST until paid (Memo 38)		

Question 2

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Cleaning	640	
	Accrued cleaning		640
	Cleaning incurred but not yet paid at balance day; no GST until paid (Memo 28)		

b. GST = 1/11 × $704 = $64; GST-exclusive amount = $640.

General Journal

Date 2026	Details	Debit $	Credit $
5 Jul	Accrued cleaning	640	

Date 2026	Details	Debit $	Credit $
	GST Clearing	64	
	Bank		704
	Payment of accrued cleaning account, including $64 GST (EFT 311)		

c. GST recorded on 5 July = **$64**. (No GST was recorded at balance day; the expense was accrued at its GST-exclusive $640, and GST is recorded only when the account is paid.)

Question 3

a. Depreciation = ($40 000 − $5 000) ÷ 5 = **$7 000** per year.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Depreciation – Grinder	7 000	
	Accumulated Depreciation – Grinder		7 000
	Depreciation of grinder for the year ended 30 June 2026 (Memo 35)		

c. By 30 June 2026 the grinder has been depreciated for **three** years, so accumulated depreciation = 3 × $7 000 = **$21 000** and carrying amount = $40 000 − $21 000 = **$19 000**.

Question 4

a. Year 1 = 25% × $23 000 = $5 750; Year 2 = 25% × $17 250 = $4 312.50, rounded **up** to $4 313; Year 3 = 25% × $12 937 = $3 234.25, rounded to $3 234.

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
At acquisition			23 000
1	5 750	5 750	17 250
2	4 313	10 063	12 937
3	3 234	13 297	9 703

b. Carrying amount at the end of Year 3 = **$9 703**.

Question 5

Annual depreciation = ($56 000 − $6 000) ÷ 5 = $10 000.

a. Depreciation 1 Jul → 30 Sep 2025 = 3 months = $10 000 × 3/12 = **$2 500**.

General Journal

Date 2025	Details	Debit $	Credit $
Sep 30	Depreciation – Delivery Truck	2 500	
	Accumulated Depreciation – Delivery Truck		2 500
	Depreciation of the delivery truck to the date		

Date 2025	Details	Debit $	Credit $
	of disposal (Memo 36)		

b. Accumulated depreciation at disposal = $30 000 + $2 500 = $32 500; carrying amount = $56 000 − $32 500 = $23 500. GST on the proceeds = 1/11 × $20 900 = $1 900, so GST-exclusive proceeds = $19 000. Profit/loss = $19 000 − $23 500 = **$4 500 loss**.

General Journal

Date 2025	Details	Debit $	Credit $
Sep 30	Disposal of Delivery Truck	56 000	
	Delivery Truck		56 000
	Cost transferred to Disposal (Memo 36)		
Sep 30	Accumulated Depreciation – Delivery Truck	32 500	
	Disposal of Delivery Truck		32 500
	Accumulated depreciation transferred to Disposal (Memo 36)		
Sep 30	Bank	20 900	
	Disposal of Delivery Truck		19 000
	GST Clearing		1 900
	Proceeds on the cash sale of the truck (Rec. 132)		
Sep 30	Loss on Disposal of Delivery Truck	4 500	
	Disposal of Delivery Truck		4 500
	Loss on disposal transferred		

Disposal of Delivery Truck

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2025			2025		
Sep 30	Delivery Truck	56 000	Sep 30	Accumulated Depreciation – Delivery Truck	32 500
			Sep 30	Bank	19 000
			Sep 30	Loss on Disposal of Delivery Truck	4 500
		56 000			56 000

c. **Loss on disposal of $4 500** (proceeds $19 000 < carrying amount $23 500).

Question 6

No GST is recorded at the time of the deposit, so the whole $15 600 received is credited to the liability Unearned Revenue. Monthly = $15 600 ÷ 12 = $1 300; earned 1 Apr → 30 Jun = 3 months = $3 900; closing Unearned Revenue = $15 600 − $3 900 = $11 700.

General Journal

Date 2026	Details	Debit $	Credit $
1 Apr	Bank	15 600	
	Unearned Revenue		15 600
	Storage fees received 12 months in advance; no GST is recorded at the time of the deposit (Receipt 96)		

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Unearned Revenue	3 900	
	Storage Revenue		3 900
	Storage revenue earned for 3 months to balance day		

c. Closing **Unearned Revenue** = **$11 700**, reported as a **current liability** in the **Balance Sheet**.

Question 7

a. No GST is recorded at balance day; the June rent earned = $840.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Accrued Revenue	840	
	Rent Revenue		840
	Rent revenue earned but not yet received at balance day (Memo 92)		

b. GST on receipt = 10% × $840 = $84 (= 1/11 × $924), so $924 is received.

General Journal

Date 2026	Details	Debit $	Credit $
12 Jul	Bank	924	
	Accrued Revenue		840
	GST Clearing		84
	June rent received; GST recorded on receipt (Receipt 174)		

c. No GST is recorded at balance day because no cash has been received and no receipt has been issued — GST is recorded only when the cash is received on 12 July, being 1/11 of the $924 received.

Question 8

a. The thicknesser $25 000 and the delivery and installation $3 000 are both needed to get the machine ready for use, so cost of the thicknesser = **$28 000**.

b. GST = 10% × $28 000 = $2 800 (GST-inclusive $30 800); loan = $30 800 − $5 800 deposit = $25 000.

General Journal

Date 2026	Details	Debit $	Credit $
1 Aug	Equipment	28 000	
	GST Clearing	2 800	
	Bank		5 800
	Loan – Wardell Finance		25 000
	Purchase of thicknesser incl. delivery and installation; deposit and loan finance (EFT 8215)		

c. Loan liability created = **$25 000** (the GST-inclusive cost $30 800 less the $5 800 deposit).