Answer on Question #47157, Economics, Finance

On October 1, 2009, Nautilus Co. received $15,300 for the rent of land for 12 months. Journalize the adjusting entry required for unearned rent on December 31, 2009.

Solution:

It should be noted, when we consider Rent Receivable, this mean that balance sheet asset account indicates the amount of rent that has been reported as having been earned, but the money has not yet been collected.

Then we can note that Rent Revenue is an income statement account that reports the amount of rent that has been earned during a period of time. Under the accrual method of accounting, rent revenue is reported on the income statement in the period in which it is earned (rather than in the period when the money is received). The account Rent Revenue is also known as Rental Income.

We know that the revenue recognition states that Revenue is recognized when cash is received.

The unearned revenue should not be included as income; rather, it is recorded as a liability. This liability represents an obligation of the company to render services or deliver goods in the future.

At the end of the period, unearned revenues must be checked and adjusted if necessary. The adjusting entry for unearned revenue depends upon the journal entry made when it was initially recorded.

There are two ways of recording unearned revenue: (1) the liability method, and (2) the income method.

Under the liability method, a liability account is recorded when the amount is collected. The common accounts used are: Unearned Revenue, Deferred Income, and Advances from Customers.

Under the income method, the accountant records the entire collection as income. If the liability method is used, the entry would be:

1/10/09
JE : debit Cash 15300
credit Unearned Rev-Rent 15300
- record initial transaction
12/31/09
JE: debit Unearned Revenue-Rent $3825
credit Rent Revenue $3825
- to recognize 12 months of rent revenue