

Answer on Question #80562 - Economics - Accounting

The accounting period of Meander Enterprises ends on the last day of February each year. On the 28 February 2017, the total of the rent expense account was 41 100. Rent was paid up to 31 March 2017. Note: Rent expense increased by 10% with effect from 1 September 2016. Which will be the correct journal entry to adjust the rent expense account on 28 February 2018?

Solution

1. If we know total of the rent expense account on the 28 February 2017 – 41 100, we can find monthly rent before increase:

$$r_{m0} = \frac{41100}{12} = 3\,425$$

And we know that rent expense increased by 10% with effect from 1 September 2016, so in 2017-2018 accounting period the enterprise had to pay accounts payable for the 6 months (from 01.09.2016 till 28.02.2017) and rent payments for the current period.

Payables on rental payments is:

$$3\,425 * 0,1 * 6 = 2\,055$$

This part was paid after the fact, that's why it was shown in the account Rent Expenses.

Rent payments for the current period:

$$3\,425 * 1,1 * 12 = 45\,210$$

It have been shown in the account Prepaid Rent, because it has been paid in advance. On 28 February 2018 this payments have to be entered into the account Rent Expense.

Prepaid Rent	
Debit	Credit
Increases an asset	Decreases an asset
Preliminary balance 45 210	
	45 210 ADJUSTING ENTRY
Correct balance 0	

Rent Expense	
Debit	Credit
Increases an expense	Decreases an expense
Preliminary balance 2 055	
ADJUSTING ENTRY 45 210	
Correct balance 47 265	

The adjusting journal entry is:

Date	Account name	Debit	Credit
Feb.28, 2018	Rent Expense	45 210	
	Prepaid Rent		45 210