

B-03.04

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

- (1) The company purchased an 18-month insurance policy for \$18,000 on June 1, 20X3.
- (2) The company started 20X3 with \$20,000 in supplies (this was previously recorded, and you do not need to make an entry for the beginning balance), purchased \$30,000 in supplies during the year, and found only \$13,000 in supplies on hand at the end of 20X3.
- (3) The company paid \$2,500 to rent a truck. The rental period began on December 16, 20X3, and ends on February 14, 20X4.