

36.1 A drill to practise the idea of accrued income and deferred income

REQUIRED: for each set of data below, show:

- relevant extracts from an account for money and/or promise
- the Sales Account, and
- relevant extracts from the P&L Account for the period, and from the balance sheet at the end of the period

1.

During a period, a firm receives payment, in money or promises, for sales to the value of £5 000.

Sales actually delivered during the period are valued at £5 200

Sales	
to P&L (sales delivered) 5 200	balance (sales paid for) 5 000
	c/f 200
<u>5 200</u>	<u>5 200</u>
bal b/f = accrued income 200	

P&L Account
sales delivered 5 200

Money & Promises	
payment received 5 000	

BALANCE SHEET extract	£
accrued income (current asset)	200

2.

During a period, a firm receives payment, in money or promises, for sales to the value of £9 250.

Sales actually delivered during the period are valued at £9 000

Sales			
to P&L (sales delivered)	9 000	balance (sales paid for)	9 250
c/f	250		
	<u>9 250</u>		<u>9 250</u>
		bal b/f = deferred income	250

P&L Account	
	sales delivered 9 000

Money & Promises	
payment received	9 250

BALANCE SHEET extract	£
deferred income (current liability)	250

3.

During a period, a firm issues sales invoices to the value of £8 360.

Sales actually delivered during the period are valued at £8 200.

Sales			
to P&L (sales delivered)	8 200	balance (sales paid for)	8 360
c/f	160		
	<u>8 360</u>		<u>8 360</u>
		bal b/f = deferred income	160

P&L Account	
	sales delivered 8 200

Money & Promises	
payment received	8 360

BALANCE SHEET extract	£
deferred income (current liability)	160

4.

During a period, a firm issues sales invoices to the value of £100 000.

Sales actually delivered during the period are valued at £103 000.

Sales			
to P/L (sales delivered)	103 000	balance (sales paid for)	100 000
		c/f	3 000
	<u>103 000</u>		<u>103 000</u>
bal b/f = accrued income	3 000		

P&L Account	
	sales delivered 103 000

Money & Promises	
payment received	100 000

BALANCE SHEET extract	£
accrued income (current asset)	3 000

5.

The Sales Account at the end of a period (before transfers to the P&L Account) shows a balance of £15 400 CR. During the period, the business actually delivered goods and services to the value of £15 000.

Sales			
to P/L (sales delivered)	15 000	balance (sales paid for)	15 400
c/f	400		
	<u>15 400</u>		<u>15 400</u>
		bal b/f = deferred income	400

P&L Account	
	sales delivered 15 000

Money & Promises	
payment received	15 400

BALANCE SHEET extract	£
deferred income (current liability)	400

6.

At the end of a period (before transfers to the P&L Account) the Sales Account of a business shows a balance of £24 700. During the period, the business actually delivered goods and services to the value of £25 000.

Sales	
to P&L (sales delivered)	25 000
	<u>25 000</u>
bal b/f = accrued income	300

balance (sales paid for)	24 700
c/f	<u>300</u>
	<u>25 000</u>

P&L Account	
	sales delivered 25 000

Money & Promises	
payment received	24 700

BALANCE SHEET extract	£
accrued income (current asset)	300

7.

A firm of engineers in Xanadu has a single client from whom it has received a payment of £30 000 under a contract to advise on the construction of a pleasure dome. By the end of the firm's accounting period, construction work had not yet commenced, and the firm had given no advice to the client.

Sales			
<i>to P&L</i> <i>(sales delivered)</i>	nil	<i>balance</i> <i>(sales paid for)</i>	30 000
<i>c/f</i>	<u>30 000</u>	<i>c/f</i>	<u>30 000</u>
	<u>30 000</u>		<u>30 000</u>
		<i>bal b/f</i> <i>= deferred income</i>	30 000

P&L Account	
	<i>sales delivered</i> nil

Money & Promises	
<i>payment received</i>	30 000

BALANCE SHEET extract	£
deferred income (current liability)	30 000

NOTE:

In this example we have made a nil transfer to the P&L Account, to show how the logic of the system works. In normal circumstances, with no sales delivered, there would be no sales to transfer to the P&L, and the balance recorded there would simply be left to appear in the balance sheet as deferred income.

8.

A firm of accountants has a single client for whom it has completed work during a period with a sales value of £4 500. By the end of the period, the firm has issued no sales invoice in connection with this work.

Sales			
to P&L (sales delivered)	4 500	balance (sales paid for)	nil
		c/f	4 500
	<u>4 500</u>		<u>4 500</u>
bal b/f = accrued income	4 500		

Money & Promises	
payment received	nil

P&L Account	
	sales delivered 4 500

BALANCE SHEET extract	£
accrued income (current asset)	4 500

NOTE:

In this example we have shown a nil entry in the Sales Account and the account for money and promises, to show how the logic of the system works. In normal circumstances, with no invoice issued, and therefore no recorded transaction, there would be no existing balance on the Sales Account, and the value transferred to the P&L Account would become the final balance on the account, being shown in the balance sheet as accrued income.