

37.2 A drill to practise understanding the terms accrual, prepayment, deferred income and accrued income

1.

A firm's P&L Account shows an expense of £650 in respect of electricity. The balance sheet shows an accrual of £50.

State what this means, and say what was the original balance on the Electricity Account after all transactions had been recorded, and before transfers to the P&L Account.

Response

This means that the firm has used £650 of electricity in the period, but has not yet recorded transactions (payment in money or promises) in respect of £50 of the electricity used.

The original balance on the Electricity Account, before transfers to the P&L Account, would have been £600 DR.

2.

A firm's P&L Account shows an expense of £500 in respect of rent. The balance sheet shows a prepayment of £70.

State what this means, and say what was the original balance on the Rent Account after all transactions had been recorded, and before transfers to the P&L Account.

Response

This means that the firm has occupied premises at a rental cost of £500 for the period covered by the P&L Account, but has actually recorded transactions (payments of rent, in money or promises) for another £70 of rent.

The original balance on the Rent Account, before transfers to the P&L Account, would have been £570 DR.

3.

A firm's P&L Account shows sales value £650 for the year. The balance sheet shows deferred income of £50.

State what this means, and say what was the original balance on the Sales Account after all transactions had been recorded, and before transfers to the P&L Account.

Response

This means that the firm has delivered sales the value of £650 during the period. However, it has recorded sales transactions (payments received in money or promises) for another £50 of sales which have not yet been delivered.

The original balance on the Sales Account, before transfers to the P&L Account, would have been £700 CR.

4.

A firm's P&L Account shows sales value £1 000 for the year. The balance sheet shows accrued income of £200.

State what this means, and say what was the original balance on the Sales Account after all transactions had been recorded, and before transfers to the P&L Account.

Response

This means that the firm has delivered sales the value of £1 000 during the period. However, included in that £1 000 is £200 of sales in respect of which the firm has not yet properly recorded any transaction.

The original balance on the Sales Account, before transfers to the P&L Account, would have been £800 CR.