

9.2 Exercises on the timing of the accounting record

1.

A firm signs an agreement with a customer to deliver £100 of goods per month for a year.

Identify at least three ways in which this contract could be accounted for, and for each way identified, state the practical steps necessary to ensure that the contract would be accounted for in the way identified.

Response

- a) The firm could account for this contract immediately as a single sale of £1 200 of goods. This would involve issuing a sales invoice for the whole contract immediately (before any goods have been delivered), and recording the transaction as:

IN	promise from customer	£1 200	
OUT	sales		£1 200

- b) The firm could account for this contract on a monthly basis as a series of 12 separate sales. This would involve issuing a sales invoice for £100 at the end of each month, and recording the transaction as:

IN	promise from customer	£100	
OUT	sales		£100

- c) The firm could account for the whole of this contract at the end of the year (after all of the goods have been delivered). This would involve issuing a sales invoice for £1 200 at the end of the year, and recording the transaction as:

IN	promise from customer	£1 200	
OUT	sales		£1 200

2.

A firm signs an agreement with a customer to provide maintenance and support for the customer's computer facilities over the next two years for a fee of £2 000.

Identify at least three ways in which this contract could be accounted for. State which way you think the firm would prefer, and which way you would recommend. Give reasons for your answers.

Response

- a) The firm could account for the whole of this contract immediately, issuing a sales invoice now and recording a single sale of £2 000 of services.
- b) The firm could account for the contract on a monthly basis, issuing an invoice each month for 1/24th of the total contract value
- c) The firm could account for the contract on an annual basis, issuing a sales invoice at the beginning or end of each year recording a sale of £1 000 of services in each year.

I would prefer or recommend option (b). This would ensure that the transactions recorded by the firm would be broadly consistent with its actual provision of services.

The firm itself might prefer option (a), thus boosting recorded sales immediately, even before the firm had delivered the relevant service.