

38.1 A drill on the idea of accruals, etc. as a mechanism for shifting sales and expenses recorded in one period into the P&L Account of another period

REQUIRED: for each set of data below, show:

- a relevant extract from an account for money or promises
- the relevant expense or sales account with transactions recorded in the current year
- any adjustments necessary to ensure that the P&L Accounts of the current year and the next year will reflect the actual value of inputs consumed or outputs created in the period (rather than the values paid for in the period)
- the necessary transfer to the P&L Account for the current year, with extracts from the P&L Account for the year and the balance sheet at the end of the year.

1.

Before transfers to the P&L Account, the balance on a firm's account for repair work, an expense, is £10 500 DR.

Of this value recorded in the current year, £1 500 relates to work not yet done, which will be done in the following year.

<i>Repair work</i>			
value paid for	10 500	to P&L	9 000
		c/f	1 500
	<u>10 500</u>		<u>10 500</u>
bal b/f – prepayment	1 500		

<i>Money & Promises</i>	
payment	10 500

<i>P&L Account</i>	
Repair work done	9 000

BALANCE SHEET extract	£
prepayment (current asset)	1 500

2.

Before transfers to the P&L Account, the balance on a firm's account for building maintenance, an expense, is £1 600 DR.

Further maintenance work to the value of £400 has been done in the period, but no invoice for this work has been received, and the work will have to be recorded in the ledger account next year.

Building Maintenance			
value	1 600	to P&L	2 000
paid for			
c/f	400		
	<u>2 000</u>		<u>2 000</u>
		bal b/f	400
		– accrual	

Money & Promises	
payment	1 600

P&L Account	
maintenance work done	2 000

BALANCE SHEET extract	£
accrual (current liability)	400

3.

During a period, a firm has issued invoices, and therefore recorded sales, to the value of £33 000.

This includes certain sales, value £3 000, which the business has not yet been able to deliver, and which will be delivered in the next period.

Sales			
<i>to P&L</i>	30 000	<i>sales value recorded</i>	33 000
<i>c/f</i>	3 000		
	<u>33 000</u>		<u>33 000</u>
		<i>bal b/f</i>	
		<i>– deferred income</i>	3 000

P&L Account	
	<i>sales value delivered</i> 30 000

Money & Promises	
<i>payment received</i>	33 000

BALANCE SHEET extract	£
<i>deferred income (current liability)</i>	3 000

4.

In its accounts for a period, a business has recorded transactions in respect of sales to the value of £37 000.

In addition to these recorded sales, the firm has also delivered sales to the value of £2 000, which will be recorded in the accounts of the following period, when the relevant invoices are issued to customers.

Sales			
to P&L	39 000	sales value recorded	37 000
		c/f	2 000
	<u>39 000</u>		<u>39 000</u>
bal b/f – accrued income	2 000		

P&L Account	
	sales value delivered 39 000

Money & Promises	
payment received	37 000

BALANCE SHEET extract	£
accrued income (current asset)	2 000

5.

For many firms in the Democratic Republic of Accrulia, a recent postal strike has delayed the receipt of invoices from the suppliers of goods and services.

A business in Accrulia has received invoices from suppliers in respect of expenses totalling £45 000, but the business suspects that further invoices for work done in the period, totalling £5 000, have been delayed in the post, and will have to be recorded in the ledger accounts of the following period.

<i>Expenses</i>			
<i>value</i>	45 000	<i>to P&L</i>	50 000
<i>paid for</i>			
<i>c/f</i>	5 000		
	<u>50 000</u>		<u>50 000</u>
		<i>bal b/f</i>	5 000
		<i>– accrual</i>	

<i>Money & Promises</i>	
<i>payment</i>	45 000

<i>P&L Account</i>	
<i>expenses consumed</i>	50 000

BALANCE SHEET extract	£
accrual (current liability)	5 000