

39.1 An exercise on accruals etc. in accounting software

State and explain the accounting entries necessary to account for the following year-end adjustments in a computerized accounting system. Also state and explain the accounting entries necessary to reverse the adjustments in the following period.

1. deferred income
2. accrued income
3. a prepayment
4. an accrual

1. for deferred income:

Double entry at the year-end is

DR	Sales	£X	
CR	Deferred Income		£X

to remove undelivered sales from the Sales Account, and show the liability to deliver in the balance sheet. The balance remaining on the Sales Account can now be automatically transferred to the P&L Account, while the balance on the Deferred Income Account will be shown as a liability in the balance sheet.

Double entry at the start of the following period is:

DR	Deferred Income	£X	
CR	Sales		£X

to cancel opening deferred income (the liability to deliver), and replace it in the Sales Account to represent actual delivery in the period to come.

2. for accrued income:

Double entry at the year-end is

DR	Accrued Income	£X	
CR	Sales		£X

to add the value of sales not yet recorded to value already in the Sales Account, and show the right to collect payment (accrued income) as an asset in the balance sheet.

Double entry at the start of the following period is:

DR	Sales	£X	
CR	Accrued Income		£X

to cancel the opening accrued income or right to collect payment (it will be replaced by an actual debtor when the sale is properly recorded) and cancel the sale that will eventually be recorded in the Sales Account (because it has already been included in the previous P&L Account).

3. for a prepayment:

Double entry at the year-end is

DR	Prepayment	£X	
CR	Expense Account		£X

to remove from the Expense Account the value of expenses not yet received or consumed, and to show the right to receive that value as an asset (prepayment) in the balance sheet.

Double entry at the start of the following period is:

DR	Expense Account	£X	
CR	Prepayment		£X

to cancel the opening prepayment or right to receive value, and show the value now in the Expense Account as an input for consumption in the period.

4. for an accrual:

Double entry at the year-end is

DR	Expense Account	£X	
CR	Accrual		£X

to include in the Expense Account the value of expenses consumed in the period, but not yet recorded in the accounts, and to show the liability to pay for that value as a liability (accrual) in the balance sheet.

Double entry at the start of the following period is:

DR	Accrual	£X	
CR	Expense Account		£X

to cancel the opening accrual or liability to pay for value consumed, and to cancel the entry that will be made in the Expense Account when the transaction is eventually recorded.