

### 43.1 A drill to practise accounting for transactions that have already been provided for

REQUIRED: for each set of data below, show the necessary entries on a provision account, with an extract from the P&L Account for each relevant year, plus an account for money and promises.

#### Business 1

YEAR 1: A firm is investigated, and conclusive evidence is found that the firm has been breaking regulations for which there is a mandatory fine of £50 000. The case will come to court in Year 2.

P&L 1		Provision for Fine	
<i>new provision</i>	50 000	<i>P&amp;L 1 new provision = balance at end of YR1</i>	50 000

YEAR 2:

The case comes to court and the firm is duly fined £50 000.

P&L 1		Provision for Fine	
<i>new provision</i>	50 000	<i>P&amp;L 1 new provision = balance at end of YR1</i>	50 000
		<i>P&amp;L 2 release of provision</i>	50 000
		<u>50 000</u>	<u>50 000</u>

  

P&L 2		Money & Promises	
<i>fine</i>	50 000	<i>fine paid Year 2</i>	50 000
	<i>release of provision</i>		
	50 000		

## Business 2

YEAR 1: a firm discovers a major crack in the wall of a building which will have to be repaired in Year 2. It is estimated that the repair will cost £15 000.

P&L 1		Provision for Repairs	
<i>new provision</i>	15 000		
		<i>P&amp;L 1 new provision = balance at end of YR1</i>	15 000

YEAR 2: the crack is repaired at an actual cost of £14 000.

P&L 1		Provision for Repairs	
<i>new provision</i>	15 000		
		<i>P&amp;L 1 new provision = balance at end of YR1</i>	15 000
		<i>P&amp;L 2 release of provision</i>	15 000
		<u>15 000</u>	<u>15 000</u>
P&L 2		Money & Promises	
<i>repair cost</i>	14 000		
		<i>Year 2 payment for repairs</i>	14 000
	<i>release of provision</i>		
	15 000		

### Business 3

YEAR 1: all firms operating in Dystopia are informed that they will be required to make a one-off contribution to a fund for the development of the capital city. Firm A believes that it will be required to make a contribution of £900.

P&L 1		Provision for New City	
		<i>P&amp;L 1</i>	
		<i>new provision</i>	900
<i>new provision</i>	900	<i>= balance at end of YR1</i>	

YEAR 2: Firm A pays its actual contribution, which is actually fixed at £950.

P&L 1		Provision for New City	
		<i>P&amp;L 1</i>	
		<i>new provision</i>	900
<i>new provision</i>	900	<i>= balance at end of YR1</i>	
P&L 2			
<i>contribution to new city</i>	950	<i>P&amp;L 2 release of provision</i>	900
			900
			900
Money & Promises			
		<i>contribution paid</i>	950

**Business 4 (slightly trickier)**

YEAR 1: the chairman of a baby-food manufacturing firm promises to give one million pounds to a global fund for fighting child poverty.

P&L 1		Provision for Fund	
			<i>P&amp;L 1</i>
<i>new provision</i>	1 000 000		<i>new provision</i> 1 000 000
			<b>= balance at end of YR1</b>

YEAR 2: the firm pays £500 000 to the fund.

P&L 2		Provision for Fund	
			<i>P&amp;L 1</i> 1 000 000
<i>contribution to fund</i>	500 000		<i>new provision</i>
			<b>= balance at end of YR1</b>
		<i>P&amp;L 2 release of provision</i>	
		c/f	
		500 000	
		500 000	
		<u>1000 000</u>	<u>1000 000</u>
			<b>balance at end of YR 2</b> 500 000

  

Money & Promises	
	<i>contribution paid Year 2</i> 500 000

YEAR 3: the firm pays another £500 000 to the fund.

P&L 3		Provision for Fund	
			<i>P&amp;L 1</i> 1 000 000
<i>contribution to fund</i>	500 000		<i>new provision</i>
			<b>= balance at end of YR1</b>
		<i>P&amp;L 2 release of provision</i>	
		c/f	
		500 000	
		500 000	
		<u>1000 000</u>	<u>1000 000</u>
			<b>balance at end of YR 2</b> 500 000
		<i>P&amp;L 3 release of provision</i>	
		500 000	
		<u>500 000</u>	<u>500 000</u>

  

Money & Promises	
	<i>contribution paid Year 2</i> 500 000
	<i>contribution paid Year 3</i> 500 000