

35.1 A drill to practise the idea of accruals and prepayments

REQUIRED: for each set of data below, show:

- relevant extracts from an account for money and/or promise
- the relevant expense account, and
- relevant extracts from the P&L Account for the period, and from the balance sheet at the end of the period

1.

During a period, a firm records £2 400 as payment, in money or promises, for labour.

Labour actually used during the period was valued at £2 450

| Labour | |
|-------------------|--------------|
| <i>paid for</i> | 2 400 |
| <i>c/f</i> | 50 |
| | <u>2 450</u> |
| <i>to P&L</i> | 2 450 |
| | <u>2 450</u> |
| <i>bal b/f</i> | 50 |
| <i>= accrual</i> | |

| Money & Promises | |
|------------------|----------------------|
| | <i>payment</i> 2 400 |

| P&L Account | |
|------------------------|-------|
| <i>labour consumed</i> | 2 450 |

BALANCE SHEET extract **£**
accrual (current liability) **50**

2.

During a period, a business receives and records invoices for legal services to the value of £1 500.

Legal services actually used during the period were valued at £1 700

| Legal services | |
|-------------------|--------------|
| <i>paid for</i> | 1 500 |
| <i>c/f</i> | 200 |
| | <u>1 700</u> |
| <i>to P&L</i> | 1 700 |
| | <u>1 700</u> |
| <i>bal b/f</i> | 200 |
| <i>= accrual</i> | |

| Money & Promises | |
|------------------|----------------------|
| | <i>payment</i> 1 500 |

| P&L Account | |
|----------------------------|-------|
| <i>legal services used</i> | 1 700 |

BALANCE SHEET extract **£**
accrual (current liability) **200**

3.

A firm uses a credit control agency to check the records of customers who ask to be supplied on credit, and has paid £400 for the right to make 40 searches in the agency's database at £10 per search.

At the end of the period, the firm has made only 30 searches.

| Credit Control | | | |
|---------------------------------------|------------|-------------------|------------|
| <i>paid for</i> | 400 | <i>to P&L</i> | 300 |
| | | <i>c/f</i> | 100 |
| | <u>400</u> | | <u>400</u> |
| <i>bal b/f</i> <i>= prepayment</i> | 100 | | |

| Money & Promises | |
|------------------|--------------------|
| | <i>payment</i> 400 |

| P&L Account | |
|----------------------------|-----|
| <i>credit control used</i> | 300 |

| | |
|------------------------------|----------|
| BALANCE SHEET extract | £ |
| prepayment (current asset) | 100 |

4.

During a period, a firm receives and records invoices from its accountants, to the value of £3 450.

Accounting services actually used during the period were valued £3 200.

| Accounting Services | | | |
|---------------------------------------|--------------|-------------------|--------------|
| <i>paid for</i> | 3 450 | <i>to P&L</i> | 3 200 |
| | | <i>c/f</i> | 250 |
| | <u>3 450</u> | | <u>3 450</u> |
| <i>bal b/f</i> <i>= prepayment</i> | 250 | | |

| Money & Promises | |
|------------------|----------------------|
| | <i>payment</i> 3 450 |

| P&L Account | |
|--------------------------------|-------|
| <i>accounting service used</i> | 3 200 |

| | |
|------------------------------|----------|
| BALANCE SHEET extract | £ |
| prepayment (current asset) | 250 |

5.

The Electricity Account of a business at the end of a period (before transfers to the P&L Account) shows a balance of £500 DR.

During the period, the business actually used electricity to the value of £520.

| Electricity | | | |
|-------------------------|------------|-------------------|------------|
| <i>balance paid for</i> | 500 | <i>to P&L</i> | 520 |
| <i>c/f</i> | 20 | | |
| | <u>520</u> | | <u>520</u> |
| | | <i>bal b/f</i> | 20 |
| | | <i>= accrual</i> | |

| Money & Promises | |
|------------------|--------------------|
| | <i>payment</i> 500 |

| P&L Account | |
|-----------------------------|-----|
| <i>electricity consumed</i> | 520 |

| | |
|------------------------------------|-----------|
| BALANCE SHEET extract | £ |
| accrual (current liability) | 20 |

6.

The Waste Disposal Account of a business at the end of a period (before transfers to the P&L Account) shows a balance of £230.

During the period, the firm actually used waste disposal services to the value of £200.

| Waste Disposal | | | |
|-------------------------|------------|-------------------|------------|
| <i>balance paid for</i> | 230 | <i>to P&L</i> | 200 |
| | <u>230</u> | <i>c/f</i> | 30 |
| | | | <u>230</u> |
| <i>bal b/f</i> | 30 | | |
| <i>= prepayment</i> | | | |

| Money & Promises | |
|------------------|--------------------|
| | <i>payment</i> 230 |

| P&L Account | |
|----------------------------|-----|
| <i>waste disposal used</i> | 200 |

| | |
|-----------------------------------|-----------|
| BALANCE SHEET extract | £ |
| prepayment (current asset) | 30 |

7.

During a period in which it recorded no transactions and made no payments in money or promises in respect of advertising, a firm actually used its advertising agency to do work to the value of £4 000.

| Advertising | | | |
|-------------|--------------|-----------|--------------|
| | | to P&L | 4 000 |
| c/f | <u>4 000</u> | | <u>4 000</u> |
| | <u>4 000</u> | | <u>4 000</u> |
| | | bal b/f | 4 000 |
| | | = accrual | |

| P&L Account | |
|------------------|-------|
| advertising used | 4 000 |

| Money & Promises | |
|------------------|--|
| | |

| | |
|------------------------------|----------|
| BALANCE SHEET extract | £ |
| accrual (current liability) | 4 000 |

8.

In the final month of its accounting period, a firm pays £300 for a year's subscription to a trade magazine, their first copy of the magazine to be received in the following month (that is, in the following accounting period).

| Magazine Subscription | | | |
|-----------------------|------------|--------|------------|
| balance paid for | 300 | to P&L | 0 |
| | <u>300</u> | c/f | <u>300</u> |
| | <u>300</u> | | <u>300</u> |
| bal b/f | 300 | | |
| = prepayment | | | |

| P&L Account | |
|--------------------|---|
| magazines received | 0 |

| Money & Promises | |
|------------------|-------------|
| | payment 300 |

| | |
|------------------------------|----------|
| BALANCE SHEET extract | £ |
| prepayment (current asset) | 300 |