

Accruals & Prepayments

Accrued Expenses: Expenses Incurred but not paid for (**Current Liability**)

Prepaid Expenses: Expenses paid for but not Incurred (**Current Asset**)

Accrued Income: Income Earned but not received yet (**Current Asset**)

Prepaid Income: Income Received but not earned yet (**Current Liability**)

Expense Account			
	\$		\$
P Balance b/d	XXX	A Balance b/d	XXX
Bank / Cash	XXX	Income Statement	XXX
A Balance c/d	<u>XXX</u>	P Balance c/d	<u>XXX</u>
	XXX		<u>XXX</u>
Income Account			
	\$		\$
A Balance b/d	XXX	P Balance b/d	XXX
Income Statement	XXX	Bank / Cash	XXX
P Balance c/d	XXX	A Balance c/d	XXX
	<u>XXX</u>		<u>XXX</u>

Past Paper Questions

Q1. The following information is also available from the books of Amirtha.

	1 January 2011 \$	31 December 2011 \$
Wages	2 040 accrued	2 130 accrued
Insurance	130 accrued	610 prepaid
Rent received	1 490 prepaid	1 320 prepaid

During the year ended 31 December 2011 the following transactions took place.

	\$
Wages paid	24 100
Insurance paid	1 400
Rent received	14 000

All transactions are through the bank account.

REQUIRED

- (e) Prepare the following ledger accounts for the year ended 31 December 2011, showing the closing entry to the financial statements at the end of the year. Dates are not required.

(i) Wages Account (ii) Insurance Account (iii) Rent Received Account

Q2. On 1st April 15 ARD rented a premises for \$10,000 pa. payable on equal installments on 1st Apr, 1st July, 1st Oct and 1st Jan. Mr ARD's financial year ends on 30th Nov

On 1st May ARD Realized that the premises was larger than required and sub-let part of it to a tenant for an annual rent of \$6000

The tenant committed to pay the rent on 1st May, 1st Aug, 1st Nov and 1st Feb.

Required:

- d) Prepare Rent Account and Rent Received Account for the year ended 30th Nov 2015.

Q3. Mary started business on 1 January 2012, renting premises at \$12 000 per annum, paid by instalments on the first day of January, April, July, and October.

On 1 August 2012 Mary let part of the premises to another business for \$5400 per annum, to be paid by instalments on the first day of August, November, February, and May.

Mary paid the rent on 1 January, 1 April, and 1 July 2012.

The tenant paid rent to Mary on 1 August and 1 November 2012.

REQUIRED

(a) Prepare the rent payable account for the year ended 31 December 2012. Balance the account and bring the balance down on 1 January 2013.

(b) Explain the meaning of the balance on 1 January 2013.

(c) Prepare the rent received account for the year ended 31 December 2012. Balance the account and bring the balance down on 1 January 2013.

(d) Explain the meaning of the balance on 1 January 2013.

Q4 On 1 May 2008, Mossman Traders had the following opening balances in its ledger accounts.

	£
Rent received	2 000 owing to the business
Motor expenses	800 owing by the business
Stationery	500 owing by the business
Rates	2 200 prepaid by the business

The following information is available for the year ended 30 April 2009. All receipts and payments were by cheque.

(i) Rent received was as follows:

	£
25 May 2008	12 000
30 November 2008	14 000

On 30 April 2009 £3 000 was still owing in rent to Mossman Traders for the year ended 30 April 2009.

(ii) Motor expenses were paid as follows:

	£
14 May 2008	800
29 September 2008	1 200

On 30 April 2009 £650 was owing for motor expenses.

(iii) Stationery was paid as follows:

	£
3 June 2008	1 500
12 January 2009	2 300

On 1 May 2008 there was a stock of stationery at a cost price of £300. On 30 April 2009 the stock of stationery was £450 at cost price. No invoices were outstanding on 30 April 2009.

(iv) Rates were paid as follows:

	£
30 September 2008	2 640
1 April 2009	3 000

The payment made on 1 April 2009 was for the period 1 April 2009 to 30 September 2009.

REQUIRED

- (a) Prepare the following ledger accounts. In each ledger account, include the transfer to the Profit and Loss Account for the year ended 30 April 2009 and the balance carried down to the next financial year.
- (i) Rent Received. [4]
 - (ii) Motor Expenses. [4]
 - (iii) Stationery. [4]
 - (iv) Rates. [4]
- (b) The Profit and Loss Account extract for the year ended 30 April 2009, showing rent received, motor expenses, stationery and rates. [4]
- (c) The Balance Sheet extract as at 30 April 2009, showing rent received, motor expenses, stationery and rates. Use appropriate balance sheet sub-headings. [2]
- (d) (i) Explain the accruals concept. [2]
(ii)* Justify the application of the accruals concept in the preparation of final accounts. [8]

Total marks [32]

Q5 The following information is available from the books of Paul Boxham.

	1 November 2008 £	31 October 2009 £
Wages	2040 accrued	2 130 accrued
Insurance	130 accrued	610 prepaid
Rent received	1490 prepaid	1 320 prepaid
Commission received	170 accrued	190 prepaid

During the year ended 31 October 2009 the following transactions took place.

	£
Wages paid	24 100
Insurance paid	1 400
Rent received	14 000
Commission received	2 020

All transactions are through the bank account.

Paul Boxham has arranged with his suppliers to receive a 20% trade discount and a 2% cash discount. The cash discount is for payments made within 14 days.

REQUIRED

- (a) The following ledger accounts, for Paul Boxham, for the year ended 31 October 2009. Show the closing entries to the final accounts at the end of the year. Dates are not required.
- (i) Wages [4]
 - (ii) Insurance [4]
 - (iii) Rent Received [4]
 - (iv) Commission Received [4]
- (b) The Balance Sheet extract, for Paul Boxham, as at 31 October 2009 showing Current Assets and Current Liabilities. [4]
- (c) On 1 March 2009 Paul Boxham received an invoice for stock with a list price of £2 000. The invoice was paid on 10 March 2009.
- Calculate each of the following:
- (i) trade discount; [1]
 - (ii) cash discount; [1]
 - (iii) amount paid to the supplier. [1]
- (d) If the invoice had been paid on 6 April 2009 calculate the amount paid to the supplier. [1]
- (e)* Evaluate the usefulness of the double-entry system. [11]

Total marks [35]

Q6 The following information is available from the books of Reb White:

	1 April 2010 £	31 March 2011 £
Salaries	2 550 accrued	1 995 accrued
Commission received	675 accrued	590 accrued
Insurance	530 prepaid	610 prepaid
Rent	950 accrued	1 050 prepaid

During the year ended 31 March 2011 the following amounts were paid and received:

	£
Salaries paid	26 000
Commission received	2 450
Insurance paid	1 900
Rent paid	12 500

All transactions were through the bank account.

REQUIRED

(a) For Reb White, prepare the following ledger accounts, including in each case the transfer to the Profit and Loss Account for the year ended 31 March 2011 and the balance carried down to the next financial year. (Dates are not required).

- (i) Salaries. [3]
- (ii) Commission Received. [2]
- (iii) Insurance. [2]
- (iv) Rent. [3]

(b) Reb White uses a two-column cash book to record his cash and bank transactions. The following relate to the last week of March 2011.

	£	
Opening balances: Cash	208	Debit
Bank	685	Credit
Cash sales	175	
Cheque received from A. Scott	928	
Cheque paid to P. Black	135	
General expenses paid in cash	105	

Prepare and balance off Reb White's two-column cash book for the week ended 31 March 2011. (Dates are not required). [6]

(c)* Discuss **three** reasons why a business makes adjustments for accruals and prepayments in the final accounts. [11]

Total marks [27]

Q7 Will Jones has provided the following information about his business.

	1 April 2011 £	31 March 2012 £
General expenses	3 000 prepaid	2 000 accrued
Wages	1 400 accrued	3 026 accrued
Debtors	34 000	26 270
Provision for doubtful debts	1 020	

During the year ended 31 March 2012 the following amounts were paid by cheque.

	£
General expenses	7 000
Wages	14 740

On 31 March 2012 Will Jones discovered that two debtors, included in the debtors balance, had become bankrupt. The details of each debtor are as follows:

J Smith owes £2 020. He is unable to make any payment and the whole of his debt is to be written off as a bad debt.

L Oliver owes £3 250. Will Jones has now received a cheque for £1 950 in part payment of the debt owed. The remaining amount is to be written off as a bad debt.

The provision for doubtful debts is maintained at the same percentage of debtors each year.

REQUIRED

- (a) The following ledger accounts for the year ended 31 March 2012:
- (i) General Expenses [4]
 - (ii) Wages [3]
 - (iii) J Smith [2]
 - (iv) L Oliver [2]
 - (v) Provision for Doubtful Debts [3]
- (b) The Balance Sheet extract for debtors as at 31 March 2012. [2]
- (c) With reference to two accounting concepts, analyse the effect of creating a provision for doubtful debts on the final accounts. [4]
- (d)* Evaluate the usefulness of the book keeping system to a business such as Will Jones. [10]
- (e) During the year Will Jones bought new machinery. The total cost included the cost of the machinery, delivery and installation. In addition, during the year, machinery maintenance and service costs were incurred. All of these costs were charged to the Machinery Account. Explain why this treatment is incorrect and evaluate the effects on the final accounts. [9]

Total marks [39]

Q8 The following information is available from the books of Ari Soteris.

	1 April 2014 £	31 March 2015 £
Commission received	850 Accrued	920 Accrued
General expenses	4 100 Prepaid	2 970 Accrued
Rent	Nil balance	?
Provision for doubtful debts	2 700	?
Debtors	60 000	65 000

During the year ended 31 March 2015 the following amounts were received or paid (all transactions were through the bank account).

	£
Commission received	6 700
General expenses paid	9 240
Rent paid	24 500

The rent is due in equal monthly instalments. The payment for rent covered the period from 1 April 2014 until 31 May 2015.

The provision for doubtful debts is to be set using the same percentage of debtors as in the previous year.

REQUIRED

(a) The following ledger accounts, including in each case the transfer to the Profit and Loss Account for the year ended 31 March 2015 and the balance carried down to the next financial year. (Dates are not required.)

- (i) Commission Received [4]
- (ii) General Expenses [4]
- (iii) Rent [4]
- (iv) Provision for Doubtful Debts [4]

(b)* Ari Soteris is considering producing the accounts without adjusting for accruals and prepayments. Discuss three reasons why it is considered essential for a business to make these adjustments. [11]