

**NAME OF RESOURCE PERSON: AKIN K.O.**

**TERM/WEEK: 2019/2020 SUMMER TERM: WEEK 3**

**SUBJECT: FIN.ACCOUNTING**

**CLASS: SS2**

**TOPIC: ACCRUALS AND PREPAYMENTS**

**E-NOTES:**

**LEARNING OUTCOMES:** At the end of this lesson, the pupils should be able to:

- ✓ Distinguish between accruals and prepayments
- ✓ Prepare expense account involving prepayment
- ✓ Prepare involving accruals
- ✓ Prepare extract of income statement and balance sheet
- ✓ Name and explain accounting accrual principle as it applies to preparation of income statement

**Further learning resources:**<https://www.slideserve.com/nina-barlow/accruals-and-prepayments>

**ACCRUALS CONCEPT:** States that income and expenditure should be matched to each other and recognised as they are earned or incurred, not when money is received or paid.

**Accruals or accrued expenses:** are expenses which are charged against the profit of a particular period, even though they have not yet been paid, because they were incurred in that period. Alternatively, it can be defined as an amount due in accounting period which remains unpaid at the end of that accounting period. Where an expense is accrued it means some benefits or service has been received during an accounting period but this benefit has not been paid for by the end of the period.

**Rationale for accrued expenses in income statement:** so that expense of a particular period is not understated, hence, a more realistic or accurate profit will be computed.

**Illustration 1:** A case of accrued or expense owing at the end of an accounting period.

Pelumi started a business on 1 March 2018. He receives an invoice for telephone expenses quarterly in arrears (not receiving bill as at when due). During the year ended 28 February 2019 his payments for expenses included the following:

**2018:**

- 30 May Telephone expenses paid in cash \$88
- 4 September Telephone expenses paid by credit transfer, \$112
- 3 December Telephone expenses paid by credit transfer, \$124

An invoice for telephone expenses for \$118 was received on 28 February 2019. This was for telephone expenses up to the end of February, but was not paid until 7<sup>th</sup> March 2019. You are required to prepare telephone expense account for the year ended February 2019 in the book of Pelumi.

Solution:

Telephone expense account

DATE	DETAILS	Dr(\$)	Date	Details	Cr(\$)
30/05/18	Cash	88	28/02/19	Transfer to profit and loss a/c(income statement)	442
4/09/18	Bank	112			
3/12/18	Bank	124			
28/02/19	Balance c/d(owing)	118			
Total		442	Total		442
			1/03/19	Balance b/d(owing)	118

Explanation of the above entries:

Increase in "ade" should be debited "ADE=CLIP" increase in "clip" should be credited, however, decrease in "ade" should be credited while decrease in "clip" should be debited. A stands for asset e.g. cash in hand, bank, D stands for drawings, E for expense, C for capital, L for liability e.g. expense owing, income in advance or prepaid income, rent payable, electricity, depreciation, bad debt etc. I for income e.g. sales or revenue, rent receivable, commission receivable, fees receivable, P for provision.

- There is increase in expense of telephone because there is decrease in asset of cash, hence, debit telephone expenses with \$88 and credit cash account with \$88 on 30/05/18.
- There is increase in expense of telephone expenses because there is decrease in asset of cash at bank, hence, debit telephone expenses with \$112 and credit bank a/c with \$112 on 4/09/18
- There is an increase in expense of telephone expense because there is decrease in asset of cash at bank, hence, debit telephone expense with \$124 and credit bank a/c with \$124
- There is an increase in expense of telephone expense because there is no increase or decrease in asset of cash at bank and cash in hand, hence, nothing will be recorded in cash and bank a/c but expense of telephone has increased, even though money has not been paid as at the end of 28 February hence debit telephone expense with \$118, write balance carried down and credit telephone a/c below the total line to show that the amount is outstanding and to complete double entry credit telephone expense with \$118 below the total line on the next day and month in this case and write balance brought down.
- At the end of the accounting period i.e. 28 February transfer telephone expense that relate to the year to income statement or profit and loss account hence credit telephone expense account with sum total of 88, 112, 124, 118 = \$442 and debit profit and loss section of income statement with \$442 to complete double entry.
- the balance of \$118 on credit side of telephone expense account below the total line will be treated under current liability as accrued telephone expense or other payable in statement of financial position (balance sheet as at 28 February 2019 because the money for telephone was unpaid at the balance sheet date though it was paid some days after balance sheet date.

- Extract of profit and loss account for
- the year ended 28/02/2019 \$442 will be placed on the debit side of this account.

**ILLUSTRATION 2: A CASE OF PREPAID EXPENSES OR EXPENSES PAID IN ADVANCE AT THE END OF CURRENT ACCOUNTING PERIOD:**

Chimamaka started a business on 1<sup>st</sup> April 2018. Chimamaka rented premises until **July 1 2018** when she purchased premises. She paid a **cheque** for **\$1200 for one year's insurance** on her premises on **July 1 2018**. You are required to prepare insurance account in Chimamaka books for the year ended 31 March 2019 and also extract of income statement for the same year and also extract of balance sheet as 31 March 2019.

SOLUTION:

**INSURANCE ACCOUNT**

DATE	DETAILS	Dr(\$)	DATE	DETAILS	Cr(\$)
July 1 2018	Bank	1200	31/March/2019	Balance c/d(prepaid)3/12*1200	300
			31/March/2019	Transfer to profit and loss section of income statement(9/12*1200)	900
Total		1200	Total		1200
1/04/2019	Balance b/d(prepaid)	300			

Chimamaka      Income statement (profit and loss account for the year ended 31/03/2019)

DATE	DETAILS	Dr(\$)	DATE	DETAILS	Cr(\$)
31/03/2019	Insurance	900			

Chimamaka Balance sheet as at 31/03/2019(Extract)

Current asset:

Prepaid insurance expense    \$300

Explanation of the above entries:

- The accounting year runs from 1 April 2018 to 31 March 2019.12 months.
- The cheque for insurance was paid on 1 July 2018 covers up to April, May and June 2019.
- Since Chimamaka financial year ends on 31 March 2019,it means insurance expenditure of the current year was over paid and it relates to another year ending 31 March 2020,hence separate the expense of March 2019 from expense of March 2020.  $9/12 \times 1200 = \$900$  Insurance expense for March

$2020.3/12 \times 1200 = \$300$  insurance expenditure that was paid before it was due i.e. prepaid insurance \$300

- End of July 2018, August 2018, September 2018, October 2018, November 2018, December 2018, January 2019, February 2019, March 2019, - **April 2019, May 2019, June 2019** covers 12 month insurance cost \$1200, therefore, monthly insurance would be  $\$1200/12 = \$100$  per month insurance expense.
- Since the accounting year of Chimamaka ends on March 2019, it means \$300 for the months of April, May, June 2019 in respect of insurance expenditure is meant for future period or the benefit or service relate to new year ending march 2020 .
- There is decrease in asset of cash at bank \$1200 credit bank, hence, debit insurance expense with \$1200 because there is an increase in expense of insurance.
- At the end of March 2019 remove \$300 from insurance a/c to show expense paid prior to being due in order not to overstate expense a/c, hence, credit insurance with balance c/d \$300 to show decrease in expense and debit insurance a/c with balance b/d below the total line to complete double entry on the next day, month and to show that a service has not been received.
- At the end of March 2019 transfer the balance of \$900 ( $\$1200 - \$300$ ) to profit and loss account to represent actual insurance expense for the year under review: meaning insurance account has been closed by crediting insurance account with \$900 and to complete double entry debit profit and loss a/c with insurance expense of \$900.
- In the balance sheet treat the balance of \$300 as prepaid insurance expense (other receivable) under current asset section.

Illustration 3: A case of accrued expense at start and end of a period.

*Akins's financial year ends on 31 March. He receives an invoice for telephone expenses quarterly in arrears. On April 1 2017 the telephone expenses account in Akins's book showed a credit balance of \$118. (expense owing at the end of March 2016 brought forward to the current year as expense owing at start on new year: 1/April 2017 to 31/March/2018). During the year ended 31 March 2018 his payments for expenses included the following:*

*2017: 5 April telephone expenses paid in cash \$118*

*30 June telephone expenses paid by cheque \$120*

*2 October telephone expense paid by credit transfer \$96*

*31 December telephone expense paid by credit transfer \$112*

*An invoice for telephone expenses for \$126 was received on 31 March 2018. This was for telephone expenses up to the end of March, but was not paid until 2 April 2018. You are required to prepare telephone expense account in Akins's ledger for the year ended 31 March 2018 and also extract of income statement for the same period. How would you treat the balance of \$126 in balance sheet as 31 March 2018. Name the accounting principle you have applied in treating accrued telephone expense in income statement for the year ended March 31 2018.*

Solution:

*Telephone expense account*

DATE	DETAILS	Dr(\$)	Date	Details	Cr(\$)
5/APRIL/2017	CASH	118	1/APRIL/2017	BALANCE B/D(OWING AT START)	118
30/JUNE/2017	BANK	120	31/MARCH/2018	Transfer to profit and loss section of income statement	454
2/OCT/2017	BANK	96			
31/DEC/2017	BANK	112			
31/MARCH/2019	BALANCE C/D(OWING AT END)	126			
Total		572	total		572
			1/APRIL/2018	Balance b/d(owing)	126

*AKINS INCOME STATEMENT (PROFIT AND LOSS A/C FOR THE YEAR ENDED 31 MARCH 2018.*

DATE	DETAILS	DR(\$)	DATE	DETAILS	CR(\$)
	Telephone expense	454			

*Akin's extract of statement of financial position as at 31 March 2018*

*Current liability:*

*Accrued telephone expenses \$126*

*The name of the accounting principle is accrual or matching principle.*

*A CASE OF PREPAID EXPENSES AT START AND END.*

*ILLUSTRATION 4:*

*Kenechukwu financial year ends on 30 June. On July 1 2016 the insurance account in Kenechukwu general ledger showed a debit balance of \$300. She paid \$1272 for one's year insurance on her premises by direct debit on*

October 1 2016. You are required to write an insurance account for the year ended 30 June 2017 and also prepare an extract of income statement for the year ended 30/06/2017. State how the balance in insurance account on 30/06/2017 would be treated in balance sheet.

Solution:

*Insurance account*

DATE	DETAILS	DR(\$)	DATE	DETAILS	CR(\$)
1/07/16	Balance B/D(prepaid at start)	300	30/06/17	Balance c/d(prepaid at end) $3/12 \times 1272$	318
1/10/16	Bank	1272	30/06/17	Transfer balance to profit and loss account( $300 + 1272 - 318$ )	1254
Total		1572	Total		1572
1/7/2017	Bal b/d(prepaid) 318				

Kenechukwu Income statement (profit and loss a / c ) for the year ended 30/06/17

DATE	DETAILS	\$	DATE	DETAILS	\$
	Insurance expense	1254			

Kenechukwu extract of statement of financial position as at 30/6/17

Current asset:

Prepaid insurance expense \$318.

Explanation of entries:

- \$300 was paid in advance during the previous year in respect of insurance premium that relates to current period (1/7/16-30/6/17) hence there is increase in insurance expense in this period. Action: debit insurance account on 1/7/16 as prepaid expense at start.
- On 1/October/2016 insurance premium was paid via bank \$1272 for 12 months. There is decrease in asset of cash at bank, credit bank with \$1272 and debit insurance account with same figure to show that expense of insurance has increased. Insurance per month =  $\$1272/12 = \$106$ . However, expenditure of \$1272 partly relate to current year and partly to next year 30/6/18. The part that relates to next accounting period (1/7/17-30/6/18) is  $\$106 \times 3 = \$318$ . Why? The accounting year end of the current period is 30/6/17 but the payment made covers 3 months after the year end i.e. July, August and September. It means \$300 insurance expenditure was paid prior to being due in next year (1/7/17-30/6/18)

- Hence credit insurance account with \$300 to reduce the expense that does not belong to year: 1/7/16-30/6/17.
- To determine amount of insurance expense for the year in question, add \$300 to \$1272 subtract \$318 = \$1254 as insurance expense that would be transferred to profit and loss a/c for the year ended 30/6/17.
- Hence credit insurance a/c with \$1254 and debit profit and loss section of income statement with \$1254 on 30/6/17.
- Bring the bal c/d as at 30/6/17 prepaid balance \$318 as balance b/d at the start of next period 1/7/17 prepaid balance. This balance represents unexpired cost of insurance, hence, it would be treated as current asset in the statement of financial position as at 30 June 2017.

*A CASE OF COMBINED EXPENSE ACCOUNT: prepaid expense and accrued expense at start and end of a period.*

*Illustration 5:*

*Edeki's financial year ends on 31 March. He maintains a combined account for rent payable and rate. On April 1 2015 Edeki had prepaid one month's rate \$600 and owed two month's rent \$2000. During the year ended 31 March 2016, Edeki made the following payment by cheque:*

2015: \$

May 1 Rent for 8 months to September 2015 8000

June 1 Rates for 13 months to 31 May 2016 7800

December 1 Rent for 5 months to 28 February 2016 5000

*Write rent payable and rate account in the nominal ledger of Edeki for the year ended 31 March 2016.*

*Rent payable and Rate account*

DATE	DETAILS	\$	DATE	DETAILS		\$
1 April 2015	Prepaid rate balance b/d	600	1 April 2015	Accrued rent balance b/d		2000
1 May 2015	Bank(rent)	8000	31/March/2016	Prepaid rate balance c/d*		1200
1 June 2015	Bank(rate)	7800	31 March 2016	Profit and loss a/c(rent)(8000+5000+1000-2000=\$12000)	12000	
1 December 2015	Bank(rent)	5000		Profit and loss a/c(rate)(600+7800-1200=\$7200)	7200	19,200
31 March 2016	Accrued rent balance c/d*	1000				
Total		22400	Total			22400
1/04/16	Prepaid rate	1200	1/04/16	accrued rent balance b/d*		1000

	balance b/d*					
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**Explanation of entries:**

- Rate paid during the year 31/3/15 is meant for rate expense of the year 1/04/15-31/03/16, hence, there is increase in rate expense debit the account with \$600 as prepaid rate at start of 1/04/15
- Rent expense \$2000 incurred during the year ended 31/03/15 was not paid, hence, credit rent account because it is a prior year expense that does not relate to the current year(1/04/15-31/03/16) in order to reduce the expense.
- There is decrease in asset of cash at bank on 1/05/2015,1/06/15,1/12/15 credit bank with \$8000,\$7800,\$5000 respectively with debit in rent and rate account to show increase in rent and rate expense account.
- The amount for rent on Dec 1 2015 was underpaid by \$1000. Why? Rent payable per month=\$8000/8=\$1000 .Alternatively,\$5000/5=\$1000
 

Add Two- month rent owed last year	\$2000
Add expected rent due this year (1000* 12)	<u>\$12000</u>
	\$14000
- Less amount paid this year:
 

8- Month rent \$8000	
5- Month rent <u>\$5000</u>	\$(130000)
<u>AMOUNT OF RENT OWED AT 31/3/16</u>	<u>\$1000.00</u>

Alternatively, rent owed as 31/03/16 can be computed as follows the amount paid on December 1 2015 \$5000 covers up to February 2016. It implies that March 2016 rent was not paid i.e \$5000/5=monthly rent \$1000. It is part of rent expense due in that year not paid, hence, according to accrual principle, there is increase in rent expense debit rent a/c: a service or benefit is received without payment.
- Prepaid rate as at 31/03/16 was \$7200. How? The year end of the business was 31 March 2016, \$7800 paid covered 2 months after the accounting year i.e. April and May 2016. Rate per month=\$7800/13=\$600. Therefore, prepaid rate=600\*2=1200. credit rate a/c to reduce the rate expense that would be transferred to profit and loss a/c for the year as it relate to relate to next year 31/03/17.
- Compute the amount of rent expense transferred to income statement as follows=8000+5000+1000-2000=\$12000. Credit rent and rate a/c with \$12000 to show amount of rent expense for the year and debit income statement with \$12000 rent expense.
- Compute the amount of rate expense to profit and loss a/c for the year ended 31/03/16 as follows=600+7800-1200=\$7200. credit rate a/c with \$7200 and debit income statement with the same figure to show rate expense relating to the year.
- Total rate and rent expense in profit and loss a/c=7200+12000=\$19200.
- Bring prepaid rate balance c/d as at 31/03/16 \$1200 to the debit side of rent and rate a/c below total line on the next day and month to complete double entry.
- Bring down accrued rent balance c/d as at 31/03/16 to the credit side of rent and rate a/c below the total line on the next day and month to complete double entry.



**ASSIGNMENTS/FUTHER LEARNING RESOURCES:**

- *Test yourself 11.3 page 141 CATHERINE COUCOM CAMBRIDGE IGCSE AND O LEVEL ACCOUNTING COURSEBOOK SECOND EDITION.*
- *TEST YOUSELF11.1 PAGE 134 141 CATHERINE COUCOM CAMBRIDGE IGCSE AND O LEVEL ACCOUNTING COURSEBOOK SECOND EDITION.*
- *Multiple choice: 1-4 page 150 CATHERINE COUCOM CAMBRIDGE IGCSE AND O LEVEL ACCOUNTING COURSEBOOK SECOND EDITION.*
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- *Practice question 4a page 150 CATHERINE COUCOM CAMBRIDGE IGCSE AND O LEVEL ACCOUNTING COURSEBOOK SECOND EDITION.*
- *Practice question: question 8 page 187 CATHERINE COUCOM CAMBRIDGE IGCSE AND O LEVEL ACCOUNTING COURSEBOOK SECOND EDITION.*
- *Further learning resources: <https://www.slideserve.com/nina-barlow/accruals-and-prepayment>*
- *Further learning resources :youtube; TYPE AAT Accruals and prepayments June 14 2018*

**DEADLINE OR DUE DATE OF SUBMISSION: 24/APRIL/2019 BY 1; 20P.M.**

**Send answers to the following emails:**

**PERSONAL EMAIL: [akintobi2897@gmail.com](mailto:akintobi2897@gmail.com)**

**DEPARTMENTAL E MAIL: [business-studies@dowencollege.org.ng](mailto:business-studies@dowencollege.org.ng).**

**NAME OF RESOURCE PERSON: AKIN K.O.**

**TERM/WEEK: 2019/2020 SUMMER TERM: WEEK 4**

**SUBJECT: FIN.ACCOUNTING**

**CLASS: SS2**

**TOPIC: ACCRUALS AND PREPAYMENTS**

**E-NOTES:**

- Further learning resources:<https://you.tu.be/IBvnsIGvNu>
- Further learning resources:<https://you.tu.be/GKnejQHqskm>

**LEARNING OUTCOMES:** *At the end of this lesson, the pupils should be able to:*

- ✓ *Distinguish between accrued income and expenses*
- ✓ *Prepare income account involving prepaid income*
- ✓ *Prepare income account involving accrued income*
- ✓ *Prepare extract of income statement and balance sheet*
- ✓ *State explain how accrual principle is applied in preparing income statement*

*Accrued income or income owing: is an income relating to a particular accounting period which has not been received at the end of that period. Alternatively, another person receiving a benefit or service from the business during an accounting period has not paid for that benefit or service by the end of that period. In the balance sheet, it is treated as current asset as accrued income or other receivable.*

**ILLUSTRATION 6: A CASE OF ACCRUED INCOME AT END OF A PERIOD.**

*Akin started a business on 1/04/2018 on that date he also agreed to act as an agent for Borisade and company. Akin was to be paid a commission six monthly in arrears on all goods sold for Borisade and company. Commission of \$240 was received by direct debit on October 1 2018 and \$270 was received by direct debit on 2/April/2019.You are required to prepare the following:*

- *Commission receivable account in the nominal ledger of Akin for the year ended 31/March/2019.*
- *Extract of income statement for the year ended 31/03/19 in Akin 's book*
- *Extract of Akin balance sheet as at 31/03/19.*

**Solution:**

*Commission receivable a/c*

DATE	DETAILS	\$	DATE	DETAILS	\$
31/03/19	Commission receivable transferred to profit and loss a/c(240+270)	510	1/Oct/2018	Bank	240
			31/March/2019	Accrued commission receivable a/c balance c/d	270
Total		510	Total		510
1/04/19	Accrued commission receivable bal b/d	240			

*Bank a/c*

DATE	DETAILS	\$	DATE	DETAILS	\$
1/OCT/2018	Commission receivable a/c				

*Akin profit and loss account for the year ended 31/03/19*

DATE	DETAILS	\$	DATE	DETAILS	\$
			31/3/2019	COMMISSIO RECEIVABLE	510

*Akin extract of balance sheet as at 31/03/2019*

*Current asset:*

*Accrued commission receivable (other receivable) \$270*

*Explanation of entries:*

- *On 1/ Oct/2018 there was an increase of asset of cash at bank, hence debit bank a/c with \$240 ,similarly, there is increase in income of commission ,hence, credit commission receivable a/c with \$240.*
- *As at 31/March, 2019 commission income was due to be received but it was not received (no need to record an item in cash/bank a/c .Why? .There is no increase or decrease in cash or bank a/c) in compliance with accrual principle income had been earned, hence, it should be recorded in that period. It means there is increase in commission income ,hence , credit commission receivable with bal c/d \$270 above total line to complete the double entry debit accrued commission receivable with \$270 below the total line on the next and month as accrued commission b/d.*

- On 31/03/19 transfer commission receivable due in that year to profit and loss a/c by crediting profit and loss account as it represents other income for the year and corresponding debit would be in commission receivable account on the same date.

*Prepaid income or deferred revenue or income received in advance: means the person had paid for a benefit or service from the business, but has not been provided by the business at the end of the financial year. Alternatively, it is income received during the financial year which relates to a future accounting period. In the balance sheet, it is treated under current liability as prepaid income or other payable.*

#### A CASE OF PREPAID INCOME OR DEFERRED INCOME AT END OF A PERIOD

##### Illustration 7:

*Akin started a business on 1/04/2016. He rented premises until 1 July 2016 when he purchased premises on that date he rented part of his premises to another trader at an annual rent of \$2000, payable quarterly in advance. The tenant paid rent of \$500 by direct debit on July 1 2016 \$500, October 1 2016 \$500, 31/DEC/2016 \$500, 31 March 2017 \$500. You are required to prepare:*

- Rent receivable account in the nominal ledger of Akin for the year ended 31/March/2017.
- Akin extract of income statement for the year ended 31/03/2017.
- State how you would treat the balance in rent receivable account on 31/03/2017. extract of statement of financial position as at 31/03/2017
- Name two accounting principles applied in treating the amount of rent receivable transferred to income statement for the year ended 31/03/2019.

##### Solution:

#### Rent receivable or rental income

DATE	DETAILS	\$	DATE	DETAILS	\$
31/MARCH/2017	prepaid rent receivable balance c/d*	500	1/7/2016	Bank	500
			1/OCT/2016	Bank	500
			31/DEC/2016	Bank	500
			31/MARCH/2017	Bank	500
31/MARCH/2017	Transfer of rent receivable to profit and loss a/c	1500			
Total		2000	Total		2000
			1/04/17	Prepaid rent receivable balance b/d*	500

Akin extract of income statement for the year ended 31/03/2017

Debit side

Credit side

\$	\$
	Rent receivable or rental income 1500

Akin extract of balance sheet as at 31/03/2017

Prepaid rental income or rent receivable or rent received in advance or other payable \$500.

## Bank account

DATE	DETAILS	\$	DATE	DETAILS	\$
July 1 2016	Rent receivable	500			
October 1 2016	Rent receivable	500			
31/Dec/16	Rent receivable	500			
31/03/17	Rent receivable	500			

## Explanation of entries:

- The account period is 1/04/16-31/03/17. Annual rent \$2000, therefore, quarterly rent= $\$2000/4=\$500$ . Since 3 months make a quarter, in a year, there are 4 quarters.
- The amount received on July by landlord(Akin) was meant for July 2016 to Sept 2016, the amount received on October 1 2016 was meant for Oct 2016 to Dec 2016, the amount received on 31 December 2016 was meant for January 2017 to March 2017, the amount received on 31 March was meant for April 2017 to June 2017. The accounting year of the business ended 31/03/2017, the amount received in the current year relates to future period ending 31/3/18. Hence reduce rental income received during the year by the amount of prepaid \$500. Action: debit rental income a/c by the amount of prepayment \$500 bal c/d above the total line and to complete the double by crediting commission receivable account by prepayment below the total line on the next day and month with bal b/d \$500.
- Transfer rental income that relate to current year to the credit side of profit and loss a/c for the year ended 31/03/17 and corresponding debit in rent receivable account ( $500+500+500+500-500=\$1500$ ).

A case of income accrued at start and end of a period.

## Illustration 8:

Akin financial year ends on 31/March. He acts as an agent for Rotimi and company and is paid commission six monthly in arrears on all goods sold for Rotimi and company on April 1, 2018. The commission receivable



- During 31/03/18 commission income was earned but money was not received, hence, it does not relate to income of the current year (1/04/18-31/3/19). Debit commission account to reduce it.
- On 2/4/18, 1/10/18 asset of cash at bank increased .Debit bank a/c with \$270 and \$290 respectively .Therefore, corresponding credit would be in commission receivable account because there was increase in income.
- On 31/03/19 commission income was earned but no money was received. Hence, no entry would be recorded in bank/cash account. Action: credit commission a/c with \$312 above the total line to show increase in income balance c/d \$312 and debit commission a/c below the total with balance b/d \$312 to complete double entry and to show accrued commission earned.
- Determine the amount of commission earned to be transferred to profit and loss account on 31/03/19 i.e.  $(270+290+312-270)=\$602$ .credit income statement with \$602 and debit commission receivable account with \$602.

#### A CASE OF INCOME PREPAID AT START AND INCOME ACCRUED AT END.

##### Illustration 9:

Akin's financial year ends on 31/March. He rents parts of his premises to another trader at an annual rent of \$2000, payable quarterly in advance. On APRIL 1 2018 the rent receivable account in Akin's nominal ledger showed a credit balance of \$250.

The tenant paid rent of \$500 by direct debit on July 1 2018 and 2 October 2018. The rent due on January 1 2019 was not received until 7 April 2019.

You are required to prepare:

- Rent receivable account in Akin's nominal ledger for the year ended 31/03/19.
- State how you would treat balance left in rent received a/c on 31 /03/2019 in balance sheet.
- What amount of rental income would be transferred to income statement on 31/03/19 .State the side of income statement this amount would appear?

Solution:

##### Rent receivable a/c

DATE	DETAILS	\$	DATE	DETAILS	\$
31/03/19	Income statement	2000	1/04/18	Prepaid bal b/d	500
			1/July/18	Bank	500
			2/Oct/18	Bank	500
			31/03/19	Balance c/d(accrued)	500
Total		2000	Total		2000
1/04/19	Accrued bal b/d	500			

It would be treated under current asset section of balance sheet as accrued rental income \$500.

The amount of rental income to be transferred to income statement : \$2000. This amount would be credited to profit and loss a/c for the year ended 31/03/2019.

Explanation of entries:

- In the previous year (1/04/17-31/3/18) rental income was received. Prior to being due but it relate to rental income of ensuing year (1/04/18-31/03/19) hence, credit rent receivable a/c on 1/04/18 with \$500 as prepaid rental income at start of the current year.
- On 1 July 2018, 2 October 2018, asset of cash at bank increased with \$500 for each of the months respectively, hence debit bank account with \$500 on the said dates and corresponding credit would be in rent receivable account to show increase in rental income,
- On 31/3/2019 rental income was owed or accrued, in compliance with accrual principle, rental income was earned during the current year ended 31/3/19, hence, credit accrued rental income above total line to show increase in income and to complete double in the next period (1/04/18-31/3/19) debit rental income account with accrued rental income balance below the total line on the debit side.
- To determine rental income taken to profit and loss a/c for the year ended 31/3/19 add all items on the credit side rent receivable account i.e.  $500+500+500+500=\$2000$ . Debit rent received account with \$2000 and credit income statement with \$2000.

Illustration 10: A case of prepaid income at start and end of a period.

The financial year end of Akin Ltd ends on 31/12 every year. From the data below, write up rental income for the year ended 31/12/2005. Prepare extract of income statement for the year ended 31/12/2006 and state how you would treat the balance on rent receivable account on 31/12/2006 in balance sheet.

Prepaid rental income	31/12/2005	\$3000
Rent received during the covers up to	30/04/2007	\$13000
Prepaid rent received	31/12/2006	\$?

Annual rent \$12000 per annum.

SOLUTION:

RENTAL INCOME OR RENT RECEIVABLE ACCOUNT

DATE	DETAILS	\$	DATE	DETAILS	\$
31/12/2006	Prepaid rental c/d(	4000	1/1/2006	Prepaid rental income b/d	3000
31/12/2006	Transfer rental income to income statement	12000	31/12/2006	Cash/bank	13000



Total		16000	total		16000
			1/1/2007	Prepaid bal b/d	4000

Akin extract of income statement for the year ended 31/12/2006

\$	\$
	Rental income 12000

It would be treated as prepaid rental income or other payable in the current liability section .For example:

Current liability as at 31/12/2006:

Prepaid rental income \$400

Explanation of entries:

- On 31/12/2005 rental income was received prior to being due but it relates to current year 1/1/2006-31/12/2006.Hence credit rental income on 1/1/2006.
- During the current year ended 31/12/2006 cash or cheque was received partly for income due in the current year and next year(31/12/2007).There was an increase asset of cash or bank, debit bank and credit rental income account with \$13000.
- Since the annual rent is \$12000. It represents amount of rental income to be taken to profit and loss account for the year ended 31/12/2006.Hence, credit income statement with \$12000 and corresponding debit would appear in rental income a/c as rental income earned in compliance with accrual principle. Alternatively,  $3000+13000-4000=\$12000$ .
- To determine prepaid rental income at end of 31/12/2006 add items on the right hand side of rental income and deduct amount transferred to income statement i.e.  $\$3000+\$13000-\$12000=\$4000$ .Alternatively, monthly rent= $12000/12=\$1000$ .The year end 31/12/2006, since the payment covered 4 months after year end i.e. Jan 2007,FEB 2007,March 2007,April 2007.4 month rent was received prior to being due( $4*1000=\$4000$ )Hence debit rental income to show that this income item belong to next accounting period and credit below the total line to complete the double entry.

*Illustration 11: interpretation of ledger account*

*Insurance account in the book of Akin k.o.*

<i>DATE</i>	<i>DETAILS</i>	<i>\$</i>	<i>DATE</i>	<i>DETAILS</i>	<i>\$</i>
<i>June 1 1999</i>	<i>Balance b/d(i)</i>	<i>160</i>	<i>May 31 2000</i>	<i>Profit and loss a/c(iii)</i>	<i>1330</i>
<i>April 1 2000</i>	<i>Bank(ii)</i>	<i>1350</i>	<i>May 31</i>	<i>Balance c/d(iv)</i>	<i>180</i>
		<i>1510</i>			<i>1510</i>
<i>1/June/2000</i>	<i>Bal b/d</i>	<i>180</i>			

- a) *Describe the transactions or information represented by each of the entries (i) to (iv) in the account above and state where double entries would be completed. The descriptions are to be from the point of view of Akin k.o.*
- b) *In which ledger would you find insurance a/c?*
- c) *Where exactly in the balance sheet would you find the balance of insurance account?*
- i) *The amount of insurance prepaid brought forward from year ending 31 May 1999. Credit insurance \$160 with balance c /d on 31/May/1999.*
- ii) *Payment made for insurance (inclusive of expired insurance and prepaid amount). Credit bank a/c with \$1350.*
- iii) *Amount of insurance expense for the year ending 31May 2000 transferred to profit and loss account. Debit profit and loss a/c with \$1330,*

iv) Amount of insurance unexpired cost or paid during the year ending May 31 2000 that relate insurance expense due next year .Debit insurance account below the total line on 1/June/2000.

b) Nominal or General Ledger.

c) Current asset section.

**ILLUSTRATION 12:**

Akin made the following payment by cheque in the month of March 2018.

March 6 motor expenses-repairs	\$120
March 12 motor expenses-tyres	\$150

The bill for repairs had been received in February and \$120 had been accrued in the motor expenses account at the end of the month.

Akin received a bill for motor fuel for \$80 on 29 March but the bill was not paid until 7 April.

a) You are required to prepare the motor expenses account in Akins's ledger for the month and the balance brought down on April 1.

Rotimi has to pay \$400 rent on his shop each month. He was not able to pay all the rent due in March 2019 and \$150 was outstanding or owed on April 1.

From 1 April, his landlord increased the rent to \$450 each month. On 27 April Rotimi made a payment of rent to his landlord of \$500 in total.

b) You are required to prepare rent payable account in Rotimi's ledger for the month of April 2019. Show the amount to be transferred to the income statement for the month and balance brought down on May 1.

Femi does not include any accrual in his electricity account for electricity used and invoiced, but not paid for at the end of the month.

c) State whether the amount for electricity in his income statement for the month will be understated or overstated.

Solution:

a) Motor expenses

DATE	DETAILS	\$	DATE	DETAILS	\$
March 6,2018	Bank	120	1/03/2018	Accrued bal b/d	120
March12,2018	Bank	150	31/03/2018	Transfer to income statement(120+150+80-120=\$230	230
29/March/2018	Accrued bal c/d	80			
Total		350	Total		350
			1/04/19	Accrued bal b/d	80

b) Rent payable account

DATE	DETAILS	\$	DATE	DETAILS	\$
27/April /2019	Bank/cash	500	1/April/19	Accrued bal b/d	150
			30/04/19	Income statement	450

30/04/19	Accrued bal c/d(150+450- 600)	100			
		600			600
			1/05/19	Accrued bal b/d	100

c) Understated.

*Illustration 13:*

*Suze is a trade. On July 1 2017 her inventory of stationery was valued at \$220. During the year ended 30 June 2018 the following transactions took place.*

*2017 September 1 purchased stationery \$656, by cheque.*

*2018: January 4 purchased stationery, \$190 in cash.*

*February 1 received a cash refund, \$30, for an overcharge by the stationery supplier.*

*Suze's inventory of stationery on 30 June 2018 was valued at \$374.*

*Write up stationery account in Suze's ledger for the year ended 30 June 2018.*

*Solution:*

*Stationery account*

DATE	DETAILS	\$	DATE	DETAILS	\$
July 1 2017	Bal b/d	220	Feb.1 2018	Cash	30
Sept. 1 2017	Bank	656	June 30	Bal c/d	374
Jan.4 2018	Cash	190	June	Income statement(balancing	662

				figure)220+656+190-30-374=\$	
		1066			1066
1.7.2019.	Bal b/d	374			

**Summary: ACCRUALS AND PREPAYMENT**

*EXPENSE E.G ELECTRICITY, RENT PAYABLE, STATIONERY ETC.*

DATE	DETAILS	\$	DATE	DETAILS	\$
	PREPAID AT END OF A PERIOD BAL B/D	XX		PREPAID AT START OF A PERIOD BAL C/D	XX
	BANK/CASH(AMOUNT PAID)	XX		INCOME STATEMENT	XX
		XX(CURRENT ASSET IN BAL SHEET			XX
	PREPAID B/D	XX			

*EXPENSE E.G COMMISSION PAYABLE, RENT PAYABLE ELECTRICITY .INTEREST PAYABLE ETC.*

DATE	DETAILS	\$	DATE	DETAILS	\$
	ACCRUED AT END OF A PERIOD C/D	XX		ACCRUED AT START OF A PERIOD B/D	XX
	BANK/CASH(AMOUNT PAID)	XX		INCOME STATEMENT	XX
		XX			XX
				ACCRUED B/D	XX
				CURRENT LIABILITY IN BALANCE SHEET	

**OTHER INCOME E.G. RENT RECEIVABLE, COMMISSION RECEIVABLE, INTEREST RECEIVABLE ETC**

DATE	DETAILS	\$	DATE	DETAILS	\$
	INCOME ACCRUED AT START BALANCE B/D	XX		INCOME ACCRUED AT END OF A PERIOD BAL C/D	XX
	INCOME STATEMENT	XX		BANK/CASH(AMOUNT RECEIVED)	XX
		XX			XX
	ACCRUED BAL B/D				
	TREAT AS CURRENT ASSET IN BALANCE SHEET				

*OTHER INCOME E.G RETAL INCOME.COMMISSION RECEIVABLE, INTEREST RECEIVABLE*

<i>DATE</i>	<i>DETAILS</i>	<i>\$</i>	<i>DATE</i>	<i>DETAILS</i>	<i>\$</i>
	<i>PREPAID INCOME AT END BAL C/D</i>	<i>XX</i>		<i>PREPAID INCOME AT START BAL B/D</i>	<i>XX</i>
	<i>INCOME STATEMENT</i>	<i>XX</i>		<i>BANK/CASH(AMOUNT RECEIVED)</i>	<i>XX</i>
		<i>XX</i>			<i>XX</i>
				<i>PREPAID INCOME BAL B/D</i>	<i>XX</i>
				<i>TREAT AS CURRENT LIABILITY IN BALANCE SHEET</i>	





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**Additional information:**

1. The balance on Akin's account in the ledger on April 1 was \$2850Dr.
2. Rent of \$900 is payable quarterly in advance.
3. An electricity bill for \$60 was accrued at 30 April.

You are required to write up the following accounts in Ramon's ledger for the month of April 2007. Show the amount transferred to Ramon's income statement for the month and any balances at May 1.

- a) Sales or revenue account
- b) Akin account
- c) Rent account
- d) Electricity account
- e) Drawings account
- f) Wages account

**3. The following account appears in Ruth TEMPE'S NOMINAL LEDGER.**

**Business rate account**

DATE	DETAILS	\$	DATE	DETAILS	\$
Sept. 30 2008	Bank	1490	2008 Aug 1	Bal b/d	90
			2009 July 31	Income statement	1200
			2009 July 31	Bal c/d	200
		1490			1490
2009 Aug 1	Bal b/d	200			

- a) Explain each of the entries in the business rates account as it appears in nominal (general ledger) of Ruth Tempe. State where double entry for each transaction would be made. The first one has been completed as an example. 2008 August 1 Balance \$90  
 Explanation This is the amount owing for business rate for the previous financial year.  
 Double entry Debit business rates account for the year ended 31 July 2008.  
 2008 September 30 Bank \$1490  
 2009 July 31 Income statement \$1200.
- b) I) Explain the significance of the \$200 shown at the end of the business rate account.  
 ii) State where this amount will appear in Ruth Tempe's balance sheet at 31/July/2009.

4. Ahmed made the following payment by cheque in the month of March 2018.

March 6 motor expenses-repairs                      \$360

March 12            motor expenses-tyres            \$450

The bill for repairs had been received in February and \$360 had been accrued in the motor expenses account at the end of the month.

Ahmed received a bill for motor fuel for \$240 on 29 March but the bill was not paid until 7 April.

a) You are required to prepare the motor expenses account in Akins's ledger for the month and the balance brought down on April 1.

Oso has to pay \$1200 rent on his shop each month. He was not able to pay all the rent due in March 2019 and \$450 was outstanding or owed on April 1.

From 1 April, his landlord increased the rent to \$1350 each month. On 27 April Oso made a payment of rent to his landlord of \$1500 in total.

b) You are required to prepare rent payable account in Oso's ledger for the month of April 2019. Show the amount to be transferred to the income statement for the month and balance brought down on May 1.

- Oyewunmi does not include any accrual in his electricity account for electricity used and invoiced, but not paid for at the end of the month

c) State whether the amount for electricity in his income statement for the month will be understated or overstated.

- *Practice question 4 b(i to iii) and 4c pg 151 CATHERINE COUCOM CAMBRIDGE IGCSE AND O LEVEL ACCOUNTING COURSEBOOK SECOND EDITION.*
- *Practice question: question 9 page 188 CATHERINE COUCOM CAMBRIDGE IGCSE AND O LEVEL ACCOUNTING COURSEBOOK SECOND EDITION.*
- Further learning resources: <https://youtu.be/IBvnsgIGvNu>
- Further learning resources: <https://youtu.be/GKnejQHqskm>

**DEADLINE OR DUE DATE OF SUBMISSION: 28/APRIL/2019 BY 1; 20P.M.**

**Send answers to the following emails:**

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**DEPARTMENTAL E MAIL: business-studies@dowencollege.org.ng.**