

Chapter 3 Accruals and prepayments (應計與預付項目)

3.2 Accrual accounting (應計制會計)

Under **accrual accounting** (應計制會計), revenues and expenses are recognized when they are **earned or incurred** (賺取或招致). Cash accounting often leads to misleading results as a firm may have earned and incurred certain revenues and expenses during a period but those revenues and expenses have not been recognized.

3.3 Accruals (應計項目)

Accrued expenses (unpaid expense, expense payable or expense owing) (應計費用) refer to the expenses that have been incurred during a period but have not been paid by the end of that period.

Accrued revenue (unreceive revenue, revenue receivable or revenue in arrears) (應計收益) refer to the revenue that have been earned during a period but have not been received by the end of that period.

3.3.1 Accrued expenses (應計費用)

The double entry for the Accrued expenses (應計費用的入帳方法)

Accrued expenses refer to the expenses should be paid, so like the entry of expenses: **debited** expenses account and **credited** accrued expenses account.

Dr Expense account

Cr Accrued expense account

This credit balance of **Accrued expense account** would be shown as a **current liability** (流動負債) in its balance sheet as at that date.

Class work 1

- For each of the independent situations described below, prepare journal entries. Narrations are not required.
 - Rent: paid \$16,000 by cheque on 31 December 2008 and owed \$4,000 as at 31 December 2008.
 - Electricity: a balance of \$6,480 at year end but an amount of \$1,560 remained unpaid.
 - Telephone: Paid \$450 in cash on 2 April 2008. A telephone bill of \$520 for the three months ended 31 December was paid on 6 January 2009.

Journal			
Details		Dr	Cr
		\$	\$
(i)	Rent	16,000	
	Bank		16,000
	Rent	4,000	
	Accrued rent		4,000
(ii)	Electricity	1,560	
	Accrued electricity		1,560
(iii)	Telephone Expenses	450	
	Bank		450
	Telephone Expenses	520	
	Accrued telephone expenses		520

3.3.2 Accrued revenues (應計收益)

The double entry for the Accrued revenues (應計收益的入帳方法)

Accrued revenues refer to the revenues should be received, so like the entry of revenues: **credited** revenues account and **debited** accrued expenses account.

Dr Accrued revenue account

Cr Revenue account

This debit balance of **Accrued revenue account** would be shown as a **current asset (流動資產)** in its balance sheet as at that date.

Class work 2

1. Prepare the following ledger accounts and show the amounts transferred to the profit and loss account on 31 December 2008.

- (i) K Wang rented part of the buildings from C Ho for a fixed rental of \$6,000 per month starting from 1 January 2008. On 15 December 2008, he paid C Ho \$64,000 by cheque.
- (ii) C Ho received commissions of \$1,280 in cash on 30 July 2008. Commissions of \$1,360 for the two months from 1 November 2008 to 31 December 2008 were received on 10 January 2009.
- (iii) Rental income: a balance of \$120,000 at year_end but monthly rental income of \$10,000 had not been received for the months of November and December 2008.

Journal			
	Details	Dr \$	Cr \$
(i)	Bank	64,000	
	Rent Revenue		64,000
	Accrued rent revenue (\$6,000 x 12 – 64,000)	8,000	
	Rent revenue		8,000
(ii)	Cash	1,280	
	Commission Revenue		1,280
	Accrued Commission Revenue	1,360	
	Commission Revenue		1,360
(iii)	Accrued Rental Income	20,000	
	Rental Income		20,000

3.4 Prepayments (預付項目)

Prepayments (prepaid expense, deferred expense) (預付費用) refer to the **expenses (費用)** that have been paid during a period but have not been incurred by the end of that period.

Unearned revenue (prepaid revenue, deferred revenue or revenue in advance) (預收收益) refer to the **revenues (收益)** that have been received during a period but have not been earned by the end of that period.

3.4.1 Prepaid expenses (預付費用)

The double entry for the prepaid expenses (預付費用的入帳方法)

In prepaid expenses, the expenses must be paid first and then prepaid expenses refer to the expenses should not be paid, so like the reverse entry of expenses: **credited** expenses account and **debited** prepaid expenses account.

Dr Expense account

Cr Cash at bank account

Dr Prepaid expense account

Cr Expense account

This debit balance of **Prepaid expense account** would be shown as a **current asset (流動資產)** in its balance sheet as at that date.

Class work 3

1. Prepare the following necessary journal entries to record the following. Narrations are not required.

- (i) Rent: Paid \$20,000 by cheque on 30 July 2008 but the rent payment of \$20,000 on 30 July 2008 covered the period from 1 January to 30 June 2009.
- (ii) C Ho bought stationery of \$3,000 in cash on 10 May 2008. At the end of the year, there was unused stationery costing \$800 and will be used as prepaid expenses.
- (iii) Insurance: a balance of \$8,100 at year end but a payment of premium for \$2,780 for 12 months to 30 March 2009 was included in the insurance account.
- (iv) For an advance payment of management fees, the bookkeeper wrongly debited \$7,040 to the cash at bank account and credited \$7,040 to the management fees account.

Journal			
Details		Dr	Cr
		\$	\$
(i)	Rent	20,000	
	Bank		20,000
	Prepaid rent	20,000	
	Rent		20,000
(ii)	Stationery	3,000	
	Cash		3,000
	Prepaid stationery	800	
	Stationery		800
(iii)	Prepaid Insurance	695	
	Insurance (\$2780 x 3/12)		695
(iv)	Management fees	14,080	
	Cash at bank		14,080
	Prepaid Management fees	7,040	
	Management fees		7,040

3.4.2 Unearned revenues (未獲收益)

The double entry for the unearned revenues (未獲收益的入帳方法)

In unearned revenues, the expenses must be received first and then unearned revenues refer to the revenues should not be received, so like the reverse entry of revenues: **debited** revenues account and **credited** unearned revenues account.

Dr Cash at bank account

Cr Revenue account

Dr Revenue account

Cr Unearned revenue account

This credit balance of **Unearned revenue account** would be shown as a **current liability (流動負債)** in its balance sheet as at that date.

Class work 4

1. For the year ended 31 December 2008, prepare the following necessary journal entries to record the following. Narrations are not required.

- (i) The interest receipt of \$32,000 by cheque on 21 December 2008 covered the period from 1 October 2008 to 30 March 2009.
- (ii) Commission income: a balance of \$200,000 at year end but some commission income of \$12,000 received for the month of January 2009 was included in the commission income account.
- (iii) K Wang rented part of the buildings from C Ho for a fixed rental of \$4,000 per month starting from 1 January 2008. On 15 December 2008, he paid C Ho \$64,000 by cheque.
- (iv) For an advance receive of insurance revenue, the bookkeeper wrongly debited \$7,040 to the insurance revenue account and credited \$7,040 to the cash at bank account.

Journal			
	Details	Dr	Cr
		\$	\$
(i)	Bank	32,000	
	Interest Revenue		32,000
	Interest Revenue (\$32,000 x 3/6)	16,000	
	Unearned Rent revenue		16,000
(ii)	Commission Income	12,000	
	Unearned Commission Income		12,000
(iii)	Bank	66,000	
	Rent Revenue		66,000
	Rent Revenue (\$64,000 – \$4,000 x 12)	16,000	
	Unearned Rent Revenue		16,000
(iv)	Cash at bank	14,080	
	Insurance revenue		14,080
	Insurance revenue	7,040	
	Unearned insurance revenue		7,040

Handling Accruals and prepayments in the previous year (處理上年度的應計和預付項目)

Handling last year Accrued expenses (處理上年度的應計費用)

Since last year accrued expenses, must be paid this year. Hence, we should make the payment of last year accrued expenses and make the following entries

Dr Accrued expense account
Cr Cash at bank

Handling last year Accrued revenues (處理上年度的應計收益)

Since last year accrued revenues, must be received this year. Hence, we should make the receiving of last year accrued revenues and make the following entries

Dr Cash at bank
Cr Accrued revenue account

Handling last year Prepaid expenses (處理上年度的預付費用)

Since last year prepaid expenses, must be the expenses this year. Hence, we should record last year prepaid expenses as this year expenses and make the following entries

Dr Expenses
Cr Prepaid expenses

Handling last year Unearned revenues (處理上年度的未獲收益)

Since last year unearned revenues, must be the revenues this year. Hence, we should record last year unearned revenues as this year revenues and make the following entries

Dr Unearned revenues
Cr Revenues

Class work 4

1. Financial year of the company ended on 31 December 2018. Prepare the following necessary journal entries to record the following. Narrations are not required.

- Loan interest of \$5,050 incurred in 2017 remains unpaid as at 31 December 2017, but no entries for the loan interest had been made in the books in 2018.
- Commissions of \$1,360 for the two months from 1 November 2017 to 31 December 2017 were received on 10 January 2018. However, entries regarding the commissions were omitted from the books in 2018.
- Owing to an oversight, \$1,300 prepaid insurance at 31 December 2017 had been omitted in 2018.
- The company received interest of \$32,000 by cheque on 21 December 2017 covered the period from 1 September 2017 to 30 March 2018. No entries had been made for the interest revenue in 2018.

Journal			
	Details	Dr	Cr
		\$	\$
(i)	Accrued loan interest	5,050	
	Cash at bank		5,050
(ii)	Cash at bank	1,360	
	Accrued commission revenue		1,360
(iii)	Insurance	1,300	
	Prepaid Insurance		1,300
(iv)	Unearned interest revenue (\$32,000 x 3/6)	16,000	
	Interest revenue		16,000

3.5 Alternative method (處理應計與預付項目的另一方法)

Instead of **opening a separate account** (開設獨立帳戶) for accruals or prepayments (應計或預付項目), we carry forward (Accrued c/f/Prepaid c/f) the accrued or prepaid balance in the expense or revenue account.

3.3.1 Accrued expenses (應計費用)

Examples:

Water Charges							
2009			\$	2009			\$
May 20	Cash	今年已支付金錢的費用(水費)	480	Dec 31	Profit and loss		2,680
Sept 18	Cash		960			今年已經招致的水費費用(水費)	
Dec 31	Accrued c/f		1,240				2,680
		應計移後(水費)	<u>2,680</u>				
				2010			
				Jan 1	Accrued b/f	應計承前(水費)	1,240

The amount that was incurred but unpaid in 2009 should be **carried forward** (轉至) to 2010 as a **credit balance** (貸方餘額) in the water charges account. The credit balance of the water charges account of \$1,240 represented a **liability** (債務) of Firm A as at 31 December 2009. This credit balance would be shown in the trial balance and also a **current liability** (流動負債) in its balance sheet as at that date.

Class work 1

1. Prepare the following ledger accounts and show the amounts transferred to the profit and loss account on 31 December 2008.

(i) Rent: paid \$16,000 by cheque on 31 December 2008 and owed \$4,000 as at 31 December 2008.

Rent							
2008			\$	2008			\$
Dec 31	Bank		16,000	Dec 31	Profit and loss		20,000
" 31	Accrued c/f		4,000				
			<u>20,000</u>				<u>20,000</u>
				2009			
				Jan 1	Accrued b/f		4,000

3.3.2 Accrued revenues (應計收益)

Examples:

Interest Revenue							
2009			\$	2009			\$
Dec 31	Profit and loss	今年已經賺取的利息收益	8,800	Apr 30	Bank	今年已收取金錢的利息收益	2,400
				Jul 31	Bank		2,400
				Oct 31	Bank		2,400
				Dec 31	Accrued c/f	應計移後(利息收益)	1,600
			<u>8,800</u>				<u>8,800</u>
Jan 1	Accrued b/f	應計承前(利息收益)	1,600				

The amount that was earned but not yet received in 2009 should be **carried forward** (轉至) to 2010 as a **debit balance** (借方餘額) in the interest revenue account. The debit balance of the interest revenue account of \$1,600 represented an **asset** (資產) of Firm A as at 31 December 2009. This debit balance would be shown in the trial balance and also a **current asset** (流動資產) in its balance sheet as at that date.

Class work 2

- Prepare the following ledger accounts and show the amounts transferred to the profit and loss account on 31 December 2008.
 - K Wang rented part of the buildings from C Ho for a fixed rental of \$6,000 per month starting from 1 January 2008. On 15 April 2008, he paid C Ho \$20,000 by cheque and a further sum of \$44,000 was paid by cheque on 15 December 2008.

(i) Rent Revenue							
2008			\$	2008			\$
Dec	31	Profit and loss (\$6,000 x 12)	72,000	Apr	15	Bank	20,000
				Dec	15	Bank	44,000
				Dec	31	Accrued c/f	8,000
			72,000				72,000
2009							
Jan	1	Accrued b/f	8,000				

3.4.1 Prepaid expenses (預付費用)

Examples:

Insurance							
2009			\$	2009			\$
Feb 26	Bank	今年已支付金錢的保險費	1,800	Dec 31	Profit and loss	今年已經招致的保險費	3,000
Aug 24	Bank		1,800	" 31	Prepaid c/f	預付移後(保險費)	600
			3,600				3,600
2010							
Jan 1	Prepaid b/f	← -- 預付承前(保險費)	600				

The amount that was paid but not yet incurred in 2009 should be **carried forward (轉至)** to 2010 as a **debit balance (借方餘額)** in the insurance account. The debit balance of the insurance account of \$600 represented an **asset (資產)** of Firm A as at 31 December 2009. This debit balance would be shown in the trial balance and also a **current asset (流動資產)** in its balance sheet as at that date.

Class work 3

- Prepare the following ledger accounts and show the amounts transferred to the profit and loss account on 31 December 2008.
 - C Ho bought stationery of \$3,000 and \$2,800 in cash on 10 May 2008 and 24 September 2008 respectively. At the end of the year, there was unused stationery costing \$800 and will be used as prepaid expenses.

(ii) Stationery							
2008			\$	2008			\$
May	10	Cash	3,000	Dec	31	Profit and loss	5,000
Sept	24	Cash	2,800	"	31	Prepaid c/f	800
			5,800				5,800
2009							
Jan	1	Prepaid b/f	800				

3.4.2 Unearned revenues (未獲收益)

Examples:

Rent Revenue							
2009			\$	2009			\$
Dec 31	Profit and loss	今年已經賺取的租金收益	30,000	Sept 24	Bank		10,000
" 31	Prepaid c/f	預付移後(租金收益)	10,000	Oct 25	Bank	今年已收取金錢的租金收益	10,000
				Nov 26	Bank		10,000
				Dec 28	Bank		10,000
			40,000				40,000
				2010			
				Jan 1	Prepaid b/f	預付承前(租金收益)	10,000

The amount that was received but not yet earned in 2009 should be **carried forward (轉至)** to 2010 as a **credit balance (貸方餘額)** in the rent revenue account. The credit balance of the rent revenue account of \$10,000 represented a **liability (債務)** of Firm A as at 31 December 2009. This credit balance would be shown in the trial balance and also a **current liability (流動負債)** in its balance sheet as at that date.

Class work 4

1. Prepare the following ledger accounts and show the amounts transferred to the profit and loss account on 31 December 2008.

- (iii) K Wang rented part of the buildings from C Ho for a fixed rental of \$4,000 per month starting from 1 January 2008. On 15 April 2008, he paid C Ho \$20,000 by cheque and a further sum of \$44,000 was paid by cheque on 15 December 2008.

(iii) Rent Revenue							
2008			\$	2008			\$
Dec 31	Profit and loss (\$4,000 x 12)		48,000	Apr 15	Bank		20,000
" 31	Prepaid c/f		16,000	Dec 15	Bank		44,000
			64,000				64,000
				2009			
				Jan 1	Prepaid b/f		16,000

3.6 編製包含應計項目及預付項目的財務報表

When accruals and prepaid items once occur in the accounting records, the financial statements should make the adjustments.

Adjustments summary:

項目	損益表內相關項目調整	資產負債表內相關項目調整
應計費用(Accrued expenses)	The expenses will increase	Presented in current liabilities
應計收益(Accrued revenues)	The revenues will increase	Presented in current assets
預付費用(Prepaid expenses)	The expenses will decrease	Presented in current assets
未獲收益(Unearned revenues)	The revenues will decrease	Presented in current liabilities

Examples:**Trial Balance as at 31 December 2009**

	Dr	Cr
	\$	\$
Sales (銷貨)		80,000
Purchases (購貨)	70,000	
Returns (退回)	1,000	1,240
Inventory (存貨)	20,000	
Discounts (折扣)	640	660
Rent revenue (租金收益)		3,000
Wages and salaries (薪金)	7,200	
Telephone charges (電話費)	600	
Store fittings (商店裝置)	8,000	
Vans (貨車)	6,000	
Accounts receivable and payable (應收及應付帳)	1,960	1,900
Capital (資本)		42,800
Bank: Time deposit account (定期存款帳戶)	10,000	
Bank: Current account (支票帳戶)	600	
Drawings (提用)	3,600	
	129,600	129,600

Additional information:

1. Inventory as at 31 December 2009 was valued at \$24,000 (期末存貨)
2. Accrued wages amounted to \$450 (應計工資，須要增加相關費用及列示為流動負債)
3. Prepaid telephone charges amounted to \$200 (預付電話費，須要減少相關費用及列示為流動資產)
4. Part of the warehouse would be rented out starting from 1 January 2010. One month's rental of \$3,000 had been received in advance. (未獲租金收益，須要減少相關收益及列示為流動負債)
5. A sum of money totaling \$10,000 was deposited into the bank for a period of three months on 1 November 2009. It would earn interest at 6% per annum. (應計利息收益，須要增加相關收益及列示為流動資產)

Income Statement for the year ended 31 December 2008

	\$	\$	\$
Sales		80,000	
Less Returns inwards		(1,000)	79,000
Less Cost of goods sold:			
Opening inventory		20,000	
Add Purchases	70,000		
Less Returns outwards	(1,240)	68,760	
		88,760	
Less Closing inventory		(24,000)	(64,760)
Gross profit			14,240
Add Other revenues:			
Discount received		660	
Interest revenue (\$10,000 x 6% x 2/12) (增加相關收益)		100	760
			15,000
Less Expenses:			
Discounts allowed		640	
Wages and salaries (\$7,200 + \$450) (增加相關費用)		7,650	
Telephone charges (\$600 - \$200) (減少相關費用)		400	(8,690)
Net profit			6,310

Balance sheet as at 31 December 2009

	\$	\$	\$
Non-current assets			
Store fittings			8,000
Vans			<u>6,000</u>
			14,000
Current assets			
Inventory		24,000	
Accounts receivable		1,960	
Accrued revenues (\$10,000 x 6% x 2/12) (應計利息列示為流動資產)		100	
Repaid expenses (預付電話費，須列示為流動資產)		200	
Bank (\$10,000 + \$600)		<u>10,600</u>	
		36,860	
Less Current liabilities			
Accounts payable	1,900		
Accrued expenses (應計工資，須列示為流動負債)	450		
Unearned revenues (未獲租金收益，須列示為流動負債)	<u>3,000</u>	<u>(5,350)</u>	
Net current assets			<u>31,510</u>
			<u>45,510</u>
Capital			
Balance as at 1 January 2009			42,800
Add Net profit for the year			<u>6,310</u>
			49,110
Less Drawings			<u>(3,600)</u>
			<u>45,510</u>

Class work 5

2.

Trial Balance as at 30 June 2009

	Dr	Cr
	\$	\$
Office furniture	10,800	
Equipment	25,400	
Accounts receivable	11,100	
Bank	8,090	
Cash in hand	120	
Fees charged		108,600
Wages and salaries	31,960	
Postage and stationery	2,140	
Telephone	1,250	
Computer operating expenses	2,190	
Travel expenses	1,620	
Insurance	890	
Rent	23,000	
Sundry expenses	520	
Drawings	9,200	
Capital		<u>19,680</u>
	<u>128,280</u>	<u>128,280</u>

- Additional information: (i) Items prepaid: rent \$600, insurance \$170.
(ii) Accruals: stationery \$220, wages \$2,320.
(iii) 10% of travel expenses were used for T Lee's private purposes.

Draw up an income statement for the year ended 31 December 2009 and a balance sheet as at that date.

Income Statement for the year ended 30 June 2009

	\$	\$
Fees charged		108,600
Less Expenses:		
Wages and salaries (\$31,960 + \$2,320)	34,280	
Postage and stationery (\$2,140 + \$220)	2,360	
Telephone	1,250	
Computer operating expenses	2,190	
Travel expenses (\$1,620 x 90%)	1,458	
Insurance (\$890 – \$170)	720	
Rent (\$23,000 – \$600)	22,400	
Sundry expenses	520	(65,178)
Net profit		43,422

Balance sheet as at 30 June 2009

	\$	\$
Non-current assets		
Office furniture	10,800	
Equipment	25,400	36,200
Current assets		
Accounts receivable	11,100	
Prepaid expense (\$600 + \$170)	770	
Bank	8,090	
Cash	120	
	20,080	
Less Current liabilities		
Accrued expenses (\$220 + \$2,320)	(2,540)	
Net current assets		17,540
		53,740
Capital		
Balance as at 1 July 2008		19,680
Add Net profit for the year		43,422
		63,102
Less Drawings (\$9,200 + \$1,620 x 10%)		(9,362)
		53,740

Trial Balance as at 31 March 2011

	Dr \$	Cr \$
Rent and rates	3,440	
Purchases and sales	46,830	89,700
Office furniture	5,985	
Inventory as at 1 April 2010	10,695	
Carriage inwards	700	
Trade receivables and trade payables	27,380	10,170
Bank	7,780	
Capital as at 1 April 2010		39,590
Delivery van	6,730	
Discounts	2,165	545
Returns	1,570	500
Sundry expenses	820	
Wages and salaries	16,010	
Rental income		5,000
Motor expenses	2,765	
Drawings	12,415	
Cash	220	
	<u>145,505</u>	<u>145,505</u>

Additional information:

1. Inventory as at 31 March 2011 was valued at \$9,250.
2. Sundry expenses of \$300 were owed.
3. Rental income for the months of February and March 2011 at \$2,000 per month was outstanding.
4. Van maintenance expenses were due but unpaid. The amount was 10% of the cost of the delivery van.

Income Statement for the year ended 31 March 2011

	\$	\$	\$
Sales		89,700	
Less Returns inwards		1,570	88,130
Less Cost of goods sold:			
Opening inventory		10,695	
Add Purchases	46,830		
Carriage inwards	700		
	47,530		
Less Returns outwards	(500)	47,030	
		57,725	
Less Closing inventory		(9,250)	(48,475)
Gross profit			39,655
Add Other revenues:			
Discount received		545	
Rental income (\$5,000 + \$2,000 × 2)		9,000	9,545
			49,200
Less Expenses:			
Rent and rates		3,440	
Discounts allowed		2,165	
Sundry expenses (\$820 + \$300)		1,120	
Wages and salaries		16,010	
Motor expenses [\$2,765 + (\$6,730 × 10%)]		3,438	26,173
Net profit			23,027

Balance sheet as at 31 March 2011

	\$	\$
<i>Non-current assets</i>		
Office furniture		5,985
Delivery van		6,730
		12,715
<i>Current assets</i>		
Inventory	9,250	
Trade receivables	27,380	
Accrued rental income	4,000	
Bank	7,780	
Cash	220	
	48,630	
Less <i>Current liabilities</i>		
Accounts payable	10,170	
Accrued expenses (\$300 + \$6,730 × 10%)	973	
	11,143	
Net current assets		37,487
		50,202
<i>Capital</i>		
Balance as at 1 April 2010		39,590
Add Net profit for the year		23,027
		62,617
Less Drawings		12,415
		50,202