2.3 Accruals and adjustments

Name: _____ Class: _____ Date: _____ **Total: 19 marks**

KEY WORDS accrual • prepayment • depreciation

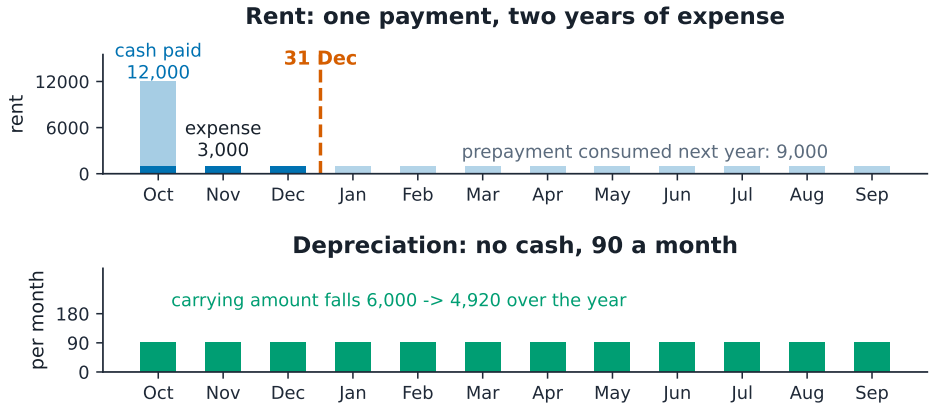
Objective

Apply accrual matching to rent, depreciation and receivables; compute a period's adjustments; distinguish cash movement from expense recognition.

1 Key knowledge and worked examples

■ Cash timetable, work timetable

A **prepayment** is cash paid before the expense – the unused part is an asset. An **accrual** is expense before cash – a liability. **Depreciation** spreads a long-lived asset's cost: straight-line (cost − residual) ÷ years. The **matching principle** owns the year-end.



Cash has a timetable; expense has another

■ Worked example. Nimbus's year-1 set

Rent 12,000 paid 1 October: expense 3,000, prepayment 9,000. Oven (6,000 − 600)/5 = 1,080 a year, carrying amount 4,920. Interest 15,000 × 6% = 900 accrued. Profit = 156,000 − 62,400 − 52,000 − 3,000 − 8,000 − 1,080 − 250 − 900 = 28,370 ✓.

2 Practice

2.1 Rent of £9,600 a year is paid on 1 November; the year ends 31 December. Compute the year's expense and the prepayment asset, and check they sum to the cash paid. [3]

2.2 Equipment costs £9,000 with a £500 residual over four years. Compute the annual depreciation and the carrying amount after one year. [3]

2.3 Wages expense is stated as £34,000, of which £1,100 relates to next year's January rota... state what belongs in this year's profit and what stands on the balance sheet. [3]

3 Exam-style questions

3.1 A café's year to 31 December: revenue £98,000 (cash 92,000, receivables 6,000); cost of sales £36,400; wages £34,000 (of which £800 accrued); rent as practice 2.1; other costs £7,300 paid; electricity £180 received unpaid; equipment depreciation £2,125; a £25,000 loan at 5% with the year's interest unpaid. Compute the year's profit. [7]

3.2 The owner says: "We paid £9,600 rent and £1,250 loan interest, so profit should fall by £10,850." Correct the reasoning with the two accrual ideas it misses. [3]