Solutions

2.1

- Expense = 9,600 × 2/12 = 1,600.
- Prepayment = 9,600 × 10/12 = 8,000.
- Check: 1,600 + 8,000 = 9,600 ✓.

2.2

- Depreciation = (9,000 − 500)/4 = 2,125 a year.
- Carrying amount after one year = 9,000 − 2,125 = 6,875.

2.3

- If £1,100 of the 34,000 is NEXT year's cost, the year's wage expense is 32,900.
- The 1,100 stands as... it was PAID this year but belongs to next year, so it is a prepayment asset of 1,100.
- Profit takes 32,900; the balance sheet carries a 1,100 prepayment.

3.1

- Gross profit = 98,000 − 36,400 = 61,600.
- Rent expense = 1,600 (practice 2.1).
- Wages 34,000 (the accrued 800 is inside it).
- Interest = 25,000 × 5% = 1,250, accrued.
- Profit = 98,000 − 36,400 − 34,000 − 1,600 − 7,300 − 180 − 2,125 − 1,250 = 15,145.
- Gross margin check: 61,600/98,000 = 62.9%.

3.2

- The rent's cash year and expense year differ: only 1,600 of the 9,600 belongs to this year; 8,000 is next year's, held as a prepayment.
- The interest: 25,000 × 5% = 1,250 matches the cash – here cash and expense coincide only because the loan ran the full year and interest is unpaid-but-accrued; had it been paid in advance it would mirror the rent.
- The correction: profit falls by the MATCHED costs (1,600 rent + 1,250 interest = 2,850 of the owner's 10,850), the rest is timing, not expense.

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