

Level 3 Certificate in Bookkeeping and Accounting (RQF)
Study Text Book Model Answers

Lesson 5 – Accounting for Accruals and Prepayments

Question 5.1

The debit balance on the general expenses account in the ledger of a business at the year-end 31 March 201Y is to be adjusted for general expenses accrued at the year-end.

Which **one** of the following statements correctly describes the process for accounting for the accrued general expenses adjustment?

	✓
Credit the general expenses account with the adjustment, and debit the accrued expenses account is with the adjustment	
Debit both the general expenses account and the accrued expenses account with the adjustment	
Debit the general expenses account with the adjustment, and credit the accrued expenses account with the adjustment	✓

Question 5.2

The credit balance on the rent receivable account in the ledger of a business at the year-end 31 December 201Y is to be adjusted for rent which has been received in advance.

Which **one** of the following statements correctly describes the process for accounting for the prepaid income adjustment at the period end?

	✓
Debit the rent receivable account with the adjustment, and credit the prepaid income account with the adjustment	✓
Credit both the rent receivable account and the prepaid income account with the adjustment	
Credit the rent receivable account with the adjustment, and debit the prepaid income account with the adjustment	

Question 5.3

An estate agent receives a commission from a building society based on mortgage business it places with the building society each month. The commission is received monthly in arrears. At the year-end 30 June 201Y, the estate agent is owed commission of £2,400 by the building society.

Which **one** of the following statements correctly describes the process for accounting for the accrued income adjustment at the period end?

	✓
Credit both the commissions receivable account and the accrued income account with the adjustment	
Credit the commissions receivable account with the adjustment, and debit the accrued income account with the adjustment	✓
Debit the commissions receivable account with the adjustment, and credit the accrued income account with the adjustment	

Question 5.4

The financial year of a business ends on 31 December.

At the year-end 31 December 201X, the business had paid made a payment for rates for the months of January, February and March 201Y.

Which **one** of the following statements correctly describes the process for accounting for the prepaid rates adjustment at the year-end?

	✓
Credit both the rates account and the prepaid expenses account with the adjustment	
Credit the rates account with the adjustment, and debit the prepaid expenses account with the adjustment	✓
Debit the rates account with the adjustment, and debit the prepaid expenses account with the adjustment	

Question 5.5

The financial year of a business ends on 31 March.

In the year ended 31 March 201Y the business made payments of £1,950 for heat and light. The last payment debited to the heat and light account was a payment of £690 for the three months period ended 31 January 201Y. It is estimated that heat and light bills for the three months period ended 30 April 201Y will be 10% higher than the bill for the previous three months period.

Given the information above calculate the adjustment required to account for heat and light accrued at the year-end 31 March 201Y. Enter the amount you calculate in the box below:

Heat and light accrued at 31 March 201 Y £506

Question 5.6

The financial year of a business ends on 31 December.

In the year ended 31 December 201X the business made payments for insurances of £1,800. The payments made in the year included £600 for the quarter ended 31 March 201Y.

Given the information above which **one** of the following statements correctly describes the transfer of the expense of insurance to the profit and loss account at the year-end?

	✓
Debit the insurance account with £1,200, credit the profit and loss account with £1,200	
Debit the profit and loss account with £2,400, credit the insurance account with £2,400	
Debit the profit and loss account with £1,200, and credit the insurances account with the £1,200	✓

Question 5.7

The financial year of a business ends on 30 June.

In the year ended 30 June 201X the business made payments totalling £14,800 for rates on its factory and warehouse. The last payment debited to the rates account on 2 April 201X was a payment of £6,600 for the period 1 April 201X to 30 September 201X.

Given the information above:

1. Calculate the adjustment required to account for rates prepaid at the year-end 30 June 201X. Enter the amount you calculate in the box below:

Rates prepaid at 30 June 201 X £3,300

2. Calculate the rates expense amount to be transferred to the profit and loss account of the business at the year-end 30 June 201X. Enter the amount you calculate in the box below:

Rates prepaid at 30 June 201 X £11,500

Question 5.8

Which **one** of the following accounting concepts is the bookkeeper applying at the end of each accounting period when, in preparing financial statements, adjustments are made to account for amounts payable or receivable in advance, or payable or receivable in arrears?

	✓
Prudence	
Accruals	✓
Dual aspect	
Materiality	

Question 5.9

Which **two** of the following account balances would be listed on a balance sheet under the heading of 'current assets'?

	✓
Prepaid expenses	✓
Accrued expenses	
Prepaid income	
Accrued income	✓

Question 5.10

A business has made several adjustments at its year-end to account for accruals and prepayments.

Which **two** of the following accounts, used by the business to account for accruals and prepayments, would carry a **credit** balance at its year-end?

	✓
Prepaid expenses account	
Prepaid income account	✓
Accrued expenses account	✓
Accrued income account	

Question 5.11

The financial year of a business ends on 30 June

In the year ended 30 June 201Y the business made the following payments are made for rates on its business premises:

4 July 201X - £3,000 for the period 1 July 201X to 30 September 201X

3 October 201X - £6,000 for the period 1 October 201X to 31 March 201Y

6 April 201Y - £6,300 for the period 1 April 201Y to 30 September 201Y

Given the information above which **one** of the following represents the amount to be debited to the profit and loss account at the year-end 30 June 201X to account for the expense of rates for the year ended 30 June 201X?

	✓
£15,300	
£12,150	✓
£9,450	

Question 5.12

The financial year of a business ends on 31 May.

In the year ended 31 May 201Y the last electricity bill received by the business was for £1,200. The bill, which was for the quarter ended 30 April 201Y, was paid on 12 May 201Y. It is estimated that the electricity bill for the next quarter will be 10% lower than the bill for the previous quarter.

Given the information above which **one** of the following represents the listing of the adjustment on the balance sheet of the business at the year-end 31 May 201Y?

	✓
£1,080 - current asset	
£720 – current liability	
£360 – current liability	✓

Question 5.13

The financial year of Artwork ends on 31 December.

On 1 January 201X the business moved into new premises which it rents from SY Estates. Rent is agreed at £12,000 per year.

Provided below is the rent account in the ledger of Artwork, showing payments made in the year ended 31 December 201X debited to the account. The ledger extract also shows the prepayments account to be used in this question to account for rent prepaid by Artwork at the year-end 31 December 201X.

Ledger (extract)

DR			CR		
Rent					
201X	Details	£	201X	Details	£
4 Jan	Bank	6,000	31 Dec	Prepaid expenses	3,000
28 June	Bank	3,000	31 Dec	Profit and loss	12,000
28 Sept	Bank	3,000			
28 Dec	Bank	3,000			
		15,000			15,000

DR			CR		
Prepaid Expenses					
201X	Details	£	201X	Details	£
31 Dec	Rent	3,000	31 Dec	Balance c/d	3,000
		3,000			3,000
201Y	Details	£	201Y	Details	£
1 Jan	Balance b/d	3,000			

Task 1 – using the journal provided below complete the journal entry to account for rent prepaid by Artwork at the year-end 31 December 201X.

Journal

201X	Account name	DR £	CR £
31 Dec	Prepaid expenses	3,000	
	Rent		3,000
	Rent prepaid at the year-end 31 December 201X		

Task 2 – using the accounts provided in the ledger extract, record the journal entry above in the rent account and prepaid expenses account.

Task 3 – using the journal provided below complete the journal entry to account for the transfer of the expense of rent for year ended 31 December, to the profit and loss account.

Journal

201X	Account name	DR £	CR £
31 Dec	Profit and loss account	12,000	
	Rent		12,000
	Transfer of the rent expense for the year-ended 31 December 201X to the profit and loss account		

Task 4 – using the account in the ledger extract provided above, record the transfer of the rent expense to the profit and loss account at the year-end in the rent account, and close off the rent account.

Task 5 – balance off the prepaid expenses account in the ledger extract. Show the closing account balance carried down (Balance c/d) at 31 December 201X, and brought down (Balance b/d) at 1 January 201Y.

Task 6 – using the extract provided below record the rent expense in the trading and profit and loss account:

Artwork
Trading and Profit and Loss Account (extract)
for the Year Ended 31 December 201X

	£	£	£
Sales			XXXX
Less Cost of Goods Sold			
Opening Stock	XXXX		
Add Purchases	XXXX		
		XXXX	
Less Closing Stock		XXXX	
Cost of Sales			XXXX
Gross Profit			XXXX
Less Expenses			
Rent		12,000	

Task 7 – using the extract provided below list the closing balance on the prepaid expenses account on the balance sheet:

Artwork
Balance Sheet (extract)
at 31 December 201X

	£	£	£
Current assets			
Prepaid expenses		3,000	
Current liabilities			

Question 5.14

The financial year of Midlands Aluminums ends on 31 December.

Provided below is the power, heat and light account in the ledger of Midlands Aluminums, showing payments made for gas and electricity in the year ended 31 December 201X debited to the account. The ledger extract also shows the accrued expenses account to be used in this question to account for power, heat and light accrued at the year-end 31 December 201X:

Ledger (extract)					
DR			CR		
Power, Heat and Light					
201X	Details	£	201X	Details	£
10 April	Bank	1,940	31 Dec	Profit and loss	7,420
10 July	Bank	1,750			
10 Oct	Bank	1,680			
31 Dec	Accrued expenses	2,050			
		7,420			7,420

Accrued Expenses					
DR			CR		
201X	Details	£	201X	Details	£
31 Dec	Balance c/d	2,050	31 Dec	Heat and light	2,050
		2,050			2,050
201Y	Details	£	201Y	Details	£
			1 Jan	Balance b/d	2,050

Task 1 – the last payment debited to the power, heat and light account was for the quarter ended 30 September 201X.

An accrual adjustment of £2,050 is to be accounted for at the year-end to account for gas and electricity of the business in the quarter ended 31 December 201X.

Using the journal below, complete the journal entry to account for the adjustment to be made at the year-end.

Journal

201X	Account name	DR £	CR £
31 Dec	Power, heat and light	2,050	
	Accrued expenses		2,050
	Power, heat and light accrued at the year-end 31 December 201X		

Task 2 – using the accounts provided in the ledger extract, record the journal entry above in the power, heat and light account and the accrued expenses account.

Task 3 – using the journal provided below complete the journal entry to account for the transfer of the expense of power, heat and light at the year-ended 31 December 201X to the profit and loss account.

Journal

201X	Account name	DR £	CR £
31 Dec	Profit and loss account	7,420	
	Power, heat and light		7,420
	Transfer of the expense of power, heat and light for the year-ended 31 December 201X to the profit and loss account		

Task 4 – using the power, heat and light account in the ledger extract, record the transfer of the expense of power heat and light to the profit and loss account at the year-end in the power, heat and light account, and close off the account.

Task 5 – balance off the accrued expenses account in the ledger extract.
 Show the closing account balance carried down (Balance c/d) at 31 December 201X, and brought down (Balance b/d) at 1 January 201Y.

Task 6 – using the extract provided below record the expense of power, heat and light in the trading and profit and loss account:

Midlands Aluminums
Trading and Profit and Loss Account (extract)
for the Year Ended 31 December 201X

	£	£	£
Sales			XXXX
Less Cost of Goods Sold			
Opening Stock	XXXX		
Add Purchases	XXXX		
		XXXX	
Less Closing Stock		XXXX	
Cost of Sales			XXXX
Gross Profit			XXXX
Less Expenses			
Power, heat and light		7,420	

Task 7 – Using the extract provided below list the closing balance on the accrued expenses account on the balance sheet:

Midlands Aluminums
Balance Sheet (extract)
at 31 December 201X

	£	£	£
Current assets			
Current liabilities			
Accrued expenses		2,050	

Question 5.15

The financial year of Central Stores ends on 31 December.

Alec, the proprietor of Central Stores, rents out space above the business premises to his daughter Ulrika.

Ulrika runs her hairdressing business from the space she rents, and has agreed to pay rent of £600 per year to Alec.

You are provided below with an extract from the ledger of Central Stores showing rent received by Alec from Ulrika in the year-ended 31 December 201X, credited to a rent receivable account. The ledger extract also shows the accrued income account to be used in this question to account for rent receivable due from Ulrika at the year-end.

Ledger (extract)

DR			Rent Receivable		CR	
201X	Details	£	201X	Details	£	
31 Dec	Profit and loss	600	10 June	Bank	200	
			5 Dec	Bank	150	
			31 Dec	Accrued income	250	
		600			600	

DR			Accrued Income		CR	
201X	Details	£	201X	Details	£	
31 Dec	Rent receivable	250	31 Dec	Balance c/d	250	
		250			250	
201Y	Details	£	201Y	Details	£	
31 Dec	Balance b/d	250				

Task 1 – using the journal below, complete the journal entry to account for the adjustment to be made for rent receivable accrued at the year-end.

Journal

201X	Account name	DR £	CR £
31 Dec	Accrued income	250	
	Rent receivable		250
	Rent receivable accrued at the year-end 31 December 201X		

Task 2 – using the accounts provided in the ledger extract, record the journal entry above in the rent receivable account and the accrued income account.

Task 3 – using the journal provided below complete the journal entry to account for the transfer of the income of rent receivable in year-ended 31 December 201X to the profit and loss account.

Journal

201X	Account name	DR £	CR £
31 Dec	Rent receivable	600	
	Profit and loss		600
	Transfer of the income from rent receivable for the year-ended 31 December 201X to the profit and loss account		

Task 4 – using the rent receivable account in the ledger extract, record the transfer of the income from rent receivable to the profit and loss account at the year-end in the rent receivable account, and close off the account.

Task 5 – balance off the accrued income account in the ledger extract. Show the closing account balance carried down (Balance c/d) at 31 December 201X, and brought down (Balance b/d) at 1 January 201Y.

Task 6 – using the extract provided below record the income of rent receivable in the trading and profit and loss account:

Central Stores
Trading and Profit and Loss Account (extract)
for the Year Ended 31 December 201X

	£	£	£
Sales			XXXX
Less Cost of Goods Sold			
Opening Stock	XXXX		
Add Purchases	XXXX		
		XXXX	
Less Closing Stock		XXXX	
Cost of Sales			XXXX
Gross Profit			XXXX
Add Other income			
Rent receivable		600	

Task 7 – Using the extract provided below list the closing balance on the accrued income account on the balance sheet:

Central Stores
Balance Sheet (extract)
at 31 December 201X

	£	£	£
Current assets			
Accrued income		250	
Current liabilities			

Question 5.16

The financial year of a business ends on 31 December.

The business rents out a warehouse to BK Electrics. Rent has been agreed at £4,800 per year. BK Electrics have agreed to make a payment to cover the first six-months rent when taking-up occupancy of the warehouse, further rent payments are then to be made quarterly in advance, BK Electrics took-up occupancy of the warehouse on 1 January 201X.

You are provided below with an extract from the ledger of the business renting out the warehouse, showing rent received from BK electrics in the year-ended 31December 201X, credited to a rent receivable account. The ledger extract also shows the prepaid income account to be used in this question to account for rent received in advance at the year-end.

Ledger (extract)

DR		Rent Receivable			CR	
201X	Details	£	201X	Details	£	
31 Dec	Prepaid income	1,200	3 Jan	Bank	2,400	
31 Dec	Profit and loss	4,800	30 June	Bank	1,200	
			30 Sept	Bank	1,200	
			30 Dec	Bank	1,200	
		6,000			6,000	

DR		Prepaid Income			CR	
201X	Details	£	201X	Details	£	
31 Dec	Balance c/d	1,200	31 Dec	Rent receivable	1,200	
		1,200			1,200	
201Y	Details	£	201Y	Details	£	
			31 Dec	Balance b/d	1,200	

Task 1 – using the journal below, complete the journal entry to account for the adjustment to be made for rent receivable accrued at the year-end.

Journal

201X	Account name	DR £	CR £
31 Dec	Rent receivable	1,200	
	Prepaid income		1,200
	Rent received in advance at the year-end 31 December 201X		

Task 2 – using the accounts provided in the ledger extract, record the journal entry above in the rent receivable account and the prepaid income account.

Task 3 – using the journal provided below complete the journal entry to account for the transfer of the income of rent receivable in year-ended 31 December 201X to the profit and loss account.

Journal

201X	Account name	DR £	CR £
31 Dec	Rent receivable	4,800	
	Profit and loss		4,800
	Transfer of the income from the rent receivable account for the year-ended 31 December 201X to the profit and loss account		

Task 4 – using the rent receivable account in the ledger extract, record the transfer of the income from rent receivable to the profit and loss account at the year-end in the rent receivable account, and close off the account.

Task 5 – balance off the prepaid income account in the ledger extract. Show the closing account balance carried down (Balance c/d) at 31 December 201X, and brought down (Balance b/d) at 1 January 201Y.

Task 6 – using the extract provided below record the income of rent receivable in the trading and profit and loss account of the business at the year-end:

**Trading and Profit and Loss Account (extract)
for the Year Ended 31 December 201X**

	£	£	£
Sales			XXXX
Less Cost of Goods Sold			
Opening Stock	XXXX		
Add Purchases	XXXX		
		XXXX	
Less Closing Stock		XXXX	
Cost of Sales			XXXX
Gross Profit			XXXX
Add Other income			
Rent receivable		4,800	

Task 7 – Using the extract provided below, list the closing balance on the prepaid income account on the balance sheet of the business:

**Balance Sheet (extract)
at 31 December 201X**

	£	£	£
Current assets			
Current liabilities			
Prepaid income		1,200	