



JMC JAYASEKERA
MANAGEMENT CENTRE
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Chartered Accountancy – BL 01

Financial Accounting

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MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner.

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Accruals and Prepayments

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How to
account for
Electricity bill
has not been
paid yet?



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Accrued Expenses

Expenses relevant to the accounting period which has not been paid yet.

As per the accrual concept and matching concept, the expense and the current liability shall be recognized during the accounting period.

Dr Expense

Cr Accrued Expense

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Question 01

The financial year of Aryan Ltd. end 31 March. They have obtained new telephone connection during 01 May 20X1. Bill for this facility is received after three months and bill is settled during the following month.

- Bill for the 03 months ended 31st July 20X1 of Rs.47,500/- was paid on 05th August 20X1.
- Bill for the 03 months ended 31st October 20X1 of Rs.55,000/- was paid on 07th November 20X1.
- Bill for the 03 months ended 31st January 20X2 of Rs.53,500/- was paid on 06th February 20X2.
- Bill for the 03 months ended 30th April 20X2 of Rs.57,300/- was paid on 04th May 20X2.

Required

- How much is the telephone bill for the year ended 31 March 20X2
- How much is the accrued telephone bill as at 31 March 20X2
- Show the accounting entries using a T account

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Question 02

Electricity bill details of Shanthy Ltd. is given below.

Period of electricity boll	Payment date and value		
	20X1	20X2	20X3
From 01 January to 31 March	20X1/4/3 Rs. 25,000	20X2/4/5 Rs. 22,000	20X3/4/2 Rs. 30,000
From 01 of April to 30 June	20X1/7/5 Rs. 32,000	20X2/7/2 Rs. 31,000	20X3/7/6 Rs. 30,000
From 01 July to 30 September	20X1/10/2 Rs. 19,000	20X2/10/5 Rs. 18,000	20X3/10/3 Rs. 21,000
From 01 October to 31 December	20X1/1/6 Rs. 35,000	20X2/1/2 Rs. 33,000	20X3/10/3 Rs. 32,000

If the financial year ends from 31 March, calculate the electricity bill and accrued electricity bill for the year ended 31 March 20X2 and 20X3.

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Question 03

Shan Ltd. hired 5 employees on 01 January 20X8. The employees are paid an annual salary of Rs.300,000. A 10% increment was given on 01 January 20X9. An apprentice was hired on 01 July 20X9 for an annual salary of Rs.150,000/-. Salary is paid on 10th of the following month.

4.1 Calculate the total salary cost for the year ended 31 December 20X9.

4.2 How much of salaries were paid during year ended 31 December 20X9?

4.3 How much is the accrued salary as at 31 December 20X9?

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Reversing the Accrued Expenses

The recognized accrued expenses shall be reversed at the time of payment.

Dr. Accrued Expense

Cr. Cash

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How to account the insurance paid in advance?



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Prepayments

Payment made in advance for a future accounting period.

As this payment is not relevant for the current accounting period it will be recognized as a reduction of cash and a current asset named pre-payments.

Dr. Pre-payments

Cr. Cash

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Question 04

Sama Ltd. rented out a building on 01 January 20X1. As per the rent agreement the rent for the quarter shall be paid on inception of the quarter. The annual rental is Rs.1Mn.

The rent payments in each quarter was as follows.

Rs.250,000 on 03/01/20X1

Rs.250,000 on 28/03/20X1

Rs.250,000 on 26/06/20X1

Rs.250,000 on 29/09/20X1

Rs.250,000 on 31/12/20X1

Rs.250,000 on 31/03/20X2

Calculate the rent expense and rent paid in advance for the year ended 31 March 20X2.

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Question 05

Brian Ltd. has insured their building and the insurance premium payments were made as follows.

20X7/01/5 Rs. 700,000

20X8/01/9 Rs. 800,000

If financial year ends on 31 D March 20X8.

- Calculate the Insurance expense
- Calculate the insurance prepayment

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Reversing the prepayments

The recognized pre-payment shall be reversed when the service is obtained in the relevant period of time.

Dr. Expense

Cr. Pre-payment

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How to
account for the
income
received in
advance?



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Income received in Advance

The income received from customers in advance is a current liability as it shall be repaid if they ask it back.

Dr. Cash

Cr. Income Received in Advance

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Question 06

The annual membership fee of newspaper publishers' association is Rs.10,000. The existing members have made the payments as below.

Sandun	Rs. 20,000
Nadun	Rs. 10,000
Kasun	Rs. 20,000
Ruwan	Rs. 5,000
Suwan	Rs. 5,000
Mewan	Rs. 30,000

Required to calculate

1. The membership for the year
2. Membership fee receivable
3. Membership fee received in advance

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Bad Debt and Doubtful Debt Provision

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Most of the business are doing Credit Sales. Credit sales create a debtor.



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Credit Sale

Maximum credit limit for each credit customer is decided



Debtors

A credit period is given for each debtor to settle the debt balance

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Sometimes a debtor might fall into a situation where they cannot settle the debt.



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Bad Debt

The debt balance of a debtor shall be written off when it's irrecoverable. This occurs when a debtor has gone bankrupt.

The loss is recognized as a bad debt expense (distribution expenses) and reduce it from the debtor.

Dr. Bad debt expense

Cr. Debtor

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Question 01

Sahan Ltd. has sold Rs.200,000 worth of goods to Nimal on credit terms. As Nimal has become bankrupt, the debt balance is irrecoverable. How should this be reflected in the financial statements of Sahan Ltd.?

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Receipt of Written Off Bad Debt

Sometimes a debtor might settle a debt balance which is already written off. Such cannot be accounted as a receipt from the debtor as we have already eliminated the debtor. This shall be recognized as a cash receipt and reduction of bad debt expense.

Dr. Cash

Cr. Bad Debt Expenses

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Question 02

In the previous example Rs.200,000 debt balance of Nimal was written off. Subsequently, Rs.100,000 was received from Nimal. How to account this receipt?

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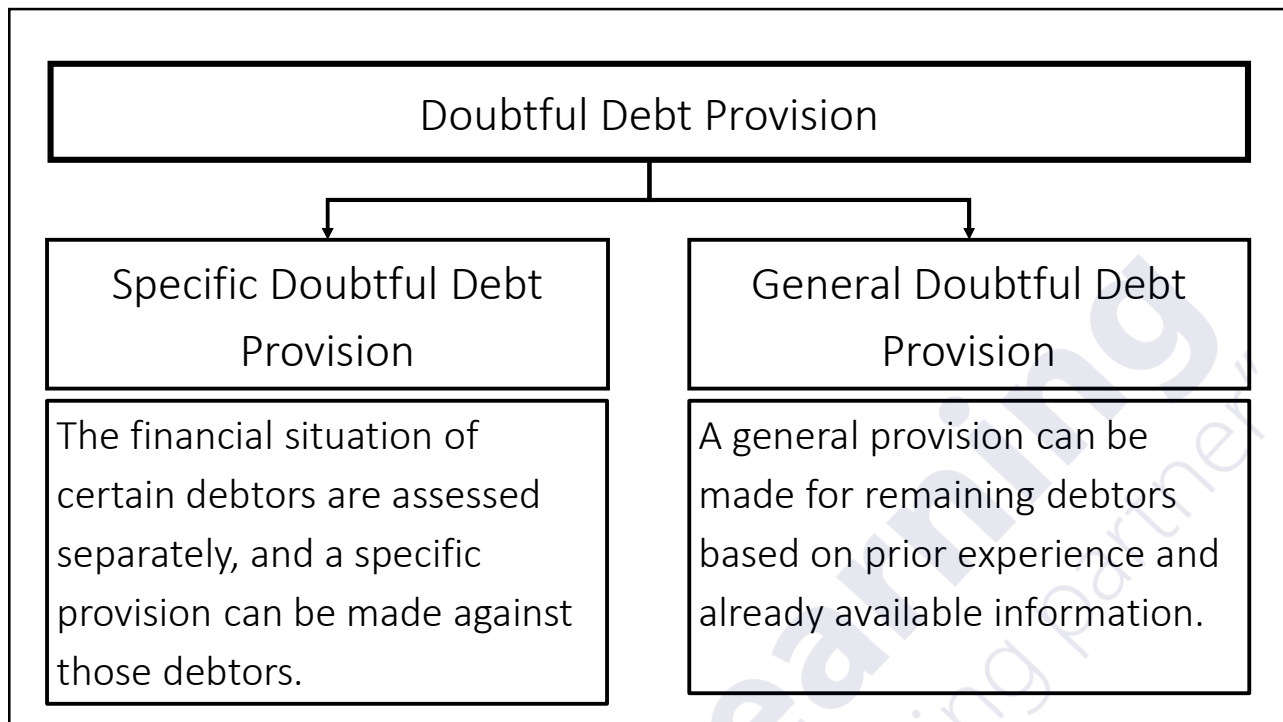
Doubtful Debt Provision

When there's a doubt on recovering the debtor balances, a provision can be recognized, and an expense can be charged to profit or loss. Such provisions are called doubtful debt provisions.

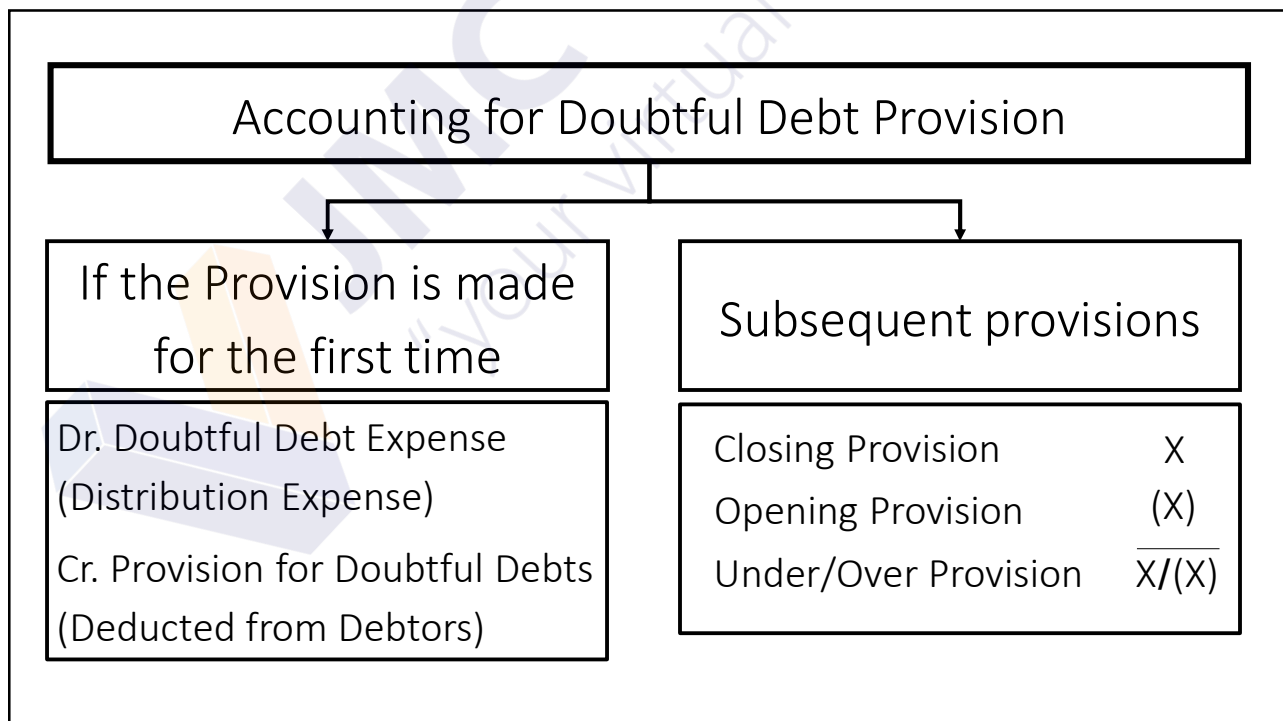


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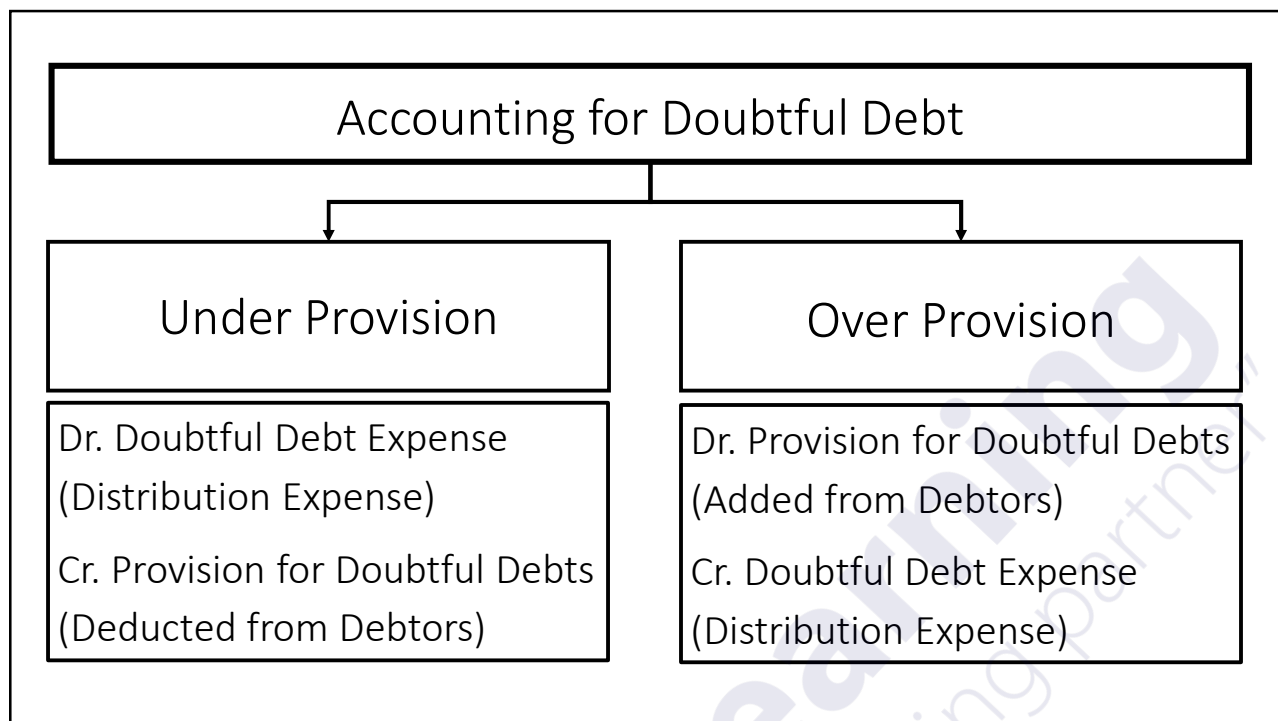
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Question 03

The debtor balance as at 31 March 20X7 of Arun Ltd. is Rs.1,000,000/-. A specific provision of 75% out of Rs.200,000 of the debtor Neo was made as debtor was having financial difficulties. A 10% general provision was made for the remaining debtor balance.

The debtor balance as at 31 March 20X8 was Rs.1,500,000/-. Still the debtor balance from Neo is existing and a 100% provision is made for this balance. For the remaining debtors a 5% provision is made.

The debtor balance as at 31 March 20X9 is Rs.1,200,000/-. During the year 20X8/X9 Neo has paid Rs.100,000. The remaining balance was written off as a bad debt. A 10% provision is made for the remaining balance.

Prepare the financial statement extracts for the years ending 31 March X7, X8 and X9.

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Question 04

The debtor balance as at 31 December 20X1 of Charith Ltd. is Rs.5,000,000/-. The debtor Pasindu's balance included in this balance is Rs.1,000,000/-. A 20% specific provision is made for the Pasindu's balance. The debtor balance Heshan who was included in the above balance was written off as a bad debt. A general provision of 2% was made for the remaining balance.

On 31 December 20X2, Rs.500,000 out of Pasindu's balance was written off as bad debts. The entire remaining balance was provided for doubtful debts. 50% of bad debt written off of Heshan in the previous year was received during the current year. The total debtor balance was Rs.4,000,000. Except for above mentioned debtors, for the remaining balance a 5% general provision was made.

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Question 04

The debtor balance as at 31 December 20X3 was Rs.4,500,000/-. The total debtor balances of both Pasindu and Heshan was recovered during the year and 2% general provision was made.

Prepare the financial statement extracts for the years ended 31 December 20X1, X2 and X3.



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