

IGCSE Accounting Prepayments and Accruals

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1 Explain the following accounting principles. Give one example of each principle.

(a) accruals (matching)

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Example

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(b) business entity

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Example

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2 Complete the table by placing a tick () to indicate how the adjustment for goods for own use affects the following ratios.

	Increase	Decrease
Gross profit margin		
Rate of inventory turnover (in days)		
Net profit margin		
Return on capital employed		

3 An insurance account shows an amount paid for the year of \$2000 and a prepayment at the end of the year of \$400.

Which entry appears in the insurance account to record the transfer to the income statement?

- A credit entry of \$1600
- B credit entry of \$2400
- C debit entry of \$1600
- D debit entry of \$2400

- 4 On 1 May 2014 Samuel's provision for doubtful debts account showed a balance of \$450. On 30 April 2015 his trade receivables amounted to \$9750. This included a debt of \$250 which had gone bad and should be written off. Samuel provides for doubtful debts at a rate of 4%.

REQUIRED

Prepare Samuel's provision for doubtful debts account. Bring down the balance on 1 May 2015.

Samuel Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
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- 5 (a) State where the entry for doubtful debts will appear in the income statement.

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(b) Name the two accounting principles Samuel is applying by maintaining a provision for doubtful debts account.

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- 6 Grace Zindi runs a secretarial agency. Her financial year ends on 31 July. She provided the following information on 31 July 2015.

	\$
Capital 1 August 2014	85 000
Cash drawings	15 500
Fees from clients	28 500
Wages	21 600
Rates and insurance	3 900
General expenses	990
Heat and light	710
Commission receivable	7 600
Motor vehicles at cost 1 August 2014	12 500
Provision for depreciation of motor vehicles 1 August 2014	4 500
Office equipment at valuation 1 August 2014	11 400

Additional information

- 1 At 31 July 2015
 - Insurance prepaid amounted to \$300
 - Commission receivable of \$250 was outstanding
 - Fees from clients of \$3400 was outstanding.
- 2 Grace Zindi lives in a flat above the business premises. One quarter of the rates and insurance relate to the flat.
- 3 On 31 July 2015 Grace Zindi decided to create a provision for doubtful debts of 1% of the amount owed by clients.
- 4 The motor vehicles are being depreciated by 20% per annum on the reducing (diminishing) balance method.
- 5 The office equipment was valued at \$14 500 on 31 July 2015. Additional office equipment costing \$6900 was purchased during the year. No office equipment was disposed of during the year.

REQUIRED

(a) Prepare Grace Zindi’s income statement for the year ended 31 July 2015.

Grace Zindi
Income Statement for the year ended 31 July 2015

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(b) Prepare the capital account for Grace Zindi for the year ended 31 July 2015.

Balance the account and bring down the balance on 1 August 2015.

Grace Zindi
Capital account

Date	Details	\$	Date	Details	\$
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(c) State the meaning of the accruals (matching) principle. Give one example of how this principle was applied in the preparation of the income statement in (a).

Meaning

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Example

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(d) State the meaning of the business entity principle. Give one example of how this principle was applied in the preparation of the income statement in (a).

Meaning

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Example

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7 Name one other accounting principle which is applied when charging depreciation.

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8 State how providing depreciation is an application of the accounting principle of accruals (matching).

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9 State how reducing the value of inventory would be an application of the accounting principle of accruals (matching).

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10 Msamati Manufacturing provided the following information for the year ended 31 January 2017.

	\$
Revenue	816 370
Purchases of finished goods	17 200
Commission received	2 700
Administration expenses	38 160
Selling expenses	28 270
Inventory of finished goods 1 February 2016	56 120
Office equipment at cost	32 000
Delivery vehicles at cost	68 000
Provision for depreciation	
Office equipment	14 400
Delivery vehicles	17 000
Loan from A1 Loans received 1 April 2016	15 000
At 31 January 2017	
Inventory of finished goods	61 340
Commission receivable outstanding	130
Loan interest at 5% per annum is outstanding	

(b) Explain how the accruals (matching) principle has been applied in the preparation of the income statement. Illustrate your answer by reference to **one** of the items in your answer to **(a)**.

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11 Lahiru’s financial year ends on 28 February. He maintains a provision for doubtful debts of 4% of trade receivables at the end of each year.

On 1 March 2016 Lahiru’s provision for doubtful debts amounted to \$500. On 28 February 2017 his trade receivables owed \$17 900.

REQUIRED

(a) Prepare the provision for doubtful debts account for the year ended 28 February 2017. Balance the account and bring down the balance on 1 March 2017.

Lahiru
Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
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(b) Explain how Lahiru is applying the accounting principle of prudence by maintaining a provision for doubtful debts.

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(c) Explain how Lahiru is applying the accounting principle of accruals (matching) by maintaining a provision for doubtful debts.

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12 Rashida is a wholesaler. Her financial year ends on 30 September. She provided the following information.

	\$
At 1 October 2016	
Fixtures and fittings at cost	65 000
Provision for depreciation of fixtures and fittings	23 500
Office equipment at valuation	21 000
Inventory	37 150
Trade receivables	34 800
During the year ended 30 September 2017	
Revenue	572 000
Purchases	455 900
Returns by customers	1 840
Returns to suppliers	2 750
Carriage inwards	6 940
Wages	74 200
General expenses	1 300
Rates and insurance	2 800
Loan interest	400
Office equipment	2 800

Additional information

- 1 Inventory at 30 September 2017 was valued at \$41 160.
- 2 A loan of \$20 000 was received on 1 April 2017. Interest is charged at 6% per annum.
- 3 Rashida lives in a flat above the business premises. One quarter of the rates and insurance relate to the flat.
- 4 The fixtures and fittings are being depreciated at the rate of 20% per annum using the reducing (diminishing) balance method.
- 5 The office equipment is revalued at the end of each financial year. The value at 30 September 2017 was \$20 600.
- 6 The trade receivables include \$300 which should be written off. A provision for doubtful debts of 2% of the remaining amount should be created.

REQUIRED

(a) Prepare the income statement for the year ended 30 September 2017.

(b) Explain how the accruals (matching) principle has been applied in the preparation of the income statement. Support your answer by reference to **one** of the items in your answer to (a).

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(c) Explain how the business entity principle has been applied in the preparation of the income statement. Support your answer by reference to **one** of the items in your answer to (a).

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Rashida was disappointed with the performance of her business in the year ended 30 September 2017 and decided to compare her financial statements with those of another business.

REQUIRED

(d) Explain **two** factors Rashida should consider when comparing her financial statements with those of another business.

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13 The accounts of a business are prepared on the basis that the business will continue to operate for the foreseeable future.

Which accounting principle is being applied?

A accruals (matching)

B consistency

C going concern

D realisation

14 Insurance prepaid, \$120, was treated as an accrual in the income statement.

Which effect did this have on the profit for the year?

A overstated \$120

B overstated \$240

C understated \$120

D understated \$240