Accruals, Prepayments and Month-End Cutoff

Accounting | Intermediate | 60 minutes (estimate) | Double entry and basic P&L

Worked numerical schedule

Measure	Value	Unit
September insurance expense	1,000.00	USD
Closing prepaid insurance	11,000.00	USD
September rent expense	3,000.00	USD
Closing prepaid rent	6,000.00	USD
Total new accrued liabilities	7,200.00	USD
Total correct September expense for these items	11,200.00	USD
Change in expense versus posted ledger	-800.00	USD
Total closing prepayments	17,000.00	USD
Coverage cost reconciliation	0.00	USD

Interpretation and recommended actions

September expense is $11,200. Debit Prepaid insurance / credit Insurance expense $11,000; debit Rent expense / credit Prepaid rent $3,000; debit Utilities expense / credit Accrued utilities $1,800; debit Consulting expense / credit Accrued consulting $2,400; debit Wages expense / credit Wages payable $3,000. Net expense falls $800 versus the posted $12,000. Assets rise $8,000 and liabilities rise $7,200; equity increases $800. In October reverse accruals before recording invoices, or clear the accrued liability directly; do not do both. Obtain invoice support and reconcile estimate differences.

Scoring rubric - 100 points

Dimension	Points	Awarding guidance
Calculation	40	Expense schedule 15; prepayments 10; accrual totals 5; five adjusting amounts 10.
Interpretation	25	Correct application of the case rules 10; explain the business decision 10; identify evidence or limitations 5.
Controls / audit trail	20	Traceable formulas 8; independent reconciliation 8; explicit units and signs 4.
Communication	15	Decision and numerical headline 5; actions with owners and evidence 5; concise response covering all required deliverables 5.

Award method credit after an isolated arithmetic error rather than repeatedly deducting for it. Equivalent account labels and well-supported alternative recommendations are acceptable. Numerical tolerance is 0.01 in the stated units; no universal passing score is prescribed.

Common mistakes

Expensing cash payments immediately; expensing October invoices twice; treating a reversal as forgiveness of the obligation.

Staged hints

Map coverage months first. Separate each item’s current posting from its required closing balance. The adjustment is the difference.

Instructor notes

Prerequisites: Double entry and basic P&L. Suggested use of the estimated 60 minutes: spend roughly 15% on the lesson and smaller example, 55% on the independent task, 20% on comparing approaches and 10% on the decision discussion. Timing is untested. Ask learners to explain why the numerical check is necessary but not sufficient.

For a simpler class, provide the model structure and work through one driver. For an extension, change one operational assumption and require a new reconciliation and recommendation. Verify the new key before distributing any variant. Open files in the intended spreadsheet application before class. Solutions are learning resources, not secure hiring examinations. Expert review remains pending.