Accruals, Prepayments and Month-End Cutoff

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

Learning outcomes

Put expense in the service period, even when the invoice and payment dates disagree. Calculate the result, reconcile it and communicate its limitations.

Method

For this exercise recognize service expense evenly over the stated coverage period. A payment for future coverage is a prepaid asset; service received but not yet invoiced creates an accrued liability. Document the service dates before choosing an entry. The rules below are case assumptions, not a claim of compliance with every accounting framework.

Smaller worked example

A separate $1,200 policy covers 12 months from 1 July. At 31 July, expense is $100 and the remaining prepaid asset is $1,100. Paying the premium does not make all $1,200 July expense.

Business context and rules

Close September 2026 for fictional Northline Studio. The $12,000 annual insurance policy starts 1 September and was incorrectly expensed in full when paid. Rent of $9,000 covering September-November was correctly posted entirely to Prepaid rent; no amortization was recorded. September utilities of $1,800 and consulting of $2,400 were received but not invoiced or posted; invoices arrive 5 October. September wages of $3,000 are earned but unpaid and unrecorded. No opening accruals or prepayments exist. Assume no tax, VAT, interest or other adjustments.

Original synthetic inputs

Input	Value	Unit
Annual insurance paid	12000	USD
Insurance coverage	12	months
Rent paid for September-November	9000	USD
Rent coverage	3	months
September utilities estimate	1800	USD
September consulting received	2400	USD
September unpaid wages	3000	USD

Required deliverables

Submit the expense / balance-sheet schedule, five dated adjusting entries, and a 150-word close note explaining estimates and October reversal or settlement. Do not record a second cash payment.

Use formulas for derived amounts and preserve source data. Put narrative deliverables in the workbook response area; expand it as needed. Compare amounts within 0.01 of the stated unit and percentages within 0.1 percentage point. No unsupported balancing plugs.