

- Accruals in the balance sheet are (current) liabilities, prepayments are (current) assets.
- They arise because of the accruals (or 'matching') concept - profit is not the same as cash and cash is not the same as profit!
- Expenses in the profit and loss account are recorded in the periods to which they relate - the balance sheet records the amounts over or under paid in cash

Accruals and Prepayments

Example

Annual buildings insurance £4,000 paid in advance 1 July 2001. The insurance premium for the year to 30 June 2001 was £3,600. On 5th October 2001, received electricity bill for £360 for the quarter ended 30 September 2001. Other electricity costs for the year ended 30 September 2001 were £1,200. Accounting year end is 30 September.

- P&L: