Accruals, Prepayments and Month-End Cutoff

Accounting | Intermediate | 60 minutes (estimate)

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. The total duration of 60 minutes is a planning estimate, not a tested completion time. Allocate class time according to prior knowledge and reserve time for discussion of the decision and evidence.

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.

Decision

Recognize September services as September expenses and retain future insurance/rent benefits as prepaid assets.

Evidence and reasoning

Payment timing is not the expense-recognition rule. The insurance payment covers future months, while unbilled utilities, consulting and wages relate to work already received. Accrual reversal and direct liability clearance are alternatives, not cumulative steps.

What would change the conclusion

Service dates, contract coverage or final invoices may change the accrual estimates. Reconcile differences to evidence before posting any adjustment.