

S02.02-AS-05-I.2-Ex-deferrals and accruals

I - Financial Assets and Liabilities: General principles

2. Content of:

- **A-financial assets: Deferred expenses and accrued income**
- **B-financial liabilities: Accrued expenses and deferred income**

Example of postings

These examples are based on the Corporate Charts of Accounts of PF1 companies

A - Deferred expenses and accrued income

- **Deferred expenses - Insurance**

On 30 May Y, a company pays 120 EUR for an insurance contract covering the period 6/Y -> 5/Y+1. Only the expenses for months 6-12/Y were "consumed" in year Y. The insurance expenses for the period 1-5/Y+1 relate to year Y+1, even if they were paid in year Y. Therefore they must be deducted from the insurance expenses of year Y.

Payment of the insurance premium (5 May Y):

Debit	6110000000	Insurance	120	
Credit	506xxxxx30	Bank current account		120

Adjustment of deferred charges (31 Dec Y):

Debit	2700000000	Prepaid expenses	50	
Credit	6110000000	Insurance		50

Reversal of adjusting entry (1 Jan Y+1):

Debit	6110000000	Insurance	50	
Credit	2700000000	Prepaid expenses		50

- **Accrued income - License fees**

In the course of year Y, a company has given an operating license for a copying system, and perceives, on 5 March of each year, a fee equivalent to 5% of its turnover of previous year. An income of 140 EUR was realized in year Y, but was not yet accounted for as of the year Y closing.

Recognition of income realized (31 Dec Y):

Debit	2719000000	Other accrued income	140	
Credit	7460000000	License fees		140

Cash-in of income (5 Mar Y+1):

Debit	7460000000	Bank current account	140	
Credit	2719000000	Other accrued income		140

B - Accrued expenses and deferred income

- **Accrued expenses - interests**

On 5 March Y+1, a company must pay 60 EUR representing the interests for the period 6/Y -> 5/Y+1. The interests for the first 7 months (6 -> 12/Y) represent an expense for year Y that is incorporated to the financial expenses of year Y, even that expense is cashed out in March Y+1.

Adjustment of the financial expenses (31 Dec Y):

Debit	6500060000	Interests on financial operations	35	
Credit	2720000000	Interests payable		35

Payment of interests and cancellation of adjusting entry (30 Jun Y+1):

Debit	2720000000	Interests payable	35	
Debit	6500060000	Interests on financial operations	25	
Credit	506xxxxx30	Bank current account		60

- **Accrued expenses - waiting accounts**

On 24 July Y, a company receives 150 EUR on its bank account. This amount was paid by an unidentified customer for whom no account exists. After a while, the company is informed that the unknown customer had paid for an identified customer.

Cash in of the unidentified payment:

Debit	506xxxxx30	Bank current account	150	
Credit	2740000000	Waiting account		150

When payment is identified:

Debit	2740000000	Waiting account	150	
Credit	2200000000	Trade receivables		150

- **Deferred income - rental income**

On 1 November Y, a company perceives 60 EUR representing the proceeds from a rent of a building for months 11 -> 12/Y and for 1/Y+1. Only rents for period 11 -> 12/Y relate to year Y. Therefore the rent of January Y+1 must be deducted from rental income accounted for in November Y.

Cash in of rental income (1 Nov Y):

Debit	506xxxxx30	Bank current account	60	
Credit	7445000000	Income from leases		60

Adjustment of rental income of Jan Y+1 (31 Dec Y):

Debit	7445000000	Income from leases	20	
Credit	2730000000	Unearned income		20