

Accounting: Making Sound Decisions

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Week 4: "Accrual vs. Cash Accounting"

A few transactions to illustrate the concept of accrual accounting:

1. Prepaid insurance:
 - The Campus Bookstore prepays €1,200 on April 1st x3 for a full year of insurance.
 - By December 31st, the Campus Bookstore recognizes the consumption of €900 of insurance (i.e. use of 9 out of 12 months).
2. Interest on bank loan:
 - The Campus Bookstore received a €10,000 bank loan on July 1st x3 to be repaid at the end of three years.
 - The 5% interest cost of the loan has to be paid every Jun 30th.
3. Advances from customers (i.e. unearned revenues):
 - On March 31st, the Campus Bookstore receives an order of books for €10,000 from a corporate customer that pays €6,000 in advance.
 - The order of books is delivered to the customer on May 31st.
 - The remaining €4,000 owed by the customers are received on Jun 30th.