**Accrued expenses (Method 2)**

Examples:

1st July 2011 – Accrued wages $4,000

During the year, the company paid wages by cheques $24,000

30th June 2012 – Accrued wages for the year is $1,000

Required:

Prepare ledger as at 30th June 2012 for

(a) Accrued wages

(b) Wages

**Accrued Wages**

|  |  |  |  |
| --- | --- | --- | --- |
| Wages | 4,000 | Balance b/d | 4,000 |
| Balance c/d | 1,000 | Wages | 1,000 |
|  | 5,000 |  | 5,000 |
|  |  | Balance b/d | 1,000 |

Wages

|  |  |  |  |
| --- | --- | --- | --- |
| Bank | 24,000 | Accrued wages | 4,000 |
| Accrued wages | 1,000 | Profit / Loss | 21,000 |
|  | 25,000 |  | 25,000 |
|  |  |  |  |
|  |  |  |  |

Steps:

1) Put in accrued wages opening balance.

2) Do reversing entry (reason for it is to prevent the amount paid during the year being capture into this year expense in Profit/Loss account)

DR Wages

CR Accrued Wages

3) Record the payment you made for wages during the year

DR Wages

CR Bank

4) Record the accrued wages at the year end (since you didn’t pay it and you need to increase wages so that it will reflected in the expenses incur to Profit/Loss account)

DR Wages (because you need to increase expenses amount)

CR Accrued wages (because you haven’t pay it, cannot CR bank & need to recognise

as a liability)

5) Close off wages account

6) Balance off accrued wages account

This is the reasoning behind Method 2 of accrued wages. The example in Textbook 3B page 126 (top part) is changed to assume if you know how much cash you paid. If question did not tell how much cash paid, but how much expense is incurred, could you find the cash paid? Method 2 only requires preparing Wages account, to find cash paid, whereas the full ledger reconstruction will be as above.