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OTR 3.2 (a): Notes on using the template spreadsheet for accrual accounts

Introduction

These notes go with our [Accrual account template](#) and explain how and why transactions are recorded in a certain way in the accounts.

- If you are unfamiliar with OTR we suggest you read our guidance: [OTR part 1 – Is it for you?](#) before using this template
- If you are unfamiliar with principles of accrual accounting we suggest you read OTR3.1 Guidance: [Accrual basis of accounting guidance](#) before using the template and notes.
- We recommend the template is used by people who have a good level of Excel (or equivalent) knowledge.
- The spreadsheet contains formulas (column G and row 53). You can make changes and adapt the spreadsheet to suit your needs (e.g. insert rows, change vales) but we do not recommend you change any formulas.

The accounting scenario

XML Orchestra (the Parent Organisation) commissioned 'XML Concert Productions Ltd' (the Production Company) to produce three orchestral concerts during the financial year.

- When the notes refer to the current financial year we mean 1 September 2016 to 31 August 2017.
- The subsequent financial year is 1 September 2017 to 31 August 2018.
- The three concerts take place on:
 - 18 December 2016 (concert code C1)
 - 4 April 2017 (concert code C2)
 - 3 June 2017 (concert code C3)
 - There is also a concert planned for November 2017 – in the subsequent financial year (concert code C4)

About the accounts template

The template is intended as a basis for producing your own accrual accounting spreadsheet. It can be used as it is or modified to suit your particular circumstances, but there are certain parts we recommend that you do not change (see below).

There are formulas in the template that have been protected – this means you can view, but not change, the formulas. You can enter values into cells that do not contain a formula. We recommend that the template is used by people who have a decent level of Excel (or equivalent) knowledge.

We have provided some brief notes on the column headings below:

- The first three columns are fairly self explanatory – they show the date of transaction ('Date'), the name of the entity the transaction relates to (Details), and the nature of the transaction (Category item). We suggest you do not change these columns – although you can of course use your own category item wording.
- The fourth column (Concert code) is there to help you keep track of which concert a transaction relates to – it is optional but it may help to manage your OTR claim

There are then three main sections to record financial information

1. Balance sheet accounts – this is where you record transactions relating to the assets, liabilities, and capital of the business. We have provided definition of each type below. We do not recommend you change these in the template.
 - Bank Receipt - these are payments that come into the bank account
 - Bank Payments - these are outgoing payments
 - Bank Balance - this is the running bank balance
 - Accounts Receivable - this is where you record amounts your company is owed because it sold goods or services on credit to a customer (we do not anticipate that production companies set up for OTR would have these types of transactions).
 - Accounts Payable - this is where you record amounts your company owes because it purchased goods or services on credit from a supplier (e.g. performance venue hire).
 - Share Capital - this is where you record the part of the capital of the company that comes from the issue of shares
 - Company Loan - this is where you record loan amounts received from and/or repaid to the parent organisation
 - Prepayments - this is where you record amounts paid for by the company in advance of the goods or services being received.
 - Accrued income - this is where you record income which has been earned but not yet received at the year end.
Please note: Prepayments and Accrued income appear as one column in the spreadsheet.

2. Income and Expenditure

In these sections you record the income and expenses of the business. You can of course add your own categories if you need to.

About specific transactions in the template

1. Loan from the Parent Organisation

The parent organisation (XML Orchestra) lent £5,700 to the production company during the financial year. The loan was extended to the production company in three instalments:

- £2,500 on 01/09/16
- £2,200 on 20/03/17
- £1,000 on 30/06/17

These transactions are recognised in the production company's accounts by debiting 'Bank' account and crediting 'Company Loan' account. Please see 5 commissioning fee below for information on repaying the loan.

2. Shareholders

The production company has two shareholders each holding one share with a nominal value of £1.

3. Accounts payable

Venue hire payment (Sep and Oct 2016)

On 17 Sept 2016 the production company received a purchase invoice (for venue hire) from its supplier (i.e. The Local Concert Hall). It recognised the transaction by debiting the expenses account and crediting the accounts payable account. On the date of payment of the invoice (i.e. 17 Oct 2016) the accounts payable account is debited and the bank account is credited.

This is an example of how accrual accounting works when a delay occurs between receiving an invoice and paying an invoice. You might decide to simply record the transaction when the payment is made.

PRS fees (August 2017)

On 31 Aug 2017 the production company recognised a £240 royalty payment which is due for PRS fees.

This is an expense which has been incurred but not yet paid. The PRS fees are for concerts that have taken place in the current financial year (i.e. 2016-17) but the fees are not due to be paid (via Making Music) until December 2017 (i.e. the subsequent financial year 17-18).

As this expense has been incurred but not yet paid it is debited in the expenses account and credited in the accounts payable account. On the date the PRS fees are paid (Dec 2017) the following accounting entry needs to be recorded in the accounts for the subsequent financial year (2017-18):

Debit	Accounts Payable	£240
Credit	Bank	£240

4. Prepayments

Payment to 'Exampleshire Music Venue' on 15 August 2107

On 15 Aug 2017 the production company paid £378 to 'Exampleshire Music Venue' for performance venue hire for a concert to be held in November of the subsequent financial year.

This is a prepaid expense where the payment is made in the current financial year but relates to a service that will be received in the subsequent financial year.

The production company recognised the £378 payment as an asset by debiting the 'Prepayment' account and crediting the 'Bank' account.

When the service is actually received (i.e. the date of hire in November 2017) the prepayment will be recognised as expense in the accounts for the subsequent financial year. The following accounting entry will be recorded:

Debit	Venue Hire Expenses	£378
Credit	Prepayment	£378

5. Commissioning Fee

On 31 Aug 2017 the production company recognised in its books £5,039.72 commissioning fee due from the parent organisation for the three concerts produced in the current financial year. As the production company owes money to the parent organisation the 'Company loan' account is used to settle the commissioning fee due from the parent organisation. This is achieved by crediting 'Commissioning Fee' account and debiting the 'Company Loan' account.

If the current financial year total commissioning fee due from the parent organisation is less than the 'Company Loan' balance in the trading subsidiary's account, you can either arrange for the production company to repay the balance outstanding or carry it forward to be used in the subsequent financial year.

We hope you find this Making Music resource useful. If you have any comments or suggestions about the guidance please [contact us](#). Whilst every effort is made to ensure that the content of this guidance is accurate and up to date, Making Music do not warrant, nor accept any liability or responsibility for the completeness or accuracy of the content, or for any loss which may arise from reliance on the information contained in it

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