**Accrued Revenue and Expenses Activity Outline**

**Activity Outline 7.8.1:**

1. Have your students research the Internet for articles on an accrual accounting system, citing a minimum of 3 resources for their writing.
2. Ask your students to write a 2 page summary of an accrual accounting system. In the summary, include these definitions:
	* accrued revenue
	* accrued interest income
	* reversing entry
	* accrued expenses
	* accrued interest expense
3. You might also want to give your students a brief outline of what you want included in the summary.
4. Definition of an Accrual Accounting System
5. History of an Accrual Accounting System
6. Cash vs. Accrual System of Accounting
	* + 1. Explanation of each system
			2. Pros and Cons
7. Why Use an Accrual Accounting System?
8. Summary

**Activity Outline 7.8.2:**

1. Demonstrate calculation of accrued interest:

Issued a 6 month note receivable on September 1, 2003 for $5,000, 15% interest rate

****

1. Ask your students to create an Accrued Interest spreadsheet for calculating accrued interest.
2. Have your students use the spreadsheet to provide answers for these accrued interest problems.



**Activity Outline 7.8.3:**

1. Demonstrate the new accounts Interest Payable and Interest Receivable.
2. Using an Accrued Entries presentation, demonstrate the adjusting, closing and reversing transactions for an accrual system of accounting with interest expense and income.
3. Using an input form, analyze and journalize the transactions below:
4. Adjusted Interest Expense for an 8 month note payable that was issued October 1, 2003. The principal was $6,700 at 7.9% interest rate.
5. Prepared a closing entry for Interest Expense for the above account. There was no other balance in the account.
6. Prepared the reversing entry for the letter above transaction.
7. Paid cash for the above note on June 1, 2004.
8. Adjusted Interest Income for a 45 day note received on December 1, 2003. The principal was $2,300 at 6% interest rate.
9. Prepared a closing entry for the above transaction.
10. Prepared an adjusting entry for the transaction in letter e.
11. Received cash for the principal plus the note on January 15, 2004.