

Before the final accounts of a business are completed, it is usually necessary to make adjustments to the trial balance

“Financial statements are prepared under the Accruals Basis of accounting; which requires that income and expense must be recognized in the accounting periods to which they relate , rather than when the money is received or paid”

Accruals

An accrued cost is an estimate of the cost of something that has been incurred, and is owed, but which has not yet been recorded by the accounting system

*e.g. a supplier has **not sent an invoice** for goods or services that have already been received*

Typical accruals relate to expenses such as rent, telephone, heat and light

These amounts need to be **added to expenses** in order to show a true picture in the Profit and Loss account

- ✍ They will need to be calculated and entered via a journal at the year end
- ✍ Some of the information may not be readily to hand for several months, and will usually be found in purchase invoices dated after the year end

Prepayments

Prepayments are the opposite of accruals. These are payments in advance for goods or services that are yet to be received.

These amounts need to be **deducted from expenses** in order to show a true picture in the Profit and Loss account.

- ✍ They will need to be calculated and entered via a journal at the year end
- ✍ Normally you will need to access the information from the paid invoices for that year's records