Generally accepted accounting principles critique essay

Business, Accounting

Introduction The purpose of this report is to identify the items that may result in adjusting entries for both prepayments and accrual by looking at the trial balance and Income statement. Furthermore, analyzing the historical summary of financial Is to know the trend for profit or loss of the company assets.

Fundamental First of all, why we have to make BAD? Balance day adjustments are therefore required to ensure the financial statements portray a correct picture on the firm's financial performance and financial position. We have to recognize all transaction occurring in that accounting period, irrespective of whether cash has been received or paid. The ultimate objective of adjusting entries Is to ensure that the revenues (income) earned In the accounting period are matched by all costs Incurred for that name accounting period (Monish College, 2011).

Prepayment There are two types of adjusting entries, prepayments and accruals. Prepayment is a payment in advance of the period to which it pertains. What this mean is, this category of adjustments aligns recorded revenues (income) and costs with appropriate accounting periods. For example, there are situations where cash Is received before goods and services are provided to customers or situations where cash has been paid In advance for costs of operation and which relate to future counting periods.

Prepayments divided into two sections, which are prepaid expenses and unearned revenue. Prepaid expenses is type of assets that shown on a balance sheet as a result of business payments for goods and services to be received in the near future. While prepaid expenses are initially recorded as assets, their value Is expensed over time as the benefit Is receive something of value in the near future. Prepayments often occur In regard to Insurance, supplies, advertising, and rent. Earned revenue is also known as prepaid revenue. It means payment, which is received in advance of providing a good or service. Since an obligation exists on the part of the company to provide goods or services for which the advance payment was received, unearned revenue is a liability. An example is a retainer received by an attorney. When the services are performed, revenue is the earned. Another examples are pre-booked airline ticket, rent received In advance and magazine subscription