

accounting also accounts for prepayments. If a utility bill has been paid in advance, for example, when the financial statements are prepared at the end of the year, the overpayment for the next year is not shown. This allows the decision-makers within a business to see a more accurate record of profits for the previous year because some of the services that have been paid for have not yet been utilised. Overall, financial statements prepared on an accrual basis give a better representation of the business' financial position, as more factors are considered when calculating profit, such as the real value of assets and what month payments should be allocated to.

Although accrual accounting gives a much better overview of the business' position, it does have some inaccuracies. According to Alan Li (smallbusiness.chron.com), the "single most important issue in accrual based accounting" is that when invoices are prepared, the date on them does not necessarily match that of the actual sale, therefore accountants are sometimes forced to estimate when the sale was made. This could lead to inaccuracies when the financial statements are prepared at the end of the year as some transactions could potentially be recorded in the wrong year if it is not known for sure when they were made. In addition to this, the profit and loss account shows profits assuming that all debtors will pay sometime in the near future, which may not necessarily be the case.

In conclusion, financial statements prepared on an accrual basis are more suitable and more accurate the majority of the time, as most businesses require a method of recording credit transactions; this is the most significant reason why accrual accounting is more appropriate. Even in very small businesses, relying on memory is likely to cause mistakes when preparing financial statements at the end of the year. It is also very important that depreciation is recorded to assess the firm's financial position more accurately each year taking the current value of assets into account.