

KEY SERVICE INSIGHTS



ACCOUNTING AND BOOKKEEPING NEWSLETTER

ACCOUNTING METHODS

ACCRUAL METHOD OF ACCOUNTING

Accrual basis accounting is a method of accounting that records transactions when they occur, not when cash is received or paid out. The accrual method of accounting is used to recognize revenue and expenses in the fiscal year they are earned or incurred.

How Accrual Accounting Works

Recognizing Revenue

Accrual method accounting recognizes revenue when it is earned, not when cash is received. For example, if a company completes a project for a client in December but does not receive payment until January, the revenue is recorded in December.

Recording Expenses

Accrual accounting records expenses when the expenses are incurred, not when the expenses are paid. For example, if a company orders supplies in December, the expense is recorded in December, even if the expense is not paid until January.

Benefits of Accrual Accounting

Accrual accounting provides a more accurate picture of the company's financial performance. Accrual accounting matches revenues to expenses incurred in earning revenues. Accrual accounting is considered more reliable than cash basis accounting.

Although it is more complex, accrual accounting is considered the standard accounting practice for most organizations. Using accrual accounting, companies look at both current and expected cash flows, which provides a more accurate snapshot of the company's financial health.

The Importance of Accrual Accounting in Complex Transactions

Accrual method accounting is useful because it shows underlying business transactions, not just those with cash involved. Most transactions of a company are straightforward, with payment

happening at the time of the transaction. Other, more complicated transactions involve buying and selling on credit, which requires a company to account for monies that they will pay or receive at a future date.

Even more complicated are transactions that require paying for goods or services or receiving money from customers in advance. The timing of when revenues and expenses are recognized related to these more complicated transactions can have a significant impact on the perceived performance of a company.



Challenges of Accrual Accounting

Accrual accounting can make it difficult to track cash flow and is more complicated than cash accounting. Accrual accounting also requires the company to pay taxes on all revenue earned as opposed to when the cash is collected.

While cash accounting is a viable option and often a good fit for smaller businesses, accrual accounting generally provides a more comprehensive view of a company's financial

ACCRUAL METHOD OF ACCOUNTING

health. Following the accrual method of accounting, the company will have more accurate financial statements that can be used to inform strategic decisions of the company.

Who Uses Accrual Accounting?

Accrual accounting is used by regulated and public companies. **Accrual accounting is the accepted accounting method of recording transactions for companies that follow GAAP or IFRS.**

Our Approach to Accounting Methods

We focus on representing small and mid-size businesses. We advise on the appropriate accounting methods customized to the company's current position, reviewing factors such as the company's goals, operations, and needs in order to determine the appropriate accounting method. At Praestans, we can handle these important accounting and bookkeeping functions while coordinating professional services customized to the client's needs.

Praestans Global Advisors is neither a law firm nor a CPA firm.

[Praestans Global Advisors](#) provides collaborative, coordinated, integrated, strategic, and customized professional services customized to our clients' needs. Our services include accounting, bookkeeping, and financial services; tax services; crypto tax, accounting, and funds; fund administration; domestic and international business consulting; and mergers and acquisitions due diligence. Through our association with [Integra International](#), we can provide coordinated services to include business valuation and audit and other professional services worldwide.



Strategic Business Planning that is collaborative, integrated, and bespoke.

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