

# KEY SERVICE INSIGHTS



ACCOUNTING AND BOOKKEEPING NEWSLETTER

## ACCOUNTING METHODS

# CASH METHOD OF ACCOUNTING

Cash basis accounting is a method of accounting that records income when cash is received and expenses when they are paid. It is also known as the cash method of accounting. The cash basis of accounting is usually followed by individuals and small companies.

The benefits of the cash method of accounting are:

1. *it is a simpler accounting method;*
2. *reflects the cash available at all times; and*
3. *allows for recognition of income only when cash is received which is a benefit for tax purposes.*

The drawbacks of the cash method of accounting are:

1. *can provide an inaccurate picture of a company's financial position;*
2. *can make it harder to obtain financing; and*
3. *can make it difficult to compare the company's performance over time.*

While the company should proceed with caution, **the cash method of accounting can provide tax planning opportunities.** For example, a company may accelerate payment of business expenses at year-end in order to maximize deductions. Also, a company may delay billing for services until after



year end in order not to recognize revenue until the following year. There are limitations on companies using the cash method of accounting for tax including companies with average annual gross receipts for the three prior taxable years that equal or exceed **\$25,000,000** cannot use the cash method.

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.

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