

# Accrual vs. cost accounting assignment

[Business](#)



If our businesses were to choose a cash basis accounting method, they would record revenue when payments were received and they would record costs when payments were remitted. Payable and receivable entries would not be used since future payments would not be recorded and an inventory entry would not be needed as well. The merchandise purchased for resale or the materials purchased for use in the manufacturing of products would be recorded as an expense in the accounting period in which those purchases were made.

Without recording receivables and payables, the cash method does not portray an accurate record for profit reporting. It does however portray an excellent record of cash flow. If our businesses were to choose an accrual basis accounting method, they would record revenue when the products and services are provided whether payment was made or a future payment was agreed upon. Expenses would then be recorded in the same accounting period that the revenue it is related to is recorded. When income is recorded when earned, assets are created such as accounts receivable and liabilities that become assets such as unearned income.

When expenses are recorded when incurred, liabilities are created such as accounts payable and assets that become liabilities such as deferred expenses. The merchandise purchased for resale or the materials purchased for the use in the manufacturing of products would be recorded as current assets so unlike the cash method, an inventory entry would be needed. Opposite of the cash method, the accrual method does not portray an excellent record of cash flow but, because it does record receivables,

payables, unearned income and deferred expenses, it portrays an accurate record for profit reporting.

To record cash transactions, the company would need to supplement the standard financial statements with a Statement of Cash Flow. Comparing the two methods, the businesses that choose the accrual basis accounting method will provide a more accurate picture of the company's financial situation than if they used the cash method (Michaels, n. d. ).

References  
Michaels, A. (n. d. ). Accrual Basis Accounting vs. Cash Basis Accounting. Helium. Retrieved February 9, 2001, from <http://www.helium.com>