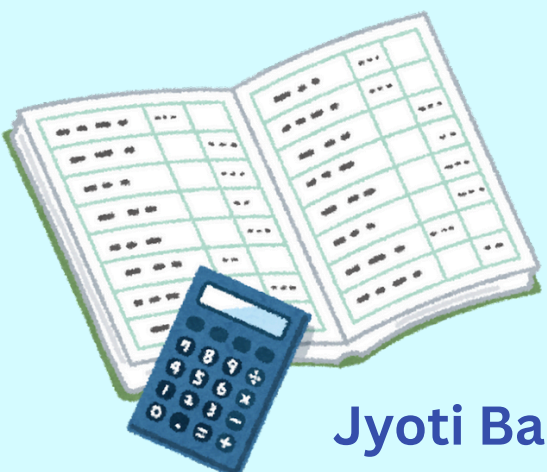


# ACCRUAL BASIS OF ACCOUNTING



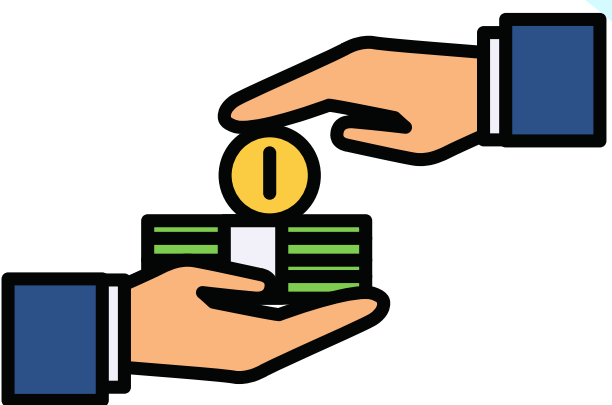
Jyoti Barik



# What Is Accrual accounting?

Accrual basis of accounting recognizes revenues when they are earned and expenses when they are incurred, irrespective of when cash is received or paid.

By following the matching principle, this method offers a clearer and more accurate view of a company's financial performance over time, as it aligns revenues with the expenses that contributed to generating them.



# Key principles

The accrual method of accounting is based on the matching principle, which states that all revenue and expenses must be reported in the same period and "matched" to determine profits and losses for the period.

- **Revenue Recognition** > Revenue is recorded when a service has been provided or a good has been delivered, and the revenue is considered earned, even if the customer has not paid yet.
- **Expense Recognition** > Expenses are recognized when they are incurred or when a bill is received, regardless of when the payment is made.





## Example

XYZ Ltd. provides website maintenance services for Rs 1000 in March, with the payment expected in April. According to the accrued income concept, XYZ Ltd. must record the income in March, even though the payment will be received in April.

Accrued Income Journal Entry (March):

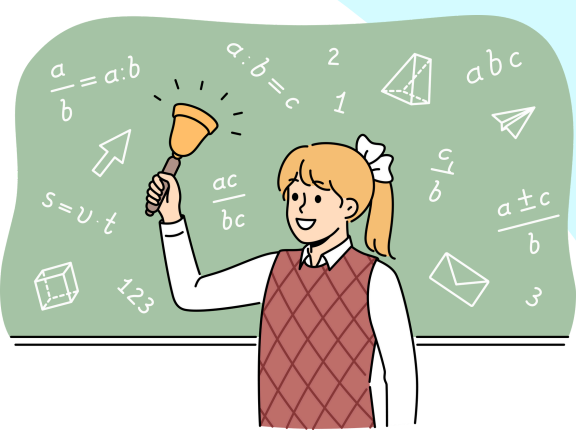
Accrued Income Rs 1000 Dr.

To Service Revenue Rs 1000 Cr.

Payment Entry (April):

Cash/Bank Rs 1000 Dr.

To Accrued Income Rs 1000 Cr.



**"Accrual accounting uses double-entry, recording transactions when they occur, not just when cash is paid or received. This gives a more accurate picture of a company's finances."**

