Solution:

Both of these systems have their own advantages and disadvantages. Let's dive into the dichotomy of these systems.

In a cash-based system, the income is based on the cash flow, and only those transactions that involves cash are counted in the income statement.

Such transactions are useful for tracking cash flow since they monitor only cash (which helps the company to maintain its cash & equivalents). It also helps the company to realize the real value of flow.

This is helpful for small scale business, like grocery stores that have a small customer base, from whom the seller can get cash.

However, when large scale businesses enter the scene, there are certain problems.

One of the aspects is that in these transactions, the payment is usually recognized later, say 60 days or so. Sales are also collected at later date and allowed discount. According to the conventions of U.S. GAAP and IFRS, the revenue/expense is recognized at the time when delivery/availing of service and cash exchange is done. The cash-based system will not account until the time the cash flow occurs, but this is a major problem because a transaction that is 60 days separated from its service could not be linked easily. This violates the matching principle of the accounting, which leads to accrual accounting.

Accrual accounting takes care of these future payments & services. However, even this is not free of any mishaps.

Imagine a company that does every sale on credit. Even though accrual accounting will consider this as a sale, if major customers default (a situation called bad debt), then the accrual accounting would falter, because it would have projected a hope of earning more but actually earning less. Moreover, accrual accounting does not specifically involve cash flow, so income on the paper might seem alluring but It could imply a lot of cash flow being done.