**Why global accounting standards?**

The G20 and other major international organisations, as well as very many governments, business associations, investors and members of the worldwide accountancy profession, support the goal of a single set of high quality, global accounting standards.

## Global standards for global markets

Modern economies rely on cross-border transactions and the free flow of international capital. More than a third of all financial transactions occur across borders, and that number is expected to grow.

Investors seek diversification and investment opportunities across the world, while companies raise capital, undertake transactions or have international operations and subsidiaries in multiple countries.

In the past, such cross-border activities were complicated by different countries maintaining their own sets of national accounting standards. This patchwork of accounting requirements often added cost, complexity and ultimately risk both to companies preparing financial statements and investors and others using those financial statements to make economic decisions.

Applying national accounting standards meant amounts reported in financial statements might be calculated on a different basis. Unpicking this complexity involved studying the minutiae of national accounting standards, because even a small difference in requirements could have a major impact on a company’s reported financial performance and financial position—for example, a company may recognise profits under one set of national accounting standards and losses under another.

## Benefits of IFRS Standards

IFRS Standards address this challenge by providing a high quality, internationally recognised set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world.

IFRS Standards bring **transparency**by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.

IFRS Standards strengthen **accountability**by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS Standards are also of vital importance to regulators around the world.

And IFRS Standards contribute to economic **efficiency**by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs.

## Experience of adopting jurisdictions

Changing to IFRS Standards does not come without cost and effort. The companies reporting will generally need to change at least some of their systems and practices; investors and others using financial statements need to analyse how the information they are receiving has changed; and securities regulators and accounting professionals need to change their procedures.

But [academic research](https://www.ifrs.org/content/dam/ifrs/around-the-world/adoption/2012-research-on-global-accounting-standards.pdf) and studies by adopting jurisdictions provides overwhelming evidence that the adoption of IFRS Standards has brought net benefits to capital markets.

The documented benefits include a lower cost of capital for some companies and increased investment in jurisdictions adopting IFRS Standards. Some companies also report benefits from being able to use IFRS Standards in their internal reporting, improving their ability to compare operating units in different jurisdictions, reducing the number of different reporting systems and having the flexibility to move staff with IFRS experience around their organisation.

In Japan, where use of IFRS Standards has been voluntary since 2010, [a report by the Japanese Financial Services Agency](http://www.fsa.go.jp/en/news/2015/20150430-4.html) identified business efficiency, enhanced comparability and better communications with international investors as the main reasons why many Japanese companies had chosen to adopt IFRS Standards.

## Progress towards global standards

IOSCO recognised the benefits of global Standards when, in the year 2000, it recommended to its members that they allow IFRS Standards to be used on their exchanges for cross-border offerings.

Since that point, IFRS Standards have gone on to become the *de facto* global language of financial reporting, used extensively across developed, emerging and developing economies.

[Our research](https://www.ifrs.org/content/ifrs/home/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis-of-use-of-ifrs-standards-around-the-world) shows that 144 jurisdictions now require the use of IFRS Standards for all or most publicly listed companies, whilst a further 12 jurisdictions permit its use.

# GAAP VS. IFRS: WHAT ARE THE KEY DIFFERENCES AND WHICH SHOULD YOU USE?

Accounting is often referred to as the “language of business.” It’s one of the most [fundamental business skills](https://online.hbs.edu/courses/core/), capable of revealing key insights into a company’s financial health and potential, and driving strategic decision-making that leads to new ventures and investment opportunities.

For professionals in non-accounting roles, understanding what’s behind an organization’s numbers can be immensely valuable. Knowing how to [analyze financial statements](https://online.hbs.edu/blog/post/financial-statement-analysis) can improve your ability to communicate results and boost collaboration with colleagues in more numbers-focused positions.

If you want to further your accounting knowledge, it’s critical to understand the standards that guide how companies record transactions and report finances. Here’s a look at the two primary sets of accounting standards—GAAP and IFRS—and how they compare.

## **AN OVERVIEW OF GAAP VS. IFRS**

Accounting standards are critical to ensuring a company’s financial information and statements are accurate and can be compared to the data reported by other organizations.

The two main sets of accounting standards followed by businesses are GAAP and IFRS.

* GAAP, also referred to as US GAAP, is an acronym for Generally Accepted Accounting Principles. This set of guidelines is set by the [Financial Accounting Standards Board (FASB)](https://www.fasb.org/home) and adhered to by most US companies.
* IFRS stands for International Financial Reporting Standards. These principles are dictated by the [International Accounting Standards Board (IASB)](https://www.ifrs.org/groups/international-accounting-standards-board/) and followed in many countries outside the US.

Deciding which set of standards to use depends on whether your company operates in the US or internationally. Work is being done to [converge GAAP and IFRS](https://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156304264), but the process has been slow going.

## **THE KEY DIFFERENCES BETWEEN GAAP VS. IFRS**

While GAAP and IFRS share many similarities, there are several contrasts, beyond the regions in which they’re applied. Here are four key differences between GAAP and IFRS.

### **1. The Balance Sheet**

The way a [balance sheet](https://online.hbs.edu/blog/post/balance-sheets-101-understanding-assets-liabilities-and-equity)is formatted is different in the US than in other countries. Under GAAP, current assets are listed first, while a sheet prepared under IFRS begins with non-current assets.

The two standards also dictate different approaches to ordering categories on the balance sheet. GAAP calls for accounts to be listed in the order of liquidity—or how quickly and easily they can be converted to cash. The items are arranged in descending order (most liquid to least liquid): current assets, non-current assets, current liabilities, non-current liabilities, and owners’ equity.

Under IFRS, the order is reversed (least liquid to most liquid): non-current assets, current assets, owners’ equity, non-current liabilities, and current liabilities.

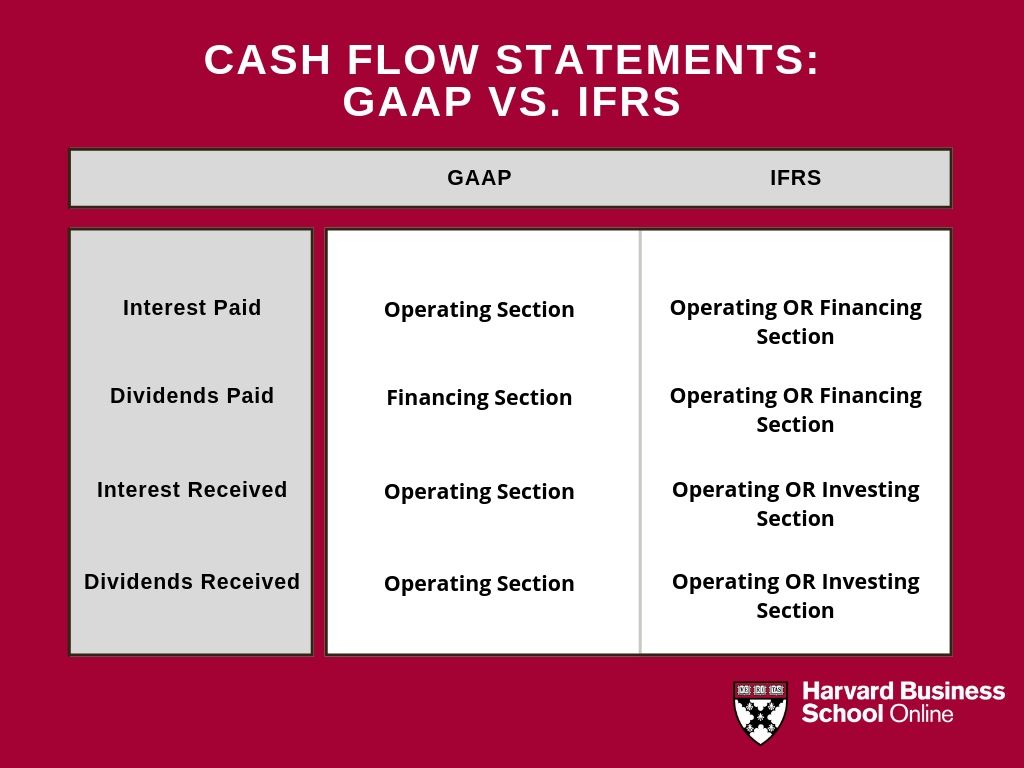
### **2. The Cash Flow Statement**

A company’s cash flow statement is also prepared differently under GAAP and IFRS. This is most acutely seen in how interest and dividends are classified.

GAAP prescribes that interest paid and interest received should be classified as operating activities, while international standards are a bit more flexible. Under IFRS, a firm can choose its own policy for classifying interest based on what it considers to be appropriate. Interest paid can be placed in either the operating or financing section of the cash flow statement, and interest received in the operating or investing sections.

The same goes for dividends. GAAP specifies that dividends paid be accounted for in the financing section, and dividends received in the operating section. When following IFRS standards, companies have a choice of how they categorize dividends. Dividends paid can be put in either the operating or financing section, and dividends received in the operating or investing section.

To summarize, here’s a detailed breakdown of how the two standards differ in their treatment of interest and dividends.



### **3. Asset Revaluation**

When an asset experiences a reduction in value due to market or technological factors—which in turn, causes it to fall below its current value in a company’s account—it’s classified as a loss on impairment. While impairment is often permanent, an asset’s value can increase after this loss has been recognized if the elements that caused it no longer exist.

GAAP and IFRS handle this ensuing rise in value differently. The rules of GAAP do not allow for an asset’s value to be written back up after it’s been impaired. IFRS standards, however, permit that certain assets can be revaluated up to their original cost and adjusted for depreciation.

### **4. Inventory Valuation Methods**

GAAP and IFRS contrast in how they handle inventory valuation, too. Three methods that companies use to value inventory are FIFO, LIFO, and weighted inventory.

* FIFO stands for First In First Out. This inventory valuation method follows the natural flow of inventory, assuming that the first items in inventory (i.e. the oldest) are the first sold.
* LIFO, or Last In First Out, takes the opposite approach of FIFO. Under this method, the last items to arrive in inventory (i.e. the newest) are assumed to be the first sold.
* Weighted average looks at the weighted average cost of items remaining in inventory at the time of an associated sale, which yields a figure that can then be used to value ending inventory and the related cost of goods sold.

In the US, under GAAP, all of these approaches to inventory valuation are permitted, while IFRS allows for the FIFO and weighted average methods to be used, but not LIFO.

## **THE VALUE OF ACCOUNTING KNOWLEDGE**

There are some key differences between how [corporate finances](https://online.hbs.edu/courses/leading-with-finance/) are governed in the US and abroad. Understanding GAAP and IFRS guidelines can be an asset, no matter your profession or industry. By furthering your knowledge of these accounting standards through such avenues as an [online course](https://online.hbs.edu/courses/financial-accounting/), you can more effectively analyze financial statements and gain greater insight into your company’s performance.

Do you want to take your career to the next level? Download our free [Guide to Advancing Your Career with Essential Business Skills](https://info.online.hbs.edu/business-essentials-ebook) to learn how enhancing your business knowledge can help you make an impact on your organization and be competitive in the job market.

# GAAP: What Are ‘Generally Accepted Accounting Principles’?

Knowing GAAP accounting principles will help you understand why your accountant does the things they do.

Generally accepted accounting principles — or GAAP (pronounced “gap”) for short — are a group of accounting standards that are used to prepare financial statements for companies, not-for-profit organizations and state and local governments. The information in these financial statements help lenders, investors and others evaluate a company or organization.

While you may have hired an experienced professional to deal with the nitty-gritty of your business’s [accounting](https://www.nerdwallet.com/article/small-business/basic-accounting-concepts), you owe it to yourself — and your employees, customers, and investors — to understand the basics of GAAP accounting.

## **First, why is GAAP important?**

GAAP rules are maintained by the Financial Accounting Standards Board (FASB) and in place to help protect business owners, consumers, and investors from fraud. They guarantee a measure of consistency in the accounting reports among all businesses. GAAP rules absolutely must be followed by publicly traded companies, but most small-business accountants adhere to them as well.

How does this apply to you, the small-business owner? Well, understanding where your accountant is coming from will help you better communicate with them and allow you to verify your accounting is being done correctly. Even though your accountant is a trusted business advisor, you are ultimately responsible for your business’s financial information.

## **What are the generally accepted accounting principles?**

Generally accepted accounting principles can be organized into three broad categories. Those categories are assumptions, principles, and constraints. Within each of these broader categories, there are a number of rules which dictate how GAAP-compliant accounting is supposed to be done.

We’re going to keep this as a high-level overview and spare you some of the drier details. You’re not training to be a CPA, after all. Think of this as a crash course in GAAP accounting. If you want more details, your accountant will be a valuable resource for you.

## **Part 1: GAAP assumptions**

### **Principle 1: Business entity assumption**

One of the very first things your accountant probably told you when you started your business was to open a separate business bank account and keep your business and personal transactions separate. This wasn’t just because your accountant wanted to make their job easier.

The generally accepted accounting principle behind this advice is the business entity assumption. Basically, this principle means that a business is an entity unto itself, and should be treated as such (which is also why this is sometimes called the “separate entity assumption”).

Even in a sole proprietorship, where your business activity appears on your personal tax return, the business entity assumption still applies. This is because, legally, your business can exist independently of you.

### **Principle 2: Monetary unit assumption**

The monetary unit assumption states all business activity must be recorded in the same currency. This is why you have to go through the extra effort to complete your bookkeeping for foreign transactions.

Another assumption under this generally accepted accounting principle is that the purchasing power of currency remains static over time. In other words, inflation is not considered in the financial reports of a business, even if that business has existed for decades.

### **Principle 3: Specific time period assumption**

Dates are important, and this is especially true when dealing with GAAP accounting.

A balance sheet always reports information as of a certain date. Profit and loss statements, also called income statements, encompass a date range. All financial statements have to indicate the time period for the activity reported in order for them to be meaningful to those reviewing them. This is the specific time period assumption.

Always check your financial statements for dates, and make sure the information reported on your financial statements makes sense for the dates encompassed by the report. A balance sheet will indicate the report is “as of” or “at” a certain date. Profit and loss statements will indicate they are for a specific date range.

### **Principle 4: Going concern assumption**

The going concern assumption is also referred to as the “non-death principle.” This principle assumes the business will continue to exist and function indefinitely.

The going concern assumption is what allows a business to defer the recognition of expenses to a later accounting period. If an accountant is concerned the business might be forced to close and liquidate, they are required to disclose this concern under GAAP.

## **Part 2: GAAP principles**

### **Principle 5: Historical cost principle**

The historical cost principle in GAAP accounting says that the cost of an item doesn’t change in the financial reporting. So, even if you’ve bought something that has skyrocketed in value since you purchased it — like a building in a part of town undergoing regentrification — your accountant will still report the asset at the amount for which it was obtained, regardless of fair market value.

The historical cost principle also highlights an important concept: It’s critical not to confuse cost with value. The value of things will change over time, and this is reflected in the gain or loss on sale of assets as well as in depreciation entries. Cost, however, will always remain the same on your financials.

If you need a true valuation of your business without selling off your assets, you’ll need to bring in an expert in business valuations rather than relying on your financial statements.

### **Principle 6: Full disclosure principle**

Whenever a generally accepted accounting principle makes it into the news, it is almost without fail the full disclosure principle. Or, more specifically, it’s because of failure to follow the full disclosure principle.

Under the full disclosure principle, a business is required to disclose all information that relates to the function of its financial statements in notes accompanying the statements. This principle helps ensure stockholders and investors are not misled by any aspect of the financial reports.

In other words, it’s always important to read the fine print, even — or maybe especially — in your financial statements.

### **Principle 7: Matching principle**

Most small businesses are on a cash basis for tax purposes, meaning revenue is reported when cash is received and expenses are reported when cash is spent (or your business’s credit card is charged). But certain businesses are required to report all financial information on an accrual basis, largely due to the matching principle.

Under the matching principle, sales and the expenses used to produce those sales are reported in the same accounting period. These expenses can include wages, sales commissions, certain overhead costs, etc.

Even if your tax return is on a cash basis, your accountant may prepare your financial reports on an accrual basis. Accrual basis reports reflect the matching principle and provide a better analysis of your business’ performance and profitability than cash basis statements.

### **Principle 8: Revenue recognition principle**

The revenue recognition principle — like the matching principle — is an accrual basis accounting principle. In a nutshell, under the accrual basis of accounting, revenue is reported when it’s earned, regardless of when payment for the product or service is actually received. This is the revenue recognition principle. Similar to the matching principle, the revenue recognition principle accurately reports income, or revenue, when the sale was made, even if you bill your customer or receive payment at a later time.

## **Part 3: GAAP constraints**

### **Principle 9: Materiality principle**

The materiality principle is one of two generally accepted accounting principles that allows the accountant to use their best judgment when recording a transaction or addressing an error.

You most often see the materiality principle at play when an accountant is reconciling a set of books or completing a tax return. If the account is off by a relatively small amount in relation to the overall size of the business, the accountant might deem the discrepancy as immaterial. If a discrepancy is immaterial, it can be disregarded. Material discrepancies, on the other hand, must be addressed.

Similarly, immaterial expenses can be recognized at the time of purchase, but material expenses must be depreciated over time.

It’s important here for the accountant to be empowered to use their professional opinion. Since businesses come in all sizes, an amount that might be significant, or material  for one business may be insignificant, or immaterial for another.

### **Principle 10: Conservatism principle**

The principle of conservatism is the other GAAP principle that allows the accountant to use their best judgment in a situation. When there’s more than one acceptable way to record a transaction, the principle of conservatism instructs the accountant to choose the option that yields the most conservative results for the business they’re working with.

There is an important rule to remember here: This principle is only invoked when either way the accountant can record the transaction is acceptable. It does not allow the accountant to completely disregard other accounting principles.

### **Principle 11: Objectivity principle**

The objectivity principle is one of the most important constraints under generally accepted accounting principles. According to the objectivity principle, GAAP-compliant financial statements provided by your accountant must be based on objective evidence.

You can think of this as the “just the facts, ma’am” principle. The objectivity principle is, in part, the reason many companies will have an independently audited set of financial statements produced on a routine basis.

### **Principle 12: Consistency principle**

Accounting can be an art as much as a science. Depending on the accounting methods used, the same data presented in different ways can have a dramatic impact on your business’s financial statements.

The consistency principle seeks to increase clarity around a business’s financial statements and to prevent switching the methods used in order to get more favorable-looking results. According to this constraint, the accountant must use the same accounting methods and follow the same accounting principles for each accounting period. This will ensure you are comparing apples to apples when you review your financial statements for multiple accounting periods.

### **Principle 13: Cost constraint principle**

The final constraint under generally accepted accounting principles is the cost constraint principle. This is also one of the trickier principles, because it can be hard to quantify.

According to the cost constraint principle, the cost of reporting financial information should be less than the benefit derived from that financial information. In other words, providing financial information in accordance with GAAP should not cause an undue financial burden.

However, this doesn’t mean a business is exempt from complying with GAAP simply because of the cost involved. This principle typically applies to a small number of companies and only if the financial information being provided is truly inconsequential in relation to the cost.

# 6 Advantages and Disadvantages of Accrual Basis Accounting

Required under the Generally Accepted Accounting Principles (GAAP), accrual basis accounting is an approach that attempts to simulate the economic reality of the activities of a business, rather than simply recording transactions as they take place. This method is a given for a large company, but for a small one, it may not be that beneficial. To determine whether accrual basis accounting is appropriate for your business or not, it is best to understand the advantages and disadvantages that come with it.

### List of Advantages of Accrual Basis Accounting

**1. It grants more useful business analysis.**  
The matching of expenses and revenue using this method allows you to conduct more useful business analysis. For instance, when you purchase expensive machinery to be used over the next decade, its cost will be spread over such a period. Just as this time frame will see some benefits of the equipment, each year in the period will also get some of the expenses through the revenue gained from selling products the machine has produced.

**2. It allows for easy planning.**  
One process that will become easier with accrual basis accounting is planning, especially that it allows you to account for all of your expenses and revenue within the right period. This entails that you will be able to create budgets for your expenses and predict sales, which is essential to inventories, staffing and other areas of operation. Aside from easier planning, this accounting method can help with reducing your tax burden by issuing invoices at the start and the end of the year.

**3. It is compliant with GAAP.**  
With expenses and revenue matched, accrual accounting allows for financial statements that are unaffected by cash timing in business negotiations. Basically, this will make periodic financial statements to become more representative of your business’s health, rather than what the checkbook shows. While not all small business are required to be compliant with GAAP, they will be in the future if they plan to expand to outside investors.

### List of Disadvantages of Accrual Basis Accounting

**1. It poses some difficulties.**  
Difficulty is one huge drawback of accrual basis accounting, where rules in the recognition of revenue and expenses can be very complicated. Now, if you want to fully and record transactions in your small business in accordance with GAAP, you should seek the help of an accountant.

**2. It can lead to deception.**  
It is important to note that the confusion coming with this accounting practice can lead people to deception of financial statements. For example, some businesses have misused the method to hide weaknesses and mistakes within their financial reports. Simply put, it can be used to hide fraud.

**3. It is difficult to switch costs.**  
If you have started with another method of accounting, it can be difficult to switch to the accrual basis. This is because you might already be having difficulties with cash-flow at the start, which is why most start-ups go for cash basis accounting.

Of course, accrual basis accounting can be beneficial when implemented properly. By understanding the advantages and disadvantages that come with it and discussing them with your accountant, you can determine whether it is best to implement in your business or not.

**발생주의 회계(accrual basis Accounting)**

**개념**  
경제적 사건을 어떻게 인식하느냐에 따라 현금주의와 발생주의로 구분된다. 그리고 현금주의를 바탕으로 발생주의 요소를 도입한 수정현금주의와 발생주의를 바탕으로 현금주의 요소를 도입한 수정발생주의가 있다.  
   
**- 현금주의**  
현금주의(cash basis)란 현금자원의 흐름에 초점을 두고 현금의 유입과 유출 여부에 따라 수익과 비용을 인식하는 방식이다. 현금의 유입이 수입 또는 수익이 되며 현금의 유출이 지출 또는 비용으로 인식된다. 따라서 현금이 수반되지 않은 수익 비용 및 자산 및 부채의 증감은 고려되지 않고 감가상각비 역시 제외된다. 현금주의는 단순하고 예산과 실제지출액의 비교가 잘 되기 때문에 예산통제에 잘 활용될 수 있는 장점이 있지만 재정상태나 정부활동의 성과 평가를 위한 비용이나 원가정보를 제공하지 못하는 단점이 있다.

**- 수정현금주의**수정현금주의(modified cash basis)는 현금주의를 완화한 것으로서, 보통 현금뿐만 아니라 경상적 재무자원의 흐름도 인식하는 방식이다. 수정현금주의에서는 회계기간 종료 후 일정기간동안 발생한 수입과 지출을 전회계년도의 수지에 반영한다. 수정현금주의는 현금주의에 비해 단기재무자원의 변동에 대한 파악이 가능한 장점을 가지나, 여전히 장기적 재무자원의 변동은 파악하기 어려운 단점이 있다.

**- 수정발생주의**  
수정발생주의(modified accrual basis)는 현금과 경상적 재무자원 뿐만 아니라 장기적 재무자원까지도 인식하며, 현금의 수납 및 지급시점이 아니라 거래가 발생한 시점에 비용과 수익을 인식하는 방식이다. 그러나 수정발생주의는 여전히 여러 해 동안 편익을 제공하게 될 물리적 자산이 자산으로 인식되지 않고 당해 연도에 소비되는 것으로 비용,처리된다는 점에서 발생주의와 차이가 있다.

**- 발생주의**  
발생주의(accrual basis)는 수익과 비용을 인식하여 측정함에 있어서 현금을 수수한 시점과는 관계없이 재무상태를 변동시킨 거래나 사건이 발생한 시점에서 인식하는 방식이다. 즉 수익은 수익을 획득한 시점에, 비용은 비용이 발생된 시점에 수익과 비용으로 인식한다. 이에 따라 거래는 발생하였으나 현금의 유입과 유출이 이루어지기 이전 시점에 지급되는 미수금, 미수수익, 미지급비용, 선수수익, 선급비용 등의 발생주의 거래항목이 사용되게 된다. 발생주의는 정확한 수익과 비용의 측정이 가능하여 성과에 대한 정보를 제공할 수 있다는 장점이 있다. 반면에 발생사실을 측정하는 과정에서 예측이나 추정과 같은 불확실성을 포함하여 회계정보가 객관성이 결여될 수 있고 정보생산에 많은 비용이 들 수 있다는 단점이 있다.

**(표1) 현금주의와 발생주의 비교**

|  |  |  |
| --- | --- | --- |
| 구 분 | 현금주의 | 발생주의 |
| 거래의 인식 | 현금을 출납한 시점을 기준으로 거래를 인식 | 자산과 부채에 영향을 미치는 사건을 기준으로 거래를 인식 |
| 회계처리 | 단순 예산회계처리로서 실무자의 이해가 용이  형식적 자산․부채 표시 | 회계원리에 대한 이해 필요  실제 회수․지급할 금액으로 자산․부채 표시 |
| 선급비용∙선급수익 | 수익∙비용으로 인식 | 자산과 부채로 인식 |
| 미지급비용∙미수수익 | 인식 안 됨 | 부채와 자산으로 인식 |
| 감가상각, 대손상각, 제품보증비, 퇴직급여충당금 | 인식 안 됨 | 비용으로 인식 |
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# What Are the Advantages and Disadvantages of Accrual Basis Accounting?

When you're planning your business startup, there are a lot of factors to consider. What products are you going to sell? Will you have a brick-and-mortar space, operate primarily online – or offer a combination of both? Do you need employees? In addition to all these details, there is another essential decision you need to make in order to properly set up your business: Will you use a cash or accrual basis accounting system? Cash basis might be fine when you're first starting out, but you might want to seriously consider biting the bullet and setting up an accrual method from the beginning.

## What is Accrual Accounting?

Accrual accounting is a method used to record transactions when they happen instead of when money exchanges hands. For example, if a customer buys $500 worth of merchandise and you bill them for the items, even though you won't receive the money until later, the sale is recorded in your accounting system immediately. Expenses can also be treated in the same fashion. If you buy office equipment and use the company credit card, even if you won't pay off the card for a month, the expense is entered into the accounting system the day of the purchase.

## Advantages of Accrual Accounting

Accrual accounting has several advantages, most of which are related to accurate income and expense reporting:

1. **It provides an accurate picture of overall cash flow for the business.** Many business transactions occur over a period of several months and therefore several accounting periods. Accrual accounting reflects that income and expenses generated in one month can carry over into the next month or even longer.
2. **Investors prefer accrual accounting.** A business that uses accrual accounting is often looked at as more permanent and established than businesses that use cash-basis accounting methods.
3. **It's the preferred method for GAAP.** The Generally Accepted Accounting Principles set forth by the Financial Accounting Standards Board prefers accrual accounting over cash-basis accounting because the financial statements for a business that uses accrual accounting are deemed more accurate since the transactions reflect when they actually took place instead of when money is exchanged.

## Disadvantages of Accrual Accounting

There are some disadvantages to using the accrual accounting method, most of which revolve around the staff needed to maintain the system:

1. **Small companies might lack the staff needed to manage this method.** Larger companies typically have staff – even an entire department – dedicated to tracking and reporting transactions. For example, a hospital might have an account receivables department to keep track of patient billings, and an account payable department to track hospital expenses.
2. **Accrual basis accounting requires at least monthly reporting.** In order to remain accurate, accrual accounting needs frequent reports generated. These are usually the monthly financial statements most business managers are familiar with, such as the income statement and balance sheet. But accounts receivable and accounts payable reports are often generated on a more frequent basis.
3. **Taxes.** Although an advantage to using accrual accounting is that you can report income when the sale is incurred instead of waiting until you have cash on hand, this also means a business pays taxes on money it hasn't received.

## Is Accrual Accounting Right for Your Business?

If you plan to seek outside financing for your business at some point, then the accrual accounting method is most likely your best bet. You can run an accrual basis accounting system like a cash system simply by not extending credit or using credit for transactions yourself. Also, if you start off using a cash basis and then want to switch to an accrual basis a year or two later, you'll have to request permission from the Internal Revenue Service to do it.

Why global accounting standards?

https://www.ifrs.org/use-around-the-world/why-global-accounting-standards/

•GAAP VS. IFRS: WHAT ARE THE KEY DIFFERENCES AND WHICH SHOULD YOU USE?

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•GAAP: What Are ‘Generally Accepted Accounting Principles’?

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•What Are the Advantages and Disadvantages of Accrual Basis Accounting?

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