

ACCURAL VS. CASH BASED ACCOUNTING

Accrual vs. Case Basics Accounting

[Name]

[University]

The Mid Term

1. What are the major differences in recording transactions for a for-profit organization versus a not-for-profit, or are there any?

There are no major differences in recording the transactions for non-profits and profit organization (Peter, 2005). The main difference is that in the non-profit organization accounting system the transactions are listed under net assets head. Whereas, in profit organizations the transactions are recorded under the head of stockholders equity (Hepworth, 2003).

2. Identify and explain two situations where an organization might have increasing activity ratios but declining profitability.

To explain the two situations where an organization might have increasing activity ration are:

- Declining the profits by increasing activity ration.
- Revenues stay same but depreciation expense increase.

The two activity ratios selected to explain the concept are accounts receivable turnover ratio and inventory turnover period. Sales activity is the basis of these ratios. In case of inventory over ratio, increase in the sales volume will also increase the inventory turnover of the firm (Wilson, Kattellus, 2007). It is logical to suppose if the sales also include the sales on credit the accounts receivable will also increase. Inventory and accounts receivables are the current assets and in order to obtain the cash flow (profit) theses currents assets must be managed and used by the firm constantly in the operating system (Nishizaka, Pratt-Ubunama, Zaman, Cofield, Calhoun, 2005).

So, it may be concluded that the decline in profits may occur due to increase in revenue in result of increase in activity, but the expense of the firm also increase more than the activity.

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The activity ration will be higher but the profit margins will be low.

Also, increase in depreciation expense while the revenues are same the activity figures will be high and profitability will be declining (Chan, 2003).

S.Zee Outpatient Clinic
General Journal
As on December 31, 20X1

No.	Description	Debit	Credit
a	Cash Unrestricted cash contributions (Received \$ 3,000,000 in unrestricted contribution)	3,000,000	3,000,000
b	Equipment Cash (Purchase equipment of 2,000,000 on cash)	2,000,000	2,000,000
c	Cash Bank Loan (Borrowed 1,000,000 from Bank)	1,000,000	1,000,000
d	Supplies Accounts Payable Purchase Supplies of \$ 15,00,000 on credit)	1,500,000	1,500,000
e	Account Receivable Unrestricted Cash Contribution-Credit Services (Provide \$ 5,500,000 services on credit)	5,500,000	5,500,000
f	Unrestricted Gains Supplies (Used supplies of \$ 1,000,000 in services)	1,000,000	1,000,000
g	Cash Contribution-Advance Payment Unearned Revenue (Advance cash \$ 5,00,000 from capacitated patients)	5,00,000	5,00,000
h	Labor Expenses Cash (Incur expense and paid cash \$ 2,000,000)	2,000,000	2,000,000
i	General Expense Cash (Incur expense and paid cash \$ 1,500,000)	1,500,000	1,500,000
j	Account Receivable Unrestricted Cash Contribution-Payment from patients	4,500,000	4,500,000

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	(Received outstanding amount \$ 4,500,000)		
k	Unearned Revenue Support Services (Met obligations of \$ 3,00,000)	3,00,000	3,00,000
l	Bank Loan Cash (Cash payment of \$ 100,000 on bank loan)	100,000	100,000
m	Interest Expense Cash (Interest of \$ 50,000 paid in cash)	50,000	50,000
n	Support Service-Patient's Operations Temporarily restricted Fund- Donation (made temporary restricted donation \$ 1,00,000)	1,00,000	1,00,000
o	Depreciation Accumulated Depreciation (Recognized depreciation of year \$ 200,000)	200,000	200,000
p	Accounts Receivable Bad Debts-Patients Did not Paid (Patients accounts would not receive \$ 500,000)	500,000	500,000

Trial Balance:

Trial Balance		
S. Zee Outpatient Clinic		
For the Period Ended December 31st, 20X1		
Description	Debit	Credit
Unrestricted Cash		\$ 8,500,000.00
Cash	\$ 2,950,000.00	
Bank Loan		\$ 900,000.00
Supplies	\$ 500,000.00	
Equipment	\$ 2,000,000.00	
Accounts Payable		\$ 1,500,000.00
Accounts Receivable	\$ 500,000.00	
Supply Expense	\$ 1,000,000.00	
Advance Payment	\$ 200,000.00	
Unearned Revenue		\$ 200,000.00

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Labor Expense	\$ 2,000,000.00	
General Expense	\$ 1,500,000.00	
Bad Debts	\$ 500,000.00	
Temporary Fund		\$ 100,000.00
Interest Expense	\$ 50,000.00	
Depreciation	\$ 200,000.00	
Accumulated Depreciation		\$ 200,000.00
Total	\$ 11,400,000.00	\$ 11,400,000.00

Notes: Unearned revenue means that services are not delivered but charges against the services received.

Statement of Operations:

Statement of Operations S. Zee Outpatient Clinic For the Period Ended December 31st, 20X1		
Total Revenue		
Unrestricted Cash	\$ 8,500,000	
Temporary Restricted cash	\$ 100,000	
Cost of Goods Sold	\$ -	
Gross Profit	\$ 8,600,000	
Operating Expenses		
Supplies Expense	\$ 1,000,000	
Labor Expense	\$ 2,000,000	
General Expense	\$ 1,500,000	
Depreciation	\$ 200,000	
Interest Expense	\$ 50,000	
Bad Debts	\$ 500,000	
Operating Profit	\$ 5,250,000	
Net Income	\$ 3,350,000	

Balance Sheet:

Balance Sheet S. Zee Outpatient Clinic For the Period Ended December 31st, 20X1	
Fixed Assets	Amount
Equipment	\$ 2,000,000.00
Accumulated Depreciation	\$ 200,000
Total Fixed Assets	\$ 1,800,000
Current Assets	
Cash	\$ 2,950,000
Supplies	\$ 500,000
Accounts Receivable	\$ 500,000
Advance Payment	\$ 200,000
Total Current Assets	\$ 4,150,000
Total Assets	\$ 5,950,000
Long Term Liabilities	
Bank Loan	\$ 900,000
Total Long Term Liabilities	\$ 900,000
Current Liabilities	
Accounts Payable	\$ 1,500,000
Unearned Revenue	\$ 200,000
Total Current Liabilities	\$ 1,700,000
Total Liabilities	\$ 2,600,000
Revenue Items	
Net Profit	\$ 3,350,000
Total Liabilities & Revenue	\$ 5,950,000

References

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