

What is the Difference Between Accrual and Cash Accounting?

Worksheet

Accrual accounting recognizes revenue and expenses when they're earned or incurred, regardless of cash flow; cash accounting recognizes them only when cash is received or paid.

Questions

1. A company earns revenue in December but is paid in January. Under accrual accounting, when is the revenue recorded?
 - A) January
 - B) December
 - C) Never
 - D) Split evenly
2. Which method does cash accounting record expenses under?
 - A) When incurred
 - B) When invoiced
 - C) When cash is paid
 - D) When budgeted
3. Which method is generally required for large public companies?
 - A) Cash accounting
 - B) Accrual accounting
 - C) Either, interchangeably
 - D) Neither
4. Which method better matches revenue with related expenses in the same period?
 - A) Cash accounting
 - B) Accrual accounting
 - C) Both equally
 - D) Depends on tax law only
5. A consulting firm completes a \$5,000 project in December but the client pays in January. How is revenue recorded under accrual vs cash accounting?
6. A company receives a \$1,200 electricity bill in March for service used in March but pays it in April. When is the expense recorded under each method?
7. A retailer collects \$3,000 cash upfront in November for a service to be delivered in January. How does each method treat this?
8. Define: What is accrual accounting?
9. Define: What is cash accounting?
10. Define: Which method is required under GAAP/IFRS for most public companies?

Answer Key

1. B) December - Accrual accounting records revenue when it is earned, i.e., December.
2. C) When cash is paid - Cash accounting only records expenses when cash actually leaves the business.
3. B) Accrual accounting - GAAP and IFRS require accrual accounting for most public companies.
4. B) Accrual accounting - Accrual accounting applies the matching principle to align revenue and expenses.
5. Accrual: revenue recognized in December (when earned) Cash: revenue recognized in January (when cash received) Books show a \$5,000 timing difference between the two methods
6. Accrual: expense recorded in March (when incurred) Cash: expense recorded in April (when paid) This is why accrual better matches costs to the period they relate to
7. Cash: revenue recorded in November (cash received) Accrual: recorded as deferred/unearned revenue in November, recognized as revenue in January when delivered Accrual avoids overstating November's true earned income
8. A method that records revenue and expenses when they are earned or incurred, not when cash moves.
9. A method that records revenue and expenses only when cash is actually received or paid.
10. Accrual accounting.

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