What is the Matching Principle?

Worksheet

The matching principle states that expenses must be recognized in the same accounting period as the revenues they helped produce, so net income for that period reflects the true cost of earning it.

Revenue@left(Period@right) = Expenses@left(Period@right)

Questions

1. The matching principle requires expenses to be recorded:
A) When cash is paid
B) In the same period as the related revenue
C) At year-end only
D) When the invoice is received

2. Which accounting method follows the matching principle?
A) Cash basis
B) Accrual basis
C) Tax basis
D) None of these

3. A company pays a bonus in January for work performed and revenue earned in December. Under matching, when is the bonus expensed?
A) January
B) December
C) Spread evenly over the year
D) Never expensed

4. Which of these is NOT consistent with the matching principle?
A) Recording COGS in the period of the sale
B) Expensing a two-year prepaid rent fully in the month paid
C) Accruing commission expense in the sale period
D) Depreciating an asset over its useful life

5. A furniture store sells $10,000 of furniture in June that cost $6,000 to acquire, though the supplier invoice isn't paid until July. What is June's matched net income (ignoring other costs)?

6. A company pays a $12,000 annual insurance premium upfront in January, covering the full year evenly. How much expense should be matched to March alone?

7. Sales commissions of 5% are owed on $80,000 of Q3 sales, but paid out in Q4. What amount should be expensed in Q3?

8. Define: What is the matching principle?

9. Define: Does the matching principle depend on when cash is paid?

10. Define: What accounting method does the matching principle require?

Answer Key

1. B) In the same period as the related revenue - Expenses follow the revenue they helped generate, not the cash payment date.

2. B) Accrual basis - Accrual accounting recognizes revenues and matches expenses to the period earned, unlike cash basis.

3. B) December - The bonus relates to December's revenue, so it is matched to December even though paid in January.

4. B) Expensing a two-year prepaid rent fully in the month paid - Prepaid rent covering future periods should be spread over those periods, not expensed all at once.

5. Revenue recognized in June = $10,000 COGS matched to June = $6,000 (even though paid in July) Net income for June = 10,000 6,000 = $4,000

6. Monthly expense = 12,000 / 12 = $1,000 March is one month of coverage Expense matched to March = $1,000

7. Commission = 80,000 0.05 = $4,000 The commission relates to Q3 sales, so it is matched to Q3 Q3 expense = $4,000, regardless of the Q4 payment date

8. Expenses are recorded in the same period as the revenues they helped generate.

9. No - it depends on when the revenue is earned, not on the cash payment date.

10. Accrual accounting, not cash-basis accounting.