

ACCRUAL AND CASH BASIS REVENUE EXPLANATIONS

ACCRUAL BASIS ACCOUNTING

Under accrual basis accounting, revenues and expenses are recognized as follows:

- **Revenue recognition:** Revenue is recognized when both of the following conditions are met:
 1. Revenue is earned, and
 2. Revenue is realized or realizable.
- **Revenue terms:**
 - o Revenue is earned when products are delivered or services are provided.
 - o Realized means cash is received.
 - o Realizable means it is reasonable to expect that cash will be received in the future.
- **Expense recognition:** Expense is recognized in the period in which related revenue is recognized (Matching Principle).

CASH BASIS ACCOUNTING

Under the cash basis accounting, revenues and expenses are recognized as follows:

- **Revenue recognition:** Revenue is recognized when cash is received.
- **Expense recognition:** Expense is recognized when cash is paid.

TIMING DIFFERENCES IN REVENUE AND EXPENSES

There are potential timing differences in recognizing revenues and expenses between accrual basis and cash basis accounting:

- **Accrued Revenue:** Revenue is recognized before cash is received.
- **Accrued Expense:** Expense is recognized before cash is paid.
- **Deferred Revenue:** Revenue is recognized after cash is received.
- **Deferred Expense:** Expense is recognized after cash is paid.