

# Cash vs. Accrual Accounting



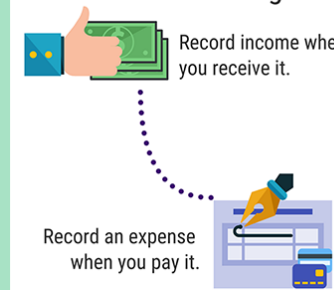

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# Cash vs Accrual

**Cash Basis** is where Revenues are recorded when cash is received, and Expenses are recorded when cash is paid out.

**Accrual Basis** is where Revenues are recorded when income is earned, and Expenses are recorded when costs are incurred.

	Cash Basis	Accrual Basis
Revenue	Received	Earned
Expenses	Paid	Incurred
	<div style="border: 1px solid black; padding: 10px; background-color: #e0f2f1;"> <p style="text-align: center;"><b>Cash Accounting</b></p>  <p>Record income when you receive it.</p> <p>Record an expense when you pay it.</p> </div>	<div style="border: 1px solid black; padding: 10px; background-color: #e0f2f7;"> <p style="text-align: center;"><b>Accrual Accounting</b></p>  <p>Record income when you earn it.</p> <p>Record an expense when you incur it.</p> </div>

# Cash vs Accrual

## Activity During the Year

REVENUES	EXPENSES
 <p>\$100 Billed to Customer</p>	 <p>Goods Received Costing \$50</p>

## Financial Statements

Cash Basis	
\$0	Revenue
-\$0	Expense
<b>\$0</b>	<b>Net Income</b>

Accrual Basis	
\$100	Revenue
-\$50	Expense
<b>\$50</b>	<b>Net Income</b>



# Cash vs Accrual

## Activity During the Year

REVENUES	EXPENSES
 \$100 Payment Received	 \$50 Paid to Vendor

## Financial Statements

Cash Basis	
\$100	Revenue
-\$50	Expense
<hr/>	
\$50	Net Income

Accrual Basis	
\$100	Revenue
-\$50	Expense
<hr/>	
\$50	Net Income

# Cash vs Accrual

## Activity During the Year

REVENUES	EXPENSES
 \$100 Payment Received	 \$50 Paid to Vendor
 \$25 Billed to Customer	 \$10 Goods Received

## Financial Statements

Cash Basis	
\$100	Revenue
-\$50	Expense
<b>\$50</b>	<b>Net Income</b>

Accrual Basis	
\$100	Revenue
\$25	Billed (Accrued Revenue)
-\$50	Expense
-\$10	Goods (Accrued Expense)
<b>\$65</b>	<b>Net Income</b>



# Cash vs Accrual

## Let's Budget



# Cash vs Accrual

## Prior Year Revenues

Cash Basis	
\$100	Revenue
<hr/>	
\$100	Net Income

Accrual Basis	
\$100	Revenue
	\$25 Billed (Accrued Revenue)
<hr/>	
\$125	Net Income



# Cash vs Accrual

## Expected Future Revenue

Cash Basis	
\$100	Revenue
<hr/>	
\$100	Total Revenue
x 1.05	Growth Factor
<hr/>	
\$105	Expected Revenue

Accrual Basis	
\$100	Revenue
\$25	Billed (Accrued Revenue)
<hr/>	
\$125	Total Revenue
x 1.05	Growth Factor
<hr/>	
\$131.25	Expected Revenue





# Cash vs Accrual

## Expected Future Revenue

Large Potential Shortfalls

Cash Basis								
Actual General Fund Revenues					Projected General Fund Revenue FY 2021 through FY 2025			
FY 2021	FY 2022 Adopted	FY 2022 Actuals	Adopted vs Actuals	%	FY 2023	FY 2024	FY 2025	FY 2026
\$100	\$105	\$106	1	0.2%	\$110	\$116	\$122	\$128

Accrual Basis								
Actual General Fund Revenues					Projected General Fund Revenue FY 2021 through FY 2025			
FY 2020	FY 2021 Adopted	FY 2021 Actuals	Adopted vs Actuals	%	FY 2022	FY 2023	FY 2024	FY 2025
\$100	\$131	\$106	-\$25	-19.4%	\$138	\$145	\$152	\$160



# Cash vs Accrual – Additional Risk

Uncollected Receivables Carry Risk of Non-Collectability

- Denial of Reimbursement by Grantor
- Insolvency of Customers Owing City
- Staff Error

# *Questions*