

Accrual Accounting vs. Cash Basis Accounting: What's the Difference?

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Accrual Accounting vs. Cash Basis Accounting: An Overview

The main difference between [accrual](#) and [cash basis](#) accounting lies in the timing of when revenue and expenses are recognized. The cash method provides an immediate recognition of revenue and expenses, while the accrual method focuses on anticipated revenue and expenses.

KEY TAKEAWAYS

- Accrual accounting records revenue and expenses when transactions occur but before money is received or dispensed.
- Cash basis accounting records revenue and expenses when cash related to those transactions actually is received or dispensed.
- Accrual accounting provides a more accurate view of a company's health by including accounts payable and accounts receivable.
- The accrual method is the more commonly used method by large companies, especially by publicly-traded companies, as it smooths out earnings over time.
- The cash basis method typically is used by sole proprietors and smaller businesses.

Accrual Accounting

Under this method, revenue is [accounted for when it is earned](#). Unlike the cash method, the accrual method records revenue when a product or service is delivered to a customer with the expectation that money will be paid in the

future. In other words, money is accounted for before it's received. Likewise, expenses for goods and services are recorded before any cash is paid out for them.

Cash Basis Accounting

Under this method, revenue is reported on the income statement only when cash is received. Expenses are recorded only when cash is paid out. The cash method is typically [used by small businesses](#) and for [personal finances](#).

Key Differences

Accrual Method

The accrual method records accounts receivables and payables and, as a result, can provide a more accurate picture of the profitability of a company, particularly in the long term.

For example, a company might have sales in the current quarter that wouldn't be recorded under the cash method. The related revenue is expected in the following quarter. An investor might think the company is unprofitable when, in reality, the company is doing well.