Accounting Cycle

[Name of the Writer]

[Name of the Institution]

Accounting Cycle

Cash basis and accrual basis are two different methods which are used in accounting to record accounting transactions. Cash basis is the method in which revenue is reported on the income statement when the cash is received from customers and expenses are recorded when the invoice is paid out. It is usually preferred by small enterprises and also for personal finances (Jeppson et al., 2016). Accrual basis is the method in which revenue is recorded when a company earns some cash and expenses are recorded despite no cash being paid out. Large enterprises prefer it for several aspects (Marti, 2016). Both methods are dependent on the timing of expenses and revenues.

For example, a company sells products of about 2000 dollars to a customer in June, and the customer clears the payment in September. According to the cash basis, a company will record their revenue in September when a customer will pay all the payment, and according to the accrual basis, a company will record its revenue in June when they sold the products to the customer without receiving the payment. Similarly when a company buy products of 1000 dollars in June and pay the invoice in September. According to the cash basis, the buyer will record the expenses in the month of September, when a company pays the bills, and according to an accrual basis, the buyer will record the expenses in the month of June, when a company receives a supplier's invoice.

It is very important for every company to adjust entries in the general ledger because they are necessary for creating a company’s balance sheet and income statement. Before a company prepares its financial statement, adjusting entries are made to make sure that the company's financial records are according to revenue recognition. The adjusting entries in a general ledger are critical because some times all transactions are not documented accurately which may affect the whole revenue and expenses of a company.

**References**

Martí, C. (2016). Accrual Budget. Global Encyclopedia of Public Administration, Public Policy, and Governance, 1-6.

Jeppson, N. H., Ruddy, J. A., & Salerno, D. F. (2016). The statement of cash flows and the direct method of presentation. Management Accounting Quarterly, 17(3), 1.