Accrual Basis vs. Cash Basis Accounting

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1. **Cash Basis Accounting**
    - Revenue and expenses are recorded only when cash is actually received or paid.
2. **Accrual Basis Accounting**
    - Revenue and expenses are recorded when earned/incurred, regardless of when cash changes hands.
3. **Key Difference**
    - Accrual accounting recognizes economic events when they occur; cash accounting recognizes them only when cash moves - this can create very different profit figures in the same period.
4. **Which Is Required?**
    - IFRS and GAAP require accrual-basis accounting for most businesses; cash basis is mainly used by very small businesses or for tax purposes in some jurisdictions.
5. **Example**
    - A sale made on credit in December but paid in January: under accrual accounting, revenue is recorded in December; under cash accounting, it's recorded in January.
6. **Why Accrual Accounting Is Preferred**
    - It gives a more accurate picture of a company's financial performance and obligations, matching revenues with the expenses that generated them.