

At the Spring RA, the budget discussion mentioned **cash vs. accrual accounting**. Generally Accepted Accounting Principles (GAAP) require MEA to use accrual-basis accounting, which is different from the cash-basis accounting you and I use to manage our personal checkbooks.

In cash accounting, we record revenue when we receive money (like our paycheck) and we record an expense when we pay out money (like our car payment).

In accrual-basis accounting, revenue is recorded when it is “recognized”. For example MEA recognizes the revenue from the May dues payment when the bill goes out, not when those dues are actually paid at the end of the month. Expenses are recognized when we know they are owed. For example, supplies purchased on May 1 are recorded, or “expensed” when they’re ordered, not when the bill is paid in June. In addition, if we purchase an item that we expect to use over an extended period of time, its cost is spread out over the time it is expected to last.

Let’s look at an example: On the first day of May, two companies with \$20,000 account balances each bill \$10,000 in dues, order \$1,000 worth of supplies, and pay \$6,000 for a copy machine that is expected to last 5 years. Company A uses cash accounting and Company B uses accrual accounting. Here’s how their transactions would look :

Company A (Cash Accounting)

5/1	Opening account balance	\$20,000.00
	Dues revenue	0.00 (Dues not recorded until received)
	Supply order	- 0.00 (Expense not recorded until bill is paid)
	<u>Machine purchase</u>	<u>- 6,000.00 (Expense recorded when paid)</u>
5/1	Closing balance	\$14,000.00

Company B (Accrual Accounting)

5/1	Opening account balance	20,000.00
	Dues revenue	+10,000.00 (Revenue recorded when billed)
	Supply order	- 1,000.00 (Expense recorded when incurred)
	<u>Machine purchase</u>	<u>- 100.00 (\$6000 ÷ 5 years ÷ 12 months)</u>
5/1	Closing balance	\$31,100.00

As you can see, two identical sets of transactions result in two very different sets of figures. Both are correct according to the method of accounting used.