FINANCE AT A GLANCE

The ACCRUAL CONCEPT

Lesson 16

Under the **accrual concept,** revenue is recognized in the period it is actually **earned**, that is, when the goods are dispatched, or when the services are performed. Whether the corresponding payment is received before, within, or after such period, that has no bearing on the timing of revenue recognition.

For example, in December 2007, a customer paid $1,000 in advance for a service that was rendered in January 2008. The amount collected in December 2007 was a cash inflow in 2007, but not a revenue in 2007. It was earned in 2008, and a revenue in 2008. It was not earned in 2007.

Here's another example. A customer will pay in January 2009 for goods it received from the company in November 2008. The amount to be collected in January will be a cash inflow in 2009, but not a revenue in 2009. It was earned in 2008, and a revenue in 2008.

Keep in mind that under accrual accounting, revenues earned in a given period (sales, rental income, etc.) are recorded and reported for the period. Likewise expenses incurred during the period are recorded and reported for the period, regardless of the timing of the actual disbursement to pay for such expenses. We will talk more about expenses in the coming e-lessons. For now, keep this in mind:

The purpose of accrual accounting is to match revenues earned within a given period with expenses incurred within the same period.

Until then,

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