

## Cash Basis or Accrual?

(Cash, in this context, means any form of usable money: cash, checks, drafts, electronic transfer, etc. Accrual means accumulation over time.)

Cash Basis is perfectly adequate for some businesses but far too limited for others. Primarily, choose a system that best allows you to control your company with an eye toward how the IRS views your earnings at year end.

In Cash Basis systems income and expense is determined at the time funds are taken in and funds are paid out. Year-end profit is the amount left over from that (hopefully) and is what you'll be taxed on. Cash Based systems allow you to have huge, unrecorded debts due in following years that do not show on nor figure into the Profit and Loss Statement. Unreceived income, too.

In the Accrual system, income and expense is determined by the time that applies to a transaction, not by its transfer of funds. Many transactions have no transfer of funds at all. You are allowed to apply the income and costs to/over the period of time they cover. Far and away, the Accrual system is more accurate, more transparent and, to my thinking, more tax-payer friendly.

When to choose the Accrual system:

For accounts receivable, where a sale is determined when made even though it is paid for at a later date.

For accounts payable, where an expense is determined when purchased even though paid for at a later date.

If you sell/contract jobs or services that are paid for in advance with expenses that follow over a period of time.

If you sell monthly subscriptions that are paid for on a yearly basis.

If you buy services on a yearly basis that are delivered monthly.

If you sell a product where the income is received in one year and the expense occurs in a subsequent year. See The Problem with Cash Basis.

If you need to set aside funds in one year to pay for an expense that will occur in a following year i.e. moving, expansion, R&D, etc.

If you are depleting assets and/or depreciating equipment.

If you borrow money, use credit cards, accept credit card payments, etc.

In choosing your accounting software program, know you can easily record Cash Basis entries in Accrual System programs, but it is difficult, time consuming, and prone to error to do it the other way around.

In choosing your system, plan ahead. How about the system you'll need next year, in five years or ten?

It is possible to change the accounting system in an ongoing business but requires IRS permission and payment of a fee.



**"Embezzle" the fact-finding guide that will expose discrepancies in your accounting records and allow you to proceed on fact, not suspicion.**

Most owners and managers are reluctant to accept embezzlement as a possibility because, if both their staff and their accounting is suspect, they believe there is no other solution than to hire their CPA to conduct an audit which will cost big bucks and may find nothing at all. That being the case reliable CPAs are reluctant to do an audit on the basis of suspicion alone. Owners and Managers then find themselves in a no-win situation, unable to go further,

**"EMBEZZLE" is the solution!** It's how you find the evidence, if there is any. EMBEZZLE" is not set up like an audit. It works from the inside, like a bookkeeper does. If there are discrepancies to be found, you'll have documentation: what it is, where it is. You'll be operating on fact, not suspicion.

With the instructions in "EMBEZZLE" you can easily do it yourself. If you need a little fine-tuning of your bookkeeping skills, consider **Bookkeeping Basics**. If you don't have the time or desire to follow "EMBEZZLE" yourself, hire someone to do it for you on a temporary/part-time basis. I suggest an outsider, a retired full-charge bookkeeper with years of experience, a high school education and a clean record

## **EMBEZZLE**

- \*How you are setting yourself up for embezzlement.
- \*How your Financial Statements hide embezzlement.
- \*19 Common embezzler tricks and how they work.
- \*If you're not seeing evidence of embezzlement, why bother to look for it?
- \*How to make sure you can access your records.
- \*What to do **RIGHT NOW!**
- \*What's so important about keeping your investigation secret?
- \*What to do now to recover money later.
- \*Exactly how to access bookkeeping accounts and find what you're looking for.
- \*How to massage bookkeeping data in excel to reveal vital clues.
- \*How to check the hard copy files for what IS and is NOT there.
- \*If your suspicions are confirmed, what to do next, absolutely NOT do?
- \*Other Risks.
- \*Prevention **METHODS** that make embezzlement almost impossible.
- \*How to Limit your exposure.

<http://www.aniota.com/~jwhite/bookkeeping/embezzlement0.html> \$10.00