

Income Measurement And Accrual Accounting

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Abstract: Accurate financial statements can be produced only if the results of business events and activities are properly recorded. Accounting records are generally based on two approaches, namely cash basis and accrual basis. In a company at the time of recording finance must use the accounting basis. Because using this accounting basis has a purpose, namely to find out when the effect of a transaction or event must be recognized. The accounting base is an important step in measuring and presenting each transaction in the financial statements, especially related to the recognition of income and expenses for each economic event. The application of the accounting base must be carried out consistently.

Index Terms: Income Measurement, Accrual Accounting, Cash Accounting, Financial Statements, Accounting Events.

1 INTRODUCTION

Today's accrual basis has become a common base used by companies, both large companies and small companies, both those that have gone public and those that have not gone public. This accrual basis can provide a better picture of company performance, so companies can make policies that are more relevant for the future. **Accounting Base** The accounting base is accounting principles that determine when the effect of a transaction or event must be recognized for financial reporting purposes. In a company at the time of recording finance must use the accounting basis. Because using this accounting basis has a purpose, namely to find out when the effect of a transaction or event must be recognized. Of course every company uses a different accounting base, this depends on the company. And each accounting basis has weaknesses and strengths, and this accounting basis has 2 types, namely the accrual basis and cash basis. At present for large companies are required to use accrual basis. Because the basis of this accrual is more accurate, when compared to the cash basis. This is in accordance with financial accounting standards. Then for the cash base, it is currently used too, but by a relatively small company. Accrual basis (accrual basis) is a technique of accounting records, the recording of which is done when the transaction occurs even though cash has not been received. In recording using an accrual basis this is certainly more accurate, and using an asset, liability and equity accrual basis is easily measured. On an accrual basis an income will be recognized when the company has the right to collect from the transaction. And using this accrual basis does not matter when cash will be received, and when cash is issued. Recognition of fees on an accrual basis when the obligation to pay is due. And these costs can already be recognized when the obligation to pay has already occurred, even though the cash has not been issued. Cash basis (cash basis) is a method of recording in accounting, which only records transactions, if there is cash receipt or expenditure. So, even though there are transactions that occur, such as debt or accounts receivable. But because there is no cash in or out, this transaction is not recorded if using the cash basis method. For example, if you receive income from other companies, but the money you receive later, then the transaction will not be recorded. Because of this there is no cash coming in and this is not considered income.

In general, there are two accounting bases, namely cash basis and accrual basis. Both of these bases distinguish ways of recording economic transactions and other events. Income according to recording on a cash basis is all receipts in cash or cash that are recorded in the books of the company bank. The amount of income reported is equal to the total money received by the company in a period. On the other hand, the definition of expense is all expenses paid by the company. Thus, the total expense reported in a period is the total expenditure recorded in the company bank book. In the end, profit or loss which is the difference between income and cost, if used cash base can be known quickly by calculating what balance is at the end of the period. Accrual basis records based on what should be the company's income and expenses for a period. Thus, a company will record its income based on all income that has become the company's rights, regardless of whether this right has been manifested in the form of cash receipts or not as well as expenses.

2 LITERATURE REVIEW

2.1 Accrual Based Accounting

Accrual basis is an accounting basis in which economic transactions or accounting events are recognized, recorded and presented in financial statements based on the effect of the transaction at the time of the transaction, regardless of the time cash is received or paid. In other words, the accrual basis is used to measure assets, liabilities and fund equity. Accrual-based accounting is an international best practice in modern financial management in accordance with the principles of the New Public Management (NPM) that promotes transparency and financial management accountability. Akruar basis bases the concept on two pillars, namely:

1 Revenue Recognition

When recognition of income on an accrual basis is when the company has the right to collect from the results of the company's activities. In the concept of accrual basis, regarding when cash is really accepted becomes less important. Therefore, on an accrual basis, an estimate of uncollectible receivables appears, because income has been recognized even though cash has not yet been received.

2 Recognition of Expenses

Recognition of expenses is carried out when the obligation to pay has occurred. In other words, when the obligation to pay has occurred, this point can be considered as the starting point for the emergence of costs even though the burden has not been paid.

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2.2 Comparison of Cash Bases with Accrual Bases

Comparison of Cash Bases with Accrual Bases Each accounting base has its advantages and disadvantages. The following are detailed comparisons of the cash basis and accrual basis.

Excess Cash Base

This cash-based accounting certainly has advantages and disadvantages. The advantages of cash-based accounting are:

It's relatively simple so it's easy to understand and explain.

The audit process is easier.

It's easier to control spending.

Cash-based financial statements can show the source of funds, allocation and use of cash resources.

Easy to understand and explain, financial statement makers do not need detailed knowledge about accounting, and do not require consideration when determining the amount of cash flow in a period.

Limitations of the Cash Base

While the limitations of cash-based accounting are

It only focuses on cash flow in the current reporting period, and ignores other flows of resources that might affect the ability of companies to provide goods and services now and in the future so that cash flow manipulation is vulnerable. The financial position report (balance sheet) cannot be presented, because there is no double entry recording so that it can never know the position and financial risk (blind spot accounting). Cannot provide information about service costs as pricing, policies for control and performance evaluation. Encourage shopping trends until the budget runs out. There is no control of non-cash assets in a coordinated manner through accounting. Assets are neglected or not used effectively. Debt swelling and the risk of bankruptcy are not detected through accounting and financial statements. The advantages of the accrual basis are: Produce better financial statements for decision making purposes. Allocation of resources can be known more accurately. More accurate performance appraisal in one reporting year because financial health assessments are linked to company performance. Can produce better asset values, liabilities and equity. Measurement of the cost of a better program / activity. Align capital expenditure with depreciation accounting. Changing the financial behavior of its users becomes more transparent and accountable. More effective audits because accrual accounting provides clear and coherent records.

The disadvantages of the accrual basis are:

It is relatively more complex than the basis of cash accounting so that it requires HR with adequate accounting competencies. The relevance of base accrual accounting will be limited. There is a risk of uncollectible income which can reduce the company's income. With the establishment of reserves, it can reduce the company's income. The company does not have a precise estimate of when cash that has not been paid by another party is acceptable.

2.3 Cash Basis

Strengths and lack of recording of accrual basis and cash basis

Accrual basis (accrual basis)

Excess recording uses an accrual basis

- It is easier to measure assets, liabilities and equity.
- The information provided is far more accurate, this is because in each transaction, recording is carried out.

Weaknesses when using an accrual basis (accrual basis)

- Cash from the transaction cannot be determined when it can be accepted.
- Has an uncollectible income risk.

Strength in using cash base (cash basis)

- A direct income can be recognized when cash is received.
- Has no risk of uncollectible income.

Weakness in using cash base (cash base)

- The information provided is inaccurate, this is because it only shows the financial position at that time.

Cash Base

This base is the basis of recognition of a transaction or event when cash or cash equivalents have actually been received or issued. Cash basis is usually still often applied by businesses such as small shops, doctors, stalls, and so forth. The basic concept of cash basis is applied in the following two things:

1. Revenue Recognition

This is recognized when the company has actually received cash. If a sales transaction, the company does not need to collect this because every transaction is made in cash.

2. Recognition of Expenses

This is recognized when the company has actually issued cash.

3 DISCUSSION

Cash Basis also bases its concept on two pillars, namely:

1) Income recognition:

When the recognition of income on an accrual basis is when the company has the right to collect from the results of the company's activities. In the concept of accrual basis it becomes less important about when cash is actually received. So in the accrual basis, there is an estimate of uncollectible accounts, because income has been recognized even though cash has not been received.

2) Cost recognition:

Cost recognition is carried out when the obligation to pay has occurred. So in other words, when the obligation to pay has already occurred, then this point can be considered as the starting point for the emergence of costs even though these costs have not been paid. In today's business era, companies are always required to always use the concept of accrual basis. Besides that, accounting records using the cash basis method also have several advantages and disadvantages, namely as follows:

1) Accrual Basis of Accounting Record Excellence

- a) Accrual basis method is used to measure assets, liabilities and fund equity.
- b) Expenses are recognized when a transaction occurs,

so that the information provided is more reliable and reliable.

- c) Revenue is recognized when a transaction occurs, so that the information provided is more reliable and trusted even though cash has not been received.
- d) Widely used by large companies (in accordance with the Financial Accounting Standard Conditions which require a company to use an acural basis).
- e) Uncollectible receivables will not be deleted directly but will be calculated into the estimated uncollectible accounts.
- f) Each receipt and payment will be recorded in each account according to the transaction that occurred.
- g) There is an increase in company income because cash that has not been received can be recognized as income.
- h) Financial statements can be used as management guidelines in determining future company policies.
- i) The establishment of a view for uncollectible cash, so as to reduce the risk of loss.

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2) Weaknesses of Accrual Accounting Records Base

- a) The accrual basis method is used for recording.
- b) Costs that have not been paid in cash, will be recorded effectively as a cost so that it can reduce the company's income.
- c) There is an uncollectible income risk that can reduce the company's income.
- d) With the establishment of reserves, it can reduce the company's income.
- e) The company does not have an exact estimate of when cash that has not been paid by another party is acceptable.

4 CONCLUSION

Each accounting method has its own benefits and drawbacks. If you have a start-up business or a type of business with only cash payment options, you can choose cash accounting because of its ease of use. On the other hand, if you have a large business turnover which involves complex transactions such as loans, payments, inventory, creditors, reserves, accounts receivable, etc. You are better off using an accounting accrual basis. This method is considered to show a better picture of the profitability of the business and its operations. For records in cash-based accounting and accrual-based accounting is actually not much different. However, to minimize the error of recording and reduce the risk of human error due to recording multiple transactions on different types of reports, you can try Accurate online software as an easy and efficient accounting solution. Accurate online is an accounting software that has been used by various business entities ranging from SMEs to well-known manufacturing companies. Established since 1999 made it a proven and tested software.

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