

## Diocese of Covington

### Policies & Procedures Manual

Section: Compliance – Accounting

Policy: Accounting Basis – Accrual vs. Cash

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“Accrual” and “cash” basis accounting are comprehensive accounting methods dealing with the timing of recognition of income and expenses in the accounts of the institution.

#### **Full Accrual Basis Accounting**

When accrual basis accounting is used, expenses are recognized when incurred and not when the payment is made. Revenues are recognized in the accounting period in which earned.

##### **Examples of Accrual Basis Transactions:**

St. Aloysius Parish uses accrual basis accounting. The collection for Sunday, June 30 is counted and deposited on Monday, July 1. The receipts for this collection appear on the parish’s income statement for June.

St. Aloysius’s telephone bill for services for the month of June was paid on July 10. This expense appears on the parish’s income statement for June and is included in accounts payable on the parish’s balance sheet as of June 30.

Accrual basis accounting is the more acceptable method and it presents a more accurate picture of the financial circumstances of the institution. Accordingly, parishes are expected to use accrual basis accounting unless extenuating circumstances are such that it would create a significant hardship on the parish.

#### **Modified Accrual Basis Accounting**

As parishes do not typically have need for fully audited GAAP financial statements, a modified accrual-basis accounting method may be used. The modification pertains to the following two situations:

- a) The parish uses the cash method throughout the year and then adjusts its books at year-end to account for unrecorded deposits and unpaid expenses. Unpaid expenses are to be recorded as accounts payable and unrecorded deposits as current assets. Additionally, the entries to record these accruals from the prior year would need to be reversed.
- b) Parishes are not required to capitalize fixed asset additions. This necessitates the following:
  - a. Fixed asset purchases are expensed to the appropriate account as shown in the Standardized Chart of Accounts.
  - b. A current listing of fixed assets is to be maintained at the parish for insurance loss documentation purposes as well as the proper safeguarding of assets.

#### **Cash Basis Accounting**

When cash basis accounting is used, expenses are not recognized when incurred but when payment is made. Similarly, revenues are recognized when the cash receipt is deposited. The main advantage of cash basis accounting is its simplicity. However, as mentioned above, **cash basis accounting** should not be used unless there are extenuating circumstances.

##### **Examples of Cash Basis Accounting Transactions:**

St. Bartholomew Parish does not have a full time business manager/bookkeeper and uses cash basis accounting. The collection for Sunday, June 30 is counted and deposited on Monday, July 1. The receipts for this collection appear on the parish’s income statement for July.

St. Bartholomew’s telephone bill for service for the month of June was paid on July 8. This expense likewise appears on the parish’s income statement for July.