INCOME/REVENUE & EXPENDITURE

What are they in an accrual context?

INCOME/REVENUE

The inflow of resources into an organisation (e.g. appropriation - based on outputs) that results in an increase in assets or a decrease in liabilities

- Think of revenues as things we do that make us economically better off
- Remember though revenue is not cash
- Revenue is doing the work not being paid for it
- Revenue often results in the creation of an asset called accounts receivable

EXPENSE

A cost or outflow of resources from an organisation (e.g. electricity, salaries) that results in a reduction in assets or an increase in liabilities

- cost or expense is not buying something of value it is consuming something of value
- buying a building is not an expense using the building is the expense and characterised through amortisation/depreciation

PREPAYMENTS

The payment of an expense in advance. As we have paid for an expense we have not yet incurred we have a store of value. So a prepayment is considered to be an asset.

ACCRUED EXPENSES

An accrued expense is an expense which you know has occurred but has not been paid for or invoiced

An example might be electricity. At the end of the month we know we have incurred a cost for the use of electricity but may not have a bill. To ignore it would distort our costs in examining our performance for the month so we can accrue the cost by making an estimate of the cost of electricity (something we can probably do quite accurately) for the month.

KEY FINANCIAL REPORTS

- The Income & Expenditure Statement
- Statement of Cash Flows
- Reconciliation between the Accrued Income & Expenditure and Cash Flow Statements and the accrued Balance Sheet
- Balance Sheet

INCOME & EXPENDITURE STATEMENT

A financial report showing the income/revenue, expense and operating result (the difference between income/revenue and expense for the period) of an organisation for a specified period.

STATEMENT OF CASH FLOWS

The report which shows the in flows and outflows of cash for a reporting period.

In other words where did we get cash from (being paid for services provided) and what did we do with it (what did we pay for: buildings, labour etc).

BALANCE SHEET

A statement of assets, liabilities and equity for an organisation at a particular point in time.

A statement of what we have (control) what we owe and what's left over

ACCRUAL VS CASH ACCOUNTING

Cash accounting

- Only records transactions when the cash moves in or out

Accrual accounting

- Records transactions when they happen i.e. Revenue when it is earned and expenses when they are incurred, not when the cash is received or paid.

ACCRUAL ACCOUNTING

- Cash Outflows on non-current asset acquisitions are recorded as assets, NOT expenses
- Cash Inflows from loans are recorded as liabilities, NOT revenue
- Takes account of non-cash expenses such as Depreciation and Long Service Leave

EXPENSE RECOGNITION

Non-cash expenses

- Depreciation (the using up of the value of the asset over its estimated useful life)
- Long Service Leave

EXPENSE RECOGNITION

- For reporting purposes, expenses should be recognised in the period in which they are incurred, not when they are paid.

REVENUE RECOGNITION

Revenue recognition principle

- Revenues should be **recognised in the period in which they are earned, not when** they are received

SUMMARY OF ACCRUAL & CASH

	Accrual	Cash
Revenue	When goods and services are provided.	When cash is received.
Expenses	When goods and services are consumed	When cash is paid.
Assets & Liabilities	Reports all assets and liabilities.	Reports on cash.