Time period assumption :   
accountants divide the Accrual-Basis Accounting and Adjusting Entries economic life of a business into artificial **time periods.**

* monthly time periods: each month financial statements are prepared ( 12 times a year)
* Quarterly time periods: each 3 months financial statements are prepared (4 times a year)
* Semi-annual time periods: each 6 months financial statements are prepared (2 time a year )
* Annual time periods: once a year financial statements are prepared.

Annual time periods:

Fiscal year: a year that starts on the fisrt day of any month and ends twelve months later.  
 Ex: 1/1/,,,,,,,,,,,,,31/12/

1/3/2019 ……..28/2/2020 ……28/2/2021…. 28/2/2022  
 1/5/2020 ……………. 30/4/2021

Calendar year: a year that starts on 1/1/ and ends on 31/12

Each calendar year is a fiscal year but not all fiscal years are calendar years

Accrual versus cash basis

Accrual basis : مبدأ الاستحقاق   
cash basis : مبدأ النقدي

Accrual basis :   
Revenue is recognized when services are performed   
expense is recognized when service or assets is used

**Is allowed under IFRS**

Ex: Assume ahmad performed 10,000 services on account and received a utility bill of 250 and postpones payment

Dra cc rec 10,000  
 Cr service rev 10,000

Dr utility exp 250   
 Cr acc pay 250   
  
revenue recognition principle مبدأ الاعتراف بالايراد & expense recognition principle مبدأ الاعتراف في المصروف

Cash basis :   
revenue is recognized when cash is received   
expense is recognized when cash is paid

**Is Not allowed under IFRS except for small companies**

Ex: Assume ahmad performed 10,000 services on account and received a utility bill of 250 and postpones payment

No entries

**E3.3 (LO 1)** Carillo Painting collected £108.000 from customers in 2020. Of the amount collected.

£25,000 was for services performed in 2019. In addition. Carillo performed services worth £36.000 in

2020. which will not be collected until 2021.

Carillo Painting also paid £72.000 for expenses in 2020. Of the amount paid. £30.000 was for

expenses incurred on account in 2019. In addition. Carillo incurred £42.000 of expenses in 2020. which

will not be paid until 2021.

**Instructions**

a. Compute 2020 cash-basis net income.

b. Compute 2020 accrual-basis net income.

Cash collected in 2020 : 108,000

25,000 services performed 108,000- 25,000 = 83,000 services performed in 2020   
2019

Services performed in 2020 on account = 36,000

Cash paid in 2020 = 72,000

30,000 exp incurred 2019 72,000 – 30,000 = 42,000 exp incurred in 2020   
  
exp incurred in 2020 on account = 42,000

1. Net income 2020 cash basis = cash revenue 2020 - cash expense 2020   
    = 108,000 – 72,000 = 36,000
2. Net income 2020 accrual basis = accrued rev 2020 – accrued exp 2020  
    = (83,000 + 36,000) – ( 42,000 + 42,000)   
    = 119,000 – 84,000 = 35,000