Accruals & Matching

Accounting & Finance

Why profit is not cash, and when revenue is recognised.

Revenue is recognised when earned; costs are matched to the revenue they helped generate.

Profit ≠ Cash flow

Sale on credit Creates a receivable.	**Revenue now, cash later**
Rent paid in advance Prepayment.	**Asset now, expense later**
Electricity used, unbilled Accrual.	**Expense now**

THE COMMON MISTAKE

× **Treating a profitable business as safe**

✓ **Profit does not pay wages, cash does**

A growing firm can be profitable and insolvent at once, because cash goes out before customers pay.

> **Most business failures are cash failures, not profit failures. That is why the cash flow statement exists.**