

## **CONCEPT: REVENUE RECOGNITION AND EXPENSE RECOGNITION**

- Remember, **revenue** is the value of goods or services that we \_\_\_\_\_
  - ☐ The selling of “goods and services” are the reason we are in business
  - ☐ Revenues are generally \_\_\_\_\_ inflows from customers
  - ☐ The **revenue recognition principle** (\_\_\_\_\_) tells us when and how to record revenue

### **Revenue Recognition Principle**

#### When do we record revenue?

- > Revenue is recorded when it is \_\_\_\_\_
- > Revenue is \_\_\_\_\_ when the business has delivered its end of the bargain to the customer

#### How much revenue should we record?

- > The amount of revenue recorded is the \_\_\_\_\_ of the good or service provided to the customer.
- > What did the customer pay for it? That is the amount of revenue to record.

- Remember, **expenses** are the value of goods and services that we \_\_\_\_\_
  - ☐ We must incur expenses to \_\_\_\_\_
  - ☐ The **matching principle** (\_\_\_\_\_) tells us when to record expenses

### **Expense Recognition (Matching) Principle**

#### When do we record expenses?

- > Expenses are recorded in the same period as the \_\_\_\_\_
- > If we received the “benefit” of the expense this period, we should record the expense this period.

#### Note about expenses and cash:

- > Some expenses are paid in cash. Others arise from using up an asset, such as \_\_\_\_\_. Some expenses occur and the company creates a liability. The occurrence of an event causes the need for the expense record, not the timing of the outflow of cash.

**PRACTICE:** From an accrual accounting perspective, label the following events as an expense or not an expense:

- An employee works all week for the company:
- The company pays the employee for the past two weeks of work:
- The company occupies a space for a month
- The company pays for a year’s worth of rent

**PRACTICE:** A company has provided you with the following information about January's income.

Cash Sales	\$2,800
Credit Sales	\$2,000
Cash Received from Customers	\$1,200
Invoices Received from Suppliers	\$1,200
Unpaid Invoices	\$400
Cash Paid to Employees for work performed in January	\$1,600
Unpaid wages from last three days of January	\$600

If the company uses a cash basis of accounting, what is their net income for the month of January?

- a) \$600
- b) \$1,000
- c) \$1,400
- d) \$1,600
- e) None of the above

If the company uses an accrual basis of accounting, what is their net income for the month of January?

- a) \$600
- b) \$1,000
- c) \$1,400
- d) \$1,600
- e) None of the above