

RFHHA MANAGEMENT TIP OF THE DAY FOR HOSPITAL ADMINISTRATORS 1301

What is Accrual Accounting in healthcare?

Accrual Accounting is the practice of recording revenues when products or services are sold, and recording expenses when they are incurred, irrespective of the dates on which the associated cash flows occur.

Standard, cash accounting practice is to record and recognize both revenues and expenses in the period in which they incur. In cash accounting, revenues are recorded when cash is actually received, and expenses are recorded when cash is actually paid (no matter when they were actually invoiced).

Accrual Accounting versus Cash Accounting

- **RECOGNITION:** Accrual Accounting recognizes revenue when goods or services have been provided and expenses when resources have been used. Cash Accounting recognizes revenues when cash is received and expenses in the form of expenditures when bills are paid.
- **FOCUS:** Accrual Accounting focuses on when revenues are earned or resources are consumed. Cash Accounting focuses on cash movement.
- **AIM:** The primary aim of accrual accounting is to measure and reflect the profitability of the company. The primary aim of cash accounting is to measure and reflect the cash situation of the company.
- **USERS:** Accrual accounting is used by private sector companies and by some public organizations as well. Cash accounting is used by some public organizations.

Modified Accrual Accounting

Increasingly used by governmental organizations. In modified accrual accounting:

- Expenditures are recognized when resources are received.
- Revenues are recognized when they are measurable and available within the accounting period or shortly afterwards (focus on financial resources).

Dr Madhav M Singh

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