

## **Cash vs. Accrual Accounting For Community Associations**

### **By Associated Property Management**

There always seems to be some confusion when it comes to accounting methods. Each method has advantages and disadvantages. Overall, the main differences between the two systems would be the timing of the transactions and when they are recorded. We will review each method of accounting in this article.

#### **Cash Accounting**

With cash accounting you record income when it is received by the association and you record expenses at the time you write a check to a vendor.

The disadvantage with the cash method is you would not see the amount of assessments that were still owed to the association. In addition, with cash accounting, you would not see what checks still need to be paid or any amounts that may be owed, for instance, if there were staged payments to be made on credit. Other problems would be if there are quarterly assessments or prepaid assessments, overstating the income for the month. In cases of quarterly income, it overstates the association's income by 2 months. Cash accounting does not distinguish between current cash or prepaid cash.

The advantage of this method is that it more accurately portrays the amount of cash the association has at that point in time.

#### **Accrual Accounting**

With accrual accounting you record the income when it is billed to the owner, regardless of when the income (receivables) is actually received or paid. Expenses are recorded when you receive the goods or services (payables) even though you may pay at a later date.

The disadvantage (especially in these times of extraordinary delinquencies and foreclosures) is that your assessment income (recorded at the time it is billed) is overstated and you never quite have a handle on who or when you may get paid for past due assessments. That is why there are balance sheet items that record and account for these amounts that are owed or are unpaid.

The advantage of this method is that it more accurately reflects the overall financial health of the association. Income and expenses are matched for that reporting period, thus producing an accurate Net Income or Loss report.

Chapter 718 requires accrual accounting whereby Chapter 720 does not specify the method, except to say “shall prepare or cause to be prepared a complete set of financial statements in accordance with generally accepted accounting principles as adopted by the Board of Accountancy.” In my opinion this would also mean accrual accounting as well. I suggest that you speak to a CPA who is familiar with Chapter 720 to discuss this further.

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