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CASH vs ACCRUAL METHOD OF ACCOUNTING

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When you start your business, one decision you will need to make is whether to be on the cash or accrual method of accounting. This is an important decision that should be discussed with your CPA. However, some businesses are required to use the accrual method of accounting. They are:

1. C Corporations with over 5 million in average receipts
2. Any business with over 1 million in average receipts where inventories are a material income producing factor
3. Any business with average receipts over 10 million

An exception to the above requirements is that personal service corporations can elect to use the cash basis of accounting no matter what size they are.

Even if you are initially allowed to use the cash basis of accounting, you need to be aware that you may need to switch to the accrual method if your business grows or starts selling merchandise.