Cash based and accrual based accounting

In the case of the cash based accounting, income and expenses are recorded in chronological order from the beginning of the year, taking into account when the money is actually paid or received. The entries of the income and expenses are made in the accounting journals and ledgers when the money is received in the pay-office or into the bank account and when the money is paid out from the pay-office or from the bank account.

Example
An operator gave goods to the buyer and submitted an invoice in the amount of 639.12 euros in October 2019. The money for the goods transferred in the amount of 639.12 euros was received by the operator in January 2020. The amount 639.12 euros is deemed to be the operator's income of the year 2020.

In the case of accrual based accounting, business transactions are recorded when they occur, regardless of when the money is received or paid for the transactions.

Example
An operator gave goods to the buyer and submitted an invoice in the amount of 639.12 euros in October 2019. The money in the amount of 639.12 euros was received in the bank account of the operator in January 2020. The amount of 639.12 euros is recorded in the operator's accounting as the income of the year 2019. However, 639.12 euros is recorded in the accounting for taxation purposes as the income of the year 2020 on form E of the income tax return.

Self-employed persons are both accounting entities and taxable persons. If a self-employed person applies accrual based accounting, then he/she has to keep supplementary records on circumstances that are important for taxation purposes, it means to keep accounting for taxation purposes. Accounting for taxation purposes is essentially a cash based accounting. Thus, a self-employed person applying accrual based accounting is obliged to keep cash based accounting for taxation purposes in addition.

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