WE'VE ALL BEEN NODDING FOR YEARS

A COMIC-BASED JOURNEY TO FINANCIAL ACCOUNTING CONCEPTS EVERYONE PRETENDS TO UNDERSTAND

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Preface

This book started with a simple realization: So many of us have nodded our way through accounting. Not because we understood — But because we were too afraid to ask the obvious questions. Questions like: "Wait... we already paid — how is it still an asset?", "If revenue is up, why is there no cash in the bank?", "What even *is* working capital — and why does it drain me when I grow?", "Why do we record both a right-of-use asset and a lease liability... when we didn't buy anything?" I've asked them all — the ones that feel too basic to say out loud. The ones that make you think: maybe I'm the only one still confused. But you're not. This book exists because I decided to stop nodding — And start asking. Each chapter takes one financial concept and breaks it open. Not with formulas. Not with exam tips. But with curiosity. With real logic. With relief. In this first edition, we follow a clear sequence: We start at the roots — with double entry accounting. Then we tackle the first big con-

fusion: debit versus credit. We walk through journals, ledgers, and the architecture of accounting. Then comes the great split — between cash and accrual. From there, we explore deferrals, accruals, receivables, payables, and contracts — one by one. And we close this first set of chapters with the most misunderstood term of all: working capital. Each chapter builds on the last. Each nod leads to another. And each page is designed to turn invisible mechanics... into visible sense. You *can* jump around. But if you're new to the sequence, I'd recommend starting at the beginning — Because in this book, clarity compounds. This isn't the end of the journey. It's just where this edition pauses. The next set of chapters is coming soon — because there's still so much left to unpack. If this book helps you say "Ohhhh..." instead of just nodding along — Then it's done its job. Welcome to the book that finally asked what everyone else was pretending to understand.

Before You Dive In

If this book helped untangle even one of your nods, I'd love to hear from you. Whether a chapter finally clicked, a comic made you laugh (or sigh), or a concept still feels a bit foggy — your thoughts matter deeply. This project was built from curiosity, and it grows through conversation. And if something didn't land the way it should have — or if you believe a future edition could be sharper — I'm all ears. This book isn't the end of the journey. It's the start of a new way of thinking. You can reach me directly at:

y.ali@marsviewthinking.com Thank you for being part of this un-nodding journey.

Warmly,

Yusuf Ali

MarsViewThinking

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The Birth of Double-Entry Accounting

The Scene of the First Nod

"You flip through a dusty ledger. A left column. A right column. Then someone says, “That’s double-entry.” So you **nod** — not realizing you’re looking at one of the most powerful inventions in the history of business."

***

The Birth of Double-Entry

We've All Been Nodding

Before there were spreadsheets, ERPs, or QuickBooks — before accountants had titles or rules had numbers — there were merchants. They traded goods, took on debt, and collected payments. They worked with ships and sacks of grain, bolts of cloth, gold coins, and handwritten promises. And as their world of trade expanded, so did their confusion. You gave Pietro a crate of linen. You owed Matteo for a bag of cloves. You borrowed from your cousin to pay a ship's captain. And you scribbled it all — messily — into a diary. There was no system. No balance. Just memory and trust. But then something changed. In the commercial cities of medieval Italy — places like Pisa, Genoa, and Florence — merchants began drawing a line. A vertical stroke. Then a horizontal one. A simple "T." On the left: what went out. On the right: what came in. This wasn't mathematics. It was memory — organized. And it worked. Suddenly, debts and claims lined up. Promises had mirrors. **For every "I gave," there was a "you received."** The system grew slowly. Some grouped entries by person. Others by goods. Over time, these rough accounts became ledgers — ordered, cumulative, and consistent. The journal would follow, recording each event as it happened, and the ledger would keep track of how much was owed or owned under each account. This wasn't a

genius moment in a university. It was a grassroots response to a merchant's pain. Contrary to popular belief, **double-entry** was not invented by **Luca Pacioli**. Yes, he published a famous description of it in 1494, in his book Summa de Arithmetica. But what he documented was already in use by Venetian traders. He didn't create it. He codified it. By the 14th century, this system had quietly spread — from Italy into northern Europe and eventually across the world. Not through force. Through clarity. **Double-entry** wasn't about bureaucracy. It was about trust. If your books balanced, you were believed. If they didn't, you were questioned. This wasn't accounting as compliance — it was accounting as credibility. And at its heart was a simple promise: Every give has a get. Every effect has a cause. Every entry has a match.

Accounting Mechanics

Double-entry accounting rests on a principle that is both elegant and strict: every transaction must affect at least two accounts — one on the debit side, one on the credit side. Debits go on the left. Credits go on the right. And total debits must always equal total credits. Example 1: Buying inventory for $10,000 cash. Dr: Inventory $10,000. Cr: Cash $10,000. Example 2: Borrowing $50,000 from a bank. Dr: Cash $50,000. Cr: Bank Loan Payable $50,000. This system ensures that every action

is mirrored. You can't lose track of where something went — because something else always changed. It's a framework that supports not just bookkeeping, but the entire structure of modern finance. From mom-and-pop stores to global banks, this logic is what makes the numbers tell the truth.

MarsViewThinking Takeaways

Double-entry didn't start in theory. It started in the marketplace. It wasn't invented. It evolved — from need, not from formulas. Pacioli was a messenger, not a founder. The left side and the right side? They reflect the oldest business reality: give and get. **MarsViewThinking** treats double-entry not as a technical rule — but as the first great system of financial clarity. It's not about keeping books. It's about keeping balance.

2

Debit vs. Credit

The Scene of the Second Nod

"You opened your first ledger. Someone pointed to the left side and said, “That’s a **debit**.” Then pointed to the right and said, “That’s a **credit**.” You **nodded** — grateful for the simplicity. Until you weren’t. Because next came a transaction. You debited cash and it increased. Then you debited expenses… and those increased too. Then you credited revenue… which also increased. Wait. So debit doesn’t always mean add? And credit doesn’t always mean subtract?"

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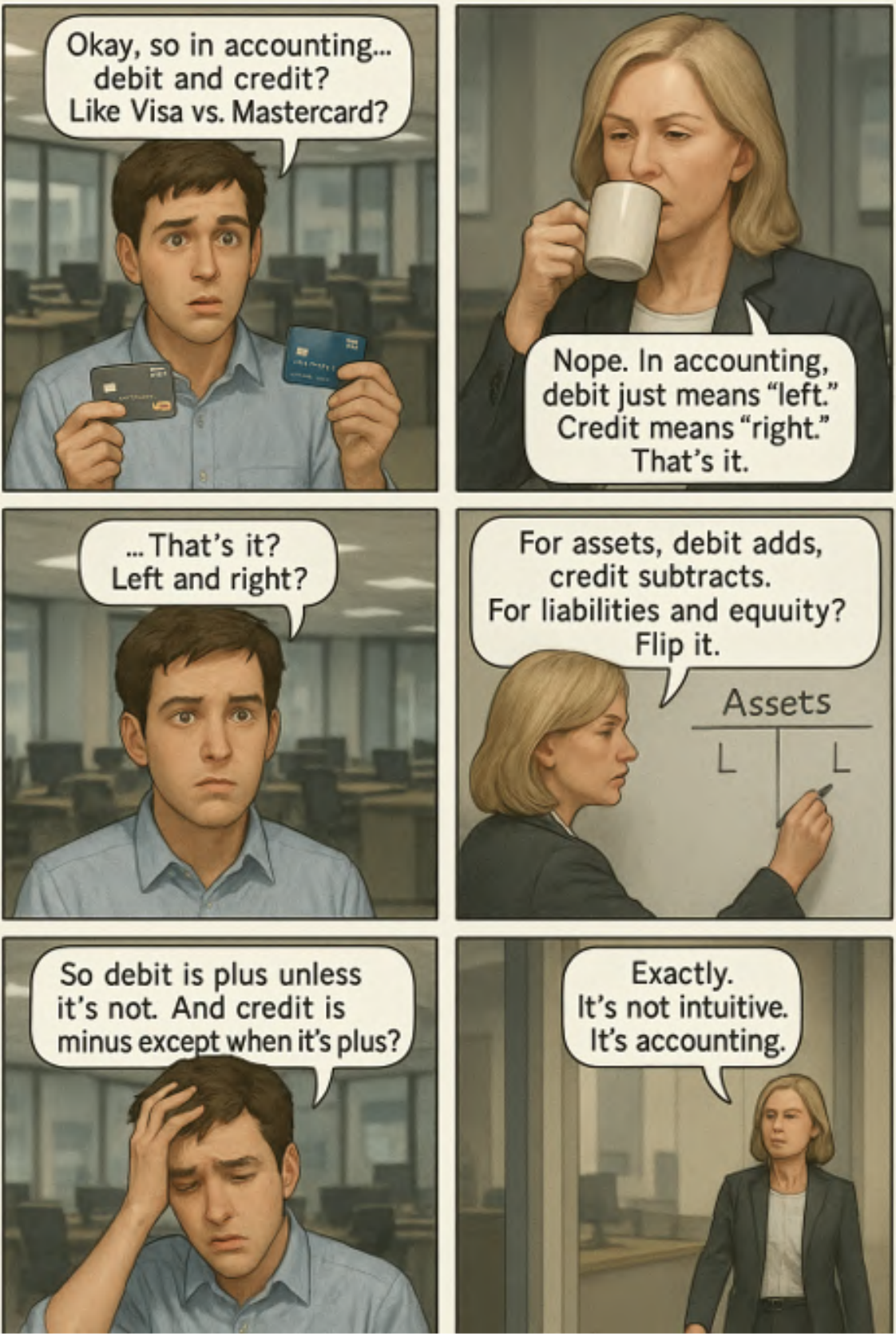
Debit vs. Credit



We've All Been Nodding

For centuries, students — and even seasoned professionals — have struggled with this. Not because they're weak in math. But because **debit and credit** were never about math. They were about movement. Direction. A system designed to create balance, not meaning. The confusion comes when you try to treat **debits and credits** like "positive" and "negative." Or worse, like "good" and "bad. "That's not what they are. That's not what they've ever been. In Chapter One, we saw how merchants in medieval Italy invented a visual system: A "T" — left and right — to track what was given and what was received. That was the birth of double entry. But this? This is the language that system gave birth to. **Debit** simply means: go left. **Credit** means: go right. That's it. But how each account reacts — whether that direction increases or decreases the number — depends on what type of account it is. Cash goes up with a **debit**. Equity goes down with a **debit**. Revenue goes up with a **credit**. Expenses go up with a **debit**. It's frustrating only if you think it should follow emotion. But accounting isn't a feeling. It's a system of position. And in that system, every account behaves according to its own rules. The merchant who first balanced his books wasn't thinking in **"right and wrong."** He was thinking in **"give and get."** He saw every **debit** as something he **gave** — and every

credit as something he **received**. It wasn't modern. It wasn't neat. But it worked. And it still does. What changed wasn't the logic — it was the size of the world using it. What began as handwritten entries in Italian port cities is now embedded into every accounting system on Earth. The words stayed ancient. The scale exploded. But the **nodding**? That never stopped.

Accounting Mechanics

Every transaction touches at least **two accounts**. One side goes **debit**. One side goes **credit**. And both **must balance — always**. You buy a laptop for $5,000 in cash? You debit Equipment. You credit Cash. You take a $50,000 loan? You debit Cash. You credit Loan Payable. You earn $20,000 from a service and haven't collected yet? You debit Accounts Receivable. You credit Revenue. Debits and credits don't mean anything on their own. Their meaning comes from what they touch.

MarsViewThinking Takeaways

Debit and credit are just directions — left and right, not good and bad. The confusion fades when you stop asking what they "mean"... and start asking what account they affect. This system wasn't designed for ease. It was designed for truth. It doesn't reward instinct. It rewards clarity. **MarsViewThinking** cuts

through the mystique: **debit and credit** are just the choreography of financial balance — a centuries-old dance still visible in every journal today.

3

Journal vs. Ledger

The Scene of the Third Nod

"You told to journal it. Then to post it to the ledger. You paused. You **nodded**.....and wondered if accounting was just writing things down twice."

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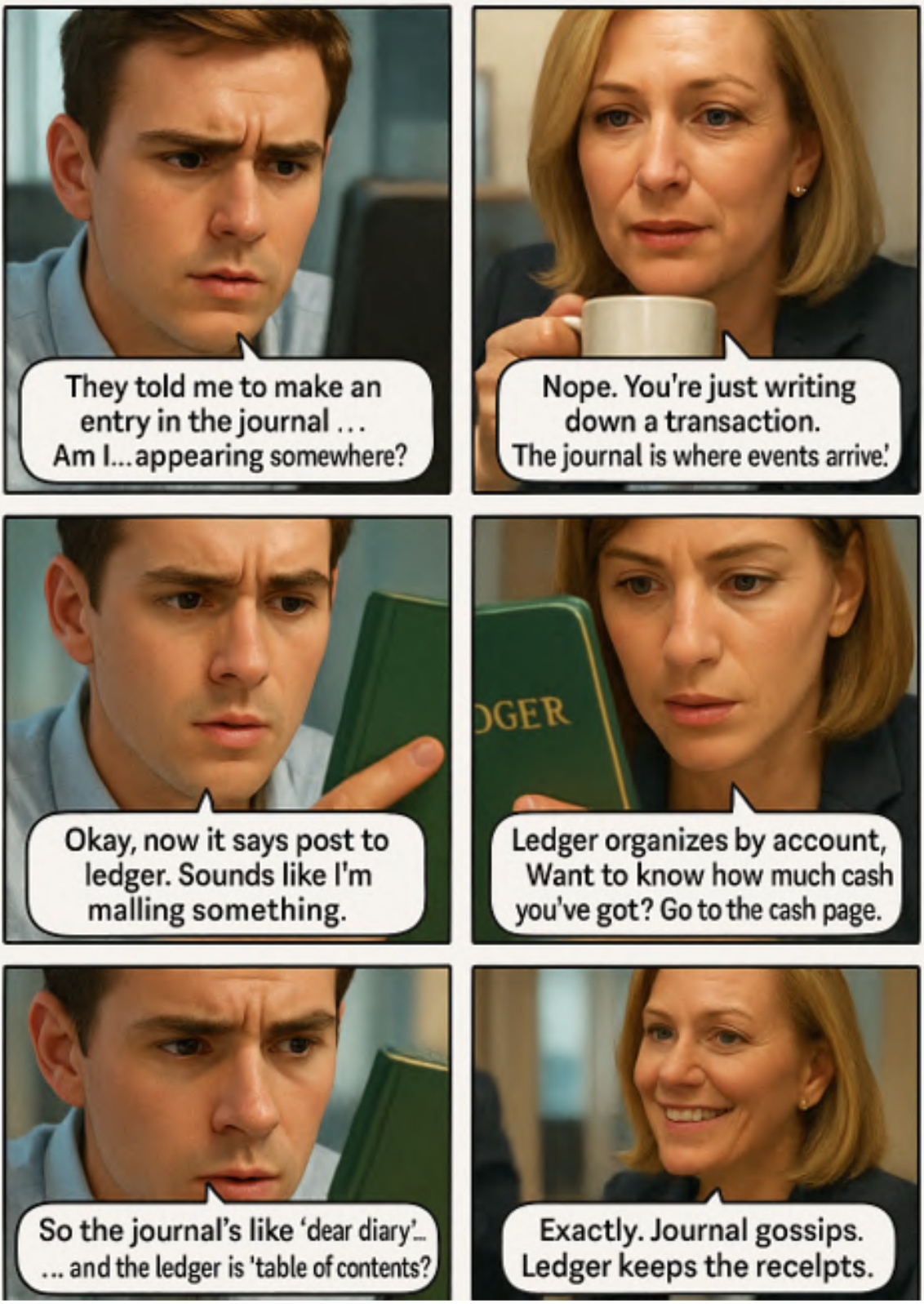
JOURNAL VS. LEDGER

Same numbers. Different logic. Classic accounting.



We've All Been Nodding

In Chapter One, we saw how double-entry bookkeeping emerged — not from theory, but from need. And we learned that every transaction must have two sides: a give and a get. But what we haven't yet asked is this: Where do those entries go? This is where confusion starts to grow. Because accounting doesn't just record. It organizes. It begins with the **journal**. That's where the event first appears — in the order it happened. A customer pays you. You buy new equipment. You make payroll. Every action goes in the **journal** as it occurs — a running diary of business. Raw. Chronological. Reactive. It's not about grouping. It's about capturing the moment. But the **journal** alone isn't enough. If you want structure — if you want to know what happened to cash, or how much rent you've paid this year — you need the **ledger**. This is where transactions are sorted by account. All the cash movements land together. All the wage expenses live on one page. All the receivables — all the loan repayments — all the depreciation — they each get their own home. The **journal** says: "Here's what happened today." The **ledger** says:" Here's the full story for this account." In medieval times, these were two separate books — a general journal and a general ledger — hand-written, updated daily, often kept in locked cabinets to prevent tampering. The journal

was narrative. The ledger was structure. And even in modern cloud-based ERPs, that logic still holds. You input a transaction — the system records it (like a **journal**) and then updates all affected accounts (like a **ledger**). First you journal. Then you post. Because even in a digital world, stories still need a beginning — and structure still needs a home.

Accounting Mechanics

Under IFRS and US GAAP, every accounting system follows the same path: 1. **Journal Entry** — Every transaction is recorded in the general journal, in order of time. 2. **Ledger Posting** — That same entry is then posted to individual accounts in the general ledger.

Example: Let's say your company receives $100,000 from a customer.

Journal Entry (March 1):- Debit: Cash. Credit: Service Revenue The moment is recorded. Then in the **Ledger**: The Cash account updates to reflect all increases and decreases — you can see the full cash picture. The Revenue account accumulates every earned dollar — not by date, but by nature. Without the **journal**, you lose sequence. Without the **ledger**, you lose clarity. You need both. Always.

MarsViewThinking Takeaways

The **journal** captures events — in time, as they happen. The **ledger** builds clarity — organizing by account, building balances. The **journal** answers: When? The **ledger** answers: To what? Together, they give life to double-entry — narrative and structure.

4

Cash vs. Accrual Accounting

The Scene of the Fourth Nod

"You saw the profit. Then you checked the cash. They didn't match. But everyone else **nodded**, so you did too."

***

IF CASH IS KING...WHY ARE WE IGNORING IT?

We've All Been Nodding

Cash accounting feels intuitive—money in, money out. That's how most of us track our personal budgets. And small businesses? Many of them do the same. It *feels* honest. It *feels* real. So when someone says, "You made a sale," you naturally expect to see the money. But **accrual** accounting steps in with a dry smirk: "Nope. The moment the service is delivered or the product shipped, that's when the revenue is **earned**." But how do you show success if the money hasn't moved yet? That's the question **accruals** were born to answer. Before **accruals**, everything was **cash**. Farmers, shopkeepers, small manufacturers — they ran their books like a checkbook. Money in, money out. Done. But the problem came with timing. If you delivered 100 barrels of grain in January but only got paid in March, your performance in January — real performance — was invisible on paper. That's where the accountants stepped in. They needed a better way to match effort with outcome. So they invented a rule: record income when it's **earned**, not when **cash** arrives. **Match** expenses to that income, even if the payment hasn't happened yet. That was the birth of **accrual** accounting. It was never meant to deceive. It was meant to reveal — to paint a clearer picture of what's really going on, regardless of when money moves. But here's the catch: the moment you do that, you separate

"reported performance" from "actual cash." And that's where most people — even finance professionals — quietly start to **nod**. Because the gap is real. And sometimes, wide. A company can show a clean profit while cash is bleeding out the back door. Or it can look like it's losing money while building up valuable receivables or inventory for the next big quarter. The key is not to pick sides — **cash or accrual**. It's to understand the story they're each telling. **Accrual** shows performance. **Cash** shows survivability. One tells you how the business is doing. The other tells you if it can breathe. Today, **accrual** accounting is the backbone of modern financial statements. But if you still find yourself whispering, "Where's the cash then?"—don't worry. You're not alone. We've all been **nodding**.

Accounting Mechanics

Under IFRS, the **accrual** basis is set by IAS 1 (Presentation of Financial Statements) — it requires that income and expenses be recognized when they occur, not when cash is received or paid. Revenue recognition is further detailed in IFRS 15, which specifies when performance obligations are met. In US GAAP, the same principle is upheld through the FASB Conceptual Framework and ASC 606 for revenue. Both systems agree: performance, not payment, drives recognition.

Example: Revenue Earned, Cash Later

Let's say your company delivers a $100,000 software service in March, but the client won't pay until May. March – When work is completed: Dr: Accounts Receivable $100,000. Cr: Service Revenue $100,000. May – When cash is received: Dr: Cash $100,000 Cr: Accounts Receivable $100,000. This simple logic is what separates **cash**-based bookkeeping from **accrual**-based performance. You don't wait for cash to say you earned it. You track the work, not the wallet.

MarsViewThinking Takeaways

Accrual accounting was created to solve a timing mismatch — it helps match revenue to effort, not just cash. The shift from **cash** to **accrual** wasn't arbitrary. It was about visibility, especially for businesses with long sales or production cycles. **Cash** flow tells you whether the business can survive. **Accrual** profit tells you how it's performing. Neither is **"more correct"** — both are necessary. The confusion begins when we treat profit as if it were **cash**. That's where businesses — and investors — get blindsided. To see clearly, you have to look through both lenses. **MarsViewThinking** is built to hold both in view — not just the numbers, but the behavior behind them.

5

THE BALANCE SHEET CAME FIRST...

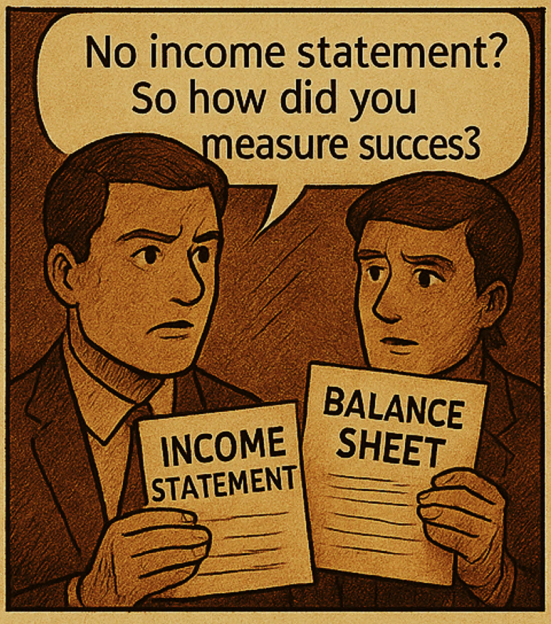
The Scene of the Fifth Nod

"You watched EPS rise. You saw profit jump. But the cash was shaky, and debt kept growing. Still, everyone quoted net income. So you **nodded** — not realizing the story started somewhere else."

***

The Balance Sheet Came First...

(It wasn't always about the quarter.)



We've All Been Nodding

Today, finance students are taught there are four financial statements: **Balance Sheet, Income Statement, Cash Flow Statement, and Statement of Changes in Equity**. But few are told which one came first. It wasn't the income statement. It wasn't cash flow. And it wasn't equity movement. The earliest records — in Venice, Florence, and Genoa — were **balance sheets**. They showed what merchants **owned and owed**, often written in ink and tied into ledgers by candlelight. That's it. Just position — no performance. If your equity grew, you were winning. If it shrank, something had gone wrong. But the why wasn't spelled out. That started to change in the sixteenth and seventeenth centuries, when businesses began to raise **external capital**. The rise of joint stock companies — like the Dutch East India Company or British East India Company — changed everything. Now, outsiders were putting in money... and they wanted reports. "How's my investment doing?" "What's the return this quarter?" "What did you earn — not just what you own?" And so, the **income statement** was born. Not as a primary measure — but as a supporting sheet to explain equity changes. A sidekick to the **balance sheet.** It became a performance report for investors — a way to summarize trading outcomes, costs, and margins. For centuries, this reporting was

fragmented and non-standardized, but the pattern was clear: **Balance sheet first**. **Income statement** second — to serve new masters: **shareholders**. But even then, something was still missing. By the mid-1900s, accounting was struggling with one question: Where did the money actually go? That gave birth to the **funds statement** — a precursor to today's cash flow. It showed sources and uses of funds. Not just whether profit happened, but how capital moved. Eventually, that funds statement evolved — and in 1987, the **cash flow statement** became official under both IFRS and GAAP. So now we had four statements: 1. **Balance Sheet** – What you own and owe. 2. **Income Statement** – What you earned. 3. **Cash Flow Statement** – What actually moved. 4. **Statement of Changes in Equity** – Who owns what, and how it changed. But somehow, in modern finance... we forgot the sequence. The income statement took over. EPS became gospel. And the balance sheet — the original — was treated like background noise. We stopped asking what the business looked like structurally — and just chased the quarter's net income. That's why this chapter matters. Because before we celebrate performance... we need to check the foundation. Before we quote P&L metrics... we need to ask: What assets were used? What liabilities were added? What equity got diluted? The balance sheet still speaks. You just have to remember to listen.

Accounting Mechanics

Today, under IFRS and US GAAP, companies are required to publish all four financial statements: Balance Sheet – IAS 1 / ASC 210. Income Statement – IAS 1 / ASC 220. Statement of Changes in Equity – IAS 1 / ASC 230. Cash Flow Statement – IAS 7 / ASC 230. Each plays a distinct role: Balance Sheet shows position. Income Statement shows performance. Cash Flow Statement shows timing. Equity Statement shows ownership impact. That's why all four matter. And why sequence — the historical order of these statements — still tells us something about what came first, and what was added to fill in the gaps.

MarsViewThinking Takeaways

The **balance sheet** is the oldest — the root of all reporting. The income statement was created to satisfy external shareholders. The cash flow statement came last — to fix the gap between accrual profit and real liquidity. The statement of changes in equity reveals who's really gaining or losing ownership value. Today, we **nod** at EPS — but forget to check how it links to cash, capital, and structure. **MarsViewThinking** restores the balance: understanding not just what changed, but why — and what it means across all four reports.

6

Deferred Revenue - We Got Paid... But its Still A Liability?

The Scene of the Sixth Nod

"You saw the cash come in — your heart said revenue. Then the accountant whispered: 'It's a liability.' So you **nodded**. But deep down, you wanted to ask: How does getting paid turn into something I owe?"

***

WE GOT PAID FIRST... BUT IT'S STILL A LIABILITY?

We've All Been Nodding

In Chapter four, we learned that in accrual accounting, cash isn't king — effort is. You recognize revenue only when it's earned, not when it lands in your bank account. **But what happens when the cash comes first**? You'd think that's a win. The customer paid. Trust was established. Work is about to begin. But instead of recording revenue, you see something else appear on the balance sheet: **A liability**. And suddenly, your brain freezes: "Wait... they paid us, and we... owe them?" It's not a mistake. It's a **deferral**. A placeholder. A pause button on revenue until the real work is done. Welcome to the world of **deferrals** — where accounting slows the celebration until performance catches up. In this chapter, we'll explore the most common form: **deferred revenue.** Later, you'll meet its sibling: **deferred expenses** — like prepaid rent or insurance. But for now, we stay with the customer who paid you... and the promise you now owe them. This practice became essential as business models changed. Software, subscriptions, retainers — all involve payment before performance. Without **deferrals**, you'd overstate income and fool yourself into thinking you've already delivered. So accounting built a rule: If you haven't earned it, you can't claim it. Even if the money's already sitting in your account. It feels strange. It feels unfair. But it keeps the story

honest. **Deferred revenue** is a liability not because you've done something wrong...But because you haven't done something yet. It's not guilt. It's discipline.

Accounting Mechanics

Deferred revenue is guided by IFRS 15 (Revenue from Contracts with Customers) and ASC 606 under US GAAP. Both require that revenue be recognized only when the company satisfies a performance obligation—meaning you've actually delivered the promised goods or services. So if the customer pays upfront, but the service or product hasn't been delivered yet, you recognize a liability—because you still owe them something.

Example: Customer Pays Upfront

Let's say a customer pays $24,000 in January for a one-year subscription service. January – When cash is received: Dr: Cash $24,000. Cr: Deferred Revenue $24,000. Each month, as service is delivered: Dr: Deferred Revenue $2,000 Cr: Service Revenue $2,000. This monthly recognition ensures that revenue aligns with the period of benefit — not just the timing of payment.

MarsViewThinking Takeaways

Deferred revenue is a liability — not because you did something wrong, but because you haven't delivered yet. If you haven't earned it, it's not revenue. This protects the integrity of reported earnings and prevents premature revenue recognition. The rise of subscriptions and long-term contracts made deferred revenue essential to avoid inflated profits. **MarsViewThinking** teaches you to spot where trust becomes obligation — and why cash today doesn't always mean profit today.

7

Deferred Expense - We Paid Already... So Why Is It Still An ASSET?

The Scene of the Third Nod

"You signed the check, paid the vendor, and felt the hit. But the accountant calmly said: 'It's not an expense yet.' So you **nodded** — confused — wondering how money out... became an asset."

***

WE PAID ALREADY… SO WHY IS IT STILL AN ASSET?

We've All Been Nodding

In Chapter Six, we saw what happens when cash comes before effort. The customer pays you upfront, but you haven't earned it yet — so it's a liability. Deferred revenue. Now flip the mirror. You are the one who paid. The money is gone. The invoice is settled. So you expect it to show up as an expense. But your balance sheet surprises you. Instead of lowering your profit... it increases your assets. Wait... what? This is the world of **deferred expenses** — where a payment doesn't immediately hurt profit. Because accounting wants to **match effort with timing** — not just track when cash moves. So if you paid upfront for something that benefits the future — like a full year of insurance — you haven't "used it up" yet. And until you do, it's a **prepaid asset**. It feels weird because the money's gone. But performance hasn't happened. This logic — like with deferred revenue — is rooted in the **matching principle: Recognize expenses in the same period as the benefit they generate**. And just like that, your expense becomes an asset. Not because you're trying to cheat... but because you're trying to stay honest. Accounting isn't just about what left the bank. It's about when that outflow becomes real, in performance terms. So next time you see **"Prepaid Expense"** on the balance sheet, don't think of it as a

mistake. Think of it as a placeholder — waiting for the calendar to catch up.

Accounting Mechanics

Deferred expenses fall under the accrual framework outlined by IAS 1 (Presentation of Financial Statements) and IAS 38 (Intangible Assets) under IFRS. **Prepayments** are initially recorded as assets and amortized over time. In US GAAP, ASC 340 and ASC 720 outline that expenses must be matched with revenue in the same period — meaning a **prepaid cost** is only expensed when the benefit is consumed.

Example: Prepaid Insurance

Let's say you pay $12,000 in January for a 12-month insurance policy: January – Payment made: Dr: Prepaid Insurance $12,000. Cr: Cash $12,000. Each Month (Jan–Dec) – Expense recognition: Dr: Insurance Expense $1,000. Cr: Prepaid Insurance $1,000. The asset reduces each month, as the service is consumed — not when the cash left your account.

MarsViewThinking Takeaways

Deferred expenses are payments made for future benefits — they don't hit the income statement until those benefits are con-

sumed. **Prepaid** items like **rent, insurance, or subscriptions are assets at first** — not expenses. This treatment helps match cost to the period it supports, ensuring consistency with revenue. **MarsViewThinking** helps reveal how cash behavior and accrual logic interact — especially when money moves before performance.

8

Accrued Revenue - We Delivered... So Where's the Money?

The Scene of the Eighth Nod

"You did the work. You performed on time. But the invoice hasn't gone out — and the cash hasn't come in. Still, your accountant says: 'Book the revenue.' So you **nod** — wondering how something you can't even bill... can already be earned."

***

WE DELIVERED...
SO WHERE'S THE MONEY?

SO WHERE'S THE MONEY

We've All Been Nodding

By now, we've learned that accounting doesn't wait for cash. In Chapter Six, we saw how money in the bank doesn't always mean revenue. In Chapter Seven, we saw how money out isn't always an expense. Now, we follow the thread into a less visible — but widely misunderstood — concept: **"accrued revenue".** You've done the work. You've delivered the service. There's no doubt the value was created. But you haven't invoiced the client yet. Why not? Sometimes the contract hasn't triggered billing. Sometimes it's just administrative delay. But the effort is real — and accounting wants to reflect that. That's when accrued revenue steps in. It says: "You've **earned it**. Even if you **can't invoice it** yet." This is not about cash. It's about performance. And the matching principle demands that if work was done, it should be recognized in the same period — not delayed until billing or collection. You might not have a receivable yet — because nothing was formally billed. But you still recognize revenue. Accrued revenue lives in that gap: performance now, payment later, and paperwork still pending. It's a subtle corner of accrual logic. But an essential one. Because it tells us: real value isn't always loud. Sometimes, it waits quietly — until the invoice catches up.

Accounting Mechanics

Accrued revenue is governed by the same principle found in IFRS 15 and ASC 606: revenue must be recognized when **performance obligations are satisfied**, not when cash is received. So if you've delivered the work — but the invoice hasn't gone out — you may still recognize revenue, provided the amount is measurable and probable.**But not all accrued revenue is labeled the same way.**If the performance occurs within a formal **contract** — with multiple obligations, delayed billing rights, or progress-based recognition — the asset may instead be called a **contract asset**.That's the distinction:- **Accrued Revenue**: No formal contract, or single-obligation transactions. You've done the work but haven't billed.- **Contract Asset**: Formal contract exists. Performance has occurred, but billing rights haven't yet triggered. We'll explore contract assets in **Chapter Ten**. For now, just remember: the name changes with the structure. But the logic is still about earned effort — not received cash.

Example: Revenue Earned, Not Yet Billed

You complete $30,000 worth of consulting in June, but can't invoice until July.**June – When work is performed:** Dr:

Accrued Revenue $30,000 Cr: Consulting Revenue $30,000 **July – When invoice is issued:** Dr: Accounts Receivable $30,000 Cr: Accrued Revenue $30,000 This lets the June income statement reflect real effort — even if billing catches up later.

MarsViewThinking Takeaways

Accrued revenue shows that effort can lead billing — and accounting honors that.- It keeps performance visible, even when invoicing is delayed.- It's a quiet part of the matching principle — often overlooked but deeply important.- When work is done but billing is restricted, accounting still tracks the value.- Some situations may qualify instead as **contract assets** — especially under formal agreements. We'll unpack that in Chapter Ten.- MarsView Thinking helps you see this hidden revenue early — before it even hits the invoice.

9

Accrued Liability - We Haven't Paid Yet... So Why Is It Already An Expense?

(The Scene of the Ninth Nod)

"The project's done. The team's worked. The bill's coming. But your accountant already recorded the cost. You ask, 'How can we owe what we haven't paid yet?' And the accountant says, 'Because we used it.' So you **nod** — but deep down, you still wonder how money not yet paid... became an expense."

***

WE HAVEN'T PAID YET...

SO WHY IS IT ALREADY AN EXPENSE?

We've All Been Nodding

By now, we've seen how accounting doesn't wait for cash. In Chapter 6, the customer paid us — but we hadn't delivered yet. So it became a liability. In **Chapter 7**, we paid a vendor upfront — but hadn't used the service yet. So it became an **asset**. In **Chapter 8**, we earned revenue — but couldn't bill. So it showed up as **accrued revenue**. Now comes the reverse: we've **incurred the expense** — but haven't paid. Yet the books already show the cost. This is the world of **accrued liabilities**. You received the benefit. You used the electricity. The contractor finished their work. But the invoice hasn't landed — or maybe it has, but you won't pay until next month. Still, the cost is real. It already belongs in your income statement. **Accrual accounting** says: If the business used it, the books must reflect it — no matter when the cash leaves. This ensures the financials stay honest. You can't delay expenses just to make a quarter look better. If the company already benefited, it owes — even if the payment happens later. And so, even before the check is cut, accounting records the obligation. It's not a mistake. It's not a guess. It's just the logic of **matching effort with cost**. We've all **nodded**. Now we follow the logic — even before the money moves.

Accounting Mechanics

The part where the rules show up. Under IFRS (IAS 1 and IAS 37) and US GAAP (ASC 450 and ASC 720), an **accrued liability** must be recorded when:- The expense has already been **incurred.** A reliable estimate of the amount can be made. Payment is expected in the future. This ensures obligations show up in the correct reporting period — keeping profit honest and transparent.

Example: Salaries Incurred, Not Yet Paid

You owe $50,000 in wages for March, to be paid in early April. March – Expense is **incurred**: Dr: Salary Expense $50,000. Cr: **Accrued Liabilities** $50,000. April – Payment is made: Dr: **Accrued Liabilities** $50,000. Cr: Cash $50,000. The result: your March income statement reflects the true cost of labor — even if the cash will follow weeks later.

MarsViewThinking Takeaways

Accrued liabilities reflect expenses already incurred — not just bills received- They ensure the income statement tells the real story of effort and cost- The focus is on when the value was received, not when it's paid for- Common examples: wages, inter-

est, professional services, utilities- **MarsViewThinking** makes these quiet obligations visible — so you understand the cash timing and the real financial pulse

10

Contract Liabilities - They Signed. They Paid. But We Wait

(The Scene of the tenth Nod)

"The customer signed. The money came in. You're halfway through the project. But the accountant says: 'You can't book it yet.' So you **nod** — wondering why delivery doesn't equal revenue."

***

THEY SIGNED. THEY PAID. BUT WE WAIT?

When contracts create liabilities, not victories.

We've All Been Nodding

Contract liabilities are where accrual logic meets the complexity of modern business models. It's not just about when you get paid or when you perform — it's about the contract you signed. This isn't deferred revenue in the traditional sense — where cash comes first. This is about **obligations tied to milestones, delivery schedules, and performance thresholds**. Imagine a construction company building a multi-phase project. The client pays upfront, but revenue can only be recognized as each phase is completed. Even if half the work is done, if the contract says revenue is only recognized at milestone signoff — you wait. The result? You've done work. You've spent money. But the income statement stays quiet. Under accrual accounting, this liability exists because you've received payment without meeting all the performance obligations defined in the contract. You don't earn revenue by working. You earn it by delivering — exactly as promised. **Contract liabilities** are a form of earned trust. The customer believes you'll deliver. But until you do, accounting holds the cash on the balance sheet — not in your profit line. It feels like a pause. But it's discipline. You nod again — because now you see how modern promises change the rules.

Accounting Mechanics

Contract liabilities are governed under: IFRS 15 (Revenue from Contracts with Customers). ASC 606 (Revenue from Contracts with Customers) under US GAAP. Both standards require companies to recognize revenue only when control of goods or services has transferred — based on specific contract **obligations**.

Example: Customer Pays $500,000 Upfront for Multi-Phase Project

January – Payment received: Dr: Cash $500,000. Cr: Contract Liability $500,000. March – Phase 1 completed (50%): Dr: Contract Liability $250,000. Cr: Revenue $250,000. Only the portion of work actually completed under the contract's terms can be recognized as revenue. The rest remains a liability — a promise yet to be fulfilled.

MarsViewThinking Takeaways:

Contract liabilities reflect revenue that can't be recognized yet, even if payment has been received. They are not about distrust — they are about discipline. These rules exist to protect against premature revenue recognition — especially in complex,

milestone-driven contracts.- IFRS 15 and ASC 606 enforce a "**performance obligation**" approach — revenue must match delivery. You don't **earn** revenue by collecting cash. You earn it by meeting the contract — line by line. **MarsViewThinking** helps make these invisible trust mechanics visible — so you know exactly what the balance sheet is saying.

11

Contract Assets - Work Done... Waiting For Billing

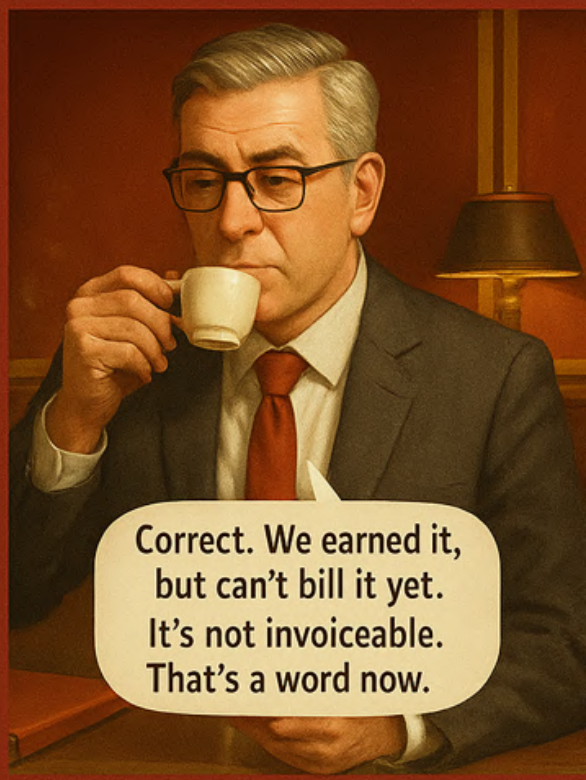
The Scene of the Seventh Nod

"You did the work. The team delivered. But the system says... you can't invoice yet. So you **nodded** — but wondered: How can something earned... be invisible?"

***

WE EARNED IT... BUT SHH, THEY DON'T KNOW YET

(How revenue sneaks in before billing dos.)



We've All Been Nodding

In the last chapter, we met **contract liabilities** — when the customer pays early, and you owe work. But what if the roles reverse? You've done the work. You've put in the hours. The client is thrilled. But accounting says you can't bill them yet. Why? Because the contract terms don't allow it. Maybe you can only invoice at project milestones. Or once the final delivery is accepted. Or only after a third-party inspection. Whatever the reason, you've already earned something... but you're not allowed to bill. Enter the concept of **contract assets**. This is one of accrual accounting's more subtle moves: recognizing economic value **even before it turns into an invoice**. It says: you've done something — and it matters — even if payment comes later. It's not a receivable yet, because nothing has been billed. But it's not nothing, either. It's a **contract asset** — a placeholder on your balance sheet for performance you've already delivered. These arise most often in long-term projects: construction, consulting, manufacturing, even R&D. Anywhere performance outpaces billing, **contract assets** show up. They reflect timing, not risk. And they help ensure you see the full picture of what's been earned — not just what's been invoiced. It may feel strange, like accounting is getting ahead of itself. But in reality, it's just trying to match value to effort. And sometimes, effort gets there first.

Accounting Mechanics

Under IFRS 15 and ASC 606, **contract assets** arise when an entity has performed under a contract but is not yet entitled to bill the customer. This differs from a receivable, which reflects a billed and collectable amount. These standards require you to recognize revenue when **performance obligations** are satisfied — even if billing happens later. That gap is where contract assets live. The distinction:- **Contract Asset**: Performance delivered, billing not yet triggered.- Receivable: Performance delivered and billing issued.

Example: Work Done, Waiting for Billing

You're building a system for $600,000, payable only upon final approval. By end of Q1, you've completed 40% of the work. The contract allows revenue recognition based on progress, but billing only at 100%. Accounting entry: Dr: **Contract Asset** $240,000. Cr: Revenue $240,000. Later, when you hit 100% and bill the client: Dr: Accounts Receivable $600,000. Cr: **Contract Asset** $240,000Cr: Revenue $360,000. This approach respects both timing and truth. It says: even without an invoice, value was delivered.

MarsViewThinking Takeaways

Contract assets show that performance can outpace paperwork. They bridge the gap between effort and invoice, keeping financials aligned with work. Unlike receivables, they're **unbilled — but not unearned**. Common in long-term contracts, they help smooth revenue and reveal economic activity. In **MarsViewThinking**, they're a reminder: value doesn't always wait for permission to show up.

12

Accounts Receivables - The Invoice Was Sent... So Now It's Real?

The Scene of the Twelfth Nod

"The deal closed. The invoice went out. The system marked it as revenue. But the client hasn't paid a cent. Still, your CFO calls it an asset. You **nod** — but quietly wonder: 'How did sending an email make us richer?"

***

THE EMAIL THAT MADE US RICH

We've All Been Nodding

Back in Chapter 4, we learned how accrual accounting doesn't wait for cash. In Chapter 8, we followed that thread into accrued revenue—recognizing income the moment performance is delivered, even if billing hasn't happened yet. And in Chapter 11, we explored contract assets—performance done under a contract, but not yet billable. Now we arrive at the more familiar form: **Accounts Receivable**. This is what happens when performance *and* billing are both complete. You did the work. You issued the invoice. The client now owes you. In other words, it's official. Unlike accrued revenue or contract assets, **accounts receivable is legally enforceable**. You have a bill in the system. The customer has a due date. The timer is on. Sometimes this receivable comes from earlier accruals finally reaching invoice stage. Other times, it's immediate: you deliver and bill at the same time. Either way, the result is the same: A receivable shows up on your balance sheet. An asset. A claim. A promise. But this promise behaves very differently from cash. It can delay, dispute, even disappear. That's why receivables are more than just a number. They tell a story about your working capital health, your collection speed, and your business model. Receivables are the bridge between accounting logic and operational friction. And they deserve a closer look.

Accounting Mechanics

Under IFRS and US GAAP, **Accounts Receivable** is recognized when goods or services have been delivered *and* an invoice has been issued—with clear terms of payment. If no invoice has been sent, but performance is complete, it may still sit as **accrued revenue** or a **contract asset**. Once the invoice is out, it becomes **receivable**. This distinction matters because receivables: Are enforceable claim. Are part of working capital. Impact liquidity and cash flow forecasting

Example: Your company delivers a $40,000 training program in September and invoices the client the same day, due in 30 days.

September: Dr: Accounts Receivable $40,000 Cr: Revenue $40,000. October (when paid): Dr: Cash $40,000 Cr: Accounts Receivable $40,000. Now imagine the same training is done in September, but billing isn't allowed until October—it may sit as accrued revenue (if not contract-bound) or a contract asset (if it is).

MarsViewThinking Takeways:

Accounts Receivable shows that revenue has *not just been earned*—it's been **invoiced**. It links the abstract world of accruals to the operational world of billing, collection, and follow-up. **Receivables** are a *conversion phase* in the business cycle—from effort to money. And they are a key player in **working capital**—fueling or draining your liquidity depending on how fast they move. We'll come back to that in the working capital chapter.

13

Accounts Payable - The Bill Arrived... But the Cash Didn't Leave

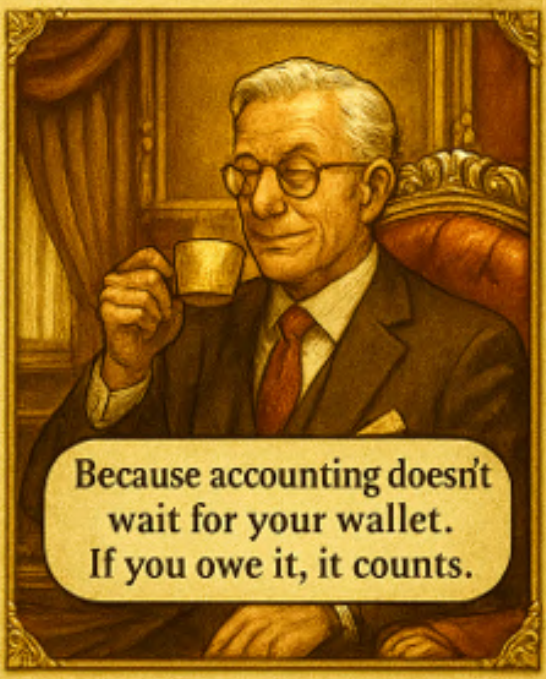
The Scene of the Thirteenth Nod

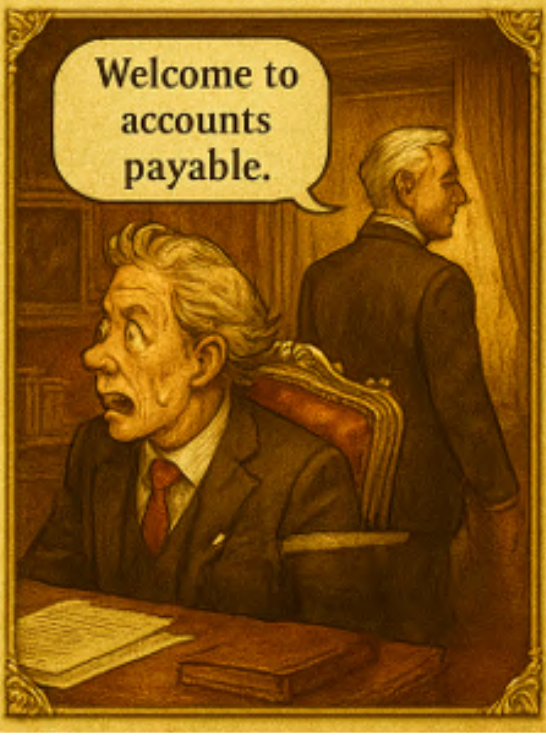
"You received the invoice. You haven't paid it. But somehow... you're already in debt." You looked at your accountant. They calmly said, 'It's a liability now.' So you nodded — but deep down, you wondered: How does a vendor's email instantly shrink your net worth?"

***

THE BILL ARRIVED… BUT THE CASH DIDN'T LEAVE

(How an email became a liability)





We've All Been Nodding

In Chapter 9, we introduced **accrued liabilities**—costs you've incurred but haven't yet been billed for. Now, we take the next step: what happens when the bill *does* arrive? Welcome to **Accounts Payable**. This is when an obligation becomes formal. The service is done. The goods are received. And now the supplier has sent the invoice. You haven't paid it yet. But that doesn't matter. The moment the invoice is accepted, the liability is recorded. In other words, it's no longer just an accrual. It's a payable. This distinction matters. Accrued liabilities are based on estimates or events not yet invoiced. Accounts payable are specific, documented, and due. And like receivables, they play a huge role in working capital. But from the other side. They give you breathing room. Delay outflows. Let you hold cash a bit longer. Accounts Payable is where supplier trust becomes your silent cash strategy. And it links you to someone else's receivable. Your payable is their asset. It's all connected.

Accounting Mechanics

Under IFRS and US GAAP, **Accounts Payable** is recognized when: A good or service has been received. An invoice has been

received. Payment terms are known. This creates a clear, **legally enforceable liability**.

Example: Your company receives office equipment worth $20,000 in June, invoiced by the supplier, due in 30 days.

June: Dr: Office Equipment $20,000 Cr: Accounts Payable $20,000. July (when paid): Dr: Accounts Payable $20,000 Cr: Cash $20,000. If the equipment had arrived without an invoice, it may have sat temporarily as an **accrued liability**.

MarsViewThinking Takeways:

Accounts Payable is where cash leaves *last*, even though value has already entered. It's a tool of timing and trust—letting you operate today and settle later. The longer your payables stay open (without penalty), the more flexible your cash becomes. But delay too long... and you strain relationships. **Payables are your leverage. But they're also your reputation.** And in **MarsViewThinking**, they are the other half of **working capital**—alongside receivables and inventory. They deserve to be seen not just as *debts*... but as *decisions*. We'll get to that next.

14

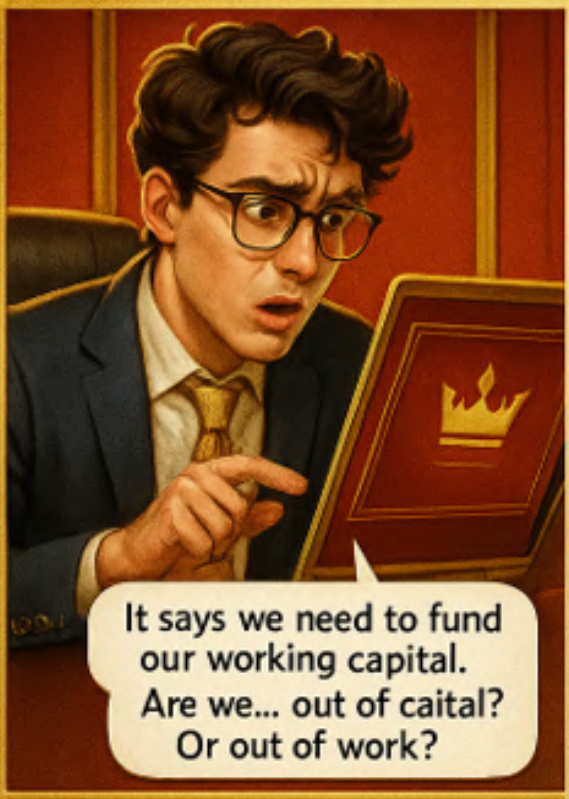
Working Capital? More Like Working Against Me.

The Scene of the Fourteenth Nod

"Sales are up. Margins are strong. Clients are happy." "So why does my cash balance look like we're going out of business?" You **nod** — silently blaming finance. But this time, finance might be right.

***

WORKING CAPITAL?
MORE LIKE WORKING AGAINST ME.



We've All Been Nodding

By now, we've seen how accrual accounting separates cash from effort. We've tracked revenue without payment. Expenses without cash outflows. We've nodded through **deferrals**, **accruals, receivables, and payables**. But nothing creates more confusion — or more cash chaos — than **working capital**. Because the name sounds helpful. It sounds like liquidity. Flexibility. A "**margin of safety**." And yet... it keeps draining your cash. It's time to unpack it — carefully, historically, and operationally. A History of the Most Misunderstood Formula. The classic definition goes like this: **Working Capital = Current Assets – Current Liabilities**. In the 1940s, this was a useful lens. There was no cash flow statement. Bankers needed a way to ask, "Can this business pay its bills in the short term?" So working capital was seen as a cushion. If your current assets exceeded current liabilities, you had enough "working" margin to survive the next few months. But that was then. Today, the same formula is still taught — but often misunderstood. It includes cash, even though cash is the thing you're trying to measure the impact on. It includes debt, even though short-term loans aren't part of daily operations. It lumps in tax receivables, investment holdings, and other noise. So let's clean it up. Let's ask what we really want to know: Where is my operational cash stuck?

And that brings us to the MarsViewThinking lens: *Operational Working Capital = Receivables + Inventory – Payables.* In other words: Receivables are revenue you've earned but haven't been paid for. Inventory is cash you've spent, now frozen on your shelves. Payables are your ability to delay payment — your one advantage. If your receivables and inventory are larger than your payables, you are funding the gap. That's the **working capital trap**. And now, let's walk through how this trap forms. To grasp **working capital**, you must first understand the **operation cycle** — the actual journey of a dollar through the business. Let's say you run a retail business. Day 1: You buy inventory. You pay your supplier in 30 days. Day 10: That inventory arrives and hits your shelves. Day 40: You make a sale — but the buyer pays in 45 days. What just happened? You've spent money (or committed to it), stocked product, made a sale — and now you wait. You wait for the money to come back. That's the cash conversion cycle: Days Inventory Outstanding (**DIO**) = How long it takes to sell what you buy. Days Sales Outstanding (**DSO**) = How long it takes to get paid after a sale. Days Payables Outstanding (**DPO**) = How long you can delay paying your suppliers. **Cash Conversion Cycle = DIO + DSO − DPO**. If that number is positive, you need to fund it. The longer the gap, the more cash you need just to keep operating. So yes — growing sales can hurt cash. Because more sales mean more inventory. More

customers mean more receivables. And unless you negotiate longer payables, you're footing the bill. Growth isn't free. It's funded. **Working Capital** as Invisible Investment. Here's the paradox: The more successful you are, the more money you may need to support it. **Working capital** is not a cost on your income statement. But it is an investment on your balance sheet — one that needs funding. When receivables go up, cash goes out. When inventory grows, cash is tied up. When payables shrink, more cash leaves. So, positive working capital isn't always a good thing. It means your capital is working — but not for you. It's locked in the system. And that's why CFOs watch these numbers like hawks: Can we reduce inventory days? Can we tighten collection terms? Can we extend supplier payment cycles? These aren't just accounting levers. They're survival tactics. Because cash doesn't vanish. It gets trapped. And working capital is where it hides. From Confusion to Clarity. So when finance says, "**We need to fund working capital**," they're not inventing a problem. They're naming a real cash demand. One that **accrual** accounting hides. One that sales teams often overlook. One that can bring down a fast-growing business if ignored. But once you see the operational logic — the **receivables, the inventory, the payables** — it starts to click. You're not out of cash. You just lent it to your own supply chain.

MarsViewThinking Takeaways

Classic **working capital** formulas can mislead — especially when they include cash and debt. Operational working capital focuses on the true operational drag: receivables, inventory, and payables. The longer your cash is tied up, the more funding you need — even when profits are rising. Cash conversion cycle metrics (**DSO, DIO, DPO**) help you measure the time gap. Growing sales doesn't guarantee cash. It often demands it. **MarsViewThinking** reveals the invisible cycle — so you know where the cash went, how long it's stuck, and what to do about it.

15

Assets = Liabilities + Equity... But What Did That Actually Mean?

The Scene of the Fifteenth Nod

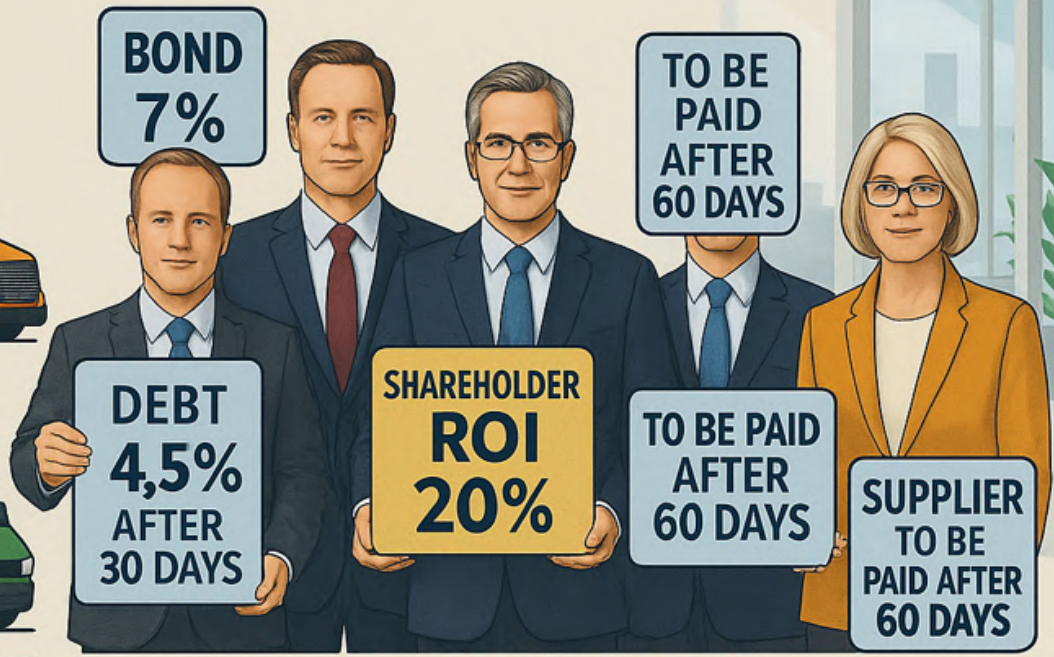
You memorized it for an exam. You recited it like gospel. Assets = Liabilities + Equity. And you nodded — thinking the left side was what you owned...and the right side was just how it balanced. But no one ever paused to ask: Why are they equal in the first place?

***

ASSETS = LIABILITIES + EQUITY

INVESTMENTS

SOURCES



INVESTMENTS

SOURCES

We've All Been Nodding

We opened this book with double-entry accounting. We built up through debits, credits, journals, ledgers, and balance sheets. Now we arrive at the equation that underpins it all. But while the formula gets repeated, its meaning gets lost. Assets = Liabilities + Equity isn't a technical trick. It's the core logic of financial truth. It began centuries ago — long before spreadsheets. In the merchant-ledgers of Renaissance Italy, where every **asset** had a story... and every coin had a source. You couldn't have a ship unless someone paid for it. You couldn't own a warehouse unless someone backed it. So the balance sheet wasn't just a report. It was a ledger of accountability. Modern balance sheets show the same thing, even if we've forgotten how to read them. The **left side** shows your resources: **cash, receivables, inventory, buildings, IP**. The **right side** tells us who made those resources possible: **suppliers, banks, employees, shareholders**. Each party helped build your assets. And each one expects something back. So the equation isn't just matching numbers. It's matching **expectations**. That's why it must balance. Not because we want it to —but because it has to. Too often, we stare at the left side in excitement: Look at all these assets! We built factories, wrote code, stockpiled inventory. But we ignore the pressure on the right: Who's watching? Who's waiting?

What do they expect? Suppliers expect payment. Lenders expect interest. Shareholders expect return. And employees? They've already performed. You owe them all — in different ways. So yes, you control the assets. But you don't own them freely. They are tethered to promises. And if you forget that, the balance sheet becomes decoration — not truth.

Accounting Mechanics

Under IFRS and US GAAP, this equation forms the foundation of all financial reporting. It's embedded in every journal entry. It's preserved in every ledger. It's upheld in every balance sheet. But here's what those parts actually mean: **Assets** = resources you control. **Liabilities** = obligations you must meet. **Equity** = the residual claim that belongs to owners after the debts are paid. Liabilities have legal rights. Equity has economic hope. And between them is you — the business — trying to deliver more value than you've been funded with. That's not just accounting. That's pressure, performance, and purpose.

MarsViewThinking Takeaways

This equation wasn't born as a formula — it was born as financial control. Assets don't appear magically. Every one of them was funded. Liabilities and equity are not categories. They are

claims, from real people, with real expectations. The left side shows what you've built. The right side shows who's waiting. It balances not by math — but by design. **MarsViewThinking** reframes it as: **Assets = Opportunity. Liabilities + Equity = Obligation.** The **gap** between them? That's **where your value is tested.**

16

Deferred Tax - We Owe Tax Now... And Later

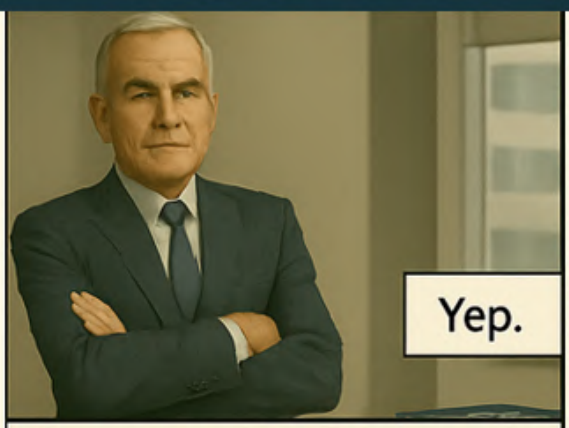
The Scene of the Sixteenth Nod

"You checked your profit. You expected one tax bill. But there were two. One said 'tax payable.' The other said 'deferred tax.' So you nodded... wondering how we owe the government twice — at the same time."

***

SO... WE OWE TAXES TWICE?

Why do we have two tax liabilities? Accrued + deferred ? Do we owe both?

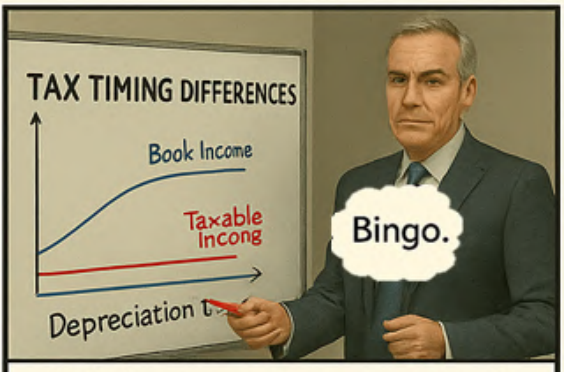


Accrued is what we owe now
Deferred is what we'll owe later.

So accrued means this year's tax?

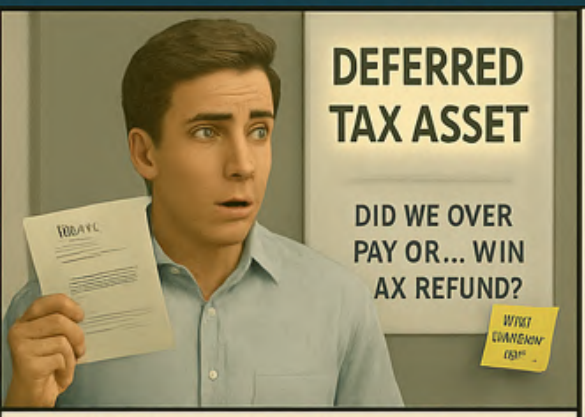
Exactly.
We record it now, even if we pay it later

And deferred...
That's from timing differences?
Like depreciation?



Welcome to accounting's version of 'Buy now, pay later.'

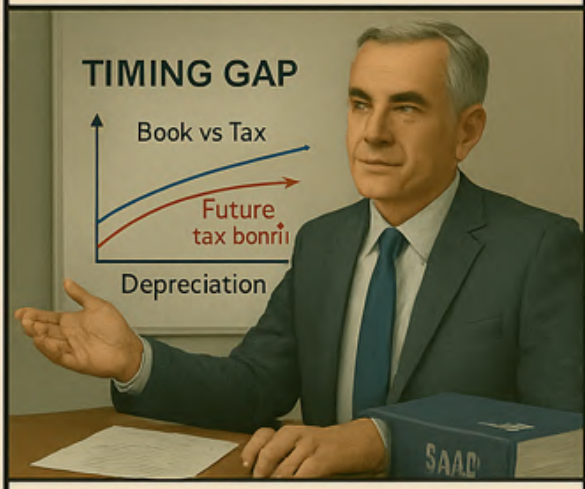
DEFERRED TAX ASSET? WAIT, WE PAID TOO MUCH?



Wait... why do we have a Deferred Tax Asset? Did we overpay or... win a tax refund?

Yep. Sometimes we pay more tav today... so we can pay less later.

That $100K warranty— we expened it in the books... But it's not tax deductible yet?



Exactly. That timing gap means we pay more tax now.

And last year's $500K loss? Also a DTA?

Glad it's finally clicking.

MarsViewThinking | Yusuf Ali

We've All Been Nodding

By now, we've seen how accounting loves timing. Revenue shows up before cash. Expenses sneak in before payment. Everything flows on its own calendar. But nothing plays the timing game quite like taxes. You finish the quarter. The company made money. Your accountant says, "We owe $120,000 in tax." Fair enough. Then you scroll down... and see a second number. Another tax charge. This one's labeled "Deferred Tax." Wait. Why are we paying tax now — and also later? Welcome to the world of **deferred taxes**, where the government and your financial statements live in two different timelines. And you're stuck living in both. Let's rewind. In Chapter Four, we met the idea of **accrual accounting** — where expenses are recorded when they happen, not just when they're paid. Tax accounting... doesn't always agree. You might book a cost today — but the tax system might say: "Not deductible yet." Or you might spread out a cost over years — but the tax system says: "Deduct it all now." And that mismatch creates a gap. Your financial books say one thing. Your tax return says another. The result? Two types of tax entries: **Current tax** — what you owe today, based on the taxman's rules. **Deferred tax** — a placeholder for what you'll owe (or recover) later, once the timing sorts itself out. This isn't a loophole. It's not a trick. It's just two sets of rules trying

to describe the same business — at different speeds. This split didn't always exist. In the early 1900s, most companies followed one system — their ledgers were their tax books. But as the modern tax codes got more complex — especially post-World War II — differences started piling up. Governments wanted companies to expense faster (to boost investment).Accountants wanted to match costs evenly across years. So two versions of "truth" emerged: The **tax truth** — based on tax law. The **accounting truth** — based on matching logic And so, deferred taxes were born. Not because someone wanted complexity — but because someone wanted fairness.

The Timing Gap

Let's make this real. You record a **warranty expense** of $100,000 today — but under tax rules, it's only deductible when the customer actually claims it. Your books say profit is $400 K.Your tax return says $500K.So you pay more tax now than you should — based on your own books. That extra $25K in tax? That's a **Deferred Tax Asset**. The system is saying: "You overpaid today. You'll recover it later." Now flip it. Imagine you bought equipment for $1 million. For accounting, you'll expense it over five years — say $200K per year. But the tax code says: "Take the full deduction now." So your taxable profit is lower today than your accounting profit. You pay less tax now

— but more later. That future bump? That's a **Deferred Tax Liability**. Because eventually, the tax advantage runs out — and catches up.

Accounting Mechanics

Governing Standards, IFRS: IAS 12, and GAAP**:** ASC 740. Both systems require that the income statement includes two kinds of tax entries: **Current tax expense** — based on the tax return this period. **Deferred tax** — based on timing differences that will reverse later. These deferred amounts show up on the balance sheet as: Deferred Tax Assets **(DTA)** — tax you've overpaid or will recover. Deferred Tax Liabilities **(DTL)** — tax you've postponed and will owe later

Example 1: Deferred Tax Liability

You depreciate equipment over 5 years in your books, but fully deduct it now for tax: Book profit = $1,000,000. Tax profit = $600,000. Difference = $400,000. Tax rate = 25%. Deferred tax liability = $100,000. Entry: Dr: Income Tax Expense $100,000, Cr: Deferred Tax Liability $100,000

Example 2: Deferred Tax Asset

You record a warranty expense now, but can't deduct it yet for tax: Book profit = $400,000. Taxable profit = $500,000. Difference = $100,000. Tax rate = 25%. Deferred tax asset = $25,000. Entry: Dr: Deferred Tax Asset $25,000. Cr: Income Tax Expense $25,000

Example 3: Tax Loss Carryforward

In 2023, you lose $500K. In 2024, you make $700K. You apply the prior loss and pay tax only on $200K. The savings in 2024 were booked in 2023 — as a Deferred Tax Asset. Entry (2023): Dr: Deferred Tax Asset $125,000. Cr: Income Tax Benefit $125,000

MarsViewThinking Takeaways

Deferred tax isn't a loophole — it's a recognition of timing gaps. DTL = future tax you'll owe. DTA = future tax you've prepaid or saved. Both impact your current income statement. But only current tax hits cash today. MarsViewThinking reframes it like this: Accrual accounting tells you when you earned or spent. Tax accounting tells you when the government pays attention. Deferred tax shows the distance between those two timelines.