



Management Accrual Accounting: The Standard for Small Businesses

Given the strict nature of Generally Accepted Accounting Principles (GAAP), and the skill and cost required to comply with it, GAAP is overkill for small businesses except perhaps the most successful venture capital-backed businesses on a fast track to IPO or acquisition. Instead, most small businesses trying to manage their businesses using financial reports should opt to use a standard we define as Management Accrual.

Note that this Management Accrual standard is not an official protocol with a governing body. Rather, it is a standard developed and implemented at SmartBooks with our clients that works very well.

This standard strives to deliver an 80/20 solution. Businesses get 80% of the benefits of GAAP with 20% of the effort and cost.

The primary tenets of Management Accrual Accounting are:

1. Date customer invoices in the month goods and services are delivered to your customers.
2. Date vendor bills in the month goods and services are delivered to you.
3. Capitalize and depreciate or amortize only particularly large asset purchases, perhaps those over \$5,000.
4. If possible, pay employees on a semi-monthly basis to avoid 5-payday or 3-payday months that arise from weekly or biweekly payroll. If weekly or biweekly payroll is legally required, then accrue the few days of stub period cost at the end of each month based on standard pay period costs.

The Management Accrual accounting standard is not concerned with finer points of GAAP and FASB and IFRS proclamations. It delivers reasonably accurate financial statements reflecting the performance of the business, which can be timely produced at a reasonable level of effort and cost.