

433 Accrual accounting basis

The accrual accounting basis is founded on the principle that the revenue earned during the accounting period and its related expenses are assigned to the same accounting period. Revenues are recognized at the time of issuance of the passport and expenses are usually recognized at the time the goods or services are received and used in the production of this revenue. This process of matching the revenue of a period with the expenses of the same period, regardless of when, whether or how much cash has been received or paid, is the main goal of the accrual basis of accounting.

Following are a few examples of the accrual adjusting entries:

1. At the end of the accounting period, the cash collected and deposited is adjusted to reflect only the revenue for which the service has been provided (passport issued). The balance is transferred to a deferred revenue account awaiting the issuance of the passport in the next accounting period.
2. Expenditures made for supplies and materials must be apportioned between current and future accounting periods. The cost for stationery and passport materials used to produce the revenue must remain in this period and is charged as an expense of this period. The unused portion of these accounts must be reported in an inventory account (asset) and brought forward into the next accounting period to be charged as an expense in the period when the goods are used.
3. Depreciation expense is a continuous expense of operating the business but does not require a cash outlay. An adjusting entry is made at year end to charge a portion of the cost of the asset (such as furniture or office equipment) to each accounting period in which the asset will be used.

The Passport Office Financial Statements are prepared at year end using the accrual accounting principles and methods and in accordance with the Receiver General Directives. Year-End Financial Statements are published in the Public Accounts of Canada.