ACCRUAL ACCOUNTING AND YEAR-END TIPS

Presented by
Campus Services
OVERVIEW:

• Accounting standards
• GAAP Principle
• Accounting Methods
• What is accrual Accounting?
• Why does this matter?
• Accrual entries
• Accrual entry examples
• Year-End Tips
Accounting standards are rules and guidelines set by governing bodies like:

- Governmental Accounting Standards Board (GASB)
- General Accepting Accounting Principles (GAAP)
- Financial Accounting Standard Board (FASB)
**GAAP PRINCIPLES**

- **Consistency**: ability to compare reports from one fiscal year to another. Same assumptions across periods.
- **Relevance**: financial statements are useful and timely.
- **Reliability**: financial statements are verifiable.
- **Comparability**: accounting information can be compared to other colleges and universities.
GAAP MATCHING PRINCIPLE

Generally accepted accounting principles, or GAAP, outline several principles for the recording of accounting information. One of the most important is the Matching Principle.

• Matching Principle: All expenses must be matched in the same accounting period as the revenues they helped to earn. In practice, matching is a combination of accrual accounting and the revenue recognition principle.
GAAP REVENUE RECOGNITION PRINCIPLE

• Revenue Recognition Principle is another important principle in Accrual Accounting

• Revenue is recorded when it is **earned**, not when it is received.
A NOTE FROM OUR FINANCIAL STATEMENTS

As a special-purpose government engaged primarily in business-type activities, the basic financial statements of the System have been presented using the economic resources measurement focus and the accrual basis of accounting. Presentation is also in accordance with the State of Colorado Higher Education Accounting Accounting Standard No. 17. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.
WHY DOES ACCRUAL ACCOUNTING MATTER?

It presents a more accurate picture of a company’s financial condition.

Our Financial Statements rely on the Kuali users to record revenue and expenses in accordance with accrual accounting.
ACCOUNTING METHODS

There are two methodologies to recognizing income and expenses:

**Cash Method**
- Income is recorded when cash, check or credit card payment is received
- Expenses are recorded when the vendor is paid

**Accrual Method**
- Revenue is recorded when the service or work is complete or when the product is provided to the customer (WHEN EARNED)
- Expenses are recorded when the goods or services are received (WHEN INCURRED)
ACCRUAL ACCOUNTING SUMMARY

Accrual Accounting records revenue and expenses when they are earned and incurred, regardless of when cash is exchanged.

- Accrual refers to any individual entry recording revenue or expenses in the absence of a cash transaction
- Revenue is recognized when earned, not when received
- Expense is recognized when incurred, not when paid
- Revenue Recognition & Matching principles are the basis for Accrual Accounting

CSU Fiscal year is July 1 – June 30th

We’re about to close FY2020
Other Accruals - Assets
Prepaid Expenses
Receivables

• Prepaid Expenses (OC1740)
  • Amounts paid in this FY, but not received/used until the next FY.
    • Service contracts; registration expenses; airline tickets for next FY travel

• Receivables (OC14XX)

Other Accruals - Liabilities
Unearned Revenue
Year End Payable

• Unearned Revenue (OC2590)
  • Revenue received in FY20 but earned in FY21
    • Example – Football tickets sold in June 2020 (FY20) but game isn’t until September 2020 (FY21).

• Year End Payable (OC2103)
**BOOKING RECEIVABLES**

**Receivable** - Money that a company has a right to receive because it has provided customers with goods and/or services.

Under accrual accounting, anytime external work is completed, and goods have been delivered but there is no cash exchange, you have to book a receivable (OC14XX) on the account. **This ensures that revenue is recorded in the correct period.**

Note: We do not book receivables on internal revenue. The reasoning is we would basically be booking receivables to ourselves (thinking of CSU as a whole)
If a Revenue AV document is coded as an “Adjustment” instead of an Accrual with a reversal date, then…

When the payment is received, the Cash Receipt (CR) should be deposited in OC14XX to clear the receivable.

What if the CR is deposited into OC4XXX instead of OC14XX?

Then a GEC needs to be entered to clear OC14XX. Support should show the CR /AV document showing where the payment was posted.

Balances in Balance Sheet Object Codes like 1XXX & 2XXX, will roll forward to the next year.

Therefore it is important, to review these Object Codes when reconciling your accounts.
ACCRUING LIABILITIES

Accrued liabilities are liabilities that reflect expenses that have not yet been paid during an accounting period; in other words, a company's obligation to pay for goods and services that have been provided but the invoices have not yet been paid.

Department has to book these liabilities under OC2XXX in the correct period.

OC2101 – Regular Payables
OC2103 – Year-End Payables
KFS ADJUSTMENT/ACCRUAL VOUCHER (AAV)

• The Adjustment Voucher (AV) is used to recognize revenues in the period in which they are earned and expenses in the period in which they are incurred. This option does NOT have a reversal date.

• The Accrual Voucher (AV) is used to post an accrual entry that will reverse in a designated future month (usually the next FY). This option requires a reversal date to be entered.
Account 2205000 receives an order to test a soil sample on April 30th. The test results are completed, and the customer is invoiced on May 31st for $200.00. The customer pays on July 3rd.

• What document(s) would be used for these two transactions and when would the revenue be recognized?

• Let’s go to the KFS Training Environment to make these entries.
REVENUE ACCRUAL
EXAMPLE #1 - ANSWER

The revenue is booked when the work is complete. Since the work is complete on May 31\textsuperscript{st}, an Adjustment Voucher is completed to record the Receivable OC1437 and the Revenue OC4380.

When the payment from the customer is received on July 3\textsuperscript{rd}, you will use a Cash Receipt (CR) document and you will post the payment to OC1437 to clear the Receivable.
REVENUE ACCRUAL EXAMPLE #2

Account 2609860 received and booked a $500 conference deposit on May 31st for a conference from September 1-3, 2020.

• What document(s) would you use to book the accrual?

• What fiscal year does the revenue belong in?
REVENUE ACCRUAL
EXAMPLE #2 - ANSWERS

Since the Revenue was already booked, we need to do an Accrual Voucher with a reversal date of 9/3/20. This Accrual Voucher will reverse the Revenue OC4380 (originally recorded when the money was received) and to record it as Unearned Revenue OC2590.

The revenue is recognized in the next fiscal year when the Accrual document automatically reverses on 9/3/20. The reversal will clear the Unearned Revenue liability in OC2590 and will record the Revenue in OC4380.
EXPENSE ACCRUAL
EXAMPLE #1

Account 1262000 ordered office supplies on April 30\textsuperscript{th} in the amount of $500 and the supplies were received on May 31\textsuperscript{st}. The vendor was paid on July 2\textsuperscript{nd}.

• What document would be used to book this expense?
• What fiscal year will the expense be recognized in?
EXPENSE ACCRUAL
EXAMPLE #1 - ANSWER

When the supplies are received, an Adjustment Voucher will be completed to book the expense to OC6201 and record a Year-End Payable to OC2103.

Then once the invoice is paid via a Disbursement Voucher, the Year End Payable OC2103 will be cleared.

The expense is recognized in the fiscal year when the supplies are received (FY20).
EXPENSE ACCRUAL EXAMPLE #2

Account 1356570 entered into a 12-month service agreement in the amount of $12,000 that runs 4/1/20 – 3/31/21. The expense was booked in full to Object Code 6601.

- What document would be used to appropriately accrue this expense?
- What fiscal year will the expense be recognized in?
Since the full amount was booked to OC6601, we need to do an Accrual Voucher to move the FY21 portion of the expense out of FY20 and to FY21.

This Accrual Voucher will debit the Prepaid Expense OC1740 and credit the Expense Services OC6601 for the amount that needs to be moved to the next fiscal year. ($12,000/12 mo. = $1,000/mo. x 9 mo. = $9,000 belongs to FY21)

$3,000 of the Expense will be recognized this year (FY20) and $9,000 will be recognized next year (FY21).
MULTI-YEAR ACCRUALS

If a contract for maintenance services is for more than 2 years, create an Adjustment Voucher and then manually move the expense from Prepaid Expense OC1740 to Service Expense OC66XX for the specific year.

Example:

The Maintenance Service Agreement of $3,000 was purchased in FY18. Which would cover maintenance agreement for FY18, FY19, and FY20. Payment request for $3K was processed in FY18.

The entry for FY18, FY19, & FY20 would look like........
Create an Adjustment Voucher for $2,000. Because the entire $3,000 is currently recorded as an expense in OC6602 (Maintenance Services). This moves 2 years of the expense to a Prepaid Expense OC1740 and removes it from OC6602.

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<th>Description</th>
<th>Debit OC1740</th>
<th>Credit OC6602</th>
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<tr>
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<td>FY19 Exp</td>
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</tr>
<tr>
<td>FY19 Exp</td>
<td>FY20 Exp</td>
<td></td>
<td>$1,000 each line</td>
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<tr>
<td>FY20 Exp</td>
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</table>
Create an Adjustment Voucher reversing FY19 Service agreement amount of $1,000 from Prepaid Expense OC1740 and charging it to Maintenance Expense OC6602.

Debit OC6602 $1,000
Credit OC1740 $1,000
Create an AV document reversing FY20 Service agreement from Prepaid (1740) to Expense (6602) for $1,000.00. This would be the final AV document for this Service agreement.

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<thead>
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<th>Line Description</th>
<th>Debit Description</th>
<th>Account Number</th>
<th>Credit Description</th>
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<td>FY19 Service Agreement</td>
<td>Debit OC6602</td>
<td>1,000</td>
<td>Credit OC1740</td>
<td>1,000</td>
</tr>
<tr>
<td>FY19 Service Agreement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
YEAR-END TIPS
YEAR-END TIPS

• From July 1\textsuperscript{st} thru July 7\textsuperscript{th} you will have a drop down that will allow you to select either “YE 2020 Close” or “July 2020”

• YE 2020 Close = Period 13 for FY20

• July 2020 = Period 01 in FY21
YEAR-END TIPS

• Campus has until July 7th at Noon to make entries to FY20

• If you are unsure if you need to accrue an item because you don’t know when the revenue will be received or expense paid, you have until July 7th to make that entry
YEAR-END TIPS

• The following Account and Object Codes must be $0.00 at year-end (July 7th at Noon)

  • Acct 200xxxx (last 4 digits are the ORG CODE or DEPT #)
    • Each Object Code needs to be cleared out
  • OC 6684 – Credit Card Clearing in all accounts – must be $0.00
  • OC 6784 – PayPal Clearing in all accounts – must be $0.00
YEAR-END TIPS

• On June 30th, check your documents to make sure they are getting APPROVED. If they are still ENROUTE, contact the approvers and request they APPROVE the doc ASAP.

• Anything UNAPPROVED after 7:00 PM will automatically be DISAPPROVED by the system and will have to be re-entered by you in July. Saved documents will also be DISAPPROVED at 7:00 PM.

• Includes Document Types: DI, GEC, IAA, IB, ICA, PE, SB and TF.
YEAR-END TIPS – A/P

• FY20 Disbursement Vouchers must be submitted and APPROVED by July 7th by NOON.

• July 6th is the deadline to submit invoices to A/P by NOON to initiate a Payment Request

• A list of Outstanding POs will be sent to the Fiscal Officer to identify which is for FY20 and FY21

• Campus Services will conduct a post-payment review to identify items paid after year-end that should have been accrued in FY20
YEAR-END TIPS – TRAVEL

• June 15th is the deadline to order Ghost Card airline tickets for FY20. Email will be sent to FO summarizing the Ghost Card charges posted in period 13 FY20

• TRs with an end date of June 30th or prior (in June) need to be approved and in the Travel Dept queue by June 30th to have them approved by year-end or (Travel creates the accrual for documents only in Travel’s Action List)

• July 1st – First day a TR can be created in KFS for FY21
YEAR-END THINGS TO REMEMBER

• If an invoice is paid on an FY21 PO prior to July 1st, Kuali will automatically code this payment to OC1740 Prepaid Expense. If this occurs, you will need to move this to an Expense OC in FY21.

• Do not book receivables on Internal Revenue. This would be booking a receivable on ourselves (on CSU) and we can’t do that.
Questions?
Campus Services

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http://busfin.colostate.edu/Depts/Campus_Svcs.aspx