

# Accrual Accounting and Year-End Tips

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Presented by BFS - Campus Services



Colorado State University

# Overview:

- Accounting Standards
- GAAP Principle
- What is Accrual Accounting?
- Why does Accrual Accounting matter?
- Accounting Methods – Cash vs Accrual
- Accrual Vouchers
- Accrual Voucher Examples
- Year-End Tips

# Accounting Standards

The rules and guidelines set by governing bodies. As an institution of higher education, CSU falls under governmental accounting guidance:

- Governmental Accounting Standards Board (GASB)
- Generally Accepted Accounting Principles (GAAP)

# GAAP Principles

- Consistency: Ability to compare reports from one fiscal year to another with the 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 – The Matching Principle

Generally accepted accounting principles (**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

The Revenue Recognition principle is a very important principle in Accrual Accounting:

- Revenue is recorded when EARNED, not when the money is received.
- Revenue is EARNED when the goods are provided to the customer or when the service is complete.

Service or  
work is  
complete!



Product is  
provided to  
customer!

# Why does Accrual Accounting matter?

- It presents a more accurate picture of an entity's financial condition
- Our Financial Statements depend on Quali users to record revenue and expenses in accordance with Accrual Accounting





# A Footnote on CSU's 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 Standard No. 17. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.



# Accounting Methods

There are two methodologies for 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

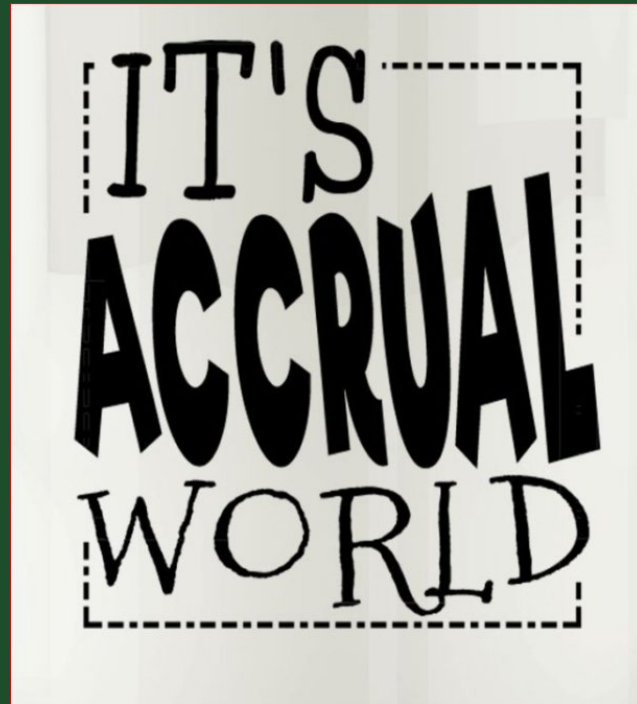
## Accrual Method

Revenue is recorded when the service 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/expenses when they are earned/incurred, regardless of when cash is exchanged



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

# How Accruals Affect the Balance Sheet

## Asset Accruals

-

Prepaid Expenses

Receivables

- Prepaid Expenses (OC1740)
  - *Amounts paid in this FY, but not incurred (received/used) until the next FY.*
    - *Multi year service contracts; registration expenses (Conf in next FY); & airline tickets for next FY travel, etc.*
- Receivables (OC14XX)
  - *Revenue earned in this FY, but not received yet*

## Liability Accruals -

Unearned Revenue

Year End Payable

- Unearned Revenue (OC2590)
  - *Monies received in FY23 but revenue earned in FY24*
    - *Ex – Football tickets sold in FY23 for a game on 9/25/23 (FY24)*
- Year End Payable (OC2103)
  - *Expense incurred in FY23, but won't be paid until FY24*

# Accruing Receivables & Revenue

**Accrued Receivables** - Money that we have a right to receive because we have provided external customers with goods and/or services.

DR OC14xx - Receivables

CR OC4xxx – Revenue

Use an Adjustment Voucher that does not reverse, so that the revenue remains recorded in that Fiscal Period and FY.

Under Accrual Accounting, anytime work for an external client is completed or goods have been delivered but there is no cash exchange, you have to book a Receivable OC14XX and Revenue OC4xxx.

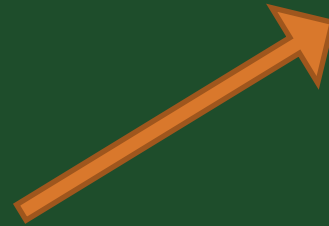
**Ensures revenue is recorded in the correct period!**

**Note:** *We do not book receivables on internal revenue. We would basically be booking receivables to ourselves (thinking of CSU as a whole) and then the other department would have to book a payable (liability).*

## Preferred Entry for Revenue!

If an Adjustment Voucher is used to record revenue rather than an Accrual Voucher (that has a reversal date), then...

When the payment is received, the Cash Receipt or CC Clearing doc should CR OC14XX to clear the receivable



What if the payment is recorded as a credit to Revenue OC4xxx instead of Receivables OC14xx?

Payment recorded as CR to OC4XXX (Rev) instead of OC14XX (Rec)?

Enter a GLT to CR OC14XX and to reduce or DR the double-booked OC4xxx revenue. Include the KFS AV # and CR doc #s as support.

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

Review these Object Codes when reconciling your accounts and clear old accruals from the previous FY.

# Accruing Prepaid Expenses

**Prepaid Expenses** – Expenses that have been paid in advance of when the expense is actually incurred. This includes things like multi year maintenance contracts, subscriptions crossing FYs, travel for next FY, conference registration for next FY, etc.

DR OC1740 – Prepaid Expenses (an asset)

CR OC6xxx – Expense

**EX:** On 3/1/22 a PREQ is processed to pay for a maintenance agreement that covers the period 3/1/23 – 2/28/24. The PREQ will DR the expense OC66xx for the full amount \$9,000. An Accrual Voucher must be entered to move 8 months or \$6,000 ( $\$9,000/12 = \$750/\text{mo} * 8 \text{ mo} = \$6,000$ ) to Prepaid Exp OC1740 with an automatic reversal in mid-July 2023.

Under **Accrual Accounting**, expenses must be recognized when **INCURRED**, not when paid. The accrual entry records the prepaid expense (asset) and reduces the total expense in this FY. When it automatically reverses in the next fiscal year, it clears OC1740 Prepaid Expense and records the expense OC6xxx.

**The expense is recorded in the correct period!**

# Review AV Adjustment Information

- Accruing the prepaid expense for a maintenance agreement
- Includes info about the original payment KFS PREQ #xxxxxxx in the in the Notes
- Provide the effective dates of the agreement – 3/1/23–2/28/24
- Shows the calculation of the amount to be accrued to FY24
- Attach the original invoice



# Accruing Liabilities/Expenses

**Accrued liabilities reflect expenses that have not yet been paid** during an accounting period. These are an entity's obligation to pay for goods and services that have been **PROVIDED/INCURRED** but the invoice will not be paid in this FY.

Record **either an Adjustment voucher** (no automatic reversal) **or Accrual voucher** (with an automatic reversal date in the new fiscal year). An Accrual Voucher will clear the Payable in the new year and will have booked the expense in the proper year as long as the DV or PREQ debits the expense OC.

Accrual Voucher: DR OC6xxx - Expense

CR OC2103 – Year End Payables

If the DV or PREQ debits OC2103, a GLT will be needed to CR OC2103 and DR OC6xxx Expense. Always check your OC2103 balance monthly!



# Kuali Adjustment Vouchers and Accrual Vouchers



# KFS Adjustment / Accrual Voucher (AAV)

- The **Adjustment Voucher** is used to recognize revenues in the period in which they are EARNED and expenses in the period in which they are INCURRED. An Adjustment does NOT have a reversal date.
  - Great for entering revenue and receivables!
- The **Accrual Voucher** is used to post an accrual entry that will automatically reverse in a designated future month (usually the next FY). This option requires a reversal date!
  - Great for Prepaid Expenses and Unearned Revenue in the current FY to set up the Asset or Liability and have it automatically reverse in the next FY to recognize the Expense or Revenue and clear the Asset or Liability.

# KFS Accrual Voucher (AAV)

➤ When using the **Accrual Voucher** to post a Prepaid Expense, you must include the following information in the Notes on the KFS Accrual Voucher:

- Calculation of the Prepaid Expense – Show how you calculated the expense to split it between the years. EX – Expense of \$50,000 for a service agreement that runs 4/1/23 – 3/31/24 on PREQ xxxxxxxx.
  - ( $\$50,000/12 \text{ mo.} = \$4,166.67/\text{mo.} \times 9 \text{ mo.} = \$37,500 \text{ to FY24}$ )
- KFS Doc # where the expense originated – This would be the PREQ, DV or PCDO where the expense was originally recorded. Note that if a GLT has been done on the originating PREQ, DV or PCDO doc, then also include the GLT doc # in the Notes.

# Service Revenue Accrual - Example #1

Account 2205000 receives an order to test a soil sample on April 1<sup>st</sup>. The test results were completed on 4/20/23, and the customer is invoiced on April 25<sup>th</sup> for \$200.00. The customer pays on July 5<sup>th</sup>.

- What FP and FY should the revenue be recognized?
- What document would be used to record the receivable and revenue?
- How would you record the receipt of \$200 from the customer on July 5<sup>th</sup>?
- Let's go to the KFS Training Environment to make these entries.



# Service Revenue Accrual - Example #1 - Answer

- Revenue is booked when the work is complete (FY23 for this example). Since the work is complete on 4/20/23, an Adjustment Voucher is used to DR OC1437 – Receivables and CR OC4380 - Revenue
- When the payment is received on July 5<sup>th</sup> (FY24), you will post the payment to OC1437 to clear the Receivable by completing a Cash Receipt doc for check/cash or a Distribution of Income & Expense for credit card
  - *Note: If the Cash Receipt or Credit Card Clearing document posts the payment to OC 4xxx Revenue, you will need to complete a GLT to DR OC4xxx Revenue and CR OC14xx Receivable, to reduce the Revenue since it would be double booked and to reduce the Receivable since the customer has paid the invoice*

# Conference Revenue Accrual w/ Reversal - EX #2

Account 2677800 received and booked a \$500 conference deposit to OC4380 on 5/31/23 (FY23) for an AIAA Technical Symposium on 9/15/23 (FY24) put on by CSU.

- What fiscal year does the revenue belong in?
- What document should be used to book the accrual and what Object Codes would you use?
- Is the deposit a liability or an asset in FY23?



# Conference Revenue Accrual w/ Reversal - EX #2 - Answers

- Revenue belongs in FY24 after the conference has been held (when the revenue becomes earned)
- Since the Revenue was already booked when we took the \$500 deposit, we need to key an Accrual voucher with a reversal date of 9/15/23
  - DR OC4380 – Revenue  
CR OC2590 - Unearned Revenue
  - Reduces Revenue in current FY23 and creates a Liability since we haven't EARNED the revenue yet
  - Reversal in next FY on 9/15/23 will record Revenue in FY24 and clear the Liability after the conference has occurred
- The deposit is a liability (Unearned Revenue) until we've held the conference

# Expense / Payable Accrual - Example #1

Account 1262000 ordered office supplies on June 20<sup>th</sup> in the amount of \$500 and the supplies were received 6/30/23. The vendor was paid on 7/15/23 (after fiscal year end).

- What fiscal year should the expense be recorded in and why?
- What document should be used to book this expense?





# Expense / Payable Accrual - Example #1 - Answer

- Expense is recognized in FY23 when the supplies are received. We record the expense when it is INCURRED (goods or services are received).
- An **Accrual Voucher with auto reversal** is keyed when the supplies are received to book the Expense to OC6201 and record a Liability to OC2103 - Year-End Payable. The auto reversal date should be in FY24 such as 7/15/23.

DR OC6201 – Supplies Expense

CR OC2103 – Year-End Payables

- When the invoice is paid in FY24 and the expense is recorded, it will offset the automatic reversal entry that credited expense on 7/15/23.

# Prepaid Expense Accrual w/ Reversal - Example #2

Account 1356570 entered into a 12-month service agreement in the amount of \$12,000 that runs 4/1/23 – 3/31/24. The expense was booked in full to OC6601 when the invoice was paid.

- What FY(s) should the Expense be recognized in?
- What document would you use to accrue this Expense and what is the debit and credit?



# Prepaid Exp Accrual w/ Reversal - Ex #2 - Answer

- \$3,000 will be recognized in FY23 and \$9,000 will be recognized in FY24
- Since the full amount was booked to OC6601 originally, we need to key an ACCRUAL VOUCHER to move the FY24 portion of the expense out of FY23 and to FY24. The reversal date can be anytime after about mid-July 2023 (FY24) and can go out as far as 3/31/24 when the service agreement ends.
  - Accrual Voucher – This leaves \$3,000 of the expense in FY23
    - DR OC1740 - Prepaid Expense \$9,000
    - CR OC6601 – Service Expense \$9,000
  - Always include the calculation of the Prepaid in the Notes section ( $\$12,000/12$  mo. =  $\$1,000/\text{mo.}$  x 9 mo. =  $\$9,000$  to FY24) and include KFS Doc # where the expense originated (PREQ, DV or PCDO).

# Multi-Year Prepaid Expense Accrual

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 OC6602 Service Expense for the specific year.

*Example:*

*The Maintenance Service Agreement of \$3,000 was purchased in FY232 to cover a maintenance agreement for FY23, FY24, and FY25. Payment request for \$3,000 was processed in FY23.*



**The entries for FY23, FY24 & FY25 would look like.....**

# FY23 Entry

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 OC 1740 - Prepaid Expense and removes it from OC6602.

Document Overview hide

**Document Overview**

\* Description: Service agreement

Organization Document Number:

Explanation: 2019-2020 Maintenance agreement. The expense will be recognized in the period it is incurred.

**Financial Document Detail**

Total Amount: 2,000.00

Adjustment/Accrual Voucher Details hide

**Adjustment/Accrual Voucher Details**

\* Adjustment/Accrual Voucher Type:  Adjustment  Accrual

Accounting Lines hide

**Accounting Lines** hide detail import lines

Account Number	Sub-Account Code	* Object Code	Organization Reference Id	Debit	Credit	Actions			
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	0.00	0.00	<input type="button" value="add"/>			
Code	* Account Number	Sub-Account Code	* Object Code	Sub-Object Code	Project Code	Organization Reference Id	Debit	Credit	Actions
CO	1356570	<input type="text"/>	6602	<input type="text"/>	<input type="text"/>	<input type="text"/>	0.00	1,000.00	<input type="button" value="bal inquiry"/> <input type="button" value="delete"/>
<b>1</b> <input type="text"/> <b>Line Description</b> Expense									
CO	1356570	<input type="text"/>	6602	<input type="text"/>	<input type="text"/>	<input type="text"/>	0.00	1,000.00	<input type="button" value="bal inquiry"/> <input type="button" value="delete"/>
<b>2</b> <input type="text"/> <b>Line Description</b> FY20 Expense									
CO	1356570	<input type="text"/>	1740	<input type="text"/>	<input type="text"/>	<input type="text"/>	2,000.00	0.00	<input type="button" value="bal inquiry"/> <input type="button" value="delete"/>
<b>3</b> <input type="text"/> <b>Line Description</b> FY19 and FY20 Maint. Agreement									
				<b>Debit Total: 2,000.00</b>	<b>Credit Total: 2,000.00</b>				

**FY24 Exp**

**FY25 Exp**

**Credit OC6602 \$1,000 each line**

**Debit OC1740 \$2,000**

# FY24 Entry

Create an Adjustment Voucher reversing FY24 Service agreement amount of \$1,000 from Prepaid Expense OC1740 and charging it to Maintenance Expense OC6602 to record the FY24 expense.

**Document Overview**

\* Description: Service agreement  
 Explanation: Moving FY19 Prepaid Service agreement Expense.

Organization Document Number:

**Financial Document Detail**

Total Amount: 1,000.00

**Adjustment/Accrual Voucher Details** hide

**Adjustment/Accrual Voucher Details**

\* Adjustment/Accrual Voucher Type:  Adjustment  Accrual

**Accounting Lines** hide

**Accounting Lines** hide detail import lines

	* Chart Code	* Account Number	Sub-Account Code	* Object Code	Sub-Object Code	Project Code	Organization Reference Id	Debit	Credit	Actions
add:	CO Colorado State University							0.00	0.00	<input type="button" value="add"/>
2	CO Colorado State University	1356570 Campus Services		6602 Maintenance Services				1,000.00		<input type="button" value="bal inquiry"/> <input type="button" value="delete"/>
<b>Line Description</b>										
FY19 Service Agreement										
3	CO Colorado State University	1356570 Campus Services		1740 Other Prepays					1,000.00	<input type="button" value="bal inquiry"/> <input type="button" value="delete"/>
<b>Line Description</b>										
FY19 Service Agreement										
								<b>Debit Total: 1,000.00</b>	<b>Credit Total: 1,000.00</b>	

FY24 Exp

Debit OC6602  
\$1,000

Credit OC1740  
\$1,000

# FY25 Entry

Create an AV document reversing FY25 Service agreement from Prepaid (OC1740) to Expense (OC6602) for \$1,000.00. This would be the final AV document for this Service agreement.

**Document Overview** hide

**Document Overview**

\* Description: Service agreement

Organization Document Number:

Explanation: Moving FY20 Prepaid Service agreement to Expense

**Financial Document Detail**

Total Amount: 1,000.00

**Adjustment/Accrual Voucher Details** hide

**Adjustment/Accrual Voucher Details**

\* Adjustment/Accrual Voucher Type:  Adjustment  Accrual

**Accounting Lines** hide

**Accounting Lines** hide detail import lines

* Chart	* Account Number	Sub-Account Code	* Object Code	Sub-Object Code	Project Code	Organization Reference Id	Debit	Credit	Actions
CO Colorado State University	1356570 Campus Services		6602 Maintenance Services				1,000.00		add
Line Description: FY19 Service Agreement									
CO Colorado State University	1356570 Campus Services		1740 Other Prepays					1,000.00	bal inquiry delete
Line Description: FY19 Service Agreement									
							<b>Debit Total: 1,000.00</b>	<b>Credit Total: 1,000.00</b>	

**General Ledger Pending Entries** show

**Notes and Attachments (0)** show

**Ad Hoc Recipients** show

**Route Log** show

FY25 Exp

Debit OC6602  
\$1,000

Credit OC1740  
\$1,000

# Year-End Tips





# Year-End Tips

- CSU Fiscal year is July 1<sup>st</sup> – June 30<sup>th</sup>
- We're about to close FY2023 (FY23)
- From July 1<sup>st</sup> thru July 10<sup>th</sup> you will have a drop down on certain documents that will allow you to select either “YE 2023 Close” or “July 2023”
  - YE 2023 Close = Fiscal Period 13 for FY23
  - July 2023 = Fiscal Period 01 in FY24

# Year-End Tips cont'd...



- On June 29<sup>th</sup> and 30<sup>th</sup>, check your documents to make sure they are getting APPROVED. If they are still ENROUTE, contact the approvers in the document Route Log and ask them to APPROVE the doc ASAP
  - Monitor the Route Log to get the document moved thru the approval nodes
  - Documents listed below that are still ENROUTE or in a SAVED status after 7:00 PM on 6/30/23 will automatically be DISAPPROVED by the system and will have to be re-entered by you in July if it is needed.
    - Only Includes Document Types: DI, GLT, IB, ICA, PE, SB and TF

# Year-End Tips cont'd...

- Campus has until July 10<sup>th</sup> at 4:00pm to make entries to FY23
  - If you are unsure if you need to accrue an item because you don't know when the revenue will be earned or the expense incurred, you have until July 10<sup>th</sup> to make that entry
- **Determining the Available Balance** – If your account is budget-based spending authority, use the **Balance by Consolidation** screen and include All Pending Entries. If your account is cash-based spending authority, use the **Available Balance** screen and include All Pending Entries.
- **Determining the Spending Authority** - Look up the account attributes using Account Lookup and click on the Sub-Fund Group Code link. Then look for “Spending Authority” at the bottom of the Sub-Fund Group Code screen.

# Year-End Tips – Accounts and OCs that Must \$0.00 Balance

- The following Accounts and Object Codes must be \$0.00 at year-end by July 10<sup>th</sup> at 4:00pm
  - All 17xxxx accounts – EXTREF, EXTRSL, EXTRRR, and EXTR sub-funds
  - All SUSPEN sub-fund accounts (Continuation) - 200xxx last 4 digits are the ORG/DEPT #
    - Each Object Code needs to be cleared out
- Any account with Object Codes: 16xx, 1761, 1905; 1910; 1920; 1925; 2905; 2920; 2930; 2975; 6711; 6694; and 6695
  - OC6684 – Credit Card Clearing in all accounts – must be \$0.00
    - Accrue to OC1439 – Credit Card Delay Receivable if needed to clear OC6684
  - OC6784 – PayPal Clearing in all accounts – must be \$0.00

# Year-End Tips – Sub-Funds that cannot have deficits

- 12xxxxx DCESUP accounts
- 13xxxxx EG accounts
- 14xxxxx PVM, PVMFED and PVMSTA
- 15xxxxx – EXPSTA, EXPSF, EXPRHF, EXPRHM, EXPRMC
- 16xxxxx - RARSP
- 17xxxxx – EXTEN, EXTSF, EXTR, EXTREF, EXTRRR, EXTRSL
- 19xxxxx – CSFS, CSFSSF, FRP, HEAFOR

- 21xxxxx / 22xxxxx – RECHAR and GENOP (Plan to bring acct out of deficit must be approved thru BFS Campus Services)
- 25xxxxx – COURSE
- 64xxxxx – GIFT
- 75xxxxx / 76xxxxx – RESERV and ERRF
- 99xxxxx – AGENCY
- 99xxxxx - DHFO

# Year-End Tips – Accounts Payable

- FY23 Disbursement Vouchers must be submitted and APPROVED by Noon on July 7<sup>th</sup>
- Deadline to submit invoices to A/P to initiate a Payment Request is Noon on July 7<sup>th</sup>
- Campus Services and A/P will conduct a post-payment review to identify PREQs and DVs paid after year-end that should have been accrued in FY23
  - Campus will be contacted to ask if you've accrued the item
  - Accruals will be made if material

# Year-End Tips – Travel

- June 15<sup>th</sup> is the deadline to order Ghost Card airline tickets for FY23. Email will be sent to FO summarizing the Ghost Card charges posted in period 13 FY23
- TRs with an end date of June 30<sup>th</sup> or prior (in June) need to be approved and in the Travel Dept queue on June 30<sup>th</sup> by 4:00pm to have them approved by year-end
  - Travel will create the accrual entry only for documents in the Travel Dept's Action List on 6/30 at 4:00pm
  - Departments must create accruals for travel docs if they do not get them into the Travel Dept's action list queue by 6/30 at 4:00pm
- July 3<sup>rd</sup> – First day a TR can be created in KFS for FY24

# Year-End Things to Remember

- FY24 POs - If an invoice is paid on an FY24 PO prior to July 1<sup>st</sup> (in FY23), Kualu will automatically code this payment to OC1740 Prepaid Expense
  - If this occurs, you will need to create an Adjustment Voucher in FY24 to move the OC1740 Prepaid charge to an Expense OC6xxx in FY24
- Do not book receivables on Internal revenue
  - This would be booking a receivable on ourselves (on CSU) – this is not allowed
  - It would also require the other department to book a payable



# Questions?



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