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

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 the money is received.

• *Revenue is earned when the goods are provided to the customer* or when the *service is complete*. 
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.
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 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 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 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 FY2021 (FY21)
Asset Accruals -
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, etc.
- Receivables (OC14XX)

Liability Accruals -
Unearned Revenue
Year End Payable

- Unearned Revenue (OC2590)
  - Revenue received in FY21 but earned in FY22
    • Ex – Football tickets sold in 6/1/2021 (FY21) for a game on 9/25/21 (FY22)
- Year End Payable (OC2103)
  - Expense incurred this FY, but won’t be paid until the next FY
**Accrued Receivables** - Money that a company has a right to receive because it has provided customers with goods and/or services.

Book DR to Receivables and CR to Revenue

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. We would basically be booking receivables to ourselves (thinking of CSU as a whole) and then the other department would have to book a liability or payable.
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 or CC Clearing doc should CR OC14XX to clear the receivable.

What if the payment is CR to OC4XXX (Revenue) instead of OC14XX (Receivable)?

A GEC is needed to clear OC14XX and to reduce the revenue that has been double booked. Notes/support should show the KFS doc #s where the Rec/Rev was accrued and where the payment was posted.

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

It is important, to review these Object Codes when reconciling your accounts so that you clear old accruals from the previous FY.
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/INCURRED but the invoices have not yet been paid.

Book DR to Expense and CR to Payable

Department has to book these liabilities under OC2XXX in the correct period.
- OC2101 – Regular Payables
- OC2103 – Year-End Payables
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 automatically reverse in a designated future month (usually the next FY). This option requires a reversal date to be entered.

- Great for Prepaid Expense accruals and Unearned Revenue accruals where you make the original AV accrual entry 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 to clear the Asset or Liability.
REVENUE ADJUSTMENT ACCRUAL
EXAMPLE #1

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 ADJUSTMENT ACCRUAL
EXAMPLE #1 - ANSWER

• Revenue is booked when the work is complete (FY21 for this example). Since the work is complete on May 31st, an Adjustment Voucher is used to DR OC14xx – Receivables and CR OC4380 Revenue

• When the payment is received on July 3rd (FY22), you will post the payment to OC14xx 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 OC4xxx Revenue, you will need to complete a GEC to DR OC4xxx Revenue and CR OC14xx Receivable, to reduce the Revenue since it is double booked and to reduce the Receivable since it has been paid.
REVENUE ACCRUAL W/REVERSAL  EXAMPLE #2

Account 2609860 received and booked a $500 conference deposit to OC4380 on May 31st 2021 (FY21) for a conference to be held September 1-3 of 2021 (FY22).

• What document(s) would you use to book the accrual?
• What fiscal year does the revenue belong in?
REVENUE ACCRUAL W/REVERSAL EXAMPLE #2 - ANSWERS

• Revenue belongs in FY22 after the conference has been held
• Since the Revenue was already booked when we took the $500 deposit, we need to key an ACCRUAL VOUCHER with a reversal date of 9/3/21
  • DR (reduce) OC4380 – Revenue
  • CR OC2590 (increase) - Unearned Revenue
  • Reduces Revenue in current FY and creates a Liability since we haven’t EARNED the revenue yet
  • Reversal in next FY on 9/3/21 will record Revenue in the proper FY and clear the Liability once the conference has occurred
EXPENSE ADJUSTEMENT ACCRUAL EXAMPLE #1

Account 1262000 ordered office supplies on April 30th in the amount of $500 and the supplies were received on May 31st. The vendor was paid on July 2nd (after fiscal year end).

• What document would be used to book this expense?

• What fiscal year should the expense be recognized in?
EXPENSE ADJUSTMENT ACCRUAL
EXAMPLE #1 - ANSWER

When the supplies are received, an ADJUSTMENT VOUCHER is keyed to book the Expense to OC6201 and record a Liability to OC 2103 - Year-End Payable

- DR OC6201 – Supplies Expense
  CR OC2103 – YE Payables

When the invoice is paid, the Year End Payable OC2103 must be cleared. Depending on what type of document is used to pay the invoice, OC2103 may not be automatically used. This needs to be reviewed. Key a GEC to clear OC2103 if the payment document is to OC2101 (DR OC2103 and CR OC2101)

Expense is recognized in the FY when the supplies are received (FY21).
Account 1356570 entered into a 12-month service agreement in the amount of $12,000 that runs 4/1/21 – 3/31/22. The expense was booked in full to OC 6601 originally.

• What document would you use to appropriately accrue this Expense?

• What FY should the Expense be recognized in?
EXPENSE ACCRUAL W/REVERSAL
EXAMPLE #2 - ANSWER

• Since the full amount was booked to OC6601 originally, we need to key an ACCRUAL VOUCHER to move the FY22 portion of the expense to FY22. The reversal date can be anytime after about mid-July 2021 (FY22):
  • Accrual Voucher will DR OC1740 - Prepaid Expense and CR OC6601 - Services for the amount that needs to be moved to the next FY
  • Show the calculation in the Notes section ($12,000/12 mo. = $1,000/mo. x 9 mo. = $9,000 belongs to FY22)
• $3,000 of the Expense will be recognized in FY21 and $9,000 will be recognized in FY22
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 FY21. Which would cover maintenance agreement for FY21, FY22, and FY23. Payment request for $3K was processed in FY21.

The entry for FY21, FY22, & FY23 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 OC 1740 - Prepaid Expense and removes it from OC6602.

- **FY22 Exp**
  - Credit OC6602 $1,000 each line

- **FY23 Exp**
  - Debit OC1740 $2,000

- **FY21 Entry**
Create an Adjustment Voucher reversing FY21 Service agreement amount of $1,000 from Prepaid Expense OC1740 and charging it to Maintenance Expense OC6602 to record the FY22 expense.

Debit OC6602 $1,000
Credit OC1740 $1,000
Create an AV document reversing FY23 Service agreement from Prepaid (OC1740) to Expense (OC6602) for $1,000.00. This would be the final AV document for this Service agreement.

| Description | FY23 Exp | Debit OC6602 $1,000 | Credit OC1740 $1,000 |
YEAR-END TIPS
YEAR-END TIPS

- From July 1st thru July 7th you will have a drop down that will allow you to select either “YE 2021 Close” or “July 2021”

  - YE 2021 Close = Period 13 for FY21
  - July 2021 = Period 01 in FY22
YEAR-END TIPS

• Campus has until July 7\textsuperscript{th} at Noon to make entries to FY21

  • 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 7\textsuperscript{th} to make that entry
YEAR-END TIPS

• The following Accounts and Object Codes must be $0.00 at year-end (July 7\textsuperscript{th} at Noon)
  • Acct 200xxxx Continuation Accounts (last 4 digits are the ORG/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
  • Monitor the Route Log to get it moved thru the approval nodes
  • Anything still ENROUTE or in a SAVED status after 7:00 PM on 6/30/21 will automatically be DISAPPROVED by the system and will have to be re-entered by you in July if it is needed.
  • Includes Document Types: DI, GEC, IAA, IB, ICA, PE, SB and TF
YEAR-END TIPS – A/P

• FY21 Disbursement Vouchers must be submitted and APPROVED by July 7th by NOON.

• July 7th is the deadline to submit invoices to A/P by NOON to initiate a Payment Request

• Campus Services and A/P will conduct a post-payment review to identify items paid after year-end that should have been accrued in FY21
YEAR-END TIPS – TRAVEL

• June 15th is the deadline to order Ghost Card airline tickets for FY21. Email will be sent to FO summarizing the Ghost Card charges posted in period 13 FY21.

• 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 by 4:00pm to have them approved by year-end.
  • Travel will create the accrual entry only for documents in Travel’s Action List on 6/30 at 4:00pm.
  • Departments must create accruals for travel docs if they do not get them into Travel’s action list queue by 6/30 at 4:00pm.

• July 1st – First day a TR can be created in KFS for FY22.
YEAR-END THINGS TO REMEMBER

• FY22 POs - If an invoice is paid on an FY22 PO prior to July 1\textsuperscript{st} (in FY21), Kuali will automatically code this payment to OC1740 Prepaid Expense.
  • If this occurs, you will need to create an Adjustment Voucher in FY22 to move the OC1740 Prepaid charge to an Expense OC6xxx in FY22.

• Do not book receivables on Internal Revenue.
  • This would be booking a receivable on ourselves (on CSU) and we can’t do that.
  • It would also require that the other department would need to book a payable.
Questions?
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http://busfin.colostate.edu/Depts/Campus_Svcs.aspx