

Accrual Accounting and Year-End Tips

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

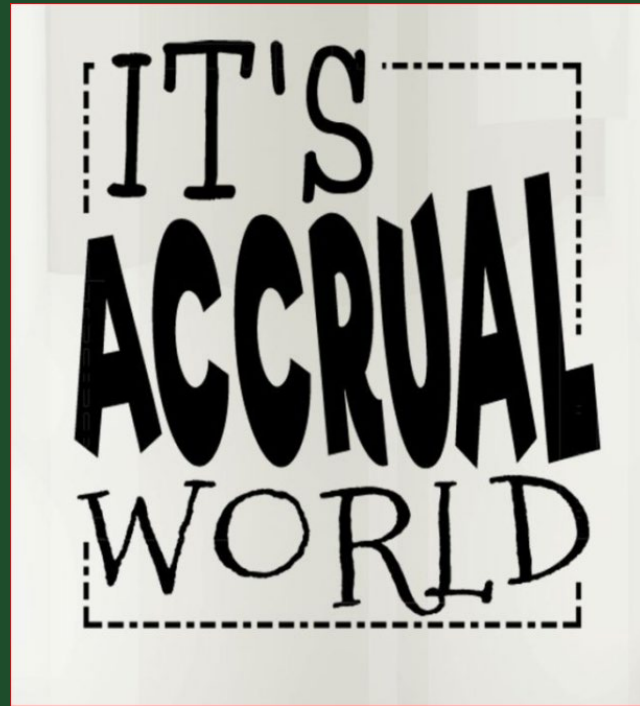
Accrual Method

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 received/used until the next FY.*
 - *Service contracts; registration expenses; airline tickets for next FY travel, software licenses, 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 FY22 but earned in FY23*
 - *Ex – Football tickets sold in FY22 for a game on 9/25/22 (FY23)*
- Year End Payable (OC2103)
 - *Expense incurred this FY, but won't be paid until the next FY*

Accruing Receivables & Revenue

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

DR OC14xx - Receivables

CR OC4xxx - Revenue

Under Accrual Accounting, anytime external work 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 liability or payable.*

Preferred Entry for Revenue!

If a Revenue AV document is coded as an "Adjustment" instead of an accrual (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 pmt is recorded as a CR to Revenue instead of Receivables when received?

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

Enter a GLT to clear OC14XX and to reduce 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 software licenses, maintenance contracts, subscriptions, etc.

DR OC1740 – Prepaid Expenses (an asset)

CR OC6xxx – Expense

EX: On 3/1/22 a PREQ is processed to pay for a software license that covers the period 3/1/22 – 2/28/23. The PREQ will DR the expense OC6225 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 2022. **See AV 28317769**

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 #28317769

- Accruing the prepaid expense for a software license
- Includes info about the original payment KFS PREQ #27688677 in the in the Notes
- Provides the effective dates of the license – 3/1/22–2/28/23
- Shows the calculation of the amount to be accrued to FY23
- Attached 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** where the invoice will not be paid in this FY.

Record an **either an Adjustment** (no automatic reversal date) **or Accrual voucher** (with an automatic reversal date in the new fiscal year). An Accrual will be sure the Payable is cleared in the new year and the expense isn't booked twice, but you have to watch to see what the DV or PREQ uses for the Payable OC. Always check your OC2103 balance monthly!

DR OC6xxx - Expense

CR OC2103 – Year End Payables

Kuali Adjustment / Accrual Vouchers



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. An Adjustment does NOT have a reversal date.
 - Great for entering revenue and receivables!
- 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!
 - 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.

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 5th.

- What FP and FY should the revenue be recognized?
- What document(s) would be used for these two transactions?
- How would you record the receipt of \$200 from the customer on July 3rd?
- 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 (FY22 for this example). Since the work is complete on May 31st, an Adjustment Voucher is used to DR OC1437 – Receivables and CR OC4380 - Revenue
- When the payment is received on July 5th (FY23), 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*

Revenue Accrual w/ reversal - Example #2

Account 2609860 received and booked a \$500 conference deposit to OC4380 on May 31st 2022 (FY22) for a conference to be held September 1-3 of 2022 (FY23).

- What fiscal year does the revenue belong in?
- Is the deposit a liability or an asset in FY22?
- What document(s) would you use to book the accrual?



Revenue Accrual w/ reversal - Example #2 - Answers

- Revenue belongs in FY23 after the conference has been held
- The deposit is a liability (Unearned Revenue) in FY22
- Since the Revenue was already booked when we took the \$500 deposit, we need to key an Accrual voucher with a reversal date of 9/3/22
 - DR OC4380 – Revenue
CR OC2590 - Unearned Revenue
 - Reduces Revenue in current FY and creates a Liability since we haven't EARNED the revenue yet
 - Reversal in next FY on 9/3/22 will record Revenue in the proper FY and clear the Liability after the conference has occurred

Expense / Payable Accrual - Example #1

Account 1262000 ordered office supplies on June 20th in the amount of \$500 and the supplies were received on June 30th. The vendor was paid on July 8th (after fiscal year end).

- What fiscal year should the expense be recognized in?
- What document would be best for booking this expense?



Expense / Payable Accrual - Example #1 - Answer

- Expense is recognized in the FY when the supplies are received (FY22).
- Either an Adjustment or Accrual voucher is keyed when the supplies are received to book the Expense to OC6201 and record a Liability to OC2103 - Year-End Payable. Note - An Accrual voucher will need a reversal date in FY23. If you key it as an Adjustment, you will need to key a reversal in the next FY (another Adjustment Voucher to reverse the first one).
 - DR OC6201 – Supplies Expense
CR OC2103 – Year-End Payables
- When the invoice is paid, the Year End Payable OC2103 must be cleared if an Adjustment voucher was initially keyed. Depending on what type of document is used to pay the invoice, OC2103 may not be automatically used and should be reviewed. If OC2103 wasn't used on the PREQ or DV, a GLT is keyed to clear OC2103 and to remove the expense
 - DR OC2103 – Year-End Payables
CR OC6201 – Expense

Expense Accrual w/ Reversal - Example #2

Account 1356570 entered into a 12-month service agreement in the amount of \$12,000 that runs 4/1/22 – 3/31/23. The expense was booked in full to OC6601 originally.

- What FY should the Expense be recognized in?
- What document would you use to appropriately accrue this Expense?



Expense Accrual w/ Auto reversal - Ex #2 - Answer

- \$3,000 of the expense will be recognized in FY22 and \$9,000 will be recognized in FY23
- Since the full amount was booked to OC6601 originally, we need to key an ACCRUAL VOUCHER to move the FY23 portion of the expense out of FY22 and to FY23. The reversal date can be anytime after about mid-July 2022 (FY23) and can go out as far as 3/31/23 when the service agreement ends.
 - Accrual Voucher – This leaves \$3,000 of the expense in FY22
DR OC1740 - Prepaid Expense \$9,000
CR OC6601 – Services \$9,000
 - Show the calculation in the Notes section ($\$12,000/12 \text{ mo.} = \$1,000/\text{mo.} \times 9 \text{ mo.} = \$9,000$ belongs to FY23)

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 OC6602 Service Expense for the specific year.

Example:

The Maintenance Service Agreement of \$3,000 was purchased in FY22 to cover a maintenance agreement for FY22, FY23, and FY24. Payment request for \$3,000 was processed in FY22.



The entries for FY22, FY23 & FY24 would look like.....

FY22 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
[]	[]	[]	[]	0.00	0.00	add
CO []	1356570	6602	[]	0.00	1,000.00	bal inquiry delete
Line Description						
Expense						
CO []	1356570	6602	[]	0.00	1,000.00	bal inquiry delete
Line Description						
FY20 Expense						
CO []	1356570	1740	[]	2,000.00	0.00	bal inquiry delete
Line Description						
FY19 and FY20 Maint. Agreement						
				Debit Total: 2,000.00	Credit Total: 2,000.00	

FY23 Exp

FY24 Exp

Credit OC6602 \$1,000 each line

Debit OC1740 \$2,000

FY23 Entry

Create an Adjustment Voucher reversing FY23 Service agreement amount of \$1,000 from Prepaid Expense OC1740 and charging it to Maintenance Expense OC6602 to record the FY23 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"/>
Line Description										
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"/>
Line Description										
FY19 Service Agreement										
								Debit Total: 1,000.00	Credit Total: 1,000.00	

FY23 Exp

Debit OC6602
\$1,000

Credit OC1740
\$1,000

FY24 Entry

Create an AV document reversing FY24 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 [] Agreement									
CO Colorado State University	1356570 Campus Services	[]	1740 Other Prepays	[]	[]	[]		1,000.00	bal inquiry delete
Line Description									
FY19 [] Agreement									
							Debit Total: 1,000.00	Credit Total: 1,000.00	

General Ledger Pending Entries show

Notes and Attachments (0) show

Ad Hoc Recipients show

Route Log show

FY24 Exp

Debit OC6602
\$1,000

Credit OC1740
\$1,000

Year-End Tips



Year-End Tips

- CSU Fiscal year is July 1st – June 30th
- We're about to close FY2022 (FY22)
- From July 1st thru July 6th you will have a drop down on certain documents that will allow you to select either "YE 2022 Close" or "July 2022"
 - YE 2022 Close = Fiscal Period 13 for FY22
 - July 2022 = Fiscal Period 01 in FY23

Year-End Tips continued



- 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 the document moved thru the approval nodes
 - Anything still ENROUTE or in a SAVED status after 7:00 PM on 6/30/22 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 continued

- Campus has until July 6th at Noon to make entries to FY22
 - 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 6th 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

- The following Accounts and Object Codes must be \$0.00 at year-end by July 6th at Noon
 - All Continuation Accounts (200xxx last 4 digits are the ORG/DEPT #)
 - Note that each Object Code needs to be cleared out
 - OC 16xx –various clearing OCs
 - OC6684 – Credit Card Clearing in all accounts – must be \$0.00
 - OC6784 – PayPal Clearing in all accounts – must be \$0.00
 - OC6694 – RamCard Clearing
 - OC6695 – Expense Clearing

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, EXTSSF, EXTR, EXTREF, EXTRRR, EXTRSL

- 19xxxxx – CSFS, CSFSSF, FRP, HEAFOR
- 21xxxxx / 22xxxxx – RECHAR and GENOP
- 25xxxxx – COURSE
- 64xxxxx – GIFT
- 75xxxxx / 76xxxxx – RESERV and ERRF
- 99xxxxx - AGENCY

Year-End Tips – Accounts Payable

- FY22 Disbursement Vouchers must be submitted and APPROVED by July 6th by NOON
- July 6th 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 FY22
 - Accruals will be made if material

Year-End Tips – Travel

- June 15th is the deadline to order Ghost Card airline tickets for FY22. Email will be sent to FO summarizing the Ghost Card charges posted in period 13 FY22
- TRs with an end date of June 30th or prior (in June) need to be approved and in the Travel Dept queue on 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 FY23

Year-End Things to Remember

- FY23 POs - If an invoice is paid on an FY23 PO prior to July 1st (in FY22), Kuali will automatically code this payment to OC1740 Prepaid Expense
 - If this occurs, you will need to create an Adjustment Voucher in FY23 to move the OC1740 Prepaid charge to an Expense OC6xxx in FY23
- 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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