

# Accrual Basics

June 2016

# Requirements

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- Generally Accepted Accounting Principles (GAAP) requires the University to present financial statements on the accrual basis of accounting
- Accrual accounting:
  - Presents a more accurate picture of the financial statements
  - Appropriately records revenue and expenses in the period incurred
  - COB and Financials remain aligned under accrual accounting
- Four types of accruals we are focused on:
  - Accrued expenses
  - Prepaid expenses
  - Accrued revenue
  - Deferred revenue

# Definitions and Examples

# Accrued Expenses

Accrued Expenses are expenses incurred but for which no payment is made during an accounting period.

- At the end of each reporting period, accruals should be made for:
  - Goods received, but payment not yet made
    - Example: Department purchases and receives widgets from ABC Company, but invoice from ABC company has not been received. The full amount of the widgets should be accrued.
    - Example: Department purchases and receives widgets from ABC Company and receives invoice from ABC company, but has not entered it into ARC by the last day of the reporting period. The full amount of the widgets should be accrued.
  - Service agreements where the service was provided, but no payments have been made
    - Example: Department contracts with ABC Company to provide consulting service. The service is provided, but the Department has not received the invoice. The full amount of the service should be accrued.
  - Service agreements where the service term is in process or complete, but payments are less than the percentage complete
    - Example: Department contracts with ABC Company to provide a monthly service from January to December. At June year-end, only January through April are paid. Department should accrue expenses for May and June as long as service was rendered.

# Prepaid Expenses

A prepaid expense is an expenditure that is paid for in one accounting period, but for which the underlying asset will not be entirely consumed until a future period.

- At the end of each reporting period, prepaid expenses should be recorded for:
  - Payments made for goods where the goods were not received
    - Example: Department purchases widgets from ABC Company and provides a deposit of \$1,000. At June year-end, the widgets have not arrived. The deposit should be recorded as a prepaid expense.
  - Payments made on service agreements where the service was not provided
    - Example: Department contracts with ABC Company to provide a consulting service and provides an advance payment of 20%. At June year-end, the service was not provided. The 20% advance should be recorded as a prepaid expense.
  - Payments made on service agreements where the service term is in process or has not started, but payments are more than the percentage complete
    - Example: Department contracts with ABC Company to provide a monthly service from January to December. At June year-end, January through July are paid. The July payment should be recorded as a prepaid expense.

# Accrued Revenue

Accrued revenues are revenues earned for the sale of goods and services, for which payment has not yet been received from the customer.

- At the end of each reporting period, revenue earned, but not received, should be recorded for:
  - Revenue from the sale of goods or services where payment was not received
    - Example: Department provides a service to XYZ Company and but the invoice has not been paid. The full amount of the service should be accrued.
  - Revenue from the sale of services where the service term is in process or complete, but receipts are less than the percentage complete
    - Example: XYZ Company contracts with Department to purchase a service. At June year-end, 75% of the work is delivered to XYZ Company, but only 40% of the contract price was paid. The difference between the percentage complete and the amount paid (35%) should be accrued.

# Deferred Revenue

Deferred revenue is a payment from a customer for either services that have not yet been performed or goods that have not yet been shipped.

- At the end of each reporting period, deferred revenue should be recorded for:
  - Revenue from the sale of goods or services where payment is received in advance
    - Example: XYZ Company contracts with Department to provide a service. Payment is received but the service has not been provided. The amount received should be recorded as deferred revenue.
  - Revenue from the sale of services where the service term is in process and the receipts are more than the percentage complete
    - Example: XYZ Company contracts with Department to purchase a service. At June year-end, 75% of the work is delivered to XYZ Company, but 100% of the contract price was paid. The difference between the percentage complete and the amount paid (25%) should be deferred.



# Applicability to ARC

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Accruals can be generated by ARC, Integration Systems or Manually

- System based accruals save the work of manually calculating and recording large quantities of accruals
- Integrating system record accruals specific to their purpose
- Manual accruals are necessary because not all activity can be determined by our systems and some interpretation may be necessary

# System Based Accruals

There are 3 main system based accruals relating to invoices owed to vendors – AP, PO, Cutoff

- AP Accrual
  - Items entered into AP before June 30
    - Non-PO vouchers entered in AP before June 30, but not yet approved, will be accrued through the automated ARC accrual process, provided the vouchers pass budget check. If the voucher fails budget check, then a manual accrual is necessary
    - The accrual is recorded on the same ChartString entered on the voucher
  - P-Card transactions will be accrued to the P-Card default ChartString if they are in a 'staged' or 'verified' status on June 30
  - For items entered after June 30, see Cutoff accrual
- PO Accrual
  - POs for 'goods' where the account on the purchase order starts with a '6' and the 'due date' is June 30, 2016 or prior will be accrued
  - The accrual is recorded on the same ChartString entered on the PO
  - POs for 'services' must be manually accrued
  - Does not apply to Government and Private G&C, see Cutoff accrual

# System Based Accruals – cont'd

- Cutoff Accrual
  - Vouchers entered in ARC from July 1 through late August with invoice dates on or before June 30, may be accrued through an automated ARC accrual process
  - This applies to Government Grants, Private Grants and Capital Projects
  - GG and PG accruals are recorded using the same ChartString as the voucher, but the project is swapped
    - Government Grant accruals are recorded in Project GG000999
    - Private Grant accruals are recorded in Project PG000999
    - Accrued expenses on GG and PG projects are matched with accrued revenue and with the applicable F&A
  - Capital Project accruals are recorded in Project CP000999
  - In late August, when the accruals are recorded, the FY15 accrual will be reversed (it is still recorded) and the FY16 will be recorded; the impact on your results is the net of the two entries

# Integrating System Accruals

- There are 2 main integrating system accruals:
  - SIS – Records accruals related to tuition and financial aid transactions for each School based on the semester split methodology
  - Payroll – Records the activity related to the weekly and bi-weekly payrolls that occur in June but are paid in July

# Manual Accruals

Manual accruals are necessary because not all information for accruals resides in ARC or related systems:

- Typically, manual accruals are provided for activity on non-sponsored and non-capital Project Types
- Used to accrue all four types of accruals
- Used to accrue for all non-PO vouchers for invoices that are not entered in ARC by June 30 by relate to FY16
- Used to accrue for Open Commitments related to Services

Notes:

- We don't record accruals to/from other University units
- We don't record accruals for gifts
- All manual accruals will be reversed in the following accounting period

# Example Entries

- ARC natural accounts used for accruals (typically):
  - Expenses incurred, but not paid
    - Dr. 6-series expense account
    - Cr. 20500, Accrued Expenses
  - Prepaid expenses
    - Dr. 17100, Prepaid expenses
    - Cr. 6-series expense account
  - Revenue earned, but not received
    - Dr. 13350, Other receivables
    - Cr. 4-series revenue account
  - Deferred revenue
    - Dr. 4-series revenue account
    - Cr. 21100, Deferred Revenue

# Submission of Accruals



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- Manual revenue and expense accruals should be electronically submitted as follows:
  - Morningside and Lamont accruals - Prema Aier (212-854-3517, [pa2404@columbia.edu](mailto:pa2404@columbia.edu)), Maria McElwee (212-854-7231, [mm4038@columbia.edu](mailto:mm4038@columbia.edu)) or Yelena Weiss (212-854-1022, [yw2018@columbia.edu](mailto:yw2018@columbia.edu))
  - CUMC accruals - Jane Tian ([zt2125@cumc.columbia.edu](mailto:zt2125@cumc.columbia.edu)) and Stacey Tsai ([st2540@cumc.columbia.edu](mailto:st2540@cumc.columbia.edu))
- The following documentation must be submitted:
  - Accrual form with a clear explanation of the reason for the accrual and the full ChartString against which the accrual should be recorded
  - Supporting documentation for the accrual
- Daily submissions by 4pm will be processed that day; except the last day for processing direct charges (2pm)