

Accounting Accruals – What are they and why do we do them?

In order to be compliant with GAAP (Generally Accepted Accounting Principles), the University must include in its financial statements all expenses that are incurred during the year, as well as all income earned during the year. This requires that we process “accruals” for payables and receivables that are outstanding at June 30.

What is an accrual? When you pay a bill, the expense is recorded in the General Ledger; when you receive a payment for a service or good, the income is recorded in the General Ledger. At the end of each year, we need to make sure that expenses are recorded for all goods or services you have received during the year. We also need to make sure income is recorded for all goods or services you have provided during the year. There may be cases where you have not paid an invoice by June 30 for a good or service you received during the year. You may also have payments you have not yet received for a good or service you provided this year. In these cases, we need to process a journal voucher to record an “accrual” for the unpaid invoice and the outstanding income.

In short, accruals allow expenses to be reported when incurred, not paid, and income to be reported when it is earned, not received. As examples:

- A department orders and receives two computers at the end of June 2004. However, the bill is not received until July and is not processed until August. Because the computers were received in FY2004, an accrual journal for these expenses should be processed. This accrual would charge the appropriate 33-digit expense coding and would credit the balance sheet Accounts Payable liability.
- A department provides services to an outside institution in June 2004, but doesn't receive payment from the customer until July. Because the service was provided in FY2004, an accrual journal for this income should be processed. This accrual would credit the appropriate 33-digit income coding and would debit the balance sheet Accounts Receivable coding.

The following are the general rules regarding AP (expense) accruals:

- Accounts payable accruals should be made for items where a good or service has been received in the current fiscal year but will not be paid for prior to year-end. This includes items for which an invoice has been received but not paid, as well as items for which no invoice has yet been received. If no invoice has been received, then the department should process the accrual based either upon the known cost or an estimated cost if one can reasonably be predicted. Any known costs that are for a minimum of \$1000 must be accrued. It is preferable that items less than \$1000 also be accrued, but it is not mandatory.
- Departments should not delay processing these expenses because of lack of funding. Departments should consult with their financial office if there is a funding issue.