The presentation will be posted to the Accounting Office website.
The recorded webinar will be available for viewing through July 2nd
• This presentation along with our examples is to provide general guidance.

• At times, unique or unusual situations can arise. We ask that you contact the Accounting office to discuss these instances.

• We ask that all approved invoices for goods and services received or provided, be received in the Accounting Office by Friday, June 12th.

• This will reduce the number of accruals that will possibly need to be processed and recorded.
Introduction (cont)

- Please ensure purchase orders are promptly marked as “okay to pay” as appropriate in eBuy.
- Please continue to send approved invoices and payment requests to the Accounting Office after the June 12th cut-off. The Accounting Office will make every effort to process by June 30th but will prioritize based on materiality. Departments should monitor ledgers to see if an accrual is necessary for items sent to Accounting after June 12th.

- Please review eBuy to ensure POs are marked promptly “okay to pay” - This is a critical step not only at FYE, but throughout the year; If this step is not completed, the transaction will not process

- Review your eBuy messages

- Continue to forward your approved invoices to Accounts Payable after the June 12th cut-off.

- Accounts Payable will make every effort to have all transactions processed by 6/30 and reflected on the 7/1 FTDR.

- Departments should monitor PANs and their ledgers and submit accruals and deferrals by 7/2
Introduction (cont)

Let the Good Times Roll!
Let’s begin with, “Why do we process accruals and deferrals at year-end?” The answer is: To comply with Generally Accepted Accounting Principles (GAAP). (Also known as GAAP)

The goal of the year-end accrual process is to recognize expenses and revenues in the period in which the economic events are incurred, regardless of when the payment is made or received.

This process ensures accurate presentation of revenues and expenses on our ledgers and in our financial statements.

Expenses are recorded at the time the services or goods are received rather than when payment is actually made to vendors.

Revenues are recorded at the time the services or sales are provided rather than when payment is actually received from customers.

Following these accounting standards, let’s use Wimpy as an example

- If Wimpy receives $10K worth of hamburgers on June 29th but doesn’t pay for them until Tuesday, July 7th, he should process an expense accrual.
- If Wimpy’s purchasing pattern were to change, and he pays in advance for $10K worth of hamburgers on June 29th, but he doesn’t receive them until July 7th, he should process an expense deferral.

To meet our closing deadlines, accrual and deferral entries are processed based on materiality thresholds.
Materiality thresholds relate to the significance of transactions contained in the campus general ledger and reported to UCOP for the UC financial statements.

The initial materiality threshold is $10K for most of the campus. Items less than $10K should not be accrued or deferred unless there are special circumstances.

Service & Auxiliary Enterprises should refer to the supplemental closing letter published on the Accounting Office website.

The materiality thresholds escalate throughout the closing process because any additional accruals and deferrals processed require other closing steps, previously processed, to be revised or amended.

This is why we ask that you notify the Accounting Office as soon as possible when you have identified a potential accrual or deferral after the July 2nd deadline.
This materiality threshold schedule provides specific date ranges and dollar amounts.
The schedule is also included in the closing letter that was recently distributed to the campus.
Accrual and deferral entries submitted and approved by the July 2nd cut-off will be reflected on the Period 12 ledgers.
Following the July 2nd cut-off, the schedule dates refer to the date the accrual or deferral item was identified.

Some departments may not have any accruals or deferrals, but all large transactions should be examined and evaluated.

It is important for departments to keep track of the date that large value items are received
For example, the eBuy receiver date, the date stamped packing slip, and/or authorized acceptance of goods or services
Similarly, when large value services are provided by the campus and a revenue accrual is processed, documentation of service dates should be maintained.

The materiality threshold is based on the transaction date; therefore,
supporting documentation is important to assist with explaining circumstances to our external auditors
Now let’s look at an expense accrual in more detail.

All accrual and deferral entries appear on the ledger with a source code of ACL—including the reversal entries.

An expense accrual entry records an expense to the ledger for goods or services that were received in the current fiscal year and will be paid for in the following fiscal year.

The accrual entry records the expense to the June 30th ledger and is marked to automatically reverse on July 1st of the new year. The actual expense is then processed via normal channels in the new fiscal year.

Note that the example provided meets the initial materiality threshold of $10K, the goods were received at the end of one fiscal year and payment to the vendor is in the following fiscal year.

If the invoice, which is the best supporting document, has not been received, the accrual should be based on the PO or other supporting documentation.
We have included a ledger sample which shows the complete process—beginning with expense accruals and ending with payment to the vendor. The blue line separates fiscal year 2014 and fiscal year 2015.

In the fiscal year 2014 (the rows above the blue line), accrual entries are processed to record goods that were received in 2014 but had not been paid for by June 30th 2014.

On July 1st, in the following fiscal year--2015 (the rows below the blue line), the accrual entries are reversed.

The ACL source code entries (outlined in red) net to zero between fiscal years.

The final step is payment to the vendor through the normal Accounts Payable process—identified by source code ATP.

The new year vendor payment transactions—source code ATP and the new year reversing ACL entries net to zero (outlined in purple)

This leaves the expense in the old year as appropriate.
At times, a payment is requested PRIOR TO the delivery of goods or services. So an invoice is received; it is processed. Now the amount is appearing on your ledger.

The delivery of the goods or services will be received in the NEW fiscal year.

This is commonly referred to as prepaid expense.

We want to defer this expense until the NEW fiscal year.

The deferral entry removes the expense from the department’s June 30th ledgers and records the expense in the NEW FY via the deferral journal automatic reversal process on July 1st.
Our 1st Example shows that an ANNUAL software maintenance and licensing agreement renews on July 1st of the new FY. The invoice for $12,000 is received and processed in June of the current FY thru the standard process. The expense is now appearing on your June 2015 ledgers. An expense deferral is required to record the expense in the proper year.

Our 2nd Example shows that a “13th” monthly lease payment in the amount of $15K was recorded in June of the current FY thru the standard process. Only 12 payments (representing one per month) should be recorded in the current FY; An expense deferral is required to defer the “13th” payment and record the expense in the proper FY (which is the new FY).

If no deferrals are processed, an “overstatement” of expenses will be recorded in the current FY as well as an understatement of expenses in the NEW FY.

The deferrals will properly reclassify the expenditures into the appropriate FY.

What is an Expense Deferral?

Example 1:
A $12,000 invoice is received for an annual software maintenance and licensing agreement. The invoice is processed and recorded in June. However, the agreement period is July 1st thru June 30th of the following fiscal year. An expense deferral must be submitted to record the expense in the appropriate year.

Example 2:
A monthly lease payment of $15K recorded as of 6/30 results in 13 installments payments for the current fiscal year. It is only appropriate to record 12 monthly installment payments in any given year; the 13th payment must be deferred.
This a visual example of an expenditure and its related deferral AND how it will appear in the ledgers.

- The bold, blue shading separates FYs.

- A travel expense was recorded in FY 2014 for future travel in FY 2015.

- The actual expenditure is recorded in the current FY as a SOURCE ATP (accounts payable).

- A deferral is processed in FY2014 as SOURCE ACL.

- The ATP and ACL source codes net to -0- on the June 30th ledgers.

- The deferral is automatically reversed on July 1st of the new FY SOURCE ACL leaving the expense in the NEW FY.

*Note that the ACL source code entries net to zero. The transactions on the 6/30 ledgers net to zero, leaving the expense in the new fiscal year.*
What is a Revenue Accrual?

Accrued revenue is income that has been earned but not received and not yet recorded to the general ledger through the normal process (e.g. SIS-Campus Sundry Debtor Billing Process or Campus Recharge System). The accrual entry records the revenue with a June 30th date and then automatically reverses July 1st. The revenue is recorded when actually received in the new fiscal year via standard process.

Example:
A department performed and completed testing and data analysis as of 6/30 for a non-UCR entity, but the department was unable to process the billing of $11,500.00 via SIS by 6/30. A revenue accrual must be submitted, as well as a new year SIS billing.
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<td>Rev, Sales &amp; Service Ed. A 401746</td>
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<td>10,000.00</td>
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*Note that the ACL source code entries net to zero. The new year accrual reversal nets to zero with the deposit, leaving the revenue reflected on the 6/30 ledgers.*
What is a Revenue Deferral?

- Deferred revenue is income that has been received and recorded to the general ledger through the normal process but not yet earned. The deferral entry removes the revenue from the 6/30 ledger and through the automatic deferral reversal process records the revenue in the new fiscal year.

- **Example:**
  A department collects $25,000 in fees in the current fiscal year for a conference that will not take place until the following fiscal year. A revenue deferral must be submitted to record the income in the appropriate fiscal year.
Appropriate documentation is a UCRFS listing to deposits previously posted to the general ledger.

*Note that the ACL source code entries net to zero. The prior fiscal year transactions net to zero, leaving the revenue reflected in the new fiscal year.*
• **Bi-weekly Payroll accruals are for Service & Auxiliary Enterprises Only.**

• These departments can review the bi-weekly payroll accrual report (see next slide) and the Time & Attendance System (for actual time reported) for possible accruals.

• Use Time & Attendance System to identify staff changes between May and June. The bi-weekly payroll accrual report is based on staffing from the previous month. Adjust accordingly and provide rational.

• Determine if an accrual should be submitted for the pay period 6/21/15-6/30/15 based on materiality by FAU.

• Complete the bi-weekly payroll accrual form/template posted at: [http://accounting.ucr.edu/general/](http://accounting.ucr.edu/general/) under the “Fiscal Closing” tab and submit to Accounting by 07/02/15.

• If you are not a part of a Service & Aux Enterprise, a biweekly payroll accrual **will be booked by Accounting at a consolidated level for**
financial reporting purposes by Accounting.
The bi-weekly payroll accrual report is available thru R'Space – UCRFS Online Reports under “UCRFS Biweekly Payroll Accrual Report”.

The report will be updated June 26th to reflect projected 6/21/15-06/30/15 bi-weekly payroll based on previously processed payroll.

- The Bi-weekly payroll accrual report is available thru R'Space – UCRFS Online Reports

- The report will be updated June 26th to reflect projected 6/21/15-06/30/15 bi-weekly payroll based on the previously processed payroll.

- If you review any of the other reports posted, you will notice some months are blank. This is because the biweekly pay period end dates were on the last day of the month.
• We have some suggestions to help you identify expenses that may need to be accrued or in some cases deferred.
• We recommend that you analyze the nature of spending in your department and pay particular attention to large expenses that usually occur in late June or early July.
• Create a document that can be used as a checklist every year-end
• You may want to review open purchase orders over $10K to check and monitor expected delivery dates
• Pay special attention to invoices over $5K that were sent to you for department approval, near or after June 30th
Subcontract invoices typically involve material amounts.
We recommend that you review all contract and grant subcontracts during the month of June to confirm billing is up to date.
Check the status of invoices pending PI approval. If there is a legitimate reason for withholding payment, please advise the Accounting Office.
Request an invoice for any current year outstanding periods.

Occasionally, items that should have been accrued are overlooked and then you receive an invoice that brings it to your attention.
If this happens, please contact the Accounting Office as soon as possible.

<table>
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<th>Suggestions for Identifying Unrecorded Expenses</th>
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<tr>
<td>3. Review all contract and grant subcontracts during the month of June to confirm billing is up to date, check on the status of invoices pending PI approval, and/or request an invoice for any current year outstanding periods.</td>
</tr>
<tr>
<td>4. If you receive an invoice for a previously unidentified material expense after the July 2nd cut-off, please contact the Accounting Office as soon as possible.</td>
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</tbody>
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Accrual and deferral templates are posted at:
http://accounting.ucr.edu/general/ under the “Fiscal Closing” tab

The workbook contains multiple tabs for the various types of accruals and deferrals. Please delete the unused sheets prior to submitting to Accounting. Submit completed templates to: FYCLOSE@UCR.EDU
It is important that you continue to review the ledger until the fiscal close process has completed to ensure that expected entries have posted and to identify unexpected or erroneous entries.
Service & Auxiliary enterprises have different materiality thresholds because the ORG unit heads are interested in seeing the operation’s true financial position. The recharge rate or fee is based on the financial position.
How are outstanding encumbrance balances related to accrual requests?

Encumbrance balances can be a useful aid in the identification of potential accruals but may not be used alone to substantiate an accrual entry. For a valid accrual entry, the goods or services must have been received as of June 30th.

- Encumbrances are used to record obligations for goods and services which will be provided in future fiscal periods versus
- Accrued expense, which records the expense for goods and services that have been received or provided in the current year but will not be paid until the future fiscal year.
My department received $10K in equipment, but the payment to the vendor is not reflected on the ledger as of 6/30. Do I need to submit an accrual?

In most cases the answer will be yes but before submitting the accrual request
1. Confirm the equipment received is in acceptable condition – e.g. not damaged
2. Confirm that installation was completed if this was included in the purchase agreement
3. Receive the PO in eBuy, marking it “Okay to Pay”

*If the purchase agreement included installation that has not been completed as of June 30th, and the cost of the equipment and installation are itemized, only the cost of the equipment should be accrued. The accrual request should note that the installation has not been completed as of June 30th. If the equipment and installation are not itemized, and installation has not been completed as of June 30th, an accrual request should not be processed, however it is important to document the installation date for audit purposes. Please do not hesitate to contact the Accounting Office to discuss these
types of situations if you are unsure.
FAQ’s

› **Question:**
  I am not sure if I need to submit an accrual or deferral. What should I do?

› **Answer:**
  Discuss the situation with your department Financial Manager and/or organizational CFO. If questions still exist, contact Pauline Librenjak, Jerry Monahan, or Linda Casteel in the Accounting Office for assistance.
Contact Information

Send general inquiries to: UCRFSfeedback@ucr.edu

All other inquiries:

General Accounting Supervisor: jerry.monahan@ucr.edu
Assistant Controller: pauline.librenjak@ucr.edu
Treasury Manager: linda.casteel@ucr.edu
Any question that is specific to an unusual situation should be discussed offline.
Any question that we cannot answer, we will look into it and add it to our FAQ's.