



# Fiscal Close

Accruals and Deferrals

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# Introduction

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# Introduction

This material is intended to provide general guidance. Please contact the Accounting Office for unique or unusual situations

- Every effort should be made to have approved invoices and payment requests to the Accounting Office by the published deadlines to minimize the need for accruals
- Please ensure designated Receivers on purchase orders promptly take action in Oracle Procure to Pay after the order is received. Invoices cannot be paid without confirmation of receipt
- Please coordinate with Principal Investigators to approve subaward invoices promptly
- Please ensure designated Department Accounts Payable Financial Approvers promptly take action to approve invoices over \$10K by the designated cut-off date
- The Accounting Office will make every effort to process invoices approved after the cut-off date, however, due to the volume of invoices to process, priority will be given to invoices above the materiality threshold
- Departments should continue to monitor ledgers to determine if an accrual is necessary for invoices approved after the designated cut-off date



# Purpose of Accruals and --- Deferrals

# Purpose of Accruals and Deferrals

- To comply with Generally Accepted Accounting Principles (GAAP):
  - Expenses for goods and services should be recorded in the fiscal year received
  - Income for goods and services should be recorded in the fiscal year provided
- In order to complete the numerous fiscal closing entries and adhere to the UC financial reporting deadlines, accruals and deferrals are processed using materiality thresholds
  - The primary purpose of accruals and deferrals is the UC consolidated financial statements
  - Materiality threshold relates to the significance of transactions contained in the campus general ledgers and reported to UCOP
  - Individual transactions should be evaluated for accruals and deferrals based on the thresholds established by the Accounting Office as they related to the UC consolidated financial statements
- Accruals and deferrals are NOT common for most departments
- Accruals and deferrals are based on actual transactions with supporting documentation, not commitments/encumbrances
- Requests or Accruals and Deferrals will be evaluated to determine the impact on the UC consolidated financial statements, not individual department ledgers.



# Accrual and Deferral Types

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## What is an Expense Accrual?

- Accrued expenses acknowledge that goods and services were received (actually delivered or services performed) by 6/30, but the expense is not yet recorded through the normal transaction processing to be reflected in the general ledger in the related fiscal year
- The 6/30 accrual entry records the expense and offsetting payable for fiscal year-end
  - The accrual journal entry is marked to automatically reverse with a 7/1 accounting date in the new fiscal year (Journal Category “YE Accruals”)
  - The 7/1 entry should offset with the actual expense processed via the normal process in the new year
  - The result is the expense appears on the 6/30 department ledgers and the transactions in the “new year” department ledgers net to zero



## Expense Accrual Ledger Example

- A piece of scientific equipment costing \$300K is received on 6/27, the equipment is in good condition, and payment is not contingent upon installation. UCR has not yet received the invoice. An expense accrual must be submitted to record the expense on the general ledger in the fiscal year the equipment was received. The purchase order, receiving/packing slip, and PO receipt would be the supporting documentation for the accrual request.
- 6/30 ledgers reflect the equipment charge on the general ledger under the COA using the Journal Accrual Category
  - Debit \$300K
- 7/1 the accrual reversal will appear in the New Year general ledger under the COA using the Journal Accrual Category
  - Credit \$300K
- In the new fiscal year, when the invoice is processed, the payment will be processed and reflected in the general ledger under the COA used on the PO
  - Debit \$300K
- Impact > old fiscal year contains the \$300K expense for financial statement purposes and the new fiscal year transactions net to zero

## What is an Expense Deferral?

- Deferred expenses most commonly relate to prepayments of goods and services as required by a supplier
  - The expense is reflected on the general ledger for the fiscal year being closed, but the goods/services have yet been delivered/performed as of 6/30
  - The goods/services once delivered/performed will provide benefit to the university in the new fiscal year
  - The deferral entry reduces the expense from the department's 6/30 ledgers, and through the deferred journal automatic reversal process, records the expense in the new fiscal year (Journal Category "YE Accruals")
- Example 1:

A \$200K invoice is received for an annual software maintenance and licensing agreement. The invoice was processed and recorded in the old fiscal year. However, the agreement period is 7/1 through 6/30 of the following year. An expense deferral must be submitted to record the expense in the appropriate fiscal year. Note: a deferral will be required for agreements that cross fiscal years where the portion of the payment related to the new fiscal year and exceeding the defined materiality threshold, must be deferred.
- Example 2:
  - A monthly lease payment of \$110K is recorded as of the 6/30 ledgers resulting in 13 monthly installment payments in the old fiscal year. It is only appropriate to record 12 monthly installment payment in any given year; the 13<sup>th</sup> payment must be deferred
- Accounting entries
  - Old fiscal year ledgers contain debit for original transaction in department COA
  - Old fiscal year deferral of expense reflect deferral credit in department COA
  - New fiscal year deferral expense reversal debit
  - Result old fiscal year entries net to zero on department COA; and new fiscal year contains the expense on the department COA

## 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., Banner-Campus Sundry Debtor Billing process or campus recharge). In order to ensure the revenue matches when the services were provided, an accrual is required. The accrual entry records the revenue with a 6/30 date under journal category “YE Accruals” that will automatically reverse on 7/1. When the revenue is received in the new year, it will offset against the new year accrual reversal.
- Example:

A UCR service provider performed and completed testing as of 6/30 for a non-UCR entity, but the service department was unable to process the billing via Banner by 6/30 in the amount of \$150K. The department must submit a revenue accrual for 6/30 AND complete the normal SIS billing process in the new year

  - Accounting Entries:
    - Accrual entry books a credit to external revenue COA using journal category “YE Accruals” as of 6/30
    - On 7/1 the accrual reverses in the GL, debiting the revenue COA
    - In the new year, the normal SIS billing process will credit the revenue COA
    - Net result, old fiscal year reflect the revenue for services performed, and the new fiscal year entries net to zero

## What is a Revenue Deferral?

- Deferred revenue is income that has been received and recorded in the general ledger, but the services have not yet been performed. The deferral entry (journal category is "YE Accruals") removes the revenue from the old fiscal year ledgers, and through the automatic deferral reversal process, reflects the revenue in the new fiscal year.
- Example:

A department collects \$250K in conference revenue, however, the conference will take place in the new fiscal year. A revenue deferral must be submitted to record the income in the appropriate fiscal year
- Accounting Entries:
  - Department revenue contains credit through conference deposits in old fiscal year
  - The revenue deferral will reflect a debit to the department revenue COA in the old fiscal year
  - The revenue deferral reversal will reflect a credit to the department revenue COA in the new fiscal year
  - Old fiscal year entries net to zero; new fiscal year reflects the credit

## Bi-Weekly Payroll Accruals

- Applies to Service and Auxiliary Enterprises Only
- If the last bi-weekly payroll period for the fiscal year crosses over into the new fiscal year, a portion of the biweekly payroll may be eligible for accrual if the cost by COA exceeds the materiality threshold
  - This cost should be determined by reviewing the first payroll journal for the new fiscal year
  - Calculate the number of work days in the old fiscal year to determine accrual amount
- The Accounting Office will book an accrual at a consolidated level for financial reporting purposes exclusive of department accruals.

## Suggestions for Identifying Unrecorded Expenses

- Analyze the nature of spending in your unit. What are the estimated expenditures for the fiscal year? Is there a material difference in expenditures this year compared to prior year? What is the reason for differences?
- Do certain material expenses normally occur at fiscal year end?
- Review the "UCR Purchase Order Detail Report" and the "UCR PO Encumbrance Report" to help identify purchase orders that meet the accrual criteria (recommend focusing review of orders that meet or exceed the materiality threshold).
- Have any large orders outstanding? What is the status of receiving the goods/services? For goods/services that have been received, are there any issues with marking the order as received and/or approving for payment?
- What is the status of billing by sub awardees on contracts and grants? Are any invoices pending PI approval?
- When approving invoices after 6/30, consider any large transactions meeting the materiality threshold posted after 6/30 and reflected on July or August ledgers. Determine if an accrual previously submitted. If not, please contact the Accounting Office as soon as possible



# Submission Templates

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## Accrual and Deferral Templates

- Accrual and deferral templates will be posted on the Accounting Office website (<http://accounting.ucr.edu/general/>) under the “Fiscal Closing” tab when available
- The workbook will contain multiple tabs for the various types of accruals and deferrals
  - Please delete the unused sheets prior to submitting to Accounting
  - Submit completed workbooks to [FYCLOSE@UCR.EDU](mailto:FYCLOSE@UCR.EDU)

<b>Accrue External Income</b>	Accrue Internal Income	Accrue Expense	BiweeklyPayrollAccrual	Defer Income	Defer Expenses	Inventory
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# Frequently Asked Questions

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## FAQs

- Question 1: Do I need to continue to review my department ledgers after I have submitted all payment requests, accruals, deferrals, etc.?
- Answer 1: Absolutely! It is important to continue to review transactions appearing in July and August related to the prior fiscal year to identify and report on material entries
  
- Question 2: Do I need to submit an accrual or deferral for a transaction less than the established materiality threshold?
- Answer 2: No, it is not necessary. Submissions that do not meet the accrual/deferral criteria and have not been approved as an exception by the Accounting office (based on special circumstances), will not be processed. The materiality threshold relates to the significance of transactions contained in the UC consolidated financial statements, and the primary purpose of the accruals and deferrals is related to the UC consolidated financial statements
  
- Question 3: How are outstanding encumbrance balances related to accrual requests?
- Answer 3: An encumbrance by itself does not merit an accrual required. However, encumbrances balances can aid in the identification of expenditures that may need to be accrued, but additional research is required, such as determining if the goods/services were actually received by 6/30 and the expense is not reflected on the 6/30 ledgers.

## FAQs

- Question 4: My department received a piece of equipment costing more than the materiality threshold, but the payment is not reflected on the 6/30 ledgers. Do I need to submit an accrual?
- Answer 4: If the equipment exceeds the materiality threshold, has been received, is in acceptable condition and meets the payment terms outlined on the purchase order (e.g., payment due upon complete installation), then it would be appropriate to submit an accrual. The purchase order and receiving documentation should be included with the accrual request.
- Question 5: I am not sure if I need to submit an accrual or deferral. What should I do?
- Answer 5: Discuss the situation with your department Financial Manager and/or Organization CFAO. If questions still exist, contact the Accounting Office for assistance



# Contact Information

Send general inquiries to [UCRFSfeedback@ucr.edu](mailto:UCRFSfeedback@ucr.edu)

Specific inquiries to [jerry.Monahan@ucr.edu](mailto:jerry.Monahan@ucr.edu) or  
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