

Accrual Accounting

Methods of Accounting

- Cash
 - Record revenue when cash is received
 - Record expense when cash is spent
- Accrual
 - Expenses spread over the time of benefit (e.g. fiscal year)
 - Revenues matched to expenses

Cash Entries

- Receive paycheck:
 - Debit Cash (increases Cash)
 - Credit Revenue (increases Revenue which increases Net Assets)
- Pay electric/gas bill:
 - Debit Utilities (increases expense which decreases Net Assets)
 - Credit Cash (decreases Cash)

Accrual Accounting requires
the use of more Balance Sheet
Account Codes than just
Cash and Net Assets

Accrual Entries #1

- Pay Car Insurance in January:
 - Debit Prepaid Expense (increases Asset)
 - Credit Cash (decreases Cash)
- Each month, beginning in January:
 - Debit Insurance Expense 1/12 (increases expense which decreases Net Assets)
 - Credit Prepaid Expense 1/12 (decreases Asset)

Accrual Entry #2

- Each month, beginning in January:
 - Debit Insurance Expense 1/12 (increases expense which decreases Net Assets)
 - Credit Insurance Payable 1/12 (increases Liability)
- Pay bill in December:
 - Debit Insurance Payable full amount (decreases Liability)
 - Credit Cash (decreases Cash)

Budgets

- Make sure you have enough money to pay all the bills (don't have a deficit)
- A “reality” check to see how you're doing throughout the year

UNM's Budget

- Annual
- Very laborious
- Can't really tell how close we are to budget until Fiscal Year End

Regents' Monthly Report

- Break annual budget into 1/12 for each month
- Accrue large actual revenues and expenditures so that they are also spread on a monthly basis for the fiscal year
- Result is monthly comparability between budget and actual

Accrual Criteria

- Receipts/expenses that occur infrequently during the fiscal year
- Excluding Restricted Funds
- Materiality level of \$100,000 per category
 - “Category” may be one transaction or multiple related transactions
 - Departments may choose to accrue at a lower level

Prepaid Expenses

- Examples:
 - Membership dues
 - Subscriptions
 - Maintenance Contracts
 - Other Service Contracts
 - Facility Rental
 - Insurance Premiums

Prepaid Expenses

- **PREFERRED METHOD:**
 - No reclass journal entry is necessary if you use the appropriate Index and the Prepaid Expense account code – A900 - on the Purchase Requisition (PR) or Direct Pay Invoice (DPI)
 - Our example:
 - Athletics would put Index 925107 (Men's Soccer) and Account Code A900 on the Purchase Requisition or DPI

Prepaid Expense

- Reclass Journal Entry:
 - If an expense account code was charged when paid:
 - Debit Prepaid Expense (A900) account code (increases an Asset)
 - Credit expense account code originally charged (decreases an expense which increases Net Assets)
 - Our example:
 - Debit 925107 A900 \$198,000
 - Credit 925107 8060 \$198,000

Prepaid Expenses

- Monthly Journal Entry, beginning with month paid:
 - Debit Expense account code for 1/12 of total amount paid (increases Expense which decreases Net Assets)
 - Credit Prepaid Expense account code A900 for 1/12 of total amount paid (decreases Asset)
- Our Example, beginning in March:
 - Debit 925107 8060 \$16,500
 - Credit 925107 A900 \$16,500

Prepaid Expense

- Result by the time the next bill is received:
 - Prepaid Expense has been reduced to zero
 - 1/3 of the total expense has been recognized in the first fiscal year, and 2/3 has been recognized in the next fiscal year.

Other Accrued Payables

- Examples:
 - Membership dues
 - Subscriptions
 - Maintenance Contracts
 - Other Service Contracts
 - Facility Rental
 - Insurance Premiums

Accrued Payable

- **PREFERRED METHOD:**
 - No reclass journal entry is required if you put the Other Accrued Payable account code (L110) on the PR or DPI
 - Our example:
 - Athletics would put Index 925107 (Men's Soccer) and Account Code L110 on the Purchase Requisition

Accrued Payables

- Reclass Journal Entry:
 - If payment was charged to an expense account code:
 - Debit Other Accrued Payable account code (L110) for full amount of payment (decreases Liability)
 - Credit Expense account code for full amount of payment (decreases expense which increases Net Assets)
 - Our example:
 - Debit 925107 L110 \$198,000
 - Credit 925107 8060 \$198,000

Other Accrued Payables

- Result when the bill is paid:
 - Other Accrued Payables has been reduced to zero
 - 1/3 of the total expense has been recognized in the first fiscal year, and 2/3 has been recognized in the next fiscal year.

Revenue Accruals

- Accounts Receivable
- Deferred Revenue

Questions??

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