

FYE: An Accrual Example ^[1]

At the University of Colorado, our fiscal year ends at midnight on June 30. Sometimes there are expenses that span fiscal years. For example, maybe an expense incurred in June wasn't paid for until July. When that happens, it needs to be accrued so that it's recorded in June, when it was incurred, and not in July.

Watch the video

Read the procedures

1. Let's imagine your office needs copy paper. You place an order in CU Marketplace and the paper is delivered in June. However, the invoice doesn't arrive until July. This expense was incurred in June when the order was received, but it was posted in July when the invoice was entered. In the middle of these two events, on June 30, is fiscal year-end.
2. Journal entries are recorded in the Finance System (FIN) to account for this purchase.

The first journal entry records when the invoice is received in July. It is a debit to the Expense account and a credit to the Accounts Payable account in the amount of the invoice.

The next journal entry records the invoice payment, also in July. This journal entry is a debit to the Accounts Payable account and a credit to the Cash account.

3. However... This expense needs to be accrued so it's recorded in June, when the copy paper was delivered. In other words, when it was incurred.

This accrual journal entry is dated the last day of the period, in this case June 30, and is a debit to the Expense account and a credit to the Accounts Payable account.

4. Now we have this expense in both periods - that's why the accrual entry needs to be reversed. The key is that the reversal entry is dated July 1 and is the exact opposite of the original accrual entry: a debit to Accounts Payable and a credit to Expense.

So we see a lot of entries that happened in July, but some of them cancel each other out. We're left with the expense in June and its payment in July.

5. How do the accrual and reverse accrual entries look on your financial reports? Check out the m-Fin Financial Detail II report:

Automated accruals have journal IDs that begin with the letters ACC. We recommend that you use the same naming convention for your manual accruals. The initial accrual journal entries are dated June 30 even though they are run in July. Reverse accrual journal entries are dated July 1 and have the same Journal IDs as the original accruals.

6. One more thing you should know: For CU Marketplace and Procurement Card expenses, the Office of University Controller creates both the accrual and reversal journals. For other expenses (like Travel Card transactions), each department determines if the amount is material and warrants a manual accrual entry. If you're going to be creating accrual journal entries, use Account 100100 (AP manual) ... and contact your campus controller's office for assistance.

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Questions & Feedback ^[2]

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Controller

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