Accruals and Deferrals Q&A

June 14, 2019

1. **Why do we process accruals and deferrals at year-end?**
   ➢ To comply with Generally Accepted Accounting Principles (GAAP), expenses should be recorded in the fiscal year the services or goods are received and income for goods and services should be recorded in the fiscal year provided.

2. **To meet our closing deadlines, accrual & 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.**
   What is the accrual/deferral threshold for the 2019 fiscal year?
   ➢ $50K

3. **A $60K piece of equipment was received in acceptable condition by 6/30/19, however as of 7/5/19, an invoice has not been received. Is an accrual needed?**
   ➢ Yes. The PO, the date stamped packing slip, and/or authorized acceptance of goods or services is the supporting documentation for the accrual.

4. **Is an accrual processed for all encumbrances $50K and over?**
   ➢ No, an encumbrance is not the basis for an accrual, rather the accrual determination is based on when the goods/services are received for expenditures and when the services were performed for revenue. When goods/services have been received, goods/services are in acceptable condition by 6/30, and the payment is not reflected in the general ledger, an accrual should be processed. Similarly, if services are paid in advance (e.g. annual maintenance agreements, leases, etc.), a portion of that expense may need to be deferred. A review of encumbrances can help identify potential accruals and a review of previously posted payments may help in identifying potential deferrals.

5. **What is the UCRFS source code that identifies accruals & deferrals?**
   ➢ The UCRFS source code "ACL" identifies journal transactions with a reversing component in the new fiscal year (i.e. accruals and deferrals).

6. **If an accrual was processed, does the invoice still need to be processed for payment to the vendor?**
   ➢ Yes, invoices should continue to be processed through the normal procedure in the new fiscal year. The purpose of the accrual/deferral is to ensure the general ledger reflects the accounting transaction in the appropriate fiscal year. The accrual/deferral entry processed with an effective date of 6/30/19 will reverse 7/1/19. For example, a piece of $100K equipment is received prior to 6/30 and is in acceptable condition*, however, the invoice from the vendor was received in late June and was not processed in time to be reflected on the 6/30 ledgers. An accrual should be requested. The accrual will result in an expense being posted on the 6/30 ledgers. The accrual will reverse in July; this credit expense will offset with the actual payment to the vendor in the new fiscal year. The net effect is an expense in FY19; transactions in FY20 will offset. Similarly, if an

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expense is deferred, the FY19 deferral will offset with the actual vendor payment, then the expense will be reflected in FY20 when the deferral reverses.

7. **A $50K+ expense was paid in June for goods or services that will be received in July. Is an entry required?**
   ➢ Yes, a deferral must be processed.

8. **Revenue (totaling $50K or more) for a program or event being held in FY2020 is received prior to 6/30 of the current year. Is an entry needed?**
   ➢ Yes, a revenue deferral must be processed. The threshold would be based on the total collected for a single program or event.

9. **The goods or services ($50K or more) are not received by 6/30 but the department prefers the expense post in the current year. Should an accrual be processed?**
   ➢ No. The goods/services must be received in the current year to substantiate an accrual.

10. **The Accounting Office deadline to submit invoices and other payment requests for June payment has passed. Should payment requests be held until July?**
    ➢ No. Continue with your normal business processes. Accounts Payable will prioritize payment requests based on materiality.