

SECTION 4.05 – YEAR-END ACCRUALS

Contact: Accounting @ Extension 4176

A. **Overview**

The district's fiscal year ends on August 31st. For a period of time in September, both the old fiscal year and the new fiscal year are considered "open" and transactions (both revenues and expenditures) are recognized or charged to either the old year or the new year depending on certain criteria. The criteria guiding which year an expenditure is charged to is governed by Generally Accepted Accounting Principles (GAAP) and affects the financial statement's presentation. GAAP requires that the district record its expenditures on an accrual basis. This means expenditures should be recognized in the period in which the benefit is received, regardless of when payment is made.

B. **Accounts Payable Expenditure Accruals**

The accounting office processes special accrual runs for invoices covering goods received and services rendered by August 31st, 20XX. Special criteria apply to school and department orders to govern the year in which an expenditure transaction is charged. Invoices must be received by a September deadline within the open period in the accounting office (said deadline is announced each year by the accounting office).

C. **Payroll Accrual**

The payroll office processes a special payroll run of timesheets for work performed before August 31st, so that the expenditures from those timesheets can be accrued to the proper year. Timesheets must be received by a September deadline in order to be processed in the special payroll accrual run (said deadline is announced each year by the payroll office).

D. **Receipt and Revenue Accruals**

Receipts and revenues processed during the months of August and September are either accrued as revenue or deferred as next year's revenue. For example, most receipts collected by schools during the registration period in August are considered next year's revenue. It is important that sites submit their Point of Sale receipting system End-of-Period (EOP) reports timely for year end.

E. **Inventory Accrual**

Goods ordered on a next year's PO, where the goods are received by or before August 31st, are accrued/included as part of the asset inventory balance in the financial statements. Dates entered in BusinessPlus' on-line receiving module should be the actual date the goods were physically delivered to the site.

F. **Prepaid Items**

Services for next year that are paid for with this year's funds are accrued as a prepaid item in the financial statements, while the actual expense is charged to the next year. There are limited examples where this is appropriate, such as payments made in June for subscriptions and registrations for next year.

G. This Year vs. Next Year PO – Impacts on Financial Statements

The fiscal year ends on August 31st. The accounting office is able to differentiate and charge expenditures to the new year or accrue the expenditure to the old year during a short open period in September. Accounting largely relies on the year the PO is encumbered (this year vs. next year) to drive how the expenditure is charged based on the following set of assumptions:

THIS YEAR PO Current Fiscal Year	NEXT YEAR PO Next Fiscal Year
Services completed before September 1st.	Services to be completed on or after September 1st.
Registration for training, conferences, or workshops held before September 1st.	Registration for training, conferences or workshops held on or after September 1st.
Supplies for immediate use in your school or department, or for use in summer school.	Supplies to be used in the next school year.
Books/curriculum materials for use in any part of the current school year, or use in summer school.	Books/curriculum materials to be used starting in September.
Annual Memberships/Dues paid no later than May 31st.	Annual Memberships/Dues paid after May 31st.
Computers/equipment for immediate use, or for use in summer school.	Computers/equipment to be used starting in September.

Schools: When talking about supplies, “immediate use” means the supplies purchased will be put into use immediately and the bulk of them will be consumed before the start of the new school year. If you are a school site purchasing supplies/goods in June, unless it is for summer school, the likelihood is that those goods are to benefit the coming school year period (not the school year period that is coming to a close). Therefore, the PO should be for next year.

Departments: If you are a department purchasing supplies against your department budget in June, July, or August, the likelihood is that it should be considered a “this year” expenditure. Department purchases are not as tied to the school year because department operations are year-round operations.

The date sites are allowed to begin encumbering next year POs is limited by the finance and business services department to a date near the end of the school year.

H. Date Received – Impact on Budget and Financial Statements

At the fiscal year end it is important to “on-line receive” your goods as soon as they are delivered and checked in. **The date entered as “received” via the on-line receiving system is also a crucial factor reviewed by accounting in determining the correct budget year to charge the expenditure or when to include it in the balance reported as inventory in the financial statements. See table illustration below:**

Which Year PO	Date Goods Received	How or Where Charged
Goods on a “next year” PO	Goods physically received by August 31st	<ul style="list-style-type: none">• Expenditure should be charged to the new budget year• May also be recognized as an inventory asset of the current year’s financial statements.
Goods on a “this year” current year PO	Goods physically received after August 31st	Expenditure will be charged to the new budget year.
Goods on a “this year” current year PO	Goods physically received by August 31st	Expenditure may be charged to the current budget year.

Note: As a general rule, the date entered in BusinessPlus’s on-line receiving module should be the actual date the goods were physically delivered to the site. The table above illustrates the assumptions used by accounting to determine proper treatment of each payables transaction at year end. The year in which the expense will be charged is not the only consideration. Whether it qualifies as inventory on hand at the time the books are being closed is important. If the goods qualify as inventory, it doesn’t impact a site’s expenditure budget, but, it is crucial to capture the value as an asset and an overall district liability on our financial statements. Meanwhile, payment will be made in the next fiscal year.

I. Journal Entries, Account Code Changes, Debit/Credits, and Work-Orders

Sites are responsible for tracking and staying closely tuned to their budgets. Once the open period for the fiscal year has passed, journal entries, account code changes, work-order postings, and debit/credit charge forms can no longer be processed or posted to the old year. All transactions against the old year must be received in the accounting office by a September deadline (announced each year by the accounting office). Sites doing work order postings in BusinessPlus, must have all work-order transactions for the closing fiscal year posted by the September deadline. It is important that sites timely submit correcting paperwork (Journal Entries, Account Code Changes) so that everything is in order by the time the year is officially closed.

J. Closing Out and Cleaning Up Outstanding Encumbrances

It is especially important near year end for sites to track their budgets, review transaction recap activity, and follow-up on their budget's outstanding open purchase orders. Accounting is also doing their part to assist by reviewing open PO status reports and contacting sites to resolve old outstanding open POs.

K. Invoices for KCDA Start Up Orders

KCDA is an example of a vendor that sites have a lot of purchasing activity with, near or around the time that school is getting out, or over the summer, with the orders being primarily for goods to be used in the next school year. The goods are usually delivered and stored over the summer months, and are not intended for use during summer activities. KCDA invoices on these orders are billed and start coming due, anywhere from late June through August. It is important that sites be diligent about checking these orders in and receiving them on-line so that payment can be processed and appropriate discounts taken.

KCDA invoice totals consist of the product cost, plus tax, plus administrative fee, plus freight (if applicable), less the allowed case discount. KCDA does not charge tax on their administrative fee. At fiscal year-end, depending on when the goods have been delivered and received, the KCDA goods may be accrued in the district's financial statements as an inventory asset, and a liability.