University of California
HASTINGS COLLEGE OF THE LAW
Office of Fiscal Services

Year-End Close Supplement
Accounting for Expenditures, Accruals and Commitments

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A. OVERVIEW

The main objective of fiscal year-end close is to record all financial transactions in the proper accounting period to ensure the timely and accurate production of the College's financial statements, which are subject to review by an independent auditor. The auditors express an opinion about the fair representation of the College's financial position as demonstrated by these statements. Bondholders, grant agencies, the Department of Education, donors and others rely upon these independently audited statements to assist in determining the financial strength of the College. It is our objective to ensure that the financial statements are fairly stated, and receive an unqualified opinion from the auditors.

The College's accounting period is on a fiscal year basis from **July 1st to June 30th**.

The College's financial statements are prepared under the accrual basis of accounting and follow Generally Accepted Accounting Principles (GAAP). Expenses are recorded in the fiscal year in which they are incurred and revenue is recorded in the same year as the expenses that generated the income. The College has an additional budget reporting requirement to the State's Department of Finance (DOF). In addition to expenditures, DOF requires reporting of the current year's commitments.

The following information describes how Fiscal Services accounts for expenditures, accruals, and commitments during the year-end close process.

B. DEFINITIONS

To assist in understanding the treatment of expenditures, accruals and commitments and the year-end close process in general, the following definitions are provided.

1. Accrual Basis of Accounting – An accounting measurement method that ignores whether cash has been received or paid. This method considers revenues earned, but not collected in cash, and expense incurred, whether paid in cash or due to be paid. In other words, revenues are recorded in the period earned, regardless of when payment is received and expenditures are recorded when they become valid obligations (usually based on when the goods and services have been received), regardless of when paid.

2. Accruals – These are the recording of material revenues and expenditures in the current fiscal year for which payment is received (revenues) or disbursed (expenditures) in the next fiscal year. If an accrual is necessary and not established, the College's independent auditors may issue a qualified opinion regarding the fair presentation of the College's financial statements. Further, if an accrual is not established, the invoice will be charged to the new fiscal year, reducing the department's budget allocation.

   Expense Accruals

   - Expense accruals are needed when the College receives goods and/or services on or before **June 30th** but the associated invoices have not been paid.

   - Invoices submitted for payment through ***Friday, July 10, 2015*** will be accrued by the Accounts Payable department if the goods or services were received by **June 30th**. Thereafter, Department Heads are responsible for informing Accounts Payable when an invoice has not been received for goods/services received/rendered by **June 30th**. This information assists Fiscal Services in determining the outstanding liabilities of the College as of **June 30th**.

   - Another method used to determine the need for expense accruals is to review the outstanding purchase orders and accounts with large available budget balances. Department Heads must notify Purchasing by ***Friday, July 10, 2015*** of the purchase orders to keep open to pay outstanding invoices.

   - Supporting documentation such as a packing slip, bill of lading or other proof of receipt is required to establish an expense accrual in that it confirms the date goods were received.

   - Accruals are generally not established for invoices less than **$5,000.** Invoices for less than this amount will be charged to the new fiscal year budget allocation.

- An example of an expense accrual is when a **$6,000** computer is purchased and received on **June 17, 2015** but the invoice is not received until **July 20, 2015.** In this case, the Department should notify Purchasing to keep the associated purchase order open and inform Accounts Payable of the outstanding invoice. The AP staff will accrue and charge the expense to **2014-15** and pay the invoice in **2015-16**.

- Department Heads should contact Robin Crawford (415-565-4746) in Accounts Payable if an expense accrual needs to be established.

Revenue Accruals

- Revenue accruals are necessary when revenue is earned in one fiscal year and the billing for the services provided has not been made. A revenue accrual may also be required to ensure income is recorded in the same year as the expenditures that generated the income.

- Departments generating revenue which may need to be accrued include those who host workshops, symposiums, sell journals or other materials. Federal grant funds are another revenue source that often needs to be accrued. The associated expenditures are often recorded in the current fiscal year but the College is not reimbursed until the next fiscal year. In these cases, a revenue accrual is necessary.

- Gift pledges are another example of when a revenue accrual may be required. Specific information, however, is required. Department Heads should contact the Alumni Center for more information on gift pledges. The Fiscal department works directly with the Alumni Center in establishing these pledges.

- Revenue accruals are generally not recorded for events less than **$5,000**.

- Department Heads should contact Sandra Plenski, (415-581-8863) in Accounts Receivable by ***Friday, July 10, 2015*** if a revenue accrual needs to be established.

3. Commitments – applies only to expenditures. Commitments are goods ordered in the current fiscal year which are not received until the subsequent fiscal year. Commitments are supported by an encumbrance against the department's current year budget allocation. A commitment is represented by one or a combination of the following depending upon the nature of the commitment:

   - A fully executed contractual agreement.
   - A fully executed purchase order secured from Purchasing by no later than ***Friday, June 19, 2015***.
   - An order confirmation or similar document representing the vendor's obligation.

   Before a commitment can be authorized the Department Head will be asked to provide documentation to substantiate the encumbrance as a commitment. If the commitment cannot be

substantiated, the current year encumbrance will be closed and a new one opened in the subsequent year.

Commitments will not be established for items costing less than **$5,000**. Further, commitments will not be authorized for the following, regardless of the amount:

- Personal reimbursements
- Travel and travel related expenditures
- Registration fees
- Consulting services
- Internal recharges
- Items purchased under blanket purchase orders
- Payroll related items
- Membership dues
- Services

See "Encumbrances (#B4)" for more information.

4. Encumbrances – Encumbrances represent commitments for expenditures and are supported by College authorized purchase orders. Purchasing is the only department authorized to generate purchase orders on behalf of the College. The last day to open a **2014-15** purchase order is ***Friday, June 19, 2015***.

   Fiscal Services and Purchasing review open purchase orders to determine if the encumbrance represents a current year expenditure or commitment.

   By no later than ***Friday, July 10, 2015*** all **2014-15** purchase orders will be closed unless Purchasing is requested to keep specific purchase orders open. Invoices received subsequent to that due date will be charged to **2015-16** if the purchase order was not confirmed to be left open or if an expense accrual was not established.

5. Expenditures – The amount charged by a vendor for providing goods and services.

6. Obligations – The amounts a department may be legally required to pay from its budget allocation for goods or services received.

C. DETERMINING EXPENDITURES, ACCRUALS AND COMMITMENTS

Following is a detailed description of the process Fiscal Services follows to determine the appropriate fiscal year where expenditures will be charged. These processes are also depicted in the year-end closing flowchart.

1. **2014-15** Year Expenditures

   Expenditures are charged to the **2014-15** fiscal year if the goods/services are received/rendered on or before **June 30, 2015**. Department Heads/Budget Managers are required to ensure that all invoices, travel reimbursements, check and other disbursement requests for such items are submitted to Accounts Payable by no later than ***Friday, July 10, 2015***.

   Expenditures will be charged against the **2015-16** budget allocation if the goods/services ordered are received/rendered on or after **July 1, 2015** **and** a **2014-15** year commitment was not previously authorized.

2. **2014-15** Year Expense Accruals

   An accrual (generally greater than **$5,000**) can be established for **2014-15** if goods/services ordered are received/rendered on or before **June 30, 2015** and the vendor has not been paid.

   If an invoice has not been received, Department Heads/Budget Managers must contact Robin Crawford (415-565-4746) by ***Friday, July 10, 2015*** to establish an accrual. If an accrual is not established, the invoice will be charged to fiscal year **2015-16**, reducing the funds available to the department for that fiscal year.

3. **2014-15** Commitments

   Departments expecting to establish commitments against their **2014-15** budget allocation must secure a **2014-15** purchase order by no later than ***Friday, June 19, 2015***.

   By ***Friday, July 10, 2015***, if the goods and/or services have not been received/rendered, the Department Head/Budget Manager must confirm the need for the outstanding purchase order to support the commitment. A commitment will be authorized if:

   - The item(s) was ordered in **2014-15** **and**
   - The item(s) ordered is secured with a **2014-15** purchase order **and**
   - The item ordered is for **$5,000** or more **and**
   - The documents described in B.3 above are available to support the commitment **and**
   - The goods/services associated with the item ordered have been or will be received/rendered in **2015-16**.

   Invoices for commitments require special handling by Fiscal Services to ensure they are not charged against the department's next fiscal year budget allocation. Department Heads/Budget Managers should contact Robin Crawford (415-565-4746) to request a commitment.

NOTES:
Questions regarding this document can be directed to Deborah Tran, Fiscal Services Controller at (415) 565-4740.