

Best Practice Guides - Number 1

Accruals and Prepayments

Key Points

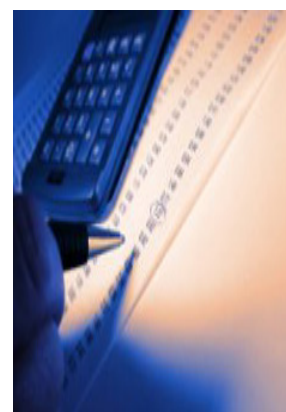
- Make adjustments using journals
- Especially at half-year and at year end
- Where material?
e.g. >1% of income or £10,000
- Accruals : use transaction code **VBAK**
- Prepayments : use transaction code **UNGA**

What are they?

It is important that the University's financial accounts give an accurate picture of what happens in which period. Often, the period in which goods are delivered or services take place differs to the period an invoice is raised or paid for. If this occurs, the accounts do not clearly reflect what has happened in the correct accounting period. This may lead to both the Departmental and University accounts being incomplete.

What does this mean for the University?

To improve the accuracy of monthly accounts, Departments are encouraged to take account of timing differences between making a financial commitment and processing the relevant invoice. This is especially important at half year or year end. Appropriate adjustments should be made on CUFS to reflect the correct income or expenditure in the period. This improves management information at department level by giving a clear reflection of what is happening when. It also helps significantly in relation to forecasting and budgeting.



Exceptions to the rule...

Due to the complex nature of the University's accounts, there are some occasions where it is not appropriate to process an accrual.

- **Don't** accrue for income from donations
- **Don't** accrue for expenditure on fixed assets **except at year end**
- **Don't** accrue for expenditure on research grants

See over for examples

When do I need to carry out an adjustment ?

Materiality is a term used to describe at what value an item becomes significant to the accounts, and warrants action.

It is important to be as accurate as possible whilst balancing the amount of time it will take to carry out the adjustments. As a rough guide to the level of materiality, Departments should use the greater of 1% of income or £10,000.

However, this is not a concrete rule as to when an adjustment should take place; very often the assessment of what is material is a matter of judgment. It can vary between Departments, and from one type of expenditure to another.

Note.....

If you have any doubts about carrying out an adjustment

or

if you would like further assistance

Contact your **Finance Adviser**

EXAMPLE: A staff member has a personal development allocation of £200 p.a. They attended a conference in July which cost £50. It would be very important to the staff member that the expenditure is posted to the correct year, as this would reduce their allowance if posted to the following financial year. This would not be material to the University's accounts but would be a valid adjustment as it is material to the individual and Department concerned.

An example of an adjustment for accruals

During any accounting period there may be some costs which have been incurred but not paid for

i.e. services or goods that have been received but where the University has not yet received an invoice.

An engineer comes out to a department and repairs a machine in the middle of July.

You know (or can estimate) that the work is going to cost £1,200,

and that you won't receive the bill until the end of August.

An adjustment should take place in the July period, which takes account of the expense that has occurred.

This can be carried out by raising a journal in the normal way...see below...

Debiting : the **normal codes with the expenditure**

Crediting: your **department code** **XX**
cost centre **0000**
source of funds **0000**
transaction code **VBAK,**

Then select "**more actions**" and reverse out in the next period (in this example it would be August).

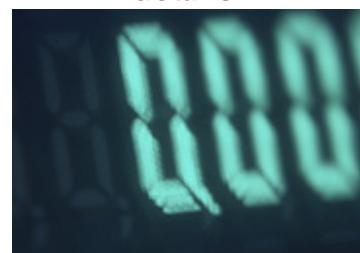


An alternative for processing accruals...

is to process the accrual using the relevant Source of Funds with the accrual transaction code e.g. PQAB.GAAA.VBAK (for a trading related accrual).

This method allows for the classification of accruals or prepayments to specific cost centres & sources of funds, but can be confusing when using some CUFS reports.

See your FA or FM for details.



An example of an adjustment for prepayments

These occur when you pay for goods or services in advance and those goods or services actually relate to a future financial period.

You have been invoiced for a license fee and the invoice is processed in July, however it relates to the following financial year.

An adjustment should take place in the July period and the prepaid element will then be a charge in the following year—in August.

The value of the invoice (and its materiality) would dictate if it is more relevant to leave the whole of the prepaid amount in the month of August or if it was necessary to gradually reduce the prepayment over subsequent periods to which the invoice relates.

This can be carried out by raising a journal in the normal way by.....

- **Debiting:** your **department code** **XX**
cost centre **0000**
source of funds **0000**
transaction code **UNGA (Prepayment)**
- **Crediting:** the **same codes on which you paid the invoice**

Then select "**More actions**" and reverse out in the correct period.