

1. Title

Accounts Payable and Accrued Expenses

2. Policy

Sec. 1 Policy Statement. The accrual basis of accounting should be utilized in measuring financial position and operating results. The accrual basis recognizes expenses in the accounting period in which those transactions, events, or circumstances occur (goods or services are received) and become measurable.

Sec. 2 Alternatives for Accruing Expenses. There are two alternatives for accruing expenses: implementing a general process for accruing invoices through a certain date or performing an analysis of historical data to estimate accruals (lag analysis). A general process for accruing invoices may include keeping the payable cycle open for a longer period, setting a scope for estimating accruals, or other means for estimating accruals. The lag analysis is useful for capturing normal expenses that do not vary significantly from period to period. A combination of the two alternatives may be advantageous if the institution can specifically identify and reasonably estimate some accrued expenses, particularly those that are large and recurring.

Sec. 3 Encumbrances. Encumbrances should not be included with expenses, and liabilities are not to be reported since the amounts are not yet owed under the accrual basis.

Sec. 4 Purpose. This accounting policy documents authoritative literature for the accounting treatment of accounts payable and accrued expenses.

Sec. 5 Authoritative Source. Governmental Accounting Standards Board (GASB) Statement 35 amends GASB Statement 34 to include public colleges and universities within the scope of that statement. GASB Statement 34 requires that institutions that report as Business Type Activities (BTAs) follow accrual accounting. When goods or services are received, a liability should be recorded, unless cash is immediately paid. Procedures should be in place to capture these liabilities when a Statement of Net Assets or Balance Sheet is prepared. [1]

¹2005 National Association of College and University Business Officers (NACUBO) Financial Accounting and Reporting Manual for Higher Education Section 308.2

Sec. 6 Guidelines for Accrued Expenditures.

6.1 Controls.

- (a) Cutoff procedures are intended to ascertain that all transactions have been recorded in the proper period. Procedures should be in place to assure that expenses are recorded in the appropriate period. In general, the sooner the accounts are closed after year-end, the greater the likelihood that there will be unrecorded invoices.
- (b) Other controls include reconciling the accrued expense accounts to the subsidiary ledger if the accounting system facilitates the use of subsidiary ledgers. If not, the accounts should still be reconciled and the detail reviewed. Any debit balances should be examined and resolved.
- (c) In a decentralized environment, the possibility of unrecorded liabilities may be more significant than in a centralized environment and may warrant a procedure for formal inquiry of department heads, supervisors, and others regarding knowledge of unprocessed invoices, unrecorded commitments, or contingent liabilities.

6.2 Methods for Determining the Amount to Accrue. The methods for determining the amount of expenses to accrue include specific identification, the use of a lag analysis, or a combination of both. The methods used to arrive at the best estimate should be used consistently and based on supportable documentation. The methodology, source of information, computations, records of discussion, and assumptions should be documented and maintained for future reference, oversight, or audits.

(a) Specific Identification.

(i) Overview.

- (A) Each institution should establish a minimum whereby amounts in excess of that minimum will be accrued. The amount is determined by professional judgment and experience with the institution's accrued expenses. In no event should that minimum exceed a materiality level for that institution.

- (B) All known obligations incurred, but not paid prior to year-end, in excess of that minimum shall be accrued.
 - (C) Accrued expenses are also used to account for identified obligations that can only be estimated (e.g. utility costs).
- (ii) Items to Consider for Specific Identification. Specific accruals may include, but not be limited to:
- (A) salaries, including faculty salary accrual;
 - (B) related fringe benefits and payroll taxes;
 - (C) other employee benefits including employee deferrals (savings and investment plans), retirement plans, post-retirement benefits and other costs;
 - (D) construction in progress, including retainage payable (see [UTS142.4](#));
 - (E) interest on external debt;
 - (F) insurance, based upon the portion of the policy year until payment is made;
 - (G) utilities;
 - (H) rent; and
 - (I) taxes – may include unrelated business income taxes, real property.
- (iii) Separately Calculated Accruals. Certain accruals are separately calculated and reported from accounts payable and accrued liabilities. Examples may include, but are not limited to:
- (A) investment trades payable;
 - (B) actuarial calculated liabilities – incurred but not reported self-insurance claims;

- (C) securities lending obligations;
 - (D) dues to other agencies;
 - (E) deferred revenue;
 - (F) employees' compensable leave;
 - (G) notes, loans, and leases payable;
 - (H) bonds payable; and
 - (I) liabilities to beneficiaries.
- (b) Lag Analysis. It may be preferable to estimate the amount of accrued expenses by taking into account existing data, trends, and historical information. One way to achieve this is to perform a lag analysis.
- (i) Overview.
 - (A) Professional judgment should be used in determining which accrued expenses are conducive to a lag analysis.
 - (B) Performing a lag analysis requires an analysis of data payment history to facilitate a reasonable estimate of amounts to accrue at year end. It is preferable to have at least three years of historical data when performing the analysis.
 - (ii) Recording the Accrual.
 - (A) Each institution shall record the accrual at the functional and natural class level.
 - (B) Entries made to record accruals should be reversed in the subsequent period.
- 6.3 Exclusions from Accrued Expenses.
- (a) Expenses Related to Contracts and Grants. There are certain implications when accruing expenses related to contracts and grants. Lag analysis methodology cannot

be applied to these expenses. However, specific identification for accruing these expenses can be used, subject to certain additional procedures.

- (i) Some of the accounting implications of accruing expenses related to contracts and grants are as follows:
 - (A) the Schedule of Expenditures on Federal Awards (Schedule 1A) requires actual supported expenses;
 - (B) funds passed to or from other agencies must agree and accruing expenses in award accounts requires coordination between agencies and due to/due from accounts to be established;
 - (C) excellence funds distributions cannot be supported with direct research expenses; and
 - (D) the Coordinating Board has a website where research expenses are required to be posted by award.
- (ii) When using the specific identification method for accruing expenses, any potential accruals related to contracts and grants should be reviewed and confirmed with any corresponding granting or pass-through agency to ensure that both agree on the expenses reported.

(b) Capital Expenses.

- (i) Capital expenses should be excluded from the lag analysis methodology because capital assets cannot be established based on historical data. Accruals for capital assets should use specific identification.
- (ii) The U. T. System Office of the Controller is charged with officially interpreting this policy and is responsible for revising it as necessary to meet the changing needs of the U. T. System and any statutory requirements.

3. Definitions

Accounts Payable - short-term liabilities reflecting amounts owed for goods and services received by the institution but for which the institution has not made payments.

Accrued Expense - one that has been incurred by the end of the accounting period but has not been paid.

Encumbrances - amounts contractually obligated for goods or services. Encumbrances differ from payables in that encumbrances are commitments, for goods or services, made before the end of the reporting period where those goods or services are not received until after the reporting period.

Incurred - the date on which a service or supply was rendered or furnished, without regard to when it is formally billed, charged, or paid.

Materiality - the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.²

4. Relevant Federal and State Statutes

[GASB Statement No. 35 Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities \[issued November 1999\], which establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments \[issued June 1999\]](#)

[Authority](#)

5. Relevant System Policies, Procedures, and Forms

None

6. System Administration Office(s) Responsible for Policy

Office of the Controller

7. Dates Approved or Amended

June 26, 2006

June 2, 2009

October 11, 2011