Monthly Accruals Accounting

**Introduction**

The Finance Division are introducing departmental posting of accruals, prepayments, income in advance and deferred income for material items on a monthly basis. This will improve the accuracy of monthly departmental accounts by removing distortions to departmental I&E accounts due to timing differences and not matching costs and incomes

The monthly accruals and prepayments will also replace the year end forms in 18/19 except for Projects accruals and prepayments. All Departments will need to be posting their own accruals/prepayments by this time.

The following guidelines have been agreed, with differences at year-end noted.

**Guidelines**

**Reversing Journals**- All accruals will be posted using reversing journals and not adjustment journals. Please ensure you use **‘1 Reversing’** to create a reversing journal.

**Projects module** – The projects module will continue with year-end accruals only for accruals and prepayments. This is because funder reporting is usually on an actual cost basis rather than an accrued basis and monthly accruals and their reversals will distort key Projects module reports for PI’s.

**GRN Accruals -** Please note that the GRN accruals process will continue as normal, please take care not to duplicate accruals.

**Capital Costs –** If a department has a capital GRN accrual that is internally funded and is causing budget issues at month end, please contact the Fixed Asset Team in advance of WD6.

**Training** – Divisions will carry out any training necessary, Central Finance will provide support where needed. The training team will update training courses including General Ledger and Monthly reporting to reflect the monthly accruals postings so new users are trained.

**Materiality** – It has been agreed that Divisions will set their own materiality level (subject to meeting requirements for the financial statements).

**Year-end Materiality –** Above £5,000 must be accrued for at year-end. Accruals that are below this amount are at the division/departments discretion.

**Implementation approach** – Division to implement with their departments.

**Budget variances** – should not be accrued for where the activity has not taken place, they should be explained as timing issues.

**Donations/Trusts Accruals** Income matching is carried out by centrally controlled processes so there should be no income accruals. Expenditure accruals are ok.

**Research o/heads** – Will not be accrued.

**Internal recharges** – Internal departmental accruals can be accrued during year but must use activity 33 (Internal trade). These cannot be done at year end as financial statements ned to be done on an external basis.

**Departmental month end timetable** – Division to decide on their own deadline, absolute deadline is 5pm WD7.

**Where to code?**

|  |  |
| --- | --- |
| **Accrual type** | **Natural Account** |
| Income accrual | 19151 |
| Expenditure accrual | 22100 |
| Prepayment  | 14000 |
| Income received in advance | 26900 |

Departmental cost centres should be used to enable the Financial Reporting Team and the Divisional Finance Teams to identify which department the transactions belong to.

**Reconciliations**

Reconciliation of the balance sheet codes will continue to be done centrally on a monthly basis. Divisions should ensure that their departments are able to provide a reconciliation at any time, we would suggest that a monthly or quarterly reconciliation is maintained. The auditors will request to see reconciliations and backing documents at year end.

**What is accruals accounting?**

Accruals accounting is recommended practice in the Higher Education SORP and, when applied to monthly management accounting, can broadly be described as –

***‘Recognising revenues and costs in the month in which they are incurred and not the month in which the cash is actually received or paid’.***

This is distinct from cash accounting where revenue and costs **are** recognised in the month in which they are paid or received.

In practical terms this can be split into four main areas when applied to the departmental management accounts of the University and an explanation of each is outlined below–

***Income accrual*** – A service has been provided during a month, so the income should be included in that month by way of an income accrual, if the invoice is not raised until the following month. An example of this could be hosting a conference/meeting for an outside company on the 30th of the month and not invoicing until the 4th of the following month.

***Expenditure accrual*** – A cost has been incurred in the month but the invoice has yet to be received. The Financial Reporting Team currently operates the Good Received Note (GRN) accruals process for where amounts have been received and matched to purchase orders (receipted) but invoices have yet to be received. These are centrally posted accruals. Departments should post additional expenditure accruals that have not been picked up in the monthly accruals process either because the goods/services have not been receipted or for expenditure incurred outside of the purchase order process. An example of this would be agency staff fees where the supplier of these temporary staff are slow with their invoicing.

***Prepayment*** – A payment for goods/services has been incurred in a month but the benefit of the goods/service will be experienced over future months. An example of this is a software maintenance contract paid in August where the contract covers a period of 12 months. The cost should be spread equally over the relevant 12 months by way of a prepayment.

***Income received in advance*** – A payment has been received for a service that will cover a period longer than the month in which the cash was received. An example of this would be membership fees received in August that cover the year until the end of July. The income should be spread equally over the entire 12 months.

Further information on FRS 102 and SORP accounting policies can be found in the Financial Statements.

**Divisional materiality levels and implementation dates**

|  |  |  |
| --- | --- | --- |
| **Division** | **Materiality level** | **Implementation date** |
|  | Month end | Year end (also see below) |  |
| MSD | £10k – per dept | £5k – per dept | Asap. May vary by department. To be agreed with Division |
| MPLS | £10k per I&E mid-level natural account range | £5k | Mar-19 |
| Humanities | £1K – per item | £1K – per item | Year end July 2019 and then regular postings FY 2019/20 |
| Social Sciences | £10k per I&E mid-level natural account range | £5k |  |
| UAS/GLAM | £5k – per item | £1k – per item | May-19 |
| Continuing Education |  |  | Already implemented |

At year end accruals etc.. are needed for any amount greater than £5k for audit requirements. Lower amounts can be posted if a department requires.