ACCOUNTING PRINCIPLES AND STANDARDS HANDBOOK

CHAPTER 4. ACCRUAL ACCOUNTING

Section 1.0 General

This chapter sets forth basic principles, requirements, and techniques for Commerce accounting on an accrual basis, whereby financial transactions are recorded in the period of occurrence, even though the related cash is disbursed or received during another period. Use of the accrual method provides Commerce management with financial data related to performance so that informed decisions may be made.

The accrual method of accounting recognizes the significance and accountable aspects of financial transactions, events, or allocations as they occur. Costs are recognized in the accounts when incurred and revenues are recognized when they are earned. The basis of constructive receipt of goods and services is used without waiting for physical delivery to, or acceptance by, the Government.

Section 2.0 Authority

The authority that governs accrual accounting is <u>31 U.S.C. Sec. 3512 (e)</u>.

Section 3.0 Frequency of Accruals

Accruals will be computed and recorded in the accounting system, at a minimum, each quarter-end (December 31, March 31, June 30, and September 30). When relevant data is not available, e.g. foreign payments made by the State Department, estimates should be recorded in the accounting system and sequentially adjusted when actual data is available.

Section 4.0 Documentation

Documents reflecting computation and support for accruals and analysis of accuracy of accruals shall be retained for reference and audit.

Section 5.0 General Guidelines

.01 Prepayments

Prepayments and advances to employees, contractors, grantees, and others should not be reported as expenditures until performance occurs. In the meantime, advances and prepayments should be recorded and reported as assets. Such asset accounts should be reduced, in whole or in part, as the expenditures are incurred and reported.

.02 <u>Progress Towards Completion</u>

The measure of accrued expenditures under contracts for work to the Government's specifications is the amount of work performed during the period, not the amount of any progress payments, which may be made.

.03 <u>1. Accrued Liabilities</u>

- a. In addition to recording as accounts payable the liability for services rendered and goods received, as evidenced by vendors' invoices or other documents, it is necessary for management purposes to record the assets, expenses, and liabilities for goods and services received and performance rendered for which no bills have been received or payments made at the end of the month. Such accruals may be estimated on the basis of available information and previous experience.
- b. When a contractor builds facilities or manufactures goods or equipment to the Government's specification, the liability to pay for work is incurred as it is performed by the contractors rather than when deliveries are made.

2. Accrued Accounts Receivables, Unearned/Deferred Revenue, Accrued Revenue

It is necessary for management purposes to record the accrued accounts receivable, unearned/deferred revenue, and accrued revenue for goods and services and performance rendered to others for which a) no bills have been submitted or payments received at the end of the quarter, or for amounts due at the time of the event that gives rise to a claim. (Accrued Accounts Receivable/Accrued Revenue); and b) payments were received, but the goods and services and performance have not yet been rendered (Unearned/Deferred Revenue). Such accruals may be estimated on the basis of available information and previous experience. Receivables shall be reversed (liquidated) when they are collected or converted into other resources or determined to be uncollectible in whole or in part. Unearned/Deferred Revenue shall be reversed (liquidated) when the goods and services and performance have been rendered, and recorded as Earned Revenue and the payments collected applied against Accounts Receivable for that Earned Revenue. See FASAB Statement 1, Accounting for Selected Assets and Liabilities (SFFAS No. 1).

.04 <u>Standards for Estimating Accruals</u>

In the absence of invoices or other available data, reasonable estimates shall be used to accrue the cost of goods or services received before the end of a reporting period. Some of the ways to record accrued expenditures are as follows:

- a. Receiving reports showing quantities received and determining whether a given shipment is complete or partial are useful in determining the amount of the accrual when the invoice has not been received.
- b. Payroll, travel, and other vouchers received or prepared but not yet paid.
- c. Obligation figures may be the best estimate of the amount of the expenditure incurred where an obligation is recorded covering the expenditure, which accrued within an accounting period.
- d. A prior actual accrual or a trend of several previous periods may be appropriate when estimating a current accrual.
- e. Quarterly performance reports from grantees should be used to accrue expenditures for grants.
- f. Estimates should be obtained from project managers or other operating officials who are familiar with progress under the contract or grant if reports from contractors or grantees are not available or are not feasible.
- g. Sampling and other statistical methods may be used to make estimates in cases where dollar amounts are relatively low but the number of transactions is high. The method used and the reasons for its selection should be documented and kept on file.

.05 Effect on Accounting System

The accounting system will provide the means to reconcile accrued expenditures to obligations and outlays.

Section 6.0 Bureau Evaluations of Material or Significant Possible or Actual Unusual Accounting Transactions

Bureaus are required to evaluate material or significant possible or actual unusual accounting transactions (e.g. a possible or actual accrued receivable/revenue or accrued payable/expense or asset, a possible, anticipated, or actual transfer, a possible, anticipated, or actual budgetary resource or reduction of budgetary resources, a possible or actual contingency), regardless of whether the item has been apportioned or not apportioned on the SF 132, *Apportionment and Reapportionment Schedule*, and research if a) a proprietary accounting transaction(s) should be recorded; b) a budgetary accounting transaction should be recorded and when (month/year) the accounting transactions should be recorded.

For these material or significant possible or actual unusual accounting transactions, the bureau's evaluation is required to include consultation with a) the bureau's CFO or equivalent, of both the underlying bureau and that bureau's accounting service provider, if applicable, or his or her designee(s); and b) the Department's Office of Financial Management. As appropriate, consultations should also include c) other bureau or Departmental offices; d) the U.S. Department of the Treasury, the Office of Management and Budget, and/or the Federal Accounting Standards Advisory Board; e) any other federal agencies; and f) any other relevant or applicable sources.