

LUTHER COLLEGE

POLICIES AND PROCEDURES

Department:	Financial Services
Subject:	Accounting for Revenues and Expenses (Accrual Basis)
Date Issued:	December 7, 2005
Date Revised:	March 20, 2019
Approved By:	Reviewed at Cabinet, Approved by President, March 27, 2019

I. Policy/Procedure

This policy outlines the guidelines for reporting Luther College's financial information under the accrual basis of accounting. This means the time period to which a transaction is recorded is determined not by when the cash transaction occurs, but by when the services are provided to a customer for revenue, and by when the goods and services are received and used for expenses.

II. Purpose

Luther College uses accrual basis accounting to be in compliance with generally accepted accounting principles. Luther College's financial statements and accounting records are required to be audited by an independent auditing firm. The auditing firm is required to give an opinion on whether the financial statements are prepared in accordance with generally accepted accounting principles.

III. Scope

This policy applies to budget center directors as well as all faculty and staff that collect receipts for the College or make purchases to be expensed to the College.

IV. Terms and Definitions

- Luther College's fiscal year is from June 1 to May 31.
- Budget center director – the appointed department head or department manager who is responsible for the department's allocated budget.
- The matching principal is a fundamental accounting principal defining when revenues and expenses should be recorded. Namely, expenses are to be recorded in the same time period as when the goods or services are used. Revenues are to be recorded in the same time period as when the goods or services are provided to the customer. We must follow this principal in order for our financial statements to be in accordance with generally accepted accounting principles.
- Prepaid expense – goods or services paid for in the current fiscal year that will be used in a future fiscal year.
- Deferred revenue – receipts collected in the current fiscal year for events or services to be provided to the customer in a future fiscal year.
- Receivable – recording the revenue for events or services provided to a customer in the current fiscal year but paid for by the customer in a future fiscal year.
- Payable – recording the amount owed to a vendor for goods or services received in the current fiscal year but paid for in a future fiscal year.

V. Procedures and Guidelines

- A. Paying for goods or services in the current fiscal year that will be used in a future fiscal year. This type of expenditure is a prepaid expense (an asset) in the current fiscal year.
- If the goods or services are not going to be used in the current fiscal year, the budget center director should indicate the fiscal year to be charged on the invoice or payment voucher. The Office for Financial Services will record the payment as a prepaid expense in the current fiscal year.
 - In the future fiscal year in which the goods or services are used, it will be expensed against the department's budget. The Office for Financial Services will transfer the item via a journal entry to create the expense against the department budget in that future fiscal year.
 - Goods or services are expensed when they are used not when they are paid for.
 - o Example – On May 15, the Dean's Office submits an invoice for payment of airfare to a conference that is being held on July 15. In May, the payment will be charged against a prepaid expense account. In July, the Office for Financial Services will make an entry that will move the charge from the prepaid expense account to the Dean's Office travel budget. There will not be any expense against the Dean's Office budget in May; the expense will be charged against the new year's budget.
 - Departmental office supplies are not typically recorded as prepaid expense items, even if they are purchased for use in a future fiscal year, on the grounds of lack of materiality. However, if a department purchases supplies in excess of \$1,000 for use in a future fiscal year, the budget center director should contact the Controller in Financial Services to determine the appropriate recording of that purchase.
 - Inventories are a type of prepaid expense which are goods held for resale in a retail operation (e.g., Book Shop) or use in centralized services (e.g., Print Shop). The goods are expensed to match the timing of when they are sold and the revenue is generated.
 - o Example – In May, Information Technology Services purchases a supply of printer cartridges to be distributed and charged to departments in the summer. The payment for the cartridges will be charged against an inventory account in May. In June, the Registrar's office uses five cartridges. The Office for Financial Services will make an entry to move the cost of the cartridges from the inventory account to the Registrar's Office department supplies expense budget.
- B. Goods or services have been received in the current fiscal year but they are paid for in a future fiscal year. This transaction creates a payable (a liability) in the current fiscal year as well as an expense that will be charged against the current fiscal year's budget.
- In order for an expense to be charged against a department's budget prior to the end of a fiscal year, the goods or services must be ordered and received prior to the end of that fiscal year.
 - If goods or services have been received and used in the current fiscal year but an invoice has not yet been received prior to the end of the fiscal year, the budget center director should contact the vendor to have an invoice sent immediately so that it can be expensed at May 31. Copies or faxes of an invoice cannot be used to process the payment. If there is a problem with receiving an invoice, please contact the Office for Financial Services for assistance.
 - Invoices must be received and forwarded to the Office for Financial Services by June 15 following the end of a fiscal year in order for the expense to be posted to the previous fiscal year ended May 31.
 - The goods or services are expensed in the fiscal year they are used regardless of when the check is issued for payment.
 - o Example – In May, the Student Life Office orders and receives a plaque that is presented to a senior at graduation. An invoice is not received from the vendor who supplied the

plaque by May 31. The budget center director contacts the vendor and an invoice is received on June 10 and forwarded to the Office for Financial Services. The Office for Financial Services processes the invoice and a payable with an expense to Student Life departmental supplies budget dated May 31 is created. The check is issued to the vendor on June 12.

- C. An event has been held or services have been provided to a customer in the current fiscal year but payment is received in a future fiscal year. This transaction should be recorded as revenue in the current fiscal year with an offsetting receivable (an asset).
- If payment is not received by May 31 for an event or services provided to a customer in the current fiscal year, the budget center director should contact the Office for Financial Services. The Office for Financial Services will set up a receivable so the revenue can be recorded at May 31.
 - o Example – Music Tours performs a concert during April for which they are receiving a fee of \$2,000 for the performance. At May 31, Music Tours has not yet received the \$2,000 fee. The \$2,000 will be set up as a receivable and the revenue recognized at May 31. The payment is received on June 30 and is applied against the receivable account.
- D. Payment has been received in the current fiscal year for an event or services to be provided in future fiscal year. This type of transaction is deferred revenue (a liability) in the current fiscal year. In the following fiscal year, when the deferred revenues are earned, they will be reclassified as revenue.
- If payments are received prior to May 31 for an event or services to be provided in a future fiscal year, the budget center director should indicate the receipts are for a future fiscal year event when the receipts are sent to the Office for Financial Services for deposit. The Office for Financial Services will record the deposits as deferred revenue in the current fiscal year and then do a journal entry in the future fiscal year to record them as revenue in the year the revenue is earned.
 - Checks should always be sent to Financial Services as soon as they are received for immediate deposit, regardless of when the revenue will be earned. Do not hold checks until the event is held.
 - o Example – The Athletic Department receives registration for summer sports camps in April. The receipts are deposited when received in April and recorded as deferred revenue. In the following fiscal year when the camp is held and the revenue is earned, Office for Financial Services will do an entry to move the transaction from the deferred revenue account to a revenue account.
- E. Budget consequences
- The availability of budget funds does not determine when goods or services can be expensed. The determining factor is when the goods or services are received and used.

VI. Confidentiality and Record

Invoices, deposit receipts, and accounting record details are kept for a period of seven years in the Office for Financial Services archives.