

Appendix B: Guide to Expense Recognition by Expense Type

Tubs are responsible for recording the following types of accrued expenses:

Library purchases	Due to limitations in certain library systems, units must develop processes to ensure purchases are recorded in the correct quarter.
Employee termination costs	If an employee is terminated, any termination costs (e.g., severance, enhanced severance, work security, career outplacement fees, training, and other severance-related costs including benefits) that will be paid after the fiscal year-end must be accrued if the following qualifications are met: <ul style="list-style-type: none"> • Notice was given to the employee prior to quarter-end; and • The University does not require the employee to work or otherwise provide services or consultation after quarter-end for more than two months' time. If a terminated employee continues to work for the University for more than two months during the subsequent quarter-end, a portion of the termination costs may be accrued. Consult Financial Accounting and Reporting in such cases.
Extra/additional compensation	Extra/additional compensation is not accrued by Central Administration as part of the year-end payroll accrual. To the extent that significant bonuses and other extra/additional compensation paid in July or later relate to the fiscal year ending in June, tubs must record an accrual at year-end. Payments that cross the calendar year may create deferred compensation that has income tax implications to the recipient; contact Tax Reporting for more information.
Insurance	Insurance accruals must be recorded for policies managed directly by the tubs rather than through the Insurance Office. The accrual should be based upon the number of days/months in the policy period that fall into the current fiscal year as compared to the total contractual term for policies that are billed and paid subsequent to year-end.
Financial Aid	Financial aid expense should be recognized in conjunction with the associated student revenue. See the Revenue Recognition policy, Appendix B.
Fellowships and stipends	To the extent that significant fellowships or stipends paid in July or later relate to the fiscal year ending in June, tubs must record an accrual at year-end.
Incurred but not recorded (IBNR) insurance claims	In order to account for the time lag in claims, both the University and UHS record "IBNR accruals." These accruals estimate the amount of claims that will be received in the future relating to the current period. These accruals are recorded on a periodic basis throughout the fiscal year.
Other	Accruals other than A/P accruals may be reduced as payments are made (i.e. severance or IBNR accruals). If the payment in the subsequent period is more or less than was accrued, the difference will be reflected in the following period's results.

Central Administration is responsible for recording the following accrued expenses for the University:

Quarter-end salaries and wages	The portion of the weekly and biweekly payrolls paid in the subsequent month for the previous quarter (e.g., pay date in October for September work days). This accrual depends upon the number of days of pay for the current quarter that are paid in the first payrolls of the next month. For example, if June 30th falls on a Wednesday and seven out of ten days for the first biweekly payroll period of fiscal year 20X2 are within fiscal year 20X1, then 70% of that payroll would be accrued in fiscal year 20X1. This accrual only includes regular, casual and less-than-half-time pay, and excludes other salaries and wages as well as extra compensation.
Employee benefits	Including deferred compensation (savings and investment plans), as well as liabilities associated with the retirement plans, postretirement benefits and other costs.
Paid time off for outstanding employee vacation balances	For most units, the accrual is recorded at the University level based upon PeopleSoft data; certain units may have special processes and make manual accruals at year end. Sick time is not accrued, since employees are not paid for their outstanding balances when they leave the University.
Interest	On external debt held by the Central Bank.
Insurance	For policies managed by the Central Insurance Office. The accrual is based upon the number of days/months in the policy period that fall into the current fiscal year for policies that are billed and paid subsequent to year-end
Taxes	Including taxes associated with payroll, unrelated business income and real property
Legal costs	For outstanding legal bills and settlements. The Office of the General Counsel accrues both the Central Administration and tub portions of legal costs.
Environmental costs	Including remediation, abatements, etc.

Depending on the particular arrangement with the vendor, either the tubs or Central Administration may be responsible for recording prepaid expense assets, examples of which include:

Insurance	Insurance contracts generally cover a one-year period. A prepaid expense asset must be recorded at the quarter-end for the amount of the contract that relates to the next period. This prepaid expense asset must be reduced and recognized as expense proportionately over the contract term. The tubs are responsible for recording prepaid expense assets associated with insurance policies managed directly by them rather than through the Insurance Office. The Insurance Office is responsible for recording prepaid expense assets associated with insurance policies managed by their office.
Service and maintenance contracts	Service and maintenance contracts generally cover a period of time. A prepaid expense asset must be recorded at the quarter-end for the amount of any non-sponsored contract that relates to the next period. This prepaid expense asset must be reduced and recognized as expense proportionately over the contract term. Certain service agreements (e.g., for consulting or systems implementations) may contain milestones (i.e., significant dates) to which payments are tied. In these cases, Financial Accounting and Reporting and the local tub finance office must be consulted regarding the timing of recording prepaid expense assets and recognizing the related expenses.
Expenses for summer and executive education programs	Any direct expenses (i.e., not indirect costs, such as marketing expenses) that relate to a summer school or executive education program must be recognized proportionately over the term of the program. Therefore, payments relating to the following quarter must be recorded as prepaid expense assets at quarter-end; these prepaid expense assets would subsequently be reduced and the associated expense would be recognized in the following fiscal period(s).
Rent and equipment lease payments	Rent payments for space and equipment leases are often made prior to the beginning of each month. These prepayments must be recorded as prepaid expense assets at quarter-end end and then reversed and recognized as expense in the subsequent period(s), when the rental services are provided.