

ACCOUNTING PRINCIPLES AND STANDARDS HANDBOOK

CHAPTER 4. ACCRUAL ACCOUNTINGSection 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 decision 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 31 U.S.C. Sec. 3512(e).

Section 3.0 Frequency of Accruals

Accruals will be computed and recorded in the accounting system for each accounting period, which is generally monthly. When expenditure data is not available, e.g., foreign payments made by the State Department, monthly estimates should be recorded in the accounting system and sequentially adjusted when actual expenditures are 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 Progress Towards Completion

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 Accrued Liabilities

- 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.

.04 Standards for Estimating Accruals

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/prepared but not yet paid.
- c. Where an obligation is recorded covering the expenditure which accrued within an accounting period, the obligation figure may be the best estimate of the amount of the expenditure incurred.
- d. The prior month actual accrual or a trend of several previous months may be used when estimating a current month accrual.
- e. Quarterly performance reports from grantees should be used to accrue expenditures for grants.
- f. If reports from contractors or grantees are not available or are not feasible, estimates should be obtained from project managers or other operating officials who are familiar with progress under the contract or grant.
- g. Sampling and other statistical methods may be used to make estimations 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 Realization

Receivables shall be recorded as assets for amounts due at the time of the event that gives rise to a claim. Receivables shall be reversed (liquidated) when they are collected or converted into other resources or determined to be uncollectible in whole or in part. See FASAB Statement (SFFAS No. 1).

Reference:

[Http://www.fasab.gov/concepts.htm](http://www.fasab.gov/concepts.htm)

.06 Effect on Accounting System

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