

### WHAT IS ACCOUNTING?

- Accounting is a system for producing information about an entity and communicating that information to people who want or need the information for decision making
- Accounting is not a science, it is flexible, and requires significant judgement. It is needed because more information leads to better decisions.

### WHAT IS ACCRUAL ACCOUNTING?

- Records financial transactions and events that involve cash in current accounting period.
- Records relevant financial events that do not involve cash currently. Allocates, accrues or defers revenues and or expenses to appropriate accounting periods.
- Measures the economic impact of transactions and economic events rather than cash flows
- Attempts to measure economic changes rather than simply changes in cash
- Economic events can be recorded before, after, or at the same time as the associated cash flow

### WHY DO WE NEED TO USE ACCRUAL ACCOUNTING?

- In order to be compliant with GAAP (Generally Accepted Accounting Principles) the University must include in its financial statements all expenses that are incurred during the year, as well as income earned during the year.

### ACCRUALS

- An accrual is an accounting entry to recognize a revenue earned, or an expense incurred, that has not yet involved cash.
- An accrual arises from earning a revenue, or incurring an expense before cash is received or paid.

Examples of an Accrual

- 1) Accrual of wages yet to be paid
- 2) Interest income or expense
- 3) Past due expenses
- 4) Accrued Revenues

### DEFERRALS

- A deferral is an accounting entry to avoid recognizing a revenue not yet earned, due to receipt of cash in advance of performing a service or delivering a product or an expense not yet incurred due to a cash payment in advance of goods or services being rendered.

Examples of Deferral

- 1) Prepaid
- 2) Unearned Revenues