

The HRMS Accrual Process

What is the purpose of the accrual process?

The purpose of the accrual process is to recognize payroll costs in the month in which they were incurred, i.e. when the employee actually performs the work. This accrual process will result in a more accurate presentation of monthly and year-end payroll expenses and liabilities. In the past this accrual was not critical because we had fewer employees on the bi-weekly payroll and therefore fewer dollars associated with it.

How is the earnings accrual calculated?

- The HRMS accrual process is run each and every month on the last day of the month.
- The accrual is calculated in HRMS and posts an entry in FIS (debit department payroll expense and credit accrued liability) to account for the portion of bi-weekly earnings owed but not paid at month end.
- The accrual is calculated as follows:

The system determines the fraction of the bi-weekly payrolls that were earned but not physically paid in the current month. This amount is calculated based on the number of days in each payroll that were earned in the month, as a fraction of the total number of days in each payroll (10 days for all biweekly payrolls). If an entire payroll was earned and not paid, then the fraction would be 1 (ie.100% accrual). Some months we may have to accrue a fraction of one payroll, other months we may accrue more than one payroll.

The accrual is then calculated by multiplying the fraction of each payroll (earned though not paid), by the amount encumbered for each specific bi-weekly. After the accrual is calculated, the amount is posted to both the school accrual (credit) and department expense (debit) accounts, based upon the employee's current sourcing.

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Example – In March, there were portions of two biweeklies that were earned though not paid at month end. They included 100% of the March 29th (all 10 days), and 10% of the April 12th (ie.1 day, March 31st) payrolls. As a result, the accrual was for 11 working days, or 110% (11 days/10 days). The accrual was calculated as follows:

$$\begin{array}{r} \text{PLUS} \quad 100 \% \text{ X Amount Encumbered for March 29}^{\text{th}} \text{ payroll} \\ \quad \quad \underline{10 \% \text{ X Amount Encumbered for April 12}^{\text{th}} \text{ payroll}} \\ \text{EQUALS} \quad \underline{\text{March Accrual}} \end{array}$$

(An attached Calendar also illustrates this calculation. See page 4)

After this calculation is made, the following entry is created, and is booked on the last day of the month.

Dr. Payroll Expense	Accrual
Cr. Payroll Accrued Liability	Accrual

- Note:** (1) The expense is booked at the account level.
(2) The liability is booked at the school level.
(3) Encumbrance is reduced by the amount of the accrual so as not to effect free balance.

The reversal process (reverses the accrual) is also run and booked the last day of the month, with the exception that the effective date of the reversal is the first day of the next month (In this case April 1). The reversal is equal to the accrual, and removes its effects from FIS in the new month.

Dr. Payroll Accrual Liability	Reversal
Cr. Payroll Expense	Reversal

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Are fringe charges accrued?

- Annuity, Social Security, Other Fringe, and Dependent Tuition are all accrued and posted at month end based on a similar calculation to the earnings accrual. The accrued amounts are posted to the appropriate fringe benefit budget object codes.

Are grants accrued?

- Yes, earnings and distribution amounts are accrued for pay amounts sourced to grants.

What paygroups are included in the accrual?

- The bi-weekly paygroup is the only one included in the accrual process.

What is the timing of the accrual and reversal processes?

- The accrual and reversal are both processed to FIS at month end. The accrual has a month end (e.g. March 31st) effective date, and the reversal has a first of the month (e.g. April 1st) effective date.

How are the accrual entries identified in HRMS/FIS/FOCUS?

- In HRMS, accrual entries are identified by the 'QP_DIST_ADJ_TYP' field as V for accrual and L for reversal. In FIS and FIS FOCUS, the transaction code is PA for both the payroll accruals and reversals. The descriptions will be 'Payroll Accrual' and 'Reverse Payroll Accrual' respectively.

How does the accrual affect encumbrance?

- The encumbrance in FIS is reduced by the accrual amount at month end. However, the accrual amount is immediately added back to the encumbrance, by the reversal process, as of the first of the next month (as noted above).

How does the accrual affect free balance on grants?

- Because the accrual is processed against encumbrance, it has no effect on free balance.

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Accrual Process for March 31, 2003

SUN	MON	TUES	WED	THUR	FRI	SAT 1 <u>March</u>	
2	3	4	5	6	7	8	
9	10	11	12	13	14	15	
16 Bi-Weekly Pay Period begins	17	18	19	20	21	22	
23	24	25	26	27	28	29 Bi-weekly pay period ends	Accrue work days in current month not yet paid. (Shaded days)
30 Bi-weekly pay period begins	31 Accrual 11 shaded business days – 110% of Bi- weekly pay period	1 <u>April</u> Accrual reversal 11 business days	2	3	4 Pay Date for the March 29 th Bi- weekly	5	
6	7	8	9	10	11	12 Bi-weekly pay period ends	