



Accruals

January 2014

What are 'Accruals'?

I have seen '**Accrual Accounting**' defined as "The method that records revenues and expenses when they are incurred, regardless of when cash is exchanged. The term "**accrual**" refers to any individual entry recording revenue or expense in the absence of a cash transaction".

Typically we refer to 'Accrual Accounting', as the method of recognising revenue and expense based on invoices rather than cash. But what do we do when we have incurred an expense, or we have become entitled to revenue, and no invoice exists as yet? We may decide to enter our own 'accrued revenue' or 'accrued expense' so as to correctly report the revenue earned and the expense incurred for the reporting period. This then allows us to accurately and correctly report our profitability for the period.

For What Purpose?

For a single project, or for the entire organisation, we can calculate the total expense and revenue for the period, based on invoices sent out and invoices received. But, is this accurate?

Our expenses may be understated, as we may have incurred considerable expense in the last few days of the month, for example - by carrying out a large concrete pour, for which no invoice has been received at the reporting date.

Our revenue may also be understated, as we may not submit our claim or invoice until a few days into the following period.

Therefore, if we calculate our profit for the period, we could be considerably in error.



What does Cheops Provide?

Cheops provides the facilities to enter accruals for both revenue and expense, fulfilling the requirements of accountants in this respect. There are a number of different functions which provide accruals, and these are described below:

Revenue: In the case where a progress claim is raised at the end of the month, and the certified value is not yet available (and may not be available until the following month) then revenue accruals may be entered to reflect the value of that progress claim or the anticipated certified value.
An accrual would be entered to represent the revenue earned in the current month.

Note that you may also set your Cheops system to recognise the claim before the certificate is entered. Cheops will then adjust for any subsequent over/under claim later when the certificate is entered.

Expense: There are two separate functions which provide us with expense accruals

In the case where one or more subcontractors have submitted a progress claim, and the claim is entered with a status of "Not Finalised", this automatically feeds into the 'incurred cost' component of the cost reports. Cheops uses the terminology of 'incurred cost' rather than accrued cost, to differentiate between the automatic take-up of the value rather than a separate entry.

Of course, the user may enter a subcontractor's progress payment as 'not finalised' even if the subcontractor has not yet submitted the claim. All details may be modified later when the true claim is received.

In the case where a significant value of materials has been received, and the supplier has not yet sent the invoice, we may enter delivery docket, and this also updates the 'incurred cost'. In a similar manner to the not-finalised subcontractor progress claim mentioned above.

We may also enter a manual accrual to take up the cost in the current period. This manual accrual entry may also be used in respect of a subcontract cost.

Project Cost Accruals

In the project, we enter the cost accrual(s) by describing the reason for the accrual, the cost reference and resource category.

Please refer to the Cheops **Task Instruction 28** for full details regarding the actual data entry.

We may enter data to take up the estimated cost of work done and this data is then included in our cost reporting, giving a more accurate picture of costs to date and therefore our profitability at that time.

410 - Accruals Entry

File Help

Current Period: DEC13 Cutoff Date: 31 DEC 2013

Cost Report Period: DEC13 31 DEC 2013 (Current)

Cost Reference: 04-01 Concrete Supply

Resource Category: MT Materials & General Purchases

Accrual Number: 1

Amount: 25520.00

Reason: Estimated value of concrete ground slab poured today 31st December - 145m3 @ \$176.00 per m3

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Project Revenue Accruals

In the project, we enter the revenue accrual(s) by describing the reason for the accrual, the cost reference and resource category.

Please refer to the Cheops **Task Instruction 29** for full details regarding the actual data entry.

We may enter data to take up the estimated cost of work done and this data is then included in our cost reporting, giving a more accurate picture of costs to date and therefore our profitability at that time.

Cheops Accruals Menu Options

Listed here are the menu options for the project and company.

| Projects | | | |
|----------------|-------------------------|---------|---|
| Entry | Accruals Entry | ACCR | Entry for cost accrual(s) for a cost period and cost reference. |
| | Revenue Accruals Entry | RACCR | Entry of revenue accrual(s) for a cost period. |
| | | | |
| Reports | Accruals Report | ACCREP | |
| | Revenue Accruals Report | RACCREP | |
| | | | |
| Company | | | |
| Entry | Nil | | No entry facilities at the company level. All entries are done through the project. |
| | | | |
| Reports | Accruals Report | ACCREP | |
| | Revenue Accruals Report | RACCREP | |
| | | | |

Incurring Cost

As mentioned above, Incurred cost is another concept that exists in Cheops, and it has some similarities to accrued cost.

Incurred cost is produced by the following transactions:-

- Delivery dockets not yet invoiced (That is, goods have been received and the delivery docket(s) entered, but the supplier's invoice has not yet been entered.
- Subcontractor progress payment(s) not finalised (That is, the subcontractor progress payment has been entered, but not stated as 'approved').

Posting to General Ledger

Revenue

Revenue accruals are posted to the general ledger. The cost period must be closed before the revenue accrual will be posted. The revenue accrual will be reversed in the following period.

Costs

Incurred costs are posted to the general ledger. Default GL codes may be setup at the company, and may be modified for each project.

There is no ability to post cost accruals to the general ledger.