



ARCHDIOCESE  
*of* MILWAUKEE

# Faithful Finances Fiscal Year End Accruals

Parish & School Financial Consulting

# Agenda

1. [What are Accruals?](#)
2. [When is the Fiscal Year Cut Off?](#)
3. [Matching Principle](#)
4. [Examples of Accrual of Expenses Incurred but Not Yet Paid](#)
5. [Examples of Accrual of Revenue Earned but Not Yet Received](#)
6. [Prepaid Expenses and Deferred Revenue Adjustments](#)
7. [Year 1 Accruals – Accrual of Expenses](#)
8. [Year 1 Accruals – Accrual of Revenues](#)
9. [Year 1 Accruals – Prepaid Expenses and Deferred Revenue](#)
10. [Year 2 Adjusting Entries – Reversal of Accrued Expenses](#)
11. [Year 2 Adjusting Entries – Reversal of Accrued Revenues](#)
12. [Year 2 Adj. Ent. – Reversal of Prepaid Expenses and Deferred Revenue](#)
13. [Helpful Definitions](#)
14. [Contact Info](#)

## What are Accruals?

An accrual refers to revenues or expenses that have been earned or incurred but have not yet been recorded in the books because payment has not been received or made. In accrual accounting, these are recognized at the time of the event (e.g., delivery of goods, use of services), not when cash changes hands. Accruals ensure that the parish or schools financials reflect the activity in the correct fiscal year. ([FASB ASC 606-10-25](#))<sup>1</sup>

1. For FASB links – log in and then re-click link

## When is the Fiscal Year Cut Off?

The fiscal year cutoff date is June 30<sup>th</sup> of every year. This means that all financial transactions occurring on or before June 30<sup>th</sup> are included in Year 1, while transactions occurring on or after July 1<sup>st</sup>, are included in Year 2. ([FASB ASC 825-10-25](#))<sup>1</sup>

1. For FASB links – log into the FASB site, then re-click link

## Matching Principal

The **Matching Principle** is a fundamental accounting principle under **Generally Accepted Accounting Principles (GAAP)** that ensures expenses are recognized and recorded in the same period as the revenues they help generate. This principle aims to provide a clear, accurate representation of a company's financial performance over a specific period.

Example: St. Adelina will record all the Year 1 tuition revenue in the same year they record all the Year 1 salary expense regardless of when cash comes in or out. This ensures the revenue matches the expense in the same fiscal year.

## Examples of Accrual of Expenses Incurred but Not Yet Paid

Record expenses incurred by June 30<sup>th</sup>, Year 1, but unpaid as accrued liabilities

1. **Salaries and Wages:** Accrue wages earned by employees through June 30<sup>th</sup>, Year 1 if payroll is processed after that date.
2. **Vacation Accrual:** if your parish or school allows vacation time to be carried over to a future fiscal year that expense will need to be accrued so it is recorded in Year 1.
3. **Utilities:** Accrue costs for services (e.g., electricity, water) used in June Year 1, but billed or paid in July Year 2 or later.
4. **Services Received:** Professional fees (e.g., legal, audit) or contractor services performed by June 30<sup>th</sup>, Year 1, but not yet invoiced or paid must be accrued.

## Examples of Accrual of Revenue Earned but Not Yet Received

Recognize revenue earned by June 30<sup>th</sup>, Year 1, even if cash is received later:

- 1. Facility Rental Revenue:** Fees for services (e.g., Parish Hall) earned by June 30, Year 1, but not yet collected must be accrued.
- 2. Unpaid Tuition / Religious Education:** If there is a remaining amount of tuition or religious education fees to be collected for Year 1 the remaining revenue should be recorded, and the amount should be in accounts receivable. (Not to be confused with prepaid tuition which is for Year 2)

## Prepaid Expenses and Deferred Revenue Adjustments

Recognize revenue or expense in Year 2, even if cash is received before June 30<sup>th</sup>, Year 1.

- 1. Prepaid Expenses:** Adjust costs paid before June 30<sup>th</sup>, Year 1, that benefit the next fiscal year, Year 2 (e.g., insurance, rent) to reflect only the portion used by June 30<sup>th</sup>, Year 1, as an expense, with the remainder as a prepaid asset.
- 2. Deferred Revenue:** Defer cash received by June 30<sup>th</sup>, Year 1, for services or events occurring after that date (e.g., Year 2 Prepaid Tuition) until earned.



## Year 1 Accruals – Accrual of Expenses

The first entry would be for accrued payroll for work performed in Year 1 paid out in Year 2. For example: Payroll for St. Adelina is every other week. The next payroll will be on July 7<sup>th</sup>, Year 2. St. Adelina will record one week's worth of expense (June 24 – 30 Year 1) which was \$7,500.

#	Account Number + Name	Debit	Credit
1	4010 Salaries and Wages Expense	\$7,500	
	2060 Accrued Payroll		\$7,500

The second entry would be for an electric bill for Year 1 received in Year 2. For example: St. Adelina got an electric bill of \$3,000 in July of Year 2 but it was dated June 28<sup>th</sup>, Year 1, and was for June usage. St. Adelina should record this in on June 28<sup>th</sup> Year 1, regardless of when the bill was paid.

#	Account Number + Name	Debit	Credit
2	4430 Electric Expense	\$3,000	
	2010 Accounts Payable		\$3,000

## Year 1 Accruals – Accrual of Revenues

The first entry would be for a hall rental in Year 1 which has been provided but not fully paid. For example: St. Adelina rented out a hall for a June wedding but has not received the full amount as of June 30<sup>th</sup> Year 1. St. Adelina accrued \$500 for hall rental provided in June Year 1, unpaid as of June 30<sup>th</sup>, Year 1; received in Year 2.

#	Account Number + Name	Debit	Credit
1	1140 Accounts Receivable - Miscellaneous	\$500	
	3310 Rentals - Hall		\$500

The second entry would be for tuition for Year 1 but not yet fully received by year end. For example: At the end of Year 1 St. Adelina School had \$9,000 of uncollected tuition. The amount should be accrued to ensure the revenue is recorded in the right fiscal year. If any amount is presumed to be uncollectible an allowance for doubtful accounts should be recorded as well.

#	Account Number + Name	Debit	Credit
2	1110 Accounts Receivable – Tuition & Fees	9,000	
	3110 Tuition – Private Pay		\$9,000

## Year 1 Accruals – Prepaid Expenses and Deferred Revenue

The first entry would be for prepayment of rent for Year 2 in Year 1. For example: St. Adelina doesn't have a gym and rents it for \$5,000 a year. The amount was paid in June Year 1, but it was for Year 2.

#	Account Number + Name	Debit	Credit
1	1290 Prepaid Expenses	\$5,000	
	2060 Accrued Payroll		\$5,000

The second entry would be an example of a deferred revenue. For example: St. Adelina received \$15,000 for tuition for Year 2 collected in June of Year 1.

#	Account Number + Name	Debit	Credit
2	1010 General Checking	\$15,000	
	2410 Deferred Tuition and Fees		\$15,000

## Year 2 Adjusting Entries – Reversal of Accrued Expenses

The first entry would be for the first payroll of Year 2. St. Adelina's total payroll ends up being \$17,500 on July 7<sup>th</sup>, Year 2. Instead of having \$17,500 of expense, St. Adelina will only expense the amount between July 1 – 7, and the remainder will come from the accrued payroll from Year 1.

#	Account Number + Name	Debit	Credit
1	4010 Salaries and Wages Expense	\$10,000	
	2060 Accrued Payroll	\$7,500	
	1010 General Checking		\$17,500

The second entry is St. Adelina's payment of the electric bill in Year 2. St. Adelina on July 3<sup>rd</sup>, Year 2, paid the electric bill for June Year 1 of \$3,000. Since the expense was already recorded in Year 1, the amount will come out of accounts payable. There should not be any expense if it was all for Year 1.

#	Account Number + Name	Debit	Credit
2	2010 Accounts Payable	\$3,000	
	1010 General Checking		\$3,000

## Year 2 Adjusting Entries – Reversal of Accrued Revenues

The first entry is the hall rental payment in Year 2 for the hall rented out in Year 1. St. Adelina received the \$500 for hall rental from June on July 16, Year 2.

#	Account Number + Name	Debit	Credit
1	1010 General Checking	\$500	
	1140 Accounts Receivable - Miscellaneous		\$500

The second entry is when the remaining tuition amount for Year 1 was received in Year 2. St. Adelina received the remaining \$9,000 of tuition from Year 1 throughout July of Year 2.

#	Account Number + Name	Debit	Credit
2	1010 General Checking	\$9,000	
	1110 Accounts Receivable – Tuition & Fees		\$9,000

## Year 2 Adj. Ent. – Reversal of Prepaid Expenses and Deferred Revenue

The first entry records the rental expense for Year 2 that was paid in Year 1. St. Adelina on July 1, Year 2, will reverse the pre-payment of rent and record the expense since they are now in the fiscal year the expense is incurred in.

#	Account Number + Name	Debit	Credit
1	4720 Rental Expense	\$5,000	
	1290 Prepaid Expenses		\$5,000

The second entry records the tuition revenue for Year 2 that was received in Year 1. St. Adelina on July 1, Year 2, will reverse the deferred revenue for tuition and record the revenue since they are now in the next fiscal year.

#	Account Number + Name	Debit	Credit
2	3110 Tuition – Private Pay	\$9,000	
	2410 Deferred Tuition & Fees		\$9,000

## Helpful Definitions

**Accrued Revenue and Expense:** This ensures revenue and expense is recorded in Year 1 even if the cash has not been received or sent.

**Prepaid Expenses and Deferred Revenue:** This ensures the revenue and expense is recorded in Year 2 even though the cash has been received or sent.

If you have any questions,  
Contact us at:

---

[ParishFinance@archmil.org](mailto:ParishFinance@archmil.org)



ARCHDIOCESE of MILWAUKEE  
**PARISH & SCHOOL**  
*Financial Consulting*