

Accrual

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Accrual is derived from the verb accrue, which describes the gathering or clustering of things together over time, as atoms, or it describes a general increase in number, as in interest.

Contents

- 1 Accrual (Accounting)
 - 1.1 Example
- 2 Accrual (Payroll)
 - 2.1 Length of Service
 - 2.2 Trial Period
 - 2.3 Rollover/Carry Over
- 3 See also

Accrual (Accounting)

The word accrual is used in accounting as an abbreviation of terms **accrued expense** or **accrued revenue**. In accrual basis accounting, *accrued expense* is a liability resulting from an expense for which no invoice or other official document is available yet. Similarly, *accrued revenue* is an asset resulting from a revenue for which no official document was issued yet. The other side of the entry will always be a profit and loss account - expense in the first case and revenue in the latter one.

In contrast to "Provision", the amount and occurrence for accruals is known.

Example

Consider a company that is making an accounting close on the last day of December. During the closing works, they realize that they still have not received an invoice for telephone calls made during December, as the invoice is usually issued several days after month-end. However, they are able to determine the expected amount which will be invoiced. Because the calls were made in that year, the liability exists already at the end of December. As such, the company needs to record an accrual - a liability that exists, but for which no official document is available yet.

In this example, the accrual will be included as part of the journal entry. In this example, the journal entry will be: Debit Operating Expense / Credit Accruals. In accounting this is considered accrual basis accounting.

Another example in simpler terms could be a recurring expense that a firm is obligated to as a result of a contract. Example could be a hotel paying its floral decorators or musicians on a monthly basis as per the contract. The expense report generated at the end of the month would show this expense as an accrued expense. As a business manager, this lets us know that this expense is a recurring expense.

Accrual (Payroll)

In payroll a common benefit that an employer will provide for employees is a vacation or sick **accrual**. This means that as time passes, an employee accumulates additional sick or vacation time and this time is placed into a bank. Once the time is accumulated, the employer or the employer's payroll provider will track the amount of time used for sick or vacation.

Length of Service

For most employers, a time-off policy is published and followed with regard to benefit accruals. These guidelines ensure that all employees are treated fairly with regard to the distribution and use of sick and vacation time.

Within these guidelines, the rate at which the employee will accumulate the vacation or sick time is often determined by length of service (the amount of time the employee has worked for the employer).

Trial Period

In many cases, these guidelines indicate there is a trial period (usually 30 to 90 days) where no time is awarded to the employee. This prevents an employee from calling in sick immediately after being hired or scheduling a vacation for the second week of work. After this trial period, the award of time may begin or it may be retroactive back to the date of hire.

Rollover/Carry Over

Some accrual policies OR any name example umair even have the ability to carry over or roll over some or all unused time that has been accrued into the next year. If the accrual policy does not have any type of rollover, any accrued time that is in the bank is usually lost at the end of the employers calendar year.

See also

- Cash-basis accounting

Deferral (<http://en.wikipedia.org/wiki/Deferral>)

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