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| <p>Policy No: 2.08</p> <p>Effective Date: 12/2018</p> <p>Revision Date: N/A</p> <p>Last Reviewed: 12/2018</p> | <p>Accruals</p> | <p>Applies To:</p> <p><input checked="" type="checkbox"/> Stores</p> <p><input checked="" type="checkbox"/> Support Office</p> <p><input checked="" type="checkbox"/> Distribution Centers</p> <p>Page 1 of 2</p> |
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Policy Owner: Melissa Preston, Accounting Manager

Overview

The objective of this policy is to define the accrual process. An accrual is defined as the amount expected to be paid or the estimated costs of a commitment, services or goods received that have not been paid (whether or not an invoice has been received).

Accrual accounting is required under the Financial Accounting Standards Board (FASB) Accounting Codification Manual (ASC) 405, *Liabilities*. Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*, states that accrual accounting is used to record the financial effects on an entity of transactions and other events that have cash consequences for the entity in the periods in which those transactions, events and circumstances occur rather than only in the periods in which cash is received or paid by the entity. This results in the recognition of transactions in the appropriate period and the proper matching of revenues and expenses.

Accordingly, this policy defines when an accrual of expenses is appropriate and reasonable for the purpose of accurately reporting our monthly financial results. **In all situations, the accruing of expenses is not intended to replace the timely requisitioning or submission of invoices.**

Policy

- Workday will automatically accrue for goods received not invoiced based upon the status of receipted purchase orders each period end, minimizing the need for manual accruals. As a result, manual accruals must be requested by the cost center manager or store manager via Service Now. by the **date noted on the published Closing Calendar** for each period.
- **A \$2,000 threshold per store will be used to record accruals that relate to store expenses; however, if the total accrual for all stores is over \$25,000 then the accrual can still be submitted and processed. A \$25,000 threshold by cost center will be used to record all accruals that relate to the support office.** Accruals that do not meet the respective thresholds by cost center or department are considered immaterial and will be recorded at the discretion of Accounting team. Accruals by cost center should be submitted in one request. Additional requests received after a separate accrual has been recorded will be treated as a new request and must adhere to the respective thresholds.
- All accruals must be submitted detailing the vendor name, spend category, ledger account and cost center coding, and must include proper documentation. Proper documentation must include third party support (i.e., invoice, contract, etc.) and an indication of the service period. If the support for the accrual is a calculation, the inputs for the calculation must be supported by third-party support (master contract, pricing sheet, etc.). If only a portion of the expense was incurred during the period the accrual relates to, support must be provided for the portion of the invoice that needs to be accrued (i.e., percentage breakdown from vendor). Requester must also review the general ledger detail prior to submitting a request to ensure the invoice has not already been paid in the proposed accrual month.
- The Accounting team will evaluate accruals greater than \$2,000 and \$25,000, respectively, and, to the extent that the accrual and coding are deemed to be appropriate, the accrual will be recorded.
- In general, accruals will automatically be reversed the following month. Unless otherwise communicated by Accounting, any amounts accrued in a prior month will require new documentation to carry the accrual for the current month (support for delay of payment, confirmation from vendor that amount is still unpaid, etc.).



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Relevant Literature

ASC 405 – Liabilities