

Comparing Cash and Accrual Bases of Accounting

To comply with the Uniform Administrative Guidance at [2 Code of Federal Regulations \(CFR\) 2900.14](#), and to align with U.S. Department of Labor (DOL) Employment and Training Administration (ETA), the Veterans' Employment and Training Service (VETS) requires states to transition to reporting on an accrual basis of accounting. This desk aid provides a side-by-side comparison of how the cash and accrual bases record unliquidated financial obligations and expenditures for quarterly reporting purposes.

What is an unliquidated financial obligation?

The definition of *unliquidated financial obligation* varies depending on which basis of accounting is used.

Cash Basis of Accounting	Accrual Basis of Accounting
For reports prepared on a cash basis, unliquidated financial obligations incurred by the non-Federal entity that <i>have not been paid (liquidated)</i> .	For reports prepared on an accrual basis, unliquidated financial obligations incurred by the non-Federal entity for which an <i>expenditure has not been recorded</i> .
In this method, grant expenditures are recorded when the payment is made.	In this method, expenditures are recorded when the goods or services are received, or once an order can no longer be refunded.

What are the benefits of reporting on an accrual basis?

- No gap between the receipt of goods/services and obligation of funds.
- Offers a more accurate accounting of grant resources, allowing for better planning (e.g., modifications, de-obligations).
- Supplies real-time accounting of total grant expenditures.
- Alleviates the possibility of final reports omitting expenditures.
- Limits the likelihood of drawdown needed after the award is closed.



Are states required to use an accrual accounting system?

States are not required to convert their accounting system if it is not accrual-basis accounting. However, they must report their expenditures to the U.S. DOL VETS using the accrual method. If cash-basis accounting is used, states must convert their financial information into accrual for federal reporting (see [2 CFR 2900.14](#)).

Where can I find additional resources about reporting on an accrual basis?

- [One-Stop Comprehensive Financial Management Technical Assistance Guide](#), published by U.S. DOL ETA
- [SMART 3.0 Webinar Training Series](#), a series of recorded webinars on WorkforceGPS
- [Promising Practices that Support Accurate Fiscal Tracking and Reporting](#), a recorded webinar on WorkforceGPS
- [Accrual Accounting](#), online training from WorkforceGPS

Cash vs. Accrual Basis of Accounting – A Demonstration

To demonstrate the difference between the cash and accrual bases of accounting, let's explore how each basis would record this same scenario:

The state orders \$5,233 in office supplies on March 1. The supplies are delivered on March 15, and the bill is received on April 1. The state pays the bill on April 15.

Cash Basis
<p>The expenditure for the supplies is recorded when the bill is paid on April 15. There is a 31-day gap between the receipt of goods/services and obligation of funds expended. The \$5,223 was an unliquidated obligation until April 15; therefore, it was shown on the Federal Financial Report (FFR) for the quarter ending March 31 as an unliquidated obligation.</p>

Accrual Basis
<p>The expenditure for the supplies is recorded when the supplies are received on March 15, well before the bill is paid on April 15. There is no gap between the receipt of goods/services and obligation of funds expended. The \$5,223 was an unliquidated obligation on March 1 and reported as an expenditure on March 15.</p>

Here is how the SF-425 FFR would be completed for the quarter ending March 31 using the cash basis and accrual basis of accounting, given the conditions described in this scenario and everything else being equal. The differences in how expenditures are recorded for cash versus accrual bases are highlighted in yellow and denoted with an asterisk.

Cash Basis SF-425	
Item 10 Transactions, Federal Share	Cumulative
10.d Total Federal funds authorized	\$1,000,000
10.e Federal share of expenditures	\$857,777
10.f Federal share of unliquidated obligations*	\$5,223*
10.g Total Federal share (sum of lines e and f)	\$863,000
10.h Unobligated balance of Federal funds (line d minus g)	\$137,000

Accrual Basis SF-425	
Item 10 Transactions, Federal Share	Cumulative
10.d Total Federal funds authorized	\$1,000,000
10.e Federal share of expenditures*	\$863,000*
10.f Federal share of unliquidated obligations	\$0
10.g Total Federal share (sum of lines e and f)	\$863,000
10.h Unobligated balance of Federal funds (line d minus g)	\$137,000