

**ACCOUNTING GUIDELINES**  
**INTERNAL TRANSFERS**

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## 1 BACKGROUND AND OBJECTIVES

At the University level, internal transfers are often used to provide support or funding to a particular activity, transfer costs or revenues from one activity to another, provide services to another department or unit, or to assess an administrative charge. There are different ways for processing an internal transfer and these accounting guidelines are developed to provide guidance to University departments on which type of transfer is appropriate for certain situations. Adhering to these accounting guidelines will facilitate consistency in reporting operational activities across all University departments and provide sufficient audit trail for journal transactions entered.

## 2 TYPES OF INTERNAL TRANSFERS

### 2.1 INTERFUND TRANSFERS

These are transfers of monies not included in the University's revenue or expense accounts in fund statements. Interfund transfer account codes (488XXX and 988XXX) are created to specifically identify the source/target fund of the monies being transferred, represented by the last three digits of the account code.

Interfund transfers must net to zero for each transfer transaction, i.e. interfund transfer account codes must be used in pairs in the debit (transfer out – 988XXX) and credit (transfer in – 488XXX) sides of a journal entry. The use of interfund transfer account codes are not limited to different fund codes but can also be used to transfer monies within the same fund code where needed.

#### 2.1.1 RECOMMENDED USE OF INTERFUND TRANSFERS

- Transfers to or from an Endowment fund's Capital or Stabilization accounts, e.g. internal funding to match an external contribution, encroachment where all necessary approvals have been obtained, internal funding to reduce or eliminate the pre-existing deficit in the Stabilization account, or spending allocation transferred to the endowment fund's Spending account;
- Transfers to or from an Endowment fund's Spending account, e.g. internal funding to top-up the fund's spending allocation, or funding transfer for research support provided that such transfers are within the restrictions specified in the terms of the deed (if any);
- Lump sum transfers based on agreements with no specific expenses associated with the transfer and/or there is a compelling reason why expenses should be recognized in the other fund, e.g. faculty funding of a major capital project, transfer to support a specific purpose or research activity, or transfer to fund an award;
- Cost recovery arrangements where expenses have not yet been incurred by the receiving department or project, or expenses have been incurred by the receiving department or project in the prior year(s) – total expenses of the receiving project should not show a net credit balance for the year;



- Transfer of prior year carryforward balances due to DeptID changes or to close an inactive or dormant project;
- Transfers initiated by Research Services or the University Industry Liaison Office, regardless of amount, for new project budgets; or
- Transfers combining residual monies in research or specific purpose activities where appropriate and subject to sponsor approval.

#### 2.1.2 NON-ALLOWABLE USE OF INTERFUND TRANSFERS

- Interfund transfer account codes cannot be used where the transfer involves the Agency (Z) fund. Agency activities are not included in the University's financial statements, hence a transfer involving an Agency fund will result in a discrepancy when accounting for the consolidation of fund operations;
- Interfund transfer account codes cannot be used if either the debit or credit side is not an interfund transfer account code. This will result in the interfund transfer being out-of-balance for accounting purposes;
- Externally restricted contributions initially recognized in a Specific Purpose fund and then transferred to the designated activity, e.g. fundraising received in a Specific Purpose donation PG intended for a major capital project – use Revenue Transfers;
- Transfers to or from a restricted Research project where the use of interfund transfer account codes are prohibited, e.g. provincial funding of negotiated salary increases in a Tri-Council Research project – use Expense Transfers;
- Cost recovery arrangements where expenses have already been incurred by the receiving department or project during the fiscal year, e.g. internal funding to support a specific purpose activity where related expenses are incurred in the current year – use Expense Transfers;
- Correction of revenue or expense account coding errors – use the original account codes when making the correction and will either be a Revenue Transfer or an Expense Transfer;
- Internal buy and sell transactions – use Internal Charges or Billing; or
- Full or partial recovery of actual expenses incurred where the charging department or unit is not normally engaged in providing such services – use Expense Transfers.



### 2.1.3 PROCEDURE

- Interfund transfer entries can only be completed by the responsible staff person in a Central unit, i.e. Financial Services (includes Reporting and Budget Office) and Research Services. For interfund transfers involving the Office of Research Services (ORS), contact the responsible staff person in ORS for detailed procedures. For all other interfund transfers, follow the succeeding policies and procedures.
- All interfund transfers must be approved by an appropriate Project Grant (PG) signing authority or department level signing authority. All approvals must be documented, e.g. memo or email or actual signature in the journal voucher form.
- All interfund transfers must specify the reason for the transfer. Documentation supporting the reason for the transfer must be attached to the request where appropriate (regular journals), or be available for review or audit upon request (excel journals).
- For units with no online data entry access, complete a Journal Voucher form for the interfund transfer transaction. An email request is also acceptable, but not preferred.
- For units with online data entry access, enter the Interfund Transfer transaction directly in PeopleSoft Live and send an email to the responsible staff person in Finance requesting for approval of the entry. Confirm the interfund transfer account codes with Central Finance. Finance will approve the interfund transfer entry before the transaction will be posted.
- Finance will book manual budget adjustments where needed.
- Finance will ensure that all funding transferred from a restricted account (endowment, research, capital, specific purpose, awards) are allowable under the terms of the deed or agreement with sponsors before the transfer is processed.

## 2.2 INTERNAL CHARGES OR BILLING

Interdepartmental revenues (internal charges) are created when one University department sells goods and/or services to another University department. An invoice from the charging department is usually prepared to support the internal charges.

Internal charges are recognized whenever a Revenue account is credited with a corresponding debit to an Expense account. Transactions involving Agency (Z) funds are not considered internal transactions for accounting purposes even when a Revenue account is credited and an Expense account is debited.



### 2.2.1 NORMAL USE OF INTERNAL CHARGES

- Revenues generated by ancillary units from the sale of goods and/or services to University departments, e.g. Bookstore internal sales;
- Internal buy and sell transactions where the charging department or unit is normally engaged in the activity of providing such services and may or may not be purely on a cost recovery basis, i.e. may have a profit component included in the charge, e.g. technical services provided to research activities, or animal sales for research purposes;
- Administrative overhead charges, such as those for research and endowment; or
- Contributions or funding received from an Agency (Z) fund.

### 2.2.2 NON-ALLOWABLE USE OF INTERNAL CHARGES

- Artificial entries where revenues are credited and expenses are debited within the same PG. Departments will be asked to explain the rationale for the entry; or
- Full or partial recovery of actual expenses incurred where the charging department or unit is not normally engaged in the activity of providing such services, e.g. photocopying or long distance charges – use Expense Transfers.

### 2.2.3 ACCOUNTING FOR INTERNAL CHARGES

- In order to correctly recognize revenues and expenses in the University's consolidated financial statements, internal revenues must be eliminated against internal expenses upon consolidation.
- When completing the Journal Voucher form for internal charges, mark the "I" box for interdepartmental revenue and expense transactions.
- For online data entry users and departments sending interface files, the Journal Class field in the header must have the value of "Internal" to identify the transaction as an internal charge subject to elimination.
- For departments sending excel upload files, the email to Data Management should contain information whether the transactions in the file are interdepartmental charges subject to elimination.



## 2.3 REVENUE TRANSFERS

Revenue transfers can be used when necessary to ensure the proper recognition of contributions and funding received into their respective activities or projects. This will enable the department to reflect the full amount of external funding received for a particular activity or project.

### 2.3.1 NORMAL USE OF REVENUE TRANSFERS

- Externally restricted contributions initially recognized in a donation holding PG and then transferred to the designated activity, e.g. fundraising received in a Specific Purpose donation PG intended for a major capital project; or
- Correction of revenue coding errors.

### 2.3.2 NON-ALLOWABLE USE OF REVENUE TRANSFERS

- Transfer of externally restricted contributions from a restricted fund (endowment, specific purpose, capital, research, awards) to a fund with no external restrictions (general purpose operating, fee for service, continuing studies, ancillary) using revenue account codes.
- Transfer of contributions from an external donor with no restrictions, however the University has internally designated the funds for use in endowments, revenue account codes cannot be used, instead use Interfund Transfers after obtaining appropriate approvals.

### 2.3.3 ACCOUNTING ENTRIES

- External contributions or funding received during the year must be reflected in the destination project or activity by year-end to eliminate or substantially reduce instances where total revenues in a particular activity show a net debit balance.
- The same revenue account code must be used in the debit and credit sides of the revenue transfer. To illustrate:
  - Where a contribution is received from an individual and credited to a specific purpose PG, but is externally restricted to fund a major capital project:
    - DR 445000 – Grants and Donations – Individuals PG xxSxxxxx
    - CR 445000 – Grants and Donations – Individuals PG nnPxxxxx
- For research, specific purpose, and capital PGs with revenue transfers, Finance will review these transactions to determine if budget adjustments are required.
- Adequate backup up documentation to support the revenue transfer must be attached to the journal voucher or be available for review upon request.



## 2.4 EXPENSE TRANSFERS

Expense transfers can be used when necessary to ensure that costs are recognized in the activity or fund where these costs are directly incurred. Expenses incurred during the year must be transferred by year-end to eliminate or substantially reduce instances where total expenses in a particular activity show a net credit balance.

### 2.4.1 NORMAL USE OF EXPENSE TRANSFERS

- Salary transfers relating to a specific person and a specific pay period, e.g. where the appointment form reflecting a change in earnings distribution was not processed prior to the effective date of the change; or
- Cost recovery arrangements between two or more PGs where administrative expenses are all initially recognized in one PG but support is provided to two or more activities which may or may not be within the same fund, e.g. funding received in a specific purpose or research PG but administrative support is provided by a staff person paid out of the operating fund;
- Transfers to or from a restricted research project where the use of interfund transfer account codes are prohibited, e.g. provincial funding of negotiated salary increases in a Tri-Council research PG;
- Cost recovery arrangements where expenses have already been incurred by the receiving department or project during the fiscal year, e.g. internal funding to support a specific purpose activity where related expenses are incurred in the current year; or
- Full or partial recovery of actual expenses incurred where the charging department or unit is not normally engaged in the activity of providing such services, e.g. cost-sharing agreement for software purchase or development;
- Reimbursement from third parties for expenses incurred on their behalf, e.g. travel expenses, photocopying charges; or
- Correction of expense coding errors.

### 2.4.2 NON-ALLOWABLE USE OF EXPENSE TRANSFERS

- Lump sum transfer of funds not related to any specific expenses and there is a compelling reason why expenses should be recognized in the other fund – use Interfund Transfers;
- Transfers in advance of expenditures being incurred which may result in the PG showing a net credit balance in the expense account classification – use Interfund Transfers; or
- Internal buy and sell transactions where the charging department or unit is normally engaged in the activity of providing such services on a direct cost recovery basis – use Internal Charges or Billing.



### 2.4.3 PROCEDURE AND ACCOUNTING ENTRIES

- Before initiating an expense transfer, ensure the transaction is valid and is in compliance with all applicable spending restrictions as stated in the endowment deeds or terms of agreement with sponsors.
- Journal vouchers should have sufficient back up documentation and explanations to support the recovery of expenses and eligibility of the expense as allowed by the endowment deeds or terms of agreement with sponsors. The documentation must provide enough details to satisfy an auditor, internal or external. Examples of appropriate documentation include, but not limited to:
  - relevant clauses or endowment deeds or terms of agreement with sponsors supporting the permissibility of transferred expenses;
  - calculation of recovery amounts, e.g. 30% of expenses to one PG and 70% to another PG, or calculation of adjustment or redistribution of expenses;
  - invoices or statements of account for expenses being transferred;
  - payroll employee details or Statement of Salaries and Wages showing salaries being transferred;
  - email or memo authorizing the journal voucher to be prepared;
  - FMS detailed transactions or ledger summaries;
  - cost sharing agreements between projects.
- When recovering salaries, the related benefits for the employee(s) must also be recovered.
- The same expense account code must be used in the debit and credit sides of the expense transfer. To illustrate:
  - Faculty salary expense transfer due to changes in earnings distribution:
    - DR 511000 – Faculty Salaries PG xxGxxxxx
    - CR 511000 – Faculty Salaries PG nnSnnnnn
  - Travel expenses recognized in an incorrect PG
    - DR 620000 – Travel Expenses PG xxGxxxxx
    - CR 620000 – Travel Expenses PG nnRnnnnn
- Expense account codes can also be used in limited situations where the expenses incurred by the department are reimbursed by an external party and the expenses are not related to the department's normal course of operations. As much as practicable, the reimbursement must occur in the same fiscal year when expenditures are incurred to ensure that the expense classification does not show a net credit balance. For these cash receipts, the cash account is debited and the appropriate expense account code is credited, instead of a revenue account code. Situations where the expense account codes may be used for external cash receipts are as follows:
  - Travel expenses incurred by the Dean to speak at a conference at the invitation of an external organization. Travel expenses incurred by the Dean will be reimbursed in full by this external organization.





- Relatively small value photocopying or long distance charges incurred and reimbursed by students and/or employees to the department.

## 2.5 FUNDING ALLOCATION TRANSFERS

Funding allocation transfers are the only type of transfer with no impact on the ACTUALS ledger. This type of transfer can only be used in the General Purpose Operating (GPO) fund.

### 2.5.1 RECOMMENDED USE OF FUNDING ALLOCATION TRANSFERS

- Transfer of funding allocation from one GPO PG to another GPO PG. The transfer can be both for the current fiscal year only, or on a recurring basis.

### 2.5.2 NON-ALLOWABLE USE OF FUNDING ALLOCATION TRANSFERS

- Transfer of funding allocation involving revenue-based funds (fee for service, continuing studies, ancillary, agency). No entries should be booked in the funding allocation in the CENTRAL ledger for these funds – use Interfund Transfers or Expense Transfers where appropriate.

### 2.5.3 PROCEDURE

- Enter the funding allocation transfer in Hyperion.

## 3 OTHER CONSIDERATIONS

- Where a staff person is paid out of the Operating fund but provides research support on a full-time basis, consideration should be given to changing the earnings distribution charge to a Research PG to avoid overstating the headcount in the Operating fund.
- To minimize cost reduction or expense recoveries, the department may consider directly charging the actual expense to the department or PG that incurred it, rather than recognizing the expenditure in a cost center and eventually claiming a recovery for these items.

