FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

Date Issued	Effective Date	Section	Title:
July 1994	July 1994	I	GAAP Accounting and Financial Reporting Principles
Revision No.	Date Revised	Chapter	Title:
5	March 2017	I-10	Expenditure and Disbursement Accounting

INTRODUCTION

This chapter reviews how local units of administration (LUA) should record expenditures and cash disbursements. Also, it includes the recording of expenditure accruals at year-end. Chapter I - 7 provides a detailed discussion of expenditure recognition under the modified accrual basis of accounting.

As discussed in Chapter 22A, the Governmental Accounting Standards Board (GASB) prescribes two levels of financial reporting, the fund level and the government-wide level. LUAs prepare fund level financial statements using the trial balance information from the general ledger. As a result, LUAs should record transactions in governmental fund types on the modified accrual basis and record transactions in proprietary and fiduciary fund types on the accrual basis.

The government-wide financial statements are prepared by adjusting the fund level financial information to the accrual basis of accounting and to the economic resources measurement focus. These adjustments are generally made outside the accounting system, usually by LUA personnel, and in some instances, with the assistance of the LUA's independent auditor.

CASH DISBURSEMENTS

Disbursements are decreases in cash. Generally, when an LUA disburses cash they either:

- Purchase an asset (e.g., an investment or capital outlay item)
- Liquidate a liability (e.g., pay accounts payable)
- Incur an expenditure (e.g., pay payroll)

GASB INTERPRETATION NO. 6 GUIDANCE

GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements (GASBI 6), provides guidance for liability and expenditure recognition under the modified accrual basis of accounting for specific transactions. Governmental funds use this basis at the fund reporting level.

Normal Liabilities and Expenditures - Without an applicable accrual modification, governmental fund liabilities and expenditures should be accrued. Liabilities that LUAs normally pay in a timely manner and in full from expendable available financial resources (for example, salaries and utilities) should be recognized when incurred, without regard to the extent to which resources are currently available to liquidate the liability.

For example, assuming a June 30 fiscal year end, in the past some state governments have deferred paying their June 30 payroll payment until July 1. Their argument was that since there were no financial resources available at June 30, generally accepted accounting principles (GAAP) did not require them to record the June 30 payroll as a liability at June 30. GASBI 6 does not allow this deferral. In other words, if a LUA has payroll or other normal invoices outstanding at June 30, they are required to record both the expenditure and the fund liability, without regard to when they will be paying these liabilities. This reporting is similar to how these transactions would be reported under the accrual basis.

Unmatured Long-term Indebtedness - Normally, liabilities have to be discussed at the same time expenditures are discussed. GASBI 6 introduces the “when due” concept. A LUA may only report an expenditure and liability in a governmental fund on the modified accrual basis if it is “due.” A LUA’s unmatured general long-term indebtedness (other than "specific fund debt" of proprietary and trust funds) should be reported as general long-term liabilities at the government-wide financial reporting level, rather than as governmental fund liabilities at the fund reporting level.

This requirement applies not only to formal debt issues, such as bonds, but also to other forms of general long-term indebtedness, including compensated absences, capital leases, claims and judgments, special termination benefits, and "other obligations" that are not due for payment in the current period.

For example, at June 30, if a LUA owes its employees for accumulated vacation, the LUA only may report the expenditure and the liability in a governmental fund if the employee has applied for payment, but the payment was not made by June 30. Practically, this means that most LUAs will not report any compensated absences in their governmental funds. However, the total liability, whether due or not due, will be reported in the governmental activities column of the government-wide statement of net position.

Debt Service Expenditures - Normally, LUAs must report debt service expenditures when they are due, similar to the discussion above. A LUA may accrue an additional governmental fund liability and expenditure for debt service on general long-term debt at the fund reporting level, beyond the amounts matured, if it has provided financial resources to a debt service fund for payment of liabilities that will mature early in the following year.

GASBI 6 clarifies that the application of the phrase “early in the following year” to refer to a short time period, usually one to several days but not more than one month.

For example, without an exception to the “when due” criteria, if the principal and interest on bonds are due July 1, the LUA could not recognize the expenditure and liability at June 30 since they are not due. GASBI 6 allows LUAs to recognize the expenditure and liability at June 30 if the bond principal and/or interest are due by July 31 of the subsequent year.

Expendable Available Financial Resources - As indicated above, liabilities for compensated absences, claims and judgments, and special termination benefits are "normally expected to be liquidated with expendable available financial resources," and should be recognized as governmental fund liabilities, to the extent that they mature each period.

According to Codification 1600.124 the “accumulation of financial resources” in a governmental fund for eventual payment of unmatured liabilities (for example, compensated absences) “does not constitute” an outflow of current financial resources or result in the recognition of an additional governmental fund liability or expenditure. In other words, an LUA may not record an expenditure and a liability unless due, even if it has enough fund balance to cover the cost.

SPECIFIC EXPENDITURE RECOGNITION

Generally, expenditures are decreases in assets or increases in liabilities that ultimately result in decreased fund equity. Disbursements are decreases in cash. On occasion, LUAs report cash disbursements and record expenditures at the same time. Depending upon the circumstances, this reporting may be consistent with GAAP.

Salaries and Related Benefits - During the year, most LUAs report salary costs as expenditures when the payment is made (i.e., the cash basis). Technically, every day that an employee works, the LUA has incurred an expenditure and a liability. However, this reporting would not be practical or meaningful. The exception to this payroll reporting is the year-end salary accrual discussed below.

Under the modified accrual basis of accounting, a LUA may incur expenditures without disbursing cash at the same time (e.g., teacher salaries earned during the year are considered expenditures at June 30 even though not paid until July and August in the next fiscal year). Note that these salaries and related benefits are considered due (see above GASBI 6 discussion) although the actual payments will not be made until July and August of the subsequent year.

Conversely, disbursements may be made which are not considered expenditures. For example, when the payroll checks are issued after the close of the fiscal year (i.e., in July and August for the prior year's teachers' payroll), the Salaries and Benefits Payable (0422) account is debited (i.e., decreased) and the Cash account (0101) is credited. No expenditure is recorded for this transaction in the current fiscal year (i.e., the year the payroll was paid) since the expenditure was reported in the year the salary was earned. At the end of the fiscal year, the amount owed to teachers is accrued in Salaries and Benefits Payable (0422) as a credit and the appropriate expenditure accounts are debited. Various accounting software packages accomplish the above using different methods but the resultant postings are the recording of the salary and benefit accruals in the period the salary is earned.

TYPICAL EXPENDITURE ACCRUALS

Most LUAs record expenditure accruals (e.g., normally monthly invoices) on a monthly basis and others, though not recommended, record transactions on a cash basis during the year and make the modified accrual entries only at year-end. The types of expenditure accruals will vary from LUA to LUA. To record an expenditure accrual, the expenditure control account and expenditure subsidiary account are debited and an appropriate liability account (e.g., accounts payable) is credited. Generally, expenditures are recognized when the fund liability has been incurred (See GASBI 6 discussion above). Expenditures typically accrued, with the corresponding balance sheet account affected include:

Account Description	Corresponding Balance Sheet Account
Accounts payable	0421
Construction contracts payable	0433
Salaries and benefits payable	0422

Each of the above expenditures would be charged to the Expenditure/Expenses Control account (0602) and the applicable subsidiary accounts at the time of recording the accrual.

ENCUMBRANCES

Significant encumbrances outstanding at year end should be disclosed in the notes to the financial statements as commitments. According to the GASB 2015-2016 Codification of Governmental Accounting and Financial Reporting Standards, 1800.184, “Encumbered amounts for which resources have already been restricted, committed, or assigned should not result in a separate display of encumbered amounts within those classifications.” If encumbered amounts have not been previously restricted, committed or assigned, the amounts should be included in restricted or assigned fund balance.

ILLUSTRATIVE JOURNAL ENTRIES

Some typical accrual transactions follow, with illustrated journal entries. For example, an LUA issues a purchase order to a computer repair shop for an estimated cost of $280 for service on a computer in the principal's office:

Description	Account No.	DR	CR
Encumbrances control	0603	$280	
Fund balance – Assigned	(0780- 0790)		$280

Explanation - in this entry, the purchase order is entered into the encumbrance file at the subsidiary detail level and the accounting software debits the Encumbrances control account (0603) and credits Fund balance – Committed (0780) or Assigned account (0790). Chapter I-8 discusses the recording of encumbrances in more detail.

An invoice is received from the computer repair shop totaling $284.

Description	Account No.	DR	CR
Fund balance - Committed Or Assigned	(0780 or 0790)	$280	
Encumbrances control	0603		$280
Expenditures/expenses control	0602	$284	
Accounts payable	0421		$284

Explanation - when the transaction is measurable (i.e., the invoice is received) and incurred (i.e., the repair service has been performed), an expenditure is incurred.

When an expenditure is incurred, any encumbrance relating to this expenditure must be cancelled.

Note that when canceling the encumbrance (the first entry above); the original entry (i.e., the entry encumbering the purchase order) is reversed. The canceling entry is for $280, the original amount, rather than the $284, the amount of the invoice. However, the second entry is recorded for $284, the actual cost to the LUA. In both of these entries, the subsidiary account, 0000-2400-0430 would be posted. If for some reason the purchase order was not encumbered, no encumbrance entries need be made since they would serve no purpose, as the invoice already is received.

The invoice for the computer repair is paid:

Description	Account No.	DR	CR
Accounts payable	0421	$284	
Cash in bank	0101		$284

Explanation - this transaction does not affect the expenditure account (i.e., it was recorded previously) since a liability is reduced and an asset is reduced.

The second entry above records the approved invoice as an account payable and the third entry reduces the payable account as the invoice is paid. However, in practice, some LUAs unfortunately do not follow this procedure. Invoices are approved in groups, either by the school board or the LUA's management and often are recorded as a direct expenditure when the cash is paid, without the intervening entry to record the expenditure and accounts payable accounts. This procedure is deficient when the preparation of an interim financial statement (e.g., monthly, quarterly) occurs between the time of invoice approval and the preparation of the check since the expenditure and accounts payable are understated. In addition, an actual expenditure is reported erroneously as an encumbrance on the operating statement (possibly for an amount different than the expenditure) and the liability (e.g., accounts payable) is omitted from the balance sheet.

In another example, an LUA purchases a three-year insurance policy for general liability coverage and wishes to charge the current accounting period for only the current portion of the insurance costs. In governmental fund types, the allocation of prepaid costs over the periods benefited, rather than when the liability is incurred, is allowed, but not required. This transaction requires two entries. When the insurance policy is purchased at a cost of $18,000, the following entry is made.

Description	Account No.	DR	CR
Prepaid expenditures/expenses	0181	$18,000	
Accounts payable	0421		$18,000

Explanation - in this entry, no expenditure is incurred, rather one asset (i.e., cash when the invoice is paid) is traded for another asset (e.g., prepaid expenditures).

When a portion (e.g., one-third) of the insurance policy expires, usually at year-end, the following entry is made:

Description	Account No.	DR	CR
Expenditures/expenses control	0602	$6,000	
Prepaid expenditures/expenses	0181		$6,000

Explanation - in this entry, the appropriate expenditure subsidiary account would be debited (e.g., 0000-2500-520). The asset account, Prepaid expenditures/expenses is adjusted to its actual value at year-end ($18,000 - $6,000 = $12,000) with the difference ($6,000) being charged to the expenditure/expenses control account.

In most LUAs, salaries and benefits are recorded on the cash basis during the year.

However, as discussed above, at year-end GAAP requires the accrual of any salaries and benefits that have been earned but not paid. The entry to record this accrual follows:

Description	Account No.	DR	CR
Expenditures/expenses control	0602	$927,091	
Salaries and Benefits Payable	0422		$927,091

Explanation - the various salary and benefits expenditure subsidiary accounts also would be debited for their appropriate portion of the salaries and benefits posted to the Expenditures/expense control account. This type of accrual is most common for the July and August payments of teachers' salaries and benefits relating to the prior fiscal year. If the LUA does not accrue these salaries and benefits, there is a violation of GAAP and usually the independent auditor (i.e., the Georgia Department of Audits) will modify its auditor's opinion for not conforming to GAAP. Once an LUA accrues teachers' salaries and benefits at year-end, it must consistently accrue these costs from year to year. If this salary and benefit expenditure is accrued at year-end, the LUA also must accrue the appropriate Quality Basic Education (QBE) grant program aid. See Chapter I - 9 for a discussion of this accrual.

Additional information regarding accruals and the LUA's portion (i.e., the expenditure) of employee benefits (e.g., matching social security or vacation) is discussed in detail in Chapters I-11. The recording of inventory expenditures is discussed in Chapter I-12 and III-4.

JOURNALS

As indicated in Chapter I-4, the general journal could be used to record all financial transactions, including expenditures and disbursements. However, in most LUAs certain transactions occur with greater frequency, creating a need for a more efficient mechanism.

Cash disbursements and the recognition of expenditures are two such transactions. For these purposes, a cash disbursements journal and an expenditure journal could be used.

LEDGERS

In Chapter I-4, the general ledger, an accounting record containing a page for each balance sheet account and revenue and expenditure/expense control accounts, was introduced. There are certain general ledger accounts that have a high volume of activity and require considerably more detailed classification for accurate control. Among these accounts are those for the budgetary account, Appropriations and other financing sources control (Account 0601), Expenditures/ Expenses control (Account 0602) and Encumbrances control (Account 0603). Often the accounting software includes expenditure subsidiary accounts to record the details of the estimated expenditures and actual expenditures incurred. These accounts are recorded in a subsidiary ledger. Once the activity for the month has been posted, totals for the preparation of an interim financial statement are available. Totaling the estimated and actual expenditure columns provides year-to-date amounts and the budget balance is readily available after any outstanding encumbrances are deducted.

When using expenditure and encumbrance subsidiary ledgers, for every entry made to the general ledger control accounts 0601, 0602, and 0603, an additional entry must be made in the appropriate column in the expenditure subsidiary ledger. A number of years ago, some small LUAs, or LUAs with a detailed computerized system, may include each individual expenditure account as part of the general ledger. In these instances, the general ledger would not utilize the three control accounts. However, the advantages of utilizing both the control accounts and the subsidiary accounts (i.e., the subsidiary ledgers) are:

- The general ledger is reduced to a manageable size, which facilitates the preparation of trial balances and monthly balance sheets.
- The monthly operating expenditure report may be taken directly from the subsidiary ledger accounts.
- The subsidiary accounts provide a control for balancing the general ledger.

SUMMARY

1. Expenditures are decreases in assets or increases in liabilities that ultimately result in decreased fund balance (i.e., after closing the books).

2. Expenditures may be incurred without disbursing cash.

3. Typical expenditure accruals include accounts payable, contracts payable, and salaries and wages payable.

4. Compensated absences may not be reported as “an expenditure” at the fund reporting level until due.

5. Debt service expenditures may be reported before they are due as long as they are due within one month of year end.