



Statewide Accounting Directive

Subject File Reference:
AD 201301 Expense Credits

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Accounting for Expense Credits

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Event Description:

Organizations in the State reporting entity receive expense credits on a periodic basis. These credits arise from miscellaneous issues, such as returns of purchased merchandise, rebates, overpayment of vendor invoices, overbilling by vendors, other vendor refunds and adjustments, etc. This accounting directive (AD) provides guidance on accounting for these transactions. This AD does not apply to insurance recoveries. For guidance on insurance recoveries, refer to the statewide policy on *Capital Assets – Impairments* or to GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Directive Policy Requirements:

Expense credits typically are not significant to annual operating results. Therefore the credits are normally recorded as current year activity because they are not deemed significant enough to be reported as adjustments to beginning equity. As such, the general rule for recording an expense credit is to credit the same expense/expenditure account that was charged for the original transaction that gave rise to the credit. This general rule applies to all bases of accounting: statutory, modified accrual and accrual bases. Following is additional guidance for handling certain exceptions to the general rule.

Statutory Basis

- If a credit is received in the same budget year as the expenditure was incurred, credit the expenditure for that budget year up to the amount of the expenditure.
- Any excess credit should be recognized as a prior period expenditure adjustment by using the budget reference for the appropriate prior budget year.
- Credits received in a year subsequent to the year that the original transaction was recorded also should be recognized as a prior period expenditure adjustment, using the appropriate prior budget year.

- Credits may be recorded as revenue if the related expenditure was not recorded on the recipient organization's ledger, for example the expenditure was passed to or incurred by another organization. Also, if certain rebates were budgeted and appropriated as revenue, it is acceptable to record them as revenue.

In situations where an organization would like to recognize a credit prior to receiving it, the organization should comply with all of the following conditions:

- Estimated credits or rebates may be accrued in the fiscal and budget year in which the expenditures were incurred if the credits are directly attributable to the expenditures.
- Estimated credits may be accrued only if they are predictable, highly probable, and quantifiable based on a known formula or contract arrangement.
- Accrual of expense credits should be applied consistently from year to year if an organization chooses to use this approach.

Modified Accrual and Accrual Bases

- The portion related to prior years should be treated as a prior period adjustment.
- Prior period adjustments, if significant, can be reported as an adjustment to beginning of the period equity or, if not significant, can be reported as if they were a current period item.
- Credits may be recorded as revenue if the related expense was not recorded on the recipient organization's ledger, for example the expense was passed to or incurred by another organization. Also, if certain rebates were budgeted and appropriated as revenue, it is acceptable to record them as revenue.

Assessment of materiality requires professional judgment. For additional guidance, refer to the SAO accounting policy titled *Materiality* (SAO.Georgia.gov > [Policies](#) > [Accounting Policy Manual](#)).

Related Policies and Procedures:

- *Chart of Accounts – Structure Overview*
- *Materiality*

Required Journal Entries:

Following are example journal entries for recording expense credit transactions. Only the account chartfield is used in these examples. State organizations should use any other required chartfields applicable to their specific transactions. Consult the Reporting Structure and Chart of Accounts page of the SAO website for an overview of the chart of accounts structure and a complete listing of available chartfields (SAO.Georgia.gov > [Reporting](#) > [Reporting Structure and Chart of Accounts](#)).

Statutory Basis

To record an expense credit if the amount is received in the same fiscal year that the original transaction occurred and the expense/expenditure balance is large enough to absorb the credit – Use the original funding source and program to record this transaction, with the current budget year:

Debit	\$2,500	Cash (10xxxx)
Credit	\$2,500	Expense/Expenditure (Various Accounts)

However, if the expense credit exceeds current year expenditures or it is received in a different fiscal year than the original transaction occurred, credit the expenditure account using a prior budget year.

To record an expense credit as revenue because the expenditure was not reflected on the credit recipient's ledger:

Debit	\$2,500	Cash (10xxxx)
Credit	\$2,500	Revenue (Various Accounts)

Modified Accrual and Accrual Bases

To record an expense credit assuming that any portion related to prior years **is not** significant:

Debit	\$2,500	Cash (10xxxx)
Credit	\$2,500	Expense/Expenditure (Various Accounts)

To record an expense credit assuming that any portion related to prior years **is** significant:

Debit	\$3.5 M	Cash (10xxxx)
Credit	\$1.5 M	Expense/Expenditure (Various Accounts) – for current year portion
Credit	\$2.0 M	Adjustment to Fund Balance – Adjustments to Prior Year Expenditures/Payables (390100) – for significant prior year portion

To record an expense credit as revenue because the expense was not reflected on the credit recipient's ledger:

Debit	\$2,500	Cash (10xxxx)
Credit	\$2,500	Revenue (Various Accounts)

Authority:

- OCGA 50-5B-3, *Duties of State Accounting Officer*
- OCGA 50-5B-4, *Duties of State Agencies with Respect to SAO*

Contact Information:

Questions regarding this accounting directive should be submitted to SAO_Reporting@sao.ga.gov.