



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Expenses, Expenditures, Encumbrances and Payables
Sub-section: Accounting for Vendor Adjustment Credits

Effective Date: 06/30/2013**Revision Date:** 04/05/2013**Index:**[Policy Summary](#)[Policy Requirements](#)[General Accounting Procedures](#)[Authority](#)[Applicability](#)**Policy Summary:**

Organizations in the State reporting entity receive vendor adjustment credits on a periodic basis. These adjustments arise from miscellaneous issues, such as returns of purchased merchandise, rebates, overpayment of vendor invoices, overbilling by vendors, or other vendor refunds and adjustments. This policy provides guidance on accounting for these transactions but does not apply to insurance recoveries or to cost reimbursement/sharing arrangements among various entities, including federal or other grant situations. For guidance on insurance recoveries, refer to the policy on *Capital Assets – Impairments* or to GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For guidance on cost reimbursement/sharing arrangements, refer to general policies or GAAP guidance on revenues, expenses, or reimbursement-type grants, as appropriate.

Policy Requirements:

Vendor adjustment credits typically are not significant to annual operating results. Therefore the adjustments 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 a vendor adjustment credit is to credit the same expense/expenditure account (or if applicable, current or other asset account, such as inventory) that was charged for the original transaction that gave rise to the credit. This general rule applies to the modified accrual and accrual bases of accounting. However, under the statutory basis, typically, the portion of a credit related to a prior year should be recorded using the budget reference for a prior budget year. Following is additional guidance for handling certain exceptions to the general rule, including when the credit is significant.

Basis of Accounting

Organizations included in the State reporting entity are required to maintain their accounting records in a manner that provides for the preparation of both GAAP financial statements and budgetary statements.

Day-to-day operations may be accounted for using a budgetary/statutory basis of accounting, which is also used for preparing the year-end BCR. The primary statements in the year-end CAFR, however, are prepared using different bases of accounting, the GAAP bases: modified accrual and accrual.

Statutory

- 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. The State funds portion of any prior year credits does not create availability for current year expenditures, and therefore these funds must lapse. Credits related to federal and other funds would be subject to applicable federal or other restrictions, and availability of those funds for current year expenditures may vary depending on whether they are lapsable or not.
- 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 vendor adjustment credits should be applied consistently from year to year if an organization chooses to use this approach.

GAAP Modified Accrual and Accrual

- The portion related to prior years should be assessed for materiality to determine whether treatment as a prior period adjustment is necessary. Assessment of materiality requires professional judgment. For additional guidance, refer to the SAO accounting policy titled *Materiality* (SAO.Georgia.gov > [Policies and Procedures](#) > [Accounting Policy Manual](#)).
- 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.

General Accounting Procedures:

The following procedures are used by organizations in the State of Georgia reporting entity to meet the requirements for statutory and GAAP reporting purposes.

Vendor adjustment credits may be processed by means of journal entries, credit vouchers, or as additional line items on purchase orders, whichever method is most appropriate under the given conditions. Users of the statewide TeamWorks Financials system may refer to the Training page of the SAO website for the TeamWorks online training tool.

Accounting Transactions and Journal Entries

Following are example journal entries for recording vendor adjustment credit transactions. Only the account chartfield is used in these examples. State organizations should use any other required chartfields applicable to their specific transactions. Guidance describing the various chartfields is available in the *Chart of Accounts – Structure Overview* policy. Consult the Reporting Structure and Chart of Accounts page of the SAO website for a complete listing of available chartfields (SAO.Georgia.gov > [Statewide Reporting](#) > [Reporting Structure and Chart of Accounts](#)).

For example purposes only, these adjustments are offset with a debit to cash. Other offset accounts may also be appropriate depending on the process used to collect the credits, for example, accounts receivable, reduction to accounts payable, clearing account, etc. Additionally, as mentioned in the general rule, the adjustment may be recorded as a reduction to a current or other asset account, such as inventory, instead of an expense or expenditure account if the original transaction that gave rise to the credit was charged to an asset account.

Statutory Basis

To record a vendor adjustment 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) or other appropriate account
Credit	\$2,500	Expense/Expenditure (Various Accounts) or other account originally charged, with the current budget year

However, if the vendor adjustment 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, regardless of the materiality of the prior year portion:

Debit	\$2,500	Cash (10xxxx) or other appropriate account
Credit	\$2,500	Expense/Expenditure (Various Accounts) or other account originally charged, with a prior budget year

The use of a fund balance account is not encouraged for the prior year portion because adjustments made within the various TeamWorks modules (e.g., PO, AP, or AR) will appear in revenue or expenditure accounts and have a prior budget reference, and there will be no requirement to reclassify them from revenue/expenditure accounts to an Adjustment to Fund Balance account.

If the portion of a vendor adjustment credit related to prior years **is** significant and the organization's management decides that the above recommendation is not advisable for the organization's purposes, then the following entry would be acceptable:

Debit	\$3.5 M	Cash (10xxxx) or other appropriate account
Credit	\$1.5 M	Expense/Expenditure (Various Accounts) or other account originally charged – 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 a vendor adjustment credit as revenue because the expenditure was not reflected on the credit recipient's ledger:

Debit	\$2,500	Cash (10xxxx) or other appropriate account
Credit	\$2,500	Revenue (Various Accounts)

Modified Accrual and Accrual Bases

To record a vendor adjustment credit assuming that any portion related to prior years **is not** significant:

Debit	\$2,500	Cash (10xxxx) or other appropriate account
Credit	\$2,500	Expense/Expenditure (Various Accounts) or other account originally charged

To record a vendor adjustment credit assuming that any portion related to prior years **is** significant:

Debit	\$3.5 M	Cash (10xxxx) or other appropriate account
Credit	\$1.5 M	Expense/Expenditure (Various Accounts) or other account originally charged – 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 a vendor adjustment credit as revenue because the expense was not reflected on the credit recipient's ledger:

Debit	\$2,500	Cash (10xxxx) or other appropriate account
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*

Applicability:

This accounting policy applies to all organizations included in the State of Georgia reporting entity. Refer to the *Management Responsibilities* policy for a summary of general financial reporting responsibilities.