



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Financial Accounting and Reporting Policies & Procedures
Sub-section: Outflows of Resources
Policy Title: Expenditures/Expenses, Prepaid Items, Payables and Deferred Outflows – General

Effective Date: 06/22/2017**Revision Date:** 06/22/2017**Index:**[Accounting Policy Summary](#)[Accounting Policy and Requirements](#)[Accounting Procedures](#)[Authority](#)[Applicability](#)[Definitions](#)[Forms and Attachments](#)**Accounting Policy Summary:**

According to GASB Concepts Statement 4, outflows of resources are consumption of net position that is applicable to the reporting period. This policy applies to expenditures and expenses, which represent the most significant outflows of resources reported by State organizations and related encumbrances payable, accounts payable, prepaid items and deferred outflow amounts.

All expenditures, expenses, encumbrances, payables, prepaid items and deferred outflows of resources are to be accounted for in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). In addition, expenditures, expenses, payables, including encumbrances payable and prepaid expenditures, recorded by appropriated budget units of the State through the Appropriations Acts passed by the General Assembly and signed by the Governor must be accounted for at the level prescribed in such Appropriations Acts. This policy provides guidance for expenditure/expense recognition whether an invoice is received during the same period the transaction occurs or in a different period. This policy also provides guidance for recognition of payables when payment occurs in a different period than the underlying transaction.

No agency may execute a contract with a private party for the purchase of goods or services which purports to obligate appropriations or state funds from any other source not on hand at the time of the contract or where the fiscal obligation of the agency depends for its full performance upon such future appropriations or the continued existence of any other source of state funds. (*Opinion of the Attorney General 74-115 Agency not authorized to pledge credit of state*)

Accounting Policy and Requirements:

Expenditures and expenses, encumbrances payable, accounts payable, prepaid expenditures/items and deferred outflows of resources include amounts that result from services provided and goods furnished to

State organizations, organizations and individuals including personal services, professional services and contracts, grants, benefits, supplies, utilities, travel and similar items.

Encumbrances payable, for statutory basis reporting purposes, are short-term liability accounts representing amounts obligated by State reporting organizations to individuals, firms, corporations, other governmental units, or other GAAP funds. Encumbrances payable include amounts for services that have yet to be provided or goods that have yet to be received at the end of the reporting period for which funds have been obligated.

Accounts payable, for financial reporting purposes, are short-term liability accounts representing amounts owed by State reporting organizations to individuals, firms, corporations, other governmental units, or other GAAP funds. Accounts payable include amounts for services provided or goods furnished to the State before the end of the reporting period, for which payment has not yet been made.

Contracts payable, for financial reporting purposes, are short-term liability accounts representing amounts owed by State reporting organizations on contracts for services provided or goods furnished to the State before the end of the reporting period, for which payment has not yet been made.

Other payables and/or liabilities may be reported for amounts due for services provided or goods furnished to the State, not listed above.

Prepaid expenditures/items include payments made to individuals, firms, corporations, other governmental units, or other GAAP funds for services that will benefit periods beyond the fiscal year-end. In essence, these are payments for goods or services that will be received in the future. For example, rent that is due on July 1st, but is paid for in June would be recorded as a prepaid expenditure.

Deferred Outflows represent the consumption of net position that applies to a future period(s) and thus will not be recognized as an outflow of resources (expenditure/expense) until then.

Organizations included in the State reporting entity are required to maintain their accounting records in a manner which will provide for the preparation of GAAP financial statements and/or budgetary statements. Day-to-day operations may be accounted for using one basis of accounting (a budgetary reporting basis, such as the statutory basis or the cash receipts and disbursements basis) and year-end reporting information may be prepared to accommodate reporting on a different basis of accounting (a GAAP basis).

As governmental, proprietary, and fiduciary funds use different GAAP bases of accounting to record and report their transactions, the accounting treatment of expenses, expenditures, encumbrances and payables may be different for different fund types. GAAP requires that these transactions are recorded and reported based on the type of transaction (e.g., exchange, exchange-like, or nonexchange). A more detailed explanation of the types of transactions is included in the Recognition and Measurement section of this document.

Recognition and Measurement

Types of Transactions – All expenses, expenditures, encumbrances and accounts payable, prepaid expenditures/items and other outflows of resources for each of the types of transactions described below are recorded in line with the recognition criteria for the applicable basis of accounting:

- *Exchange Transactions and exchange-like transactions* – Transactions in which each party to the transaction receives and gives up essentially equal values (e.g., purchases of goods and services).
- *Nonexchange Transactions* – Transactions in which one party gives value or benefit to another party without receiving equal value in exchange. There are two types of nonexchange transactions relevant

to recognition of expenditures/expenses. A significant portion of the expenditures of the State (i.e., grants and entitlements or benefits) fall into these two types:

- **Government-mandated nonexchange transactions** result when a government at one level provides resources to a government at another level. The provider government requires the recipient government to use those resources for a specific purpose or program. Examples of government-mandated nonexchange transactions include grants to local governments.
- **Voluntary nonexchange transactions** that result from legislative or contractual agreements other than exchanges entered into willingly by two or more parties. The provider frequently establishes purpose restrictions and eligibility requirements. Examples include certain grants, entitlements and donations.

Recognition Criteria – Certain criteria that are critical to recognition and measurement, which are addressed in the bases of accounting below, are as follows:

- *Measurable* – is when an amount can be accurately determined or reasonably estimated
- *Incurred* – is when the reporting organization has substantially acquired the benefit for which it is consuming net position,
 - For **exchange transactions**, this is when goods or services have been received.
 - For **nonexchange transactions**, a distinction is made between the two parties to a nonexchange transaction, the recipient and the provider. State reporting organizations can be a recipient, for example, of revenues from a federal grant award. State reporting organizations can also be a provider, for example of expenditures of Quality Basic Education (QBE) grant funds to a local education agency.

When a State organization is a recipient (of revenue), expenditure recognition (by the provider) is dependent on the State organization meeting all eligibility requirements, including incurring allowable expenditures, if applicable

When a State organization is a provider (of expenditures), the State organization's expenditure recognition is dependent on the recipient of the grant, entitlement, etc., meeting all eligibility requirements, including incurring allowable expenditures, if applicable.

Expenditures/expenses which have been *incurred* are generally offset by accounts payable (unless payment has already taken place).

- *Obligated* – (specific to statutory basis of accounting only) is when an appropriated budget unit has a duty or responsibility to sacrifice resources through a purchase order, written agreement, or a recurring expenditure under which all of the following conditions have been met:
 - **Confirmed vendor**
 - **Specific project/services/goods**
 - **Specific price for project/services/goods**
 - **Stated time or range of time for delivery/completion**

Expenditures which have been *obligated* have not yet been incurred and should be offset by encumbrances payable.

Basis of Accounting

As noted in the Accounting Policy Requirements section above, the basis of accounting utilized for recording day-to-day transactions of a reporting organization's fund may be different than the basis of accounting used by this fund's activities for GAAP reporting purposes. The most common example is activity recorded in the Budget Fund using the budgetary reporting, statutory basis of accounting to record day-to-day transactions and reporting those same transactions in GAAP reports using the modified accrual basis of accounting.

Statutory Basis – For budgetary reporting, the State's Budget Fund and Debt Service Fund use the statutory basis of accounting. As described in the *Basis of Accounting and Reporting – Overview* policy, the statutory basis of accounting for most expenditures and payables is substantially the same as the GAAP modified accrual basis of accounting with some exceptions. Under the statutory basis of accounting, expenditures and accounts payables are generally recorded when goods and services have been received, that is, the expenditures have been incurred. (See below for the complete definition of the GAAP modified accrual basis).

The statutory basis of accounting differs from the GAAP modified accrual basis in that expenditures and encumbrances payable can be recorded when purchase orders or other contractual obligations to procure goods or services have been executed, that is, funds have been obligated. Expenditures for items not requiring purchase orders are recorded when the goods or services are received. However, State reporting organizations may record these expenditures (those not requiring a purchase order) when presented for payment as long as the application of this method is applied consistently and the appropriate number of occurrences is reflected each year. For example, the monthly utility bill may be recorded when the expenditure is presented for payment as long as 12 (and only 12) utility bills are reflected as expenditures each year. In these instances, goods and/or services need not have been received for the expenditure to be recorded.

No State organization included in the appropriations act may execute a contract (contract or purchase order) with a private party for the purchase of goods or services which purports to obligate appropriations or State funds from any other source not on hand at the time of the contract or where the fiscal obligation of the organization depends for its full performance upon future appropriations or the continued existence of any other source of State funds. An appropriated State organization may execute a contract for the purchase of goods and services even though the term of that contract extends to the next fiscal year if the State organization has available at the time of the execution of the contract appropriated funds necessary to meet its entire obligation under the contract.

Cash Receipts and Disbursements Basis – The State's Revenue Collections (General) utilizes the cash receipts and disbursements basis of accounting. The only disbursements from this fund should be transfers of State Revenue Collections to the Office of the State Treasurer and there should be no expenditures reported in the State Revenue Collections Fund.

GAAP Modified Accrual Basis – In general, under both the GAAP modified and full accrual bases of accounting, expenditures are recognized when the related liability is incurred and measurable. The GAAP modified accrual basis is a modification of the accrual basis in that the liability is expected to be paid from current resources (i.e., within a twelve month period) and one of the following exceptions to the general rule for recognizing expenditures and liabilities applies:

- *Inventories of materials and supplies* may be considered expenditures either when purchased (purchases method) or when used (consumption method);

- *Prepaid insurance and similar items* may be considered expenditures either when paid for (purchases method) or when consumed (consumption method);
- *Depreciation, amortization and other similar allocations* are not recognized in governmental fund accounting;
- *Debt service expenditures and expenditures related to compensated absences, claims and judgments and other long-term liabilities* are recorded only when the payment is due, or for debt service expenditures, when amounts have been accumulated in the debt service fund for payments to be made early in the subsequent fiscal year; and
- *Unmatured principal and interest on general obligation, long-term debt* are recorded when due.

GAAP Accrual Basis – As described above, under the GAAP accrual basis of accounting, expenses are recognized when the liability is incurred regardless of when payment is made. Consumption of resources for which only the current portion is recognized as expenditures under the GAAP modified accrual basis and for which there is also a long-term component are removed from expenditures and reported as changes in the related long-term asset or liability. For example, equipment purchases meeting capitalization thresholds are removed from expenditures and reflected as additions to capital assets; principal payments are removed from expenditures and reflected as reductions of bonds payable and the appropriate amounts of deferred amounts on refundings of general obligation bonds are recognized as expenses over the life of the refunding bonds issued.

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.

Accounting Transactions and Journal Entries

State reporting organizations using the statewide financial system are required to use the general ledger chartfields for each expenditure/expense and payable transaction. These chartfields may be different for budgetary reporting and GAAP transactions, such that journal entries may be required to convert between the various bases of accounting required for reporting. For a complete listing and description of the required chartfields, consult the Reporting Structure and Chart of Accounts page on the SAO website (sao.georgia.gov > Reporting > Reporting Structure and Chart of Accounts). In accordance with the *Chart of Accounts – Structure Overview* policy, those State reporting organizations that do not use the statewide financial system (Teamworks) must maintain a crosswalk from their local chart of accounts to the statewide chart of accounts.

A comprehensive example of the accounting entries required for expense, expenditure, encumbrance, and payable activity under the various bases of accounting is provided in Attachment I of this policy. The examples in Attachment I reflect normal operating transactions such as the purchase of goods and/or services. Each example begins with the recording of a transaction using the statutory basis of accounting and provides the adjusting entries needed to convert to the modified and/or accrual basis of accounting.

Year-end Accounting Procedures

Funds that operate on a statutory basis must convert their accounting activity to the GAAP modified accrual and/or GAAP accrual bases of accounting for the Comprehensive Annual Financial Report (CAFR) ¹.

¹ Most of these adjustments are performed by SAO based on information reported on the year-end forms.

Proprietary and fiduciary funds that do not operate on a statutory basis use the GAAP accrual basis of accounting throughout the year.

Statutory Basis for Budgetary Compliance Reporting – At fiscal year-end, accruals are required for unencumbered goods and services received but not processed through the accounts payable subsystem. Also, a reclassification from encumbrances payable to accounts payable is required for any encumbered purchases that are received by year-end but not yet reported as accounts payable.

Converting to GAAP Modified Accrual Basis for CAFR Reporting – the following are the most common types of adjustment required to convert to the GAAP modified accrual basis:

- *Encumbrances payable* – For the most part, the statutory basis exceptions to the GAAP modified accrual basis, described in the Basis of Accounting sections above, are converted to GAAP modified accrual when expenditures and encumbrances payable are eliminated from the GAAP financial statements. The prior year elimination of encumbrances payable must also be reversed for the current year's reporting.
- *Teachers' salaries* – Contract balances for teachers' salaries are accrued at fiscal year-end as teachers' salaries have been earned by fiscal year-end, even though salary payments are made to teachers in the subsequent fiscal year.
- *Acquisition of general capital assets under capital leases* – When a capital lease represents the acquisition or construction of a general capital asset, the acquisition or construction of the general capital asset should be reflected as an expenditure and other financing source in the year of the lease's inception. These expenditures are not expenditures on the statutory basis.
- *Department of Community Health Prepaid Items* – The employer's portion of health insurance benefits paid in June of each year and applicable to coverage of the subsequent fiscal year is recorded as a prepaid item.
- *Prior period adjustments* – Amounts reported on the statutory basis as prior period adjustments that relate to expenditures accounts are reclassified on the GAAP modified accrual basis to adjustments of current year expenditure balances. If these adjustments are significant at the State level, they may be reported as accounting changes.
- *Expenditures for items not requiring purchase orders* – As described above, under the statutory basis, expenditures may be recorded for items not requiring purchase orders even if goods and/or services have not been received during the reporting period as long as recording is consistent and the appropriate numbers of occurrences are reflected in a particular fiscal year. For GAAP reporting, expenditures should be adjusted to reflect only the goods and/or services received during the reporting period.
- *Additional items* – There are expenditures removed from statutory basis statements in order to report certain budgetary organizations in funds other than the General Fund in the CAFR. These include the Board of Regents, the Technical College System of Georgia, the Employees' and Teachers Retirement Systems and certain operations of the Department of Administrative Services. There may also be activities added to the State's General Fund that are not included in the statutory basis financial statements.

Converting to GAAP Accrual Basis for CAFR Reporting – the following are the most common types of adjustment required to convert to the GAAP full accrual basis:

- The governmental portion of internal service fund activity is incorporated into governmental activities.
- Capital assets additions are converted from expenditures to additions to capital assets. This includes conversion of the expenditures added, in the GAAP modified accrual basis entries above, for new capital leases.
- Payments on long-term debt are converted from expenditures to reductions of the long-term debt obligations.
- Accrued interest payable on long-term debt is posted.
- Debt service expenses are adjusted for current period amortizations of debt-related obligations or deferred outflows such as arbitrage, deferred amounts on refunding and bond premiums.
- Debt service expenses are reduced for principal eliminated in cash defeasements.
- Compensated absences payable are posted.
- Claims and judgments payable, including actuarial estimates of incurred, but not reported health benefit program claims, are posted.
- Depreciation expense and related accumulated depreciation are posted.
- Appropriations to fiduciary funds are reclassified from transfers to expenses as the fiduciary funds are not included in the Government-wide financial statements.
- Pension liabilities and their related deferred outflows are posted.

Accrual Basis for Funds Not Reporting on a Statutory Basis – Expenses and payables are recognized when incurred, regardless of when the payment is actually made as discussed above.

Those State reporting organizations that record day-to-day expenditures and payable transactions on a basis of accounting that varies from the GAAP reporting basis requirements must identify and provide reconciling differences between the bases of accounting to SAO. This process enables the conversion to the appropriate GAAP basis of accounting for GAAP financial reporting purposes. The year-end reporting package, as provided by SAO, accommodates the process of the identification and submission of these differences. Timely completion of each form facilitates the conversion process. Year-end forms are available on the Reporting Forms page of the SAO website (sao.georgia.gov > [Statewide Reporting](#) > [Year-End Forms](#))

These year-end forms and other tools applicable to expenditures and payables include:

- Fund Balance (Appropriated) or (Non-Appropriated)
- Capital Assets, Depreciation, and CIP
- Unrecorded Receivables and Payables
- Long-Term Liabilities
- Lease Agreement Data
- Applicable Fund Balance form

- Year-End Questionnaire
- Fiscal Year-End Close Checklist

Please see the individual form on SAO's website for an explanation as to how the requested information assists SAO in the reconciliation process from transactions recorded on a statutory basis of accounting to GAAP financial statements reporting.

Statement Presentation and Disclosure Requirements

Statement Presentation for Various Reporting Perspectives

- *Budgetary Statements* – Statutory basis expenditures included in the budgetary financial statements are presented at the program level by funding source in accordance with the legal level of budgetary control included in the State's Appropriations Acts.
- *CAFR Governmental Funds Statements* – When budgetary statements are converted to the GAAP modified accrual basis for governmental funds fund-level reporting in the CAFR, the statutory and cash receipts and disbursements basis expenditure categories (that are not eliminated in the conversion to GAAP) are segregated into the function that most appropriately represents the primary activities of the budget unit (agency). Functions include general government, education, health and welfare, transportation, public safety, economic development and assistance, culture and recreation, and conservation. The governmental funds also include capital outlay and debt service activity that are not part of the budgetary statements.
- *CAFR Proprietary Fund Statements* – Enterprise funds fund-level reporting distinguishes operating expenses from nonoperating expenses, with operating expenses being the cost of goods sold and the cost of services provided and nonoperating expenses being limited to items not directly related to the principal and usual activity of the fund.
- *CAFR Government-wide Statements* – The functional presentation of expenditures in the governmental funds fund-level statements is also utilized in government-wide reporting for expenses. The functions for expenses of business-type activities and component units is the reporting organization itself, with major business-type activities and component units presented separately and nonmajor business-type activities and nonmajor component units presented in the aggregate.

Required Disclosures

- The *GASB Codification, Section 2300* requires the following disclosures in the financial statements regarding expenditures and expenses, prepaid items, payables and deferred outflows:
 - The policy for eliminating internal activity (including internal service funds) in the government-wide statement of activities
 - The policy for allocating indirect expense to functions in the government-wide statement of activities – The State does not currently allocate indirect expenses
 - Unusual or significant accounting policy for material expenditures and expenses
 - Vacation, sick leave, and other compensated absences
 - The policy for defining operating expenses in proprietary fund statements of revenues, expenses and changes in fund net position
 - Significant contingent liabilities
 - Annual pension costs and net pension obligations
 - Annual other postemployment benefit (OPEB) cost and net OPEB obligations
 - Other employee benefits
 - Debt service requirements to maturity
 - Required disclosures about leases
 - Construction and other significant commitments, including encumbrances

- Claims and judgments
 - Required disclosures about long-term liabilities
 - Interfund balances
 - Short-term debt instruments and liquidity
 - Debt refundings, extinguishments and troubled debt restructuring
 - Interfund eliminations in fund financial statements not apparent from headings
 - Pension plans
 - Postemployment benefit plans other than pension plans
 - Bond, tax or revenue anticipation notes excluded from fund or current liabilities
 - Special assessment debt and related activities
 - Demand bonds
 - Landfill closure and postclosure care
 - Pollution remediation obligations
 - On-behalf payments for fringe benefits and salaries
 - Entity involvement in conduit debt obligations
 - Amount of interest expense included in direct expenses in the government-wide statement of activities
 - Significant transactions or other events that are either unusual or infrequent but not within the control of management
 - Nature of individual elements of a particular reconciling item
 - Disaggregation of payable balances
 - Impairment losses, idle impaired capital assets, and insurance recoveries when not otherwise apparent from the face of the financial statements
 - Termination benefits
 - Short-term obligations
 - Long-term construction-type contracts
 - Description of payables that represent contractual obligations to pay money on fixed or determinable dates, whether or not there is any state provision for interest, including the effective interest rate and the face amount
 - Nonmonetary transactions
 - Information about deferred outflows and the effect on net position
 - Encumbrances outstanding
- Per *GASB Codification Section 2400.102*, a government with significant budgetary perspective differences that result in the government's not being able to present budgetary comparisons for the general fund and each major special revenue fund is required to present budgetary comparison schedules as Required Supplementary Information (RSI) based on the fund, organization, or program structure that the government uses for its legally adopted budget. The State presents budgetary comparisons as RSI for the Budget Fund, the structure of its legally adopted budget.

Authority:

- GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
- GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- Georgia Constitution, Article III, Section IX, Paragraph III. – *General Appropriations Bill*

- Georgia Constitution, Article III, Section IX, Paragraph IV. – *General Appropriations Act*
- NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*
- NCGA Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*
- GASB Codification Section 1600, *Basis of Accounting*
- GASB Codification Section 1800, *Classification and Terminology*
- GASB Codification Section 2300, *Notes to Financial Statements*
- GASB Codification Section 2400, *Budgetary Reporting*
- GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*

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.

Definitions:

Accounts Payable – A current liability account reflecting amounts owed to individuals, firms, corporations, organizations, other governmental units, or other GAAP funds for goods and services received by a government.

Encumbrance – A commitment related to an unperformed (executory) contract for goods or services. For financial reporting purposes, encumbrance accounting is restricted to governmental funds [NCGA Statement 1]. For GAAP purposes, an encumbrance is not an expenditure; it represents the estimated amount of expenditure that will occur if an unperformed contract in process, such as a purchase order, is fulfilled.

Exchange Transaction – A transaction in which each party receives and gives up essentially equal values.

Expenditures – Under the current financial resources measurement focus (e.g., the GAAP modified accrual basis), decreases in net financial resources, not properly classified as other financing uses. Expenditures include current operating transactions requiring the present or future use of net current assets, debt service and capital outlays, and intergovernmental grants, entitlements and shared revenues.

Expenses – Under the economic resources measurement focus (e.g., the GAAP full accrual basis), decreases in total net assets during the current period such as, outflows or the other use of assets or incurrence of liabilities (or a combination of both), regardless of the timing of cash flows. Examples include salaries, compensated absences, pollution remediation, interest, depreciation and amortization, and other outflows or uses resulting from delivering or producing goods, rendering services or carrying out other activities that constitute the entity's ongoing major or central operations.

Government-mandated nonexchange transaction – Situation where a higher level government requires performance of a lower level government and provides it full or partial funding to do so.

Liability – Present obligation to sacrifice resources that the government has little or no discretion to avoid.

Nonexchange Transaction – A transaction in which a government (including the federal government, as a provider) either gives value (benefit) to another party without directly receiving equal value in exchange or receives value (benefit) from another party without directly giving equal value in exchange.

Voluntary Nonexchange Transactions – Transactions that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).

Forms and Attachments:

Attachment I: Expenditures/Expenses/Payables Example - (on next page)

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Attachment I

Expenditures/Expenses, Prepaid Items, Payables and Deferred Outflows – General Policy

Expenditures/Expenses/Payables Example – Conversion from Statutory Basis of Accounting to Other Bases

Assumptions:

	Year 1	Year 2
• Execute purchase order (PO) for goods or services	10,000	5,000
• Portion of goods received during the year	9,000	5,700
• Portion processed by AP during the year	7,500	7,200
• Portion of PO canceled in year 2		300
• Cash is not paid out in either year		
• Revenues to offset expenses are not shown		

Basis of Accounting	Journal Entry / Year-End Balance Descriptions	Governmental, Proprietary & Fiduciary Funds that Operate on a Statutory Basis		Proprietary & Fiduciary Funds that Operate Only on the GAAP Accrual Basis	
		Year 1	Year 2	Year 1	Year 2
Statutory Basis:					
		Debit / (Credit)			
Execute purchase order	Expenditure Encumbrances Payable	10,000 (10,000)	5,000 (5,000)		
Process voucher through AP	Expenditure Accounts Payable	7,500 (7,500)	7,200 (7,200)		
Reduce Encumbrances	Encumbrances Payable Expenditure	7,500 (7,500)	7,200 (7,200)	N/A	N/A
At year-end accrue received/ not processed - reverse next year	Encumbrances Payable Accounts Payable	1,500 (1,500)	(1,500) 1,500		
Cancel unused portion of PO once all activity is processed	Encumbrances Payable Expenditure		300 (300)		
Year-end balances					
	CY Expenditures become Ending Fund Balance	10,000	4,700		
	Beginning Fund Balance		10,000		
	<i>Ending Fund Balance</i>	10,000	14,700		
	Accounts Payable	(9,000)	(14,700)		
	Encumbrances Payable	(1,000)			
Modified Accrual Basis: (adjustments needed)					
The change in encumbrance liability is offset to expenditure					
Reverse ending encumbrances	Encumbrances Payable Expenditure	1,000 (1,000)		N/A	N/A
Adjust beginning fund balance for prior year encumbrance balance	Expenditure Beginning Fund Balance		1,000 (1,000)		
Year-end balances					
	CY Expenditures become Ending Fund Balance	9,000	5,700		
	Beginning Fund Balance		9,000		
	<i>Ending Fund Balance</i>	9,000	14,700		
	Accounts Payable	(9,000)	(14,700)		
	Encumbrances Payable	-	-		
GAAP Accrual Basis: (adjustments needed)					
No additional entries are needed to adjust for normal operating activities such as purchase of goods and services. However, manual accruals for longer term liabilities (comp abs, pension, etc.) are recorded to convert to the GAAP accrual basis and are also made by organizations always operating on the accrual basis.	Process voucher: Expense Accounts Payable			7,500 (7,500)	7,200 (7,200)
	Year-end accrual (reverse next year) Expense Accounts Payable			1,500 (1,500)	(1,500) 1,500
Year-end balances					
	CY Expenditures become Ending Fund Balance	9,000	5,700	9,000	5,700
	Beginning Fund Balance		9,000		9,000
	<i>Ending Fund Balance</i>	9,000	14,700	9,000	14,700
	Accounts Payable	(9,000)	(14,700)	(9,000)	(14,700)
	Encumbrances Payable	-	-	-	-

Note: This example reflects several common entries to record expenditures/expenses and payables and is not intended to reflect every possible entry. Other entries should be recorded in compliance with this policy and the underlying GASB principles as appropriate for the transactions.