

5-0300.00 EXPENDITURES AND PAYABLES

5-0310.00 INTRODUCTION

5-0310.10 DEFINITIONS

“**Accrual**” is the process of recording an expenditure in the accounting period in which a liability has been incurred, regardless of whether cash has been paid out. Accrual results in an entry to “Expenditures” and usually creates a corresponding payable (liability) on the books.

“**Accrued Expenditures**” are expenditures recorded in the accrual process. The liability recorded for the accrual will normally be paid in the next fiscal year.

5-0310.20 BASIC ACCOUNTING PROCEDURES

GAAP requires that an expenditure be recorded in the accounting period in which the liability is incurred. Generally, a liability is incurred when goods or services are received.

School districts may keep their accounting records on a cash basis during the year, that is, record expenditures only when cash is disbursed. However, appropriate entries must be recorded at fiscal year-end to adjust expenditures to the modified accrual basis.

5-0310.30 IDENTIFYING EXPENDITURES FOR ACCRUAL

At fiscal year-end, the district must **analyze** expenditures incurred but unpaid as of June 30. Examples of expenditures which may require accrual are discussed in section 5-0330.00, “COMMON EXPENDITURE ACCRUALS.” Also see section 5-1600, “LIST OF RECEIVABLES AND PAYABLES.”

Usually, the district will receive bills or invoices during July for goods and services received by June 30. The amount to record as an expenditure and liability will be evident from the bills or invoices. If the exact amount is unknown, the district should estimate the cost of expenditures to accrue. If the cost is estimated, the basis of the estimate must be logical and well-documented. For example, unbilled charges for June utilities may be recorded as expenditures based on a reasonable estimate using prior years’ June bills.

The district should accrue all unpaid items which are liabilities of the district at June 30, unless the items are insignificant in amount. To reduce the amount of paperwork associated with accruals, districts may consider not accruing items less than one hundred (\$100) dollars, unless a number of items from the same vendor totals over \$100 or the sum of several liabilities is significant. Accrual of items under \$100 is not prohibited, however.

Accounting procedures for common expenditure accruals are explained in section 5-0330.00. Accounting procedures for expenditure accruals in general are shown in section 5-0320.00, “RECORDING EXPENDITURE ACCRUALS.”

5-0310.40 DOCUMENTING EXPENDITURE ACCRUALS

The district must retain a list of fiscal year-end expenditure accruals and encumbrances by fund and supporting documentation for control and auditing purposes.

5-0320.00 RECORDING EXPENDITURE ACCRUALS

Entries shown in this section provide a simple method for recording expenditure accruals and payments. This method assumes the district records expenditures during the year when writing warrants, records expenditure accruals at fiscal year-end, then reduces the liability when paying for the items in the next year.

The district may use an alternative method of accounting for accruals if the method produces the same result at fiscal year-end as the method presented in this section.

The entries in this section demonstrate the use of the balance sheet account 802 Expenditures (control or summary), which is not required. Whenever the district posts an entry to the 802 Expenditures account, the entry must also be posted in the Expenditures Subsidiary Ledger to record the details of expenditures by fund, program, function, expenditure object, and project reporter if necessary. The entry in the subsidiary ledger charges the expenditure to the budget line item. Districts which do not use the 802 Expenditure Control account will post expenditures directly to the budget line item.

To accrue expenditures at fiscal year-end:

Debit: 802	Expenditure	\$2,000
Credit: 601 thru 690	(a current liability account)	\$2,000
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-XXX-XXX	Any appropriate expenditure object	\$2,000

(To record the cost of goods or services received but not paid for by June 30. The current liability account used depends on the type of expenditure. Review the chart of accounts and definitions for the appropriate liability account.)

To record payment on the liability in the next year:

Debit: 601 thru 690	(a current liability account)	\$2,000
Credit: 620 or 101	Warrants Payable or Cash	\$2,000

(To record the warrant issued to pay for accrued obligations. The liability account debited in this entry **must be the same** liability account credited in the accrual entry shown above.) Do not record payments using an expenditure account.

In some instances the payment for the expenditure accrual will not equal the amount accrued. See section 5-0340.00, "RECORDING DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS."

5-0330.00 COMMON EXPENDITURE ACCRUALS

5-0330.10 SALARIES AND BENEFITS

Generally, expenditures for payroll and employee benefits should be recorded in the year in which the employee provides the service. **Salaries and benefits for work performed by employees prior to June 30, but not paid by June 30, must be recorded as expenditures and liabilities.**

For example, if a teacher's salary for the ten-month school year is paid on a twelve-month contract, the district should record expenditures and a liability at June 30 for the July and August salaries. If a year-round employee's June salary has not been paid by June 30, the district should record the applicable expenditure and liability. However, if teachers are on ten-month contracts and all salaries for services received during those ten months have been paid and all other June payroll has been paid as of June 30, no salary or benefit accrual is needed.

The expenditure amount recorded as of June 30 should include all applicable employer payroll costs. For example, the expenditure recorded for accrued salaries and benefits payable should include the employer's share of employee benefits such as FICA, TRS and PERS retirement contributions.

To accrue payroll and benefit liabilities at fiscal year end: Record the liability in each fund used to pay employee payroll and benefits.

Debit: 802	Expenditures	\$40,000
Credit: 661	Salaries and Benefits Payable	\$40,000
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-1XX through 2XX Personnel Services-Salaries and		
	Personnel Services-Benefits	\$40,000 (would be broken down into various expenditure accounts)

(To record expenditures and liability at fiscal year-end for salaries and the employer's share of benefits such as FICA, TRS, PERS, etc.)

To record the payment of salaries and employer contributions to FICA, TRS, PERS, etc. in July and August in the next fiscal year:

Debit: 661	Salaries and Benefits Payable	\$40,000
Credit: 620 or 101	Warrants Payable or Cash	\$40,000

(To record the payment of salaries and the employer's share of benefits for liabilities accrued at the prior fiscal year-end. This entry reduces the liability account.)

5-0330.20 HEALTH INSURANCE PREMIUMS

The cost of health insurance premiums to be paid in July and August of the next fiscal year should be recorded as an expenditure for the current year if coverage is part of a contract for the school year ended June 30.

To accrue the July and August health insurance premium liability at fiscal year-end:

Debit: 802	Expenditures	\$ 5,000
Credit: 661	Accrued Salaries and Benefits	\$ 5,000
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-260	Health Insurance	\$ 5,000

(To record the expenditure and liability for health insurance premiums to be paid July and August. Insurance costs which are not part of a personnel contract for the fiscal year ended June 30 should not be accrued.)

To record the payment for the premium liability in July and August of the next fiscal year:

Debit: 661	Accrued Salaries and Benefits	\$ 5,000
Credit: 620 or 101	Warrants Payable or Cash	\$ 5,000

(To record the payment of health insurance premiums for which costs were recorded as an expenditure and liability at fiscal year-end. This entry reduces the liability account.)

5-0330.30 WORKERS' COMPENSATION PREMIUMS

Workers' compensation premiums applicable to the current year's actual payout of salaries and benefits should be recorded as expenditures. The amount to accrue for premiums due for the quarter ended June 30 may be determined by calling the Workers' Compensation Division or by using the worksheet shown in section 5-1710.00, "EXAMPLE OF WORKERS' COMPENSATION ACCRUAL WORKSHEET."

To record the workers' compensation premium and payroll taxes liability at fiscal year-end: Assume the total of the premium for the quarter ended June 30 was calculated as \$2,300.

Debit: 802	Expenditures	\$2,300
Credit: 661	Salaries and Benefits Payable	\$2,300
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-250	Workers' Compensation	\$2,300

(To record the workers' compensation premium for the quarter ended June 30.)

To record the payment of the accrued premium premium in the next fiscal year:

Debit: 661	Salaries and Benefits Payable	\$2,300
Credit: 620 or 101	Warrants Payable or Cash	\$2,300

(To record payment for workers' compensation premiums for the quarter ended June 30. If the actual premium paid differs slightly from the amount accrued, charge the difference to current expenditures in the year paid.)

5-0330.40 COMPENSATED ABSENCES

Compensated absences are benefits such as vacation and sick leave pay. In governmental funds, vacation and sick leave pay **should be recorded as expenditures in the year the employee uses the leave or terminates employment.** The accumulated liability for compensated absences is considered a long-term liability which should be reported on the Schedule of Long-Term Liabilities instead of the specific fund. See "COMPENSATED ABSENCES," section 5-1350.00.

5-0330.50 JUNE UTILITY AND PHONE BILLS

Generally, costs for services must be recorded as expenditures in the year in which the service is received.

June phone and utility charges should be recorded as expenditures for the current year. If the bill arrives in July, the amount of the accrual will be the actual cost. If the bill does not arrive in time, the district should estimate the charges based on prior experience or another reasonable basis and accrue that amount. The basis for the estimate should be documented for an audit trail.

If the billing period includes charges for June and July on one bill, prorate the charges between fiscal years. An immaterial portion (less than \$100) attributable to a fiscal year may be charged to the other fiscal year. For example, if June charges are \$30 and July charges are \$750, June charges may be charged as expenditures when the bill is paid in the next fiscal year.

At fiscal year-end to accrue the expenditures for June utilities/phone charges:

Debit: 802	Expenditures	\$1,000
Credit: 621	Accounts Payable	\$1,000
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-XXX	Any appropriate object	\$1,000

(To record the expenditure and liability for June utilities and phone charges which will be paid in the next fiscal year.)

To record the payment in the next fiscal year:

Debit: 621	Accounts Payable	\$1,000
Credit: 620 or 101	Warrants Payable or Cash	\$1,000

(To record payment of June utility and phone charges which were recorded as expenditures and payables at fiscal year-end. This entry reduces the liability account.)

5-0330.60 EQUIPMENT PURCHASES

Generally, costs of equipment must be recorded as expenditures in the year in which the equipment is received.

For minor equipment items (usually less than \$5,000, not to be recorded as fixed assets in the accounting records) received but not paid for by June 30:

Debit: 802	Expenditures	\$ 150
Credit: 621	Accounts Payable	\$ 150
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-660 or 670	Minor Equipment	\$ 150

(To accrue the expenditure and liability for minor equipment.)

5-0330.60 EQUIPMENT PURCHASES (Cont'd)

For equipment items which are to be included as fixed assets in the accounting records (usually over \$5,000), the entry would be the same as shown above except that the expenditure would be charged to expenditure objects 700 through 749. See section 5-1200, "FIXED ASSETS."

To record the payment in the next fiscal year:

Debit: 621	Accounts Payable	\$150
Credit: 620 or 101	Warrants Payable or Cash	\$150

(To record payment of equipment purchases which were recorded as expenditures and payables at fiscal year-end. This entry reduces the liability account.)

5-0330.70 MATERIALS AND SUPPLIES

Generally, costs of materials and supplies must be expensed either in the year received ("purchases method") or as used ("consumption method"). See section 5-0600, "SUPPLIES." The district may choose either method but **must apply the chosen method consistently from year to year.**

To accrue the costs of materials and supplies received but not paid for by June 30 (Purchases Method):

Debit: 802	Expenditures	\$1,700
Credit: 621	Accounts Payable	\$1,700
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-610	Any appropriate expenditure object	\$1,700

To record the payment in the next fiscal year:

Debit: 621	Accounts Payable	\$1,700
Credit: 620 or 101	Warrants Payable or Cash	\$1,700

(To record payment of supply and material purchases which were recorded as expenditures and payables at fiscal year-end. This entry reduces the liability account.)

5-0330.80 CREDIT CARD INVOICES

Generally, credit card charges must be recorded as expenditures in the year the charged goods and services were received. If the district has not paid the bill by June 30, charges should be recorded as expenditures and a payable at fiscal year-end. If the bill has not been received in time to accrue the exact amount of the bill, estimate the charges based on credit card receipt slips.

To accrue expenditures for credit card charges not paid by June 30: For example, assume the credit card bill for \$1,200 in motel and meal charges for a team trip in June has not been paid by June 30.

Debit: 802	Expenditures	\$1,200
Credit: 621	Accounts Payable	\$1,200
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-582	Out-of-District Travel	\$1,200

(To accrue expenditures for credit card charges not paid by June 30. Notice that expenditures would be charged to appropriate expenditure accounts when the credit card bill is paid.)

5-0330.80 CREDIT CARD INVOICES (Cont'd)

To record the payment in the next fiscal year:

Debit: 621	Accounts Payable	\$1,200
Credit: 620 or 101	Warrants Payable or Cash	\$1,200

(To record payment of credit card charges which were recorded as expenditures and payables at fiscal year-end. This entry reduces the liability account.)

5-0340.00 RECORDING DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS

In some cases, the amount paid in year 2 will differ from the amount accrued in year 1. For example, if an invoice for \$250 was incorrectly accrued as \$300, the actual amount payable is \$50 less than the liability recorded. If the cost for unbilled June phone charges was estimated and recorded as an expenditure for \$50 and the June bill received later was \$100, the amount payable would be \$50 higher than the liability recorded. The procedure used to record the difference depends on the relative size of the difference.

5-0340.10 IMMATERIAL OVER-AND UNDER-ACCRUALS

Small or "immaterial" differences are recorded as adjustments to current revenues and expenditures.

If the payment in year 2 is greater than the amount accrued in year 1 (under-accrual): For example, assume the amount accrued was \$245 charged to object 610-Supplies and the invoice amount is \$250.

Debit: 621	Accounts Payable	\$245
Debit: 802	Expenditures	\$ 5
Credit: 620 or 101	Warrants Payable or Cash	\$250

Expenditures Subsidiary Ledger

XXX-XXX-XXX-610	Supplies (The same object to which the accrual was charged at the previous year-end)	\$ 5
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(To record payment of accrued expenditures. The debit to the current liability account must equal the amount originally accrued in year 1. The credit to warrants payable or cash equals the amount of the invoice. The difference is debited to current year 2 expenditures. DO NOT USE EXPENDITURE OBJECT 892-PRIOR PERIOD EXPENDITURES, WHICH IS FOR LARGE/MATERIAL DIFFERENCES ONLY. SEE SECTION 5-0360.00 FOR INSTRUCTIONS ON USE OF THAT OBJECT.)

If the payment in year 2 is less than the amount accrued in year 1 (over-accrual): For example, assume the amount accrued was \$365 charged to object 250-Workers' Compensation and the invoice amount is \$350.

Debit: 661	Accrued Salaries and Benefits Payable	\$365
Credit: 402	Revenues	\$ 15
Credit: 620 or 101	Warrants Payable or Cash	\$350

Revenue Subsidiary Ledger

XXX-1900	Other/Miscellaneous Revenue	\$ 15
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(To record payment of accrued expenditures. The debit to the liability account must equal the amount originally accrued in year 1. The credit to warrants payable or cash equals the amount of the invoice. The difference is credited to current year 2 revenues.)

5-0340.20 MATERIAL OVER- AND UNDER-ACCRUALS

Rarely will the difference between the amount accrued and the amount paid be significantly large in relation to the total fund balance of the affected fund. However, if the difference is material, GAAP requires it to be reported on financial statements as an adjustment to beginning fund balance.

What amount is considered “material” is somewhat discretionary and depends on the amount of fund balance and other components shown on the financial statements. As a general rule, when the difference is 5% or more of the anticipated ending fund balance of the affected fund, the district should consider whether the item is a material adjustment required to be recorded as a prior period adjustment. Contact your auditor or OPI for advice if needed.

A material difference between the expenditure amount accrued and the actual amount paid in the next year should be recorded in the year of payment either as expenditure code 892 Prior Period Expenditure Adjustments (accrued too little) or as revenue source 6100 Material Prior Period Revenue Adjustments (accrued too much). Charges to 892 must be within the fund’s total budget limit, according to A.R.M. 10.10.305.

When the invoice paid in year 2 is materially greater than the amount accrued in year 1 (material under-accrual): For example, assume the amount incorrectly accrued for computer equipment was \$1,000 and the invoice is \$10,000.

Debit: 601 thru 690	(liability account used in year 1)	\$ 1,000
Debit: 802	Expenditures	\$ 9,000
Credit: 620 or 101	Warrants Payable or Cash	\$10,000
Expenditures Subsidiary Ledger		
XXX-999-9999-892	Prior Period Expenditure Adjustments	\$ 9,000

(To record a warrant issued for payment of accrued expenditures. The debit to the liability account must equal the amount originally accrued in the previous year. The credit to warrants payable or cash equals the amount of the invoice. The difference is debited to 892.)

On the annual Trustees’ Financial Summary submitted to OPI and on financial statements prepared in accordance with GAAP, the district would report the balance of expenditure object 892 as an adjustment to beginning fund balance of the affected fund. The amount would not be included in current expenditures reported for the fund.

When the invoice paid in year 2 is materially less than the amount accrued in year 1 (material over accrual): For example, assume the amount accrued for a computer system was \$40,000, but the invoice is \$25,000.

Debit: 601 thru 690	(liability account used in year 1)	\$40,000
Credit: 402	Revenue	\$15,000
Credit: 620 or 101	Warrants Payable or Cash	\$25,000
Revenue Subsidiary Ledger		
XXX-6100	Prior Period Revenue Adjustments	\$15,000

(To record payment of accrued expenditures. The debit to the liability account must equal the amount originally accrued in the previous year. The credit to warrants payable or cash equals the amount of the invoice. The difference is credited to 6100.)

5-0340.20 MATERIAL OVER- AND UNDER- ACCRUALS (Cont'd)

On the annual Trustees' Financial Summary submitted to OPI and on financial statements presented in accordance with GAAP, the district would report the balance of revenue source 6100-Material Prior Period Revenue Adjustments as an adjustment to beginning fund balance of the affected fund. The amount would not be included in current revenues reported for the fund.

5-0350.00 EXPENDITURE REFUNDS

5-0350.10 DEFINITIONS

“Refunds” occur when the district receives money back from previous payments. For example, if the district purchased equipment, paid for it, then decided to return the equipment due to defects and purchase different equipment from a different vendor, the vendor who originally received payment may refund the purchase price to the district.

“Expenditure Abatement” is a return or cancellation of all or part of a charge previously made. Abatements usually result in restoration of budget in expenditure accounts only when they occur during the same fiscal year as the expenditure; thereafter, they become sources of revenue to the fund.

5-0350.20 RECORDING EXPENDITURE REFUNDS

Refunds and rebates (e.g., rebates on Driver’s Education cars or a power cooperative) should be deposited in the fund from which the original disbursement was made. If a refund or reimbursement originally paid from one fund is to be deposited to another fund, the district should discuss this with the county attorney or auditor. Refunds of current year expenditures are recorded as reductions of current expenditures. This has the effect of restoring the school district’s spending authority in that fund in the amount of the refund. However, if the refund of a prior year’s expenditure is significantly large, GAAP requires special accounting treatment as shown below.

Rarely will the refund of a prior year’s expenditure be significantly large in relation to the total fund balance of the affected fund. However, when the amount is significant, GAAP requires it to be recorded as an adjustment of the prior year’s expenditures and reported on financial statements as an adjustment to beginning fund balance.

What amount is considered “material” is somewhat discretionary and depends on the amount of fund balance and other components shown on the financial statements. As a general rule, when the refund is 5% or more of the anticipated ending fund balance of the affected fund, the district should consider whether the item is a material adjustment required to be recorded as a prior period adjustment. Contact your auditor or OPI for advice if needed.

To record the receipt of an expenditure refund/rebate for expenditures recorded in the CURRENT year:

Debit: 101	Cash	\$400
Credit: 802	Expenditures	\$400
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-XXX	Object used when the original expenditure was recorded(\$400)	

(To record a refund of a previous payment made in the current year.)

5-0350.20 RECORDING EXPENDITURE REFUNDS

To record the receipt of an IMMATERIAL expenditure refund/rebate for expenditures recorded in the PRIOR year:

Debit: 101	Cash	\$40
Credit: 402	Revenues	\$40
Revenue Subsidiary Ledger		
XXX-1900	Other/Miscellaneous Revenue	\$40

(To record an immaterial refund of a prior year expenditure.)

To record a MATERIAL refund/rebate received for expenditures recorded in a prior year:

Debit: 101	Cash	\$40,000
Credit: 402	Revenues	\$40,000
Revenue Subsidiary Ledger		
XXX-6100	Material Prior Period Revenue Adjustments	\$40,000

(To record the receipt of a material refund of a prior year's expenditures.)

On the annual Trustees' Financial Summary submitted to OPI and on financial statements presented in accordance with GAAP, the district would report the adjustment under revenue source 6100 as an adjustment to beginning fund balance of the affected fund. The amount would not be included in current revenues reported for the fund.

5-0360.00 PRIOR PERIOD EXPENDITURE ADJUSTMENTS

Immaterial adjustments of expenditures applicable to a prior year are recorded using a debit to a current expenditure account for an increase or a credit to 1900 Miscellaneous Revenue for a decrease. Material adjustments of expenditures applicable to a prior year must be reported as adjustments to beginning fund balances in the year of correction.

Expenditures decrease the fund balance of the current year. If a district fails to record a material amount of expenditures in the current year, the ending fund balance of that year will be overstated. The beginning fund balance of the next year is also overstated. Likewise, if the district records a material expenditure which properly belongs in the next year, the ending fund balance (and the beginning fund balance of the next year) will be understated. For that reason, material adjustments of expenditures recorded in the prior year should be recorded as adjustments to beginning fund balance of the current year using entries in this section.

Adjustments to materially increase prior period expenditures are charged using a debit to 892 Prior Period Expenditure Adjustments. Adjustments to materially decrease prior year expenditures are recorded using a credit to revenue account 6100 Prior Period Revenue Adjustments. The adjustment to the revenue code is necessary because a credit adjustment to an expenditure code would artificially inflate the expenditure authority of the district by reducing expenditures of the current year. Expenditure accounts should never have a negative balance.

Adjustments in the 892 and 6100 accounts are reported on the Trustees' Report and on GAAP financial statements as adjustments to the beginning fund balances of the affected funds. They are not reported as current revenues or expenditures.

5-0360.00 PRIOR PERIOD EXPENDITURE ADJUSTMENTS (Cont'd)

To record an expenditure applicable to the prior year: For example, assume the district had received a piece of equipment in June of the prior fiscal year, but did not record the expenditure in that year. In the current year, the district must record the adjustment to prior period expenditures.

Debit: 802	Expenditures	\$25,000
Credit: 620 or 101	Warrants Payable or Cash	\$25,000
Expenditures Subsidiary Ledger		
XXX-999-9999-892	Prior Period Expenditure Adjustments	\$25,000

(To record the payment for an expenditure which should have been recorded in the prior year. The charge to 892 must be within the budget of the fund according to A.R.M. 10.10.305. A budget transfer may be needed. The charge does not increase current expenditures but prior period expenditure adjustments and current expenditures, when added together, cannot exceed the budget of a fund. **NOTE: A small, or immaterial, prior year expenditure may be charged to a current expenditure line item.**)

To record the adjustment for an expenditure recorded in the prior year which should properly be recorded in the current year: For example, assume a copier purchased for \$19,000 was ordered and received in the prior year. The expenditure was accidentally recorded twice in the prior year. Assume the item was accrued as an expenditure and liability twice. Upon payment, the error is discovered and corrected using an adjustment to beginning fund balance using the prior period revenue account.

Debit: 621	Accounts Payable (accrued twice in error)	\$38,000
Credit: 620 or 101	Warrants Payable or Cash	\$19,000
Credit: 402	Revenue	\$19,000
Revenue Subsidiary Ledger		
XXX-6100	Prior Period Revenue Adjustments	\$19,000

(To record the payment for goods received in the prior year. The expenditure should have been recorded in the prior year. Since the budget for the prior year is closed, the adjustment must use revenue 6100. **NOTE: A small, or immaterial adjustment may be credited to revenue code 1900 Miscellaneous Revenue.**)