

Posting Model for Prepayments

Using Resources

In a federal agency, resources are used in a variety of ways. Budget authority is first obligated and then expended. Cash is disbursed (possibly after a liability is recognized and liquidated). Costs are incurred, or, if an asset is purchased, it is first capitalized and later expensed. The Standard General Ledger (SGL) Board has given us three main models for these transactions (ignoring any time delay between setting up the payment and the disbursement of cash, and assuming an obligation had been previously set up in an appropriated fund):

	Payment	Expense
Simple expense	6100 Expense 1010 Cash 3107 A/C Used 5701 Expd Appr 4801 Undel Ord 4902 Pd Expend	(part of payment)
Inventory purchase	1511 Inventory 1010 Cash 3107 A/C Used 5701 Expd Appr 4801 Undel Ord 4902 Pd Expend 8802 Cap Purch 8801 Offset	6790 Other Exp 1511 Inventory
Advance	1410 Advances 1010 Cash 4801 Undel Ord 4802 Pd Und Ord	6100 Expense 1410 Advances 3107 A/C Used 5701 Expd Appr 4802 Pd Und Ord 4902 Pd Expend

Timing

With a simple expense, the payment and expense are simultaneous — there is no second event that causes an additional accounting entry. With an inventory purchase, the budget is fully expended at the time of the disbursement. Later, the asset is expensed with no budgetary impact. An advance is more complicated. The obligation status changes from unpaid to paid when the disbursement takes place, but the obligation is not expended until the advance is expensed (which generally occurs when the party getting the advance has vouchered the agency, detailing what the advance was used for).

Prepayments

In 1997, the SGL Board changed the treatment of prepayments (account 1450) to be the same as for advances (1410). Before then, a prepayment was associated with an expenditure (generally account 4902), and could coincide with the liquidation of the obligation, just like the inventory purchase model. The logic behind this was straightforward: when an agency prepaid for something, such as rent, the agency knew what it was paying for and also generally knew when it used up the asset, so no action was needed by the other party. This allowed the agency to assign a full accounting distribution at the time of the prepayment and properly record an expenditure. When an agency issued an advance, however, they didn't know how much would be used and how much returned, and they didn't know exactly what it would be used for. For example, a

traveler might spend less on per diem and more on transportation than originally thought, and those might use different object codes. For this reason, the advance does not have an accounting distribution associated with it, and the expenditure occurs only after a voucher is submitted.

The new SGL logic forces agencies to pay for a prepayment without liquidating the obligation, and record the expense along with the expenditure and obligation liquidation. This shifts the responsibility for budget execution from the payment certifiers (who simultaneously authorize the expenditure and disbursement for simple expenses and fixed asset purchases), to the accountants who look after assets and costs. While there are cases that require this, such as capital leases (where the expenditure is always greater than the disbursement), there doesn't seem to be any reason that prepayments have to be booked like advances rather than an inventory purchase.

Comments, suggestions, and critiques are welcome. Send them to Simcha.Kuritzky@ams.com, and not to the AGA.