

Federal Accounting Corner by Simcha Kuritzky, CGFM CPA

Rewriting History? Part I--Accounting Model Changes

Over the past few years, the Standard General Ledger (SGL) Board has made some significant changes to the SGL accounting model, in particular, splitting existing accounts into two or more new accounts. This has forced agencies to retroactively construct beginning balances for these new accounts.

Determining a Balance

The amounts reported on financial statements can be segregated into two broad categories: activity and ending balance. Temporal accounts, such as expenses, revenues, purchases, reimbursements, and expenditures, track activity for a given time period. Permanent accounts, such as assets, liabilities, obligations, and funds available, report on a cumulative balance. This is why temporal accounts are closed at the end of the year, so their ending balance next year will only include the activity for that year.

The ending balance of a permanent account is equal to the sum of all activity recorded against that account. There are also hybrid accounts, which are permanent accounts into which temporal accounts close. In the proprietary accounts, Cumulative Results of Operations (3310) is such an account--its balance comes from revenues, expenses, gains, and losses. In the budgetary accounts, one example is Unexpended Obligations - Unpaid (account 4801), whose balance is derived both from direct postings and from closing transfers (4831), downward adjustments (4871) and upward adjustments (4881).

In an accounting system, the balance of a permanent account, such as Accounts Payable, can be calculated by summing up the journals, or it may be stored in a subsidiary ledger. Determining the balance as of the end of a fiscal month or year is straight-forward when summarizing journals--one simply ignores journal postings made to a later fiscal month. Determining the balance from a subsidiary ledger can be more difficult, for one still has to exclude activity later than the period being reported on. In many accounting systems, multiple fiscal months or even two fiscal years can be open at the same time, which means that one cannot rely on an image of the subsidiary ledger at a particular point in time. The ledger has to be divided up by fiscal month or year, and in that way, starts to take on the characteristics of a journal.

Retroactive Changes

What does an agency do when their accounting model changes? If the change simply involves the nomenclature of an account, for example, when Downward Adjustments of Prior-Year Paid Expended Authority - Refunds Collected was changed from account 4971 to 4972, then one solution would be to program any processes which use that information to understand that these transactions are stored in account 4971 in some years and 4972 in others.

When the change involves the data model itself, however, that solution will not be sufficient. For example, the SGL Board replaced account 4900 Expended Appropriations with 4901 for unpaid and 4902 for paid, and changed the model so that 4902 closes at year end as 4900 had, but 4901 does not close at year end. The implementation of this new model required significant changes be made to agency accounting records. At a minimum, the agencies had to post a beginning balance to account 4901 in every appropriation symbol. If that is all they did, then the journals no longer directly supported that balance, since the detail records were posted to 4900 which closed each year. To directly support the balance, the agencies have to undergo the time and expense of restating their journal entries.

What would restating all journals entail? One would have to make them look like the accounting model had always been in effect. It would not be sufficient to just find all postings to 4900 and then determine, based on the transaction or activity type, or accounting entry, whether they should have posted to 4901 or 4902, since some entries which did not post to 4900 in the old model post to 4901 and 4902 in the new model. If the journal provides the right information, it might be possible to generate a journal that identifies only which transactions were posted, rather than the individual accounts, and then re-expand them back to the account level based upon a mapping of the old transactions into the new accounting model. For example, if transaction B110 for a schedule confirmation used to post dr. 2120 cr. 1010, and now posts dr. 2120 4901 cr. 1010 4902, one can summarize the journals to find all transaction B110 entries (which is not the same as finding all postings to account 2120, since other processes credit account 2120), then generate a new journal where each B110 entry has the new postings. This is a costly exercise, and the old journals will have to be kept around to support prior year financial statements. However, the balances for the current year will be as accurate as they can be. Next time I will discuss restating journals for changes in the data model.

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