

Linking Expenses and Expenditures

The Net Cost Statement deals with expenses and revenues to determine the true cost of agency operations. The Statement of Budgetary Resources is concerned with expenditures and disbursements, and shows the use of funding authority. Reconciling these two distinct approaches to agency operations has been a major obstacle to financial analysis and control.

Expenses that are not Expenditures

The SGL Board split out funded and unfunded expenses in FY98. Funded expenses are posted at the same time as an expenditure account (4901 through 4982), which reduces budget availability. The following expenses do not coincide with an expenditure, and are considered "unfunded":

1. Cost of Goods Sold (account 6500), unless this account is posted directly when the items to be sold are originally purchased.
1. Applied Overhead/Cost Capitalization Offset (accounts 6600 and 6610). These accounts are used to capitalize previously-recorded expenses.
1. Depreciation, Amortization, and Depletion (account 6710). The expenditure for these took place when the original asset was purchased, so no expenditure is recorded as the asset is used.
1. Losses on Asset Disposal (account 7210). When the asset was purchased, the expenditure was recorded, so recognizing an expenditure at the time of disposal would double count it.
1. Imputed Costs (account 6730). The SGL Board's definition of an imputed cost is one where the expenditure takes place on some other agency's books, so the reporting agency does not record the expenditure.
1. Future Funded Expenses (account 6800). The most common example of this is unfunded annual leave. These expenses are recognized for financial statement purposes, but the expenditure will use current year funds when the disbursement takes place, so no expenditure can be recognized before then.
1. Pending Public Vendor Refunds (account 6790). The SGL Board has not assigned a specific account for this, but, since receivables from the public do not increase budget authority, the reduction to expenses is unfunded. When the cash is collected, the unfunded expense is debited and the funded expense is credited.
1. Bad Debts (account 6720). Bad debts from the public do not give rise to an expenditure because the receivable being written off never was counted in budget authority. This includes pending public vendor refunds, as well as reimbursements pending from the public.

Expenditures that are not Expenses (Purchases)

Expenses are just one type of activity that coincides with expenditures; the other is purchases. An asset's balance (accounts 1450 through 1599, and 1700 through 1890) changes by both funded purchases and unfunded disposals/transfers. Many agencies use subaccounts to segregate the purchase transactions, either by splitting up the asset account into purchases and disposals, or splitting 5700 Appropriations Used into that for expenses and that for purchases. When purchases are segregated, it is possible to prove the validity of the expenditure balance by comparing it to the amount of funded expenses plus purchases. The only segregation recognized by the SGL is to expense an item on purchase (so expenditures equals expenses), then capitalize later with an entry that debits the asset and credits 6610 Cost Capitalization Offset (which effectively makes all purchase transactions unfunded, though actually the agency is reclassifying funded expenses as purchases).

Summary

The Statement of Financing reconciles total obligations with net cost. Part of this reconciliation involves starting with expenditures, adding unfunded expenses, and

backing out purchases to get expenses. Agencies that regularly reconcile expenditures and expenses will find preparing the Statement of Financing easier and have greater confidence in their Net Cost figures.

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