ILLUSTRATIVE ACCOUNTING PROCEDURES FOR FEDERAL AGENCIES

ACCOUNTING FOR ACCRUED EXPENDITURES

United States General Accounting Office

1969

Contents

Introduction

The primary purpose of this booklet is to provide, in a convenient reference form, a brief résumé of acceptable methods of recording accrued expenditure data in agency accounts.

The accounting for expenditures on this basis is not a new requirement since it is an integral part of an accounting system maintained on the accrual basis, and accounting systems on this basis have been a Government-wide requirement for many years. However, in December 1967 President Johnson approved the recommendation of his Commission on Budget Concepts that Federal expenditures should be stated on an accrual rather than on a cash basis. This action placed substantially increased emphasis on the need for Federal agency accounting systems to be able to produce reliable accrued expenditure data promptly.

On February 22, 1969, President Nixon reaffirmed the objective of placing the Federal budget and financial reports on the accrual basis recommended by the Budget Commission (see appendix D). This action further highlights the need for all Federal agencies to introduce the necessary changes in their accounting systems so as to be able to produce prompt and reliable accrued expenditure data.

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ACCOUNTING FOR ACCRUED EXPENDITURES

PART I

Principles and Requirements

Recommendation of President's Commission on Budget Concepts

In December 1967 the President approved the recommendation of his Commission on Budget Concepts that:

> Expenditures should be reflected in the budget and Federal financial reporting when the Government incurs liabilities to pay for goods and services—in other words, on an accrual rather than a cash basis.

The Commission further stated:

> From the standpoint of determining fiscal policy, expenditures on an accrual basis probably represent the best measure of the economic impact of the budget. This is the point in time at which the Government actually incurs a liability requiring immediate or eventual payment, including constructive delivery in the case of construction put in place and work performed by contractors on specific order.

After discussing which measures are most appropriate for overall budget summary statements—obligations, accrued expenditures, costs or disbursements—the Commission concluded that "Accrued expenditures are that 'best measure' since the accrual is the point of final commitment which has the largest and most direct economic impact on the private sector."

For reference purposes, chapter 4 from the Commission's report, dated October 10, 1967, which included this recommendation, is included in full as appendix A of this booklet.

Implementing instructions for this recommendation were developed by the Bureau of the Budget, the Treasury Department, and the General Accounting Office and issued as Bureau of the Budget Bulletin No. 68-10 on April 26, 1968. This bulletin is included herewith as appendix B.

On June 20, 1968, the Treasury Department issued Transmittal Letter No. 18 of its Fiscal Requirements Manual. The letter and attachments A and B thereof with illustrations of the required reporting forms are included as appendix C.

Basic Requirement for Accrual Accounting

Basic laws and our prescribed principles and standards of accounting for Federal agencies have long called for the maintenance of accounts on the accrual basis. However, some refinement in the application of these principles and standards is necessary to accommodate, primarily at the appropriation level, the reporting, in accordance with the Commission's recommendations, of revenues and expenditures in terms of accruals rather than in terms of receipts and disbursements.

The principal refinements are that accrued revenue and expenditure data be obtained on a monthly basis and that in the case of contractors performing work to the Government's specifications, accrued expenditures be recognized in Federal accounts and reports on the basis of constructive receipt of goods and services, without awaiting physical delivery to or acceptance by the Government.

The Comptroller General's prescribed accounting principles and standards have been revised to provide specifically that in accordance with the recommendations of the President's Commission on Budget Concepts, the accrual basis of accounting must be employed by Federal agencies to measure revenues and expenditures of the Federal Government to be reported monthly to the Bureau of the Budget and the Treasury Department.

These principles and standards were also amended to provide that:

> Under some contracts, *such as where a contractor builds facilities or manufactures goods or equipment to the Government's specifications*, the liability to pay for work is incurred as it is performed by the contractors rather than when deliveries are made. Under these circumstances, materials or services being acquired shall be recorded *as accrued expenditures* on the basis of reported performance of work, rather than *as invoices are received* or as disbursements are made, and a related liability shall be recognized.

In view of the President's approval of the Commission's recommendation on accrued revenue and expenditure accounting and reporting, all Federal agency accounting systems must be revised as necessary to produce the required data. Such revisions are a requisite to approval of those systems by the Comptroller General.

Relationship of Accrued Expenditures to Costs

Accrued expenditure reports to the Bureau of the Budget and the Treasury Department will usually be made at the appropriation level. For internal management purposes, the accounts should produce cost information on a project or activity basis.

Accrued expenditures measure the value of goods and services *received*. In contrast, the term "cost" refers to the financial measure of resources *consumed* in accomplishing a specified purpose such as performing a service, carrying out an activity, or completing a unit of work or a specific project. The recognition of both expenditures and costs requires the accrual basis of accounting.

The adoption of the accrual basis for reporting the Government's expenditures in no way lessens the importance of good cost data for internal agency management use. The production and reporting of significant cost information are essential ingredients of effective financial management. Such information is needed for use in keeping costs within limits established by law, regulation, or agency management policies prescribed

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for achieving maximum efficiency and economy; in making meaningful comparisons of performance; in planning; and in the general exercise of management control.

The use of cost information in achieving the efficient use of resources places positive emphasis on the receipt of value for *resources used.* In turn, this emphasis results in giving greater prominence to cost aspects in the planning of operations as opposed to placing exclusive emphasis on not exceeding budgetary authorizations with a resulting lack of emphasis on value received.

Accounting for Accrued Expenditures

Some general guidelines on accounting for accrued expenditures follow.

Prepayments

Prepayments and advances to employees, contractors, grantees, and others should not be reported as expenditures until performance under the prepayments and advances occurs. In the meantime, advances and prepayments should be recorded and reported as assets. Such asset accounts should be reduced, in whole or in part, as the expenditures are incurred and reported.

Progress payments and "holdbacks"

The measure of accrued expenditures under contracts for work to the Government's specifications is the amount of work performed during the period, not the amount of any progress payments which may be made. Progress payments are encompassed in the expenditure figures which are reported.

The accrued expenditure to be recorded would be the total value of such performance; i.e., progress payment, plus any amounts held back, plus estimated fee or profit applicable to the work performed.

Accrued liabilities

In addition to recording as accounts payable the liability for services rendered and goods received as evidenced by vendors' invoices or other documents, it is necessary for management purposes, including full disclosure, to record the assets, expenses, and liabilities for goods and services received and performance rendered for which no bills have been received or payment made at the end of the month. Such accrued liabilities may be estimated on the basis of available information and previous experience.

Methods of determining accrued expenditures

Some of the ways in which amounts to be accrued as expenditures may be determined are as follows:

1. Unpaid invoices from vendors covering shipments received should be used when available.

2. Receiving reports showing quantities received and whether a given shipment is complete or partial are useful in determining the amount of the accrual when the invoice has not been received.
3. Payroll, travel, and other vouchers prepared but not yet paid can be used.
4. Personal services for the days between the close of the latest payroll period and the end of the month can be calculated based on past experience plus other factors such as overtime.
5. Where an obligation is recorded covering the expenditure which accrued within an accounting period, the obligation figure may be the best estimate of the amount of the expenditure incurred.
6. In the case of fixed-price contracts which extend beyond 1 month and cover goods manufactured to the Government's specifications, a statement from the contractor at the end of each month estimating the percentage of completion, including work performed by subcontractors, could be used to estimate the accrued expenditure.
7. For cost-type contracts, monthly reports from the contractors showing the unbilled portion of performance to monthend, including work performed by subcontractors, could be used to accrue the expenditure.
8. Similar monthly performance reports from grantees could be used to accrue expenditures for grants.
9. If reports from contractors or grantees are not available or are not feasible, estimates could be obtained from project managers or other operating officials who are familiar with progress under the contract or grant.
10. Independent of or in combination with the foregoing ways, sampling and other statistical methods, which are susceptible to verification as to their validity, could be used, especially where amounts are relatively small and the number of transactions is large.

It is for the individual agency to use those methods which it believes will best satisfy not only its accounting and operating management requirements but also the requirements of the Bureau of the Budget, the Treasury Department, and the General Accounting Office.

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PART II

Illustrative Procedures and Transactions—Method A

This part illustrates an acceptable method for recording obligations, liquidating them, and recording the resulting expenditures on an accrual basis. Under an automatic data processing system, some of the following entries would be performed *automatically* as a result of proper programming. For example, when the transaction which records the expenditure is given to the computer, a simultaneous reversal of the original obligating entry takes place.

Appropriation, Apportionment, and Allotment

For the purpose of the expenditure illustrations to follow, it is assumed that an appropriation of $36,125 has been made, of which an apportionment of $36,000 has been approved, and $10,000 has been allotted. The entries for the foregoing transactions are:

1

(a) To record appropriation received:		
Funds with Treasury	$36, 125	
Unapportioned Appropriations		$36, 125
(b) To record approval of apportionment:		
Unapportioned Appropriations	36, 000	
Unallotted Apportionments		36, 000
(c) To record allotment of funds:		
Unallotted Apportionments	10, 000	
Unobligated Allotments		10, 000

Obligation Incurred

When an obligation is incurred, the following entry is made:

2

Unobligated Allotments	$4, 800	
Unliquidated Obligations [1]		$4, 800

Accrued Expenditure

The next entry will record expenditures incurred. Simultaneous postings, where applicable, should be made to cost accounts. If payment is made at the time the expenditures accrue, the Funds with Treasury account

[1] The same account as "undelivered orders" in appendix C.

may be credited when the expenditures are recorded. Otherwise, the Accounts Payable account (or an Accrued Liability account) is credited. Each month the accounts will reflect the expenditures incurred as measured by the receipt of goods and services.

An asset or expense account is charged for the amount of goods delivered, services rendered, construction performed, grants earned, loans made, etc., during the current month. At the same time, the portion of the obligation related to the expenditure is liquidated and the Expended Appropriations account (on the accrual basis) is credited.

Assuming that expenditures of $2,700 were covered by obligations totaling $3,000, the entries are:

3

(a) To record expenditures:		
Expenses	$2,600	
Assets	100	
Accounts Payable		$2,700
(b) To record liquidation of the applicable portion of the amount obligated:		
Unliquidated Obligations	3,000	
Unobligated Allotments		3,000
(c) To record reduction of allotment by amount of accrued expenditure:		
Unobligated Allotments	2,700	
Expended Appropriations (accrual basis)		2,700

When payment is made, which frequently is in a later month, the entry is:

4

Accounts Payable	$2,700	
Funds with Treasury		$2,700

If the voucher is paid in a different amount than the accrued expenditure, the expense and/or asset accounts should be adjusted accordingly, as should the unobligated balance of the Allotment and the Expended Appropriations accounts.

Frequently only a portion of the amount obligated accrues as an expenditure in any given month because only a portion of the goods are delivered, only a portion of the services are rendered, or the contract covers construction extending over a long period of time. Sometimes the amount of the accrual can be determined precisely, sometimes it must be estimated. Let us assume that the amount of the expenditures incurred in a given month is estimated to be $2,300 and that $400 (against $500 of obligations) accrues the following month. The expenditures of $2,300 are covered by $2,500 of obligations. The entries the first month are:

5

(a) Expenses	$2,200	
Assets	100	
Accounts Payable		$2,300
(b) Unliquidated Obligations	2,500	
Unobligated Allotments		2,500
(c) Unobligated Allotments	2,300	
Expended Appropriations		2,300

Similar entries are made the next month for the remaining amount of $400. Entries as under 4 above are made when the vouchers are paid.

Advance or Prepayment

If an agency makes an advance or a prepayment, it should not be recognized in the allotment accounts nor considered an accrued expenditure. The entry is:

6

Advances Outstanding	$1,600	
Funds with Treasury		$1,600

When performance occurs (say $1,000), the accrual and liquidating entries are as follows:

7

(a) Expenses (or Asset)	$1,000	
Advances Outstanding		$1,000
(b) Unliquidated Obligations	1,000	
Unobligated Allotments		1,000
(c) Unobligated Allotments	1,000	
Expended Appropriations		1,000

If the voucher is received at a later date, unless it is paid in a different amount or covers more or less performance than recorded above, it will merely serve as documentation. No additional entry is necessary.

Books of Original Entry

While journal entries have been used to illustrate the foregoing transactions, it is assumed that most agencies would use registers or other books of original entry for recording individual transactions, such as:

1. A voucher register, which would provide for crediting Accounts Payable for all expenditures incurred and charging asset or expense accounts. It follows that Accounts Payable would be charged when the disbursements are made.
2. An allotment ledger, which would provide for reducing the balance of the allotment by total obligations and adjusting the balance for variances between obligations as initially recorded and as liquidated.

Totals would be posted to the applicable general ledger accounts at the end of each month or at the conclusion of each posting period. Data similar to that included in these registers can be programmed into a computerized system.

The method illustrated assumes that all invoices and vouchers would be recorded when received. This would necessitate accruing at the end of the month only for unbilled performance.

Accounting for Construction Contract

If an agency enters into a fixed-price contract for construction of a facility to the Government's specifications, providing for monthly progress payments with 20 percent withholding, the amount withheld and the applicable portion of the profit should be included in the expenditure accrual as well as any unbilled performance.

Let us assume a contract is signed July 15 for the construction of a facility at a fixed price of $900,000. The contractor is to submit his vouchers by the end of each month based upon which progress payments (including profit) will be made with the 20 percent withholding. Construction starts during August.

The entry to record the obligation when the contract is signed is:

8

Unobligated Allotments	$900,000	
Unliquidated Obligations		$900,000

At the end of August a voucher (including profit) is received for $200,000 and it is estimated that $50,000 (including profit) of additional work has been performed to the end of the month. The entries to accrue the expenditure and liquidate the obligation are:

9

(a) Work in Process—Contractors	$250,000	
Accounts Payable		$160,000
Accrued Liabilities		50,000
Accrued Liabilities (Holdbacks)		40,000
(b) Unliquidated Obligations	250,000	
Unobligated Allotments		250,000
(c) Unobligated Allotments	250,000	
Expended Appropriations		250,000

During September the voucher of $200,000 is paid less the 20 percent withholding. The entry is:

10

Accounts Payable	$160,000	
Funds with Treasury		$160,000

By the end of September the second voucher is received for $350,000 and it is estimated that $100,000 additional work has been performed. Since $50,000 of unbilled work was accrued last month, which performance is now covered by the voucher received, the accrued expenditure for the month is the $350,000 voucher plus the unbilled work of $100,000 less the amount of $50,000 accrued in August. The entries to record the accrual and liquidation are:

11

(a) Work in Process—Contractors	$400,000	
Accounts Payable (voucher)		$280,000
Accrued Liabilities (additional accrual)		50,000
Accrued Liabilities (Holdbacks)		70,000
(b) Unliquidated Obligations	400,000	
Unobligated Allotments		400,000
(c) Unobligated Allotments	400,000	
Expended Appropriations		400,000

During October the second voucher is paid less 20 percent withholding. The entry is:

12

Accounts Payable	$280,000	
Funds with Treasury		$280,000

The third voucher is received by the end of October for $300,000. The work is completed but $50,000 remains unbilled. Since $100,000 of unbilled work has already been accrued, the Accrued Liability account will have to be reduced by $50,000. The accrued expenditure for October is the voucher of $300,000 less the amount already accrued of $100,000 (now covered by the voucher) plus the $50,000 of unbilled work performed. The accrual and liquidating entries are:

13

(a) Work in Process—Contractors	$250,000	
Accrued Liabilities	50,000	
Accounts Payable		$240,000
Accrued Liabilities (Holdbacks)		60,000
(b) Unliquidated Obligations	250,000	
Unobligated Allotments		250,000
(c) Unobligated Allotments	250,000	
Expended Appropriations		250,000

In November the third voucher is paid less the 20 percent withholding. The entry is:

14

Accounts Payable	$240,000	
Funds with Treasury		$240,000

Later in November the facility is accepted, the final voucher for $50,000 is received and paid, together with the 20 percent withheld on the three previous vouchers. The entries are:

15

(a) Accrued Liabilities	$50,000	
Accrued Liabilities (Holdbacks)	170,000	
Funds with Treasury		$220,000
(b) Plant and Facilities	900,000	
Work in Process—Contractors		900,000

The foregoing entries also illustrate the manner in which certain cost-type contracts could be handled.

Accounting for Progress Payments and Partial Deliveries

For Defense and other agencies using the Armed Services Procurement Regulation (ASPR), the following illustration is given as indicative of an acceptable method of accruing performance.

On January 1 a contract is signed for 1,000 units of an inventory item at a price of $100 per unit. The contract provides for progress payments of 80 percent of costs incurred (excluding profits). The ASPR table converts 80 percent of cost to 74.1 percent of selling price (based on an estimated profit of 8 percent of costs) in liquidating the progress payments.

Assuming an allotment has been made, the entry to record the contract obligation is:

16

Unobligated Allotments	$100,000	
Unliquidated Obligations		$100,000

Since obligations are liquidated when expenditures are accrued, the account Unliquidated Obligations is synonymous with "undelivered orders."

The contractor reports costs incurred through January 15 (excluding profits) of $10,000 and requests a progress payment. The accrued expenditure (and portion of the obligation to be liquidated) is $10,000 plus 8 percent thereof for estimated profit.

To make payment, accrue performance to date, and record the liquidation of this portion of the obligation, the entries are:

17

(a) Work in Process—Paid		
(Unliquidated Progress Payments) (80%)	$8,000	
Work in Process—Unpaid	2,800	
Funds with Treasury		$8,000
Holdbacks (including profit)		2,800
(b) Unliquidated Obligations	10,800	
Unobligated Allotments		10,800
(c) Unobligated Allotments	10,800	
Expended Appropriations (accrual basis)		10,800

On January 25 the contractor delivers 50 acceptable units and is now entitled to this portion of the holdback which was accrued. The entries are:

18

(a) Inventory	$5,000	
Work in Process—Paid		
(Unliquidated Progress Payments) (74.1%)		$3,705
Work in Process—Unpaid (25.9%)		1,295
(b) Holdbacks	1,295	
Funds with Treasury		1,295

If a contractor makes delivery too late in the month for payment of the portion of the amount withheld, the foregoing entry would still be made except that Accounts Payable would be credited in (b) instead of Funds with Treasury. When paid the following month, Accounts Payable would be debited and Funds with Treasury credited.

It is estimated by the contractor or the agency that $12,000 additional performance (including profit) occurred from January 16 through January 31. This amount should include the amount of performance reflected on any unpaid progress payment requests. The entries to record the accrual and liquidation are:

19

(a) Work in Process—Unpaid	$12,000	
Accrued Liabilities		$12,000
(b) Unliquidated Obligations	12,000	
Expended Appropriations		12,000

The foregoing entries are reversed on February 1.

The contractor reports $40,000 of additional costs through February 15 and requests a progress payment. To make payment, accrue this performance, and to record the liquidation of this portion of the obligation, the entries are:

20

(a) Work in Process—Paid		
(Unliquidated Progress Payments) (80%)	$32,000	
Work in Process—Unpaid	11,200	
Funds with Treasury		$32,000
Holdbacks (including profit)		11,200
(b) Unliquidated Obligations	43,200	
Unobligated Allotments		43,200
(c) Unobligated Allotments	43,200	
Expended Appropriations		43,200

On February 25 the contractor delivers 350 acceptable units. The entries to record receipt and payment are:

21

(a)	Inventory	$35,000	
	Work in Process—Paid (Unliquidated Progress Payments) (74.1%)		$25,935
	Work in Process—Unpaid (25.9%)		9,065
(b)	Holdbacks	9,065	
	Funds with Treasury		9,065

It is estimated that $20,000 additional performance occurred from February 16 through February 28. The entries to record the accrual and liquidation are:

22

(a)	Work in Process—Unpaid	$20,000	
	Accrued Liabilities		$20,000
(b)	Unliquidated Obligations	20,000	
	Expended Appropriations		20,000

The foregoing entries are reversed on March 1.

The contractor reports $40,000 of additional costs through March 20 and requests a progress payment. The entries are:

23

(a)	Work in Process—Paid (Unliquidated Progress Payments) (80%)	$32,000	
	Work in Process—Unpaid	11,200	
	Funds with Treasury		$32,000
	Holdbacks		11,200
(b)	Unliquidated Obligations	43,200	
	Unobligated Allotments		43,200
(c)	Unobligated Allotments	43,200	
	Expended Appropriations		43,200

On March 25 the contractor delivers 500 acceptable units. The entries to record receipt and payment are:

24

(a)	Inventory	$50,000	
	Work in Process—Paid (Unliquidated Progress Payments) (74.1%)		$37,050
	Work in Process—Unpaid (25.9%)		12,950
(b)	Holdbacks	12,950	
	Funds with Treasury		12,950

By March 31 the contractor claims that he has completed work under the contract with additional costs of $2,593 and requests a progress payment. To make payment, accrue performance, and record the liquidation of the remainder of the obligation, the entries are:

25

(a)	Work in Process—Paid (Unliquidated Progress Payments) (80%)	$2,074	
	Work in Process—Unpaid	726	
	Funds with Treasury		$2,074
	Holdbacks		726
(b)	Unliquidated Obligations	2,800	
	Unobligated Allotments		2,800
(c)	Unobligated Allotments	2,800	
	Expended Appropriations		2,800

On April 10, the final 100 units are received and accepted. The entries to record receipt and payment are:

26

(a) Inventory	$10,000	
Work in Process—Paid (Unliquidated Progress Payments) (74.1%)		$7,410
Work in Process—Unpaid (25.9%)		2,590
(b) Holdbacks	2,590	
Funds with Treasury		2,590

The contractor has received $26 less than the contract price of $100,000. This resulted from holdbacks being accumulated on the basis of the true percentage of 25.926 percent whereas payments of the holdbacks were made at only 25.9 percent based upon the ASPR conversion table.

The following additional entry could be made to bring the accounts into balance and pay the contractor the additional $26:

27

Work in Process—Paid	$26	
Holdbacks	26	
Work in Process—Unpaid (Unliquidated Progress Payments)		$26
Funds with Treasury		26

Accounting for Grants

Many recipients of Federal grants receive advances under a letter-of-credit procedure (Treasury Circular No. 1075, Revised) in order that withdrawals from the Treasury are made no sooner than necessary. The letter-of-credit method applies only when the grant agreement extends over a period of 1 year or more. In the following illustration, transactions are shown for only the first few months of the period covered by the grant.

Let us assume that a grant agreement is signed for $600,000 covering a 2-year period. The grantee submits a performance report (actual or estimated) at the end of each month (or performance is estimated each month by the grantor). The agreement is signed September 20 and work under the grant commences in October. The grantee submits its first voucher under the letter-of-credit authorization on October 1 for $15,000. Performance in October was determined to be $12,000.

The entry in September to record the grant agreement is:

28

Unobligated Allotment	$600,000	
Unliquidated Obligations		$600,000

On October 1 the entry to record payment of the voucher under the letter of credit is:

29

Advances Outstanding	$15,000	
Funds with Treasury		$15,000

On October 31 the entries to record accrual of the performance (actual or estimated) and the liquidation of the obligation are:

30

(a) Expenses—Grants	$12,000	
Advances Outstanding		$12,000
(b) Unliquidated Obligations	12,000	
Unobligated Allotments		12,000
(c) Unobligated Allotments	12,000	
Expended Appropriations		12,000

On November 3 the grantee submitted a voucher under the letter-of-credit authorization for $20,000. Performance in November was determined to be $18,000.

The entry to record payment of the voucher is:

31

Advances Outstanding	$20,000	
Funds with Treasury		$20,000

The entries to record the accrual of performance (actual or estimated) and the liquidation of the obligation are:

32

(a) Expenses—Grants	$18,000	
Advances Outstanding		$18,000
(b) Unliquidated Obligations	18,000	
Unobligated Allotments		18,000
(c) Unobligated Allotments	18,000	
Expended Appropriations		18,000

On December 5 a voucher drawn on the letter of credit in the amount of $25,000 is submitted. Performance in December was determined to be $29,000.

The entry to record payment of the voucher is:

33

Advances Outstanding	$25,000	
Funds with Treasury		$25,000

The accrual and liquidation entries are:

34

(a) Expenses—Grants	$29,000	
Advances Outstanding		$29,000
(b) Unliquidated Obligations	29,000	
Unobligated Allotments		29,000
(c) Unobligated Allotments	29,000	
Expended Appropriations		29,000

Preparation of Reports to Treasury Department

Treasury Department Transmittal Letter No. 18 dated June 20, 1968, (appendix C) contains preliminary instructions and forms for monthly reports on accrued expenditures.

After posting entries 1, 2, and 3, on pages 5 and 6 the following trial balance would result:

	Funds with Treasury	$36,125	------
	Assets	100	------
	Accounts Payable		$2,700
3010	Unapportioned Appropriations		125

3020	Unallotted Apportionments		$26,000
3030	Unobligated Allotments		5,500
3040	Unliquidated Obligations		1,800
3050	Expended Appropriations (accrual basis)		2,700
5000	Expenses	$2,600	
	Total	38,825	38,825

It will be noted that all the accounts in the trial balance except the first three are identical in amount to the illustrative trial balance contained in attachment A to Treasury Department Transmittal Letter No. 18, and corresponding account numbers have been assigned to such accounts.

The balances of accounts 3010, 3020, and 3030 are combined for entry on line 304, unobligated budget authority, of Treasury Form No. BA-6727. The balance of account 3040 goes on line 305 of the form, and the balance of account 3050 goes on line 501.

The "Analysis of Account for Undelivered Orders" on the Treasury reporting form based on the above trial balance would be as follows:

1. Balance July 1	0
2. Adjustments (entry 3)	—$300
3. Obligations incurred (entry 2)	4,800
4. Balance per line 305	—1,800
5. Expenditures (accrual basis)	2,700

In order to facilitate the preparation of Treasury Forms No. BA-6727 and BA-6728 prescribed by Transmittal Letter No. 18, an agency should have separate general ledger accounts:

1. Which segregate accounts receivable from the public as distinct from those from U.S. Government agencies.
2. Which segregate advances and prepayments on grants from those on contracts. All other advances should be segregated between those relating to the public and those relating to other Government agencies.
3. For accounts payable (and for funded accrued liabilities) relating to the public as distinct from those relating to Government agencies.
4. For unearned revenue relating to the public as distinct from revenue relating to Government agencies.

After an agency's trial balance is prepared for a given appropriation or fund account, the balances of those accounts, grouped where necessary, which apply to the Treasury forms may be transcribed to the appropriate lines of the form and totaled to verify that they are in balance.

The Treasury instructions are preliminary in nature. Changes in the instructions and the forms may be expected as a result of experience gained during the test period.

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PART III

Illustrative Procedures and Transactions—Method B

Another acceptable method of recording expenditures on the accrual basis involves charging all funded expenditures to an Accrued Expenditures account divided into two subaccounts:

1. Operating Expenditures, to which expenses would be charged.
2. Capital Expenditures, to which outlays for nonexpendable property would be charged.

Use of this Accrued Expenditures account makes unnecessary the Expended Appropriations (on an accrual basis) account illustrated in Method A of Part II.

Under this method an obligation is considered to represent both a conditional charge and liability. When performance occurs, the conditional charge turns into an actual charge (accrued expenditure) and the conditional liability turns into an actual liability. At the time the expenditure and the actual liability are recognized, the conditional charge and liability cease.

Unfunded expenses such as depreciation and cost of space provided by other agencies are charged to an Unfunded Charges account instead of to the Accrued Expenditures account.

This method has as one of its objectives the elimination of many of the dual entries for transactions that characterize Method A. For example, under Method A three budgetary accounts are used in the general ledger to account for obligations: Unobligated Allotments, Unliquidated Obligations, and Expended Appropriations. Under Method B only two accounts are needed for obligation accounting: Conditional Charges and Unliquidated Obligations. Even these two accounts are not needed when it is unnecessary to record an obligation prior to recording the expenditure, whereas under Method A the obligation entry must be recorded in two of the obligation accounts (Unobligated Allotments and Expended Appropriations) even though it is made simultaneously with the accrued expenditure entry.

Under this method, the Funds with Treasury account is split into subaccounts, one of which is Disbursements, where all disbursements are accumulated. In the balance sheet, the Disbursements account is not shown. It is merged into the Funds with Treasury account in order to reflect the cash balance.

Accrued Expenditures Account

The Accrued Expenditures account includes both disbursements, except for advances and prepayments (which are classified as assets), and liabilities (items which have accrued but are unpaid). This account is subdivided into Operating Expenditures and Capital Expenditures.

When expenditures are made for capital items, the fixed asset (nonexpendable property) accounts are also charged, with an offset to an account such as Acquisitions Capitalized. The Capital Expenditures and Acquisitions Capitalized accounts would ordinarily offset each other. Neither account would be shown in the balance sheet. If assets are constructed, subsidiary accounts such as Construction in Progress would be maintained to accumulate such costs. Capital Expenditures less Acquisitions Capitalized would control such subsidiary accounts.

Simultaneous with charges to Operating Expenditures would be charges in a subsidiary ledger to cost centers, to operating expense accounts, or to current working asset accounts. The balances of these working asset accounts would be closed into such general ledger accounts as Inventories and Work in Process.

For the purpose of the illustrations to follow, it is assumed that an appropriation of $36,125 has been made, of which an apportionment of $36,000 has been approved, and $10,000 has been allotted. The entries for the foregoing transactions are:

1

(a) To record appropriation received:		
Funds with Treasury	$36,125	
Unapportioned Appropriations		$36,125
(b) To record approval of apportionment:		
Unapportioned Appropriations	36,000	
Unallotted Apportionments		36,000
(c) To record allotment of funds:		
Unallotted Apportionments	10,000	
Allotment		10,000

It is not necessary that all obligations be recorded, particularly when the obligation and the expenditure both occur during the reporting period. For example, if there is a separate allotment for personal services on a quarterly basis, it will be based on the estimated payrolls for that period. It is not likely that monthly obligations for such payrolls would result in any greater control. For most of the following transactions it is assumed that obligation entries have been made.

Instead of debiting the Allotment account when obligations are recorded, the Conditional Charges account is debited. Conditional Charges in the trial balance are the excess of obligations made over obligations liquidated, as reflected in columns 6 and 7 of the allotment ledger (see fig. 1). Accrued expenditures in the trial balance equals the total of column 5 of the allotment ledger. The excess of the Allotment account over the total of the Conditional Charges and Accrued Expenditures accounts is the unobligated balance and agrees with column 9 of the allotment ledger. The balance of the Conditional Charges account plus the Accrued Expenditures account gives total obligations.

Journal entries are shown below for the general ledger accounts involved in the following illustrations. Actually, these entries would be made in totals only at the end of the posting or accounting periods from registers or other records of original entry. The first three illustrations are also shown as they would be entered in the allotment ledger (see fig. 1).

Figure 1

ALLOTMENT-EXPENDITURE LEDGER

Date	Explanation	Document Reference	Proof	Current Transactions			
				Accrued	Conditional Charge	[illegible]	Allotments

Figure 1

ALLOTMENT-EXPENDITURE LEDGER								
				CURRENT TRANSACTIONS				
DATE	EXPLANATION	DOCUMENT REFERENCE	PROOF	ACCRUED EXPENDITURES	CONDITIONAL CHARGES (OBLIGATIONS INCURRED)	OBLIGATIONS LIQUIDATED	ALLOTMENTS	UNOBLIGATED ALLOTMENTS
1	2	3	4	5	6	7	8	9
7-1-69	Allotment	Trans. #1					10, 000	10, 000
7-15-69	Obligations made	Trans. #2			4, 800			5, 200
8-20-69	Performance	Trans. #3		2, 700		3, 000		5, 500

If the accounting system is computerized, entries could be made individually or in batches. Liquidating and certain other entries would not have to be made as the computer could be programmed to record such transactions automatically. When the transaction which records the expenditure is given to the computer, a simultaneous reversal of the original obligating entry takes place.

When an obligation is incurred, the following entry occurs:

2

Conditional Charges	$4,800	
Unliquidated Obligations		$4,800

When performance occurs, the Accrued Expenditures account is charged for the amount ($2,700) of performance (goods delivered, services rendered, construction performed, grants earned, loans made, etc.) which occurred during the month. At the same time, the portion of the obligation ($3,000) related to the expenditure is liquidated. The entries are:

3

(a) Accrued Expenditures	$2,700	
Accounts Payable		$2,700
(b) Unliquidated Obligations	3,000	
Conditional Charges		3,000

When payment is made, which frequently is in a later month, the entry is:

4

Accounts Payable	$2,700	
Disbursements		$2,700

If the voucher is paid in a different amount than the accrued expenditure, the Accrued Expenditures account should be adjusted accordingly with an offsetting change in the unobligated balance of the allotment.

Sometimes a voucher is received and paid in the same month in which the performance occurs. Such transactions do not have to be run through the Accounts Payable account. Assuming the voucher to be in the same amount as the obligation, the entries to record payment of the accrued expenditure and liquidation of the obligation are:

5

(a) Accrued Expenditures	$1,000	
Disbursements		$1,000
(b) Unliquidated Obligations	1,000	
Conditional Charges		1,000

If an agency makes an advance or a prepayment, it should be recorded as an asset and not as an accrued expenditure. The entry is:

6

Advances Outstanding	$1,600	
Disbursements		$1,600

When performance occurs (say $1,000), the accrual and liquidating entries are:

7

(a) Accrued Expenditures	$1,000	
Advances Outstanding		$1,000
(b) Unliquidated Obligations	1,000	
Conditional Charges		1,000

If the voucher is received at a later date, unless it is paid in a different amount or covers more or less performance than recorded above, it merely serves as documentation. No additional entry is necessary.

Accounting for Construction Contract

If an agency enters into a fixed-price contract for construction of a facility to the Government's specifications, providing for monthly progress payments with a 20 percent withholding, the amount withheld and the applicable portion of the profit should be included in the expenditure accrual as well as any unbilled performance.

Let us assume a contract is signed July 15 for the construction of a facility at a fixed price of $900,000. The contractor is to submit his vouchers by the end of each month based upon which progress payments (including profit) will be made with the 20 percent withholding. Construction starts during August.

The entry to record the obligation when the contract is signed is:

8

Conditional Charges	$900,000	
Unliquidated Obligations		$900,000

At the end of August a voucher (including profit) is received for $200,000 and it is estimated that $50,000 of additional work has been performed to the end of the month. The entries to accrue the expenditure and liquidate the obligation are:

9

(a) Accrued Expenditures	$250,000	
Accounts Payable		$160,000
Accrued Liabilities		50,000
Accrued Liabilities (Holdbacks)		40,000
(b) Unliquidated Obligations	250,000	
Conditional Charges		250,000

During September the voucher of $200,000 is paid less the 20 percent withholding. The entry is:

10

Accounts Payable	$160,000	
Disbursements		$160,000

By the end of September the second voucher is received for $350,000 and it is estimated that $100,000 additional work has been performed. Since $50,000 of unbilled work was accrued last month, which performance is now covered by the voucher, the accrued expenditure for the month is the $350,000 voucher plus the unbilled work of $100,000 less the amount of $50,000 accrued in August. The entries to record the accrual and liquidation are:

11

(a) Accrued Expenditures	$400,000	
Accounts Payable		$280,000
Accrued Liabilities		50,000
Accrued Liabilities (Holdbacks)		70,000
(b) Unliquidated Obligations	400,000	
Conditional Charges		400,000

During October the second voucher is paid less 20 percent withholding. The entry is:

12

Accounts Payable	$280,000	
Disbursements		$280,000

The third voucher is received by the end of October for $300,000. The work is completed but $50,000 remains unbilled. Since $100,000 of unbilled work has already been accrued, the Accrued Liability account will have to be reduced by $50,000. The accrued expenditure for October is the voucher of $300,000 less the amount already accrued of $100,000 (now covered by the voucher) plus the $50,000 of unbilled work performed. The accrual and liquidation entries are:

13

(a) Accrued Expenditures	$250,000	
Accrued Liabilities	50,000	
Accounts Payable		$240,000
Accrued Liabilities (Holdbacks)		60,000
(b) Unliquidated Obligations	250,000	
Conditional Charges		250,000

In November the third voucher is paid less the 20 percent withholding. The entry is:

14

Accounts Payable	$240,000	
Disbursements		$240,000

Later in November the facility is accepted, the final voucher for $50,000 is received and paid, together with the 20 percent withheld on the three previous vouchers. The entries are:

15

(a) Accrued Liabilities	$50,000	
Accrued Liabilities (Holdbacks)	170,000	
Disbursements		$220,000
(b) Plant and Facilities	900,000	
Acquisitions Capitalized		900,000

The foregoing entries also illustrate the manner in which certain cost-type contracts could be handled.

Accounting for Progress Payments and Partial Deliveries

For Defense and other agencies using the Armed Services Procurement Regulation (ASPR), the following illustration is given as indicative of an acceptable method of accruing performance.

On January 1 a contract is signed for 1,000 units of an inventory item at a price of $100 per unit. The contract provides for progress payments of 80 percent of costs incurred (excluding profits). The ASPR table converts 80 percent of cost to 74.1 percent of selling price (based on an estimated profit of 8 percent of costs) in liquidating the progress payment.

Assuming an allotment has been made, the entry to record the contract obligation is:

16

Conditional Charges	$100,000	
Unliquidated Obligations		$100,000

Since obligations are liquidated when expenditures are accrued, the account Unliquidated Obligations is synonymous with "undelivered orders."

The contractor reports costs incurred through January 15 (excluding profits) of $10,000 and requests a progress payment. The accrued expenditure (and portion of the obligation to be liquidated) is $10,000 plus 8 percent estimated profit.

To make payment, accrue performance to date, and to record the liquidation of this portion of the obligation, the entries are:

17

(a) Accrued Expenditures	$10,800	
Disbursements (80%)		$8,000
Holdbacks (including profit)		2,800

(Accrued Expenditures is a control account. In a subsidiary ledger would be appropriate expense, cost, and clearing accounts. In this example, the portion of the accrued expenditure represented by the progress payment would be posted to an account separate from the portion represented by the holdbacks.)

(b) Unliquidated Obligations	$10,800	
Conditional Charges		$10,800

On January 25 the contractor delivers 50 acceptable units and is now entitled to this portion of the holdback which was accrued. The entry to record receipt and payment is:

18

Holdbacks (25.9%)	$1,295	
Disbursements		$1,295

(In the subsidiary ledger, at least by monthend, the 50 units at a price of $5,000 would be transferred to an issues account such as Stores Operations, $3,705 (74.1 percent) from the account showing amount of progress payments, and $1,295 (25.9 percent) from the account represented by the amount of the holdbacks.)

If a contractor makes delivery too late in the month for payment of the portion of the amount withheld, the foregoing entry would still be made except that Accounts Payable would be credited instead of Disbursements. When paid the following month, Accounts Payable would be debited and Disbursements credited.

It is estimated by the contractor or the agency that $12,000 additional performance (not covered by the progress payment) occurred through January 31. This amount should include the amount of performance reflected on any unpaid progress payment requests. The entries to record the accrual and liquidation are:

19

(a) Accrued Expenditures	$12,000	
Accrued Liabilities		$12,000
(b) Unliquidated Obligations	12,000	
Conditional Charges		12,000

The foregoing entries are reversed on February 1.

The contractor reports $40,000 of additional costs through February 15 and requests a progress payment. To make payment, accrue this performance, and to record the liquidation of this portion of the obligation, the entries are:

20

(a) Accrued Expenditures	$43,200	
Disbursements (80%)		$32,000
Holdbacks (including profit)		11,200

(The portion of the accrued expenditure represented by the progress payment would again be posted to an account in the subsidiary ledger separate from that represented by the unpaid portion.)

(b) Unliquidated Obligations	$43,200	
Conditional Charges		$43,200

On February 25 the contractor delivers 350 acceptable units. The entry to record receipt and payment is:

21

Holdbacks (25.9%)	$9,065	
Disbursements		$9,065

(In the subsidiary ledger, the 350 units at a price of $35,000 would be transferred to an issues account, $25,935 (74.1 percent) from the account representing the amount of progress payments.)

It is estimated that $20,000 additional performance occurred from February 16 through February 28. The entries to record the accrual and liquidation are:

22

(a) Accrued Expenditures	$20,000	
Accrued Liabilities		$20,000
(b) Unliquidated Obligations	20,000	
Conditional Charges		20,000

The foregoing entries are reversed on March 1.

The contractor reports $40,000 of additional costs through March 20 and requests a progress payment. The entries are:

23

(a) Accrued Expenditures	$43,200	
Disbursements (80%)		$32,000
Holdbacks		11,200

(In the subsidiary ledger, the amount of the progress payment would again be posted to a separate account.)

(b) Unliquidated Obligations	$43,200	
Conditional Charges		$43,200

On March 25 the contractor delivers 500 acceptable units. The entry to record receipt and payment is:

24

Holdbacks (25.9%)	$12,950	
Disbursements		$12,950

(In the subsidiary ledger, the 500 units at a price of $50,000 would be transferred to an issues account, $37,050 (74.1 percent) from the account representing the amount of progress payments.)

By March 31 the contractor claims that he has completed work under the contract with additional costs of $2,593 and requests a progress payment. To make payment, accrue performance, and record the liquidation of the remainder of the obligation, the entries are:

25

(a) Accrued Expenditures	$2,800	
Disbursements (80%)		$2,074
Holdbacks		726

(Separate postings would again be made in the subsidiary ledger.)

(b) Unliquidated Obligations	$2,800	
Conditional Charges		$2,800

On April 10, the final 100 units are received and accepted. The entry to record receipt and payment is:

26

Holdbacks (25.9%)	$2,590	
Disbursements		$2,590

(In the subsidiary ledger, the 100 units at a price of $10,000 would be transferred to an issues account, $7,410 (74.1 percent) from the account representing the amount of progress payments.)

The contractor has received $26 less than the contract price of $100,000. This resulted from holdbacks being accumulated on the basis of the true percentage of 25.926 percent whereas payments of the holdbacks were made at only 25.9 percent based upon the ASPR conversion table.

The following additional entry could be made to bring the accounts into balance and pay the contractor the additional $26:

27

Holdbacks	$26	
Disbursements		$26

Accounting for Grants

Many recipients of Federal grants receive advances under a letter-of-credit procedure (Treasury Circular No. 1075, Revised) in order that withdrawals from the Treasury are made no sooner than necessary. The letter-of-credit method applies only when the grant agreement extends over a period of 1 year or more. In the following illustration, transactions are shown for only the first few months of the period covered by the grant.

Let us assume that a grant agreement is signed for $600,000 covering a 2-year period. The grantee submits a performance report (actual or estimated) at the end of each month (or performance is estimated by the grantor). The agreement is signed September 20 and work under the grant commences in October. The grantee submits its first voucher under the letter-of-credit authorization on October 1 for $15,000. Performance in October was determined to be $12,000.

The entry in September to record the grant agreement is:

28

Conditional Charges	$600,000	
Unliquidated Obligations		$600,000

On October 1 the entry to record payment of the voucher is:

29

Advances Outstanding	$15,000	
Disbursements		$15,000

On October 31 the entries to record accrual of the performance (actual or estimated) and liquidation of the obligation are:

30

(a) Accrued Expenditures	$12,000	
Advances Outstanding		$12,000
(b) Unliquidated Obligations	12,000	
Conditional Charges		12,000

On November 3 the grantee submitted a voucher drawn on the letter of credit for $20,000. Performance in November was determined to be $18,000.

The entry to record payment of the voucher is:

31

Advances Outstanding	$20,000	
Disbursements		$20,000

The entries to record the accrual of performance (actual or estimated) and liquidation of the obligation are:

32

(a) Accrued Expenditures	$18,000	
Advances Outstanding		$18,000
(b) Unliquidated Obligations	18,000	
Conditional Charges		18,000

On December 5 a voucher under the letter-of-credit authorization in the amount of $25,000 is submitted. Performance in December was determined to be $29,000.

The entry to record payment of the voucher is:

33

Advances Outstanding	$25,000	
Disbursements		$25,000

The accrual and liquidation entries are:

34

(a) Accrued Expenditures	$29,000	
Advances Outstanding		$29,000
(b) Unliquidated Obligations	29,000	
Conditional Charges		29,000

Preparation of Reports to Treasury Department

Treasury Department Transmittal Letter No. 18 dated June 20, 1968, (appendix C) contains preliminary instructions and forms for monthly reports on accrued expenditures.

After posting entries 1, 2, and 3, on pages 16 and 18 the following trial balance would result:

	Funds with Treasury	$36,125	
	Accounts Payable		$2,700
	Allotment		10,000
	Conditional Charges	1,800	
	Accrued Expenditures	2,700	
3010	Unapportioned Appropriations		125
3020	Unallotted Apportionments		26,000
3040	Unliquidated Obligations		1,800
	Total	40,625	40,625

The last three accounts in the trial balance are identical in amount to the illustrative trial balance contained in attachment A to Treasury Department Transmittal Letter No. 18, and corresponding account numbers have been assigned to such accounts. The unobligated balance (account 3030) would be secured from column 9 of the allotment ledger (fig. 1). It would be verified by the following computation:

Allotment		$10,000
Less: Conditional Charges	$1,800	
Accrued Expenditures	2,700	4,500
Unobligated Balance		5,500

The foregoing amount is combined with the balances of accounts 3010 and 3020 to get the amount of $31,625 for line 304 of Treasury reporting Form No. BA–6727. The balance of account 3040 goes on line 305 of the form.

Otherwise, the comments given in Part II apply to the preparation of the two Treasury forms. Changes in the forms and instructions may be expected as a result of experience gained during the test period.

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Appendix A

Excerpt From Report of the President's Commission on Budget Concepts

Chapter 4

Accounting for Expenditures and Receipts

There are several timing concepts presently used for recording budget receipts and expenditures. On the expenditure side, the administrative budget is mostly on a checks-issued basis, recording an expenditure when a check is written. The consolidated cash budget uses a checks-paid basis for the overall total of expenditures, recording an expenditure when a check clears through the banking system. The Federal sector of the national income accounts records purchases mainly on a deliveries basis, i.e., when the Government physically receives goods or services.

The Commission has examined each of these bases of recording expenditures, and finds them basically deficient as indicators of the time when expenditures are actually made. Therefore, the Commission recommends:

Expenditures should be reflected in the budget and Federal financial reporting when the Government incurs liabilities to pay for goods and services—in other words, on an accrual rather than a cash basis.

Adoption of the accrued expenditures concept is possible at this time because of the progress made in recent years in developing and installing modern accrual accounting systems in Federal Government agencies, in compliance with legislation enacted more than ten years ago. A few important agencies are not ready to implement this recommendation immediately, and some further improvements in accounting systems are required in certain other agencies. However, the Commission believes it will be possible to fully implement this change beginning with the budget to be submitted in January 1970 for the fiscal year 1971, with preliminary internal data gathering and testing to begin by July 1, 1968.

Receipts are recorded at the time they are collected in both the administrative and cash budgets. The national income accounts, however, report receipts partly on a cash and partly on an accrual basis.

The Commission believes that major steps can be taken toward an accrual basis of reporting receipts. The Commission therefore recommends that:

Corporation income taxes should be presented in the budget and reported by the Treasury on an accrual basis, also effective with the January 1970 budget presentation. In addition, the Commission recommends that other receipts be accounted for on an accrual basis as soon as feasible, although it recommends further study in the case of individual income and employment taxes.

Under present timing practices, there are significant differences between cash expenditures and receipts and accrued expenditures and receipts—in some years totaling billions of dollars. The shift toward accrual accounting recommended by the Commission should make the budget totals a better index of the current impact of Federal financial activities on the economy, and should provide a better reflection of the financial condition of the Government than any of the present timing concepts.

ACCRUAL OF EXPENDITURES

A comprehensive accounting system

There are a number of important steps in the Federal expenditure process and a comprehensive accounting system should record each of them: appropriations, obligations, accrued expenditures, program costs, checks issued, and checks paid.

Appropriations and *obligations* are important because they establish the control points in Federal expenditure programs. Appropriations represent the initial point of decision by the Congress as to the magnitude and direction of future government expenditures. Obligations record that part of the appropriation which has been legally committed by a Government agency. They represent the point at which the Government initiates the formal action with an outsider that will ultimately result in paying out Government funds. Careful records of obligations must be maintained to assure that authority granted by the Congress is not exceeded. Obligations are also an early indicator of the economic impact of Government expenditures.

From the standpoint of determining fiscal policy, *expenditures* on an accrual basis probably represent the best measure of the economic impact of the budget. This is the point in time at which the Government actually incurs a liability requiring immediate or eventual payment, including constructive delivery in the case of construction put in place and work performed by contractors on specific order.

Program costs are increasingly recognized as a significant instrument of agency management, budget formulation, and execution. They represent resources actually used for a program regardless of when such resources were acquired. For this reason, program costs are assuming increasing importance in the details of the budget *Appendix* in connection with the President's appropriation requests.

Disbursements (*checks issued and checks paid*) are necessary measures of Government outgo for Treasury cash management purposes and for analyzing Treasury borrowing requirements.

It is clear that, provided effective accounting systems are in use, it would be possible to enter the expenditure process at any point—or at several points—for purposes of preparing summary budget statements. The Commission, therefore, has had to decide which measure or measures are most appropriate for purposes of overall budget summary statements. The Commission concluded that accrued expenditures are that "best measure," since the accrual is the point of final commitment which has the largest and most direct economic impact on the private sector.

Appropriations, obligations, and costs

The interrelationships between appropriations and obligations, and between obligations and costs, are worthy of careful examination. Appropriations, as broadly defined by the Commission, are and will continue to be the important first step in the expenditure process. Appropriations usually are more significant indicators of expenditures at a detailed program level than in the aggregate. However, total appropriations do determine the future course of total expenditures, and in Chapter 2 the Commission has made recommendations to give overall appropriations greater prominence in the President's budget message than they now have.

Recording of obligations is essential for financial control and accountability of agency appropriations. Obligations are, however, increasingly recognized as generally inadequate for measurement of agency performance, and are being replaced by program costs for this purpose as rapidly as development of adequate accounting systems permits.

While obligations may become less important as a measure of performance at the program level than they once were (because of the growing dependence on costs), the Commission definitely feels a need for better information on the aggregate volume of Government contracts and obligations. This is desirable to permit better analysis, both inside and outside Government, of overall expenditure trends. Such information as is now readily available on obligations is either too broad or too detailed for many purposes, and does not relate easily to expenditures. It is encouraging to note, therefore, that the Treasury and the Bureau of the Budget have arranged for the early publication of monthly obligations in some detail and consistent conceptually with available summary expenditure information.

The trend toward better accounting

As indicated above, program costs are being increasingly used to measure agency performance. The accurate measurement of program costs requires an accrual accounting system, in which such items as accounts receivable, accounts payable, stocks on hand at the beginning and end of the period, and capital assets are recorded in addition to the normal appropriations, obligations, and cash disbursements. In measuring program costs, it is usually necessary to include estimates of the depreciation on plant and equipment "used" during the period. However, expenditures for the acquisition of new capital goods that are to be used in later periods are not included.

Recognition of the importance of information on program costs for the proper formulation and execution of budget programs led to the requirement—laid down in the 1956 amendments to the Budget and Accounting Procedures Act of 1950—that all agencies of the Federal Government develop and install accrual accounting systems under guidelines prescribed by the General Accounting Office. Under this legislation, there has been steady improvement in Government accounting and financial management. While practices vary somewhat from agency to agency all but a few agencies now use accrual systems. The General Accounting Office has approved a number of these systems. Others are currently before the General Accounting Office for approval, and still others are scheduled to be submitted for approval shortly.

The Commission heartily endorses the trend toward the use of accrual systems. Program costs are an important tool for program management and for agency budget formulation and execution. Moreover, the existence of modern accrual accounting systems makes it possible to adopt a much better method of measuring and reporting Government expenditures than was previously possible.

The concept of accrued expenditures

Accrued expenditures differ from cash disbursements because of net changes in Government liabilities (accounts payable and other accrued liabilities). In the case of goods and services acquired under contract, as in construction and defense hard goods procurement, the accrual basis will result in reporting expenditures at the time of constructive delivery; that is, as the work is actually performed to Government specifications. When the Government acquires mass-produced items, the liability occurs—and accrued expenditures are recorded—at the time of physical delivery.

The Commission considers this recommendation to be an extremely important and valuable contribution to improved budget presentation. It is a normal, natural, and straightforward concept of expenditures which should be easily understandable. The business community is already quite familiar with accrual of expenditures, revenues, and costs. Business practices are not always, or necessarily, correct practices for Government. But a large share of the Government's expenditures represents income to private business, and there are obvious advantages of having the two sides of the transaction recorded as consistently as possible on the books of both buyers and sellers. Accrued expenditures also represent a much better measure of the actual impact of Government purchasing activities on the economy than obligations or cash disbursements.

Relationship to present system

The proposed accrual concept cannot replace cash receipt and expenditure information for Treasury cash balance management and public debt management. Cash records are indispensable for the proper discharge of the Treasury's role of "banker" for the Government, just as cash accounting in the private sector is a necessary supplement to regular business profit and loss accounting on an accrual basis. However, cash concepts need not be discussed in the January budget and no cash surplus or deficit should be presented in the budget summary. The Commission recommends that Treasury monthly reports on budget receipts and expenditures also be on an accrual rather than a cash basis; monthly and daily reports on cash deposits and withdrawals should not be called *the budget* or "another measure of *the budget*."

Reporting of expenditures on an accrual basis will not impinge in any way on the present appropriations process, or the need for accounting controls over obligations. Appropriations will continue to be the critical point of congressional control over the expenditure process, and indeed the Commission has recommended steps to highlight appropriations in the budget

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Finally, accrued expenditures should not be confused with program costs. Accrued expenditures measure resources acquired, while program costs—important particularly at the program level—measure resources used.

Importance of the accrued expenditure concept

The Commission recognizes that in the vast majority of individual expenditure transactions, the Government's liability is liquidated soon after it arises. This is clear, for example, in employee pay or in benefit payments. In such cases there is typically little or no practical difference in timing between cash disbursements and accrued expenditures, although even in these cases there are occasional "humps" in monthly cash disbursements growing out of the Federal government's biweekly pay structure that would be recorded more accurately in an accrual system. The discrepancies between cash disbursements and accruals become particularly significant in periods where there is a rapid increase or decrease in outstanding Government orders for long leadtime procurement items, as in a defense build-up or demobilization period. Under the accrual approach, the difference between costs incurred by a contractor and progress payments made to him will be properly recorded as an accrued liability of the Government.

Progress payments should not be confused with advances and prepayments. Advances and prepayments are occasionally made to provide contractors with working capital. They will be reflected on the Government's books as assets like accounts receivable rather than as expenditures, in an accrual system.

The Commission believes that acceptance of its recommendation for accrued expenditures will make the Federal budget a more useful document for understanding the economic impact of the budget. For example, in a period of rapid defense build-up such as during fiscal year 1966, the accrual basis would have provided more timely and accurate information for assessing the economic impact of the budget than either cash budget disbursements or deliveries as recorded in the national income accounts.

Furthermore, the Commission feels strongly that adoption of the accrued expenditure measure would represent a further significant advance in improved internal management of individual Federal agencies. As pointed out before, most agencies are now or will be using costs for program management and agency control. The accrual concept for budget purposes will foster the concept of cost control in all agencies, and especially in those not now on a cost system. For those agencies already using program costs, the information required for the budget should be a byproduct of their accounting system.

The Commission has considered the possibility that some users of the budget and Federal financial reports might be confused by the term *accrued expenditures.* The Commission believes, however, that once expenditures have been redefined, there is no need to use the term *accrued expenditures*, and the term *expenditures* will automatically apply to the figures developed on the accrual concept.

Appendix A

Feasibility and implementation

The Commission appreciates the fact that although substantial progress has been made in the improvement of agency accounting systems, it is not yet possible for several key agencies to provide immediately the information which would be required to comply with the Commission's accrual recommendation. This change will also create increased burdens in terms of cost and time for the Bureau of Accounts of the Treasury Department which will have to process accrued expenditures data, as well as disbursement data.

In making its recommendation, the Commission has had the benefit of several interagency feasibility inquiries conducted under the leadership of the General Accounting Office. It believes that—with the cooperation of everyone concerned—it will be possible to begin internal review and testing and internal monthly reporting of accrued expenditures for most of the Government effective July 1, 1968. The Commission recognizes that the problem of conversion to accrual accounting is large in the Department of Defense, and that somewhat more time may be required by that agency. Accrued expenditure data should be available in time to make it possible for the President's budget for fiscal 1971 (transmitted in January 1970) to be fully on an accrual basis. Monthly expenditure reporting to the public on the accrual basis then would begin July 1, 1970.

Some concern has been expressed to the Commission about possible delays in the monthly reporting of expenditures by the Treasury when the conversion to accrual accounting is made. Since the Treasury will continue to need the information it now has, reports on cash receipts and disbursements should be available with the same timing as at present. Until some experience is acquired under the accrual system, reports of accrued expenditures may take somewhat longer to compile than those for cash expenditures. When fully operative, however, the accrual and cash data will both come from the same coordinated agency accounting systems. Therefore, by the time internal tests of the new system are completed and public reporting begins in 1970, the Commission believes that monthly accrual reports should be available on the same schedule as monthly cash reports.

Pending the changeover to the new accrued expenditure basis, the Commission recommends that estimates of changes in accounts payable, and other accrued liabilities against various appropriations and funds, be made available through the Treasury at least quarterly for analytical purposes quite apart from regular financial reporting. These estimates will aid those experts both inside and outside the Government who are trying to measure the economic impact of the budget. Changes in accounts payable and other accrued liabilities should be reported by the Treasury in full for all agencies already having accrual accounting systems. This would be supplemented on a selective basis for those agencies (notably the Department of Defense) which do not yet record liabilities in their central accounts, but who keep records of contractor performance on a contract-by-contract basis. These Treasury estimates should provide an interim method of substantially correcting—for analytical purposes—basic shortcomings in existing reports of budget expenditures.

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Relation to the national income accounts

The Commission does not feel that it should make detailed recommendations on methods of recording statistical measures of Federal receipts and expenditures in the national income and product accounts. In general, these are matters best left to the economists and social accountants. Moreover, the Commission recognizes the need for a consistent treatment of the Federal sector and the private sectors of the economy in the national income accounts.

On the other hand, the Commission is aware that the different timing basis for stating expenditures is one of the major differences between the present consolidated cash budget and the Federal sector of the national income accounts. It is also aware that there would continue to be a difference if the Federal budget were on an accrued expenditure basis while the Federal sector of the national income accounts remained on its present timing basis.

In order to tie more closely with the way various private transactions are recorded, different categories of Federal expenditures are treated differently in the national income and product accounts. Transfer payments, grants-in-aid, and subsidies are on a checks-issued basis. Construction is recorded on a put-in-place basis, which is equivalent to accrued expenditures. Federal interest outlays are also recorded basically on an accrual basis. However, hard goods procurement—including very long leadtime items such as shipbuilding—is usually recorded on a physical deliveries basis. The method actually used by the Office of Business Economics of the Department of Commerce has the effect of making the timing basis for hard goods procurement depend both on the form of contract used by the Government (a cost reimbursement contract is treated differently than a fixed price contract) and on the type of accounting system used by those private enterprises which supply part of the data used in calculating the national income accounts timing adjustment.

The Commission believes that if the Federal budget itself were on an accrued expenditure basis a similar basis for the Federal sector of the national income and product accounts would be highly desirable and advantageous—in spite of certain inconsistencies that might arise in the national income accounts treatment of private investment. A common basis would eliminate a confusing discrepancy between the national income accounts estimates of Federal expenditures and the Federal budget itself. Therefore, the Commission recommends that the Bureau of the Budget and the Office of Business Economics pursue this objective while the conversion of the budget to the accrued expenditure basis is being developed. In order to do this, the Office of Business Economics would need certain additional data not now available. The Commission also recommends, therefore, that the Department of Defense, the Bureau of the Census, and the Treasury Department lend all possible assistance to the Office of Business Economics in deriving the necessary information.

ACCRUAL OF RECEIPTS

To be consistent with expenditures, budget receipts should also be recorded on an accrual basis. Moreover, at least in the case of most business taxes, accruals of tax liability represent a significantly more important measure of the economic impact of the budget than do cash collections of taxes. For these reasons, the Commission believes that, in principle, receipts as well as expenditures should be accrued in the Federal budget.

The Commission recognizes that the problems are somewhat greater in implementing its accrual recommendations in the case of receipts than for expenditures. In the case of expenditures, the required information will come from the Government's own accounting systems, which are required by law to be on an accrual basis. In the case of tax receipts, however, the Federal Government currently has no accounting system from which accurate measures of the accrued tax liabilities of the private sector may be extracted. At present, the Treasury only has this information when tax returns are compiled and the tax payments are actually made by the taxpayer. Thus, with present accounting, a precise measure of accrued taxes can be reported only some time after the close of any month or fiscal year.

The Commission recognizes that this problem makes it impossible to implement, at this time, accruing all tax revenues. The estimation problems of tax accrual are greatest for the individual income and employment taxes. However, for these taxes the difference between accruals and cash payments is less significant from an economic impact point of view. The difficulties are smaller (and the Commission believes manageable) for the corporation income tax, for which it is particularly important to have taxes measured on an accrual basis.

Corporation income taxes

The Commission's recommendation, therefore, is that the budget include corporation income tax receipts on an accrual basis by fiscal 1971, at the same time that accrued expenditures are included in the budget.

It is widely accepted that tax liabilities are a much more important determinant of corporate spending and financial behavior (and hence economic impact) than the cash payment of taxes. Since corporate profits (and tax liabilities) are exceptionally volatile, a time lag between accrual and payment of taxes of only a few months during an expansion or slump in the economy can produce sharp differences between the actual and apparent economic impact of corporation income taxes.

Legislation requiring more current reporting and payment of estimated taxes has substantially reduced time lags between accrual of corporation tax liabilities and the payment of corporation income taxes. Nevertheless, these time lags can still be quite significant. Furthermore, the same legislative and administrative changes which have brought corporation tax payments to a more nearly current payments basis actually operate to produce, during the period of speed-up, a sizable excess of cash payments over what otherwise would have been collected. Reporting corporation income taxes on an accrual basis during such periods will put the true yield of the corporation income tax in better perspective.

The Commission recommends that the Treasury undertake a study of possible ways to improve the basis for estimating corporation income tax accruals, with the expectation that the new system will produce data for internal review and testing beginning July 1, 1968. The Commission also recognizes that some further study by the Treasury Department is essential to work out the details of monthly reporting.

Individual income taxes and other receipts

In general, the Commission recommends reporting all receipts on an accrual basis as soon as possible. For instance, it should not be difficult to ascertain the amount of business liability for excise taxes (although there is only very slight economic significance to the minor lags between liabilities and collections for such taxes). As another example, reporting miscellaneous receipts on an accrual basis should pose no problem, since the required information should flow normally from each agency's accrual accounting system once it is in operation.

Individual income (and employment) taxes, on the other hand, cannot easily be placed fully on an accrual basis. There is, of course, no question of the existence of a tax liability at the end of an individual taxpayer's year. However, it would be difficult to estimate precisely at earlier dates the aggregate tax liability for all of the more than 60,000,000 individuals who file their final returns at a later date. As a result, it may be some time after the end of a fiscal year before the availability of final tax returns makes completely accurate revenue figures possible.

The national income and product accounts record individual income taxes essentially on a cash payment basis rather than on an accrual basis. Many economists appear to feel that, in the case of individuals, spending behavior is more strongly influenced by the cash payment of taxes than by the accrual of tax liabilities. In fact, many individuals may not be aware of the amount of their accrued tax liability prior to the preparation of their tax returns and the actual payment of tax.

Other considerations suggest that it may not be of major significance for economic impact analysis to record individual income taxes fully on an accrual basis. First, personal income and individual income taxes are not usually as volatile, relatively, as corporation profits (and tax accruals) during periods of economic expansion or contraction. Second, the larger portion of the individual income tax is withheld at the source, and comes into the Treasury with only a short time lag, especially under the new graduated withholding system.

It should be noted that if Federal receipts are only partially accrued, i.e., if individual income and employment tax receipts are not reported on an accrual basis, during periods of rapidly rising personal income—when collections lag behind accruals—total receipts would be lower and the deficit greater than would occur under a full accrual basis. Conversely, during periods of declining personal income, receipts would be higher and the deficit lower than under a full accrual basis. It is important therefore to reiterate that no one deficit figure can adequately portray the scope and impact of Federal activities. Use of such budget figures will have to be accompanied by meaningful interpretation.

In summary, the Commission believes that the question of accruing individual income taxes requires further study.

EFFECT OF THE COMMISSION'S RECOMMENDATIONS

At present, the effect on budget totals of the Commission's recommendations regarding accrued expenditures and receipts can only be estimated.

Appendix A

Table 2 shows, for fiscal years 1966–68, the approximate effect on budget totals of the Commission's accrual recommendations; Chapter 9 presents estimates in more detail for a longer time period.

In implementing the proposed changes, the Commission recommends that budget totals for years in the recent past be adjusted to be on as nearly a consistent basis as possible with the new concepts, even though precise accounting support for such adjustments is lacking. Acceptably good estimates can be made without much difficulty, as has been done in preparing the figures in Table 2 and in Chapter 9. The comparability of budget totals over a period of time is important. The Commission feels it is far better to use approximations than to have the past budget totals precise in terms of accounting support but seriously defective from the standpoint of comparisons of the budget totals for different years. More specifically, the Commission sees no objection to including, in reports of budget totals for prior years, adjustment lines below the present accounting figures and just above the budget total lines, representing estimated timing adjustments. Two timing adjustment lines would be appropriate on the receipt side, one for the excess of corporation income tax accruals over cash deposits and one for other revenues. Two timing adjustment lines would also be appropriate on the expenditure side, one for the Department of Defense and one for all the other agencies of the Government combined.

Table 2.—*Effect on the budget of changes in timing recommended by the Commission (compared to present consolidated cash budget)* [1]

[Fiscal years. In billions of dollars]

	1966 actual	1967 estimate	1968 estimate
RECEIPTS			
Excess of tax accruals over cash deposits:			
Corporation income taxes	−0. 7	−3. 9	−0. 7
Other taxes	−. 2	. 1	1. 1
Total effect on receipts	−. 9	−3. 9	+. 4
EXPENDITURES			
Change in checks outstanding and accrued interest	−. 2	1. 2	. 7
Excess of accrued expenditures over checks issued:			
Defense	2. 0	−. 6	−. 1
Nondefense	1. 7	[2] 1. 1	[2] 1. 1
Total effect on expenditures	+3. 5	+1. 7	+1. 6
Increase in budget surplus (+) or deficit (−)	−4. 4	−5. 5	−1. 2

[1] Figures in this table, to a greater extent than most other figures in this Report, are derived from statistical rather than accounting estimates, even for 1966.
[2] Represents average of available data for prior years.

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APPENDIX B

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C. 20503

BULLETIN No. 68-10 *April 26, 1968.*

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: *Reporting accrued revenues and expenditures to Treasury and the Bureau of the Budget*

1. *Purpose.* Transmittal Memorandum No. 31 to Circular No. A-11, on December 18, 1967, announced that the adoption of accrual accounting must be brought to early completion, and that agencies should take appropriate steps to install or improve systems of accrual accounting. It was also indicated that data on accrued expenditures and revenues will be brought into the central reporting system of the Treasury on an experimental basis for the fiscal year 1969 as recommended by the President's Commission on Budget Concepts, looking toward the later use of such data in budgets and public reports. The establishment of the status of each appropriation or fund at the close of business June 30, 1968, on an accrual basis, is essential to the plan. This Bulletin gives further information and instructions, so that each agency may proceed promptly to accomplish these objectives.

2. *Background.* Section 113 of the Budget and Accounting Procedures Act of 1950, as amended (31 U.S.C. 66a), requires that ". . . the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of each agency to be maintained on an accrual basis . . . ."

The principles and standards prescribed by the Comptroller General have provided further details with regard to accrual requirements. Bureau of the Budget Circular No. A-11 has for some years required the submission of cost-type budgets wherever an agency has an accrual accounting system which provides such information integrated with data on obligations and disbursements. The Treasury Department has for some years required year-end reports from agencies to reflect, by appropriation and fund, the accounts payable and other accrued liabilities, less the accounts receivable and other accrued assets. However, the principal budget tables and Treasury reports on Government outlays have been stated on the basis of checks issued and cash collected, rather than the accrual basis.

The President's Commission on Budget Concepts, in its report of October 10, 1967, recommended that:

—Accrued expenditures be used in lieu of checks issued as the measure for summary budget statements and financial reports.

—Receipts of the various agencies be similarly budgeted and reported on an accrual basis.

—Accrued expenditures be defined to include the "constructive delivery" basis.

—Use of such data be tested, beginning with the opening of the fiscal year 1969, with the expectation that the budget submitted in January 1970 be on the new basis.

—After the new concept is in use, the term "expenditures" be automatically applied to the concept which during the transition is called "accrued expenditures."

—Monthly financial reports from the Treasury be placed on the same basis as the budget, with the belief that by July 1970 such monthly accrual reports should be on the same time schedule as monthly cash reports have heretofore been.

—The cost accounts of the Government agencies be continued and refined.

—Program costs be continued as significant instruments of management, budget formulation and execution, along with assuming increasing importance in connection with appropriation requests.

The President last December accepted the recommendations of the Commission with regard to the basic concepts for the budget, directing that they be placed in effect as promptly as feasible.

The Commission also recommended that there be pursued the objective of putting the Federal sector of the national income accounts on the same basis of accruals as is recommended for the budget. This is under study.

3. *The concept of accrued expenditures and accrued revenues.* The attached statement on the concept of accrued expenditures and accrued revenues (Attachment A) is hereby promulgated for use by all agencies. The staffs of the Bureau of the Budget, General Accounting Office, and Treasury Department have prepared the attached answers (Attachment B) to a number of questions about the concept and its applications during the coming year, which have been raised in preliminary discussions with staff of various agencies. The definitions and the interpretations of the most widespread applicability will soon be incorporated in permanent instructions.

Your attention is invited to the major *changes* in the concept as compared with the current or earlier concepts and interpretations of accrued expenditures under Bureau of the Budget Circular No. A–34. Under the refined concept of accrued expenditures herein promulgated:

—Performance by the payee, through which he earns a payment from the Government, is the test to be applied. Therefore, the reporting of accrued expenditures is not to wait until physical delivery by the contractor and receipt by the Government, or until title passes to the Government in those cases where a contractor manufactures and fabricates materiel in accordance with Government instructions. Instead, the accrual in such cases is to be reported at the time of constructive delivery and receipt.

—The crucial point is the time when the money is first owed by the Government, as distinguished from the time when the money is legally "due and payable." Thus accrued expenditures include amounts equal to the liabilities for unbilled performance by the payee, and the amounts of the liabilities that have been billed to the Government.

—The concept is made explicitly applicable to the identification of amounts earned by contractors or grantees on the basis of performance by subcontractors and subgrantees, as well as the performance by the prime contractors and grantees.

—Advance payments are never to be considered accrued expenditures. They are assets, which are liquidated (and become expenditures) as they are earned by the payee. Advance payments should be distinguished, however, from deferred charges (for example, leasehold improvements) and the acquisition of inventories; the two latter terms should generally be reserved for situations where performance has already occurred, and the accrued expenditure has been recorded, even though the expense is to be recognized in the accounts in part or in whole at a later time.

With respect to revenues, the refined concept requires recognition of receivables, whether billed or unbilled, and the exclusion of unearned revenue.

The refined concept should result in similar changes in the practices of agencies in preparing reports on accounts payable, other liabilities, and receivables under Treasury Department Circular No. 965.

4. *Application of the new concepts.* Expenditure and revenue information will be recorded at the level of the appropriation, fund, or receipt account. It will not usually be required by the Bureau of the Budget (or the Treasury Department) at the level of individual activities, where applied costs (and in some cases obligations) are required. It is not a replacement for data now obtained at the object classification level. It does not change the obligation basis of appropriations or apportionments.

A principal objective in the application of the new concepts is to obtain reliable results for use by agency management and in Government-wide financial management. The ultimate test will not be the method by which the figures are derived, or the level of the agency accounting system at which they are recorded, but the reliability of the data on accrued expenditures and revenues, and on related assets and liabilities, as indicated by appropriate techniques of verification. While the concepts set forth in paragraph 3 above and in the attachments are firmly established, the criterion of materiality is applicable in the implementation of those concepts. It must be recognized that absolute precision may not be attained, and that figures originally reported as accrued expenditures, though grounded in the best information then available, may be subject to some subsequent adjustments upwards and downwards as invoices are received and examined, and as bills are paid or settled.

As in the case of earlier statements on the application of the accrual concept in Bureau of the Budget Circular No. A-34, "the best estimate" will be used where the exact amount of accrued expenditures is not known and cannot feasibly be ascertained at the time that the accrual should be recorded. However, "the best estimates" should avoid arbitrary proration of quarterly estimates into thirds for each month, and similar formula approaches; it is important that the reported accruals be a sensitive reflection of the transactions and performance which actually occur, and a mere prorating of estimates over consecutive months will not achieve this purpose.

Monthly reports on an accrual basis should normally be obtained from major payees, where the amount accruing is dependent upon sums earned (costs incurred or other performance rendered) and the measurement thereof is basically in the hands of the contractors, grantees, subcontractors or subgrantees. This will include as a minimum the State governments, and other large governmental instrumentalities, institutions, and contractors doing business with Federal agencies.

Estimating and statistical devices may be appropriate for determining accruals in those cases where such procedures will eliminate the need for getting special reports from a large number of payees with smaller contracts, grants, or other obligations from the Federal Government. Such methods will be susceptible to verification as to their validity.

However, as of the end of each fiscal year, beginning with June 30, 1968, a strong effort should be made to obtain and record full and accurate accrual information, both from within the Government structure (including interagency transactions as well as matters under accounting control of the agency itself), and from contractors and grantees. Final year-end reports must attain a high degree of accuracy, even if interim reports are not able to reach the same standards during the early months of the test period. Thereafter, regular monthly reports should be as close to the accuracy of final year-end reports as possible, considering that reporting deadlines will be tighter than at year-end.

5. *Accrual accounting generally.* While the major emphasis of this Bulletin relates specifically to obtaining reasonably accurate and timely figures on accrued expenditures and revenues, the efforts to implement it should be carried out as part of the financial management program in accordance with the overall principles and standards for accrual accounting prescribed by the Comptroller General. That is, data on accrued expenditures and revenues should be properly integrated with information on cash transactions, on applied costs, on obligations, and on other facets of agency finances.

Improvements in agency information on accrued expenditures and revenues should be accompanied by attaining more accurate data on applied costs, and by exerting better accounting control over assets and liabilities.

The accrual accounting system should serve managerial needs of the agency, as well as assist in serving overall Government purposes. Program and operating personnel should be encouraged to understand and utilize the accounting system results. In the case of grants and contracts, the same reports on financial performance and status should serve the program personnel and the financial management system. In some cases, financial data on the use of grants and on progress under contracts now reach an agency, but do not reach the accounts. Corrective action can make financial management better serve the needs of program review.

6. *Action program for each agency.* The head of each agency will see that steps are taken promptly and competently as follows:

a. To provide for a comprehensive and reliable "inventory" of accrued assets and liabilities as of June 30, 1968, in accordance with the definitions and interpretations in this Bulletin. The phrase "accrued assets and liabilities" in this case refers to accounts receivable, advances outstanding, accounts payable, unearned income, and accrued funded liabilities not otherwise classified. The results will be established in the accounts of the agency, and be reported to the Treasury in accordance with its instructions.

b. To make accounting system adjustments, to the extent needed under this Bulletin, and in accordance with General Accounting Office principles and standards. Where systems have not yet been approved by the Comptroller General, the requirements of this Bulletin will be worked into those systems prior to submission for approval. Where an accounting system has already been approved, proposed changes will be submitted to the General Accounting Office.

c. To take necessary steps immediately, both internally and with regard to contractors and grantees, so that there can be timely compliance with Treasury's reporting instructions on accruals and related data, beginning with transactions for the month of July 1968.

d. To require a review of procedures by financial management staff during the fiscal year 1969, and the adoption of such additional action as needed to facilitate the obtaining of better accrual data in a more timely manner and with lesser effort than may be possible in the first months of the year.

e. To provide for a verification of accrued assets and liabilities as of June 30, 1969. Where the accounting system clearly contains imperfections, a comprehensive accurate inventory may be appropriate. Where the system is in operation and appears to be functioning smoothly, normal verification techniques should be utilized to the extent deemed necessary.

7. *Actions of central agencies.* The Treasury Department and the General Accounting Office will shortly issue additional appropriate instructions relating to this subject. The definition and interpretation of accrued expenditures in Bureau of the Budget Circular No. A-34 *are superseded* by those contained herein; the Circular will be revised subsequently.

The three central financial management agencies have invited several of the operating agencies to join in creating some temporary working groups to propose ways of applying the concepts of this Bulletin in certain areas of common interest—particularly, major contracts which involve constructive delivery, grants-in-aid to other levels of government, and financial relationships with educational and other institutions. The results of these explorations will be made known as soon as possible, and supplementary or amendatory instructions will be issued as necessary.

The working groups will be in contact with, and seek advice from, representatives of private industry, of other levels of Government, and of institutions. It is also expected that the proposed further regulations, so far as they affect other levels of government, will be offered for comment through the customary channels of the Advisory Commission on Intergovernmental Relations.

During the forthcoming year the Bureau of the Budget and the Treasury will review various reports now required. While there will temporarily be some necessary overlapping between the new reporting requirements and the older reports, the objective will be to integrate the reports and eliminate such overlapping as soon as practicable. In the meanwhile this Bulletin should not be construed to revoke existing reporting requirements.

CHARLES J. ZWICK,
Director.

Attachments

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Attachment A
Bulletin No. 68–10

The Meaning of Accrued Expenditures and Accrued Revenues

(Under the new budget concept transactions are divided between the expenditure account and the loan account. The concept of accrued expenditures and accrued revenues relates only to the expenditure account; the loan account is measured by checks issued in disbursement of loans (less write-offs, all of which are chargeable to accrued expenditures) and loan repayments collected. A few loan programs have by definition been placed within the expenditure account; until further notice they will also be accounted for and reported on the basis of checks issued and repayments collected. The respective totals in the expenditure account will be referred to as "accrued expenditures" and "accrued revenues" even though they will include some loan programs stated on the checks-issued and cash-collected basis.)

Accrued Expenditures

Accrued expenditures are the charges incurred during a given period requiring the provision of funds for: (1) Goods and other tangible property received, (2) Services performed by employees, contractors, grantees, lessors, and other payees, and (3) Amounts becoming owed under programs for which no current services or performance is required (such as annuities, insurance claims, other benefit payments, and a few cash grants).

Expenditures accrue regardless of when cash payments are made, of whether invoices have been rendered, or, in some cases, of whether goods or other tangible property have been physically received. The portion of any such expenditures which is unpaid at a given point in time is a liability. The portion of payments made for which the expenditure has not accrued (such as, advances) is an asset.

Accrued expenditures, obligations, and disbursements become identical in amount over time. The differences in measures are differences in the timing of the events.

The concepts of *performance* and *earnings* are critical to the definition of accrued expenditures. When a contractor, vendor, or other party performs for the Government, earnings have accrued to him and the expenditure should be recognized at that time.

Accrued expenditures include both expired and unexpired costs. Basically accrued expenditures measure receipt of goods and services by the Government, whereas applied (expired) costs reflect the use and consumption of goods and services by the Government.

The charges for accrued expenditures are normally matched by one of the following credits:

a. Reduction of cash with Treasury—when disbursement is simultaneous with expenditure.

b. Reduction of advances—when disbursements were made prior to the expenditure.

c. Increase in accounts payable or other accrued liabilities—when disbursements will be made subsequent to the accruing of the expenditures.

Constructive receipt of goods or other tangible property, rather than physical receipt or the passing of legal title, is the measure of the accrual in certain cases. When a contractor provides goods to the Government which he holds himself available to sell to others, the accrual occurs when physical delivery by the contractor and receipt by the Government takes place and title passes (that is, when goods are either delivered to the Government or to a carrier acting on behalf of the Government). However, when a contractor manufactures or fabricates goods or equipment to the Government's specifications, constructive receipt occurs in each accounting period when the contractor earns a portion of the contract price, and the accrual takes place as the work is performed. Formal acceptance of the work by the Government is not a test.

The accrual basis, among other things, measures what is owed between the parties, whether or not it is "due and payable" as soon as it becomes owed. In general, the Government does not owe on its obligations until performance takes place on the part of the other party; it does not owe on goods and equipment of a type sold generally until physical delivery has been made. However, once performance occurs, the Government owes for it, even though it has not yet been billed by the other party.

Advance payments including prepaid expenses are assets; they are not accrued expenditures. They develop into accruals only as the money is earned by the payee, at which time the advance outstanding becomes reduced and the accrued expenditure is recognized. If an advance is neither earned by the payee nor returned, it becomes an accrued expenditure when its uncollectibility is determined, at which time it should be recognized in the accounts. However, "deferred charges" which extend over a substantial period of time are counted as accrued expenditures at the same time and in the same manner as the acquisition of inventories and long-term assets (for example, leasehold improvements).

In some cases the performance required by the Government is directed toward a third party rather than to the Government itself (for example, a contract for medical services to be rendered to patients, or a grant for welfare payments). Even in such cases, the timing of the performance determines the time when the money is earned and thus the time when it becomes an accrued expenditure.

Where a contractor, a grantee, or even another Government agency (to which there is an obligation or an advance payment) performs through a subcontractor, subgrantee, or other party, it is necessary to determine the timing of such performance—generally following the same rules as if the principal had performed directly. Therefore, in a cost-type contract requiring specific performance according to Government specifications, the contractor's earnings, and therefore the Government's accrued expenditures, will be measurable, at least in part, by the amounts of the subcontractors' costs and a pro rata share of fees in a given period. In the case of a fixed-price contract, requiring specific work according to the Government's order, the accrual is measured by the earnings of the

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In those cases where Congress has permitted liabilities to accrue without being charged to the balance of an appropriation, a fund, or a contract authorization, the liability is considered "unfunded" and no accrued expenditure is recorded or reported until the time that the liability becomes funded. Accrued annual leave of employees is a principal example.

On the other hand, liabilities and accrued expenditures which are normally funded are to be recorded and reported promptly, even if they cause the recorded accrued expenditures to exceed available funds. The concept of accrued expenditures must not be modified, and full disclosure prevented by the circumstances that expenditures were larger in total than had been authorized. Necessary corrective and reporting actions should be taken whenever such a violation of law has occurred.

Accounting for accrued expenditures should be accompanied by full and accurate accounting for assets and liabilities on an accrual basis. Also, accrued expenditures should be accounted for in relation to obligations; adjustments in expenditures sometimes affect cumulative obligations, because, on a cumulative basis, accrued expenditures for an account cannot exceed obligations incurred.

The relationship for any given accounting period between accrued expenditures and certain other concepts may be expressed by formulas such as the following:

1. Relationship to disbursements:

   Disbursements
   MINUS increase in advances outstanding
   PLUS increase in accounts payable and accrued liabilities
   EQUALS accrued expenditures

2. Relationship to obligations incurred:

   Obligations incurred
   MINUS increase in undelivered orders and unperformed contracts and grants (whether paid or unpaid, billed or unbilled)
   EQUALS accrued expenditures

3. Relationship to applied costs:

   Applied costs
   PLUS increase in inventories
   MINUS depreciation for the period (if applicable)
   MINUS increase in unfunded liabilities (e.g., accrued annual leave)
   EQUALS accrued expenditures

Accrued Revenues (Other Than Taxes)

Accrued revenues are the credits earned during a given period which are a source of funds, resulting from (1) Services performed by the Government, (2) Goods and other tangible property delivered to purchasers or their agents, (3) Amounts becoming owed for which no current performance by the Government is required (such as fines and forfeitures levied, interest accruing on loans and premiums earned on Government-operated insurance programs), and (4) Amounts collected in cash in the case of gifts to the United States.

The concepts of *performance* and *earnings* are vital to the definition. The revenues are earned by the Government and are owed to the Government as performance occurs, regardless of the timing of collection or even of whether billing has occurred. Receipts collected in advance of performance are unearned revenue (deferred income) until performance occurs, and develop into accrued revenues as the money is earned by the agency concerned.

The concept is applicable to revenues of all types of funds included in the budget, including appropriation reimbursements. Where revenues will be credited upon collection to an appropriation account for a year that has not yet started, the accrual will be accounted for and reported under the symbol of the future account in the period in which the earnings actually take place.

Some revenues earned by the Government prove to be uncollectible. Such amounts should be excluded from the accrued revenues. The normal method of doing this is to reduce the accrued revenues on an estimated basis as the money is earned, and concurrently establish an allowance for possible losses on collections. Write-offs which are not charged to such an allowance, or special adjustments to such an allowance, should be treated as adjustments to accrued revenues in the period when they are recognized in the accounts.

Accountng for accrued revenues should be accompanied by full and accurate accounting for assets and liabilities on an accrual basis. Wherever orders received are used as a basis for obligating, as is permitted for interagency transactions where the orders are a valid obligation of the ordering agency, accrued revenues should be appropriately related to such orders through an account for unfilled customer orders.

The relationship for any given accounting period between accrued revenues and certain other concepts may be expressed by formulas such as the following:

1. Relationship to cash receipts:

    Cash receipts
    PLUS increase in accounts receivable
    MINUS increase in unearned revenue
    EQUALS accrued revenues

2. Relationship to customer orders received (in the case of interagency transactions):

    Customer orders received
    MINUS increase in unfilled customer orders (whether collected or uncollected)
    EQUALS accrued revenues

9

ILLUSTRATIVE

ACCOUNTING PROCEDURES FOR FEDERAL AGENCIES

ACCOUNTING FOR ACCRUED EXPENDITURES

UNITED STATES GENERAL ACCOUNTING OFFICE

1969

QUESTIONS AN
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The convention of materiality should be applied to exclude the need for refinement on small items. For example, it is not anticipated that an agency will ordinarily record as an advance the prepayment of subscriptions to periodicals. Similarly it may not be necessary to segregate as unearned revenue the occasional small collections received toward the close of a month in payment for reproductions of records, etc., which will be accomplished during the following month.

Nor is it necessary to seek absolute precision on larger amounts being due, provided that the probable deviation from exactness is immaterial, and that the overall results are reasonably reliable.

On the other hand, where the aggregate of expenditures or revenues accrued is significant, even though composed of a number of small items, the total will require explicit recognition. For example, if the aggregate of a thousand small transactions represents $100 million of accrued expenditures, it is clearly a material amount and the estimate of the aggregate should be included, even though no one transaction is very large. Similarly, for an account that has a significant sale of subscriptions to Government periodicals, the unearned revenue at any given time may be significant enough to require recognition by an aggregate entry in the accounts, thus resulting in placing the total accrued revenues on the correct basis of sums earned.

There should be adequate documentation received or established as a basis for all accounting entries and reports. The documentation may be at whatever organizational level is deemed most suitable by management, but it should be subject to verification.

APPENDIX B

ATTACHMENT B
Bulletin No. 68–10

QUESTIONS AND ANSWERS ON THE CONCEPT OF ACCRUED EXPENDITURES AND ACCRUED REVENUES

[In preliminary discussions of the accrual concept with staff of various agencies, a number of questions have been raised. Many of these questions are shown below, together with the answers suggested by staffs of the Bureau of the Budget, General Accounting Office, and Treasury Department.]

1. *Question:* Will accrued expenditures be necessary at the level of budget activities?

Answer: It is not expected that accrued expenditure data will normally be required by the Bureau of the Budget or the Treasury Department below the appropriation level, although occasionally the functional or other Government-wide classifications used by the Bureau of the Budget may require a few splits of data below the appropriation level; such needs will be made known as they arise.

Applied cost information is needed at the budget activities level, in accordance with Bureau of the Budget Circular No. A–11. For many kinds of transactions, applied costs and accrued expenditures are identical; however, they are not the same for items passing through inventory. The operation of a joint-use inventory for more than one budget activity within an appropriation would not normally permit the splitting of accrued expenditures by activity, and such splitting is therefore not anticipated.

2. *Question:* Is the accrual basis to be applied to the foreign currency (FT) accounts?

Answer: Yes. It is applicable to all Government accounts. However, its installation with respect to foreign currency accounts is of lower priority than with regard to dollar accounts, since the transactions in the foreign currency accounts do not enter into the budget totals and therefore monthly reporting to Treasury on an accrual basis is not required for these accounts. The introduction and refinement of the accrual basis in the foreign currency accounts may therefore be deferred until later in the fiscal year 1969.

3. *Question:* We have a cutoff of the 25th of the month for accounting and reporting from contractors and stations in order that we may make timely reports shortly after the end of the month. Transactions after that date are included in the next month's report. Is this acceptable?

Answer: Financial reports for the month, forwarded to Treasury or others outside the agency, should cover the total transactions of the month. Two alternatives may be used:

a. The preferable method is to keep the accounts open through the end of the month, and make strong efforts to speed up the processing of reports in the early days of the following month so as to meet reporting deadlines. This is especially desirable with regard to the monthly closing of station accounts.

b. A less preferable method is to continue an early closing date for some contractors, but require that there be included as an estimate the additional accruals occurring between the closing date and the end of the month. Such treatment might mean that the estimate should be recorded in the accounts at the time of the early closing, and reversed at the beginning of the following month.

4. *Question:* What procedure shall we follow if reports from some accounting stations are delayed?

Answer: It is hoped that firm instructions will be given to accounting stations to initiate their reports in time to allow for slight delays in the mails. It is not reasonable to assume next-day or second-day delivery of all domestic mail, and agency processing schedules should allow appropriate leeway. Even so, there will be some occasions when station reports are missing, particularly in cases of stations in foreign countries. In such situations the central office of the agency should include in its reports, on behalf of the missing station or stations, its best estimates for the accounting period. The actual report should be obtained and processed as soon as feasible, and corrections effected with the Treasury, in accordance with procedures announced by the Treasury, before the next report is due.

5. *Question:* Will additional time be given for closing the accounts at the end of a fiscal year, in order that the accrual data may be refined?

Answer: It is anticipated that regular reporting deadlines will be observed every month including at the end of the year, but that in addition there will be some refinement and revision in the accounts for a few weeks after the regular June report is made. For other reasons, not connected with the change to the accrual basis, it is quite likely that the present September 30 cutoff for finalizing status of appropriation and fund accounts for reporting to Treasury will be changed to an earlier date. In preparing their procedures, agencies should contemplate accomplishing the final closing of their accounts with a consolidation of summary data within 60 days after the end of the fiscal year. The adjustments that occur between the regular June report and the final closing should be minimal; the system will not be functioning correctly if there are substantial additions to or deductions from expenditures to be accomplished as a part of the final adjustments.

6. *Question:* Is accrued annual leave to be included as an accrued expenditure?

Answer: In most cases, no. For nearly all appropriations, accrued leave is an unfunded liability until the time that it is taken or becomes payable as terminal leave. For most revolving funds, leave currently accruing is treated as a funded liability, and as such is reportable as an accrued expenditure. The basic answer is: accrued leave is to be reported as an accrued expenditure only to the extent that it is "funded".

7. *Question:* How can we get precision for such items as travel? While we know the amount obligated for travel orders by the end of the month, we will not know the amount to be reimbursed for travel claims until they are presented in the following month, and the amount of carriers' claims even at that time may be subject to change later as their invoices are examined.

Answer: Absolute precision is not expected. On a cumulative basis, accrued expenditures should include the amounts audited and paid for travel performed, and the most reasonable estimate for travel performed which

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8. *Question:* This same principle is applicable to other types of transactions such as communication services and utility services. What procedure should be followed where the billing cycle of the payee does not correspond to calendar months? Many telephone and utility bills are rendered 12 times a year, but the billing period does not correspond to calendar months.

Answer: It is permissible to equate monthly billing periods that do not correspond with the calendar month with the accrued expenditures for the calendar month in which the billing period ends, in those cases where a similar obligation transaction is recorded, and where neither the differences in the month's transactions nor in the amounts of the liabilities are likely to be material. (Note, however, that this practice is not permitted for personal services; the accrual practice must cover the earnings through the end of the month.) However, if the accrued liability for communication and utility services performed for the portion of the month between the end of the billing period and month-end is material, provision should be made for recording it as an obligation, an accrued expenditure, and an applied cost.

9. *Question:* With regard to transportation which is incomplete at the end of a month, when should the accrual be reported? This question is applicable to both passenger and freight transportation.

Answer: It is preferable to record the transportation as an accrued expenditure in the accounting period in which it begins. If the amount of unperformed transportation is not likely to be material, the accrual might even be recorded when the bill of lading is issued or the transportation request is exchanged for tickets.

10. *Question:* How should we treat advances to revolving funds, such as those of the General Services Administration?

Answer: These should be accounted for as advances until performance occurs, when they become accrued expenditures. When the performing agency performs or makes delivery to the ordering agency, its revolving fund would reflect accrued revenues and the ordering agency would reflect an accrued expenditure of the same amount. In those cases where the other agency (say, GSA) contracts with an outsider (for example, a building contractor), its revolving fund would reflect accrued expenditures based on the contractor's performance, and accrued receipts of an equal amount at the same time based on the "sale" of the services or material to the ordering agency; the ordering agency would reflect an accrued expenditure at the same time, reciprocal to GSA's accrued revenues.

11. *Question:* How should advances to consolidated working funds be treated?

Answer: These should also be treated as advances, not as accrued expenditures, until performance occurs. The agency administering the consolidated working fund should treat the amounts as deferred income and report promptly each month to the ordering agencies the amounts to be treated as an accrual between the two agencies for the month. Exceptions may be made for small amounts which are considered immaterial, by agreement between the two agencies; however, neither agency should act unilaterally in concluding that an interagency payment is to be treated as an accrual instead of an advance because of its small size.

12. *Question:* Would payments for the cost of interagency boards and committees follow a different rule?
Answer: No. In general, they should follow the same rules indicated above for consolidated working funds.

13. *Question:* What arrangements should be made in the case of allocation (appropriation transfer) accounts?
Answer: Allocation accounts in effect represent a subdivision of an appropriation or fund. Allocation accounts are combined with the parent account in the budget and in the Monthly Treasury Statement. It is preferable to establish the same type of relationship as might be established between a headquarters and a field office, with one or more linking accounts on a reciprocal basis. The transactions of the allocation accounts should be summarized along with the transactions of the parent account, in accordance with Budget Bureau regulations, when needed for reports and budgets. Under Treasury regulations, the allocation accounts may be reported separately by the performing agency in certain cases, and the Treasury accomplishes the combination of these with the parent accounts.

14. *Question:* To what extent should accrued expenditures be adjusted retroactively? For example, an accrual in January is overlooked and becomes known only in March. Or, an accrued expenditure reported in January on the basis of the estimated value of performance may be paid in March at a different amount, on the basis of the invoice received and/or adjustments made during the examination of that invoice. Should the January figures be restated?
Answer: No. Information becoming known in March will usually be treated as a March entry. The difference between the amount originally accrued as an expenditure and the net amount ultimately paid will enter into accrued expenditures of the month in which the adjustment becomes known. Accounts for prior months will not be reopened to make such adjustments, except at the end of the year when June accounts should be held open to record accruals, cancellations and adjustments reaching the accounting center after the preliminary reports have been made but before final reports are made. Even for June, it is not necessary to adjust year-end accruals for minor differences between recorded accruals and payments of those transactions; such adjustments, unless significant, can be treated as transactions of the new fiscal year. Where the accounting system contemplates the identification of accrued expenditures by the primary use of cash figures together with a change in certain assets and liabilities, the adjustments described here will be automatic. Where the accounting system derives accrued expenditures directly, provision must be made for recording the adjustments when actual liabilities are determined, and cash payments made or advances liquidated.

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15. *Question:* We had set up our plans on the basis of making certain accruals only on a quarterly basis. Would this be acceptable for a substantial number of items which are individually relatively small?

Answer: No. It is necessary to record an accrual each month. However, estimating methods might appropriately be used in some situations, taking account of all factors known to be relevant, and subject to correction as more accurate information becomes available. Such shortcuts are applicable primarily when individual items are relatively small. Where amounts are significant, it is important that the reported accruals be a sensitive reflection of the transactions actually happening, and a predetermined prorating of estimates over consecutive months will usually not be satisfactory.

16. *Question:* In those cases where goods are bought out of a warehouse or off the shelf, does the accrual occur at the time that delivery is made to a carrier, or at the time the carrier makes delivery to the Government?

Answer: Technically, the accrual to the seller occurs when he makes delivery to the carrier, if the circumstances make the carrier an agent of the United States. If, instead, the carrier is an agent of the vendor, the accrual occurs when delivery is effected to the agency. In general, the controlling circumstance is not the choice of a Government bill of lading versus a commercial bill of lading, but the terms of the purchase order or contract (that is, did it call for the vendor to make delivery to us or to a carrier?). However, as a practical matter, it will usually be sufficient to record accruals during the year (for this type of purchase) on the basis of deliveries received by the agency.

17. *Question:* Suppose that on a cost-type contract the contractor subcontracts several portions of it, and the subcontractors in turn arrange for part of the work to be done by other firms, involving a chain of contracting arrangements that may run to several levels. What is really expected in terms of getting timely reports on earnings through a whole chain of contractors?

Answer: In many cases it will not be feasible to establish a monthly reporting chain to the last possible level of subcontractors. However, the accrued expenditures reported should represent the best estimate of the amounts earned, whether or not they are known specifically and supportable in detail in the prime contractor's books at the end of the month. A possible test is this: If the contract were terminated at the end of the month, how much would the Government owe for work already performed by the contractor and all subcontractors, aside from penalties and cleanup costs relating to termination?

18. *Question:* Can the Government require a contractor to report his costs under a firm fixed price contract?

Answer: It is not necessary to ask the contractor to report his costs under these circumstances. The information needed for our accrual accounting is the contractor's earnings, not his costs; the Government can appropriately ask him to report his earnings, based upon the percentage of completion of the contract, on those contracts where his performance is specifically to meet requirements of the Government and at the Government's direction.

19. *Question:* Our experience indicates that on certain types of contracts (for example, those with renegotiation provisions), contractors gen-

erally claim more earnings than the amounts for which settlement is ultimately reached. Should we recognize the total amounts claimed each month as an accrued expenditure?

Answer: The agency may appropriately utilize its experience to establish an allowance (a reduction in the accrued expenditures) for excessive claims that will likely not be paid. It will probably be more satisfactory to operate this allowance (like valuation allowances on assets) in relation to a group of contracts rather than to seek to identify an amount to be discounted on each individual contract.

20. *Question:* Are we to rely basically on how a cost-type contractor records a transaction—that is, treat his current earnings as an accrued expenditure if he records revenue, but do not do so if he doesn't?

Answer: No, not with outside contractors. The Government's treatment of a transaction is not dependent on whether the contractor picks up the transaction as revenue each month or leaves it as work in progress in his accounts until the job is completed. The agency must accrue the expenditure on the basis of contractor performance in the case of contracts which require his performance to the Government's order, as distinguished from cases where the contractor holds himself out as selling the product generally. Agency procedures should provide methods of determining the performance that has occurred and the portion of the purchase price represented by that performance month by month.

21. *Question:* In the case of construction jobs does the Government have an accrued expenditure for material brought to the site but not yet put in place?

Answer: The timing of the accrued expenditure depends upon the terms of the contract. Where the contractor is deemed to earn a portion of the contract price only as work is put in place, the accrued expenditure must be recorded accordingly. Where the contractor's performance and earnings include the delivery to the site of certain materials which the contractor then "appropriates" to the job, the accrued expenditure should properly include the price of such materials.

22. *Question:* We use the letter-of-credit procedure for many grants. Can we count the disbursements on letters of credits as accruals?

Answer: Neither the issuance of the letter of credit nor the disbursement on a letter of credit can be counted as an accrual. The letter-of-credit device is a means of handling payments, not a means of handling accruals.

23. *Question:* If advances for grants are handled on a "pooled" basis by the grantee, how should the accrued expenditures be distributed to the funding accounts?

Answer: This question relates more to the theory of pooling than it does to accrued expenditures. However, with a pooled arrangement it is necessary to determine the costs ultimately chargeable to the various funding appropriations. Since costs and accrued expenditures are likely to be concurrent in the case of grants in cash, the principles adopted for cost application can probably be applied equally well to the distribution of accrued expenditures.

24. *Question:* We make some grants and loans in kind—through current purchases. When should the accrual be reported?

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Answer: If the purchase is made on the Government's purchase order or contract, the relationship between the Government and that party must be recognized, even though another party is a grantee or borrower in the transaction. In such cases, the accrual should be reported as an expenditure when the vendor or contractor performs, in the same manner as if he were making delivery to the agency directly. These cases therefore differ from grants or loans which are made in cash, in which the timing of the accrual depends primarily upon the status of the transaction between ourselves and the other party. However, if the grantee or borrower is the purchaser of a commodity from a third party, and assigns his payment from the United States to the third party, the accrual is based upon the relationship between the agency and the grantee or borrower, and the performance by the third party is not relevant.

25. *Question:* How should we handle grants which do not require performance?

Answer: It should be noted that the number of domestic grants of this type to the States, counties, and cities is especially small. Nearly every "categorical grant" requires some type of performance as the basis for the grant. However, a possible example to conform to the question is the annual grant of $50,000 to each State and to the Commonwealth of Puerto Rico for "Colleges for agriculture and the mechanic arts"—a program appropriation in which the specified amount is paid without any specific showing of need, any submission of a plan for the use of the money, any separate accountability, or any reporting on how the money was used. In the rare cases of this type where the payment is clearly gratuitous for general financial support, and unconditional in nature, the accrual may properly be recorded on the basis of cash disbursements.

26. *Question:* How should we handle the sharing of revenues with States or local governments (for example, the return to the States of 12½ percent of grazing fee receipts on certain Federal lands within their boundaries)?

Answer: The method of handling these depends upon the law, although the rules are generally the same as for grants. In most cases of shared revenues there is no requirement as to performance and no showing is required from the recipient, either before or afterwards, as to its use of the money. In these cases the accrual may properly be recorded on the basis of cash disbursements. If some performance is required then, of course, the accrual will be based upon such performance.

27. *Question:* We give monthly stipends to individuals to assist them in going to school. What evidence of "performance" is necessary for carrying out the accrual concept?

Answer: None. It is assumed that the agency has some method of ascertaining that the individual is attending school, but it would not seem practicable to carry the accrual concept to any special degree of precision in cases such as this. If the stipend is given in the month for which it is applicable, there would be no objection to treating the disbursement and accrued expenditure as concurrent. If the stipend is given in advance of the month for which it is applicable, it would be desirable to set up an advance account, but there would be no objection to liquidating the advance account *en bloc* for the month without demanding individual performance reports as a condition for doing so.

28. *Question:* Our grants go to 20,000 school districts (or, our contracts go to 20,000 contractors). Our workload would be too great to get monthly reports from each of these, and many would probably not comply. What do you propose that we do?

Answer: Noncompliance with reporting requirements should not be condoned. As a party to the contract or as a grantor, the Government may require and obtain necessary and reasonable monthly reports as a condition of continuing the contract or the grant.

However, the question has identified a practical problem which needs to be dealt with in a practical manner. Two alternatives are suggested. On either of them an agency should get appropriate professional advice, and its procedures will be subject to review and approval of the General Accounting Office in connection with its review and approval of accounting systems:

(a) If a relatively small number of the payees account for a large proportion of the payments—for example, if the 100 largest contractors cover 80 percent of the payments—the agency should get monthly performance reports from each of these large payees, and it may properly draw upon experience and judgment to make an estimate of the accruals, otherwise unrecorded, with regard to the remaining smaller proportion of the total lot.

(b) If no reasonable number of payees account for a predominant part of the total payments, statistical sampling techniques might be considered: that is, monthly performance reports might be obtained from a limited number of the payees, provided that the size and nature of the sample is appropriately drawn. In such cases it will be necessary to carry on the sampling periodically, since no one period of the year is necessarily indicative of the levels or volumes of activity in the remainder of the year, and since too infrequent sample reporting might cause estimated results to fail to reflect new developing trends.

An agency might choose to use one alternative for some programs, the other alternative for others. An agency might also select still other methods of dealing with the problem subject to obtaining the approvals mentioned above.

29. *Question:* We must pay interest semiannually on certain borrowings (or on moneys deposited with us). Is it permissible to accrue this only on the due dates?

Answer: Interest should be accrued as it is earned, month by month, and not merely at semiannual or other periodic intervals when it becomes due to lenders or is credited to depositors' accounts.

30. *Question:* The Post Office sells stamps and obtains revenue from setting postage meters somewhat in advance of performance. Is it necessary to recognize a distinction between accrued revenues and cash receipts in such cases?

Answer: To the extent that an agency obtains receipts in advance of performance, and the unearned balance of such advance collections is material, it should be recognized as deferred income until it is earned. In cases of this type it is common to expect that a portion of the receipts collected will never require performance—stamps will be kept by philatelists, lost, etc., just as a local transportation company may assume that some bus tokens it sells will never be used. It is appropriate to include in the accrued revenues, rather than as unearned revenues, the portion of the current collections which it is expected will never require performance by the Government.

31. *Question:* Are some Federal agencies small enough to avoid application of these rules under the principle of materiality?

Answer: No. The rules are to be applied for each agency and for each appropriation or fund symbol. The concept of materiality is applied separately for each accounting entity and therefore differs according to relative size.

32. *Question:* Some of our reports from contractors and grantees presently combine program status and financial information, and go to program offices rather than the accounting staff of the agency. By your references to getting the financial data to the accounting staff, are you suggesting that program statistics and financial data be separated into different reports?

Answer: No. A combination of program statistics and financial reports on performance is often desirable. While the immediate emphasis of this effort is to obtain timely and accurate information on financial performance for use in the accounts and reports, nothing herein should be construed as minimizing the usefulness of program statistics or as seeking to separate them from financial data.

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TREASURY FISCAL REQU
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TRANSMITTAL LETTER

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APPENDIX C

TREASURY DEPARTMENT
FISCAL SERVICE
BUREAU OF ACCOUNTS
WASHINGTON, D.C. 20226

OFFICE OF THE COMMISSIONER

TREASURY FISCAL REQUIREMENTS MANUAL FOR GUIDANCE OF DEPARTMENTS AND AGENCIES

June 20, 1968.

TRANSMITTAL LETTER No. 18

TO HEADS OF GOVERNMENT DEPARTMENTS AND AGENCIES AND OTHERS CONCERNED:

1. *Purpose.* This Transmittal Letter states preliminary requirements for reporting to the Treasury in connection with a Government-wide test of capability and progress toward implementation of the recommendation of the President's Commission on Budget Concepts that budget revenues and expenditures be stated on the accrual basis.[1] These requirements are within the framework established by Bureau of the Budget Bulletin No. 68–10, and the concepts and definitions stated in that Bulletin are fully applicable. Based on the experience in the test operations, these requirements will be incorporated in the Treasury Fiscal Requirements Manual.

2. *Accrual Data in the Treasury's Central Accounts.* When the test results warrant adoption of the accrual basis for stating budget results, the Treasury will integrate the accrual data into its central accounting system. As background for the specific requirements outlined in this memorandum, there follows a brief description of the elements of the present system and the way in which accrual data would be incorporated.

The present central accounting system is a fully integrated system embracing all of the Government's cash operations. The system links the Treasury, as a financial center, with all operating agencies through the transactions that are common to both—appropriations enacted, money received and money disbursed. The system discloses:

(a) through the link between accountable officers and the Treasurer of the United States, the balances of the Government's cash assets in the Treasury and outside the Treasury, including cash in transit, and the liabilities for checks outstanding, and

(b) through the link between accountable officers and the operating agencies, the amounts of receipts and disbursements affecting the unified budget, and the liability balances for Federal securities outstanding and deposit funds.

[1] The term "accrual basis" as used herein, for purposes of the Federal Budget, does not include distinctions between capitalized and expensed elements, which distinctions of course are essential for accrual accounting in internal agency financial management.

Coordinate with the foregoing, and with the additional Treasury-agency link established through the issuance of appropriation warrants by the Bureau of Accounts, all transactions affecting individual appropriations and funds are assembled to disclose the undisbursed balance of every appropriation and fund. The undisbursed (credit) balance for each appropriation and fund on the central books is reciprocal to the asset balance for each appropriation and fund on every agency's books representing its "cash" authority to draw on the Treasury.

The present system described is an indispensable foundation for whatever step in the chain of financial events is defined as representing a revenue and an expenditure for the purpose of measuring budget results. When valid data on accrued revenues and expenditures are generally available from agencies, and on a basis that is sufficiently timely, the central system will be extended to the accrual basis by building on this existing foundation. This will be done by (a) combining net disbursements (which are to continue to be reported for individual appropriations and funds) with related balances of the "bridge" accounts for assets (receivables, advances and prepayments) and for liabilities (payables and unearned revenues); and (b) combining net cash receipts (which are to continue to be reported for each receipt account) with related balances of the "bridge" accounts for assets (receivables) and liabilities (accounts payable). For example:

Net cash receipts (receipt accounts)
\+ Balance of applicable asset accounts, end of period
− Balance of applicable asset accounts, beginning of period
− Balance of applicable liability accounts, end of period
\+ Balance of applicable liability accounts, beginning of period
= Net accrued revenues (receipt accounts)

Net disbursements (appropriation and fund accounts)
\+ Balance of applicable liability accounts, end of period
− Balance of applicable liability accounts, beginning of period
− Balance of applicable asset accounts, end of period
\+ Balance of applicable asset accounts, beginning of period
= Net accrued expenditures (appropriation and fund accounts)

At the appropriate time in the future, consideration will be given to the feasibility and desirability of modifying the overall system for a direct reporting of accrued revenues and expenditures, by appropriation, fund and receipt account (without having to report cash receipts and disbursements at those individual account levels), provided, of course, that this has legal sanction.

3. *Form of Monthly Report.* The monthly report formats prescribed are illustrated in Attachments "A" and "B" to this transmittal letter. Attachment "A" deals with the preparation of reports relating to appropriations and funds (Form BA–6727) and is to be at the aggregate level for each head of appropriation or fund (without fiscal year designation for annual or no-year accounts). Attachment "B" illustrates the report relating to receipts (Form BA–6728) and is generally to be: (1) at the aggregate level for each major class of general fund receipt accounts; (2) a single report for all special fund receipt accounts combined; and (3) a

single report for all trust fund receipt accounts combined. In some cases an agency may be specifically requested to report at the aggregate level of an individual account symbol. In addition, it is anticipated that final year-end reports may eventually be required at the individual account symbol level for appropriations, funds and receipt accounts.

These monthly reports (to be received by the Bureau of Accounts from the Headquarters level of the agency) must be systematically coordinate with the monthly statements of cash-basis transactions (SF 224, SF 1220 and similar report forms) which will continue to be received by the Bureau of Accounts from the established accounting station levels of the agency.

In addition to providing the data needed for integrating accrued revenues and expenditures into the Treasury's central accounting and financial reporting system, the reporting forms are designed to provide disclosure of accrual data integration within agency accounting systems. This is an essential aspect of these requirements. Because accruals are not subject to the same kind of central controls as cash transactions (through the interlocking accounts of operating agencies, accountable officers and the Treasurer of the United States—all tied to actual cash balances) it is essential that they be disciplined through disclosure of the balanced interrelation of key general ledger account balances.

The balances required on the two forms are presently reported to the Bureau of Accounts at various times for other purposes. This will be reviewed in the future in order to eliminate any overlapping to the extent practicable. For example, it is anticipated that the new report relating to appropriations and funds can be modified to also meet the needs of the present year-end report on Form BA-2108 (concerning restorations, write-offs, transfers to "M" accounts, etc.).

4. *Timing of Reports.* For the fiscal 1969 test operation, the new reports will be due in the Bureau of Accounts no later than the first business day after the 24th of the month, covering the closing balances of the preceding month. If the Treasury's monthly reports for the Government as a whole are to be converted to the accrual basis, and if as envisioned by the President's Commission on Budget Concepts such reports are to be approximately as timely as those presently published on the basis of cash receipts and disbursements, agencies must strive toward a reporting capability that is substantially earlier than the due date for the test year.

The report due August 26, 1968 for July 1968 will be accompanied by a *preliminary* report of balances as of June 30, 1968 (which will be the starting point for compiling accrued expenditures for fiscal year 1969, the "actual" year in the first Budget presently planned to be submitted on the accrual basis—the 1971 Budget). A further updated report of June 30 closing balances will also accompany the regular August report on September 25th. The final updated report of June 30, 1968 balances, agreeing with the report submitted on BA-2108 pursuant to Treasury Circular No. 965, will be submitted with the regular September report in October unless an agency needs additional time to pick up balances not theretofore reported on BA-2108 (such as balances representing unbilled performance on contracts or grants). The September 30, 1968 deadline for submitting BA–2108 must be met, even if the final balances reported on forms BA–6727 will differ therefrom.

In subsequent fiscal years the preliminary June 30 balances will be submitted in July on the established monthly submission date. The timing of final reports for June 30, 1969 and subsequent years will be determined later; however, it can be expected that final reports for June 30, 1970 will be required about August 31 and agencies should undertake such systems modifications as may be necessary to meet such an accelerated final deadline.

5. *Submission of Monthly Reports.* The original of each monthly report, Form BA–6727 and Form BA–6728, will be signed by a responsible official, dated and transmitted by the headquarters level of each agency directly to:

Division of Central Accounts & Reports
Bureau of Accounts, Treasury Department
Annex No. 1, Room 444
Washington, D.C. 20226

6. *Reproduction of Forms.* Several copies of the reporting forms are being furnished with this transmittal. Agencies are requested to reproduce copies to meet their reporting needs during the test period. Since some modification of these forms may occur as the test proceeds, agencies should limit the quantity of forms reproduced.

7. *System Readiness.* So that the Treasury, Bureau of the Budget and General Accounting Office can assess Government-wide progress toward the capability essential for converting the Budget to the accrual basis, it is imperative that the new reports be submitted even if incomplete, and that a positive indication be inserted in the appropriate money column for every general ledger account line as follows:

(1) The month-end balance (or the word "zero" if it happens to have a zero balance) if the agency's accounting system has reached the status of full disclosure of that account in the full sense implicit in "accrued expenditures and accrued revenues."

(2) The same as (1) above, but with a suffix "P" if the system's posture is only partial and the amounts reported are not all inclusive for that particular account.

(3) The letters "N.R.," connoting no readiness, if the system has not yet reached the status of encompassing the particular general ledger account classification.

(4) The letters "N.A.," connoting "not applicable," if the particular general ledger account happens to be not germane to the agency.

Agencies are encouraged to make full use of footnotes or other commentary to further describe the data being reported (or omitted, where the suffix "P" is used) and to identify problems encountered.

8. *Quality of Data.* It is axiomatic that reported data (1) should have a high degree of accuracy and (2) should be supported by the agency's accounting system. In certain complex situations, reporting deadlines may require use of estimating techniques by the reporting agency. Bureau of

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the Budget Bulletin No. 68-10 permits such estimating, within limits, subject to the criterion of materiality with respect to the validity of all data to be reported. In considering the acceptability of such expedients, particular attention must be given to reporting standards of *credibility* and *sensitivity*.

In terms of credibility, balances to be reported in the regular monthly reports should not differ from the finally determined actual balances to such an extent that doubt is cast on the reliability of overall budget results reported. This standard has special visibility at year-end, as measured by the difference between the Treasury's Preliminary Statement of Receipts and Expenditures as of June 30 (published presently in July) and the Final Statement of Receipts and Expenditures as of June 30 (presently published in early December after all the year-end adjustments have been finalized throughout the Government). On the present cash basis, differences between the preliminary and final year-end statements published are extremely minor in the overall. Substantial differences between the two, on the accrual basis, attributable to large gaps between preliminary year-end balances reported by agencies in July and their final year-end balances, would pose an overall credibility question.

Interim monthly reports will not ordinarily be subject to the same rigorous purification as year-end reports. Gaps between final results (on a post-closing basis) and reported figures (on a preliminary basis) will not ordinarily come to light except in agency accounts or through audit. It is nonetheless essential that regular monthly reports be a sensitive reflection of underlying transactions and capture all material changes in levels of revenues and expenditures *in the month in which such changes occur*. This follows from the fundamental objectives of the President's Commission for measuring the economic impact of the Federal budget as a guide to overall Federal fiscal policy action.

9. *Other*. Informal consultation with staff of the Bureau of Accounts is solicited with respect to the provisions of this transmittal letter. Meetings will be held with agency representatives during the test period to exchange information and evaluate results. Inquiries should be directed to the Bureau of Accounts, Systems Staff, Treasury Annex No. 1, Washington, D.C. 20226 (Telephone 964-8386; also area code 202; IDS code 184).

S. S. Sokol

Commissioner of Accounts.

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ATTACHMENT A
TFRM Transmittal Letter #18

This attachment deals with the preparation of Form BA-6727 "Report of Selected Balances for Stating Budget Results on the Accrual Basis, Appropriation and Fund Accounts." The illustration consists of (1) a line item description of the reporting form with commentary concerning the level of reported data and the inclusion or exclusion of account balances; (2) an illustrative general ledger trial balance as of July 31, 1968 for a general fund appropriation; and (3) a Form BA-6727 prepared from this trial balance.

EXPLANATION OF ITEMS TO BE REPORTED ON FORM BA-6727

HEADING OF FORM

There will be shown in the spaces provided: (1) The Department and Bureau, or Agency, and mail address of the reporting office; (2) the accounting month; and (3) the appropriation head or fund symbol. Annual or multiple year appropriations and no-year accounts will be reported at the level of appropriation head, i.e., the Department prefix and 4-digit symbol, without fiscal year designation. This is illustrated in the headings of the general ledger trial balance and the report form. Transfer appropriation accounts will be reported on Form BA-6727 by the spending agency. The appropriation head for a transfer appropriation account will include the prefix of the spending agency, e.g., 13-20X1500 will be shown as 13-20 1500. A single consolidated report will be submitted for each appropriation or fund account within the unified budget, except receipt clearing accounts (e.g., F0101) and budget clearing accounts (e.g., F3875) which are excluded from these reporting requirements. During the test period the transactions reported for "F" accounts on monthly statements of cash transactions will suffice.

SECTION I—BALANCES AS OF MONTH-END

A—Balances of accounts forming the bridge between "net cash disbursements" and "net accrued expenditures"

1. *Accounts Receivable.* This includes accounts receivable arising from sales of goods and services and other receivables arising from current operations (accrued interest, accrued rent, etc.), net of valuation allowances for losses, returns, refunds, etc. It should cover all amounts chargeable to customers for goods delivered or work performed to order during the period whether or not billed. It does *not* include loans receivable. Agencies reporting cash collections to the Treasury on a confirmed deposit basis on monthly statements of transactions will show undeposited collections and unconfirmed deposits in transit as accounts receivable so that Fund balance with Treasury (line IB1) will serve as a link between the report on BA-6727 and the monthly statement of cash transactions (such as SF 224 and SF 1220).

(Since the agency in our illustration reports collections on the basis of confirmed deposits we have reported the balance of the deposits in transit account as "Accounts receivable from the public." Our entry to record the deposit in transit resulted in a reduction of accounts receivable, in our trial balance, however the fund balance with Treasury will not be increased until the deposit is confirmed).

2. *Advances and Prepayments.* The key to proper classification for this item is the concept that payments in advance of performance are never to be considered accrued expenditures. Such advances, whether to outsiders such as grantees and contractors or to other U.S. Government agencies and funds, do not become expenditures until earned by the payee. Prepaid expense, deferred charges and similar generic account categories may or may not be reportable hereunder depending upon whether performance has occurred. For example, among accounts commonly classified as prepaid expense, unexpired insurance premiums are reportable as prepayments and become accrued expenditures only as they are earned by the insurance company, whereas inventories of supplies are never reportable as prepayments but are reportable as accrued expenditures as soon as received from suppliers.

Advances and prepayments to the public will be identified as relating to (a) grants, (b) contracts or (c) all other. This breakdown highlights key areas where extensive accounting systems development is underway so that a better assessment of Government-wide reporting capability can be made.

(In our illustrative trial balance the prepaid expense account represents prepaid rent and was included on the line for prepayments relating to the public. The deferred charges account, representing an expenditure for repairs to equipment, was reported as an accrued expenditure in Section II. This asset account was established merely to allocate the repairs expense over the periods benefitting. Analysis of the "Advances to Others" account revealed a $400 advance to a grantee and advance payments of $200 to contractors).

3. *Accounts Payable.* Includes accounts payable established on the basis of invoices and/or evidence of receipt of goods and services and accrued liabilities for salaries, interest, rent, etc. It should also include the unbilled costs of contractors and grantees under the constructive delivery concept. The accrued annual leave liability will be included only when funded (as is usually the case with revolving funds). Agencies which reduce accounts payable on the basis of vouchers scheduled for payment will report vouchers in transit to the disbursing office ("disbursements in transit") as accounts payable so that "Fund balance with Treasury" (line IB1) will be on a paid voucher basis, thus serving as a link between this report and monthly statements of cash transactions.

(In our illustration the balance of "Disbursements in Transit" was reported as an account payable. The entry to record the Disbursement in Transit reduced accounts payable, in our trial balance, but reduction of the fund balance with Treasury is awaiting an accomplished or paid voucher.)

4. *Unearned Revenue.* Include those liability accounts representing the balance of unearned advances received from others. If the advance is

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from another Government agency such agency should have the corresponding asset on its books. When performance occurs the accrued revenue and accrued expenditure should be recorded by both agencies in the same accounting period.

5. *Subtotal, relating to the public.* This represents the total of amounts reflected on lines 1a, 2a, 2b, 2(c)(1) (debit balances), 3a, and 4a (credit balances) all of which are identified by line codes in the 100 series.

6. *Subtotal, relating to U.S. Government agencies.* This represents the total of amounts reflected on lines 1b, 2c(2) (debit balances), 3b and 4b (credit balances) all of which are identified by line codes in the 200 series.

B—Balances of budgetary accounts

1. *Fund balance with Treasury.* This represents the balance available for disbursement and is reciprocal to the undisbursed balance on the central books of the Treasury. This balance will serve as the link between this report and monthly statements of cash transactions. Transactions reflected in the balance reported on line IB1 should be consistent with the basis for reporting on the statement of transactions. Cash transactions picked up on the agency's books after the statement of transactions was submitted should not be reflected on line IB1.

2. *Balances of other authorizations.* This includes the amount of (1) unused borrowing authority, (2) unfunded contract authorizations, and (3) investments in Federal securities.

3. *Anticipated reimbursements.* Represents the balance of unfilled customer orders on hand plus estimated orders to be received during the current fiscal year. Although anticipated reimbursements which are expected to be realized during the fiscal year are normally available for apportionment, allotment and obligation, agencies must keep obligations within amounts actually realized or the apportionments, whichever is smaller, as stated in Section 13 of Bureau of the Budget Circular A–34. This line is not applicable to public enterprise funds and certain intragovernmental revolving funds (i.e., accounts which do not obligate on the basis of anticipated reimbursements).

4. *Unobligated budget authority.* Represents the remaining obligational and loan authority of an appropriation or fund account.

5. *Undelivered orders.* Represents the amount of orders for goods and services which have not yet been received, unperformed contracts and similar obligations outstanding in the sense of Section 1311 of the Supplemental Appropriation Act of 1955 (31 U.S.C. 200).

C—Total section I

The total debits (A5 + A6 + B1, 2 and 3) must equal the total credits (A5 + A6 + B4 and 5).

SECTION II—TRANSACTIONS AFFECTING BUDGET SURPLUS OR DEFICIT, FISCAL YEAR TO DATE

A—Net expenditures (accrual basis)

1. *Expenditures.* Represents total expenditures on the accrual basis as defined in Bureau of the Budget Bulletin No. 68–10, net of refunds accru-

ing from such things as overpayments or purchase returns. (For purposes of this report it also includes loan disbursements as defined in Transmittal Letter No. 13 of the Treasury Fiscal Requirements Manual for reporting on monthly statements of transactions.) The amount to be reported will normally be available in a single account such as "Expended Appropriation (Accrual Basis)." If not it can be derived directly from accounts containing charges for current operating expenses, acquisition of capital assets, additions to inventory and program outlays.

2. *Revenues.* The term "Revenues" is defined in Bureau of the Budget Bulletin No. 68–10 to cover credits earned by all types of funds, including appropriation reimbursements, and is used in that sense for this report. (For purposes of this report it also includes loan repayments.) The amount to be reported is the total earned revenue available for obligation without appropriation action, including where applicable current operating income, proceeds from the sale of fixed assets and repayment of loan principal.

3. *Net expenditures.* This represents the balance of expenditures less revenues. A minus figure should be denoted by a credit symbol (CR).

The amount of net expenditures shown in block IIA3 should equal the aggregate of net disbursements reported on monthly statements of transactions, plus any increase in accounts payable and decrease in accounts receivable (as measured by the difference between lines IA5 and 6 on this month's and the same lines on last month's report).

B—Analysis of account for undelivered orders

This analysis is in the form of an equation establishing a relationship between expenditures reported in IIA1 and the balances of budgetary accounts reported in Section I.

Balance of Undelivered Orders July 1 (from prior years)
\+ or − Adjustments to this balance
\+ Obligations incurred this fiscal year
− Balance of undelivered orders this date
= Expenditures fiscal year to date

C—Analysis of account for anticipated reimbursements

This analysis is in the form of an equation establishing a relationship between revenues reported in IIA2 and the balances of budgetary accounts reported in Section I.

Balance of anticipated reimbursements July 1 (from prior years)
\+ or − Adjustments to this balance
\+ New orders received or estimated to be received this fiscal year
− Balances of anticipated reimbursements this date
= Revenues fiscal year to date

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APPROPRIATION

Account Symbol	
	Assets:
1010	Fund bal
1020	Deposits
1110	Accounts
1111	Allowanc
1120	Accounts agenci
1200	Loans re
1300	Inventor
1400	Prepaid
1510	Travel a
1520	Advance
1530	Advance
1600	Deferred
1710	Equipme
1711	Accumul
	Liabilities:
2010	Disburse
2110	Accounts
2120	Accounts
2210	Accrued
2220	Accrued
2310	Advance
2320	Advance
2410	Liability
	Investment o
3010	Unappor
3020	Unallott
3030	Unoblige
3040	Undelive
3050	Expende
3060	Estimate
3070	Reimbur
3080	Invested
	Income and I
4000	Income
5000	Expense
	Total

Note: The account symbols a
classifications are all-inclusive o

GENERAL LEDGER TRIAL BALANCE
APPROPRIATION HEAD 20—1500
APPROPRIATION ACCOUNTS 2091500, 2081500, 2071500 AND 20M1500
AS OF JULY 31, 1968

(ILLUSTRATIVE)

Account Symbol	Account Title	Debits	Credits
	Assets:		
1010	Fund balances with U.S. Treasury	35, 835	
1020	Deposits in transit	500	
1110	Accounts receivable from the public	2, 000	
1111	Allowance for doubtful accounts		40
1120	Accounts receivable from U.S. Government agencies	80	
1200	Loans receivable	200	
1300	Inventories	1, 000	
1400	Prepaid expenses	50	
1510	Travel advances	15	
1520	Advances to U.S. Government agencies	150	
1530	Advances to others	600	
1600	Deferred charges	30	
1710	Equipment	9, 000	
1711	Accumulated depreciation—equipment		6, 330
	Liabilities:		
2010	Disbursements in transit		255
2110	Accounts payable to the public		1, 200
2120	Accounts payable to U.S. Government agencies		700
2210	Accrued liabilities—public		3, 000
2220	Accrued liabilities—U.S. Government agencies		1, 100
2310	Advances from U.S. Government agencies		10
2320	Advances from the public		300
2410	Liability for accrued leave		900
	Investment of the United States Government:		
3010	Unapportioned appropriations		125
3020	Unallotted apportionments		26, 000
3030	Unobligated allotments		5, 500
3040	Undelivered orders		1, 800
3050	Expended appropriations (accrual basis)		2, 700
3060	Estimated appropriations reimbursements	800	
3070	Reimbursements to appropriations	75	
3080	Invested capital		2, 900
	Income and Expense Accounts:		
4000	Income		75
5000	Expense	2, 600	
	Total	52, 935	52, 935

Note: The account symbols and titles used are for illustration only, and it is not intended to imply that these classifications are all-inclusive or that they would be appropriate in all instances.

FORM NO. BA-6727
Division of Central Accounts
and Reports

REPORT OF SELECTED BALANCES FOR STATING BUDGET RESULTS ON THE ACCRUAL BASIS APPROPRIATION AND FUND ACCOUNTS

Department and Bureau, or Agency	Accounting Month Ended / Appropriation or Fund Symbol
Treasury Department, Bureau of Accounts Treasury Annex No. 1 Washington, D. C. 20226	July 31, 1968 20-1500

SECTION I - BALANCES AS OF MONTH-END

	Line Code	Debit Balances	Credit Balances
A - Balances of Accounts Forming the Bridge Between "Net Cash Disbursements" and "Net Accrued Expenditures."		(General Ledger account symbols, from the illustrative trial balance, are shown in parentheses)	
1. Accounts receivable:			
(a) From the public	101	(1020) (1110) (1111) 2,460	
(b) From U. S. Government agencies	201	(1120) 80	
2. Advances and prepayments on:			
(a) Grants (to the public)	102	(1530) 400	
(b) Contracts (with the public)	103	(1530) 200	
(c) All other items:		(1400)	
(1) Relating to the public	104	(1510) 65	
(2) Relating to U. S. Government agencies	204	(1520) 150	
3. Accounts payable (including funded accrued liabilities):			(2010) (2110)
(a) Relating to the public	105		(2210) 4,455
(b) Relating to U. S. Government agencies	205		(2120)(2220) 1,800
4. Unearned revenue:			
(a) Relating to the public	106		(2220) 300
(b) Relating to U. S. Government agencies	206		(2310) 10
5. Subtotal, relating to the public (line codes in 100 series)	199	3,125	4,755
6. Subtotal, relating to U. S. Government agencies (line codes in 200 series)	299	230	1,810
B - Balances of Budgetary Accounts:			
1. Fund balance with Treasury	301	(1010) 35,835	
2. Balances of other authorizations	302	N.A.	(3010)
3. Anticipated reimbursements (See IIC)	303	(3060) 800	(3020)
4. Unobligated budget authority	304		(3030) 31,625
5. Undelivered orders (See IIB)	305		(3040) 1,800
C - Total Section I (A5 + A6 + B1 thru 5)	499	39,990	39,990

SECTION II - TRANSACTIONS AFFECTING BUDGET SURPLUS OR DEFICIT, FISCAL YEAR TO DATE

	1. Expenditures (501)	2. Revenues (502)	3. Net Expenditures (503)
A - Net Expenditures (Accrual Basis)	2,700	75	2,625

B - Analysis of Account for Undelivered Orders:

1. Balance July 1	200
2. Adjustments	-0-
3. Obligations incurred	4,300
4. Balance per line IB5 (-)	1,800
5. Expenditures (equals IIA1)	2,700

C - Analysis of Account for Anticipated Reimbursements:

1. Balance July 1	-0-
2. Adjustments	-0-
3. Orders received or estimated	875
4. Balance per line IB3 (-)	800
5. Revenues (equals IIA2)	75

Submitted by:

(Signature) (Title) (Date)

NOTE: Amounts reported must be in dollars and cents.

This attachment de
of Selected Balances
General, Special and
consists of (1) a line
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for reporting accrued

EXPLANATION OF

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A—Balanc
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1. *Accounts Receiv*
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3. *Subtotal Section*
A1a + A1b (debit ba

B—Balances

1. *Government Eq*
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for the fiscal year, th
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Dr. Revenue Acc
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ATTACHMENT B
TFRM Transmittal Letter #18

This attachment deals with the preparation of Form BA–6728 "Report of Selected Balances for Stating Budget Results on the Accrual Basis, General, Special and Trust Fund Receipt Accounts." The illustration consists of (1) a line item description of the reporting form; (2) an illustrative copy of Form BA–6728; and (3) an outline of the aggregate levels for reporting accrued revenues.

EXPLANATION OF ITEMS TO BE REPORTED ON FORM BA–6728

HEADING OF FORM

There will be shown in the spaces provided: (1) the Department and Bureau, or Agency, and mail address of the reporting office; (2) the accounting month; and (3) the Department prefix and "Major Class" of receipt accounts being reported, or when specifically requested, the individual receipt account symbol.

A—Balances of accounts forming the bridge between "cash receipts" and "accrued revenues"

1. *Accounts Receivable.* The description of accounts receivable, as stated in Attachment "A" applies to this form in every respect (when the proceeds are for credit to a receipt account) except that "Revenue Collected" (line B3), rather than "Fund Balance with the Treasury" serves as the link between this report and the monthly statements of cash transactions.

2. *Accounts Payable.* This line is provided for reporting liabilities relating to receipt accounts, e.g., refunds payable where allowances applicable to accounts receivable have not been established.

3. *Subtotal Section A.* Represents the total of amounts reflected on lines A1a + A1b (debit balances), and A2a + A2b (credit balances).

B—Balances of accounts representing the Government's equity in uncollected revenues

1. *Government Equity Represented by Uncollected Revenue, July 1.* Represents the net of uncollected assets and unliquidated liabilities at the start of business each fiscal year. The entry for this line results from the annual closing of the "Revenue Accrued" and "Revenue Collected" balances. For example, if we assume that the Form BA–6728 illustrated on page 4 of this attachment (page 74 of this booklet) was the *final* report for the fiscal year, the closing entry (at the start of business on July 1) would be:

Dr. Revenue Accrued	980.00	
Cr. Revenue Collected		950.00
Cr. Government Equity represented by Uncollected Revenue, July 1		30.00

2. *Revenue Accrued.* The term revenues is defined in Bureau of the Budget Bulletin No. 68–10 to cover credits earned by all types of funds included in the Budget. The full sense of that definition as it applies to proceeds for credit to receipt accounts is pertinent, except that for purposes of this report it also includes loan repayments credited to a receipt account. Since this balance is closed each fiscal year (see closing entry described above for line B1) amounts reported monthly on Form BA–6728 will represent revenue accrued this fiscal year to date.

3. *Revenue Collected.* Represents collections which have been covered into the Treasury and is reciprocal to the Receipt Account balances on the central books of the Treasury. Only revenue collected *and reported on the monthly statements of cash transactions* (on a collection or confirmed deposit basis as applicable) will be reflected on this line.

As a result of the closing entry described for line B1, the balance reported on this line will represent revenue collected this fiscal year to date.

C—Total

The total debits (A3 + B3) must equal the total credits (A3 + B1 and 2).

Aggregate Levels for Reporting Accrued Revenues

The chart shown below is published in the annual booklet "Receipt, Appropriation, and Other Fund Account Symbols and Titles." This booklet also defines each major class and lists the detailed symbols and titles relating thereto. These are the major class levels to be used with the Department prefix for reporting accrued revenues. In our illustrative Form BA–6728 we show receipt classification 20 1200 representing department prefix 20 (Treasury Department) and major class 1200 (Gifts and contributions).

Fund Group	*Major Class*
General Fund Receipts:	
Taxes	0100
Customs Duties	0300
Seigniorage and bullion charges	0600
Fees for permits and licenses	0800
Fines, penalties, and forfeitures	1000
Gifts and contributions	1200
Interest	1400
Dividends and other earnings	1600
Rents	1800
Royalties	2000
Sale of products	2200
Fees and other charges for services and special benefits	2400
Sale of government property	2600
Realization upon loans and investments	2800–2900
Recoveries and refunds	3000
Undistributed collections	3200
Special fund receipts	5000–5999
Trust fund receipts	7000–8099

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Note on Reporting Available Receipts

Since an available receipt is immediately available for expenditure it carries the same symbol as the fund account. However it must be reported as a receipt on Form BA–6728. Appropriations equal to available receipts collected should be reported for the related fund account on Form BA–6727. The accrual and collection of available receipts will be reported on Form BA–6728 along with unavailable receipts in the same major class.

Appendix C

Form No. BA-8728
Division of Central Accounts
and Reports

REPORT OF SELECTED BALANCES FOR STATING
BUDGET RESULTS ON THE ACCRUAL BASIS
GENERAL, SPECIAL AND TRUST FUND RECEIPT ACCOUNTS

Department and Bureau, or Agency	Accounting month ended
Treasury Department, Bureau of Accounts Treasury Annex No. 1 Washington, D. C. 20226	July 31, 1968
	Receipt Classification: 20 1200

	Line Code	Debit Balances	Credit Balances
A - Balances of Accounts Forming the Bridge Between "Cash Receipts" and "Accrued Revenues."			
1. Accounts receivable:			
(a) From the public	601	50	
(b) From U.S. Government agencies.	701		
2. Accounts payable:			
(a) To the public	602		20
(b) To U.S. Government agencies...	702		
3. Subtotal, Section A	789	50	20
B - Balances of Accounts Representing the Government's Equity in Uncollected Revenues:			
1. Government equity represented by uncollected revenue, July 1	801		
2. Revenue accrued	802		980
3. Revenue collected	803	950	
C - Total (A3 + B1, 2 and 3)	899	1000	1000

Submitted by:

.... (Signature) .... (Title) .... (Date)

NOTE: Amounts reported must be in dollars and cents.

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Appendix D

Secretary of the Treasury
Director of the Bureau of the Budget
Chairman of the Council of Economic Advisers
Comptroller General of the United States

March 10, 1969.

To Heads of Departments and Agencies

The President has reaffirmed the importance of going forward promptly with converting the budget and the companion financial reports of the Treasury to the accrual basis recommended by the President's Commission on Budget Concepts in October 1967. A copy of the President's directive on this subject is attached.

Some agencies have made significant progress in developing a readiness for this important change. However, it is now evident that much more remains to be done. Therefore, we cannot achieve the target date recommended by the Budget Commission to move to the accrual basis for estimates and prior year actual data in the President's budget to be submitted next January.

Accordingly, the President has decided that the changeover will be made effective with the budget for 1972 to be submitted in January 1971.

While slippage of one year from the original goal is a practical necessity, it highlights the need for *more vigorous action now*, in all agencies, to complete the changes necessary to meet the new timetable.

Staff of the three central financial agencies are working together and with the program agencies on this vital matter. Moreover, the Council of Economic Advisers also has an important stake in this change because of its role in analyzing the impact of the Federal sector in the national economy. Interagency study teams have been working on certain problem areas, and there will be further communications from the Budget Director on these matters as necessary. In the near future, the Treasury will be communicating with each agency on its compliance with the required monthly accrual reporting under the current fiscal year "test operation."

The special monthly reports presently required on the accrual basis must be of such stature, in substance and timeliness, as to enable the Treasury to conduct its central operations for the rest of the current fiscal year and extending through fiscal year 1970 as a comprehensive "pilot" system, producing everything needed for reporting Governmentwide results on the accrual basis short of actually publishing the financial statements on that basis during that period. The basic objective is to produce from that "pilot" system (a) actual data on accrued revenues and expenditures for fiscal years 1969 and 1970 which will be needed when the financial reports begin to be published on the accrual basis in fiscal 1971; and (b) firm year-end balances of the various asset and liability accounts on the books of the agencies that represent the bridge between the "cash" and "accrual" bases and that are prerequisite to the changeover.

All of this adds up to a major and challenging undertaking. We urge the head of each agency to see that his organization is ready for the changeover soon. The specific requirements have already been promulgated in Bureau of the Budget Bulletin No. 68-10 dated April 26, 1968, Treasury Fiscal Requirements Manual Transmittal Letter No. 18 dated June 20, 1968, and General Accounting Office letter to heads of departments and agencies dated May 4, 1968.

Secretary of the Treasury

Director of the Bureau of the Budget

Chairman of the Council of Economic Advisers

Comptroller General of the United States

Attachment

Memorandum for:

The Director o
The Secretary
The Chairman

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APPENDIX D

ATTACHMENT A

THE WHITE HOUSE

WASHINGTON

February 22, 1969.

Memorandum for:

The Director of the Bureau of the Budget
The Secretary of the Treasury
The Chairman of the Council of Economic Advisers

The accrual basis of accounting has long been recognized as the most appropriate basis for providing a fair disclosure of financial condition and operating results in the private sector of our Nation's business. Since 1956, accrual accounting has been a statutory standard for the Government itself, but one which has been but imperfectly achieved.

A year and a half ago, a bipartisan Presidential Commission on Budget Concepts recommended the adoption of the accrual basis for stating revenues and expenditures of the Government in preparing the budget and reporting on budget results. All three of you, though then private citizens, were associated with the Commission and are thoroughly familiar with its work. Some of the senior members of Congress, most clearly associated with the budget process, were also members of the Commission. Shortly after the Commission reported, the Executive Committee of the American Institute of Certified Public Accountants adopted a resolution commending the conceptual changes recommended by the Commission, and urging their prompt adoption.

Since that time the Bureau of the Budget and the Treasury Department have been working with the General Accounting Office to get all departments and agencies of the Government into a position of readiness to convert to the accrual basis, and to execute a trial or "pilot" accrual reporting operation.

I hereby reaffirm the objective of placing our budgets and financial reports on the accrual basis recommended by the President's Commission. Please continue vigorous joint effort with the Comptroller General of the United States to that end. I am expecting the heads of the various departments and agencies to give their personal attention toward achieving this objective at the earliest practicable date, but not later than the end of this fiscal year, so that the conversion can be made effective with the budget to be transmitted to Congress in January 1971.

Please report to me, from time to time, on the progress that is being made.

Richard Nixon

*U.S. GOVERNMENT PRINTING OFFICE:1972 722-720/361 1-3