

**STATE OF GEORGIA  
ACCOUNTING PROCEDURES MANUAL**

**SECTION: THREE – ACCOUNTING PROCEDURES**  
**TOPIC: EXPENDITURES AND OPERATING EXPENSES**

**ACCOUNT RANGE: 510000 - 520999, 522000 - 524999,  
598000 - 599999, 612000 - 622999,  
625000 - 627999, 640000, 648000,  
651000 - 654999, 661000 - 663999,  
671000 - 672999, 680000, 695000 - 696999,  
700000, 703000, 705000, 710000, 712000 -  
718999, 720000 - 729999, 733000, 740000 -  
742999**

**GEORGIA LAWS**

*Ga. Const., Art. III, Sec. VI, Para. VI. Gratuities.*

(a) Except as otherwise provided in the Constitution, (1) the General Assembly shall not have the power to grant any donation or gratuity or to forgive any debt or obligation owing to the public, and (2) the General Assembly shall not grant or authorize extra compensation to any public officer, agent, or contractor after the service has been rendered or the contract entered into.

*Ga. Const., Art. III, Sec. IX, Para. III. General appropriations bill.*

The general appropriations bill shall embrace nothing except appropriations fixed by previous laws; the ordinary expenses of the executive, legislative, and judicial departments of the government; payment of the public debt and interest thereon; and for support of the public institutions and educational interests of the state. All other appropriations shall be made by separate bills, each embracing but one subject.

**ACCOUNTING PROCEDURES**

***GENERAL PROCEDURES***

There are variances between the State's budgetary basis of accounting as it pertains to expenditures/expense and accounting practices prescribed by GAAP. These variances are primarily timing differences which relate to when an expenditure should be recorded. Significant variance between GAAP and the State's budgetary basis of accounting are discussed below.

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*Governmental Funds - Modified Accrual Basis of Accounting*

Under the modified accrual basis of accounting, it is not sufficient for an economic event to have occurred for an event to effect the operating statement but, in addition, the related cash flow must occur within a short-enough time frame for the event to have an effect on current spendable resources. In other words, expenditures are required to be recorded when a financial event is expected to draw upon current financial resources. In practice, most State expenditures should be recognized when the goods and services have been received since sufficient funds normally are available at fiscal year end to liquidate operating liabilities.

Encumbrance accounts are budgetary accounts which record only commitments; therefore, encumbrances do not meet GAAP expenditure recognition criteria. Encumbrances under the modified accrual basis of accounting are disclosed as a reservation of fund balance (328000 account series). Only when the actual goods and services are received should expenditures and related liabilities be recorded.

Capital assets purchased by governmental funds and governmental component units are required to be recorded as expenditures, as are principal payments on long-term debt.

As noted above, governmental funds which are maintained on the modified accrual basis of accounting, for the most, part should recognize expenditures as soon as a liability is incurred (goods and services received). However, for certain long-term liabilities, expenditures should be recorded only to the extent that the liability will be liquidated with available financial resources. Liabilities of this type which State organizations might frequently record include compensated absences, capital leases and claims and judgments.

*Proprietary Funds, Fiduciary Funds, Component Units and Government-Wide Statements –  
Accrual Basis of Accounting*

Under the accrual basis of accounting, expenses are recorded rather than expenditures. Expenses are defined as outflows of assets or the incurring of liabilities (or combination of both) resulting from delivering or producing goods, rendering services, or carrying out other activities that constitute the organization's ongoing major operations. Expenses recorded in these funds should be consistent with those of a commercial enterprise.

Under the accrual basis of accounting, transactions and events are recognized as expense when they occur regardless of when the related cash flows take place. These funds report both current and long-term liabilities that are expected to be paid from the fund. However, in practice, as is the case for the modified accrual basis funds, normal operating expenses should be recognized when goods/services have been received. Examples of transactions which are presented within

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the fund financial statements in a manner which differs from the modified accrual basis include; variances in the manner of presenting long-term liabilities, capital assets, certain bond related costs and the presentation of depreciation expense.

Depreciation expense should be recorded within the accrual basis funds as an operating expense and closed along with other operating expenses directly to net assets in a manner similar to the procedures used by commercial enterprises regardless of the source of funds used to purchase the asset. GAAP allows the government to determine the method to be used to calculate depreciation expense and the estimated useful life of its capital assets. Depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful life in a systematic and rational manner.

### *Budget Fund - Budgetary Basis of Accounting*

State organizations included in the Appropriations Act must record expenditures in accordance with State budgetary accounting requirements. State budgetary accounting practices require expenditures to be recorded when a vendor has been selected and a purchase order approved or a contract executed. In general, budgetary basis expenditures are recorded based on encumbrances. This differs from GAAP in that goods and services need not have been received for liabilities and expenditures to be recorded. Within this section of the manual, the topic titled “Accounts Payable, Intergovernmental Payables, Contracts Payable, Payroll/Withholdings Payable and Benefits Payable” provides additional guidance concerning the requirements for recording budget basis expenditures.

State organizations, included in the Appropriations Act, and reporting in accordance with GAAP as proprietary funds should record expenditures for budgetary reporting purposes in the same manner as noted above. In addition, for budgetary reporting purposes, they should not capitalize capital assets, record depreciation expense, record compensated absence expense nor amortize deferred charges.

### **SYNOPSIS OF SIGNIFICANT VARIANCES BETWEEN GAAP AND BUDGET BASIS**

If GAAP financial statements are not provided, auditors must be furnished with information to meet the following GAAP reporting requirements:

Encumbrances should not be recorded as expenditures/expenses. (See Accounting Procedures Topic: Accounts Payable.)

Accrual basis funds and the government-wide financial statements should reflect expense for depreciation. (See Accounting Procedures Topic: Capital Assets.)

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Accrual basis funds and the government-wide financial statements should record long-term liabilities such as compensated absences and claims and judgments as expense. (See Accounting Procedures Topic: Compensated Absences and Claims and Judgements Payable.)

Accrual basis funds and the government-wide financial statements should amortize deferred charges. (See Accounting Procedures Topic: Deferred Charges.)

Accrual basis funds and the government-wide financial statements should not record expenditures for the purchase of capital assets. Capital assets should be capitalized when purchased. (See Accounting Procedures Topic: Capital Assets.)

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