CHAPTER 5

Recognizing Expenditures in Governmental Funds

HOW SHOULD THE ACQUISITION AND USE OF MATERIALS AND SUPPLIES BE ACCOUNTED FOR?

The acquisition and use of materials and supplies present unique accounting problems in governmental funds. Materials and supplies and prepaid items are not strictly expendable available financial resources, in that they will neither be transformed into cash nor can they be used to satisfy governmental fund obligations. Nevertheless, having supplies on hand obviates ( تلاشي)the government from needing to purchase the items in the future.

Among the primary issues pertaining to governmental fund materials and supplies are

• The timing of the expenditure; specifically, should governmental funds recognize an expenditure when they acquire, pay for, or use the materials and supplies?

• The reporting of the asset; specifically, should inventory be reported as an asset, even though it is not strictly an expendable available financial resource?

GASB standards permit a choice Governments may recognize inventory items either when purchased (the purchases method) or when consumed (the consumption method).

The purchases method is not acceptable under full accrual basis.

However, irrespective of which method is used, significant amounts of inventory should be reported on the balance sheet .

Example1:

The following data relating to supplies in 2018 and 2019 :

|  |  |  |
| --- | --- | --- |
|  | 2018 | 2019 |
| S. inventory1\1 | 0 | ??? |
| Supplies purchased | 20000 | 22000 |
| Supplies used | 15000 | 25000 |
| Supplies inventory 31\12  | 5000 | ?????? |

Required :

1. Make journal entries under both purchases and consumption method for the general fund ?
2. Make journal entries under full accrual basis( G.W.S)?

Journal entries FOR 2018 in general fund \MAB

|  |  |  |
| --- | --- | --- |
|  | PURCHASES Method | consumption method |
| When purchased | S. expenditure 20000 AP 20000 | S. inventory 20000 AP 20000 |
| When used | No j.e | S. expenditure 15000 S. inventory 15000 |
| Adjusting entry 31\12 | S. inventory 5000 F.B nonspendable 5000Note: these 2 accounts are adjusted just only end of each year to reflect s. inventory | F.B unassigned 5000 F.B nonspendable 5000To reclassify apportion of fund balance from unassigned to nonspendable.Note: F.B nonspendable account is adjusted end of each year with unassigned fund balance to reflect s. inventory 31\12 |

Journal entries FOR 2019 \GENERAL FUND\MAB:

|  |  |  |
| --- | --- | --- |
|  | PURCHASES .Method | consumption method |
| When purchased | S. expenditure 22000 AP 22000 | S. inventory 22000 AP 22000 |
| When used | No j.e | S. expenditure 25000 S. inventory 25000 |
| Adjusting entry 31\12 |  F.B nonspendable 3000 S. inventory 3000Note: the ending balance in s. inventory becomes 2000 and the credit balance in nonspendable becomes 2000(make posting to each) |  F.B nonspendable 3000 F.B unassigned 3000To reclassify apportion of fund balance from unassigned to nonspendable.Note: the credit balance in nonspendable becomes 2000(make posting to it) |

LEDGER ACCOUNTS FOR SUPPLIES INVENTORY AND FUND BALANCE NONSPENDABLE 2019, purchases method:

|  |  |  |  |
| --- | --- | --- | --- |
| Supplies inventory |  | F B NONSPENDABLE |  |
| Bal1\1: 5000 | Adj.e31\12:3000 |  | Adj.e31\12:3000 | Bal1\1:5000 |
| Bal31\12\2019:2000 |  |  |  | Bal31\12\2019:2000 |

LEDGER ACCOUNTS FOR SUPPLIES INVENTORY AND FUND BALANCE NONSPENDABLE 2019, consumption method:

|  |  |  |  |
| --- | --- | --- | --- |
| Supplies inventory |  | F B NONSPENDABLE |  |
| Bal1\1 : 5000 | Used :25000 |  | Adj.e31\12:3000 | Bal1\1:5000 |
| Purchased:22000 |  |  |  | Bal31\12\2019:2000 |
| Bal31\12\2019:2000 |  |  |  |  |

Note : Under full accrual basis in G.W.S no need to reclassify net assets .

Under full accrual basis : purchases method is not applied

Journal entries under full accrual basis for 2018and 2019:

|  |  |  |
| --- | --- | --- |
|  | 2018 | 2019 |
| When purchased | S. inventory 20000 AP 20000 | S. inventory 22000 AP 22000 |
| When used | S. expenditure 15000 S. inventory 15000 | S. expenditure 25000 S. inventory 25000 |
| Adjusting entry 31\12 | No need | No need |