Overview

- Identify the connections between budgeting and accounting
- Recognize budget and accounting terminology
- Track budgetary and proprietary accounting transactions through the budget execution process
- Identify the U.S. Government Standard General Ledger account structure
- Relate budget obligations to DOD assets, liabilities, and expenses
- Improve budget estimating with accounting information
Making the Connection

Connections (or links) between budgeting and accounting are called out by this image:
What Is a Budget?

BUDGET

Financial Plan  Control Device  Evaluation Tool
Why Do We Budget?

Unlimited needs and wants

Scarcity resources
U.S. Constitution, Article I Section 9

“"No money shall be drawn from the Treasury but in Consequence of Appropriations made by Law. “"

“A regular Statement and Account of the receipts and Expenditures of all public Money shall be published from time to time. “"
Legal Foundations in the Federal Government

• Antideficiency Act of 1870
• Budget and Accounting Act of 1921
• Budgeting and Accounting Procedures Act of 1950
• Congressional Budget and Impoundment Control Act of 1974

U.S. Code Title 31
Antideficiency Act

The Antideficiency Act (ADA) of 1870 prohibits:

• A contract or other obligation in advance of appropriations unless authorized by law
• Obligations or expenditures in excess of an appropriation, apportionment, allotment, or other amount permitted by agency regulations
Budget and Accounting Act

- Requires an executive budget, called the President’s Budget
- Created the Bureau of Budget (BOB), which eventually became the Office of Management and Budget (OMB)
- Created agency budget officials
- Established the Government Accountability Office (GAO) formerly the General Accounting Office) which:
  - Is headed by the Comptroller General (CG)
  - Performs the audit function for Congress
  - Is responsible for determining the propriety of payments
  - Conducts investigations
Budgeting and Accounting Procedures Act

• Provides for the president to set the form of the budget
• Introduced accountability by making agency heads responsible for their budgets
• Requires adequate accounting and internal control systems
• Requires budgeting by object class
Congressional Budget and Impoundment Control Act

- Current budget process
- Congressional budget committees
- Congressional Budget Office
Budget Classifications

Object Class Budget → What inputs do we need to buy?

Program Budget → What functions are going to produce our outputs?

Performance Budget → What results do we plan to accomplish?
What Do We Budget For?

- **SUPPLIERS**: Contactors and Vendors
- **INPUTS**: Money, Materiel, and Manpower
- **OUTPUTS**: Payments, Reports, Vouchers, etc.
- **RESULTS**: Flying Hours, Tank Miles, Steming Days
- **OUTCOMES**: Safety and Security

Budget Type = Object → Program → Performance
OMB Circular A-11: Preparation, Submission, and Execution of the Budget

* OMB issues Circular A-11 and other important policy guidance for both accounting and budgeting
Federal Budget Process

1. Budget Formulation

2. Congressional Action

3. Budget Execution
PPBE: Planning, Programming, Budgeting, and Execution

Per DOD FMR Volumes 2A and 2B, Budget Formulation includes:

- Planning
- Programming
- Budgeting

Per DOD FMR Volume 3, Budget Execution is separate and standalone
DOD Budget Timeline

**Spring**
- Receive OMB planning guidance

**Jul**
- Receive Circular A-11

**Oct–Nov**
- Fall Review with OMB

**Late Nov–Early Jan**
- All budget schedule data and text materials finalized

**Jan–Mar**
- Congressional Budget Justification materials submitted to Congress

**Spring & Summer**
- Discuss budget issues and options with OMB

**Sep**
- Components make budget submissions to OSD

**Late Nov**
- Passback; OMB and DOD partner on changes

**Dec**
- Appeal OMB decisions to OMB and/or President

**1st Mon in Feb**
- President transmits budget to Congress, includes DOD budget
Congressional Budget Process

1st Monday in February
President’s Budget submitted to Congress

April 15
Budget resolution

September 30
All authorizations and appropriations should be passed

Congress receives input from Congressional Budget Office on economic assumptions
Concurrent Budget Resolution
Congress coordinates and reconciles:
- Which programs should be permitted?
- Amount of funding for each program
- Total funding level
- Estimated tax revenues
Appropriation Acts

• 12 passed each year by Congress
• Provide budget authority and general provisions
• Address both budgeting and accounting issues
Execution Phase

- Agency receives budget authority from Congress
- Agency obligates budget authority to conduct operations
- Agency outlays funds
Appropriations

- Annual
- Multi-Year
- No-Year
Appropriation Acts

General provisions may be a policy or operational guidance and provide information regarding:

• Limiting amounts transferred between departments
• Setting ceilings on cash balance in working capital funds
• Specifying investment thresholds
• Limiting funds from being spent on certain items or associations
What Is Accounting?
Descriptions of Accounting Terms

A. A specific area of accountability that has a clear responsibility for reporting its financial performance to outsiders

B. An entity is expected to last indefinitely

C. Is normally nominal dollars, which are not adjusted for price-level changes

D. Established measurement period: daily, weekly, monthly, quarterly, or annually

E. A book structured to record, classify, and summarize an entity’s data by accounts, and facilitates financial reporting
Accounting Event Recognition

- The event must be measurable in dollars
- The event must be verifiable; i.e., it must be documented on paper or electronically
- The event is recognized in transaction form
Accounting Cycle

1. Recognize and Analyze the Transaction
2. Record the Transaction
3. Summarize the Transactions
4. Adjust and Close the Accounts
5. Generate the Financial Reports
The five events involve both accounting and budgeting.

- **Accounting Cycle (continued)**
  - A transaction: Appropriation, commitment, or obligation
    - Budgeting
    - Accounting: Receipt of an asset, payment, etc.
  - Closing transaction: Sources and Status
    - Budgeting: Net position
    - Accounting: Serve accounting purposes
  - Financial statements: Serve budgeting purposes
    - Budgeting
    - Accounting: Serve accounting purposes
Accounting in the Federal Government

Notable accounting differences in federal government and private sector:

• Source of guidance
• Use of the USSGL
• Budgetary accounting vs. proprietary accounting
Hierarchy of Generally Accepted Accounting Principles

- **Standards**: FASAB Statements and Interpretations, AICPA and FASB pronouncements made applicable by FASAB
- **Technical Bulletins**: FASAB technical bulletins, AICPA Industry Audit Guides, Accounting Guides, and Statements of Position if made applicable
- **Technical Releases**: Technical FASAB Releases from AAPC
- **Implementation Guides**: FASAB implementation guides, federal government practices
- **Other Accounting Literature**: FASAB and FASB Concepts Statements, and other misc. sources

**Abbreviations**
- AICPA: American Institute of Certified Public Accountants
- AAPC: Accounting and Auditing Policy Committee
- FASAB: Federal Accounting Standards and Advisory Board
- FASB: Financial Accounting Standards Board
U.S. Government Standard General Ledger

- Standard Chart of Accounts
- Coding system
- Account descriptions and definitions
- Accounting transactions
- Data elements and subaccounts

[Diagram showing the components of the U.S. Government Standard General Ledger]
## U.S. Government Standard General Ledger (USSGL) Chart of Accounts

<table>
<thead>
<tr>
<th>Series</th>
<th>Classifications</th>
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<tbody>
<tr>
<td>100000</td>
<td>Assets</td>
</tr>
<tr>
<td>200000</td>
<td>Liabilities</td>
</tr>
<tr>
<td>300000</td>
<td>Net Position</td>
</tr>
<tr>
<td>400000</td>
<td>Budgetary</td>
</tr>
<tr>
<td>500000</td>
<td>Revenue and Other Financing Sources</td>
</tr>
<tr>
<td>600000</td>
<td>Expenses</td>
</tr>
<tr>
<td>700000</td>
<td>Gains/Losses/Miscellaneous Items</td>
</tr>
<tr>
<td>800000</td>
<td>Memorandum</td>
</tr>
</tbody>
</table>
Link Between Budgeting and Accounting Starts Early

- President signs appropriation act
- Budgetary accounting starts with receipt of the appropriation
- Proprietary accounting starts with receipt of the Appropriation Warrant from the Treasury Department
Budgetary Accounting

TRACKING + CONTROLLING

BUDGETARY ACCOUNTING
Budgetary Accounting with the USSGL

Budgetary Resources
40xxxx to 42xxxx

=

Status of Budgetary Resources
43xxxx to 49xxxx
Budgetary Accounting Process

This process occurs for each appropriation received by an agency.
Step 1: Receipt of Appropriation and Unapportioned Authority

APPROPRIATION = $1M

1. Unapportioned Authority = $1M

2. Budgetary Resources

3. Allotted

4. Committed

5. Undelivered Orders (Obligations Unpaid)

6. Delivered Orders (Obligations Paid)

7. Apportioned

Delivered Orders (Obligations Paid)
Step 2: Apportionment

- Unapportioned Authority: $1M–$250K
- Apportioned: $250K
- Delivered Orders (Obligations Paid)
- Delivered Orders (Obligations Unpaid)
- Undelivered Orders (Obligations Unpaid)
- Allotted
- Committed

APPROPRIATION = $1M
Step 3: Allotment and Suballotment

**Diagram Description:**
- **APPROPRIATION = $1M**
- **Unapportioned Authority:** $1M–$250K
- **Apportioned:** $250K–$200K
- **Allotted:** $200K

**Legend:***
- **Delivered Orders (Obligations Paid):**
- **Delivered Orders (Obligations Unpaid):**
- **Undelivered Orders (Obligations Unpaid):**
- **Committed**
Step 4: Commitment

- **Unapportioned Authority**: $1M–$250K
- **Apportioned**: $250K–$200K
- **Delivered Orders (Obligations Paid)**: $7
- **Delivered Orders (Obligations Unpaid)**: $6
- **Undelivered Orders (Obligations Unpaid)**: $5
- **Committed**: $10
- **Allotted**: $200K–$10K

**Appropriation** = $1M
Step 5: Undelivered Orders–Obligations Unpaid

- 40
Step 6: Delivered Orders–Obligations Unpaid

- Delivered Orders (Obligations Paid) = $1M–$250K
- Apportioned = $250K–$200K
- Allotted = $200K–$10K
- Committed = $10K–$10K
- Undelivered Orders (Obligations Unpaid) = $10K–$10K
- Unapportioned Authority = $1M–$250K

**APPROPRIATION = $1M**
Step 7: Delivered Orders–Obligations Paid

- Delivered Orders (Obligations Paid) = $10K
- Unapportioned Authority = $1M–$250K
- Apportioned = $250K–$200K
- Allotted = $200K–$10K
- Committed = $10K–$10K

Appropriation = $1M
Budgetary Accounting Process: Example

- Unapportioned Authority = $1M–$250K
- Apportioned = $250K–$200K
- Allotted = $200K–$10K
- Committed = $10K–$10K
- Undelivered Orders (Obligations Unpaid) = $10K–$10K
- Delivered Orders (Obligations Paid) = $10K

APPROPRIATION = $1M
Proprietary Accounting-Related Legislation

A. Required agencies to submit audited financial statements for business-type functions.

B. Extended the requirement for audited financial statements to the 24 CFO-designated agencies in the executive branch.

C. Required agencies to follow accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB) when presenting financial statements.

D. Required other executive agencies—besides the 24 CFO agencies—to prepare and submit audited financial statements.
Proprietary Accounting Equation

\[ \text{ASSETS} = \text{Liabilities} + \text{Net Position} + \text{Revenues} - \text{Expenses} \pm \text{Gains/Losses} \]
Proprietary Accounting with the USSGL

1000000 = Assets

200000
Liabilities

300000
Net Position

500000
Revenues

600000
Expenses

700000
Gains/Losses
Integrated Accounting Process

**PROPRIETARY ACCOUNTS**

1. Fund Balance with Treasury and Unexpended Appropriations – Received

2. Asset or Expense and Accounts Payable
   - Unexpended Appropriations – Used and Expended Appropriations

3. Accounts Payable and Fund Balance with Treasury

**BUDGETARY ACCOUNTS**

1. Unapportioned Authority

2. Apportioned

3. Allotted

4. Committed

5. Undelivered Orders – Obligations Unpaid

6. Delivered Orders – Obligations Unpaid

7. Delivered Orders – Obligations Paid
Accrual Basis of Accounting

**WHEN** the materials are received and accepted

**THEN** an account payable is created and an asset or expense is recognized

**WHEN** the materials are consumed or assets depreciate

**THEN** the materials are expensed or the depreciation expense is recognized

**WHEN** payment is made

**THEN** an outlay occurs reducing cash and the account payable is cleared
Government Operations

• Revenue includes:
  ▪ Exchange or earned revenues from the sale of goods or services (e.g., the fee to enter a national park)
  ▪ Nonexchange (e.g., taxes collected)
  ▪ Financing sources from the receipt of appropriations or other sources

• Expenses include decreases in assets or increases in liabilities resulting from the use of resources in operations
Objectives of Financial Reporting

A. Are the agency’s funds being used properly?
B. How well is the agency performing its mission?
C. What is the change in the agency’s financial condition?
D. Is the agency safeguarding its assets to avoid fraud, waste, and abuse?
Accrual Basis of Accounting

- Federal financial statements include both budgeting and accounting information, providing another important connection
Principal Statements

- Statement of Net Cost
- Statement of Changes in Net Position
- Balance Sheet
- Statement of Budgetary Resources
- Statement of Custodial Activity
- Statement of Social Insurance
- Statement of Changes in Social Insurance Amounts
DOD Principal Statements

- Statement of Net Cost
- Statement of Changes in Net Position
- Balance Sheet
- Statement of Budgetary Resources
Statement of Net Cost

General Format:

- Gross program costs (expenses to produce exchange revenue)
  - Less earned revenue
  - Net program costs
- Cost not assigned to programs
- Less: earned revenues not attributed to programs
- Net cost of operations
Statement of Changes in Net Position

General Format:

- Beginning balances
- Budgetary financing sources
  - Appropriations Used
  - Non-exchange revenue
- Other financing sources
  - Imputed financing
- Total financing sources
- Net cost of operations
- Cumulative results of operations
Balance Sheet

General Format:

ASSETS

LIABILITIES

NET POSITION
Statement of Budgetary Resources

- Focuses on budgetary resources and the status of those resources
- Includes outlays
- Relates to both budgeting and accounting processes
Budgeting and Accounting will always be linked
THANK YOU!

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