


Accounting and Reporting for Financial Commitments

By
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Basic Premises

- } Commitment accounting is needed to maintain fiscal discipline and determine degree of fiscal sustainability.
 - } Commitment information is essential for fiscal forecasting and budget management
 - } There are two types of commitments: Expenditure and Revenue
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Prior Recommendations to Report Commitments by IPSASB

(sometimes referred to as encumbrances or obligations)


1. IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets (2002)
2. Research Report on Budget Reporting (2004)
3. IPSAS 24, para. 11: Presentation of Budget Information in Financial Statements (2006)
4. Conceptual Framework, BC5.36 (2014)

Methods to Record Commitments

- } Manual accounting by developing countries
 - } Off-line vote ledger (UK and similar)
 - } Integrated budgetary accounts with accrual accounts (USA and similar)
 - } Integrated with procurement and accrual accounting in a Financial Management Information System (FMIS)
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Question #1


Which method of accounting does your country use to record financial commitments?

1. Not recorded
 2. Manual
 3. Vote ledger
 4. Integrated budgetary accounts with accrual accounts
 5. Integrated with a FMIS providing commitment reporting
 6. Unknown
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Expenditure Commitments


- } Purchase orders or contracts for goods or services that have not yet been received but are chargeable to an appropriation.
- } Accounting procedures:
 - Funds reserved when purchase order or contract approved.
 - Committed funds released and funds expended when item received with liability established or cash paid.

Reporting Options for Expenditure Commitments Outstanding at Year-End

- } Cancel commitment at year-end (lapse) and reestablish at beginning of next year. Charge commitment to new budget year.
 - } Carry commitment over for 30 days and charge to prior year. If not received by end of 30 days, charge committed funds to new budget year.
 - } Carry commitment over to new budget year but charge to budget year when item ordered.
 - } Some commitments extend more than one year into the future.
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Question #2

How does your country handle outstanding expenditure commitments at year-end?

1. Cancel and reestablish at beginning of next year.
 2. Keep books open for 30 days and charge to prior budget year. If not received after 30 days, charge to new budget year.
 3. Carry commitment over to new budget year but charge to prior budget year.
 4. Unknown
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Question #3

How does your country report outstanding expenditure commitments at the end of the fiscal period?

1. Not applicable
 2. Not reported
 3. In the Notes to the financial statements
 4. On the face of the financial statements
 5. Unknown
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Question #4

How does your country provide for expenditure commitments in fiscal forecasting and budgeting?

1. Explicitly included in fiscal forecasts and budgets
 2. Taken into account when forecasting future budget expenditure
 3. Not taken into account
 4. Unknown
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Budget Execution and Management

- } A system of commitment management is essential for budgetary control
- } As commitments are made, they pre-empt budget allocations
- } Need to be recorded (USA-integrated in accounting; UK-separate vote ledger)
- } For any fiscal year:
budget available to spend = budgeted appropriation – (already expended + committed)

Revenue Commitments

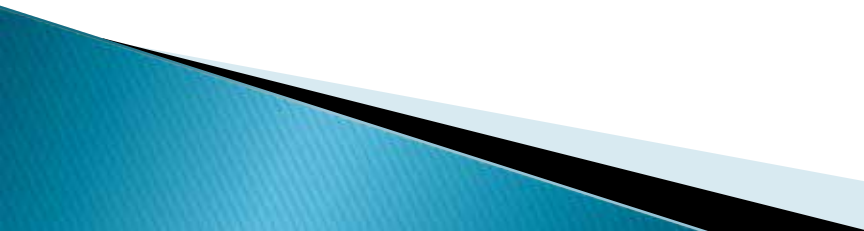
- } Anticipated revenue based upon a contractual obligation of a third party to pay.
- } Accounting procedures:
 - Not recorded
 - Kept off-line
 - Funds recognized on-line when donor or grantor legally commits to pay (not recognized as a receivable until all restrictions are met)

Revenue Commitment Examples

1. Grantor promises to provide a grant with or without restrictions (matching expenditures, etc.)
 2. Donor promises to donate funds with or without restrictions
 3. Taxes collected by central government but due to be disbursed to sub-ordinate unit
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Question #5

How does your country account for outstanding revenue commitments at year-end?

1. Cancel and reestablish at beginning of next year.
 2. Keep books open for 30 days and charge to prior budget year. If not received after 30 days, charge to new budget year.
 3. Carry commitment over to new budget year but charge to prior budget year.
 4. Unknown
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Question #6

How does your country report outstanding revenue commitments at the end of the fiscal period?


1. Not applicable
 2. Not reported
 3. In the Notes to the financial statements
 4. On the face of the financial statements
 5. Unknown
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Question #7


How does your country provide for revenue commitments in fiscal forecasting and budgeting?

1. Explicitly included in fiscal forecasts and budgets
 2. Taken into account when forecasting future budget revenue
 3. Not taken into account
 4. Unknown
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Conclusions

- } Commitment recording, accounting, and management is as important as accrual accounting to effective financial management
 - } But largely ignored by standard setters, e.g. IPSAS Board
 - } Need to begin conversation on how to manage and report commitments
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Optional Solutions for Standard Setters

- } Prepare Research Report on commitment management and accounting approaches to lay the foundation for IPSASB consideration
 - } Question and Answer by IPSASB to give interim guidance
 - } Recommended Practice Guidelines by IPSASB to give optional approaches
 - } IPSAS issued after due process to provide definitive guidance
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QUESTIONS