AP 507 – YEAR END PROCEDURES - SCHOOLS

BACKGROUND

The school division uses commitment accounting. Over the course of the year commitment accounting serves as a very valuable management tool. In commitment accounting, the estimated dollar value of items ordered on purchase orders are charged to financial reports at the time the orders are placed. These charges, recorded as commitments on the financial reports serve to remind administrators of the estimated dollar value of orders in progress that will require settlement in the near future.

In 2002, Saskatchewan Learning in conjunction with Saskatchewan Association of Business Officials introduced new requirements around financial reporting. One of their recommendations was that school divisions report on an accrual as opposed to commitment basis. Under accrual accounting, goods are not expensed until they are received and paid for. In comparison, commitment accounting reports a charge for the goods when they are ordered.

As mentioned above, the school division uses commitment accounting, as we believe that it provides a very valuable management tool over the course of the year. However, at year-end we are obligated to report on an accrual basis.

To show the impact of this conversion at year-end take the example of a school placing an order in May for audiovisual equipment. The supplier is out of stock on the item ordered and it remains back ordered and unfilled at August 31 (year-end). Under commitment accounting, the estimated dollar value of the equipment is charged to operations at the time the goods are ordered through the commitment mechanism. Converting to the accrual basis of accounting essentially requires the elimination of this commitment. This will have the impact of reducing expenses otherwise charged to current operation, in turn increasing the school’s operating surplus for the year and the transfer of funds to the carry over (reserve) accordingly.

At the same time, it is important to note that this commitment is not really eliminated but will show up as a commitment (charge) against the following year’s operations.

PROCEDURES

Detailed below are year-end procedural and cutoff information you should be aware of:

1. Regular Purchase Orders

   Due to the conversion to accrual accounting, there is no longer an onus to have on-line requisitions completed by a specified date in August to ensure these transactions are charged against current year operations. Placing an on line requisition by a specified date in August no longer equates to having this transaction charged to current year operations.

2. Standing Purchase Orders

   Standing purchase orders are in place for suppliers from whom supplies and services are required on a regular basis throughout the year. Standing purchase orders are in place with suppliers such as Supreme, H.E.L. Music, Fabricland, etc. Standing purchase orders have a nominal $1.00 charge set up as a commitment. Generally, there is a very quick turnaround time between receipt of these goods and issuance of the invoice for payments. Every effort will be made to have these invoices processed for payment in the year the goods are received.

3. Photocopier Charges

   Photocopy charges right up to the end of August will be reflected in current financial reports.

4. Web-Based Ordering System

   The web-based ordering system is used to purchase items for which contract pricing has been obtained. Web-based ordering is identical to standing purchase orders in that there is no commitment value associated with the order. Items purchased through the web-based ordering system are charged and recorded in financial reports after the goods have been received and are paid for.

5. Purchase Cards (Pcard)

   All purchase transactions appearing on the Pcard statement right up to August 31 will be reflected in the current year financial reports

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