

## Accounting for Encumbrances

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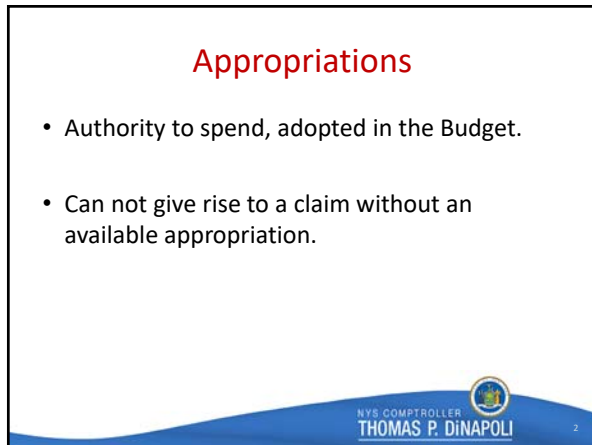
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## Appropriations

- Authority to spend, adopted in the Budget.
- Can not give rise to a claim without an available appropriation.



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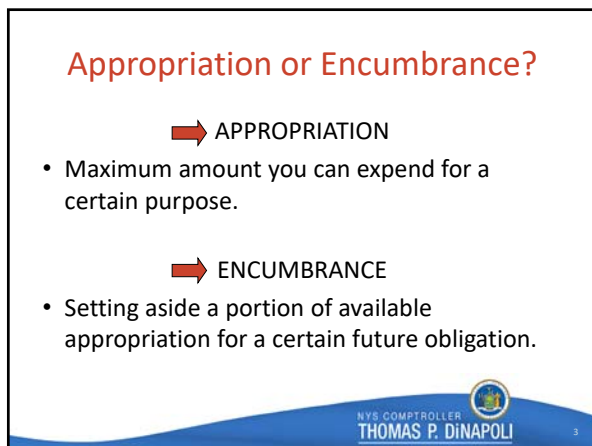
## Appropriation or Encumbrance?

### ➡ APPROPRIATION

- Maximum amount you can expend for a certain purpose.

### ➡ ENCUMBRANCE

- Setting aside a portion of available appropriation for a certain future obligation.



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## Encumbrance System

Why Encumber?

- To prevent exceeding available appropriations.
- To carry committed appropriations over to the next year.

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## Encumbrance Exercise

You've ordered equipment for \$600 but have not received it. Now a department head is requesting \$800 for another purchase. Can you make the purchase?

**Without tracking Encumbrances**

1410.2 Clerk – Capital Outlay

Appropriation	Encumbrance	Actual	Balance
\$1,000	\$0	\$0	\$1,000

**With Tracking Encumbrances**

1410.2 Clerk – Capital Outlay

Appropriation	Encumbrance	Actual	Avail. Balance
\$1,000	\$600	\$0	\$400

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## Encumbrance Benefit

- Prevents expenditures exceeding the available appropriations.

Clerk – Capital Outlay				A1410.2		
20XX Date	Description	Ref.	Appropriation	Encumbrance	Expenditure	Balance
1/1	Budget	GJ-1	1,000	600		400

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## Encumbrance Entries

- To initially record an encumbrance (outstanding order).

	Sub Account	DR	CR
521 Encumbrances various sub accounts	XXX	XXX	
821 Reserve for Encumbrances			XXX

Memo: To record encumbrance.

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## Encumbrance Entries

- Year-end closing for an outstanding encumbrance.

	Sub Account	DR	CR
912 Unrestricted Fund Balance		XXX	
521 Encumbrances various sub accounts	XXX		XXX

Memo: To close outstanding encumbrances at year-end.

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## Fund Balance Reporting

- Resources classified as unassigned fund balance are reclassified as assigned when encumbered.
- Encumbered resources that are assigned, restricted or committed fund balance are not reclassified.

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## Encumbrance Entries

- To carry committed appropriations/outstanding encumbrances over to the new fiscal year.

	Sub Account	DR	CR
521 Encumbrances various sub accounts	XXX	XXX	
912 Unrestricted Fund Balance			XXX

Memo: To re-establish outstanding encumbrances of the prior year.

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## Encumbrance Entries

- To modify the budget in the new fiscal year.

	Sub Account	DR	CR
599 Appropriated Fund Balance		XXX	
960 Appropriations various sub accounts	XXX		XXX

Memo: To modify budget to account for outstanding encumbrances from prior year.

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## Encumbrance Entries

- To record the expenditure and payment (invoice received).

	Sub Account	DR	CR
522 Expenditures various sub accounts	XXX	XXX	
200 Cash			XXX

Memo: To record expenditure.

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## Encumbrance Entries

- To close out the encumbrance after invoice is received.

	Sub Account	DR	CR
821 Reserve for Encumbrances		XXX	
521 Encumbrances various sub accounts	XXX		XXX

Memo: To close encumbrance as established.

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## Journal/Ledger

**General Journal** **JV No. 1**

Date	Account Title and Explanation	Ref.	Debit	Credit
	Expenditures	A522	2,000	
	2,000	A7140.4		
	Cash	A200		2,000

**Subsidiary Expenditure Ledger**

Functional Unit: Community Recreation

Object Class: Contractual Expense Acct. No. A7140.4

Date	Explanation	Ref.	Appropriation	Encumbrance	Expenditure	Unencumbered Balance
	Appropriation	JE1	10,000			10,000
	Encumbrance For Materials	JE4		2,000		8,000
	Payment of Invoice	JV-1		(2,000)	2,000	8,000

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## When an Invoice Amounts Differs From Encumbered Amount

**Subsidiary Expenditure Ledger**

Functional Unit: Community Recreation

Object Class: Contractual Expense Account No.: A7140.4

Date	Explanation	Ref.	Appropriation	Encumbrance	Expenditure	Unencumbered Balance
	Appropriations	JE1	10,000			10,000
	Encumbrance For Materials	JE4		2,000		8,000
	Payment of Invoice	JV-1		(2,000)	2,200	7,800

**Encumbrances must always be liquidated at original amount.**

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## Unused Encumbrance

- If actual expenditure is less than encumbrance, then remaining appropriation is removed.

	Sub Account	DR	CR
960 Appropriations various sub accounts	XXX	XXX	
599 Appropriated Fund Balance			XXX
Memo: To adjust budget for unused prior year encumbrances.			

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## Monitoring the Budget

- Board needs to ensure that controls are in place by using:
  - A purchase order system or alternative method
  - An encumbrance system

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## Purchase Order System

- Benefits
- Ensures budgetary authority before commitment
- Internal controls

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## Budgetary Control without a Purchase Order System

- Requisition System
  - Confirm with CFO before purchasing
  - Use standardized forms
- Monthly Reports

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## Budget Report Including Encumbrances

GENERAL FUND STATEMENT OF EXPENDITURES/EXPENSES AND ENCUMBRANCES  
COMPARED TO THE MODIFIED BUDGET

Account	Original Budget	Modified Budget	Expenditures/ Expenses	Encumbrances	Unencumbered Balance
General Government	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Public Safety	_____	_____	_____	_____	_____
Health	_____	_____	_____	_____	_____
Transportation	_____	_____	_____	_____	_____
Economic Assistance and Opportunity	_____	_____	_____	_____	_____
Culture and Recreation	_____	_____	_____	_____	_____
Home and Community Services	_____	_____	_____	_____	_____
Undistributed	\$ _____	\$ _____	\$ _____	_____	\$ _____
Total Expenditures	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

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Thank You

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