Lecture 10: Expenditure Cycle Applications

Learning Objectives
1. To review the accounting entries recorded in the expenditure cycle.
2. To learn which documents, reports and records are used in the expenditure cycle.
3. To understand how accounting transactions are processed by the application systems in the expenditure cycle.

In the case of the expenditure cycle, the accounting system records following four economic events:

   a) The organizations request for goods or services. Computer-based systems use purchasing system to record these request.

   b) The receipt of the goods or services. When goods are involved, a receiving system records this event.

   c) The recognition of an obligation to pay. This economic event is processed by the voucher system.

   d) Payment for the goods or services. To record this event is used a cash disbursements system.

Illustration 10.1: Application systems in the Expenditure Cycle


in the expenditure cycle, there usually occurs three types of transactions – credit purchase, cash disbursements and purchase return.

Credit purchase
Companies make a lot of their purchases on credit. After recognizing the need for the goods or services, an authorized person (e.g. supervisor) requests them on a purchase requisition.
The purchasing agent approves a purchase, selects a vendor and prepares a purchase order. The receipt of goods is documented in a receiving report. After receiving a copy of receiving report, invoice from the vendor and copy of the purchase order, the accounts payable department prepares a voucher showing asset or expense account to debit.

The accounting entry recording this type of purchase is:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset or expense account</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>$xxx</td>
<td>$xxx</td>
</tr>
</tbody>
</table>

**Cash disbursements**

When the invoice is due, the treasurer’s department approves the payment. Some vendors offer discounts from the invoice price in return for prompt payment. When an organization takes discount, it records the amount of the discount in a special account:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>Purchase Discounts</td>
</tr>
<tr>
<td>$xxx</td>
<td>$xxx</td>
</tr>
<tr>
<td>Cash</td>
<td>$xxx</td>
</tr>
</tbody>
</table>

**Purchase returns**

In some cases, an organization returns purchased items to the vendor. This may occur because the purchaser received items of insufficient quality, unrequested items etc. The purchaser sends to the vendor a request that the vendor credit the purchaser’s account for the cost of return. The document to make this request is called as debit memo. The entry recording a purchase return is:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>Asset or expense account</td>
</tr>
<tr>
<td>$xxx</td>
<td>$xxx</td>
</tr>
</tbody>
</table>

**Expenditure Cycle Reports**

Application systems in the expenditure cycle produce three kinds of reports:

1. **Control Reports** – is summary of changes used to determine when changes were made improperly or to ensure that no transactions were omitted.

2. **Registers** – contain lists of transactions of a certain type recorded during a processing period used to supporting summary entries in accounting ledgers. Registers provide an audit trail for account balances.

3. **Special Purposes Reports** – most systems require these special purpose accounting reports:

   - **Open Invoices Report** – a list of unpaid vendor invoices as of the day of the report.
   - **Voucher Aging Report** – it summarizes vouchers by how long they have existed.
   - **Cash Requirements Report** – a list vouchers by the date they are due to be paid. It aids in planning cash flows.
Expenditure Cycle Accounting Records

It is possible to maintain accounting records in manual journals and ledgers (noncomputerized records) or in computer files and databases (computerized records). Nowadays, the most applied way of maintaining the accounting records is a computer-based accounting system.

In the expenditure cycle, a computer-based system uses four applications:

- **Purchasing Application** – the purposes of this application are to identify supplies, materials and equipment for acquisition, to select a supplier and to ensure that the items are requested and received.

- **Receiving Application** – this application is used to ensure that all receipts of material, supplies and equipment are authorized, and to record their receipt in the accounting records.

- **Voucher Application** – this application is used to record the obligation to pay a supplier. Inputs for this system are primarily the vendor invoices.

- **Cash Disbursements Application** – the purpose of this application system is to ensure that payments are made to vendors in the proper amount at the proper time.
Lecture 10 - Questions and exercises

Q 10-1: Which three types of transactions do accounting systems record in the expenditure cycle?

Q 10-2: Which economic events produce transaction in the revenue cycle?

Q 10-3: Which information is disclosed in a register?

E 10-1: Transactions and applications

The column on the left lists accounting transactions. The next column lists application systems used in the expenditure cycle. Identify the application system that processes each transaction.

a) Credit purchase. 1. Cash disbursements.
b) Cash payment. 2. Voucher.
c) Purchase return. 3. Receiving.

E 10-2: Transactions and documents

The column on the left lists accounting transactions processed in the expenditure cycle. In the right column is a list of documents and reports. Identify the document(s) and report(s) associated with each transaction.

a) Credit purchase. 1. Receiving report.
b) Cash payment. 2. Debit memo.
c) Purchase return. 3. Check.
4. Purchase order.
5. Vendor invoice.

The main source:


The supplementary sources:

