Recognition of the importance of information on program costs for the proper formulation and execution of budget programs led to the requirement—laid down in the 1956 amendments to the Budget and Accounting Procedures Act of 1950—that all agencies of the Federal Government develop and install accrual accounting systems under guidelines prescribed by the General Accounting Office. Under this legislation, there has been steady improvement in Government accounting and financial management. While practices vary somewhat from agency to agency all but a few agencies now use accrual systems. The General Accounting Office has approved a number of these systems. Others are currently before the General Accounting Office for approval, and still others are scheduled to be submitted for approval shortly.

The Commission heartily endorses the trend toward the use of accrual systems. Program costs are an important tool for program management and for agency budget formulation and execution. Moreover, the existence of modern accrual accounting systems makes it possible to adopt a much better method of measuring and reporting Government expenditures than was previously possible.

The concept of accrued expenditures

Accrued expenditures differ from cash disbursements because of net changes in Government liabilities (accounts payable and other accrued liabilities). In the case of goods and services acquired under contract, as in construction and defense hard goods procurement, the accrual basis will result in reporting expenditures at the time of constructive delivery; that is, as the work is actually performed to Government specifications. When the Government acquires mass-produced items, the liability occurs—and accrued expenditures are recorded—at the time of physical delivery.

The Commission considers this recommendation to be an extremely important and valuable contribution to improved budget presentation. It is a normal, natural, and straightforward concept of expenditures which should be easily understandable. The business community is already quite familiar with accrual of expenditures, revenues, and costs. Business practices are not always, or necessarily, correct practices for Government. But a large share of the Government's expenditures represents income to private business, and there are obvious advantages of having the two sides of the transaction recorded as consistently as possible on the books of both buyers and sellers. Accrued expenditures also represent a much better measure of the actual impact of Government purchasing activities on the economy than obligations or cash disbursements.

Relationship to present system

The proposed accrual concept cannot replace cash receipt and expenditure information for Treasury cash balance management and public debt management. Cash records are indispensable for the proper discharge of