Chapter VI

The Expenditure Cycle

Expenditure Cycle Activities

The expenditure cycle consists of the ordering of goods and services from suppliers and consequent payments to the suppliers. The generic transaction flow in the expenditure cycle can be described as follows: inventory control reviews inventory records to determine order requirements. A purchase requisition(s) is created and forwarded to the purchase department. The requisition contains details of items and quantities required. The purchase department selects suppliers by using the approved list of suppliers or any other standard operating procedure established by the organization. The supplier is selected and a purchase order is created and forwarded to that supplier. Another copy of the purchase order goes to the inventory control department to notify it that goods are on order. The supplier ships goods to the warehouse, and a receiving report is created. The receiving report is forwarded to inventory control and accounts payable. Inventory control updates inventory records based on the receiving report.

The accounts payable department receives an invoice from the supplier and creates a voucher package by reconciling the necessary documents, such as purchase requisition, purchase order, receiving report and invoice. The voucher package is then approved with...
corrections, if any. The accounts payable subsidiary ledger is updated and summary totals are forwarded to the general ledger. The voucher package is forwarded to the cash disbursement department. A check is prepared and mailed to the supplier.

The generic steps in the expenditure cycle are similar across organizations; however, implementation of these methods spans a full spectrum, from manual methods to Web-enabled automated methods, to innumerable combinations in between. There is no one standard solution that fits all companies. The expenditure cycle has changed considerably due to the Internet and ERP. The review of inventory is automated and can be done over the Internet. Suppliers can tap into company databases and supply needed items based on inventory levels. The purchasing activities of today’s corporations span the globe; suppliers can be based in different countries, and purchase staff may be empowered to conduct purchasing activity without specific approvals. The entire purchasing process can also take place over the Web in the absence of face-to-face contact. Supplier relationship management and e-procurement enable such activities by