

Toward Business Literacy: Accounting Outlines



Fund Accounting- Government

Types of Funds

- **Governmental funds** use current financial resources to value assets and modified accrual to account for transactions
 - Current financial resources recognizes an asset when there is a purchase order and contract made to acquire the asset
 - Modified accrual recognizes:
 - Revenue when available and measurable
 - Expenses when liability is incurred
 - Types of governmental funds include
 - **General:** for basic services
 - **Special revenue:** resources restricted for specific use
 - **Capital projects:** legally authorized major projects
 - **Debt service:** for payment of principle and interest on debt
 - **Permanent:** restricted principle; interest is expendable
- **Proprietary funds** are similar to regular commerce and business and use economic resources (cost and depreciation) and full accrual (revenues when earned and expenses when incurred)
 - **Enterprise:** resources from sales and charges to external parties
 - **Internal service:** government ← → government
 - Assets are not in government fund statements
- **Fiduciary funds** has the government as collector and disburser; uses the economic resources and full accrual
 - **Agency funds:** government acts as an temporary agent with no assets, revenues or expenses, only changes in assets and liabilities
 - **Pension:** for employees; either a defined benefit or contribution
 - Keeps track of net assets, changes in assets, funding progress and contribution trends
 - **Investment trusts:** arranged trusts for private purposes

Process

- **Budget** formed by legislature or city council, giving a budgetary fund balance and a balance reserved for encumbrances
 - Appropriations control (Cr) → Budget and Actual
 - Reserved for Encumbrances
 - Encumbrance control fund balance (Dr)
 - Encumbrances → Expenditures
 - Revenues are estimated
- **Appropriations** empower the creation of liabilities & comply with statutes or ordinances
- **Encumbrances** are created when a purchase order or contract is issued
- **Expenditures** are made when a liability is incurred
- **Revenues** are recognized when funds are available and measurable
- **Estimated other financing sources/uses** include interfund and debt proceeds

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- Each category has a control account, with particulars in subsidiary ledger

Assets

- Recognized in government-wide statements (not proprietary or fiduciary)
- Can be restricted or unrestricted or invested in capital
- Acquired through general, special revenue or capital projects
- Depreciation can be *modified*: the expense can be to extend life; must keep track of inventory, assess regularly, and make estimation to maintain
- Liabilities include long term debt

Statements

- Net Assets (assets-liabilities): restricted, unrestricted, or invested
- Activities: expenses less program revenues= net expenses
- Revenues, expenditures and changes in fund balance
- Cash flows

Government Entities

- General purpose: state, county, etc
- Special purpose: library, port authority, community college
- Basic services: police, transportation
- Special services: fire, drainage
- Important issues are:
 - Performance
 - Optimal capital structure
 - Predictions of any failure
- FASAB- Federal Accounting Standards Advisory Board priorities
 - Budgetary integrity- raising and spending \leftrightarrow budgets
 - Operating performance evaluate efforts, costs and accomplishment
 - Stewardship addresses impact of operations and investments
 - Systems and controls are judged by their adequacy
- GASB- Government Accounting Standards Board: state and local govt.
- Governments issue CAFR- Comprehensive Annual Financial Report
 - Introduction, Auditors Report, Management Discussion and Analysis, Supplemental Information, Schedules of legal compliance, and Statistical Tables
 - Government-wide involves a Statement of Net Assets and a Statement of Activities