

Gouvernemental Accounting

Jerome Dumortier

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Overview

Topic covered

- Governmental Funds Structure
- Governmental Accounting

Governmental Funds Structure

Introduction

Separation into self-balancing accounting entities used to record assets, liabilities, revenues, and expenditures associated with government functions

- ① Governmental funds
- ② Proprietary funds
- ③ Fiduciary funds

Governmental Funds

General fund

- Revenues (e.g., tax revenue) and expenditures
- Operating fund: Largest fund and similar to a personnel checking account

Special revenue fund

- Specific revenue and expenditure items usually earmarked for special purposes, e.g., fuel tax revenue, federal aid fund

Debt service fund

- Repayment of short- and long-term debt (principal and interest)

Capital projects fund

- For specific projects with fund ending at project termination

Proprietary and Fiduciary Funds

Proprietary funds (self-sufficient funds)

- Enterprise funds: Coverage of self-supporting government operations (e.g., utilities, public transportation)
- Internal service funds: Transactions between government agencies

Fiduciary funds: Funds held by the government for others and which cannot be used for government operations

- Pension funds: Funds held on behalf of employees
- Trust funds whose interest payments are available for public use

Governmental Accounting

Standards

- Governmental Accounting Standards Board (GASB): Sets accounting and financial reporting standards for the public sector in the U.S.
- Annual Comprehensive Financial Report (formerly Comprehensive Annual Financial Report): Financial statements of states, municipal, and local governments

Basis for accounting

- Timing of transaction and events

Measurement focus

- What transaction and events should be recorded

Basis for Accounting

Office of the New York State Comptroller:

- “[T]he basis of accounting refers to when revenues, expenditures, expenses, and transfers—and assets, deferred outflows of resources, liabilities, and deferred inflows of resources—are recognized in the accounts and reported in the financial statements. The accounting basis determines when the economic consequences of transactions and events are reflected in financial statements.”

Three bases for accounting

- Cash
- Accrual
- Modified Accrual

Inflow and Outflow of Funds

Inflow of funds

- **Cash:** Recorded when cash received
- **Accrual:** Recorded when earned independent of whether payment has been received
- **Modified accrual:** Recording of measurable and available revenues

Outflow of funds

- **Cash:** Recorded when cash paid
- **Accrual:** Recorded when the resources have been used in service production independent of when payment for resource occurs
- **Modified accrual:** Recorded when resources are contractually committed or obligated (obligation or encumbrance)

Measurement Focus

Inseparable link between basis of accounting and measurement focus.

Office of the New York State Comptroller:

- “[A] measurement focus identifies what transactions and events should be recorded. The measurement focus is concerned with the inflow and outflow of resources that affect a fund’s operating statement.”

Governmental vs. Proprietary Funds

Governmental funds

- Focus on current financial resources using modified accrual basis of accounting,
- Recognition of increases and decreases in financial resources to the extent that they reflect near-term inflows or outflows of cash.

Proprietary funds

- Focus on total economic resources employing accrual basis of accounting
- Recognition of increases and decreases in economic resources as soon as event or transaction occurs.

Cash Accounting

Recording of expenditures and revenues when physical received or expended

- Cash as the only asset with no liabilities
- No receivables or payables under strict cash basis
- Measurement of in- and outflows from an organization to assure adequate cash on hand

Used for cash flow forecasts and cash management

- Straightforward way of recording transactions for small businesses

Accrual Accounting

Revenue and expense recorded when received or used independent of timing

- Economic resource measurement focus
- Used by for-profits, nonprofits, state and local governments, government enterprises (e.g., public universities, hospitals)
- Reporting of all assets and liabilities on the balance sheet, including long-term assets, such as buildings and equipment, and long-term liabilities, such as debt, pension obligations

Modified Accrual

Expenditure recorded when the legal commitment to pay arises

- Objective: Assurance of financial control for general government functions
- Measurement focus: Current financial resources (or budgetary period)
- Focus is on current assets, such cash and short-term investments, and current liabilities, such as accounts payable and short-term debt (or principal and interest due in the budgetary period or the next 12 months).

Example: Revenues and Expenditures

Revenue

- Modified accrual: Governmental funds recognize revenues as cash is received during or soon after the end of the year and when it is earned and both measurable and available (within 60 days).
- Accrual: Recognize the revenue in the fiscal year in which the agency earns the revenue and it is measurable. Availability is not a factor.

Expenditures

- Modified accrual: [E]xpenditures are recognized in the fiscal year in which they are expended or when they are subject to accrual. Accruals are recorded when they are expected to use expendable financial resources.
- Accrual: [E]xpenditures are recognized in the fiscal year in which the agency incurs a liability.

From [Contrasts between Modified and Full Accrual](#)

Example: Capital Asset Acquisition

Modified accrual

- Recognize the expenditure at the acquisition date.

Accrual

- Recognize the cost of the asset and depreciate the value over the expected useful life of the asset.

From [Contrasts between Modified and Full Accrual](#)

Example: City of Pembroke Pines (Florida)

Adopted budget from September 30, 2023

- Government funds
 - Basis: Modified accrual
 - Focus: Flow of current financial resources
- Proprietary funds
 - Basis: Accrual
 - Focus: Flow of economic resources
- Fiduciary funds
 - Basis: Accrual
 - Focus: Account for assets