

Introduction to Governmental Accounting

TGFOA 2019 Fall Conference



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Agenda

- Definition and Purpose of Accounting
- Public/Private Sector Differences
- Correlation to Other Organizational Areas
- Fund Accounting/Fund Types
- Basis of Accounting & Measurement Focus
- Governmental Funds



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What is Accounting?

Accounting may be defined as the art and science of recording business transactions in a methodological manner so as to show:

true state of affairs of a business of a particular period

surplus or deficiency which has accrued during a period



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Purpose of Accounting

- Assists management in making decisions about:
 - How to acquire and use resources
 - How to direct and control resources
 - How to maintain resources
- Informed decision making promotes achievement of objectives
- Similar for public and private sectors



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Public/Private Sector Differences

- Environmental Differences
 - Organizational Objectives
 - Cost of Goods/Services
 - Application of Resources
 - Users and Uses of Financial Information
- Accounting Differences



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Correlation to Other Organizational Areas

- Inherently connected to other organizational areas:



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Fund Accounting

- What is a fund?
 - A fiscal and accounting entity with a self-balancing set of accounts
 - Stands alone and apart from other funds
- Use of funds
 - More restrictive than financial accounting
 - Segregated by purpose
 - Way to account for resources and activities



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Fund Accounting

- Each fund has its own:
- Accounting equation
 - Journals, ledgers and other records
 - Financial statements

A single governmental unit has multiple funds each with their own financial statements. Government-wide financial statements provide a comprehensive report for the governmental entity.



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Fund Types

- Accounting for governments focuses on the continued ability to provide goods and services to citizens rather than on profit
- Types of activities:
 - Governmental activities
 - Provide services (or goods) to citizens without regard for ability to pay
 - In general, funded by taxes and intergovernmental revenue
 - Business-type activities
 - Provides goods or services to users
 - Funded by user fees
- Use different accounting principles based on operations



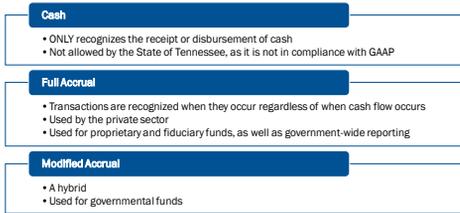
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Fund Types



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Basis of Accounting



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Modified Accrual Basis of Accounting

- Only used for governmental funds
- Shares some features with both the cash and the accrual basis
- Focuses on increases and decreases in fund balance
- Terminology
 - Revenues, Other Financing Sources, Expenditures, Other Financing Uses, Fund Balance
- Revenue
 - Recognized when earned, measurable, available to finance expenditures of the current period (period of availability), and legally spendable
- Expenditures
 - Recognized when owed from current resources

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Measurement Focus

Current
Financial
Resources

Economic
Resources

In the governmental context, a **resource** is an item that can be drawn on to provide services to the citizenry.



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Current vs. Noncurrent Assets & Liabilities

- Current assets are those that will be consumed during the current fiscal period, or soon enough thereafter to pay current-period liabilities (typically 60 days)
 - Cash, temporary investments, taxes receivable
- Current liabilities are those payable from current-year resources
 - Tax revenue anticipation notes (TRANs), amounts due to other funds
- Non-Current or Long-term are assets and liabilities that have a life expectancy of longer than the current fiscal cycle.
 - Land, buildings, equipment, bonds payable



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Fund Categories & Types	Basis of Accounting	Measurement Focus
Governmental		
<ul style="list-style-type: none"> • General fund • Special revenue funds • Capital projects funds • Debt service funds • Permanent funds 	Modified accrual	Current financial resources
Proprietary		
<ul style="list-style-type: none"> • Enterprise funds • Internal service funds 	Accrual	Economic resources
Fiduciary		
<ul style="list-style-type: none"> • Pension and other employee benefit trust funds • Investment trust funds • Private-purpose trust funds • Custodial (Agency) funds 	Accrual	Economic resources



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Governmental Funds

General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds
<ul style="list-style-type: none"> Primary fund (only one), which accounts for most government programs and services Financed primarily by taxes 	<ul style="list-style-type: none"> General government financial resources restricted for specific purposes Restricted or committed revenue must make up a substantial portion of the revenues 	<ul style="list-style-type: none"> Report accumulation of resources for payment of long-term debt 	<ul style="list-style-type: none"> Resources used for acquiring and constructing major capital assets 	<ul style="list-style-type: none"> Resources (typically donations) are restricted but earnings benefit the government or citizens



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Governmental Funds

Accounting equations for governmental funds:

$$\text{Current Assets} + \text{Deferred Outflows} = \text{Current Liabilities} + \text{Deferred Inflows} + \text{Fund Balance}$$

OR

$$(\text{Current Assets} + \text{Deferred Outflows}) - (\text{Current Liabilities} + \text{Deferred Inflows}) = \text{Fund Balance}$$



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Governmental Funds

- Focus on **current** financial resources, which means only current assets and liabilities are reported in the governmental funds.
- Capital Assets
 - Costs of capital assets are recorded as capital outlay expenditures
 - Capital asset and depreciation records are maintained separately and only reported in the government-wide statements
- Liabilities
 - Principal and interest payments on long-term debt are both recorded as expenditures
 - Cash received as a result of the issuance of new debt is recorded as an "other financing source" rather than a liability on the balance sheet
 - TRANS and interfund loans are recorded in governmental funds because they are due within the fiscal year (current liabilities)



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