ACCOUNTING AND FINANCE

LEVEL - IV

BASED ON November 2023, curriculum V-II

GOVERNMENTAL AND NOT-FOR-PROFIT ACCOUNTING

Module Title: Preparing Financial Statements For Governmental and not for Profit Entities (NFP)

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Table ofContents

Acronym

1. AICPA- American Institute of Certified Public Accountants
2. BFSs - Basic Financial Statements
3. CAFR - Comprehensive Annual Financial Report
4. CPF- Capital project fund
5. DSF - Debt service funds
6. GAAP- Generally accepted accounting principles
7. GDP - Gross Domestic Product
8. GF - General Fund
9. NFP - Not-for-Profit Entities
10. NGOs - Not-Governmental Organizations
11. SRF - Special Revenue fund
12. SL&G- State and Local Government
13. FASB– Financial Accounting Standard Board
14. GASB- Governmental Accounting Standard Board
15. YMCA - Young Men's Christian Association

Introduction to the Module

Accounting and finance filed; "**Financial Statements for Governmental and Not-For –Profit Entities(NFP)**". in the work place helps to grasp knowledge about Governmental and not-for-profit organizations, to process Accounting system for Governmental entities; to process accounting process for governmental entities in Ethiopian context.

This module is designed to meet the industry requirement under the Accounting and Finance occupational standard, particularly for the unit of competency **Financial Statements for Governmental and Not-For –Profit Entities(NFP).**

This module covers the units:

- Governmental and not-for profit organizations
- Accounting System for governmental entities
- Accounting for governmental entities in Ethiopia context

At the end of this Unit Students will be able to:

- Identify Nature of Governmental and not-for profit organizations
- Process accounting for governmental entities
- Describe accounting for governmental entities in Ethiopian Context.

Module instruction

For effective use this modules trainees are expected to follow the following module instructions:

1. Read the information written in each unit
2. Accomplish the self-checks at the end of each unit
3. Read the identified reference book for examples and exercises

UNIT ONE: Governmental and not-for profit organizations

This unit is developed to provide you the necessary information regarding the following content coverage and topics:

- Nature of government and not- for -profit organizations (NFP)
- Growth and Importance of NFPs sectors
- Accounting principles of governmental entities

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this unit, you will be able to:

- Identify characteristics of government and not for profit organizations (NFP)
- Identify Growth and importance of NFPs sectors
- Explain Accounting principles of governmental entities

Introduction

Governmental and not for profit organizations are vast in number and diversity. States, countries municipalities (for example cities and villages) and townships are **general purpose governments** that provide many categories to their residents (such as police and fire protection; sanitation; construction, and maintenance of streets, roads, and bridges; and health and welfare). Independent school districts, a public colleges and universities, and special districts are limited or **special purpose governments** that provide only a single function, or limited number of functions (such as education, drainage and flood control, irrigation, soil and water conservation, fire protection, and water supply).

Not-for-profit organizations also exist in many forms and serve many different functions. These include private colleges and universities, various kinds of health care organizations, certain libraries and museums, professional and trade associations, fraternal and social organizations, and religious organizations.

1.1. Nature of Governmental and Not -for -profit organizations (NFP)

Governmental and not-for-profit organizations differ from business organizations. Not surprisingly then, accounting and financial reporting for governmental and not-for-profit organizations is markedly different from accounting and financial reporting for businesses. An understanding of how these organizations differ from business organizations is essential to understanding the unique accounting and financial reporting principles that have evolved for governmental and not-for-profit organizations. Broad generalizations about such a diversified group as G&NP organizations are difficult. Nonetheless, the major differences arise from differing:

General purpose governments provide a broad array of services. Special purpose governments usually provide only a single or just a few services. Not-for-profit organizations are legally separate organizations which are usually exempt from federal, state, and local taxation Non-Profit making organizations are formed for social welfare or charity.

It is a type of organization which does not gain profits for its owners, instead all the amount of money they earn as donation is utilized in pursuing objectives of it and in keeping it running. Typically, these non-profit seeking organizations are under the non-profit sector and are tax-exempt charities or other types of public service organizations.

In its Statement of Financial Accounting Concepts No. 4, the Financial Accounting Standards Board (FASB) emphasized and noted the following characteristics that it felt distinguished governmental and not-for-profit entities from business organizations*:*

A. Receipts of significant amounts of resources from resource providers who do not expect to receive either repayment or economic benefits proportionate to the resources provided.

B. Operating purposes that are other than to provide goods or services at a profit or profit equivalent.

C. Absence of defined ownership interests that can be sold, transferred, or redeemed, or that convey entitlement to a share of a residual distribution of resources in the event of liquidation of the organization

1.1.1 Differences between For-Profit and Non-profit Organizations

Purpose

- All organizations have a purpose, but one of the biggest differences profit versus nonprofit organizations have lies in the fact that for-profit organizations' primary mission is to generate profits for personal fulfillment. They do this by creating and selling products and/or services.
- On the other hand, the main goal of a nonprofit organization is to make profits for serving society. They promote a social cause by offering assistance with basic human needs. Nonprofits aim to tackle challenges and solve important issues such as alleviating poverty, providing education, food and water, assisting with housing, protecting endangered species and/or the environment, etc.

Funding

- Providing funds is the basis of all successful operations and projects. The seed capital of for-profit organizations is provided by the founders or business owners, by bank loans, investors and revenues generated from sales of their products and services.

- Nonprofit organizations use a different approach. They seek both private and corporate donations of time, material, products, and money. Government grants are also used for funding the operations of nonprofits, together with crowd funding

Target Audience

- When looking at for-profit vs. nonprofit organizations, the diversity of the audience is another key difference. While for-profit businesses have a more precisely defined target audience that is usually not the case with nonprofits. While for-profit organizations try to establish a relationship with clients who buy their products and services in order to generate revenue, the nonprofit ones seek to reach a more diverse audience including volunteers, corporate sponsors, donors, and the general public. Therefore, nonprofits need to take into account the different interests of each segment of their audience.

Management

- A for-profit organization can be a privately held business or a large corporation with boards and stakeholders. Responsibilities are distributed among individuals or a group that takes part in the financial success of the business. Since for-profits are primarily focused on increasing revenue, not only do these for-profit leaders share responsibilities, but they often share financial incentives.

- Nonprofits, on the other hand, are mostly led by trustees, a board of directors or committee members that do not have direct financial ownership. Their main concern is not about financial success, but about social and/or environmental issues.

Organizational Culture

- For-profit vs. nonprofit organizations differentiate in their organizational cultures. Since for-profits tend to focus on the financial gain, they value employees who contribute to the creation of new products and services, as this can help increase revenue.

- Nonprofit organizations, on the other hand, are community-oriented. Their employees are often seen supporting the cause outside their regular schedule attending events or handing out informative and educational resources to local businesses in the evenings or on weekends.

Taxation

- Since for-profit companies make profits for their own benefits, they have to pay taxes as required by the law. However, nonprofit organizations are exempted from paying taxes as they make profits to help society. In addition, individuals and businesses that donate to nonprofits can claim tax deductions.
- If an organization is a non-profitable entity that does not mean it cannot be profitable. Just like for-profit organizations, the nonprofit ones very often have the same approach to generating revenues and increasing profits with the aim of creating more programs or improving the existing one(s). However, the difference between a for-profit and nonprofit organization is that the latter is required to reinvest any profit in pursuit of its purpose.

In the Governmental Accounting Standards Board (GASB) view, accounting and financial reporting standards for governments must be separate and distinct from those for business organizations because the needs of users of financial reports are unique and different

The Governmental Accounting Standards Board (GASB**)** further distinguishes governmental entities from not-for-profit entities and from businesses by stressing that governments exist in an environment in which the power ultimately rests in the hands of the people. Voters delegate that power to public officials through the election process. The power is divided among the executive, legislative, and judicial branches of the government so that the actions, financial and otherwise, of governmental executives are constrained by legislative actions, and executive and legislative actions are subject to judicial review. Further constraints are imposed on state and local governments by the existence of the federal system in which higher levels of government encourage or dictate activities by lower levels and finance the activities (partially, at least) by an extensive system of intergovernmental grants and subsidies that require the lower levels to be accountable to the entity providing the resources, as well as to the citizenry. Revenues raised by each level of government come, ultimately, from taxpayers. Taxpayers are required to serve as providers of resources to governments even though they often have very little choice about which governmental services they receive and the extent to which they receive them.

Since governments may have a monopoly on the services they provide to the public, the lack of a competitive marketplace makes it difficult to measure efficiency in the provision of the services. It is also extremely difficult to measure optimal quantity or quality for many of the services rendered by government - for example, how many police are “enough”? The Governmental Accounting Standards Board notes the determination of optimal quantity or quality of government services is complicated by the involuntary nature of the resources provided. “A consumer purchasing a commercial product can determine how much to purchase and may choose among ‘good,’ better,’ or best’ quality and pay accordingly. A group of individuals paying for governmental services (and paying in different proportions for services that some of them may or may not use or desire) presents a far more complex situation.” For example, two homeowners may pay the same amount of property taxes but consume different amounts of government services if one does not drive and use the roads or has no children in public schools.

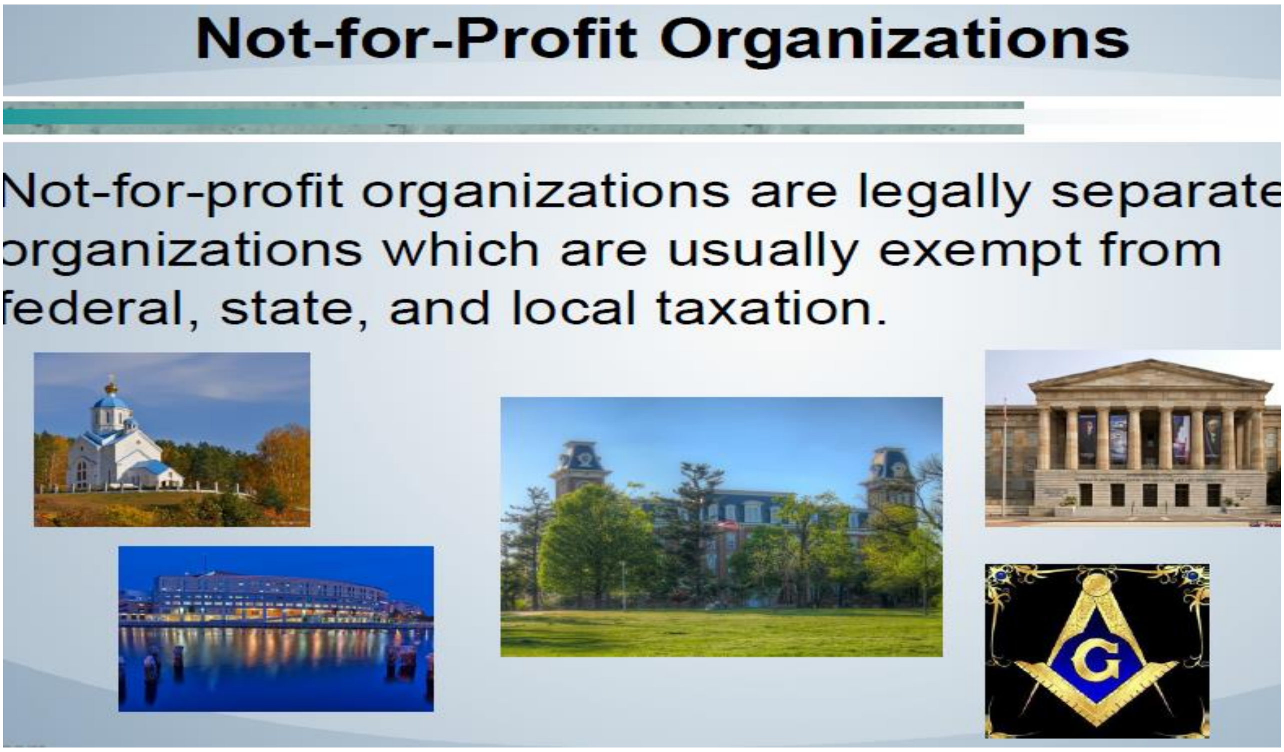

Fig 1.1. Not -for -Profit Organizations**.**

1.1.2. Characteristics of Not --for -Profit Organizations

There are a few distinct features which make them different from regular organizations.

The Motive for Service – Non-profit organization meaning they are set up mainly to provide service to a specific group of people or public, without discriminating for their caste, creed and gender. They extend help free of cost or at a nominal price as profit making is not their motive. For example, they provide services like health care, education, food, recreation, shelter, clothing, sports facilities, etc.

Management – Usually, a managing committee or executive committee looks after these organizations, and its members elect them.

Members – Since these organizations are formed as charitable societies or trusts, the people who give subscriptions to these are its members.

Income Sources – The primary source of these trusts are donations, subscriptions, government grants, incomes from investments, legacies and several others.

Surplus – If a financial year surplus is generated, that will be credited to the capital fund.

Reputation – These organizations generally earn a reputation for the contribution it makes through the services and not for any of its member's personal goodwill.

Accounting Information – Generally, any present or potential contributors and its members can have access to its accounting information

Five common characteristics of effective nonprofits:

- Clear mission and purpose.
- Ability to perform key functions.
- Strong practices, procedures, and policies.
- Good people.
- Ability to mobilize others.

Five common characteristics of effective nonprofits:

A. *Clear mission and purpose*

- The most fundamental quality of an effective nonprofit is **clarity about its mission**—both what it seeks to accomplish and why this purpose is important.
- The non-profit should communicate its mission clearly to all its stakeholders—board, staff, donors, volunteers, partners, and the general public—so that everyone understands its goals and works toward a common purpose. All the nonprofit's programs and operations should be aligned to advance its mission.

B. *Ability to perform key functions*

Effective nonprofits can perform essential functions necessary to fulfill their missions. The authors of *How Effective Nonprofits Work* cite six essential functions:

- Communicate vision and mission
- Engage and seek stakeholders' input in designing programs, including people who use its services, and serve its target community appropriately
- Achieve results and track impact against a few key measures, at least through basic means
- Manage an active and informed governance structure
- Secure resources appropriate to its needs
- Plan for the future

A seventh function is key to effectiveness: making it part of the organization's culture to evolve its programs and operations as it learns from stakeholders, from its assessment of impact, and from new knowledge in its field. In short, the nonprofit should be a learning organization

C. *Strong practices, procedures, and policies*

Effective nonprofits also follow good practices in three functional areas: finance, governance, and organizational and program development. (Thanks to *How Effective* Nonprofits Work for this framework.) As a donor, look for the following factors:

Financial

- Yearly audits are conducted and made available to you on request. (If a small nonprofit, it should provide you with a copy of its Internal Revenue Service Form 990, or you can look up 990s for any nonprofit at Guide Star)
- Financial statements are prepared quarterly, following a consistent format
- Solid fiscal management processes are in place. Good practices include a board finance committee, careful cash monitoring, and regular budgets monitored with monthly cash flow statements
- A diverse range of supports exists, such as individual donors at varying levels, foundations, and government or other institutional contributors
- Efforts are in place to establish and maintain a reserve fund, ideally equal to 3–6 months of operating expenses

Governance

- Strong leadership runs the organization
- An active process exists to properly handle governance issues
- A board nominations process and board term limits are in place
- Regular and ongoing evaluation of programs and fundraising plans takes place
- Board meetings are scheduled for the year

- Written policies set expectations, increase efficiency, and promote transparency and accountability in operations. Examples include policies for board term limits, personnel hiring and management, conflicts of interest, and investments
- The organization demonstrates flexibility to adjust to environmental shifts

Organizational and program development

- A strategic plan is in place and is used. The organization reviews that plan annually and adjusts it, as necessary. Key staff members refer to it when talking to you
- Regular client input is welcomed and used for continual program improvement. The organization can demonstrate involvement of constituents in planning and evaluation
- Other organizations doing similar work speak highly of the organization
- Staff can articulate key accomplishments, lessons learned, and future directions
- The organization is recognized as an institution; it is not identified solely with one or two individuals who work there
- The organization is able to demonstrate measurable outcomes

D. Good people

Above all, nonprofits depend on one key resource to fulfill their missions: qualified, skilled, and talented board members, staff, and volunteers. Boards should be diverse, talent rich, informed, responsible about stewardship, dedicated to the nonprofit and not their self-interest, and, above all, engaged. When nonprofits lack the resources and know-how to recruit and train effective board members, their governance, oversight, and leadership suffer accordingly. In addition, the effectiveness of a nonprofit largely depends on employing an appropriate number of staff members who are talented, adequately trained, and properly supported and compensated.

E. Ability to mobilize others

- The ability to mobilize and engage volunteers, other nonprofits, businesses, and government agencies is an essential skill for nonprofits seeking to address the root causes of problems and bring about long-term change. Building awareness and support among key audiences, and bringing more people and resources to the table are essential to change. If change is part of your goals, look for nonprofits that have the following characteristics or develop them in your favorite organizations:

- Staff skilled in working with government or advocating for policy change
- A willingness to partner with businesses to stretch their influence
- The capacity to inspire and engage volunteers and constituents or members as passionate partners and spokespersons
- A willingness to partner with other nonprofits working to address the same issues and to regard those groups as allies not competitors
- A commitment to sharing leadership with staff, volunteers, and constituents or members to empower more people to make impact

Following are more governmental characteristics:

i. Their officers are popularly elected, or a controlling majority of their governing body is appointed or approved by governmental officials;
ii. They possess the power to enact and enforce a tax levy;
iii. They hold the power to directly issue debt whose interest is exempt from federal taxation; or
iv. They face the Potential that a government might dissolve them unilaterally and assume their assets and liabilities.

On the Other hand, Not-for-profit organizations exhibit certain basic characteristics that distinguish them from business enterprises.

Not-for-profit entities

- Receive contributions of significant amounts of resources from resource providers who do not expect equivalent value in return;
- Operate for purposes other than to provide goods and services at a profit; and
- Lack ownership interests like those of a business enterprise. As a result, not-for-profit organizations may obtain contributions and grants not normally received by business enterprises. On the other hand, not-for-profit organizations do not engage in ownership-type transactions, such as issuing stock and paying dividends. Four broad categories of not-for-profit organizations are discussed in this text: voluntary health and welfare

organizations, health care organizations, colleges and universities, and other not-for-profit organizations.

1.2. Growth and Importance of NFPs sectors

The major types of government and nonprofit organizations may be classified as:

A. **Governmental:** federal, state, county, municipal, township, village, and other local governmental authorities and special districts.
B. **Educational:** kindergarten, elementary and secondary schools, vocational and technical schools, and colleges and universities.
C. **Health and welfare:** hospitals, nursing homes, child protection agencies, the American Red Cross, and United Service Organizations (USO)
D. **Religious:** Young Men's Christian Association (YMCA), Young Women's Christian Association (YWCA), Salvation Army, and other church-related organizations.
E. **Charitable:** United Way, Community Chest, and similar fund-raising agencies; related charitable agencies; and other charitable organizations.
F. **Foundations:** private trusts and corporations organized for educational, religious, or charitable purposes.

They have created, defined and promoted a self-image, forming a group and also having a place and a role in the Romanian civil society. Thus, NGOs have recently taken over, amid a crisis of state resources, functions and roles which in the past were the exclusive power of government, becoming a very important factor in promoting the values of democracy and the new relationships established between state and society.

NGOs are characterized by functional dynamics of methods because their running is directly influenced by the community needs and the specific ways of interacting with the civil society.

"non-profit organizations", "NGOs", "associative commercial sector, "civil society", "the third sector", "non-profit association", "organizations without lucrative purpose" etc. – all have a single definition. They are willing parties, in their own right, established by the free will of the citizens who are associated on common career interests and/or other interests aiming to achieve shared civil, economic, social and cultural rights and not obtaining profits.

The mobility of non-governmental organizations mirrors the community capacity to respond rapidly to its needs. NGOs direct to the community the resources that the government does not have or cannot collect.

Also, the lines of actions analysis of nongovernmental organizations may be relevant for the problems solving by the public administration. The NGOs play an important role in highlighting issues that might pass unnoticed by the public authorities and in helping them to solve problems by using their human resources, local data and their v organizational capacity, even monitoring their activities.

NGOs can offer tangible solutions to the community problems more efficiently and involving less costs than the public administrations in areas such as social work or management of social welfare institutions.

The main ways of influencing the NGO sector are:

- Encouraging the officials and the government agencies to accept some variants of solving the problems, which are successfully used in the sector.
- Educating and informing the public of the rights provided by law and the increase of their awareness of these aspects.
- Active participation in adjusting the official programs to the needs of the community, expressing the public opinion and taking into account the specific conditions of the area
- Co-operation with official agencies.
- Influencing the local development policies of national and international institutions.
- Supporting the governments and donors to develop more effective development strategy through strengthening the institutions, increasing the level of professional qualification of their personnel, training their staff in order to acquire a good management capacity.

NGOs are sometimes perceived as "alternatives" to the solutions proposed by the public administration. The population of a community cannot choose the development policy developed by the government or by the NGOs because NGOs cannot launch such an offer. It is unlikely that the NGOs can solve the problems of the local communities by their own efforts, the lack of resources being the main cause.

The NGOs may find optimal ways and solutions for solving social problems but these ones can be completed only if they have an impact on the development of the whole community. The public administrations and NGOs cannot provide competitive solutions but complementary solutions which can lead to the co-operation between the two bodies.

1.3. Accounting principles of governmental entities

1.3.1. Government may involve in three types of activities:

Governmental Activities: Governmental organizations differ from those of for-profit business organizations in that governments are not profit seeking but exist to meet citizens' demand for services, consistent with the availability of resources to provide those services.

Although the types and levels of service vary from government to government, most general purpose governments provide certain core services: those related to protection of life and property (e.g., police and fire protection), public works (e.g., streets and highways, bridges, and public buildings), parks and recreation facilities and programs, and cultural and social services. Governments must also incur costs for general administrative support such as data processing, finance, and personnel. Core governmental services, together with general administrative support, comprise the major part of what GASB Concepts Statement No. 1 refers to as governmental-type activities. In its more recent pronouncements, GASB refers to these activities as simply governmental activities.

Business-Type Activities: Governments also engage in business-type activities. These activities include, among others, public utilities (e.g., electric, water, gas, and sewer utilities), transportation systems, toll roads, toll bridges, hospitals, parking garages and lots, liquor stores, golf courses, and swimming pools. Many of these activities are intended to be self-supporting by charging users for the service they receive. Operating subsidies from general tax revenues are not uncommon, however, particularly for transportation systems.

Fiduciary Activities: Governments often act in a fiduciary capacity, either as an agent or trustee, for parties outside the government. For example, a government may serve as agent for other governments in administering and collecting taxes. Governments may also serve as trustee for investments of other governments in the government`s investment pool, for escheat properties that revert to the government when there are no legal claimants or hears to a deceased individual's estate, and for assets being held for employee pension plans, among other trustee roles.

1.3.2. GAAP Vs Legal Compliance (Accounting/Reporting Capacity) (prn-1)

Prn-1 A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the financial position and results of financial operation of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; b) to determine and demonstrate compliance with finance related legal and contractual provisions.

In summary, the accounting system must make possible both financial statements based on GAAP, and adhere to whatever the legal requirements for book keeping and reporting are. This does not mean that two sets of books are needed, but that whichever system (GAAP or legally mandated) is used, statement for the other should be able to be produced.

Sometimes legal requirements are contrary to good management.

For example, a purchase for $3 might require the same amount of paperwork as a purchase of $10,000. In that case, the cost of the forms, the labor to complete them, and the storage space to keep them, might actually exceed the $3. It is the law, but is it good management of resources?

Sometimes legal requirements are contrary to GAAP

An example of this could be a government entity which is required to keep books with a single entry ledger, or one that is required to keep all account on a strictly cash basis. Both of these are contrary to GAAP, but sometimes they are what is required by the law, perhaps because the system is old and has not been updated.

1.3.3. Fund And Fund Accounting (Prn # 2,3,4)

"Fund Defined And Illustrated

Prn 2. Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Definition Of Fund And Discussion Of Fund Accounting

The word *fund* is given a special definition as it relates to fund accounting. The narrow definition of fund, as used in ordinary conversation is "a resource of money". However, in this course it is given the special definition above. Understanding the word *fund* as it is used here is absolutely essential to this course. It is the key concept in the entire course. (module)

To distinction fund (NFP) accounting from FP accounting, it will be noted that on FP is accounted for as one entity. However, a single NFP unit may be treated as several different entities. Each of these entities is a fund.

Example of funds

Two examples follow to illustrate the concept of "fund" first, the ministry of education operates several colleges. Although all are part of the ministry of education as a whole, each one is treated as a *fund*. Each college will be given money that is specifically for its operations, and is not be mixed up with other institutions. Therefore, each college will keep its own set of books, and issue its own financial reports, irrespective of the performance of the other individual institutions or the ministry as a whole.

Cconsider an NGO with several projects. For example, a single NGO could have a school in Tigray, a water development project in Amhara, and cattle project in Oromia. Each of those projects will probably be supported by a different donor. The donor for each project will not be necessarily concerned with the financial statements of the NGO as a whole. The donor for a particular project will want financial statements for that project. Therefore, each project will have its own set of books, and produce its own financial statements. Each project will be a separate, *distinct fund.*

The Rational For Fund Accounting

Why is fund accounting needed? The main reason for fund accounting is to focus **accountability**, and secondarily to enhance **reporting ability**. For government branches, budget amounts are legally given for specific purpose e.g provision of police protection, repayment of debt, construction of new offices. The money for the different purposes can not be mixed with that of other purposes, so a fund (separate ledger, set of books) is established for each purpose. The separate fund then makes it very clear who is responsible for those resources, and that person can then report on his performance. Similarly, the donations, NGOs receive, are often designated for a specific purpose, and should not be used for anything else. The donors of these designated funds often request a financial report for the specific project they have given to, and are there by able to held NGO responsible for the money given.

The Justification For Opening A New Fund

Setting up, journalizing entries, and reporting for each separate fund is time consuming, so why would an NFP set up a new fund? The primary reason would be a legal requirement, a secondary reason would be if the management felt a fund was necessary for good management. That is, if it felt that some particular type of expenditure needed special attention, it could set up a fund to divide its activity for the other organization.

Two Kinds Of Funds- Expendable And Non Expendable

Expendable funds are meant to be expended (entirely used up), usually within one year. As a particular matter, any money that remains in an expendable fund at the end of the year typically must be returned to its source. Therefore, managers of expendable fund normally try to ensure that all that their funds are used up with in the time period. If they are not all used up, the manager is often perceived as being a poor budget planner. *This course will deal primarily with accounting for expendable funds*.

The accounting equation for an expendable fund is slightly different from an FP. Recall the accounting equation for An FP: **A-L = C.** The accounting equation for an expendable fund (from the definition of fund above) is cash plus other **financial Resources** minus liabilities.

= **Fund balance (C+OR-L=FB).** There are no ownership interests in an NFP, so there is no capital or owner's equity. There is only a balance remaining to be used for the specific purpose.

The key statement for an expendable fund is *the statement of changes in financial positions.* (Revenue), **uses** of money (expenditures), the corresponding terms in FP accounting are, of course, income, expenses, and net income, and the corresponding statement is the income statement.

Non expendable funds are used when maintenance of capital is desired, and the unexpended funds are not meant to be returned. The employees' cafeteria of a governmental unit is an example of this. The accounting for non-expendable fund very closely resembles that of a profit making entity, and the accounting equation will be nearly the same (A-L=C). One expendable funds are sometimes could proprietary funds.

1.3.4 Types of Funds

There are seven types of funds, which are divided into three categories:

Prn-3 The following types of funds should be used by state and local governments.

A. **Government Funds**
   a. General fund –GF
   b. Special Revenue fund – SRF
   c. Capital project fund – CPF
   d. Debt service funds - DSF
B. **Proprietary Funds**
   a. Enterprise funds
   b. Internal service funds
C. **Fiduciary Funds**
   - Trust and Agency funds

A. Governmental Funds

All governmental funds are *expendable*. They are meant to be entirely used up, usually in one accounting period. Expendable assets are assigned based on the purpose for which they may (must) be spent.

- ***The General Fund*** - used to account for all financial resources except those required to be accounted for in another funds. All governments should have a general fund, and there will be only one general fund. Some governmental units will have only a general fund. If any of the other types of funds are needed. The governmental unit may have several of those, as needed. The general fund is used for general government services. It is basically used for everything that does not require a separate fund.

- ***Special Revenue Fund*** - used to account for the process of specific revenue sources (other than expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes. An example of a special revenue fund might be the unity and safety of the mother land tax that was collected during the Derg regime. This tax was not for the general fund of the government, but was raised specifically for the armed forces. It would have needed to be accounted for and reported on separately.
- ***Capital project funds*** - to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).An example of capital projects fund could be the new Wukiro Agricultural college campus. The costs incurred in the construction of the buildings are quite different from operating costs of the college, and would need to be accounted for and reported on as an entity in itself.
- ***Debt Service Funds*** – used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. If money has been borrowed for the construction of the new campus, that would give rise a debt service fund. Assume that 10 million Birr was borrowed, at 10% simple interest, and it to be repaid in full in 10 years. Each year, 2 million birr would need to put into a debt service fund 1 million for repayment of principal, plus 1 million for each year’s interest.

B. Proprietary Funds

Proprietary funds are non-expendable. They are part of the government that runs like a private business, where the income and fees for services of the fund is expected to cover at least a part of the expenses. The accounting for proprietary funds is very much like the accounting for a profit making business. There are two types of proprietary funds namely Enterprise fund and Internal service fund.

Enterprise funds – to account for operations that are financed and operated in a manner similar to private business enterprises where the intention of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or

Where the governing body has decoded that periodic determination of revenues earned, expenses incurred, and / or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. A public park could be an example of an **enterprise fund**. The park would charge a user fee from which it would pay the expenses (e.g. salaries) of operating the park. As a non- expendable fund, it would not have to return unused money to its source at the end of the year. Therefore, it might also accumulate money from year to year for the purchase of equipment, furnishings, and the like from its income from the user charges.

Internal service fund

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis. A shared garage is a common example of an *internal service fund*, particularly in NGOs. That garage would repair all the NGO's vehicles, regardless of which project or fund uses them. Charges are made to the various funds for the repair costs. As a non-expendable fund, part of the charge made to the various funds could be intended to be accumulated for future years for the purchase of tools and equipment.

C. Fiduciary Funds

Fiduciary funds are used to account for money which one branch of government has on behalf of another fund, organization, or individuals. A common example of a fiduciary fund is a central tax collection agency, such as the Inland Revenue Department. The taxes it collects are not for its own benefits, but are rather passed on to other ministries or departments. Types of Fiduciary funds are Trust and Agency funds.

Trust and Agency funds*:* - to account for assets held by a governmental unit in a trustee capacity or as an agency for individuals, private organizations, other governmental units, and/or funds. These include expendable trust funds, non-expandable trust funds, pension trust funds, and agency funds.

1.3.5. Number of Funds

Prn 4. Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operation requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

This principle is especially important in NGOs NGOs tend to do a number of limited life projects, each of which is accounted for a separate fund. When the project is finished the fund should be closed. As long as the fund remains open, financial statements will continue to be produced for it, wasting paper, ink, and time. On the other hand, if not enough funds are opened, it will difficult to account for the sources allocated to each specific purpose.

1.3.6. Basis Of Accounting (Principle 5)

Modified Accrual Basis

Prn.5. The modified accrual basis or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

a) Governmental fund revenues and expenditures should be recognized on the modified accrual basis. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for un matured interest on general long term debt, which should be recognized when due.

Discussion of modified accrual basis of accounting.

Revenues - recognize as "available and measurable" measurable means when the amount to be collected is known with some certainty. Available means the taxes are available to cover spending in the year of recording (usually interpreted to mean during the fiscal year, or within 60 days of the end of the fiscal year).

Example:

Taxes: Assume a January to December fiscal year. In October 1999, property tax rates for 2000 are set. Formal notice (levy) is sent to property owners on December 31,1999. Taxes must be paid by June 30,2000. On what date do the revenue become **measurable**? *October 1999*, **Available**? Assuming that each taxpayer wait until the last day to pay, they become available on June 30,2000. There is probably no need to accrue in this case.

Still assuming a January to December fiscal year, in October 1999, property tax rates for 1999 are set. The levy is sent on December 31,1999, to be paid by February 29,2000. On what date have these revenues become **measurable**? *October 1999*. When do they become **available**? *December 31,1999* why?

Note that in an FP, the revenue would most likely have been recognized (accrued) on December 31,1999 the day they become officially due.

Donation (NGO): In 1998, an NGO solicits money from private individuals to operate a clinic. Ten thousand individual donors pledge to contribute $25 per month in 1999 and 2000. The NGO's giving history shows that 50% of its pledge are actually received in cash, and half of the donors fulfill their pledge by giving a lump sum for the entire year in December.

On what date do the revenues becomes measurable? In 1998 available? Sometimes in 1999 and 2000. When should they be recorded pledges is a subject of debate among accountants. Most NGOs would probably record the funds as they were received in cash. They likely would not be accrued, unless required by law.

Expenditures- It is assumed throughout the module that governments operate on an account basis. That is, as transactions are entered into, the entity charges its account for later payment, rather than paying cash when the goods are recorded or delivered. That is why this principle says that expenditures are recognized when the fund liability is incurred (except general long-term debt). At that point, a sum is owed on account, and it is an expenditure regardless of when the cash actually changes hands. These liabilities are then paid from the expendable assets which have been assigned for that specific purpose.

The difference between expense and expenditure must be understood to properly understand the distinction between NFP and FPC (for profit accounting). In the dictionary these worlds have almost exactly the same meaning. However, almost exactly the same meaning. However, in Fund Accounting they have been given specialized meanings. An *expense* is current period consumption of resources. An expenditure is a decrease in fund financial resources.

For example, in profit making accounting, a car would be considered an asset, depreciation would be recorded as an expense as the car is "used up", or wears out. In a fund, the car would be considered an expenditure at the time of purchase.

Interest on General Long Term Debt - For example, a government issues 10 years, 8% simple interest bond of $1,000,000 on July 1,1999. The interest and principal are both payable at maturity. When is the liability incurred for the principal? July 1,1999 for the interest? As it occurs. What is the amount of accrued interest after one year? $80,000. When should it be recorded as an expenditure? In the period it must actually be paid out each year, Accordingly, the principal is recorded as an expenditure in the period when it must actually be paid, in this case on June 30,2009.

Proprietary Fund Basis Of Accounting

b) Proprietary fund revenues and expenses should be recognized on the accrual basis. Revenues should be recognized in the accounting period in which they are earned and become measurable; expenses should be recognized in the period incurred, if measurable.

Discussion of Proprietary Fund Basis of Accounting

Proprietary fund accounting is virtually the same as for profit accounting. Note the difference in wording for recognizing revenues-"period in which they are earned," as opposed to "become available."

Fiduciary Fund Basis Of Accounting

c) Fiduciary fund revenues and expenses or expenditures (as appropriate) should be recognized on the basis consistent with the funds accounting measurement objective. Non expendable Trust funds should be accounted for on the accrual basis; expendable trust funds should be accounted for on the modified accrual basis. Agency fund assets and liabilities should be accounted for on the modified accrual basis.

Discussion of Fiduciary Fund Basis of Accounting

The basis of accounting for fiduciary funds depends on whether or not the nature of the fund is expendable or non-expendable. Both kinds are possible in fiduciary funds.

Inter Fund Transfer Basis Of Accounting

d) Transfers should recognized in the accounting period in which the inter fund receivable and payable arise.

Discussion of Inter Fund Transfer Basis of Accounting

Sometimes there are transfers between funds. Because each fund is separate accounting and reporting entity, these transfers must be reported. This principle is saying that the transfer should be recorded when the receivable and payable arise, rather than when the cash is actually shifted from one fund to another. This is accrual basis. For example, consider that on December 31,1999, the General fund of a governmental entity is required to transfer money to the capital projects fund to help pay for construction of a new office building. The transfer would be recorded at that time, even if the cash did not actually change hands until July 31,2000.

1.3.7. Fixed Assets And Long Term Liabilities (Principle 6,7,8)

Distinguishing Fund Fixed Assets /L.T Debt From General Fixed Assets/L.T Debt

Prn. 6. A clear distinction should be made between a) fund fixed assets and general fixed assets and b) Fund long term liabilities and general long-term debt.

a) Fixed assets related to specific proprietary funds or trust funds should be accounted for through those funds. All other fixed assets of a governmental unit should be accounted for through the general fixed assets account group.
b) Long-term liabilities of proprietary funds and trust funds should be accounted for through those funds. All other un matured general long term liabilities of the governmental unit should accounted for through the general long-term debt account group.

Fixed Assets

Some fixed assets belongs to a particular fund, while others belongs to the governmental entity as a whole. For example, consider the assets of a cafeteria for used by government employees. The cafeteria would have a stove, tables, chairs, etc., which belongs to it those assets are not available to be used for another purpose. On the other hand, a governmental unit, e.g. The City of Mekelle, may have an office building which belongs to the city as a whole. It may be used for the administration of all the different funds. In order to account for these fixed assets that belongs to the unit as a whole, a governmental unit should have a General Fixed Asset Account Group in addition to the funds mentioned in principle # 3. Another example of a general fixed asset might include a fleet of cars that is shared among the different funds.

The rational for not including general Fixed Assets in the General Fund accounts is that available for current expenditures. Rather, they are items for which resources have been used. Neither do these assets constitute a fiscal entity. However, these assets do require accountability, and an account group is thought to be the best way to maintain this accountability.

Discussion of Long-term Debt

Similarly an enterprise fund, such as a city park, might borrow money for improvements on a long-term basis. This debt would probably by backed by the assets of the park, and therefore, would be accounted for in the books of that enterprise fund. Conversely, General long-term debt would be borrowings of the entire governmental entity, rather than by a specific fund. The money would be backed by the "Full faith and credit of the governmental entity," i.e., its taxing authority, rather than by specific assets.

The rational for not including General long-term debt in the General Fund Accounts is like that of General Fixed Assets. The General long-term Debt is not something which will require current period resources for repayment. These liabilities do not constitute a fiscal entity, either. But they do need accountability, so the General long-term Debt account group is used to provide this.

Valuation of Fixed Assets

Prn 7. Fixed assets should be accounted for at cost or, if the cost is not practicably determinable, at estimated cost. Donated fixed assets should be recorded at their estimated fair value at the time received.

Discussion of Valuation of Fixed assets

As with FP accounting, fixed assets should be recorded at their historical costs. NFP accounting allows for two exceptions, because there are not typically encountered by NFPs. That are not typically encountered by FPs. One is unknown cost, the other is donated fixed assets.

Unknown costs sometimes happen because of the nature of expendable fund accounting. Fixed assets are debited to expenditure, and then like expense accounts, expenditures are closed at the end of the fiscal year. After that first year, the financial statements - balance sheet and operating statements for the do not show the fixed asset. Since the amounts are not on the statements, and therefore, not examined by the auditors, many NFPs have not kept good fixed asset records, and the documents supporting the costs of the fixed asset get "lost". If a new accountant comes along, who feels the need to open a General Fixed Asset Account Group, the historical costs of those assets may need to be estimated in order for the entity to have a complete record of assets.

GAAP (Generally Accepted Accounting Principle) for NFP, allows estimated costs to be used in cases like this, and others in which the cost of fixed assets is unknown.

The other difference that NFPs have is the inclusion of donated fixed assets in this principle. Fixed assets are not usually donated to profit making entities, so they are not concerned with accounting for them. If the cost of the asset is known (i.e a new asset), then the cost should be used. If the asset is second hand, as frequently happens with NGOs, the fair market value will need to be estimated.

Depreciation Of Fixed Assets

Prn 8. i) Depreciation of general fixed assets should not be recorded in the accounts of governmental funds. Depreciation of general fixed assets may be recorded in cost accounting system or calculated for cost finding analyses; an accumulated depreciation may be recorded in the general fixed assets account group.

ii) Depreciation of fixed assets accounting for in a proprietary fund should be recorded in the accounts of that fund. Depreciation is also recognized in those trust funds where expenses, net income and/or capital maintenance are measured.

Discussion of Depreciation of Fixed Assets.

General Fixed Assets – Depreciation is not recognized as an expenditure in governmental funds because it is not a decrease in fund financial resources. However, it should be calculated in the general fixed assets account group. Why? Because knowing depreciation is helpful for good financial management, and helps in planning for the replacement of assets in the future.

Proprietary fixed Assets - Because a proprietary fund needs to know that it is covering all its costs, it includes depreciation as an expense in its accounts. Remember that accounting in proprietary fund is almost identical to FP accounting.

Prn. 9 Budgetary Accounting

a) An annual budget (6) should be adopted by every governmental unit.
b) The accounting system should provide the basis for appropriate budgeting.
c) Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which an annual budget has been adopted.

Prn. 10 Financial Reporting

1.3.8. Interim (Time Between Fiscal Years) Financial Reporting

(a) Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and where necessary or desired for external reporting purposes.

Discussion of Interim Financial Reporting

In NFP accounting, interim reporting is used if it fulfills one of these three purposes:

1. For good management
2. For the legislature (legal compliance)
3. For external reporting (perhaps for those who have loaned money to it)

Comprehensive Annual Report

(b) A comprehensive annual financial report covering all funds and account groups of the governmental unit included in the compressive financial report.

- Classification & Terminology (Principle 11, 12)
- Classification Of Transfers And Long Term Debt Proceeds.

Prn 11 a) Inter fund transfers and proceeds of general long term debt issues should be classified separately from fund revenues and expenditures.

Definition and Discussion

Inter fund transfers – a transfer from one fund with in the unit to another fund with in the same unit. For example, suppose an NGO operates clinics, and these clinics charge to cover wages and medicines. During the year one clinic had a surplus, and another had a loss. The head of the organization decides to transfer funds from the one with a surplus to the one with a loss.

Proceeds of General long-term Debt issues – Money that is received from borrowing by the entity as a whole, backed by the full faith and credit of the governmental unit. These two sources of resources should appear distinct from revenues and expenditures on the entity's financial statements.

State and Local Government Accounting Principles

Fundamentals of SLG (State &Local Government) Accounting & Financial Reporting

- GAAP & legal compliance
- Fund accounting
- Fund categories
- Types of funds
- Comparative financial statement formats
- Annual financial reporting

Rules guiding accounting and financial reporting are referred to as *generally accepted accounting principles* (GAAP). The American Institute of Certified Public Accountants (AICPA) defines this term as follows: The consensus at a particular time as to which economic resources and obligations should be recorded as assets and liabilities by financial accounting, which changes in assets and liabilities should be recorded, when these changes should be recorded, how the assets and liabilities and changes in them should be measured, what information should be disclosed and how it should be disclosed, and which financial statements should be prepared. Generally accepted accounting principles encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. The standard of "generally accepted accounting principles" includes not only broad guidelines of general application, but also detailed practices and procedures.

The origins of GAAP can be traced back to the period just after the 1929 stock market crash, when attempts were made to formulate accounting principles. Many criticized the earliest statement of principles as being little more than a codification of the then-current accounting practices. Continued concerns with the way in which accounting principles were being established led to the formulation of the FASB in 1973 and then to the GASB in 1984. Seven members are appointed to each of these bodies by the Financial Accounting Foundation (FAF), an entity whose members are appointed by certain professional accounting and financial organizations. Advisory councils to both the FASB and the GASB are composed of individuals representing organizations concerned with the activities of the standards-setting bodies.

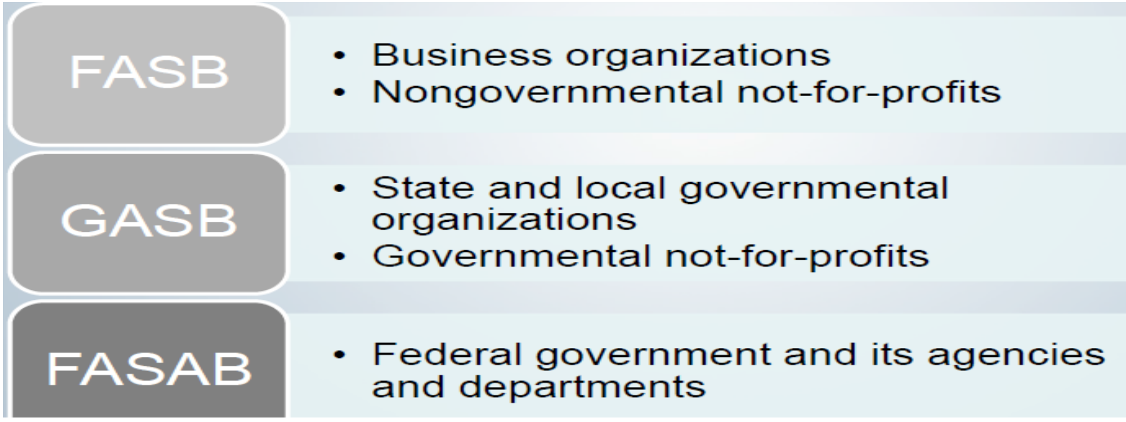

Diagram 1

The FASB and the GASB are charged with establishing and improving standards of accounting and financial reporting within their respective areas of jurisdiction. The GASB's jurisdiction includes all state and local governmental entities, including government-sponsored colleges and universities, health care providers, and utilities. The FASB establishes standards for all nongovernmental entities, including not-for-profit colleges and universities and health care providers. Under this arrangement, it is possible for the two boards to establish different accounting and reporting standards for similar transactions of similar entities, such as hospitals. Although this situation occurs sometimes, the two boards cooperate with each other to keep differences to a minimum.

GAAP Reporting

- Ensures that the financial reports of all SLGs contain the same types of financial and disclosures for the same types of funds and activities
- Requires "full" disclosure

Reconciling GAAP & legal requirements

- Maintain budgetary accounting control during the year
- Clearly distinguish between budgetary basis from GAAP basis
- Prepare statements and schedules using both bases and reconcile differences

Self- Check -1

Part-I. Written Test

1. Describe the characteristics that distinguish not-for-profit organizations from business enterprises.

____
____
____
___________.

2. Who are the users of governmental and not-for-profit entity accounting information, and for what Purposes might they use that information?

____
____
____
____

3. Explain Characteristics of Governmental and Not-for-Profit (NFP) Entities.

____
____
____
____
____.

4. What are the jurisdictions of the accounting standards-setting bodies: GASB, FASAB, and FASB?

----------------.

5. Explain Fixed Assets Are Valuated in Governmental Funds.

____
____
____.

Parts-II True-False Part

Write True for True Statement and False for False Statement.

1. Governmental and Not-for profit organizations are similar with business organizations in their Accounting system.
2. General purpose Government provides a single service.
3. Not –for profit organizations exempt from federal, state and local taxation.
4. Governmental and NFPs receive resources from resource providers expecting return for economic benefit.
5. Primary mission of NFPs is profit.

Part-III Matching

Match Column A terms with Column B concepts

Column A	Column B
______1. FPs	A. Financial Gain
______2. Fund	B. Base for Successful operations & Projects
______3.Characterstics of NFPs	C. Ability to perform key functions
______4. General Fund	D. Governmental fund type
______5.NFPs	E. Formed for social welfare
	F. Internal Service Fund
	G. Enterprise Fund

Unit Two: Accounting System for Governmental entities

This unit is developed to provide you the necessary information regarding the following content coverage and topics:

- Accounting for Governmental funds
- Accounting for Proprietary funds
- Accounting for Fiduciary funds
- Identifying, analyzing, and recording transactions
- Preparing reports

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Identify governmental funds
- Identify Proprietary funds
- Identify Fiduciary funds
- Identify analyzing, and recording transactions
- Prepare reports

2.1. Accounting for Governmental funds

Governmental-Type Funds

The General Fund

Proprietary-Type Funds

Fiduciary-Type Funds

Diagram 1. Governmental Fund Types

Governmental Funds: Accounting Equation Terms

- Financial Assets –refers primarily to cash, investments, and receivables
- Related Liabilities –related to the current year and normally paid for available current financial resources
- Fund Balance –net financial assets of fund –the difference in financial assets and related liabilities

Used to account for sources, uses, and balances of general government financial resources
Funds represent segregations of general government net financial assets
Accounting equation

Financial Assets	−	Related Liabilities	=	Fund Balance

State and Local Government Financial Reporting

The GASB statement of reporting objectives for state and local governments calls for financial reporting to assist in fulfilling government's duty to be publicly accountable and to help users assess that accountability.

Federal Government Financial Reporting

FASAB objectives for federal financial reporting cover budgetary integrity, operating performance, stewardship, and systems and controls. The objectives state that financial reporting should assist in fulfilling the government's duty to be publicly accountable for money raised through taxes and other means and for their expenditure in accordance with the government's budget. Financial reporting also should assist report user's in:

- Evaluating the entity's service efforts, costs, and accomplishments and its management of assets and liabilities;
- Assessing the impact on the nation of the government's operations and investments and how, as a result, the nation's financial condition has changed and may change in the future; and
- Understanding whether financial management systems and internal accounting and administrative controls are adequate.

Governmental-type Funds: General-purpose governments (such as states, counties, and cities) provide a range of basic, day-to-day services, including police and fire protection, sanitation, parks and recreation, and transportation. The operating costs of these services are financed mostly by tax revenues, intergovernmental grants, and general fees. Capital assets (such as buildings and roads) used in providing these services are financed primarily by long-term borrowing, which is ultimately paid off primarily from tax revenues.

Governmental-type activities are controlled by a legally adopted budget—perhaps the single most important financial document prepared by governments. The revenue side of the budget

Governmental-type funds are used to account for most of the day-to-day public services provided by state and local governments. Shows estimates of how much will be raised from each revenue source. On the spending side, the budget both authorizes and limits how much may be spent for each activity or purpose.

Business-type: General-purpose and, often, special-purpose governments provide other specific services—such as mass transit and water and electric utility services—financed not by taxes, but instead by user fees or charges that cover both operating and capital costs.

Because of how they are financed and administered, these activities are often referred to as business-type or proprietary-type activities.

Fiduciary-type: Many governmental entities also perform certain fiduciary-type services, holding segregated resources on behalf of others. For example, a government may perform investing or tax collection services on behalf of other governments. Also, governments may hold and invest resources on behalf of their employees and those of other governments to pay pensions when the employees retire

Categories and Types of Funds

GOVERNMENTAL FUNDS

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds
- Permanent Funds

PROPRIETARY FUNDS

- Enterprise Funds
- Internal Service Funds

FIDUCIARY FUNDS

- Pension Trust Funds
- Investment Trust Funds
- Agency Funds
- Private Purpose Trust Funds

A. **The General Fund** - *to* account for all financial resources except those required to be accounted for in another fund.

B. **Special Revenue Funds** - *to* account for the proceeds of specific revenue sources (other than private-purpose trusts or for major capital projects) that are legally restricted to use for specified purposes.

C. **Capital Projects Funds** - *to* account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

D. **Debt Service Funds** - *to* account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

E. **Permanent Funds** - *to* account for legally restricted resources provided by trust in which the earnings but not the principal may be used for purposes that support the primary government's programs (those that benefit the government or its citizenry). [Note: Similar permanent trusts that benefit private individuals, organizations, or other governments—that is, private- purpose trust funds—are classified as fiduciary funds, as shown below.]

2.2. Accounting for Proprietary funds

- **i.** Measurement focus (MF)
- ii. Economic resources
- iii. Financial statement recognition of all assets and all liabilities
- iv. Basis of Accounting (BA)
- v. Accrual

vi. Recognize revenues when earned and expenses when incurred Similar to accounting for businesses

vii. Accounting measures net assets, changes in net assets, and cash flows

viii. Accounting equation:

Current Assets + Capital Assets	–	Current + Long-term Liabilities	=	Net Assets

F. **Enterprise Funds** - *to* account for operations that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing *goods* or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

G. **Internal Service Funds** - *to* account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost- reimbursement basis.

2.3. Accounting for Fiduciary Funds (and similar component units).

These are trust and agency funds that are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include:

- Agency funds.
- Pension (and other employee benefit) trust funds.
- Investment trust funds.

Private-purpose trust funds

i. Accounts for assets held by government in trustee or agency capacity for others

ii. Not used to report assets held for governments own us

Summary of Fund Characteristics

Characteristics	Governmental Funds	Proprietary Funds	Fiduciary Funds
Types of funds	General, special revenue, debt service, capital projects, permanent	Enterprise, internal service	Agency, investment trust, pension trust, private-purpose trust
Accountability focus	Fiscal accountability	Operational accountability	Operational accountability
Measurement focus	Current financial resources	Economic resources	Economic resources
Basis of Accounting	Modified accrual	Accrual	Accrual
Required financial statements	Balance sheet; statement of revenues, expenditures, and changes in fund balances	Statement of net assets; statement of revenues, expenses, and changes in fund net assets; statement of cash flows	Statement of fiduciary net assets, statement of changes in fiduciary net assets
Balance sheet/statement of net assets accounts	Current assets, current liabilities, fund balances (equity)	Current and noncurrent assets, current and noncurrent liabilities, net assets	Current and noncurrent assets, current and noncurrent liabilities, net assets
Operating statement accounts	Revenues, expenditures, other financing sources and uses	Revenues, expenses	Additions, deductions
Budgetary accounting	Budgetary accounts formally integrated into funds	Budetary accounts ordinarily not integrated into the funds	Budgetary accounts ordinarily not integrated into the funds

Table -1.1. Summary of Fund Characteristics

2.4. Transactions are identified, analyzed and recorded

Comparative Operating Statements

Proprietary Funds

- Accrual-based
- Must distinguish between operating and non-operating revenues and expenses
- Separate reporting for capital contributions, special & extraordinary items, and transfers
- Change in Net Assets

Governmental Funds

- Modified accrual-based
- Report revenues by source and expenditures by character
- Other Financing Sources and Uses for other resource flows, including transfers
- Special & extraordinary items reported separately
- Change in Fund Balance
- Comparative Balance Sheets

Proprietary Funds

- Current and Noncurrent Assets
- Current and Noncurrent Liabilities
- Net Assets

Governmental Funds

- Financial Assets
- Related Liabilities
- Fund Balance

2.5. Preparing Reports

It is a clear and appropriate structure and format and to conform to organization requirements

2.5.1. Comprehensive Annual Financial Report (CAFR)

- Should be prepared for all governmental entities
- Sections include:
- Introductory –little GAAP for this section
- Financial –most GASB standards apply to this section
- Statistical –see recently issued GASBS 44

2.5.2. Annual Financial Reporting Minimum reporting requirements

1. Management’s Discussion & Analysis

2. Basic Financial Statements
3. Government-wide financial statements
4. Fund financial statements
5. Notes to the financial statements
6. Required supplementary information other than MD&A

Financial Reporting Entity consists of:

- Primary government (PG)
- Organizations for which the PG is financially accountable
- Other organizations whose omission would cause financial statements to be misleading or incomplete.

Preparation Process:

Step -1. Transaction Data

Start with the transaction data –the basic building blocks for everything in the Comprehensive Annual Financial Report (CAFR),

Step- 2. Transaction Data Schedules Individual FundStatements1

From the transaction data, prepare the individual fund financial statements and schedules. Also, some of the transaction data will be used later in the CAFR preparation process.

Step 3-Transaction Data Schedules Statements Major Fund Determination

Determine the major funds (this process will be discussed later). Also, information from the individual fund statements and schedules will be used later in the process.

Step 4-TransactionDataSchedulesIndividual.

Once the major funds have been determined, the non-major fund combining statements can be prepared. The total column from these statements becomes a single column in the major fund statements along with a separate column for each major fund.

Step 5-TransactionDataThe major funds statements

undergo a conversion process and are combined with the component unit's financial statements to complete the government-wide statements

Step 6-TransactionData Statements Information from all the financial statements and the schedules are used to prepare the notes to the financial statements. This process completes the Basic Financial Statements (BFS

Step 7-Transaction Data Schedules Individual Statements Information from the transaction data, individual fund statements, and schedules are used to complete the Other RSI. Then information from all sources combines to provide data for the MD&A.

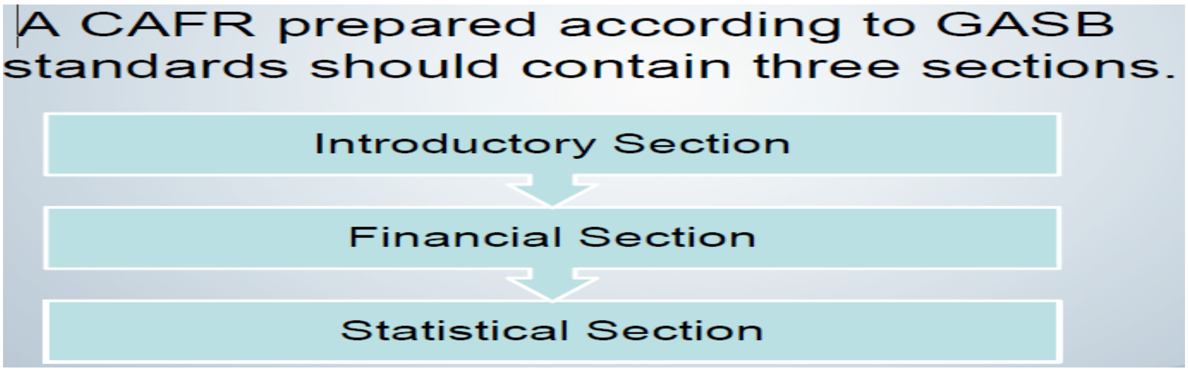

Diagram 2. CAFR - Introductory Section

CAFR - Financial

Table 1.2 Summary of Accounting System within Funds

TABLE 2-3 Summary of Accounting Procedures within Funds

Fund Type	Category	Measurement Focus	Basis of Accounting
General	Governmental	Current financial resources	Modified accrual
Special Revenue	Governmental	Current financial resources	Modified accrual
Debt Service	Governmental	Current financial resources	Modified accrual
Capital Projects	Governmental	Current financial resources	Modified accrual
Permanent	Governmental	Current financial resources	Modified accrual
Enterprise	Proprietary	Economic resources	Accrual
Internal Service	Proprietary	Economic resources	Accrual
Pension Trust	Fiduciary	Economic resources	Accrual
Investment Trust	Fiduciary	Economic resources	Accrual
Private-Purpose Trust	Fiduciary	Economic resources	Accrual
Agency	Fiduciary	Economic resources	Accrual

Summary of Accounting with Fund

Table 1.3. Statements of Revenues, Expenditures, and Changes in Fund Balances.

TABLE 2-5 Governmental-Type Funds—Statements of Revenues, Expenditures, and Changes in Fund Balances

Mt. Lebanon, Pennsylvania
Selected Governmental-Type Funds
Statements of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2009
(in thousands of dollars)

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund
Revenues				
Taxes	$22,761			
Licenses, permits, fees	832	$ 7,043		
Intergovernmental grants	1,241			
Other	4,413	41	$ 6	$
Total revenues	29,247	7,084	6	0
Expenditures				
Current:				
General government	4,216		71	
Public works	6,216	3,734		
Culture, recreation	2,594			
Public safety	9,846			
Other current	1,681			
Debt service:				
Principal				1,640
Interest				870
Capital outlay	280		4,425	
Total expenditures	24,833	3,734	4,496	2,510
Excess of revenues over expenditures	4,414	3,350	(4,490)	(2,510)
Other Financing Sources (Uses)				
Transfers in	369		2,555	2,510
Transfers out	(3,364)	(2,992)		
Proceeds—bond issuance			2,115	
Bond issuance premium			3	
Total other financing sources (uses)	(2,995)	(2,992)	4,673	2,510
Net change in fund balance	1,419	358	183	0
Fund balance, beginning of year	6,348	1,894	80	0
Fund balance, end of year	$ 7,767	$ 2,252	$ 263	$ 0

Self- Check- 2

1. List Governmental Fund types

----

2. What are Steps of Financial Preparation Process? List them

----

---.

3. What is the Accounting system used by Governmental Funds?

____
----

4. Write the types of Proprietary Funds

____
____
____.

5. Write the difference between Profit Entities and Non-Profit Entities.

____
____
____
____
____
____.

Part-II. Choose

Choose the Best Answer from the Given Alternatives and Write the Letter of Your Choice On the Space Provided.

_____1. In Governmental Funds, Financial assets refers: -

A. Cash B. Investments C. Receivables D. all E. none

______2. Fund balance refers to: -

A. Capital B. Long term Liability C. Net Assets of a given Fund D. none

______3. Segregated resources on behalf of others are pertaining to: -

A. Governmental Funds B. Proprietary funds C. Fiduciary Funds D. A&B E. none

_____4. Among the following fund, which fund is pertaining to account for financial resources to be used for the acquisition or construction of major capital facilities: -

A. General Fund B. Special Revenue Fund C. Debt Service Fund D. Capital Project Fund

_____5. A fund that is assigned to account for operations that are financed and operated in a manner similar to business enterprises is called: -

A. Capital project Fund B. Enterprise fund C. Proprietary fund D. Debt Service Fund

Part-III True-False Part

Write True if the Statement is Correct and False if the Statement is in Correct

______1. The fiscal accountability of governmental funds is current financial resources.

______2. Basis of accounting for proprietary funds is Accrual basis.

______3. Measurement focus of proprietary funds are economic resources.

______4. In Governmental Accounting, operating statement accounts are Revenues, expenditures and other financing sources and uses.

______5. Under governmental accounting budgetary accounts, formally integrated into funds.

Unit Three: Accounting for governmental entities of Ethiopia

This unit is developed to provide you the necessary information regarding the following content coverage and topics:

- Source of revenue and expenditure
- Record of transactions
- Preparation of Reports

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Identify and record Source of Revenue and Expenditure
- Identify, Analyze and Record Transactions
- Prepare reports

3.1. Source of Revenue and Expenditure

Governments generate revenue by collecting income taxes, payroll taxes, sales taxes, property taxes, and social insurance taxes. Revenue is also generated from income on assets and transfer receipts from businesses and individuals.
Tax is the main source of revenue for the government. The government levies taxes on incomes, goods and services.

Sources of income:

Subscriptions
- Life membership fees
- Donations
- Income generating activities such as: dinner dances and raffles
    - Income statements for income generating activities
    - Income and expenditure accounts
    - Accumulated funds
    - Statements of financial position

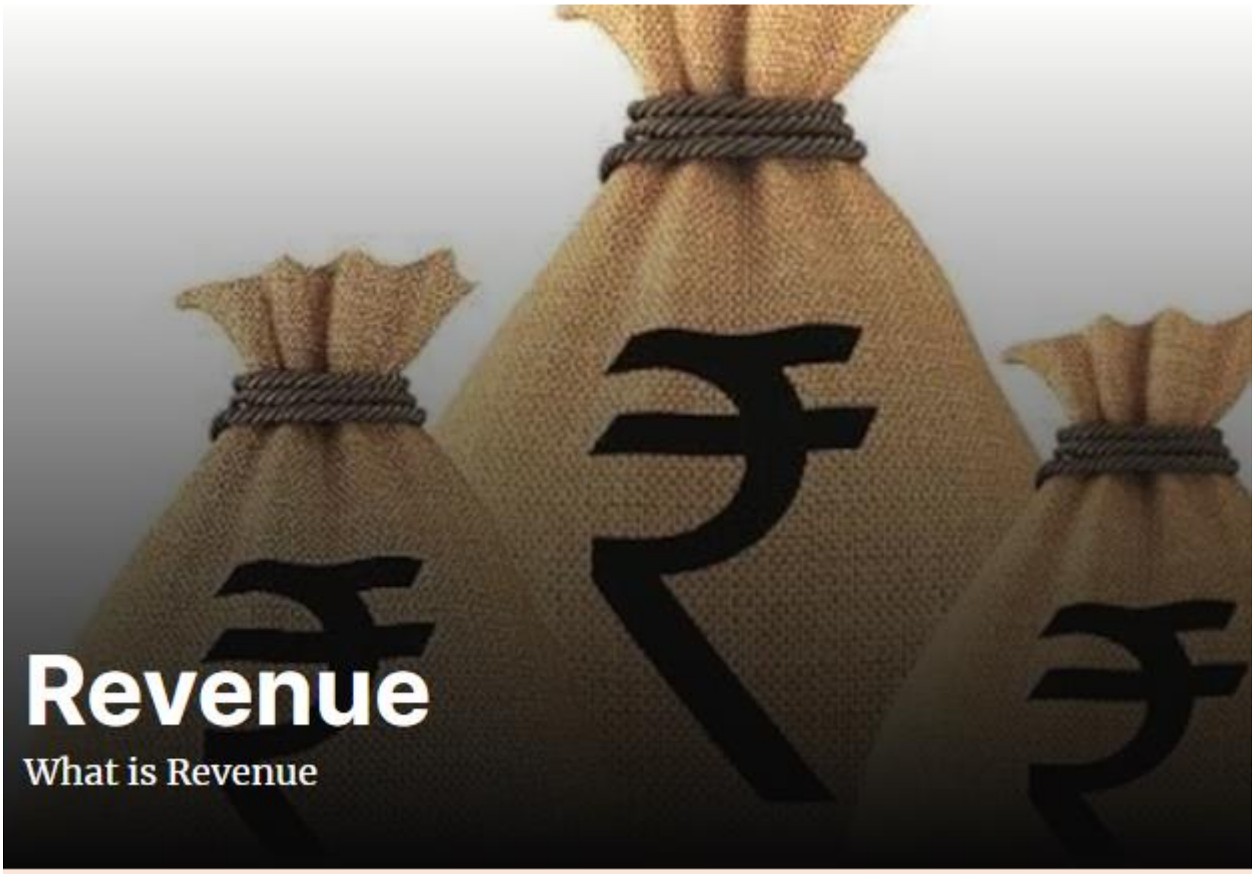

Fig: 1.2. show revenue generate

What is Revenue?

3.1.1. Government revenue

Refers to all the income of the government from taxes and non-tax sources. These funds are used for government expenditure. Government revenues and spending are an important part of fiscal policy of the government.

Revenue refers to all the receipts of the government from taxes, custom duties, and revenue from state-owned enterprises, capital revenues and foreign aid.

Revenue is generated from mainly two types of sources:

Sources of Government Revenue

The government account consists of both inflows and outflows. Fund inflows come from taxes and borrowing. Taxes, which are required payments to the government, come from several sources. At the national level, the government collects personal income taxes, corporate profit taxes, and social insurance taxes.

Tax revenue: Taxes on incomes of individuals and corporations and also on the goods and services produced.

Non-tax revenue: Dividends from state-run companies, central bank revenue and capital receipts in the form of external loans and debts from international financial institutions

Meaning of Government Revenue

Government revenue is the money the government raises from taxes, asset income, and transfer receipts at the federal, state, and local levels. Although the government can also raise funds by borrowing (selling bonds), the funds raised are not considered revenue.

Federal government revenue sources

Refer to Figure 1 below which shows the Federal government revenue sources. Personal income taxes and corporate profit taxes account for about half of all tax revenue. In 2020, they accounted for approximately 53% of all tax revenue. Payroll taxes or social insurance taxes - taxes for programs to protect families in case of hardship (e.g. Social Security) accounted for 38% of tax revenue. There are also taxes at the state and local levels on sales, property, and income, in addition to various types of fees collected

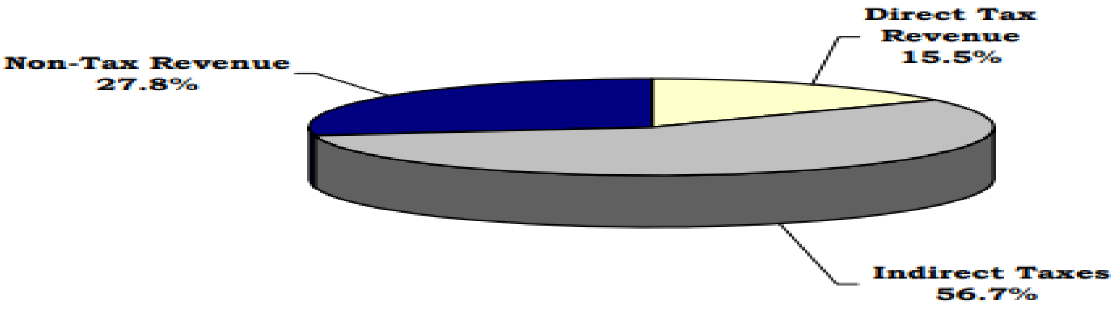

Diagram 1.3. Percentage of Revenue Generated from Different Taxes

Diagram show the % revenue generate from different taxes

CLASIFICATION OF REVENUES

Table 1.4. Category of Revenues

1	**Revenue**
11	**Taxes**
111	Taxes on income, profits, and capital gains
1111	Payable by individuals
1112	Payable by corporations and other enterprises
1113	Unallocable
112	Taxes on payroll and workforce
113	Taxes on property
1131	Recurrent taxes on immovable property
1132	Recurrent taxes on net wealth
1133	Estate, inheritance, and gift taxes
1134	Taxes on financial and capital transactions
1135	Other nonrecurrent taxes on property
1136	Other recurrent taxes on property
114	Taxes on goods and services
1141	General taxes on goods and services
11411	Value-added taxes
11412	Sales taxes
11413	Turnover and other general taxes on goods and services
1142	Excises
1143	Profits of fiscal monopolies
1144	Taxes on specific services
1145	Taxes on use of goods and on permission to use goods or perform activities
11451	Motor vehicle taxes
11452	Other taxes on use of goods and on permission to use goods or perform activities
1146	Other taxes on goods and services
115	Taxes on international trade and transactions
1151	Customs and other import duties
1152	Taxes on exports
1153	Profits of export or import monopolies
1154	Exchange profits
1155	Exchange taxes
1156	Other taxes on international trade and transactions
116	Other taxes
1161	Payable solely by business
1162	Payable by other than business or unidentifiable
12	**Social contributions [GFS]**
121	Social security contributions
1211	Employee contributions
1212	Employer contributions
1213	Self-employed or nonemployed contributions
1214	Unallocable contributions
122	Other social contributions
1221	Employee contributions
1222	Employer contributions
1223	Imputed contributions
13	**Grants**
131	From foreign governments
1311	Current
1312	Capital
132	From international organizations
1321	Current
1322	Capital
133	From other general government units
1331	Current
1332	Capital
14	**Other revenue**
141	Property income [GFS]
1411	Interest [GFS]
1412	Dividends
1413	Withdrawals from income of quasi-corporations
1414	Property income attributed to insurance policyholders
1415	Rent
142	Sales of goods and services
1421	Sales by market establishments
1422	Administrative fees
1423	Incidental sales by nonmarket establishments
1424	Imputed sales of goods and services
143	Fines, penalties, and forfeits
144	Voluntary transfers other than grants
1441	Current
1442	Capital
145	Miscellaneous and unidentified revenue

The Table show classification of D/T Types revenues

3.1.2. Government Expenditure

What is Government Expenditure?

What is Government Spending? Government spending refers to money spent by the public sector on the acquisition of goods and provision of services such as education, healthcare, social protection, and defense.

- In national income accounting, when the government acquires goods and services for current use to directly satisfy the individual or collective needs and requirements of the community, it is classified as government final consumption spending.
- When the government acquires goods and services for future use, it is classified as government investment. This includes public consumption and public investment, and transfer payments consisting of income transfers.

Fig 1.4. show government expenditures

3.1.3. **Sources of Government Spending**

Government spending is financed primarily through two sources:

A. Tax collections by the government

- Direct taxes
- Indirect taxes

B. Government borrowing

- Borrowing money from its own citizens
- Borrowing money from foreigners

Public spending enables governments to produce goods and services or purchase goods and services that are needed to fulfill the government's social and economic objectives. Over the years, we've seen significant changes in the role and size of governments around the world.
Public spending increased remarkably in the 20th century, when governments all over the world started spending more funds on education, healthcare, and social protection. At present, the governments of developed countries spend more as a percentage of Gross Domestic Product (GDP) than the governments of developing countries.

Also, governments around the world rely upon the private sector to produce and manage a country's goods and services and utilize public-private partnerships to finance, design, build, and operate infrastructure projects.

In the 2005-10 period alone, the total value of public-private partnerships, designed to increase the spending on public infrastructure projects in low and middle-income countries, more than doubled.

3.1.4. Purposes of Government Spending

- To supply goods and services that are not supplied by the private sector, such as defense, roads, and bridges; merit goods such as hospitals and schools, and welfare payments and benefits including unemployment and disability benefits.
- To achieve improvements in the supply-side of the macro-economy, such as spending on education and training to improve labor productivity.
- To provide subsidies to industries that may need financial support for either their operation or expansion. The private sector is not able to meet such financial requirements and, hence, the public sector plays a crucial part in lending necessary support. For example, transport infrastructure projects do not attract private finance unless the government provides expenditures for the industry.
- To help redistribute income and promote social welfare.

Types of Spending

A. Current spending

They are for the short term and include expenditure on wages and raw materials.

B. Capital spending

They are for the long term and do not need to be renewed each year. Also called “social capital,” they include spending on physical assets like roads, bridges, hospital buildings, and equipment.

Government Borrowings

The government primarily funds its spending on the economy through tax revenues it earns. However, when revenue is insufficient to pay for expenditures, it resorts to borrowing. Borrowing can be short-term/long-term and involves selling government bonds/bills. Treasury bills are also issued into the money markets to help raise short-term cash.

Additional Resources

Thank you for reading CFI’s guide to Government Spending. To keep learning and developing your knowledge of financial analysis, we highly recommend the additional CFI resources below:

- Balance of Payments
- Capital Account
- Fiscal Policy
- Market Economy

3.2. Identifying, analyzing, and recording transactions

General Fund Comprehensive Illustrative Transactions

You have been given an Interim balance sheet of the city of ABC general fund. It had the following after closing trial balance at April 30, 2011, the end of fiscal year:

City of ABC general fund

Balance Sheet

April 30, 2011

	Debit	Credit
Cash	93,000	
Taxes Receivable -delinquent	583,000	
Estimated Uncollectible delinquent taxes		189,000
Interest and penalties receivable	26280	
Estimated uncollectible interest and penalties		11160
Inventory of supplies	16100	
Voucher payable		148500
Due to federal government		59490
Reserve for inventory of supplies		16100
Fund balance		294130
	718,380	718,380

Required: During the six months ended October 31, 2011, the first six months of fiscal year 2011, the following transactions, record the 12 transactions in summary form with subsidiary ledger detail omitted, occurred. In the process of reading please note that the capital letter 'A' indicates how the transaction is recorded at fund level while the small letter' a 'indicates the governmental level record. If the capital letter A and the small letter a are together it means that the transactions are recorded both at fund level and governmental wide level records.

1) The budget for fiscal 2002 provided for General Fun Estimated Revenues totaling $3,170,000 and appropriations totaling $3,100,000.

At fund Level the transaction will be recorded as:

Estimated revenues………………………………………….. 3,170,000

Appropriations…………………………………………………………… 3,100,000
Fund balance………………………………………………………………70,000

You have to note that this kind of budgetary transaction will be recorded only at fund level and will not be recorded in governmental wide level.

2) The city council authorized a temporary loan of $ 300,000 in form of a 120-day tax anticipation note. The loan was obtained from local bank at discount of 6% per annum).

At fund Level the transaction will be recorded

(A)Cash…………………………………………………………. 294,000

Expenditures.. 6,000

Tax anticipation notes payable……………………………………………….300, 000

(Computation of discount: $300,000 x .06 x 1/3 year = $6,000.)

At fund Level the transaction will be recorded as:

(a) Cash……………………………………………………………294,000

Interest expense... 6,000

Tax anticipation notes payable………………………………………………300,000

You have to note that this kind of loan transaction is recorded both at fund level and governmental wide level. Additionally, you have to properly notice that the interest is recognized as expenditure at the general fund level record, since it used a modified accrual basis of accounting and as an expense at Government wide level, since it used accrual basis of accounting.

3) The property tax levy for fiscal 2002 was recorded. Net assessed valuation of taxable property for the year was 43,000,000 and the tax rate was $5.00 per hundred. It was estimated that 4% of the levy would be uncollectible.

At fund Level the transaction will be recorded as:

(A) Taxes receivable—current……………………………… 2,150,000

Estimated uncollectible current Taxes……………………………………. 86,000

Revenues……………………………………………………………………… 2,064,000

(Computations: $43,000,000 assessed valuation x $5.00 tax rate per $100 = $2,150,000 gross levy; $2,150,000 gross levy x .04 = $86,000 estimated uncollectible.

At fund Level the transaction will be recorded as:

(a) Taxes receivable—current……………………………….. 2,150,000

Estimated uncollectible current taxes………………………………………………. 86,000

General revenues—property taxes…………………………………………………2,064,000

You have to note that this kind of tax levy is recorded both at fund level and governmental wide level. Additionally, you have to properly notice that it is the revenue account that is credited at the general fund level record, since it used a modified accrual basis of accounting and general revenues at Government wide level, since it used accrual basis of accounting. The other difference you have to notice is that, unlike business accounting, revenue is recognized net of estimated uncollectible.

4) Purchase orders, contracts, and so on, in the amount of $1,027,000 were issued to vendors and others

At fund Level the transaction will be recorded as:

(A)Encumbrances…………………………………………… 1,027,000

Reserve for encumbrances……………………………………………1,027,000

You have to note that this kind of encumbrance transaction will be recorded only at fund level and will not be recorded in governmental wide level.

5) $1,034,000 of current taxes, $340,000 of delinquent taxes and interests and penalties of $13,240 were collected. Because of taxpayers' delinquencies in payments of the first installment of taxes, additional penalties of $15,230 were levied of which all is assumed to be collected at future date.

Both at fund Level and Governmental level the transaction will be recorded similarly as:

(A and a) Cash…………………………………………………. 1,387,240

Taxes receivable—current…………………………………….. 1,034,000

Taxes receivable—delinquent………………………………… 340,000

Interest and penalties receivable………………………………. 13,240

You have to note that this kind of levied tax collection transaction will be recorded similar both at fund level governmental wide level.

At fund Level the transaction will be recorded as:

(A)Interest and penalties receivable……………………………. 15,230

Revenues………………………………………………………………15, 230

At Governmental level the transaction will be recorded as:

(a) Interest and penalties receivable……………………………… 15,230

General revenues – interest on taxes………………………………………15,230

Additionally, you have to properly notice that it is the revenue account that is credited at the general fund level record, since it used a modified accrual basis of accounting and general revenues at Government wide level, since it used accrual basis of accounting.

6) Total payroll during the first six months was $481,070, of that amount, $36,800 was withheld for employees' FICA tax liabilities, $61,200 for employee's federal income tax liability, and $20,000 for state taxes; the balance was paid in cash

At fund Level the transaction will be recorded as:

(A)Expenditures………………………………………………… 481,070

Due to federal government…………………………………………… 98,000

Due to state government……………………………………………… 20,000

Cash………………………………………………………………… 363,070

At Governmental level the transaction will be recorded as:

(a)Expenses —(itemize functions)……………………………… 481,070

Due to federal government………………………………………………. 98,000

Due to state government………………………………………………… 20,000

Cash…………………………………………………………………363,070

In the above transaction you have to properly notice that it is the expenditure controlling account that is debited at the general fund level record, since it uses a modified accrual basis of accounting and expense accounts itemized at least with their function at Government wide level, since it used accrual basis of accounting.

7) The employer's FICA tax liability amounted to $36,800

At fund Level the transaction will be recorded as:

(A)Expenditures……………………………………………………36,800

Due to federal government…………………………………………………36,800

At Governmental level the transaction will be recorded as:

(a)Expenses —(itemize functions)……..…………………………. 36,800

Due to federal government……………………………………………36,800

In the above transaction you have to properly notice that it is the expenditure controlling account that is debited at the general fund level record, since it uses a modified accrual basis of accounting and expense accounts itemized at least with their function at Government wide level, since it used accrual basis of account

8) Revenues from sources other than taxes were collected in the amounts of $339,000

At fund Level the transaction will be recorded as:

(A) Cash……………………………………………………………. 339,000

Revenues………………………………………………………………339, 000

At Governmental level the transaction will be recorded as:

(a) Cash……………………………………………………………339,000

Revenues —(itemize sources) ……………………………………….339,000

You have to properly notice that it is the revenue account that is credited at the general fund level record, since it used a modified accrual basis of accounting and general revenues at Government wide level, since it used accrual basis of accounting.

9) Amounts due to the federal government as of April 30, and the amounts due for FICS taxes and state and federal withholding taxes during the first six months of fiscal 2002, were vouched. Both at fund Level and Governmental level the transaction will be recorded similarly as:

(A and a) Due to federal government……………………………. 194,290
Due to state government 20,000
Vouchers payable 214,290

You have to note that this kind of transaction will be recorded similar both at fund level governmental wide level.

10) Purchase orders and contracts encumbered in the amount of $890,800 were filled at a net cost of $894,9000, which was vouchered

At fund Level the transaction will be recorded as:

(A)Reserve for encumbrances……………………………………890,800

Encumbrances…………………………………………………………890,800

Expenditures……………………………………………………. 894,900

Vouchers payable………………………………………………………………… 894,900

At Governmental level the transaction will be recorded as:

(a) Expenses —(itemize functions)……………………………… 894,900

Voucher payable…………………………………………………………………. 894,900

You have to note that the encumbrance transaction will be recorded only at fund level. Besides that, in the above transaction you have to properly notice that it is the expenditure controlling account that is debited at the general fund level record, since it uses a modified accrual basis of accounting and expense accounts itemized at least with their function at Government wide level, since it used accrual basis of accounting.

11) 1,099,060 cash were paid on voucher payable and credit for purchase discount earned was 8,030

At fund Level the transaction will be recorded as:

(A) Vouchers payable………………………………………. 1,107,090

Cash………………………………………………………………. 1,099,060

Expenditures……………………………………………………… 8,030

At Governmental level the transaction will be recorded as:

(a) Vouchers payable………………………………………… 1,107,090

Cash…………………………………………………………………. 1,099,060

Expenses —(itemize functions)…………………………………………. 8,030

In the above transaction even if the debits are similar you have to properly notice that it is the expenditure controlling account that is debited at the general fund level record, since it uses a modified accrual basis of accounting and expense accounts itemized at least with their function at Government wide level, since it used accrual basis of accounting.

12) The tax anticipation notes of $ 300,000 was paid

Both at fund Level and Governmental level the transaction will be recorded similarly as:

(A and a) Tax anticipation notes payable…………………………300,000

Cash………………………………………………………… 300,000

You have to note that this kind of transaction will be recorded similar both at fund level governmental wide level.

Required: Prepare an interim balance sheet at October 31, 2011 for the above city of ABC General Fund.

C. City of ABC General fund

Interim balance sheet,

October 31, 2004

Assets and resources

Cash $ 351,110			
Taxes receivable—current		$1,116,000	
Less: estimated uncollectible		86,000	1,030,000
Taxes receivable—delinquent		243,000	
Less: estimated uncollectible		189,000	54,000
Interest and penalties receivable		28,270	
Less: estimated uncollectible		11,160	17,110
Inventory of supplies			16,100
Total assets			1,468,320
Estimated revenues		3,170,000	
Less: revenues		2,418,230	751,770
total assets and resources			$2,220,090
Liabilities and fund equity			
Vouchers payable			$ 150,600
Fund equity:			
Appropriations		$3,100,000	
Less: expenditures	$1,410,740		
Encumbrances	136,200	1,546,940	
Available appropriations		1,553,060	
Reserve for encumbrances	136,200		
Reserve for inventory of supplies	16,100		
Total reserved fund equity		152,300	
Fund balance		364,130	
Total fund equity			2,069,490
Total liabilities and fund equity			$ 2,220,090

In the above interim financial statement, you have to notice that both budgetary and actual accounts are combined together. As a result, the asset account is renamed as assets and resources to indicate that some of the resources are budgetary.

Required: Based on what you have learned in the above transactions the remaining six months 13 transaction of the city of ABC is given below. Record each transaction and prepare General fund financial statements.

13) Revenue estimates found to be lesser than the previous by 100,000

At fund Level the transaction will be recorded as:

A) Fund balance…………………………………………………… 100,000

Estimated revenues…………………………………………………… 100,000

You have to note that this kind of budgetary transaction will be recorded only at fund level and will not be recorded in governmental wide level.

14) Purchase orders and other commitment documents in the amount of 1,032,000 were issued during the six months ended April 30,2002.

At fund Level the transaction will be recorded as:

A) Encumbrances………………………………………………….1,032,000

Reserve for encumbrances…………………………………………… 1,032,000

You have to note that this kind of encumbrance transaction will be recorded only at fund level and will not be recorded in governmental wide lev

15) Property taxes of $6,500 and interest and penalties receivable of $1,340, which had been written off in prior year, were collected. Additional interest of $270 that had accrued since the write-off was collected at the same tim

Both at fund Level and Governmental level the transaction will be recorded similarly as:

(A & a) Taxes receivable-delinquent…………………………………….6,500

Interest and penalties receivable……………………………….1,340

Estimated uncollectible taxes— delinquent…………………………… 6,500

Estimated uncollectible interest and penalties…………………………… 1,340

(This entry reverses the write-off entry and places the receivables under accounting control again.)

Interest and penalties receivable……………………………………… 270

Revenues (general revenues in governmental activities) …………………………… 270

(to record interest and penalties accrued and collected.)

(A and a) Cash……………………………………………… 8,110

Taxes receivable—delinquent………………….……………….. 6,500

Interest and penalties receivable……………………………… 1,610

You have to note that these kind of transactions will be recorded similar both at fund level governmental wide level.

16) Personnel costs, excluding the employer's share of the FICA tax, totaled 338,420 for the second six months. Withholdings amounted to $25,890 for FICA; 42,510 for employee's federal income tax liability, and $14,400 for state withholding tax; the balance was paid in cash

In fund level financial statements

Expenditures……………………………………………. 338,420

Due to federal government……………………………………… 68,400

Due to state government………………………………………. 14,400

Cash………………………………………………………………. 255,620

In Governmental wide financial statements

Expenses-various…………………………………………… 338,420

Due to federal government…………………………………………… 68,400

Due to state government……………………………………………… 14,400

Cash…………………………………………………………………. 255,620

In the above transaction even if the debits are similar you have to properly notice that it is the expenditure controlling account that is debited at the general fund level record, since it uses a modified accrual basis of accounting and expense accounts itemized at least with their function at Government wide level, since it used accrual basis of accounting.

In fund level financial statements

17) The employer's FICA tax of $25,890 was recorded as a liability

Expenditures…………………………………………………. 25,890

Due to federal government……………………………………………. 25,890

In Governmental wide financial statements

Expenses-various……………………………………………. 25,890

Due to federal government……………………………………………… 25,890

In the above transaction even if the debits are similar you have to properly notice that it is the expenditure controlling account that is debited at the general fund level record, since it uses a modified accrual basis of accounting and expense accounts itemized at least with their function at Government wide level, since it used accrual basis of accounting.

18) Additional assessment of property tax revealed un-taxed 500,000 amounting property and in it 5.00 per hundred is levied and believed to be totally collectable

In fund level financial statements

Taxes receivable—current…………………………………………. 25,000

Revenues………………………………………………………………… 25,000

($500,000 x $5.00 per $100)

In Governmental wide financial statements

Taxes receivable—current………………………………………….. 25,000

General Revenues …………………………………………………………… 25,000

($500,000 x $5.00 per $100)

You have to properly notice that it is the revenue account that is credited at the general fund level record, since it used a modified accrual basis of accounting and general revenues at Government wide level, since it used accrual basis of accounting.

19) The following were collected in cash: Current taxes of $927,000: delinquent taxes of $43,270; interest and penalties of $7,330, and revenues of $593,700 from a number of sources

In fund level financial statements

Cash……………………………………………………1,571,300

Taxes receivable—current…………………………………………. 927,000

Taxes receivable—delinquent……………………………………… 43,270

Interest and penalties receivable…………………………………… 7,330

Revenues………………………………………………… 593,700

In Governmental wide financial statements

Cash…………………………………………………… 1,571,300

Taxes receivable—current…………………………………………….. 927,000

Taxes receivable—delinquent……………………………………… 43,270

Interest and penalties receivable…………………………………… 7,330

Revenues………………………………………………………………. 593,700

You have to properly notice that it is the revenue account that is credited at the general fund level record, since it used a modified accrual basis of accounting and general revenues at Government wide level, since it used accrual basis of accounting.

20) Accrued interest and penalties, estimated to be 30%uncollectible, was recorded in the amount of 23,200

In fund level financial statements

Interest and penalties receivable……………………….23,200

Estimated uncollectible interest and penalties……………………………. 6,960

Revenues………………………………………………………………. 16,240

In Governmental wide financial statements

Interest and penalties receivable……………………….23,200

Estimated uncollectible interest and penalties……………………………. 6,960

General Revenues……………………………………………………… 16,240

You have to properly notice that it is the revenue account that is credited at the general fund level record, since it used a modified accrual basis of accounting and general revenues at Government wide level, since it used accrual basis of accounting

21) All unpaid current year taxes became delinquent. The current taxes and related estimated uncollectible were transferred to the delinquent classifications

Both at fund Level and Governmental level the transaction will be recorded similarly as:

(A and a) Taxes receivable—delinquent……………………….….214,000

Estimated uncollectible taxes—current…………………… 86,000

Taxes receivable—current……………………………………..214,000

Estimated uncollectible taxes— delinquent……………………86,000

You have to note that this kind of transaction will be recorded similar both at fund level governmental wide level.

22) All amounts due to the federal government and state governments were vouchered.

Both at fund Level and Governmental level the transaction will be recorded similarly as:

(A and a) Due to federal government…………………………… 94,290

Due to state government………………………………… 14,400

Vouchers payable…………………………………………………..108,690

You have to note that this kind of transaction will be recorded similar both at fund level governmental wide level.

23) Invoices and bills for goods and services that had been encumbered at $1,097,240 were received in the amount of $1,092,670 and were vouchered.

In fund level financial statements

Reserve for encumbrances…………………………………	1,097,240	
Expenditures………………………………………………	1,092,670	
Encumbrances………………………………………………………		1,097,240
Vouchers payable……………………………………………………		1,092,670

In Governmental wide financial statements

Expenses (various)……………………………………………	1,092,670	
Vouchers payable……………………………………………………		1,092,670

In the above transaction note that the encumbrance record is only in fund level and in the actual amounts paid it is the expenditure controlling account that is debited at the general fund level record, since it uses a modified accrual basis of accounting and expense accounts itemized at least with their function at Government wide level, since it used accrual basis of accounting.

24) Personal property tax of $39,940 and interest and penalties of $4180 were written off because of inability to locate the property owners

You have to note that this kind of transaction will be recorded similar both at fund level governmental wide level.

Both at fund Level and Governmental level the transaction will be recorded similarly as:

Estimated uncollectible taxes—delinquent………………………	39,940	
Estimated uncollectible interest and penalties……………………	4,180	
Taxes receivable—delinquent………………………………………………		39,940
Interest and penalties receivable……………………………………………		4,180

25) A physical inventory of materials and supplies at April 30, 2002, showed a total of $19,100. Inventory is recorded on the consumption method.

The ending inventory (19,100) greater than the beginning inventory in the financial statement (16,100) indicates that there are inventories issued but not yet used. Therefore, the expenditure account has to be adjusted by decreasing it by the difference 3000(19,100-16,100) and increasing inventory of supplies also by the same amount (19,100-16,100).

At fund Level the adjustment transaction will be recorded as:

Inventory of supplies……………………………………………3,000

Expenditures…………………………………………………………………3,000

Once we have readjusted the expenditure accounts our reserve for inventory of supplies account has to increase which is recorded by decreasing the fund balance account:

At fund Level the adjustment transaction will be recorded as:

Fund balance………………………………………………….   3,000

Reserve for inventory of supplies……………………………………3,000

($19,100 physical inventory - $16,100 already recorded = $3,000 increase due to supplies purchased during the year.)

In Governmental wide financial statements

Inventory of supplies…………………………………………… 3,000

Expenses (various)……………………………………………………. 3,000

In the above transaction note that it is the expenditure controlling account that is credited at the general fund level record, since it uses a modified accrual basis of accounting and expense accounts itemized at least with their function at Government wide level, since it used accrual basis of accounting

26) Payments made on vouchers during the second half-year totaled $1,202,600

Vouchers payable…………………………………………. 1,202,600

Cash ……………………………………………………………. 1,202,600

Required Prepare closing entries April 30, 2013

Closing entries, *in fund level financial statements*

Revenues ………………………………………….…………3,053,440

Appropriations…………………………………………….3,100,000

Encumbrances……………………………………………………. 70,960

Estimated revenues…………………………………………… 3,070,000

Expenditures…………………………………………………….2,864,720

Fund balance……………………………………………………147,760

In Governmental wide financial statements

Revenues (various)…………………………………………….3,053,440

Expenses (various)……………………………………………….2,864,720

Unrestricted net assets……………………………………………… 188,720

Instruction: Prepare Financial statements:

City of Warren's General fund

General fund balance sheet

As of April 30, 2013

Assets			
Cash	$ 472,300		
Taxes receivable—delinquent		$373,790	
Less: estimated uncollectible taxes—delinquent		241,560	132,230
Interest and penalties receivable		39,960	
Less: estimated uncollectible interest and penalties		15,280	24,680
Material and supplies inventory			19,100
Total assets			$ 648,310
Liabilities and fund equity			
Liabilities:			
Vouchers payable			$149,360
Fund equity:			
Reserves:			
Reserve for inventory of supplies	$ 19,100		
Reserve for encumbrances—2005	70,960		
Total reserves		$ 90,060	
Fund balance		408,890	
Total fund equity			498,950
total liabilities and fund equity			$ 648,310

D.

City of Warren's General fund
Statement of revenues, expenditures, and changes in fund balance
For the year ended April 30, 2012

Revenues		
Taxes		$2,089,000
Interest and penalties on taxes		31,740
Other sources		932,700
Total revenues		3,053,440
Expenditures		
Salaries and wages		819,490
Contributions to retirement funds		62,690
Interest on note payable		6,000
Other		1,976,540
Total expenditures		2,864,720
Excess of revenues over expenditures		188,720
Less change in reserves during 2005:		
Encumbrances	$70,960	
Inventory of supplies	3,000	73,960
Increase in fund balance for the year		114,760
Fund balance, May 1, 2011		294,130
Fund balance, April 30, 2012		$ 408,890

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Ministry of Labor and Skills

Operation Sheet

Title: Recording Transactions

Purpose: To show how to record the inter fund loan from general fund to special revenue fund and repayment of inter fund loan

Resources

- Paper
- Pen
- Computer

Steps

1. Recording the Inter fund loan from the general fund to the special revenue fund
2. Inter fund Loan in Special Revenue Fund
3. Repayment of inter fund loan to General Fund
4. Record repayment of inter fund loan by the special revenue fund.

Assume that the Special revenue fund has not been advanced adequate funds for its immediate operations, and funds are forthcoming from the federal government. Expenditures of $75,000 have been made for the program, and an inter-fund loan from the General Fund is made to allow payment of incurred expenditures.

<u>Lap test</u>

Task -1. Record Loan from General fund by Special Revenue Fund

Task-2. Record the loan to the side of GF

Task-3. Record the journal for the repayment of the loan by the Special Revenue Fund

Self- Check-3

Part-I- Short Answers

Give Short Answers for the Following Questions

1. Demonstrate the Purposes of Government Spending
2. Identify the unique aspects of general fund
3. Explain measurement focus and basis of accounting for general fund
4. Differentiate between fund equity and fund balance
5. Explain the purpose of encumbrance accounting
6. Explain various general fund classifications

Part-II- True –False

Write True if the Statement is Correct and False if the Statement is Incorrect

1. The general fund is the primary operating fund of a governmental entity.
2. Its purpose is to account for all current financial resources except those that are required.
3. Accounting for special revenue funds is the different from the general fund
4. GAAP permits that there could be more than one general fund.
5. The general fund requires that the Current Financial Resources Measurement Focus and the Modified Accrual Basis of Accounting be employed.

Part III: Multiple Choices

1. When equipment was purchased with General Fund resources, which of the following accounts would have been debited in the General Fund?

A) Expenditures.

B) Equipment.

C) Encumbrances.

D) No entry should be made in the General Fund.

2. The City of Addis Ababa uses the purchases method for recording its inventory of supplies in the General Fund. Rather than using a perpetual inventory system, inventories are updated at year-end based on a physical count. Physical inventories were $85,000 and $75,000 at December 31, 2010 and 2011, respectively. The adjusting journal entry on December 31, 2011, will include a:

A) Debit to Inventory of Supplies for $75,000.

B) Debit to Expenditures for $10,000.
C) Credit to Inventory of Supplies for $10,000.
D) Credit to Expenditures for $10,000.

3. Goods for which a purchase order had been placed at an estimated cost of $1,000 were received at an actual cost of $985. The journal entry in the General Fund to record the receipt of the goods will include a:

A) Debit to Reserve for Encumbrances for $1,000.
B) Credit to Vouchers Payable for $985.
C) Debit to Expenditures for $985.
D) All of the above are correct.

4. The City of Addis Ababa levied 3,000,000 of General Fund property taxes for the fiscal year ending December 31, 2011, with an estimated uncollectible amount of 200,000. During 2011 and January and February of 2012, 2,500,000 of the levy is expected to be collected; however, 300,000 of the levy is not expected to be collected until after February 2012. The amount of property tax revenues to be recognized in FY 2011 is:

A) 3,000,000 in governmental activities at the government-wide level and 2,800,000 in the General Fund.
B) 2,800,000 in governmental activities at the government-wide level and 2,500,000 in the General Fund.
C) $2,500,000 in governmental activities at the government-wide level and 2,800,000 in the General Fund.
D) 2,500,000 in governmental activities at the government-wide level and 2,500,000 in the General Fund.

5. Which of the following items would be reported as program revenue on the government-wide statement of activities?

   A. Sales taxes.
   B. Interest and penalties on taxes.
   C. Unrestricted federal grants.
   D. Fines and forfeits.

Reference

Accounting for Governmental and Non-Profit Entities, 15th edition, by Wilson, Kattelus, Hay. McGraw-Hill/Irwin Inc., USA, 2010 or recent edition

Introduction to Governmental and Not-for-Profit Accounting Martin Ives Terry K. Patton & Se v e n t h E d i t i o n

From web site and internet

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Ministry of Labor and Skills

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