Budgeting, Budgetary Accounting, and Budgetary Reporting

Chapter 4
Learning Objectives

- Understand budgetary accounting & reporting practices and requirements
- Explain role of budget in governmental fund planning & control
- Understand budgeting terminology, approaches, & recommended practices
- Understand budgetary control points
- Discuss basic procedures of preparing and adopting a budget
Budgets

- In businesses – management plans
- In governments – management plans AND laws
  - Control the activities authorized to carry out plans
  - Prepare statement that permit comparison of actual results with budget and evaluation of variances
Minimum Budget Information

- Types and amounts of authorized expenditures
- Purposes for which expenditures are to be made
- Planned means for financing expenditures
Assumptions about GF Budget

- Annual budget adopted on modified accrual (GAAP) basis
- Appropriations are made for operating expenditures by function and for capital outlay and debt service expenditures made directly in GF
- Budget does *not* include appropriations for interfund transfers – assumes interfund transfers are separately authorized
As in the previous chapter, this entry is at summary level. To control revenues and expenditures, detail must be maintained in the subsidiary ledger (as in Chapter 3).

<table>
<thead>
<tr>
<th>Estimated Revenues</th>
<th>427,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriations</td>
<td>423,000</td>
</tr>
<tr>
<td>Unreserved Fund Balance</td>
<td>4,000</td>
</tr>
</tbody>
</table>
Recording the Budget:
Some comments about the entry

- The entries to Estimated Revenues and Appropriations are fairly standard.
- There is some dispute on where to put the difference when the budget doesn’t balance.
Recording the Budget: 
Posting the “Out-of-Balance” amount

- This textbook uses Unreserved Fund Balance
  - Advantages
    - Easier
    - Focuses attention on target *ending* fund balance
  - Disadvantage – implies there are spendable resources when, in fact, there aren’t

- Another textbook uses Fund Balance – same issues as above

- Third textbook uses Budgetary Fund Balance – avoids disadvantage from above but adds another account

- Just be aware that there are options in practice
## Revenues Ledger Format

**Taxes**

<table>
<thead>
<tr>
<th>Date</th>
<th>Estimated Revenues</th>
<th>Revenues</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dr.</td>
<td>(Cr.)</td>
<td>Dr. (Cr.)</td>
</tr>
</tbody>
</table>
Notes about the Revenues Ledger

- Controlled by Estimated Revenues and Revenues
- Balance is the difference between the budgetary account and the actual account
- Sum of the balances in the Revenue Ledger accounts **must** equal the difference between the Estimated Revenues account and the Revenues account
## Expenditures Ledger Format

### General Government

<table>
<thead>
<tr>
<th>Date</th>
<th>Encumbrances</th>
<th>Expenditures</th>
<th>Appropriations</th>
<th>Unencumbered</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Dr. (Cr.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Cr.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Notes about the Expenditures Ledger

- Unlike Chapter 3 where ledger was controlled only by Expenditures account, Encumbrances and Appropriations added for additional control.
- Appropriations added to provide overall control.
- Encumbrances added to control orders made but not yet filled.
Making Adjustments to the Budget

- Assuming balanced budget is maintained, increase in one functions appropriation requires decrease in another

- Unbalanced adjustments
  - Increase (decrease) in Appropriations (Estimated Revenues) requires Unreserved Fund Balance to decrease
  - Decrease (increase) in Appropriations (Estimated Revenues) requires Unreserved Fund Balance to increase
### B3 Adjusting the Budget

<table>
<thead>
<tr>
<th>Estimated Revenues</th>
<th>4,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriations</td>
<td>3,000</td>
</tr>
<tr>
<td>Appropriations</td>
<td>6,000</td>
</tr>
<tr>
<td>Unreserved Fund Balance</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Some may be bothered by having the Appropriations account being both a debit and a credit. However, you must consider the subsidiary ledger effects demonstrated in the textbook. Some appropriations were increased; others were decreased. That is why both the debit and credit are required.
Recording Encumbrances

- Occurs when order is placed – for estimated amount
- Will be reversed when order is received – still for the estimated amount
- Actual amount – as demonstrated in Chapter 3 – recorded in Expenditures account
#3 Recording Encumbrances

<table>
<thead>
<tr>
<th>Encumbrances</th>
<th>30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve for Encumbrances</td>
<td>30,000</td>
</tr>
</tbody>
</table>
#4 Receipt of order [Page 127]

<table>
<thead>
<tr>
<th>#4a Reverse estimate</th>
<th></th>
<th>#4b Record the actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve for Encumbrances</td>
<td>30,000</td>
<td>Expenditures</td>
</tr>
<tr>
<td>Encumbrances</td>
<td>30,000</td>
<td>29,900</td>
</tr>
<tr>
<td>Vouchers Payable</td>
<td>29,900</td>
<td></td>
</tr>
</tbody>
</table>
Closing Entries & Budgetary Accounts

- Entry on page 133 demonstrates modification of closing entry from Chapter 3 to include budgetary accounts

- Separate entries on following slides demonstrate effect of budgetary accounts in separate entries
## C1 Reverse Budget, net of adjustments

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriations</td>
<td>426,000</td>
</tr>
<tr>
<td>Unreserved Fund Balance</td>
<td>5,000</td>
</tr>
<tr>
<td>Estimated Revenues</td>
<td>431,000</td>
</tr>
</tbody>
</table>
## C2 Close Encumbrance Account

<table>
<thead>
<tr>
<th>Compound approach</th>
<th>20,000</th>
<th>20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unreserved Fund Balance</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Encumbrances</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Separate entry approach</th>
<th>20,000</th>
<th>20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve for Encumbrances</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Encumbrances</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unreserved Fund Balance</th>
<th>20,000</th>
<th>20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve for Encumbrances</td>
<td>20,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>
Budgetary Bases

- Used to prepare budget & maintain accounting records
  - Modified accrual basis (GAAP)
  - Cash basis
    - Revenues recognized when received
    - Expenditures recognized when paid
  - Encumbrances basis – treat encumbrances as expenditures
- If non-GAAP basis used to maintain accounting records, adjustments necessary at year-end for reporting purposes
Interim Budgetary Reporting

- Revenues – includes actual revenues collected to date and estimates for the rest of the year
- Expenditures – includes appropriations for the year, expenditures and encumbrances to date, and amount available for spending for each function or program
Budgetary Reporting in CAFR

- Options for placement in report
  - Basic financial statement (BFS) – placed with other Governmental Funds statements
  - Required Supplementary Information (RSI) schedule – after notes but part of minimum external reporting
- Either must include
  - Original budget
  - Final budget
  - Actual on a budgetary basis (if not GAAP, reconciliation must be included in notes (if BFS) or with schedule (if RSI))
  - Most governments include optional Variance column
Next FY – Reestablish Encumbrances

<table>
<thead>
<tr>
<th>Encumbrances</th>
<th>20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unreserved Fund Balance</td>
<td>20,000</td>
</tr>
</tbody>
</table>

This entry results in Reserve for Encumbrances once again equaling Encumbrances and reestablishes the reserve account as a budgetary account rather than a General Ledger account.
Phases of the Budgeting Process

- Planning – critical first step given complexity of modern governments providing critical goods and services provided by government that are not evaluated through market process

- Control – gives Legislature control of Chief Executive, who uses budget to control subordinates

- Evaluation – standard for determining legal and administrative compliance
Budget Types

- Capital or Current
- Tentative or Enacted
- General or Special
- Fixed or Flexible
- Executive or Legislative
Comparison of Different Budget Types

**Capital**
- Typically used for acquisitions requiring several years
- Typically contains portion for current year and for future years

**Current**
- Also known as operating budget
- Contains proposed expenditures for current operations, debt service, & estimates of expendable resources to be available during the year
Comparison of Different Budget Types

**Tentative**
- Plans that are subject to change
- Also includes requests from departments to Chief Executive

**Enacted**
- Appropriation enacted by legislative branch that provides legal basis for control over the executive branch
Comparison of Different Budget Types

General
Typically used for general governmental activities
financed through
General Fund, Special Revenue Funds, & Debt Service Funds

Special
Budget enacted for any other type of activity
Comparison of Different Budget Types

Fixed

- Appropriations are for specific dollar amounts of expenditures / expenses
- Appropriated amount may not be exceeded
- Limit flexibility of Chief Executive

Flexible

- Typically fixed per unit of goods or services but vary in total based on demand for goods or services
- More appropriate for Proprietary Funds but rarely used
## Comparison of Different Budget Types

<table>
<thead>
<tr>
<th>Executive</th>
<th>Legislative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared by executive branch</td>
<td>Prepared and approved by</td>
</tr>
<tr>
<td>but approved by the legislature</td>
<td>legislative branch</td>
</tr>
</tbody>
</table>
Budgetary Preparation Process

- **Overview** – process starts with calendar to assure that budget is prepared on time
- **Preliminary estimates** – overall budgetary outlook & plans for increases or decreases based on revenue growth or decline
- **Prepare actual budget** – examine budgetary requests, compare to available resource projections, make necessary adjustments, & then prepare actual budget
Alternative Budgeting Approaches

- Object-of-expenditure
- Performance
- Program and planning programming-budgeting
- Zero-based budgeting
Object-of-Expenditure Approach

Essential Elements

- Subordinate agencies submit detailed budget requests
- Chief executive compiles and modifies agency requests and submits overall request
- Legislature makes line-item appropriations
- Accounting system must capture data in sufficient detail to permit budgetary control and accountability at legislative-to-executive budgetary control points
Legislative Consideration & Action

- Consideration begins once budget document received from Chief Executive – typically a series of meetings with Chief Executive and department heads

- Budget may be passed
  - In one lump sum, or
  - In separate appropriation for each program or function