Governmental Operating Statement Accounts; Budgetary Accounting
Learning Objectives

3-1 Describe how operating revenues and expenses related to governmental activities are classified and reported in the government-wide financial statements.

3-2 Distinguish, in governmental funds, between Revenues and Other Financing Sources and between Expenditures and Other Financing Uses.

3-3 Explain how revenues and expenditures are classified in the General Fund and other governmental funds.
3-4 Explain how budgetary accounting contributes to achieving budgetary control over revenues and expenditures, including such aspects as:

- Recording the annual budget.
- Accounting for revenues.
- Accounting for encumbrances and expenditures.
- Accounting for allotments.
- Reconciling GAAP and budgetary amounts.
Learning Objectives

3-5 Describe governmental accounting systems.

3-6 Explain the classification of revenues and expenditures of a public school system.
Government-wide Classification and Reporting of Expenses and Revenues

Net expense or revenue for each function or program reported for governmental activities is displayed in the government-wide statement of activities.

The format for reporting is as follows:

 Expenses – Program Revenues = Net (Expense) Revenue

Functions and programs represent major activities or services of a government.
Functions and Programs

Functions are group-related activities that are aimed at accomplishing a major service or regulatory responsibility, such as Public Safety.

Programs are group activities, operations, or organizational units that are directed to the attainment of specific purposes or objectives, such as Highway Beautification.
Program and General Revenues

Program Revenues
- Reported in the functions/programs section of the statement

General Revenues
- Reported in a separate section in the bottom portion of the statement
Direct and Indirect Expenses

Direct Expenses
• Reported on the line for a specific function or program

Indirect Expenses
• Reported as a separate line item and not allocated to any function or program
Program and General Revenues

Program revenues are reported separately from general revenues in the government-wide operating statement.

Separate reporting allows statement users to evaluate whether functions or programs are self-sufficient or require general revenue to cover net costs.
Program Revenue Categories

Charges for services
- Charges to customers or others for both governmental and business-type activities; fines & forfeits; licenses & permits

Operating grants and contributions
- Grants and contributions restricted for operating purposes by other governments, organizations, or individuals

Capital grants and contributions
- Grants and contributions restricted for capital acquisitions by other governments, organizations, or individuals
Reporting Special Items and Certain Transfers

• The following items are reported as separate line items below General Revenues in the Statement of Activities:
  – **Special items** are items *within management’s control* that may be either unusual in nature or infrequent in occurrence.
  – **Extraordinary items** are items or other events that are both unusual in nature and infrequent in occurrence.
  – **Transfers** between governmental activities and business-type activities.
The primary governmental fund is the General Fund. The General Fund is the accounting entity of a state or local government that accounts for current financial resources raised and expended for the core government services provided to the citizenry.

Special revenue funds are also governmental funds. Special revenue funds are created when a revenue source is restricted by an outside donor or grantor, or a tax or other revenue source is authorized by a legislative body for a specified purpose. Special revenue funds help demonstrate that all revenue from the restricted source was used for the specified purpose only.
Structure and Characteristics of Governmental Funds

- General Fund
- Special Revenue Fund
- Governmental Funds
- Permanent Funds
- Capital Project Funds
- Debt Service Funds
Governmental Fund Balance Sheet Accounts

Current Assets and Deferred Outflow of Resources

Current Liabilities and Deferred Inflow of Resources

Fund Balances
Governmental Fund Operating Statement Accounts

Revenues: increases in fund financial resources other than from financing sources such as interfund transfers and debt issue proceeds

Other Financing Sources: transfers into a fund and the proceeds of debt issues and sales of general government assets

Expenditures: the cost to purchase a good or service, outflows of financial resources

Other Financing Uses: transfers of financial resources from one fund to another fund
Budgetary Accounts

- The fact that budgets are legally binding upon administrators has led to the integration of budgetary accounts into the general ledgers of the General Fund, special revenue funds, and other funds that are required by state laws to adopt a budget.
- Each operating account has a corresponding budgetary account.
- With the exception of Encumbrances, the budgetary accounts have normal balances that are the opposite of the corresponding operating statement accounts.
Balance Sheet and Operating Statement Accounts

**Asset Accounts**
- Cash
- Receivables
- Investments
- Prepaid Items
- Inventory

**Liability Accounts**
- Accounts Payable
- Accrued Liabilities

**Deferred Inflow of Resources**

**Fund Balance Accounts**
- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

**Operating Statement Accounts**
- Revenues
- Expenditures
- Other Financing Sources
- Other Financing Uses
In Addition There are Budgetary Accounts

Budgetary Accounts
- Estimated Revenues
- Appropriations
- Estimated Other Financing Sources
- Estimated Other Financing Uses
- Encumbrances
- Encumbrances Outstanding

1st four accounts adjust

Budgetary Fund Balance
# Budgetary and Operating Account Relationships

<table>
<thead>
<tr>
<th>Budgetary Accounts</th>
<th>Operating Accounts</th>
<th>Budgetary Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Revenues (Debit)</td>
<td>Revenues (Credit)</td>
<td>Net balance indicates deficit (excess) of operating (actual) vs. budgeted revenues.</td>
</tr>
<tr>
<td>Estimated Other Financing Sources (Debit)</td>
<td>Other Financing Sources (OFS) (Credit)</td>
<td>Net balance indicates the amount of remaining or overspent interfund transfer authority.</td>
</tr>
<tr>
<td>Appropriations (Credit)</td>
<td>Expenditures (Debit)</td>
<td>Appropriations minus the sum of Expenditures and Encumbrances indicates remaining or overspent expenditure authority.</td>
</tr>
<tr>
<td>Estimated Other Financing Uses (Credit)</td>
<td>Other Financing Uses (OFU) (Debit)</td>
<td>Net balance indicates the amount of remaining or overspent interfund transfer authority.</td>
</tr>
<tr>
<td>Encumbrances (Debit)</td>
<td>N/A</td>
<td>An encumbrance has a normal debit balance because it is a commitment to make an expenditure.</td>
</tr>
</tbody>
</table>
Reporting Budgeted and Actual Results

GASB standards require that a budget to actual comparison schedule be provided for the General Fund and for each major special revenue fund for which a budget is legally adopted.

Individual fund budgetary comparisons are required to be presented at the legal level of budgetary control, which represents the fund, program, or organizational unit at which expenditures may not exceed appropriations without a formal budgetary amendment.

Actual amounts in a budgetary comparison should be presented using the government’s budgetary basis (cash, accrual, or modified accrual).
An appropriation is a legal authorization to expend cash or other financial resources for goods, services, and facilities to be used for specified purposes, in amounts not to exceed those authorized for each purpose.

When liabilities authorized by an appropriation have been incurred, the appropriation is said to be expended.

Thus, budgeted appropriations are sometimes called estimated expenditures.

Expenditures are expended appropriations.
Expenditure Classification

- Fund
- Function or program
- Organization unit
- Activity
- Character
Revenue and Estimated Revenue Classification

Revenue usually includes all financial resource inflows—all amounts that increase the fund balance of a fund. A government may raise revenues only from sources available to it by law.

Revenues are classified by

- Fund
- Source
- Secondary class
Major Revenue Source Classes

- Taxes
- Special Assessments
- Licenses and Permits
- Intergovernmental Revenues
- Charges for Services
- Fines and Forfeits
- Miscellaneous Revenue
Taxes

• Taxes are an important source of funding for governments because they provide a large portion of revenue and they are compulsory contributions.

• Revenue from taxes is recognized on the modified accrual basis, which means recognition occurs when the revenue is measurable and available.
Types of Taxes

- Ad Valorem Property Taxes
- Sales Taxes
- Income Taxes
- Gross Receipts Taxes
- Death and Gift Taxes
- Interest and Penalties on Delinquent Taxes
Ad Valorem Property Taxes

• Ad valorem (based on value) taxes are a major source of funding for local governments, such as county or city governments, and are typically assessed on real property and/or personal property.

• There are several steps in determining the amount of taxes to be levied.
Tax Levy Process

Assess property

- Taxing authority determines property values

Set Tax Rate

- Multiply property values by set rate OR
- Treat property tax as a residual tax and determine rate
Residual Source Approach

1. Estimate revenues from all other sources
2. Subtract total of other source revenue from proposed appropriations
3. Estimate collectible percentage of tax levy to determine gross property tax levy
4. Determine net assessed valuation
5. Divide gross property tax levy by net assessed valuation to determine tax rate
When taxes are not paid by the due date, they become delinquent.

- Interest may be assessed on delinquent taxes beginning with the day after the due date.
- A legally mandated addition to delinquent taxes may also be assessed on the day, usually on the day after the due date.
Sales Taxes, Income Taxes and Gross Receipts Taxes

Revenue from these taxes should be recognized (net of estimated refunds) in the period in which the underlying event (sale, income earned, gross receipts generated) takes place.

On the modified accrual basis of accounting, revenue must also be “available” to be recognized.
Special Assessments

Unlike ad valorem property taxes, special assessments are not levied against all taxable property in the government’s jurisdiction.

Instead, they are levied only against the properties that are deemed to benefit from the underlying service or improvement to be provided.
Special Assessments

Service-type special assessments
• Routine services that are provided outside the normal service area or at a higher rate or level of quality than available to the general public
• Accounted for by the fund that renders the same services to the general public

Capital improvements special assessments
• Capital improvements that benefit only certain property owners
• Accounted for by a capital projects fund during construction, and debt service fund if debt financing is used
Licenses and Permits

- Building Permit
- Vehicle License
- Animal License
- Business License
Intergovernmental Revenue

- According to GASB, *grants and other financial assistance* are transactions in which one government transfers cash or other items of value to [or incurs a liability for] another government, an individual, or an organization as a means of sharing program costs, subsidizing other governments or entities, or otherwise reallocating resources to the recipients.

- Grants and other financial assistance are nonexchange transactions, and may be government-mandated or voluntary.
Charges for Services

- Street, sidewalk, and curb repairs
- Parking meter receipts
- Tuition
- Recording fees
- Court costs
- Zoning fees

All are charges for goods and services provided by a governmental entity.
Fines and Forfeits

- Revenue from fines and forfeits includes:
  - fines and penalties for commission of statutory offenses and for neglect of official duty
  - forfeitures of amounts held as security against loss or damage, or collections from bonds or sureties placed with the government for the same purpose
  - penalties of any sort
Miscellaneous Revenues

- Interest (except interest on taxes)
- Rents and royalties
- Public enterprise contributions
- Private contributions
- Escheats
Budgetary Control Accounts

- Estimated Revenues
- Appropriations
- Encumbrances
- Estimated Other Financing Sources
- Estimated Other Financing Uses
## Recording the Budget

<table>
<thead>
<tr>
<th>Description</th>
<th>General Ledger</th>
<th>Subsidiary Ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Revenues</td>
<td>1,277,500</td>
<td></td>
</tr>
<tr>
<td>Budgetary Fund Balance</td>
<td>1,277,500</td>
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*Estimated Revenues Ledger:*

<table>
<thead>
<tr>
<th>Description</th>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
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<td>882,500</td>
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<tr>
<td>Intergovernmental Revenues</td>
<td></td>
<td>200,000</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td></td>
<td>195,000</td>
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</table>
Recording the Budget

<table>
<thead>
<tr>
<th>Description</th>
<th>General Ledger</th>
<th>Subsidiary Ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debits</td>
<td>Credits</td>
<td>Debits</td>
</tr>
<tr>
<td>Budgetary Fund Balance</td>
<td>1,636,500</td>
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<tr>
<td>Appropriations</td>
<td>1,362,000</td>
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<tr>
<td>Estimated Other Financing Uses</td>
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<td>Appropriations Ledger:</td>
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<tr>
<td>General Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Safety</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Other Financing Uses Ledger:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interfund Transfers Out to Other Funds</td>
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</tr>
</tbody>
</table>
## Receipt of Revenues

<table>
<thead>
<tr>
<th></th>
<th>General Ledger</th>
<th>Subsidiary Ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Debits</td>
<td>Credits</td>
</tr>
<tr>
<td>Cash</td>
<td>75,100</td>
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<tr>
<td>Revenues</td>
<td>75,100</td>
<td></td>
</tr>
</tbody>
</table>

**Revenues Ledger:**

- Licenses and Permits: 13,200
- Intergovernmental Revenues: 61,900

Records collection of revenues.
Budgetary Control of Revenues

• Each revenue account should have a comparable Estimated Revenue account to facilitate comparison throughout the year of actual revenues to estimated revenues.

• Material differences should be investigated to determine if the estimates used are no longer realistic or if actions need to be taken to ensure realization of estimated revenues.
Encumbrances and Expenditures

• Each purchase order and contract should be reviewed before it is signed to determine that a valid and sufficient appropriation exists.

• Once issued, it is important to record the fact that the appropriation has been *encumbered* in the amount of the purchase order or contract.

• When goods or services for which encumbrances have been recorded are received and the suppliers’ invoices are approved for payment, the accounts should record the fact that appropriations have been *expended* and that an actual liability exists.
Budgetary Control of Encumbrances and Expenditures

<table>
<thead>
<tr>
<th>Category</th>
<th>General Ledger</th>
<th>Subsidiary Ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encumbrances—2017</td>
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</tr>
<tr>
<td>Encumbrances Outstanding—2017</td>
<td>45,400</td>
<td></td>
</tr>
</tbody>
</table>

*Encumbrances Ledger:*

<table>
<thead>
<tr>
<th>Category</th>
<th>General Ledger</th>
<th>Subsidiary Ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>38,000</td>
<td></td>
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<tr>
<td>Public Safety</td>
<td>7,400</td>
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</tr>
</tbody>
</table>

Records purchase orders issued.
## Budgetary Control of Encumbrances and Incurrence of Expenditures

<table>
<thead>
<tr>
<th>Description</th>
<th>General Ledger</th>
<th>Subsidiary Ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Encumbrances Outstanding—2017</strong></td>
<td>42,000</td>
<td></td>
</tr>
<tr>
<td><strong>Encumbrances—2017</strong></td>
<td>42,000</td>
<td></td>
</tr>
<tr>
<td><strong>Encumbrances Ledger:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td></td>
<td>35,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td></td>
<td>7,000</td>
</tr>
<tr>
<td><strong>Expenditures—2017</strong></td>
<td>42,400</td>
<td></td>
</tr>
<tr>
<td>Vouchers Payable</td>
<td></td>
<td>42,400</td>
</tr>
<tr>
<td><strong>Expenditures Ledger:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td></td>
<td>35,100</td>
</tr>
<tr>
<td>Public Safety</td>
<td></td>
<td>7,300</td>
</tr>
</tbody>
</table>

Records partial receipt of goods ordered and actual liability incurred for goods.
Expenditures Budgetary Control Flow

Appropriation → Encumbrance → Expenditure → Disbursement
Looking Forward

In this chapter, sample transactions were used to illustrate budgetary control over revenues and expenditures, without regard to the effects of those transactions at the government-wide level. In Chapter 4, the dual effects of accounting transactions are analyzed and appropriate journal entries are made in both the general journal for the General Fund and the general journal used to record government activities at the government-wide level.