

Accounting for Government and Non- profit Organisations

Unit - II

COURSE CODE – Acct 327

Eighth Semester

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Unit - II

FUND ACCOUNTING:

Basic of fund accounting,

Meaning and characteristics of fund,

Types of fund and there accounting entries.

Practical Problems relating to fund accounting

Funds of schools and colleges etc.

Learning Objectives

After studying this you should understand:

- The nature of funds
- The three major fund types of a state or local government:
 - Governmental funds,
 - Proprietary funds, and
 - Fiduciary funds
- The main components of a CAFR
- The primary F/S issued by governments
- The difference between the “new” and the “old” accounting models.

Definitions

Definitions

- A fund is a segregation of resources established to control and monitor resources and to help ensure and demonstrate compliance with legal/administrative requirements.
- B. Fund Balance- Equity with a fund ($\text{Assets} = \text{Liabilities} + \text{Fund Equity}$) The fund balance is also known as Net Assets, or Capital, or Net Worth.
- C. Fund Group- A separate entity with a self-balancing set of accounts consisting of assets, liabilities, fund balance, and where appropriate, revenue and expenditure accounts.

What is a Fund?

- A “**fund**” is a fiscal and an accounting entity with a self-balancing set of accounts
- In other words, a fund is an entity with its own set of books (ie., chart of accounts , general journal, general ledger, trial balances, and financial statements)
- Fund accounting uses the equation:
$$\text{Assets} = \text{Liabilities} + \text{fund balance (often referred to as net assets)}$$
- Fund balance = difference between fund’s assets and claims against these assets

Basis of Accounting

- Full Accrual: Revenues recognized when earned; expenses recognized when incurred
- Cash: Revenues recognized when available; expenses/expenditures recognized when paid
- Modified Accrual: revenues recognized when **available and measurable**; expenditures when incurred

Measurement Focus

- What is measured?
- Where is the focus of an entity?
- Economic resources measurement focus
 - Report on the determination of net income, financial position, and cash flows (ie., capital maintenance)
 - To measure operational accountability
- Current financial resources measurement focus
 - Report on the inflows and outflows of current financial resources (ie., cash or other items expected to be converted into cash during the current period)
 - To measure fiscal accountability; meet the legal and budget needs of government

Basis of Fund Accounting

	Measurement <u>Focus</u>	Basis of <u>Accounting</u>
Government-wide statements	Economic resources	Accrual
Governmental fund statements	Current financial resources	Modified accrual
Proprietary fund statements	Economic resources	Accrual
Fiduciary fund statements	Economic resources	Accrual

Types of Local Governments Fund

Counties	3,034
Municipalities	19,431
Townships	16,506
School districts	13,522
Special districts	<u>35,356</u>
Total	<u>87,849</u>

Activities of Government

- **Governmental Activities**

- Core governmental services like police and fire protection, streets, highways, etc. These activities are accounted under governmental funds.

- **Proprietary Activities**

- Public utilities, toll roads (Sam Houston Tollway) and toll bridges, airports . These activities are accounted under proprietary funds.

- **Fiduciary Activities**

- Sometimes known as Trust & Agency Funds. Accounts for resources for which the government is acting in a trustee capacity . These activities are accounted under fiduciary funds.

Types of Funds

- **Governmental Funds (5)**

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

- **Proprietary Funds (2)**

Internal Service Funds; Enterprise Funds

- **Fiduciary Funds (4)**

Agency Funds; Investment Trust Funds; Private purpose Trust Funds; Pension (and other employee benefit) Trust Funds

Governmental Funds

- Are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets.
- Their reported fund balance (net current assets) is considered a measure of “available spendable resources.”
- Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Governmental Funds

- **General Fund (GF)**
 - Only one per government
 - Most of general government operating activities are accounted for in the GF
 - This is the operating fund of the government.
- **General Activities of city government (ex. Fire, police)**

Governmental Funds (cont'd)

Special Revenue Funds (SRF)

- Used when required by law or by policy to account for financial resources earmarked for a specified operating purpose
- Accounting and budgeting usually identical to GF
- Example: City of Houston has 17
SRF funds for ex. 9-1-1 Emergency
Network, Health Special,
Parks Special,

Governmental Funds (cont'd)

Capital Projects Funds (CPF)

Used to account for financial resources segregated to pay for construction and/or acquisition of long-lived general capital assets, except those financed by Enterprise funds.

Governmental Funds (cont'd)

Debt Service Funds (DSF)

- Used to account for financial resources segregated to pay principal and interest on general long-term liabilities.

Governmental Funds (cont'd)

Permanent Funds

- Used to account for resources provided by trust in which the earnings but not the principal must be used for public purposes; i.e. to benefit the government and its citizens.

Practical Examples

Example: Listed are transactions of the Town of Jackson.

1. A contract was signed with an independent company to do the trash collecting for the year. The contract price was \$96,000.
 2. The first monthly bill of \$8,000 was received from the trash collector.
 3. The \$8,000 bill was paid.
- **Required:** Prepare the journal entries needed in the records of the General Fund for these transactions.

Practical Examples

Solution 1. A contract was signed with an independent company to do the trash collecting for the year. The contract price was \$96,000.

1	Encumbrance	96,000	
·	Reserve for Encumbrances		96,000

Practical Examples

Solution: The first monthly bill of \$8,000 was received from trash collector. 3. The \$8,000 bill was paid.

2.	Expenditures	8,000	
	Contracts payable		8,000
	Reserve for Encumbrances	8,000	
	Encumbrance		8,000
3.	Contracts payable	8,000	
	Cash		8,000

Fund Accounting

Exercise 4. Equipment costing \$200,000 was purchased, and the old equipment was sold at for \$24,000.

4.	Expenditures	200,000	
	Cash		200,000
	Cash	24,000	
	Revenue		24,000

Fund Accounting

Exercise The pre closing trial balance for the General Fund of the City of Springfield is presented below.

Trial Balance for December 31, 2008:

Cash	\$ 90,000	
Certificates of Deposit	120,000	
Property Taxes Receivable	175,000	
Estimated Revenue	1,690,000	
Expenditures	1,310,000	
Expenditures—2007	32,000	
Encumbrances	165,000	
Estimated Uncollectible Taxes		\$ 51,000
Vouchers Payable		65,000
Unreserved Fund Balance		41,000
Reserve for Encumbrances		165,000
Reserve for Encumbrances—2007		35,000
Appropriations		1,550,000
Revenue		1,675,000
	<u>\$3,582,000</u>	<u>\$3,582,000</u>

Fund Accounting

Exercise Prepare closing entries.

Revenue	1,675,000	
Unreserved Fund Balance	15,000	
Estimated Revenue		1,690,000
Appropriations	1,550,000	
Expenditures		1,310,000
Encumbrances		165,000
Unreserved Fund Balance		75,000
Reserve for Encumbrances – 2003	35,000	
Expenditures – 2003		32,000
Unreserved Fund Balance		3,000

Fund Accounting

PP 1. The City Council adopted a budget with estimated revenues of \$1,560,000 and appropriated expenditures of \$1,400,000.

Estimated Revenue	1,560,000	
Appropriations		1,400,000
Unreserved Fund Balance		160,000

Fund Accounting

PP 1. The budget authorized the transfer of \$50,000 from the Water Fund to the General Fund. Interest due for the year on the \$1,000,000, 8% bond issue for the Civic Center is approved for transfer from the General Fund to the Debt Service Fund.

Due from Water Fund	50,000	
Transfer from Water Fund		50,000
Transfer to Debt Service Fund	80,000	
Due to Debt Service Fund		80,000

Fund Accounting

PP: The annual property tax levy of 10% on assessed valuation (\$11,000,000) is billed to property owners. Two percent is estimated to be uncollectible.

Property Tax Receivable	1,100,000	
Revenue		1,078,000
Allowance for Uncollectible Taxes		22,000

Fund Accounting

PP 3. Goods and services amounting to \$1,150,000 were ordered during the year.

Encumbrances	1,150,000	
Reserve for Encumbrances		1,150,000

4. Invoices for all goods ordered in 2007 amounting to \$29,000 were approved for payment.

Expenditures – 2003	29,000	
Vouchers Payable		29,000

Governmental Funds—Common Characteristics

- Current financial resources measurement focus
- Modified accrual basis of accounting used
- Account for expenditures of appropriations (not expenses)
- Capital assets or long-term liabilities are not accounted for within governmental funds

Governmental Funds

Classified as:

- Expendable funds – sources received from taxes, fees, and other sources.
- Non expendable funds –Government makes initial contribution but thereafter the fund is expected to pay its own way.

Governmental Funds—Required financial statements

- Balance Sheet - Governmental Funds
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities at the government-wide level.

Proprietary Funds

- Are accounted for on a cost for services or “economic resources” measurement focus. This means that all assets and liabilities (whether current or non-current) associated with these activities are included on their balance sheets.
- Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components.
- Proprietary fund type operating statements are presented in the full accrual basis of accounting.
- In simple words, these funds are operated like a “normal for-profit” business (ex. city of Houston operates its Airports under a Proprietary fund).

Proprietary Funds (cont'd)

Internal Service Funds (ISF)

- Used to account for activities in which goods or services are provided to other departments of the same government or to other governments for a charge on a cost reimbursement basis.
- Examples include central stores, central computing, motor pools, and printing.
- ISF are reported as governmental activities in the government-wide statements because they primarily benefit the government. (ex. City of Houston's employees health care and life insurance benefits).

These funds are covered in depth in Chapter 9.

Proprietary Funds (cont'd)

Enterprise Funds (EF)

- Used to account for activities in which goods or services are provided to the general public for a charge
- Ex. include electric and water utilities, airports, parking garages, transportation systems, and liquor stores
- EF are reported as business-type activities in the government-wide financial statements.
- Ex. For the city of Houston include the following: Airports (Bush, Hobby), Jones Hall, George R. Brown Convention Center, Toyota Center.

Proprietary Funds—Common Characteristics

- Accounting and reporting are essentially the same as those of for-profit entities, including full accrual accounting
- Capital assets and long-term liabilities are accounted for in the funds
- Depreciation expense is reported in the funds
- Reports *expenses* not expenditures

Fiduciary Funds

- Trust and Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.
- Each trust is classified for accounting measurement purposes as either a governmental fund or a proprietary fund (ex. Houston Firefighters Relief and Retirement and Police Officers' Funds).

Fiduciary Funds

Agency Funds (often several)

- To account for financial resources in which the government is acting in an agency capacity
- Accounting is simple: assets = liabilities.
- No revenue and expenditure accounts are used, nor is there a fund equity account
- Examples are tax agency funds, certain special assessment funds, and pass-through agency funds

Fiduciary Funds (cont'd)

Pension (and other employee benefits)

Trust Funds (one or more)

- To account for financial resources in which the government (or other designated trustee) is acting in a trustee capacity for the employees of the government to provide retirement benefits.
- Uses business-type accounting practices.

Fiduciary Funds (cont'd)

Investment Trust Funds

- Used to account for external investment pools in which the assets are held for other (external) governments, along with funds of the sponsoring government.
- The assets, liabilities, net assets, and changes in net assets corresponding to the equity of the external participants is reported in this fiduciary fund.

Fiduciary Funds (cont'd)

Private-purpose Trust Funds

- To account for financial resources in which the government is acting in a trustee capacity for the benefit of individuals, other organizations, or other governments (e.g., an endowment in which the principal amount must be kept intact)
- Accounting is virtually identical to that for an enterprise fund.

GASB Statement No.34

Basic Financial Statements - and Management Discussion and Analysis – for State and Local Governments

Effective dates:

Periods beginning after

- --June 15, 2006 for governments with revenues of \$100 million or more (phase 1)
- --June 15, 2007 for governments with revenues of \$10 million or more, but less than \$100 million (phase 2)
- --June 15, 2008 for governments with revenues of less than \$10 million (phase 3)
- Early application is encouraged

Government – wide Statements

1) Statement of Net Assets

2) Statement of Activities

- Address questions that have not been easily answered by fund accounting
- “What do government services really cost, e.g., public safety or recreation?”
- “How much debt for current services are we shifting to the next generation?”
- “How much of the cost of government is borne by citizens in the form of general revenues?”

Quiz No - 2

Multiple Choice:

1. The term funds refers to:

- a) Only cash
- b) All Assets
- c) Retained Earning
- d) Money save and kept for special purposes

2. The \$8,000 bill was paid, whether, it's sources of application of fund?

- a) Application of fund
- b) Sources of fund

3. Fund is always used for the purpose.

- (a) Personal Purpose (b) Separate purpose (c) Organization purpose (d) None of above

4. In a Government Not For Profit Organization funds generated

- (a) Collection of grant (b) Collection of premium (c) Collection of fees (d) None of above

True False

5. Fund is compulsory part of any organization

- (a) True (b) False

6. Is permanent fund exists in Trusts/ Religious organization?

- (a) True (b) False

7. Agency fund is a part of fund.

(a) True (b) False

8. Will you consider capital assets as a fund?

(a) True (b) False

Fill in the blank:

9. Taxes received by the government is

10. The major sources of fund in hospital

HOME ASSIGNMENT

Q-1.

What are the basic element of fund accounting?

Q-2.

Prepare assignment on the types of funds and their accounting entries.

Questions

Q. Explain the Governmental Funds and its Common Characteristics

Select the best answer from the following:

Q. When used in fund accounting, the term ‘’ Fund’’ refers to:

- a) A sum of money designated for special purposes
- b) A liability to other governmental units.
- c) The equity of a municipality in its own assets.
- d) A fiscal and accounting entity having a set of self balancing

Practical Question

Q. Equipment costing \$200,000 was purchased, and the old equipment was sold at for \$24,000.

Expenditures	200,000	
Cash		200,000
Cash	24,000	
Revenue		24,000

Question Continued

- Q. What are the basic element of fund accounting?
- Q. Explain the basic of fund accounting, How fund arises?
- Q. Give any three examples of expendable funds
- Q. What are the major classification of increase and decrease in expendable fund resources
- Q. What would be the effect on general fund balance in the current financial year of recording a \$ 150000 purchase for a new truck out of general fund resources, for which a \$ 146000 encumbrance had been recorded in general fund in the previous financial year.
 - a) Reduce the general fund balance by \$ 150000
 - b) Reduce the general fund balance by \$ 146000
 - c) Reduce the general fund balance by \$ 4000
 - d) Have no effect on the general fund balance

Question

Q. The budget authorized the transfer of \$50,000 from the Water Fund to the General Fund. Interest due for the year on the \$1,000,000, 8% bond issue for the Civic Center is approved for transfer from the General Fund to the Debt Service Fund.

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