

# State of Kansas

## Part 2

## Governmental Accounting



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**BBA Washburn**

**MAcc KSU**

**PhD KU**

**Washburn Faculty 1984 –**

**Teaching Responsibilities:**

**Financial Accounting**

**Managerial Accounting**

**Accounting Systems**

**Governmental Accounting**

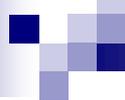
**Accounting Experience:**

**State Agency Cash Audit**

**CPA Practice**

**Helped Manage Small Business**

**Still Provide Accounting Consulting**



# **Is Governmental Accounting REALLY any different from business accounting?**

- A) Governmental Accounting is completely different from business accounting**
- B) Governmental Accounting is similar with some distinct twists**
- C) I don't really care**
- D) Academics always try to make everything so complicated!**

**While many of these answers may seem appropriate the correct answer is: B**

**Therefore, much of what you learned this morning :**

**Assets = Liabilities + Fund balance**

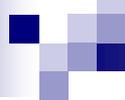
**debits and credits**

**t-accounts (as modified)**

**journal entries**

**applies to all governmental accounting**

**And some government entities operate like and are accounted for like a business**



# Most government entities require some special accounting treatment

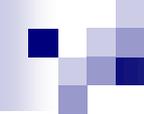
## WHY?

**Budgets drive operations**

**Expenditures generally create the demand  
for revenues**

**There is usually no direct link between revenues  
and services provided**

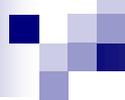
**No ownership interest**



**First a few terms**

**then**

**Let's talk about budgets**



# Revenues

## **Business Activities (exchange)**

**Recorded when earned and when we can reasonably expect collection**

## **Government (non-exchange)**

**Record when measurable and available for current period expenditures**

# Revenue Classification

- **Taxes (non-exchange)**
- **Licenses and Permits (exchange)**
- **Intergovernmental Revenues (either:  
mandatory transfers - non exchange  
internal service transaction – exchange)**
- **Fines and Forfeits (non-exchange)**
- **Charges for Services (exchange)**

# Classification of Revenues and Estimated Revenues

- **By Fund** (More about funds later)
- **By Source**
  - Taxes (Ad-valorem and self-assessing)
  - Special Assessments
  - Licenses and Permits
  - Intergovernmental Revenues
  - Charges for Services
  - Fines and Forfeits
  - Miscellaneous Revenues

# Expenses vs. Expenditures

**Expense: Decreases in net**

**ECONOMIC resources**

**Recorded when an asset is consumed**

**(Accrual Accounting)**

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**Expenditure: Decreases in net**

**FINANCIAL resources**

**Recorded when an asset is acquired**

**(Modified Accrual Accounting)**

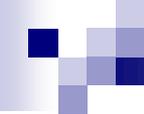
# Expenditure Classification

- **By Fund (more on funds later)**
- **By Organizational Unit (SRS, Aging, etc.)**
- **By Function or Program (activities with same purpose)**
- **By Activity (subset of a function or program)**
- **By Character (current, capital outlay, debt service)**
- **By Object Classification (salaries, fringe benefits, supplies, travel)**

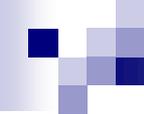
**[All those codes you have to use]**



# Budgetary Accounting



# **Budgetary Accounting IS A Control Mechanism**



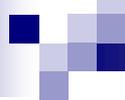
## ■ I have a personal budget

**A) that is written down and detailed**

**B) in my head that I use as a spending guide**

**C) I just look at my checking account and credit card balances to see what I can spend**

**D) Who needs a budget anyway?**



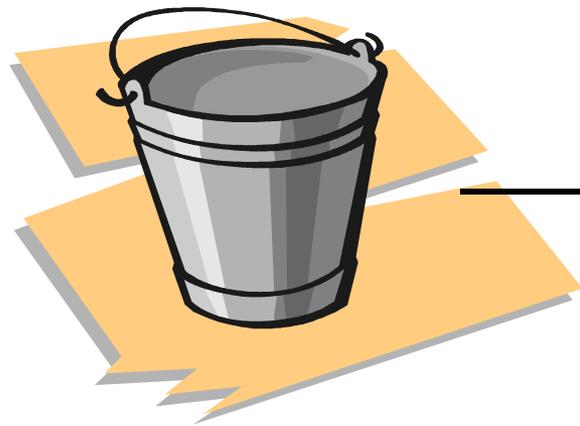
# **“Budgets are to Governments... what the sun is to the solar system”**

Michael Granof, *Governments and Not-for-Profit Accounting*, 4e, Wiley, 2007

## **Budgets: “An essential element of**

- Financial planning**
- Control**
- Evaluation”**

NCGA Statement 1, *Governmental Accounting and Reporting Principles*. para. 77, 1979.



**Business**



**Model**



**Government**



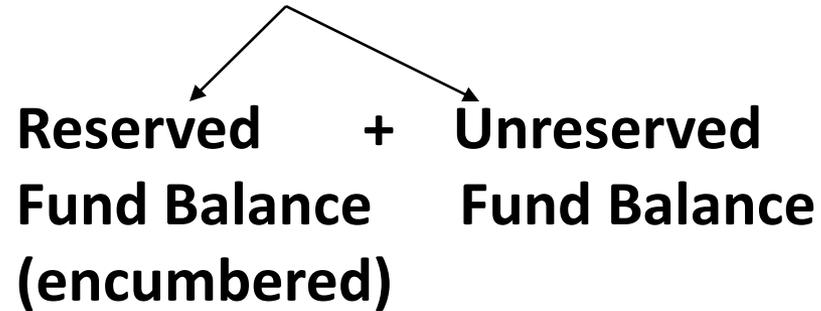
**Model**



# General Government Accounting

$$\text{ASSETS} = \text{LIABILITIES} + \text{FUND BALANCE}$$

Balance  
Sheet  
Accounts  
(permanent)



Budgetary/  
Operating  
Statement  
Accounts  
(temporary)

## Budgetary Accounts

Estimated Revenues  
Estimated Operating  
Transfers In  
Appropriations  
Encumbrances

## Operating Accounts

Revenues  
Expenditures  
Operating Transfers Out



# **A Little about Revenue Accounting**

**Estimated Revenues**  
**[from the budget]**  
**and**

**Actual Revenues**



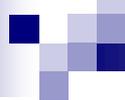
**[When available to pay current period  
expenditures]**

# Revenues – Property Taxes

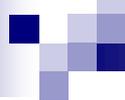
## Smart Township

Budgeted  
Revenues  
Still to be  
Recognized

	Estimated Revenues (Dr.)	Actual Revenues (Cr.)	Adjustments (Dr. or Cr.)	Balance (Dr. or Cr.)
Budget Entry	370,000			370,000
Transaction Entries (Transfers usually)		13,000		357,000
		107,000		250,000
		5,000		245,000



# Expenditure Accounting



# Appropriations Budget

## Operating budget

**Adopted by the legislature**

**Lets government units know what resources they have for their operations for the period**

**Establishes the estimate of revenue needed to “fund” the budget**

# ENCUMBRANCES

- Recognizing goods and services when ordered, that is, when the purchase order is issued
- Represents a future charge against budgetary authority (appropriations)
- A signal about the amount of resources available for spending

**The goal of encumbrance accounting is to prevent spending of more than is appropriated (budgeted) for any purpose**

# Let's Revisit the Flu Clinic

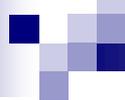
**But:**

- **This is a free clinic for school children**
- **We do not charge for shots**
- **Clinic is part of the general government public safety program**
- **Operated in Smart Township**
- **Smart Township plans on inoculating 1200 kids**

# Smart Township

## ■ Budget for flu shot clinic

<input type="checkbox"/> Portable clinic	\$10,000
<input type="checkbox"/> Medical supplies	1,200
<input type="checkbox"/> Nurse (four months)	6,800



# **We did the following:**

**Purchased a portable clinic**

**Paid the nurse one month salary**

**Purchased one part of the medical supplies**

**Ordered more of the medical supplies**

# Accounting Entries for These Activities

Expenditure – Capital Asset	\$10,000		
Vouchers Payable		\$10,000	}
Acquired portable Clinic			
Expenditures - Salaries	1,700		
Vouchers Payable		1,700	}
Paid clinic nurse for one month			
Expenditures - Supplies	150		}
Vouchers Payable		150	
Paid for medical supplies			
<hr/>			
Reserve (fund balance) for Encumbrances	300		}
Encumbrances		300	
Issued a purchase order for medical supplies			

Budgeted  
Appropriations  
**Available** for  
Spending

# Expenditure — ledger for Flu Clinic

	Appropriations (Cr.)	Encumbrances (Dr.)	Expenditures (Dr.)	Adjustments (Dr. or Cr.)	Balance (Dr. or Cr.)
Budget Entry	18,000				18,000
Transaction Entries			10,000		8,000
			1,700		6,300
Encumbrance (Commitment) Entry		300	150		5,850

Both transactions and commitments reduce the amount available for future spending. **The encumbrance is a SIGNAL that we intend to spend**



# Activity

# BREAK



## BACK IN TEN MINUTES



# Fund Accounting

# Funds in General

- Funds are fiscal and accounting entities
- Each fund has a set of self-balancing accounts

**Assets = Liabilities + Fund Balance**

**Record Debits and Credits**

# Basic Fund Types

## ■ Governmental Funds

- **General Fund** [Operating- supported by taxes and other unrestricted sources ]
- **Special Revenue Funds** [Operating- supported by state grants for restricted use]  
[The Smart Township Flu Shot Clinic is probably a **SRF**]

## Capital Projects Funds

Acquisition or construction of major capital assets – but not the assets themselves

[Capital assets are recorded in GFAAG or Schedule of Fixed Assets]

## Debt Service Funds

Payment of interest and repayment of Debt but not the debt obligation

[Long-term debt is recorded in GLTDAG or schedule of Long Term Debt]

# Non-governmental Funds

## Proprietary Funds

[Record revenue, expense, all assets and all liabilities]

- **Enterprise Funds**

provide goods/services for a fee

- **Internal Service Fund**

provide goods/services to other governmental units for a “fee”

**Both Operate like a business**

**Use full accrual accounting**

# **Fiduciary Funds - Benefit those outside government (or other government units)**

**Trust Funds:** Assets the governments holds as a trustee  
Examples: Cash Pool, Investment Pool

**Agency Funds:** Taxes collected by one government unit on behalf of other units  
Example: Sales Tax

**ACT AS A CONDUIT ONLY**

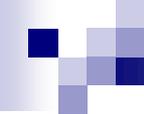
**No revenues or expenditures – only assets/liabilities**

# The Department of Armadillo Affairs is classified as what type of fund?

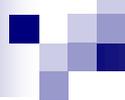
- A) Governmental
- B) Fiduciary
- C) Proprietary
- D) Business
- E) Kansas doesn't have enough of these critters for this department to make any sense!

# The DAA is a proprietary Fund. Why is that the right answer?

- A) DAA is not a business because it is operated by the government.**
- B) DAA is not a governmental fund because it is not funded by general state revenues.**
- C) DAA is not a fiduciary fund because it records license and cookbook revenues and operating expenses**
- D) DAA is a proprietary fund because it sells cookbooks and licenses to the general public to support itself.**
- E) All of the above**



# **Ethical Considerations and Internal Control**



# **Special Ethical Considerations for Government Leaders and Government Accountants**

# Public Expectations

- **Public holds governments to higher standard of conduct than they do businesses**
- **Expect government employees to act in the best interest of the public above that of their own self-interest**

# Guardian of the Public Funds

- **Government employees are accountable to the public for how they use public funds**
- **Public expects prudent use of those funds**
- **Public expects the guarding against waste of funds**
- **Mismanagement and fraud are judged much more harshly for governments than for businesses**

# Purpose of Internal Controls

- **Safeguard assets**
- **Maintain appropriate and sufficient records**
- **Provide accurate and reliable information**
- **Promote and improve efficiency**
- **Encourage adherence to management policies**
- **Comply with laws and regulations**

# General Internal Controls

- **Segregation of Duties**

  - Separate custody/recording/authorization**

- **Pre-numbered Documents**

  - Assures completeness of records**

  - Assures there are no missing documents**

- **Security for Assets and Documents**

# Internal Control for Cash

- ❑ Two people open the mail
- ❑ All “over the counter” payers receive a numbered receipt (pre-numbered documents)
- ❑ All checks are immediately restrictively endorsed
- ❑ The person that receives cash and prepares deposits slips is NOT the same person as the one who keeps cash accounting records (segregation of duties)
- ❑ By mail payments may be sent to a “bank lock box” (compensating control)

# Internal Control for Systems

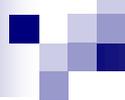
## ■ Application controls:

**Prevent, Detect, and Correct transaction errors**

**Concerned with**

- **validity**
- **accuracy**
- **completeness**
- **and authorization**

**of data captured entered processed stored and reported  
into and out of the system**



# **Access control for computers:**

**Protect your password**

**Don't log someone else on to  
your system**

**Log off when away from your desk  
(even for a short break)**

**Provide screen protection for  
computer monitors**

# Authorization

Usually internal to computer system

Limits who can:

- read only
- update
- delete
- alter

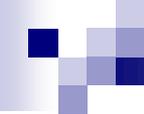
**computer records**

# Privacy

**Governments have the power to compel citizens to disclose personal information!**

**Therefore, government officials have an obligation to:**

- Not request and store unnecessary personal information about citizens.**
- Protect the privacy of electronically stored information.**
- Not disclose private information to others inside or outside the governmental unit except as required by law**



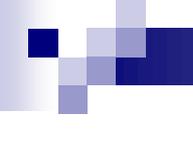
# **Confidentiality**

**You may have access to information that is confidential within your governmental unit**

**You have an absolute obligation to maintain confidentiality**

# Examples:

- **Your agency head may be considering various spending reductions necessary to meet budget constraints**
- **You may have information about legal action that may (may not be taken)**
- **You may have information from personnel records**



Ethical Behavior Expectations  
and Internal Control Rules  
Protect Others  
and  
Provide you Protection from the  
Bad Behavior of Others

# Questions





The End

**Thank You!**