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Budgeting budgetary accounting and budgetary reporting

Budget accounting It is important that the data presented in budget requests and reflected in appropriations is compatible with data available within the accounting system. This compatibility facilitates comparisons between actual expenditure in previous fiscal periods and proposed future expenditure and is essential for performance evaluation and financial reporting purposes. The State Accounting Standards Board has only the ability to establish the format for budgetary equations. It cannot mandate the measurement focus or basis of accounting used to adopt the original budget and budget modifications or present actual results. The budget comparison represents the only non-GAAP information currently found in basic financial statements. However, the budget process plays a unique role in government's financial environment. That's why some experts believe that a clear understanding of the financial position or changes in financial position cannot be achieved without the budget comparison and that presenting this information outside the realm of audited financial statements will reduce the importance associated with a government's financial annual report for some users of this information. Governments can present the budget comparison statement using the same format, terminology, and classification as the budget document. Or the comparison can be made using the format, terminology, and classifications applied in a statement of income, expenses, and changes in fund balances. Exhibit 9. Statement of Revenues and Changes in Fund Balances Budget and Actual: General Fund For the Fiscal Year Ended June 30, 200x Actual Amounts Budget to GAAP Actual Budgeted Amounts Budgetary Differences Amounts REVENUES Original Final Basis Over/(Under) GAAP Basis Property taxes \$62,018,838 \$61,164,712 \$60,858,888 \$60,858,888 Other taxes 38,685,133 38,748,163 38,593,171 38,593,171 Fees & fines 4,062,902 4,038,983 4,034,944 4,034,944 Licenses & permits 3,523,540 3,544,681 3,541,137 3,541,137 Intergovernment 13,568,020 12,889,619 12,245,138 12,245,138 Service charges 2,516,814 2,541,982 2,539,440 2,539,440 Interest 2,221,885 2,226,329 2,204,065 2,204,065 Total Revenue \$126,561,132 \$125,154,469 \$124,016,783 \$124,016,783 EXPENDITURES Current operating General govern. \$5,850,653 \$5,868,205 \$5,750,841 (9,335) \$5,741,506 Public safety 13,109,640 13,148,969 13,162,118 70,086 13,232,204 Public works 5,795,274 5,815,557 5,821,373 17,412 5,838,785 Community development 1,765,179 1,729,875 1,695,278 (2,655) 1,692,623 Public health 3,220,805 3,236,909 3,240,146 104,621 3,344,767 Public welfare 3,080,894 3,096,298 3,105,587 (122,539) 2,983,048 Education 42,209,048 42,462,302 42,504,765 42,504,765 Actual Amounts Budget to GAAP Actual Budgeted Amounts Budgetary Difference Amounts Original Final Basis GAAP Basis Debt Service Principal 25,883,158 25,883,158 25,883,158 25,883,158 Interest 8,245,276 8,245,276 8,245,276 8,245,276 Capital outlays outlays 17,848,485 17,848,485 17,848,485 Total expenditures \$127,560,427 \$127,335,036 \$127,257,027 \$57,590 \$127,314,617 Excess (deficiency) of revenue over expenditures (999,295) (2,180,567) (3,240,244) (57,590) (3,297,834) OTHER SOURCES (USES) Transfers in 245,323 246,304 247,290 Transfers out (2,164,759) (2,132,288) (2,100,303) (2,100,303) Total other sources (uses) (1,919,436) (1,885,983) (1,853,014) (1,853,014) SPECIAL ITEMS Proceeds from sale of public lands 3,476,488 3,500,000 3,482,500 3,482,500 Net change in fund balance 557,757 (566,550) (1,610,758) (57,590) (1,668,348) Fund balance-beginning 2,908,322 2,908,322 2,908,322 98,756 3,007,078 Fund balance-ending \$3,466,079 \$2,341,772 \$1,297,564 \$41,166 \$1,338,730 The income and expenditure data for the General Fund presented in Exhibition 3 are shown as a budgetary complication in Exhibition 9. Expenditure of Expenditure Generally accepted accounting principles requires financial statements to follow certain standards. One standard is that expenses are classified through functions or apps. Another standard is that, in all cases in which a budget is used to appropriate money to funds, there is a statement comparing actual income and expenses to budgeted income and expenses. Therefore, whenever possible, the budget classification system should follow the accounting classification system. [6] The budget accounting of the basic control devices are the objects of expenditure - the fundamental elements of an organization's activities in terms of the goods and services obtained. Object or class codes are three- or four-digit numbers used to budget and record expenses in considerable detail. These object codes (or class codes) provide uniformity in tracking expenses through financial accounting procedures. Object codes can be further subdivided into under-object classifications - for example, object code 1300: supplies and materials can be broken down into: 1310 office supplies; 1320 fuel supplies; 1330 maintenance supplies; 1340 operating supplies; 1350 chemicals and drugs; 1360 food supplies; and so forth. Categories of supplies and materials can be further upsized; For example, 1310 office supplies can be further depreciated as follows: 1311 General office supplies (stationary, mortgage paper, pens, etc.) 1312 Data and word processing supplies (disks, CDs, etc.) 1313 Copying and duplication supplies 1314 Binders, Notebooks, folders 1315 Storage boxes \, file boxes, hanging files 1316 Laser and ink jet printer supplies 1317 Special order supplies A comparison at the object level of actual expenses at the end of 8 months with the budgeted amounts Water Utility commission is provided in Exhibition 10. Exhibit 10. Comparison of Actual and Budgeted Expenditure for Rurbana Sewage and Water Utility By 8 Months Approved Spent Estimate Annual Object Classification Budget to Date Expenses Differ Personal Services 1110 \$2,025,600 \$2,700,800 (\$20,600) 1120 Wages 0 \$12,380 \$16,507 (\$16,507) 1130 Special Payments \$22,500 \$16,875 \$22,500 0 1140 Overtime Payments \$88,740 \$69,540 \$92,720 (\$3,980) Subtotal: Personal Services \$2,791,440 \$2,124,395 \$2,632,527 (\$41,067) Contractual Services 1210 General Repairs \$2,200 \$1,500 \$2,000 \$200 1220 Utility Services \$235,400 \$181,300 \$241,733 (\$6,333) 1230 Motor Vehicle Repairs \$5,500 \$4,000 \$5,333 \$167 1240 Travel \$23,210 \$14,395 \$19,193 \$4,017 1250 Professional Services \$34,100 \$20,000 \$26,667 \$7,433 1260 Communications \$3,525 \$2,745 \$3,660 (\$135) 1270 Printing \$2,750 \$2,000 \$2,667 \$667 1280 Computing Services \$1,155 \$900 \$1,200 (\$45) 1290 Other Contract Services \$90,060 \$65,200 \$86,933 \$3,127 Subtotal: Contractual Services \$397,900 \$292,040 \$389,387 \$8,513 Supplies and Materials 1310 Office Supplies \$19,215 \$13,006 \$17,341 \$1,874 1320 Fuel Supplies \$11,525 \$9,000 \$12,000 (\$475) 1330 Operating Supplies \$59,950 \$45,655 \$60,873 (\$923) 1340 Maintenance Supplies \$54,670 \$40,930 \$54,573 \$97 1350 Drugs & Chemicals \$58,500 \$44,750 \$59,667 (\$1,167) 1360 Food Supplies 0 0 0 0 1370 Clothing & Linens \$22,030 \$15,000 \$20,000 \$2,030 1380 Education & Recreation Supplies \$ 5,500 \$3,600 \$4,800 \$700 1390 Other supplies \$12,760 \$9,000 \$12,000 \$760 Subtotals: Supplies & Material \$213,410 \$180,841 \$211,913 \$1,497 Equipment 1410 Office Equipment \$2,200 \$1,650 \$1,180 \$400 1420 Electrical Equipment \$5,500 \$4,125 \$45,600 (\$100) 1430 Motor Vehicles \$22,000 \$16,500 \$23,000 (\$1,000) 1440 Highway Equipment \$88,000 \$66,000 \$86,750 \$1,250 1450 Medical & Lab Equip. \$4,400 \$3,300 \$4,500 (\$100) 1480 Data Process: Equip. \$38,500 \$28,875 \$36,000 \$2,500 1490 Other Equipment 0 0 0 Subtotal: Equipment \$160,600 \$120,450 \$157,850 \$2,950 Current obligations 15 Charges \$0 \$3,000 \$4,000 (\$4,000) 1540 Insurance \$21,275 \$15,856 \$21,275 0 1550 Dues & Subscriptions \$550 \$400 \$533 \$17 1560 Electrostatic Reprographic. \$3,300 \$2,400 \$3,200 \$100 1590 Other commitments \$2,200 \$1,500 \$2,000 \$200 Subtotal: Current commitments \$27,325 \$23,256 \$31,008 (\$3,683) Employee Benefits 1610 Retirement and Pension Benefits \$281.4 \$212,687 \$283,583 (\$2,163) 1620 Social Security Contributions \$186,275 \$140,780 \$187,707 (\$1432) 1640 Group Insurance \$53,605 \$40,513 \$54,017 (\$412) 1650 Medical/Hospital. Insurance \$388,630 \$293,713 \$391,617 (\$2,987) Subtotal: Employee Benefits \$909,930 \$687,693 \$916,924 (\$6,994) TOTAL \$4,500,605 \$3,428,775 \$4,539,409 (\$38,804) Objects of expenses, in turn, can be aggregated under broad edition properties such as for current operations, capital expenditures, and debt service. They can also be assigned and recorded as the expenses of a specific organizational unit, activity classification, program or subprogramme, and/or basic function of government. For example, the following sixteen digit code: can be used to use the data and word processing supplies (1312) by the Department of Financial Management (102) under the general function (21) in conjunction with the preparation of the annual budget report (24560). The code 01 can be used to designate the funding source (general funds) to which these expenditures must be levied. The five-digit project code can also be used to designate the app or subprogramme (24xxx) and the activity classification (xx56x). Using such multi-digit codes, accounting entries can be retrieved and sorted to meet a variety of fiscal management and reporting purposes. The Accounting Equation for Government Funds While budget accounting can be applied to any government funds, it is most suitably used in connection with those funds in which broader liability is required, such as the general fund and special income funds. As previously noted, the basic accounting equation used in dual enrollment accounting for business activities: Assets = Liabilities + Owner's Equity + Income - Expense In dealing with government funds, the basic accounting equation should be changed to show expenses instead. An expense is a resource consumed during the accounting period - once written off as an expense, the resource has expired as an asset. On the other hand,

an amount of cash spent or should be spent during the accounting period. Since government funds do not include long-term assets or liabilities, expenditure and not expenses are measured in these accounts. In addition, there is no owner's equity as such in government funds. Instead of owner's equity, the remaining portion of the equation will be the fund equity or fund balance. Thus, the comparison for government funds will read: Current assets = Current liabilities + Fund Balance + Income - Expenditure Only those assets that can be converted into cash in a relatively short period of time - no more than one year - are included in government funds. Similarly, liabilities in government funds are only those that would be paid in cash within a relatively short period of time. Exceptions to this general rule are bonds payable over an extended period of time, which can be found in Special Assessment Funds. Income is the equity in resources (other than returns from bond issues or transfers from other funds) received during the fiscal period and should be spent in that fiscal period. Expenditure is the resources spent during the fiscal year. So, if an agency has only a certain amount of resources available to spend, management needs to make sure that this amount is not overspent, or overspent for expenses, during that fiscal period. The fund balance is the difference between assets and liabilities and is determined by the excess of income over expenditure during the current or previous fiscal year. The fund balance may also include other resources, such as bond yield or of other funds. This remaining fund balance can be used to provide resources for expenditure in the current or future years. For budget budget four new items must be added to the equation. Estimated income is the amount of income expected over and above current assets that can be used as expensive resources for the fiscal period. Appropriations are the amounts of estimated resources provided by the legislative body for expenditure during the period and must be included on the liability and fund balance side of the equation. Incumbents are used to oblige amounts for goods and services ordered but have not yet been received. Incumbents are deducted (shown as a minus figure) from the liability and fund balance side of the equation, just as expenses are. The reserve for fertilizers is used to allocate a portion of the appropriations for the goods and services ordered but not yet received - showed an addition to the fund balance side of the equation. A new comparison for budget accounting of government funds could be developed using these new budget terms. The fund balance account often includes budget amounts, which is why it is shown as a budgetary element. Thus, the extended comparison is: Assets + Estimated Income = Liabilities + Fund Balance + Income - Expenses + Appropriations + Reserve for Occupy - Incumbents Estimate income is added to the left side of the equation, while appropriations, and the net between the reserve for incumbents and actual cramped is included on the right side of the equation. The minus on the right side of the equation can be moved to the left to express all terms as positive values as follows: Assets + Estimated Income + Expenses + Incumbents = Liabilities + Fund Balance + Income + Appropriations + Reserve for Occupations The debit and credit conditions under budget accounting are summarized in Exhibition 10. Exhibit 10. Debits and Credits to Accounts Under Budget Accounting Debits Credit In: Decrease in: Assets (A) Estimated Income (ER) Estimated Income (ER) Expenditure (E) Expenses (E) Expenses (E) Incumbents (AND Entails (AND Incumbents (AND Reduced in: Increases in: Liabilities (L) Liabilities (L) Fund Balance (FB) Fund Balance (FB) Income (R) Income (R) Appropriations (AP) Appropriations (AP) Reserve for Occupations (RE) Bases for Accounting A accounting base provides the fundamental rules that determine how and when income and expenses recorded 10.2.2. On the income side, two bases are possible: (1) cash base and (2) accrued income base. Four bases are used on outflow side: (1) cash, (2) obligations, (3) accrued expenses, and (4) accrued costs. Under a strict cash base, income is only recorded when they are actually received, and expenses are recorded when payments are made (as a cash payout). Under a strict accrual basis, income is recorded as soon as it is charged, billed or earned, regardless of the fiscal in which they are collected, and expenses are recorded when goods are received or services services when a liability is incurred, or when an invoice is received. Various combinations are possible. For example, a municipality may adopt income on a cash basis, but adche current expenditure and commitments incurred. Under an amended accrual basis: (1) income is recorded when received in cash, except for income susceptible to accrual (e.g., intergovernmental transfers); and (2) expenses are recorded on an accrual basis except for payouts for stock type items, prepaid expenses and long-term debt. Under an amended cost base, property taxes and other debits are placed on the books for control purposes when they are charged, but are not accounted for as income until actually collected. An example can help explain the distinctions among the different basis of accounting. The general fund of the city received \$15 million in taxes during the year, of which \$12.5 million was raised. During the year the following transactions took place: Expenses paid Owed Total Salaries & lone \$7,500,000 \$200,000 \$7,700,000 Toerusting verkryging \$3,000,000 \$500,000 \$3,500,000 Kontraktuele dienste \$1000,000 \$ 1,000,000 Materiaal & voorrade \$ 1,000,000 \$ 500,000 \$ 1,500,000 Totale \$ 12,500,000 \$ 1,200,000 \$ 13,700,00 transaksies sal soos volg aangeteken word: Kontantbasis Gewysigde Aanwasbasis Kwitansies \$12,500,000 Inkomste \$15,000,000 Uitgawes: Uitgawes Salarisse & lone \$7,500,000 Salarisse en lone \$7,700,000 Toerusting \$3,000,000 Toerusting \$ 3,500,000 Kontraktuele Dienste \$ 1,000,000 Kontraktuele Dienste \$ 1,000,000 Materiaal & voorrade \$ 1,000,000 Materiaal & verskaf \$ 1,500,000 Totale Uitgawes \$ 12,500,000 Totale \$ 13,700,000 Netto verskil \$0 Oortollige inkomste oor uitgawes \$1,300,000 Rekeningkunde word meer refine as procedures shift in the following order: cash base, modified cash base, modified accrual base, accrued expenses base, and ultimately, accrued cost base. Reliable unit cost data cannot be developed on a strict cash basis. Most governments have adopted a system under which obligations are recorded (as incumbents) when incurred. Use of Subsidiary Ledgers A running comparison of actual income and expenditure with budgeted income and expenditure must be maintained in any organization. In addition to recording the journal entries in general ledger accounts, individual amounts are also recorded in a subsidiary ledger. Accounts will be kept in the subsidiary ledger for the specific budgeted income, appropriations, actual income, expenses and incumbent accounts. The Municipal Finance Officers Association, in its State Accounting, Auditing and Financial Reporting, provides an excellent statement regarding the purpose of subsidiary ledger accounts. The General Fund of most have many sources of income and therefore a need for numerous general ledger income accounts. Many expenses are also normally Excessive common ledger accounts are very inconvenient to work with. Most governments therefore use common ledger control accounts and subsidiary ledgers. A subsidiary ledger includes numerous detailed accounts, of which balance balances in total with the balance of a particular general ledger account. A general ledger account supported by a subsidiary ledger is called a common ledger control account. By using subsidiary ledgers, a government can maintain a large number of individual accounts without littering its general ledger. [7] Records must be kept in much larger detail in the subsidiary ledgers for a breakdown of classes of income and expenses than those usually shown in the general ledger. The general fund can include separate accounts for income from taxes, licenses and fees, intergovernmental transfers and other financing sources. For example, local government revenue could include several types of licenses and permits - car licenses, business licenses, dog licenses, building permits, food vendor permits and so on-require subsidiary ledgers to track each of these sources. A single edition general ledger account will often also be supported by several different editions subsidiary ledgers to provide multiple edition classifications — through fund, function or program, organizational unit, activity, character, and object code. Using subsidiary accounts and ledgers, it should be possible to provide the required detail about almost any revenue source and category of expenses. Maintaining this level of detail in the general ledger would be almost impossible even for a small municipality. Computerized databases for financial operations usually included a structured chart of accounts that allow data from subsidiary sizes to be rolled up to multiple levels of aggregation for financial management oversight and control. Budget adjustments At times during the fiscal year, the budget may need to be adjusted to reflect additional information regarding estimated income and appropriations. Smthed, for example, that during the fiscal year it is determined that the estimated revenue for the Rurbana Sewerage and Water Utility Commission will be \$4.6 million instead of \$4.5 million. The increase can be reflected in the fund balance account at the end of the year, and the estimated income account does not need to be adjusted. However, assume at the end of eight months that the annual expenses for the Commission are projected to exceed \$4,539,400. Unless an adequate amount is available in the fund balance to meet agency obligations, the estimated income account will have to be adjusted before any additional allocations are made. During the fiscal year, it may become clear that revenue falls short of the initial If the fund balance is insufficient to cover the amount appropriated, of course it becomes necessary to reduce the appropriation. Suppose that the estimate of the revenue to be collected during the fiscal year is revised down from \$4,500,000 to \$4,400,000, it is then required to review the appropriation by the same amount. The budget adjustment would be: Appropriation \$100,000 Estimated Income \$100,000 The amount that could be spent, then, would be only \$4,350,000 instead of the original \$4,450,000, assuming a projected fund balance of \$50,000. Closing entries In many government accounting systems, accounts are closed at the end of the fiscal year and appropriated funds return to the general fund. Under such procedures, agencies may be tempted to overspend or overspent to ensure no money is left on the table. However, this practice can have significant consequences if incumbents are added to the accounting system. Suppose a piece of equipment is ordered near the end of the fiscal year at an estimated cost of \$10,000. The \$10,000 is incumbent and cannot be spent for other commitments. However, the equipment is not delivered before the end of the fiscal year and the cramped funds return. A new incumbent is being processed in the next fiscal year, and in effect, the agency has paid for the equipment twice - once in terms of the reverse funds and secondly, when the new incumbent is liquidated. However, these problems are minidied under a accrued cost base because unspent funds and cramped obligations are over imported to the next fiscal period. Closing entries at the end of the fiscal year can be made in one of two ways: (1) by reversing the budget-taking deals or (2) by closing the actual income account to the budget revenue account (esti-paired income) and the actual expenditure account to the appropriations account. Any differences are then closed to the fund balance account. Accept the following situation in relation to the Rurbana Sewage and Water Utility Commission: (1) occupations do not expire - that is, they transfer to the next fiscal year; (2) the revised budget included an increase of \$100,000 in estimated revenue and increased appropriations of \$90,000; (3) real income for the year totaled \$4,600,000; (4) actual expenses against the appropriations were \$4,530,400; (5) appropria tions of \$6,000 were malfunded for supplies at the end of the year. Using the first method, the closing entry made by reversing the original budget adoption enrollment would be: Appropriation \$4,540,000 Fund Balance-budget \$60,000 Estimated Income \$4,600,000 The closing enrollment related to actual income, expenses, and incumbents are: Revenue \$4,600,000 Expenses \$4,530,400 Incumbents \$6,000 Fund Balance \$63,600 An alternative approach is to reverse the original incumbent entry and place the difference in the fund balance account. Then it is reserve for incumbent amount set up as a discussion of the fund balance. The incumbent entry is reversed as follows: Reserve for Incumbent \$6,000 Incumbent \$6,000 Actual Bills Are Then Closed: Revenue \$4,600,000 \$4,600,000 \$4,530,400 Fund Balance \$63,600 A discussion of the fund balance was set up for the cramped amount. Fund Balance \$63,600 Reserve for Incumbent \$6,000 Using the second method of closing the bills, revenue was closed for estimated income, with the difference going to the fund balance. This entry is: Revenue \$4,600,000 Estimated Income \$4,500,000 Fund Balance \$100,000 Then the incumbent account is closed to the appropriations account, lying the reserve for incumbent account open as a discussion of the fund balance. This entry is: Appropriations \$6,000 Incumbents \$6,000 Finally, the expense account is closed for the appropriations account: Appropriations \$4,590,000 Expenses \$4,530,400 Fund Balance \$59,600 Summary This chapter has sought to provide a basic understanding of basic accounting procedures, especially as it is applied to government funds. Fund accounting serves as the basis for the internal control system used to deliver financial statements and reports that can be audited in accordance with generally accepted accounting principles. Budget accounting permits comparisons to be made between real income and expenses recorded during the fiscal year and revenue and expenses included in agency budgets, as announced by the appropriations process. The intention was not to prepare managers to perform the complex duties and responsibilities of accountants, but rather to provide a basic vocabulary and appreciation of the role of accounting in the management planning and control process. [8] Budgeting and related accounting systems can also be further adapted to appropriate management accounting systems that are useful for decision-making and control processes in government and other non-profits. Endnotes [1] Henri Fayol, General and Industrial Management (New York: Pitman Corporation, 1949), p. 107. [2] W. A. Paton, Accounting (New York: The Macmillan Company, 1926), p.71. [3] Charles T. Horngren, Introduction to Management Accounting (Englewood Cliff, N.J.: Prentice-Hall, Inc., 1978), p. 555. [4] Municipal Financial Officers Association of the United States and Canada, Declaration 1. Government Accounting and Financial Reporting Principles (Chicago, Ill.: 1979), pp. 5-6. [5] Council on government Accounting Standards, State and Local Government Reporting Model: Exposure Concept Proposal (1997), Paragraph 118. The idea of large funds does not apply to fiduciary funds (trust and agency), including pension trust funds used to report defined benefit pension plans. The GASB also concluded that internal service funds should be exempt from the major fund reporting requirements. [6] The Council on Government Accounting Standards continues to support a requirement to provide budgetary equations, but has changed its position that state should be a basic financial statement. Rather, the GASB believes that this information is presented more appropriately than required supplementary supplementary The purpose of budgetary equations is to show whether resources are obtained and used in accordance with the entity's legally accepted budget. [7] Municipal Financial Officers Association of the United States and Canada, Government Accounting, Auditing and Financial Reporting (Chicago, Ill.: 1981), p. 37. [8] For a more comprehensive discussion of the principles and practices of accounting in the public sector, see: Leo Herbert, Larry N. Killough and Alan Walter Steiss, Accounting and Control for Government and Other Non-Business Organizations (New York: McGraw-Hill, 1986). Continue text return after summary summary

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