

Government Accounting



BUDGETARY ACCOUNTS

Budget



- purpose: used to record the budgetary inflows and outflows estimated or authorized in the annual budget
- Budgeted recorded in the General Ledger. Not just a memo.
- Budget is visible to assure compliance.
- Do not appear on financial statements.

Budgetary accounts



- **Estimated revenues:** the revenue to be raised during the budget period (Debit account)
- **Estimated other financing resources:** reflect any other source of budgetary inflow other than revenues e.g. bonds proceeds.
- **Estimated other financing uses:** reflect any other source of budgetary outflow other than spending e.g. bonds payment.
- **Encumbrances**
- **Appropriations**

Operating statement accounts



- **Revenues and other financing sources:** increases fund balances when closed.
- **Expenditure other financing uses:** decreases fund balances when closed.
- Both are recorded under the modified accrual basis.

Budgetary accounts and Operating statement accounts



- Appropriations: represents the maximum amount of expenditure the entity is authorized to spend. It is legally authorized by legislative bodies.
- Encumbrances: an estimated amount recorded for purchase order, contract or other expected expenditure chargeable on appropriations. It's a control mechanism to prevent overspending.
- Entry is made when an order is placed or a contract is signed and it reduces the budgeted expenditures.
- (appropriations- encumbrances- actual expenditures= funds available for spending)

Bases of accounting



- Neither FASB nor GASB have control budgeting principles, the government/organization decides on which method to follow.
- GASB recommends using modified accrual basis, however most governments use the cash basis because its easy for the people to understand and the bills are paid in cash

Recording budgets



- Estimated revenue(DR) – actual revenues(CR)= revenues still to be recognized
- Appropriations (CR)- actual expenditure(DR)= balance available for expenditure

Example A



- A city government adopted a budget where the estimated revenues were \$500,000 and expenditures of \$450,000 were appropriated. Record the journal entry

- Answer:

Estimated revenues	500,000	
	appropriations	450,000
	fund balance	50,000

Example B



- City office orders a new machine on January 2, 2015 with a price of 1,750

General fund:

Encumbrances 2015	1,750	
reserves for encumbrances		1,750

Example C



- JE1. Health care district adopted a budget of estimated revenues \$5,600 and appropriated expenditures of \$5,550.

Estimated revenues	5,600	
appropriations		5,550
fund balance		50



- JE2: during the year the health district collected \$5,800 in fees, grants and tax and other revenues

Cash	5,800
revenue	5,800

JE3: it ordered good and services of \$3000

Encumbrances	3,000
reserved for encumbrances	3,000



- JE4: it received and paid for \$2,800 of goods and services ordered.

A. reserved for encumbrances	2,800	
	Encumbrances	2,800
B. expenditure	2,800	
cash		2,800



- JE5: incurred \$2,500 expenditure for goods and services

Expenditure 2,500

 cash 2,500



- Prepare end of year closing entries:

JE6:revenues	5,800	
	estimated revenues	5,600
	fund balance	200
JE7:appropriations	5,500	
	expenditure	5,300
	encumbrances	200
	fund balance	50



- Total fund balance by year end:
- Fund balance-committed (reserved for encumbrances) 200
- Fund balance unassigned 300
- Total fund balance 500

- Revenues – expenditure=5,800-5,300= 500