**Introduction to Fund Accounting**

**Fund Accounting**

**Classification of Nonbusiness Organizations**

Five Major Classifications

1. Governmental units.
2. Hospitals and other health care providers.
3. Colleges and universities.
4. Voluntary health and welfare organizations.
5. Other nonbusiness organizations (trade associations, professional associations, museums, religious organizations, etc.)

**Distinctions between Nonbusiness Organizations and Profit-Oriented Enterprises**

**Standards for Nonbusiness Organizations**

**Fund Accounting**

**Expendable Fund Entities**

- Financial resources dedicated to a specified use.
- Examples: Capital Projects or Debt Service fund.
- Resources consist of cash and claims to cash.
- Resources - Claims against resources = Fund balance.

**Restricted and Unrestricted Fund Entities**

- Classification usually applicable to nonbusiness organizations other than governmental units.
- "Restricted" refers to resources that bear a legal restriction as to use imposed by parties outside the organization.

**Proprietary Fund Entities**

- Activities that are similar to business enterprises.
- Examples:
  - Electric or water utility by a municipality
  - Rental of real estate by religious organization.
- Focus on determination of net income, financial position, and cash flows.
Fund Accounting

Fiduciary Fund Entities

Trust and Agency funds:
- Pension trust fund.
- Agency fund (resources of taxes, bonds, and other receipts held for individuals, outside organizations, and/or other funds).

Budgetary Fund Entities (Governmental Funds)

- Approved resource flows are incorporated into annual budgets.
- Budgeted expenditures are referred to as appropriations.
- Approved budget may be recorded in the accounting records.
- Budgetary account integration is useful in the control and administration of fund resources.

Fund Accounting

Question

When used in fund accounting, the term "fund" usually refers to:
- A sum of money designated for a special purpose.
- A liability to other governmental units.
- The equity of a municipality in its own assets.
- A fiscal and accounting entity having a set of self-balancing accounts.

Fund Accounting

Classification of Revenues

By Fund and Major Revenue Source

Major Sources of Revenue
- Property taxes
- Income taxes
- Sales and excise taxes
- Gift and inheritance taxes
- Fines and penalties
- Gifts and donations
- Forfeits
- Licenses and permits
- Sales of property
- Charges for services
- Interest earned on loans and investments
- Grants
- Shared revenues
- Payments in lieu of taxes

Fund Accounting

Recognition of Revenue (Expendable Funds)

Revenue is ordinarily not recognized until it
1) can be objectively measured and
2) is available for expenditures of current period.

Fund Accounting

Recognition of Revenue (Expendable Funds)

Revenue recognized when measurable and available.

When Recognized?

Property Taxes
Income Tax and Sales Tax
Fines and Forfeits
Sales of Property
Pledges
Grants

Fund Accounting

Classification of Expenditures and Other Resources Outflows

Match
- Drug Control
- Public Safety
- Fire or Police Department
- Current Operating
- Supplies or Salaries
Transfers to Other Funds

Classified separately from expenditures for financial reporting purposes.

Recognition of Expenditures

Appropriation  
Authorized to Spend

Encumbrance  
Purchase Order or Contract

Expenditure  
Receipt of Goods

Encumbrances and expenditures are classified on the same basis (by fund, function, organizational unit, activity, character, or object class) as appropriations.

Disbursement  
Payment

Question

Authority granted by a legislative body to make expenditures and to incur obligations during a fiscal year is the definition of an

a. Appropriation.
b. Authorization.
c. Encumbrance.
d. Expenditure.

Exercise 17-3: (partial) 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.
   1.

2. The first monthly bill of $8,000 was received from the trash collector.
   2.

3. The $8,000 bill was paid.
   3.

Required: Prepare the journal entries needed in the records of the General Fund for these transactions.

Question

What type of account is used to earmark the fund balance to liquidate the contingent obligations of goods ordered but not yet received?

a. Appropriations.
b. Encumbrances.
c. Obligations.
d. Reserve for encumbrances.

Exercise 17-3: 2. The first monthly bill of $8,000 was received from trash collector. 3. The $8,000 bill was paid.

2.

3.

Required: Prepare required journal entries for General Fund.

Capital Expenditures (Expendable Fund)

Treated as a current period expenditure.

Middletown purchased a police car for $10,000.

Expenditures  10,000
Cash  10,000

Recording Budgeted and Actual Revenue and Expenditures

Exercise 17-3: (partial)

1. A budget consisting of estimated revenues of $1,950,000 and appropriations for expenditures of $1,800,000 was passed by the town council.

2. Property taxes of $1,150,000 were assessed; $1,115,000 are expected to be collectible.

3. Property taxes in the amount of $1,080,000 were collected.

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

Required: Prepare required journal entries for General Fund.
Exercise 17-3: 1. A budget consisting of estimated revenues of $1,950,000 and appropriations for expenditures of $1,800,000 was passed by the town council.

2. Property taxes of $1,150,000 were assessed; $1,115,000 are expected to be collectible.

3. Property taxes of $1,080,000 were collected.

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

Exercise 17-5: The preclosing trial balance for the General Fund of the City of Springfield is presented below.

**Trial Balance for December 31, 2008:**

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$90,000</td>
<td></td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>120,000</td>
<td></td>
</tr>
<tr>
<td>Property Taxes Receivable</td>
<td>175,000</td>
<td></td>
</tr>
<tr>
<td>Estimated Revenue</td>
<td>1,690,000</td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,310,000</td>
<td></td>
</tr>
<tr>
<td>Expenditures—2007</td>
<td>32,000</td>
<td></td>
</tr>
<tr>
<td>Encumbrances</td>
<td>165,000</td>
<td></td>
</tr>
<tr>
<td>Estimated Uncollectible Taxes</td>
<td>51,000</td>
<td></td>
</tr>
<tr>
<td>Vouchers Payable</td>
<td>65,000</td>
<td></td>
</tr>
<tr>
<td>Unreserved Fund Balance</td>
<td>41,000</td>
<td></td>
</tr>
<tr>
<td>Reserve for Encumbrances</td>
<td>165,000</td>
<td></td>
</tr>
<tr>
<td>Reserve for Encumbrances—2007</td>
<td>35,000</td>
<td></td>
</tr>
<tr>
<td>Appropriations</td>
<td>1,550,000</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>1,675,000</td>
<td></td>
</tr>
</tbody>
</table>

**Revenue:**

- 1,675,000
- Estimated Revenue: 1,690,000
- Appropriations: 1,550,000
- Expenditures: 1,310,000
- Encumbrances: 165,000
- Unreserved Fund Balance: 75,000
- Reserve for Encumbrances—2007: 35,000
- Expenditures—2007: 32,000
- Unreserved Fund Balance: 3,000

Prepare journal entries to record the following activities and transactions for the General Fund during 2008.

Total: $3,582,000

Debit = $3,582,000
Credit = $3,582,000

Problem 17-1: The general ledger trial balance of the General Fund of the City of Bedford on January 1, 2008, shows the following:

**Cash:** $100,000

**Taxes Receivable:** 75,000

**Allowance for Uncollectible Taxes:** $35,000

**Unreserved Fund Balance:** 110,000

**Reserve for Encumbrances—2007:** 30,000

Prepare journal entries to record the following activities and transactions for the General Fund during 2008.

Total: $175,000

Debit = $175,000
Credit = $175,000

Problem 17-1: 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.

Problem 17-1: 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.
Fund Accounting

Problem 17-1:
3. Goods and services amounting to $1,150,000 were ordered during the year.

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

5. Funds for bond interest on Civic Center bonds were transferred to the Debt Service Fund.

6. Invoices for goods received during the year totaled $1,155,000. These were encumbered [see (3) above].

7. Transfer of funds from the Water Company was received in lieu of taxes.

8. Taxes were collected from property owners in the amount of $1,050,000.

9. Past-due tax bills of $17,000 were charged off as uncollectible.

10. Checks in payment of invoices for goods ordered in 2007 and 2008 were issued [see items (4) and (6) above].

11. Revenues received from miscellaneous sources, other than property taxes, of $455,000 were recorded.

12. Purchase order for two trash collection vehicle systems was issued. Bid price per system was $120,000.

Reporting Inventory and Prepayments

Inventory

Two Methods
1. Consumption method
2. Purchases method

Under GASB Statement No. 34, consumption method is consistent with the
- Government-wide approach.
- Purchases method is not acceptable.
- Both acceptable for fund purposes

Financial Statements

Two Basic Statements (expendable fund entities)
1. Balance sheet
2. Statement of revenue, expenditures, and changes in fund balance
   - Revenue classified by major sources.
   - Expenditures classified by major functions.
   - Comparative information presented for prior years.
   - Statement comparing budgeted and actual should be prepared for budgetary fund entities.

Reporting Inventory

Assume $20,000 of beginning inventory, $50,000 is purchased, and ending inventory of $24,000.

<table>
<thead>
<tr>
<th>Consumption Method</th>
<th>Expenditures</th>
<th>Cash</th>
<th>End of Year: Inventory</th>
<th>Expenditures</th>
<th>Cash</th>
<th>End of Year:</th>
</tr>
</thead>
<tbody>
<tr>
<td>When Purchased:</td>
<td>50,000</td>
<td>50,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>End of Year: Inventories:</td>
<td>4,000</td>
<td></td>
<td>Expenditures: 4,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Purchases Method</th>
<th>Expenditures</th>
<th>Cash</th>
<th>End of Year: NO ENTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>When Purchased:</td>
<td>50,000</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>End of Year:</td>
<td></td>
<td></td>
<td>NO ENTRY</td>
</tr>
</tbody>
</table>
Reporting Inventory and Prepayments

Reserve for Inventory

- Purchases Method
  - Material amounts of inventory should be disclosed by
    - Footnote or
    - Reporting asset with contra account (Reserve for Inventory).

Consumption Method

- Reserve for inventory created debiting or crediting the "unreserved fund balance."

Question

Prepayments for items such as insurance or rent that cover more than one accounting period may also be reported using the consumption or purchases methods.