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Governmental and Nonprofit Accounting Nicole Tanner March 2, 2012 1-2.

Five environmental differences between governments and for-profit business enterprises. 1. Organizational purposes - Commercial is to generate profit for its owners and government is for the well being of citizens. 2. Sources of Revenue - Business generate its income from sales. Government derives its income from taxes. 3. Potential for Longevity - Government rarely go out of business and Business longevity is determine by the need and success. 4.

Relationship with Stakeholders - The government must show accountability for public funds and a business can use its resources as it deems appropriate. 5.

Role of the Budget - Commercial it's used for planning and control purposes, for government budgets carry the authority of law, preventing 1-3. Identify and briefly describe the three organizations that set standards for state and local governments, the federal government, and nongovernmental not-for-profit organizations. 1. GASB set the accounting and financial reporting standards for state and local government in the US.

GASB also set accounting and financial reporting standards for governmentally related not for profit organizations. 2. FASB set standards for profit seeking business and for nongovernmental not for profit organizations. 3. FASAB set the accounting and financial for the federal government. 1-4.

What is the definition of a government as agreed upon by the FASB and GASB? Public corporations and bodies corporate and politic are governmental organizations. Other organizations are governmental organizations if they have one or more of the following characteristics. . Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of

one or more state or local governments. 2. The potential for unilateral dissolution by a government with the net assets reverting to a government. 3. The power to enact and enforce a tax levy. 1-5. Describe the "hierarchy of GAAP" for state and local governments, the federal government, and nongovernmental not-for-profit organizations. (See Illustration 1-2 come back to this) 1-8.

GASB considers budgetary accounting and reporting to be important. List the principles outlined by GASB related to budgetary accounting and reporting.

1. An annual budget(s) should be adopted by every governmental unit. 2. The accounting system should provide the basis for appropriate budgetary control. 3. Comparisons should be included in the appropriate financial statements and schedules for governmental funds for which an annual budget has been adopted. 2-2. With regard to GASB rules for the financial reporting entity, answer the following: 1. Define the financial reporting entity.

It is the primary government together with its component units. 2. Define and give an example of a primary government. Can be a state government, a general-purpose local government such as a city or county, or a special purpose government such as a school district. 3. Define and give an example of a component unit. Are legally separate organizations for which the elected officials of the primary government are financially accountable. 4. Define and describe the two methods of reporting the primary government and component units in the financial reporting entity. a.

Primary Government -either appoints a voting majority of the governing body of the other organization or members of the primary government's governing

body hold a majority of the seats of the other organization's board. Second, the relationship meets one of the following two criteria: a. The other organization provides either a financial burden or benefit to the primary government. b. The primary government can impose its will on the other organization. b. Component units - are legally separate organizations for which the elected officials of the primary government are financially accountable.

In addition, a component unit can be an organization for which the nature and significance of its relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. 2-3. With regard to the Comprehensive Annual Financial Report (CAFR): 1. What are the three major sections? Introductory, Financial, and Statistical. 2. List the government-wide statements. Indicate the measurement focus and basis of accounting used for the government-wide statements. Basic Financial Statements Proprietary Funds Statements: Statement of Cash Flows.

Governments use the accrual basis and the modified accrual basis of accounting. 3. List the governmental fund statements. i. General fund. This fund is used to account for general operations and activities not requiring the use of other funds. ii. Special revenue funds are required to account for the use of revenue earmarked by law for a particular purpose. State and federal fuel tax revenues require special revenue funds, because federal and state laws restrict these taxes to transportation uses. iii. Capital projects funds are used to account for the construction or acquisition of fixed assets[9], such as buildings, equipment and roads.

Depending on its use, a fixed asset may instead be financed by a special revenue fund or a proprietary fund. iv. Debt service funds are used to account for money that will be used to pay the interest and principal of long-term debts. Bonds used by a government to finance major construction projects, to be paid by tax levies over a period of years, require a debt service fund to account for their repayment. v. Special assessment funds account for public infrastructure improvements financed by special levies against property holders. Sidewalk and alley repairs often rely on special assessments. 4.

Indicate the measurement focus and basis of accounting used for the governmental fund statements. It usually rely on a modified accrual basis. 5. List the proprietary fund statements. vi. Internal service funds are used for operations serving other funds or departments within a government on a cost-reimbursement basis. A printing shop, which takes orders for booklets and forms from other offices and is reimbursed for the cost of each order, would be a suitable application for an internal service fund. vii. Enterprise funds are used for services provided to the public on a user charge basis, similar to the operation of a commercial enterprise.

Water and sewage utilities are common examples of government enterprises. 5. Indicate the measurement focus and basis of accounting used for the proprietary fund statements. i. Proprietary funds, used for business-like activities, usually operate on an accrual basis. Governmental accountants sometimes refer to the accrual basis as "full accrual" to distinguish it from modified accrual basis accounting. 6. List the fiduciary

fund statements. Statement of Changes in Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. 7.

Describe the measurement focus and basis of accounting used for the fiduciary fund statements. The accounting basis applied to fiduciary funds depends upon the needs of a specific fund. If the trust involves a business-like operation, accrual basis accounting would be appropriate to show the fund's profitability. Accrual basis is also appropriate for trust funds using interest and dividends from invested principle amounts to pay for supported programs, because the profitability of those investments would be important.

8. Outline the reports and schedules to be reported as required supplementary information.

Come Back To 2-4. Describe the test for determining whether a governmental fund is a major fund. The General Fund is always considered a major fund. Other governmental funds are considered major when both of the following conditions exist: (a) total assets, liabilities, revenues, or expenditures of that individual governmental fund constitute 10 percent of the total for the governmental funds category, and (b) total assets, liabilities, revenues, or expenditures of that individual governmental or enterprise fund are 5 percent of the total of the governmental and enterprise categories, combined. 2-10. Not sure