

Governmental accounting

Finance



Running Head: Governmental Accounting and Financial Reporting.

Department Should citizens be concerned if the pension plan funding measure decreases over time? Why or why not?

The economic depression and financial crisis left very huge budgetary challenges on state and local governments. Pension plans were particularly affected negatively leaving them with significant structural shortfalls. This poses a significant problem especially when the pension plan's funding measurement decreases over time. It not affects only the fund managers but even the government and general citizenry who are the major customers.

The question to be answered therefore is whether citizens should be concerned when the pension plan funding measure decreases over time.

A decrease in the pension plan funding implies the plan's liabilities are more than the assets. In the short term the funds may get sufficient contributions and revenues to meet the requirement for paying scheduled benefits but this may only take some years. This may not take long and so In the long run the pension must eventually address the shortfalls. This will mean the pension plans seek more funding in order to cater for the surplus in liabilities and this most probably is in the form of increased contributions by the government.

An increase in contributions by government would mean either an increase in taxes or reduction of services by the government to the citizens

(Elmendorf, 2011).

2. A city manager was overheard saying, " Since we dont release them to the public, I dont see any value in taking the time to prepare interim reports."

Explain why you agree or disagree with this statement.

Companies prepare financial reports and issue to the public, creditors and investors in order to give a picture of the firm's financial position and

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performance for specific periods. The reports therefore in my opinion give very useful information for persons external to the company; the reports generally show profitability, asset & debt positions, revenues, usage of cash as well as what the owners have invested over the period. Interim reports are prepared for time spans less than a year and can be used temporarily to analyze the firm's financial standing until that time when consolidated yearly statements are made available. The reports are produced on a quarterly or semi-annual basis though some firms commonly give monthly reports to their creditors for purposes of securing loans. As such therefore the interim reports may not be required for reporting purposes but are important to investors, public, suppliers and more importantly banks for credit scoring reasons. I do not agree with the statement for the reasons stated above and the fact that the interim reports may help the management understand their performance against set targets or public expectations internally even when public reporting is not a requirement. I also believe preparation of the reports help foster internal accountability and therefore differ with the city manager's statement.

3. Describe how a taxpayer might assess the financial solvency and viability of a government using government-wide financial statements prepared according to generally accepted accounting principles.

CAFR avails government financial information that is very useful for tax payers and other entities interested in this information. Government-wide Financial Statements give information on the cost of services offered by the government, government income and expenditure, sources of finance and the overall financial position of the particular government. A Taxpayer might assess the financial solvency and viability of a government using

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government-wide financial statements prepared according to generally accepted accounting principles in a number of ways. One way is the citizen to analyze the Government's vital financial ratio such as the Capital Asset Condition, Debt to Assets, Quick Ratio, General Fund Budgetary and Pension Plan Funding. The ratios provide both the short term and long-term financial standings of the government, ability to pay loans, and capital position. One can also assess the Financial Performance Ratios like Debt Service Coverage, Change in Net Assets, Sales Tax Growth and others. A final set of ratios useful to tax payers when assessing the government involves the Financial Capability Ratios. These include Revenue Depression, Property Taxes per Capita, Debt Service Load and others.

Fiscal strife in the financial reports can be seen in a number of signals including a reduction or report of limited revenue growth as compared to expenditures. Another signal for fiscal problems is a drop in value for properties. Economic is an important indicator of physical position and hence a decline which seen in elevated unemployment levels, falling retail volumes and building activities signals stress. Erosion in capital and plants such as infrastructure as well as growth in levels of unfunded pensions also indicate physical challenges. Another sign has to do insufficient capital expenses. Existence of any or a combination of the warning signals could be indicative of potential crises in the fiscal budget unless appropriate remedial actions are taken by the government.

References.

1. Douglas W. Elmendorf. (2011). The Underfunding of State and Local Pension Plans. Congressional Budget Office. Available at <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12084/05-04-pensions.pdf>
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2. Warren Ruppel. (2009). Governmental Accounting Made Easy, 2nd ed.
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