

Chapter Two

Principles of Accounting and Financial Reporting for State and Local Governmental Entities

2.1 Introduction

1. Definition - Principles of accounting and financial reporting are specific fundamental beliefs, which based on reasons, demonstrated performance and general acceptance are generally essential to guide the practices of accounting and reporting for financial affairs of an economic entity including State and Local Governmental (SLG) units

2. Sources

- GASB is the major setter of standards for accounting and financial reporting for the financial affairs of state and local government units. Others like FASB and GASB also have their own influence in the standard setting process.
- There are 12 standards originally issued by NCGA (National Council on Government Accounting) which later on are accepted by GASB to continue governing accounting and financial reporting for the financial affairs of state and local government units until they are amended, superseded or supplemented by subsequent GASB pronouncements or statements.

2.2 Accounting and Reporting Capabilities (principle-1)

1. Definition - The principle on *accounting and reporting capabilities* of SLG entities requires that a governmental unit must maintain an accounting system that enables it to prepare

- GPFSS based of GAAP and
- Other reports based on legal and contractual requirements imposed on use of its financial resources

This, however, does not mean that the organization has to keep two sets of accounting records. Records may be kept in accordance with the required law but should be sufficient enough to allow preparation of GPFSSs based on GAAP.

2. GAAP versus Legal Compliance

- In some case, legal requirements may contradict with good management of financial resources. For example, completing forms and keeping records for all assets regardless of the monetary amount involved. There is no issue of materiality.
- Sometimes, legal requirements may contradict with GAAP. Government laws may require strict use of cash basis of accounting. But, cash basis is treated as an incomplete record in GAAP. When

such cases arise, records may be kept on cash basis but GPFSS shall be prepared in conformity with GAAP. Additional or special purpose reports may be prepared to satisfy legal requirements or show legal compliance. Contradictions between GAAP and legal requirements are highly observed in accounting for business organizations. For example, tax laws require use of only straight line and average cost method of accounting for depreciation and inventory, respectively while GAAP provide several acceptable methods. GAAP allow recognition of loss from exchange of similar assets and amortization expenses on goodwill for financial reporting purposes while tax laws don't allow such practice.

2.3 Fund Accounting (principle-2)

1. Definition - The principle on SLG entities fund accounting system requires that the accounting system of these entities should be organized and operated on a fund basis.

2. Fund

- Fund is a distinct entity with in a larger entity.
- It is a fiscal and accounting entity having its own inflows and outflows of financial resources and self-balancing set of accounts for recording its financial resources and related liabilities and residual equity.

3. Fund Accounting

- Refers to the use of multiple accounting entities to account for resources segregated based on and designed for a specific purpose.
- Separate records will be kept and separate set of reports may also be prepared for each fund.

4. Purposes of Fund Accounting

- It is designed to meet internal reporting and control requirements
- It provides the basis for determining fiscal responsibility (accountability) and status of the organization and compliance with requirements (including budgets and other finance related restrictions) imposed on uses of resources.
- It identifies parties responsible for use of resources and reporting on performance

5. Governmental Fund Accounting

- Focuses on measurement of flows of current financial resources - called expendable resources
- Current financial resources include cash, receivable and investments expected to be converted into cash within a year or less and related liabilities expected to be settled within the same period
- Non-current assets such as plant and equipment and non-current liabilities such as bonds payable are not formally accounted for in governmental fund accounting system because non-current assets are

not expendable resources and non-current liabilities do not require use of current financial resources in the current period

6. Kinds of Funds - Funds are divided into two broad categories: *expendable* and *non-expendable*.

- **Expendable**

- o Funds whose resources are meant to be expended (entirely consumed) within a stipulated time period (usually one year) for the intended purposes.
- o Unconsumed resources should be returned to their original source or transferred to a designated party.
- o Accounting equation for expendable fund
 - Statement of financial position

$$\left(\begin{array}{l} \text{Expendable} \\ \text{resources} \end{array} \right) - \left(\begin{array}{l} \text{current} \\ \text{liabilities} \end{array} \right) = \left(\begin{array}{l} \text{fund} \\ \text{balance} \end{array} \right)$$

- Statement of activities
Revenues - Expenditures = Increase/decrease in fund balance
- o Fund balance refers to the unexpended or unconsumed amount of resources to be returned to the appropriate party.
- o There is no owner's equity
- o Difference between budgeted and actual use of resources indicates poor financial planning
- o The basic objective of accounting for expendable funds is to determine compliance with budgets - i.e. comparison of actual and budgeted use of resources
- o Absence of measurement of income

- **Non-expendable**

- o Funds whose principal (capital) balance of its resources is supposed to be continuously preserved or maintained in revenue producing activities
- o Also called proprietary funds
- o Funds whose resources are meant to be managed in such a way that generates revenues sufficient enough to cover their operating costs and maintain their capital
- o Measurement of income is the major objective of accounting for non-expendable funds
- o Accounting equation for non-expendable fund (***similar to business entity***)

- **Balance sheet**

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

- **Income statement**

$$\text{Revenues} - \text{Expenses} = \text{Profit (loss)}$$

2.4 Types and Number of Funds (principles 3 and 4)

1. Types of Funds (principle-3) – the following funds are used to account for the financial resources of a state or local governmental unit

a) Governmental funds

- Expendable funds
- Account for resources meant to finance day-to-day activities
- Include
 - *General fund (GF)*
 - ✓ all resources not to be accounted in other funds
 - ✓ resources to finance general administrative and clerical activities
 - ✓ activities to provide goods/service to the public
 - ✓ also called operating/current fund
 - ✓ only one GF for governmental unit
 - ✓ maximum life of one year
 - ✓ several sources of revenue

- o *Special revenue funds (SRF)*
 - ✓ resources restricted (legally or contractually) for specific purpose
 - ✓ voluntary/involuntary
 - ✓ resources for drought affected areas, national security, fuel tax for road repair and maintenance, etc
 - ✓ more than one SRF
 - ✓ life depends on purpose
 - ✓ single source of revenue
- o *Capital projects funds (CPF)*
 - ✓ resources to acquire capital assets/facilities - building, roads, etc - other than those to be acquired by other funds
 - ✓ exclude acquisition of capital assets from GF/SRF
 - ✓ life depends on duration of the project
 - ✓ several sources of revenues
 - ✓ more than one CPF
- o *Debt service funds (DSF)*
 - ✓ resources for settlement of general government long-term debts principal and interest
 - ✓ debts not specific to particular fund
 - ✓ several sources of revenue
 - ✓ more than one DSF

b) Proprietary funds

- Non-expendable funds
- Similar to business organizations
- Focus on income measurement and capital maintenance
- More than one proprietary funds
- Include
 - o *Enterprise funds (EF)*
 - ✓ resources meant to operate governmental units in a way similar to that of profit making private businesses
 - ✓ user charges or revenues from operations should cover at least operating costs
 - ✓ provide services to the general public
 - o *Internal service funds (ISF)*
 - ✓ resources meant to provide goods/services to governmental units only
 - ✓ on cost reimbursement basis
 - ✓ central garage, central purchasing unit (Procurement Service Enterprise)

c) Fiduciary funds

- Expendable or non-expendable funds

- Account for resources held by governmental units in a trustee or agency capacity for other governmental units, individuals or private organizations
- Include
 - o *Trust funds (TF)*
 - ✓ resources held in a trustee capacity
 - ✓ include
 - ⇒ expendable - if the entire resources are meant to be used for a specified purposes
 - ⇒ non-expendable - if the principal part of the resources is meant to be kept intact
 - ⇒ pension trust fund - retirement system for employees working for government
 - o *Agency funds (AF)*
 - ✓ resources temporarily held in an agency capacity
 - ✓ transferable to the principal on specified dates
 - ✓ e.g. collecting taxes and other payments on behalf of the government

2. Number of Funds (principle-4)

- establish and maintain those funds needed by law and for sound financial management
- factors to consider
 - o legal/contractual requirements
 - o operational requirements
 - efficiency
 - flexibility
 - complexity

2.5 Accounting for Fixed Assets and Long-term Liabilities (principles 5, 6 and 7)

1. Accounting for Fixed Assets (p5, 6 and 7)

a) Recording (p5)

- all fixed assets that are not specific to a proprietary or trust fund are accounted for in the General Fixed Assets Account Group (GFAAG)
- GFAAG is non fund accounting entity meant to provide control over fixed assets - it does not receive or expend resources
- governmental fixed assets are not accounted for in the accounting systems of a governmental funds because fixed assets do not present expendable resources

b) Valuation (p6)

- accounted for at cost or at an estimated value if cost is difficult to determine (e.g. donated assets)

c) Depreciation (p7)

- no depreciation is formally accounted for in governmental funds (does not need use of expendable resources)
- it may be accounted for in other funds where income measurement and capital maintenance are the basic objectives
- it may be recorded in GFAAG to provide information to help in
 - determining full cost of providing goods and services
 - planning for replacement of fixed assets

2. Accounting for Long-term Liabilities (p5)

a) Recording

- all unmatured long-term liabilities that are not specific to a proprietary or trust fund are accounted for in the General Long-term Debt Account Group (GLTDAG)
- like GFAAG, GLTDAG is non fund accounting entity meant to provide control over government long-term obligations to ensure that government does not exceed its legal debt limit – it does not receive or expend resources
- governmental long-term obligations are not accounted for in the accounting systems of a governmental funds because long-term obligations do not need use of current expendable resources

b) Valuation

- accounted for at par value or maturity value regardless of whether they are issued at a premium or a discount

2.6 Basis of Accounting (principle 8)

1. Governmental Funds

- modified accrual basis is used to account for and report on the financial affairs of governmental funds
- it is a hydride system which includes some aspects of accrual- and other aspects of cash-basis of accounting

a) revenue recognition

- revenues are recognized in the period in which they are both
 - o measurable – amount is objectively determinable
 - o available – proceeds from the revenue sources can directly or indirectly be used to finance current operations (spending of current period)

Example 2-1

ABC City Council levies and collects property taxes (land use taxes) from its residents. Tax rates are set in September of the current year. Formal notice is sent to tax payers by the end of the current period December 31, 2003. The taxes are due before March 31, 2004 to be used to finance expenditures of 2004.

Required: Assuming a January to December fiscal year for the city

- i. when is the revenue measurable?
- ii. when is the revenue available?
- iii. when shall the city recognize the property tax revenue?

- *revenues normally recognized under accrual basis include*
 - o income, sales and property taxes

- o irrevocable (firm/irreversible) intergovernmental venues and grants
- o interest on investments and delinquent taxes
- o regularly billed charges for goods/services
- *revenues normally recognized under cash basis include*
 - o licenses and permit fees
 - o fines and forfeits
 - o property registration
 - o in general, revenues whose amount is immaterial or cannot be objectively determined

b) expenditure recognition

- expenditures represent decreases in fund current financial resources while expenses are the expired costs of goods and services consumed
- expenditures refer to outflows of financial resources or incurrence of liabilities for the acquisition of goods and services
- in governmental fund accounting, resources spent to acquire goods and services are recorded as expenditures at the time of acquisition regardless of whether the goods and services are consumed
- due to the primary emphasis on measurement of changes in current financial resources, neither expenses nor capital assets and related depreciation are accounted for in governmental fund entities
- expenditures are recognized in the period in which the related liabilities are both measurable and incurred
 - o costs for personal services such as wages and salaries are recognized in the period paid
 - o goods and services obtained from outside the government entity are recorded in the period received
 - o capital outlays for equipment, building and other long-term facilities are recorded in the period acquired
 - o interest on long-term debts is recorded when it is legally/contractually payable

2. Proprietary Funds

- similar to that of private profit making entities
- use accrual basis of accounting

a) revenue recognition - when earned and measurable/realized

b) expense recognition - when goods and services are consumed

3. Fiduciary Funds

- a) trust funds** - accounting depends on fund's accounting measurement objectives which in turn is affected by the terms of the trust arrangement/deed

- expendable – modified accrual basis
- non-expendable – accrual basis
- pension trust fund – accrual basis

b) *agency funds*

- custodial in nature
- short duration
- do not have operations, thus, no measurement of results of operations
- assets = liabilities
- no accounting beyond assets and liabilities
- modified accrual basis

4. Interfund transfers

- flows of financial resources from one fund to another one
- ensure adequate financing of budgeted expenditures
- may also arise due to establishment or liquidation of fund entities
- recognized in the period the related interfund receivable and payables arise

2.7 Budgetary Accounting (principle 9)

1. Budget

- a formal financial plan
- each governmental unit must adopt annual budgets of its revenues and expenditures
- government budgets, once fixed, are generally unchangeable without much efforts and non-compliance carries penalties, thus, the accounting system should provide the basis for preparation and execution of budgets

2. Recording

- annual revenue and expenditure budgets are formally recorded in the accounting systems of a governmental unit adopting a budget
- profit making entities do not incorporate budgetary figures in their accounting systems, they rather account for only actual results

3. Reporting

- for comparison, budgetary figures are reported together with actual data on the financial statements of a governmental unit adopting a budget
- in profit making entities comparison is made among actual results of different periods

4. Governmental versus for-profit budgeting

- ***objectives*** – management and planning of resources to maximize profit vs management and control of resources to achieve

predetermined objectives with no consideration to profit or other financial returns

- **optional** - budgeting is necessary if it only beneficiary to the business, while in governmental entities adopting a budget is mandatory whether you like it or not
- **flexibility** - for a business the budget is highly flexible (due to the need for ability to react quickly to market changes) in the sense that resources may be suspended or diverted to other uses if a particular activity is not providing the required return (thus, are rather tentative documents). In governmental entities resources must be used for the purposes they were originally sought for if not should be returned (it is legally binding document, is a legislative control tool and once fixed by law, is relatively rigid)

2.8 Classification and Terminology (principles 10 and 11)

1. Classification (p10)

a) **Interfund transfers** - separated from fund revenues and expenditures/expenses and classified as other financing sources and uses

b) **Proceeds from general long-term debts** - separated from fund revenues and classified as other financing sources

c) **Governmental fund revenues and expenditures**

- **revenues are classified by**

- o fund such as GF, SRF, DSF and CPF
- o source such as taxes, charges, fines, etc

- **expenditures are classified by**

- o **fund** such as GF, SRF, DSF and CPF
- o **function/program** - activities aimed at achieving a major specific objective or accomplishing certain task e.g. health, education, culture and recreation, public safety
- o **organizational unit** - a governmental unit responsible for a certain function/program e.g. police and fire brigade for public safety, public college and universities for education
- o **activity** - specific line of work or task performed as part of the main function e.g. for a college take research, consultancy, training etc and for a police department you may take criminal investigation, patrol, custody of prisoners and crime laboratory
- o **character** - mainly based on the period the expenditures are expected to benefit e.g. current expenditures, capital expenditures, debt service and intergovernmental
- o **class of object** - grouping expenditures by types of goods/services purchased e.g. personal services, utilities, supplies, capital facilities
- o **object** - specific item acquired e.g. salary, allowance, stationery, fuel, computer

d) **Proprietary fund revenues and expenditures**

- revenues and expenses are classified in the same way to that of similar for-profit entities e.g. commercial bank of Ethiopia may classify its revenues and expenses as other private banks such as Dashen and United banks do

e) **Trust fund revenues and expenditures**

- Non-expendable - similar to that of profit making entities
- Expendable - similar to that of governmental funds
- Agency funds - no revenues and expenditures/expenses

2. Common terminology and classification (p11)

- to maintain comparability and avoid confusion among users, terminologies including account names should be consistently used throughout the budget, accounts and financial reports

2.9 Interim and Annual Financial Reporting (principle 12)

1. Interim financial reports

- appropriate information should be provided for
 - management and control of financial resources
 - legislative oversight
 - external decisions

2. Comprehensive annual financial reports (CAFR)

- cover all funds and account groups
 - individual fund and account group statements
 - **combining statements** which consolidate the results of all funds of the same type e.g. a statement for all CPF or SRF
 - **combined statements** which consolidate the statements of all funds resulting in statements for the entire governmental entity
 - notes to the financial statements, supportive schedules, narrative explanations and statistical tables and charts
 - auditors report

3. General purpose financial statements (GPFS)

- include basic financial statements, notes to the financial statements and auditors report
- provided to users who do not need all the details of the CAFR

2.10 Overview of GASB Statement 34

1. Introduction

Accounting and reporting standards for the financial affairs of both for-profit and not-for-profit entities are not static. They are subject to revision/amendment based on prevailing economic, political and social conditions including changes in users demand for financial information. Issuance of **GASB Statement 34** in June 1999 is an example of this fact. This new **statement** brought basic changes into some of the pre-1999 governmental financial accounting and reporting standards while keeping others untouched. The **Statement No. 34** reporting model retains the best of existing practice in governmental financial accounting and reporting while adding information that will provide users with a more comprehensive view of the government (government-wide statements) and information that will be easier to use. As such, governments will continue to report information useful for assessing short-term fiscal accountability while reporting information helpful for assessing long-term operational accountability. Because of the diverse nature of governmental operations and the numerous legal and fiscal constraints on the bases of which those operations must be conducted, it is impossible to record all governmental financial transactions and balances in a single accounting entity. Thus, acknowledging this fact, **GASB Statement 34** retains, of course with some modification, the traditional fund-based organization and operation of accounting and reporting for the financial affairs of governmental entity resources. The following sections present discussion of **some of the changes** brought by the new statement (*note that all changes brought by GASB Statement 34 are not covered in this lecture note*).

2. Objective

The main objective of **GASB Statement 34** is showing the economic resources of a government on a full accrual basis while maintaining presentation of governmental funds on the traditional current financial resources measurement focus and modified accrual basis without long-term debts and fixed assets and related account groups. This involves reconciling the statements for governmental funds, presented in the traditional way, with the full accrual government-wide statements. The new model includes a focus on medium- to long-term operational accountability in addition to the traditional focus on current-year fiscal accountability. The result is provision of additional information for decision-making - thus enhancing the usefulness of governmental financial reports - and better accountability by governments, because the government-wide statements call for a full accounting for all capital assets and long-term debts and related depreciation and amortization.

3. Pre-1999 Standards affected by GASB Statement 34

Pre-1999 governmental financial accounting and reporting standards affected by **GASB Statement 34** include

- ◆ *Types of funds (principle-3)*
- ◆ *Accounting for Fixed Assets and Long-term Debts (principles 5 &7)*
- ◆ *Basis of Accounting (principle-9)*
- ◆ *Interim and Annual Financial Statements (principle-12)*

GASB Statement 34 also modifies treatment of interfund transfers.

4. Types of funds

GASB Statement 34 has redefined certain types of funds (**enterprise funds**), eliminated some funds (**expendable and nonexpendable trust funds**) and introduced new funds (**permanent, investment and private-purpose trust funds**).

i) Enterprise Funds - GASB Statement 34 sets forth conditions in which enterprise fund accounting may be used and conditions in which enterprise fund accounting is required. It provides that enterprise funds may be used to report "any activity for which a fee is charged to external users for goods or services." Enterprise fund accounting is required for activities

- ◆ *that are financed with bonds secured solely by a pledge of net revenues from fees or charges of the activity,*
- ◆ *that are subject to laws requiring that the activity's cost be recovered with fees, rather than taxes, or*
- ◆ *for which fees are designed to recover costs including capital costs, as a matter of policy.*

ii) Trust Funds - Prior to **GASB Statement No. 34**, trust funds were classified as Expendable and Nonexpendable Trust Funds. An expendable trust is a trust whose resources, both principal and earnings, may be expended for authorized purposes. A nonexpendable trust is a trust that stipulates that earnings and not the principal may be spent. **GASB Statement No. 34** makes significant changes to the accounting and reporting requirements for expendable and nonexpendable trusts. The statement eliminates the designation of expendable and nonexpendable trust funds and creates new funds based on the ability to use these resources for governmental purposes. Trusts funds to be used for purposes that support government's regular programs will be reported as either a miscellaneous **special revenue fund** or a **permanent fund** placed within the **Governmental Funds**. Both of these funds will use the modified accrual basis of accounting. Trusts which exist to benefit individuals, private organizations, or other governments (for example, to fund an annual award or scholarship), will be reported as **private-purpose trust funds**. **Investment Trust Funds** are used to account for the outside portion of investment pools where the reporting government has accepted funds from other governments to have more money to invest and hopefully earn a higher return. Both **Investment and Private-Purpose Trust Funds** are placed within the **Fiduciary Funds** and use the full accrual basis of accounting.

5. Accounting for Fixed Assets and Long-term Debts

Prior to **GASB Statement No. 34**, fixed assets and long-term debts of governmental funds were recorded in memorandum accounts known as **General Fixed Assets and General Long-term Debts Account Groups**, respectively. Besides, accounting for depreciation on capital assets and

amortization of premium/discount on issuance of long-term debts were not allowed in any of governmental funds. The new statement required that all fixed assets and long-term debts to be accounted for and reported in government-wide statements and accordingly eliminated the need for the ***General Fixed Assets and General Long-term Debts Account Groups***. As a result, capital assets will not only be reported but will also be depreciated. Similarly, long-term debts will be reported and related discounts or premiums will be amortized for the purpose of preparing government-wide statements.

6. Basis of Accounting and Interim and Annual Financial Statements

The new model requires two sets of financial statements - **government-wide and fund-based** - to be prepared based on different measurement focus and accounting basis. Besides, Management's Discussion and Analysis (MD & A) is required.

i) Government-wide financial statements

Government-wide financial statements are the most radical new components of governmental financial reporting. The government-wide financial statements report the financial position and operating results of the **primary government** as an economic entity, without reference to the government's underlying fund structure or individual funds. As such, the government-wide financial statements provide information for assessing operational accountability. These statements are prepared on the **economic resources measurement focus and full accrual basis**. They present information about the overall reporting state/local governmental entity. The statements include all governmental and business-type activities. The statements, however, do not provide information about fiduciary funds activities because resources of such funds benefit third parties rather than support the government's own programs or other services. They also exclude information about internal service activities that constitute "double counting." Likewise, interfund ("internal") balances are eliminated.

Government-wide financial statements are designed to report all revenues and all costs of providing services each year, not just those received or paid in the current year or soon after year-end. These statements have a long-term focus. As a result, they record both long-term capital facilities and liabilities together with the related amortizations of costs and premiums/discounts. They are prepared by a major governmental unit as a whole.

Government-wide financial statements consist of two statements:

- *a statement of net assets (equivalent to a balance sheet) includes current and non-current liabilities and assets*
- *a statement of activities (equivalent to an income statement) includes revenues, expenses, gains and losses*
- *No statement of cash flows is required.*

ii) Fund-based statements

Fund-based statements focus on major individual funds of the reporting entity with non-major funds aggregated into a single-column regardless of fund type. The new thing here is that the combined balance sheet will display major funds rather than the traditional fund types. **Fund-based financial statements** are prepared to show restrictions on planned use of resources or to measure, in the short-term, the revenues and expenditures arising from certain activities. At the fund level statement, governmental

funds use the **current financial resources measurement focus** and the **modified accrual basis** of accounting as they were using prior to **GASB Statement No. 34**. Because of the current financial resources measurement focus, neither capital assets nor long-term debts are accounted for in fund-based financial statements. Outflows of financial resources for acquisition of capital facilities and settlement of long-term debts principal and interest are recorded as expenditures in the fund level financial statements. Long-term debts are recorded as other financing sources when incurred and as expenditures when repaid.

Both proprietary and fiduciary funds use the **economic resources measurement focus and the accrual basis** of accounting to prepare fund level statements.

iii) MD & A

MD & A is considered required supplementary information, very similar to notes to financial statements. However, the MD & A will appear right before or right after the basic financial statements and notes. It is expected that most governments will include the MD & A right before the basic financial statements. The MD & A must include the following elements:

- *A brief description of the required financial statements for the benefit of users unfamiliar with how they are prepared.*
- *Condensed financial information derived from government-wide financial statements.*
- *An analysis of the government's overall financial position and results of operations, including impact of important economic factors. For example, rising real estate values or other changes in the tax base are topics that might impact overall financial position.*
- *An analysis of balances and transactions of individual funds.*
- *An analysis of differences between original and final budgeted amounts and between actual and budgeted amounts. The traditional model reported differences between the actual results and the final (i.e. amended) budget values only. The MD & A must explain variances from budget.*
- *A description of changes in capital assets and long-term debt during the year and changes therein.*
- *A discussion of the condition of infrastructure assets. City officials must now explain why there are so many potholes in the streets and roads!*
- *A description of currently known facts, decisions or conditions that have, or are expected to have, a material effect on financial position or results of operations.*

7. Interfund Transfers

GASB Statement 34 also amends the treatment of interfund transfers. It eliminates the distinction between "**operating transfers**" and "**residual**

equity transfers." Under existing practice, operating transfers are classified in governmental funds as other financing sources (uses), whereas residual equity transfers are reported as direct changes to fund balance. Statement No. 34 stipulates that transactions currently classified as operating transfers or residual equity transfers simply be captioned as "**transfers.**" They are reported as other financing sources (uses) in governmental fund statements and in a section following "income before contributions and transfers" in proprietary fund statements.

8. Summary of the feature of GASB Statement 34.

Fund Type	Measurement Focus		Accounting Basis	
	Fund-based	Government-wide	Fund-based	Government-wide
Governmental Funds • General • Special Revenue • Capital Projects • Debt Service • Permanent	Current Financial Resources	Economic Resources	Modified Accrual Basis	Full Accrual Basis
Proprietary Funds • Enterprise • Internal Service	Economic Resources	Economic Resources	Full Accrual Basis	Full Accrual Basis
Fiduciary Funds • Investment Trust • Private-Purpose Trust • Pension Trust • Agency	Economic Resources	Not applicable	Full Accrual Basis	Not applicable

- **Current financial resources** refer to resources that can be expended in the current accounting period and include cash and other assets expected to be converted into cash within or soon after the end the current period
- **Economic resources** refer to all kinds of assets and liabilities including current and non-current.
- Under **accrual basis**, revenues are recognized when earned and realized and expenses when incurred.
- Under the **modified accrual basis**, revenues are recognized when available and measurable and expenditures when the related liabilities are incurred.
- By the end of the semester comprehensive illustration for accounting for transactions under the fund-based and government-wide approaches will be provided.

9. References (for issues on GASB 34)

- [Barbara Apostolou](#) (1999) "Key New Provisions of GASB Statement No. 34, Part One, Two and Three 1999, Smartpros Ltd.
- Hoyle, J.B., Thomas, F.S. and Timothy, S.D. (2001) **Advanced Accounting**, 6th Ed., McGraw Hill Companies, Inc., NY, USA

- Laurence E. Johnson and David R. Bean (1999) "**GASB Statement No. 34: THE DAWN of a New Governmental Financial Reporting Model**", CPA Journal, [www](http://www.aicpa.org)