Learning objectives:
• G & NFP Organizations
• The Operating Environment
• Users and Uses
• Objectives of Financial Reporting
• Distinctive Accounting and Financial Reporting Characteristics
• Accounting Principles and Standards

L1: Government & NFP Organization:

Why we Should study Accounting for Government Organization:
Because the Size of Government Sector is too big.
• Government expenditures account for represent 20% of GDP [Gross Domestic Product]
  – $2.9 trillion in 2009
  – If include payments to individuals (Social Security, etc.)
    • State and local government expenditures > $2 trillion in 2008
    • Federal government expenditures almost $3 trillion in 2008

What is the Difference between Governmental entity and Not For Profit Entity.

Governmental Entity:
• Their officers are popularly Elected officers OR controlling majority appointed or approved by Government.
• May create and enforce a tax
• May issue tax-exempt debt
• The Government may dissolve them, and assume their assets and liabilities.

Not For Profit Entity (NFP):
• Receives contributions without expectation of return
• Purpose other than profit
• Ownership interests different than business enterprises
  o No stock or dividend transactions

What are the types of Governmental Entities?
• Federal Government
• General-Purpose Political Subdivisions
  • States, counties, cities, towns
• Special-Purpose Political Subdivisions
  • School districts
• Public Corporations and Bodies
  • Toll roads, toll bridges
• Other Statutorily-Created Entities
  • If they possess governmental characteristics
### L 2 : Governmental and NFP Environment

<table>
<thead>
<tr>
<th></th>
<th>Business Environment</th>
<th>Government Environment</th>
<th>NFP Environment</th>
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<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>To increase wealth of owners</td>
<td>To provide services</td>
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<td></td>
<td>Reporting needs:</td>
<td>With a reasonable surplus</td>
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<td></td>
<td>Income, sources of income</td>
<td>Reporting needs:</td>
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<td>Inflows v. outflows, accountability</td>
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<td><strong>Sources of Revenue</strong></td>
<td>Voluntary exchanges between buyers, sellers</td>
<td>Involuntary taxes</td>
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<td></td>
<td></td>
<td>• For individual taxpayers, no direct relation between taxes paid and services provided</td>
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<tr>
<td><strong>Relationship with</strong></td>
<td></td>
<td>Dissatisfied taxpayers must continue to pay</td>
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<td><strong>Stakeholders</strong></td>
<td></td>
<td>May not be able to relocate</td>
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<td></td>
<td>• Dissatisfied investors/customers may discontinue</td>
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<td></td>
<td>investing/purchasing</td>
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<tr>
<td><strong>Longevity</strong></td>
<td>• Risk of going out of business</td>
<td>Rarely go “out of business”</td>
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<tr>
<td></td>
<td>• Risk of being bought out</td>
<td>Not bought and sold</td>
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<tr>
<td><strong>Legal Requirements &amp; Role of Budget</strong></td>
<td>• Required by laws to provide services</td>
<td>• Similar to Business Risk</td>
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<td></td>
<td>• Budgets are legally binding</td>
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<td></td>
<td>• Additional spending requires approval</td>
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<td></td>
<td>• Use of resources highly restricted</td>
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<td></td>
<td>• G &amp; NFP accounting: Focus on legal compliance with laws and donor restrictions</td>
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</table>

### L 3 : Users and Uses of Accounting Information.

- **Internal users (managers)**
  - Can specify kind of information needed from accounting system
- **External users**
  - Not directly involved in operations of entity
  - Accounting standards focus on needs of external users
  - Examples of external users includes
    - RESOURCE PROVIDERS
    - OVERSIGHT BODIES
    - SERVICE RECIPIENTS

**Note:**
Accounting standards setters emphasize the needs of external users
Chapter 1: Governmental and Not-for-Profit Accounting Environment and Characteristics

Accounting Standard Setters

- **Governmental Accounting Standards Board (GASB)**
  - State and local governments
- **Federal Accounting Standards Advisory Board (FASAB)**
  - Federal government
- **Financial Accounting Standards Board (FASB)**
  - Not-for-profit entities

L 4 : Objectives of Financial Reporting

- **Concepts Statements:**
  - Explains how they develop standards
  - Not standards that must be followed
  - Issued by all 3 standard setters

- **GASB's State/Local Reporting Objectives**
  - Help assess government’s duty of accountability
  - Whether revenues pay for services
  - Were resources obtained/used according to budget
  - Measure of service efforts, costs, accomplishments
  - Ability to meet obligations

- **Federal Government Financial Reporting**
  - Evaluate service efforts, costs, accomplishments
  - Evaluate management of assets and liabilities
  - Help assess effect on the nation of the government’s operations
  - Understand whether financial management systems, internal accounting and administrative controls are adequate

- **FASB’s Not-for Profit Reporting**
  - Assess services provided by entity and its ability to continue to provide them
  - Assess how an entity’s managers discharged their stewardship responsibilities
  - Assess an entity’s performance—including service efforts and accomplishments
L 5: Distinctive Reporting Characteristics

Fund Accounting
- Resources are divided into separate funds
- “Help ensure” resources spent as intended
- Set of self-balancing accounts (Like: Assets = Liabilities + Equity)
- Entities usually maintain a general/unrestricted fund for any purpose
- Facilitates reporting restricted resources by state and local governments (SLGs)
- Not required for NFPs

Incorporation of budgets into accounting system
A unique feature in governmental fund accounting is the use of budgetary accounts in the accounting system for certain types of funds. Budgetary accounting is particularly pervasive in the federal government.

The requirement for incorporating budgetary accounting into governmental fund accounting systems highlights the importance of ensuring that legally adopted budgets are not exceeded.

Basis of Accounting
- Basis of accounting = timing of recognition
- Businesses/NFPs/Federal use accrual basis
  - Accrual:
    - Recognize revenues when earned
    - Expenses when incurred
    - Regardless of when cash received or paid
- State/local: Use Modified accrual basis of accounting
  - Hybrid-type basis of accounting
  - Inflows/outflows of current financial resources only

Government-wide and fund-level reporting
To make financial reporting more useful, accounting standards-setters now emphasize the need for financial reporting on the entity as a whole, specifically as follows:
  - State and local governments report on two levels. (Wide level and Fund Level)
  - Not-for-profit organization financial statements are required to focus on the organization as a whole.

Financial Reporting of Restricted Resources
For state and local governments, reporting by funds facilitates the reporting of restricted resources. In addition, the fund balances within each fund must be reported in up to five classifications depicting the different levels of constraints on the use of resources.
L 6: Accounting Principles and Standards

- GASB has no enforcement power
- Enforcers: Governments, rating agencies, and auditors
- GAAP: The standards
- Business and NFP standard setter: FASB
- State/local standard setter: GASB
- Federal standard setter: FASAB
- Lacking standards? Hierarchy of accounting principles

GASB GAAP Hierarchy

- Level 1
  - GASB Statements and Interpretations
- Level 2
  - GASB Technical Bulletins
  - AICPA Industry Audit Guides and Statements of Position
    - Only if made specifically applicable to SLGs by AICPA and GASB
- Level 3
  - AICPA Practice Bulletins
    - If specifically made applicable to SLGs by GASB
  - Consensus positions of a group of accountants organized by GASB
- Level 4
  - Implementation Guides
  - Widely-recognized and prevalent practices

SLGs: State and Local Government entities