UNIVERSAL
LIBRARY

OU_168781

UNIVERSAL
LIBRARY

MUNICIPAL AND GOVERNMENTAL ACCOUNTING

PRENTICE-HALL ACCOUNTING SERIES

H. A. Finney, Editor

MUNICIPAL AND GOVERNMENTAL ACCOUNTING

by

CARL H. CHATTERS, A.B., LL.D.
Professor of Municipal Administration and Finance, Northwestern University

and

IRVING TENNER, M.B.A., Ph.D., C.P.A.
Accounting and Fiscal Consultant; Lecturer in Governmental Accounting, Northwestern University and Roosevelt College of Chicago

SECOND EDITION

NEW YORK

PRENTICE-HALL, INC.

COPYRIGHT, 1940, 1947, BY
PRENTICE-HALL, INC.
70 FIFTH AVENUE, NEW YORK

ALL RIGHTS RESERVED. NO PART OF THIS BOOK MAY BE REPRODUCED IN ANY FORM, BY MIMEOGRAPH OR ANY OTHER MEANS, WITHOUT PERMISSION IN WRITING FROM THE PUBLISHERS.

First printing	June, 1947
Second printing	September, 1947
Third printing	September, 1948
Fourth printing	March, 1949
Fifth printing	May, 1950
Sixth printing	January, 1952
Seventh printing	June, 1953

PRINTED IN THE UNITED STATES OF AMERICA

Preface

This book is intended to apply to state governments and to local governments, including counties, townships, cities and villages, school districts, and special districts. The book is practical in nature because it is based on the experience of the authors, on contacts with hundreds of officials throughout the United States and Canada, and on the study of hundreds of public reports. It is consistent with the principles established by the National Committee on Municipal Accounting and the Municipal Finance Officers' Association, but the reasons for recommending these particular principles and procedures are also given.

Because knowledge of the classification of accounts and budgetary procedure is essential to a proper understanding of municipal accounting, these topics have been shifted to the beginning of the book in this new edition. This re-arrangement makes it possible to study fund accounting procedure in the light of the background knowledge gained from reviewing these two important subjects. Other extensive rearrangements have been made for the purpose of bringing together related materials. For example, all of the material pertaining to the general fund is now treated in three consecutive chapters. The reader is thus able to obtain a complete understanding of the general fund before proceeding to study the other funds.

As in the previous edition, the subject of governmental accounting has not been viewed solely from the "fund" point of view. Matters applicable to all funds, such as essential principles of governmental accounting, classification of accounts, budgeting, various assets (cash, investments, general property taxes, and fixed assets), liabilities, cost accounting, and financial reporting are discussed. The chapter on federal accounting has been eliminated because the subject has now developed to a point where it cannot be treated adequately in one chapter.

Grateful acknowledgment is made to Professor Max Zimering, M.B.A., C.P.A. (N.Y.), of the College of the City of New York for reviewing the material and making valuable comments. The authors also wish to thank the many instructors who, on the basis of their experience in teaching the first edition of the book, contributed valuable suggestions for the present edition.

CARL. H. CHATTERS
IRVING TENNER

Contents

CHAPTER PAGE

1. ESSENTIAL PRINCIPLES OF GOVERNMENTAL ACCOUNTING 1

Purpose of governmental accounting; Commercial vs. governmental accounting; Compliance with budgetary provisions; Funds; Establishment of funds; Funds and appropriations distinguished; Number and kinds of funds to be established; The general fund; Special revenue funds; Other funds.

2. CLASSIFICATION OF REVENUE AND EXPENDITURE ACCOUNTS 7

Classification of Revenue Accounts: General fund revenues; Revenues of other funds; Distinction between revenues of a fund and revenues of a governmental unit. *Classification of Expenditure Accounts:* Classification by function; Classification by activity; Classification by organization unit; Classification by character; Classification by object; Relationship between classifications; Classification by character and object; Classification by function, organization unit, and character; Classification by function, organization unit, character, and object; Relation of classification of expenditures to funds; Coding expenditure accounts; Media for classifying expenditure data; Summary.

3. BUDGETING 27

Relationship between funds and the budget. *The General Budget:* Preparation of the budget; Presentation of the budget; Consideration of the budget by the legislative body; Adoption of the budget; Execution of budget; Recording the budget on the books; Subsidiary accounts for revenues; Subsidiary accounts for appropriations; Changes in appropriations; Accounting for changes in appropriations; Budgetary statements; Relationship between special revenue funds and the general budget. *Special Budgets:* Bond funds; Special assessment funds; Utility funds; Modification of budget summary statement.

4. THE GENERAL FUND BALANCE SHEET 60

Operation of the general fund; Accounts of the general fund; Balance sheet at close of fiscal year; Comments on the balance sheet.

5. GENERAL FUND REVENUES 72

Taxes; Licenses and permits; Fines, forfeits, and penalties; Revenues from use of money and property; Revenues from other agencies; Charges for current services; Closing entries; Revenue records.

6. GENERAL FUND EXPENDITURES 81

Personal services; Contractual services; Materials and supplies; Purchases; Accounting for materials and supplies used; Fixed charges;

CHAPTER PAGE

Fixed assets and retirement of debt; Classifying and recording expenditures, Closing entries; Statement of expenditures and encumbrances compared with appropriations; Detailed expenditure statements.

7. Bond Funds 103

Establishment of fund; Operation of fund; Transactions and entries—first fiscal year; Closing entry—project uncompleted; Balance sheet—close of fiscal year, Transactions and entries—second fiscal year; Closing entry—project completed; Balance sheet—project completed; Disposing of surplus or deficit; Analysis of changes in reserve for authorized expenditures; Sale of bonds at a premium or a discount; Financing several projects from one bond fund, Grouping bond funds; Summary.

8. Sinking Funds 117

Operation of sinking fund; Trial balance before closing entries; Closing entries; Balance sheet after closing entries, Recalculation of reserve for retirement of sinking fund bonds; Retirement of bonds; Balance sheet at maturity; Single sinking fund for several bond issues; Balance sheet for consolidated sinking fund; Accounting for groups of sinking funds; Accounting for utility sinking funds.

9. Working Capital Funds 130

Establishment of working capital fund; Operation of working capital fund; Transactions; Trial balance before closing entries; Closing entries; Balance sheet after closing entries; Income and expense statement; Relationship between billings for services and net income; Central stores bureau; Dissolution of working capital fund; Summary.

10. Special Assessment Funds 145

Authorization of project; Authorization and sale of bonds; Sale of notes; Levying and collecting assessments, Accounting for interest; Accounting for construction expenditures; Trial balance before closing entries; Closing entries at end of fiscal year; Balance sheet for uncompleted project; Transactions and entries during second year; Closing entries for completed project; Balance sheet for completed project; Subsidiary schedule of installments receivable and bonds payable; Analysis of changes in reserve for authorized expenditures; Capitalizing expenditures; Disposing of surpluses, Disposing of deficits; Transactions and entries illustrating disposal of surpluses or deficits; Groups of special assessment funds; Accounting for delinquent special assessments; Summary.

11. Trust and Agency Funds 170

Expendable trust funds; Nonexpendable trust funds; Agency funds; Combined statements for trust and agency funds, Summary.

12. Utility Funds 177

Accounting for Proprietary Operations: Establishment of fund and acquisition of plant; Operation of fund; Accounting for construction

CHAPTER PAGE

financed through the sale of bonds; Utility sinking fund; Utility deposits; Trial balance before closing entries; Closing entries, Financial statements, Comments on financial statements; Governmental unit's contribution *Accounting for Appropriations and Other Expenditure Authorizations:* Accounting for utility appropriations; Charging expenditures and encumbrances to operations, Trial balance before closing entries; Closing entries for the budgetary group; Balance sheet; Accounting for bonds authorized to finance construction; Financial statements.

13. UTILITY REVENUES AND EXPENDITURES 198

Accounting for Utility Operating Revenues. Accounting for Utility Expenditures: Operating expenses, Taxes; Amortization of utility plant acquisition adjustments; Clearing accounts; Allocation of joint expenses.

14. GENERAL FIXED ASSETS. GENERAL BONDED DEBT. INTER-FUND RELATIONSHIPS 210

General Fixed Assets: Methods of financing; Assets financed from current revenues; Assets financed from bonds, Assets financed from special assessments; Gifts; Balance sheet *General Bonded Debt:* Entries during year; Balance sheet. *Inter-Fund Relationships:* Transactions and entries; Combined fund balance sheet; Inter-fund borrowing; Offsetting inter-fund receivables and payables; General summary of fund accounting.

15. CASH 226

Accounting for cash receipts; Recording cash receipts; Recording collections; Accounting for cash disbursements, Cash statements; Funds and bank accounts; Inter-fund settlements; Choosing the depository; Accounting for petty cash and change funds; Reconciliations; Summary.

16. INVESTMENTS 241

Records of investments; Defaulted investments; Interest on investments; Accounting for the sale of investments; Statement of investments.

17. GENERAL PROPERTY TAXES 255

Assessment of property; Levying the tax; Determining the tax rate; Determining the amount due from each taxpayer, Setting up taxes receivable and billing taxpayers; Collection of a government's taxes by another unit; Enforcing the collection of taxes; Recording taxes on the books; Recording discounts on taxes; Recording interest and penalties on taxes; Accounting for tax sales; Accounting for non-revenue taxes; Accounting for taxes collected in advance; Accounting for taxes collected for other governmental units; General property tax statements.

18. FIXED ASSETS 285

All Fixed Assets: Classifying fixed assets; Valuing assets acquired through foreclosure or gifts; Setting up property records; Classifying

CHAPTER PAGE

individual property records; Additions to fixed assets; Transfer of fixed assets; Inventory of fixed assets; Asset retirements and replacements. *General Fixed Assets:* Depreciation not computed; Asset retirements; Sale of general fixed assets; Property damaged or destroyed; Statements of general fixed assets. *Fixed Assets of Self-Supporting Enterprises:* Accounting for depreciation; Determining periodic depreciation charges; Recording depreciation; Re-examining the reserve for depreciation; Retirement of assets; Replacements; Accounting for replacement fund; Making replacements out of the fund; Statement of fixed assets—electric utility.

19. LIABILITIES 312

Liabilities Other Than Bonds: Vouchers payable; Warrants payable; Tax anticipation notes; Bond anticipation notes; Judgments payable; Accrued liabilities. *Bonds:* Classification of bonds; Steps in the accounting procedure for bonds; Authorization of bonds; Sale of bonds; Meeting debt service charges; Recording matured bonds payable and their payment; Paying matured bonds and interest through fiscal agent; Subsidiary debt statements.

20. COST ACCOUNTING 337

Equipment Operation Costs: Securing direct costs; Securing overhead costs; Statements of equipment costs. *Maintenance Activity Costs:* Unit cost measures; Compiling costs and units of work; Unit cost standards; Cost statements. *Construction Costs:* Compiling costs and units of work; Entries; Cost statements. *Cost Accounting as Applied to Utilities:* Cost and statistical statements.

21. FINANCIAL REPORTS 356

The Annual Financial Report: Contents of annual financial report; Arrangement of statements in report; Technical points to be considered in preparing an annual financial report; Summary—annual financial report. *Other Financial Reports:* The audit report; Combined financial report and audit report; The monthly financial report; Budget report; Departmental report; The annual popular report; Summary.

APPENDIX I. GOVERNMENTAL ACCOUNTING TERMINOLOGY 381

APPENDIX II. BIBLIOGRAPHY 417

APPENDIX III. QUESTIONS AND PROBLEMS 433

INDEX 583

Figures

FIGURE		PAGE
1.	Departmental Estimate—Personal Services	29
2.	Departmental Estimate—Current Expenses—Other Than Personal Services	30
3.	Departmental Estimate—Capital Outlays	31
4.	Departmental Estimate—Summary	32
5.	Work Program	34
6.	General Fund—Statement of Actual and Estimated Revenues	35
7.	General Fund—Statement of Actual and Estimated Cash Receipts, Disbursements, and Balances	38
8.	Budget Summary—General Budget	39
9.	Appropriation Ordinance	41
10.	Salary and Wage Ordinance for Employees Paid on a 250-Day Basis	43
11.	Work Program—1948—by Months	44
12.	Allotment of Appropriation	45
13.	Revenue Ledger	49
14.	Appropriation Expenditure Ledger	51
15.	General Fund—Comparative Statement of Monthly Receipts	55
16.	General Fund—Statement of Actual Expenditures Compared with Appropriations	56
17.	Budget Summary	58
18.	General Fund—Balance Sheet	64
19.	General Fund—Balance Sheet	65
20.	General Fund—Analysis of Changes in Unappropriated Surplus	67
21.	General Fund—Analysis of Changes in Unappropriated Surplus	67
22.	General Fund—Analysis of Changes in Unappropriated Surplus	69
23.	General Fund—Statement of Revenues—Estimated and Actual	79
24.	Payroll Register	83
25.	(*a*) Accounts Payable Voucher (Front)	90
	(*b*) Accounts Payable Voucher (Reverse)	91
26.	Voucher Register	94
27.	Reserve for Encumbrances Account	95

FIGURE PAGE
28. General Fund—Statement of Expenditures and Encumbrances Compared with Appropriations 96
29. General Fund—Statement of Expenditures Classified by Function, Organization Unit, Character, and Object 100
30. Bond Fund—Balance Sheet 107
31. Bond Fund—Balance Sheet 109
32. Bond Fund—Balance Sheet 110
33. Bond Fund—Analysis of Changes in Reserve for Authorized Expenditures 111
34. Bond Funds—Balance Sheet 114
35. Sinking Fund—Balance Sheet 121
36. Sinking Fund—Balance Sheet 124
37. Consolidated Sinking Fund—Balance Sheet 128
38. Working Capital Fund—Balance Sheet 131
39. Working Capital Fund—Balance Sheet 135
40. Working Capital Fund—Income and Expense Statement 136
41. Stock Record 140
42. Special Assessment Roll 150
43. Individual Special Assessment Record 150
44. Special Assessment Fund—Balance Sheet 157
45. Special Assessment Fund—Balance Sheet 159
46. Special Assessment Fund—Schedule of Installments to Be Applied to Payment of Bonds and Interest 160
47. Special Assessment Fund—Analysis of Changes in Reserve for Authorized Expenditures 161
48. Deposits Fund—Balance Sheet 171
49. Loan Fund—Balance Sheet 172
50. Endowment Principal Fund—Balance Sheet 174
51. Endowment Earnings Fund—Balance Sheet 174
52. Agency Fund—Balance Sheet 175
53. Trust and Agency Funds—Balance Sheet 176
54. Utility Fund—Balance Sheet 189
55. Utility Fund—Income and Expense Statement 190
56. Utility Fund—Analysis of Changes in Unappropriated Surplus 190
57. Utility Fund—Balance Sheet—Budgetary Group 195
58. Electric Fund—Detailed Statement of Operating Revenues.. 199
59. Water Fund—Detailed Statement of Operating Revenues.... 199
60. Electric Fund—Detailed Statement of Operating Expenses .. 201
61. Utility Fund—Income and Expense Statement 205
62. General Fixed Assets—Balance Sheet 213
63. General Bonded Debt—Balance Sheet 214

FIGURE PAGE
64. General Bonded Debt—Balance Sheet 215
65. All Funds—Combined Balance Sheet 220
66. Revenue and Receipts Register 229
67. Check Register 231
68. Statement of Forecast of Cash Position 233
69. Special Assessment Funds—Statement of Cash Receipts, Disbursements, and Balances 234
70. Trust and Agency Funds—Statement of Cash Receipts, Disbursements, and Balances 235
71. All Funds—Summary Statement of Cash Receipts, Disbursements, and Balances 236
72. Register of Bond Investments 243
73. Investment Ledger 244
74. Statement of Sinking Fund Investments 253
75. Combined Assessment Roll and Tax Roll of Real Property .. 258
76. Real Estate Tax Ledger 260
77. Statement of Changes in Taxes Receivable 275
78. Detailed Statement of Taxes Receivable—by Funds 276
79. Statement of Changes in Tax Sale Certificates 277
80. Detailed Statement of Tax Sale Certificates 278
81. Statement of Assessed Value and Estimated True Value of All Taxable Property 279
82. Statement of Tax Rates, Tax Levies, and Tax Data 280
83. Statement of Tax Levies and Tax Collections 282
84. Statement of Tax Levies and Tax Collections 283
85. Land Ledger 288
86. Structures and Improvements Ledger 289
87. Equipment Ledger 290
88. Asset Transfer Order 295
89. Asset Retirement Order 296
90. Statement of Changes in General Fixed Assets 303
91. Statement of General Fixed Assets—Classified by Function and Organization Unit 304
92. Municipal Light and Power Department—Statement of Fixed Assets 311
93. Statement of Legal Debt Margin 315
94. Bond and Interest Record 325
95. Registered Bond Record 326
96. Report from Fiscal Agent 329
97. Statement of Bonds Payable—General Bonds, Special Assessment Bonds, and Utility Bonds 331
98. Statement of General Bonded Debt per Capita 333

FIGURE PAGE
99. Statement Showing Ratios of Net General Bonded Debt to Assessed Value of Taxable Property 334
100. Statement of Direct and Overlapping Debt 335
101. Department of Water Supply—Statement of Debt Service Requirements 336
102. Individual Equipment Record 339
103. Summary of Equipment Overhead Expenses 340
104. Work Order 343
105. Work and Cost Statement 346
106. (*a*) Construction Work Order (Front) 348
(*b*) Construction Work Order (Reverse) 349
107. Report of Construction Operation Costs 351
108. Water Works—Cost of Pumping per Million Gallons 352
109. Water Works—Cost of Purification per Million Gallons 354
110. Water Works—Cost of Transmission and Distribution per Million Gallons Pumped 354
111. Water Works—Operating Revenues, Operating Revenue Deductions, Net Operating Revenues, and Net Income 354
112. Water Works—Cost per Foot of Main Laid by Size 355
113. Auditor's Certificate 370

Tables

TABLE PAGE
1. Schedule of Sinking Fund Requirements 118
2. Amortization of Bond Premiums Under the Interest Method ... 248
3. Amortization of Bond Discounts Under the Interest Method ... 249
4. Amortization of Premiums Under the Bonds Outstanding Method 250
5. Depreciation Charges Under Straight-Line Method 306

CHAPTER 1

Essential Principles of Governmental Accounting

THIS book deals with accounting principles and procedures for state and local governments, including counties, townships, cities and villages, and schools. It is possible to discuss these governmental units in one book because the purpose of accounting is the same for all of them, and therefore common accounting principles apply to these units.

Purpose of governmental accounting. The purpose of governmental accounting is to supply financial information concerning governments. Five groups are interested in this information: In the first place there are the administrators, the persons charged with the everyday conduct of the government's affairs. They need financial data primarily as a guide in the performance of their duties. Second, there is the legislative body, which uses financial data to see that its policies are being carried out and that funds are being properly handled and as a guide in formulating future policies. The third group consists of investors, who have a great interest in the government's financial condition and financial operations for the obvious reason that the value and safety of their investments will depend to a great extent on its financial condition. A fourth group consists of students of public finance, political scientists, and other social scientists, who need financial information in the pursuit of their studies. Finally, the general public is interested in the financial condition and financial operations of government.

These groups are not mutually exclusive. For example, an investor constitutes part of the general public, as does a political scientist or other social scientist. Although all classes have some common interests in the financial information of the government, there are points at which their interests diverge. For example, it might be advisable for the administrator to be informed of certain minor details of expenditure which would be of little value to anyone else. The political scientist may be interested in the distribution of expenditures by functions, whereas such a distribution may not concern the investor. We may say then that the purpose of

governmental accounting is *to produce financial information in a form that is readily useful to all of the parties concerned.*

Commercial vs. governmental accounting. Many accounting principles apply to both commercial and governmental accounting. To illustrate, the principle of double entry, which implies that for every entry made to the debit side of the account or accounts an entry or entries for a corresponding amount will be made to the credit side of an account or accounts, is applicable to both commercial and governmental accounting. The accrual basis of accounting under which revenues are recorded when earned even though not collected, and expenditures are considered as such as soon as the liability is incurred applies to both the commercial and governmental accounting fields. In view of the fact, however, that financial statements of a government (except for municipal utilities) are not intended to show whether the government is being operated at a profit or a loss, there may be justification for omitting from governmental statements some minor items which would ordinarily be included in a balance sheet or an operating statement prepared for a business.

The mechanics of governmental and commercial accounting procedures are the same: Transactions are recorded from data contained in the accounting documents. The information is first placed in the books of original entry, from which it is posted to the general ledger and subsidiary ledgers. Postings may, however, be made directly from the original documents to the subsidiary ledger accounts, just as they frequently are in commercial accounting. The accounting records of a government, like those of a commercial concern, may be said to consist of (1) the documents forming the basis of and giving details concerning the accounting transactions, (2) the books of original entry, and (3) the books of final entry, or ledgers.

A proper classification of accounts is essential to good accounting—commercial or governmental. In each case the accounts must be so classified that they will facilitate the preparation of the financial statements. Similarly uniform accounting terminology is highly desirable in both fields.

Although there are many similarities between commercial and governmental accounting, there are also certain basic differences which necessitate treating governmental accounting in a separate book. These differences are due to (1) the lack of the profit motive in government and (2) the necessity of complying with legal provisions. Although the accounting system of a business must provide the information that may be called for by various governmental agencies, legal provisions do not affect a business as greatly

as a government. An accounting system of a business is designed primarily to show the financial position of the business and the results of its operations, the latter in terms of profit or loss. An accounting system of a governmental unit is designed to show not only financial position and operations but also the extent of compliance with legal provisions. The two most important legal provisions affecting governmental accounting are those relating to (1) budgeting and (2) funds.

Compliance with budgetary provisions. The preparation and execution of the budget and the related accounting procedures are governed specifically by legal provisions. The records should help guarantee that expenditures will be made in accordance with legislative intent as expressed in the appropriation acts or ordinances. The methods of accomplishing this will be given later. The manner in which appropriations are further broken down into allotments for purposes of administration and the exercise of control over allotments through the accounting system will be indicated.

Proper budgetary accounting involves not only control of expenditures in accordance with budgetary provisions but also the compilation of data to serve as a guide in the preparation of future budgets. Thus revenues must be recorded in such manner and under such classifications as will make possible a comparison of estimated revenues with actual revenues. These data will reveal to what extent estimates were in error, may prevent the repetition of such errors, and will permit a more accurate planning of expenditures. The recording of revenue estimates on the books of account deserves special mention because it is frequently not required by law and therefore in many instances is neglected.

Funds. Every governmental body must raise and spend its revenues in accordance with special regulations, restrictions, or limitations. To insure that money will be expended for designated purposes, governments establish funds. A fund has therefore been defined as "a sum of money or other resources set aside for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations and constituting an independent fiscal and accounting entity." [1] A separate group of accounts must be provided for each fund to show its assets, liabilities, reserves, and surplus, as well as its revenues and expenditures.

Establishment of funds. Funds are established in accordance with the requirements of constitutions, statutes, and charters, or pursuant to action by the legislative body or the chief executive.

[1] National Committee on Municipal Accounting, *Municipal Accounting Statements*. Chicago: The Committee, 1941, p. 168.

State funds are established by constitution or statute, although certain state funds may be set up by the governor's order. Local-government funds are established by statute, but in municipalities they may also be established in pursuance to charter requirements. Local governments may set up funds by direction of the local legislative body—county board, township trustees, municipal council, or school board—or by order of the chief executive.

On the basis of the authority for their establishment, a distinction must be made between the various funds. As indicated before, a fund is an independent accounting entity and may be abolished only by the authority that created it. Its resources must be expended solely for the purposes specified by the authority. A government may not ordinarily make even a temporary loan from one fund to another without specific authorization.

The funds created by the state constitution, the state legislature, and municipal charters appear, in view of these restrictions, to be the least flexible, because they can be changed only by the state legislature or the voters. Funds which are established by a local government's legislative body are more flexible, because changes can be more easily authorized. The most flexible funds are those established by executive authority, since the executive is free to make changes. This does not imply that the latter type of funds is most satisfactory, however, because the purpose of a fund is to act as a restrictive device.

Funds and appropriations distinguished. A distinction must also be made between a fund and an appropriation. An appropriation is an authorization by the legislative body to make expenditures and incur liabilities for specific purposes. The budget is enacted through passage by the legislative body of an appropriation act in which appropriations are made for the departments, boards, and other divisions of the government; that is, the appropriation act authorizes organization units to spend certain sums of money for definite activities. Whereas an appropriation is always made by the legislative body, funds may be established by executive order. Appropriations are made by the local government's own legislative body (for example, the municipal council or county board), whereas many local-government funds are established pursuant to statutory requirements. Governmental funds may be called into existence by charter provisions, while appropriations are not fixed by charter except where charters fix salaries or make continuing fixed appropriations. A fund requires an identification of the assets, liabilities, reserves, surplus, revenues, and expenditures applicable to it, whereas an appropriation merely authorizes an expenditure and does not necessarily provide any one particular

revenue source for financing the expenditure. An appropriation specifies in detail the exact purposes for which expenditures may be made, the amount to be spent, and the period of time during which the expenditures are to be made, whereas these detailed restrictions do not apply to funds. No expenditures may be made out of certain funds—the general fund, for example—without an appropriation. Finally, a single appropriation may be made out of several funds.

Number and kinds of funds to be established. The number and kinds of funds employed by governments vary. It is evident, however, that, in view of the restrictions involved, the greater the number of funds the more rigid financial administration becomes. In the absence of statutory or other legal requirements, therefore, a government should establish as few funds as possible. To permit effective budgetary control and to establish uniformity in financial reports, the National Committee on Municipal Accounting has recommended the following classification of funds:

1. General fund
2. Special revenue funds
3. Bond funds
4. Sinking funds
5. Working capital funds
6. Special assessment funds
7. Trust and agency funds
8. Utility funds

The general fund. The general fund is used to account for revenues not allocated to specified purposes by law or contractual agreement. That is, any activities not financed from special funds are automatically financed from the general fund. The activities must, of course, have been authorized by the proper legislative body. With the exception of construction expenditures, expenditures incurred in the operation of public service enterprises, and, in some cases, sinking fund bond requirements, most of a government's expenditures are financed from this fund. Because the general fund is used to finance all expenditures for which no special revenues have been provided, it is the most important fund. Its revenue sources are more varied and usually greater than those of any other fund.

Special revenue funds. Special revenue funds are of the same nature as the general fund, the only distinction being that the former are usually limited to a single purpose. The resources of special revenue funds are likely to be taxes and certain departmental receipts. Examples of special revenue funds are those

established for the purpose of financing schools, parks, or hospitals. It is assumed, however, that the institution is part of some other government—for example, a municipality. Where the institution is an independent government, the fund constitutes the general fund of the particular government. For example, a statute might provide that the proceeds from a certain levy and other certain revenues shall be used solely for school purposes. In such a case, if the schools are operated by an independent board, the fund through which these revenues are handled will constitute the general fund of the school board. On the other hand, if the schools are a part of the county or municipal government, the proceeds constitute a special revenue fund of the municipality or county to be used solely for the operation of schools. Since the accounting for such a fund is similar to that for the general fund, special revenue funds will not be considered further. The discussion of the general fund should be understood to apply also to special revenue funds.

Other funds. Bond funds are used to account for the proceeds from the sale of bonds. Sinking funds are used to account for the accumulation of resources to retire bonds. Working capital funds are established to account for service activities performed by a department or bureau for other departments or bureaus of the same governmental unit. Special assessment funds are employed to account for charges levied against properties or persons benefiting from certain special services rendered by the governmental unit. Trust and agency funds are set up to account for assets received by a governmental unit in the capacity of trustee or agent. Utility funds are used to account for self-supporting enterprises rendering services primarily for the public.

Every governmental unit must have a general fund but may not need all of the other funds. The extent to which the other funds will be used will depend on the kinds of activities carried on by a particular governmental unit, the means of financing them, and the legal restrictions imposed. The operations of each of the above funds are discussed in detail in Chapters 4–13, and a summary is presented in Chapter 14 emphasizing the general characteristics of funds and pointing out interfund relationships.

CHAPTER 2

Classification of Revenue and Expenditure Accounts

ACCOUNTS are the media through which financial data are collected for use in the financial statements. The number and types of accounts therefore depend on the type of financial data desired and the detail in which such information is wanted. To facilitate the accounting work and the preparation of financial statements, accounts are classified into certain well-defined groups. For example, accounts may be classified or grouped according to funds. With the exception of general fixed assets accounts and general bonded debt accounts, which are set up in separate groups, each account is identified with some fund. Within each fund, accounts may be classified according to whether they show the *financial condition* of the fund or indicate *changes* in condition—that is, whether they go to make up the balance sheet or the operating statements. The classification of balance sheet accounts is apparent from the fund balance sheets illustrated in later chapters. The present chapter will therefore discuss the classification of fund revenues and expenditures.

Classification of Revenue Accounts

Revenue accounts are classified (1) as an aid in preparing and controlling the budget, (2) for the purpose of controlling revenues, (3) for the purpose of preparing financial statements, and (4) as an aid in the preparation of comparable financial statistics. A classification of revenue accounts by source of revenue will furnish the necessary data for all these purposes.

General fund revenues. The following are the main revenue classes of the general fund:

Taxes
Licenses and permits
Fines, forfeits, and penalties
Revenue from use of money and property
Revenue from other agencies
Charges for current services

In actual practice, no accounts would usually be set up for the above classes of revenue. That is, these classes are broad group headings, which are useful for grouping the detailed revenue accounts falling within the group and for reporting purposes. For example, no account entitled Revenue from Use of Money and Property would be set up. Instead, individual accounts would be set up for each type of revenue falling within this class, as follows:

Interest on Bank Deposits
Interest on Investments
Rents and Concessions
Royalties

To arrive at the total revenue accrued or received from the use of money and property, it is necessary only to combine the balances of these accounts. Each of the above accounts might be subdivided further. For example, the Rents and Concessions account could be subdivided to show the amount of revenue earned from particular types of property or from each kind of concession. The detailed revenue sources applicable to each class are discussed in Chapter 5.

Revenues of other funds. Some of the above revenues apply to the other funds. For example, taxes may also be a revenue source of special revenue funds and sinking funds. Moreover, some of the funds have also other sources of revenue. To illustrate, special assessment fund revenues consist for the most part of special assessments levied against property owners, the governmental unit's share of the cost of the improvement, and interest on assessments receivable. Bond fund revenues consist of bond proceeds, premiums on bonds sold, and sometimes interest on temporary balances. The revenues of working capital funds are derived primarily from charges made to departments for services. Sinking fund revenues consist of taxes, of contributions from the general fund, and of revenues from use of money and property (earnings on investments). Agency funds have no revenues. Similarly, many trust funds do not have revenues, because the amounts accruing or received result in a liability of the fund. However, some trust funds do have revenues—for example, interest received on customers' deposits. The revenues of utility funds are derived from sales of commodities or services to customers and the use of money and property (interest on investments, interest on bank deposits, and rents).

Distinction between revenues of a fund and revenues of a governmental unit. A distinction must be made between the revenues of a fund and the revenues of the governmental unit as a

whole. Certain receipts or accruals may constitute fund revenues but may not be revenues of the governmental unit. For example, proceeds from the sale of bonds are revenues of the bond fund, since they do not create any liability in that fund. However, they are not revenues of the governmental unit, since they are a liability of the unit. Similarly, charges to departments for services are revenues of the working capital fund but not of the governmental unit as a whole, because these charges must be paid by other departments.

In classifying revenues for the purpose of state-wide or national financial statistics, only those of the governmental unit as a whole are included. These usually consist of the revenues of the general fund, revenues of special revenue funds, special assessments collected from property owners, and the revenues of utilities operated by a governmental unit.

Classification of Expenditure Accounts

Expenditures are classified for the purpose of (1) securing information to be used in estimating the expenditures for a fiscal period and in controlling appropriations, (2) insuring that money is expended economically, (3) preparing financial statements, and (4) compiling comparative financial statistics. To obtain all the required information, the accounts are classified by (1) function, (2) activity, (3) organization unit, (4) character, and (5) object. Each of these classifications is discussed below.

Classification by function. The functional classification is useful primarily in the compilation of financial statistics. Since the organization structures of even the same units of government (for example, cities) vary, it would be practically impossible to secure comparable financial statistics if some common classifications were not followed. Since all governments have some functions in common (although some have more functions than others), comparable statistics are secured by classifying expenditures by function.

The following is a classification of expenditures by function:

General government
Public safety
Highways
Sanitation and waste removal
Conservation of health
Hospitals
Charities
Corrections

Schools
Libraries
Recreation
Public service enterprises

Classification by activity. Each function consists of a group of activities. For example, the function of sanitation and waste removal may include the following:

Supervision
Construction and maintenance of sewer system
Sewage treatment and disposal
Street cleaning
Dust prevention
Collection of garbage and ashes
Construction and maintenance of comfort stations

And, to take another example, the function of operation of highways consists of these activities:

Supervision
Construction and maintenance of streets
Snow and ice removal
Street lighting
Construction and maintenance of bridges, viaducts, and grade separations
Construction and maintenance of tunnels

The classification of expenditures *by activity* is needed in securing accurate comparative cost data and in the preparation of the budget. Unit cost accounting is possible only if expenditures are classified by activities. Again, because comparable activities can be found in various governmental units, the classification of expenditures by activity makes it possible to compare costs for similar activities in different governmental units. Through comparing the cost of an activity with the expected benefit, it is possible to make an intelligent decision as to whether the scope of the activity should be increased, decreased, or left unaltered.

Classification by organization unit. The classification of expenditures *by organization unit* is important because it provides the means whereby expenditures can be controlled and responsibility can be definitely allocated. Sound budgetary control is not possible without responsibility on the part of the officials carrying on the operations of the government. The allocation of appropriations and their related expenditures to organization units is essential if officials are to be held responsible for staying within

the appropriation, and if they are to know the amount which they may spend. The estimates of expenditures submitted by heads of organization units form in part the basis of appropriations. The classification of expenditures by organization units is thus essential for both budget preparation and budget control.

Since, as indicated before, the form of organization varies even at the same level of government (for example, cities), it is not possible to present any one typical organization structure. Generally a governmental unit entrusts the carrying out of a particular function to a department or departments. For example, the function of public safety would be entrusted to a police department and a fire department. Each department is in turn divided into bureaus or divisions for carrying out the activities included under the function. These bureaus or divisions may be further subdivided into still smaller organization units.

The following illustrates a classification of accounts by organization unit for a department of public works:

- Department of Public Works
  - Bureau of Administration
  - Bureau of Construction and Design
  - Bureau of Maintenance
    - Division of Streets and Sewers
      - Supervision
      - Street Repair
      - Resurfacing Streets
      - Snow and Ice Removal
      - Sanding Hills and Streets
      - Cleaning Creeks and Repairing Racks
      - Repair of Bridges
      - Cleaning and Repairing Sewers
      - Cleaning Streets
    - Division of Mechanical Equipment
  - Bureau of Waste Collection and Disposal
    - Division of Sewage Disposal
    - Division of Waste Collection
    - Division of Waste Disposal
  - Bureau of Building Inspection
  - Bureau of Weights and Measures
  - Bureau of Street Lighting

Note that the department is divided into bureaus, that bureaus are in turn divided into divisions, and that some divisions are further subdivided to show the detailed activities carried on by them. Even where a division is not subdivided, it may be possible

to tell the activities carried on by it merely from its title. For example, it is evident that the Division of Sewage Disposal is concerned with the disposal of sewage, that the Division of Waste Collection is concerned with the collection of waste, and so forth. On the other hand, although the title Division of Streets and Sewers indicates that the activities relate to cleaning, repairing, and otherwise maintaining streets and sewers, the account does not by itself show the amount expended for each activity carried on by the division. For cost accounting and budgetary purposes, it is desirable to know not only the total cost of maintaining streets and sewers but also the portion of the cost that went for cleaning streets, the portion expended for cleaning sewers, and so on. The figures for these individual activities become especially significant if they can be expressed in terms of unit costs. For example, unit street cleaning costs can be obtained by dividing total street cleaning costs for a period by the amount of miles of street cleaned during that period. The unit cost figures, in turn, are helpful in determining, through comparison with established standard unit costs, whether operations are carried on as efficiently as they should be. The figures can be used also as a basis for preparing the budget.

A highly detailed breakdown by activities within each organization unit simplifies the classification of expenditures by functions. As we have said before, a function consists of a group of activities. In actual practice, it will be found that a single organization unit may be carrying on activities applicable to different functions. For example, the Division of Streets and Sewers illustrated above makes street repairs, which is an activity falling under the function of highways, and is also engaged in street cleaning, an activity forming a part of the function of sanitation and waste removal. If accounts are set up for each activity, however, it is possible, for the purpose of preparing comparable financial statistics, to place each activity under the proper function, even if activities applicable to different functions are carried on by the same organization unit. For example, even though street repairs and street cleaning are carried on by the same division, for functional classification purposes street repairs would be included under highways, and street cleaning would be placed under sanitation and waste removal.

Where the organization unit carries on activities applicable to one function only, its expenditures can, of course, be readily classified under the proper function. For example, in the above illustration the Bureau of Building Inspection, which carries on activities classifiable under the function of public safety, is shown in the same group with the Bureau of Waste Collection and Disposal,

whose activities are classifiable under sanitation and waste removal. If, however, it is desired to classify activities by functions, the total expenditures for this bureau can be pulled out from the above classification and shown as part of the cost of the public safety function.

To summarize, usually there is a close relationship between functions, organization units, and activities. That is, a function is delegated to one or more organization units, which in turn are subdivided into smaller units for the purpose of carrying on the activities comprising the particular function. Sometimes, however, an organization unit may carry on activities applicable to different functions. In that case, for purposes of comparative financial statistics, organization lines must be crossed, and the activities must be classified under the function to which they apply.

If each organization unit carries on only the activities relating to one function, then the total expenditures for a function exactly equal the total expenditures for the organization units carrying on that function. Otherwise, it is necessary to allocate the expenditures of the organization units among the functions to which they apply. The following is an example of a classification of expenditures by function and organization unit. To save space, organization units are shown for only two functions.

GENERAL GOVERNMENT
- Council
- Executive Department
- Courts
- Board of Elections
- Department of Finance
  - Administration
  - Bureau of Accounts
  - Bureau of Treasury
  - Bureau of Purchases
  - Bureau of Assessments
- Department of Law
- City Clerk's Office
- Board of Zoning Appeals
- Civil Service Commission
- City Historian

PUBLIC SAFETY
- Department of Police
  - Bureau of Supervision
  - Bureau of Police Training
  - Bureau of Identification Records

Bureau of Communication System
Bureau of Criminal Investigation
Bureau of Uniform Patrol
Bureau of Special Detail
Bureau of Traffic Control
Bureau of Radio Patrol
Bureau of Detention
Department of Fire
Bureau of Supervision
Bureau of Training
Bureau of Prevention
Bureau of Communication
Bureau of Fire Fighting
Board of Examiners—Plumbers
Board of Examiners—Electricians

HIGHWAYS
SANITATION AND WASTE REMOVAL
CONSERVATION OF HEALTH
HOSPITALS
CHARITIES
CORRECTIONS
SCHOOLS
LIBRARIES
RECREATION

Classification by character. Expenditures may be classified in accordance with whether they represent current expenses, capital outlays, or the retirement of debt. The distinction between an expense and a capital outlay is that the latter results in the acquisition of a fixed asset. The distinction between expenses and capital outlays, on the one hand, and debt retirement, on the other, is self-evident.

Classification by object. A classification of expenditures *by object* groups them by personal services, contractual services, materials and supplies, or fixed charges. There is no one uniform object classification followed by all governmental units, and therefore the classification given here should not be considered as the only one in existence nor as the best. It is merely intended to serve as an example. Before proceeding further with the discussion of this classification, however, it would be advisable to indicate briefly the nature of each object of expenditure named above.

Expenditures for personal services include compensation to individuals in the form of salaries and wages. Expenditures for contractual services include those incurred by the governmental

unit pursuant to an express or implied contract. Examples are expenditures incurred in connection with the construction of an improvement by a contractor and expenditures for telephone service, telegraph service, railroad transportation, and so forth. Expenditures for materials and supplies do not require explanation. Fixed charges include depreciation, when it is charged as an expense, interest expense, insurance expense, and similar expenditures over which the legislative body has no immediate control.

It will be noted that contractual services themselves may require the use of personal services, materials and supplies, and so forth. The governmental unit is not directly concerned with these. Its only concern is to see that the contractor complies with the terms of the contract. Where automotive equipment is operated through a central automotive equipment division, departments frequently add another object classification—namely, equipment use. However, if desired, this expenditure may be listed under contractual services.

Each of the object classifications may in turn be subdivided further, as indicated by the following examples:

PERSONAL SERVICES
- Regular Salaries
- Temporary Salaries
- Regular Wages
- Temporary Wages
- Jurors' Fees
- Witnesses' Fees
- Expert and Consultant Services
  - Appraisal Services
  - Auditing and Accounting Services
  - Consultant Services
  - Court Reporting
  - Engineering Services
  - Medical and Surgical Services

CONTRACTUAL SERVICES
- Communication and Transportation Services
  - Postage
  - Telephone Services
  - Telegraph, Cable, Wireless, and Messenger Services
  - Traveling Expenses
- Subsistence, Care, and Support
  - Subsistence and Support of Persons
  - Storage and Care of Vehicles
  - Storage and Care of Materials and Supplies

Printing, Binding, and Advertising Services
Heat, Light, Power, and Water Services
Repairs to Equipment
Repairs to Buildings and Other Structures
Cleaning and Waste Removal Services

MATERIALS AND SUPPLIES
Agricultural and Horticultural Supplies
Chemicals, Drugs, and Laboratory Supplies
Clothing and Clothing Materials
Coal, Coke, and Fuel Oil
Educational and Recreational Supplies
Food
Household and Cleaning Supplies
Lubricants
Medical and Dental Supplies
Motor Fuels
Manufacturing Materials
Office Supplies
Tools
Construction Materials
Parts for Equipment

FIXED CHARGES
Rents
  Rent of Buildings and Offices
  Rent of Land
  Rent of Machinery and Equipment
  Rent of Office Furniture and Equipment
Insurance
  Insurance on Buildings
  Insurance on Stores
  Insurance on Equipment
Official Bonds
Workmen's Compensation
Refunds, Awards, and Indemnities
Subscriptions and Memberships
Pension and Retirement Contributions
Grants and Subsidies
Taxes
Interest

The object classifications indicated above are sometimes subdivided still further. Thus, Traveling Expenses, shown under Communication and Transportation Services (in turn a part of contractual services), might be divided as follows:

Local Traveling Expenses
Long-Distance Traveling Expenses (including board and lodging)
Mileage Allowance

On the other hand, many governments restrict the object classification to the main titles previously mentioned—namely, personal services, contractual services, materials and supplies, and fixed charges. The extent to which the object classification should be detailed will depend on the information which is deemed necessary for budgetary or cost purposes.

Relationship between classifications. There is a definite relationship between the various classifications. Usually a financial statement will classify accounts in several ways. We have already indicated that expenditures may be classified by function and activity or by function, organization unit, and activity. The additional possible classifications are (1) by character and object; (2) by function, organization unit, and character; and (3) by function, organization unit, character, and object.

Classification by character and object. All current expenses and many capital outlays may be classified by object. In actual practice, however, capital outlays are seldom classified by object because fixed assets purchased cannot be so classified and the classification would therefore be incomplete. Instead, further details concerning the asset acquired are usually given; that is, it is indicated whether the capital outlay is for land, structures and improvements, or equipment. Accounts pertaining to debt retirement indicate both the character of an expenditure and the object of the expenditure. Therefore it is usually included in both the character and object classifications. The following is an example of a combined character and object classification, as it is frequently found in financial statements:

Current Expenses				Capital Outlays			Retirement of Debt	
Personal Services	Contractual Services	Materials and Supplies	Fixed Charges	Land	Structures and Improvements	Equipment	Serial Bonds	Contributions to Sinking Funds

Classification by function, organization unit, and character. The following is an example of part of a classification of expenditures by function, organization unit, and character:

GENERAL GOVERNMENT
Council
Current Expenses
Capital Outlays
Executive Department
Current Expenses
Capital Outlays
Courts
Current Expenses
Capital Outlays

PUBLIC SAFETY
Department of Police
Bureau of Supervision
Current Expenses
Capital Outlays

INTEREST
DEBT RETIREMENT

Neither interest nor debt retirement are usually identified with any particular function and organization unit. They are therefore listed separately and not shown as part of any function. The same holds true with any other expenditures which are not allocable among functions and organization units. Examples are contributions to pension funds and payment of certain damage claims.

Classification by function, organization unit, character, and object. The foregoing combination of classifications—namely, function, organization unit, and character—can be expanded to show the object of current expenses and to indicate further details about capital outlays and debt retirement, as illustrated below and on the following page:

GENERAL GOVERNMENT
Council
Current Expenses
Personal Services
Contractual Services
Materials and Supplies
Capital Outlays
Equipment

Executive Department
  Current Expenses
    Personal Services
    Contractual Services
    Materials and Supplies
  Capital Outlays
    Equipment
Courts
  Current Expenses
    Personal Services
    Contractual Services
    Materials and Supplies
  Capital Outlays
    Equipment

Public Safety
  Department of Police
    Bureau of Supervision
      Current Expenses
        Personal Services
        Contractual Services
        Materials and Supplies
        Fixed Charges
      Capital Outlays
        Equipment

Interest
Debt Retirement
  Serial Bonds
  Contributions to Sinking Funds

Relation of classification of expenditures to funds. With the exception of the classification of expenditures by character, no single expenditure classification is applicable to all funds. The functional classification of expenditures is applicable only to the general fund, special revenue funds, bond funds, special assessment funds, and utility funds. The functional classification is not applicable to working capital funds, since the activities financed by this fund will be shown as part of the expenditures of the departments for which these services were rendered. The expenditures

made from sinking funds—that is, the retirement of debt—are not allocated to any particular function. Similarly, expenditures out of trust and agency funds cannot usually be allocated to any particular function.

The expenditures of all funds, except sinking funds (assuming no administration expenses are paid out of them) and agency funds, can be classified by object. The expenditures of all funds except sinking funds and trust and agency funds can be classified by organization units.

In stating that a certain classification of expenditures is applicable to a certain fund, we do not intend to imply that all of the expenditures of the fund can be brought under the classification. For example, although most of the general fund's expenditures can be classified by function, some, as already indicated, are not so classified—for example, interest expenses and the retirement of debt. Again, a special revenue fund may be established for the purpose of carrying out a single function. In that case, the fund's expenditures would be applicable to only one function. Thus, if a special revenue fund is established to finance schools, all of its expenditures might fall under the function of schools.

Even if expenditures cannot be grouped under any of the classes illustrated, they must be recorded in sufficient detail to furnish necessary data. For example, even though the expenditures of a working capital fund cannot be classified by function, they must be so recorded that detailed financial information concerning the activities carried on by the fund may be obtained.

Coding expenditure accounts. To facilitate the accounting work and the preparation of financial statistics, accounts are coded —that is, are assigned numbers and symbols which can be used in the place of the account titles. In actual practice, all accounts are coded, but for our purpose it will be sufficient to illustrate merely the codification of expenditure accounts because this case presents more difficult problems than the coding of other accounts. The coding system shown here represents only one type; several other types are in use.

Account coding is especially helpful in the classification of expenditures. Through a combination of code numbers, it is possible to tell at a glance the function and organization unit under which a particular expenditure is to be classified, as well as the character and object of the particular expenditure. As an illustration, let us take again the functions and departments previously illustrated. Assume that all accounts pertaining to the general government function are assigned the numbers 1000–1999, all accounts pertaining to the public safety function are assigned the

numbers 2000–2999, and so on. In that case, the code numbers assigned to the accounts designating functions and organization units would be as indicated below:

1000–1999 General Government
- 1000 Council
- 1100 Executive Department
- 1200 Courts
- 1300 Board of Elections
- 1400 Department of Finance
  - 1410 Administration
  - 1420 Bureau of Accounts
  - 1430 Bureau of Treasury
  - 1440 Bureau of Purchases
  - 1450 Bureau of Assessments
- 1500 Department of Law
- 1600 City Clerk's Office
- 1700 Board of Zoning Appeals
- 1800 Civil Service Commission
- 1900 City Historian

2000–2999 Public Safety
- 2000 Department of Police
  - 2001 Bureau of Supervision
  - 2002 Bureau of Police Training
  - 2003 Bureau of Identification Records
  - 2004 Bureau of Communication System
  - 2005 Bureau of Criminal Investigation
  - 2006 Bureau of Uniform Patrol
  - 2007 Bureau of Special Detail
  - 2008 Bureau of Traffic Control
  - 2009 Bureau of Radio Patrol
  - 2010 Bureau of Detention
- 2100 Department of Fire
  - 2101 Bureau of Supervision
  - 2102 Bureau of Training
  - 2103 Bureau of Prevention
  - 2104 Bureau of Communication
  - 2105 Bureau of Fire Fighting
- 2300 Board of Examiners—Plumbers
- 2400 Board of Examiners—Electricians

3000– 3999 Highways

4000– 4999 Sanitation and Waste Removal

5000– 5999 Conservation of Health

6000– 6999 Hospitals

7000– 7999 Charities
8000– 8999 Corrections
9000– 9999 Schools
10000–10999 Libraries
11000–11999 Recreation
12000–12999 Interest
13000–13999 Debt Retirement

Let us assume further that the character classification is coded as follows:

A–D Current Expenses
E–G Capital Outlays
H–I Retirement of Debt

A separate letter would be assigned in turn to each object coming within the Current Expenses group, as in the following list:

A Personal Services
B Contractual Services
C Materials and Supplies
D Fixed Charges

The Capital Outlays account might similarly be divided thus:

E Land
F Structures and Improvements
G Equipment

Similarly, Retirement of Debt might be divided as follows:

H Serial Bonds
I Contributions to Sinking Funds

Each of the objects of expenditure listed above may be subdivided still further, and the numbering system must therefore be expanded to take care of the subdivision. Thus, Personal Services would be coded as follows:

A1 Regular Salaries
A2 Temporary Salaries
A3 Regular Wages
A4 Temporary Wages
A5 Jurors' Fees
A6 Witnesses' Fees
A7 Expert and Consultant Services
  A71 Appraisal Services
  A72 Auditing and Accounting Services
  A73 Consultant Services

A74 Court Reporting
A75 Engineering Services
A76 Medical and Surgical Services

As we have seen, it may be necessary to use a combination of classifications. In that case, the codes for functions and organization units are combined with the codes for the other classifications in such a manner that it is possible to tell at a glance to which class a particular expenditure belongs. For example, on the basis of the code numbers here illustrated, the code number for an expenditure for personal services (regular salaries) made by the city council would be 1000–A1. The following are a few examples of the information which may be derived from certain codes.

Assume that the following expenditures were incurred:

1. In connection with the revision of the accounting system, the bureau of accounts called in consulting accountants.
2. Traveling expenses on account of a long-distance trip taken by the head of the bureau of purchases are to be charged against that bureau.
3. New benches were purchased for the city court.
4. A new fire truck was purchased.

The expenditures would be coded, respectively, as follows:

1. Code No. 1420–A72
   Function—General Government (1000–1999 group)
   Organization Unit—Department of Finance (1400)
   Bureau of Accounts (1420)
   Character—Current Expenses (A–D)
   Object—Personal Services (A)
   Expert and Consultant Services (A7)
   Auditing and Accounting Services (A72)

2. Code No. 1440–B215
   Function—General Government (1000–1999 group)
   Organization Unit—Department of Finance (1400)
   Bureau of Purchases (1440)
   Character—Current Expenses (A–D)
   Object—Contractual Services (B)
   Communication and Transportation Services (B2)
   Traveling Expenses (B21)
   Long-Distance Traveling Expenses (B215)

3. Code No. 1200–G2
   Function—General Government (1000–1999 group)
   Organization Unit—Courts (1200)
   Character—Capital Outlays (E–G)
   Equipment (G)
   Benches (G2)

4. Code No. 2105–G5
   Function—Public Safety (2000–2999 group)
   Organization Unit—Department of Fire (2100)
   Bureau of Fire Fighting (2105)
   Character—Capital Outlays (E–G)
   Equipment (G)
   Fire Truck (G5)

No special provision is made in the above code for designating the name of the fund. The latter can usually be identified from the series of numbers in the classification. For example, in the case of the above classification, all accounts bearing numbers between 1,000 and 13,999 may be designated as general fund accounts. Special revenue fund expenditure accounts might be assigned a series of numbers beginning with 14,000 and ending, let us say, with 19,999. An alternative is to have the numerical arrangement here illustrated apply to all funds but to designate the fund by prefixing a letter. For example, the letter *A* prefixed to any of the numbers here referred to might designate the general fund. Thus A–2100 would refer to the Department of Fire, financed from the general fund.

Media for classifying expenditure data. As indicated subsequently, expenditure data may be recorded in the same accounts as appropriations. The accounts are arranged in the ledger by function, organization unit, activity, and object. It should be understood, however, that ordinarily separate accounts are not set up for functions or main organization units. For example, referring to the classification listed on page 19, no separate account is set up for Public Safety or for Department of Police, nor is a separate account set up for current expenses or capital outlays. Instead, a separate account is established for each object, such as personal services, contractual services, materials and supplies, and equipment under each activity, or two or more of the objects are accounted for under a single activity. But each of these accounts shows the function and organization unit to which it is applicable. For example, the account Personal Services just mentioned would be marked to indicate the fact that it was applicable to the training bureau of the police department and was classifiable under the

function of public safety. The character of the expense would also be indicated on this account. The following is an example of part of the heading of a ledger sheet:

Code No. 2002-A
Function: Public Safety
Organization Unit: Department of Police—Bureau of Police Training
Activity: Police Training
Character: Current Expenses
Object: Personal Services

To get to the total *current* expenses for the bureau of police training, it is necessary to add the balances for each of the objects of expenditure listed under that organization unit. Again, to arrive at the bureau's *total* expenditures, it is necessary to add current expenses and capital outlays. Similarly, to get the total expenses for the police department, it is necessary to add the balances for each of the organization units making up the department. Finally, it is necessary to add the expenditures of each of the organization units carrying on the function of public safety in order to get the total expenditures for it.

From the examples illustrated on page 23, it is evident that the classification can be carried even further. Thus, Personal Services may be subdivided into Expert and Consultant Services, of which Auditing and Accounting Services is a still further subdivision. If the information is required in this great detail, it is necessary to set up an account for auditing and accounting services. Total expenses for expert and consultant services are secured by adding the balances of each of the accounts forming a part of the expenses for these services. These expenses are in turn added to the other expenses for personal services, such as regular salaries, temporary salaries, and so forth, to arrive at total expenses for personal services. From this point on the procedure is as previously described: Total current expenses for an organization unit are arrived at by adding the totals for each object of expenditure for that organization unit; the total expenditures for an organization unit are secured by adding up current expenses and capital outlays for that organization unit; total expenditures for a function are derived by adding the expenditures of each of the organization units carrying on that function.

Frequently, accounts are set up only for the main classes of

objects of expenditure (that is, for personal services, contractual services, and so forth). Detailed classifications (such as, for example, the total expended for expert and consultant services) are, in that event, obtained through analyzing each object of expenditure. In other words, although accounts are set up only for the main classes of expenditures, the data in each account are so recorded that it is possible to go through the account and secure the necessary detailed information. Sometimes, too, the detailed analysis is made directly from the vouchers that are being used as a medium for posting the expenditures to the accounts.

Summary. The classification of accounts is not as complicated as it might appear. Usually a single ledger sheet carries the information necessary to classify a revenue account or expenditure account under any or all of the suggested groupings. For local budgetary and accounting purposes, the grouping of activities must follow the actual lines of departmental organization. The accounts of activities or functions carried in each fund are governed by law. For statistical purposes, the functional classification is used and follows an arbitrary grouping generally accepted or prescribed on a state or national basis. But the fundamental classification of revenues is by source, and the basic classification of expenditures is by object and activity. When revenues and expenditures have been so recorded in sufficient detail, they may be grouped and re-grouped in any desired combination.

CHAPTER 3

Budgeting

A BUDGET is a plan of proposed expenditures for a given period or purpose and the means of financing them. Budgets may be classified as long term and current. The long-term budget covers a period of at least five years, while the current budget generally is prepared for a period of one year.[1] In this chapter, we shall be concerned primarily with the current budget.

Relationship between funds and the budget. Even though expenditures of governmental money are already restricted through the establishment of funds, a budget is necessary. Legal provisions governing the funds merely insure use of the money for the purposes for which the fund was set up, and do not indicate the amount to be expended for each activity financed out of the fund. These amounts are detailed in the budget. In discussing budgetary procedure, a distinction must be made between the general budget and special budgets. The general budget deals primarily with the general fund and special revenue funds. Special budgets are prepared, in addition, for some other funds. The first part of this chapter is devoted to the general budget—that is, the budget for the general fund and special revenue funds. In the second part, we shall indicate the modifications that are necessary in the preparation and execution of special budgets.

The General Budget

Budgetary procedure may be divided into three steps: (1) preparation of the budget, (2) adoption of the budget, and (3) execution of the budget. Each of these steps will be discussed.

Preparation of the budget. The agencies charged with the preparation of the budget vary. In some cases the legislative body itself, or a committee of its members, takes charge of budget preparation. Under a centralized form of financial organization, however, the budget is prepared under the supervision of the chief

[1] The current budgets of most state governments cover a period of two years. But there is no great difference in budgetary principles between state and local governments or between budgets prepared annually and biennially.

executive. The technical work may be performed either by a member of the department of finance or by a budget director appointed by the chief executive and responsible to him. It will be assumed throughout this chapter that the budget is prepared under the supervision of the chief executive and that a member of the finance department, who will hereafter be designated as the finance officer, is charged with the technical work.

The budget calendar. Sound financial planning requires that preparation of the budget be started soon enough so that it may be adopted before the beginning of the period to which it applies. To insure that adequate time will be allowed, a budget calendar is frequently prepared, listing each step in the budgetary procedure and the definite time for its completion.

Call for departmental estimates. A call by the chief executive for departmental estimates is the first step in the preparation of the budget. Forms for departmental estimates are illustrated in Figures 1–4. Figure 1 illustrates a form used in estimating expenses for personal services. The first eight columns of this schedule are usually filled in by the finance officer; columns 9–11 are filled in by the head of the department. The columns headed "Recommended by Chief Executive" are filled in by the chief executive before he presents the budget to the legislative body. Amounts are placed in the remaining columns after the legislative body has made the appropriation. If, however, appropriations are not made for each class of position but in a lump sum for the total personal service expenses of each organization unit, only the total amount appropriated is shown. For example, in the schedule illustrated (Figure 1) it is assumed that the legislative body merely appropriated the total amount to be spent by the police department for personal services and did not specify separately the amount for the chief of police, deputy chief, chief of detectives, and so on. Accordingly, only one amount ($26,000) is shown as the appropriation for the personal service expenses of the police department. It is also important to summarize the total actual expenditures for personal services for the past two years and for the first nine months of the current year as well as the estimated total expenditures for the remainder of the current year and the proposed and recommended expenditures. Such a summary is illustrated in Figure 4.

Figure 2 illustrates a form used for estimating expenditures other than for personal services. The first seven columns are filled in by the finance officer; column 8 is filled in by department heads. The detail in these columns depends on the detail in which appropriations are made. For example, in the above schedule it is

Figure 1

Departmental Code: 2000

A GOVERNMENTAL UNIT
Departmental Estimate
Personal Services
1948

Fund. General
Function Public Safety
Department Police
Submitted by. A. Johnson, Chief
Date. October 10, 1947

Code No.	Classification	Actual						Proposed, 1948			Recommended by Chief Executive			Appropriation by Legislative Body
		January 1, 1947			October 1, 1947									
		No	Rate	Amount	No	Rate	Amount	No	Rate	Amount	No.	Rate	Amount	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
A-1.1	Chief of Police	1	$3,500	$3 500	1	$3 500	$3 500	1	$3 500	$3,500	1	$3,500	$3,500	
A-1.2	Deputy Chief	1	2,500	2 500	1	2 500	2,500	1	2,500	2 500	1	2,500	2,500	
A-1.3	Chief of Detectives	1	2,500	2,500	1	2 500	2,500	1	2,500	2,500	1	2 500	2,500	
A-1.9	Policewoman	1	1,800	1 800	1	1.800	1.800	1	1.800	1.800	1	1.800	1 800	
	Total	11	—	$26,000	11	—	$26,000	11	—	$26,000	11	—	$26,000	$26,000

Figure 2

Departmental Code: 2000

A GOVERNMENTAL UNIT
Departmental Estimate
Current Expenses—Other Than Personal Services
1948

Fund: General
Function: Public Safety
Department: Police
Submitted by: A. Johnson, Chief
Date: October 10, 1947

Code No.	Classification	Actual Expenditures			Estimated Expenditures Balance of 1947	Total Columns 5 and 6	1948		
		1945	1946	1947 (First Nine Months)			Proposed by Department	Recommended by Chief Executive	Appropriation by Legislative Body
1	2	3	4	5	6	7	8	9	10
B	Contractual Services								
B-1	Printing	$ 247	$ 255	$ 195	$ 65	$ 260	$ 280	$ 275	
B-2	Gas	74	73	55	20	75	80	75	
B-3	Electricity	158	161	126	43	169	177	175	
B-4	Water	56	53	41	14	55	60	55	
B-19	Motorcycle Repairs	1,045	980	745	250	995	1,150	1,000	
B-20	Auto Repairs	1,197	1,260	960	315	1,275	1,400	1,300	
B-21	Repairs to Office Equipment	293	300	235	80	315	363	320	
	Total	$3,070	$3,082	$2,357	$ 787	$3,144	$3,510	$3,200	$3,200
C	Materials and Supplies:								
C-1	Janitor Supplies	$ 95	$ 96	$ 77	$ 25	$ 102	$ 120	$ 120	
C-6	Clothing	1,011	1,200	785	260	1,045	1,300	1,100	
C-7	Gasoline	1,587	1,570	1,259	420	1,679	1,800	1,700	
C-8	Lubricants	278	281	220	70	290	330	290	
C-45	Record Supplies	100	115	95	30	125	150	120	
C-50	Ammunition	427	431	335	115	450	500	470	
	Total	$3,498	$3,693	$2,771	$ 920	$3,691	$4,200	$3,800	$3,800
D	Fixed Charges:								
D-1	Rent	$1,800	$1,800	$1,405	$ 470	$1,875	$1,900	$1,900	
D-2	Surety Bond Premiums	80	80	60	20	80	100	100	
	Total	$1,880	$1,880	$1,465	$ 490	$1,955	$2,000	$2,000	$2,000
	Grand Total	$8,448	$8,655	$6,593	$2,197	$8,790	$9,710	$9,000	$9,000

Figure 3

Departmental Code: 2000

A GOVERNMENTAL UNIT
Departmental Estimate
Capital Outlays
1948

Fund: General
Function: Public Safety
Department: Police
Submitted by: A. Johnson, Chief
Date: October 10, 1947

Code No.	Classification	Explanation	Proposed by Department			Recommended by Chief Executive	Appropriation by Legislative Body
			Quantity	Unit Price	Cost		
1	2	3	4	5	6	7	8
G-1	Office Equipment	Desks	2	$ 45	$ 90	$ 90	
G-2	Automotive Equipment	Ford Sedans	5	500	2,500	2,500	
G-6	Automotive Equipment	Motorcycles	5	300	1,500	1,500	
G-20	Firearms	Sub-Machine Guns	4	200	800	800	
		Total	—	—	$10,000	$10,000	$10,000

Figure 4

Departmental Code. 2000

A GOVERNMENTAL UNIT
Departmental Estimate
Summary
1948

Fund: General
Function: Public Safety
Department. Police
Submitted by: A Johnson, Chief
Date: October 10, 1947

Code No.	Classification	Actual Expenditures			Estimated Expenditures Balance of 1947	Total Columns 5 and 6	1948		
		1945	1946	1947 (First Nine Months)			Proposed by Department	Recommended by Chief Executive	Appropriation by Legislative Body
1	2	3	4	5	6	7	8	9	10
A	Personal Services	$22,000	$24,000	$19,000	$ 7,000	$26,000	$26,000	$26,000	$26,000
B	Contractual Services	3,070	3,082	2,357	787	3,144	3,510	3,200	3,200
C	Materials and Supplies	3,498	3,693	2,771	920	3,691	4,200	3,800	3,800
D	Fixed Charges	1,880	1,880	1,465	490	1,955	2,000	2,000	2,000
	Total Current Expenses	$30,448	$32,655	$25,593	$ 9,197	$34,790	$35,710	$35,000	$35,000
E-G	Capital Outlays	$13,000	$12,000	$ 9,000	$ 2,000	$11,000	$10,000	$10,000	$10,000
	Total	$43,448	$44,655	$34,593	$11,197	$45,790	$45 710	$45,000	$45,000

assumed that appropriations are made by main objects of expenditure. Therefore, the figures shown in column 10 are for main classes of objects of expenditure, such as contractual services, materials and supplies, and fixed charges.

Frequently capital outlays are shown in a separate schedule, as illustrated in Figure 3.

The data in these schedules may be further summarized in another schedule, which is illustrated in Figure 4. This schedule is especially valuable if appropriations are made by main classes of expenditures. If such a summary is prepared, and if appropriations are made to the classes of expenditure listed in the summary, the "Appropriation by Legislative Body" column is omitted from the other three schedules.

In estimating expenditures for the coming year, department heads consider several factors. In the first place, they may be guided to some extent by the expenditures of prior years. Secondly, they know whether the organization unit will be called upon to render more or less services during the coming year. For example, if the service is such that it expands with the growth of population, and the population is expected to increase during the coming year, it is reasonable to assume that the expenses for the department may increase. Again, if the expenses are affected by economic conditions, the estimates will take these into account. For example, if employment is expected to decrease, relief expenditures will probably increase. If activities are susceptible to unit cost measurement, department heads prepare schedules called *work programs,* in which they list the number of actual units of work done, the cost per unit, and the total cost, and the number of estimated units of work to be done, the estimated cost per unit, and the total estimated cost. A work program is illustrated in Figure 5. Department heads are frequently requested to submit work programs even for activities not susceptible to unit cost measurement. In such cases the work program consists of a general description of the work performed by the department and reasons for estimates of increases in expenditures.

Revenue estimates. The amount of revenue which will accrue or will be received during the year must be kept in mind. Accordingly, even before the department heads begin to prepare their estimates, the finance officer will estimate the amount of revenues which will be available. Figure 6 illustrates a statement of actual and estimated general fund revenues. In order to save space, only a few revenues have been listed.

If the governmental unit expects to have, at the end of the year, an unappropriated surplus which can be converted into cash,

Figure 5

Departmental Code: 4000

A GOVERNMENTAL UNIT
Work Program
1948

Fund: General
Function: Sanitation and Waste Removal
Department: Public Works
Bureau: Sanitation
Submitted by: M. A. Downs, Chief
Date: October 10, 1947

Operation	Work Unit	Actual 1946			Estimated 1947			Estimated 1948		
		No. of Units	Unit Cost	Total	No. of Units	Unit Cost	Total	No. of Units	Unit Cost	Total
Garbage Collection	Tons	158,319	$1.45	$229,562.55	168,000	$1.46	$245,280.00	170,000	$1.44	$244,800.00
Incineration	Tons	170,350	1.18	201,013.00	180,000	1.18	212,400.00	182,000	1.19	216,580.00

Figure 6

A GOVERNMENTAL UNIT

General Fund

Statement of Actual and Estimated Revenues

	Actual 1946	Actual First Nine Months of 1947	Estimated Remainder of 1947	Total Columns 2 and 3	Estimated 1948
Taxes:					
General Property Taxes	$294,000	$291,000	—	$291,000	$288,000
Interest and Penalties on Taxes	1,100	800	$ 250	1,050	1,000
Total Taxes	$295,100	$291,800	$ 250	$292,050	$289,000
Licenses and Permits:					
Motor Vehicle Licenses	$ 31,000	$ 25,500	$ 7,000	$ 32,500	$ 34,000
Parking Meters	1,500	1,450	450	1,900	2,000
Beer and Liquor Licenses	11,000	9,000	3,000	12,000	13,000
Amusement Licenses	6,200	4,650	1,225	5,875	6,000
Newsdealers' Licenses	1,350	990	300	1,290	1,300
Total Licenses and Permits	$ 51,050	$ 41,590	$11,975	$ 53,565	$ 56,300
Charges for Current Services:					
Election Fee Revenues	$ 1,100	$ 1,000	$ 200	$ 1,200	$ 1,000
Sale of Ordinances	1,200	925	250	1,175	1,000
Charges for Private Police Service	5,100	3,000	1,050	4,050	4,000
Fees for Inspection of Dairy Products	375	465	135	600	800
Total Charges for Current Services	$ 7,775	$ 5,390	$ 1,635	$ 7,025	$ 6,800
Grand Total	$437,000	$397,000	$36,000	$433,000	$431,000

and this surplus is not set aside as a reserve, the surplus may be taken into account in estimating the resources available to finance expenditures of the coming year. This is true even though the surplus comes from *past* years' revenues. It is important, in this connection, to present a balance sheet as of the close of the current year. That is, the balance sheet will consist of the estimated amount of assets, liabilities, reserves, and surplus.

Estimating fixed charges. As was evident from the previous chapter, certain expenditures usually are not allocated to any particular function or organization unit. Examples are interest, contributions to pension funds, retirement of serial bonds, and contributions to sinking funds. These expenditure estimates are therefore prepared by the finance officer, who also reports estimated deficits. The balance sheet containing estimated assets, liabilities, and so forth, is found useful in estimating the probable deficit.

Revision of departmental estimates. As soon as department heads have filled out the budget estimate forms, and at any rate not later than the date designated in the budget calendar, they transmit the forms, together with work programs and other supporting data, to the finance officer. The latter notes whether the estimates have been properly prepared, summarizes the information received, and presents the schedules, together with the summaries and revenue estimates, to the chief executive, who then begins to prepare his recommendations to the legislative body.

Both the departmental estimate schedules and the work programs are of great help to the chief executive in preparing his recommendations. In addition, he confers with department heads, whom he may ask to justify estimates of expenditures. In larger governmental units, the chief executive may employ efficiency engineers to make special investigations to determine whether departmental requests are justified.

The chief executive pays careful attention also to the revenue estimates. Whereas no single operating department head knows the relationship between total estimated expenditures and total estimated revenues, the chief executive has these data. If estimated expenditures exceed estimated revenues, reductions in the amount requested should be made, or the governmental unit will incur a deficit. However, it should not be assumed that a good chief executive will make arbitrary adjustments at some fixed percentage. For example, if estimated expenditures exceed estimated revenues by 10 per cent, he will not automatically reduce each department's expenditures by this percentage but will consider each department's request individually. Whether a department's requests will be reduced, and the amount of the reduction will

depend on the extent to which the services are indispensable and the likely effect on the general community welfare of a reduction in them.

Presentation of the budget. After the chief executive has considered the requests of the various departments and taken action on them, he is in a position to present the budget document to the legislative body for consideration and adoption. The budget document consists of the following:

1. A budget message, in which the principal budget items are explained, the governmental unit's experience during the past year and its financial status at the present time are outlined, and recommendations regarding the financial policy for the coming year are made.

2. A budget summary showing total estimated resources and expenditures by funds. Revenues are generally classified here by main sources, and expenditures by character and object (see Figure 8).

3. A schedule showing in detail actual revenues from each source for the preceding year and the current year to date and estimated revenues from the same sources and any additional sources for the remainder of the current year and for the coming year (see Figure 6).

4. Schedules showing fixed charges not applicable to any particular department, including such items as judgments and costs, interest on notes and bonds, maturing general serial bonds, contributions to sinking funds, contributions to pension funds, the governmental unit's share of special assessment costs, and estimated fund deficits.

5. The departmental request forms with the column headed "Recommended by Chief Executive" filled in (see Figures 1–4).

6. Work programs (see Figure 5).

7. Fund balance sheets showing estimated assets, liabilities, reserves, and surpluses or deficits as of the close of the current fiscal year.

8. A statement showing actual cash balance at the beginning of the preceding year, receipts and disbursements during that year, and the actual cash balance at the end of that year; the actual cash balance at the beginning of the current year, receipts and disbursements from the beginning of the year to date, and the closing balance at this date; estimated receipts and disbursements for the remaining part of the current year and the estimated cash balance at the close of the current year; the estimated opening balance, estimated receipts and disbursements, and estimated closing cash balance for the coming year (see Figure 7). Note that

Figure 7

A GOVERNMENTAL UNIT
General Fund
Statement of Actual and Estimated Cash Receipts, Disbursements, and Balances

	Actual 1946	Actual First Nine Months of 1947	Estimated Balance of 1947	Total Columns 2 and 3[2]	Estimated 1948
Opening Cash Balance	$ 18,375	$ 10,340	$ 64,415	$ 10,340*	$ 36,200
Receipts					
General Property Taxes—Current and Delinquent	$297,000	$247,000	$ 51,000	$298,000	$300,000
Interest and Penalties on Taxes	1,300	925	275	1,200	1,150
Licenses and Permits	51,050	42,100	11,465	53,565	56,300
Fines, Forfeits, and Penalties	8,410	5,900	2,100	8,000	9,500
Revenues from Use of Money and Property	7,320	5,230	1,970	7,200	7,200
Revenues from Other Agencies	23,000	48,000	15,000	63,000	62,200
Charges for Current Services	7,775	5,225	1,800	7,025	6,800
Collections of Accounts Receivable	8,100	6,070	1,800	7,870	5,200
Total Receipts	$403,955	$360,450	$ 85,410	$445,860	$448,350
Total Receipts and Balance	$422,330	$370,790	$149,825	$456,200*	$484,550
Disbursements:					
Personal Services	$220,000	$165,000	$ 56,000	$221,000	$219,000
Contractual Services	7,800	5,000	3,000	8,000	8,165
Materials and Supplies	14,700	10,900	4,100	15,000	14,300
Fixed Charges	25,350	18,850	7,150	26,000	26,120
Capital Outlays	105,000	76,000	34,000	110,000	109,400
Retirement of Bonds	25,000	19,000	6,000	25,000	20,000
Retirement of Notes	8,000	7,825	2,175	10,000	14,000
Payment of Vouchers Payable	6,140	3,800	1,200	5,000	7,100
Total Disbursements	$411,990	$306,375	$113,625	$420,000	$418,085
Closing Cash Balance	$ 10,340	$ 64,415	$ 36,200	$ 36,200*	$ 66,465

[2] With exception of items starred

Figure 3

A GOVERNMENTAL UNIT
Budget Summary
General Budget—1948

Estimated Resources		Estimated Expenditures	
General Fund			
Taxes	$288,000	Personal Services	$219,000
Other Revenues	143,000	Other Current Expenses	63,600
		Capital Outlays	109,400
		Retirement of Debt	34,000
		Excess of Resources over Expenditures	5,000
Total General Fund	$431,000	Total General Fund	$431,000
Special Revenue Fund			
Taxes	$100,000	Personal Services	$ 75,000
Other Revenues	25,000	Other Current Expenses	30,000
		Capital Outlays	20,000
Total Special Revenue Fund	$125,000	Total Special Revenue Fund	$125,000
Total General Budget	$556,000	Total General Budget	$556,000

this statement is prepared in addition to the revenue statement. The revenue statement shows merely the revenues estimated to be earned; some of these may not be collected during the year. On the other hand, the governmental unit will collect delinquent taxes and other receivables of the preceding years. Through a comparison of estimated total receipts with estimated total disbursements, it is possible to determine whether short-term borrowing will be necessary. An additional statement, showing both actual and estimated receipts and disbursements by months, would also be helpful.

9. If short-term borrowing is contemplated, a schedule showing short-term borrowing transactions during the past two years and the current year and the proposed short-term borrowing for the coming year.

10. A statement showing bonded debt outstanding (see Figure 97).

11. Statements of tax collections (see Figures 83 and 84).

12. A draft for an appropriation ordinance (see Figure 9).

13. A draft for a salary and wage ordinance, if the legislative body adopts such an ordinance (see Figure 10).

14. A tax levy ordinance (discussed in Chapter 17).

Consideration of the budget by the legislative body. The legislative body takes steps to adopt the budget after receiving the budget document. Frequently the budget document is first turned over to a special committee, which makes any investigations it deems necessary, calls on department heads to justify their requests and on the chief executive to explain his recommendations, and conducts public hearings on the proposed budget. The committee then makes its recommendations to the legislative body. Sometimes the legislative body, especially if it is small, will itself perform the duties necessary before the adoption of the budget.

Adoption of the budget. After completing the budget hearings and investigations, the legislative body proceeds to adopt the budget through the passage of an appropriation ordinance (or appropriation act, as it is known in the case of a state). Part of an appropriation ordinance is illustrated in Figure 9. Note that only a few objects of expenditure are shown. That is, although the budget document itself may specify in detail each object of expenditure, appropriations need not be made in so great detail. Detailed appropriations take away from the chief executive freedom of action and administrative discretion.

Sometimes the legislative body will, in addition to passing an appropriation ordinance or act, also adopt a salary and wage ordi-

nance. This ordinance, which specifies rates of pay for various classes of positions, is illustrated in Figure 10.

Providing revenues for financing the budget. The appropriation act or ordinance merely authorizes the maximum amount which may be spent. It is necessary, in addition, to provide the means of financing the expenditures. Some revenues (for example, profits on the sale of investments) will accrue to the governmental unit without any legal action on its part. Other revenues will come as a result of legal action taken in the past. Examples are licenses and fees, income taxes, sales taxes, and similar licenses

Figure 9

CITY OF *X*

Appropriation Ordinance

An Ordinance Making Appropriations for the Fiscal Year Beginning January 1, 1948, and Ending December 31, 1948, in the Sum of Five Hundred Fifty-Six Thousand Dollars ($556,000) and Regulating the Payment of Money Out of the City Treasury.

BE IT ORDAINED by the Council of the City of *X*

Sec 1: That the amounts herein named, aggregating Five Hundred Fifty-Six Thousand Dollars ($556,000), or so much thereof as may be necessary, divided respectively as follows: (1) for the general fund Four Hundred Thirty-One Thousand Dollars ($431,000), and (2) for a special revenue fund One Hundred Twenty-Five Thousand Dollars ($125,000), are hereby appropriated, subject to the conditions hereinafter set forth in this ordinance, from current revenue for the use of the several departments of the city government, and for the purposes hereinafter mentioned for the fiscal year beginning January 1, 1948, and ending December 31, 1948, as follows.

General Fund

Departments and Code Numbers	Appropriations	
No 1000—Council:		
A Personal Services	$3,500	
B Contractual Services	200	
C Materials and Supplies	150	
D Fixed Charges	150	
G Equipment	1,500	$5,500
No. 1100—Executive Department:		
A Personal Services	$5,000	
B Contractual Services	200	
C Materials and Supplies	200	
D Fixed Charges	100	
G Equipment	1,500	7,000
No. 1200—Courts:		
A Personal Services	$5,100	
B Contractual Services	150	
C Materials and Supplies	175	
D Fixed Charges	75	
G Equipment	1,600	7,100

and taxes, the rates for which continue until they are changed by the legislative body. A third type of revenue—for example, the general property tax—requires new legal action each year (every two years in most of the states levying property taxes). Accordingly, as soon as the legislative body has passed the appropriation ordinance or act, it proceeds to levy general property taxes (discussed in Chapter 17).

Execution of budget. After the appropriation ordinance or act is passed, steps are taken to control the budget properly. The appropriation ordinance or act does not specify the rate at which expenditures are to be made throughout the year. It is evident, however, that the flow of revenues and expenditures is not uniform. For example, expenditures for park maintenance are likely to be greater in summer than in winter. On the other hand, no expenditures for snow removal are incurred during the summer months Accordingly, it is necessary to adjust the expenditures for the various departments so that they will be made at the time they are needed and so that they may correspond as far as practicable to the flow of revenue.

Call for allotment schedules. The first step toward expenditure control is a call by the chief executive for departmental allotment schedules. Each department head at this time knows the maximum amount which his department may spend. His task now is to determine how much of the appropriation is to be spent during each month, quarter, or other period. His estimates are based on expenditure statistics for past periods and on his general knowledge of the rate and volume of activities carried on during various parts of the year. He also makes use of work programs. An example of such a work program, which is used to support a monthly allotment schedule, is illustrated in Figure 11 on page 44.

The departmental allotment schedules, together with any additional data supporting the request for allotments, such as work programs, are submitted to the chief executive, who in the meantime has received statements from the finance officer showing estimated receipts by months, quarters, or other periods. Upon receipt of the departmental allotment schedules, the total allotments requested for each period during the year are tabulated and compared with the anticipated receipts. Adjustments are then made, as far as possible, to bring the expenditures within the actual resources available for the particular period. Work programs are helpful in this connection, and usually the chief executive will also confer with department heads if any adjustments in their allotments are necessary.

Figure 10

MILWAUKEE, WISCONSIN

Salary and Wage Ordinance for Employees Paid on a 250-Day Basis

File Number 82545

201—An Ordinance

To make uniform the basic rates of pay of offices and positions in the city service the incumbents of which are compensated on a 250-day-a-year or other basis.

THE MAYOR AND COMMON COUNCIL OF THE CITY OF MILWAUKEE DO ORDAIN AS FOLLOWS

Sec. 1. The following shall be the basic uniform rates of pay of offices and positions in the city service the incumbents of which are compensated on a 250-day-per-year or other basis.

(Prevailing Wage Classes)

Air Compressor Operator	$2,600
Asphalt Ironer	2,400
Asphalt Raker	3,000
Bricklayer, Buildings	3,335
Carpenter	3,000
Carpenter Foreman	3,500
Cement Finisher	3,000
Clamshell Operator	3,500
Crane Operator (Locomotive and Gantry)	3,500
Derrick Operator	3,500
Electrical Machinist	2,400
Electrical Mechanic	3,100
Electrical Mechanic Helper	2,200
Electrical Mechanic Helper (Shop)	2,200
Electrical Mechanic Helper Driver	2,400
Engineman, Asphalt Plant	3,500
Firebrick Mason	3,335
Glazier	2,800
Hoist Operator	2,900
Ironworker	3,150
Ironworker Foreman	3,650
Ironworker, Rod and Reinforced	2,875
Lather	3,160
Lather Foreman	3,410
Millwright	3,000
Millwright Foreman	3,500
Painter	2,600
Painter, Bridge and Iron	3,100
Painter Foreman, House	3,100
Painter Foreman, Ironwork	3,350
Paver	2,500
Plasterer	3,160
Plasterer Foreman	3,410
Plumber	3,100
Quarry Shovel Operator	3,000
Roller Engineman	3,500
Roller Repairman	2,400
Sewer Mason	3,500
Sheet Metal Worker	3,100
Steamfitter	3,100

Sec 7. This ordinance shall take effect and be in force from and after January 1, 1946.

Figure 11

Departmental Code: 4000

A GOVERNMENTAL UNIT
Work Program—1948
by Months

Fund: General
Function: Sanitation and Waste Rem
Department: Public Works
Bureau: Sanitation
Submitted by: M A Downs, Chief
Date: January 10, 1948

Operation	Work Unit	Total for Year			January		February		March	
		No of Units	Unit Cost	Total	No of Units	Amount	No of Units	Amount	No of Units	Amount
Garbage Collection	Tons	170,000	$1 44	$244,800 00	14,175	$20,412 00	14,175	$20,412 00	14,175	$20,412 00
Incineration	Tons	182,000	1.19	216,580 00	15,150	18,028 50	15,150	18,028 50	15,150	18,028 50

Figure 12

Departmental Code: 2000

A GOVERNMENTAL UNIT
Allotment of Appropriation
1948

Fund: General
Function: Public Safety
Department: Police
Submitted by: A. Johnson, Chief
Date: January 10, 1948

Code No.	Classification	Total Appropriated	January	February	March	April	May
A	Personal Services	$26,000	$2,200	$2,150	$2,150	$2,175	$2,100
B	Contractual Services	3,200	275	265	260	260	270
C	Materials and Supplies	3,800	300	270	300	250	275
D	Fixed Charges	2,000	150	175	185	150	195

There is a fundamental distinction, from the standpoint of control, between an appropriation and an allotment. An appropriation is made by the legislative body and usually can be changed by that body only, unless the chief executive has been given power by the legislative body to make transfers from one appropriation to another. Even if the chief executive is given such a power, there is usually a restriction on the amount he can transfer. On the other hand, allotments are made by the chief executive and can be changed by him without any action of the legislative body. Changes are more likely to be made in allotments than in appropriations. Of course, if an appropriation is amended, a corresponding adjustment must be made in the allotment for the organization unit affected. Allotments will ordinarily not be changed by the chief executive without good reasons, since the continual adjustment of allotments is likely to upset the budget program.

If the budget is to be effectively controlled, organization units must stay within their appropriations and also within the amounts alloted to them for a particular period. Accordingly, as soon as the allotments are approved by the chief executive, they are certified to the finance officer (see Figure 12), who sets up the proper accounts for each unit so as to show both the amount appropriated and the allotments into which the appropriation is divided. It should be remembered, however, that many governmental units do not make allotments.

Recording the budget on the books. As soon as the allotments have been certified to the finance officer (or, if the allotment system is not in use, as soon as appropriations are adopted), an entry is made setting up estimated revenues, appropriations, and allotments on the records. The entry is as follows:

Estimated Revenues		$431,000	
Appropriations			$426,000
Unappropriated Surplus			5,000
To record estimated revenues and appropriations. Entries in subsidiary accounts			
Debit—Estimated Revenues			
Taxes			
General Property Taxes (Less Reserve)		$288,000	
Interest and Penalties on Taxes (Less Reserve)	. . .	1,000	289,000
Licenses and Permits			
Motor Vehicle Licenses		$ 34,000	
Parking Meters		2,000	
Beer and Liquor Licenses	.	13,000	
Amusement Licenses		6,000	
Newsdealers' Licenses		1,300	56,300

Charges for Current Services		
Election Fee Revenues	$ 1,000	
Sale of Ordinances	1,000	
Charges for Private Police Service	4,000	
Fees for Inspection of Dairy Products	800	6,800
Grand Total		$131,000

Credit—Appropriations	Total	Current Expenses	Capital Outlays
General Government			
Council	$ 5,500	$ 4,000	$ 1,500
Executive Department	7,000	5,500	1,500
Courts	7,100	5,500	1,600
Board of Elections	2,800	2,000	800
Department of Finance			
Administration	$ 2,925	$ 2,925	—
Bureau of Accounts	4,075	3,575	$ 500
Bureau of Treasury	3,800	3,500	300
Bureau of Purchases	3,450	3,050	400
Bureau of Assessments	3,380	3,250	130
Total Department of Finance	$ 17,630	$ 16,300	$ 1,330
Department of Law	$ 4,700	$ 4,000	$ 700
City Clerk's Office	5,175	4,675	500
Board of Zoning Appeals	1,925	1,525	400
Civil Service Commission	2,900	2,500	400
City Historian	2,300	2,000	300
Total General Government	$ 57,030	$ 48,000	$ 9,030
Public Safety:			
Department of Police:			
Bureau of Supervision	$ 5,670	$ 5,000	$ 670
Bureau of Police Training	9,000	4,000	5,000
Bureau of Identification Records	5,000	3,000	2,000

Interest	14,400	14,400	—
Total Current Expenses and Capital Outlays	$392,000	$282,600	$109,400
Debt Retirement	34,000		
Grand Total	$426,000		

The detail with which appropriation accounts are set up depends on the detail with which appropriations are made. For example, the above entry is based on the assumption that appropriations are segregated only between current expenses and capital outlays. If appropriations are segregated further, the subsidiary accounts are subdivided accordingly. For example, if appropria-

tions are made by main objects of current expenses and by major classes of capital outlays, the subsidiary accounts for appropriations exhibited above would be replaced by accounts showing details concerning each object of current expenses and each major type of capital outlay, as indicated below:

Credit—Appropriations

General Government:			
Council:			
Current Expenses			
Personal Services	$ 3,500		
Contractual Services	200		
Materials and Supplies	150		
Fixed Charges	150	$4,000	
Capital Outlays			
Equipment		1,500	$5,500
Executive Department:			
Current Expenses			
Personal Services	$5,000		
Contractual Services	200		
Materials and Supplies	200		
Fixed Charges	100	$5,500	
Capital Outlays			
Equipment		1,500	7,000
City Historian:			
Current Expenses			
Personal Services	$1,900		
Materials and Supplies	75		
Fixed Charges	25	$2,000	
Capital Outlays			
Equipment		300	2,300
Total General Government			$ 57,030
Public Safety:			
Department of Police:			
Bureau of Supervision			
Current Expenses			
Personal Services	$4,600		
Contractual Services	100		
Materials and Supplies	200		
Fixed Charges	100	$5,000	
Capital Outlays			
Equipment		670	$5,670

Interest	14,400
Debt Retirement	34,000
Grand Total	$426,000

Subsidiary accounts for revenues. Separate general ledger control accounts are established for actual and estimated revenues (that is, accounts entitled "Estimated Revenues" and "Revenues" are used). In the subsidiary accounts, however, estimated and actual revenues are recorded in the same account. For example, the account for motor vehicle licenses would appear as illustrated in Figure 13. As the estimates are set up, they are recorded in the "Debit" and "Balance" columns of this account. Subsequently, as revenues are realized, the amount accrued or received is entered in the "Credit" column. At the end of the year, as the controlling accounts for estimated and actual revenues are closed out, the

Figure 13

A GOVERNMENTAL UNIT
Revenue Ledger

Account No 11
Class Licenses and Permits
Account Name Motor Vehicle Licenses

Date	Reference	Folio	Debit	Credit	Balance
1918					
Jan. 3	Budget Estimate	G. J. 1	$34,000	—	$34,000
10	Licenses Issued	C. R. 1	—	$34,500	500*

* Red.

individual accounts are debited if actual revenues for the particular source exceed the amount of estimated revenues, or credited if the amount of estimated revenues exceeds the amount of actual revenues. A debit balance in an individual revenue account always indicates an excess of estimated revenues over actual revenues, and a credit balance indicates an excess of actual over estimated revenues.

Subsidiary accounts for appropriations. Individual accounts are set up in the general ledger for appropriations, appropriation expenditures, and encumbrances. On the other hand, in the subsidiary appropriation expenditure ledger (illustrated in Figure 14) the ledger sheet for each account shows not only the appropriation but also the expenditures and encumbrances charged to it.

It is assumed that separate appropriations are made as follows:

(1) for salaries and wages, (2) for materials and supplies, (3) for other current expenses, (4) for capital outlays, and (5) for retirement of debt. The account illustrated is assumed to cover materials and supplies—that is, item 2. As appropriations are made, they are entered in the "Appropriations" column and in the "Unencumbered Balance" column. At the top of the form, provision is made for filling in the cumulative allotments.

This form of account is invaluable to the finance officer in controlling appropriations. Regulations are set up providing that no purchase order or contract is valid unless it is approved by the finance officer. As the finance officer approves the order, he enters the amount of the encumbrance in columns 5 and 6 and reduces the balance in column 11 by a like amount. Subsequently, as the materials are received and the actual expenditures are determined, the encumbrances are canceled by entering the amount of the encumbrance in column 4 and reducing the balance in column 6. At the same time the actual expenditures are recorded by entering the amount of the expenditure in columns 8 and 9. Since the actual expenditure may be greater or smaller than the amount encumbered, it is necessary to adjust the last balance shown in column 11. By referring to the "Unencumbered Balance" column, the finance officer can see at a glance the unencumbered balance of the appropriation and therefore whether a sufficient balance is available for further encumbrance or expenditure. Again, by adding together the last figures in columns 6 and 9, and comparing the total with the cumulative allotment shown for the particular month involved, he can find the unencumbered balance of an allotment.

As we have already indicated, the above account is assumed to apply to materials and supplies. A separate account is set up for each appropriation for salaries and wages. Frequently, however, no encumbrances are set up for salaries and wages, because the number of employees and the amount of their pay will have been given in detail in the budget document, so that the exact expenditures for personal services are known. Where one appropriation is made for all current expenses of an organization unit (that is, no distinction is made in the appropriation ordinance between personal services and other current expenses), the amount of the estimated salaries and wages payable is frequently encumbered at the beginning of the year or the beginning of each allotment period. This procedure insures that a sufficient amount of the appropriation will be reserved to meet salaries and wages. In other words, expenses for personal services usually take precedence over other current expenses.

Figure 14

Cumulative Allotments

Original			Revisions		
Jan	$ 350	July $2,300	Jan	____	July ____
Feb	700	Aug 2,600	Feb	____	Aug ____
Mar.	1,000	Sept 2,900	Mar	____	Sept ____
Apr	1,400	Oct 3,250	Apr	____	Oct ____
May	1,700	Nov 3,550	May	____	Nov ____
June	2,000	Dec 3,800	June	____	Dec ____

A GOVERNMENTAL UNIT

Appropriation Expenditure Ledger

Code No.: 2105-C
Function Public Safety
Organization Unit. Department of Fire—Bureau of Fire Fighting
Activity. Fire Fighting
Character Current Expenses
Object. Materials and Supplies
Year 1948

Date	Description	Encumbrances				Expenditures			Appropriations	Unencumbered Balance
		Order No.	Paid or Canceled	Issued	Balance	Voucher No.	Amount	Total Expenditures		
1	2	3	4	5	6	7	8	9	10	11
1/3	Appropriation	—	—	—	—	—	—	—	$3,800	$3,800
1/5	Clothing	2	—	$200	$200	—	—	—	—	3,600
1/7	Lubricants	4	—	45	245	—	—	—	—	3,555
1/23	Clothing	2	$200	—	45	39	$205	$205	—	3,550
12/10	Clothing	20	—	300	300	—	—	3,000	—	500
12/31	Closing Entry					To Surplus	500	—	—	—

Changes in appropriations. Even though expenditures are carefully planned, changes in appropriations are often necessary. Some governmental units are prohibited by law from making such changes. Of course, even if appropriation amendments are permitted, they should not be made unless absolutely necessary; otherwise the budget plan will become unworkable. However, certain contingencies may arise requiring additional appropriations. Sometimes a lump sum contingent appropriation is made. A contingent reserve is thus provided from which transfers are made to departments for which the original appropriation is insufficient. Transfers from the contingent reserve may be made either pursuant to legislative authorization or upon the order of the chief executive, depending on legal provisions. If no contingent reserve exists or if it is not sufficient to cover the additional appropriation, the governmental unit will end its year's operations with a deficit, unless revenues are greater than originally estimated, additional revenue is provided, or some appropriations are reduced.

Changes within a departmental or activity appropriation may also be necessary. For example, assume that the original appropriation for a department is subdivided as follows:

Personal Services	$15,000
Contractual Services	10,000
Materials and Supplies	10,000
Equipment	15,000

Suppose that during the year it is found desirable to have some work done by the department's employees which was originally intended to be performed by contract and that this work is estimated to cost $5,000. In that case, the amount appropriated for the department for contractual services would have to be reduced by $5,000 and the amount appropriated for personal services would have to be increased by a corresponding amount. In some governmental units, the chief executive is given the power to make transfers between the various objects of an appropriation. In other units, the legislative body alone is authorized to make such changes. In still others, the chief executive may make transfers up to a certain amount (for example, $500); any transfer involving a greater amount must, in these units, be authorized by the legislative body.

Accounting for changes in appropriations. The accounting procedure for recording changes in appropriations is simple. If an appropriation is made for contingencies, the entry at the time of appropriation would be as follows:

Estimated Revenues	$431,000	
Appropriations		$426,000
Unappropriated Surplus		5,000
To record estimated revenues and appropriations as follows:		
Estimated Revenues:		
(Details by source)		
Total	$431,000	
Appropriations:		
Council	$ 5,500	
Executive Department	7,000	
Contingencies	10,000	
Total	$426,000	

Subsequently, as transfers are made to the particular organization unit, the entry is as follows:

Appropriations	$8,000	
Appropriations		$8,000
To record transfer of appropriations. Entries in subsidiary accounts *Debit* Contingencies, $8,000 *Credit* Executive Department, $8,000		

Note that the controlling account for appropriations in the general ledger is not affected. The only change is in the subsidiary accounts. If no contingent reserve was provided, the effect of the additional appropriation, as already indicated, would be either to create a deficit or to reduce any existing surplus, unless additional revenue was provided at the same time. The entry, if we assume that the additional appropriation will result in a decrease in unappropriated surplus, is as follows:

Unappropriated Surplus	$8,000	
Appropriations		$8,000
To record additional appropriations. Subsidiary account: *Credit* Executive Department, $8,000		

If additional revenues are anticipated to cover the appropriation, the Estimated Revenues account instead of the Unappropriated Surplus account is debited.

The entry to record transfers between appropriations for different objects within the same organization unit is as follows:

Appropriations	$5,000	
Appropriations		$5,000
To record transfer of appropriations within Public Works Department. Entries in subsidiary accounts: *Debit* Contractual Services, $5,000 *Credit* Personal Services, $5,000		

As in the case of the next to the preceding entry, the controlling account for appropriations remains unchanged. The subsidiary accounts alone are affected.

Budgetary statements. Most of the financial statements that are prepared for the general fund or special revenue funds aid in one way or another in controlling the budget. The two statements illustrated in Figures 15 and 16 are therefore merely examples of statements which are helpful for budgetary control. Others include (1) the balance sheet (Figure 19, page 65), (2) the statement of forecast of cash position (Figure 68, page 233), and (3) the statements of tax levies and tax collections (Figures 83 and 84, pages 282 and 283).

Relationship between special revenue funds and the general budget. Although the general budget is prepared for both the general fund and special revenue funds, a few additional points regarding special revenue funds will aid in understanding the relationship of these funds to the general budget. Special revenue funds are frequently administered by independent or semi-independent boards, such as school boards, park boards, library boards, and similar agencies. These boards may be either elected by the voters or appointed by the chief executive with the consent of the legislative body. They may be required to submit estimates to the chief executive and to the legislative body in the same manner as any other departments. Sometimes, however, the board, if elective, will be required to submit its estimates directly to the legislative body instead of having them first considered by the chief executive. Frequently, the approval of the budget by the legislative body is a mere formality; that is, the legislative body does not or cannot make any changes in the estimates submitted by the board.

Special Budgets

A special budget is a budget for any fund other than the general fund and special revenue funds. Ordinarily no appropriations are required for payments out of working capital, sinking, and trust and agency funds; consequently, these funds are not subject to formal budgetary control Special budgets are therefore limited to (1) bond funds, (2) special assessment funds, or (3) utility funds.

Bond funds. The issuance of bonds must be authorized at least by the legislative body. Additional approval of the voters may be required. In discussing budgeting for bond funds, therefore, a distinction must be made between authorization to issue the bonds and the further specification by the legislative body as to how the

ITY LIBRARY
A UNIVERSITY
5099

Figure 15

A GOVERNMENTAL UNIT

General Fund

Comparative Statement of Monthly Receipts for Month Ending March 31, 1948, and Three Months Ending March 31, 1948

Sources of Receipts	Total Estimated 1948	March			Total to Date			
		Estimated	Actual	Over or Under* Estimate	Estimated	Actual	Over or Under* Estimate	Balance
General Property Taxes. Current and Delinquent.	$300,000	$50,000	$48,500	$1,500*	$110,000	$107,000	$3,000*	$193,000
Interest and Penalties on Taxes	1,150	100	90	10*	300	250	50*	900
Licenses and Permits	56,300	4,800	7,000	2,200	15,000	18,000	3,000	38,300
Fines, Forfeits, and Penalties	9,500	750	800	50	2,400	2,500	100	7,000
Revenues from Use of Money and Property	7,200	610	580	30*	1,800	1,775	25*	5,425
Revenues from Other Agencies	62,200	5,200	5,300	100	17,000	18,000	1,000	44,200
Charges for Current Services	6,800	575	550	25*	1,600	1,550	50*	5,250
Collections of Accounts Receivable	5,200	440	450	10	1,300	1,375	75	3,825
Total Receipts	$448,350	$62,475	$63,270	$ 795	$149,400	$150,450	$1,050	$297,900

Figure 16

A GOVERNMENTAL UNIT

General Fund

Statement of Actual Expenditures Compared with Appropriations for Month Ending March 31, 1948, and Three Months Ending March 31, 1948

Function and Organization Unit	Total Appropriations	March			Total to Date			Unexpended Balance	Encumbrances	Unencumbered Balance
		Estimated	Actual	Excess of Estimated over Actual, or Vice Versa*	Estimated	Actual	Excess of Estimated over Actual or Vice Versa*			
CURRENT EXPENSES										
GENERAL GOVERNMENT										
Council	$ 4,000	$ 350	$ 330	$ 20	$ 1 150	$ 1 150	—	$ 2,850	$ 50	$ 2,800
Executive Department	5 500	450	445	5	1 375	1,200	$ 175	4,300	100	4,200
Courts	5 500	500	500	—	1,600	1 700	100*	3,800	—	3,800
Board of Elections	2 000	175	275	100*	650	625	25	1 375	25	1,350
Department of Finance										
Administration	$ 2 925	$ 240	$ 240	—	$ 725	$ 725	—	$ 2,200	$ 50	$ 2,150
Bureau of Accounts	3,575	300	250	$ 50	800	750	$ 50	2,825	—	2,825
Bureau of Treasury	3 500	280	230	50	850	750	100	2,750	50	2,700
Bureau of Purchases	3,050	350	325	25	1 000	1 000	—	2 050	50	2,000
Bureau of Assessments	3,250	275	275	—	800	775	25	2 475	25	2,450
Total Department of Finance	$ 16 300	$ 1,445	$ 1 320	$ 125	$ 4 175	$ 4 000	$ 175	$ 12,300	$175	$ 12,125
Department of Law	$ 4 000	$ 340	$ 300	$ 40	$ 1 000	$ 1 100	$ 100*	$ 2,900	—	$ 2 900
City Clerk's Office	4,675	385	415	30*	1 150	1 150	—	3 525	—	3,525
Board of Zoning Appeals	1,525	125	125	—	390	370	20	1 155	$ 50	1,105
Civil Service Commission	2,500	200	175	25	650	625	25	1,875	25	1 850
City Historian	2,000	150	150	—	480	475	5	1 525	—	1,525
Total General Government	$ 48 000	$ 4 120	$ 4 035	$ 85	$ 12 620	$ 12 395	$ 225	$ 35 605	$425	$ 35 180
PUBLIC SAFETY										
Department of Police										
Bureau of Supervision	$ 5 000	$ 400	$ 350	$ 50	$ 1,250	$ 1 150	$ 100	$ 3,850	$100	$ 3,750
Bureau of Police Training	4 000	350	400	50*	1.100	1 050	50	2,950	50	2 900
Bureau of Identification Records	3,000	260	240	20	800	900	100*	2,100	—	2,100
DEBT RETIREMENT	$ 34 000	—	—	—	$ 12,000	$ 12 000	—	$ 22 000	—	$ 22,000
GRAND TOTAL	$426,000	$36,000	$34 900	$1 100	$108 000	$105,500	$2 500	$320 500	$700	$319 800

proceeds are to be expended. The bonds may have been issued for financing one specific project, in which case an additional authorization may be needed. This would be particularly true if the project was to be completed before the close of the budget period. Even if the construction of the project is to be continued over more than one period, it is not necessary to make any additional authorization, since the authorization covers completion of the project rather than any definite period of time. Sometimes, however, if construction is to continue during more than one period, the legislative body will, at the beginning of each year, authorize the amount to be expended out of the particular bond fund during the year.

Annual authorizations for projects are likely if in authorizing the bonds the legislative body does not indicate the specific projects to be financed out of the bond issue. This would be true, for example, of a "general improvement" bond issue. In that event, the legislative body would at the beginning of each year indicate specific projects for which the bond funds were to be expended.

Briefly, authorizations for bond fund expenditures may be made at the beginning of the year for the following purposes: (1) for new bonds to be issued during the year, (2) for specifying definite projects to be constructed from a bond issue already authorized, and (3) to indicate the amount to be expended during the particular period from a single-project bond fund which is expected to be expended during more than one budget year. In all cases, the organization unit charged with carrying out the project to be financed by the bond fund will submit estimates of the proposed work and its estimated cost. If new bonds are to be issued during the year, certain additional statements would have to be included in the budget document. These are (1) a statement of borrowing or debt margin, (2) statements showing debt service charges for all bond issues over their life, and (3) a statement showing debt service charges on all bond issues—that is, both those outstanding and those proposed to be issued. The first two statements are illustrated in Chapter 19. The entries setting up bond fund authorizations are discussed in Chapter 7.

Special assessment funds. Although new special assessment projects may be authorized at the time the general budget is prepared, usually authorizations for such projects will also be made throughout the year. Since special assessment authorizations are not limited to a particular period, no authorizations additional to the original one will be needed, unless expenditures exceed authorizations. The governmental unit will, however, make an appropriation for its share of the cost of special assessment improve-

Figure 17

A GOVERNMENTAL UNIT

Budget Summary
1948

GENERAL BUDGET

Estimated Resources		Estimated Expenditures	
		General Fund	
Taxes.....	$288,000	Personal Services	$219,000
Total Special Revenue Fund.	$125,000	Total Special Revenue Fund	$125,000
Total General Budget.....	$556,000	Total General Budget .	$556,000

SPECIAL BUDGETS

		Bond Funds	
Unexpended Balances	$200,000	Construction Expenditures	$300,000
Sale of Bonds Authorized	100,000		
Total Bond Funds...	$300,000	Total Bond Funds .	$300,000
		Utility Fund	
Sale of Services	$200,000	Current Expenses	$175,000
Nonoperating Revenues	25,000	Capital Outlays	50,000
Total Utility Fund.....	$225,000	Total Utility Fund	$225,000

ments, but this appropriation will sometimes be made at the time the improvement is authorized, which may not be at the beginning of the year. The entries involved in the authorization of special assessment improvements are illustrated in Chapter 10.

Utility funds. Practice varies with respect to the budgeting of expenditures by governmentally owned utilities. Some governmental units do not require their utilities to present a budget. Others require that a budget be presented to the legislative body but do not make any formal appropriations for the utility. That is, the budget represents merely a memorandum of the estimated revenues and expenditures of the utility, which may subsequently make changes without consulting the legislative body. Still other units do appropriate for their utilities, but the appropriation is made in one lump sum, so that the utility is free to make expenditures in any manner it deems fit, so long as it does not exceed the total amount appropriated for it. Finally, many governmental units appropriate for their utilities in the same detail that they do for other departments, in which event the budgetary procedure is similar to that outlined above for general departments. Estimates are submitted to the chief executive, who, after making adjustments, transmits the estimates with his recommendations to the legislative body, which may in turn make changes before making appropriations. The budget for the utility fund is in that case embodied in the same document as the general budget and the appropriations are made at the same time as those for the general budget. The entries to record the bugetary operations of utilities are illustrated in Chapter 12.

Modification of budget summary statement. The budget summary statement should show all of the expenditures which have been authorized at the beginning of the budget period and the resources estimated to become available for financing them. Consequently, the budget summary illustrated in Figure 8 would be expanded. In addition to the estimated expenditures of the general and special revenue funds and the resources available for financing them, the expenditures and resources of other funds would be included, as illustrated in Figure 17.

CHAPTER 4

The General Fund Balance Sheet

THE GENERAL fund is established at the inception of a government and continues to exist throughout the government's life. To the extent, therefore, that the life of a government may be said to be perpetual, the same is true of this fund. Each year its resources are expended wholly or in part but are subsequently replenished.

In a newly organized government, the accounting for the fund begins as soon as the budget is adopted—that is, as soon as the appropriation act is passed. The entry, as we have seen, is

Estimated Revenues	$431,000	
Appropriations		$426,000
Unappropriated Surplus		5,000
To record appropriations and revenue estimates.		

Although the above entry has already been given in Chapter 3, it is repeated here in order that all transactions leading up to the preparation of the balance sheets illustrated later in this chapter may be reflected. *Moreover since this chapter deals with the balance sheet, only the principal accounts are shown in the above entry and in the subsequent entries.* The subsidiary accounts supporting the estimated revenues and appropriations accounts were discussed in Chapter 3, subsidiary accounts for actual revenues will be treated in Chapter 5, and subsidiary accounts for expenditures will be discussed in Chapter 6.

A distinction must be made between budgetary accounts and proprietary accounts. Budgetary accounts are those which show budgetary operations and conditions. Examples of budgetary accounts are the Estimated Revenues account and the Appropriations account illustrated in the above entry. Proprietary accounts, on the other hand, are those which show actual financial operations and condition. Examples of proprietary accounts are actual assets, such as cash and taxes receivable, actual liabilities, such as accounts payable and bonds payable, and actual revenues and expenditures. The Unappropriated Surplus account, as is evident from the discussion on pages 66–67, may be a budgetary account

or a proprietary account; or it may summarize and show the results of both budgetary and proprietary operations.

Operation of the general fund. The operation of the fund begins when revenue is accrued or received and expenditures are made. Taxes are the most important revenues of the general fund and usually the first to accrue. As taxes become receivable, the following entry is made:

Taxes Receivable—Current	$300,000	
Reserve for Estimated Losses—Current Taxes		$ 12,000
Revenues		288,000
To record accrual of taxes.		

Note that a reserve is provided for uncollectible taxes. As with accounts receivable of a business, a certain amount of taxes is estimated to remain uncollectible, and provision must be made for these taxes through a reserve against which they may be written off.

As other revenues accrue, the following entries are made:

Accounts Receivable	$36,000	
Reserve for Estimated Losses—Accounts Receivable		$ 1,000
Revenues		35,000
To record accrual of miscellaneous revenues and the setting up of a reserve for estimated losses thereon.		

As already stated, to insure that appropriations will not be overexpended, provision is usually made for reducing the Appropriations account by the estimated amount of proposed expenditures through the use of Encumbrances accounts. As orders are placed, entries are made setting up encumbrances, with a resulting reduction in available appropriations. When the actual expenditure is determined, the entry setting up the encumbrances is reversed, and the appropriation is reduced by the actual amount of the expenditure.[1] Thus, if we assume that an order was placed for materials estimated to cost $30,000, the entry at the time the order was placed would be as follows:

Encumbrances	$30,000	
Reserve for Encumbrances		$30,000
To record encumbering of appropriation		

Assume, however, that subsequently, when the materials and the bill are received, it is found that the materials cost $29,900. The entries will in that case be as follows:

[1] The detailed procedure for encumbering appropriations was outlined on pages 49-51.

Reserve for Encumbrances	$30,000	
Encumbrances		$30,000
To reverse entry encumbering the Appropriations account.		
Appropriation Expenditures	29,900	
Vouchers Payable		29,900
To record expenditures.		

These entries accomplish two things. The appropriation against which the expenditures for materials are chargeable was first reduced by the estimated amount of the expenditure. Now, however, the exact amount of the expenditure is known; accordingly, the entry setting up the encumbrances is reversed. It is necessary also to record the actual liability incurred and to reduce the appropriation by the actual expenditure. The second entry accomplishes this.

In certain cases, to be discussed later in more detail, the appropriation is not encumbered first, but is reduced only at the time the expenditure is actually made. This is often true with payrolls. Thus, if the payroll at the end of a pay period was $40,000, the entry at the time the payroll was approved for payment would be as follows:

Appropriation Expenditures	$40,000	
Vouchers Payable		$40,000
To record approval of payroll		

The following are additional entries illustrating the operation of this fund.

Cash	$195,000	
Taxes Receivable—Current		$180,000
Accounts Receivable		15,000
To record collection of taxes receivable and accounts receivable.		
Taxes Receivable—Delinquent	120,000	
Taxes Receivable—Current		120,000
To record taxes becoming delinquent		
Reserve for Estimated Losses—Current Taxes	12,000	
Reserve for Estimated Losses—Delinquent Taxes		12,000
To record setting up of reserve for estimated losses on delinquent taxes.		
Cash	105,000	
Revenues		105,000
To record receipt of miscellaneous revenues not previously accrued.		
Vouchers Payable	40,000	
Cash		40,000
To record payment of payroll voucher.		
Cash	1,000	
Taxes Collected in Advance		1,000
To record collection of taxes in advance.		

Encumbrances	$ 20,000	
Reserve for Encumbrances		$ 20,000
To record reduction of appropriation by amount of estimated cost of purchase orders placed		
Reserve for Estimated Losses—Delinquent Taxes	1,000	
Taxes Receivable—Delinquent		1,000
To record writing off of certain delinquent taxes which have proved to be uncollectible		
Appropriation Expenditures	30,000	
Due to Working Capital Fund		30,000
To record services rendered by working capital fund.		
Cash	50,200	
Taxes Receivable—Delinquent		50,000
Revenues		200
To record collection of delinquent taxes and interest and penalties thereon.		
Interest and Penalties Receivable on Taxes	550	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		50
Revenues		500
To record interest and penalties accrued on delinquent taxes outstanding and to set up reserve for estimated losses.		
Appropriation Expenditures	300,000	
Cash		300,000
To record payrolls for various periods		

Accounts of the general fund. The following is a trial balance of the accounts used in the illustrated journal entries:

Cash	$ 11,200	
Taxes Receivable—Delinquent	69,000	
Reserve for Estimated Losses—Delinquent Taxes		$ 11,000
Interest and Penalties Receivable on Taxes	550	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		50
Accounts Receivable	21,000	
Reserve for Estimated Losses—Accounts Receivable		1,000
Estimated Revenues	431,000	
Vouchers Payable		29,900
Due to Working Capital Fund		30,000
Taxes Collected in Advance		1,000
Appropriations		426,000
Reserve for Encumbrances		20,000
Unappropriated Surplus		5,000
Revenues		428,700
Encumbrances	20,000	
Appropriation Expenditures	399,900	
	$952,650	$952,650

In order to illustrate the relationship between the various accounts, in Figure 18 the trial balance has been recast in the form of a balance sheet, which is assumed to have been prepared during the fiscal year.

Figure 18

A GOVERNMENTAL UNIT
General Fund
Balance Sheet
During Fiscal Year

Assets

Cash			$11,200
Taxes Receivable—Delinquent		$ 69,000	
Less—Reserve for Estimated Losses		11,000	58,000
Interest and Penalties Receivable on Taxes		$ 550	
Less—Reserve for Estimated Losses		50	500
Accounts Receivable		$ 21,000	
Less—Reserve for Estimated Losses		1,000	20 000
Estimated Revenues		$431,000	
Less—Revenues		428,700	2,300
			$92,000

Liabilities, Appropriations, Reserves, and Surplus

Liabilities:			
Vouchers Payable		$ 29,900	
Due to Working Capital Fund		30,000	
Taxes Collected in Advance		1,000	$60,900
Appropriations:			
Appropriations		$426,000	
Less—Appropriation Expenditures	$399,900		
Encumbrances	20,000	419,900	6,100
Reserve for Encumbrances			20,000
Unappropriated Surplus			5,000
			$92,000

Let us assume that no additional transactions have taken place between the preparation of the above balance sheet and the end of the year. At the end of a fiscal year, entries would be made closing out the budgetary accounts and revenue and expenditure accounts in order to determine how actual revenues compare with estimated revenues and how expenditures compare with appropriations, and also to determine whether revenues exceed expenditures or vice versa. The closing entries would be as follows:

Appropriations	$426,000	
Appropriation Expenditures		$399,900
Encumbrances		20,000
Unappropriated Surplus		6,100
To record closing out of appropriations, encumcumbrances, and appropriation expenditures		
Revenues	428,700	
Unappropriated Surplus	2,300	
Estimated Revenues		431,000
To record closing out of actual and estimated revenues.		

Balance sheet at close of fiscal year. Assuming that the closing entries illustrated above had been posted, we find that the balance sheet of the general fund would appear as shown in Figure 19.

Comments on the balance sheet. Although the balance sheet is for the most part self-explanatory, a few additional comments will help to give a clear picture of the characteristics of this financial statement. The comments will deal with (1) the exclusion of general fixed assets and general bonds from the general

Figure 19

A GOVERNMENTAL UNIT
General Fund
Balance Sheet
at Close of Fiscal Year

Assets		
Cash		$11,200
Taxes Receivable—Delinquent	$69,000	
Less—Reserve for Estimated Losses	11,000	58,000
Interest and Penalties Receivable on Taxes	$ 550	
Less—Reserve for Estimated Losses	50	500
Accounts Receivable	$21,000	
Less—Reserve for Estimated Losses	1,000	20,000
		$89,700
Liabilities, Reserves, and Surplus		
Liabilities		
Vouchers Payable	$29,900	
Due to Working Capital Fund	30,000	
Taxes Collected in Advance	1,000	$60,900
Reserve for Encumbrances		20,000
Unappropriated Surplus		8,800
		$89,700

fund balance sheet, (2) the significance of the Unappropriated Surplus account, and (3) the nature of the Reserve for Encumbrances account.

Exclusion of fixed assets and bonds. Although some general fund expenditures represent outlays which should be capitalized, fixed assets are not included in the balance sheet of the general fund. For example, let us assume that, out of the total expenditures, $2,000 was for furniture and equipment. In commercial accounting, this $2,000 would be shown in the general balance sheet as part of the assets. But not so in governmental accounting. Here, too, the expenditures are capitalized, but they are recorded in a separate group of accounts rather than as a part of the general fund (see pages 210–213). Although bonds may be payable out of the general fund, and, even if they have been issued

to eliminate a deficit in the general fund, they are not recorded as a liability of the fund but in a separate group of accounts (see pages 213–215). The only bonds that are included are those which have matured and have become payable from the present resources of the fund.

Fixed assets are excluded from the general fund balance sheet because they do not represent resources out of which the government intends to meet its liabilities or by means of which it is enabled to earn revenues. These assets are acquired for the purpose of rendering service.

Bonds payable out of the general fund are not included as part of the liabilities of the fund because the resources of the fund in any one year are not held for the payment of all the bonds. The governmental unit's future taxing power will ultimately provide resources to pay them. As these bonds mature, taxes are levied to provide revenue for their retirement. This revenue flows into the general fund, and the resulting assets are used to retire the maturing bonds. Accordingly, only matured bonds payable directly from the resources of this fund are considered liabilities of the fund.

Unappropriated surplus. The Unappropriated Surplus account represents the excess of the assets of the fund over its liabilities and reserves. A governmental body aims to create neither a surplus nor a deficit in the fund. Accordingly, if the fund shows a surplus, the legislative body is likely to use it in financing the budget for the succeeding year. To avoid the appropriation of surplus intended to be used for some special purpose, surplus reserves, such as the reserve for encumbrances, are set up. Certain assets are segregated for a particular use, and a corresponding portion of surplus representing these assets is set aside to indicate the segregation. For example, that portion of surplus represented by stocks of materials and supplies is frequently set aside in a Reserve for Inventories account, the entry being

Unappropriated Surplus	$10,000	
Reserve for Inventories		$10,000
To record setting up of a reserve for inventories		

If the general fund has a deficit, the deficit should be exhibited on the balance sheet by a Deficit account shown in the same position as the Unappropriated Surplus account. Proper financial administration requires that the deficit be eliminated in the following fiscal year and that the necessary revenues for this purpose be provided in the budget.

The following statement, analyzing the changes in the Unappropriated Surplus account between two periods, will help to illus-

trate further the nature of this account. The figures are identical with those used in the illustrative entries.

Figure 20

A GOVERNMENTAL UNIT
General Fund
Analysis of Changes in Unappropriated Surplus for Fiscal Year

Unappropriated Surplus—Beginning of Year			—
Add:			
Excess of Estimated Revenues over Appropriations			
Estimated Revenues		$131,000	
Less—Appropriations		126,000	$ 5,000
Excess of Appropriations over Expenditures and Encumbrances			
Appropriations		$126,000	
Less—Expenditures	$399,900		
Encumbrances	20,000	419,900	6,100
			$11,100
Deduct:			
Excess of Estimated Revenues over Actual Revenues			
Estimated Revenues		$131,000	
Less—Actual Revenues		428,700	2,300
Unappropriated Surplus—End of Year			$ 8,800

Note that this analysis was made in terms of the budget; that is, appropriations and estimated revenues were taken into account. The same results would be obtained by taking only actual revenues and expenditures and outstanding encumbrances, as illustrated by the following statement, in which the same figures are used as in the above illustration. The first statement is, however, preferred because in governmental accounting we are interested in analyzing the results of budgetary operations, whereas the statement below does not disclose appropriations and estimated revenues but is limited to actual revenues and to expenditures and encumbrances.

Figure 21

A GOVERNMENTAL UNIT
General Fund
Analysis of Changes in Unappropriated Surplus for Fiscal Year

Unappropriated Surplus—Beginning of Year			—
Add:			
Excess of Revenues over Expenditures and Outstanding Encumbrances			
Revenues		$428,700	
Less—Expenditures	$399,900		
Encumbrances	20,000	419,900	$8,800
Unappropriated Surplus—End of Year			$8,800

Reserve for encumbrances. The reserve for encumbrances represents a reservation of a part of an appropriation against which expenditures are to be charged. The reserve, as previously indicated, is established by a debit to Encumbrances and a credit to Reserve for Encumbrances, this entry being reversed when the actual liability is determined. However, at the end of the year, any balance remaining in the Encumbrances account is closed into unappropriated surplus, while the reserve for encumbrances is carried into the balance sheet.

To illustrate how expenditures are charged against this reserve, let us refer back to the entry which set up the reserve for encumbrances carried in the balance sheet (see page 63). Assume that the invoices covered by this reserve were received at the beginning of the *following fiscal year* and it was found that the actual cost of the materials amounted to only $19,500. The following entry would be made to record this transaction:

Expenditures Chargeable Against Reserve for Encumbrances	$19,500	
Vouchers Payable		$19,500
To record expenditures and the resulting liability.		

Note the distinction between expenditures chargeable against appropriations and those chargeable against the reserve for encumbrances. The latter group of expenditures must be kept distinct from appropriation expenditures because they do not again affect appropriations. At the end of the year, they are closed out into the reserve for encumbrances, the entry, in the case of the figures illustrated above, being as follows:

Reserve for Encumbrances	$20,000	
Expenditures Chargeable Against Reserve for Encumbrances		$19,500
Unappropriated Surplus		500
To record closing out of the reserve for encumbrances and of the expenditures chargeable thereto		

The statements previously illustrated were based on the assumption that the governmental unit was in its first year of operation and that there were no expenditures chargeable against the reserve for encumbrances. However, the statements would not have to be changed materially to take account of these expenditures. For example, the only change necessary in the general fund balance sheet prepared *during* the fiscal year (Figure 18) is to reduce the amount of the reserve for encumbrances by the amount of expenditures chargeable thereto, as follows:

Reserve for Encumbrances	$20,000	
Less—Expenditures Chargeable Against Reserve for Encumbrances	19,500	$500

Except for changes in amounts, the balance sheet prepared at the end of the fiscal year would appear in exactly the same form as the balance sheet illustrated in Figure 19. Even the statement analyzing the changes in unappropriated surplus would not have to be changed materially. The only change necessary is to show the increase in surplus resulting from an excess of the amount set aside in the reserve for encumbrances over the amount of expenditures chargeable thereto (see second entry on page 68), or the decrease in surplus resulting from an excess of expenditures chargeable to this reserve over the amount of the reserve.

The following is an illustration of a statement analyzing the changes in unappropriated surplus based on the assumption that the reserve for encumbrances and the expenditures chargeable thereto are of the same amounts as those illustrated in the second entry on page 68. Note also that the opening balance of unappropriated surplus in this statement ($8,800) corresponds to the closing balance of the Unappropriated Surplus account shown in Figure 19. The remaining amounts represent transactions which have taken place during the second year and have no relationship to the amounts shown in the preceding statements.

Figure 22

A GOVERNMENTAL UNIT

General Fund

Analysis of Changes in Unappropriated Surplus for Second Fiscal Year

Unappropriated Surplus—Beginning of Second Year			$ 8,800
Add			
Excess of Estimated Revenues over Appropriations			
Estimated Revenues		$450,000	
Less—Appropriations		444,000	6,000
Excess of Appropriations over Expenditures and Outstanding Encumbrances			
Appropriations		$444,000	
Less—Expenditures	$418,000		
Encumbrances	15,000	433,000	11,000
Excess of Reserve for Encumbrances over Expenditures Chargeable Thereto			
Reserve for Encumbrances		$ 20,000	
Less—Expenditures Chargeable Thereto		19,500	500
			$26,300
Deduct:			
Excess of Estimated Revenues over Actual Revenues			
Estimated Revenues		$450,000	
Less—Actual Revenues		446,000	4,000
Unappropriated Surplus—End of Second Year			$22,300

Some governmental units close out both the Encumbrances and Reserve for Encumbrances accounts at the end of the year. Thus the closing entry illustrated on page 64 would under this method be changed to read as follows:

Appropriations	$426,000	
Reserve for Encumbrances	20,000	
Appropriation Expenditures		$399,900
Encumbrances		20,000
Unappropriated Surplus		26,100
To record closing out of Appropriations, Encumbrances, Reserve for Encumbrances, and Appropriation Expenditures accounts		

Note that the above entry differs from the closing entry illustrated on page 64 in that the reserve for encumbrances is closed out and the Unappropriated Surplus account is increased by the amount of the reserve. The balance sheet prepared at the close of the year would therefore not show any reserve for encumbrances. In making appropriations, however, the legislative body would take cognizance of these outstanding encumbrances. For example, in the present case the appropriations for the coming year would have to be greater by $20,000 than they would have been if the reserve for encumbrances had not been closed out. As soon as the appropriation act or ordinance was passed, an entry would be made debiting Encumbrances for $20,000 and crediting the Reserve for Encumbrances for a corresponding amount. Thereafter, the accounting procedure would be the same as for encumbrances set up throughout the year. That is, when the actual expenditure was determined, an entry would be made debiting the Reserve for Encumbrances for $20,000 and crediting the Encumbrances account for a corresponding amount. At the same time, an entry would be made charging the Appropriation Expenditures account for $19,500 (the assumed amount of actual expenditures) and crediting Vouchers Payable or Cash for this amount.

This method has the advantage of requiring simpler accounting procedure than the first. Under this method, however, there is the possibility that the legislative body may neglect to take the encumbered amounts into consideration in making appropriations for the new year, since the encumbrances will have been closed out at the end of the preceding year.[2] Again, under this method it is not possible to tell, without special analysis, to what extent this year's expenditures are chargeable against appropriations encumbered during the preceding year. This information is impor-

[2] This difficulty can be overcome at least in part by inserting a footnote in the balance sheet and in the expenditure statements calling attention to the fact that parts of the appropriation are encumbered

tant because it shows the extent to which employees are encumbering appropriations at the end of the year, in order to retain parts of unused appropriations. Again, legal provisions may make it necessary to distinguish between expenditures chargeable against encumbered appropriations of the preceding year and expenditures chargeable to current appropriations.

CHAPTER 5

General Fund Revenues

THIS chapter is concerned with the accounting procedure for the main sources of revenue of the general fund. These sources, as indicated before, are as follows: (1) taxes, (2) licenses and permits, (3) fines, forfeits, and penalties, (4) revenues from use of money and property, (5) revenues from other agencies, and (6) charges for current services.

Taxes. For the purpose of the present discussion, it is advisable to divide tax revenues into two classes—general property taxes and other taxes. Because general property taxes form the main source of revenue of local governments and because of the complicated procedure involved in accounting for them, they are discussed in a separate chapter. (See Chapter 17.)

On the other hand, general property taxes constitute no part or only a small part of the revenues of the states. Instead, states resort to other forms of taxation. A few of the taxes imposed by state governments are income taxes, sales taxes, inheritance taxes, gasoline taxes, taxes on tobacco and on alcoholic beverages, and chain store taxes. Although some of these taxes are also levied by local governments, they are for the most part important sources of state revenue alone. One of the chief characteristics of these revenues from an accounting standpoint is that they are usually self-assessable. That is, usually the taxpayer is not billed for the tax but instead submits a return in which he shows the total amount of tax due from him and the basis on which the tax was computed. This procedure is possible because, in contrast with the rate for general property taxes, the tax rate is fixed in advance; that is, it is not adjusted to the amount of revenue which the governmental unit may need for each year. For example, sales tax rates or income tax rates are not likely to be changed at the beginning of the year so as to finance exactly the estimated expenditures of that year. And yet that is true with the general property tax; the tax rate is dependent on the amount of estimated expenditures for the coming year. As indicated below, this variation in tax levying procedure has an important bearing on the accounting procedure.

In the case of real estate taxes, the tax base—that is, the assessed value—is determined by the taxing unit's representative—the assessor. On the other hand, in the case of the taxes enumerated above, the returns on which the taxes are paid are prepared by the taxpayer. It is therefore necessary to determine whether the tax base (that is, the amount against which the rate is applied) has been properly reported. Similarly, it is important to determine whether the proper rates have been applied to the tax base to arrive at the total amount of the tax. The verification of the tax base is more important and involves more work than does the verification of the rates applied. For example, if a governmental unit has a graduated income tax, it is relatively easy to determine whether the proper rates have been applied. The more difficult problem is to ascertain that all the income which should have been reported has been disclosed. Furthermore, investigation would not be limited to those taxpayers filing returns. The governmental unit must also make certain that all taxpayers who should pay taxes have filed returns and paid the proper amount.

The group of taxes named above is usually accounted for on a cash basis, because the return and the remittance are ordinarily made at the same time. There is thus no need to set up accruals, since the amount of the tax is not known before the return is filed. In some jurisdictions, income tax returns are filed at a certain time and the tax is paid in installments. In such a case, since the amount of the tax is known, the revenues are accrued as soon as the return is filed. Some taxes require the affixation of stamps to an article to indicate the fact that the tax has been paid. For example, liquor taxes and tobacco taxes are frequently paid through the purchase of stamps, which are affixed to bottles or packages. The stamps are sold to the manufacturer, dealer, or other party, who affixes them, and in such cases the taxes are considered as revenue as soon as the stamps are sold, as is also true where sales tax stamps are in use—that is, where the manufacturer, dealer, or other party must affix, cancel, or destroy stamps whenever a sales tax is paid.

Licenses and permits. The rates for licenses and permits are established through legislative action—that is, by the passage of an ordinance or statute. In contrast to the case of property taxes, however, completely new rates are not established each year. Instead, the legislative body usually makes adjustments in the rates for particular licenses from time to time as the need arises. Revenue from licenses and permits is not considered as such until it is received in cash, since the amount is not known until the licenses and permits are issued. Proper control over these revenues

must insure not only that the revenues actually collected are properly handled but also that all the revenues which should be collected are collected. In other words, the governmental unit must see that all those who should have secured licenses or permits have done so. For example, if a license is required for the operation of a motor vehicle, the governmental unit must see that no vehicle is operated without one. Of course, the governmental unit must also see to it that the revenues actually collected are accounted for. This feature of control is accomplished in part through the use of controlled financial stationery. That is, licenses and permits are assigned series of numbers, and, when these documents are given to the employees who are to handle them, a record is made of the numbers on them. Thereafter, employees are required to account for the documents either by cash or by unused and spoiled documents.

Fines, forfeits, and penalties. Revenues from these sources do not form an important part of a governmental unit's income. They are usually accounted for on a cash basis. It should be noted that penalties for the delinquent payment of taxes are to be distinguished from the penalties discussed in this section, since they are considered part of tax revenues. Similarly, penalties on account of the late payment of utility bills are considered utility operating revenues. Fines and penalties included in this section are primarily those imposed by courts.

The money from forfeits is usually first accounted for in a trust fund. For example, assume that a person has been released on bail and that he has forfeited his bail. When bail is received, an entry is made in a trust fund debiting Cash or another asset and crediting the proper trust fund balance. Unless the law provides otherwise, when bail is forfeited, the money is transferred to the general fund. The entries to record the transfer in the trust fund and general fund, respectively, are as follows:

Bail Fund Balance	$5,000	
Cash		$5,000
To record reduction of trust fund balance through transfer of forfeited bail to general fund.		
Cash	5,000	
Revenues		5,000
To record receipt of money representing forfeited bail.		

Revenues from use of money and property. Revenues in the form of interest on bank deposits are diminishing in importance, because most banks are not allowed to pay interest on demand deposits. However, some governmental units still receive interest

on time deposits. These revenues are recorded as of the year in which they are earned. Practice in regard to the recording of interest on investments varies between governmental units, and there is even a variation in the procedure for the different funds of the same governmental unit. Some governmental units record interest on investments as revenue as soon as it is earned; others do not record it as revenue until it is received in cash. The same difference in practice may be found between funds of one government. For example, a governmental unit may record interest on sinking fund investments as revenue as soon as it is earned, whereas in the general fund it may not record interest until it is actually collected.

Revenues from other agencies. These revenues consist primarily of state-collected, locally shared taxes and grants-in-aid. In so far as the receiving governmental units are concerned, the only difference, from an accounting standpoint, between a state-collected, locally shared tax and a grant-in-aid is that the latter must usually be used for certain specific purposes and might therefore have to be accounted for in special revenue funds. In other words, the same general ledger accounts are involved in both cases, but the accounts are carried in different funds. For example, the entry to record the amount of state-collected, locally shared taxes due from the state, is as follows:

Due from State	$40,000	
Revenues		$40,000
To record notification by state of amount of state-collected, locally shared taxes due us. Entries in subsidiary accounts: *Credit* Share of Income Taxes, $25,000, Share of Gasoline Taxes, $15,000		

Similarly, the entry to record grants-in-aid made by the state is as follows:

Due from State	$40,000	
Revenues		$40,000
To record notification of grant made by state for schools.		

When the money is received, the entry is, in both cases, as follows:

Cash	$40,000	
Due from State		$40,000
To record receipt from state of share of state-collected, locally shared taxes (or grants-in-aid).		

Separate entries are, of course, made in each fund to which the receipts apply.

On the records of the state government, there is a difference in the accounting procedure for state-collected, locally shared taxes

and grants-in-aid. The former are accounted for through an agency fund, and the procedure is the same as for the general property taxes collected. On the other hand, grants-in-aid constitute an expenditure and must be appropriated for. When the grant-in-aid is set up as a liability or is paid, the entry on the state's books is as follows:

Appropriation Expenditures	$390,000	
Due to Local Governments (or Cash)		$390,000
To record liability (or payment) of contribution to local governments, as follows:		

		Purpose for Which Grant Is Made		
Name of Unit	Total	Education	Relief	Highways
County *A*	$ 90,000	$10,000	$ 50,000	$30,000
County *B*	135,000	15,000	70,000	50,000
County *F*	140,000	30,000	100,000	10,000
School District *M*	25,000	25,000	—	—
	$390,000	$80,000	$220,000	$90,000

The accounting procedure for grants-in-aid received from the federal government either by states or by local governments is the same as for grants received by local governments from the state. Usually state statutes provide specifically the manner in which such grants are to be expended.

Charges for current services. These revenues consist of charges made by various departments for services rendered by them. Although utility fund revenues are also derived from the sale of services to the public, they are usually, because of their importance, treated separately. Again, special assessments for improvements can in a certain sense be considered as revenues of the department which constructs the improvements financed from them, but they are, because of their special nature, not so treated.

It is important to distinguish between revenues derived from licenses and permits and departmental earnings. Only those revenues which result directly from the activity of the department and are made for the purpose of recovering part of the expense of the department in rendering the service are considered charges for current services. Some of these charges may involve the issuance of permits, but the revenue should not be classed as coming from permits but rather as charges for services.

Most of these revenues are not recorded until they are collected in cash. All those revenues, however, which are not collected at the time the service is rendered or immediately thereafter are recorded as soon as the persons or governments served are billed.

The following entries illustrate some of the transactions which result in revenues being recorded as soon as they are earned:

Due from Other Governmental Units	$25,000	
Revenues		$25,000
To record earnings resulting from charges to other governmental units for patients quartered in hospital and for board of prisoners. Entries in subsidiary accounts: *Debit* each governmental unit. *Credit* Hospital Revenues, $10,000; Prison Revenues, $15,000.		
Accounts Receivable	25,000	
Revenues		25,000
To record street lighting, street sprinkling, and garbage collection charges made to property owners. Entries in subsidiary accounts: *Debit* each person for whom service was rendered. *Credit* Street Lighting Revenues, $5,000, Street Sprinkling Revenues, $10,000; Garbage Collection Revenues, $10,000.		

The following entry, on the other hand, illustrates some of the transactions in which revenues are not considered as such until collected in cash:

Cash	$88,200	
Revenues		$88,200
To record receipt of cash representing charges for current services. Entries in subsidiary accounts: *Credit*		
Motor Vehicle Licenses	$34,000	
Burial Permits	200	
Sale of Ordinances	1,000	
Charges for Private Police Service	3,000	
Charges for Fire Protection Service	20,000	
Building Inspection Fees	5,000	
Plumbing Inspection Fees	5,000	
Boiler Inspection Fees	2,000	
Inspection of Weights Fees	7,000	
Fees for Transcribing Birth, Death, and Marriage Certificates	6,000	
Fees for Inspection of Dairy Products	5,000	
	$88,200	

Closing entries. Entries to record the closing out of the controlling accounts for revenues were illustrated in Chapter 4. The following entry, on the other hand, shows not only how the controlling accounts are closed out but also the effect of the entry on the subsidiary accounts. It should be remembered again that, although in the general ledger separate accounts are carried for estimated and actual revenues, in the subsidiary revenue ledger both the estimated and the actual revenues are recorded in one account (see Figure 13, page 49). The entry closing out revenues in both the general ledger and the subsidiary ledgers is as follows:

Revenues	$428,700	
Unappropriated Surplus	2,300	
Estimated Revenues		$431,000

To record closing out of actual revenues into estimated revenues. Entries in subsidiary accounts:

	Debit (Excess of Actual Revenues over Estimated Revenues)	*Credit* (Deficiency of Actual Revenues over Estimated Revenues)
Interest and Penalties on Taxes		$ 300
Motor Vehicle Licenses	$ 500	
Parking Meters	1,000	
Beer and Liquor Licenses	1,000	
Amusement Licenses	500	
Newsdealers' Licenses	150	
Municipal Court Fines	100	
Interest on Investments	200	
Rents	300	
Share of Income Taxes		3,800
Share of Gasoline Taxes		2,700
Election Fee Revenues	350	
Charges for Private Police Service	300	
Fees for Inspection of Dairy Products	100	
	$4,500	$6,800

Summary

Deficiency of Actual Revenues over Estimated Revenues	$6,800
Excess of Actual Revenues over Estimated Revenues	4,500
Net Deficiency	$2,300

On the basis of all the subsidiary revenue accounts a statement is prepared showing estimated and actual revenues. Such a statement for the general fund is illustrated in Figure 23.

The significance of comparing estimated and actual revenues can not be overemphasized. In the first place the comparison is valuable in the preparation of future estimates. Usually the finance officer will be called upon to explain why his estimates fell short of or exceeded actual revenues, and, if his errors are due to failure to take certain factors into account, he will take steps to remedy the situation in making future estimates. Secondly, the statement is likely to prevent the finance officer from purposely overestimating revenues, for, if he continues to overestimate the revenues over a period of years, it will become evident that he is doing so purposely. Such overestimates lead to the making of appropriations in excess of revenues, so that the governmental unit ends its operations with a deficit. In fact, some states consider these estimates

Figure 23

A GOVERNMENTAL UNIT
General Fund
Statement of Revenues—Estimated and Actual for Fiscal Year

	Estimated Revenues	Actual Revenues	Excess or Deficiency*
Taxes:			
General Property Taxes (Less Reserve)	$288,000	$288,000	—
Interest and Penalties on Taxes (Less Reserve)	1,000	700	$ 300*
Total Taxes	$289,000	$288,700	$ 300*
Licenses and Permits:			
Motor Vehicle Licenses	$ 34,000	$ 34,500	$ 500
Parking Meters	2,000	3,000	1,000
Beer and Liquor Licenses	13,000	14,000	1,000
Amusement Licenses	6,000	6,500	500
Newsdealers' Licenses	1,300	1,450	150
Total Licenses and Permits	$ 56,300	$ 59,450	$3,150
Fines, Forefeits, and Penalties			
Municipal Court Fines	$ 9,000	$ 9,100	$ 100
Forfeited Contractors' Deposits	500	500	—
Total Fines, Forfeits, and Penalties	$ 9,500	$ 9,600	$ 100
Revenues from Use of Money and Property:			
Interest on Bank Deposits	$ 200	$ 200	—
Interest on Investments	2,000	2,200	$ 200
Rents	5,000	5,300	300
Total Revenues from Use of Money and Property	$ 7,200	$ 7,700	$ 500
Revenues from Other Agencies			
Share of Income Taxes	$ 37,000	$ 33,200	$3,800*
Share of Gasoline Taxes	25,000	22,300	2,700*
Conscience Money	200	200	—
Total Revenues from Other Agencies	$ 62,200	$ 55,700	$6,500*
Charges for Current Services:			
Election Fee Revenues	$ 1,000	$ 1,350	$ 350
Sale of Ordinances	1,000	1,000	—
Charges for Private Police Service	4,000	4,300	300
Fees for Inspection of Dairy Products	800	900	100
Total Charges for Current Services	$ 6,800	$ 7,550	$ 750
Grand Total	$431,000	$428,700	$2,300*

so important that they forbid the making of revenue estimates in excess of the actual revenues of the preceding year.

Note that the total estimated revenues and actual revenues are carried to the Unappropriated Surplus account. The excess of estimated revenues over actual revenues is deducted from the balance of the Unappropriated Surplus account, or, if actual revenues exceed estimated revenues, the difference is added to the balance of the Unappropriated Surplus account. These facts be-

come especially evident from examining the statements illustrated in Chapter 4 which analyze the changes in the Unappropriated Surplus account.

Revenue records. Since most of the revenues of a governmental unit are received in cash, no special book of original entry is usually provided for recording accrued revenues. Instead, these revenues are recorded in the general journal. Revenues received in cash are, however, recorded in a cash receipts register. All the detailed revenue accounts are carried in a subsidiary ledger known as a revenue ledger. If necessary, more than one revenue ledger may be used.

CHAPTER 6

General Fund Expenditures

EXPENDITURE data must be so recorded that they may be classified by character, by object, by function, by organization unit, by activity, or by combinations of two or more of these. The information for classifying expenditures under most of these groups is obtained when liabilities are first incurred or when payment is made. Since most liabilities are incurred and most payments are made for objects of expenditure (for example, wages are paid for personal services, contracts payable are incurred in connection with contractual services rendered, and accounts payable are incurred in connection with materials and supplies purchased), it will be best to center the discussion around objects of expenditure. That is, we shall discuss the procedure followed in securing expenditure data for objects of expenditure and shall indicate how the expenditure for each object is allocated to functions, organization units, and activities. The discussion is also applicable to capital outlays for construction, since these are composed of objects of expenditure—for example, labor, materials and supplies, and so forth. However, the detailed procedure whereby the objects of expenditures are allocated to construction projects is deferred until Chapter 20.

The objects of expenditure to be discussed include (1) personal services, (2) contractual services, (3) materials and supplies, and (4) fixed charges.

Personal services. The steps involved in accounting for personal services are as follows: (1) determining rates of pay, (2) ascertaining the amounts earned by employees, (3) recording payments made to employees, and (4) charging the resultant expenses to the proper appropriation and expense accounts.

Determining rates of pay. Rates of pay for public employees are generally determined by the legislative body, although sometimes this power is delegated to the chief executive or the civil service commission. If the rates are determined by the legislative body, they may be expressed in an appropriation ordinance, in an annual salary and wage ordinance, or in a continuing salary and

wage ordinance. Frequently, the legislative body indicates, in the appropriation ordinance, the rates of pay even of employees engaged in activities not subject to appropriation. For example, although the city of Chicago makes no appropriation for working capital funds, its appropriation ordinances specify the rates of pay of the employees engaged in carrying on activities financed from these funds. Thus, one appropriation ordinance provided the following rates of pay for employees engaged in electrical wiring and repair service, which is financed from a working capital fund:

> Supervisor of Electrical Mechanics at $589.50 per month
> Foremen of Electrical Mechanics, 3 at $408.00 per month
> Electrical Mechanics—Subways, 2 at $370.00 per month
> Electrical Mechanics when assigned to supervision at $2.02½ per hour
> Electrical Mechanics at $14.80 per day
> Electrical Mechanics at $370.00 per month
> Electrical Mechanics, Class B, at $343.00 per month

In general, the legislative body has the ultimate authority to fix rates of pay, subject to statutory and charter restrictions in the case of local governments and the state constitution in the case of state governments.

Determining amounts due employees. An employee's pay depends, of course, on two factors—his rate of pay and the amount of time he works. One requisite of payroll accounting, therefore, is the keeping of time records. Generally, governmental units do not employ time-recording devices, at least not for their office employees. Instead, they use time sheets. Each department head is held responsible for recording the attendance of the employees in his department. Some employee, who may also have other duties, is designated by the head of the department to keep attendance records. These records are submitted at the proper time to the general accounting department or to a special payroll division, where the payrolls are prepared.

A payroll register form is illustrated in Figure 24. Note that the form provides space for filling in the name of the employee, the salary rate, the time worked, the amount of pay, deductions, and the net amount due. In this case, it is assumed that the same form is used both for time-keeping purposes and for the preparation of the payroll. Some governmental units employ a separate form for each.

The names of employees, classes of position, and rates of pay are filled in by the accounting department. Many governmental

Figure 24

A GOVERNMENTAL UNIT

Payroll Register
for Payroll Period

Department Public Welfare

Name, Class No, and Title	Salary Rate	Days 1	2	3	Worked 14	15		Total Days	Gross Amount of Pay	Deductions For Pensions	Taxes	Bonds	Net Amount
		16	17	18	29	30	31						
McNulty, George T70 Chief Probation Officer	$325 00	W	W	H	SL	W	W	16	$162.50	$7.50	$11.90	$5.00	$138.10

Signed_____
In Charge of Time Rolls

Approved_____
Appointing Officer

Symbols: W = Worked
V = Vacation
H = Nonworking day
SL = Sick leave, no deduction
O = Absence without leave, full deduction

Approved by Civil Service Commission

Signed_____
Secretary

Approved_____
Comptroller

units use addressograph plates for this purpose. As an employee is hired, the accounting department is notified and an addressograph plate is prepared showing the employee's name, his class of position, and any other information necessary for payroll purposes. The plates are kept under the control of the chief finance officer or the head of the payroll division, if such a division exists. They are used to imprint payroll sheets (and the time sheets as well if attendance and pay are reported on two separate sheets). When an employee leaves the employ of the governmental unit, the accounting department is notified and the plate is removed. Similarly, the accounting department is notified of changes in rates of pay, so that the new rates may be embossed on the proper plates. Finally, transfers of employees between departments are reported to the accounting department, so that plates can be kept in proper order.

The payroll sheets are run off at the beginning of the payroll period. In the meantime, new employees may have been hired. The timekeeper is notified of these by the accounting department and adds their names on the payroll sheet. At the end of the payroll period, the payroll sheets are transmitted to the accounting department. Here the amount of pay due each employee and the deductions therefrom, such as for pensions and Federal income taxes, are calculated and recorded on the payroll sheets.

The payroll is not considered completed until it has been audited. Auditing of payrolls consists in verifying (1) that employees have been placed on the payroll by the appropriate authority, (2) that persons listed actually worked the time for which they are being paid, (3) that calculations are correct, (4) that classes of positions and rates of pay correspond with the provisions of the salary and wage ordinance or other documents designating rates of pay for employees, and (5) that, in the case of salaries and wages subject to appropriation, a sufficient amount is available to the credit of the appropriation to absorb the salary and wage expenses chargeable to it. This work may be performed by various departments. For example, if civil service employees are involved, it may be the duty of the civil service commission to verify the payroll as to classes of positions and rates of pay. The budget director may be required to ascertain that appropriations for particular departments have sufficient balances against which to charge the salary and wage expenses. On the other hand, all these functions may be entrusted to the governmental unit's finance officer.

The above discussion relates primarily to permanent employees hired on a salary basis. The payroll procedure for temporary employees is not materially different except that addressograph plates

are not used. In this case, too, it is necessary to prove that employees have been placed on the payroll by the appropriate authority, that employees worked the time they are being paid for, that the payroll has been properly calculated, that rates of pay are as authorized, that the expenditures, if subject to appropriation, have been appropriated for, and that a sufficient amount is available to the credit of the appropriation against which the expenditures are to be charged.

Recording payments made to employees. After the payroll has been approved, checks are made out for the employees and, at the designated time, are distributed. Under a proper system of internal check, employees having to do with the preparation of time reports, payrolls, or checks are not permitted to distribute the checks to employees. Some few governmental units pay employees in cash. In that case, a good system of internal check is even more important. If employees are paid in cash, they are required to sign for their pay. Employees are frequently required to sign for their pay even where payment is made by check. Tests are made with signature cards on file in the accounting department to see that the signatures on payroll sheets agree with those on file. If employees are not required to sign for their pay, endorsements on checks may be verified by comparison with the signature cards on file in the accounting department.

Records are kept to show earnings of each employee, as well as deductions for pensions, Federal income tax withholdings, bonds, or other purposes. An essential part of payroll procedure is to account for the amounts withheld until they are turned over to the agency for which collected.

Charging personal service expenses to proper accounts. As soon as the payroll has been approved, an entry is made to record the authorization of the liability and to charge the proper accounts, as follows:

Appropriation Expenditures . . .		$10,000	
Vouchers Payable .			$10,000
To record payroll for period May 1–15, 1918, chargeable as follows:			
Council .	$ 1,000		
Executive Department .	2,000		
Courts	2,000		
Board of Elections . .	200		
Etc.	4,800		
	$10,000		

The amounts shown in the explanation to the above entry would be posted to the "Expenditures" columns of the individual appropriation accounts in the appropriation ledger. These accounts are

similar to the appropriation account illustrated in Figure 14, page 51.

As employees are paid, an entry is made debiting Vouchers Payable and crediting Cash. Frequently, a special payroll bank account is provided in which case one check is prepared for the amount of the entire payroll and is deposited to the credit of the account. The entry is made when the check for the total payroll is drawn. The payroll checks are charged against this bank account.

Contractual services. The accounting procedure for most contractual services is simple and requires little explanation. As contracts are awarded, an entry is made encumbering appropriations by the amount of the estimated contractual liability. Subsequently, when invoices are received, the entries setting up encumbrances are reversed and the actual expenditures are recorded. However, certain contractual services—for example, freight charges and utility bills—are of such small amounts or of such a nature that they are not previously encumbered.

Materials and supplies. The accounting procedure for materials and supplies may be divided into two parts: (1) accounting for *purchases,* and (2) accounting for the *use of the materials and supplies purchased.*

Purchases. Purchasing procedure varies according to whether the materials are purchased directly by individual departments or through a central purchasing agency. It is possible to have all purchases made by a central purchasing agency without maintaining a central storeroom. Under this procedure, all purchases are made by the governmental unit's purchasing agent, but the materials are delivered directly to the departments. Throughout this chapter it is assumed that purchases are made through a central agency, even in those instances where central storerooms are not maintained. The purchasing procedure and the related accounting procedure may be said to consist of the following steps: (1) preparing purchase requisitions and placing them with the purchasing agent, (2) securing prices or bids, (3) placing orders, (4) receiving the materials, (5) receiving the invoice and approving the liability, and (6) paying the liability. All of these steps, except that relating to the payment of the liability, are discussed below.

Filing requisitions with purchasing agent. The first step in the purchasing procedure is the filing of a requisition with the purchasing agent, asking him to secure the desired materials or supplies. If the governmental unit has a central storeroom, a large number of purchase requisitions are likely to be initiated by storekeepers as soon as the amount on hand has reached a predetermined minimum. Where no central storeroom exists, requisitions are filed by

the organization units needing materials. Even if a central storeroom is maintained, there are many occasions for departments to file requisitions for materials which cannot be profitably carried in stock.

Securing bids. The law usually requires that all purchases over a certain amount, varying from $250 to $1,000 in different governmental units, be made by competitive bidding. When purchases are smaller, prices are requested by telephone or by mail. The purchasing agent sends out requests for bids as soon as he receives the requisitions. At a certain time, specified in the request, the bids are opened and the award is made to the lowest and best bidder. Normally the purchasing agent makes the award, but for purchases over a certain amount, say $1,000, the approval of the chief executive and, in the case of local governments, sometimes also the legislative body may be required.

Placing orders. The next step is to place a purchase order, prepared by the purchasing agent, with the vendor selected. As already indicated, to insure proper budgetary control, provision is frequently made that no purchase order is valid unless approved by the finance officer. Accordingly, the finance officer is required to certify that a sufficient amount is available to the credit of the appropriation to which the purchase is chargeable. The finance officer will reduce the balance available to the credit of the appropriation before certifying the purchase order. The certified purchase order is then transmitted to the vendor. When materials are ordered for a central storeroom financed through a working capital fund, even though no appropriation is necessary for the expenditures made out of that fund, it is advisable to have a certification by the finance officer that funds are legally available for this expenditure.

Receiving the materials. The materials are received by the requisitioning departments or, if one is maintained, by the central storeroom. In either case, a receiving report is filled out indicating the kinds and quantities of materials received. The receiving report is used later to compare the quantities received with the quantities ordered. In case the materials apply to a contract for delivery over a period of time, the receiving report is used also as the basis for making an entry on the bidding form, the order form, or some special form reducing the quantities of materials to be received on the contract.

Auditing invoices. Since most vendors allow a cash discount for the prompt payment of bills, governmental units find it desirable to audit invoices promptly to insure payment within the discount period. To facilitate the work of auditing invoices, some

governmental units furnish the vendor with invoice blanks. The auditing of invoices consists in determining that (1) the purchase has been made as required by law, (2) each invoice is for materials or services actually received, (3) the quantities agree with the receiving report, (4) the unit prices are those indicated on the purchase order, and (5) extensions and footings are correct. Assurance that the materials are in accordance with specifications is the responsibility of the purchasing department and not the accounting department. If the materials have been ordered directly for a department, the actual expenditure is compared with the amount encumbered. If the expenditure exceeds the amount encumbered, it is necessary to determine whether the unencumbered balance is sufficient to cover the excess. It is also necessary to see that bids were solicited, if required, and that the vendor was properly selected. After an invoice has been audited and found to be mathematically correct and to comply with all rules and regulations, a voucher is prepared signifying the approval of the liability and designating the accounts to be charged. In small governmental units, vouchers frequently are approved by the legislative body.

Accounting for materials and supplies used. The above discussion discloses little difference between the accounting procedure for *purchases* made for a department directly and that for the purchase of materials for a central storeroom. The main difference is that a central storeroom is likely to be operated through a working capital fund and purchases may not therefore require appropriations. Consequently, it may not be necessary to set up encumbrances for the purchases and to liquidate these encumbrances when the actual expenditure is determined. There is a considerable difference, however, in the accounting procedure for materials *used* by a department directly and for materials first placed in a central storeroom and subsequently withdrawn by departments.

Materials acquired for a department directly. Let us assume that materials are secured directly for a department's use and are chargeable to a particular appropriation. In that case, after the invoice has been approved, an entry is made canceling the encumbrances and charging an appropriation with the actual expenditure. The amounts shown in the explanation to the entry which appears at the top of the next page are posted to the "Encumbrances" and "Expenditures" columns of the individual appropriation accounts carried in the appropriation expenditure ledger (see Figure 14, page 51).

If departments do not keep perpetual inventory records, each department should take a physical inventory of materials and

Reserve for Encumbrances	$10,000	
Appropriation Expenditures	9,500	
Vouchers Payable		$ 9,500
Encumbrances		10,000

To record approval of invoice, liquidation of encumbrance, and reduction of appropriation by amount of actual expenditure. Subsidiary accounts:

Organization Unit	Encumbrances Liquidated	Appropriation Expenditures Charged
Department of Public Works	$10,000	$9,500

supplies at the end of the fiscal year. Let us assume that this is the first time that departments have taken such an inventory and that the cost of materials on hand is ascertained to be $20,000. In that case, if the departments are all financed either from the general fund or from some special revenue fund, the following entry is made as soon as the value of materials on hand is determined:

Inventory of Materials and Supplies	$20,000	
Reserve for Inventories		$20,000

To record inventories of materials and supplies on hand in following organization units:

Department of Public Works	$10,000
Department of Police	1,000
Fire Department	1,000
Etc.	8,000
	$20,000

As previously indicated, the Reserve for Inventories account represents earmarked surplus. The reason for not crediting the Unappropriated Surplus account is that the same or possibly even a greater amount of inventory will probably be required at all times, so that a portion of surplus is permanently appropriated for this purpose.

Materials acquired for a storeroom financed from a working capital fund. The accounting for these materials is described in Chapter 9, which deals with working capital funds.

Fixed charges. The data necessary to record fixed charges are obtained readily and do not require further discussion. Two types of fixed charges—namely, depreciation and interest expenses—present accounting problems which are discussed in Chapters 18 and 19, respectively.

Fixed assets and retirement of debt. The foregoing discussion applies only to those expenditures which can be classified by object. It does not apply to fixed assets purchased (as distinguished from assets constructed by the governmental unit) or to the retirement of bonds. The acquisition of fixed assets is discussed in Chapter 18, and the retirement of bonds is discussed in Chapter

Figure 25
(*a*) Front

A GOVERNMENTAL UNIT
Accounts Payable Voucher

No _____

Date _____

Payee

_____

_____

_____

Requisition No _____

Purchase Order No _____

Terms _____

Date Due _____

Invoice Date	Invoice Number	Description	Amount
		Cash Discount	
		Net	

Audited and Found O K _____

Entry Authorized _____

Payment Authorized _____

Figure 25
(b) Reverse.

Accounts Payable Voucher

Charge These Accounts				Summary
Code	Description	G L.	S L	Voucher No._____ Voucher Date_____ Due Date_____ Date Paid_____ Check No._____ Amount $_____ Discount _____ Net $_____ PAYEE _____ _____ _____ Journalized_____ Posted_____ _____

19. Throughout the remaining part of this chapter, however, the discussion will include all expenditures, including the two mentioned.

Thus far we have discussed the manner in which the data for recording expenditures are secured and some of the entries used to record the expenditures. Let us now note the procedure followed in classifying and recording expenditures.

Classifying and recording expenditures. As already indicated, expenditures must be approved before they may be recorded. Approval is evidenced by a voucher, which is illustrated in Figure 25. The approved voucher is entered in a voucher register, illustrated in Figure 26. The information necessary for recording each transaction in the voucher register is obtained from the vouchers. At the time he audits invoices or payrolls, the audit clerk determines to which accounts and funds expenditures are chargeable. By using a prearranged code, he can designate the proper account readily.

Frequently, postings to the detailed appropriation accounts are made directly from the vouchers, especially if it is desirable to show more information in the account than can be obtained from the voucher register summary. This would be true, for example, of the voucher register here illustrated, which shows only the total charge against each fund.

Closing entries. Expenditures are recorded throughout the year. At the end of the year, closing entries are made and financial statements are prepared. The entry necessary to close out the controlling accounts for expenditures and encumbrances was given in Chapter 4. It is repeated on the next page, but subsidiary accounts have been added to show how *they* are affected by this entry.

Postings would, of course, be made to the individual appropriation accounts. That is, the amount shown opposite each account in the explanation to the above entry would be posted in the "Expenditures" column of each appropriation account. The amount to be posted in each case is exactly equal to the amount of the unencumbered balance of each appropriation account. In other words, the unencumbered balance of each appropriation is closed out and transferred to unappropriated surplus.

For a more vivid illustration of the effect of the above entry on the individual appropriation accounts, the reader is referred to the last part of Figure 14, page 51, showing transactions at the close of the year. Note that the account shows encumbrances outstanding amounting to $300 and an unencumbered balance of $500. The latter amount is transferred to unappropriated surplus. The encumbered balances ($300 in the account under consideration)

Appropriations	$426,000	
Appropriation Expenditures		$399,900
Encumbrances		20,000
Unappropriated Surplus		6,100

To record closing out of appropriation expenditures, encumbrances, and unencumbered balances of appropriations. Entries (credits) in subsidiary accounts:

	Total	Current Expenses	Capital Outlays
General Government:			
Council	$ 300	$ 200	$ 100
Executive Department	300	300	
Courts	200	100	100
Department of Finance:			
Administration	100	100	
Bureau of Treasury	20		20
Bureau of Purchases	50	50	
Bureau of Assessments	100	100	
Department of Law	100		100
City Clerk's Office	155	100	55
Board of Zoning Appeals	175	50	125
Civil Service Commission	100		100
Public Safety:			
Department of Police:			
Bureau of Supervision	40	40	
Bureau of Identification Records	160	60	100
Bureau of Fire Fighting	300	200	100
Board of Examiners—Plumbers	75		75
Board of Examiners—Electricians	25		25
Sanitation and Waste Removal	700	500	200
Conservation of Health	100		100
Hospitals	,800	1,800	
Charities	50		50
Corrections	350	200	150
Schools	200		200
Libraries	125		125
Recreation	175		175
Total	$6,100	$4,000	$2,100

may be left in the old accounts (Figure 14), or transferred to new accounts (Figure 27). Regardless of whether encumbered balances are transferred to new accounts or retained in the old appropriation accounts, the accounts containing these balances must not be grouped with the new appropriation accounts but must be set up as a separate group supporting the Reserve for Encumbrances account in the general ledger.

It has been assumed thus far that the Reserve for Encum-

Figure 26

A GOVERNMENTAL UNIT
Voucher Register

Sheet No. _____

Month of _____ 19___

Day	Details	Voucher No	Payment		Amount	Code	Funds			
			Date	Check No			General	Special Revenue	Bond	Working Capital

Figure 27

A GOVERNMENTAL UNIT
Reserve for Encumbrances Account

Code No.: 2105-C
Activity. Fire Fighting
Function: Public Safety
Object Materials and Supplies
Organization Unit: Department of Fire
Bureau of Fire Fighting
Year: 1949

Date	Explanation	Debit	Credit
Jan. 3	Transferred from Appropriation Account		$300 00
15	Expenditures	$280 00	

brances account is not closed out at the end of the year. If, however, it is closed out and the new appropriations are made sufficiently large to cover the encumbrances (see Chapter 4, page 70), the procedure is the same as for setting up new appropriations. The only additional point to note, as already indicated, is that, as soon as the appropriation accounts are set up, an entry is made debiting the Encumbrances account and crediting the Reserve for Encumbrances account for the amount of encumbrances outstanding at the close of the year. Postings are also made to the individual accounts in the appropriation ledger. Thereafter the procedure is the same as has been outlined previously for other appropriations.

Statement of expenditures and encumbrances compared with appropriations. On the basis of the data contained in the individual appropriation accounts, a statement similar to that illustrated in Figure 28 is prepared for the general fund or special revenue funds comparing appropriations with the expenditures and encumbrances chargeable to them. To save space, organization units are shown only in some parts of the statement. In the remaining parts, the data are shown by functions. In actual practice, the data would be shown by organization units. If appropriations are made in detail for the activities carried on by an organization unit, the statement would be set up so as to show the information for each activity under each organization unit.

Such a statement is important because it shows for each department the appropriations, the expenditures and encumbrances chargeable to them, and the unencumbered balance of appropriations, as well as *total* expenditures and encumbrances chargeable against appropriations. The statement is somewhat similar to that illustrated in Figure 16, page 56. That statement, however, is prepared during the year, whereas the statement illustrated here

Figure 28

A GOVERNMENTAL UNIT
General Fund
Statement of Expenditures and Encumbrances Compared with Appropriations for Fiscal Year

Function and Organization Unit	Appropriations (After Revisions)	Expenditures	Unexpended Balance	Encumbrances	Unencumbered Balance
CURRENT EXPENSES					
GENERAL GOVERNMENT:					
Council	$ 4,000	$ 3,800	$ 200	—	$ 200
Executive Department	5,500	5,000	500	$ 200	300
Courts	5,500	5,400	100	—	100
Board of Elections	2,000	2,000	—	—	—
Department of Finance:					
Administration	$ 2,925	$ 2,825	$ 100	—	$ 100
Bureau of Accounts	3,575	3,425	150	$ 150	—
Bureau of Treasury	3,500	3,300	200	200	—
Bureau of Purchases	3,050	3,000	50	—	50
Bureau of Assessments	3,250	3,000	250	150	100
Total Department of Finance	$ 16,300	$ 15,550	$ 750	$ 500	$ 250
Department of Law	$ 4,000	$ 3,950	$ 50	$ 50	—
City Clerk's Office	4,675	4,475	200	100	$ 100
Board of Zoning Appeals	1,525	1,425	100	50	50
Civil Service Commission	2,500	2,400	100	100	—
City Historian	2,000	2,000	—	—	—
Total General Government	$ 48,000	$ 46,000	$ 2,000	$ 1,000	$1,000
PUBLIC SAFETY:					
Department of Police:					
Bureau of Supervision	$ 5,000	$ 4,960	$ 40	—	$ 40
Bureau of Police Training	4,000	4,000	—	—	—
Bureau of Identification Records	3 000	2,840	160	$ 100	60

Bureau of Fire Fighting	10,000	9,800	200	—	260
Board of Examiners—Plumbers	2,000	1,900	100	100	—
Board of Examiners—Electricians	2,000	2,000	—	—	—
Total Public Safety	$ 55,000	$ 54,200	$ 800	$ 300	$ 500
HIGHWAYS	$ 21,000	$ 18,000	$ 3,000	$ 3,000	—
SANITATION AND WASTE REMOVAL	9,000	16,000	3,000	2,500	$ 500
CONSERVATION OF HEALTH	6,900	5,000	1,900	1,900	—
HOSPITALS	11,800	8,800	3,000	1,200	1,800
CHARITIES	13,200	12,000	1,200	1,200	—
CORRECTIONS	12,000	9,900	2,100	1,900	200
SCHOOLS	71,800	69,800	2,000	2,000	—
LIBRARIES	3,200	3,200	—	—	—
RECREATION	6,300	5,300	1,000	1,000	—
INTEREST	14,400	14,400	—	—	—
TOTAL CURRENT EXPENSES	$282,600	$262,600	$20,000	$16,000	$4,000
CAPITAL OUTLAYS					
GENERAL GOVERNMENT:					
Council	$ 1,500	$ 1,300	$ 200	$ 100	$ 100
Executive Department	1,500	1,500	—	—	—
Courts	1,600	1,500	100	—	100
Board of Elections	800	800	—	—	—
Department of Finance:					
Administration		—	—	—	—
Bureau of Accounts	$ 500	$ 450	$ 50	$ 50	—
Bureau of Treasury	300	280	20	—	$ 20
Bureau of Purchases	400	400	—	—	—
Bureau of Assessments	130	100	30	30	—
Total Department of Finance	$ 1,330	$ 1,230	$ 100	$ 80	$ 20
Department of Law	$ 700	$ 500	$ 200	$ 100	$ 100
City Clerk's Office	500	425	75	20	55
Board of Zoning Appeals	400	275	125	—	125
Civil Service Commission	400	300	100	—	100
City Historian	300	200	100	100	—
Total General Government	$ 9,030	$ 8,030	$ 1,000	$ 400	$ 600

Figure 28 (*Cont*)

Function and Organization Unit	Appropriations (After Revisions)	Expenditures	Unexpended Balance	Encumbrances	Unencumbered Balance
PUBLIC SAFETY:					
Department of Police:					
Bureau of Supervision	$ 670	$ 650	$ 20	$ 20	—
Bureau of Police Training	5,000	5,000	—	—	—
Bureau of Identification Records	2,000	1,900	100	—	$ 100
Bureau of Fire Fighting	5,000	4,825	175	75	100
Board of Examiners—Plumbers	800	700	100	25	75
Board of Examiners—Electricians	1,000	895	105	80	25
Total Public Safety.	$ 17,470	$ 15,970	$ 1,500	$ 1,000	$ 500
HIGHWAYS	$ 10,300	$ 10,300	—	—	—
SANITATION AND WASTE REMOVAL	11,000	10,700	$ 300	$ 100	$ 200
CONSERVATION OF HEALTH	5,500	4,900	600	500	100
HOSPITALS	23,000	22,700	300	300	—
CHARITIES	5,100	5,000	100	50	50
CORRECTIONS	6,000	5,300	700	550	150
SCHOOLS	12,000	11,500	500	300	200
LIBRARIES	3,500	3,000	500	375	125
RECREATION	6,500	5,900	600	425	175
TOTAL CAPITAL OUTLAYS	$109,400	$103,300	$ 6,100	$ 4,000	$2,100
DEBT RETIREMENT	$ 34,000	$ 34,000	—	—	—
GRAND TOTAL	$426,000	$399,900	$26,100	$20,000	$6,100

is prepared only at the end of the year, after the accounts have been closed. The amount of detail in the statement depends on the detail with which the appropriations are made and the accounts are kept. For example, it is assumed that in making appropriations for the general fund, the legislative body distinguishes between current expenses, capital outlays, and retirement of debt. Accordingly, the statement has been subdivided to show details for each class of expenditure.

On the other hand, it is assumed that appropriations are not detailed by objects of expenditures; therefore, no distinction is made between objects of expenditures in the statement. For example, the amounts in the "Appropriations" column on page 96 represent the total appropriated for each organization unit for all current expenses. If separate appropriations had been made and separate appropriation accounts had been kept by objects of expenditure, current expenses would be subdivided to show appropriations, expenditures, and encumbrances for the various objects of expense—for example, personal services, contractual services, and so forth.

Since the totals from the above statement are carried over to the statement analyzing the changes in the Unappropriated Surplus account (Figure 20, page 67), the present statement supports that statement.

A separate statement may be prepared for the expenditures chargeable against the reserve for encumbrances, or the statement illustrated in Figure 28 may be expanded to show this information. If the latter procedure is followed, the column headings would read somewhat as follows:

Function and Organization Unit	Appropriations (After Revisions)	Reserves for Encumbrances	Appropriation Expenditures	Expenditures Chargeable to Reserve for Encumbrances	Total Expenditures	Unexpended Balance	Encumbrances	Unencumbered Balance

Detailed expenditure statements. The statement illustrated in Figure 28 is prepared primarily for the purpose of controlling appropriations and for reporting financial operations to the legislative body and the public. Expenditure data are, however, collected also for the purpose of financial administration, as, for example, the preparation of the budget. Even if appropriations are not detailed by objects of expenditure, it is nevertheless important in preparing the budget to know the amount expended for each object. Again, appropriations may have been made for large organization units, whereas in planning expenditures it may be necessary to have data for the subunits forming a part of the main organization unit. Accordingly, in addition to the statement

Figure 29

A GOVERNMENTAL UNIT

General Fund

Statement of Expenditures, Classified by Function, Organization Unit, Character, and Object for Fiscal Year

Function and Organization Unit	Grand Total	Total Current Expenses	Current Expenses				Total Capital Outlays	Capital Outlays		
			Personal Services	Contractual Services	Materials & Supplies	Fixed Charges		Land	Structures and Improvements	Equipment
General Government										
Council	$ 5,100	$ 3,800	$ 3,500	$ 100	$ 150	$ 50	$ 1,300	—	—	$ 1,300
Executive Department	6,500	5,000	4,750	100	100	50	1,500	—	—	1,500
Courts	6,900	5,400	5,100	50	175	75	1,500	—	—	1,500
Board of Elections	2,800	2,000	1,800	25	150	25	800	—	—	800
Department of Finance:										
Administration	$ 2,825	$ 2,825	$ 2 625	$ 50	$ 100	$ 50	—	—	—	—
Bureau of Accounts	3,875	3,425	3,100	100	150	75	$ 450	—	—	$ 450
Bureau of Treasury	3,580	3,300	3,100	100	75	25	280	—	—	280
Bureau of Purchases	3,400	3,000	2,850	50	50	50	400	—	—	400
Bureau of Assessments	3,100	3,000	2,750	100	100	50	100	—	—	100
Total Department of Finance	$ 16,780	$ 15 550	$ 14,425	$ 400	475	$ 250	$ 1,230	—	—	$ 1,230
Department of Law	$ 4,450	$ 3,950	$ 3,600	$ 100	$ 100	$ 150	$ 500	—	—	$ 500
City Clerk's Office	4,900	4,475	4,100	100	200	75	425	—	—	425
Board of Zoning Appeals	1,700	1,425	1,300	50	50	25	275	—	—	275
Civil Service Commission	2,700	2,400	2,275	50	50	25	300	—	—	300
City Historian	2,200	2,000	1,900	—	75	25	200	—	—	200
Total General Government	$ 54,030	$ 46,000	$ 42,750	$ 975	$ 1,525	$ 750	$ 8,030	—	—	$ 8,030

PUBLIC SAFETY:										
Department of Police:										
Bureau of Supervision	$ 5,610	$ 4,960	$ 4,600	$ 60	$ 200	$ 100	$ 650	—	—	$ 650
Bureau of Police Training	9,000	4,000	3,500	100	300	100	5,000	—	$ 4,000	1,000
Bureau of Identification Records	4,740	2,840	2,500	100	200	40	1,900	—	—	1,900
Bureau of Fire Fighting	14,625	9,800	9,200	300	200	100	4,825	—	—	4,825
Board of Examiners—Plumbers	2,600	1,900	1,750	50	50	50	700	—	—	700
Board of Examiners—Electricians	2,895	2,000	1,850	50	50	50	895	—	—	895
Total Public Safety	$ 70,170	$ 54,200	$ 49,250	$1,700	$ 2,150	$ 1,100	$ 15,970	—	$ 4,000	$11,970
HIGHWAYS	$ 28,300	$ 18,000	$ 15,000	$1,000	$ 1,800	$ 200	$ 10,300	—	$ 9,000	$ 1,300
SANITATION AND WASTE REMOVAL	26,700	16,000	13,500	700	1,500	300	10,700	—	8,700	2,000
CONSERVATION OF HEALTH	9,900	5,000	4,500	100	300	100	4,900	—	—	4,900
HOSPITALS	31,500	8,800	7,500	200	1,000	100	22,700	$5,000	12,000	5,700
CHARITIES	17,000	12,000	4,000	100	200	7,700	5,000	—	—	5,000
CORRECTION	15,200	9,900	8,800	200	700	200	5,300	—	2,000	3,300
SCHOOLS	81,300	69,800	63,000	2,000	3,800	1,000	11,500	—	—	11,500
LIBRARIES	6,200	3,200	2,500	100	100	500	3,000	—	—	3,000
RECREATION	11,200	5,300	5,000	100	100	100	5,900	2,000	1,500	2,400
INTEREST	14,400	14,400	—	—	—	14,400	—	—	—	—
Total Current Expenses and Capital Outlays	$365,900	$262,600	$215,800	$7,175	$13,175	$26,450	$103,300	$7,000	$37,200	$59,100
DEBT RETIREMENT	34,000									
GRAND TOTAL	$399,900									

just referred to, more detailed statements of expenditures are frequently prepared. Figure 29 illustrates such a statement. To save space, details are shown here for only a few of the organization units. It should also be noted that no distinction is made on this statement between expenditures chargeable against appropriations and those chargeable against the reserve for encumbrances. If it is desired to show the data for more than one year, the statement may follow the arrangement illustrated in Figure 28, with the objects shown under each organization unit and the years shown horizontally. A variation of this arrangement is to show current expenses and capital outlays for each organization unit together. An example of such an arrangement is shown on pages 18–19.

CHAPTER 7

Bond Funds

BOND funds are established to account for bond sale proceeds. A government may issue bonds for various purposes: for the construction of improvements, for funding deficits, for refunding previous bond issues, and for providing capital for working capital funds. With the exception of special assessment or utility bonds, which are discussed later, all bond proceeds should be handled through bond funds. Note particularly that bond funds are used only to handle the proceeds from the sale of general bonds. They have nothing whatever to do with bond retirements; retirements are handled through other funds.

Establishment of fund. The issuance of bonds usually requires authorization by the legislative body and frequently also the approval of the voters. Local-government bonds may be authorized by the state legislature or the local government's own legislative body, or both. In addition, the approval of the voters is sometimes required. As soon as bonds are authorized, an entry is made to indicate the authorization and the potential asset thereby created. The entry is as follows:

Bonds Authorized—Unissued	$100,000	
Reserve for Authorized Expenditures		$100,000
To record authorization of bonds.		

The next step is the sale of the bonds, the entry to record this transaction being

Cash	$100,000	
Bonds Authorized—Unissued		$100,000
To record sale of bonds.		

The assumption in the present instance is that the bonds are sold at par. If they are sold at a premium or a discount, additional problems arise, but these will be discussed later.

Operation of fund. A bond fund continues to operate until all of the proceeds derived from the sale of the bonds are expended. The expenditure of proceeds from bonds issued for the purpose of financing a deficit, for providing capital for a working capital fund, or for refunding bonds is simple, involving merely a transfer of

bond fund cash to some other fund. Thus, proceeds from the sale of bonds issued to provide capital for a working capital fund are, upon their receipt, transferred to that fund. Proceeds from the sale of bonds issued to fund a deficit in the general fund are transferred to that fund. Finally, proceeds from the sale of refunding bonds are transferred to the fund which will finance the retirement of the bonds being refunded. The entry in the bond fund is in each instance as follows:

Reserve for Authorized Expenditures	$100,000	
Cash		$100,000
To record transfer of cash to another fund.		

In the case of bonds issued to finance the acquisition or construction of permanent improvements, however, the money is not transferred to another fund but payments are made directly from the bond fund. If the improvement is purchased complete instead of being constructed, accounting for the fund is as simple as in the three instances mentioned above. On the other hand, if the fund finances the construction of improvements, proceeds are expended gradually as construction proceeds. The problem then is to see not only that the money is expended for proper fund purposes, but also that work is performed efficiently, that materials are properly handled, and that payrolls are in order. The latter three problems are not peculiar to the bond fund alone and are therefore discussed in Chapter 20. Only transactions peculiar to the bond fund are described here.

Transactions and entries—first fiscal year. The following transactions will be helpful in visualizing the accounting procedure for bond funds. Each of the transactions is illustrated by a journal entry.

Transactions

1. Bonds to the amount of $200,000 for the building of a bridge were authorized.
2. One half of the issue was sold at par.
3. The cost of handling and printing bonds was $500, which was paid.
4. The bridge is to be constructed partly by a contractor and partly by city labor. A contract has been entered into with White & Company for the construction of certain parts of the bridge, the estimated cost being $150,000.
5. Orders for materials, amounting to $5,000, were placed.
6. The payroll for the month amounted to $5,000 and was paid.
7. A bill for $60,000 was received from White & Company for part of the work.

8. Materials and a bill for same were received; the bill was for $4,800.

9. Payment of $60,000 was made to White & Company.

10. An order estimated to cost $6,000 was placed.

Entries

1. Bonds Authorized—Unissued	$200,000	
Reserve for Authorized Expenditures		$200,000
To record authorization to issue bonds for construction of bridge		
2. Cash	100,000	
Bonds Authorized—Unissued		100,000
To record sale of bonds.		
3. Expenditures	500	
Cash		500
To record payment for handling and printing bonds.		
4. Encumbrances	150,000	
Reserve for Encumbrances		150,000
To record encumbrances on account of contract entered into with White & Company for constructing certain parts of bridge.		
5. Encumbrances	5,000	
Reserve for Encumbrances		5,000
To record encumbrances on account of materials ordered.		
6. Expenditures	5,000	
Cash		5,000
To record payment of payroll.		
7. (a) Reserve for Encumbrances	60,000	
Encumbrances		60,000
To reverse in part entry setting up reserve.		
(b) Expenditures	60,000	
Contracts Payable		60,000
To record amount due White & Company on contract.		
8. (a) Reserve for Encumbrances	5,000	
Encumbrances		5,000
To reverse entry setting up encumbrances.		
(b) Expenditures	4,800	
Vouchers Payable		4,800
To record authorization for payment of bill.		
9. Contracts Payable	60,000	
Cash		60,000
To record payment to White & Company.		
10. Encumbrances	6,000	
Reserve for Encumbrances		6,000
To record placing of order for materials.		

Let us assume that these were the only transactions occurring during the year. At the close of the year, the trial balance of the bond fund would appear as follows:

Cash	$ 34,500	
Bonds Authorized—Unissued	100,000	
Expenditures	70,300	
Encumbrances	96,000	
Vouchers Payable		$ 4,800
Reserve for Encumbrances		96,000
Reserve for Authorized Expenditures		200,000
	$300,800	$300,800

Closing entry—project uncompleted. The time element does not play so important a part in accounting for a bond fund as it does in general fund accounting. The authorization to make expenditures out of the general fund is indicated by the Appropriations account, and, since appropriations are usually made for a fiscal year, it is necessary to close out the appropriation at the end of the year.[1] On the other hand, authorizations to spend bond money are usually not limited as to time; that is, the authorization continues until the project is completed. Accordingly, expenditures resulting from orders placed or contracts entered into during one fiscal year can be charged against the Reserve for Authorized Expenditures account during the succeeding fiscal year. Therefore no entry is made closing out the Encumbrances account into the Reserve for Authorized Expenditures account; instead of making such entry, both the Encumbrances and the Reserve for Encumbrances accounts are carried over into the next fiscal year.

Expenditures are, for two reasons, closed out into the reserve for authorized expenditures at the close of each fiscal year. In the first place, it is desirable to keep a record of expenditures separately by years and this purpose is best accomplished by closing out the expenditures each year. Secondly, it may be desirable to capitalize the expenditures at the end of each fiscal year, rather than to wait until the project is completed, so that the total cost of work in progress during the year may be recorded. The entry closing out the Expenditures account is as follows:

Reserve for Authorized Expenditures	$70,300	
Expenditures		$70,300
To record closing out of expenditures		

[1] Although, in most states, state appropriations are made every two years, the appropriations are usually segregated by individual years, so that the effect is the same as if they had been made annually.

Balance sheet—close of fiscal year. After the closing entry has been posted, the bond fund balance sheet will appear as follows:

Figure 30

A GOVERNMENTAL UNIT
Bond Fund
Balance Sheet
at Close of Fiscal Year

Assets		
Cash		$ 34,500
Bonds Authorized—Unissued		100,000
		$134,500
Liabilities and Reserves		
Vouchers Payable		$ 4,800
Reserve for Encumbrances		96,000
Reserve for Authorized Expenditures	$129,700	
Less—Encumbrances	96,000	33,700
		$134,500

As indicated previously, expenditures may or may not be capitalized at the close of each fiscal year. Even if expenditures are capitalized, they are not shown in a bond fund balance sheet. They are carried, instead, together with other fixed assets, in a separate group of accounts.[2] As in industrial accounting, uncompleted work is designated by a Work in Progress account.

Transactions and entries—second fiscal year. To complete the illustration, let us assume that the project was continued into the next fiscal year and that the transactions and the corresponding entries were as follows:

Transactions

1. The second half of the bond issue was sold at par.
2. The materials ordered (see transaction 10 on page 105) were received; and an invoice for $6,200 was received.
3. White & Company completed its part of the work; its bill was $90,000.
4. Total additional payments for labor, $30,000, were made.
5. White & Company's bill was paid, except for 5 per cent of the total contract, which was retained pending inspection and final approval of the completed project.
6. All other outstanding bills were paid.

[2] See pages 210-213.

Entries

1.	Cash	$100,000	
	Bonds Authorized—Unissued		$100,000
	To record sale of bonds at par.		
2.	(a) Reserve for Encumbrances	6,000	
	Encumbrances		6,000
	To reverse entry setting up encumbrances on account of order placed at close of preceding fiscal year. Materials and invoice received.		
	(b) Expenditures	6,200	
	Vouchers Payable		6,200
	To record expenditures on account of materials purchased		
3.	(a) Reserve for Encumbrances	90,000	
	Encumbrances		90,000
	To reverse entry setting up encumbrances on contract with White & Company		
	(b) Expenditures	90,000	
	Contracts Payable		90,000
	To record amount due White & Company on contract.		
4.	Expenditures	30,000	
	Cash		30,000
	To record payments for labor.		
5.	Contracts Payable	90,000	
	Contracts Payable—Retained Percentage		7,500
	Cash		82,500
	To record retention of 5 per cent of total contract, pending inspection and approval of project, to record payment of remainder of contract		
6	Vouchers Payable	11,000	
	Cash		11,000
	To record payment of outstanding bills		

Closing entry—project completed. As soon as the project is completed, even if it is before the close of the fiscal year, an entry is made closing expenditures into the Reserve for Authorized Expenditures account and transferring the balance of the reserve into an Unappropriated Surplus account. The entry is as follows:

Reserve for Authorized Expenditures	$129,700	
Expenditures		$126,200
Unappropriated Surplus		3,500
To record closing out of expenditures		

Balance sheet—project completed. After the above entry is posted, the balance sheet will read as follows:

Figure 31

A GOVERNMENTAL UNIT

Bond Fund
Balance Sheet
During, or at Close of, Fiscal Year

Assets

Cash	$11,000

Liabilities and Surplus

Contracts Payable—Retained Percentage	$ 7,500
Unappropriated Surplus	3,500
	$11,000

Note that the resulting fixed assets are not set up in the bond fund even when the project is completed but are shown as part of the general fixed assets group of accounts. Again, bonds payable are not shown in the bond fund balance sheet but are carried as part of a group of general bonded debt accounts. This procedure follows the principle previously stated—namely, that the bond fund is used only to account for bond sale proceeds. As soon as the project is completed, the bond fund has accomplished its purpose and ceases to exist. For example, from the above balance sheet it is evident that, were it not for the surplus in the fund, the fund would cease to exist as soon as the project was approved and the retained percentage on the contract was paid.

Disposing of surplus or deficit. From the foregoing example it is apparent that any existing unappropriated surplus must be disposed of before the bond fund is completely dissolved. Frequently, the legislative body specifies what shall be done with such surplus. In the absence of legislative restrictions, however, the surplus is usually transferred to the fund which will pay off the bonds. The reason is that the surplus arose because expenditures had been overestimated, with the result that a larger amount of bonds was sold than was necessary.

Suppose, on the other hand, that the fund has a deficit. Theoretically, it should not be possible for the fund to have a deficit, since the reserve for encumbrances should prevent the incurrence of a liability in excess of the authorized amount. The reserve is, however, merely an estimate, and the actual expenditure may prove to be greater than the estimate. In that event, the resulting deficit must be disposed of before the bond fund is dissolved. If the deficit is a small amount, it will usually be made up by a transfer of money from the general fund.

To illustrate how a deficit arises and how it is disposed of, let us assume that in the above case, owing to unforeseen circum-

stances, the materials ordered cost $13,200 instead of $6,200 and that the bill remained unpaid. The closing entry when the project was completed would in that event be as follows:

Reserve for Authorized Expenditures	$129,700	
Unappropriated Surplus	3,500	
Expenditures		$133,200
To record closing out expenditures.		

The bond fund balance sheet would in this case read as follows:

Figure 32

A GOVERNMENTAL UNIT
Bond Fund
Balance Sheet
During, or at Close of, Fiscal Year

Assets

Cash	$4,000

Liabilities and Deficit

Contracts Payable—Retained Percentage	$7,500
Deficit	3,500*
	$4,000

* Red.

The deficit is eliminated simply through debiting Cash (upon its receipt from the general fund) and crediting the Unappropriated Surplus account. The following entries indicate the steps in eliminating the deficit and dissolving the fund:

Cash	$3,500	
Unappropriated Surplus.		$3,500
To record receipt of money from general fund to make up deficit in bond fund		
Contracts Payable—Retained Percentage	7,500	
Cash		7,500
To record payment of liabilities.		

Frequently, it becomes evident even before the work is completed that the project must be expanded. In such cases, approval of additional expenditures must come from those who authorized the issuance of the bonds in the first instance, and the procedure followed is the same as that for the original bonds.

Analysis of changes in reserve for authorized expenditures. The Reserve for Authorized Expenditures account is one of the most important bond fund accounts. A statement similar to the one shown in Figure 33, analyzing the changes in the account, should be prepared at the close of each fiscal year.

Figure 33

A GOVERNMENTAL UNIT

Bond Fund

Analysis of Changes in Reserve for Authorized Expenditures for Fiscal Years

Amount Authorized		$200,000
Less—Expenditures:		
Of Prior Fiscal Years	$ 70,300	
Of This Fiscal Year	126,200	
Total Expenditures		196,500
Gross Balance		$ 3,500
Less—Transfers:		
To Reserve for Encumbrances	—	
To Surplus	$ 3,500	
Total Transfers		3,500
Net Balance of Reserve		—

Sale of bonds at a premium or a discount. In order to simplify the discussion, we have assumed thus far that the bonds were sold at par. They are ordinarily sold, however, at either a premium or a discount. If the bonds are sold at a premium, the amount of premium received is first recorded in the bond fund. Since the premium, as indicated subsequently, represents an adjustment of the interest rate, the amount so received should be transferred to the fund which will pay the interest. In the case of general bonds, this will ordinarily be the general fund. For example, let us assume that the bonds referred to on page 107 were sold at a premium of $1,000. The entry to record this transaction in the bond fund will be as follows:

Cash	$101,000	
Bonds Authorized—Unissued		$100,000
Unamortized Premiums on Bonds		1,000
To record sale of bonds at a premium		

Subsequently, an entry would be made transferring the cash representing the premiums to the fund from which interest on these bonds is paid, the entry being

Unamortized Premiums on Bonds	$1,000	
Cash		$1,000
To record the transfer of premiums to general fund.		

If we assume, on the other hand, that these bonds had been sold at a discount, the entry to record the sale of such bonds is as follows:

Cash	$99,000	
Unamortized Discounts on Bonds	1,000	
Bonds Authorized—Unissued		$100,000
To record sale of bonds at a discount		

Since these discounts represent an adjustment of the interest rate, cash corresponding to the amount of the discount theoretically should be transferred from the fund which will pay the interest, and the discount should be amortized in that fund. For example, if interest on these bonds is to be paid from the general fund, $1,000 should be transferred from the general fund to the bond fund and used for financing construction. In the general fund, the discount would either be amortized over a number of years or charged as an interest expense of the year in which the transfer was made. In actual practice, however, because of legal complications, the discount is seldom made up by a transfer from the fund paying the interest on the bonds. Instead, the discounts are charged against the Reserve for Authorized Expenditures account, the entry being

Reserve for Authorized Expenditures	$1,000	
Unamortized Discounts on Bonds		$1,000
To record closing out of discount into the Reserve for Authorized Expenditures account		

The amount of cash available for construction is reduced by the amount of the discount, and the fund may thus have a deficit, which sometimes is made up by a transfer of cash from some other fund. Such transfer need not necessarily be made from the fund paying the interest on the bonds. Again, the amount transferred would not be charged as an interest expense in the fund from which the transfer was made but rather as a contribution.

If discounts are amortized, a question arises as to whether or not that part of the discount which is amortized during the construction period may be capitalized—that is, whether it may be included as part of the cost of construction. Since a discount represents an adjustment of the interest rate, the answer will depend on whether or not interest during construction is capitalized. That is, if interest paid during the construction period is capitalized, the discount should also be capitalized; if not, the discount should not be capitalized. Interest during the construction period on general bonds should not be capitalized, primarily for the reason that the government is not being deprived of money which it could use for revenue-producing purposes, and the discount should therefore not be capitalized.

Financing several projects from one bond fund. Sometimes a bond issue is voted which does not specify the improvements which the bonds are to finance. For example, voters may be asked to approve a bond issue for "general improvements." In such cases, the designation of the specific improvements is left to the legislative body. The accounting procedure for such a bond fund

is the same as that for a bond fund established for a specific project. The only difference is that it is necessary to account for each project separately. This can be accomplished by setting up separate accounts for each project. If many projects are financed out of the same bond fund, subsidiary accounts may be set up for each project, but controlling accounts for the bond fund must be carried in the general ledger. A record of the amount authorized for each particular project and the expenditures and encumbrances chargeable thereto is very important. The identity of expenditures applicable to each project must, of course, always be kept. Whenever the actual cost of a project exceeds its estimated cost, an additional authorization is made by the legislative body to cover the difference. The additional authorization results in lesser amounts becoming available for other contemplated projects; conversely, if expenditures are smaller than estimated, a greater amount of money will be available.

Surpluses or deficits in this fund, after all the projects financed from it have been completed, are disposed of in the same manner as those of single-project funds.

The statement analyzing the changes in the Reserve for Authorized Expenditures account must be subdivided so as to show the information for each project separately. The following is an example of a heading for such a statement:

A GOVERNMENTAL UNIT
General Improvements Bond Fund
Analysis of Changes in Reserve for Authorized Expenditures
for Fiscal Years

Total	Project "A"	Project "B"	Project "C"	Projects Not Yet Determined

The data for this statement are similar to those illustrated in Figure 33.

Grouping bond funds. Thus far individual bond funds have been considered. However, a state or local government may have several bond funds. The accounting procedure is the same as for one bond fund, since each fund constitutes an independent entity. A separate balance sheet must be prepared for each fund, but the funds may be arranged in columnar form. The assets, liabilities, reserves, and surplus of each fund may be combined on this statement, but in no case must the totals be shown without the details applicable to each fund being exhibited or without reference being made to a statement showing these details. A statement of this kind prepared for a group of bond funds is illustrated in Figure 34.

As is indicated in this statement, a distinction is frequently made on the balance sheet between completed projects and uncompleted projects. Sometimes separate subtotals are shown for each group. The segregation of completed and uncompleted projects is especially important in connection with the anaylsis of the changes in the Reserve for Authorized Expenditures account. In the case of uncompleted projects, the important point to note is the total amount authorized and the expenditures and encumbrances reducing the balance of the reserve, whereas for completed projects it is important to note in addition whether operations have resulted in a surplus or a deficit. Then, too, the total expenditures as shown by this statement for completed projects represent the amount to be set up in the fixed assets accounts.

Figure 34

A GOVERNMENTAL UNIT

Bond Funds
Balance Sheet
During, or at Close of, Fiscal Year

		Completed Project	Uncompleted Projects	
	Total	Hospital Bond Fund	Bridge "A" Bond Fund	Bridge "B" Bond Fund
Assets				
Cash	$101,000	$11,000	$90,000	—
Bonds Authorized—Unissued	200,000	—	—	$200,000
	$301,000	$11,000	$90,000	$200,000
Liabilities, Reserves, and Surplus				
Liabilities:				
Vouchers Payable	$ 10,000	—	$10,000	—
Contracts Payable	20,000	—	20,000	—
Contracts Payable—Retained Percentage	10,000	$10,000	—	—
	$ 40,000	$10,000	$30,000	—
Reserves:				
Reserve for Encumbrances	$ 50,000	—	$50,000	—
Reserve for Authorized Expenditures	$260,000	—	$60,000	$200,000
Less—Encumbrances	50,000	—	50,000	—
Net Balance of Reserve	$210,000	—	$10,000	$200,000
Unappropriated Surplus	$ 1,000	$ 1,000		—
	$301,000	$11,000	$90,000	$200,000

If a government has numerous bond funds (that is, more than six or seven), the assets, liabilities, reserves, and surplus may be shown in combined form on the balance sheet. Details would in that event be exhibited in a subsidiary schedule, and reference would be made in the balance sheet to this schedule. The schedule

would be identical with the balance sheet exhibited above. In other words, because the exhibition of too many bond funds in the main statement might be confusing, the data for individual funds are presented in a subsidiary schedule, the totals of which agree with the figures in the balance sheet.

The statement analyzing the changes in the Reserve for Authorized Expenditures account of a group of funds is not unlike a combined bond funds balance sheet. In other words, such a statement would be identical with that shown in the analysis of the reserve for a single bond fund, except that it would contain a separate column for each fund. Specifically, the statement, in the case of the funds illustrated in the combined balance sheet, would be headed as follows:

A GOVERNMENTAL UNIT
Bond Funds
Analysis of Changes in Reserve for Authorized Expenditures
for Fiscal Years

	Completed Project	Uncompleted Projects	
	Hospital	Bridge "A"	Bridge "B"
Total	Bond Fund	Bond Fund	Bond Fund

As in the case of the combined balance sheet, if the government has numerous bond funds, a separate statement would be prepared, supported by a subsidiary schedule exhibiting the same information as the principal statement, except that figures would be shown for each fund. The heading and columns of the schedule would be similar to those illustrated immediately above.

A bond fund for *several projects* would be shown in the combined bond funds balance sheet in the same manner as any other bond fund but reference would be made to a subsidiary statement which will give the details for each project separately. The following headings illustrate how this bond fund would be handled in the combined bond funds balance sheet. The funds are the same as those used in previous illustrations, except that another fund, which is assumed to finance several projects, has been added.

A GOVERNMENTAL UNIT
Bond Funds
Balance Sheet
During, or at Close of, Fiscal Year

	Completed Project	Uncompleted Projects		General Improvements Bond Fund
	Hospital	Bridge "A"	Bridge "B"	(For details see
Total	Bond Fund	Bond Fund	Bond Fund	Schedule A)

Schedule A

A GOVERNMENTAL UNIT
General Improvements Bond Fund
Balance Sheet
During, or at Close of, Fiscal Year

Total	Project "M"	Project "N"	Project "O"	Projects Net Yet Determined

The figures in the "Total" column of Schedule A would be entered in the "General Improvements Bond Fund" column of the preceding statement.

The total expenditures, encumbrances, and so forth, for all projects financed by the fund should be shown on the statement analyzing the changes in the Reserve for Authorized Expenditures account of the fund. As in the case of the combined bond funds balance sheet, reference should be made to a subsidiary statement which will give the details for each project separately. The balance sheet headings illustrated immediately above apply equally to the statements analyzing the changes in the Reserve for Authorized Expenditures account.

Summary. The bond fund is used merely to account for proceeds from the sale of bonds. It is not used to retire bonds; consequently, the liability created by the issue of the bonds is not carried in the bond fund but in a separate group of accounts. Similarly, fixed assets representing capitalized bond fund expenditures are not shown in the bond fund. Authorizations to spend bond money, unlike appropriations out of the general fund, are not limited to a single fiscal year, but continue until the authorized projects are completed.

CHAPTER 8

Sinking Funds

A SINKING fund is established to accumulate resources for the retirement of bonds. The fund is not to be used for the payment of interest. The interest on both term and serial bonds, as well as the principal of serial bonds, should be paid through the general fund or a special revenue fund.

One of the distinguishing characteristics of a sinking fund is the gradual accumulation of resources and their use in retiring bonds at maturity. If the annual contributions were the only characteristic of a sinking fund, the accounting procedure would be quite simple. The procedure is complicated by the fact that the contributions are invested and earn interest. In calculating the amounts which should be added periodically to the fund, therefore, it is necessary to take account of the earnings. Furthermore, these earnings are reinvested and continue to earn interest, so that compound interest must be taken into account in determining periodic contributions.

The following is an illustration of the method of determining required periodic contributions and earnings. Assume that a fund is to be accumulated for the retirement of bonds of $1,000,000, that the fund is to receive 20 contributions, and that each contribution except the last one will earn 4 per cent annual interest from the beginning of the year in which it is made until the end of the 19th year of the life of the fund. Reference to a sinking fund table will show that it is necessary to contribute $33,582 annually for 20 years in order to accumulate sufficient resources to retire the bonds at maturity. But, as is evident from Table 1, the total contributions make up only two thirds of the required resources ($671,633); the remainder ($328,367) represents interest earnings. Table 1 shows further that although the *rate* of return (4 per cent) is assumed to be the same throughout the life of the fund, the *amount* of return on the accumulated contributions in the fund increases from year to year. This is due, of course, to the compounding of earnings. For example, if earnings were not compounded, the income of the fund at the end of the second year would be $2,686 ($1,343 + $1,343); instead it is $2,740, the differ-

ence, $54, being interest earnings of 4 per cent on the interest collected during the first year ($1,343 × 4 per cent = $54).

TABLE 1

SCHEDULE OF SINKING FUND REQUIREMENTS

(Assumed earnings rate of 4 per cent)

Contribution Year	Required Annual Contribution	Required Fund Income	Amount Required to Be Accumulated in Fund
1	$ 33,582	$ 1,343	$ 34,925
2	33,582	2,740	71,247
3	33,582	4,193	109,022
4	33,582	5,704	148,308
5	33,582	7,276	189,166
6	33,582	8,910	231,658
7	33,582	10,610	275,850
8	33,582	12,377	321,809
9	33,582	14,216	369,607
10	33,582	16,128	419,317
11	33,582	18,116	471,015
12	33,582	20,184	524,781
13	33,582	22,335	580,698
14	33,582	24,571	638,851
15	33,582	26,897	699.330
16	33,582	29,316	762,228
17	33,582	31,832	827,642
18	33,582	34,449	895,673
19	33,582	37,170	966,425
20	33,575*	—	1,000,000
	$671,633	$328,367	$1,000,000

* Owing to the omission of cents, an adjustment of $7 is necessary to bring the fund to $1,000,000.

Operation of sinking fund. When the earnings of the fund have been estimated and annual contributions have been determined, the accounting for the fund can begin. An entry is made at the beginning of each year setting up the required contribution and the required earnings and crediting a reserve account with a corresponding amount. For example, at the beginning of the first year, the entries, if we assume the amounts shown for that year in Table 1, would be as follows:

Required Installment Contribution	$33,582	
Required Earnings	1,343	
Reserve for Retirement of Sinking Fund Bonds		$34,925
To record setting up of sinking fund requirements for first year.		

Sinking fund contributions may be made from another fund, such as the general fund or a special revenue fund, or they may be derived from a sinking fund tax levy. If the sinking fund receives contributions from other funds, the entry at the time the contri-

bution becomes receivable is a debit to an account Due from Other Funds and a credit to Contribution Revenues. If, on the other hand, special taxes are levied for sinking fund purposes, it is not only necessary to set up the taxes receivable on the records, but to go through all the steps involved in tax accounting procedure: to differentiate between current and delinquent taxes, to set up reserves for uncollectible taxes, to charge against these reserves taxes written off as uncollectible, and to credit the proper accounts for tax collections. The entries involved have been illustrated in Chapter 4; accordingly, only a few are given here.

Taxes Receivable—Current	$35,582	
Reserve for Estimated Losses—Current Taxes		$ 2,000
Contribution Revenues		33,582
To record accrual of taxes and setting up of reserve for estimated losses on taxes receivable.		
Cash	21,350	
Taxes Receivable—Current		21,350
To record collection of taxes.		
Taxes Receivable—Delinquent	14,232	
Reserve for Estimated Losses—Current Taxes	2,000	
Taxes Receivable—Current		14,232
Reserve for Estimated Losses—Delinquent Taxes		2,000
To record setting up of delinquent taxes and the corresponding transfer of the reserve for estimated losses on current taxes to the reserve for estimated losses on delinquent taxes.		
Cash	6,030	
Taxes Receivable—Delinquent		5,800
Contribution Revenues		230
To record collection of delinquent taxes and interest and penalties thereon.		
Interest and Penalties Receivable on Taxes	66	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		6
Contribution Revenues		60
To record interest and penalties accrued on delinquent taxes and to set up reserve for estimated losses		

Contributions are invested as soon as possible after their receipt, so that they may begin to earn interest immediately. Usually the money is invested in governmental securities, including not only the governmental unit's own securities but frequently also the very bonds to be retired. Securities are usually acquired at either a premium or a discount. In order to determine the proper amount of interest revenue, therefore, it is necessary to amortize premiums or discounts. Securities are purchased "plus accrued interest"; that is, the purchase price includes interest which has accrued from the last interest payment date to the time of purchase. Accordingly, part of the first interest received represents interest paid at

the time of the purchase of the bonds and is not revenue. The entries to record accrued interest purchased and the amortization of premiums and discounts are discussed in Chapter 16. In the present case, if we assume that no premiums, discounts, or accrued interest are involved, the entry to record the purchase of investments will be as follows:

Investments	$25,000	
Cash		$25,000
To record purchase of investments at par.		

Subsequently, when interest is received (or becomes receivable), the following entry is made:

Cash (or Interest Receivable on Investments)	$1,500	
Earnings		$1,500
To record receipt (or accrual) of interest on investments.		

Trial balance before closing entries. The trial balance of the sinking fund based on the entries illustrated above would be as follows:

Cash	$ 3,880	
Taxes Receivable—Delinquent	8,432	
Reserve for Estimated Losses—Delinquent Taxes		$ 2,000
Investments	25,000	
Interest and Penalties Receivable on Taxes	66	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		6
Required Installment Contribution	33,582	
Required Earnings	1,343	
Contribution Revenues		33,872
Earnings		1,500
Reserve for Retirement of Sinking Fund Bonds		34,925
	$72,303	$72,303

Closing entries. At the end of the fiscal year, or at any time immediately preceding the retirement of bonds, the accounts showing requirements and actual contributions and earnings are closed out, and it is determined whether revenues correspond to requirements. The entries are as follows:

Contribution Revenues	$33,872	
Required Installment Contribution		$33,582
Unappropriated Surplus		290
To record closing out of accounts showing required and actual contributions.		
Earnings	1,500	
Required Earnings		1,343
Unappropriated Surplus		157
To record closing out of accounts showing required and actual earnings.		

Balance sheet after closing entries. After the closing entries had been posted, the sinking fund balance sheet would appear as follows:

Figure 35

A GOVERNMENTAL UNIT
Sinking Fund
Balance Sheet
at Close of Fiscal Year

Assets		
Cash		$ 3,880
Taxes Receivable—Delinquent	$ 8,432	
Less—Reserve for Estimated Losses	2,000	6,432
Interest and Penalties Receivable on Taxes	$ 66	
Less—Reserve for Estimated Losses	6	60
Investments		25,000
		$35,372
Reserves and Surplus		
Reserve for Retirement of Sinking Fund Bonds		$34,925
Unappropriated Surplus		447
		$35,372

The Reserve for Retirement of Sinking Fund Bonds account indicates the amount of contributions and earnings which the fund should have accumulated at a particular time. For example, at the end of any year, the amount to the credit of the reserve should be equal to the sum shown for the particular year in the "Amount Required to Be Accumulated in Fund" column of Table 1. Thus, at the end of the first year, according to the table, the balance of the reserve should be $34,925; that is, the fund, at the end of the first year, should have accumulated $34,925. In the above illustration the fund had actually accumulated $35,372. The difference, $447, as is evident from the foregoing entries, represents the excess of actual earnings over required earnings and the excess of actual contributions over required installment contributions.

Recalculation of reserve for retirement of sinking fund bonds. If contributions or earnings either exceed or fall short of requirements, it may be necessary to revise the schedule of requirements. Usually contributions to the fund correspond to requirements, and variations arise because of a rise or fall in the rate of earnings. If the fluctuations in earnings are temporary, no adjustment is necessary, the assumption being that in the long run surpluses and deficits will cancel out. If, on the other hand, the change in the rate of earnings represents a long-term trend rather than a mere temporary condition, it is necessary to revise the schedule of requirements.

Assuming that the schedule is to be revised because of an increase in the rate of return, two factors must be taken into account. First, the surplus of the fund will continue to earn money from the present time until the bonds are retired. Second, the rate of return will be greater than formerly estimated. For example, assume that a fund which is to be built up over a period of 20 years has been in existence now for 10 years and has, at the end of the tenth year, accumulated a surplus of $10,000. In the first place, the total amount of contributions over the remaining 10 years must be reduced by $10,000, the amount of the surplus. Secondly, the surplus will continue to earn interest over the remaining 10 years, and the total amount of contributions over that period must be reduced by these earnings. Finally, owing to the increased interest rate, the earnings on the investments of the fund will continue to be greater than was anticipated at the time the fund was set up. Consequently, the remaining contributions must also be reduced by the amount of the expected increased earnings. With these factors known, the required new contributions can be readily determined and the new schedule can be set up. The Unappropriated Surplus account would be closed out into the Reserve for Retirement of Sinking Fund Bonds account by debiting the former account and crediting the latter.

If, on the other hand, the adjustment is necessary because of a decrease in the rate of return, it is essential to take into account not only the reduced rate of return but also the necessity of eliminating the deficit. Thus, if the fund referred to above had at the end of the tenth year a deficit of $10,000 instead of a surplus, it would be necessary to increase contributions to make up this deficit. Since the deficit arose because of a reduction in the interest rate, the fund will have smaller earnings than had been anticipated. This loss in earnings must be made up by increased contributions. Once the revised schedule has been completed, an entry is made debiting the Reserve for Retirement of Sinking Fund Bonds account and crediting the Unappropriated Surplus account.

Another factor which frequently makes necessary an adjustment in the schedule of requirements is the calling in of bonds prior to their date of maturity. Frequently, too, a government may purchase the sinking fund bonds in the open market. If such bonds are canceled upon their acquisition, no interest will be received, and earnings will therefore not come up to expectations. This is one of the reasons why such bonds should be held alive in the sinking fund.

Finally, the payment of sinking fund administration expenses out of the sinking fund frequently necessitates an adjustment in the schedule of requirements. The best practice is to pay administration expenses out of some other fund. The required contributions and earnings can be calculated accurately only if the exact amount to be paid out of the fund and the date of payment are definitely known at the time the schedule is compiled.

Retirement of bonds. The accounting procedure for the retirement of bonds through the sinking fund is quite simple. As soon as bonds mature, an entry is made in the sinking fund debiting the Reserve for Retirement of Sinking Fund Bonds account and setting up the matured bonds as a liability of the fund. The entry is as follows:

Reserve for Retirement of Sinking Fund Bonds	$2,000,000	
Matured Bonds Payable		$2,000,000
To record matured sinking fund bonds		

It will be noted that bonds payable are not recorded as a liability of the sinking fund until they mature. Until that time, they are carried in the general bonded debt group of accounts. The entry for removing the Bonds Payable account from this group of accounts will be indicated later.

It is assumed that payments out of the sinking fund do not require an appropriation. Since the fund is established solely for the retirement of bonds, and since contribution payments are made into it pursuant to appropriation, it would seem that appropriations for payments out of the fund would not be necessary. If, however, an appropriation is required, the above entry does not apply. Instead, the following entry is made at the time of appropriation:

Reserve for Retirement of Sinking Fund Bonds	$2,000,000	
Appropriations		$2,000,000
To record appropriation out of the reserve for retirement of sinking fund bonds.		

Subsequently, the Appropriations account is charged with the amount of maturing bonds, the entry being

Appropriations	$2,000,000	
Matured Bonds Payable		$2,000,000
To record charge against appropriation for amount of maturing bonds and to set up maturing bonds as a liability of the sinking fund.		

Balance sheet at maturity. The balance sheet of the fund, in the case of the figures illustrated, will appear as follows:

Figure 36

A GOVERNMENTAL UNIT
Sinking Fund
Balance Sheet
Date

Assets		
Cash		$1,955,540
Taxes Receivable—Delinquent	$55,000	
Less—Reserve for Estimated Losses	11,000	44,000
Interest and Penalties Receivable on Taxes	$ 510	
Less—Reserve for Estimated Losses	50	460
		$2,000,000
Liabilities		
Matured Bonds Payable		$2,000,000

Two problems present themselves. The first problem relates to the liquidation of delinquent taxes. Even though the taxes will ultimately be collected, cash is required for the payment of the bonds. If the government has many sinking funds, and if the law permits, part of the cash available in other sinking funds may be used. When delinquent taxes are collected, the appropriate sinking fund is replenished. Frequently, the general fund may lend the sinking fund money for this purpose, or it may take over the taxes itself and advance the necessary money to the sinking fund. If the law prohibits advances or loans from such funds, short-term borrowing may be necessary.

The second problem is the disposition of surpluses and deficits. In the above case, it was assumed the fund had the exact amount of cash and other assets to retire the bonds. Suppose, however, that the fund had more assets than were needed to retire the bonds; that is, it had a surplus. In that case, if the law permits, the surplus would be transferred to another sinking fund, especially if the latter's contributions or earnings are short of requirements. Sometimes, however, the surplus is transferred to the general fund. Similarly, if the fund had a deficit, the latter might be made up by transfers from the general fund, by an additional tax levy, or by transfers of surpluses of other sinking funds. Normally the surplus or deficit of a sinking fund will be small, for the simple reason that adjustments will have been made from time to time throughout the life of the fund. Deficits are sometimes particularly large, however, because of neglect to make contributions at proper intervals or because of failure to compute actuarial requirements properly. A special tax may have to be levied in such instances, or, if the deficit is too large, the bonds may have to be refunded, and there may even be a default.

Let us assume that a loan has been secured from the general fund. The entry at the time the money is received will be as follows:

Cash	$10,000	
Due to General Fund		$10,000
To record loan from general fund		

The disposal of surplus is recorded by a debit to Unappropriated Surplus and a credit to Cash. The Unappropriated Surplus account is, of course, not transferred to another fund until the delinquent taxes are collected and the loss on uncollectible taxes is definitely determined. A deficit is eliminated from the accounts by a debit to Cash and a credit to the Unappropriated Surplus account.

Bonds may be paid either through the governmental unit's treasury department, through a fiscal agent, or through both. The accounting procedure involved in the recording of the payment of bonds that have matured will be discussed in Chapter 19.

Single sinking fund for several bond issues. The law sometimes permits the establishment of one sinking fund for several bond issues. In that case, the procedure is the same as for a single-issue sinking fund. That is, the amount of required contributions and the amount of required earnings are determined for each bond issue, and a Reserve for Retirement of Sinking Fund Bonds account is established for each issue. However, as contributions and earnings are received, no attempt is made to allocate them to any particular bond issue. All contributions are credited, instead, to the Contribution Revenues account and all earnings to the Earnings account. Similarly, no attempt is made to allocate to individual issues any surplus or deficit. The excess of total contributions and earnings over requirements is recorded in the Unappropriated Surplus account. If the total actual contributions and earnings for any year fall short of requirements, the difference is charged against any existing surplus, and, if none exists, the difference is shown as a deficit. The Reserve for Retirement of Sinking Fund Bonds account is the only account that is segregated by individual bond issues. If many bond issues are involved, a single Reserve for Retirement of Sinking Fund Bonds account is established for all the bonds. This reserve is supported by individual Reserve for Retirement of Sinking Fund Bonds accounts for each bond issue.

The trial balance illustrated on the following page indicates, as of the beginning of a fiscal year, the nature of a sinking fund established for the purpose of retiring several bond issues.

Cash	$ 21,050	
Taxes Receivable—Delinquent	51,200	
Reserve for Estimated Losses—Delinquent Taxes		$ 5,400
Interest and Penalties Receivable on Taxes	400	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		40
Investments	216,000	
Reserve for Retirement of Sinking Fund Bonds:		
Bridge Bonds		94,100
City Hall Bonds		75,580
Hospital Bonds		112,720
Unappropriated Surplus		810
	$288,650	$288,650

The transactions and entries shown below illustrate the procedure in handling a sinking fund established to retire several bond issues.

Transactions

1. Required contributions and earnings for the year are as follows:

Bonds	Contributions	Earnings	Total Required
(a) Bridge	$ 6,900	$3,000	$ 9,900
(b) City Hall	5,220	2,400	7,620
(c) Hospital	8,180	3,600	12,080
	$20,600	$9,000	$29,600

2. Tax levy was made sufficiently large to provide for contributions and for estimated losses of $600.

3. Taxes collected amounted to $16,400.

4. Interest of $9,050 was received.

5. Investments of $24,000 were made. (Assume that no premiums, discounts, or accrued interest purchases were involved.)

6. Uncollected taxes were set up as delinquent, and a corresponding transfer was made to the reserve for estimated losses on delinquent taxes.

7. Interest and penalties accrued on taxes amounted to $45 and a reserve for estimated losses of $5 was provided.

8. Closing entries were made at the end of the fiscal year.

Entries

1. Required Installment Contribution	$20,600	
Required Earnings	9,000	
Reserve for Retirement of Sinking Fund Bonds:		
Bridge Bonds		$ 9,900
City Hall Bonds		7,620
Hospital Bonds		12,080

To record contributions and requirements for the year as follows:

Bonds	Contributions	Earnings	Total Required
Bridge	$ 6,900	$3,000	$ 9,900
City Hall	5,220	2,400	7,620
Hospital	8,480	3,600	12,080
	$20,600	$9,000	$29,600

2.	Taxes Receivable—Current	$21,200	
	Reserve for Estimated Losses—Current Taxes		$ 600
	Contribution Revenues		20,600
	To record levy of taxes for required contributions to sinking fund.		
3	Cash	16,400	
	Taxes Receivable—Current		16,400
	To record collection of taxes		
4	Cash	9,050	
	Earnings		9,050
	To record receipt of interest on investments.		
5	Investments	24,000	
	Cash		24,000
	To record investment of sinking fund money.		
6	Taxes Receivable—Delinquent	4,800	
	Reserve for Estimated Losses—Current Taxes	600	
	Taxes Receivable—Current		4,800
	Reserve for Estimated Losses—Delinquent Taxes		600
	To record setting up of delinquent taxes		
7.	Interest and Penalties Receivable on Taxes	45	
	Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		5
	Contribution Revenues		40
	To record interest and penalties accrued on taxes		
8.	(a) Contribution Revenues	20,640	
	Required Installment Contribution		20,600
	Unappropriated Surplus		40
	To record closing out of accounts showing actual revenues and requirements.		
	(b) Earnings	9,050	
	Required Earnings		9,000
	Unappropriated Surplus		50
	To record closing out of Earnings account into account showing required earnings.		

Balance sheet for consolidated sinking fund. The following is an illustration of a balance sheet for a sinking fund established to retire several bond issues. The statement is based on the above opening trial balance and the subsequent entries.

Figure 37

A GOVERNMENTAL UNIT
Consolidated Sinking Fund
Balance Sheet
at Close of Fiscal Year

Assets

Cash		$ 22,500
Taxes Receivable—Delinquent	$ 56,000	
Less—Reserve for Estimated Losses	6,000	50,000
Interest and Penalties Receivable on Taxes	$ 445	
Less—Reserve for Estimated Losses	45	400
Investments		240,000
		$312,900

Reserves and Surplus

Reserve for Retirement of Sinking Fund Bonds		
Bridge Bonds	$104,000	
City Hall Bonds	83,200	
Hospital Bonds	124,800	$312,000
Unappropriated Surplus		900
		$312,900

Note that the assets are not identified with particular bond issues. And the only indication that the fund has been set up for the retirement of the three bond issues is the subdivision of the Reserve for Retirement of Sinking Fund Bonds account. However, even this subdivision is significant only for the purpose of recomputing requirements or retiring a particular bond issue. For example, it is evident that bond issues will not all be retired simultaneously. Suppose, therefore, that one issue has matured and is to be retired. In that case, it is necessary to know how much of the reserve must be closed out. Further, if the fund has a deficit, it may be desirable to know how much of the deficit is applicable to the retiring issue. This information may be of particular significance if the deficit arose because of some peculiar circumstances and is expected to be canceled ultimately through increased earnings. Since the particular issue will be retired, there will be no opportunity to make up its share of the deficit, and a special contribution is required.

The procedure in recording bonds retired is the same as for a single-issue sinking fund. As bonds mature, the Reserve for Retirement of Sinking Fund Bonds account is debited and the Matured Bonds Payable account is credited (if we assume that no appropriation is required for the retirement of sinking fund bonds). One advantage in accounting for various issues through a single fund is that at the maturity of any one issue all the assets of the fund need not be liquidated, since contributions and

earnings received on other issues can be applied to this purpose.

Accounting for groups of sinking funds. Let us assume that the government has several bond issues but that the law does not permit the consolidation of all bond issues in one fund. In that case, a separate fund is established for each issue. The procedure is the same as for the establishment of one fund, except for pooled investments. Even though each fund is accounted for separately, it may be desirable to pool the money of the various funds for investment purposes. In that case, the problem becomes one of maintaining a proper record of each sinking fund's contribution to the pool. Earnings and losses on investments are allocated among the various funds on the basis of their contributions. Since the law is assumed to require separate sinking funds, a separate balance sheet must be prepared for each fund. Prior to the preparation of balance sheets, the equity of each fund in the pooled investments is determined.

If there are a few funds, they may be presented in a combined balance sheet arranged in columnar form, as follows:

A GOVERNMENTAL UNIT
Sinking Funds
Balance Sheet
Date

Total	County Bridge Bonds	County Home Bonds	County Building Bonds

If numerous sinking funds exist, only the figures in the "Total" column need be shown in the main balance sheet. But a subsidiary schedule, giving the details for each fund, must be prepared. This schedule is set up in the same manner as the sinking fund heading illustrated above. In other words, if the government has a few sinking funds, the details for each sinking fund can be shown in the main statement; if the government has many funds, the same statement becomes a subsidiary schedule, and only the totals are shown in the main statement. It should be remembered, however, that a subsidiary schedule must be prepared in order that the details for each fund may be readily obtained and that proper reference must be made to the schedule in the principal statement.

Accounting for utility sinking funds. The accounting principles and procedures thus far discussed apply to sinking funds established for the retirement of general bonds. Sinking funds established to retire utility bonds or to retire any other bonds payable from the revenues of self-supporting enterprises require additional accounting. This procedure will be described in connection with the discussion of utility funds.

CHAPTER 9

Working Capital Funds

A WORKING capital fund is established to finance internal service activities rendered to a government's own departments. This fund should be distinguished from a utility fund, which finances services rendered for compensation to the general public. The operation of prison industries, such as license-plate factories established in state penal institutions, cement plants, asphalt plants, central garages, central storerooms, and central printing plants are activities financed from working capital funds. Although working capital funds may be found in all governments, they are more likely to exist in states, counties, and municipalities. Again, they are more likely to be found in large governmental units.

Establishment of working capital fund. A working capital fund is established by setting aside a certain sum of money for the fund's use. This money may be obtained by appropriation from the general fund, through the sale of bonds, and in some cases through capital advances from other governments. The fund continues to operate as long as the activity it finances is carried on. As the expenditures involved in carrying out these activities are incurred, the cash of the fund is reduced; but it is subsequently replenished by cash received for services.

The first step in the establishment of the fund is the receipt of capital. The entry to record this transaction is a debit to Cash and a credit to a Capital account. The next step is to secure the fixed assets with which the government is to carry on its operations. Let us assume that the fund has reached the point where these assets have already been obtained and have been set up on the records. A balance sheet of the working capital fund would at this point, if we assume the figures shown, appear as illustrated in Figure 38.

Operation of working capital fund. In studying the operations of the working capital fund, it is important to remember that the fund is intended to be self-supporting; that is, the accounting procedure must insure that the capital of the fund remains intact. Of course, it may be desirable to increase or decrease the capital

Figure 38

A GOVERNMENTAL UNIT

Working Capital Fund
Balance Sheet
Date

Assets

Current Assets:		
Cash		$ 75,000
Fixed Assets:		
Land	$10,000	
Buildings	40,000	
Machinery	10,000	60,000
		$135,000

Capital

Capital	$135,000

of the fund. For example, activities may increase to such an extent as to make desirable an increase in capital, or they may decrease sufficiently to justify a decrease in capital. These are problems of financial administration and need not concern us particularly here. From an accounting standpoint it is important that capital increases or decreases should be reflected in the records.

The working capital fund should be accounted for on the same basis as a private business. The accounting system must make possible a comparison of income and expenses in order to arrive at the profit or loss for a particular period.

It is usually *unnecessary* to prepare a budget for the activities financed by the working capital fund, since each department will have prepared estimates for its part of such activities. However, it may be desirable to combine all of these estimates and arrive at the total estimated expenditures to be financed by the fund. Such a budget is not, however, legally binding. No specific legislative authorizations are usually necessary for making expenditures out of the working capital fund. In other words, expenditures may be incurred without an annual appropriation. Since the fund finances activities rendered for other departments, appropriations will have been made for such expenditures in the budgets of the other departments. Encumbrances and Reserve for Encumbrances accounts need not be set up in this fund. Annual estimates are for managerial purposes only, and budgetary accounts should not be combined with proprietary accounts in a single statement. Under ordinary circumstances the estimates of revenues and expenditures are carried as memoranda accounts and are not made part of the formal records.

In order to illustrate clearly the operation of a working capital

fund, let us assume that the fund is established to finance the operation of a central automotive equipment bureau. Automotive equipment consists of automobiles, trucks, tractors, and similar equipment. The bureau may own the equipment, or it may merely service the equipment purchased by the various departments. Throughout the following discussion it is assumed that the bureau owns the automotive equipment, but we shall indicate subsequently the modifications in accounting procedure necessary to make the discussion applicable to the operations of central equipment bureaus which merely service the equipment.

Transactions. The procedure in accounting for the operations of a central equipment bureau may be summarized as follows: The quantity of services rendered for various departments is recorded; that is, the hours or miles each piece of equipment serves each job or each department. A record is also kept of the cost of operating each piece of equipment. Subsequently, departments are billed for an amount sufficient to recover the full cost of rendering the service. The following transactions and entries illustrate more specifically how a central equipment bureau operates:

Transactions

1. Purchased equipment for $40,000.

2. Materials and supplies purchased for $10,000.

3. Salaries and wages paid, $20,000, distributed as follows:

Direct Labor	$10,000
Indirect Labor	3 000
Superintendent's Salary	3,500
Office Salaries	3,500

4. Heat, light, and power paid, $2,000.

5. Depreciation:

Buildings	$2,400
Machinery	1,200
Equipment	8,000

6. Total billings to departments for services rendered, $42,800, of which $30,000 is chargeable to the general fund and $12,800 is chargeable to the utility fund.

7. Vouchers payable to the amount of $42,500 paid.

8 Office expenses, $200.

9 Materials and supplies issued during period, $7,000.

Entries

1.	Equipment	$40,000	
	Vouchers Payable		$40,000
	To record purchase of equipment		
2.	Inventory of Materials and Supplies	10,000	
	Vouchers Payable		10,000
	To record purchase of materials and supplies.		
3.	Direct Labor	10,000	
	Indirect Labor	3,000	
	Superintendent's Salary	3,500	
	Office Salaries	3,500	
	Cash		20,000
	To record expenses for salaries and wages		
4.	Heat, Light, and Power	2,000	
	Cash		2,000
	To record heat, light, and power expense.		
5	Depreciation—Buildings	2,400	
	Depreciation—Machinery	1,200	
	Depreciation—Equipment	8,000	
	Reserve for Depreciation—Buildings		2,400
	Reserve for Depreciation—Machinery		1,200
	Reserve for Depreciation—Equipment		8,000
	To record depreciation expenses.		
6.	Due from General Fund	30,000	
	Due from Utility Fund	12,800	
	Billings for Services		42,800
	To record billings to departments.		
7.	Vouchers Payable	42,500	
	Cash		42,500
	To record payment of vouchers payable.		
8.	Office Expenses	200	
	Cash		200
	To record miscellaneous office expenses.		
9.	Materials and Supplies	7,000	
	Inventory of Materials and Supplies		7,000
	To record cost of materials and supplies used.		

Trial balance before closing entries. After these entries have been posted, the trial balance of the accounts of the working capital fund will appear as follows:

Cash	$ 10,300	
Due from General Fund	30,000	
Due from Utility Fund	12,800	
Inventory of Materials and Supplies	3,000	
Land	10,000	
Buildings	40,000	
Reserve for Depreciation—Buildings		$ 2,400
Machinery	10,000	
Reserve for Depreciation—Machinery		1,200
Equipment	40,000	
Reserve for Depreciation—Equipment		8,000
Vouchers Payable		7,500
Capital		135,000
Billings for Services		42,800
Materials and Supplies	7,000	
Direct Labor	10,000	
Indirect Labor	3,000	
Superintendent's Salary	3,500	
Depreciation—Buildings	2,400	
Depreciation—Machinery	1,200	
Depreciation—Equipment	8,000	
Heat, Light, and Power	2,000	
Office Salaries	3,500	
Office Expenses	200	
	$196,900	$196,900

Closing entries. Closing entries are made to arrive at the profit or loss for the period and to close the books. The following are the closing entries on the basis of the transactions illustrated above:

Direct Cost	$25,000	
Materials and Supplies		$ 7,000
Direct Labor		10,000
Depreciation—Equipment		8,000
To record direct cost.		
Cost of Services Rendered	40,800	
Direct Cost		25,000
Indirect Labor		3,000
Superintendent's Salary		3,500
Depreciation—Buildings		2,400
Depreciation—Machinery		1,200
Heat, Light, and Power		2,000
Office Salaries		3,500
Office Expenses		200
To record total cost of services rendered.		
Billings for Services	42,800	
Cost of Services Rendered		40,800
Net Income		2,000
To arrive at net income.		
Net Income	2,000	
Unappropriated Surplus		2,000
To record transfer of net income to unappropriated surplus.		

Balance sheet after closing entries. The balance sheet, after closing entries, will be as follows:

Figure 39

A GOVERNMENTAL UNIT
Working Capital Fund
Balance Sheet
Date

Assets

Current Assets:			
Cash		$10,300	
Due from General Fund		30,000	
Due from Utility Fund		12,800	
Inventory of Materials and Supplies		3,000	$ 56,100
Fixed Assets:			
Land		$10,000	
Buildings	$40,000		
Less—Reserve for Depreciation	2,400	37,600	
Machinery	$10,000		
Less—Reserve for Depreciation	1,200	8,800	
Equipment	$40,000		
Less—Reserve for Depreciation	8,000	32,000	88,400
			$144,500

Liabilities, Capital, and Surplus

Vouchers Payable	$ 7,500
Capital	135,000
Unappropriated Surplus	2,000
	$144,500

The fixed assets employed in carrying out the operations of the working capital fund are included in its balance sheet. These assets are responsible for the accrual of revenues to the fund in the same manner as inventories. Their existence is essential to the operation of the enterprise. Consequently, depreciation must be taken into account, and provision must be made for their eventual replacement. The means of financing the replacement of fixed assets are provided through depreciation charges. Since departments are billed for overhead charges, including depreciation, part of the money received from departments represents depreciation charges. The money representing depreciation charges may be set up in a separate fund to insure its availability to replace assets, or it may be made part of the working capital fund's general cash and used for various purposes, pending the replacement of the assets. In the present case, it is assumed that no segregation is made. The accounting procedure involved in making the segregation is discussed in Chapter 18.

Bonds sold for working capital fund purposes are not shown

in the working capital fund balance sheet, unless the resources of the fund are used to pay off these bonds. Usually, however, such bonds will be paid out of general taxation or sources such as utility earnings (in the case of working capital funds furnishing services to a utility department). However, if a working capital fund is dissolved, some of its assets may be used to retire bonds still outstanding.

Income and expense statement. The income and expense statement of a working capital fund is similar to an industrial or commercial income and expense statement. This similarity is evident from the statement presented below, which is based on the entries previously illustrated.

Figure 40

A GOVERNMENTAL UNIT
Working Capital Fund
Income and Expense Statement
for Period

Billings for Services		$42,800
Less—Direct Costs:		
Materials and Supplies	$ 7,000	
Direct Labor	10,000	
Depreciation—Equipment	8,000	25,000
Gross Profit		$17,800
Less—Other Costs:		
Indirect Labor	$ 3,000	
Superintendent's Salary	3,500	
Depreciation Buildings	2,400	
Depreciation—Machinery	1,200	
Heat, Light, and Power	2,000	
Office Salaries	3,500	
Office Expenses	200	15,800
Net Income		$ 2,000

As intimated before, the above procedure applies to those cases where a central equipment bureau owns the equipment. However, the procedure would not be materially different if the equipment were owned by the individual departments. In fact, the only difference is that billings to departments would be reduced by the amount of the depreciation charges. Depreciation may be computed in such an event, but the computation would be made merely for statistical purposes to determine the total cost, including depreciation, of operating each piece of equipment. In other words, depreciation of equipment would not be included as part of the expenses of operating the central equipment bureau, nor would depreciation charges be included in the income and expense statement. The cost of the new equipment would be recorded as an appropriation expenditure and charged against the appropriation

of the particular organization unit for which the equipment was purchased.

Even if the fixed assets are owned by the various departments, they should be carried as part of the working capital fund and valued at their cost to the original department donating them. In the first place, these assets are used in carrying on the activities of the fund. Secondly, the reporting of such assets as part of the fund is essential if the proper officials are to be held responsible for their custody. Thirdly, for replacement purposes it is necessary to be able to identify the assets with the fund. Finally, the identification of assets is necessary also for the purpose of preparing depreciation data. No reserve for depreciation need be set up, but a notation should be made opposite each fixed asset account to indicate the cumulative amount of depreciation. This amount would be based on the depreciation charges calculated for statistical purposes.

Relationship between billings for services and net income. Whether a working capital fund operates at a profit or at a loss will depend on the amount charged departments. Charges to departments may be made sufficiently high to result in a profit, they may be made so low that a loss results, or they may be sufficient merely to keep the capital intact—that is, to recover only the actual cost. Usually charges should be made large enough to recover only actual costs, because the fund is established to render a service and not to make a profit.

Frequently, however, the equipment bureau will operate at a profit or a loss, even though the charges are intended to cover only the cost of operating the equipment. The reason will become apparent after we examine the procedure followed in charging departments for services. This procedure may be described briefly as follows: A record is kept of the number of miles or the number of hours each piece of equipment works for each department. The amount to be charged is arrived at by multiplying the rental rate for the piece of equipment by the number of miles it covers or the number of hours it is used. A separate rental rate is established for each piece of equipment, based on the estimated cost of operation. The procedure for arriving at the cost is described in Chapter 20.

Were it possible to base the rental rates on actual cost at the close of a fiscal year, the working capital fund would seldom end its operations with either a profit or a loss. However, a predetermined rental rate is generally used for the following reasons: Some expenses are not determinable until the end of the month, whereas it may be desirable to bill departments before that time so

that they may know how much expense to charge to jobs and activities at any time. Furthermore, charges based on actual monthly costs are likely to spread the burden unequally among departments. For example, assume that extensive repairs had been made on a truck in June. If the actual cost incurred in that month were charged to the departments which used the equipment in June, they would be charged with the cost of the repairs, whereas departments which used the equipment in several previous or succeeding months would escape these charges. Furthermore, even if one department used the equipment throughout the entire year, charges based on actual cost would, in the above case, result in an unequal distribution of the burden among jobs and activities carried on by the particular department as between June and other months.

As already indicated, rental rates may be expressed in terms of miles or hours. For passenger automobiles, the rates usually are expressed in terms of miles, whereas for trucks, tractors, and similar equipment the rate is expressed in terms of hours. The rates are estimated as follows: At the beginning of each year the miles or hours which the equipment will work during the year are estimated. The cost of operating the particular piece of equipment is also forecast. The rate per mile or hour is then arrived at by dividing the total estimated cost by the estimated number of miles or hours of use. For example, assume that it is expected that during the year a certain automobile will cost $600 to operate and will cover 12,000 miles. The rental charge would in that case be $.05 per mile, and each department using the automobile would be charged at that rate.

The fact that a predetermined rental rate is based on estimates has some disadvantages. If estimates are correct, the amount of earned rentals for each piece of equipment should closely approximate the cost of operating the piece of equipment. In practice, however, because of an overestimate or an underestimate of cost or of the amount of miles or hours run, the amount of earned rentals will be greater or smaller than actual cost. Theoretically, both the charges arising out of the excess of cost over rentals and the credit arising out of the excess of rentals over cost should be allocated among the various departments. It may, however, be impossible or impracticable to correct the previous charges, and the working capital fund will therefore end its operations with a profit or a loss. If the operations of the fund have resulted in a profit, the customary procedure is to lower the rates for the following period, so that the profit may be absorbed through the loss which will result from the lower rate. If, on the other hand, operations

result in losses, these may be made up through raising the rates for the succeeding period. If profits are small, they are frequently retained in the fund to absorb losses.

Central stores bureau. Another example of accounting for working capital fund transactions is to be found in a central stores bureau. Such a bureau is established for the purpose of purchasing and storing materials for eventual distribution to departments. To simplify the discussion, it is assumed no appropriations are required for the bureau's expenditures.

The first step in the accounting process occurs here when the invoice is approved for payment. At that time, an entry is made to record the expenditure and to set up the liability. The entry is as follows:

Inventory of Materials and Supplies	$20,000	
Vouchers Payable.		$20,000
To record the purchase of materials and supplies.		

Note that the debit is not made to a Purchases account but directly to an Inventory of Materials and Supplies account. The reason is that, where a central storeroom is in operation, perpetual inventory records must be kept.

The procedure in recording on the perpetual inventory cards the materials and supplies received is as follows: A separate card similar to that illustrated in Figure 41 is set up for each item carried in stock. The receipt of materials is entered on these cards. Some governmental units enter only the quantity received, whereas others enter also the total cost and the unit price. Freight charges are a part of the cost of the materials. The unit price, therefore, may be said to consist of the purchase price plus transportation expenses divided by the number of units purchased. Frequently, however, even if the unit price is entered on the stock card, the total cost of the materials received or on hand is not shown on the card.

Materials purchased for central storerooms are not charged against appropriations until they are actually withdrawn by departments. The procedure in withdrawing materials and charging appropriations is as follows: When a department needs materials, it fills out a stores requisition. This requisition is made out at least in duplicate and is presented to the storekeeper. The storekeeper hands over the amounts called for on the requisition and has the employee receiving the materials sign one copy of the requisition. This copy is retained by the storekeeper as evidence that the materials have been withdrawn and is also used as the basis of posting to the proper stock cards the amount of units withdrawn

Figure 41

A GOVERNMENTAL UNIT
Stock Record

Location	Description	Article
Maximum Minimum		

No.	Vendor	No.	Vendor	No.	Vendor
1		4		7	
2		5		8	
3		6		9	

Received					Issued				Issued			
Date	Vendor Number	Quantity	Cost	Unit Price	Date	Requisition Number	Quantity Issued	Balance on Hand	Date	Requisition Number	Quantity Issued	Balance on Hand
1	2	3	4	5	6	7	8	9	10	11	12	13

to reduce the amount shown by the card to be on hand. Subsequently, individual items on the requisition are priced and the total cost of materials withdrawn on the particular requisition is computed. Sometimes requisitions are priced before they are filled, in order to see that the cost of materials requisitioned does not exceed the amount available to the credit of the appropriation, but this procedure is not always practicable.

Requisitions are priced by multiplying the number of units withdrawn by the unit price. However, different units may have been acquired at different prices. For example, let us assume that receipts, unit costs, and withdrawals of a certain type of material were as follows:

Date Received	Number of Units Received	Cost per Unit	Units Withdrawn	Number of Units on Hand
Jan. 20	1,000	$1.00	—	1,000
Jan. 28	500	1.05	—	1,500
Feb. 15	2,500	1.06	—	4,000
Feb. 25	—	—	2,500	1,500

It would usually be found impracticable to determine from which shipment the 2,500 units withdrawn were taken. One of the simplest methods of pricing requisitions is to assume that the materials first received were those first used. The above requisition would, under this assumption, be priced as follows:

Number of Units Withdrawn	Cost per Unit	Cost of Materials Withdrawn
1,000	$1.00	$1,000
500	1.05	525
1,000	1.06	1,060
2,500		$2,585

Governmental units also use other methods of pricing requisitions. For example, an equally common method in larger governmental units is to compute a new average unit cost every time a shipment of materials is received. The first-in, first-out method of pricing materials is therefore presented merely as an example.

As we have indicated, the unit price includes the purchase price plus transportation expenses. If the working capital fund is to be kept intact, it is necessary also to recover overhead costs, such as the salary of the purchasing agent, wages of storekeepers, and amounts expended for heat, light, and power. Usually these expenses are allocated to each requisition as a predetermined percentage of the cost of the materials withdrawn. The percentage is determined by dividing the estimated total stores expenses by

the total estimated cost of materials to be issued. To illustrate the procedure, assume that total stores expenses for the forthcoming year are estimated to be $20,000 and that the cost of the materials which will be withdrawn during the same period is estimated to be $500,000. In that case, the overhead rate applicable to materials issued is 4 per cent ($20,000 ÷ $500,000), and the amount of overhead to be charged to the requisition illustrated above is $103.40 (4 per cent of $2,585).

As soon as the requisition is priced, information is available for the purpose of billing the department withdrawing the materials. The entry to record the billing is as follows:

Due from General Fund	$2,688 40	
Sales of Materials to Departments		$2,688.40
To record issuance of materials and supplies to Department of Public Works on Requisition 1405		

Note that the general fund is billed for both the cost of the materials and a portion of the estimated overhead expenses ($2,585 + $103.40). At the time the materials are withdrawn, an entry is made setting up the direct cost of the materials issued, the entry being

Cost of Materials Issued	$2,585	
Inventory of Materials and Supplies		$2,585
To record cost of materials issued to Department of Public Works on Requisition 1405.		

Entries to record actual overhead expenses in the working capital fund are made at the time the expenses are incurred and not at the time materials are issued. For example, at the time that storekeepers' salaries are approved for payment the following entry is made:

Operating Expenses	$1,000	
Vouchers Payable		$1,000
To record storekeepers' salaries. Subsidiary account.		
Debit Salaries and Wages, $1,000.		

At the end of the year, however, if overhead rates have been correctly estimated, the exact amount of overhead will have been recovered. Otherwise, the working capital fund will have either underabsorbed or overabsorbed overhead.

Under the system of accounting for materials described here, the inventory of materials on hand can be ascertained from the records at any time. To insure that the materials as shown by the records are actually on hand, a physical inventory is taken at least annually. Usually the actual amount of materials on hand as revealed by a physical count will be smaller than the amount shown by the records. The variation may be due to such factors

as shrinkage, breakage, theft, or improper recording. In any event, the records must be adjusted to correspond with the actual physical count by making entries on each perpetual inventory card affected. The Inventory of Materials and Supplies account in the general ledger must also be adjusted. The procedure is as follows: The number of units of each type of material not accounted for (that is, the number of units representing the difference between the amount given by the records and the amount revealed by the actual count) is priced in the same manner as materials issued on requisitions. These amounts are then totaled to arrive at the cost of materials not accounted for by requisitions, and an entry is subsequently made in the general ledger reducing or increasing the inventory valuation carried. If it is assumed that the amounts according to physical count are less than the amounts shown on the records, the entry is as follows:

Inventory Losses	$2,000	
Inventory of Materials and Supplies		$2,000
To record inventory losses as revealed by actual physical count.		

Inventory losses represent one of the costs which the working capital fund must recover if the capital of the fund is to be kept intact. Consequently, the Inventory Losses account is considered one of the overhead costs, in the same manner, for example, as storekeepers' salaries. And, in estimating the overhead expenses of the central storeroom for the purpose of establishing the overhead rate to be applied to requisitions, inventory losses are taken into account. In other words, departments must be charged a sufficient amount to recover (1) the actual cost of the materials withdrawn, (2) overhead expenses, and (3) losses on inventories.

A balance sheet like that illustrated in Figure 39 and an income and expense statement similar to that illustrated in Figure 40 are prepared at the end of the year or at more frequent intervals. The income and expense statement shows the sales to departments, the direct cost of the materials issued, and overhead expenses (including inventory losses). The procedure in disposing of net income or net losses resulting from overabsorbed or underabsorbed overhead expenses is the same as for a central equipment bureau financed from a working capital fund.

Thus far we have discussed the entries to be made in the working capital fund. Corresponding entries are, of course, made for the departments receiving the particular materials. In the case of a public works department whose activities are financed from the general fund, the entry is as follows:

Appropriation Expenditures	$2,688.40	
Due to Working Capital Fund		$2,688.40
To record receipt of materials by the Department of Public Works and its liability to working capital fund. Subsidiary account: *Debit* Department of Public Works, $2,688.40.		

Materials withdrawn by departments from a central storeroom and on hand at the close of the year should be treated in the same manner as materials on hand at the close of the year which have been acquired by direct purchase.

Sometimes a storeroom system for a single department is financed from a working capital fund. Materials and supplies in that case are accounted for in the same manner as those handled through a central storeroom established for all departments.

Dissolution of working capital fund. A working capital fund operates for a long period of time. When the services financed by the fund are no longer needed, or when some preferable method of financing them is found, the fund is dissolved. The net current assets of a dissolved fund are usually transferred to the funds from which the capital was originally secured. However, as stated before, if capital was secured through the issuance of bonds, the net current assets are not transferred to the bond fund but to the fund which will be used in retiring the bonds.

Fixed assets are usually transferred to the department or departments which have contributed the capital or to other departments which can use them best. Unless transferred to one of the governmental unit's utilities, the assets are recorded with the general fixed assets of the government. If transferred to a utility, they are set up as part of the utility fund. Proceeds from the sale of such assets are handled in the same manner as other current assets.

Summary. The accounting procedure for a working capital fund is similar in most respects to that of a business enterprise carrying on like activities. As in business, it is important to determine whether the enterprise is being operated at a profit or a loss or is breaking even. Normally appropriations are not made for the working capital fund, so that it is not necessary to set up budgetary accounts. It is, however, desirable to take account of estimated revenues and expenditures, so that the activities financed by the fund may be properly planned and enough work will be done to carry overhead costs. This purpose may be accomplished through memoranda accounts.

CHAPTER 10

Special Assessment Funds

SPECIAL assessment funds are established to account for the financing of improvements or services from special charges levied against the properties or persons benefited. Street cleaning and street lighting represent services sometimes financed from special assessments. The accounting procedure for assessment funds established to finance service activities is simple. Such a procedure requires the keeping of proper records of the amount assessed against and collected from each property or person and seeing that the money is applied to the purposes of the fund. Special assessments are, however, more significant in the financing of construction projects, such as sewers, pavements, and street widening. This chapter will therefore deal with accounting for special assessments levied to finance public construction projects.

Special assessments accounting procedure is complicated by the fact that usually property owners are permitted to pay their assessments over a number of years. In the meantime, construction expenditures must be financed from other sources. Sometimes a working capital fund is established to finance construction projects. Fund capital is secured through a special tax levy, through the issuance of bonds, or through a transfer from the general fund. Construction expenditures are met out of this fund, which is subsequently reimbursed from special assessment collections. The money is used again to finance later projects.

More frequently, however, special assessment projects are financed through bond issues. Either general-special assessment bonds or special-special assessment bonds are issued. A general-special assessment bond is one that becomes a charge against the full faith and credit of the governmental unit if assessment collections are inadequate to meet maturing interest or principal payments. A special-special assessment bond is one which is not a charge against the governmental unit as a whole but only against the assessment money collected, or against the properties benefited. The government's responsibility in the case of special-special assessment bonds is merely to enforce collections and to handle proceeds properly.

Usually serial bonds are issued, with maturity dates arranged so that part of the issue may be retired as soon as a special assessment installment is collected. Frequently, too, bonds are made payable from particular installment collections. In that case, bonds can be paid only from the collections of the installment to which they apply and no other. Bonds are sometimes made liens against specific pieces of property. Each bond, in that case, is payable solely from the assessments levied against the particular piece of property with which it is identified. In addition, each bond may be identified with particular assessment installments levied against the property. It is important to see, in such cases, not only that each bond is paid from the proceeds of the particular piece of property with which it is identified but also that the proceeds of an installment are applied to the bond identified with that installment.

Authorization of project. The first step in special assessment construction procedure is the authorization of the project. Projects are authorized by the legislative body or special district commissioners after due notice and hearings. Contracts are usually made after the project is authorized, although in a few cases proposals may be received in advance. The authorization is based on estimates submitted by contractors or, if the project is to be constructed by the government's own labor forces, on engineers' estimates. A sufficient amount must be authorized to cover not only the actual construction cost but also supervisory expenses, cost of surveys, and engineering and collection expenses.

The entry to record the authorization of a project is as follows:

Improvements Authorized . .	$500,000	
Reserve for Authorized Expenditures		$500,000
To record authorization of special assessment project.		

Authorization and sale of bonds. If construction is to be financed through the sale of bonds, the next step is the authorization to issue bonds. In contrast with the procedure in the bond fund, no entry is made in the special assessment fund to show bond authorizations. The reasons are as follows: (1) In the bond fund, the entry indicates not only the authorization to issue bonds but also the authorization to incur expenditures. In the special assessment fund, as shown above, the authorization to incur expenditures is recorded by a separate entry. (2) General bonds are not retired from bond funds, and bonds payable are therefore not shown as a liability of those funds. On the other hand, special assessment bonds are retired through special assessment funds and are shown as liabilities of these funds. Since the bond liability is

indicated in the special assessment fund itself and since the bonds are usually issued immediately after authorization, it is not necessary to record formally special assessment bond authorizations. (3) General bonds (that is, bonds handled through the bond fund) are not paid from taxes levied at the time the bonds are issued, and it is therefore necessary to record the authorization so as to indicate the authority to levy taxes for the repayment of the bonds. But special assessments for the purpose of retiring bonds are frequently levied before the bonds are issued. (4) The authorization to collect special assessments is much more important than the authorization to issue bonds. The issuance of the bonds is merely an intermediary step; ultimately the bonds are paid from assessment collections. Authorizations to issue special assessment bonds need not therefore be recorded formally in the books, and no bond entries need to be made until the bonds are sold.

If we assume that bonds to the amount of $350,000 are sold at a premium of $1,000, the entry is as follows:

Cash for Construction	$350,000	
Cash for Interest Payments	1,000	
Premiums on Bonds		$ 1,000
Bonds Payable		350,000
To record sale of bonds at a premium		

In the above entry, a segregation is made between cash to be used for construction purposes and cash available for the payment of interest. The special assessment fund accounts not only for the expenditure of bond proceeds for construction purposes but also for the payment of bonds and interest. Since the proceeds from the sale of bonds are to be used for financing construction, the cash received from the sale is specifically earmarked for this purpose. On the other hand, premiums on bonds represent an interest adjustment and should therefore be used only for making interest payments.

On the other hand, if the bonds had been sold at a discount, the entry would be as follows:

Cash for Construction	$349,000	
Discounts on Bonds	1,000	
Bonds Payable		$350,000
To record sale of bonds at a discount		

Since discounts on bonds also represent an interest adjustment, cash for construction should theoretically be reimbursed for $1,000 through a transfer from cash for interest payments. However, money for interest payments will not be received until assessments are levied, at which time property owners are charged interest on assessments receivable. And even after the interest is received,

the money will be used for the payment of interest on bonds. Only the excess of the amount received over the amount paid could be transferred to cash for construction. Again, in many instances interest is not received until construction is completed. In practice, therefore, cash for construction is seldom replenished, and only the amount actually received for the bonds, when sold at a discount, is made available for construction.

Sale of notes. An interval of time may elapse between the authorization of the bond issue and the sale of the bonds. Certain formalities may delay the sale of the bonds, or the delay may arise because of unfavorable market conditions. On the other hand, contractors have to be paid as the work progresses. Sometimes the contractor is paid in bonds, but this form of payment is contrary to sound financial administration. If the sale of the bonds must be delayed, it may be preferable to issue short-term notes. Sometimes such notes are issued even though bonds can be sold immediately after construction is begun. When short-term notes bear a lower rate of interest, a saving in interest is effected. Again, the issuance of notes may make it possible to delay the authorization and sale of bonds until after the project is completed and the exact cost of construction is determined. The advantage of this procedure is that the exact amount of bonds that must be issued is known.

The entry to record the sale of notes is as follows:

Cash for Construction	$340,000	
Notes Payable		$340,000
To record sale of construction notes		

If construction is financed primarily through the sale of notes, the notes may be sold from time to time throughout the construction period.

When the bonds are sold and the notes and interest are paid, the following entries are made:

Cash for Payment of Notes and Interest	$350,000	
Bonds Payable		$350,000
To record sale of bonds.		

Interest Expenses	10,000	
Notes Payable	340,000	
Cash for Payment of Notes and Interest		350,000
To record payment of notes and interest.		

Levying and collecting assessments. The levy of assessments is the next step in special assessment financing. Assessments are levied in some cases when the project is completed and in others as soon as construction is authorized. A brief description of assess-

ment procedure will be of help in understanding special assessment accounting.

Assessments are levied on the basis of benefit. The benefited area is designated as the *benefit district* (sometimes also referred to as the *project* or the *assessment roll*). Districts are numbered and are usually referred to by number. The area of a benefit district varies with the size and nature of the project and the methods of assessing. For example, the widening of a long street will involve a greater benefit area than the widening of a short street. It does not necessarily follow that only the abutting properties are included in the district, but, on the contrary, the district may embrace properties several streets removed from the improvement. In other words, the benefit district and the properties assessed consist of all the parcels which are deemed to be benefited by the improvement, regardless of how far they may be from it.

The governmental unit as a whole may receive some benefit from an improvement and may therefore bear part of the cost. The governmental unit's share will vary, for the reason that property owners are not expected to pay more than the amount of benefit accruing to their properties. If the total benefits are smaller than the cost of the improvement, the government will make up the difference, but, if benefits are equal to or greater than the estimated cost of the improvement, the government may assume no part of the cost. The total benefits and the distribution of cost between the benefited properties and the government at large are both governed by many arbitrary rules.

The governmental unit may also share in the cost of special assessment improvements in the capacity of a property owner. For example, a police station, a fire station, or other government property may be located within the benefit district. Obviously it would be unfair to exempt this property from assessments and spread the cost over the privately owned property. The governmental unit, in the same manner as any property owner, must pay. Assessments on properties owned by governments independent of the governmental unit constructing the project (for example, assessments on state or county property located in a city) cannot ordinarily be levied unless statutes authorize such assessments.

The entry to record the levy of assessments and the governmental unit's share of the cost of the project is as follows:

Assessments Receivable—Current	$ 50,000	
Assessments Receivable—Deferred	350,000	
Governmental Unit's Share of Cost	100,000	
Improvements Authorized		$500,000
To record levy of assessments and government's share of cost.		

Figure 42

A GOVERNMENTAL UNIT
Special Assessment Roll

Name of Property Owner	Legal Description of Property	Total Assessment	Payments					
			Date	Principal	Interest	Date	Principal	Interest

Figure 43

A GOVERNMENTAL UNIT
Individual Special Assessment Record

Name of Owner_____ Date Assessed_____

Legal Description_____

Total Assessment_____ Interest Rate_____ No. of Installments_____

Installment No.	Principal	Interest	Additional Interest		Payments						Remarks
			Date	Amount	Date	Principal	Interest	Date	Principal	Interest	

Special assessments and interest receivable may be recorded either on a special assessment roll, or on individual special assessment records. A special assessment roll is a record showing the assessments levied against each piece of property, payments received thereon, and related information. A form for a special assessment roll is illustrated in Figure 42. Note that only one line is provided for each property. By the use of insert sheets the form may be used where many installments are permitted. Some governments find it more practicable to use individual special assessment records similar to the one illustrated in Figure 43. Sometimes the same record is used to show both ad valorem taxes and special assessments receivable from each particular piece of property.

In spite of the fact that some of the assessments may prove to be uncollectible, no reserve for uncollectible assessments is set up, for the following reasons: The government is acting in a trust capacity; that is, its duty is to see that the assessments are collected and properly disbursed. The trust character of special assessment funds is especially evident in those instances where bonds are a lien against specific properties. As already indicated, the government may use only the proceeds from the assessments of particular pieces of property for the payment of such bonds. The payment of bonds may be further restricted to specific installments from particular pieces of property. Even if general-special assessment bonds are issued, a reserve for uncollectible assessments is impractical. If such a reserve is to be set up, assessments against all the benefited properties must be increased. But these properties are not supposed to be assessed for more than the amount of benefit. If the bonds are general-special assessment bonds, any deficiencies resulting from uncollectible assessments must be made up by the governmental unit.

The governmental unit may finance its share of the cost in various ways. If the amount is large, it may issue general improvement bonds for this purpose. These bonds are treated in the same manner as other general bonds; that is, bond proceeds are handled first through the bond fund and from there are transferred to the special assessment fund.

If the government's share of the assessment cost is small, it may be financed from a special tax levy or through an appropriation from the general fund. Even if the government's part of the cost is large, it may be met through an appropriation or special tax levy. But in that case the government may pay its share in installments. Whether the government will finance its share through a bond issue or tax levy will depend on existing circum-

stances. For example, if the government is subject to a tax limit and is close to that limit, it is more likely to issue bonds. On the other hand, if it has limited bonding power, it may resort to taxation.

The entry to record the collection of current assessment installments is as follows:

Cash for Construction	$45,000	
Assessments Receivable—Current		$45,000
To record collection of current assessments.		

Similarly, the receipt of cash to cover the government's share of the cost is recorded as follows:

Cash for Construction	$50,000	
Governmental Unit's Share of Cost		$50,000
To record transfer of money to cover governmental unit's share of cost.		

The entry would be the same if the government were to pay its share over a number of years, except that the Governmental Unit's Share of Cost account would be divided into two parts to indicate, respectively, the amount due currently and the amount deferred.

Note that the Cash for Construction account was debited in both of the above entries. It is assumed that the first installments, as well as the government's contribution, are to be used for the payment of construction costs. This is true only if assessments are levied as soon as construction is authorized. In such cases, the first installment and the government's contribution are collected soon after work is begun and can be used to finance part of the construction costs. If, however, assessments are not levied until construction is completed, Cash for Bond Payments is debited, since the proceeds will be used for the retirement of bonds.

When deferred assessments become due, they are transferred to the Assessments Receivable—Current account. The entry is

Assessments Receivable—Current	$40,000	
Assessments Receivable—Deferred		$40,000
To record assessments becoming currently receivable.		

Delinquent assessments are set up separately. The entry is

Assessments Receivable—Delinquent	$5,000	
Assessments Receivable—Current		$5,000
To record delinquent assessments representing first installments.		

If delinquent assessments are not paid, the government may secure a lien against the property, and it may have the property sold to satisfy the lien. The accounting procedure involved is described on pages 165–168.

Accounting for interest. Since bonds are issued and interest costs arise because property owners are permitted to pay by installments, the owners are expected to bear the interest cost. The interest rate on assessments may be made a little higher than that which the government pays, for the following reasons: To save interest costs, some property owners may choose to pay the full amount of the assessment. If the government has issued callable bonds, it will reduce interest expenses by calling them in and retiring them. If the bonds are not callable and cannot be purchased in the open market, the government will continue to pay the full amount of interest, although its rate of return on the amount collected will be considerably reduced. Theoretically, the government should refuse to receive the full amount. But in actual practice it is sometimes desirable to receive full payments if the interest losses will be small. Sometimes, too, statutes erroneously provide for the abatement of interest to property owners making full payment. Finally, the government cannot start collecting interest until assessments are levied. Usually, the assessments are made big enough to cover interest expenses up to the time of the first interest collections. If, however, no interest charges are included as part of the cost to be recovered from assessments, the interest rate charged must be sufficient to compensate earlier losses. As interest on assessments becomes receivable, it is set up through the following entry:

Interest Receivable	$17,500	
Interest Revenues		$17,500
To record interest receivable on unpaid installments.		

When interest on bonds becomes due, an entry is made setting up interest expenses and the resulting liability. The entry is as follows:

Interest Expenses	$15,750	
Interest Payable		$15,750
To record interest due on bonds.		

The following entries illustrate the recording of interest receipts and payments:

Cash for Interest Payments	$17,000	
Interest Receivable		$17,000
To record receipt of interest.		

Interest Payable	15,750	
Cash for Interest Payments		15,750
To record payment of interest.		

Accounting for construction expenditures. Special assessment projects, as indicated before, may be constructed either by

contract or by the government's own labor forces. In either case, the accounting procedure is the same as for construction financed from general bonds. For the sake of simplicity, let us assume that the project is constructed by contract. As the contract is awarded, an entry is made setting up the Encumbrances and the Reserve for Encumbrances accounts. If we assume that the contract was for $440,000, the following entry would be made at the time the contract was awarded:

Encumbrances	$440,000	
Reserve for Encumbrances		$440,000
To record awarding of contract		

The contractor submits bills from time to time as the work progresses. As bills are received, the following entries are made:

Reserve for Encumbrances	$100,000	
Encumbrances		$100,000
To record cancellation of encumbrances by amount of actual liability.		
Construction Expenditures	100,000	
Contracts Payable		100,000
To record liability on account of contract		

When the bill is paid, an entry is made debiting Contracts Payable and crediting Cash for Construction.

Even if the work is performed by contract, the government itself will be incurring other expenditures chargeable to the project —for example, the cost of drawing up plans and specifications. If they are paid for directly out of the special assessment fund, these expenditures are recorded by a debit to Construction Expenditures and a credit to Cash for Construction. If the expenditures are first paid out of another fund, the liability to that fund is set up as soon as it is determined. When the money is finally paid, the liability account is debited and Cash for Construction is credited.

It may be necessary, in the case of many improvements, to condemn property. The procedure involved in condemning property is discussed in Chapter 19. The cost of the condemned property is part of construction expenditures, and the entry to record the transaction is as follows:

Construction Expenditures	$40,000	
Judgments Payable		$40,000
To record condemnation awards made.		

As judgments are paid, the entry is

Judgments Payable	$40,000	
Cash for Construction		$40,000
To record payment of judgments.		

Most of the condemnation awards are made for properties located in the benefit district. Even so, both the assessments receivable and the judgments payable are set up on the books. Sometimes, however, statutes provide for offsetting judgments payable against assessments receivable. In that event, too, both the assessments receivable and the judgments payable are set up. An entry is made, at the time of the offset, debiting Judgments Payable and crediting Assessments Receivable—Current. If the amount awarded is greater than the assessment, the difference represents the balance of the judgment to be paid by the governmental unit. If the amount awarded is smaller than the amount assessed, the difference continues to be carried as an assessment receivable.

Interest on notes and any other interest expenses which are not expected to be recovered from interest on assessments should be considered as part of the cost of constructing the project. An Interest Expenses account might be debited at the time the expense is incurred. Subsequently, the account would be credited and the Construction Expenditures account debited. An alternative procedure is to debit the Construction Expenditures account directly as soon as the expense is incurred.

Trial balance before closing entrees. On the basis of the entries illustrated previously (with the exception of the second entry shown on page 147 and the three entries shown on page 148), the trial balance of a special assessment fund, before closing entries, would appear as follows:

Cash for Construction	$ 405,000	
Cash for Interest Payments	2,250	
Assessments Receivable—Current	40,000	
Assessments Receivable—Delinquent	5,000	
Assessments Receivable—Deferred	310,000	
Government Unit's Share of Cost	50,000	
Interest Receivable	500	
Interest Expenses	15,750	
Construction Expenditures	140,000	
Encumbrances	340,000	
Contracts Payable		$ 100,000
Bonds Payable		350,000
Premiums on Bonds		1,000
Interest Revenues		17,500
Reserve for Encumbrances		340,000
Reserve for Authorized Expenditures		500,000
	$1,308,500	$1,308,500

Closing entries at end of fiscal year. At the end of each year, an entry is made closing out the Interest Revenues and the Interest Expenses accounts. The entry, if revenues exceed expenses, is as follows:

Interest Revenues	$17,500	
Interest Expenses		$15,750
Unappropriated Surplus—Interest		1,750

To record closing out of interest accounts.

If interest expenses exceed revenues, the deficiency is charged to the Unappropriated Surplus—Interest account. The accounting procedure involved in the disposal of surpluses and deficits will be considered later.

Premiums and discounts on special assessment bonds ordinarily are not amortized and are closed out at the end of the fiscal year. Premiums are closed out through the following entry:

Premiums on Bonds	$1,000	
Unappropriated Surplus—Interest		$1,000

To record closing out of premiums into unappropriated surplus.

Since discounts reduce the cash available for construction, they are, if not amortized, usually closed directly into the reserve for authorized expenditures. If, however, the fund has a surplus arising from an excess of interest revenues over interest expenses, the discount may be charged to this account. In that case, a corresponding transfer is made from cash for interest payments to cash for construction.

The Construction Expenditures account may be closed out at the end of each fiscal year, or it may be closed out only at the time construction is completed. As indicated later, the procedure will depend on whether special assessment expenditures are capitalized at the close of the year or not until completion. If expenditures are closed out at the end of the fiscal year, the entry is as follows:

Reserve for Authorized Expenditures	$140,000	
Construction Expenditures		$140,000

To record closing out of construction expenditures at the end of the fiscal year.

A corresponding entry would be made in the general fixed assets group of accounts setting up the cost of work in progress (see Chapter 14).

Balance sheet for uncompleted project. After the above closing entries were posted, the special assessment fund balance sheet would appear as indicated on the next page.

Figure 44

A GOVERNMENTAL UNIT

Special Assessment Fund
Balance Sheet
at Close of Fiscal Year

Assets

Cash:		
For Construction	$105,000	
For Interest Payments	2,250	$407,250
Assessments Receivable:		
Current	$ 40,000	
Delinquent (Note: $5,000 is to be used to finance construction)	5,000	
Deferred	310,000	355,000
Governmental Unit's Share of Cost		50,000
Interest Receivable		500
		$812,750

Liabilities, Reserves, and Surplus

Liabilities:			
Contracts Payable		$100,000	
Bonds Payable		350,000	$450,000
Reserves:			
Reserve for Encumbrances		$340,000	
Reserve for Authorized Expenditures	$360,000		
Less—Encumbrances	340,000	20,000	360,000
Unappropriated Surplus—Interest			2,750
			$812,750

Since the project is incomplete, it is not possible to tell whether actual construction costs exceeded or fell short of estimates. On the other hand, interest revenues and expenses are allocated to each year separately. Accordingly, even at the end of the first fiscal year, the fund will have either a surplus or a deficit, depending upon whether interest revenues exceed expenses or vice versa, because interest revenues seldom exactly equal interest expenses.

Transactions and entries during second year. Let us assume that construction of the project was completed during the second year. The following list of transactions and entries illustrates the operation of the fund during this year:

Transactions

1. Deferred assessments to the amount of $40,000 became due.
2. Interest amounting to $17,500 became receivable.
3. Delinquent assessments of $4,000 were collected.
4. The remaining part of the governmental unit's share of the cost of the improvement was transferred.
5. Contracts payable of $100,000 were paid.
6. Current assessments of $75,000 were collected.
7. Interest of $16,500 was collected.

8. Interest of $15,750 was paid.

9. Supervisory expenses of engineers, amounting to $5,000, were paid

10. The project was completed and a bill was received from the contractor for the remaining part of the cost of the contract ($340,000).

11. Bonds to the amount of $70,000 were retired.

12. Current assessments receivable of $5,000 became delinquent.

13. The amount due on the contract was paid except for $44,000, which was retained pending final approval of the project.

Entries

1.	Assessments Receivable—Current	$ 40,000	
	Assessments Receivable—Deferred		$ 40,000
	To record the setting up of deferred installments which have become due.		
2.	Interest Receivable	17,500	
	Interest Revenues		17,500
	To record interest receivable.		
3.	Cash for Construction	4,000	
	Assessments Receivable—Delinquent		4,000
	To record collection of delinquent assessments representing first installments.		
4.	Cash for Construction	50,000	
	Governmental Unit's Share of Cost		50,000
	To record transfer of remaining part of amount due from governmental unit.		
5.	Contracts Payable	100,000	
	Cash for Construction		100,000
	To record payment of part of contract		
6.	Cash for Bond Payments	75,000	
	Assessments Receivable—Current		75,000
	To record collection of current assessments receivable.		
7.	Cash for Interest Payments	16,500	
	Interest Receivable		16,500
	To record interest collections.		
8.	Interest Expenses	15,750	
	Cash for Interest Payments		15,750
	To record payment of interest.		
9.	Construction Expenditures	5,000	
	Cash for Construction		5,000
	To record payment of supervisory expenses		
10.	(a) Reserve for Encumbrances	340,000	
	Encumbrances		340,000
	To record cancellation of encumbrances.		
	(b) Construction Expenditures	340,000	
	Contracts Payable		340,000
	To record construction expenditures and corresponding liability to contractors.		
11.	Bonds Payable	70,000	
	Cash for Bond Payments		70,000
	To record retirement of bonds.		
12.	Assessments Receivable—Delinquent	5,000	
	Assessments Receivable—Current		5,000
	To record setting up delinquent assessments separately.		

Entries—Continued

13. Contracts Payable	$ 340,000	
Contracts Payable—Retained Percentage.		$ 44,000
Cash for Construction		296,000
To record retention of part of amount due on contract and payment of remaining part.		

Closing entries for completed project. Entries are made at the end of the fiscal year closing out the Interest Revenues, the Interest Expenses, and the Construction Expenditures accounts. These entries are as follows:

Interest Revenues	$ 17,500	
Interest Expenses		$ 15,750
Unappropriated Surplus—Interest		1,750
To record closing out of interest revenues and expenses and addition to surplus.		
Reserve for Authorized Expenditures	360,000	
Construction Expenditures		345,000
Unappropriated Surplus—Construction		15,000
To record closing out of Construction Expenditures account into the Reserve for Authorized Expenditures account, to record, also, addition to surplus.		

Balance sheet for completed project. After the above closing entries are posted, the balance sheet of the special assessment fund will read as indicated in Figure 45.

Figure 45

A GOVERNMENTAL UNIT
Special Assessment Fund
Balance Sheet
Date

Assets

Cash:		
For Construction	$ 58,000	
For Bond Payments	5,000	
For Interest Payments	3,000	$ 66,000
Assessments Receivable:		
Delinquent (Note $1,000 is to be used to finance construction)	$ 6,000	
Deferred	270,000	276,000
Interest Receivable		1,500
		$343,500

Liabilities and Surplus

Liabilities:		
Contracts Payable—Retained Percentage	$ 44,000	
Bonds Payable	280,000	$324,000
Unappropriated Surplus:		
Construction	$ 15,000	
Interest	4,500	19,500
		$343,500

Subsidiary schedule of installments receivable and bonds payable. If bonds are identified with and are made payable from particular installments, a subsidiary schedule, similar to the one illustrated in Figure 46, must be prepared. This schedule shows for each installment the amount of cash and other assets which will ultimately be used in paying bonds and interest, the amount of bonds and interest payable, and the surplus or deficit. The schedule supports the accounts illustrated in the above balance sheet.

Figure 46

A GOVERNMENTAL UNIT
Special Assessment Fund
Schedule of Installments to Be Applied to Payment of Bonds and Interest
Date

	Total	Installment No 2	3	4	5
Assets					
Cash for Bond Payments	$ 5,000	$ 5,000			
Cash for Interest Payments	3,000	3,000			
Assessments Receivable:					
Delinquent	5,000	5,000			
Deferred	270,000		$90,000	$90,000	$90,000
Interest Receivable	1,500	1,500			
	$284,500	$14,500	$90,000	$90,000	$90,000
Liabilities and Surplus					
Bonds Payable	$280,000	$10,000	$90,000	$90,000	$90,000
Unappropriated Surplus—Interest	4,500	4,500			
	$284,500	$14,500	$90,000	$90,000	$90,000

Note that total delinquent assessments of $5,000 are shown here, whereas in the balance sheet (Figure 45) they are shown as $6,000. The difference of $1,000 is accounted for as follows: It will be remembered that it was assumed that the first installment was used to finance construction. The $1,000 is the amount of delinquent assessments applicable to that installment. That is, when the $1,000 is collected, it will be used not for the retirement of bonds but for meeting construction expenditures, and therefore it is not shown in the above schedule.

Analysis of changes in reserve for authorized expenditures. A statement analyzing the Reserve for Authorized Expenditures account should be prepared at the end of each fiscal year and at the time the project is completed. Figure 47 is an illustration of such a statement. The amounts used are based on the journal entries given previously.

Figure 47

A GOVERNMENTAL UNIT

Special Assessment Fund

Analysis of Changes in Reserve for Authorized Expenditures for Fiscal Years

Amount Authorized		$500,000	
Less—Expenditures:			
Of This Year	$345,000		
Of Prior Years	140,000	485,000	
Gross Balance of Reserve			$15,000
Less—Transfers:			
To Unappropriated Surplus			15,000
Net Balance of Reserve			—

It should be noted that the statement is similar to the one analyzing the Reserve for Authorized Expenditures account in the bond fund (Figure 33).

Capitalizing expenditures. Since special assessment projects are, to a great extent, financed by private property owners, the question arises as to whether the government should capitalize the entire cost of the project or only that portion of the cost which it has financed. It would seem that, since the government financed only part of the project, it is not entitled to capitalize the complete cost. But the improvement cannot be considered the property of assessment payers; they are not at liberty to do as they please with it. Again, the government is responsible for the maintenance and repair of the improvement. For all practical purposes, therefore, the improvement can be considered as belonging to the governmental unit. Accordingly, it is advisable to capitalize the entire cost on the governmental unit's books. However, the capitalization should be so recorded that it will be possible to distinguish the portion of the project financed by the governmental unit from that financed by the private owners.

Disposing of surpluses. After the project is completed, the fund may have two kinds of surpluses. First, a surplus may result from an excess of interest revenues over interest expenses. Second, the fund may have a surplus arising from an excess of estimated expenditures over actual expenditures. The former type of surplus will hereafter be referred to as an *interest surplus,* and the latter will be designated as a *construction surplus.* The procedure for disposing of interest and construction surpluses is discussed below.

Theoretically, an interest surplus should be disposed of through reducing the interest rate on assessments. It is more practical, however, to leave the surplus intact until all bonds and interest

are paid. In that manner, if, during any year, interest expenses exceed interest revenues, the deficit is charged against the accumulated surplus. Surplus remaining after all bonds and interest are paid may be rebated to the assessed property owners, transferred to other assessment districts, or placed in the general fund.

The disposal of construction surplus varies with assessment procedure. If the levy is made *after* the project is completed, there can be no surplus, since the assessment will be made large enough to recover only the actual cost of construction. If assessments are levied *before* the project is completed, and they are payable in one installment, rebates are granted in the form of cash or a reduction of the unpaid assessments. When assessments are paid in installments, the rebate procedure varies with the type of bonds issued. If bonds are identified with assessments for particular pieces of property and each bond is payable solely from the assessments levied against the piece of property with which it is identified, a reduction to the extent of the surplus is made in assessments, and installments are adjusted correspondingly. Cash rebates are granted to those property owners who paid their assessments in full. If the bonds are not identified with and are not payable from assessments levied against particular pieces of property, reductions are spread over the remaining installments. Statutes may, however, in this case, prohibit the making of reductions in assessments until all bonds are paid, so that, in the event assessments become uncollectible, the surplus may be applied to the retirement of the bonds.

Disposing of deficits. Instead of two surpluses a fund may have two deficits—an *interest deficit* and a *construction deficit.* Again, it may have a surplus and a deficit—a construction surplus and an interest deficit, or vice versa. This section deals with the disposition of interest and construction deficits.

Interest deficits for any one year are disposed of by charging them against accumulated interest surplus. If there is no accumulated interest surplus, it may be necessary to raise interest rates. Sometimes, however, if legally feasible, construction surplus is used to make up interest deficits. Although this method penalizes those who have paid their assessments in full, it has the advantage of eliminating the ill feeling and litigation which are certain to accompany a rise in the interest rate. In many instances, those assessment owners who have paid in full are the very ones responsible for the decline in interest earnings. That is, if bonds cannot be retired as soon as collections are made from those paying in full, the government will continue to pay the same rate of interest on the outstanding bonds, although its interest earnings will prob-

ably be reduced (unless the money can be invested at a yield commensurate with the rate of interest paid on the bonds).

Construction deficits arise only if assessments are levied *before* the completion of the project, since, if assessments are levied *after* the project is completed, the total cost is known, and the assessments plus the governmental unit's share of the cost are made large enough to cover the full cost. Usually the deficit is made up through the levy of supplemental assessments. If the assessments are payable in installments, the latter are adjusted to reflect the supplemental levy, or a separate supplementary roll may be made. Generally, interest surpluses are not applied to the extinguishment of construction deficits.

A third type of deficit—that arising as a result of delinquent assessments—will be discussed in the section beginning on page 165.

Transactions and entries illustrating disposal of surpluses or deficits. The following transactions and entries illustrate the accounting procedure involved in disposing of construction and interest surpluses and deficits.

Transactions

1. Construction surplus amounted to $62,000. Rebates were made in cash as follows: to property owners, $10,000; to the governmental unit, $2,000. A reduction of $50,000 was made in assessments. Cash representing construction surplus to the amount of $50,000 was used to retire bonds.

2. Construction surplus was $10,000 and was applied toward wiping out an interest deficit of a corresponding amount.

3. A construction deficit of $100,000 was wiped out through supplemental assessments of $90,000, together with a supplemental contribution by the governmental unit of $10,000.

Entries

1. (a)	Unappropriated Surplus—Construction	$62,000	
	Reserve for Rebates		$ 62,000
	To record setting up of reserve for rebates.		
(b)	Reserve for Rebates	62,000	
	Cash for Construction		12,000
	Assessments Receivable—Deferred		50,000
	To record making of cash rebates and the reduction in assessments.		
(c)	Bonds Payable	50,000	
	Cash for Construction		50,000
	To record use of cash representing construction surplus for the retirement of bonds.		

Entries—Continued

2. Unappropriated Surplus—Construction	$ 10,000	
Cash for Interest Payments	10,000	
Unappropriated Surplus—Interest		$ 10,000
Cash for Construction		10,000
To record application of construction surplus to wiping out of interest deficit.		
3. Assessments Receivable—Supplemental	90,000	
Governmental Unit's Share of Cost—Supplemental	10,000	
Unappropriated Surplus—Construction		100,000
To record levy of supplemental special assessments to wipe out deficit.		

Groups of special assessment funds. A governmental unit may be carrying on many special assessment projects. In that case, a separate fund is established for each project, and each fund is accounted for independently. The accounting procedure would therefore be similar to that previously illustrated. In presenting balance sheets or other statements of these funds, it is important to retain the identity of each fund. The following is an illustration of the heading for a combined special assessment fund balance sheet:

A GOVERNMENTAL UNIT
Special Assessment Funds
Balance Sheet
Date

	Completed Projects		Uncompleted Projects	
Total	No. 59	No. 60	No. 61	No. 62

It is desirable, as in the case of bond funds, to group special assessment projects in accordance with whether they represent completed projects or uncompleted projects.

If the governmental unit has many special assessment projects, it may be advisable to set up a combined balance sheet in which all assets, liabilities, reserves, and surpluses are combined. In such a case, a subsidiary schedule, showing the amount of assets, liabilities, reserves, and surplus applicable to each fund, must be prepared. The schedule heading would be similar to the one illustrated above for a combined columnar balance sheet. In other words, as in the case of bond funds, the combined balance sheet becomes a subsidiary schedule, and figures in the "Total" column of the schedule must correspond with the amounts shown in the main balance sheet.

The statement analyzing the changes in the Reserve for Authorized Expenditures account for a group of special assessment funds is similar to the statement analyzing this account for a group

of bond funds. The reader is therefore referred, for a further discussion, to Chapter 7.

Accounting for delinquent special assessments. We have already discussed the accounting procedure for assessments receivable up to the time they become delinquent. In this section, we shall discuss the procedure relating to the collection of delinquent special assessments.

Special assessments are usually made by statute, a lien against the property against which they are levied, and, at the expiration of a certain time, the property may be sold and the proceeds used to satisfy the lien. The entry to record the sale of property for unpaid special assessments is as follows:

Cash for Bond Payments	$10,000	
Cash for Interest Payments	150	
Cash for Other Payments	200	
Assessments Receivable—Delinquent		$2,000
Assessments Receivable—Deferred		8,000
Interest Receivable		150
Cost of Holding Sale		200
To record sale of property for nonpayment of special assessments.		

Note that the proceeds may be applied to satisfy not only the assessments receivable, but also the interest receivable up to the date of sale and the cost of holding the sale. Of course, specific authorization by statute is required for the use of the proceeds to cover interest and the cost of holding the sale.

The excess of the amount realized from the sale of the property over the amount of special assessments, interest, and the cost of holding the sale is set up in the trust and agency fund, where it is held for the benefit of the property owner until claimed by him. The transaction is recorded in the trust and agency fund by debiting Cash and crediting the Property Owner's Trust Fund Balance account. If, on the other hand, the proceeds are not sufficient to cover special assessments, interest, and the cost of the sale, the property owner may or may not be called upon to make up the difference, depending on legal provisions.

The proceeds realized by the governmental unit from the sale of property for delinquent assessments may be used for various purposes. If general-special assessment bonds have been issued, the governmental unit may have paid the bonds and interest as they fell due with money borrowed from other funds. The proceeds would then be used to pay off the loans. If special-special assessment bonds are used, neither bonds due nor the interest on bonds will have been paid, and the proceeds will be used to retire the bonds and pay the interest. Unless bonds are callable, the

governmental unit will not be able to retire all of the bonds at one time. Instead, bonds and interest will have to be paid as they fall due, so that the governmental unit will be faced with the problem of investing the money.

If the amount realized from the sale of the property is insufficient to cover the principal of the bonds and the interest and the property owner cannot be called upon to make up the difference, the procedure followed depends on whether special-special assessment or general-special assessment bonds were issued. If special-special assessment bonds were issued, the bondholder will bear the loss. On the other hand, if general-special assessment bonds were issued, the excess of the amount of bonds and interest due over the amount realized from the sale of the property will be made up by the governmental unit. Frequently, if the property cannot be sold for a sufficient amount to meet bonds and interest, the governmental unit bids it in. The entry to record this transaction is as follows:

Assessment Sale Certificates	$10,350	
Assessments Receivable—Delinquent		$2,000
Assessments Receivable—Deferred		8,000
Interest Receivable		150
Cost of Holding Sale		200
To record bidding in of property for assessments.		

If the governmental unit bids in the property, payments on bonds and interest falling due are met, pending the disposition of the property, through loans from the general fund or other loans.

The property owner is given the right to redeem his property within a certain period of time. If the property has been sold, the owner can redeem it by paying the purchase price plus interest and costs. If, however, the purchase price was not sufficient to pay the assessments, the property owner must also pay the remaining unpaid assessments.

If the property is purchased by a private buyer, the redemption is handled through a trust fund. On the other hand, if the property is bid in by the governmental unit, the transaction is handled in the special assessment fund. For example, if the property was bid in by a municipality and a loan was made to finance maturing bonds and interest and to meet the cost of holding the sale, the entry to record the redemption of the property is as follows:

Cash for Payment of Loans	$5,350	
Cash for Bond Payments	5,000	
Cash for Interest Payments	50	
Assessment Sale Certificates		$10,350
Interest Receivable		50
To record redemption of property bid in by governmental unit.		

It should be noted that the Interest Receivable account consists of accrued interest from the time the property was bid in until the time of redemption. Interest prior to the date of bidding in the property is included in the Assessment Sale Certificates account.

If the property is not redeemed within the required period of time, the purchaser acquires a clear title. If the property was bid in by the governmental unit, the latter gets title. No entries are necessary to record this fact, the next entry being made when the property is sold by the governmental unit and the proceeds are used to pay the bonds and interest. Since the entry would be similar to the one described immediately above, it will not be illustrated here.

If the governmental unit intends to keep the property, an entry must be made in the special assessment fund removing the assessment sales certificates and the interest chargeable against the particular property. The entry is as follows:

Unappropriated Surplus—Bonds	$10,000	
Unappropriated Surplus—Interest	200	
Unappropriated Surplus—Cost of Holding Sale	200	
Assessment Sale Certificates		$10,350
Interest Receivable		50
To record transfer of property covered by assessment sale certificates and to record deficits resulting from such transfer.		

As is evident from the above entry, the removal from the special assessment fund balance sheet of the assessment certificates and interest chargeable against the property bid in will result in a deficit in that fund. Since it is assumed that general-special assessment bonds have been issued, it will be necessary for the governmental unit to make up the deficit from general revenues—that is, by a transfer of cash from the general fund or, if money has already been advanced as a loan from that fund, by cancellation of the loan. The entry to record the receipt of the cash by the special assessment fund is as follows:

Cash for Bond Payments	$10,000	
Cash for Interest Payments	200	
Cash for Other Payments	200	
Unappropriated Surplus—Bonds		$10,000
Unappropriated Surplus—Interest		200
Unappropriated Surplus—Cost of Holding Sale		200
To record transfer of cash from general fund to make up deficit in special assessment fund.		

If we assume further that a loan for $5,400 has been made by the general fund, the entry to record the cancellation of the loan and

the receipt of money to cover bond payments yet to be made is as follows:

Cash for Bond Payments	$5,000	
Due to General Fund	5,400	
Unappropriated Surplus—Bonds		$10,000
Unappropriated Surplus—Interest		200
Unappropriated Surplus—Cost of Holding Sale		200
To record cancellation of liability to general fund and receipt of money from that fund for payment of bonds.		

It is assumed that the entire amount of special assessment bonds outstanding is to be paid at one time. If bonds are to be retired in installments, two procedures might be followed: One procedure is to transfer at one time cash equivalent to the full amount of the deficit, as was assumed in the above entry. In that case, special assessment cash is invested, and the earnings on investments are used to pay interest on bonds. The other procedure is to transfer each year an amount sufficient only to retire that part of the bonds and interest falling due during that year which the special assessment fund is unable to pay because of the transfer of the property.

Two additional facts should be noted about special assessments: The first is that the law may provide for penalties on delinquent special assessments. These are accounted for in the same manner as interest on delinquent special assessments. In fact, an examination of the interest rates which governmental units are sometimes permitted to charge will reveal that these interest charges also include penalties, although they are referred to as *interest*. Sometimes the term *interest and penalties* is used.

The second fact to be noted is that the same property will be subject to ad valorem real estate taxes and that these taxes are a lien against such property. Sometimes a single lien is secured against the property to cover both ad valorem taxes and special assessments. The proceeds from the sale of the property are in that event used to satisfy both liens. For example, the Illinois Supreme Court [1] has held that liens of general taxes and local improvement special assessments are on a parity, with no priority of one over the other.

Summary. It is evident that special assessment accounting may be simple or complicated. Complications usually arise because of installment payments and because the special assessment fund possesses the characteristics of a trust fund. Officials have little discretion in the management of such funds; the law outlines every step to be followed. And one must be as careful in comply-

[1] People v. The Taylorville Sanitary District et al., 371 Ill. 280 (1939), 20 N. E. (2d) 576.

ing with the prescribed procedure as in following out the provisions of a trust indenture. The accounting system must be made sufficiently broad to cover all accounting transactions in as great detail as is necessary, even if such procedure results in a large volume of accounting work.

CHAPTER 11

Trust and Agency Funds

A TRUST fund is established to account for assets received and held by the government in the capacity of trustee or custodian. Trust funds may be classified as *expendable* and *nonexpendable*. As the name implies, expendable trust funds are those whose entire resources may be expended. Pension funds and special deposits are examples of expendable trust funds. Pension fund expenditures take the form of pension payments to beneficiaries; expenditures out of deposit funds are in the form of rebates to the depositors. In contrast to expendable trust funds are nonexpendable funds, which must be held intact. A loan fund whose principal must be kept intact represents a good example of a nonexpendable trust fund. Such a fund is usually established by the bequest of a sum of money or other property to be used in making loans for specified purposes. Since loans are expected to be repaid, the fund is not expended when the loans are made. In the absence of bad loans, the fund becomes more or less permanent, cash being replaced by accounts or notes receivable.

Trust funds may also be classified as *public* and *private*. A public trust fund is one whose principal, earnings, or both must be used for a public purpose. An example is a pension fund. A private trust fund is one which will ordinarily revert to private individuals or will be used for private purposes. Guarantee deposits are an example of a private trust fund. The accounting procedure will not, however, depend on whether the fund is public or private but rather on whether it is expendable or nonexpendable.

An agency fund is established to account for assets received and held by a government in its capacity as agent for individuals or other governmental units. The similarity between an agency fund and an expendable trust fund is such that agency funds may be included with trust funds for accounting purposes. In fact, the chief difference between an agency fund and an expendable trust fund is that the latter is usually held for a longer period of time and may thus require additional accounting. For example, trust funds are frequently invested, and the accounting system must

provide for the proper recording of investments and earnings thereon.

The types of trust and agency transactions are so numerous that it would be impracticable to discuss the accounting treatment for all. Accordingly, we shall attempt to illustrate only a few types of funds, but the principles thus brought out can be applied to all trust and agency funds.

Expendable trust funds. As stated before, a guarantee-deposits funds is a good example of an expendable trust fund. Most governments require deposits for some purpose. For example, contractors may be required to leave deposits with the government as a guarantee of the performance of their contracts, or public utility customers may be required to make deposits as a guarantee that bills will be paid. These deposits must be accounted for so that they may be returned to the depositors.

The accounting procedure is simple. As deposits are received, Cash is debited and a Deposits Fund Balance account is credited. Subsequently, as deposits are refunded, these entries are reversed. The balance sheet of such a fund would, therefore, consist of a few accounts, as indicated by the statement shown below.

Figure 48

A GOVERNMENTAL UNIT
Deposits Fund
Balance Sheet
at Close of Fiscal Year

Assets	
Cash	$ 3,370
Investments	15,000
	$18,370
Balance	
Deposits Fund Balance	$18,370

Utility deposits require a more complicated procedure, because they are more numerous and because the utility frequently agrees to pay interest on deposits. The accounting procedure for utility deposits is described in Chapter 12.

Nonexpendable trust funds. There are two types of nonexpendable trust funds: those in which neither the principal nor the earnings of the fund may be expended, and those whose earnings may be expended but whose principal must be kept intact. A loan fund is an example of the former type of fund; examples of the latter type are some common forms of endowment funds. The accounting procedure for nonexpendable funds does not differ materially from that for expendable trust funds.

Loan funds. The transactions and corresponding entries below illustrate the operation of a loan fund.

Transactions

1. A cash donation of $100,000 was received for the purpose of establishing a loan fund.
2. Loans amounting to $60,000 were made.
3. A loan of $1,000 was repaid with interest of $20.
4. Earnings were closed out.

Entries

1. Cash	$100,000	
Loan Fund Balance		$100,000
To record receipt of cash and establishment of loan fund.		
2. Loans Receivable	60,000	
Cash		60,000
To record loans made.		
3. Cash	1,020	
Loans Receivable		1,000
Earnings		20
To record repayment of loan with interest.		
4. Earnings	20	
Loan Fund Balance		20
To record closing out of earnings and increase in loan fund balance.		

A loan fund balance sheet built up from the above entries would read as follows:

Figure 49

A GOVERNMENTAL UNIT
Loan Fund
Balance Sheet
at Close of Fiscal Year

Assets

Cash	$ 41,020
Loans Receivable	59,000
	$100,020

Balance

Loan Fund Balance	$100,020

No surplus account is shown in the above statement, even though the fund has been increased by earnings of $20. These earnings are added to the capital of the fund and increase the amount of money available for loans.

A question arises as to what would happen if the cost of administration were payable out of the fund. In that case the fund would cease to be a nonexpendable fund, since administration expenses would reduce its balance. Provision may sometimes be

made, however, for meeting administration expenses out of earnings. In that case, we have another type of trust fund, one whose principal must be kept intact but whose earnings may be expended. This type of fund is discussed in detail below. Although theoretically the fund is nonexpendable, in actual practice the fund balance may be reduced through bad loans.

Endowment funds. Some trust transactions require the use of both expendable and nonexpendable funds. This is true with certain endowments. An individual may donate money, or other property, with a view to having the income therefrom used to finance certain activities. Since the donor intended the principal to be held intact and the income alone expended, two funds are necessary: (1) a nonexpendable trust fund to account for the principal, and (2) an expendable fund to account for the earnings.

The following list of transactions and entries illustrates the operation of this fund:

Transactions

1. Cash in the amount of $210,000 was received for the establishment of a fund whose income is to be used in granting scholarships.
2. Investment of $200,000 was made. (For the sake of simplicity, assume that no premiums, discounts, or accrued interest purchases are involved.)
3. Interest accrued on investments amounted to $5,000.
4. Interest of $4,000 was received from investments.
5. Payment of $2,000 as a scholarship grant was made. (Note: This is an outright grant, not a loan.)

Entries

1. *Entry in Endowment Principal Fund:*		
Cash	$210,000	
Endowment Principal Fund Balance		$210,000
To record receipt of cash for establishment of endowment fund.		
2. *Entry in Endowment Principal Fund:*		
Investments	200,000	
Cash		200,000
To record investment of cash received.		
3. (a) *Entry in Endowment Principal Fund:*		
(None)		
(b) *Entry in Endowment Earnings Fund:*		
Interest Receivable	5,000	
Endowment Earnings Fund Balance		5,000
To record interest earned.		
4. (a) *Entry in Endowment Principal Fund:*		
(None)		
(b) *Entry in Endowment Earnings Fund:*		
Cash	4,000	
Interest Receivable		4,000
To record receipt of interest.		

Entries—Continued

5. *Entry in Endowment Earnings Fund:*		
Endowment Earnings Fund Balance	$ 2,000	
Cash		$ 2,000
To record payment of scholarship.		

If there are no other transactions, the endowment fund balance sheets will appear as follows:

Figure 50

A GOVERNMENTAL UNIT
Endowment Principal Fund
Balance Sheet
at Close of Fiscal Year

Assets	
Cash	$ 10,000
Investments	200,000
	$210,000
Balance	
Endowment Principal Fund Balance	$210,000

Figure 51

A GOVERNMENTAL UNIT
Endowment Earnings Fund
Balance Sheet
at Close of Fiscal Year

Assets	
Cash	$2,000
Interest Receivable	1,000
	$3,000
Balance	
Endowment Earnings Fund Balance	$3,000

If endowments are in the form of fixed properties, the latter constitute the principal fund, and the net income therefrom is transferred to an expendable fund. It is important, in such cases, to account carefully for the income and expenses of the principal fund, so that net income may be at a maximum. Depreciation must also be considered. Whether depreciation is charged as an expense or not will depend on the provisions of the grant. If the grant contemplates the replacement of worn-out property, depreciation must be charged and a reserve for replacements must be provided. On the other hand, if the property is not to be replaced, depreciation need not be charged as an expense. Both the revenues and the expenses connected with administering the property—for example, rents, repairs, decorating expenses, janitor's wages, and so forth—would be accounted for in the principal fund. The net earnings would, however, be transferred to the earnings fund and

expended for the purpose designated—for example, granting scholarships.

Agency funds. The following entries illustrate the operation of an agency fund. It is assumed that the fund is established by a governmental unit to account for the taxes which it collects for other units. When taxes become receivable, the entry is

Taxes Receivable for Other Units	$99,400	
Taxes Fund Balance		$99,400
To record taxes receivable for other governmental units		

In actual practice, the name of each unit would, of course, be designated.

As taxes are collected, the entry is as follows:

Cash	$59,400	
Taxes Receivable for Other Units		$59,400
To record collection of part of taxes receivable for other units.		

When the money is paid over, an entry is made debiting the Taxes Fund Balance account and crediting Cash. For handling collections the collecting unit usually charges a fee, which is ordinarily deducted from the proceeds before they are turned over to the proper unit, the entry in the agency fund being a debit to Taxes Fund Balance and a credit to Cash.

In Figure 52 below is an illustration of an agency fund balance sheet.

Figure 52

A GOVERNMENTAL UNIT
Agency Fund
Balance Sheet
at Close of Fiscal Year

Assets

Cash	$59,400
Taxes Receivable for Other Units	40,000
	$99,400

Balance

Taxes Fund Balance	$99,400

Combined statements for trust and agency funds. If numerous trust and agency funds exist, a combined balance sheet may be presented in columnar form as in the statement illustrated in Figure 53, or the principal statement might be limited to showing the data in the "Total" column. In that case, the statement in Figure 53 would serve as a subsidiary schedule, and reference would be made to it in the main statement.

Figure 53

A GOVERNMENTAL UNIT

Trust and Agency Funds
Balance Sheet
at Close of Fiscal Year

		Expendable Funds			Nonexpendable Funds	
	Total All Funds	Deposits Fund	Endowment Earnings Fund	Agency Fund	Endowment Principal Fund	Loan Fund
Assets						
Cash	$115,790	$ 3,370	$2,000	$59,400	$ 10,000	$ 41,020
Loans Receivable	59,000					59,000
Investments	215,000	15,000			200,000	
Interest Receivable	1,000		1,000			
Taxes Receivable for Other Units (Specify Each Unit)	40,000			40,000		
	$430,790	$18,370	$3,000	$99,400	$210,000	$100,020
Balances						
Principal	$328,390	$18,370			$210,000	$100,020
Earnings	3,000		$3,000			
Taxes	99,400			$99,400		
	$430,790	$18,370	$3,000	$99,400	$210,000	$100,020

Summary. The aim in trust fund accounting is to insure that the money is handled in accordance with the terms of the trust agreement. The accounting procedure for agency funds must insure that the collections will be properly handled and will be turned over promptly to the party for whom they are collected. Since these two objectives involve similar accounting procedures, the two funds have been treated together.

CHAPTER 12

Utility Funds

UTILITY funds are established to account for the financing of self-supporting enterprises which render services primarily to the public. These funds must be distinguished from working capital funds, which are established to finance services rendered for other governments. Electric plants, water plants, gas plants, sewer systems, and docks and wharves are among the many enterprises financed from utility funds. Although the accounting procedure may vary with each enterprise, the same principles apply to all utility accounting. In all cases, the fund must be accounted for in the same manner as a commercial enterprise. That is, the financial operations of the fund must be so recorded that it is possible to determine whether the utility is being operated at a profit or a loss.

Since a utility is supposed to be a self-supporting enterprise, it is not possible to control its expenditures rigidly by means of appropriations. For example, an increase in expenditures may be highly desirable if it is due to an increase in the number of customers, because ordinarily an increase in customers means a reduction in unit costs. If a utility's expenditures are controlled by inflexible appropriations, the necessary expansion of activities may be delayed.

In spite of the undesirability of the practice, many governmental units continue to make appropriations for utilities in the same manner as for other departments. Where this is the case, it is necessary to record not only those transactions which affect the actual operations of the utility (that is, those transactions which affect the actual revenues, expenditures, assets, liabilities, reserves, and surplus) but also those which affect appropriations. In order to simplify the discussion, however, we shall first assume that appropriations are not made for the utility. We shall illustrate only the proprietary operations—that is, those which affect the proprietary as distinct from the budgetary accounts of the utility. Subsequently, we shall indicate the modifications in accounting procedure which are necessary to record appropriations and other legal authorizations to spend money.

Accounting for Proprietary Operations

Establishment of fund and acquisition of plant. The acquisition of a utility may be financed by the sale of bonds to be retired from utility earnings, by contributions from a governmental unit, and by contributions from prospective customers. If we assume that the acquisition of a utility plant is financed through a contribution from the operating governmental unit, the entry to record the receipt of the contribution and the establishment of the fund is as follows:

Cash	$400,000	
Governmental Unit's Contribution		$400,000
To record governmental unit's contribution for acquisition of utility.		

The next step is the acquisition of the plant. To simplify the discussion, let us assume further that a private water plant, already operating, is acquired. The entries to record the acquisition are as follows:

Land	$200,000	
Structures and Improvements	500,000	
Equipment	150,000	
Accounts Receivable	62,000	
Inventory of Materials and Supplies	10,000	
Reserve for Depreciation—Structures and Improvements		$ 80,000
Reserve for Depreciation—Equipment		40,000
Reserve for Estimated Losses—Accounts Receivable		12,000
Bonds Payable		500,000
Vouchers Payable		10,000
ABC Water Works Company		280,000
To record the acquisition of the assets and liabilities of the ABC Water Works Company.		
ABC Water Works Company	280,000	
Cash		280,000
To record payment to ABC Water Works Company.		

Operation of fund. The following transactions and entries illustrate the operation of the utility fund. However, the procedure in accounting for (1) the receipt and expenditure of bond proceeds, (2) utility sinking funds, and (3) customers' deposits requires special attention and is not illustrated in this section but is discussed separately later. To simplify the discussion, all revenues, with the exception of interest revenues, are assumed to be credited to an Operating Revenues account, and all expenses, with the exception of taxes and interest, are assumed to be charged to

an Operating Expenses account. The detailed revenue and expense accounts are listed and discussed in the next chapter.

Transactions

1. Total salaries and wages paid, $127,200.
2. Materials costing $59,000 were received.
3. Revenues billed during the year, $300,000.
4. Equipment costing $50,500 was purchased.
5. Telephone and telegraph paid, $500.
6. The reserve for estimated losses on accounts receivable was found to be overstated by $7,000.
7. Fire insurance paid in advance, $1,000 (2-year policy).
8. Collections on accounts receivable, $290,000.
9. Bill received from working capital fund for services rendered, $12,800.
10. Bonds paid, $50,000.
11. Interest paid, $20,000.
12. Interest received, $1,000.
13. Taxes paid, $10,500.
14. Vouchers payable to the amount of $70,000 paid.
15. Necessary adjusting entries were made as follows:

(a) Accrued salaries and wages	$ 6,000
(b) Accrued interest payable	2,000
(c) Accrued interest receivable	200
(d) Taxes accrued	7,500
(e) Prepaid insurance	600
(f) Closing inventory	30,000
(g) Estimated losses on accounts receivable	1,500
(h) Depreciation:	
Structures and improvements	20,000
Equipment	16,000

Entries

1. Operating Expenses	$127,200	
Cash		$127,200
To record payment of salaries and wages		
2. Inventory of Materials and Supplies	59,000	
Vouchers Payable		59,000
To record purchase of materials.		
3. Accounts Receivable	300,000	
Operating Revenues		300,000
To record operating revenues.		
4. Equipment	50,500	
Vouchers Payable		50,500
To record purchase of equipment.		
5. Operating Expenses	500	
Cash		500
To record telephone and telegraph expenses.		

Entries—Continued

6. Reserve for Estimated Losses—Accounts Receivable	$7,000	
Unappropriated Surplus		$7,000
To record adjustment of reserve for estimated losses on accounts receivable.		
7. Operating Expenses	1,000	
Cash		1,000
To record insurance expenses.		
8. Cash	290,000	
Accounts Receivable		290,000
To record collection of accounts receivable.		
9. Operating Expenses	12,800	
Due to Working Capital Fund		12,800
To record cost of services rendered by working capital fund.		
10. Bonds Payable	50,000	
Cash		50,000
To record retirement of part of issue of serial bonds.		
11. Interest Expenses	20,000	
Cash		20,000
To record payment of interest.		
12. Cash	1,000	
Interest Revenues		1,000
To record receipt of interest revenues.		
13. Taxes	10,500	
Cash		10,500
To record payment of taxes.		
14. Vouchers Payable	70,000	
Cash		70,000
To record payment of vouchers.		
15. (a) Operating Expenses	6,000	
Accrued Salaries and Wages		6,000
To record salaries and wages accrued.		
(b) Interest Expenses	2,000	
Interest Payable		2,000
To record accrued interest payable.		
(c) Interest Receivable	200	
Interest Revenues		200
To record accrued interest receivable.		
(d) Taxes	7,500	
Accrued Taxes		7,500
To record accrued taxes.		
(e) Prepaid Insurance	600	
Operating Expenses		600
To record setting up of amount of unexpired insurance.		

Entries—Continued

(f) Operating Expenses	$ 39,000	
Inventory of Materials and Supplies		$ 39,000
To record operating expenses in connection with materials used during year.		
(g) Operating Expenses	1,500	
Reserve for Estimated Losses—Accounts Receivable		1,500
To record estimated losses on accounts receivable.		
(h) Operating Expenses	36,000	
Reserve for Depreciation—Structures and Improvements		20,000
Reserve for Depreciation—Equipment		16,000
To record depreciation for fiscal year.		

Accounting for construction financed through the sale of bonds. The accounting procedure to be followed in accounting for construction financed through the sale of bonds is not unlike the procedure for accounting for private construction. However, if the construction and the bonds to be issued to finance it require authorization by the governmental unit, it is necessary to account not only for the receipt and expenditure of the bond proceeds but also for the authorizations. At this point, however, we shall assume that such authorization is not required. We shall see in the second part of this chapter to what extent the accounting procedure must be modified so that information may be available regarding the authorization and the expenditures charged thereto.

The list of transactions and related entries beginning below illustrates how construction expenditures and the money set aside for their financing are accounted for.

Transactions

1. Bonds to the amount of $200,000 were sold at a premium of $2,000.
2. A contract was entered into with Smith & Company for the construction of part of the project at a cost of $100,000.
3. Materials costing $41,000 were purchased by the utility.
4. The bill for materials was paid.
5. A bill for $30,000 was received from Smith & Company.
6. Smith & Company was paid.
7. The utility paid $56,000, representing the cost of labor and supervisory expenses.
8. Smith & Company completed its part of the project and submitted its bill for $70,000.
9. Smith & Company was paid in full except for $10,000, which was retained pending the final approval of the project.

10. The completed project was found to be satisfactory and was set up on the records as a fixed asset.
11. Smith & Company was paid the final amount due it.
12. The remaining bond cash was transferred to the sinking fund.

Entries

1	Bond Cash	$200,000	
	Cash	2,000	
	Unamortized Premiums on Bonds		$ 2,000
	Bonds Payable		200,000
	To record sale of bonds at a premium.		

The subsequent treatment of the premium will depend on whether or not premiums are amortized. If they are, the amount of interest expense will be reduced each period by the amount of premium amortized. If the bonds had been sold at a discount, the entry would be a debit to Bond Cash for $199,000, a debit to Unamortized Discounts on Bonds for $1,000, and a credit to Bonds Payable for $200,000. In other words, bond cash would be reduced by the amount of the discount. Since discounts represent an adjustment of the interest rate, bond cash should theoretically be replenished for the amount of the discount, after all, bond cash is to be used only for construction and not for the payment of interest. Because of legal complications, this procedure is not always possible. Even if bond cash is not increased by the amount of the discount, the latter is not charged as a construction cost. Discounts, like premiums, may or may not be amortized. If they are amortized, that part of the discount applicable to the construction period may, as indicated below, be capitalized.

2.	No entry necessary here to record making of contract.		
3.	Work in Progress	$ 41,000	
	Vouchers Payable		$ 41,000
	To record cost of construction materials.		
4.	Vouchers Payable	41,000	
	Bond Cash		41,000
	To record payment of bill for materials.		
5.	Work in Progress	30,000	
	Contracts Payable		30,000
	To record receipt of bill from Smith & Company for part of cost of contract.		
6.	Contracts Payable	30,000	
	Bond Cash		30,000
	To record payment of amount due on contract.		
7.	Work in Progress	56,000	
	Bond Cash		56,000
	To record cost of labor and supervisory expenses.		
8.	Work in Progress	70,000	
	Contracts Payable		70,000
	To record receipt of bill from Smith & Company to cover remaining cost of contract.		
9.	Contracts Payable	70,000	
	Bond Cash		60,000
	Contracts Payable—Retained Percentage		10,000
	To record payment of amount due on contract and retention of part of amount due pending final approval of project.		

Entries—Continued

10. Structures and Improvements	$ 197,000	
Work in Progress		$ 197,000
To close out Work in Progress account and to set up cost of completed structures and improvements.		
11. Contracts Payable—Retained Percentage	10,000	
Bond Cash		10,000
To record final payment to contractor.		
12. (a) Sinking Fund Cash	3,000	
Bond Cash		3,000
To record transfer of unused bond proceeds to sinking fund.		
(b) Unappropriated Surplus[1]	3,000	
Reserve for Retirement of Sinking Fund Bonds		3,000
To reserve part of unappropriated surplus on account of transfer of cash to sinking fund.		

As in commercial accounting, interest expenses during the construction period on money borrowed to finance the construction should be capitalized. And, even if the governmental unit does not borrow any money for construction, it may capitalize the interest it would have had to pay if it had borrowed money for this purpose. The reason is that, until the project is completed and is in a position to earn revenue, the utility is being deprived of the use of the money for revenue-producing purposes.

In capitalizing interest, it is necessary to take account of unamortized premiums and discounts. For example, let us assume that interest expenses chargeable to construction to the amount of $4,500 were incurred and that the amount of premium to be amortized during the current year is $100. The entry to record interest expenses and the amortization of premiums is as follows:

Interest Expenses	$4,400	
Unamortized Premiums on Bonds	100	
Interest Payable		$4,500
To record interest expenses and reduction of same by amount of premium amortized.		

Subsequently an entry would be made capitalizing interest expenses as follows:

Structures and Improvements	$4,400	
Interest Expenses		$4,400
To record charging interest expenses to construction.		

Utility sinking fund. As indicated before, the term *fund* is used in a different sense in governmental accounting than in com-

[1] The reason for this entry is given on page 185.

mercial accounting. In this section, the term will be used in its commercial accounting sense to denote segregated assets. That is, as in commercial accounting, the term *sinking fund* will be used to designate a group of assets set aside for the purpose of retiring bonds. The distinguishing characteristic of the term *fund* when used in this sense is that there need not be (although there may be) any specific account or accounts on the liability side of the balance sheet offsetting the fund account or accounts. It would be better to use some term other than *sinking fund* in the present case were it not for the fact that the term is commonly used in commercial accounting in the sense which it is here intended to convey.

Sinking funds, whether governmental or commercial, operate on the same principle. Contributions are calculated on an actuarial basis and are added periodically to the fund. The money thus segregated is invested, and income from the investments is added to the fund.

No entry is made in a utility sinking fund until the cash representing the contribution has actually been segregated. The entry to record the contribution is as follows:

Sinking Fund Cash[2]	$3,716	
Cash		$3,716
To record contribution to sinking fund		

At the same time another entry must be made segregating unappropriated surplus, as follows:

Unappropriated Surplus	$3,716	
Reserve for Retirement of Sinking Fund Bonds		$3,716
To record segregation of surplus representing the contribution to the sinking fund.		

[2] Since only a few sinking fund accounts are involved in this case, it is assumed that no sinking fund control accounts are used. If a control account were set up for the assets of the sinking fund, an account designated Sinking Fund would have been debited and postings would have been made to a subsidiary account, Sinking Fund Cash. The entry would on the basis of this assumption read as follows:

Sinking Fund	$3,716	
Cash		$3,716
To record contribution to sinking fund. Subsidiary account: *Debit* Sinking Fund Cash, $3,716.		

Again, the first entry on page 186 would read as follows:

Sinking Fund	$6,600	
Sinking Fund		$6,600
To record investment of sinking fund cash. Subsidiary accounts: *Debit* Sinking Fund Investments, $6,600; *Credit* Sinking Fund Cash, $6,600.		

Note that the accounts shown in the entries in this footnote as subsidiary accounts (for example, Sinking Fund Cash and Sinking Fund Investments) are shown in the entries illustrated in the text as general ledger accounts, the assumption being that no controlling sinking fund accounts are set up.

The reasons for the segregation of surplus are as follows: The segregation of cash results in a reduction in the utility's working capital. If the utility were to transfer each year to the general fund cash equivalent to the full amount of unappropriated surplus, the working capital position of the utility would continue to get weaker each year. For example, assume that a utility has net current assets (that is, current assets less current liabilities) of $200,000 and no surplus and that it is required to make contributions of $25,000 each year to a sinking fund. Let us assume further that the utility makes a profit of $30,000, which results in a surplus of $30,000 and in total current net assets of $230,000. Assume further that the utility transfers all of its profits to the general fund. In this case, therefore, the utility would make a transfer of $30,000, which would leave the working capital at $200,000. But the utility is now required to segregate cash of $25,000, thereby reducing its net current assets to $175,000. To prevent the unintentional transfer of surplus representing sinking fund assets (in this case $25,000), an entry is made segregating this surplus.

It should be noted that the Reserve for Retirement of Sinking Fund Bonds account is not of the same nature as the similarly named account carried in the general sinking fund (discussed in Chapter 8). In that fund, the reserve represented actuarial requirements, whereas here it ordinarily represents the amount of assets in the sinking fund. The fund may have more assets than called for by actuarial requirements, in which case the credit balance of the reserve would also be greater than called for. For example, if, on the basis of actuarial requirements, the fund should have accumulated assets of $100,000 but actually has assets of $120,000, the reserve would show a balance of $120,000. It is important to know, however, whether the fund is up to requirements. This can be accomplished by preparing a table similar to that illustrated in Chapter 8, and examining the fund at frequent intervals to see that it has accumulated the required amount of assets. A notation should be made opposite the Reserve for Retirement of Sinking Fund Bonds account on the balance sheet as to what the actuarial requirements of the fund are (see caption "Reserves" in Figure 54), so that it is possible to tell at a glance whether or not the fund is up to them.

No accounts need be set up to show required contributions and required earnings. Since these accounts are budgetary accounts, they cannot be combined with the proprietary accounts. Unlike appropriations, these accounts do not represent authoriza-

tion of expenditures and therefore need not be formally recorded. The setting up of the table referred to above is sufficient.

The next step in the operation of the fund is the investment of sinking fund cash. If cash to the amount of $6,600 is invested and no accrued interest, premiums, or discounts are involved, the transaction is recorded as follows:

Sinking Fund Investments	$6,600	
Sinking Fund Cash		$6,600
To record investment of sinking fund cash.		

As interest on sinking fund investments accrues or is received, the following entry is made:

Sinking Fund Cash	$150	
Sinking Fund Interest Receivable	150	
Sinking Fund Revenues		$300
To record sinking fund revenues.		

As will be indicated subsequently, sinking fund revenues are included as part of the income of the utility fund. After the net income has been transferred to surplus, an entry is made debiting Unappropriated Surplus and crediting the Reserve for Retirement of Sinking Fund Bonds for the amount of sinking fund earnings (in this case, $300).

Utility deposits. The utility frequently requires from its customers deposits on which it pays interest. The following transactions and entries illustrate the procedure in recording the deposits, earnings thereon, and interest paid to depositors:

Transactions

1. Deposits of $11,000 were received.
2. Deposits to the amount of $10,000 were invested (assume that no premiums, discounts, or accrued interest purchases are involved).
3. Interest accrued on investments but not received, $200.
4. Interest accrued on deposits but not paid, $150.

Entries

1.	Customers' Deposits—Cash	$11,000	
	Customers' Deposits Payable		$11,000
	To record receipt of customers' deposits.		
2.	Customers' Deposits—Investments	10,000	
	Customers' Deposits—Cash		10,000
	To record investment of customers' deposits.		
3.	Customers' Deposits—Interest Receivable	200	
	Customers' Deposits—Interest Revenues		200
	To record interest revenues.		
4.	Customers' Deposits—Interest Expenses	150	
	Customers' Deposits—Interest Payable		150
	To record interest expenses.		

Trial balance before closing entries. The following is a trial balance of the proprietary accounts of the utility fund before closing entries and is based on all of the journal entries illustrated thus far in this chapter:

Land	$ 200,000	
Structures and Improvements	701,400	
Reserve for Depreciation—Structures and Improvements		$ 100,000
Equipment	200,500	
Reserve for Depreciation—Equipment		56,000
Cash	130,084	
Accounts Receivable	72,000	
Reserve for Estimated Losses—Accounts Receivable		6,500
Inventory of Materials and Supplies	30,000	
Prepaid Insurance	600	
Interest Receivable	200	
Sinking Fund Cash	266	
Sinking Fund Investments	6,600	
Sinking Fund Interest Receivable	150	
Customers' Deposits—Cash	1,000	
Customers' Deposits—Investments	10,000	
Customers' Deposits—Interest Receivable	200	
Bonds Payable		650,000
Customers' Deposits Payable		11,000
Vouchers Payable		49,500
Due to Working Capital Fund		12,800
Accrued Salaries and Wages		6,000
Accrued Taxes		7,500
Interest Payable		6,500
Customers' Deposits—Interest Payable		150
Unamortized Premiums on Bonds		1,900
Reserve for Retirement of Sinking Fund Bonds		6,716
Governmental Unit's Contribution		400,000
Unappropriated Surplus		284
Operating Revenues		300,000
Operating Expenses	223,400	
Taxes	18,000	
Interest Revenues		1,200
Interest Expenses	22,000	
Sinking Fund Revenues		300
Customers' Deposits—Interest Revenues		200
Customers' Deposits—Interest Expenses	150	
	$1,616,550	$1,616,550

Closing entries. The following are illustrative closing entries based on the accounts carried in the foregoing trial balance:

Operating Revenues	$300,000	
Operating Expenses		$223,400
Taxes		18,000
Operating Income		58,600
To record closing out of operating revenues, operating expenses, and taxes.		

Operating Income	$ 58,600	
Interest Revenues	1,200	
Sinking Fund Revenues	300	
Customers' Deposits—Interest Revenues	200	
Interest Expenses		$ 22,000
Customers' Deposits—Interest Expenses		150
Net Income		38,150
To record closing out of operating income, nonoperating income, and nonoperating expenses.		
Net Income	38,150	
Unappropriated Surplus		38,150
To record closing out of net income into unappropriated surplus.		
Unappropriated Surplus	300	
Reserve for Retirement of Sinking Fund Bonds		300
To record segregation of earnings on sinking fund investments.		

Financial statements. The balance sheet, income and expense statement, and statement analyzing the changes in unappropriated surplus which are illustrated on pages 189 and 190 are based on the trial balance and the closing entries given above.

Comments on financial statements. Note that the balance sheet exhibited is similar to that of a commercial enterprise. Like the balance sheet of a business enterprise, this statement contains both fixed assets and bonds payable. The statement is set up in accordance with the arrangement recommended by the National Association of Railroad and Utilities Commissioners. Under this arrangement, fixed assets precede current assets and bonds payable precede current liabilities. Again, the income and expense statement is similar in form to the income and expense statement of a commercial enterprise. All revenues and expenses are included in the statement, and the final figure represents the net income of the enterprise.

Most of the accounts carried in the utility fund statements do not require comment. The only one which requires any particular mention is the Governmental Unit's Contribution account.

Governmental unit's contribution. The Governmental Unit's Contribution account shows the amount invested in the utility by the operating governmental unit. As already indicated, the account is credited with the amount expended by the governmental unit in acquiring the utility. Similarly, the account is credited with any subsequent contributions made by the governmental unit to the utility. For example, the governmental unit may transfer money from the general fund to the utility fund to make up a deficit in the latter.

Figure 54

A GOVERNMENTAL UNIT

Utility Fund
Balance Sheet
at Close of Fiscal Year

Assets

Fixed Assets:			
Land		$200,000	
Structures and Improvements	$701,400		
Less—Reserve for Depreciation	100,000	601,400	
Equipment	$200,500		
Less—Reserve for Depreciation	56,000	144,500	$ 945,900
Current and Accrued Assets:			
Cash		$130,084	
Accounts Receivable	$ 72,000		
Less—Reserve for Estimated Losses	6,500	65,500	
Inventory of Materials and Supplies		30,000	
Prepaid Insurance		600	
Interest Receivable		200	226,384
Sinking Fund:			
Cash		$ 266	
Investments		6,600	
Interest Receivable		150	7,016
Customers' Deposits:			
Cash		$ 1,000	
Investments		10,000	
Interest Receivable		200	11,200
			$1,190,500

Liabilities, Deferred Credits, Reserves, Contributions, and Surplus

Liabilities:			
Bonds Payable			$ 650,000
Customers' Deposits Payable			11,000
Current and Accrued Liabilities:			
Vouchers Payable		$ 49,500	
Due to Working Capital Fund		12,800	
Accrued Salaries and Wages		6,000	
Accrued Taxes		7,500	
Interest Payable		6,500	
Customers' Deposits—Interest Payable		150	82,450
			$ 743,450
Deferred Credits:			
Unamortized Premiums on Bonds			1,900
Reserves:			
Reserve for Retirement of Sinking Fund Bonds (Actuarial Requirement, $6,966)			7,016
Contributions and Surplus:			
Governmental Unit's Contribution		$400,000	
Unappropriated Surplus		38,134	438,134
			$1,190,500

Figure 55

A GOVERNMENTAL UNIT
Utility Fund
Income and Expense Statement
for Fiscal Year

Operating Revenues			$300,000
Less—Operating Revenue Deductions.			
Operating Expenses		$223,400	
Taxes		18,000	241,400
Utility Operating Income			$ 58,600
Other Income:			
Customers' Deposits—Interest Revenues	$200		
Less—Customers' Deposits—Interest Expenses	150	$ 50	
Interest Revenues		1,200	
Sinking Fund Revenues		300	1,550
			$ 60,150
Other Deductions:			
Interest Expenses			22,000
Net Income Transferred to Surplus			$ 38,150

Figure 56

A GOVERNMENTAL UNIT
Utility Fund
Analysis of Changes in Unappropriated Surplus
for Fiscal Year

Unappropriated Surplus—Beginning of Year		—
Add.		
Receipts on Accounts Receivable Charged Off	$ 7,000	
Net Income for Year	38,150	$45,150
Deduct:		
Contributions to Sinking Fund	$ 6,716	
Transfer of Earnings on Sinking Fund Investments	300	7,016
Unappropriated Surplus—End of Year		$38,134

On the other hand, the Governmental Unit's Contribution account would be reduced by amounts transferred each year from the utility fund to the general fund. For example, the governmental unit may require its utility to transfer all, or a portion, of utility profits each year. Such transfers reduce the governmental unit's contribution to its utility.

A distinction should, however, be made between transfers of profits to the general fund or the making up of utility deficits from the general fund and transfers which represent payments for services. The governmental unit should charge the utility with a proper amount of taxes and with the cost of services rendered for it. On the other hand, the utility should charge the governmental

unit for services. Such transactions should not be handled through the Governmental Unit's Contribution account but through operating revenue and expense accounts. For example, if the governmental unit charges the utility with taxes, the entry to record the transactions in the utility fund is as follows:

Taxes	$10,000	
Due to General Fund		$10,000
To record liability for general property taxes		

On the other hand, if the utility charges the governmental unit for services rendered by it, the entry in the utility fund is as follows:

Due from General Fund	$40,000	
Operating Revenues		$40,000
To record revenue from water supplied to the operating governmental unit		

If the above transactions had not been charged to expense accounts or credited to revenue accounts, there would have been an understatement of both revenues and expenditures.

Briefly, the Governmental Unit's Contribution account is used to record only those transactions which constitute a contribution by the governmental unit to the utility or vice versa. The account is not used to record charges or credits which are subject to current settlement.

Accounting for Appropriations and Other Expenditure Authorizations

Thus far we have assumed that no appropriations or other authorizations to spend money were made by the legislative body of the governmental unit for its utility. In this section, we shall point out the modifications in accounting procedure necessary to record appropriations and other expenditure authorizations. In other words, the accounting procedure thus far outlined is also applicable in its entirety to utilities which are subject to appropriation, but these utilities require additional accounting.

Accounting for utility appropriations. If a utility is to be operated as a self-supporting enterprise, appropriation accounts and the expenditures chargeable to them must be kept separate and distinct from the proprietary accounts, for many of the transactions affecting appropriations do not affect the profit or loss of the utility, and vice versa. For example, expenditures for fixed assets or the retirement of bonded debt do not affect the profit or loss of a utility, but they reduce appropriations. On the other

hand, depreciation expenses reduce the profit of a utility, but usually no appropriation is made for them.

It is also evident from the above that there is no relationship between a utility's estimated revenues and the appropriations made for it. Thus, as we have seen, appropriations are frequently made for some expenditures which are not chargeable against revenues (for example, the retirement of bonded debt or the acquisition of fixed assets), and no appropriations are made for some expenses chargeable to revenues (for example, depreciation expenses). Accordingly, appropriations are not offset by estimated revenues but by an account indicating budgetary requirements. For example, if we assume the figures illustrated, the entry setting up appropriations for a utility is as follows:

Budget Requirements	$370,000	
Appropriations		$370,000
To record appropriations made for utility.		

Since revenue estimates are not ordinarily subject to legal limitation or control, they need not be set up formally on the records. Memoranda accounts showing such estimates should, however, be kept. Normally, a small number of accounts will be required for this purpose, because a utility derives the bulk of its revenue from charges to customers.

Charging expenditures and encumbrances to operations. The following transactions and entries illustrate how appropriations are recorded and controlled. These transactions are similar to the ones given on page 179. It is thus possible to note readily what additional entries are necessary to record and to control appropriations.

Transactions

1. An order was placed for materials estimated to cost $60,000.
2. Total salaries and wages paid, $127,200.
3. The materials ordered were received; actual cost was $59,000.
4. An order was placed for equipment estimated to cost $50,000.
5. The equipment was received; actual cost was $50,500.
6. Another order was placed for materials; estimated cost, $10,000.
7. Telephone and telegraph paid, $500.
8. Fire insurance paid in advance, $1,000 (2-year policy).
9. Bill received from working capital fund for services rendered, $12,800.
10. Bonds paid, $50,000.
11. Interest paid, $20,000.
12. Taxes paid, $10,500.
13. Necessary adjusting entries were made as follows:

(a) Accrued salaries and wages . . . $6,000
(b) Accrued interest payable 2,000
(c) Taxes accrued 7,500

Entries

1.	Encumbrances	$ 60,000	
	Reserve for Encumbrances		$ 60,000
	To record placing order for materials.		
2	Appropriation Expenditures	127,200	
	Budget Requirements		127,200
	To record reduction of budget requirements and appropriations by amount of expenditures for salaries and wages.		
3	(a) Reserve for Encumbrances	60,000	
	Encumbrances		60,000
	To reverse entries setting up encumbrances.		
	(b) Appropriation Expenditures	59,000	
	Budget Requirements		59,000
	To record reduction of budget requirements and appropriations on account of materials purchased.		
4.	Encumbrances	50,000	
	Reserve for Encumbrances		50,000
	To record order placed for equipment.		
5	(a) Reserve for Encumbrances	50,000	
	Encumbrances		50,000
	To reverse entry setting up encumbrances		
	(b) Appropriation Expenditures	50,500	
	Budget Requirements		50,500
	To record reduction of budget requirements and appropriations on account of purchase of equipment.		
6	Encumbrances	10,000	
	Reserve for Encumbrances		10,000
	To record order placed for materials.		
7.	Appropriation Expenditures	500	
	Budget Requirements		500
	To record reduction of budget requirements and appropriations on account of telephone and telegraph expenses.		
8	Appropriation Expenditures	1,000	
	Budget Requirements		1,000
	To record reduction of budget requirements and appropriations on account of insurance expenses.		
9.	Appropriation Expenditures	12,800	
	Budget Requirements		12,800
	To record reduction of budget requirements and appropriations by cost of services rendered by working capital fund.		

Entries—Continued

10.	Appropriation Expenditures	$ 50,000	
	Budget Requirements		$ 50,000
	To record reduction of budget requirements and appropriations on account of bond retirements.		
11.	Appropriation Expenditures	20,000	
	Budget Requirements		20,000
	To record reduction of budget requirements and appropriations on account of payment of interest.		
12.	Appropriation Expenditures	10,500	
	Budget Requirements		10,500
	To record reduction of budget requirements and appropriations on account of taxes paid		
13.	(a) Appropriation Expenditures	6,000	
	Budget Requirements		6,000
	To record reduction of budget requirements and appropriations on account of salaries and wages.		
	(b) Appropriation Expenditures	2,000	
	Budget Requirements		2,000
	To record reduction of budget requirements and appropriations on account of interest expenses.		
	(c) Appropriation Expenditures	7,500	
	Budget Requirements		7,500
	To record reduction of budget requirements and appropriations on account of taxes.		

The foregoing entries are based on the assumption that appropriations are charged as soon as expenditures are incurred, regardless of when they are paid, but that no adjustments are made for appropriation expenditures applicable to more than one year. For example, it is assumed that no adjustment is made in the budgetary accounts for materials purchased during the year which have remained on hand at the close of the year. Again, it is assumed that depreciation is not charged to appropriations. These assumptions are in accordance with conditions existing in many governmental units but not in all. For example, some governmental units record their budgetary operations on a cash basis; that is, they do not record revenues until the money has been collected, and they do not record expenditures as charges against appropriations until the money is paid out. (However, they do encumber appropriations as soon as an order is placed.) In determining whether and when an expenditure is chargeable against an appropriation, therefore, it is necessary to know the basis of accounting followed and to have some knowledge of the budgetary procedure of the particular governmental unit.

Trial balance before closing entries. Assuming the foregoing entries had been posted, the trial balance would be as follows:

Budget Requirements	$ 23,000	
Appropriation Expenditures	347,000	
Encumbrances	10,000	
Reserve for Encumbrances		$ 10,000
Appropriations		370,000
	$380,000	$380,000

Closing entries for the budgetary group. The closing entries are made for the purpose of determining to what extent appropriation expenditures exceed or are under appropriations and to close out the budgetary accounts. However, if encumbrances are outstanding at the close of the fiscal year, a sufficient balance to cover such encumbrances must be retained in the Budget Requirements account. The entries are as follows:

Appropriations	$370,000	
Appropriation Expenditures		$347,000
Encumbrances		10,000
Unappropriated Budget Surplus		13,000
To close out appropriations, appropriation expenditures, and encumbrances and to determine the excess of appropriations over expenditures and encumbrances or vice versa		
Unappropriated Budget Surplus	13,000	
Budget Requirements		13,000
To close out account showing unappropriated budget surplus and part of account showing budget requirements.		

Balance sheet. The balance sheet of the budgetary group of accounts after closing entries are posted contains only accounts to show budget requirements for encumbrances outstanding at the close of the fiscal year. If we assume the closing entries illustrated, the statement would appear as shown in Figure 57.

Figure 57

A GOVERNMENTAL UNIT
Utility Fund
Balance Sheet—Budgetary Group
at Close of Fiscal Year

Budget Requirements	$10,000
Reserve for Encumbrances	$10,000

As the actual amount of the expenditure is determined during the following year, an entry is made debiting the Reserve for Encumbrances account and crediting the Budget Requirements account by the amount of the encumbrances (in this case, $10,000).

Accounting for bonds authorized to finance construction. We have previously illustrated the accounting procedure to be followed in recording the receipt of proceeds from the sale of bonds and the expenditure of such proceeds. The assumption was that the utility was not required to record bond authorizations and the expenditures chargeable thereto. In this section, we shall illustrate the additional entries necessary to record the authorization to carry on construction and to issue bonds for financing it as well as the entries necessary to record the expenditures chargeable against the authorization. The transactions described here are similar to those illustrated on pages 181–182.

Transactions

1. The construction of a project at an estimated cost of $200,000 was authorized.
2. A contract was entered into with Smith & Company for the construction of part of the project at a cost of $100,000.
3. An order was placed for materials estimated to cost $40,000.
4. The materials were received; actual cost was $41,000.
5. A bill for $30,000 was received from Smith & Company.
6. The utility paid $56,000, representing the cost of labor and supervisory expenses.
7. Smith & Company completed its part of the project and submitted its bill for $70,000.
8. The utility completed its part of the project, and an entry was made closing out the accounts.

Entries

1.	Construction Authorized	$200,000	
	Reserve for Authorized Expenditures		$200,000
	To record authorization to issue bonds for purpose of financing addition to plant.		
2.	Encumbrances	100,000	
	Reserve for Encumbrances		100,000
	To record placing contract with Smith & Company for construction of additions to plant.		
3.	Encumbrances	40,000	
	Reserve for Encumbrances		40,000
	To record placing of order for materials.		
4.	(a) Reserve for Encumbrances	40,000	
	Encumbrances		40,000
	To record cancellation of encumbrances.		
	(b) Construction Expenditures	41,000	
	Construction Authorized		41,000
	To record cost of materials ordered.		
5.	(a) Reserve for Encumbrances	30,000	
	Encumbrances		30,000
	To record cancellation in part of encumbrances set up on account of contract entered into with Smith & Company.		

Entries—Continued

(b) Construction Expenditures	$ 30,000	
Construction Authorized		$ 30,000
To record construction expenditures in connection with work performed by Smith & Company.		
6. Construction Expenditures	56,000	
Construction Authorized		56,000
To record cost of labor and supervisory expenses.		
7. (a) Reserve for Encumbrances	70,000	
Encumbrances		70,000
To record cancellation of encumbrances set up on account of contract entered into with Smith & Company.		
(b) Construction Expenditures	70,000	
Construction Authorized		70,000
To record construction expenditures in connection with work performed by Smith & Company.		
8. Reserve for Authorized Expenditures	200,000	
Construction Expenditures		197,000
Construction Authorized		3,000
To record closing out of budgetary accounts.		

Financial statements. Since the project is assumed to have been completed, no balance sheet can be prepared. However, a statement should be prepared analyzing the changes in the Reserve for Authorized Expenditures account. Since this statement is similar to the statement analyzing the changes in the Reserve for Authorized Expenditures account of a general bond fund (Figure 33, page 111), it will not be reproduced here.

CHAPTER 13

Utility Revenues and Expenditures

THIS chapter is concerned with both water and electric utilities. Wherever no specific utility is designated, the discussion is assumed to cover both types. State public service commissions generally divide both water and electric utilities into four classes—A, B, C, and D. The following classification of municipal electric utilities by the New York State Public Service Commission should give some idea as to the size of utility included in each class:

> For the purpose of applying the system of accounts herein prescribed, municipal electric utilities are hereby grouped into the following four classes:
>
> Class A. Utilities having average annual electric operating revenues of $500,000 or over.
>
> Class B. Utilities having average annual electric operating revenues of $100,000 or over, but under $500,000.
>
> Class C. Utilities having average annual electric operating revenues of $25,000 or over, but under $100,000.
>
> Class D. Utilities having average annual electric operating revenues of less than $25,000.[1]

The chapter is divided into two parts dealing, respectively, with (1) operating revenues and (2) expenditures.

Accounting for Utility Operating Revenues

Utility operating revenues are those derived directly from the operations of the utility and consist primarily of revenues obtained from the sale of services. In discussing the accounting procedure for the utility fund, in the preceding chapter, we treated all operating revenues as one group in order to simplify the description of the operations of the fund. Actually, operating revenues consist of several classes, as is shown by the following detailed statement, which is based on the classification of revenues prescribed by the

[1] Public Service Commission, State of New York, *Uniform System of Accounts for Municipal Electric Utilities*. Albany: The Commission, 1936, p. 3.

New York State Public Service Commission for the municipal electric utilities of that state.[2]

Figure 58

A GOVERNMENTAL UNIT
Electric Fund
Detailed Statement of Operating Revenues
for Fiscal Year

Electric Service Revenues:		
Residential Sales	$80,000	
Commercial Sales	40,000	
Industrial Sales	40,000	
Public Street Lighting—Operating Municipality	25,000	
Public Street Lighting—Other	25,000	
Other Sales to Operating Municipality	15,000	
Other Sales to Other Public Authorities	15,000	
Sales to Other Distributors	25,000	
Sales to Railroads and Street Railroads	15,000	
Total Electric Service Revenues		$280,000
Other Electric Revenues:		
Rent from Electric Property	$10,000	
Miscellaneous Electric Revenues	10,000	
Total Other Electric Revenues		20,000
Total Operating Revenues		$300,000

Figure 59 illustrates a detailed statement of operating revenues for a water utility. This statement is based on the classification

Figure 59

A GOVERNMENTAL UNIT
Water Fund
Detailed Statement of Operating Revenues
for Fiscal Year

Water Service Revenues:		
Metered Residential Sales	$80,000	
Metered Commercial Sales	40,000	
Metered Industrial Sales	40,000	
Flat-Rate Residential Sales	60,000	
Flat-Rate Commercial Sales	5,000	
Flat-Rate Industrial Sales	5,000	
Sales to Governmental Agencies	10,000	
Private Fire Protection	5,000	
Sales to Other Distributors	30,000	
Total Water Service Revenues		$275,000
Other Water Revenues:		
Rent from Water Property	$10,000	
Miscellaneous Water Department Revenues	15,000	
Total Other Water Revenues		25,000
Total Operating Revenues		$300,000

[2] *Ibid.*, p 102.

of accounts required by the Public Service Commission of Kentucky from the municipal water utilities of that state.[3]

It will be noted that the total of the operating revenues shown in these two detailed revenue statements agrees with the total of the operating revenues shown in Figure 55, page 190. In other words, these statements support the "Operating Revenues" section of the income and expense statement by showing further details concerning the nature of operating revenues.

Accounting for Utility Expenditures

Utility expenditures, like other expenditures, may be classified by character; that is, they may be grouped in accordance with whether they represent current expenses, capital outlays, or retirement of debt. In this section, we shall be concerned primarily with current expenses. These expenses may be subdivided into operating revenue deductions and income deductions. Operating revenue deductions consist of those expenses which are directly chargeable against revenue—that is, operating expenses and taxes. The National Association of Railroad and Utilities Commissioners recommends that depreciation not be included in operating expenses but be set up separately as an operating revenue deduction.[4] Others include depreciation as an operating expense but treat losses on uncollectible accounts as an operating revenue deduction.[5]

Income deductions consist primarily of utility plant acquisition adjustments and interest. Under certain circumstances, however, some commissions permit the inclusion of utility plant acquisition adjustments as part of operating revenue deductions.

In this section, we shall be concerned with the accounting procedure for (1) operating expenses, (2) taxes, and (3) utility plant acquisition adjustments. We shall also indicate how certain overhead expenses are allocated and how the joint expenses incurred by two or more utilities are apportioned between them. Since depreciation accounting is directly related to accounting for fixed assets, it will be deferred until Chapter 18.

Operating expenses. For the purpose of exercising proper control over utility operating costs and securing comparative statistics, utility operating expenses are subdivided on the basis of the functions performed in rendering services. The following detailed

[3] Public Service Commission of Kentucky, *Uniform System of Accounts for Municipal Water Utilities.* Frankfort The Commission, 1936, p. 66.

[4] National Association of Railroad and Utilities Commissioners, *Uniform System of Accounts for Electric Utilities.* New York: The State Law Reporting Company, 1937, p. 108.

[5] Public Service Commission, State of New York, *op. cit.*, p. 91.

statement of operating expenses is based on the classification of operating expense accounts prescribed by the New York State Public Service Commission for Class C municipal electric utilities.[6] In this classification, depreciation is included as an operating expense, whereas taxes and uncollectible accounts are considered as operating revenue deductions.

Figure 60

A GOVERNMENTAL UNIT

Electric Fund
Detailed Statement of Operating Expenses for Fiscal Year

Generation Expenses:[7]		
Supervision and Labor	$ 8,000	
Fuel	43,000	
Water	2,000	
Miscellaneous Supplies and Expenses	1,000	
Repairs to Power Plant	2,000	
Steam from Other Sources	3,000	
Depreciation of Power Plant	2,000	$ 61,000
Transmission Expenses:		
Transmission Supervision and Engineering	$ 4,000	
Operation of Transmission Substations	11,000	
Operation of Transmission Lines	11,000	
Repairs to Transmission System	5,000	
Depreciation of Transmission Property	4,000	
Transmission Rents	2,000	37,000
Maintenance of Poles, Towers, Fixtures, and Conduits:		
Repairs to Poles, Towers, and Fixtures	$ 8,000	
Repairs to Underground Conduits	4,000	
Depreciation of Poles, Towers, Fixtures, and Conduits	3,000	15,000
Distribution Expenses:		
Distribution Supervision and Engineering	$ 6,000	
Operation of Distribution Substations	12,000	
Operation of Storage Batteries	5,000	
Operation of Distribution Lines	3,000	
Operation of Consumers' Meters	4,000	
Service on Consumers' Premises	4,000	
Repairs to Distribution Structures and Equipment	3,000	
Repairs to Overhead Distribution Conductors	3,000	
Repairs to Underground Distribution Conductors	2,500	
Repairs to Line Transformers	2,000	
Repairs to Services	1,000	
Testing and Repairing Consumers' Meters	2,000	
Repairs to Other Property on Consumers' Premises	500	
Depreciation of Distribution Property	4,400	52,400

[6] *Ibid.*, pp. 106-109.

[7] It is assumed here that electricity is generated by means of steam power. Slightly different classifications of production expense accounts are provided for those utilities which generate electricity by means of hydraulic power or internal combustion engine power. For the purpose of the present discussion these variations may be ignored.

Street Lighting and Signal System Expenses:		
Street Lighting and Signal System Supervision and Engineering	$ 3,000	
Operation of Street Lighting and Signal Systems	9,000	
Repairs to Street Lighting and Signal System Equipment	2,000	
Depreciation of Street Lighting and Signal System Equipment	2,000	$ 16,000
Consumers' Accounting and Collecting Expenses:		
Consumers' Accounting and Collecting Labor and Supplies		8,000
Sales Expenses:		
Sales Labor and Supplies	$ 2,000	
Appliance Selling and Jobbing	3,000	
Sales Department Rents	1,000	6,000
Administrative and General Expenses:		
General Office Salaries and Expenses	$ 8,000	
Management Service	7,000	
Insurance, Injuries, and Damages	3,000	
Regulatory Commission Expenses	1,000	
Other General Expenses	1,000	
General Rents	2,500	
Repairs to General Property	500	
Depreciation of General Property	2,000	
Deferred Retirement Losses	1,000	
Amortization of Intangibles	2,000	28,000
Total Operating Expenses		$223,400

The classification of accounts under each of the functions varies. Thus, the function *electric generation* is subdivided to show some of the objects which compose it such as supervision and labor, fuel, water, and so forth. On the other hand, the classifications under most of the other functions are by activity alone. If a utility is subject to budgetary control, and if the budget is detailed by object, it is necessary to subdivide each of the activities further, so as to show the amount applicable to each object of expenditure.

Note also that the total shown at the end of the statement ($223,400) corresponds to the total shown for operating expenses in the income and expense statement illustrated in Figure 55, page 190; that is, the statement illustrated here supports the Operating Expenses account in the income and expense statement. Whereas only one figure is shown for operating expenses in the latter statement, the statement illustrated here classifies these expenses by functions, activities, and, in certain cases, objects.

The classification of operating expenses for a water utility does not differ in principle from the classification of operating expenses for an electric utility. The variations are due to the difference in the operations involved in furnishing water and electricity. Accordingly, only the main functional classifications are shown for water utilities. The following are the classifications prescribed by the Public Service Commission of Kentucky: [8]

[8] Kentucky Public Service Commission, *op. cit.*, pp. 70-71.

Source of Supply Expenses
Power and Pumping Expenses
Purification Expenses
Transmission Expenses
Distribution Expenses
Customers' Accounting and Collecting Expenses
Administrative and General Expenses

This commission, unlike the New York State Public Service Commission, requires the reporting of depreciation as a separate item instead of calling for the allocation of depreciation expenses to each function.

Taxes. Governmental utilities may have to pay some or all of the following taxes: (1) special assessments, (2) general property taxes, and (3) sales taxes. The special assessments referred to here are those paid by the governmental utility as an owner of property in the special assessment district. Such taxes are not, however, expenses; they are capital expenditures, and the amount of the assessment should therefore be added to the value of the land.

General property taxes may be classified into two groups—those which constitute capital outlays and those which are to be treated as current expenses. Ordinarily, general property taxes are considered as current expenses. The only exception is taxes which are paid on property during the construction period, those taxes being considered as a part of the cost of construction.

A governmental utility may pay two types of sales taxes—taxes on sales to customers and taxes on materials purchased by the utility. The treatment of the first type of sales tax will vary somewhat according to whether or not the customer is billed for it. If the sales tax is not to be passed on to the customer, it is considered an operating revenue deduction. The entry, as far as controlling accounts are concerned, is, therefore, as follows:

Taxes	$5,000	
Taxes Accrued		$5,000
To record expenses in the form of taxes and to set up liability therefor.		

Even where the customer is billed for the tax, the amount of taxes billed is not included as part of the revenue of the utility. The amount due from each customer for taxes is included with the other accounts receivable, and the corresponding liability for taxes is set up on the records. The entry, as far as the controlling accounts are concerned, is as follows:

Accounts Receivable	$5,000	
Taxes Accrued		$5,000

To record billing customers for sales taxes.

Sales taxes on materials purchased by governmental utilities are recorded as part of the cost of the materials, and no separate account is ordinarily set up for them. The Taxes account appearing in an income and expense statement ordinarily consists of general property taxes and of sales taxes which cannot be shifted to customers. It should be remembered, however, that the discussion of these taxes does not imply that governmental utilities pay all or any one of them. Some governmental utilities pay no taxes, whereas others pay most of the taxes discussed above.

Amortization of utility plant acquisition adjustments. The amount of utility plant acquisition adjustments amortized each year represents an expense. Usually, however, it is not considered an expense directly connected with the operation of the utility but rather, like interest, a nonoperating expense. The reason will become apparent after the nature of utility plant acquisition adjustments is discussed.

Utility plant acquisition adjustments usually arise out of the fact that the governmental unit pays more for the plant than called for by its physical value. The physical value of the plant may be (1) its original cost plus additions and minus depreciation and other deductions, (2) its appraised value at the date of acquisition, or (3) its value computed on some other basis.[9] For example, assume that the net book value of the fixed assets of a private plant (that is, the value as shown by the books, less accumulated depreciation) is $1,000,000, or that an appraisal is made and the value of the property is determined to be $1,000,000, and that the utility has current assets to the amount of $100,000 and liabilities of $250,000. The net book value of the utility's assets is in that case $850,000. Next let us assume that the plant is sold to a governmental unit. If the governmental unit pays more than $850,000, it must record the excess in the Utility Plant Acquisition Adjustments account. For example, if the governmental unit pays $950,000, the Utility Plant Acquisition Adjustments account should be debited for $100,000. The transaction is recorded as follows:

[9] Thus, governmental utilities subject to regulation by a state public service commission are frequently required to record the property acquired at its cost to the first owner who devoted it to the public service plus cost of additions and less retirements and accrued depreciation. The utility is in that event required to record in the Utility Plant Acquisition Adjustments account the difference between this value and the amount actually paid.

Land	$200,000	
Structures and Improvements	700,000	
Equipment	250,000	
Accounts Receivable	103,000	
Utility Plant Acquisition Adjustments	100,000	
Reserve for Depreciation—Structures and Improvements		$100,000
Reserve for Depreciation—Equipment		50,000
Reserve for Estimated Losses—Accounts Receivable		3,000
Vouchers Payable		50,000
Bonds Payable		200,000
Cash		950,000
To record acquisition of plant of *XYZ* Company.		

The Utility Plant Acquisition Adjustments account, although shown on the asset side of the balance sheet, is not a tangible asset. Even if it is justifiable for a private utility to capitalize the excess of the amount paid over the net book value and to show the resulting figure as "goodwill" or "going concern" value, it is improper for a governmental utility to do so, for there are other intangible assets which a governmental unit might better capitalize—for example, its taxing power. Accordingly, the excess is set up as a deferred charge and is prorated over a period of time, so that the revenues of any one year may not be charged with the entire amount. The entry to record the amortization of the adjustments is as follows:

Amortization of Utility Plant Acquisition Adjustments	$5,000	
Reserve for Amortization of Utility Plant Acquisition Adjustments		$5,000
To record amortization of utility plant acquisition adjustments.		

As already indicated, the expense resulting from the amortization of utility plant acquisition adjustments is a nonoperating expense, since it is not incidental to the operation of the utility. Following is an illustration of how the expense would be exhibited in an income and expense statement.

Figure 61

A GOVERNMENTAL UNIT
Utility Fund
Income and Expense Statement
for Fiscal Year

Operating Revenues	$300,000	
Less—Operating Expenses	223,400	
Utility Operating Income		$76,600
Less—Nonoperating Expenses:		
Amortization of Utility Plant Acquisition Adjustments		5,000
Net Income		$71,600

It should be noted that the reserve for amortization of utility plant acquisition adjustments is a valuation reserve and must be shown as a deduction from the Utility Plant Acquisition Adjustments account on the balance sheet. For example, if we assume that the two preceding entries are posted, the Utility Plant Acquisition Adjustments account and the related reserve would be shown on the balance sheet as follows:

Utility Plant Acquisition Adjustments	$100,000
Less—Reserve for Utility Plant Acquisition Adjustments	5,000
	$ 95,000

When the entire account is written off, an entry is made debiting the Reserve for Utility Plant Acquisition Adjustments account for $100,000 and crediting the Utility Plant Acquisition Adjustments account for a corresponding amount.

Clearing accounts. Thus far we have assumed that all expenses can be readily identified and charged to the appropriate accounts. However, certain expenditures are incurred under circumstances that prevent their being charged to the proper accounts at the time they are incurred. Even if the expenses can be charged directly, they are sometimes recorded in a clearing account, in order that the *total* expenses may be computed before they are distributed among the various accounts. For example, it may be desirable not only to allocate shop expenses among the various activities for whose benefit the shop is operated but also to know what the *total* shop expenses for a particular period of time have been. The charges are, therefore, first recorded in clearing accounts and are transferred from these accounts to the expense accounts. The following are some of the expenditures for which clearing accounts are established: (1) stores, (2) transportation, and (3) shop.

Stores Expenses—Clearing. In discussing the accounting procedure for materials issued from a central storeroom, we indicated that charges to departments consist of two elements—the direct cost of the materials and overhead charges. All overhead charges may be accumulated in the Stores Expenses—Clearing account and then redistributed to the proper accounts on various bases. Since the subject has been treated in Chapter 9, the discussion will not be repeated here.

Transportation Expenses—Clearing. This account is charged with the cost of operating the utility's equipment. The procedure in charging expenses to individual pieces of equipment and to the Transportation Expenses—Clearing account is evident from the discussion in Chapter 20. The Transportation Expenses—Clearing

account is reduced as charges are made to the various jobs and activities on which the equipment was used (see the second entry below).

Shop Expenses—Clearing. This clearing account is used to accumulate the cost of operating utility shops. At certain intervals, the account is cleared by charging the proper expenditure accounts and crediting the clearing account. Charges to jobs and activities may be made either on the basis of the actual cost of materials, labor, and overhead chargeable to each job or activity or on the basis of some predetermined rate. In general, the principles involved in allocating shop expenses are the same as those involved in charging transportation expenses.

Entries. When the expenses chargeable to a clearing account are first incurred, an entry is made charging the clearing account and crediting Cash or an appropriate liability account. The allocation of these expenses is accomplished by an entry which charges the various expense accounts involved and credits the clearing account. The following is an example of how this is accomplished in the case of the Transportation Expenses—Clearing account. The same procedure would, of course, be followed for the other clearing accounts.

At the time the expenditure chargeable to the clearing account is first incurred, an entry is made debiting the Transportation Expenses—Clearing account and crediting Cash or a liability account. For example, if the payroll for mechanics is $5,000, the transaction is recorded as follows:

Transportation Expenses—Clearing	$5,000	
Vouchers Payable		$5,000
To record expenses for garage labor.		

Entries would also be made in the individual equipment records.

As the particular jobs and activities are charged, the following entry is made:

Operating Expenses	$7,000	
Construction Work in Progress	3,000	
Transportation Expenses—Clearing		$10,000
To record distribution of clearing expenses among jobs and activities, as follows:		
Operating Expenses:		
Transmission Expenses:		
Repairs to Transmission System		$ 2,000
Maintenance of Poles, Towers, Fixtures, and Conduits:		
Repairs to Poles, Towers, and Fixtures	$2,000	
Repairs to Underground Conduits	1,000	3,000

Distribution Expenses:		
Repairs to Distribution Structures and Equipment	$1,000	
Repairs to Overhead Distribution Conductors	500	
Repairs to Underground Distribution Conductors	500	2,000
Total Operating Expenses		$ 7,000

Construction Work in Progress:

Work Order No.	Amount	
11	$1,000	
12	500	
13	1,000	
14	300	
15	200	
Total Construction Work in Progress		3,000
Grand Total		$10,000

Entries would also be made in the "Rentals Earned" column of each individual equipment record (see Figure 102, page 339) showing the total amount of charges which have been applied to jobs and activities on account of work done by the equipment.

Activities and jobs are not charged until clearing accounts are cleared out. Accordingly, it is important to distribute the expenses carried in the account among the various jobs and activities to which they apply and to reduce the clearing account correspondingly. It is especially important to distribute the expenses carried in the clearing accounts before the close of the year, so that all the expenses applicable to the particular year may be included as part of the cost of operations of that year. A clearing account should have no balance at the end of the fiscal year, except where the expenses charged to the account are applicable in part to the succeeding year. These balances are shown among the deferred debits on the asset side of the balance sheet.

Allocation of joint expenses. Some governmental units operate electric and water utilities under joint management. In some cases both these utilities are financed from one fund, whereas in other cases separate funds are set up for each. To insure proper accounting for each utility, it is best that each be accounted for in a separate fund. It will be assumed throughout the following discussion that this method is used, although the same governmental unit operates both utilities.

The accounting procedure for each utility is the same as for utilities which are not operated jointly. The only point to note about jointly operated utilities is the importance of allocating joint costs equitably to each enterprise. An example of such joint costs is the salary of the superintendent where the same man is in charge of both the water and the electric plant. It is usually im-

practical to keep a record of the time devoted by the superintendent to each utility, and therefore his salary, and other expenses which cannot be definitely allocated to either utility, must be apportioned on an arbitrary basis. For example, administrative expenses incurred jointly by both utilities might be allocated on the basis of the amount of gross revenue earned by each.

Another accounting problem that arises when the two utilities are jointly operated is occasioned by the use by one utility of the services of another. For example, the water plant furnishes water to the electric plant, and the electric plant furnishes electricity to the water plant. In such cases, each utility should record as an expense the charges for services rendered by the other. On the other hand, the plant furnishing the service should record as a revenue the amount charged to the plant using the service. The accounting procedure must be so devised that the cost of rendering this service can be readily determined.

To illustrate, assume that the water utility supplies the electric utility with water at a cost of $10,000. The transaction is recorded in each fund as follows:

Entry in Water Fund:		
Due from Electric Fund	$10,000	
Operating Revenues		$10,000
To record sale of water to electric utility.		
Entry in Electric Fund:		
Operating Expenses	10,000	
Due to Water Fund		10,000
To record purchase of water from water utility.		

Postings would be made to the proper subsidiary operating revenue accounts and operating expense accounts.

CHAPTER 14

General Fixed Assets. General Bonded Debt. Inter-Fund Relationships

THE discussion of fund accounting procedure is concluded in this chapter. The first part of the chapter deals with the accounting procedure for general fixed assets and explains the relationship between them and the funds from which they are financed. The second part is concerned with the accounting procedure for a government's general bonded debt and points out the relationship of the indebtedness to the general fund, the bond fund, and the sinking fund. The third part is devoted to a discussion of inter-fund relationships.

General Fixed Assets

For the purpose of this chapter general fixed assets may be defined as those assets which are not a part of any fund. The importance of recording fixed assets on the books should not be overlooked or minimized, for in that manner alone can proper control be exercised over them. Yet there are many governments which keep no records of such assets. General fixed assets should be set up in a separate self-balancing group of accounts.[1] The following trial balance illustrates the control accounts making up this group:

Land	$1,000,000	
Structures and Improvements	2,000,000	
Equipment	490,000	
Investment in Fixed Assets		$3,490,000
	$3,490,000	$3,490,000

Methods of financing. Previous chapters stated that general fixed assets may be financed from three sources: (1) from current revenues, such as taxes, (2) from general bonds, and (3) from special assessments. The entries to record the capital expenditures in each fund have already been given. However, in order to illustrate more clearly the relationship between these funds and the general fixed assets accounts, some of the fund entries will be

[1] See pages 65-66.

repeated, and the corresponding entry in the general fixed assets group of accounts will be indicated.

Assets financed from current revenues. Let us assume that, out of the appropriation expenditures of $399,900, shown on page 63, $103,300 represented expenditures for fixed assets. The entry in the general fund at the time the expenditure was made would be

Appropriation Expenditures	$103,300	
Vouchers Payable		$103,300
To record purchase of equipment.		

At the same time an entry would be made in the general fixed assets group of accounts as follows:

Land	$ 7,000	
Structures and Improvements	37,200	
Equipment	59,100	
Investment in Fixed Assets		$103,300
To record cost of fixed assets financed from current revenues.		

Assets financed from bonds. As indicated previously, construction expenditures may be closed out at the end of each year or they may not be closed out until construction is completed. If we assume that expenditures are closed out at the end of each year, the entry in the bond fund (as illustrated on page 106) would be as follows:

Reserve for Authorized Expenditures	$70,300	
Expenditures		$70,300
To record closing out of construction expenditures.		

The corresponding entry in the fixed assets group of accounts would be

Construction Work in Progress	$70,300	
Investment in Fixed Assets		$70,300
To record construction work in progress financed from bonds.		

When the project is completed, the entry in the bond fund (page 108) is as follows:

Reserve for Authorized Expenditures	$129,700	
Expenditures		$126,200
Unappropriated Surplus		3,500
To close out construction expenditures and to record surplus resulting from the excess of the amount authorized over the amount expended.		

In the general fixed assets group of accounts, the entry is

Structures and Improvements	$196,500	
Construction Work in Progress		$ 70,300
Investment in Fixed Assets		126,200
To set up cost of completed project financed from bonds and to close out accounts showing cost of construction work in progress.		

Assets financed from special assessments. If construction expenditures are closed out at the end of each year, even though the project is uncompleted, the entry in the special assessment fund, as previously illustrated (page 156), would be as follows:

Reserve for Authorized Expenditures	$140,000	
Construction Expenditures		$140,000
To record closing out of construction expenditures financed from special assessments.		

The corresponding entry in the general fixed assets group of accounts would be

Construction Work in Progress	$140,000	
Investment in Fixed Assets		$140,000
To record work in progress financed from special assessments.		

When the project is completed, the entry in the special assessment fund, as indicated before (page 159), is as follows:

Reserve for Authorized Expenditures	$360,000	
Construction Expenditures		$345,000
Unappropriated Surplus—Construction		15,000
To record completion of project and to close out balance in Reserve for Authorized Expenditures account		

The entry in the fixed assets group of accounts is

Structures and Improvements	$485,000	
Construction Work in Progress		$140,000
Investment in Fixed Assets		345,000
To set up fixed assets financed from special assessments as follows:		
Government's Share ... $100,000 (assuming governmental unit receives no rebates)		
Property Owners' Share.. 385,000		

As indicated in Chapter 10, a record should be made of the amount contributed by the governmental unit and by property owners to finance the cost of the project. No segregation of the cost is usually made, however, in the general fixed assets group of accounts until the project is completed, the Investment in Fixed Assets account being subdivided enough to show merely the combined investment of the governmental unit and the property owners in construction work in progress.

Gifts. Thus far we have treated those fixed assets which are first recorded as expenditures of some fund—for example, the general fund, the bond fund, and the special assessment fund. A governmental unit may, however, acquire fixed assets as a gift.

In that case, an entry is made only in the general fixed assets group of accounts. This entry is as follows:

Structures and Improvements	$40,000	
Investment in Fixed Assets		$40,000
To record value of donated fixed assets.		

Fixed assets acquired as a gift should be appraised and should be carried on the records at their appraised value.

Balance sheet. The following is a balance sheet of the general fixed assets group of accounts based on the foregoing trial balance and journal entries. It will be noted that the Investment in Fixed Assets account has been subdivided to show the sources from which the assets are financed.

Figure 62

A GOVERNMENTAL UNIT

General Fixed Assets
Balance Sheet
at Close of Fiscal Year

Land	$1,007,000
Structures and Improvements	2,758,700
Equipment	549,100
	$4,314,800
Investment in Fixed Assets Financed from:	
Current Revenues	$ 793,300
Bonds	2,510,500
Special Assessments	771,000
Government's Share of Special Assessment Improvement Costs	200,000
Gifts	40,000
	$4,314,800

General Bonded Debt

For the purpose of this chapter, the general bonded debt may be defined as all the outstanding bonds of the governmental unit with the exception of utility and special assessment bonds. General bonded debt accounts are not shown as part of any fund but are set up in a separate group of accounts.[2] The liability account is offset by an account which shows the amount available and the amount to be provided for the retirement of bonds. The amount available would consist of current cash or assets of the sinking fund, while the amount to be provided would represent future tax levies or future sinking fund contributions and earnings thereon. The following is an illustration of a balance sheet for a group of general bonded debt accounts:

[2] See pages 65-66.

Figure 63

A GOVERNMENTAL UNIT
General Bonded Debt
Balance Sheet
at Beginning of Fiscal Year

Amount Available for Retirement of Bonds	$2,283,210
Amount to Be Provided for Retirement of Bonds	766,790
	$3,050,000
Bonds Payable	$3,050,000

Entries during year. The entries to record the receipt of the proceeds from the sale of bonds and the retirement of the bonds have already been illustrated. They will, however, be repeated in part at this point in order to show the relationship between the bond funds and the funds from which the bonds are retired, on the one hand, and the general bonded debt accounts, on the other.

When the bonds are sold, the entry in the bond fund (as illustrated on page 103) is as follows:

Cash	$100,000	
Bonds Authorized—Unissued		$100,000
To record sale of bonds.		

At the same time the following entry is made in the general bonded debt group of accounts:

Amount to Be Provided for Retirement of Bonds	$100,000	
Bonds Payable		$100,000
To set up the liability for bonds sold.		

The combined entries in the sinking fund to close out actual and required revenues (page 127) are as follows:

Contribution Revenues	$20,640	
Earnings	9,050	
Required Installment Contribution		$20,600
Required Earnings		9,000
Unappropriated Surplus		90
To record closing out accounts showing required and actual contribution and earnings.		

The corresponding entry in the general bonded debt group of accounts is

Amount Available for Retirement of Bonds	$29,690	
Amount to Be Provided for Retirement of Bonds.		$29,690
To record additions made to sinking fund.		

When bonds mature, the entry in the sinking fund (page 123) is

Reserve for Retirement of Sinking Fund Bonds.	$2,000,000	
Matured Bonds Payable		$2,000,000
To set up matured bonds as a liability of the sinking fund.		

The entry in the general bonded debt group of accounts is

Bonds Payable	$2,000,000	
Amount Available for Retirement of Bonds.		$2,000,000
To remove bond liability.		

If serial bonds have been issued, a certain amount of the bonds will be retired annually and will be appropriated for in the budget. As these bonds mature, they are charged against the appropriation, and the liability is set up in the general fund. The entry is as follows:

Appropriation Expenditures	$50,000	
Matured Bonds Payable		$50,000
To set up matured bonds as a liability and to charge appropriations with amount of such matured bonds.		

The entry to remove the liability from the general bonded debt group of accounts is

Bonds Payable	$50,000	
Amount to Be Provided for Retirement of Bonds.		$50,000
To reduce bond liability by amount of bonds which have matured.		

Balance sheet. After the above entries have been posted to the accounts listed in Figure 63, the balance sheet of the general bonded debt accounts will appear as follows:

Figure 64

A GOVERNMENTAL UNIT
General Bonded Debt
Balance Sheet
at Close of Fiscal Year

Amount Available for Retirement of Bonds	$ 312,900
Amount to Be Provided for Retirement of Bonds	787,100
	$1,100,000
Bonds Payable	$1,100,000

Inter-Fund Relationships

Transactions and entries. Thus far in this chapter we have indicated how the transactions in certain funds affect general fixed assets and general bonded debt. The following entries illustrate how certain transactions in one fund affect another fund or funds:

Transactions Originating in the General Fund

1. Money was advanced by the general fund to the working capital fund for the purpose of providing capital for that fund.

Entry in General Fund:

Unappropriated Surplus	$50,000	
Cash		$50,000

To record capital advance to working capital fund.

Entry in Working Capital Fund:

Cash	50,000	
Capital		50,000

To record receipt of capital from general fund.

2. A loan was made by the general fund to the sinking fund.

Entry in General Fund:

Due from Sinking Fund	$40,000	
Cash		$40,000

To record loan made to sinking fund.

Entry in Sinking Fund:

Cash	40,000	
Due to General Fund		40,000

To record loan from general fund.

3. A contribution was made by the general fund to the sinking fund.

Entry in General Fund:

Appropriation Expenditures	$50,000	
Cash		$50,000

To record payment of contribution to sinking fund.

Entry in Sinking Fund:

Cash	50,000	
Contribution Revenues		50,000

To record receipt of contribution from general fund

4 The governmental unit is required to pay part of the cost of special assessment improvements.

Entry in General Fund:

Appropriation Expenditures	$100,000	
Due to Special Assessment Fund		$100,000

To record governmental unit's liability for contribution toward construction of special assessment improvements.

Entry in Special Assessment Fund:

Governmental Unit's Share of Cost	100,000	
Improvements Authorized		100,000

To record governmental unit's share of cost of project.

5. Services were performed by the general fund for the special assessment fund.

Entry in General Fund:

Due from Special Assessment Fund	$10,000	
Appropriation Expenditures		$10,000

To record reduction of appropriation expenditures by cost of services rendered on special assessment projects.

Entry in Special Assessment Fund·

Construction Expenditures	$ 10,000	
Due to General Fund		$ 10,000
To record cost of services performed by general fund		

6. A contribution was made by the general fund to a pension (trust) fund.

Entry in General Fund·

Appropriation Expenditures	$10,000	
Cash		$10,000
To record contributions on account of employees' pensions		

Entry in Pension (Trust) Fund:

Cash	10,000	
Pension (Trust) Fund Balance		10,000
To record receipt of contribution from general fund on account of employees' pensions.		

Transactions Originating in Bond Fund

1. Premiums on bonds were transferred to the general fund.

Entry in Bond Fund.

Unamortized Premiums on Bonds	$1,000	
Cash		$1,000
To record transfer of premiums to the general fund.		

Entry in General Fund.

Cash	1,000	
Revenues		1,000
To record receipt of cash representing premiums on bonds.		

2. Proceeds from the sale of bonds issued were transferred out of the bond fund to finance

(a) the governmental unit's share of special assessment improvement costs
(b) the governmental unit's contribution toward the establishment of a working capital fund
(c) a deficit in the general fund
(d) the acquisition of a utility (the bonds to be repaid from taxes).

Entry in Bond Fund:

Reserve for Authorized Expenditures	$100,000	
Cash		$100,000
To record transfer of proceeds out of bond fund.		

(a) *Entry in Special Assessment Fund:*

Cash for Construction	100,000	
Governmental Unit's Share of Cost		100,000
To record receipt of cash representing governmental unit's share of cost.		

(b) *Entry in Working Capital Fund:*

Cash	$ 100,000	
Capital		$ 100,000
To record receipt of capital from sale of bonds.		

(c) *Entry in General Fund:*

Cash	100,000	
Unappropriated Surplus		100,000
To record receipt of proceeds from the sale of bonds issued to fund a deficit.		

(d) *Entry in Utility Fund:*

Cash	100,000	
Governmental Unit's Contribution		100,000
To record receipt of proceeds from the sale of bonds issued to finance the acquisition of a utility. Bonds are to be repaid from taxes.		

3. Services were rendered by the bond fund for the general fund.

Entry in Bond Fund.

Due from General Fund	$5,000	
Expenditures		$5,000
To record reduction of construction expenditures by cost of services rendered for general fund.		

Entry in General Fund·

Appropriation Expenditures	5,000	
Due to Bond Fund		5,000
To record amount due to bond fund on account of services rendered.		

4. Bond fund surplus was transferred to the general fund (or to a sinking fund).

Entry in Bond Fund:

Unappropriated Surplus	$4,000	
Cash		$4,000
To record transfer of unappropriated surplus out of bond fund to general fund (or sinking fund).		

Entry in General Fund (or Sinking Fund):

Cash	4,000	
Unappropriated Surplus		4,000
To record receipt of bond fund surplus.		

Transactions Originating in Working Capital Fund

1. Services were rendered to departments whose activities are financed from the following funds:

(a) General Fund
(b) Special assessment fund
(c) Utility fund

Entry in Working Capital Fund:		
Due from General Fund	$15,000	
Due from Special Assessment Fund	10,000	
Due from Utility Fund	8,000	
Billings for Services		$33,000
To record amounts due from other funds for services rendered to departments financed from them.		
(a) *Entry in General Fund:*		
Appropriation Expenditures	15,000	
Due to Working Capital Fund		15,000
To record cost of services rendered by working capital fund.		
(b) *Entry in Special Assessment Fund.*		
Construction Expenditures	10,000	
Due to Working Capital Fund		10,000
To record cost of services rendered by working capital fund.		
(c) *Entry in Utility Fund:*		
Operating Expenses	8,000	
Due to Working Capital Fund		8,000
To record cost of services rendered by working capital fund.		

Combined fund balance sheet. Although each fund constitutes an independent entity, it is desirable to bring together the financial data in summary form in one place. This can be accomplished best by preparing, in addition to the individual balance sheets, a combined balance sheet in columnar form, as illustrated in Figure 65. This balance sheet is composed of some of the balance sheets illustrated throughout the previous chapters.

Since each fund is an independent entity, the "Total" column of a combined balance sheet is insignificant and misleading unless the figures in it are analyzed in the light of the data presented in the individual statements. For that reason, no combined balance sheet should be presented showing totals of all assets, liabilities, reserves, and surplus, unless the amount applicable to each fund is shown in the same statement. The presentation of the totals for all types of asset, liability, reserve, and surplus accounts in one statement and the details as to the amount applicable to each fund in a subsidiary schedule is not recommended.

Some of the columns in the combined balance sheet are applicable to groups of funds. For example, as indicated at the head of the column, the figures for the bond funds are those of the totals of the group of bond funds illustrated in Figure 34, page 114. To get further details regarding individual bond funds, one would have to refer to this schedule. The same facts apply to the trust and agency funds; the figures shown in the column are for the

Figure 65

A GOVERNMENTAL UNIT

All Funds
Combined Balance Sheet
at Close of Fiscal Year

	Total	General Fund (Figure 19)	Bond Funds (Figure 34)	Sinking Fund (Figure 37)	Working Capital Fund (Figure 39)	Special Assessment Fund (Figure 44)	Trust and Agency Funds (Figure 53)	Utility Fund (Figure 54)	General Fixed Assets (Figure 62)	General Bonded Debt (Figure 64)
Assets—Other than Fixed:										
Cash	$ 390,874	$11,200	$101,000	$ 22,500	$ 10,300		$115,790	$ 130,084		
Cash for Construction	405,000					$405,000				
Cash for Interest Payments	2,250					2,250				
Total Cash	$ 798,124	$11,200	$101,000	$ 22,500	$ 10,300	$407,250	$115,790	$ 130,084		
Taxes Receivable—Delinquent	$ 125,000	$69,000		$ 56,000						
Less: Reserve for Estimated Losses	17,000	11,000		6,000						
Total Taxes Receivable	$ 108,000	$58,000		$ 50,000						
Interest and Penalties Receivable on Taxes	$ 995	$ 550		$ 445						
Less. Reserve for Estimated Losses	95	50		45						
Total Interest and Penalties	$ 900	$ 500		$ 400						
Assessments Receivable:										
Current	$ 40,000					$ 40,000				
Delinquent	5,000					5,000				
Deferred	310,000					310,000				
Total Assessments Receivable	$ 355,000					$355,000				
Governmental Unit's Share of Cost	$ 50,000					$ 50,000				
Taxes Receivable for Other Units	40,000						$ 40,000			
Accounts Receivable	93,000	$21,000						$ 72,000		
Less Reserve for Estimated Losses	7,500	1,000						6,500		
Total Accounts Receivable	$ 85,500	$20,000						$ 65,500		

							59,000				
Loans Receivable	$ 59,000				$ 30,000			$ 30,000			
Due from General Fund	30 000				12,800			600			
Due from Utility Fund	12,800				3,000			200			
Inventory of Materials and Supplies	33,000										
Prepaid Insurance	600					500	1,000				
Interest Receivable	1,700			$240,000			215,000				
Investments	455,000										
Sinking Fund:								266			
Cash	266							6,600			
Investments	6,600							150			
Interest Receivable	150							$ 7,016			
Total Sinking Fund	$ 7,016										
Customers' Deposits:								$ 1,000			
Cash	$ 1 000							10,000			
Investments	10,000							200			
Interest Receivable	200							$ 11,200			
Total Customers' Deposits	$ 11,200										
Amount Available for Retirement of Bonds	$ 312,900										$ 312,900
Amount to Be Provided for Retirement of Bonds	787,100										787,100
Bonds Authorized—Unissued	200,000		$200,000								$1,100 000
TOTAL ASSETS—OTHER THAN FIXED.	$3,347,840	$89,700	$301 000	$312,900	$ 56,100	$812,750	$430,790	$ 244,600			
Fixed Assets:											
Land	$1,217,000				$ 10 000			$ 200,000	$1,007,000		
Structures & Improvements	3,500,100				40,000			701,400	2,758,700		
Less Reserve for Depreciation	102,400				2,400			100,000			
Total Structures & Improvements.	$3,397,700				$ 37,600			$ 601,400	$2,758.700		
Machinery & Equipment	$ 799,600				$ 50,000			$ 200,500	$ 549,100		
Less. Reserve for Depreciation	65,200				9,200			56 000			
Total Machinery & Equipment	$ 734,400				$ 40,800			$ 144 500	$ 549,100		
TOTAL FIXED ASSETS	$5,349,100				$ 88 400			$ 945 900	$4,314,800		
GRAND TOTAL	$8,696,940	$89,700	$301,000	$312 900	$144,500	$812,750	$430,790	$1,190,500	$4,314,800	$1,100.000	

Figure 65 (*Cont.*)

	Total	General Fund (Figure 19)	Bond Funds (Figure 34)	Sinking Fund (Figure 37)	Working Capital Fund (Figure 39)	Special Assessment Fund (Figure 44)	Trust and Agency Funds (Figure 53)	Utility Fund (Figure 54)	General Fixed Assets (Figure 62)	General Bonded Debt (Figure 64)
Liabilities:										
Vouchers Payable	$ 96,900	$29,900	$ 10,000		$ 7,500			$ 49,500		
Taxes Collected in Advance	1,000	1,000								
Accrued Salaries and Wages	6,000							6,000		
Accrued Taxes	7,500							7,500		
Contracts Payable	120,000		20,000			$100,000				
Contracts Payable—Retained Percentage	10,000		10,000							
Due to Working Capital Fund	42,800	30,000						12,800		
Customers' Deposits Payable	11,000							11,000		
Customers' Deposits—Interest Payable	150							150		
Other Interest Payable	6,500							6,500		
Bonds Payable (Figure 97)	2,100,000					350,000		650,000		$1,100,000
Unamortized Premiums on Bonds	1,900							1,900		
TOTAL LIABILITIES	$2,403,750	$60,900	$ 40,000		$ 7,500	$450,000		$ 745,350		$1,100,000
Reserves:										
Reserve for Encumbrances	$ 410,000	$20,000	$ 50,000			$340,000				
Net Balance of Reserve for Authorized Expenditures	230,000		210,000			20,000				
Reserve for Retirement of Sinking Fund Bonds	319,016			$312,000				$ 7,016		
TOTAL RESERVES	$ 959,016	$20,000	$260,000	$312,000		$360,000		$ 7,016		
Balances:										
Principal	$328,390						$328,390			
Earnings	3,000						3,000			
Taxes	99,400						99,400			
TOTAL BALANCES	$ 430,790						$430,790			
Governmental Unit's Contribution	$ 400,000							$ 400,000		
Capital	135,000				$135,000					
Investment in Fixed Assets	4,314,800								$4,314,800	
Unappropriated Surplus	50,834	$ 8,800	$ 1,000	$ 900	2,000			38,134		
Unappropriated Surplus—Interest	2,750					$ 2,750				
GRAND TOTAL	$8,696,940	$89,700	$301,000	$312,900	$144,500	$812,750	$430,790	$1,190,500	$4,314,800	$1,100,000

entire group of trust and agency funds. These figures correspond with those shown in the "Total" column in Figure 53.

Inter-fund borrowing. Inter-fund receivables and payables may arise from two sources: (1) from charges for services performed by one fund for another, and (2) from inter-fund loans. No question arises as to the authority for one fund to perform services for another, provided that such services are within the scope of the activities financed from the fund. It is not certain, however, whether, in the absence of express authorization to do so, loans may be made by one fund to another. Some court decisions have held that, unless specially authorized, such loans constitute a diversion of funds. On the other hand, in an important case [3] decided in 1908 and relied on in later decisions, it was held that a temporary loan of money by the general fund to a special fund did not constitute a diversion of funds. Upon examining the circumstances surrounding that case, however, two rules can be laid down. In the first place, the lending and borrowing funds must both be under the control of the same body. Secondly, it must be evident that the borrowing fund will be able to repay the loan.

> As a personal loan of magnitude is not ordinarily made to an individual who is insolvent, so a city should not transfer its general-fund moneys as temporary loans to other funds that have not assured and certain sources of income, the collection of which is under the control of the city itself.[4]

Offsetting inter-fund receivables and payables. Sometimes inter-fund receivables are offset against inter-fund payables in the combined balance sheet, on the theory that these assets and liabilities both belong to the same governmental unit. This procedure is incorrect, because each fund is an independent fiscal entity. The error is best illustrated by the following example. Assume that the inter-fund receivables and payables shown below are carried on the asset and liability sides, respectively, of a combined balance sheet.

	General Fund	Bond Fund	Special Assessment Fund	Elimination
Asset Side				
Due from General Fund.....		$20,000	$40,000	(a) $60,000
Liability Side				
Due to Bond Fund..	$20,000			(a) 20,000
Due to Special Assessment Fund ...	40,000			(a) 40,000

[3] Griffin v. Tacoma, 49 Washington 524 (1908), 95 Pac. 1107.
[4] *Ibid.*

According to this theory, the amounts shown as receivables in the bond fund and the special assessment fund would be canceled against the liability to these two funds by the general fund. But the legislative body has no authority to cancel any asset of the special assessment fund. Similarly, if the bonds have been authorized by a vote of the people, the legislative body has no right to cancel any receivable of the bond fund.

General summary of fund accounting. The outstanding characteristic of governmental accounting is the use of funds. The details of fund accounting are apparent from the discussion of the individual funds. At this point, therefore, we shall only summarize some of the main principles which evolve from the discussion of the detailed accounting procedure for each fund.

In the first place, it is apparent that a fund is an independent fiscal entity and must be accounted for as such. The accounting system must be so devised that the assets, liabilities, reserves, surplus, revenues, and expenditures can be identified with the particular fund to which they apply. It follows that each fund must have a self-balancing group of accounts. A fund need not necessarily consist of cash only; it may even have fixed assets. Neither does it follow that the mere segregation of cash to be used for certain purposes constitutes a fund (as is true in the case of funds established under commercial accounting procedures).

In some cases, assets are shown in one fund, but the liabilities incurred in their acquisition are shown in another fund. For example, special assessment improvements are shown in the general fixed assets group of accounts, whereas special assessment bonds payable are shown as a liability of the special assessment fund. Again, although the bond fund receives the proceeds from the sale of the bonds, the liability is not shown in that fund.

The second important fact is that a governmental unit may have many funds of the same type. That is, it may have many bond funds, sinking funds, and so forth. Each of these groups of funds has been referred to as a related group of funds. The accounting procedure is the same for all the related funds of a group —that is, for all general bond funds, sinking funds, and so forth.

The third fact to note is the variation in the accounting procedure for the several funds with respect to (1) accruing similar items, (2) combining budgetary and proprietary accounts, and (3) excluding certain assets and liabilities. The accrual basis of accounting is followed out more consistently in the utility and working capital funds than any other funds. Since it is essential there to arrive at the profit or loss figure for a period, it is important to take into account all the revenues and expenses properly

allocable to a period. Revenues are set up as soon as they become receivable, and expenses are set up as soon as they are incurred. Furthermore, depreciation expenses are recorded periodically. In the other funds, the degree of accrual varies. Some transactions are recorded on an accrual basis, whereas others are not. For example accrued interest receivable on investments and bank deposits is usually not set up in the general fund because it is an insignificant item compared with the other assets of this fund. Accrued interest payable on general bonds is usually not set up because the appropriation for it will not be made until the beginning of the following fiscal year. If the interest were set up, therefore, the expenditure would have to be charged against this year's appropriations, whereas actually it is chargeable to the appropriations for the following year.

Budgetary and proprietary accounts are carried in one group in all funds except the utility and working capital funds. Since appropriations are not made directly for working capital fund expenditures, it is not necessary to set up budgetary accounts as a formal part of the accounting system; memoranda accounts of estimated revenues and expenditures suffice. If no appropriations are made for the utility fund, budgetary accounts need not be set up except as memoranda accounts. Frequently, however, appropriations are made for a utility. In that case, the budgetary accounts are made a formal part of the accounting system, but they are not combined with the proprietary accounts. In other words, they constitute a complete self-balancing group. However, only those utility budgetary operations which are affected by legal provisions are set up as part of the accounting system. All other budgetary operations are recorded in budget memoranda accounts. For example, estimated utility revenues need not be formally recorded.

From the discussion in an earlier part of this section, it appears that identical types of assets and liabilities may be included in some funds and excluded from others. For example, fixed assets and bonds payable are included in the utility fund but not in the general fund. Special assessment bonds payable are shown as a liability of the special assessment fund, but the special assessment improvements are not shown as assets of this fund.

CHAPTER 15

Cash

THE accounting procedure for cash consists in seeing that (1) receipts reach the treasury, (2) disbursements are made only pursuant to legal authorization, (3) both receipts and disbursements are accurately recorded, and (4) cash on hand is accounted for.

Accounting for cash receipts. Cash is one of the assets most likely to misappropriation; special care must therefore be taken to insure that it will be handled properly. The mishandling of cash can be prevented by (1) providing that employees handling cash should not have access to the accounting records, and vice versa, (2) using pre-numbered financial stationery, and (3) providing for the prompt deposit of all cash receipts to the credit of the governmental unit. The last two provisions apply both to the receipts of the treasury office and to departmental collections. Not all cash receipts come to the treasury directly; some originate in departments. Departmental collections should either be transmitted to the treasury office or be deposited promptly in the bank to the credit of the governmental unit. In the latter case, the depository issues two deposit tickets, one of which is kept by the depositing department and the other transmitted to the treasurer's office.

In some places, an official may collect taxes and hold the money temporarily as a debtor of the governmental unit instead of depositing it to the credit of the government. For example, a tax collector is sometimes not required to turn the cash over immediately upon collection but does so only at stated intervals. In the meantime, he deposits the money to the credit of his own personal account, and when the time for settlement comes, he draws a check on this account for the amount to be turned over. However, this procedure is to be condemned. All money collected by an official should be deposited at once to the credit of the governmental unit.

Recording cash receipts. The account to be credited with cash receipts will depend on whether revenue or nonrevenue receipts are involved. Revenue receipts result in an increase in fund revenue, and they must therefore be credited to revenue accounts,

Non-revenue receipts, on the other hand, either decrease assets other than cash or increase liabilities and certain reserves. The proper asset, liability, or reserve account must therefore be credited for the amount of cash received.

Collections are evidenced by documents, and the information necessary for debiting the Cash account of the proper fund and crediting the asset, liability, reserve, revenue, or surplus account of that fund is obtained from these documents. For example, tax receipts are evidenced by tax bills. That is, every time a tax is paid, the collecting unit must retain one part of the tax bill, so that it may have the necessary data for (1) debiting the Cash accounts of the various funds, (2) crediting the taxes receivable control accounts of each fund, and (3) crediting individual taxpayers' accounts. Again, license collections are evidenced by carbon copies of the licenses issued. Since licenses are usually not set up as receivables (that is, they are not recorded as revenue until they are collected in cash), the carbon copies of each license are used as the basis for (1) debiting the Cash account of the particular fund to which license revenues apply, (2) crediting the Revenues control account of that fund, and (3) crediting the individual Licenses accounts in the revenue ledger for the particular fund.

The procedure in recording cash receipts is as follows: Documents are grouped for the purpose of securing control totals. For example, receipt documents are first grouped for the purpose of classifying collections for each fund by main sources—taxes, licenses, permits, accounts receivable, and so forth. Thus, to arrive at the total amount of license collections, it is necessary to group all the license documents together. Another grouping is made for the purpose of determining the total amount of cash applicable to each fund. As a result of these groupings, the amounts necessary for the purpose of crediting the proper control accounts for each fund in the general ledger (that is, the Taxes Receivable account of each fund, the Accounts Receivable account, the Revenues account, and so forth) are secured. A still further grouping of documents is required to arrive at the amount to be posted to the subsidiary accounts. For example, to arrive at the total amount to be posted to the Motor Vehicle License account in the revenue ledger, it is necessary to group all duplicates of motor vehicle license documents.

The above procedure is subject to modification. Procedures vary, in the first place, because of variation in the duties of the accounting department and of the treasurer's office in accounting for receipts. Frequently, if the accounting department and the treasurer's office are under the control of two independent officials,

the treasurer is concerned only with classifying the documents so that he can arrive at the amount of cash applicable to each fund. As soon as he obtains these data, he turns the documents over to the accounting department.

On the other hand, if the treasury office and the accounting department are both under the supervision of one man, such as a director of finance, the grouping of the receipt documents by main sources of receipts (for example, taxes, accounts receivable, and so forth) is frequently made by the treasurer. On the basis of these groupings, the treasurer prepares a daily cash report, a copy of which, together with the grouped documents on which the report is based, is turned over to the accounting department. The report is checked here against the grouped documents and is used as a basis for making postings to the revenue and receipts register (Figure 66). Where the treasurer reports collections only by fund, receipts are classified only by fund totals in his daily report. A detailed cash report is in that case prepared by the accounting department and is similarly used for making postings to the revenue and receipts register.

Another modification in cash accounting procedure is brought about by the fact that some of the money may be collected by departments instead of by the treasurer. In that event, departments are frequently required to group documents by fund and source. In many governmental units, departments are not permitted to deposit their collections with the treasurer until they secure a pay-in warrant from the accounting officer. The accounting officer will not approve the warrant until the department has grouped the documents by fund and source and has indicated on the warrant the amount of cash collections applicable to each fund and source. Usually the report is prepared in triplicate, and all three copies, together with the grouped documents, are presented for approval to the accounting officer, who signs the three copies and retains one of them, along with the accompanying documents. The other two copies are turned over to the department, which then proceeds to deposit the money with the treasurer. The treasurer in turn signs the two remaining copies and returns one copy to the department as evidence that the money has been received by him.

The accounting officer's copies of treasury pay-in warrants are checked against the documents for the purpose of verifying that the documents have been properly grouped. The warrants are then used as the basis for an entry in the revenue and receipts register. In the treasurer's office, on the other hand, the warrants are used as the basis for preparing the treasurer's daily report of

Figure 66

A GOVERNMENTAL UNIT

Revenue and Receipts Register

Month of _____

Day	Total for Day	General Fund								Special Revenue	
		Taxes					Motor Vehicle Licenses	Rents	Other Receipts	Taxes	
		Real Estate		Personal Property		Interest & Penalties on Taxes				Real Estate	
		Year	Amount	Year	Amount				Name of Account / Amount	Year	Amount

collections. In this case, collections would be classified only by funds in the treasurer's daily report.

A third modification is introduced by the fact that certain departments may keep some of the detailed accounts. For example, the water department may keep the individual accounts of water customers. In that case, the cashier's stubs are not turned over to the treasurer or to the accounting department but are retained by the department and used in posting to the individual accounts receivable. The department, however, submits a summary of the revenues collected, and this summary is used as the basis for crediting the accounts receivable controlling account and any other controlling accounts of the proper funds.

A final modification in cash accounting procedure results from the use of various types of mechanical accounting equipment. Where mechanical equipment is employed, the number of groupings is reduced, since many of the desired totals can be secured from one cash register or bookkeeping machine summary.

Recording collections. As we have already indicated, postings to the revenue and receipts register are made from the daily summaries of collections, as prepared by the various departments which collect money, by the treasurer, or by the accounting department. The revenue and receipts register illustrated in Figure 66 is based on the assumption that the governmental unit has only a few sources of receipts. If a governmental unit had many sources, and if a separate column were provided for each source, the register would obviously become too complicated. In that event, subregisters would be established for certain of the accounts. For example, one subregister might be established for licenses and permits, another for revenues from the use of money and property, and so on. Postings to the individual revenue accounts would in that event be made at the end of each month.

Sometimes a separate sheet is set up for each revenue account, to which postings are made daily. Each sheet is totaled at the end of the month, and each total is posted to another sheet. This sheet is similar to the one from which the postings are made except that it shows only the total receipts from the particular source for each month rather than for each day. For example, a separate sheet might be established for marriage licenses, to which receipts from this source would be posted daily. At the end of the month, the total amount of marriage license receipts, as indicated by this sheet, would be added, and the total would be posted to another sheet, which showed marriage license receipts by month only. In this manner, the total amount of receipts for the month and to

Figure 67

A GOVERNMENTAL UNIT
Check Register

Month of_____

Day	Name	Check No.	Funds				
			General			Special Revenue	Working Capital
			Bank *A*	Bank *B*	Bank *C*	Bank *A*	Bank *B*

date, from the particular source, are readily available in summary form.

Receipts are sometimes not entered in any register but are posted directly from the daily reports of cash collections to the accounts. In some cases no daily postings are made. Instead, the daily cash collection reports are summarized at the end of each month into a journal entry which is posted to the accounts. It must be remembered that the detailed accounts, such as each taxpayer's account, are usually credited from the documents themselves and not from any register.

Accounting for cash disbursements. As indicated previously, when an expenditure is approved, a voucher is issued signifying the approval of the liability. Frequently, the voucher and the check are prepared at the same time. Vouchers are prepared in duplicate, and they are so designed that the original can be used as a check and the duplicate can be used as the basis for an entry in the voucher register and as evidence of the approval of the claim. The original of the voucher document becomes a check when it is signed by the treasurer.

An alternative disbursement procedure is to use a voucher, a warrant, and a check. The difference between a voucher and a warrant is that a voucher designates the approval of the claim and serves as the basis for charging the proper expenditure and other accounts, whereas a warrant is an order by the accounting officer on the treasurer to pay the amounts specified. The treasurer in turn issues a check to cover the warrant. Sometimes, however, no additional checks are issued, the warrant becoming a check when it is signed by the treasurer and when the bank account is designated thereon.

Disbursements are recorded in a check register. A form for such a register is illustrated in Figure 67. On examining Figure 26, page 94, it will be noted that the voucher register can be converted into a check register by providing space for inserting the name of the bank. If a special payroll bank account has been established, the payroll sheets can be converted into a check register by putting in the check numbers opposite the names on these sheets. If no special payroll account is set up, the same procedure may be followed, but it is necessary also to record in the check register the total amount of checks issued.

Cash statements. Cash statements can be classified into two groups: (1) those prepared during the year primarily for the purpose of budgetary administration, and (2) other cash statements. The first group includes statements comparing actual with estimated receipts, statements forecasting the cash position of a

governmental unit, and statements of tax collections. Other cash statements are those showing receipts, disbursements, and cash balances of special assessment funds and trust and agency funds. Each of these statements is discussed below.

1. *Comparative statement of monthly receipts.* This statement is prepared at the end of each month usually for those funds for which appropriations are required—that is, for the general fund and for special revenue funds. The statement is illustrated in Figure 15, page 55.

2. *Statement of forecast of cash position* (Figure 68). The cash position of the governmental unit must be estimated care-

Figure 68

A GOVERNMENTAL UNIT
Statement of Forecast of Cash Position for Month

	Total All Funds	Funds			
		General	Special Revenue	Bond	Sinking
Cash on Hand—Beginning of Month	$200,000	$ 50,000	$10,000	$10,000	$60,000
Estimated Receipts	300,000	100,000	20,000	40,000	—
Total	$500,000	$150,000	$30,000	$50,000	$60,000
Estimated Disbursements	450,000	160,000	20,000	40,000	55,000
Estimated Cash Balance —End of Month	$ 50,000	$ 10,000*	$10,000	$10,000	$ 5,000
Estimated Loans Necessary	12,000	12,000	—	—	—
Estimated Cash Balance (After Loans)	$ 62,000	$ 2,000	$10,000	$10,000	$ 5,000

fully each month. On the basis of the statement of forecast of cash position, a governmental unit is in a position to determine whether or not sufficient money will be available to finance the expenditures for the following month.

3. *Statement of tax levies and tax collections.* This statement is illustrated in Figure 83, page 282. It shows tax collections both for the current month and from the beginning of the year to date and supplements in part the comparative statement of monthly receipts. Whereas the latter shows merely the total amount of taxes collected, this statement shows the amount collected from each year's levy. It should be noted, however, that, whereas the statement comparing actual and estimated receipts shows the data separately for each fund, no fund distinction is made in this statement. The reason is that the statement is supposed to show primarily the trend of collections on the entire tax roll.

4. *Statement of cash receipts, disbursements, and balances—*

special assessment funds (Figure 69). It is especially important to prepare a statement analyzing the cash receipts, disbursements, and balances of special assessment funds, because these funds have three kinds of cash: cash for construction, cash for bond payments, and cash for interest payments. Such a statement gives some evidence that the distinction between the various kinds of cash is being recognized by officials.

Figure 69

A GOVERNMENTAL UNIT

Special Assessment Funds
Statement of Cash Receipts, Disbursements, and Balances for Fiscal Year

	Total	District No. 1	2	3
Cash Balance—Beginning of Year:				
For Construction	$110,000	$10,000	$20,000	$25 000
For Bond Payments	60,000	5,000	10,000	15,000
For Interest Payments	18,000	2,000	3,000	4,000
Total	$188,000	$17,000	$33,000	$44,000
Receipts:				
Current Special Assessments—For Construction	$ 52,000	$ 5,000	$ 8,000	$13,000
Current Special Assessments—For Bonds	70,000	5,000	10,000	20,000
Delinquent Special Assessments—For Construction	16,000	2,000	2,000	4,000
Governmental Unit's Share of Cost	34,000	3,000	4,000	10,000
Interest	36,000	3,000	5,000	10,000
Proceeds from Sale of Bonds	100,000	—	—	50,000
Total Receipts	$308,000	$18,000	$29,000	$107,000
Total	$496,000	$35,000	$62,000	$151,000
Disbursements:				
Capital Outlays	$180,000	$15,000	$30,000	$45,000
Bonds Redeemed	60,000	5,000	10,000	15,000
Interest	18,000	2,000	3,000	4,000
Total Disbursements	$258,000	$22,000	$43,000	$64,000
Cash Balance—End of Year:				
For Construction	$132,000	$ 5,000	$ 4,000	$57,000
For Bond Payments	70,000	5,000	10,000	20,000
For Interest Payments	36,000	3,000	5,000	10,000
Total	$238,000	$13,000	$19,000	$87,000

5. *Statement of cash receipts, disbursements, and balances—trust and agency funds* (Figure 70). This statement should be prepared because cash transactions are the predominant types of transactions taking place in trust and agency funds.

6. *Statement of cash receipts, disbursements, and balances—all*

A GOVERNMENTAL UNIT

Trust and Agency Funds

Statement of Cash Receipts, Disbursements, and Balances

for Fiscal Year

	Total All Funds	Expendable Funds			Nonexpendable Funds	
		Deposits Fund	Endowment Earnings Fund	Agency Fund	Endowment Principal Fund	Loan Fund
Cash Balance—Beginning of Year	$ 71,000	$20,000	$ 1,000	$25,000	$10,000	$15,000
Receipts:						
Deposits	$ 25,000	$25,000	—	—	—	—
Taxes for Other Units (Itemize)	50,000	—	—	$50,000	—	—
Gifts	60,000	—	—	—	$60,000	—
Sale of Investments	15,000	15,000	—	—	—	—
Loans Repaid	20,000	—	—	—	—	$20,000
Transfer from Endowment Principal	50,000	—	$50,000	—	—	—
Total Receipts	$220,000	$40,000	$50,000	$50,000	$60,000	$20,000
Total Receipts and Balance	$291,000	$60,000	$51,000	$75,000	$70,000	$35,000
Disbursements:						
Taxes Paid to Other Units (Itemize)	$ 70,000	—	—	$70,000	—	—
Deposits Refunded	50,000	$50,000	—	—	—	—
Band Concerts	41,000	—	$41,000	—	—	—
Loans Made	30,000	—	—	—	—	$30,000
Transfer to Endowment Earnings	50,000	—	—	—	$50,000	—
Investments Purchased	15,000	—	—	—	15,000	—
Total Disbursements	$256,000	$50,000	$41,000	$70,000	$65,000	$30,000
Cash Balance—End of Year	$ 35,000	$10,000	$10,000	$ 5,000	$ 5,000	$ 5,000

Figure 71

A GOVERNMENTAL UNIT

All Funds

Summary Statement of Cash Receipts, Disbursements, and Balances for Fiscal Year

Fund	Cash Balance—Beginning of Year	Receipts		Disbursements		Cash Balance—End of Year	Banks		
		Regular	Inter-Fund	Regular	Inter-Fund		*A*	*B*	*C*
General	$180,000	$300,000	$ 15,000	$ 390,000	$ 90,000	$ 15,000	$ 10,000	$ 5,000	—
Special Revenue	40,000	50,000	—	70,000	5,000	15,000	—	—	$15,000
Bond	60,000	40,000	10,000	50,000	10,000	50,000	20,000	10,000	20,000
Sinking	100,000	150,000	—	200,000	—	50,000	20,000	30,000	—
Working Capital	45,000	5,000	100,000	130,000	—	20,000	3,000	—	17,000
Special Assessment	55,000	150,000	10,000	180,000	20,000	15,000	5,000	10,000	—
Trust and Agency	25,000	50,000	—	55,000	—	20,000	10,000	—	10,000
Utility	50,000	200,000	10,000	200,000	20,000	40,000	40,000	—	—
Total	$555,000	$945,000	$145,000	$1,275,000	$145,000	$225,000	$108,000	$55,000	$62,000

funds (Figure 71). This is a summary statement showing the cash receipts, disbursements, and balances for each fund and indicating in summary form the changes which have taken place in the Cash account of each fund or group of related funds. It should be noted that both the cash receipts and disbursements include inter-fund transactions, the assumption being that inter-fund balances are settled by check, in the same manner as other liabilities. If inter-fund settlements are made through both journal entries and cash payments, only that part actually received or paid in cash should be included among the receipts and disbursements. Note also that the bank accounts in which the cash of each fund is held are shown.

The foregoing are not the only cash receipts and disbursements statements which may be needed, for circumstances may indicate that the Cash accounts of other funds call for similar analysis. Again, these statements may be prepared not only at the end of a month or a year but also at other times. For example, cash statements may be needed in the preparation of the budget. For an illustration of a statement used in budget preparation, see Figure 7, page 38.

Funds and bank accounts. Solely from an accounting standpoint, there is no need for a separate bank account for each fund, the mere segregation of cash by funds on the books being sufficient. An independent fund may be said to exist even if no separate bank account is provided for it. Nevertheless, if a governmental unit does not have many funds, it is advisable to establish a separate bank account for each fund or group of related funds. The use of one bank account for all funds frequently leads to hidden inter-fund borrowing; that is, cash really applicable to one fund is used to meet the expenditures of another fund. Hidden borrowing is especially likely to be resorted to if statutes prohibit inter-fund loans.

As an illustration, suppose the balance sheet of the general fund and a special revenue fund was as follows:

A GOVERNMENTAL UNIT
General Fund and Special Revenue Fund
Balance Sheet
Date

	General Fund	Special Revenue Fund
Assets		
Cash	$100,000	$40,000
Taxes Receivable (Net)	200,000	50,000
	$300,000	$90,000

Liabilities and Surplus		
Vouchers Payable	$200,000	$60,000
Unappropriated Surplus	100,000	30,000
	$300,000	$90,000

Suppose, further, that the only transaction which occurred during the particular period was the issuance of checks amounting to $50,000, all of which was payable out of the special revenue fund. After this transaction had been made effective, the balance sheet would appear as follows:

A GOVERNMENTAL UNIT
General Fund and Special Revenue Fund
Balance Sheet
Date

	General Fund	Special Revenue Fund
Assets		
Cash	$100,000	—
Taxes Receivable (Net)	200,000	$50,000
	$300,000	$50,000
Liabilities and Surplus		
Cash Overdraft	—	$10,000
Vouchers Payable	$200,000	10,000
Unappropriated Surplus	100,000	30,000
	$300,000	$50,000

Note that the above transaction results in the use of $10,000 belonging to the general fund. In effect, the special revenue fund borrowed $10,000 from the general fund, and the transaction should have been recorded in the same manner as an inter-fund borrowing transaction; that is, an entry should have been made in the general fund debiting Due from Special Revenue Fund and crediting Cash, and an entry should have been made in the special revenue fund debiting Cash and crediting Due to General Fund. Furthermore, on the balance sheet an asset account, Due from Special Revenue Fund, should have been shown for the general fund, and a liability account, Due to General Fund, should have been shown for the special revenue fund. Instead, one gathers from the above statement that the governmental unit owes the bank $10,000. The necessity for showing inter-fund borrowings is especially important if statutes prohibit such loans. However, where one bank account is used, it is relatively easy to evade the law intentionally or unintentionally. If separate bank accounts are used, no checks will be drawn on any fund unless there is sufficient money to the credit of

the fund. The bank would refuse to honor these checks, and overdrafts, if any, would be for small amounts.

In addition to the factors discussed above, there are also others that must be taken into account in determining the number of bank accounts to be used. If the governmental unit has many funds, the establishment of separate bank accounts is likely to hinder the effective administration of cash. For example, some governmental units have hundreds of trust funds, and others have separate tax levy funds for each department. To use a separate bank account for each of these funds would mean complicating the accounting procedure considerably.

In the light of the above factors and of the experience encountered in recent times, it would seem that the proper procedure would be somewhat as follows: If the accounting system is such that the amount of cash applicable to each fund cannot readily be determined, a separate bank account should be established for each fund. In all other cases, separate bank accounts should be established for each *type* of fund; that is, a separate bank account might be established for the general fund, for all bond funds, for all sinking funds, and so forth.

Inter-fund settlements. Either as a result of inter-fund borrowing or as a result of the performance by one fund of services for another, a fund may have money coming from another fund and may in turn owe money to the same fund or to other funds. Many governmental units settle inter-fund transactions at the end of each month. Others make settlements at more or less frequent intervals. The procedure in making inter-fund settlements depends on whether or not a separate bank account is provided for each of the funds involved. If separate bank accounts are provided for each fund, inter-fund settlements are made by check; otherwise they are made through a journal entry. In either case, the settlement should be authorized in the same manner as other charges.

Choosing the depository. Usually the law provides that depositories be chosen by the legislative body of the governmental unit. The statutes also prescribe the conditions under which money is to be deposited. For example, the law may specify that before a governmental unit may deposit its funds in a bank, the capital stock and surplus of the institution must equal a certain minimum amount or must be a certain number of times the average amount of the unit's deposits. Banks are usually required to furnish security for public deposits, thereby enabling governmental units to recoup losses.

Accounting for petty cash and change funds. Petty cash is

accounted for in the same manner as the petty cash of private businesses. The only additional point to remember is that such cash is not available for appropriation. Similarly, funds established for the purpose of making change must not be considered as available for appropriation.

Reconciliations. Statements must be prepared at the end of each month or, in the case of large governmental units, at more frequent intervals to reconcile the cash balance as shown by the bank statement with the cash balance carried on the books of the treasurer and on the books of the comptroller. The procedure is the same as for a private business.

The extent of the reconciliation required between the Cash account as shown on the treasurer's records and on the bank statement will depend on the method of recording disbursements on the treasurer's books. If the treasurer does not record checks as disbursements until they have cleared through the bank, then the only item to be taken into account in making the reconciliation is cash on hand for deposit. If, on the other hand, he records checks as disbursements as soon as they are issued, checks outstanding must be taken into account.

The extent of reconciliation between the balance of the Cash account shown on the comptroller's books and that shown on the bank statement will vary. If the Cash account on the comptroller's books is reduced as soon as warrants are issued, it is necessary to take into account, in addition to outstanding checks, warrants issued by the comptroller for which the treasurer has not yet issued checks. Otherwise, only outstanding checks need to be taken into account.

Summary. The accounting procedure for cash must be so devised that the possibility of misappropriation is reduced to a minimum. One of the prerequisites is a proper system of internal check. Granted the existence of such a system, provision must be made for (1) the prompt deposit of cash, (2) the identification of cash with the fund to which it applies, (3) its disbursement for authorized purposes only, and (4) the proper recording of disbursements.

CHAPTER 16

Investments

THE securities which a governmental unit may purchase are usually prescribed by statute or charter and are frequently limited to federal, state, and municipal securities. As far as practicable, sinking fund cash should be invested in the bonds for the retirement of which the sinking fund was created, for, even if these bonds do not offer as great a return as other securities, they have the advantage of being the safest investment. As indicated before, once these bonds are acquired, they should not be canceled, because, if they are, annual contributions have to be recomputed. Since the canceled bonds will no longer bear interest, cancellation is also objectionable from the standpoint of the bondholders, because the earnings of the fund are reduced thereby. Nothing, therefore, seems to be gained by cancellation except elimination of the resale of the bonds, which is not customary but is sometimes desirable.

Only in two instances is it advisable to cancel reacquired bonds: (1) if all the bonds of a particular issue to be retired through a sinking fund are held by the governmental unit which issued them, or (2) if there is a surplus in the fund. In the latter case, however, only an amount equal to the accumulated surplus should be canceled. Some statutes or charters erroneously provide that all reacquired sinking fund bonds must be canceled.

The securities in which sinking fund cash is invested should bear an earlier maturity date than the bonds to be retired. Otherwise the governmental unit may be forced to sell investments at a loss. As a general rule, securities should be held until maturity. However, where there is a possibility not only of making a substantial profit on the sale of the investments but also of acquiring other investments of comparative safety at a price which will not wipe out the profit made on the sale of the first securities, it may be advisable to sell.

Securities should be safeguarded so that there will be no possibility of theft or mishandling. Only responsible officials should have access to them, and two or more officials should be present

when the securities are handled. Whenever possible, the securities should be registered.

Records of investments. Detailed records should be kept of investments. Figure 72 illustrates a register of bond investments. Data as to accrued interest, amortization of premiums and discounts, and other details necessary for the proper accounting for investments are secured from this register. If the governmental unit has many different types of investments, a detailed subsidiary ledger, similar to the one illustrated in Figure 73, should be provided. The purpose of this ledger is to classify the information for each class of like bonds; that is, a separate sheet would be provided for each bond issue in which money is invested. More information would be shown on this sheet than on the register of bond investments, and the data would be classified by bond issues.

Defaulted investments. A distinction should be made, on the balance sheet, between those investments on which there has been a default in principal or interest or both and those on which there has been no default. For example, if there has been a default on part of the investments, the Investments account would be shown on the balance sheet in the following manner.

Investments:		
Defaulted	$ 5,000	
Not Defaulted	90,000	$95,000

Most governmental units invest their money in government securities, and losses to date on such investments have been small. No reserve for estimated losses on defaulted investments seems necessary except in those cases in which defaults have occurred and there is already reasonable certainty of a loss.

Interest on investments. As already indicated, a distinction must be made between accrued interest purchased and actual interest earnings. For example, assume that securities to the amount of $100,000, bearing interest at 4 per cent payable June 1 and December 1, were acquired on March 1 at par. The governmental unit acquiring the securities will ordinarily pay for them not $100,000 but $101,000. The additional $1,000 represents interest which the purchaser will receive but to which he is not entitled. In other words, interest is paid only at the end of each half year, and there is no way for the seller of the securities to collect it until that time. But at that time he will not own the securities. His only recourse, therefore, is to collect his part of the interest from the purchaser, who will receive interest for the whole six months' period. That is, on the first of June the governmental unit receives interest of $2,000 (4 per cent of $100,000 for half a

Figure 72

A GOVERNMENTAL UNIT
Register of Bond Investments

Purchase Date	Description	Bond Numbers	Amount Paid				Maturity Date	Nominal Interest Rate	Effective Interest Rate	Interest Dates	Amount of Interest Due Each Period	Date of Sale or Redemption
			Par Value	Premium or Discount*	Accrued Interest	Total Amount Paid						

Figure 73

A GOVERNMENTAL UNIT

Investment Ledger

Maturity Date_____ Interest Dates_____

Description_____

Date Purchased_____ Price: Par_____ Premium or Discount_____ Accrued Interest Purchased_____

Interest Rate_____ Amount Each Period_____ Where Payable_____

If Registered—How?_____

Date Sold or Redeemed_____ Sale Price: Par_____ Premium or Discount_____ Accrued Interest Received_____

INTEREST EARNINGS

Date Received	Nominal Income	Amortized Premium or Discount*	Net Income	Unamortized Premium or Discount*	Date Received	Nominal Income	Amortized Premium or Discount*	Net Income	Unamortized Premium or Discount*

year). But, of this amount, only $1,000 represents interest revenues; the remaining $1,000 represents a return of accrued interest purchased.

The following entries illustrate the method of recording the purchase of accrued interest and the reduction of interest revenues by the amount of accrued interest purchased. In the situation illustrated above, when the securities and accrued interest are purchased, the entry to record the purchase of the accrued interest is as follows:

Accrued Interest Purchased	$1,000	
Cash		$1,000
To record purchase of accrued interest.		

As interest accrues, an entry is made debiting Interest Receivable for the amount of interest earned—namely, $1,000—and crediting Revenues for a corresponding amount. When the periodic interest payment is received, the following entry is made:

Cash	$2,000	
Accrued Interest Purchased		$1,000
Interest Receivable		1,000
To record receipt of interest on investments, part of which represents accrued interest purchased.		

Amortization of premiums and discounts on investments. We have already indicated that it is necessary to take account of premiums and discounts in recording the interest revenues of a governmental unit. The same principles are involved in the amortization of premiums and discounts both on investments and on original issues of bonds sold. Since governmental units amortize premiums and discounts on investments more frequently than on bonds sold, we shall discuss amortization in connection with interest revenues. This discussion shows how the same principles may be applied to the amortization of premiums and discounts on original issues of bonds sold.

The same interest rate may be secured by buying at a premium bonds which bear a high interest coupon rate or securing at a discount bonds paying a low coupon rate of interest. Assume that the borrowing unit can secure money at 3.5 per cent interest. In that case, if the bonds bear interest coupons of 3.5 per cent, they will sell at par. Suppose, however, the issuing governmental unit promises to pay interest of 4 per cent—that is, ½ of 1 per cent higher than called for by market conditions. In that case, if the bonds are to be retired over a period of 20 years, the purchasing governmental unit will pay a premium of $71.50 on each $1,000

bond it acquires.[1] Conversely, if the issuing governmental unit promises to pay only 3 per cent interest, the bonds will sell at a discount, the purchaser paying only $928.50 for each $1,000 bond.

The simplest procedure would be to have the rate of interest that is indicated on the bond correspond to the market interest rate, so that the bonds could be bought at par. This is, however, seldom possible, since market conditions change continually. To get the real, or effective,[2] rate of interest, therefore (as distinguished from the rate stated in the bond), the stated rate[3] must be adjusted. The purchase of bonds at a premium makes the effective rate of interest smaller than the nominal rate, whereas the purchase of bonds at a discount makes the effective rate greater than the nominal rate.

In order to get the effective rate of interest, it is necessary either to reduce interest revenues for each period by deducting a proper proportion of premium or to increase interest revenues by a proper proportion of discount, depending, respectively, on whether the bonds have been acquired at a premium or at a discount. The procedure whereby the balance of the unamortized bond premium account is gradually reduced is known as *amortization,* and that whereby the balance of the discount account is reduced is known as *accumulation.* The term *amortization* is frequently made to cover both premiums and discounts, however, and therefore, in order to simplify the discussion, this usage will be followed here.

Some of the more common methods of amortization are (1) the straight-line method, (2) the interest method, and (3) the bonds outstanding method.

Straight-line method of amortization. The straight-line method of amortizing premiums or discounts is the simplest. Under it, the total amount of premium or discount is divided by the total number of interest-paying periods in order to arrive either at the amount by which the balance of the Unamortized Premiums on

---

[1] The amount of premium or discount to be paid can be determined readily by referring to bond tables. Some of the published bond tables available are the following: Johnson, David C.; Stone, Caleb; Cross, Milton C.; and Kircher, Edward A., *Yields of Bonds and Stocks.* New York: Prentice-Hall, Inc., 1938. Sprague, Charles E., *Extended Bond Tables.* New York: The Ronald Press Company, 1915. Bartholomew, James R., *Equitable Trust Company of New York Rapid Bond Tables.* New York: Published by the author with permission of the Equitable Trust Company of New York, 1917. *Standard Tables of Bond Values.* Boston: Financial Publishing Company, 1928.

[2] The effective interest rate is the actual rate received, premiums and discounts being taken into account.

[3] The rate stated on the bond and on the coupons attached to it is also referred to as the *coupon rate* and as the *nominal rate.*

Investments account is to be reduced each period and revenues are to be correspondingly decreased or at the amount by which the balance of the Unamortized Discounts on Investments account is to be reduced and interest revenues are to be correspondingly increased. This method results in showing equal annual interest revenues. Actually, however, interest revenues decrease each year in the case of bonds acquired at a premium and increase in the case of bonds purchased at a discount. In the first instance, the investing governmental unit is receiving part of the premium each year, thereby reducing the amount of its investment. In the second instance, the borrowing governmental unit is postponing the payment of part of the interest until maturity, and, as the maturity date approaches, the investing governmental unit's equity increases.

Interest method. The interest method is more scientific than the straight-line method in that it takes account of the factors mentioned in the preceding paragraph. The effective interest rate, which is usually determined by the use of bond tables, is multiplied by the par value of bonds outstanding plus unamortized premium, or less unamortized discount, in order to give the amount of effective interest. This amount is then deducted from the nominal interest, or vice versa, and the remainder is the amount of premium or discount to be amortized.

The following is an illustration of the procedure used in arriving at the amount of bond premium or discount to be amortized under this method. Assume that $100,000-par-value bonds, running over a period of 5 years and bearing a nominal interest rate of 3 per cent payable semiannually, were bought on March 1, 1942, for $100,930. By reference to a bond table, it will be found that bonds purchased on this basis yield 2.8 per cent per year. The effective interest for the first half year is, therefore, $1,413.02 [($100,930 × 2.8 per cent)/2], whereas the amount of interest which will actually be received is $1,500 [($100,000 × 3 per cent)/2]. The difference between the amount of nominal interest (that is, interest actually received) and the amount of effective interest, or $86.98, represents the amount by which the premium for the first half year is to be amortized. Table 2 illustrates the amortization of premiums under the interest method on the basis of the assumptions made above.

The procedure for amortizing bond discounts is the same as for premiums. For example, assume that the bond issue used in the above illustration was bought for $99,080, or at a discount of $920. A bond table shows that bonds purchased on this basis will yield 3.2 per cent. Therefore, the effective amount of interest for

TABLE 2

AMORTIZATION OF BOND PREMIUMS UNDER THE INTEREST METHOD

1	2	3	4	5	6	7
Interest Paying Period	Interest Received (Figures in Column 6 Multiplied by 1.5%)	Effective Interest (Figures in Column 7 Multiplied by 1.4%)	Premium to Be Amortized (Column 2 Minus Column 3)	Unamortized Premium (Column 5 Minus Column 4)	Par Value of Investments	Book Value (Column 5 Plus Column 6)
March 1, 1942	—	—	—	$930.00	$100,000.00	$100,930.00
Sept. 1, 1942	$ 1,500.00	$ 1,413.02	$ 86.98	843.02	100,000.00	100,843.02
March 1, 1943	1,500.00	1,411.80	88.20	754.82	100,000.00	100,754.82
Sept. 1, 1943	1,500.00	1,410.57	89.43	665.39	100,000.00	100,665.39
March 1, 1944	1,500.00	1,409.32	90.68	574.71	100,000.00	100,574.71
Sept. 1, 1944	1,500.00	1,408.05	91.95	482.76	100,000.00	100,482.76
March 1, 1945	1,500.00	1,406.76	93.24	389.52	100,000.00	100,389.52
Sept. 1, 1945	1,500.00	1,405.45	94.55	294.97	100,000.00	100,294.97
March 1, 1946	1,500.00	1,404.13	95.87	199.10	100,000.00	100,199.10
Sept. 1, 1946	1,500.00	1,402.79	97.21	101.89	100,000.00	100,101.89
March 1, 1947	1,500.00	1,398.11*	101.89*	—	100,000.00	100,000.00
Total	$15,000.00	$14,070.00	$930.00	—	$100,000.00	$100,000.00

* Adjustment of $3.32 necessary, because of carrying yields to two decimal places only.

TABLE 3

AMORTIZATION OF BOND DISCOUNTS UNDER THE INTEREST METHOD

1 Interest Paying Period	2 Interest Received (Figures in Column 6 Multiplied by 1.5%)	3 Effective Interest (Figures in Column 7 Multiplied by 1.6%)	4 Discount to Be Amortized (Column 3 Minus Column 2)	5 Unamortized Discount (Column 5 Minus Column 4)	6 Par Value of Investments	7 Book Value (Column 6 Minus Column 5)
March 1, 1942	—	—	—	$920.00	$100,000.00	$ 99,080.00
Sept. 1, 1942	$ 1,500.00	$ 1,585.28	$ 85.28	834.72	100,000.00	99,165.28
March 1, 1943	1,500.00	1,586.64	86.64	748.08	100,000.00	99,251.92
Sept. 1, 1943	1,500.00	1,588.03	88.03	660.05	100,000.00	99,339.95
March 1, 1944	1,500.00	1,589.44	89.44	570.61	100,000.00	99,429.39
Sept. 1, 1944	1,500.00	1,590.87	90.87	479.74	100,000.00	99,520.26
March 1, 1945	1,500.00	1,592.32	92.32	387.42	100,000.00	99,612.58
Sept. 1, 1945	1,500.00	1,593.80	93.80	293.62	100,000.00	99,706.38
March 1, 1946	1,500.00	1,595.30	95.30	198.32	100,000.00	99,801.68
Sept. 1, 1946	1,500.00	1,596.83	96.83	101.49	100,000.00	99,898.51
March 1, 1947	1,500.00	1,601.49*	101.49*	—	100,000.00	100,000.00
Total	$15,000.00	$15,920.00	$920.00	—	$100,000.00	$100,000.00

* Adjustment of $3.11 necessary, because of carrying yields to two decimal places only.

the first half year is $1,585.28 [($99,080 × 3.2 per cent)/2], while the nominal interest is $1,500 [($100,000 × 3 per cent)/2], the difference, $85.28, representing the amount by which the balance of the Unamortized Discounts on Investments account must be reduced. Table 3 illustrates the amortization of bond discount on the basis of these assumptions.

It was assumed above that the bonds all mature at one time. The interest method may be applied to serial bonds by treating each maturity as though it were a separate issue.

Bonds outstanding method. The bonds outstanding method is a modification of the straight-line method and is used in the amortization of premiums or discounts on serial bonds, for which the straight-line method is not applicable. Under this method, the amount of bonds that will be outstanding at the beginning of each half year is determined, and these amounts are totaled. Each amount is then divided by the total in order to arrive at the percentage of premium or discount to be amortized each year. Applying the percentages to the total amount of premium or discount gives the amount of premium or discount to be amortized.

As an illustration, assume that $60,000-par-value bonds, bearing a nominal interest rate of 4 per cent payable semi-annually and maturing at the rate of $10,000 each year, were bought for $62,000—that is, at a premium of $2,000. The amount to be amortized each year is indicated in Table 4.

TABLE 4

AMORTIZATION OF PREMIUMS UNDER THE BONDS OUTSTANDING METHOD

Half Year	Amount Outstanding	Percentage of Premium to Be Amortized	Amount of Premium to Be Amortized
1	$ 60,000	14 3	$ 286 00
2	60,000	14 3	286 00
3	50,000	11.9	238 00
4	50,000	11 9	238 00
5	40,000	9 5	190 00
6	40,000	9 5	190.00
7	30,000	7.1	142.00
8	30,000	7 1	142 00
9	20,000	4.8	96 00
10	20,000	4 8	96.00
11	10,000	2 4	48.00
12	10,000	2 4	48.00
	$420,000	100.0	$2,000 00

Thus, the percentage to be applied on the first interest date is 14.3 per cent, which is arrived at by dividing $60,000 by

$420,000. Since the total bond premium is $2,000, the amount to be amortized on the first interest date is found by taking 14.3 per cent of $2,000. The amount to be amortized on the first interest date of the second year is obtained by applying the percentage shown in the third column for that year—namely, 11.9 per cent—to $2,000. The percentage and amount to be amortized during each of the succeeding interest dates of each year are similarly derived. The same procedure is followed in the calculation of the amount of discount to be amortized.

The entry to record interest revenues and the amortization of premiums, in the case of the figures illustrated in Table 2 for September 1, 1942, is as follows:

Interest Receivable	$1,500.00	
Revenues		$1,413 02
Unamortized Premiums on Investments		86 98
To record interest revenues and reduction of same by amount of premium amortized.		

On the other hand, the entry to record interest revenues and the amortization of discounts, if the figures illustrated in Table 3 for September 1, 1942, are used, is as follows:

Interest Receivable	$1,500 00	
Unamortized Discounts on Investments	85.28	
Revenues		$1,585 28
To record interest revenues and increase of same by amount of discount amortized.		

If we assume the figures illustrated in Tables 2 and 3, the Investments account would appear as follows on September 1, 1942:

Investments		$200,000 00
Unamortized Premiums on Investments	$843 02	
Less—Unamortized Discounts on Investments	834 72	8 30
		$200,008 30

The treatment of premiums and discounts not amortized varies among governmental units. Some units continue to carry them until the investments mature or are sold. In other governmental units, if premiums on investments are not amortized, they are charged against the surplus of the fund. Conversely, if discounts on investments are not amortized, they are recorded as revenues of the year in which the investments are acquired. If some securities are acquired at a premium and others are acquired at a discount, premiums are offset by discounts and the difference is credited to a revenue account or charged to unappropriated surplus, depending on whether discounts exceed premiums or vice versa. However, no investment fund or sinking fund can be

properly studied, nor can its financial condition be ascertained with any certainty, unless premiums and discounts are amortized.

Accounting for the sale of investments. In accounting for the sale of investments, it is advisable to determine the proper profit or loss on them. Profit or loss is represented by the difference between the book value of the investment and the selling price. The book value is the par value of the securities plus unamortized premiums and less unamortized discounts. For example, assume that the Investments account appears on the balance sheet as follows:

Investments		$100,000
Unamortized Premiums on Investments	$1,000	
Less—Unamortized Discounts on Investments	500	500
Total Book Value		$100,500

Assume further that subsequently the investments were sold and that the price realized was exactly equal to the book value. The entry to record the sale of these investments is as follows:

Cash	$100,500	
Unamortized Discounts on Investments	500	
Investments		$100,000
Unamortized Premiums on Investments		1,000
To record sale of investments.		

Of course, if the amount received from the sale of the investments is greater than the book value, the difference represents a profit on the sale of investments. The profit is treated in each fund in the same manner as any of the other fund revenues. On the other hand, if the proceeds from the sale of the investments are less than the book value, the difference represents a loss. In the general fund, special revenue fund, and sinking fund, the loss is charged to the Unappropriated Surplus account of the fund. In the trust and agency funds, since these funds usually have no surplus or deficit, the loss is charged directly to the fund balance (*Debit* Trust Fund Balance). In the utility fund, the loss is considered a nonoperating expense, and it reduces the earnings for the year correspondingly. Working capital funds, bond funds, and special assessment funds ordinarily do not have any investments.

Another point to remember in connection with the sale of investments is the importance of segregating the amount of cash representing interest revenues. If investments are sold between interest dates, part of the proceeds represent accrued interest sold (to the purchaser, this amount represents accrued interest purchased). Unless this interest is segregated, profits on the sale of investments are overstated and losses on the sale of investments are understated.

CORPORATION OF THE CITY OF OTTAWA[1]

Statement of Sinking Fund Investments
as at 31st December, 1944

Security	Rate %	Maturity Date	Par Value	Book Value	Market Value
nion of Canada	4½	1 Feb 1946	$353,000 00	$353,000.00	$365,178.50
nion of Canada.	3¼	1 Feb. 1952	4,000.00	4,000.00	4,216.00
nion of Canada .	3	1 Oct. 1952	18,800.00	18,633.19	19,354.60
nion of Canada	4½	1 Nov. 1956	127,000 00	127,000.00	133,159 50
nion of Canada	3	1 Feb. 1962	242,000.00	242,000.00	241,395.00
adian National Railways (Dominion of Canada Guarntee)	4½	1 Sep. 1951	40,000.00	42,522.57	49,500.00
adian Northern Railway £10,500 (Dominion of Canada uarantee) .	3	10 July 1953	51,100.00	51,100.00	46,501.00
adian National Railways (Dominion of Canada Guarntee) . . .	5	1 Feb. 1954	125,000.00	139,245.64	146,093.75
adian National West Indies Steamship Lines (Dominion Canada Guarantee)	5	1 Mar. 1955	100,000.00	112,876.38	130,000.00
adian Northern Ontario Railway £12,500 (Dominion of anada Guarantee) . .	3½	19 May 1961	60,833.31	58,419.59	62,810.40
vince of Alberta ..	4½	15 July 1941	3,000.00	3,000.00	2,812.50
vince of Alberta . .	4½	15 Jan. 1942	66,000.00	66,000.00	61,875 00
vince of Alberta	4½	1 July 1942	10,000.00	10,000.00	9,375.00
vince of Alberta .. .	5	1 April 1943	36,000 00	36,000 00	33,930.00
vince of Alberta	5	1 July 1943	106,000.00	106,000.00	97,520.00

[1] Adapted from *General Financial Statement of the City of Ottawa, Canada, for Year Ended 31st December, 1944*, p. 285.

To illustrate, if in the foregoing entry part of the proceeds included $500 of accrued interest sold, the entry would be as follows:

Cash	$100,500	
Unamortized Discounts on Investments	500	
Losses on Investments	500	
Investments		$100,000
Unamortized Premiums on Investments		1,000
Interest Revenues		500
To record sale of investments and accrued interest thereon.		

In the above discussion, it should be clear that no single holding of bonds will have both premiums and discounts.

Statement of investments. A subsidiary statement should be prepared showing details concerning the investments of each fund. Such a statement is given in Figure 74, page 253. Note that the statement shows rate of interest, due date, par value, book value, and market value. Unamortized premiums may be found by deducting the par value from the book value, and unamortized discounts may be found by deducting the book value from the par value. The market value is of importance because it reflects the actual current value of the securities.

CHAPTER 17

General Property Taxes

GENERAL property taxes are ad valorem taxes levied in proportion to the assessed valuation of real or personal property. Procedure for levying the total amount of the tax is simple. The complications arise out of the necessity of distributing the tax burden among the taxpayers. The procedure in the administration of general property taxes is as follows: (1) The assessed valuation of each piece of real property and of the property of each personal property taxpayer is determined; (2) the legislative body levies the total amount of taxes which it needs but not in excess of the amount permitted by law; (3) the tax levy is distributed among taxpayers on the basis of the assessed value of property owned by them; (4) taxpayers are billed; (5) tax collections are credited to taxpayers' accounts; (6) tax collections are enforced by the imposition of penalties and the sale of property for taxes. Each of these steps in general property tax administration is discussed below.

Assessment of property. By assessment of property is meant the valuing of property for purposes of taxation. The assessment of property for local taxes is usually performed by an official known as an assessor, who may be either elected or appointed. The assessed value of each piece of real property or of the personal property of each personal property owner is recorded on a sheet known as an assessment roll. Each sheet contains the assessed values of several pieces of property or the assessed values of the personal property of several owners. In the case of real property, however, for each piece of property a separate continuing property record, on which the assessed valuation for that piece alone is shown, is frequently provided. As we shall indicate subsequently, the assessment roll may be converted into a tax roll. Thus, for example, the first five columns of Figure 75 may be said to constitute an assessment roll. After the assessments have been made, they are reviewed by a board which hears protests and makes adjustments.

The total assessed value of real estate in a governmental unit is determined by adding the assessed values of the individual

pieces of property; the total assessed value of personal property is determined by adding the assessed values of the personal property of the individual owners. But it must be remembered that several governmental units may levy taxes on the same real and personal property. Thus, the state, county, city, and school district within whose jurisdiction the property is located may each tax the property. A saving in time and effort is therefore effected if one unit does the assessing. The total assessed value of any governmental unit is, in that event, determined by adding the individual assessed values of the real property situated within its jurisdiction and the assessed values of the personal property of personal property owners located within the jurisdiction. For example, assume that the assessment is made by a county and that within this county are located cities, villages, and independent school districts. To get the assessed value for city tax purposes, it is necessary merely to add the individual assessed values of the real property and the personal property located within the city. Similarly, to get the assessed value for school purposes, it is necessary merely to add the individual assessed values of the property located within the school district.

Levying the tax. Taxes are levied through the passage of a tax levy act or ordinance. Local taxes are levied annually, usually at the time the appropriation act or ordinance is passed. State property taxes may be levied biennially, but a separate levy is made for each year.

Tax levies are made in one or two lump sums in some governmental units, whereas in others the levies are very detailed. The extent to which levies are made in detail depends on legal provisions. Frequently, statutes and even charters specify that certain taxes are to be levied for particular purposes. In that event, the legislative body must indicate specifically the amount levied for each purpose. In fact, tax levy ordinances are sometimes so detailed that they are confused with appropriation ordinances. Of course, the distinction between the two must be kept in mind. The appropriation ordinance merely authorizes the expenditure of money, whereas the tax levy ordinance provides the means for financing expenditures.

The effect of detailed tax levies is to create special revenue funds. For example, if a special levy is made for parks, it is necessary to create a special revenue fund for parks, so as to insure that the taxes collected are not used for any other purposes. It must be understood, however, that the mere levy of a tax may not enable a governmental unit to spend the money if the expenditure of money requires an appropriation. For example, under such cir-

cumstances, if a governmental unit levied a tax for parks but made no appropriation for park purposes, tax collections would be placed in a special revenue fund and not expended.

Determining the tax rate. The tax rate is determined by dividing the amount of taxes levied by the assessed valuation. Thus, if a governmental unit has an assessed valuation of $10,000,000 and its total tax levy is $250,000, the tax rate for the governmental unit is 25 mills per dollar of assessed value ($250,000 ÷ $10,000,000). The total tax rate consists of the tax rate for general purposes and special tax rates, if any, for particular purposes. For example, if we assume that, out of the total levy of $250,000, $150,000 was for general purposes, $10,000 was for park purposes, $50,000 was for schools, and $40,000 was for debt service, the tax rates would be as follows:

Purpose	Rate (In Mills per Dollar) of Assessed Value)
General	15
Parks	1
Schools	5
Debt Service	4
	25

Maximum tax rates are frequently prescribed for governmental units by constitutions, statutes, or charters. Some laws go further and provide a maximum tax rate for all the governmental units levying taxes on property within a jurisdiction. For example, in the State of Washington the total tax levy of all the local units occupying a particular area must not exceed 40 mills per dollar of assessed value, divided as follows: county, 10 mills; city, 15 mills; and schools, 10 mills. The state levy is limited to 2 mills, and the road district levy is limited to 3 mills. Taxes to meet the payment of bonds and interest are, however, exempted from this limitation. The tax limit may be exceeded only upon approval by a three-fifths majority of those voting on the proposition.

Before arriving at the amount to be levied, the legislative body will want to know what tax rate will result from the levy. If it appears that the total levy will produce a rate higher than the maximum permitted by law, the levy will be made only sufficiently high to produce a rate not greater than the maximum specified by statute. Sometimes the statutes authorize the maximum tax levy in dollars and cents instead of fixing a tax rate. For example, the law may provide that the maximum tax rate of a particular governmental unit shall be such as will produce $100,000. Such a levy is known as a "pegged levy," since the levying authority is guar-

Figure 75

A GOVERNMENTAL UNIT

Combined Assessment Roll and Tax Roll of Real Property Year_____

Taxpayer's Name and General Description of Property	Block and Lot No.	Value of Real Estate	Value of Improvements	Total Assessed Valuation	Composite Tax Rate	Total Tax	Bill No.	Payments			Liens
								Date Paid	Amount of Tax	Penalties	

anteed a definite sum and is not concerned with the resulting tax rate.

Determining the amount due from each taxpayer. The amount of taxes due from each taxpayer is arrived at by multiplying the assessed value of the property by the tax rate. For example, if a taxpayer owns real estate with an assessed value of $10,000 and the city tax rate is 25 mills per dollar of assessed value, his city tax will be $250 ($10,000 × .025).

Setting up taxes receivable and billing taxpayers. As soon as the amount due from each taxpayer is determined, it is entered on the tax roll. A tax roll is a record showing the amount of taxes levied against each piece of real property and against each owner of personal property. As already indicated, in some cases the assessment roll is made to serve as a tax roll by the addition of space for filling in the amount of taxes levied and any other information relating to the levy and collection of taxes. In others, assessment rolls and tax rolls are prepared separately. Figure 75 illustrates a combined assessment roll and tax roll of real property.

Note that provision is made on this tax roll for recording not only the amount of taxes levied but also tax collections. In other words, the tax roll may be thought of as a subsidiary ledger supporting the taxes receivable controlling accounts in the general ledger. If interest and penalties on delinquent taxes are accrued at the end of each year, provision is made for showing the accruals.

Because of tax delinquencies and because taxpayers are frequently permitted to pay taxes in installments, individual property tax cards similar to that illustrated in Figure 76 are sometimes used. In that case, the tax roll shows only the amount of taxes levied on each property; it does not show the amount of taxes collected, the latter data being shown on the individual property tax cards. In general, these cards show considerably more information than the tax roll. They provide a continuous tax history of each piece of property, for, in contrast with the tax roll, no new card is made out for each tax levy. Instead, the card shows assessed values, taxes levied, and collections of taxes, interest, and penalties from the time the record was set up until the present. These cards are analogous to the accounts receivable of a commercial enterprise, which show the amount due from each customer, the amount received, the balance outstanding, and other related information.

Properties are grouped by districts both on the assessment roll and on the tax roll. That is, even if several pieces of property are owned by the same individual, they are not listed together but are grouped with the properties of the particular district in which they

Figure 76

A GOVERNMENTAL UNIT
Real Estate Tax Ledger

Property No._____

Ward_____ Lot_____ County Lot_____ Block_____ Acres_____

Subdivision_____ Description_____

House No _____ Street_____

Address_____

Assessed to	Year	Ref.	Assessed Valuation	Composite Tax Rate	Amount of Tax	Paid or Canceled			Balance of Tax
						Date	Taxes	Int. & P'lty	

are located. Separate tax bills are usually prepared for each piece of property, for the reason that real estate taxes are frequently taxes on the property and not on the owner. Real property owners will also own personal property. They are frequently billed separately for such taxes; that is, the real property and personal property taxes are shown on separate bills.

Collection of a government's taxes by another unit. We have assumed thus far that each governmental unit collects its own taxes. Frequently, one governmental unit acts as collecting agent for other units. In that case, each governmental unit certifies its tax levy to the collecting unit, which in turn distributes the tax among the individual taxpayers. Some tax bills show separately the amounts levied on the particular property by each of the governmental units, whereas others show merely the total amount due and indicate the tax rate for each of the units for which taxes are being collected.

Enforcing the collection of taxes. Tax bills may be payable in installments or in a single payment. After a certain date, usually prescribed by statute, unpaid taxes become delinquent, whereupon they are subject to interest and penalties. Some governmental units accrue the interest and penalties at the end of each fiscal year, whereas others do not record them as revenue until they are collected.

Statutes usually provide that taxes and interest and penalties become a lien against property without any action on the part of the governmental unit. At the expiration of a certain period of time, the governmental unit has the right to sell the property in order to satisfy its lien. Any excess of the amount received from the sale of the property over the amount of taxes, interest, penalties, and cost of holding the sale is turned over to the property owner. On the other hand, as in the case of special assessments, if the proceeds from the sale of the property are insufficient to cover the amount due, the property owner may or may not be called upon to make up the difference, depending on the legal provisions of the state.

The property owner is given the privilege of redeeming the property within a certain period of time. If the property was purchased by a private party, it can be redeemed by payment to the buyer of the purchase price plus interest. If it was bid in by the governmental unit, the property can be redeemed by payment of the taxes, interest, penalties, and other charges. If the property is not redeemed by a certain date, the private purchaser or governmental unit, as the case may be, secures title.

Personal property taxes are frequently a lien not only on the

property taxed but also on any other property owned by the taxpayer. In fact, sometimes statutes provide that such taxes shall be a lien against the real estate of the personal property owner. In that case, the procedure in selling the property for taxes and for its redemption is the same as for property on which there is a lien for unpaid real estate taxes. Of course, any personal property owned by the taxpayer (with the exception of a certain amount exempted by statute from sale for taxes) is subject to sale to satisfy unpaid personal property taxes.

In discussing the accounting procedure for delinquent taxes and the sale for taxes and redemption of the property, we have assumed that only one governmental unit is involved. Actually, all of the governmental units which levy taxes on the particular piece of property have liens on it, and proceeds from its sale must be shared by these units. If each government were left to enforce its own lien and sell the property for taxes, not only would the cost of sale be greatly increased but such a procedure would also result in considerable confusion. Accordingly, even where each government collects its own taxes, provision is usually, although not always, made for transferring delinquent tax rolls to one governmental unit. Sometimes current taxes are collected by one governmental unit for all the other governments, but, as soon as the taxes become delinquent, they are turned over for collection to another unit. For example, a city may be empowered to collect not only its own current taxes but also state, county, and school taxes. When the taxes become delinquent, however, the city may be required to turn over the delinquent tax rolls to the county. This unit attempts to collect the delinquent taxes and goes through all the steps necessary to enforce the lien. That is, it holds tax sales, and, if necessary, bids in the property. Unless otherwise provided by statute, each unit receives from the collecting unit its proportionate share of tax collections. Sometimes, however, the statutes provide that collections from delinquent taxes shall be turned over first to certain units until their levy is fully satisfied. The remainder is distributed among the other governmental units in proportion to their levies.

Recording taxes on the books. The entries to record the levy and collection of taxes have already been mentioned in connection with the discussion of fund accounting procedure. Further details will be given in this chapter.

When taxes are levied, the entry, in each fund, as we have previously indicated, is a debit to Taxes Receivable—Current and a credit to Reserve for Estimated Losses—Current Taxes and to Revenues. Later, when the taxes became delinquent, an entry

is made debiting Taxes Receivable—Delinquent and the Reserve for Estimated Losses—Current Taxes and crediting Taxes Receivable—Current and the Reserve for Estimated Losses—Delinquent Taxes. An additional fact to remember in this connection is that separate Taxes Receivable accounts are set up for real property taxes and personal property taxes. Delinquent taxes are recorded in such a manner that the amount applicable to each individual year can be readily determined.

For example, if full details regarding delinquent taxes were to be shown on the balance sheet, the Taxes Receivable account would appear as follows:

Real Property Taxes Receivable—Delinquent:			
Levy of 1946	$30,000		
1945	20,000		
1944	10,000		
1943	5,000		
1942 and prior	3,000	$68,000	
Less—Reserve for Estimated Losses		10,000	$58,000
Personal Property Taxes Receivable—Delinquent:			
Levy of 1946	$20,000		
1945	15,000		
1944	10,000		
1943	4,000		
1942 and prior	5,000	$54,000	
Less—Reserve for Estimated Losses		15,000	39,000
Total Taxes Receivable—Delinquent			$97,000

As taxes are collected, the entry made in each fund is as follows:

Cash	$100,000	
Taxes Receivable—Current		$80,000
Taxes Receivable—Delinquent		20,000

To record collection of current and delinquent taxes, as follows:

Year of Levy	Amount
1947 (Current)	$ 80,000
1946	10,000
1945	5,000
1944	3,000
1943	1,000
1942	500
1941	500
	$100,000

It is important to be able to identify each year's levy, so that the proper Taxes Receivable accounts may be credited and the proceeds of tax collections may be allocated to the proper funds, for the proportion of the total tax levy made for each purpose may

vary from year to year. For example, assume that the tax levy is $100,000 both for this year and for last year but that the levies are divided as follows:

	This Year		Last Year	
Purpose	Amount Levied	Percentage of Total	Amount Levied	Percentage of Total
General	$ 46,700	46.7	$ 40,000	40 0
Parks	13,300	13 3	13,300	13 3
Schools	26,700	26.7	33,400	33 4
Sinking Fund	13,300	13 3	13,300	13 3
	$100,000	100 0	$100,000	100 0

The part of the proceeds of this year's tax levy that is to be placed in the general fund is found by multiplying the amount collected from the levy by 46.7 per cent. Thus, if $90,000 is collected, $42,030 is placed to the credit of the general fund ($90,000 × 46.7 per cent). On the other hand, the amount of collections from last year's levy that is to be placed to the credit of the general fund is obtained by multiplying the collections from that levy by 40 per cent. For example, if collections amount to $10,000, the sum of $4,000 ($10,000 × 40 per cent) is placed to the credit of the general fund. Collections from the other levies are allocated to the proper funds in the same manner. It is evident, therefore, that tax collections cannot be applied to the proper funds unless the amount collected from each levy is known.

We have indicated above the necessity of keeping a separate control account for each year's levy. It is similarly important to divide a large governmental unit into taxing districts and to establish a controlling account for each district. Frequently, these districts are further divided into subdistricts, with a separate subcontrol account for each. These accounts facilitate the proper control of taxes receivable and help in proving the accuracy of the work. For example, in a large governmental unit even a single tax district will contain thousands of taxpayers, for each of whom an account must be set up. Therefore, if the total of the balances of the individual accounts for a district were found to be in disagreement with the district control account, it might be necessary to check thousands of accounts. By introducing subdistrict control accounts, the number of accounts which must be checked in the event of error is reduced considerably, since subdistrict control accounts control a much smaller number of accounts than the district control accounts.

The accounting procedure thus far outlined is also applicable to governmental units which do not collect their own taxes. The collecting unit, in that event, transmits a report indicating the

amount collected from each year's levy of real property taxes and of personal property taxes. The receiving unit, on the basis of this report, distributes the proceeds among the various funds and credits the proper control accounts. In fact, the accounting procedure for a governmental unit which collects its own taxes differs from that of one which does not only in that the latter does not prepare a tax roll and may not keep a record of the amounts paid or owed by the individual taxpayers, the latter records being kept for it by the collecting governmental unit.

Recording discounts on taxes. A few governmental units allow discounts on taxes paid before a certain date. These discounts should be considered as revenue deductions; that is, the tax revenues should be credited only for the net amount of the tax, and a reserve for estimated discounts should be provided. For example, if the tax levy was for $300,000, on which it is estimated that discounts of $2,000 will be taken, the entry to record the levy of the tax and to set up the reserve for discounts is as follows:

Taxes Receivable—Current	$300,000	
Reserve for Estimated Losses—Current Taxes		$ 9,000
Reserve for Discounts on Taxes		2,000
Revenues		289,000
To record levy of taxes and provision of reserves for estimated losses as well as for estimated discounts to be taken.		

As taxes are collected and the discounts are taken, the discounts are charged against the reserve. For example, if tax collections amounted to $150,000 and discounts to $1,500 had been taken, the entry to record this transaction would be as follows:

Cash	$150,000	
Reserve for Discounts on Taxes	1,500	
Taxes Receivable—Current		$151,500
To record collection of taxes and allowance of discounts thereon.		

As the discount period is passed, the following entry is made:

Reserve for Discounts on Taxes	$ 500	
Revenues		$ 500
To record increase in revenues by amount of estimated discounts which were not taken.		

Some governmental units are not permitted to give discounts unless an appropriation is made for them. In that case it is necessary to increase revenues by the amount of the discount and to make an appropriation for the discount on the expenditure side of the budget. For example, in the case of the figures used in the foregoing illustrations, the entry to record the levy of taxes would be as follows:

Taxes Receivable—Current	$300,000	
Reserve for Estimated Losses—Current Taxes		$ 9,000
Revenues		291,000
To record levy of taxes and provision for estimated losses.		

The entry to record the collection of taxes and the taking of the discount would, with the figures used in the second entry on page 265, be as follows:

Cash	$150,000	
Appropriation Expenditures	1,500	
Taxes Receivable—Current		$151,500
To record collection of taxes and allowance of discount.		

The Appropriation Expenditures account is treated in the same manner as any other expenditure account. This method is not desirable, since it has the effect of overstating both the revenues and the expenditures and requires greater legal formality than the first method. It should be used only in cases where legal provisions make it impossible to employ the first method.

Recording interest and penalties on taxes. As we have said before, some governmental units accrue interest and penalties on delinquent taxes, whereas others do not record them as revenue until they are collected. If interest and penalties are accrued, they are added to the tax roll. The entry to record the accrual of interest and penalties is as follows:

Interest and Penalties Receivable on Taxes	$15,000	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		$ 1,000
Revenues		14,000
To record revenues from interest and penalties on delinquent taxes and to provide reserve for amount of such revenues which it is estimated will never be collected, as follows:		

Subsidiary Account	Levy of	Amount
Interest and Penalties	1946	$2,000
Interest and Penalties	1945	1,900
Etc.		

It will be noted that it is essential to identify the revenues from interest and penalties with the particular tax levy to which they apply.

If interest and penalties are not accrued but are recorded as revenues only at the time the cash is received, the entry to record revenues from this source is as follows:

Cash	$10,000	
Revenues		$10,000
To record receipt of interest and penalties on delinquent taxes, as follows:		

Subsidiary Account	Levy of	Amount
Interest and Penalties	1946	$3,000
Interest and Penalties	1945	4,000
Etc.		

Accounting for tax sales. When the property is sold for taxes, the following entry is made:

Cash	$29,000	
Taxes Receivable—Delinquent		$25,000
Interest and Penalties Receivable on Taxes		3,000
Cost of Holding Tax Sale		1,000
To record sale of properties for taxes, as follows:		

Levy of	Taxes	Interest and Penalties	Total
1945	$10,000	$1,000	$11,000
1944	15,000	2,000	17,000
	$25,000	$3,000	$28,000

A similar entry is made for each fund to which the taxes apply. Each taxpayer's account is, of course, credited with the amount of the tax collected and, if interest and penalties are accrued, also with the amount of interest and penalties collected.

If the proceeds from the sale of the property are in excess of the amount of taxes, interest, penalties, and other charges, the cash representing the excess is placed in a trust fund for the property owner. The following entry is made in the trust fund to record this transaction:

Cash	$1,000	
Property Owners' Trust Fund Balance		$1,000
To record receipt of cash representing excess of sales price over amount of taxes, interest, and other charges, such cash to be held in trust for property owners and eventually to be paid over to them		

On the other hand, if the cash received from the sale of the property is not sufficient to cover delinquent taxes, interest, and penalties, and if taxes are a lien only against the property, the difference is charged to the reserve for estimated losses. The entry to record this transaction is as follows:

Cash	$10,000	
Reserve for Estimated Losses—Delinquent Taxes	2,000	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes	100	
Taxes Receivable—Delinquent		$12,000
Interest and Penalties Receivable on Taxes		100
To record sale of property for taxes and to charge difference between cash received and amount of taxes and interest and penalties to reserves for estimated losses.		

If the property owner decides to redeem property sold to another private party, the governmental unit may act for him. The transaction is handled through a trust fund, and the entries are as follows:

Cash	$12,000	
Property Owners' Trust Fund Balance		$12,000
To record receipt of cash for purpose of redeeming property sold for taxes.		
Property Owners' Trust Fund Balance	12,000	
Cash		12,000
To record payment of money to purchaser of property.		

If the governmental unit bids in properties, the entry to record the transaction is as follows:

Tax Sale Certificates	$30,500	
Taxes Receivable—Delinquent		$29,800
Interest and Penalties Receivable on Taxes		500
Cost of Holding Tax Sale		200
To record acquisition of properties at tax sale for nonpayment of taxes.		

At the same time an entry is made setting up a reserve for estimated losses on tax sale certificates, as follows:

Reserve for Estimated Losses—Delinquent Taxes	$2,000	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes	50	
Reserve for Estimated Losses—Tax Sale Certificates		$2,050
To set up reserve for estimated losses on tax sale certificates		

As properties are redeemed, an entry is made debiting Cash and crediting Tax Sale Certificates. If properties are not redeemed, and the governmental unit decides to use some of the unredeemed properties for its own purposes—for example, for playgrounds—the Tax Sale Certificates accounts are removed from the funds in which they are carried through the following entry:

Unappropriated Surplus	$1,000	
Reserve for Estimated Losses—Tax Sale Certificates	700	
Tax Sale Certificates		$1,700
To record removal of tax sale property as asset of fund.		

Note that the Reserve for Estimated Losses—Tax Sale Certificates account is not charged for the full amount of the tax certificates removed. It is charged only with the difference between the salable value of the tax sale certificates and the value carried on the books. For example, in the entry illustrated above it is assumed that tax sale certificates with a book value of $1,700 can be sold

for only $1,000. Consequently, the reserve is charged with $700 (book value, $1,700, minus market value, $1,000), the remaining $1,000 being charged against the Unappropriated Surplus account.

Since the property will be part of the governmental unit's fixed assets, it is necessary to record it in the general fixed assets group of accounts. The entry to record this transaction is as follows:

Land	$ 500	
Structures and Improvements	1,200	
Investment in Fixed Assets: From Tax Sale		$1,700
To record property acquired at tax sale and not redeemed.		

It should be noted that these fixed assets are capitalized at the book value of the tax sale certificates outstanding against them (in this case, $1,700). The apportionment between land and buildings is usually made on some arbitrary basis.

Several governmental units may have liens on the same piece of property. The accounting procedure for the sale of the property is the same as that for property sold to satisfy the lien of only one governmental unit. The proceeds from the sale of the property are distributed among the various units to satisfy their liens, and any remaining cash is turned over to the property owner. Each governmental unit makes an entry on its records debiting Cash and crediting Taxes Receivable—Delinquent, Interest and Penalties Receivable on Taxes, and Cost of Holding Tax Sale. If the proceeds are not sufficient to cover all the liens, each governmental unit receives a proportionate share of the money realized, unless statutes specify another basis of distribution. Each governmental unit charges to reserves for estimated losses the differences between amounts due and amounts received.

If a governmental unit bids in property on which other governmental units have tax liens, it cannot dispose of it without the consent of the others. Sometimes, if the property is income producing, the governmental unit will operate it and distribute the net income from operations among the governmental units holding liens. Again, sometimes the tax-delinquent properties bid in will be distributed among the various governmental units.

Accounting for nonrevenue taxes. Thus far we have considered the accounting procedure for taxes which form part of the revenues of the governmental unit. The governmental unit may, however, collect taxes which do not form a part of its revenues. Examples are taxes collected in advance, which do not become revenues until later, and taxes collected for other units. The accounting procedure for these taxes is discussed below.

Accounting for taxes collected in advance. Sometimes a taxpayer will pay his taxes before being billed or even before the tax has been levied. Such tax collections may be recorded either in the general fund or in a trust fund. In either case, the entry to record this transaction is as follows:

Cash	$2,500	
Taxes Collected in Advance		$2,500
To record collection of taxes on 1948 roll		

These tax collections represent a deferred credit to revenues, and the Taxes Collected in Advance account is therefore shown as a deferred credit on the liability side of the balance sheet. The entries made subsequently, when the taxes are levied and the Taxes Receivable accounts are set up, depend on where the transaction is originally recorded. If the cash from the advanced tax collections was recorded in a trust fund, an entry must be made transferring the money out of that fund to the proper funds. This entry is as follows:

Taxes Collected in Advance	$2,500	
Cash		$2,500
To record paying over to each fund of proper amount of taxes belonging to it.		

The corresponding entry in each of the funds receiving the cash is

Cash	$1,000	
Taxes Receivable—Current		$1,000
To record receipt of cash from trust fund representing share of taxes collected in advance applicable to this fund.		

If, on the other hand, the taxes collected in advance are recorded in the general fund, and the taxes are also applicable to other funds, the entry after the Taxes Receivable accounts are set up is as follows:

Taxes Collected in Advance	$2,500	
Taxes Receivable—Current		$1,000
Cash		1,500
To record application of taxes collected in advance to reduce taxes receivable of general fund and to record transfer of cash to other funds on account of advanced tax collections applicable to them.		

In each of the other funds affected, an entry is made debiting Cash and crediting Taxes Receivable—Current.

If the amount of taxes collected in advance exceeds the amount which was finally determined as due from the taxpayer, the excess is either refunded or continues to be carried as a deferred credit

until the next tax levy is made. If, on the other hand, the amount collected is less than the amount due, the taxpayer is billed for the difference.

Accounting for taxes collected for other governmental units. The accounting procedure for taxes collected for other units has already been described in connection with the discussion of trust and agency funds. The subsidiary accounts involved, as well as other details, will be given here. As indicated above, when a governmental unit levies a tax, it debits the Taxes Receivable—Current account and credits the Reserve for Estimated Losses—Current Taxes account and the Revenues account. If the tax is to be collected by another unit, the levying government certifies the amount to be placed on the tax roll. After the agency collecting the taxes has placed them on the roll, it records the transaction by the following entry:

Taxes Receivable for Other Units	$500,000	
Taxes Fund Balance		$500,000
To record 1947 taxes placed on the tax roll for other units as follows:		
For State	$ 50,000	
For Cities	300,000	
[List each city]		
For Schools	150,000	
[List each school district]		
Total	$500,000	

Separate subsidiary accounts are established to show the balance to the credit of each governmental unit on account of the taxes placed on the tax roll for it. Each account is further subdivided to show the amount of real property taxes and personal property taxes for each year's levy.

It is highly important to establish control accounts applicable to each governmental unit for each year's levy and to account for tax collections in such a manner that they can be identified with the particular year's levy to which they apply. As we have seen, the unit for which the taxes are collected must be informed of the amount collected from each levy if it is to credit the proper funds with the proceeds. Furthermore, under certain circumstances the collecting agency will not know the amount to be transmitted to each unit unless it can allocate the proceeds to the proper year of levy. For example, assume that a county collects taxes for two cities and two villages. Assume further that for two years now each unit has certified to the county the amount of its levy as follows:

Unit	1947 Amount Levied	1947 Percentage of Total	1946 Amount Levied	1946 Percentage of Total
City *A*	$100,000	25 0	$ 91,200	24 0
City *B*	200,000	50 0	188,100	49 5
Village *X*	50,000	12 5	49,400	13 0
Village *Y*	50,000	12 5	51,300	13 5
	$400,000	100 0	$380,000	100 0

City *A* would receive 25 per cent of all collections of the 1947 levy. On the other hand, it would receive 24 per cent of all the tax collections of the 1946 levy. For example, if total tax collections for a period of time were $100,000, of which $50,000 was from the 1947 levy and $50,000 was from the 1946 levy, City *A* would receive $12,500 from the 1947 levy and only $12,000 from the 1946 levy, even though the total collections for the period from the two levies were the same ($50,000). If, therefore, the collecting unit is to know the amount of each collection belonging to each levying unit, it must be able to identify these collections by year of levy. Interest and penalties are similarly identified, the same percentages being used for them as for the taxes to which they apply. Frequently, interest and penalties are not accrued by the collecting unit but are recorded only when they are actually collected. If they are accrued, the entry is a debit to Interest and Penalties Receivable on Taxes for Other Units and a credit to Taxes Fund Balance.

If we assume that interest and penalties are not accrued, the entry to record on the books of the collecting unit the collection of taxes and interest and penalties is as follows:

Cash	$315,000	
Taxes Receivable for Other Units		$300,000
Taxes Fund Balance		15,000

To record cash collected for the various units as follows:

Unit	Total	Levy of 1947	Levy of 1946: Taxes	Levy of 1946: Interest and Penalties
City *A*	$111,465	$ 80,325	$25,950	$ 5,190
City *B*	99,945	72,225	23,100	4,620
Village *X*	54,135	40,275	11,550	2,310
Village *Y*	49,455	32,175	14,400	2,880
	$315,000	$225,000	$75,000	$15,000

If the taxes are paid over immediately after collection, the only additional entry is made when the money is paid over to the proper units and is as follows:

Taxes Fund Balance	$315,000	
Cash		$315,000
To record paying over of amounts due to other units for taxes and interest and penalties collected for them, as follows: [The details for year of levy and amount would be the same as those shown in the explanation to the foregoing entry.]		

As we have already seen, the unit for which the taxes are collected, upon receipt of the money, debits the Cash accounts of the proper funds and credits the proper Taxes Receivable accounts and the Interest and Penalties Receivable on Taxes accounts (if it does not accrue interest and penalties, the credit would be to a revenue account).

It must be remembered that, in addition to crediting tax collections to the proper units and to the proper levy, the collecting unit also credits individual taxpayers' accounts. The information for crediting each governmental unit with the proper amount of the collection from each levy and the data necessary for posting to the individual account of each taxpayer are obtained from the tax bills.

Of course, placing the tax on the roll, crediting the amounts to the proper accounts, and handling the collections involves considerable expense, and the collecting unit usually charges the other units for these services. Such charges are legitimate financial expenses, and appropriations are made for them in the budget. Usually the collecting unit, instead of billing the individual governmental units for such services and then proceeding to collect the amounts billed, retains a certain percentage of the collections as payment for its services. The entry to record this transaction in the agency fund is

Taxes Fund Balance	$1,500	
Cash		$1,500
To record paying over to general fund collection fees charged other units and deducted from collections transmitted to them.		

The corresponding entry in the general fund to record this transaction is as follows:

Cash	$1,500	
Revenues		$1,500
To record revenues from fees charged for placing taxes on roll and collecting taxes for other units.		

Each governmental unit that has received the services makes an entry similar to the following

Cash	$110,965	
Appropriation Expenditures	500	
Taxes Receivable—Current		$80,325
Taxes Receivable—Delinquent		25,950
Interest and Penalties Receivable on Taxes		5,190

To record receipt of tax collections from collecting unit and to charge as appropriation expenditures the amount of collection fees paid. Subsidiary accounts: *Debit* Tax Collection Expenses, $500. *Credit*.

Levy of	Taxes	Interest and Penalties	Total
1947	$ 80,325	—	$ 80,325
1946	25,950	$5,190	31,140
	$106,275	$5,190	$111,465

An entry similar to the foregoing is made in each fund affected. If, however, the collection fees are all paid out of the general fund, they are all charged to the Appropriation Expenditures account in that fund.

General property tax statements. Property tax statements are prepared for the purpose of showing further details about property taxes. These statements may be divided into two classes: (1) those which are directly tied in with the financial statements of the current period, and (2) those which show data also for a number of other periods. As already indicated, statements of the former type are usually referred to as *subsidiary financial statements*. Those in the latter group are usually known as *statistical statements*. The statements illustrated here are as follows: (1) statement of changes in taxes receivable, (2) detailed statement of taxes receivable, (3) statement of changes in tax sale certificates, (4) detailed statement of tax sale certificates, (5) statement of assessed value and estimated true value of all taxable property, (6) statement of tax rates and tax levies, (7) statement of tax levies and tax collections (during the year), and (8) statement of tax levies and tax collections (at end of year). The first four statements are subsidiary financial statements, and the last four are statistical statements. Each of these statements is discussed in detail below.

Statement of changes in taxes receivable (Figure 77). This statement shows the changes which have taken place in the Taxes Receivable accounts during a particular period of time. It shows changes in both current and delinquent taxes receivable. Additions to current taxes occur when taxes are levied. On the other hand, current taxes receivable are reduced through collections of taxes receivable and through transfers to delinquent taxes receiv-

Figure 77

CITY OF SAGINAW

Statement of Changes in Taxes Receivable[1] for the Fiscal Year Ended June 30, 1945

	General Fund	Prior Obligation Fund	Total
Tax levy 1944–1945:			
Real estate	$562,957.03	$206,417 56	$769,374 59
Personal property	124,460 28	45,635 43	170,095.71
	$687,417.31	$252,052.99	$939,470.30
Less cancellations	323 33	118 55	441 88
	$687,093 98	$251,934 44	$939,028 42
Collections during the year	672,569 02	246,608.62	919,177 64
Unpaid Current Year's Taxes at June 30, 1945	$ 14,524.96	$ 5,325.82	$ 19,850.78
Prior years' taxes at July 1, 1944	$100,447 47	$ 16,896 25	$117,343.72
Less cancellations	5,536 88	2,704.27	8,241.15
	$94,910 59	$14,191.98	$109,102.57
Collections during the year	38,547 88	9,657.45	48,205 33
Unpaid Prior Years' Taxes at June 30, 1945	$ 56,362.71	$ 4,534 53	$ 60,897 24
Unpaid Taxes at June, 30, 1945	$ 70,887 67	$ 9,860 35	$ 80,748.02

able. Delinquent taxes receivable are increased through transfers from current taxes and decreased through the collection of delinquent taxes, through cancellations and abatements, and through securing tax liens and selling the property (not shown on this statement). Finally, it should be noted that the amount of taxes receivable shown here is the gross amount—that is, before the deduction of reserves for estimated losses.

Detailed statement of taxes receivable (Figure 78). This statement shows more details about taxes receivable than can be obtained from the Taxes Receivable account in the balance sheet. For example, the Taxes Receivable—Delinquent account is shown as only one account in the balance sheet, whereas in this statement delinquent taxes are subdivided by years. The statement is also subdivided so as to show the data for real property taxes and personal property taxes separately. In addition, it is of importance in that it brings together in one place all data concerning taxes receivable.

Statement of changes in tax sale certificates (Figure 79). This statement is similar to the statement showing changes in taxes receivable.

Detailed statement of tax sale certificates (Figure 80). This

[1] Adapted from the *Annual Report of the Department of Finance of Saginaw, Michigan, for Fiscal Year Ending June 30, 1945*, p. 45.

Figure 78

CITY OF SAGINAW
Detailed Statement of Taxes Receivable by Funds[2]
June 30, 1942

	Total	General Fund	Prior Obligation Fund
Current Year's Taxes Receivable:			
Real —1942	$ 34,727.65	$ 24,613.18	$10,114.47
Personal—1942	244.10	173.01	71.09
Total Current Year's Taxes Receivable	$ 34,971.75	$ 24,786.19	$10,185.56
Prior Years' Taxes Receivable:			
Real —1941	$ 18,513.11	$ 12,895.64	$ 5,617.47
1940	2,562.86	1,773.39	789.47
1939	1,703.58	1,170.28	533.30
1938	2,099.94	1,364.13	735.81
1937	1,473.06	899 86	573.20
1936	102.79	51.75	51.04
1935–34–33 (Subject to 10-Year moratorium agreements)	34,339.57	29,591.95	4,747.62
1932 and prior (Subject to 10-Year Moratorium Agreements)	66,166.33	66,166.33	
Total Prior Years' Taxes Rec.—Real	$126,961.24	$113,913.33	$13,047.91
Personal—1941 (City)	$ 368.74	$ 257.64	$ 111.10
1940 (City)	889 29	615 50	273.79
1939 (City)	427.90	295.38	132.52
1938 (City)	381.76	248.81	132.95
1937 (City)	110.48	60.90	49.58
1936 (City)			
1935 (City)	137.93	89.02	48.91
1934 (City)			
1933 (City)	478.52	478.52	
1932 and Prior (City)	174.51	174.51	
Total Prior Years' Taxes Rec.—Personal (City)	$ 2,969.13	$ 2,220.28	$ 748.85
City Owned State and County Personal Taxes for 1932 and Prior Years	$ 102.54	$ 102.54	
Total Prior Years' Taxes Receivable	$130,032.91	$116,236.15	$13,796.76
Total Taxes Receivable	$165,004.66	$141,022.34	$23,982.32
Less: Reserve for Estimated Losses	98,200.00	88,000.00	10,200.00
Estimated Book Value of Taxes Receivable	$ 66,804.66	$ 53,022 34	$13,782.32

statement shows detailed information concerning tax sale certificates. Note that the cost of conducting the tax sale is included in the amount of the certificate and that certificates are apportioned among the various funds.

[2] Adapted from the *Annual Report of the Department of Finance of Saginaw, Michigan, for Fiscal Year Ending June 30, 1942*, p. 51.

Figure 79

A GOVERNMENTAL UNIT

Statement of Changes in Tax Sale Certificates for Fiscal Year

Tax Sale Certificates—Beginning of Year		$ 78,000
Add:		
Tax Liens Acquired—		
Transfers from Taxes Receivable	$20,000	
Interest, Penalties, and Costs on Taxes Transferred	3,000	23,000
Total		$101,000
Deduct:		
Payments Received	$22,000	
Tax Sale Certificates Canceled or Abated	3,000	
Property Transferred to General Fixed Assets	5,000	30,000
Tax Sale Certificates—End of Year		$ 71,000

Statement of assessed value and estimated true value of all taxable property (Figure 81). This statement is self-explanatory; we shall therefore point out only the significance of including the estimated true value. There is a tendency for assessors to underassess property, and, since the amount of taxes which can be raised will usually depend on the assessed valuation, it is important to know the relationship between assessed value and true value. Furthermore, a fall or rise in the tax rate must be judged in the light of the assessed valuation, for a fall in the tax rate may have been compensated for by a rise in the ratio of assessed value to true value. Finally, unless the ratio of assessed value to true value is known, comparable tax rates for different governmental units cannot be compiled.

Statement of tax rates and tax levies (Figure 82). This statement shows the tax rates and tax levies not only for one governmental unit but for all the governmental units which levy taxes on property in a particular jurisdiction. Note that it also gives information which would be helpful in understanding how the tax is administered. For example, on the basis of the data shown in the second part of the statement, it is possible to tell when taxes are due, when they become delinquent, penalties imposed, the manner in which delinquent taxes are finally disposed of, and other significant facts.

Statements of tax levies and tax collections (Figures 83 and 84). One of the most important facts to know about taxes receivable is the success with which taxes are being collected. Even though a governmental unit has wide taxing power, it will suffer financial embarrassment unless it is able to collect the taxes it levies. The statements illustrated in Figures 83 and 84 both furnish informa-

Figure 80

A GOVERNMENTAL UNIT
Detailed Statement of Tax Sale Certificates at Close of Fiscal Year

	Amount of Tax	Interest & Penalties Accrued to Date of Sale	Costs of Sale	Total Amount of Certificate	Less Reserve for Estimated Losses	Net Amount of Certificate
Taxes of:						
1946	$18,700	$2,800	$ 500	$22,000	$ 3,500	$18,500
1945	12,800	1,800	400	15,000	2,500	12,500
1944	8,500	1,300	200	10,000	1,500	8,500
1943	6,800	1,000	200	8,000	1,000	7,000
1942 and Prior Years	13,600	2,000	400	16,000	1,500	14,500
Total	$60,400	$8,900	$1,700	$71,000	$10,000	$61,000
Made Up as Follows:						
General Fund	$42,280	$6,230	$1,190	$49,700	$ 7,000	$42,700
A Special Revenue Fund	12,080	1,780	340	14,200	2,000	12,200
Sinking Funds	6,040	890	170	7,100	1,000	6,100
Total (as above)	$60,400	$8,900	$1,700	$71,000	$10,000	$61,000

Figure 81

CITY OF BERKELEY

Statement of Assessed Value and Estimated True Value of All Taxable Property[3]
June 30, 1934-1944

Fiscal Year	Land	Buildings and Improvements	Personal Property*	Veterans' Property**	Total Secured Assessed Value	Unsecured Personal Property***	Total Assessed Value	Basis of Assessment (%)	Estimated True Value
1934-1935	$35,759,800	$41,615,750	$4,518,100	$1,731,735	$80,161,915	$3,710,030	$83,871,945	55	$152,494,445
1935-1936	36,281,560	41,966,585	9,228,435	1,734,205	85,742,375	2,481,050	88,223,425	55	160,406,227
1936-1937	36,164,455	42,381,655	9,261,955	1,682,905	86,125,160	2,121,520	88,246,680	55	160,448,509
1937-1938	36,023,135	43,732,330	8,196,500	1,703,970	86,247,995	2,160,373	88,400,368	55	160,727,941
1938-1939	36,155,940	44,834,250	8,264,320	1,730,835	87,523,675	2,056,918	89,580,593	56	159,965,344
1939-1940	36,952,855	47,062,250	8,435,570	1,775,605	90,675,070	2,115,150	92,790,220	57	162,789,850
1940-1941	36,828,765	48,272,645	8,550,505	1,783,715	91,868,200	2,362,900	94,231,100	57	165,317,710
1941-1942	36,650,990	49,848,600	8,807,820	1,783,850	93,523,560	2,639,855	96,163,415	57	168,707,740
1942-1943	36,565,260	51,256,990	9,014,720	1,777,890	95,059,080	2,938,039	97,997,119	57	171,924,770
1943-1944	36,449,370	52,184,060	9,486,730	1,500,420	96,619,740	2,956,830	99,576,570	57	174,695,737

* The taxes on this property are also a lien on the real estate of the taxpayer.

** Subject to certain special exemptions. This property is included in the other classes of secured property and is therefore deducted from the values for the latter in arriving at the total secured assessed value.

*** The taxes on this property are not a lien on real estate owned by the taxpayer.

[3] Adapted from the *Annual Report of the City Auditor of Berkeley, California, for the Fiscal Year Ending June 30, 1943*, p. 22.

CITY OF

Statement of Tax Rates,

TAX RATES AND TAX LEVIES[4]

Last Ten Fiscal Periods

TAX RATES Per $1,000 of ASSESSED VALUATION

Fiscal Year	City of Buffalo	County** and State	Buffalo Sewer Authority	Total	Veterans' Exempt Property for City Purposes
1935-1936	$22 27145	$6 81	$ —	$29 08145	$ —
1936-1937	26.72378	7.2423	—	33.96608	—
1937-1938	30 05631	8 0681	—	38 12441	—
1938-1939	29 00969	9.6104*	.727944824	39.348035	—
1939-1940	29 356525	9 4727*	.73121927	39 5604443	—
1940-1941	30 196225	9 40937*	.749222323	40 35482	—
1941-1942	31 24879	9 21155*	.777941587	41 238282	—
1942-1943	32 62178	8 8635	.742715645	42.227996	—
1943-1944	32 298092	8 85464	.742297526	41.89503	11.19586125
1944-1945	33 65178	9 64439	.785719205	44.08189	11.28699926

TAX LEVIES

1935-1936	$21,431,778 82	$6,553,093.51	$ —	$27,984,872.33	$ —
1936-1937	25,743,480 51	6,976,573 32	—	32,720,053.83	—
1937-1938	28,949,392 86	7,770,967.29	—	36,720,360.15	—
1938-1939	28,007.914 48	9,278,750 17*	675,000 00	37,961,664 65	—
1939-1940	28,188,833.60	9,095,100 23*	675,000 00	37,958,933.83	—
1940-1941	28,343,944 61	8,833,058.11*	675,000.00	37,852,002.72	—
1941-1942	28,262,562 51	8,332,151 99*	675,000 00	37,269,714 50	—
1942-1943	29,681,514 69	8,067,092 72	649,011 00	38,397,618.41	—
1943-1944	29,510,881.84	8,093,528 41	649,011 00	38,253,421 25	40,279.57
1944-1945	30,245,314 61	8,671,110 24	675,000 00	39,591,424.85	41,861.11

* Includes Tax for Hospitalization Costs outside of City of Buffalo which were erroneously spread and collected from City of Buffalo tax payers. These costs totaled $553,974.86 and were subsequently refunded.

** For calendar year beginning during city's fiscal year.

[4] Adapted from the *Annual Report of the City of Buffalo, for the Fiscal Year Ended June 30, 1945*, pp. 66-67.

BUFFALO Figure 82

Tax Levies, and Tax Data

TAX DATA—CITY TAXES

Tax Rate Limitation.....2% of Average Assessed Valuation of Taxable Property for current and last four fiscal years, exclusive of Debt Service, but including Debt Service on Tax Anticipation Certificates of Indebtedness.

Tax Rate Limitation Authority....Article 8, Paragraph 10 of the Constitution of the State of New York.

Taxes Collected by.....City Treasurer.

Taxes Payable.....Entire Amount of Taxes Due and Payable July 1st, one-half of which may be paid during July without additions, and one-half during December without additions. All Local Taxes must be paid on or before July 31st to avoid additions. No discounts for prepayment are allowed.

Penalties for Delinquency.....

First half of General City Taxes and Local Taxes	Second half of General City Taxes
1% on August 1st	2% on January 1st
1½% on September 1st	4% on February 1st
2% on October 1st	9% on March 1st
2½% on November 1st	9½% on April 1st
3% on December 1st	10% on May 1st
3½% on January 1st	
4% on February 1st	
9% on March 1st	
9½% on April 1st	
10% on May 1st	

Tax Sale Date.....About May 25th of each year. Expenses of Publication are added April 1st.

Uncollected Taxes are handled as follows.....All taxes unsold to outside buyers at the annual tax sale are awarded to the city. The City pays for its purchase from a revolving fund (Tax Loan Fund) which is augmented each year through the sale of Tax Anticipation Certificates of Indebtedness. All collections of such taxes revert to the fund and are first applied to the retirement of outstanding Tax Anticipation Certificates.

At any time within two years from the date of sale the owner may redeem his property by the payment to the City Treasurer of the face amount of the Tax Sale Certificate with interest thereon at the rate of 12 per cent per annum, plus such additional items of expense as are authorized by law.

After a redemption period of two years has elapsed, conveyance of the property may be secured or foreclosure proceedings instituted.

Special Assessments.....All Special assessments are due and payable on the date of first publication and may be paid at any time within one month without penalty. After expiration of one month, one per cent per month is added to all past due and unpaid assessments. Annual interest at the rate of five per cent per annum is charged on the second and succeeding installments of assessments. On the 1st day of March of each year, the amount of all past due assessments and installments and the amount of interest and penalties accrued thereon, is added to the General tax roll for the succeeding fiscal year. After such unpaid assessments are added to the general tax roll, the penalties, methods and enforcement of collections of general city taxes applies with like force and effect.

Figure 83

A GOVERNMENTAL UNIT

Statement of Tax Levies and Tax Collections

January 1 to May 30, 1947

Year	Total Tax Levy for Year	Uncollected at Beginning of This Year	Amount Collected This Month	Amount Collected from Beginning of This Year to Date	Amount Uncollected at This Date	Ratio of		
						Column 3 to Column 2	Column 5 to Column 3	Column 6 to Column 2
1	2	3	4	5	6	7	8	9
1938	$500,000	$ 30,500	$ 1,567	$ 5,093	$25,407	6.1%	16.7%	5.1%
1939	450,000	35,750	1,789	6,613	29,137	7 9	18.5	6.5
1940	425,000	45,475	2,140	9,868	35,607	10 7	21.7	8.4
1941	400,000	53,600	2,560	13,024	40,576	13.4	24.3	10.1
1942	430,000	68,370	3,429	19,553	48,817	15.9	28.6	11.4
1943	460,000	87,860	5,223	29,257	58,603	19.1	33.3	12.7
1944	500,000	108,500	9,342	45,244	63,256	21.7	41.7	12.7
1945	505,000	123,725	10,355	53,820	69,905	24.5	43.5	13.8
1946	504,000	140,350	11,960	66,385	73,965	27.8	47.3	14.7
1947	505,000	150,420	13,197	75,360	75,060	29.8	50.1	14.9

CITY OF SAGINAW

Statement of Tax Levies and Tax Collections[5] for Fiscal Periods 1935-36 to 1944-45

Fiscal Period	Total Tax Levy	Collection of Current Tax During Fiscal Period	Percentage of Levy Collected During Fiscal Period	Collection of Prior Years' Tax During Fiscal Period	Ratio of Total Tax Collection to Current Tax Levy	Accumulated Delinquent Taxes	Ratio of Accumulated Del. to Levy for Current Fiscal Period
1935-1936	$ 993,990.99	$771,817.32	77.65	$529,508.79	130.92	$1,247,608.94	125 51
1936-1937	1,004,517.05	861,963.59	85.81	265,175.52	112.21	1,124,986.88	111.99
1937-1938	1,026,696.33	898,091.48	87.47	370,060.75	123.52	883,530.98	86.06
1938-1939	1,037,802.54	927,584.35	89.38	184,811.20	107.19	805,236.86	77.59
		1,597.50*		2,103.61*			
1939-1940	955,261.62	872,764.59	91.36	248,464 22	117.37	500,958.55	52.44
		7,518.79*		130,792.33*			
1940-1941	906,065.73	843,333.54	93.08	197,784.56	114.91	363,132.21	40.08
				2,773 97*			
1941-1942	932,096.09	878,021.27	94.20	158,786 40	111.23	236,118.92	25.33
		1,389 18*		20,912 53*			
1942-1943	942,532.78	907,513.58	96.28	105,894.44	107.52	164,902.12	17.50
		47.45*		294.11*			
1943-1944	934,135.22	906,533.13	97.05	74,870 91	105.06	117,241.18	12.55
		22 42*		369.70*			
1944-1945	939,470.30	919,177.64	97.84	48,205.33	102.97	80,645.48	8.58
		441.88*		8,241.15*			

* Taxes cancelled and reclassified.

Note

This schedule does not include City-owned State and County personal taxes for 1932 and prior years, in the amount of $102 54 at June 30, 1945.

[5] Adapted from the *Annual Report of the Department of Finance of Saginaw, Michigan, for Fiscal Year Ending June 30, 1945*, p. 63.

tion regarding tax levies and collections. The main difference between them is that the first is prepared during the year and shows collections from the beginning of the year to the date of the preparation of the statement and for the current month, whereas the second is prepared at the end of the fiscal year and shows information regarding the success with which each year's levy has been collected, collections of delinquent taxes during each fiscal period, and accumulated delinquent taxes.

CHAPTER 18

Fixed Assets

THIS CHAPTER is divided into three parts. The first part deals with the accounting procedure applicable to all fixed assets. The second part deals with the accounting procedure for general fixed assets; that is, those fixed assets which are not included in working capital and utility funds. Assets carried in working capital and utility funds are discussed in the third part.

All Fixed Assets

Classifying fixed assets. Fixed assets may be classified into three principal groups: (1) land, (2) structures and improvements, and (3) equipment.

Land. The cost of land includes the amount paid for the land itself, costs incidental to the acquisition of land, and expenses incurred in preparing the land for use. Costs incidental to the acquisition of land are legal expenses for perfection of title, fees to brokers, and so forth. The expenses of preparing land for use include, among others, the cost of demolishing buildings not to be replaced (less salvage value), the cost of relocating structures, and expenses connected with clearing land. As stated previously, governmental units may pay special assessments on their properties located in special assessment districts. Since special assessment improvements are presumed to benefit the properties assessed, the amount of special assessments paid by the governmental unit as an owner of property should be added to the cost of the land.

If the governmental unit acquired the land through purchase, provision for such purchase will have been made in the regular budget or in some special budget.

Structures and improvements. Structures and improvements include all buildings and fixtures which are permanently attached to and made a part of buildings and which cannot be removed without cutting into the walls, ceilings, or floors, or without in some way impairing the buildings; bridges; pavements; and all other nonmovable fixed assets. Structures and improvements, exclusive of those obtained through tax foreclosures or gifts, may be

obtained through (1) purchase, (2) construction by contract, and (3) construction by the governmental unit's own labor forces. Frequently, two or more methods are used in the acquisition of a single asset. For example, the governmental unit may have part of a bridge constructed by contract and part by its own labor forces. For the purpose of the present discussion, however, it will be helpful if each of the methods of acquiring structures and improvements is discussed separately.

1. Purchasing structures and improvements. Few governmental structures and improvements are acquired by purchase. However, if they are, it is important to record as part of their cost not only the purchase price but also all expenses incidental to their acquisition. Among these are legal expenses, brokers' fees, cost of engineering tests to determine the condition of structures, other similar expenses, and cost of repairing secondhand assets before placing them in use. It will be noted that some of these expenses are also allocable to the land. For example, if both land and buildings are purchased, brokers' fees apply to both, and it is necessary to allocate to each a proportionate share of the cost.

The purchasing procedure for the acquisition of such assets is simple. Purchases of fixed assets usually require special authorization of the legislative body. The authorization may be made at the beginning of the year, when the general budget is adopted, or, if the purchase is financed through the sale of bonds, sometime during the year.

2. Construction by contract. The cost of structures and improvements built by contract can be readily determined, since it is made up primarily of the amount charged by the contractor. However, cognizance must be taken of all other costs incidental to the construction of the project, such as the cost of preliminary engineering surveys, supervision expenses, and other overhead expenses.

3. Construction by governmental unit. The procedure in recording the cost of assets constructed by the governmental unit's own labor forces is discussed in Chapter 20.

Equipment. The third class of fixed assets is equipment. Equipment consists of fixed assets other than land and structures and improvements. Examples are trucks, automobiles, desks, typewriters, and bookcases. Since equipment is movable, it must be accounted for with particular care. If the governmental unit constructs part of its equipment instead of buying it complete, overhead expenses should be considered as part of the cost. If equipment is purchased, the cost includes the purchase price, transportation expenses, and expenses incurred in installing the equipment.

Tools which have a relatively small value (less than $10) are

usually accounted for in the same manner as materials and supplies. A perpetual inventory record is kept, supported by an actual physical count.

Valuing assets acquired through foreclosure or gifts. We have already indicated the basis of valuing property acquired through foreclosure proceedings on account of the nonpayment of taxes or special assessments. Briefly, the value of such assets should include the amount of taxes or special assessments due, interest and penalties, and the cost of foreclosing the property. As we have pointed out before, property obtained as a gift should be appraised at the time it is acquired and should be recorded at its appraised value.

Setting up property records. After the cost or other value of a fixed asset has been determined, it is recorded on an individual property record. A separate record is established for each unit of property, by which is meant any item which can be readily identified and accounted for by itself. These records of individual properties constitute the subsidiary accounts which support the general fixed assets accounts in the general ledger.

Land records. A separate record should be established for each piece of land, each structure and improvement, and each piece of equipment. A property record form for land is illustrated in Figure 85. Note that provision is made on this record for showing the legal description of the land, its location, its use, the authority for acquiring it, the method of financing its acquisition, and similar information. Note also the references to the general ledger control account and to the accounting documents approving the expenditure.

Records for structures and improvements. A property record form for structures and improvements is illustrated in Figure 86. This form is somewhat similar to the form illustrated in Figure 85, with the exceptions that it does not show the legal description of the property and that provision is made for recording deductions resulting from retirements. Note also that reference is made to construction work orders. With the aid of this reference, it is possible to substantiate the original cost of each structure and improvement and the cost of additions or replacements made after the property was acquired.

Equipment records. An individual property record form for equipment—in this case, office furniture—is illustrated in Figure 87. Different kinds of property records may be needed for different types of equipment. For example, the form illustrated in Figure 87 would not be suitable for automotive equipment. Records for this type of equipment must show, in addition to the information

Figure 8

A GOVERNMENTAL UNIT
Land Ledger

Department_____

Legal Description_____

Location_____

Size_____

Purpose for Which Obtained_____

Present Use_____

General Ledger Control

Date_____ Amount_____

Date_____ Revised Amount_____

Plat Book

Plat Book Page No._____

Property No._____

Legal Authorization

Date_____ Ordinance No _____

Date_____ Ordinance No _____

Deed

Revision Clause? Yes_____ No_____

If yes, give deed conditions_____

Grantor_____

Type of Deed_____ Date_____

Recorded_____ Vol._____ Page_____

No _____

Copy on File with_____

For Land Purchased

Date_____	Amount_____	Voucher No._____
Date_____	Amount_____	Voucher No _____
Date_____	Amount_____	Voucher No._____
Date_____	Amount_____	Gen. Jour. Page_____

For Land Otherwise Acquired

Date_____ Amount_____ Reference_____

Explanation_____

Method of Financing

Method	Amount
Bonds	
Current Revenues	
Gifts, Bequests	

Disposition Made

Date_____

How Disposed of_____

Price_____

Receipt Document_____

Other References_____

Figure 86

A GOVERNMENTAL UNIT
Structures and Improvements Ledger

Number_____

Department_____

Location_____

_____

Purpose for Which Obtained_____

_____

Present Use_____

_____

Estimated Life_____

_____

Authorization

Date_____ Ordinance No _____

Date_____ Ordinance No _____

General Ledger Control

Date_____ Amount_____

Date_____ Revised Amount_____

Date_____ Revised Amount_____

For Assets Constructed

Date Completed_____

Cost_____

Work Order No _____

For Assets Purchased

Date_____ Cost_____

Voucher No._____

Method of Financing

	Original Amount	Additions or Deductions*
Current Revenues	_____	_____
Gifts	_____	_____
Special Assessments:		
Govt. Share	_____	_____
Property Owners' Share	_____	_____

For Donated Assets

Date_____

Amount_____

Reference_____

Explanation_____

_____

_____

Disposition Made_____

_____

_____

Date_____

Salvage Proceeds_____ G. J. or C. R.* Page____

Cost of Dismantling_____

Retirement Order No _____

Additions

Date_____ Cost_____

Work Order No._____

Date_____ Cost_____

Work Order No._____

Deductions

Date_____ Amount_____

References_____

_____

Figure 87

A GOVERNMENTAL UNIT
Equipment Ledger

Item No _____

Description _____

Department _____ Division _____
Serial No _____ Make _____ Model _____
Date Received _____ Purchase Order No _____ Estimated Life _____

Cost _____ Vo No _____
Freight _____ Vo No _____
_____ Vo No _____
Total Original Cost _____
Date _____ Revised Cost _____
Date _____ Revised Cost _____

Additions
Date _____ Amount _____
Reference _____
Date _____ Amount _____
Reference _____

Method of Financing

	Original Amount	Additions or Deductions*
Current Revenues		
Gifts		

Deductions
Date _____ Amount _____
Reference _____
Disposition _____
Date _____ Amount _____
Reference _____

Remarks _____

carried on the card here illustrated, data as to depreciation, number of miles covered annually, total annual cost of operation, and annual rentals earned. Postings to such a record would be made at the end of each year from the individual equipment property records illustrated in Figure 102, page 339.

Classifying individual property records. As we have seen, general fixed assets are set up in a separate group of accounts in the general ledger, where they are divided into three main classes —land, structures and improvements, and equipment. The totals of the balances carried on the individual property records must agree with the totals of the values shown for general fixed assets accounts in the general ledger. That is, the total of the balances shown on the property records for land must equal the balance shown for the Land account in the general ledger; the total of the balances shown for structures and improvements must equal the balance shown for the Structures and Improvements account in the general ledger; and the total of the balances carried on the indi-

vidual equipment records must equal the balance shown for the Equipment account in the general ledger.

The cards are usually arranged by departments, and under each department they are further subdivided by land, structures and improvements, and equipment. Structures and improvements are further grouped by classes of property—for example, buildings, sidewalks, and bridges. Equipment, too, is subdivided into a number of classes: automotive equipment, office machinery, office equipment, and so forth. Each of these types of equipment may be subdivided still further. For example, office equipment may be subdivided as follows: bookcases, books, carpets, chairs, coat trees, desk lamps, desks, drafting tables, electric fans, filing equipment, linoleum, lockers, map cases, mimeograph equipment, safes, telephone switchboards, time clocks, visible index equipment, water coolers, and so forth. All the cards falling within a particular subclass are grouped together. For example, all cards for office equipment used by a particular organization unit would be placed in one group. In that manner, it is possible to arrive readily at the total value of office equipment used by the department. Similarly, all cards for other classes of equipment are grouped together. Subcontrol accounts may or may not be established for various subclasses of equipment, depending on the number of items included under each subclass. For example, if a department has many items of office equipment, it may establish a subcontrol account entitled "Office Equipment," which would be supported by the cards set up for the individual items of office equipment.

If a department is composed of several subdivisions, or if its property is located in various places, separate control accounts are established for each subdivision or location. For example, if a municipality has several fire stations, each of which is located in a different part of the city, separate control accounts would be established for all equipment located at each fire station. Thus, the cards for the property in station *A* would be arranged as follows:

Station *A*

- Land
- Structures and Improvements
- Fire-Fighting Equipment
  - Aerial-Ladder Trucks [1]

[1] A separate card is prepared for each piece of equipment listed under each of the groups. For example, if station *A* had more than one aerial-ladder truck, a separate card would be provided for each.

Chemical Engines
Combination Fire Trucks
Fire Extinguishers
Fire Hose
Ladders
Pumpers
Squad Wagons
Household Equipment
Beds
Chairs
Stove
Etc.

To arrive at the total value of the fixed assets used by the fire department, it is necessary to add the amounts shown for land, structures and improvements, and equipment for each fire station and for the fire department headquarters, as illustrated below:

Station	Total	Land	Structures & Improvements	Equipment
Headquarters	$ 30,000	—	—	$ 30,000
Station *A*	60,000	$10,000	$ 20,000	30,000
Station *B*	100,000	20,000	40,000	40,000
Station *C*	145,000	30,000	55,000	60,000
Station *D*	25,000	5,000	10,000	10,000
Total Fire Department	$360,000	$65,000	$125,000	$170,000

Additions to fixed assets. Before the cost of additions to fixed assets is recorded, it should be determined that the expenditure has actually bettered the asset. In general, expenditures for work performed on fixed assets should be analyzed to determine what part of the expenditure has resulted in bettering the asset and what part has merely restored the asset to its former condition. The part that has bettered the asset should be capitalized and added to the original cost or other value of the asset, whereas the other part should be treated as a current expense. No hard or fast rules can be laid down as to what constitutes a repair or a betterment. In general, if the life of the asset is prolonged or the asset is made more useful, the expenditure may be said to have resulted in a betterment.

Additions to fixed assets are not classified according to whether they are structures or equipment until they are completed. For example, if an addition to a fire station was made during the year but was uncompleted at the end of the year, the entry setting up the cost of the addition in the fixed asset group of accounts is

Work in Progress	$50,000	
Investment in Fixed Assets:		
From Current Revenues		$50,000
To record cost of uncompleted addition to fire station at December 31.		

When the addition is finally completed, the following entry is made:

Structures and Improvements	$120,000	
Work in Progress		$50 000
Investment in Fixed Assets:		
From Current Revenues		70,000
To record completion of addition to fire station.		

No entry would be made on the individual property records for fire department property until the building was completed. At that time, the total cost of the addition would be entered in the individual property record for the particular fire station.

Transfer of fixed assets. Fixed assets should not be transferred from one location to another, or from one use to another, without formal written authorization by the proper authority. Unless transfers are formally authorized, fixed assets cannot be properly controlled. An order authorizing the transfer of fixed assets is illustrated in Figure 88, on page 295.

The transfer of fixed assets between departments financed from the same fund does not necessarily affect the general ledger accounts. However, a new property card must be prepared. Transfers between departments financed from different funds affect both the general accounts and the individual property records. For example, if equipment was transferred from the water department to the fire, police, and public works departments, the entry to record this transaction, if we assume that the three departments receiving the equipment are financed from the general fund, is as follows:

Entry in Utility Fund:

Unappropriated Surplus (or Governmental Unit's Contribution)	$10,000	
Reserve for Depreciation—Equipment	20,000	
Equipment		$30,000
To record transfer of equipment to departments, as follows:		

Department	Cost of Equipment	Accumulated Depreciation	Net Value
Police	$ 5,000	$ 3,000	$ 2,000
Fire	10,000	6,500	3,500
Public Works	15,000	10,500	4,500
	$30,000	$20,000	$10,000

Entry in General Fixed Assets Group of Accounts:

Equipment		$10,000	
Investment in Fixed Assets: From Gifts			$10,000
To record transfer of equipment by water utility to following departments:			
Police Department	$ 2,000		
Fire Department	3,500		
Public Works Department	4,500		
	$10,000		

A separate property record is, of course, set up for this equipment in each department.

Inventory of fixed assets. A physical inventory of equipment should be taken at the end of each year. If assets are properly recorded when they are acquired, and if retirements are accurately recorded, the inventory as disclosed by physical inspection should equal the amounts shown by the records. All variations between the two should be investigated.

An interesting problem arises with respect to taking an inventory of property for the first time. For example, assume that a governmental unit has not kept a record of its physical assets and that the officials decide to keep such a record. Obviously, the first step would be to take an inventory. As a result of the inventory, information should be available as to (1) the name of each asset, (2) identification marks, such as the manufacturer's number, (3) the location of the asset, (4) its estimated life, and (5) other data necessary to set up an individual property record for each asset. One of the difficult tasks in this connection is to arrive at the value at which to record the assets. If invoices and other documents bearing on the cost of the asset are available, these can be used. If such documents are not available, it is necessary to appraise the assets as of the date of the inventory and to record them at the appraised value.

If, as a result of taking the inventory, it is discovered that articles are missing, an investigation should be made. At the same time the general fixed assets accounts must be reduced by the book value of the missing fixed assets, and the individual property accounts for the particular assets in the property ledger must be canceled.

Asset retirements and replacements. Assets should be retired only by a retirement order, which should be charged with the cost of the asset and with the cost of its dismantling and removal and credited with amounts received as insurance or proceeds from the sale of salvage. A form for a retirement order is illustrated on page 296. Note that provision is made, in the case of assets of self-

Figure 88

A GOVERNMENTAL UNIT
Asset Transfer Order

Number_____ Date_____

Transferred from_____ Department

Received by_____ Department

Identification		Date of Purchase	Description	Cost	Accumulated Depreciation[1]	Net Value[1]	Account		
Inventory or Property No.	Mfg's. No.						Name	No.	Amount Debit or Credit*

Requested by_____

Approved_____

Approved_____

Received by_____ Date_____

Charge Accepted_____
Dept. Head

Noted on Property Record_____
Property Clerk

Remarks_____

[1] For transfers from self-supporting enterprises.

Figure 89

A GOVERNMENTAL UNIT

Asset Retirement Order

Number_____ Date_____

Retired from_____ Department

Identification		Date of Purchase	Description	Cost (Including Additions)	Accumulated Depreciation[1]	Salvage Value	Cost of Dismantling	Date	Voucher No. or Receipt No.	Account		
Property No.	Mnfg's. No.									Name	No.	Amount Debit or Credit*

Requested by_____

Approved_____

Approved_____

Noted on Property Record_____

Remarks_____

[1] For retirement of assets of self-supporting enterprises.

supporting enterprises, for crediting the retirement order with the amount of the accumulated depreciation reserve.

To account properly for fixed asset retirements, it is essential to distinguish between units of property and minor items. A unit of property is any item of property which can be identified and accounted for separately. Minor items, on the other hand, are the parts which go to make up a property unit. For example, a desk is a unit for retirement purposes, whereas desk drawers are minor items.

When a unit of property is retired, an entry must be made reducing the property accounts by the book value of the unit. The entry removing the value of the property from the books must be made even for property which is replaced. The replacement is set up on the records in the same manner as any other newly acquired asset, without any reference to the cost of the asset which it replaces.

The procedure in recording the retirement and replacement of minor items is somewhat different from that followed in recording the retirement of units of property. If a minor item of property is retired and is not replaced, the unit of property of which the minor item is a part is reduced by the amount of the book value of the minor item. If, however, the book value of the minor item of property will be accounted for in the book value of the unit of property when the latter is retired, the property account need not be reduced by the amount of the minor item.

If minor items of property are retired and replaced, the cost of replacement is considered a current expense and not an addition to the property. However, if the replacement of the minor item results in a betterment, the expenditure for replacements must be analyzed to determine the portion attributable to replacements and the portion attributable to betterments. The former is considered an expense, whereas the latter is added to the cost of the unit.

Thus far the discussion was concerned with the accounting for all fixed assets. This part deals with the accounting procedure peculiar to general fixed assets. To simplify the discussion, with one exception, only controlling accounts are used in the entries illustrated throughout the remainder of this chapter.

General Fixed Assets

Depreciation not computed. One of the features of accounting for general fixed assets is that depreciation need not be computed on them. As the National Committee on Municipal Accounting points out, no useful purpose is accomplished by

computing depreciation on assets of this sort for the following reasons: [2]

1. It is not essential to show the depreciated or replacement values of municipal properties in the accounts or balance sheet of a municipality, since property values cannot be used as a basis for credit.
2. Since the municipality as a whole is concerned with operating profit or loss only in the case of utilities and other self-supporting enterprises, depreciation need not be accounted for in the general records.
3. If depreciation is accounted for, the depreciation reserve has no importance unless a cash fund of an equal amount is set aside to replace worn-out properties. This is usually impractical, where not illegal.
4. Unless cash can be set aside out of current revenues, depreciation charges cannot be included in the budget. If cash is therefore not set aside (and depreciation thus not included in the budget) but depreciation is included in the financial statements of the annual report, the budget and the annual report will not agree.

Asset retirements. The entries to be made to record the acquisition of fixed assets were given in Chapter 14. The entries to record retirements are more complicated because in accounting for fixed asset retirements, it is important to take into account not only the book value of the asset but also the cost of retirement and the proceeds received from the sale of salvage. For example, assume that a fire station was torn down, that the book value of the building was $60,000, that the cost of tearing it down was $1,000, and that $5,000 was realized from the sale of salvage. The entries to record these transactions are as shown below.

Entry in General Fixed Assets Group of Accounts:		
Investment in Fixed Assets: From Current Revenues	$60,000	
Structures and Improvements		$60,000
To record retirement of fire station.		
Entries in General Fund:		
Appropriation Expenditures	1,000	
Cash		1,000
To record cost of dismantling building, such cost to be reimbursed from sale of salvage.		
Cash	5,000	
Appropriation Expenditures		1,000
Revenues		4,000
To record sale of salvage and reimbursement for cost of dismantling fire station.		

On the other hand, if the cost of dismantling was $2,000, and if only $1,000 had been realized from the sale of salvage, the entries would be as follows:

[2] National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, p. 148.

Appropriation Expenditures	$2,000	
Cash		$2,000
To record cost of dismantling building, such cost to be reimbursed from sale of salvage.		
Cash	$1,000	
Appropriation Expenditures		$1,000
To record sale of salvage and to reduce the dismantling cost by the amount of cash realized from the sale of salvage.		

It will be noted that only $1,000 of the dismantling cost was recovered. The remaining $1,000 would be charged as an expense.

Sale of general fixed assets. Two entries are necessary to record the sale of general fixed assets—one in the fund receiving the proceeds and another in the general fixed assets group of accounts. Thus, if a fire truck with a book value of $10,000 is sold for $2,000, the following entries are made:

Entry in General Fund:

Cash	$ 2,000	
Revenues		$ 2,000
To record sale of fire truck.		

Entry in General Fixed Assets Group of Accounts:

Investment in Fixed Assets: From Current Revenues	10,000	
Equipment		10,000
To record sale of fire truck with book value of $10,000.		

Note that, although only $2,000 was realized from the sale of the truck, the full book value—namely, $10,000—must be written off. Of course, the individual property record for the particular truck would be canceled.

If the above truck is traded in on a new truck costing $12,000, and an allowance of $3,000 is made on the old truck, the transaction is recorded as follows:

Entry in General Fund:

Appropriation Expenditures	$ 9,000	
Cash		$ 9,000
To record purchase of fire truck costing $12,000, which was reduced by trade-in allowance of $3,000.		

Entries in General Fixed Assets Group of Accounts:

Investment in Fixed Assets: From Current Revenues	10,000	
Equipment		10,000
To record sale (trade-in) of old fire truck with book value of $10,000.		

Equipment	$12,000	
Investment in Fixed Assets: From Current Revenues		$12,000
To record purchase of fire truck at a cost of $9,000 plus trade-in allowance on old fire truck of $3,000.		

Thus far we have assumed that the assets were sold to private persons. Sometimes one fund sells property to another fund. Let us assume, for example, that the utility fund sells equipment to the public works department, which is financed from the general fund. The following entries would be made:

Entry in Utility Fund:

Due from General Fund	$15,000	
Reserve for Depreciation—Equipment	1,000	
Equipment		$16,000
To record sale of equipment to department of public works at net book value.		

Entry in General Fund:

Appropriation Expenditures	15,000	
Due to Utility Fund		15,000
To record purchase of equipment from utility fund for department of public works and liability owing to that fund.		

Entry in General Fixed Assets Group of Accounts:

Equipment	$15,000	
Investment in Fixed Assets: From Current Revenues		$15,000
To record purchase of equipment for public works department.		

It should be noted that the equipment is recorded at its depreciated value—that is, at gross book value less the reserve for depreciation ($16,000—$1,000). Although general fixed assets are not depreciated on the records, the reserve for depreciation is deducted because the public works department purchased the asset at its depreciated value. The asset is also recorded on the individual property record at its depreciated value.

Property damaged or destroyed. Expenditures for repairs necessary to restore damaged property to its former condition are charged to the Appropriation Expenditures account in the fund from which the cost of repairs is financed and are classified as current expenses. If the expenditures not only restore the asset to its former condition but also result in bettering it, the excess of the total amount expended over the amount required to restore the asset to its former condition is capitalized in the general fixed assets group of accounts.

As an illustration, let us assume that an asset is damaged and that $40,000 is spent for its repair and $10,000 for its betterment.

If the expenditures are financed out of the general fund, the entries are as follows:

Entry in General Fund:

Appropriation Expenditures	$50,000	
Cash		$50,000

To record expenditures for repairs to damaged police station, of which $10,000 are due to betterments. Subsidiary accounts:

Organization Unit	Current Expenses	Capital Outlays
Department of Police	$40,000	$10,000

Entry in General Fixed Assets Group of Accounts:

Structures and Improvements	$10,000	
Investment in Fixed Assets: From Current Revenues		$10,000

To record improvement of police station.

An entry is made on the individual property record for the particular police station to indicate the increase of $10,000 in the book value of the station.

Let us assume further that the total book value of the police station is $100,000, that the station is destroyed by fire, and that the governmental unit collects insurance of $90,000. The following entries would be made in the general fixed assets group of accounts and in the general fund, respectively, to record these transactions:

Entry in General Fixed Assets Group of Accounts:

Investment in Fixed Assets: From Current Revenues	$100,000	
Structures and Improvements		$100,000

To record destruction of police station by fire.

Entry in General Fund:

Cash for Replacements	90,000	
Reserve for Restoring Police Station		90,000

To record collection of insurance, which is to be used in restoring police station destroyed by fire.

It should be noted that the reserve for restoring the police station is a surplus reserve. The reason the reserve was credited instead of the Unappropriated Surplus account is to make certain that that part of the surplus represented by cash received from the insurance company is not appropriated for other purposes. Of course, if the governmental unit does not intend to restore the property, the proceeds are credited directly to the Unappropriated Surplus account. Likewise, if, because of a decline in construction costs, the total cost of reconstructing the property is less than the

nount of insurance proceeds received, the balance of the proceeds credited to the Unappropriated Surplus account.

Statements of general fixed assets. A statement analyzing e changes in general fixed assets accounts, similar to that illusated in Figure 90, is needed to account for the additions to genal fixed assets and the disposal of the assets. Note particularly at the additions to fixed assets shown in this statement correspond the totals of expenditures of the particular funds from which ey were financed. Work in progress set up in prior years but mpleted during the current year is deducted from the "Work in ogress" column of the statement, since it can now be classified either structures and improvements or as equipment.

Another statement needed is that illustrated in Figure 91. lthough a statement showing general fixed assets classified by ain classes of property was illustrated in Figure 62, page 213, at statement showed merely the total of each kind of property. is important to show also the assets allocated to each departent; only in that manner can effective control be exercised. Attntion is again called to the fact that no account is taken of deeciation, the assets being shown in this statement at cost or praised value at the time of their acquisition.

Fixed Assets of Self-Supporting Enterprises

Accounting for depreciation. Depreciation may be defined as e loss in value of fixed assets, other than wasting assets, due to ear and tear and obsolescence. Although depreciation on general ed assets need not be used in general fund appropriation acunting, it should be computed on assets of self-supporting enterises. Depreciation accounting is a means of charging each year's venues with their proper share of the cost of retiring fixed propty. Unless each year's revenues are charged with a proper share depreciation expense, the profit or loss will be overstated in me years and understated in others. One of the important probms in depreciation accounting is therefore to establish appropriate preciation rates.

Determining periodic depreciation charges. There are many ethods of computing depreciation rates, but no method will locate depreciation charges perfectly, for only an approximation actual conditions can be hoped for under any of them. How-er, the charges are made as equitable as possible, so that the venues of any one year may not be unduly burdened and those another year bear too light a burden. The most common ethods employed by governmental units are (1) the straight-line

A GOVERNMENTAL UNIT
Statement of Changes in General Fixed Assets
for Fiscal Year

	Total	Land	Structures & Improvements	Equipment	Work in Progress
Balance of General Fixed Assets—Beginning of Year	$3,710,300	$1,000,000	$2,000,000	$500,000	$210,300
Add:					
Expenditures from:					
General Fund	$ 103,300	$ 7,000	$ 37,200	$ 59,100	—
Bond Funds:					
Prior Years	70,300	—	70,300	—	—
This Year	126,200	—	126,200	—	—
Special Assessment Funds:					
Prior Years	140,000	—	140,000	—	—
This Year	345,000	—	345,000	—	—
Gifts	40,000	—	40,000	—	—
Total Additions	$ 824,800	$ 7,000	$ 758,700	$ 59,100	—
Total	$4,535,100	$1,007,000	$2,758,700	$559,100	$210,300
Deduct:					
Fixed Assets Sold or Otherwise Disposed of	$ 10,000	—	—	$ 10,000	—
Work in Progress of Prior Years Completed	210,300	—	—	—	$210,300
Total Deductions	$ 220,300	—	—	$ 10,000	$210,300
Balance of General Fixed Assets—End of Year	$4,314,800	$1,007,000	$2,758,700	$549,100	—

Figure 91

A GOVERNMENTAL UNIT

Statement of General Fixed Assets
Classified by Function and Organization Unit
at Close of Fiscal Year

Function and Organization Unit	Total	Land	Structures & Improvements	Equipment
GENERAL GOVERNMENT:				
Council	$ 20,000	—	—	$ 20,000
Executive Department	13,080	—	—	13,080
Courts	100,148	$ 22,437	$ 72,700	5,011
Board of Elections	10,900	1,000	4,900	5,000
Department of Finance:				
Administration	$ 2,000	—	—	$ 2,000
Bureau of Accounts	6,011	—	—	6,011
Bureau of Treasury	5,632	—	—	5,632
Bureau of Purchases	4,368	—	—	4,368
Bureau of Assessments	3,989	—	—	3,989
Total Department of Finance	$ 22,000	—	—	$ 22,000
Department of Law	$ 15,000	—	—	$ 15,000
City Clerk's Office	20,000	—	—	20,000
Board of Zoning Appeals	2,000	—	—	2,000
Civil Service Commission	7,000	—	—	7,000
City Hall	241,672	$ 65,000	$ 167,600	9,072
Total General Government	$ 451,800	$ 88,437	$ 245,200	$118,163

PUBLIC SAFETY:				
Department of Police	$ 50,000	$ 10,000	$ 40,000	—
Bureau of Supervision	8,000	—	—	$ 8,000
Bureau of Police Training	10,002	—	6,000	4,002
Bureau of Identification Records	12,000	—	—	12,000
Bureau of Communication System	11,000	—	—	11,000
Bureau of Uniform Patrol	6,300	—	—	6,300
Bureau of Special Detail	5,000	—	—	5,000
Bureau of Traffic Control	10,000	—	—	10,000
Bureau of Radio Control	7,090	—	3,090	4 000
Bureau of Detention	8,000	—	—	8,000
Total Department of Police	$ 127,392	$ 10,000	$ 49,090	$ 68,302
Department of Fire	$ 409,000	$ 109,000	$ 300,000	—
Bureau of Supervision	5,500	—	—	$ 5,500
Bureau of Training	6,068	—	—	6,068
Bureau of Prevention	4,000	—	—	4,000
Bureau of Communication	50,000	10,000	20,000	20,000
Bureau of Fire Fighting	25,000	—	—	25,000
Total Department of Fire	$ 499,568	$ 119,000	$ 320,000	$ 60,568
Board of Examiners—Plumbers	$ 5,000	—	—	$ 5,000
Board of Examiners—Electricians	5,000	—	—	5,000
Total Public Safety	$ 636,960	$ 129,000	$ 369,090	$138,870
HIGHWAYS	$ 673,625	$ 25,000	$ 588,625	$ 60,000
SANITATION AND WASTE REMOVAL	643,710	200,000	393,710	50,000
CONSERVATION OF HEALTH	94,040	11,000	72,040	11,000
HOSPITALS	425,290	139,500	237,790	48,000
CHARITIES	51,375	20,000	28,375	3,000
CORRECTIONS	385,620	53,000	302,620	30,000
SCHOOLS	667,435	211,063	401,372	55,000
LIBRARIES	90,380	45,000	35,313	10,067
RECREATION	194,565	85,000	84,565	25,000
Grand Total	$4,314,800	$1,007,000	$2,758,700	$549,100

method and (2) the work-unit method. The straight-line method is the one most commonly used for depreciating all fixed assets except automotive equipment, which is usually depreciated on the basis of work units. The straight-line method is relatively simple. The amount to be depreciated is found by deducting the estimated net salvage value from the book value. Dividing this amount by the number of years the asset is estimated to last gives the amount to be depreciated each year.

As an illustration, assume the following facts:

Asset—Building

Cost	$21,000
Estimated Net Salvage Value	1,000
Amount to be Depreciated	$20,000

Estimated Life, 10 Years.
Annual Rate of Depreciation, 10 per cent ($^1/_{10}$).
Amount to be Depreciated Annually, $2,000 (10 per cent of $20,000)

The following table shows the depreciation charges under the straight-line method in the case of the assumptions just made:

TABLE 5

DEPRECIATION CHARGES UNDER STRAIGHT-LINE METHOD

End of Year	Amount of Depreciation to Be Charged	Depreciation Reserve	Net Value of Asset
1	$2,000	$ 2,000	$19,000
2	2,000	4,000	17,000
3	2,000	6,000	15,000
4	2,000	8,000	13,000
5	2,000	10,000	11,000
6	2,000	12,000	9,000
7	2,000	14,000	7,000
8	2,000	16,000	5,000
9	2,000	18,000	3,000
10	2,000	20,000	1,000*

* Salvage value

The work-unit method is explained in connection with the discussion of the accounting procedure for equipment (see Chapter 20).

Sometimes a combination of the straight-line and work-unit methods is used; that is, the annual depreciation rate for the asset is determined on a straight-line basis, but monthly depreciation charges are determined on the basis of work units. For example, assume that the annual amount of depreciation on a particular truck is found to be $2,000 on the basis of straight-line depreciation. It is estimated, however, that the truck will work 2,000 hours during the year. The estimated depreciation rate per hour will in that case be $1.00. If the truck worked 150 hours during

the month of May, $150 is charged as depreciation on the truck for that month. Of course, if the actual number of hours worked during the year is in excess of or short of the number estimated, actual annual depreciation charges will be more or less than $2,000, and an adjustment will be necessary.

Recording depreciation. After the amount of depreciation to be charged is determined, the following entry is made to record depreciation expenses:

Depreciation—Equipment	$ 2,000	
Reserve for Depreciation—Equipment		$ 2,000
To record depreciation of equipment.		

Re-examining the reserve for depreciation. The reserve for depreciation may be built up too rapidly or too slowly. In the first instance, the asset would be fully depreciated on the books before its useful life is ended, whereas in the second case an undepreciated value will be carried on the books even after the asset can no longer be used. Since such a situation necessitates adjustments and has the effect of understating or overstating past years' profits, the reserve for depreciation must be re-examined at regular intervals to see whether or not the depreciation rates overstate or understate the life of the asset. This procedure is particularly important if a composite rate of depreciation is used. It is beyond the scope of this book to discuss the manner in which a composite rate is determined, but it may be said that in general a composite rate is an average depreciation rate applied to all the fixed assets of the enterprise or different averages applied to different groups of fixed assets.

If, upon examination, the reserve is found to be inadequate or more than adequate, adjustments must be made. If the reserve is inadequate, the Unappropriated Surplus account is charged with past inadequate depreciation expenses, and future depreciation rates are raised. If the reserve is more than adequate, the Unappropriated Surplus account is credited, and future depreciation rates are lowered.

Retirement of assets. The accounting procedure for the retirement of fixed assets that are being depreciated is similar to the procedure followed in accounting for the retirement of general fixed assets. The only difference between the two is that in accounting for the retirement of assets that are being depreciated cognizance must be taken of the depreciation reserve.

If the net amount to be received from the sale of salvage (that is, proceeds from the sale of salvage less cost of dismantling the asset) and the life of the asset were estimated correctly, the

amount to the credit of the reserve for depreciation plus the net amount received from the sale of salvage will exactly equal the book value of the asset to be retired. The entry to record the receipt of the net proceeds from the sale of salvage and the retirement of the asset is as follows:

Cash	$ 1,000	
Reserve for Depreciation—Equipment	29,000	
Equipment		$30,000
To record retirement of equipment and sale of salvage.		

If, however, either the net proceeds from the sale of salvage or the life of the asset have not been estimated correctly, the salvage proceeds plus the reserve will be greater or smaller than the book value of the asset to be retired. The entry to record the retirement of the asset and the receipt of the net proceeds (if there is a loss) is as follows:

Cash	$ 1,000	
Reserve for Depreciation—Equipment	28,000	
Loss on Equipment Retired	1,000	
Equipment		$30,000
To record sale of salvage and retirement of equipment		

If the life of the asset or the net amount to be received from the sale of salvage had been underestimated, a profit would have been realized.

Replacements. It is not essential to depreciation accounting that a fund for replacing fixed assets be established. The establishment of a fund means that cash must be set aside for the replacement of the assets. If the governmental unit can, however, use the cash to better advantage for other purposes, it will not make any segregation but, when the asset is completely depreciated, will use any cash of the particular fund (working capital fund or utility fund) which is not otherwise appropriated to finance the replacement of the assets. No special accounting procedure is required to account for such replacements.

However, if the governmental unit does set up a fund for the replacement of assets, the accounting procedure becomes more complex, for in that case it is necessary to account not only for the replacement of the assets but also for the replacement fund itself. Since it is important to distinguish between accounting for the replacement fund and accounting for its use in replacing retired assets, the two phases of accounting for replacements are discussed separately.

Accounting for replacement fund. A replacement fund is ordinarily built up in the same manner as a sinking fund. Periodic contributions are made to the fund, and the cash contributed is

invested, the earnings being added to the fund. Therefore, the total contributions to the fund are smaller than the amount necessary to replace the assets, the difference being made up through the earnings of the fund. For example, if the total cost of replacing an asset is estimated to be $20,000, and if it is contemplated that the fund will earn $2,000 during its existence, only $18,000 will have to be contributed. The following are the steps involved in accounting for replacement funds and the related entries to be made.

The first step is the making of the contribution to the fund, the entry to record this transaction being

Replacement Fund Cash	$1,000	
Cash		$1,000
To record setting up replacement fund.		

No entry is made to segregate surplus, because the fund is accumulated out of depreciation charges, and these charges are made against operating revenues. The reserve for depreciation thus measures the amount of current assets acquired from the depreciation charged to customers as part of the utility rates. By charging depreciation as an expense, assets representing the depreciation reserve will not unknowingly be transferred to the general fund, because the net income has already been reduced by the amount of depreciation charges.

If replacement fund cash is not invested, no other types of entries are needed; that is, the entry to be made each year would be similar to the one illustrated above. If, however, the money is invested, it is necessary to record not only the purchase of investments but also the earnings on them. The entry to record the purchase of investments, if no premiums, discounts, or accrued interest are involved, is as follows:

Replacement Fund Investments	$5,000	
Replacement Fund Cash		$5,000
To record purchase of investments.		

Earnings are recorded by the following entry:

Replacement Fund Cash	$100	
Replacement Fund Revenues		$100
To record earnings on replacement fund investments.		

Replacement fund revenues are considered as part of the general earnings of the utility and are closed out into net income.

Making replacements out of the fund. The replacement fund is not affected until an asset is replaced (that is, it is not affected by the retirement of the asset). Let us assume that the replacement fund contains the exact amount of cash required to replace the asset. The entry will in that case be

Equipment	$29,000	
Replacement Fund Cash		$29,000
To record replacement of equipment.		

Again, let us assume that the replacement cost of the asset is $29,000, that its original cost was $32,000, and that the replacement fund had accumulated assets of $32,000. The entry to record the replacement of the asset is as follows:

Equipment	$29,000	
Replacement Fund Cash		$29,000
To record replacement of equipment.		

The replacement fund would have an excess in cash of $3,000, which would be returned to free cash.

On the other hand, if the asset cost $34,000 to replace, the entry to record the replacement would be

Equipment	$34,000	
Replacement Fund Cash		$32,000
Cash		2,000
To record replacement of equipment.		

There is only one instance in which the retirement (as contrasted with the replacement) of an asset may affect the replacement fund—namely, if, in estimating the amount to be accumulated in the fund, it is assumed that the net proceeds to be realized from the sale of salvage will be placed in the replacement fund. In that event, when the asset is retired, the entry, in the case of the figures used in the first entry on page 308, will be as follows:

Replacement Fund Cash	$ 1,000	
Reserve for Depreciation—Equipment	29,000	
Equipment		$30,000
To record retirement of equipment.		

Statement of fixed assets—electric utility. In Figure 92 there is illustrated a statement of the fixed assets of an electric utility. Note that the assets are grouped by functions and are classified under each function as land, structures and improvements, and equipment. The classification used in this statement has been adapted from the classification of accounts prescribed by the Federal Power Commission for electric utilities, including municipal utilities. A statement of fixed assets for a water utility would be similar in form to the above statement, but the functional classification of assets applicable to water utilities would be used.[3]

[3] For a functional classification of water accounts, see p. 203.

Figure 92

MUNICIPAL LIGHT AND POWER DEPARTMENT

Pasadena, California [4]
Statement of Fixed Assets
June 30, 1944

Production:		
Land and Land Rights	$ 130,602.60	
Structures and Improvements	443,589.40	
Boiler Plant Equipment	1,155,044.25	
Engines and Engine Driven Generators	26,300.00	
Turbo-Generator Units	1,522,659.33	
Accessory Electric Equipment	307,484.54	
Miscellaneous Power Plant Equipment	16,809.46	
Total Production		$ 3,602,489.58
Transmission:		
Land and Land Rights	$ 20,514.97	
Poles and Fixtures	48,531.37	
Overhead Conductors and Devices	67,332.80	
Total Transmission		136,379.14
Distribution:		
Land and Land Rights	$ 87,054.98	
Structures and Improvements	117,587.09	
Station Equipment	950,677.21	
Poles, Towers and Fixtures	269,213.65	
Overhead Conductors and Devices	459,459.46	
Underground Conduit	1,660,987.51	
Underground Conductors and Devices	1,187,518.79	
Line Transformers	602,295.47	
Services	502,057.00	
Meters	439,195.73	
Street Lighting Systems	446,604.53	
Total Distribution		6,722,651.42
General:		
Land and Land Rights	$ 77,187.14	
Structures and Improvements	289,439.55	
Office Furniture and Equipment	68,043.60	
Transportation Equipment	169,985.13	
Stores Equipment	16,853.48	
Shop Equipment	23,930.12	
Laboratory Equipment	16,040.41	
Communication Equipment	36,076.78	
General Equipment	21,209.46	
Total General		718,765.67
Grand Total		$11,180,285.81

[4] Adapted from Pasadena, California, Municipal Light & Power Department. *Annual Report 1943-1944,* pp. 16-17.

CHAPTER 19

Liabilities

THIS chapter is divided into two parts, the first part dealing with liabilities other than bonds and the second part dealing with bonds. Before proceeding to a discussion of the accounting for each of these groups of liabilities, let us note some of the legal limitations which apply to all indebtedness.

The broadest limitation on indebtedness is the requirement that liabilities may be incurred only for a governmental purpose. The next broadest limitation pertains to the amount of indebtedness which a governmental unit may incur. The reasons for debt limitation are as follows: The power to incur indebtedness is in itself not primarily significant; the primary factor is the ability of the governmental unit to raise revenue by taxation for the payment of interest and the retirement of debt. Once indebtedness payable from taxation is legally incurred, the governmental unit can be forced by court action to levy a tax to pay the principal and interest. If, therefore, no limitation were placed on the amount of indebtedness, tax limitation would be ineffective, for governmental units could finance current expenditures through the incurrence of indebtedness which would subsequently have to be paid out of taxes.

The limitation on debt is usually expressed as a percentage of the assessed valuation. For example, the indebtedness of many governmental units is restricted to 5 per cent of their assessed value. Under such a limitation, a governmental unit having an assessed value of $100,000,000 may not incur indebtedness in excess of $5,000,000 (5 per cent of $100,000,000).

Because debt limitations are based on assessed values, the restriction will fluctuate with changes in values. Thus, a rise in the assessed valuation of taxable property will increase the debt margin. By "debt margin" is meant the amount by which the debt limit exceeds the amount of existing indebtedness which is subject to the debt limit. For example, if a governmental unit that may legally incur indebtedness up to $5,000,000 already has $4,000,000 of bonds outstanding, its debt margin is $1,000,000. If its assessed

value should double but the rate of limitation remain the same, the maximum amount of indebtedness which it may incur would be $10,000,000, and its debt margin would be $6,000,000. On the other hand, a lowering of the assessed value will result in a reduced debt margin.

The same assessed valuation is used for both tax and debt limitation purposes. In the case of local governments, it is the assessed value for local tax purposes that is used also for debt limitation purposes. For example, let us assume that the true value of the taxable property of a municipality is $10,000,000, that for local tax purposes the assessed value is $5,000,000 (50 per cent of true value), and that for state tax purposes the assessed value is $7,500,000 (75 per cent of true value). The assessed value to be used in determining the debt limit is $5,000,000. It is evident, therefore, that a low ratio of assessed value to true value has the effect of restricting not only the taxing power but also the borrowing power of a governmental unit.

Finally, it must be remembered that, even if governmental units overlap, each has its own separate assessed valuation for debt limitation purposes, in the same manner that each has an assessed valuation for tax purposes. For example, let us assume that the assessed valuation of a municipality is $100,000,000, that an independent park district occupies the same territory as the municipality, and that the debt limit is 5 per cent for each unit. In that case, the municipality and the park district could each legally incur indebtedness up to $5,000,000.

Debt limitations may be imposed by constitutions, statutes, or charters. Sometimes restrictions are imposed by both constitutions and statutes or by all three. For example, the state constitution may provide that governmental units shall not incur indebtedness in excess of 5 per cent of the assessed value of taxable property. Statutes, on the other hand, may provide further that the rate of indebtedness for all governmental units or certain governmental units shall not exceed 4 per cent. Then the charter of a particular governmental unit may still further restrict the amount of indebtedness to 3 per cent of the unit's assessed valuation.

Since one of the main reasons for imposing restrictions on borrowing is to prevent an increase in taxation, indebtedness not payable from taxation is frequently exempted from the debt limit. For example, utility debts and debts payable from special assessments may be exempted from the debt limit, especially if the utility bonds are payable solely from earnings and if special assessment bonds are payable solely from special assessment collections. If the governmental unit guarantees that general funds will be used

to meet utility bonds in the event that utility revenues are insufficient, then these bonds are sometimes included within the limitation. In many cases, one rate is set up for indebtedness repayable from taxation, and another is provided for indebtedness not primarily repayable from taxation.

Finally, it should be remembered that the debt limit is usually imposed on net indebtedness. Thus, in computing the legal debt margin, sinking fund assets may be deducted from the bonds to which they apply, only the net bonded debt being charged against the limitation. Similarly, some courts have held that cash on hand may be deducted from any liabilities, whether they are bonds or other indebtedness. The legal debt margin is computed in a statement of legal debt margin, an example of which is illustrated in Figure 93.

Liabilities Other Than Bonds

The nature of many of the liabilities is evident from the discussion of fund accounting procedure and the balance sheets illustrated in connection with it. Some of the liabilities, however, require further explanation. These are (1) vouchers payable, (2) warrants payable, (3) tax anticipation notes, (4) bond anticipation notes, (5) judgments payable, and (6) accrued liabilities.

Vouchers payable. We have already indicated that the approval of the expenditure and the resulting liability may be evidenced by a voucher. Vouchers payable are open-account liabilities and are of the same nature as other accounts payable, the only distinction between the two being that a voucher contains formal written evidence of the approval of the liability. The entries to record the approval of the expenditure and the resulting liability have been illustrated previously.

Warrants payable. As indicated before, when the liability has been approved, a warrant may be issued to the claimant, who presents it to the treasurer for payment. Ordinarily, as warrants are issued, the proper fund Cash account is reduced in the general ledger, the entry being a debit to Vouchers Payable and a credit to cash. If, however, the governmental unit has no cash with which to pay the liability, provision is frequently made for registering the warrants. The procedure in that case is as follows: At the time warrants are issued, the accounting officer knows whether or not the money is available for their payment. Consequently, if there is no probability of warrants being paid immediately, the Cash account is not reduced by the amount of warrants issued. Instead, the following entry is made:

CITY OF DETROIT
Statement of Legal Debt Margin[1]
June 30, 1945

Particulars	Net Debt (See Notes)	Legal Limitation: Per Cent of Assessed Value	Legal Limitation: Amount	Legal Debt Margin
Assessed Value June 30, 1945, $2,906,345,890 00				
Net Debt—				
Subject to General Charter Limitation—				
General Public Improvement Bonds	$144,185,119 37[a]	4½	$130,785,565.05	$ *13,399,554 32*
Public Light and Power System Bonds	19,471,000 00	1	29,063,458 90	9,592,458 90
Public Utility Bonds—				
Street Railway	11,114,168 09	1½	43,595,188 35	32,481,020 26
Water Board	41,364,983 27	2	58,126,917 80	16,761,934 53
Total	$216,135,270 73		$261,571,130 10	$ 45,435,859 37
Belle Isle Bridge Bonds	2,253,000 00	—	—	2,253,000 00
Total Subject to General Charter Limitation	$213,882,270.73	9	$261,571,130.10	$ 47,688.859.37
Not Subject to General Charter Limitation—				
Public School Bonds	$ 55,664,000 00	none	$ —	$ —
Public Library Bonds	2,047,000.00	¼ of 1	7,265,864 73	5,218,861 73
Emergency Bonds	4,310,000 00	¼ of 1	7,265,864 73	2,955,864 73
Special Assessment Bonds	250,000 00	5	145,317,294 50	145,067,294.50
Street Railway Revenue Anticipation Notes	795,583 33[b]		3,665,468.70[c]	2,869,885.37
Other Obligations (Not involving faith and credit of the City of Detroit)—				
Revenue Supported Bonds—				
Housing Bonds	5,382,999 77	none		
Sewage Disposal System Bonds	3,717,239 59	none		
Housing Construction Bond Anticipation Notes	14,777,025 34	none		
Street Railway Equipment Purchase Notes	500,000 00	none		
Total Not Subject to General Charter Limitation	$ 87,443,848.03			
Total Net Debt	$303,579,118.76			

[a] Non-liquid assets aggregating $251,339 81 have been excluded from the Sinking Fund for general bonds in computing net debt.
[b] Limited to 10% of the total Street Railway revenues of the preceding fiscal year.
[c] 10% of the total Street Railway revenues for the year ended June 30, 1944.

[1] Adapted from the *Annual Report of the Auditor General of the City of Detroit, Michigan for the Fiscal Year Ended June 30, 1945*, p. 106.

Vouchers Payable	$15,000	
Warrants Payable		$15,000
To record issuance of warrants		

When the warrant is presented to the treasurer, he registers it. The law usually provides that registered warrants shall bear interest. As funds become available, the treasurer calls in the warrants in the order of their registration and pays both the warrants and accrued interest. The entry to record the payment of the warrants and the interest on them is as follows:

Appropriation Expenditures	$ 100	
Warrants Payable	10,000	
Cash		$10,100
To record payment of warrants		

It should be remembered that a governmental unit ordinarily cannot pay interest on warrants unless it is specifically authorized to do so by statute, although, because of differences in the degree of home rule enjoyed by local governments, some variations are likely to be found. Some states prohibit local governments from issuing warrants unless cash is available for their payment. Governmental units operating under such a restriction are frequently on a cash basis; that is, they do not incur an expenditure unless cash for the payment of the resulting liability is available at the time the expenditure is made and the liability is incurred.

Tax anticipation notes. Tax anticipation notes are issued by governmental units pending the collection of taxes. If a governmental unit does not collect its taxes until after the beginning of the fiscal year, it may have to borrow. One method of borrowing is to issue tax anticipation notes, which may be made payable solely from the collections of a particular levy or from all tax collections. As taxes are collected, the proceeds are used to retire the notes. If tax anticipation notes are payable solely from the tax levy of a particular year, the statutes usually provide that the total amount of notes issued shall not exceed a certain percentage of the tax levy. For example, if the tax levy for 1947 is $100,000, a governmental unit would usually not be permitted to issue tax anticipation notes for more than about $80,000, or 80 per cent of the tax levy for that year.

A maximum limit on tax anticipation borrowing is usually fixed for several reasons: In the first place, at least part of the expenditures will be financed from collections during the year. Secondly, the full amount of the levy may never be collected, or part of the taxes may not be collected for several years, thus making a portion of the tax anticipation notes long-term securities.

The entry to record the sale of tax anticipation notes is as follows:

Cash	$80,000	
Tax Anticipation Notes—1947		$80,000
To record sale of tax anticipation notes applicable to 1947 levy.		

Tax anticipation notes bear interest, the maximum interest rate usually being specified by statute or charter. If these notes are payable from the tax levy of a specific year, they bear no maturity date. That is, the governmental unit will not retire them until the taxes against which they are issued are collected. In many cases, the governmental unit is not permitted to retire these notes from any revenues other than the tax collections to which they apply. In that case, as taxes are collected, the cash applicable to the payment of the notes must be segregated. The entry to record the collection of taxes and the segregation of cash is as follows:

Cash for Tax Anticipation Notes—1947	$48,000	
Taxes Receivable—Current		$48,000
To record collection of part of 1947 levy and segregation of cash to be used in the payment of tax anticipation notes applicable thereto.		

Subsequently, as tax anticipation notes are retired, the following entry is made:

Tax Anticipation Notes—1947	$48,000	
Cash for Tax Anticipation Notes—1947		$48,000
To record retirement of tax anticipation notes		

Since the notes will ordinarily run for less than a year and will be issued in the early part of the fiscal year, the interest on them is not accrued. Interest is usually paid at the time the notes are redeemed, the entry to record the transaction being

Appropriation Expenditures	$1,000	
Cash		$1,000
To record payment of interest on tax anticipation notes applicable to 1947 levy.		

Bond anticipation notes. In discussing the accounting procedure for special assessments, we indicated that sometimes notes are issued pending the levy of assessments and the issuance of bonds. In a similar manner, pending the sale of bonds, the governmental unit may issue notes to finance the construction of general improvements. As the bonds are sold, the proceeds are used to retire the notes. The advantages of issuing notes in anticipation of the sale of any type of bonds—special assessment, general improvement, or utility—are as follows: (1) If the project is constructed over a period of time, the notes can be sold from time to

time as the need for money arises, thereby making it unnecessary to pay interest on funds not used and obviating the necessity of investing idle bond cash (the rate of interest earned on the idle funds will ordinarily be lower than the rate that will be paid by the governmental unit on its bonds). (2) The issuance of bonds for general improvements which are delayed or abandoned is prevented.

The entry to record the sale of bond anticipation notes is

Cash[2]	$50,000	
Bond Anticipation Notes		$50,000
To record sale of bond anticipation notes.		

Subsequently, as these notes are retired, an entry is made debiting the Bond Anticipation Notes account and crediting Cash for Bond Anticipation Notes.

The entries to record the payment of interest on bond anticipation notes are the same as for the payment of interest on the particular type of bonds which the notes anticipate—namely, general, special assessment, or utility bonds.

Judgments payable. We have already outlined in Chapter 10 the accounting procedure for those judgment liabilities which arise from condemnation of land for special assessment construction purposes.[3] The same procedure is applicable to judgments rendered in connection with the condemnation of property for the construction of projects financed from a bond fund or a utility fund. To clarify the exact nature of these liabilities, however, we shall explain briefly how judgment liabilities arise.

Most governmental units enjoy the power of eminent domain. This power enables a governmental unit to obtain property needed for public use, or to injure or destroy any property if such destruction or injury is incidental to the construction of a public improvement or any other public use. However, the governmental unit must pay for the damage. If the property owner and the governmental unit agree as to the amount of compensation, the power of eminent domain obviously need not be exercised. Suppose, however, the owner refuses to accept the price offered or refuses to sell the property for any price. In that case, the governmental unit may take steps to take over the property.

The procedure is as follows: The governmental unit brings suit to condemn the particular property. The court then holds a public hearing, at which expert testimony is offered by the property owner

[2] In the special assessment fund and the utility fund the debit would be to Cash for Construction.

[3] See pages 154-155.

and by the governmental unit as to the value of the property. On the basis of the testimony, the court decides the amount to be paid to the owner. If the case is tried before a jury, the jury decides the amount to be paid to the property owner. As soon as the verdict is rendered, the court enters a judgment against the governmental unit for the amount to be paid.

Since it is assumed that the property has been condemned in connection with a construction project, the full amount of the judgment is chargeable as a construction cost.

Judgments may also be rendered against a governmental unit for purposes other than the condemnation of property. All municipal corporations may be sued, and even quasi-municipal corporations may be authorized by statute to sue and to be sued.[4] For example, a city may be sued for injuries sustained on account of a broken sidewalk, for injury or damage caused by municipal vehicles, and so forth. As soon as a verdict is rendered by the court against the governmental unit (if no appeal is taken), the resulting liability must be recorded on the books. Usually the type of judgments here referred to are those payable out of the general fund and are subject to appropriation in the same manner as any other expenditures payable out of that fund. These judgments are fixed charges, like bond retirements and interest payments, and must be provided for in the budget in the same manner as other fixed charges. The entry to record the expenditure and liability is as follows:

Appropriation Expenditures	$15,000	
Judgments Payable		$15,000
To record liability on account of judgments rendered		

Creditors may secure judgments against the governmental unit for unpaid bills. Such judgments frequently arise because the governmental unit disputes the amount of the bill. For example, let us assume that creditors claim $10,000 is due them, but the governmental unit acknowledges a liability of only $8,000. If the creditors secure a judgment for $10,000, and the governmental unit has set up on the books that part of the liability which it had acknowledged, the entry to be made at the time the judgment is rendered is as follows:

Appropriation Expenditures	$2,000	
Vouchers Payable	8,000	
Judgments Payable		$10,000
To record judgments rendered.		

[4] States, as well as the federal government, can be sued only with their consent, except that one state may sue another

Accrued liabilities. In discussing the accounting procedure for short-term liabilities, we assumed that they were due and payable; that is, we took no account of accrued liabilities. Accrued liabilities are those which are not payable at the time the statement is prepared. For example, assume that employees are paid on the tenth of the month and that a balance sheet is prepared showing the financial position of a utility fund as of December 31. If all the expenses of operating the utility are to be taken into account, it is necessary to record the salaries and wages due from December 10 to December 31, even though employees are not entitled to their pay until January 10. The liability for the salaries and wages of the period from December 10 to December 31 is known as an accrued liability.

As already indicated, no uniform practice is followed with respect to recording accrued liabilities. One fact is certain: Governmental units accrue fewer liabilities than private businesses. Variations may, however, be found between governmental units and between various funds within each unit. There is no question that the recording of accrued liabilities is essential if the true financial condition and true financial operations of self-supporting enterprises are to be shown. However, in the case of the general fund, as stated before, the recording of some accruals may frequently be impractical.

Bonds

A bond is a written promise to pay a specified sum of money at a certain date, with interest at a fixed rate payable periodically. The difference between a note and a bond is that the latter requires greater legal formality and usually runs for a longer period of time. The length of time varies, but ordinarily bonds are not issued for a period longer than thirty years except for certain public service enterprises. Before proceeding to examine the accounting procedure for bonds, it is important to distinguish between various types of bonds, because in certain respects the procedure will vary with the type of bond.

Classification of bonds. Bonds may be classified in many ways, among them the following: (1) the purpose for which issued, (2) the source from which debt service charges will be paid, (3) the nature of the security behind the bond, (4) the procedure in paying bonds and interest, and (5) the method of retirement. These groups are not mutually exclusive; in fact, some of them go together. For example, the source from which governmental bonds will be repaid will depend to a great extent on the purpose for which the bonds were issued. If the purpose of the bonds is to

finance special assessment projects, it is evident that special assessments will be used at least in part to pay the bonds. These relationships will become more apparent after each of the classifications is discussed.

Purpose. In the discussion of fund accounting, we indicated that bonds may be issued (1) for the purpose of financing the construction of general or special assessment improvements, (2) for the purpose of providing capital for a working capital fund, (3) for financing the acquisition of a utility, (4) for funding a deficit, and (5) for refunding purposes. The general characteristics of each type of bond have already been discussed, but a few additional details will be given here. Where bonds are issued to finance an improvement, statutes frequently require that they should not be outstanding for a longer period than the estimated life of the improvement. Bonds issued to finance a deficit are usually made to run for a shorter period than those issued to finance a permanent improvement. Neither funding nor refunding bonds in reality represent new liabilities; these bonds merely postpone the payment of debts already incurred.

Sources of financing debt service charges. As indicated, the sources of financing debt service charges will vary with the purpose for which the bonds were issued. Generally debt service charges are financed from taxation, from other general revenues, from special assessments, from utility earnings, or from a combination of any of these sources. Usually bonds are classified according to the source from which they are primarily payable, even though the governmental unit may also use other sources of revenue in financing them. On this basis governmental bonds may be classified into three groups: (1) general obligation bonds, payable primarily from general taxes or other revenues of the general fund or a special revenue fund, (2) special assessment bonds, payable primarily from special assessments, and (3) revenue bonds, payable from the earnings of self-supporting enterprises.

Nature of security. The resources provided for paying debt service charges indicate partially the nature of the security behind the bonds. For example, the security behind general obligation bonds is the taxing power of the governmental unit; the security behind special assessment bonds are special assessment collections; and the security behind revenue bonds are the revenues of the enterprise. However, as already pointed out, although bonds may be payable from special assessments, they may also carry a guarantee that, if sufficient assessments are not collected, the governmental unit will levy a general tax for their payment. Special assessment bonds can thus be classified further into special-special assessment

bonds, which are payable only from special assessments, and general-special assessment bonds, which are payable primarily from assessments but also, in case of necessity, from general taxes or other general revenues.

Revenue bonds are payable solely from the revenues or the property of an enterprise. Security may be provided in the form of a mortgage, which, in case of default, the bondholders may foreclose to satisfy their debt. In actual practice, however, few if any governmental utility properties have been sold to satisfy mortgages. If utility property is mortgaged, provision is frequently made for the appointment of a receiver in case of failure of the utility to pay interest or principal. Even this procedure has not been entirely satisfactory, because the governmental unit will, in the event of the appointment of a receiver, consider the property privately owned and will proceed to tax it. The best additional security, even in the case of bonds payable from revenues, is the pledge of the governmental unit's general credit for the payment of the bonds—that is, the governmental unit's pledge to levy taxes or to provide other general revenue sources from which to pay the bonds, in the event that the revenues of the enterprise are insufficient for this purpose. Bonds issued by self-supporting enterprises may thus be classified into (1) general revenue bonds, or bonds for which only the revenues of the enterprise have been pledged as security for payment, (2) revenue mortgage bonds, or bonds for which the property of the enterprise, in addition to its earnings, has been pledged, and (3) general obligation utility bonds, or bonds for which both the revenues of the enterprise and the general credit of the governmental unit have been pledged. Usually revenue mortgage bonds are not general obligation utility bonds; that is, if the revenues and the property are pledged as security for the payment of the bonds, the general credit of the governmental unit is not pledged in addition.

Procedure in paying interest and principal. Bonds may be classified as coupon or registered or a combination of the two. Coupon bonds are those to which coupons are attached, each coupon representing the amount of interest payable at each interest payment date. Interest on these bonds is paid to the person presenting the proper coupon; and the principal is payable to the person who presents the bond. A registered bond, on the other hand, is one which has been registered in the name of the owner by the governmental unit. Payment is made only to the registered owner, and, in case a registered bond is sold, the change in ownership must be recorded on the records of the issuing governmental unit.

Bonds may be registered as to interest or principal or both. If bonds are registered as to interest or as to principal and interest, no coupons are necessary. If, however, the bonds are registered as to principal only, coupons are attached to them, interest in that case being paid to the person presenting the coupon and the principal being paid to the registered owner.

Method of retirement. An entire issue of bonds may be paid off at one time, or the debt may be reduced in approximately equal amounts each year. Bonds retired under the first method are usually referred to as *term bonds;* those retired under the second method are called *serial bonds.*

Term bonds may be classified into two groups—namely, sinking fund bonds and others. The method of accumulating sinking fund assets for the retirement of bonds requires one additional comment. Although sinking fund bonds generally mature all at one time, there are exceptions; sometimes parts of an issue are retired at various times. If the retirement periods are irregular and far apart, a sinking fund must be established for the retirement of the bonds.

Serial bonds are retired regularly throughout the life of an issue. Usually, approximately equal amounts of bonds are paid off each year, but this is not always true. Frequently greater amounts of bonds are retired in the earlier part of the life of the bonds or in the later part of their life, depending on the extent to which other issues are being retired concurrently and upon other contemplated bond issues. Sometimes, too, the retirement of serial bonds is not begun the first year after their issuance. Instead, the first installment of bonds to be retired is deferred for a few years. In general, the aim is to equalize the entire annual debt burden of the governmental unit or have it gradually decrease. The important feature about serial bonds is that the retirement is gradual and continuous, with some bonds paid off each year.

Steps in the accounting procedure for bonds. Having discussed the various types of bonds, we are now in a position to take up the accounting procedure. This procedure may be illustrated best by outlining the steps involved from the time the bonds are authorized until they are paid. The transactions take place in the following order: (1) The issuance of bonds is authorized. (2) The bonds are sold. (3) Debt service charges are met. These transactions and the related accounting procedures are discussed below.

Authorization of bonds. We have already indicated that, before bonds may be issued, they must be authorized by the legislative body and that in the case of local units the authorization may have to be made not only by the legislative body of the govern-

mental unit but by the state legislature as well. In addition, the approval of the voters or taxpayers may be required. The authorization for the issuance of state bonds and for the issuance of local bonds, if they require statutory authorization, are contained in the state constitution and statutes. Usually, however, even if statutes authorize the local governmental unit to issue bonds, the authorization of the local governmental unit's legislative body is also required.

If bond issues must be approved by the voters, the proposal to issue bonds is submitted in the same manner as other proposals and is voted upon at either a general or a special election (more frequently the former). In some cases, the approval of a bare majority of the voters is necessary; in others, the approval of two thirds of the voters must be secured. In some jurisdictions, only property owners are permitted to vote on bond issues. Whenever a vote of the people is required, the bond issue is not considered authorized until the approval is secured. The entries to record the authorization of bonds were discussed in Chapter 7 and will therefore not be illustrated here.

Sale of bonds. After the bonds have been authorized, steps are taken to sell them. Municipal bonds are usually sold on the basis of competitive bidding, the bonds being awarded to the highest responsible bidder. Frequently, bonds are not printed until they have been sold, the purchaser being given a temporary bond certificate or a receipt pending the delivery of the bonds. Purchasers will usually not buy the bonds without an attorney's opinion signifying that the bonds have been issued in strict accordance with statutory requirements.

Recording sale of bonds. As soon as bonds have been sold, entries should be made in the proper records to show the receipt of the proceeds and to indicate the liability. The required entries were illustrated in Chapters 7, 10, and 12. At this point, therefore, we shall only mention some of the records involved. The entries are made in the cash receipts register and are posted to the proper general ledger accounts of the particular fund affected. However, if a governmental unit has many bond issues outstanding, a subsidiary bonds payable ledger, which supports the Bonds Payable account in the general ledger, is set up. A separate sheet is provided for each bond issue. This ledger sheet, like the ordinary ledger sheet, shows debits, credits, and balances. Sometimes, if bonds run for a period of less than about 15 years, the reverse side of the sheet is used to record interest which has become due. In that case, the sheets constitute both a bonds payable ledger and an interest payable ledger. The heading of each account in this ledger

Figure 94

A GOVERNMENTAL UNIT
Bond and Interest Record

Title_____

Kind of Bonds and Maturities_____ Purpose_____

_____ Amount of Issue_____

_____ Date of Bonds_____

Authorized by_____ Interest Dates_____

Legality Approved by_____ Date of Sale_____ Interest Rates_____

Denomination of Bonds_____ Effective Interest Rate_____ Purchaser_____

Discount_____ _____

Date of Delivery_____ Sale Price_____ Premium_____ Accrued Interest_____

Are Any Bonds of This Issue Registered?_____ Where Payable_____

Date of Maturity	Interest Due			Principal Due*		Principal and Interest Due Each Date
	Coupon No.	Bonds Numbered	Amount	Bonds Numbered	Amount	

* In the case of sinking funds, a column entitled "Sinking Fund Contribution" would be substituted for these two columns

shows, among other things, the name of the bond and carries a reference both to the bond and interest record discussed below and to the proper bonds payable or interest payable control account. The account shows on one side the amount of bonds paid and outstanding and on the reverse side the amount of interest paid and payable.

As soon as the bonds are sold, it is important to calculate and to record (1) the amount of interest due semiannually, (2) the amount of principal due each year for serial bonds, and (3) the required annual contributions to sinking funds for sinking fund bonds. These required debt service charges are set up in a special record, commonly referred to as a bond and interest record, similar to the one which is illustrated in Figure 94.

If bonds are registered as to either principal or interest, an additional book is required for showing details concerning the bonds. This record is illustrated in Figure 95. Sometimes this

Figure 95

A GOVERNMENTAL UNIT
Registered Bond Record

Purpose and Title of Issue_____ Date of Issue_____

Interest Rate_____ Payable on_____

Principal Payable at_____

Item No	Date	Bond No	Name Registered in or Transferred to	Address	Amount	Maturity Date	Amount of Interest Each Period

book is dispensed with by making out a separate bond and interest record for each issue of bonds held by each registered bond owner. Each record bears the name and address of the bond owner.

Meeting debt service charges. The next step is to account for debt service charges. The entry to record interest expenses will depend on whether the interest is payable from the general fund or from another fund. If interest is payable from the general fund, the following entry is made when it becomes due (or is paid):

Appropriation Expenditures	$2,000	
Interest Payable (or Cash)		$2,000
To record interest expenses		

The proper expenditure account would also be debited in the appropriation expenditure ledger. On the other hand, if interest is payable from a utility fund, the entry is a debit to Interest Expenses and a credit to Interest Payable or Cash, and, if from a special assessment fund, the entry is a debit to Interest Expenses and a credit to Interest Payable or Cash for Interest Payments.

In accounting for interest expenses, cognizance must be taken of premiums and discounts on bonds. The principles governing the amortization of premiums and discounts on investments, which were discussed in Chapter 16, are fully applicable to the amortization of premiums and discounts on bonds. Frequently, however, premiums and discounts on bonds are amortized only in the utility fund. The entry to record the amortization of premium in that fund has already been given (Chapter 12, page 183). The amortization of discount is recorded by the following entry:

Interest Expenses	$2,100	
Unamortized Discounts on Bonds		$ 100
Interest Payable		2,000
To record interest liability		

The disposition of premiums and discounts that are not amortized was discussed in Chapters 7, 10, and 12.

Another fact which must be taken into account in recording interest expenses is the sale of accrued interest. If the bonds are sold during an interest period—that is, on any date other than one on which interest is due—the governmental unit in reality sells part of the accrued interest, since the purchaser will receive interest for a full half year, although he will have held the bond for a shorter period of time. The principles are the same as those discussed in connection with the acquisition of bond investments between interest payment dates, except that in this case the governmental unit is the borrower rather than the investor. The procedure is to set up the accrued interest sold as a liability and to reduce the amount of interest expense by the amount of the accrued interest sold.

To illustrate, if general bonds to the amount of $100,000, bearing interest of 3 per cent and dated February 1, were sold on March 1 for par plus accrued interest, the entry to record this transaction in the bond fund is as follows:

Cash	$100,250	
Bonds Authorized—Unissued		$100,000
Accrued Interest Sold		250
To record sale of bonds.		

Subsequently the following entry is made in the bond fund to transfer out the cash representing the accrued interest:

Accrued Interest Sold	$250	
Cash		$250
To record transfer of cash representing accrued interest to the general fund		

The corresponding entry in the general fund is as follows:

Cash	$250	
Interest Payable		$250
To record transfer of cash representing accrued interest sold		

As interest becomes due, an entry is made charging as an expenditure only that part of the interest which has not been sold, the entry being

Appropriation Expenditures	$1,250	
Interest Payable		$1,250
To record interest liability		

When the interest is paid, an entry is made debiting Interest Payable for $1,500 and crediting Cash for a corresponding amount. Although the above entries are applicable only to general bonds, the same principle applies also to both special assessment bonds and utility bonds. Note also that the accrued interest on bonds sold is adjusted on the first interest date, while premiums and discounts are amortized at each interest date.

Immediately after the bonds are sold, officials determine the part of the proceeds represented by bond principal, by premiums, and by accrued interest sold. The first step is to deduct from the total proceeds the amount representing accrued interest sold. The remainder can then be apportioned between bond principal and premiums. It should be noted that accrued interest must be identified and accounted for separately even if bonds are sold at a discount. Of course, the amount of accrued interest sold can be readily determined, since it is the interest which has accrued from the last interest date to the date of the sale or, if the bonds are sold within the first interest payment period, from the date shown on the bond to the date of the sale.

Recording matured bonds payable and their payment. The entries to record matured bonds payable in both the sinking fund and the general fund were discussed in Chapters 8 and 14. Matured sinking fund bonds, as already indicated, may be carried in

the sinking fund or transferred to the general fund. If the liability and the cash available for its retirement are transferred to the general fund, the entry in the latter fund is as follows:

Cash for Payment of Matured Sinking Fund Bonds	$100,000	
Matured Bonds Payable		$100,000
To record transfer to general fund of liability on account of matured sinking fund bonds, as well as transfer of cash for payment of the liability.		

The payment of the matured bonds is, of course, recorded by a debit to the Matured Bonds Payable account and a credit to the Cash for Payment of Matured Sinking Fund Bonds account.

Paying matured bonds and interest through fiscal agent. The governmental unit usually pays matured bonds and interest through a fiscal agent or through both its own treasury office and a fiscal agent. The procedure is as follows: A short time preceding the date on which bonds and interest become due, the money is transmitted to the fiscal agent, the entry to record this transaction being

Cash with Fiscal Agents	$70,000	
Cash		$70,000
To record transmission of cash to fiscal agents for payment of matured bonds and interest payable.		

At periodic intervals the fiscal agent is required to submit reports of bonds and interest paid. A form for such a report is illustrated in Figure 96. Note that provision is made for showing the amount of bonds paid of each issue and the interest coupons paid.

Figure 96

A GOVERNMENTAL UNIT
Report from Fiscal Agent

Date _____

Title of Issue	Bonds Paid		Coupons Paid		Total Paid
	Quantity*	Amount	Quantity*	Amount	

* If the fiscal agent is required to itemize bonds and coupons by numbers, the word *Numbers* should be substituted for *Quantity*.

The fiscal agent also turns in the redeemed interest coupons and bonds.

The first step is to verify that the report agrees with the bonds and coupons turned in. If it does, an entry is made in the general records reducing the liability and the Cash with Fiscal Agents accounts, as follows:

Interest Payable	$ 20,000	
Matured Bonds Payable	100,000	
Cash with Fiscal Agents		$120,000
To record payment of bonds and interest by fiscal agent as per report dated ———.		

A similar procedure is followed with respect to bonds and coupons paid by the governmental unit's treasurer. The bonds and coupons are sorted and a report similar to that illustrated in Figure 96 is prepared, both the report and paid bonds and coupons being turned over by the treasurer to the accounting department. Here the report is verified, and, if bonds and coupons have not already been canceled, they are canceled at this time.

Canceled bonds and coupons should be filed in such a manner that they can be readily audited. Bonds are filed by issue and number, and coupons are filed by issue, bond number, and coupon number. Under no circumstances should either bonds or coupons be destroyed before the governmental unit's books have been audited by independent auditors and the amount reported as paid has been verified by canceled coupons and bonds. Usually governmental units keep the canceled bonds and coupons on file for a 2- or 3-year period, after which time they destroy them by cremation. The cremation must be witnessed by some responsible officials. A statement is prepared showing the title of the issues and the bond and coupon numbers. This statement is checked and signed by the officials witnessing the cremation and is filed permanently.

Subsidiary debt statements. Information as to the amount of indebtedness outstanding is, of course, shown in the appropriate fund balance sheet. The exception, as we have seen, is general bonds payable, which are shown in a separate statement. Further details than those shown in the above statements may, however, be required about the bonded debt. For this purpose subsidiary debt statements are prepared. These statements may be divided into two groups: (1) subsidiary financial statements, and (2) statistical statements.

Financial statements. Subsidiary financial statements for bonds are those supporting the Bonds Payable accounts of each fund and of the general bonds group of accounts in the general ledger. The statement illustrated in Figure 97, showing bonds

A GOVERNMENTAL UNIT
Statement of Bonds Payable
General Bonds, Special Assessment Bonds, and Utility Bonds
December 31, 1947

Description	Rate of Interest	Date of Issue	Date of Maturity	Bonds Authorized	Bonds Issued	Bonds Outstanding	Sinking Fund Required	Sinking Fund Actual	Sinking Fund Excess or Deficiency*
General Bonds									
Sinking Fund Bonds:									
Hospital Bonds	3%	1935	1959	$ 315,000	$ 315,000	$ 315,000	$124,800	$125,160	$360
City Hall Bonds	3¼	1936	1960	230,000	230,000	230,000	83,200	83,440	240
Bridge Bonds	3	1937	1961	255,000	255,000	255,000	104,000	104,300	300
				$ 800,000	$ 800,000	$ 800,000	$312,000	$312,900	$900
Serial Bonds:									
Sewer	4	1945	$25,000 annually	$ 350,000	$ 350,000	$ 300,000			
Total General Bonds (Figure 64)				$1,150,000	$1,150,000	$1,100,000			
Special Assessment Bonds									
Special Assessment Project #8	5	1947	1956 callable	$ 350,000	$ 350,000	$ 350,000			
Total Special Assessment Bonds (Figure 44)				$ 350,000	$ 350,000	$ 350,000			
Utility Bonds									
Sinking Fund Bonds:									
Sinking Fund Bonds	3¼	1947	1964	$ 200,000	$ 200,000	$ 200,000	$ 6,966	$ 7,016	$ 50
Total Utility Sinking Fund Bonds				$ 200,000	$ 200,000	$ 200,000	$ 6,966	$ 7,016	$ 50
Serial Bonds:									
Series A	3½	1933	$25,000 annually	$ 500,000	$ 500,000	$ 150,000			
Series B	4½	1940	$25,000 annually	500,000	500,000	300,000			
Total Serial Bonds				$1,000,000	$1,000,000	$ 450,000			
Total Utility Bonds (Figure 54)				$1,200,000	$1,200,000	$ 650,000			
Total Bonds Payable (Figure 65)				$2,700,000	$2,700,000	$2,100,000			

payable, is an example of a detailed financial statement. Note that each issue is listed in this statement and that details such as rate of interest, date of issue, date of maturity, amount authorized, amount issued, and amount outstanding are shown for each bond issue. Since each issue is listed in this statement, it is convenient to show the actuarial requirements and the actual accumulations in the sinking fund for each sinking fund bond issue. Through such an arrangement, it is possible to note not only how the sinking fund for each bond issue compares with requirements but also the relationship between each bond issue outstanding and the sinking fund accumulated for its retirement. If interest is accrued on the records, the amount of accrued interest payable on each bond issue may also be shown. The data for this statement are secured from the bond and interest record (Figure 94) and from the bond and interest payable ledger.

Statistical statements. Statistical debt statements do not refer to any particular account in the balance sheet. They may show data for a number of years rather than for any one particular year; they may include data which are not part of the formal records; and they may not show the data by funds. Among the more important statistical debt statements are the following: (1) statement of general bonded debt per capita, (2) statement showing ratios of net general bonded debt to assessed value of taxable property, (3) statement of direct and overlapping debt, and (4) statements of debt service requirements and sinking fund bond maturities. In addition, there is the statement of legal debt margin, which has already been discussed.

Statement of general bonded debt per capita (Figure 98). This statistical statement shows the changes in net per capita bonded debt for a number of years. Increases in per capita debt may be due to a decrease in population, an increase in bonded debt, or a more rapid increase in debt than in population. Similarly, decreases can be traced to variations either in the bonded debt itself or in population. This statement is therefore important not only because it shows details concerning per capita bonded debt but also because the reason for the variation can be ascertained from it.

Statement showing ratios of net general bonded debt to assessed value of taxable property (Figure 99). Since debt limitation is based on the ratio of indebtedness to assessed value of taxable property and particularly because the assessed valuation is the basis for raising the revenue from which general bonds will be paid, it is desirable to prepare a statement showing the ratio of net general bonded debt to assessed value. Figure 99 illustrates such a

Figure 98

CITY OF BERKELEY

Statement of General Bonded Debt per Capita
for Fiscal Years 1935-1936 to 1943-1944

Fiscal Year	Population	Bonded Debt*	Bonded Debt per Capita
1935-1936	93,000	$ 959,977	$10 32
1936-1937	95,000	906,525	9 54
1937-1938	99,000	853,072	8.62
1938-1939	100,000	997,120	9 97
1939-1940	103,000	1,030,167	10 00
1940-1941	103,000	910,715	8 84
1941-1942	103,000	793,762	7.71
1942-1943	103,000	676,810	6 57
1943-1944	103,000	560,358	5.44

* No sinking funds

statement for the City of Louisville, Kentucky. Note that the statement is concerned only with the general bonded debt—that is, that part of the bonded indebtedness of the governmental unit which is payable from taxes. If general-special assessment and general utility bonds are issued, it is advisable to show two groups of ratios: (1) the ratio of net general bonded debt to assessed value, and (2) the ratio of the total of net general bonded debt, general-special assessment bonded debt, and net general utility bonded debt to assessed value. Sometimes the ratio of all bonds to assessed value is shown—that is, even of bonds which will never be paid out of taxation. In that event, two groups of ratios would be shown: (1) the ratio of net general bonded debt to assessed value, and (2) the ratio of all bonded debt (including net general bonded debt) to assessed value. The ratio of net general bonded debt to assessed value should be shown separately from other bonded debt.

Statement of direct and overlapping debt (Figure 100). From an economic standpoint, it is important to know not only the indebtedness of the governmental unit under consideration but also the indebtedness of all other jurisdictions occupying the same territory. For example, it is important to know not only the debt of a municipality but also the proportion of the general debt of the county, of independent school districts, and so forth, that will have to be paid by city taxpayers. Figure 100 illustrates a statement of direct and overlapping debt as it applies to the City of Detroit. Note that the overlapping debt of the State of Michigan is not included, since statements of direct and overlapping debt are usually limited to the debt of local overlapping governments alone.

[5] Adapted from *Annual Report of the City Auditor of Berkeley, California, for the Year Ending June 30, 1944*, p. 26.

Figure 99

CITY OF LOUISVILLE

Statement Showing Ratios of Net General Bonded Debt to Assessed Value of Taxable Property[6] for Fiscal Periods 1935 to 1944

Fiscal Period	Gross Bonded Debt	Sinking Fund	Net Bonded Debt	Assessed Value	Ratio of Net Bonded Debt to Assessed Value
1935	$39,278,800.00	$ 6,214,581.42	$33,064,218.58	$401,419,603	8.24
1936	40,123,800.00	6,870,874.54	33,252,925.46	403,353,231	8.24
1937	39,801,800.00	6,791,946.50	33,010,253.50	413,517,489	7.98
1938	41,301,800.00	7,087,429.00	34,214,371.00	423,098,464	8.08
1939	42,301,800.00	7,512,525.00	34,789,275.00	418,637,250	8.31
1940	41,933,800.00	7,637,311.00	34,296,489.10	418,583,400	8.19
1941	41,287,800.00	8,334,598.00	32,956,202.00	422,866,719	7.79
1942	41,287,800.00	9,521,585.00	31,766,215.00	436,113,403	7.28
1943	39,687,400.00	9,283,471.00	30,403,929.00	451,207,415	6.74
1944	39,687,400.00	10,567,726.00	29,119,674.00	446,539,305	6.52

NOTE: All City of Louisville Bonds are secured by an unlimited advalorem tax levied against all taxable property within the city.

Statement of debt service requirements and sinking fund bond maturities (Figure 101). This statement shows the required debt service charges on bonded debt on the basis of bonds outstanding at the date the statement is prepared. A separate statement should be prepared for each class of bonds—that is, for general bonds, for special assessment bonds, and for utility bonds. Figure 101 shows the debt service requirements and sinking fund bond maturities for the water utility bonds of the City of Detroit. A similar statement, not illustrated here, was also prepared for the debt service requirements on Detroit's general bonds. Governmental units having special assessment bonds would, of course, prepare an additional statement for them. Note particularly that the statement shows required future charges rather than past charges. The statement is important in the preparation of the budget and in the formulation of a governmental unit's debt policy

[6] Adapted from the *Annual Report*, Director of Finance, Louisville, Kentucky, 1944, p. 72.

CITY OF DETROIT
Statement of Direct and Overlapping Debt[7]
June 30, 1945

Particulars	Gross Debt	Less Sinking and Redemption Funds	Net Debt	Portion Applicable to City of Detroit	
				Per Cent	Amount
Direct Debt—					
Involving Faith and Credit of the City of Detroit—					
Tax Supported Debt—					
General Bonds	$226,819,000 00	$ 891,880 63	$225,927,119.37[a]		
Revenue Supported Debt—					
Street Railway Debt—					
Bonds	17,348,000.00	6,233,831 91	11,114,168.09		
Revenue Anticipation Notes	1,072,000 00	276,416 67	795,583.33		
Water Board Bonds	59,901,738.75	18,536,755 48	41,364,983.27		
Total Debt Involving Faith and Credit of the City of Detroit	$305,140,738.75	$25,938,884.69	$279,201,854.06		
Not Involving Faith and Credit of the City of Detroit—					
Sewage Disposal System Bonds	$ 3,976,000.00	$ 258,760.41	$ 3,717,239.59		
Housing Commission Debt—					
Bonds	5,447,000 00	$ 64,000.23	5,382,999 77		
Bond Anticipation Notes	14,920,000.00	142,974.66	14,777,025.34		
Street Railway Equipment Purchase Notes	500,000.00	—	500,000.00		
Total Debt Not Involving Faith and Credit of the City of Detroit	$ 24,843,000.00	$ 465,735 30	$ 24,377,264.70		
Total Direct Debt	$329,983,738.75	$26,404,619 99	$303,579,118.76	100.00	$303,579,118.76
Overlapping Debt—					
County of Wayne—					
General Obligation Bonds	$ 400,000.00	$ —	$ 400,000 00		
State Road Bonds	3,300.00	—	3,300.00		
Total Overlapping Debt	$ 403,300 00	$ —	$ 403,300.00	76.84	309,895 72[b]
Total Direct and Overlapping Debt					$303,889,014 48

[a] Non-liquid assets aggregating $251,339 81 have been excluded from the Sinking Fund for general bonds in computing net debt
[b] Contingent liability for Wayne County drain and State road special assessments ($679,936 92 outstanding) is not included.

[7] Adapted from the *Annual Report of the Auditor General of the City of Detroit, Michigan, for the Fiscal Year Ended June 30, 1945*, p. 106.

Figure 101

CITY OF DETROIT
Department of Water Supply
Statement of Debt Service Requirements[8]
Based on Bonds Outstanding at June 30, 1945

Fiscal Year Ending June 30	Maturities	Requirements			
		Serial Bonds	Term Bonds	Interest on Bonds	Total Requirements
1946	$ 1,189,000.00	$ 1,174,000.00	$ 742,570.10	$ 2,446,288.25	$ 4,362,858.35
1947	1,294,000.00	1,254,000.00	743,081.19	2,391,225.74	4,388,306.93
1948	1,583,000.00	1,358,000.00	743,246.54	2,329,514.49	4,430,761.03
1949	1,540,000.00	1,500,000.00	739,134.82	2,265,247.00	4,504,381.82
1950	1,525,000.00	1,525,000.00	739,200.17	2,199,664.49	4,463,864.66
1951	1,489,000.00	1,399,000.00	739,978.71	2,133,553.24	4,272,531.95
1952	1,319,000.00	1,199,000.00	739,931.08	2,072,777.00	4,011,708.08
1953	1,074,000.00	1,074,000.00	739,348.56	2,019,481.99	3,832,830.55
1954	1,006,000.00	1,006,000.00	740,127.10	1,978,949.49	3,725,076.59
1955	1,006,000.00	1,006,000.00	740,516.37	1,941,577.00	3,688,093.37
1956	9,506,000.00	1,006,000.00	742,462.73	1,844,204.49	3,592,667.22
1957	1,006,000.00	1,006,000.00	593,631.77	1,526,831.99	3,126,463.76
1958	5,706,000.00	906,000.00	595,578.13	1,393,459.50	2,895,037.63
1959	3,696,000.00	696,000.00	513,918.07	1,204,586.99	2,414,505.06
1960	6,706,000.00	706,000.00	442,489.60	993,139.49	2,141,629.09
1961	19,464,000.00	647,000.00	335,509.00	616,143.25	1,598,652.25
1962	647,000.00	647,000.00	—	16,733.24	663,733.24
1963	145,738.75	48,000.00	—	3,346.62	51,346.62
	$59,901,738.75	$18,157,000.00	$10,630,723.94	$29,376,724.26	$58,164,448.20

[8] Adapted from the *Annual Report of the Auditor General of the City of Detroit, Michigan, for the Fiscal Year Ended June 30, 1945*, p. 108.

CHAPTER 20

Cost Accounting

COST ACCOUNTING has been defined as that method of accounting which provides for the searching out and recording of all the elements of cost incurred in performing an activity, a job, *or* a unit of work. The purpose of cost accounting is to provide expenditure data to be used in (1) preparing the budget, (2) determining whether operations are being carried on efficiently, (3) determining whether to have certain work performed by the governmental unit's employees or by an outside contractor, and (4) arriving at the cost of fixed assets constructed.

In a certain sense, all systems which provide for expenditure accounting may be called cost accounting systems, since they make it possible to secure expenditure data for organization units and for the activities carried on by each organization unit. The main distinction between a general accounting system and a cost accounting system may be said to lie in the fact that under a cost accounting system *all* the elements which go to make up the cost of carrying on the activity are allocated to the activity, whereas under a general system of accounting certain elements of cost, such as overhead, are not likely to be allocated. For example, take the activity of garbage collection. At least part of the salary of the head of the bureau of sanitation should be allocated to this activity. Yet, under a general accounting system, the salary of this official is charged to a separate account (Supervision), and none of the activities carried on by the bureau of sanitation are charged with any part of it.

Another distinction between general accounting and cost accounting is that under a cost accounting system the data may be collected not only for activities but also for the operations making up a particular activity. For example, part of the activity of street cleaning consists of beat patrol work, broom gang work, and machine sweeping. A final distinction is that under a cost accounting system an attempt is made to correlate cost with the amount of work done.

It is beyond the scope of this book to go into the details of governmental cost accounting. The discussion will therefore be

limited to four examples of cost accounting: (1) securing the cost of operating automotive equipment, (2) securing maintenance activity costs, (3) arriving at the cost of fixed assets constructed by the governmental unit, and (4) cost accounting as applied to utilities.

Equipment Operation Costs

As already indicated, by automotive equipment is meant automobiles, trucks, tractors, and similar equipment. If the equipment is handled by a central equipment bureau, it is important to know the cost of operating each piece of equipment in order that (1) the central equipment bureau may recover the cost from the departments using the equipment, (2) each activity may be charged with a proper share of the cost, and (3) it may be determined which pieces of equipment are still operating efficiently enough to warrant their continued use and which pieces should be scrapped or otherwise disposed of. Even if the equipment is not operated by a central equipment bureau, it is important to know the cost of operating each piece of equipment because of the last two reasons.

It is assumed here that the equipment is operated by a central equipment bureau. However, only slight modifications are necessary in those cases where departments operate the equipment.

Securing direct costs. The expenses involved in operating each piece of equipment include the cost of gasoline, oil, and other supplies, materials and labor used in repairing and maintaining equipment, depreciation of equipment and garage, and general overhead.

The basic data for arriving at the cost of operating each piece of equipment are gathered on an individual equipment record similar to that illustrated in Figure 102. The record is prepared annually, but postings for each item of expense are made at the end of each month. The nature of the expenses listed in columns 2–5 is self-evident. Overhead includes all the expenses connected with operating the central equipment bureau which cannot be assigned directly to any one piece of equipment. These expenses include, among others, the salary of the superintendent of equipment, salaries of foremen, the use of small tools and of such supplies as grease, paint, and rags, and the cost of operating the garage office. These expenses are first compiled in separate expense accounts, and, at the end of each month, or year, they are distributed to all pieces of equipment on some established basis. One of the bases frequently used is the number of labor hours

A GOVERNMENTAL UNIT
Individual Equipment Record
for Year Ending _____ 19__

1. Equipment No._____
2. Motor No._____ Serial No._____
3. Make_____
4. Type_____
5. Capacity_____
6. Date Purchased_____
7. Original Cost_____ $_____
8. Value Start of This Year_____ $_____
9. Estimated Salvage Value_____ $_____
10. Remaining Depreciation_____ $_____
11. Estimated Depreciation This Year_____ $_____
12. Estimated Hours or Miles This Year_____ _____
13. Depreciation Rate per Hour_____ $_____
    per Mile_____ $_____
14. Rental Rates { Date_____ Rate_____ per Mi. or Hr. / Date_____ Rate_____ per Mi. or Hr.

Month	Gasoline		Oil		Tires and Supplies	Maintenance and Repairs	Overhead	Depreciation	Total Cost	Miles Run	Hours Run	Cost per Mile or Hour	Miles per Gallon	Rentals Earned (Credits)
1	2		3		4	5	6	7	8	9	10	11	12	13
	Gals.	Amt.	Qts.	Amt.	Amt.	Amt.	Amt.	Amt.	Amt.			Amt.		Amt

spent on each piece of equipment during the month. A labor hour is one hour of work by one employee. For example, if one mechanic works for four hours on an automobile, the job is said to have required four labor hours. Again, if four employees work an hour on one job, the job is similarly said to have required four labor hours.

Securing overhead costs. The procedure in distributing overhead expenses to each piece of equipment is as follows: The expenses shown in the individual overhead expense accounts are added to arrive at the total equipment overhead expenses for the month. This total is recorded on a form similar to that illustrated in Figure 103. The total number of labor hours is also recorded on this form. The total cost per labor hour is arrived at by dividing the total overhead expenses for the month by the total number of labor hours. Provision is made for recording for each piece of equipment the number of labor hours worked on it. This information is obtained from reports not illustrated here. The amount of overhead chargeable to each piece of equipment is arrived at by multiplying the number of labor hours spent on it by the rate per labor hour, and each amount is posted to column 6 of the equipment record.

To illustrate, if the total overhead expenses amounted to $2,000 and a total of 2,000 labor hours was spent on repairing and main-

Figure 103

A GOVERNMENTAL UNIT

Summary of Equipment Overhead Expenses for Month

Total Overhead Expenses for Month_____
Total No. of Labor Hours_____
Rate per Labor Hour_____

Equipment No	Labor Hours	Amount	Equipment No.	Labor Hours	Amount

taining equipment, the overhead expense rate would be $1.00 per labor hour. And, if we assume that 30 labor hours were spent on a particular piece of equipment, the overhead expense posted to the individual equipment record for the particular piece of equipment would be $30.

To arrive at the total cost of operating each piece of equipment, it is also necessary to take account of depreciation. One of the methods for depreciating equipment is the work-unit method. Under this method, the net value of each piece of equipment is arrived at. The net value is then divided by the total estimated number of work units for the life of the asset, and the charge to each activity is determined by multiplying the number of work units put in on the activity by the rate per work unit. For example, assume that a truck was acquired at a cost of $2,400, that it is estimated to cover 40,000 miles, and that the estimated salvage value of the truck is $400. In that event, the depreciation rate per mile would be $.05 ($2,000 ÷ 40,000). If the truck covered 1,500 miles during the month of July, the depreciation to be posted to the individual equipment record for the particular truck for July is $75 (1,500 × $.05).

The last column in the individual equipment record refers to rentals earned. Since these rentals were discussed in Chapter 9, they will not be considered here.

Statements of equipment costs. As indicated before, one of the purposes of securing equipment costs is to measure the efficiency of each piece of equipment. Accordingly, a statement is prepared at the end of each month and each year showing the total cost of operating the piece of equipment, the number of miles or hours operated, and the cost per mile or hour. These unit costs serve as an index of the efficiency of equipment operations. This statement contains the same columns as the individual equipment record form illustrated in Figure 102 except that an "Equipment No." column is substituted for the first column in the record.

Maintenance Activity Costs

Costs of carrying on maintenance activities have a special significance if the relationship between the amount of work done and the cost of doing the particular work can be determined. Such a relationship can be readily established for those activities which are susceptible to unit cost measurement. For example, if a record is kept of the number of miles of streets cleaned and if all the costs applicable to cleaning streets are also compiled, it is possible to arrive at the cost of cleaning a mile of street.

The assumption throughout this section is that the costs are being assembled for activities susceptible to unit cost measurement.

Unit cost measures. The following are examples of the activities susceptible to unit cost measurement and the units of measurement employed:

Operation or Account Title	Work Unit
BUREAU OF SANITATION	
Waste Collection:	
Loading and Hauling Nonburnables	Tons or Cubic Yards
Maintenance of Dumps	Tons or Cubic Yards
Loading and Hauling Burnables	Tons or Pounds
Dead Animals and Other Special Collection	Number and Kind
Incinerator Operation and Maintenance:	
Charging	Tons
Firing	Tons
Removing Ashes	Tons or Pounds
Street Cleaning:	
Machine Sweeping (including removal of sweepings)	Cleaning Mile
Beat Patrol (cleaning sections)	Cleaning Mile

Compiling costs and units of work. If accurate unit costs are to be secured, both the cost of an activity and the number of units of work must be compiled. One method of compiling such information is through the use of work orders like the one illustrated in Figure 104. These work orders taken together constitute a work and cost ledger.

Note that provision is made for filling in the cost of labor, the cost of materials, the cost of equipment use, overhead costs, and the number of work units completed. The scope of this book does not permit a detailed outline of the procedure for compiling the various elements of cost, but the procedure will be discussed briefly.

Labor. A daily record is kept by the foreman or special timekeeper of the amount of work put in by each employee on each job. This form also provides space for filling in the number of units of work completed. The form is transmitted daily to the accounting department, where the hours are multiplied by the rate per hour to arrive at the cost of labor put in on the particular activity. This total is then posted to the work order. The amount of time worked is also entered on the payroll register and forms the basis for calculating the amount of pay due employees.

Materials and supplies. A daily report is prepared showing the amount of materials and supplies used in connection with each

Figure 104

A GOVERNMENTAL UNIT
Work Order

Page No._____

Control Account_____ No._____ Job or Operation_____ No _____

Unit Cost Standard_____ Per_____ For Fiscal Year_____19__

Date	Field Labor		Materials					Equipment Expense		Engineering and Overhead	Total Cost	Work Units	Unit Costs
	Hours	Amount	Req. No.	Quan.	Description	Price	Amount	Hours	Amount				

activity. The number of the requisition on which the materials were withdrawn is shown on this report. On the basis of the requisitions, the cost of materials used is determined by the accounting department and is entered on the work order in the work and cost ledger. It should be noted that reference is here to materials which can be definitely allocated to a particular job or activity, as, for example, materials used in repairing streets. If the materials are such that they cannot be allocated to a particular job or activity, they are considered part of overhead expenses.

Equipment use. We have indicated before how costs for equipment use are determined and that these costs are recovered by charging a rental fee per mile or hour of use. The foreman records the number of hours or the number of miles worked on each activity by each piece of equipment. When the report is turned in to the accounting department, total equipment use costs for the activity are determined by multiplying the number of miles or hours used by the proper rental rates. The amount is then posted to the work order. The procedure is not materially different if equipment is rented from a private trucking company. Usually the company charges a rental rate per hour or mile, and the cost of equipment use is determined by multiplying the number of miles or hours used for the particular activity by the rate per mile or hour.

Overhead. As already indicated, certain expenses cannot be allocated directly to individual activities and must therefore be allocated on some arbitrary basis. Some of these are the cost of supervision, heat, light, and power, and watchmen's wages. From a theoretical standpoint even a part of the cost of operating the general accounting office should be charged to each activity. But, since this is seldom practical, only the overhead of the department carrying on the activity is usually allocated.

One of two procedures may be followed. The first is to wait until the end of the month, when the total amount of overhead will have been determined, and then distribute actual overhead costs among jobs and operations on the basis of some factor common to all, such as the total cost of labor or the number of labor hours. For example, if we assume that total overhead expenses amounting to $50,000 are to be distributed among all the activities on the basis of labor costs and that the total labor cost for all such activities is $500,000, the rate to be applied to each activity is 10 per cent. Therefore, if the total cost of labor on activity *A* is $20,000, the amount of overhead to be applied to that activity is $2,000 ($20,000 $\times$ 10 per cent).

The second procedure is to use the factor just illustrated as a basis of apportioning overhead but to employ estimated, rather than actual, rates. Thus, at the beginning of the year the total amount of overhead chargeable to all activities and the cost of labor for all activities are estimated. The rate is arrived at by dividing the estimated total overhead cost by the estimated total labor cost. The amount of overhead applicable to each activity is in turn secured by multiplying the cost of the labor put in on the activity by the predetermined rate.

For example, if estimated overhead costs of $100,000 are to be distributed among activities for which the total labor cost is estimated to be $500,000, the overhead rate will be 20 per cent ($100,000 ÷ $500,000). The amount to be charged to an activity at any time would be arrived at by multiplying the total labor cost for the activity by the predetermined rate. Of course, if the overhead cost or total labor cost is either greater or smaller than the amount originally estimated, corresponding adjustments must be made.

After these overhead costs are determined, they, too, are posted to the work orders in the work and cost ledger. The total cost is then arrived at by adding the costs of labor, materials and supplies, equipment use, and overhead. As we have indicated before, provision is made for posting the total number of work units to the work order. By dividing the total cost by the number of work units, the cost per unit can be established.

Unit cost standards. It will be noted that provision is made on the work order for filling in the unit cost standard. A unit cost standard is defined as the minimum cost necessary to perform a unit of work. Unit cost standards are developed scientifically by studying the necessary operations or by noting the trend of unit costs over a period of time but eliminating from consideration those unit costs which are the result of abnormal operating conditions. By comparing actual unit costs with unit cost standards, it is possible to tell to what extent the actual unit costs depart from possible minimum costs.

Cost statements. On the basis of the data collected on the individual work orders, cost statements are prepared. These statements show the various operations connected with a particular activity, standard work units, the total cost of carrying on the activity, units of work done, unit cost, number of man hours, units per man hour, number of equipment hours, and units per equipment hour. Figure 105 illustrates part of a form for a cost statement.

Figure 105

Department_____

Bureau_____

A GOVERNMENTAL UNIT
Work and Cost Statement
for Month

Operation	Standard Work Units	Total Cost	Units of Work Done	Unit Cost	No. of Man Hours	Units per Man Hour	No. of Equipment Hours	Units per Equipment Hour
STREET CLEANING								
1 White Wing	Cleaning Mi.							
2 Broom Gang	" "							
3 Machine Sweeping	" "							
4 Machine Flushing	" "							
5 Hose Flushing	" "							
6 Street Sprinkling	" "							
7 Sweepings Removed	Cu. Yds.							
8 Snow and Ice Removed	" "							
STREET REPAIRS								
11 Concrete Street Repairs	Sq. Yds.							
12 Brick Street Repairs	" "							
13 Asphalt Street Repairs	" "							
14 Macadam Surface Treatment	" "							
15 Plumbers' and Utility Cuts	" "							
16 Cold Patch Repairs	Tons							
17 Curb and Gutter	Lin. Feet							
22 Sidewalk Repairs	Sq. Ft.							
23 Sidewalk Construction	" "							

Construction Costs

Cost accounting is used in construction work for two reasons: (1) to determine that the operations involved in constructing the project are being performed efficiently, and (2) to arrive at the total cost of a project. The following, for example, are some of the operations involved in the construction of sewers and the units of measure used to determine unit costs:

Operation	Unit of Measure
Earth Excavation—Hand	Cubic Yards
Earth Excavation—Machine	Cubic Yards
Rock Works	Cubic Yards
Sheeting and Bracing	Lineal Feet of Trench
Underdrain	Lineal Feet
Laying Pipe	Lineal Feet
Form Work	Lineal Feet
Placing Concrete	Lineal Feet or Cubic Yards
Backfilling	Cubic Yards
Surface Restoration	Square Yards

By comparing the unit cost of performing these operations with unit cost standards, it is possible to determine whether or not work is being carried on at the lowest possible cost.

Compiling costs and units of work. The data necessary for computing the cost of construction and unit costs are accumulated on a construction work order, a form for which is illustrated in Figure 106. Note that provision is made for recording both estimated and actual costs. The estimated cost of a project is determined before the project is approved. To increase the reliability of estimates, they are detailed by objects, separate expenditure estimates being made for materials, labor, equipment use, and overhead. Some construction activities cannot be expressed in terms of unit costs, and the columns showing number of units and the unit costs in those cases cannot therefore be filled in.

Estimated cost data are based on engineering forecasts. The kinds and quantities of materials to be used, the amount of labor, and the amount of equipment use are estimated by the governmental unit's engineering department. The quantities are priced on the basis of current quotations for materials, payroll and other labor reports, and reports of equipment use. Estimated overhead is applied either on the basis of labor hours or on the basis of the total cost of materials, labor, and equipment use. Of course, in pricing materials, labor, and equipment use, cognizance is also taken of probable price trends during the construction period.

Thus far we have discussed the procedure for accumulating the data on which estimated costs are based. The actual cost of

Figure 106
(*a*) Front.

A GOVERNMENTAL UNIT
Construction Work Order

No. _____

Date _____

To _____

You are directed to initiate and complete the work described below.

_____

_____

_____

ESTIMATES

Kind of Work	Materials	Labor	Equipment	Overhead	Total	No. of Units	Unit Cost
Totals							

Approved

_____

Figure 106
(*b*) Reverse.

Construction Work Order

ACCUMULATION OF COSTS

Work Order No._____ Work Completed_____19___

Kind of Work	Materials	Labor	Equipment	Overhead	Total Cost	Units	Actual Unit Cost	Total Estimated Cost	Excess or Deficiency* of Total Actual over Estimated Cost	Estimated Unit Cost	Excess or Deficiency* of Actual Unit Cost over Estimated Unit Cost
Totals											
Over or Under* Estimate											

materials, labor, and so forth must be recorded as the work progresses. Under a cost accounting system the procedure for recording construction costs is generally the same as that for recording maintenance costs. To make the discussion clearer, each element of cost will be considered separately.

Materials. Data for the cost of materials are secured from requisitions. However, materials are frequently ordered directly for a particular job. In that case, the cost of materials used is based on the purchase invoices and on invoices and interdepartmental bills for transportation and handling charges.

Labor. Data for the cost of labor on each project are obtained from daily labor reports similar to those discussed on page 342. These reports are used as a basis both for making postings to the construction work order and for preparing payrolls. Sometimes these reports are first summarized at certain intervals and the totals are posted to the work order.

Equipment use. Construction projects are charged with the cost of equipment use in the same manner as are maintenance jobs. A record is kept of the number of hours that each piece of equipment is used on the job, and the cost chargeable to the project is arrived at by multiplying the number of hours worked by the rate per hour. The cost of the use of hired private equipment is usually arrived at by multiplying the number of units by the agreed rate per unit—for example, the number of hours worked by the rate per hour or cubic yards of earth excavated by the rate per cubic yard.

Overhead. Overhead expenses consist of all expenses other than the cost of materials, labor, and equipment use. They include cost of workmen's compensation insurance and a portion of general and administrative expenses. If the actual amount of the overhead cost applicable to a particular project is determinable, it is allocated directly to the project. All other overhead is applied on some predetermined arbitrary basis, such as the cost of labor or the total cost of materials, labor, and equipment use. Sometimes an estimated overhead rate is applied. The procedure for arriving at this rate was given on pages 344-345.

Entries. The entries necessary to record the cost of construction work in progress and the cost of the completed project have already been illustrated in Chapter 18. It should be remembered that the individual property records for assets constructed by the governmental unit are set up on the basis of the data contained in the construction work order.

Cost statements. Two types of cost statements are prepared monthly or at less frequent intervals on the basis of the data

Figure 107

A GOVERNMENTAL UNIT
Report of Construction Operation Costs
for Period

Operation	Standard Work Units	Units of Work Done				Unit Cost				Total Cost				Production Ratios	
		Last Month	This Month	Last Year to Date	This Year to Date	Last Month	This Month	Last Year to Date	This Year to Date	Last Month	This Month	Last Year to Date	This Year to Date	Units per Labor Hour	Units per Equipment Hour
Underdrain	Lin. Ft.														
Form Work	" "														
Backfilling	Cu. Yds.														

contained in the individual construction work orders. The first is a statement summarizing, for completed projects, the information contained in the construction work orders (Figure 106). The second is a statement showing the unit costs of construction operations carried on during the month or other period. A form for this statement is illustrated in Figure 107.

Cost Accounting as Applied to Utilities

The principles and procedures discussed in connection with cost accounting for a governmental unit's general activities are equally applicable to the activities carried on by a utility. Owing to the difference in type of activity involved in utility construction and operation, however, some of the cost units are different from those illustrated previously in this chapter. On the opposite page is an example of the cost units used by water utilities for both maintenance and construction purposes.

Cost and statistical statements. On the basis of the data compiled on the work orders, statements are prepared monthly or quarterly to show unit costs for various maintenance and construction activities carried on by the utility. These statements are similar to the ones illustrated in Figures 105 and 107.

In addition to the monthly or quarterly cost statements, statistical statements based on the cost data are prepared at the close of the fiscal year. For example, the following are some of the statements prepared by water utilities and included in their annual financial reports: (1) cost of pumping per million gallons, (2) cost of purification per million gallons, (3) cost of transmis-

Figure 108

A GOVERNMENTAL UNIT
Water Works
Cost of Pumping per Million Gallons
for Fiscal Years Ending
December 31, 1938-1947

Year	Millions of Gallons Pumped	Total Cost	Cost per Million Gallons
1938	5,972.42	$ 87,867.10	$14 71
1939	6,342 16	92,006 19	14 51
1940	6,095 93	79,154 90	12.98
1941	7,730.86	107,024.78	13.84
1942	8,756 26	107,897 18	12 32
1943	7,805 63	97,013 62	12 43
1944	7,365 49	90,220 88	12 25
1945	7,872 23	93,364 14	11.86
1946	7,308 91	90,301 12	12.35
1947	7,206.26	90,072.32	12.50

Type of Work	Units of Measurement
Maintenance of Mains:	
Opening Blowoffs and Flushing Mains	No. of
Thawing Main Pipes	No. of
Locating Main Pipe Leaks	No Located
Inspecting, Cleaning, and Oiling Main Gates	No. of
Emergency Main Shut-Offs and Turn-Ons	No of
Repairing Main Pipes	No of Jobs
Lowering Mains	Lineal Feet
Repairing Main Gates	No of Jobs
Resetting and Grading Main Gate Boxes	No. of Boxes
Maintenance of Hydrants:	
Inspecting Hydrants	No. of
Flushing Hydrants	No. of
Oiling and Packing Hydrants	No. of
Thawing, Pickling, and Pumping Hydrants	No of
Painting Hydrants	No. of
Inspecting, Cleaning, and Oiling Hydrant Gates	No. of
Repairing Hydrants	No of Jobs
Grading and Resetting Hydrant Gate Boxes	No. of
Maintenance of Services:	
Repacking and Tightening Service Meter Connections	No. of
Cleaning Services (Cellar work)	No. of
Thawing Services	No. Thawed
Shut-Offs and Turn-Ons	No. of
Cleaning Service for Stop Boxes	No of
Repairing Services	No of Jobs
Lowering Service Pipes	Lineal Feet
Resetting and Grading Service Boxes	No. of
Repairing and Lighting Trenches	No. of
Maintenance of Meters:	
Flushing or Inspecting Meters on Premises	No. of
Packing or Cleaning Ground Meter Boxes	No. of
Removing or Resetting Meters or Meter Interiors	No. of
Testing Meters	No of
Repairing Meters	No. of
Fixing Meter Parts	No. of
Construction of Mains:	
Excavation	Lineal Feet
Laying Pipe	Lineal Feet
Backfilling	Lineal Feet
Hydrants	No. of
Connections	Lineal Feet
Hydrants:	
Establishing New Hydrants on Existing Mains	No. of
Inserting Hydrant Gates	No. of
Replacing Hydrants	No. of
Pumping	Millions of Gallons
Filtering	Millions of Gallons
Transmission and Distribution	Millions of Gallons

sion and distribution per million gallons pumped, (4) operating revenues, operating revenue deductions, net operating revenues, and net income, and (5) cost per foot of main laid classified by size.

Figure 109

A GOVERNMENTAL UNIT
Water Works
Cost of Purification per Million Gallons
for Fiscal Years Ending
December 31, 1938-1947

Year	Millions of Gallons Purified	Total Cost	Cost per Million Gallons
1938	4,364 74	$33,306.06	$7 63
1939	5,123 26	43,083 82	8.41
1947	6,088 30	53,340 34	8.76

Figure 110

A GOVERNMENTAL UNIT
Water Works
Cost of Transmission and Distribution per Million Gallons Pumped
for Fiscal Years Ending
December 31, 1938-1947

Year	Millions of Gallons Pumped	Total Cost	Cost per Million Gallons
1938	5,972 42	$26,517 54	$4.44
1939	6,342.16	27,271 29	4 30
1947	7,206.26	30,266 29	4 20

Figure 111

A GOVERNMENTAL UNIT
Water Works
Operating Revenues, Operating Revenue Deductions,
Net Operating Revenues, and Net Income
for Fiscal Years Ending
December 31, 1938-1947

Year	Operating Revenues	Operating Revenue Deductions	Net Operating Revenues	Net Income
1938	$444,520	$369,220	$75,300	$65,000
1939	486,000	405,900	80,100	70,000
1947	503,000	426,700	76,300	65,000

Figure 112

A GOVERNMENTAL UNIT

Water Works

Cost per Foot of Main Laid Classified by Size[10] for Fiscal Years Ending December 31, 1938-1947

Year	2"		4"		24"	
	No. of Feet Laid	Unit Cost	No. of Feet Laid	Unit Cost	No. of Feet Laid	Unit Cost
1938	700	$1.0136	16,150	$1.3484	—	—
1939	3,405	.593	19,711	1.2061	—	—
1940	—	—	54,720	1.1623	2,147	$9.1633
1941	2,920	.7351	22,529	1.1204	—	—
1942	2,380	.653	22,548	1.1733	—	—
1943	1,510	.6056	13,330	1.0669	7,434	9.7357
1944	—	—	12,910	1.0321	—	—
1945	—	—	5,812	.8940	—	—
1946	480	.7533	—	—	—	—
1947	502	.7044	1,461	1.0921	—	—

[10] A separate table should be prepared for each kind of pipe.

CHAPTER 21

Financial Reports

FINANCIAL reports are prepared for the legislative body, administrative officials, or the public. The word *report* is applied, in accounting, to any formal written presentation setting forth financial facts. A report may thus vary from a single statement, such as a treasurer's daily report of collections, to the annual financial report containing numerous financial statements, which taken collectively show the financial condition and financial operations of the governmental unit. We have already indicated the nature of the various financial statements. Consequently, in this chapter, we shall not discuss the significance of individual financial statements nor present additional forms for them. Instead, we shall point out which statements should be included in various reports, the order in which the statements should be arranged, and how the relationship between the various statements in the report may be brought out. Accordingly, we shall be concerned with those reports which constitute collections of statements and not with individual financial statements.

Since the annual financial report is prepared for the use of both the governmental unit and the public, and since it is the most comprehensive report, it will be discussed more fully than other financial reports. The general principles brought out in connection with the discussion of this report are, with certain modifications, equally applicable to the other reports. The necessary modifications will be indicated in the discussion of each report. The chapter is thus divided into two parts, which deal, respectively, with the annual financial report and other financial reports.

The Annual Financial Report

The annual financial report is the report prepared annually by the finance officer to show the financial condition of the governmental unit and to summarize its financial operations. In compiling a financial report, the compiler must make certain (1) that the proper statements are included, (2) that the statements are

arranged in the proper order, and (3) that all the technical details which make the report more readable and better understood have been taken care of. Each of these points is discussed in its relation to the annual financial report.

Contents of annual financial report. The statements in the annual financial report may be divided into two groups: (1) financial statements, and (2) statistical statements. As indicated before, financial statements are prepared directly from the records, ordinarily contain no other data except those taken directly from the books, and usually cover a period of one or two years. Statistical statements, on the other hand, may cover a period of more than two years and may contain in part data not related to accounting.

Financial statements. Financial statements may be classified into two groups: (1) those showing the financial condition of the governmental unit or of any of the organization units of which it is composed, and (2) those showing changes in financial condition. Balance sheets exemplify statements of the first group, and statements of revenues and expenditures prepared for the general fund are typical of those of the second.

Financial statements may also be classified as principal statements and subsidiary statements. Any statement which is not a subsidiary statement is classified as a principal statement. A subsidiary statement supports some account in another statement. For example, the statement of bonds payable illustrated in Figure 97, page 331, supports the Bonds Payable accounts carried in the balance sheets of the special assessment fund, the utility fund, and the general bonded debt group of accounts. Each of these statements shows greater details about the balance sheet accounts which it supports. For example, the Bonds Payable account in the utility fund shows merely the total amount of bonds owed by that fund. It does not show the amount of each issue outstanding, nor does it show the rate of interest, date of issue, maturity dates, amount authorized, amount issued, and related information. If the balance sheet itself contained this information, it would become unduly complicated.

Another example of a subsidiary statement is the statement of cash receipts, disbursements, and balances, which is illustrated in Figure 70, page 235. This statement shows the changes which have taken place in the Cash account of the trust and agency funds during the year. Similarly, the statement analyzing the changes in the Reserve for Authorized Expenditures account, illustrated in Figure 33, page 111, shows the changes that have taken place in this account during a particular period.

Subsidiary statements may thus be classified into two groups: (1) those which show greater details regarding the nature of the account carried in a particular statement (for example, the detailed statement of bonds payable), and (2) those which show details concerning the changes which have taken place in the account between two dates (for example, the analysis of the changes in the Reserve for Authorized Expenditures account). Sometimes, however, a single statement may show further details concerning the account and may also show details concerning the changes which have taken place. An example of such a statement is the one described on page 115. This statement shows not only the changes which have taken place in the Reserve for Authorized Expenditures account but also the various projects to which the reserve applies and the amount applicable to each project.

To summarize: Financial statements may be classified as (1) principal statements, and (2) subsidiary statements. Subsidiary statements are those which support an account or group of accounts in another statement. Such support may consist of giving further details about the account or of showing the changes which have taken place in the account between two dates. All statements which are not subsidiary statements are classified as principal statements. Usually principal statements consist of those accounts which are carried in the general ledger.

Before leaving the subject of subsidiary statements, it should be remembered that it is not always necessary to prepare subsidiary statements for the same accounts. For example, if only a few types of transactions affecting the surplus account have taken place during the year, it may not be necessary to prepare a separate statement showing the changes in the Unappropriated Surplus account similar to the one illustrated in Figure 20, page 67. Instead, the analysis can be made in the "Unappropriated Surplus" section of the balance sheet. Similarly, if delinquent taxes are concentrated within the last few years, it may not be necessary to prepare a subsidiary statement like the one illustrated in Figure 78, page 276. Instead, since only a few years are involved, the Taxes Receivable—Delinquent account might be subdivided on the balance sheet itself to show the amount of delinquent taxes applicable to each year.

Whether the detailed data pertaining to a particular account should be shown in the principal statement itself or in a subsidiary schedule will depend on the extent of the detail involved and whether it would make the principal statement unduly long and complicated. It must be remembered that the simpler the statement is the more readily it is understood and the more easily

are the significant relationships between the various accounts established. If, therefore, the details are such that they will not complicate the principal statement, they should be shown as part of that statement. Otherwise, they should be shown in a separate schedule.

Subsidiary statements should refer back to the statement carrying the account which they support. Reference must also be made in the principal statement to the subsidiary statement supporting a particular account. The proper cross-referencing of related statements is important for several reasons: In the first place, the cross reference opposite a particular account calls the reader's attention to the existence of further details concerning the account. Without the reference, the reader would assume that all details pertaining to the account are contained in the principal statement. Secondly, if the cross references are properly made, they enable the reader to find the subsidiary statements readily. Thirdly, cross references tie the various statements of the report together and thus make it a single co-ordinated document instead of an unrelated collection of statements.

Statistical statements. Statistical statements can probably best be classified into two groups: (1) those which show information for a particular period of time, and (2) those which show it for a number of years. In some cases, the data pertains to past years, as illustrated by the statement of tax levies and tax collections shown in Figure 84, page 283, whereas in other cases the data pertains to future years, as exemplified by the statement of debt service requirements illustrated in Figure 101, page 336. The data shown in these statements may or may not be directly tied in with the accounts carried in the books. For example, the statement showing the assessed value and the estimated true value of taxable property, which is illustrated in Figure 81, page 279, has reference to no account in the general records; that is, no account is set up in the books for assessed value, since the assessed value of property is not considered an asset of the governmental unit in the same sense as cash or taxes receivable. On the other hand, at least part of the data shown in the statement of legal debt margin (Figure 93, page 315) tie in with the accounts carried on the books. For example, the total amount of debt shown in that statement must correspond with the total of the governmental unit's indebtedness as shown by the records at the time the statement is prepared. However, the amount of assessed value, the maximum indebtedness, and the figures for the legal debt margin do not relate to any account carried in the books.

Arrangement of statements in report. Having examined the

general characteristics of financial and statistical statements, we are now in a position to note some of the general principles which should govern the arrangement of the statements in the report. From the discussion of the characteristics of financial and statistical statements, it is apparent that the two types of statements must be grouped separately. Accordingly, the first step is to divide the report into two sections: (1) a financial section, and (2) a statistical section.

Arrangement of statements in financial section. Since one of the distinguishing characteristics of governmental accounting is the use of funds, the statements should be classified by funds. In other words, the statements pertaining to each fund should be grouped separately. The financial section of the report is thus divided further into subsections, each of which contains all the statements necessary to show the financial condition and financial operations of one fund. For example, the statements of the general fund are grouped in one subsection, which for the purpose of the present discussion we shall call subsection A. The statements in this subsection are grouped as follows:

Subsection A General Fund

	Figure
1. Balance Sheet	19
2. Analysis of Changes in Unappropriated Surplus	20
3. Statement of Revenues—Estimated and Actual	23
4. Statement of Expenditures and Encumbrances Compared with Appropriations	28
5. Statement of Expenditures Classified by Function, Organization Unit, Character, and Object	29

Note that the section shows both the principal statement and subsidiary statements. In other words, with certain exceptions to be presently enumerated, all statements pertaining to a fund are grouped together in the report, thereby enabling the reader to get a complete picture of the financial condition and financial operations of the fund without having to look for the statements in various parts of the report. There are, however, a few exceptions. If a subsidiary statement is applicable to an account carried in more than one fund and if the information to be shown for the account is practically the same in all funds to which the account applies, the statement may be grouped with all the others pertaining to that account. Thus, for example, the statement of taxes receivable, which supports the Taxes Receivable account in both the general fund and the sinking fund, is not broken up into two statements. Instead of showing a separate statement in the subsection of each fund, one statement is prepared for the account

and is shown in a separate subsection devoted to combined statements for unrelated funds. Of course, fund identity is not lost sight of, for, as is evident from Figure 78, page 276, the statement is divided to show the amount applicable to each fund. One combined subsidiary statement is prepared for one account (for example, Taxes Receivable) even if it is carried in several funds, because in most of these accounts it is important to know not only the amount applicable to each fund but the total as well. For example, it is important not only to have information about the delinquent taxes of the general fund or the sinking fund but also to know the total delinquent taxes, regardless of the fund to which they apply. Through this arrangement, details for each fund and the total for all funds can be secured. Another fact to be noted is that these combined subsidiary statements of unrelated funds support the combined balance sheet accounts of the combined balance sheet illustrated in Figure 65, page 220. The combined balance sheet would be shown in the same subsection as the subsidiary combined statements for unrelated funds. The arrangement would be as follows:

Subsection J. Combined Statements for Unrelated Funds

	Figure
1. All Funds—Combined Balance Sheet	65
2. All Funds—Summary Statement of Cash Receipts, Disbursements, and Balances	71
3. Statement of Investments	74
4 Statement of Changes in Taxes Receivable—Real and Personal	77
5. Detailed Statement of Taxes Receivable—By Funds	78
6. Statement of Changes in Tax Sale Certificates	79
7. Detailed Statement of Tax Sale Certificates	80
8. Statement of Bonds Payable—General Bonds, Special Assessment Bonds, and Utility Bonds	97

Note that each of the statements listed in this subsection supports an account in the combined balance sheet. Reference should be made opposite the account in the combined balance sheet to the subsidiary statement supporting it. For example, in the combined balance sheet of all funds (Figure 65) it will be noted that reference is made opposite the Bonds Payable account to the subsidiary schedule shown in Figure 97, page 331). On the other hand, reference should be made in the subsidiary statement back to the combined balance sheet and also to the individual fund balance sheets in which the account is carried. For example, in the statement of bonds payable illustrated in Figure 97, page 331, it will be noted that (1) opposite "Total General Bonds" reference is made to the Bonds Payable account carried in the general bonded debt group of accounts; (2) opposite "Total Special Assessment Bonds"

reference is made to the Bonds Payable account carried in the special assessment fund; (3) opposite "Total Utility Bonds" reference is made to the Bonds Payable account carried in the utility fund; and (4) opposite "Total Bonds Payable" reference is made to the total in Figure 65.

The arrangement of the statements within each subsection presents no difficult problem. The balance sheet should be the first statement in each fund and should be followed by the other principal statements, the subsidiary statements coming last. Subsidiary statements themselves may be arranged in the order in which the accounts which they support are arranged in the balance sheet. Exceptions to this rule are, however, quite common. Thus, because of its importance, the statement analyzing the changes in the Reserve for Authorized Expenditures account is frequently shown before the statement of cash receipts, disbursements, and balances, even though the Cash account precedes the Reserve for Authorized Expenditures account in the balance sheet.

The order in which the funds should be shown is another problem. There is no general rule as to what this order should be except that the subsection containing the statements for the general fund is usually shown first, because that fund is the most important fund, and the subsection containing the combined balance sheet and related subsidiary statements is the last, because it pertains to all funds.

The following is an outline of the contents of the financial section of an annual financial report. The outline is based primarily on the statements illustrated throughout this book. Of course, an actual report may have a greater or smaller number of statements than are listed here, depending on the number of funds, the magnitude of transactions, and the importance of analyzing the changes taking place in particular accounts during the year. The outline, however, discloses (1) the statements making up the financial section of an annual report, (2) the order in which the

OUTLINE OF FINANCIAL SECTION
OF ANNUAL FINANCIAL REPORT

Subsection A. General Fund

	Figure
1. Balance Sheet	19
2. Analysis of Changes in Unappropriated Surplus	20
3. Statement of Revenues—Estimated and Actual	23
4. Statement of Expenditures and Encumbrances Compared with Appropriations	28
5. Statement of Expenditures Classified by Function, Organization Unit, Character, and Object	29

OUTLINE OF FINANCIAL SECTION
OF ANNUAL FINANCIAL REPORT—*Continued*

Subsection B. Bond Funds

	Figure
1. Balance Sheet	30
2. Analysis of Changes in Reserve for Authorized Expenditures	33

Subsection C. Sinking Fund

1. Balance Sheet	35

Subsection D. Working Capital Fund

1 Balance Sheet	39
2. Income and Expense Statement	40

Subsection E. Special Assessment Fund

1 Balance Sheet	44
2 Analysis of Changes in Reserve for Authorized Expenditures	47
3 Schedule of Installments to Be Applied to Payment of Bonds and Interest	46
4. Statement of Cash Receipts, Disbursements, and Balances	69

Subsection F. Trust and Agency Funds

1 Balance Sheet	53
2 Statement of Cash Receipts, Disbursements, and Balances	70

Subsection G. Utility Fund

1. Balance Sheet	54
2. Income and Expense Statement	55
3. Analysis of Changes in Unappropriated Surplus	56

Subsection H. General Fixed Assets

1 Balance Sheet	62
2 Statement of Changes in General Fixed Assets	90
3 Statement of General Fixed Assets Classified by Function and Organization Unit	91

Subsection I. General Bonded Debt

1. Balance Sheet	64

Subsection J. Combined Statements for Unrelated Funds

1. All Funds—Combined Balance Sheet	65
2. All Funds—Summary Statement of Cash Receipts, Disbursements, and Balances	71
3 Statement of Investments	74
4 Statement of Changes in Taxes Receivable—Real and Personal	77
5. Detailed Statement of Taxes Receivable—By Funds	78
6. Statement of Changes in Tax Sale Certificates	79
7. Detailed Statement of Tax Sale Certificates	80
8. Statement of Bonds Payable—General Bonds, Special Assessment Bonds, and Utility Bonds	97

subsections containing the statements for each fund are arranged, and (3) the arrangement of the statements within each subsection. It is assumed appropriations are made only for the general fund.

Arrangement of statements in statistical section. The statistical section of the annual financial report is limited to statistical statements. For purposes of arrangement, statistical statements can be classified into two groups: (1) those pertaining to assessed values, tax levies, and tax collections, and (2) those pertaining to debt. The statistical section of the annual financial report need therefore be divided into only two subsections—one dealing with assessed values and taxes and the other dealing with indebtedness. The order of arrangement of the statements within each subsection is not material, but the following outline, which is based on the statistical statements illustrated in various parts of this book, is an example of an arrangement that might be used.

OUTLINE OF STATISTICAL SECTION
OF ANNUAL FINANCIAL REPORT

	Figure
Subsection A Statements Relating to Taxation	
1. Statement of Assessed Value and Estimated True Value of All Taxable Property	81
2. Statement of Tax Rates and Tax Levies	82
3. Statement of Tax Levies and Tax Collections	84
Subsection B Statements Relating to Indebtedness	
1. Statement of Legal Debt Margin	93
2 Statement of General Bonded Debt per Capita	98
3 Statement Showing Ratios of Net General Bonded Debt to Assessed Value of Taxable Property	99
4 Statement of Direct and Overlapping Debt	100
5. Statement of Debt Service Requirements and Sinking Fund Bond Maturities	101

Again it must be remembered that an actual financial report may show a greater or a smaller number of statements under each subsection than are listed here. Furthermore, there may be additional subsections, as would be the case if a governmental unit also prepared other types of statistical statements. For example, statistical statements showing unit costs might be included, in which case a "Unit Costs" subsection would be added.

Technical points to be considered in preparing an annual financial report. To insure that the report has been properly prepared from a technical standpoint, the compiler must check to see that (1) the report contains a letter of transmittal, (2) the basis of accounting is indicated, (3) the report bears the proper title, (4) the statements are properly headed, (5) the statements are properly numbered, (6) related statements are cross-referenced,

and (7) the report contains a table of contents. Although some of these required technical details may seem too obvious to require comment, an examination of governmental reports reveals that they are frequently neglected. Each of these points is discussed below.

Letter of transmittal. The annual financial report should contain a letter prepared by the finance officer to transmit the report to the proper authorities. The finance officer should comment on (1) the most significant changes in financial condition which have taken place during the year, (2) the financial condition of the governmental unit at the close of the year, and (3) the prospects for the coming year.

Basis of accounting followed. The report should state whether the governmental unit follows the cash basis of accounting, the accrual basis, or a modification of one or the other. If a modified cash or accrual basis is followed, the extent of the modification should be indicated. For example, the governmental unit might record revenues on a cash basis and expenditures on an accrual basis. Or the unit may report the transactions of the utility fund on an accrual basis and the transactions of all other funds on a cash basis. This is not the place to point out the merit of each basis. For the purpose of our present discussion the important point to remember is that, whichever basis is chosen, it must be indicated in the report, either in a note at the beginning of the report or in the letter of transmittal. It is not always possible to tell from the statements themselves the accounting basis employed, and, even if it is, it may take considerable time.

Proper report title. A proper report title is one which shows (1) the name of the governmental unit, (2) the title of the official or name of the department issuing the report, and (3) the period covered by the report. The following is an example of a proper report title:

A GOVERNMENTAL UNIT
Department of Finance
Annual Report
for Fiscal Year Ending
December 31, 1947

Proper heading of statements. Each statement heading should show the following: (1) the name of the governmental unit, (2) the name of the fund, (3) the name of the statement, and (4) the date. If the statement applies to one department alone, the name of the department should also be shown in the heading. Care

should be taken to see that the name of the statement reveals its exact nature. This point is extremely important, since statements not properly named are likely to be misinterpreted. For example, statements showing all receipts, including nonrevenue receipts, and all disbursements are sometimes erroneously designated as revenue and expenditure statements, when, as a matter of fact, they are cash receipts and disbursements statements. A statement can be a revenue statement even if it is limited to receipts, provided that it is limited to those receipts which represent revenues.

It is also important to see that statements are properly dated. As already indicated, statements may be grouped in two classes: (1) those which show financial condition, and (2) those which show changes in financial condition. The former should be dated "as of" a certain date, and the latter should show that they cover a certain period. For example, the date line of a balance sheet should read, "as of December 31, 1947," or, simply, "December 31, 1947," whereas the date line of a statement analyzing changes in the Unappropriated Surplus account or of an income and expense statement should read, "for Fiscal Year Ending December 31, 1947."

The following are illustrations of complete headings for statements showing financial condition and changes in financial condition, respectively:

A GOVERNMENTAL UNIT
General Fund
Balance Sheet
December 31, 1947

A GOVERNMENTAL UNIT
Working Capital Fund
Income and Expense Statement
for Fiscal Year Ending
December 31, 1947

It is, of course, also important to set up proper headings for statistical statements. The title heading should show the name of the governmental unit, the name of the statement, the date, and, wherever applicable, the name of the fund.

Many statistical statements contain several columns of figures. In such cases, it is highly important that each column be properly headed; otherwise, the figures shown in each column lose their significance and are subject to misinterpretation. A desirable pro-

cedure is to set up the proper column headings before filling in the columns. In that manner, the compiler knows exactly what data are wanted, and he can proceed to prepare the statement without an undue waste of time and effort.

Numbering statements properly. Each statement in a report should be assigned a number. Methods of numbering statements vary. One method is to number all the statements in the report consecutively, disregarding both sections and subsections. Another is to assign a separate series of numbers to the financial statements and to the statistical statements, respectively. A third is to assign a separate letter, together with a separate series of numbers, to the statements in each subsection. For example, the letter "A" is assigned to each statement in the general fund, and the balance sheet of that fund is numbered "A-1," the next statement of that fund is numbered "B-2," and so forth. Similarly, the letter "B" is assigned to the special revenue fund, and the first statement in that fund is numbered "B-1," the second is numbered "B-2," and so forth.

Sometimes distinctions are also made between principal statements and subsidiary statements by designating the former as exhibits and the latter as schedules. For example, the balance sheet of the general fund is numbered "Exhibit A-1" or "Exhibit 1," whereas the statement analyzing the changes in the Unappropriated Surplus account is designated as "Schedule A-1" or "Schedule 1."

The method of numbering is relatively unimportant, as long as a consistent numbering system is used throughout the report.

Cross-referencing. We have already discussed the importance of placing a reference opposite the proper account in the balance sheet to the subsidiary statement supporting it and vice versa. Proper numbering of accounts facilitates the cross-referencing process, since statements are cross-referenced merely by inserting the number of the statement to which reference is being made.

Table of contents. Every report should be preceded by a table of contents in which each statement is listed in the order in which it appears in the report. The table of contents should show for each statement the following information: (1) statement number, (2) name of statement, and (3) page number of the report. A table of contents is important not only because it enables the reader to find statements readily but also because it shows the entire structure of the report at a glance.

A distinction should be made between a table of contents and an index. The table of contents should appear at the beginning of the report. If an index is desired in addition, it should be

placed at the end of the report. An index differs from a table of contents in the following respects, among many others: (1) references are arranged alphabetically rather than in the order in which the statements appear in the report, and (2) statement numbers are not shown.

Summary—annual financial report. The annual financial report discussed so far is assumed to be prepared by the finance officer and to be addressed to the chief executive and the legislative body. It is probable, however, that the same report is issued to the public. In other words, the same report may be used not only by administrators and legislators but also by people not directly connected with the governmental unit, such as investors, public finance specialists, political scientists, and the general public.

The annual financial report should be arranged in the following order: (1) letter of transmittal, (2) financial section, and (3) statistical section. Within each section the statements should in turn be classified in a systematic order. The arrangement should be uniform and consistent throughout the report. Consistency is also important in numbering, heading, and cross-referencing statements.

Other Financial Reports

Many of the principles discussed in connection with the annual financial report are equally applicable to other reports. Accordingly, the discussion of each of the remaining reports will be briefer, being devoted primarily to those principles of report preparation which are peculiar to it. These reports are as follows: (1) the audit report, (2) the combined financial report and audit report, (3) the monthly financial report, (4) the budget report, (5) the departmental report, and (6) the annual popular report.

The audit report. An audit report is one prepared by an auditor to indicate the scope of the audit performed and to certify that the financial statements included in the report are in agreement with the records and that they fairly represent the financial condition and financial operations of the governmental unit. Before discussing further the nature of audit reports, however, it is important to distinguish between the various types of audits and between different classes of auditors.

Classes of independent auditors. One of the distinctions between the pre-audit and the independent post-audit is that the latter is performed by persons who are independent of the administrative organization of the unit audited. There are three groups of independent auditors: (1) the independent auditor who is on the staff of the governmental unit, (2) the state audit agency, and

(3) the independent private auditor. Most states and a few municipalities have an independent auditor either elected by the people or appointed by the legislative body. In such cases, the auditor is usually responsible directly to the legislative body or to the people; he is not responsible to the chief executive. Sometimes this auditor is vested with the powers of pre-audit; that is, no claim can be paid until it has been approved by him. In that case, of course, the pre-audit constitutes an independent audit, and no post-audit is necessary, because the auditor would be reviewing his own work. Such an arrangement is, however, undesirable because administrative auditing is thereby weakened or entirely eliminated.

State audit agencies have been established in some states with the power to audit the books of local governmental units either with or without the request of the units. These audit agencies do not necessarily audit any of the state's books. In some states—Wisconsin, for example—local governmental units have a choice of having their books audited either by the state audit agency or by independent private accountants. Most local governmental audits are made by independent private accountants, although in some states local units must be audited by a state agency.

The audit report referred to here is the report prepared after the post-audit has been performed. The report may thus be prepared by an independent auditor who is a member of the staff of the organization unit (but not responsible to the chief executive), by a state audit agency, or by independent private accountants.

The scope of the report will depend on whether a general or special audit is involved. A general audit is one in which all the financial transactions of the governmental unit are audited, whereas a special audit is one that is limited to some particular phase of a governmental unit's activity, as, for example, the examination of the sinking fund or the pension fund. The audit report discussed here is assumed to be prepared pursuant to a general audit. It is also assumed that the general audit is made annually.

Contents of audit report. The principles enumerated above with respect to the preparation of the annual financial report are equally applicable to the auditor's report, with the following modifications. Usually the report issued by the auditor has no statistical section. That is, unless the auditor is specifically requested to prepare the statistical statements, it is not considered his duty to do so. If these statements are not prepared by the auditor, the audit report will consist of two parts, the first part containing a letter of transmittal and the second part containing financial statements.

The letter of transmittal in the auditor's report should contain a statement of the scope and limitations of the audit. We have said before that audits may be classified as general or special. Both types of audits may in turn be classified in accordance with whether they are complete or incomplete. A complete audit is one in which the auditor examines all the financial transactions and the related data and documents; any other audit is an incomplete audit. If an incomplete audit is made, the auditor must indicate wherein the audit is incomplete and must call attention particularly to matters of material importance that may have been omitted from examination and review.

The letter of transmittal should also contain any recommendations for changes in the general accounting procedure and suggestions made during the course of the audit. The auditor's certificate (see Figure 113) may form the last part of the letter of

Figure 113

Auditor's Certificate

To the City Council

City of *X*

Gentlemen:

We have examined the balance sheets of the several funds of the City of *X* as of December 31, 1946, and the related statements of revenues, expenditures, and surplus for the year ended that date. In connection therewith, we have reviewed the system of internal control and the accounting procedures of the city and, without making a detailed audit of the transactions, have examined or tested accounting records of the city and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying statements fairly present, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, the financial position of the City of *X* at December 31, 1946, and the results of its operations for the year ended that date.

February 15, 1947 Certified Public Accountants

transmittal or may be set up separately. In this certificate, the auditor certifies that in his opinion, subject to the qualifications made in the letter of transmittal, the accompanying financial statements truly reflect the financial condition and the financial operations of the various funds of the governmental unit.

The financial section of the audit report is similar in all respects to the financial section of the annual financial report. The same types of statements are included in the financial sections of both types of reports, and the same principles of arranging the

various statements apply to both. Indeed, it is possible to use the same report both as an audit report and as the governmental unit's annual financial report. The advantages and disadvantages of such a procedure are discussed below.

Combined financial report and audit report. We have thus far spoken of two types of reports: (1) the annual financial report issued by the governmental unit's finance officer, and (2) the audit report issued by an independent auditor. There is great similarity between the two types of reports. Accordingly, it is possible to incorporate in the annual financial report the data contained in the audit report, or vice versa, and to issue only one report.

The combination might be effected in several ways. One would be for the governmental unit's finance officer to prepare the report and for the auditor to certify that it is correct. In that case, the report would differ from the annual financial report described in one respect only. It would contain the auditor's letter of transmittal outlining the scope and limitations of the audit and carrying the auditor's certificate.

An alternative procedure is for the finance officer to incorporate the auditor's report as part of his report. That is, the financial section of the finance officer's report would consist of the statements prepared and certified to by the auditor. The report would in all other respects be similar to the annual financial report discussed above. In other words, the report would consist of a letter of transmittal prepared by the finance officer, a financial section prepared by the auditor and adopted by the finance officer, and a statistical section prepared by the finance officer. If this procedure is followed, a separate audit report is prepared primarily for the legislative body and administrative officials. It is usually not published but is made a matter of public record.

The advantages of issuing only one annual report are so self-evident that they require little comment. Briefly, they are (1) economy, and (2) the avoidance of confusion, which might arise if two different reports were issued. Confusion is especially likely to result if the auditor makes adjustments which are not taken into account in the finance officer's report, or vice versa. The disadvantages are that the audit is usually made sometime after the close of the fiscal year, and, by the time the report is published, important changes in the financial condition and financial operations may have taken place. The remedy lies in having the books audited promptly at the close of the fiscal year and in having the audit report prepared immediately thereafter.

The monthly financial report. The monthly financial report is prepared primarily for the use of the legislative body and adminis-

trators but may also have a limited circulation among the public, especially among groups particularly interested in the governmental unit's financial operations. The general principles outlined above in connection with the preparation of the annual financial report apply also to the monthly financial report, but the latter contains fewer statements and shows the financial operations for a month instead of a full year. However, some of the operating statements included in the monthly financial report show the financial operations not only for the particular month but also for the period extending from the beginning of the year to the date of the report.

On the next page is an outline of the contents of a monthly financial report. Some of the statements referred to in this outline have already been included in the list of statements making up the annual financial report. The reason is that the form of these statements is the same regardless of whether they cover a full year or only part of a year. For example, the balance sheet illustrated in Figure 39, page 135, has the same form whether it is prepared at the close of any month during the year or at the close of the year. It should also be noted that, as in the case of the annual financial report, a monthly report issued by any one governmental unit may have a greater or smaller number of statements than are listed here.

Several facts should be noted carefully in regard to the outline of contents. In the first place, the letter of transmittal is usually much briefer than the one carried in the annual financial report. Second, many of the statements included in the financial section of the annual financial report are not included in the monthly financial report. For example, the statement analyzing the changes in the Unappropriated Surplus account of the general fund is not included; neither is the statement analyzing the changes in the Reserve for Authorized Expenditures account in the bond fund or special assessment fund ordinarily included. Similarly, the statistical section contains fewer statements than the similar section of the annual financial report.

On the other hand, the monthly financial report contains some statements which are not included in the annual financial report. An example is the statement illustrated in Figure 68, page 233, which forecasts the cash position of the governmental unit. Note also that the form of a type of financial statement prepared at the end of the year is sometimes different from the form of the same type prepared during the year. For example, the heading of the statement prepared during the year comparing expenditures and encumbrances with appropriations is shown on page 374.

CONTENTS OF MONTHLY FINANCIAL REPORT

Letter of Transmittal

SECTION I. FINANCIAL STATEMENTS

Subsection A. General Fund

Figure

1. Balance Sheet 18
2. Comparative Statement of Monthly Receipts 15
3. Statement of Actual Expenditures Compared with Appropriations 16

Subsection B Bond Funds

1. Balance Sheet 31

Subsection C. Sinking Fund

1. Balance Sheet 35

Subsection D Working Capital Fund

1. Balance Sheet 39
2. Income and Expense Statement 40

Subsection E. Special Assessment Fund

1 Balance Sheet 45
2. Statement of Cash Receipts, Disbursements, and Balances 69

Subsection F. Trust and Agency Funds

1 Balance Sheet 53
2. Statement of Cash Receipts, Disbursements, and Balances 70

Subsection G. Utility Fund

1 Balance Sheet 54
2 Income and Expense Statement 55

Subsection H. General Fixed Assets

1. Balance Sheet 62

Subsection I. General Bonded Debt

1. Balance Sheet 64

Subsection J. Combined Statements for Unrelated Funds

1. All Funds—Combined Balance Sheet 65
2 Statement of Forecast of Cash Position 68

SECTION II. STATISTICAL STATEMENTS

1. Statement of Tax Levies and Tax Collections 83
2. Work and Cost Statement 105

A GOVERNMENTAL UNIT
General Fund
Statement of Actual Expenditures Compared with Appropriations for the Month of March, 1948 and Three Months Ending March 31, 1948

Function and Organization Unit	Total Appropriations	March			Total to Date					
		Estimated	Actual	Excess of Estimated over Actual, or Vice Versa*	Estimated	Actual	Excess of Estimated over Actual, or Vice Versa*	Unexpended Balance	Encumbrances	Unencumbered Balance

The heading of the same statement prepared at the end of the year is as follows:

A GOVERNMENTAL UNIT
General Fund
Statement of Expenditures and Encumbrances Compared with Appropriations for Fiscal Year Ending December 31, 1948

Function and Organization Unit	Appropriations (After Revisions)	Expenditures	Unexpended Balance	Encumbrances	Unencumbered Balance

Budget report. This report consists of the statements used in the preparation of the budget. The statements to be included in a report of this kind have been discussed in Chapter 3.

Departmental report. The departmental financial report, as its name implies, is a report covering only one department. It may be prepared annually, monthly, or at more frequent intervals. With the exception of the annual departmental report, these reports are prepared primarily for administrative purposes. The annual departmental report is prepared both for administrative purposes and for public use. Departmental reports are prepared for two reasons: (1) the particular department may be keeping its own books and issuing its own reports, or (2) the department may need more detailed information for administrative purposes than is shown for it in the governmental unit's report.

It is undesirable to have departments keep their own records and issue their own reports on the basis of these records. Such a procedure leads to confusion and prevents the presentation of a true picture of the financial condition and financial operations of the governmental unit. We shall, therefore, assume that the general records of the particular department are under the supervision of the finance officer and that financial statements for the department are included in the governmental unit's financial report. However, the department may find it necessary to issue a report containing the data shown for the department in the annual financial report plus additional data.

To illustrate, let us take an annual departmental report issued by a municipal utility. The annual financial report would show the following statements for the utility fund:

	Figure
1. Balance Sheet	54
2 Income and Expense Statement	55
3 Analysis of Changes in Unappropriated Surplus	56
4 Statement of Investments (included as part of statement showing investments of all funds)	74
5 Statement of Bonds Payable (included as part of statement showing bonds payable of all funds)	97

The departmental report would show the above information and certain additional data. For example, the report would contain a separate letter of transmittal, in which the significant changes that have taken place in the utility throughout the year would be enumerated. It would also contain unit cost data which would not ordinarily appear in the annual financial report issued by the finance officer.

Immediately below is an outline of the contents of a utility financial report. It is assumed that appropriations are not made for the utility, and therefore no statements are shown comparing appropriations with expenditures and encumbrances. As in the case of the annual financial report, this report is divided into two sections, a financial section and a statistical section. Again, as with the annual financial report, the number of statements in-

CONTENTS OF WATER UTILITY FINANCIAL REPORT

Letter of Transmittal

Section I. Financial Statements

	Figure
1 Balance Sheet	54
2 Income and Expense Statement	55
3. Analysis of Changes in Unappropriated Surplus	56
4. Detailed Statement of Operating Revenues	59
5. Detailed Statement of Operating Expenses (in this case, electric)	60
6 Statement of Fixed Assets (in this case, electric)	92
7 Analysis of Changes in Fixed Assets	—
8. Statement of Work in Progress	—
9 Statement of Investments	74
10 Statement of Bonds Payable	97

Section II. Statistical Statements

1. Cost of Pumping per Million Gallons	108
2 Cost of Purification per Million Gallons	109
3 Cost of Transmission and Distribution per Million Gallons Pumped	110
4. Operating Revenues, Operating Revenue Deductions, Net Operating Revenues, and Net Income	111
5. Cost per Foot of Main Laid Classified by Size	112
6. Statement of Debt Service Requirements	101

cluded would vary with the size of the utility and the magnitude of transactions.

Frequently, the report issued by the utility includes not only financial data but physical statistics as well. Thus it may show the number of gallons pumped daily at each station, hardness of water, mineral analysis of water, quality of water, and other physical statistics. The document thus becomes not only a financial report but also an engineering report and a report of activities carried on by the utility. The report in that case assumes some aspects of a popular report, as will be evident from the discussion below.

The annual popular report. The popular report, as its name implies, is the report issued primarily for the citizens of the governmental unit. It is to be distinguished from the reports discussed above in two respects: (1) It includes not only financial data but also a description of the activities carried on by each department. (2) Fewer financial data are included in this report than in the annual financial report. Also, since the report is intended for people who are not well versed in the interpretation of financial statements, the financial data must be presented in as simple a form as possible.

Although it is beyond the scope of this book to discuss any other than the financial phases of the annual popular report, nevertheless it will probably be of interest to note briefly the nature of some of the material included. The illustration on the opposite page, which is taken from the Summary of the *Annual Report, Town of Greenwich, Connecticut, for the Fiscal Year ending December 31, 1944* (page 54), will be helpful in demonstrating the type of nonfinancial information included.

A similar description is shown for each department, including the finance department. All financial data are shown in the section devoted to the activities of the finance department. The amount of financial data included varies. Sometimes no separate annual financial report is issued, but, instead, the annual financial report is made part of the annual popular report. This is likely to be the case in smaller municipalities, where the financial report normally consists of a few statements.

If a separate annual financial report is issued, the financial section of the annual popular report consists of data taken from the annual financial report but presented in condensed form. For example, on page 378 there is presented a list of some of the statements which would be included in the financial section of a popular report.



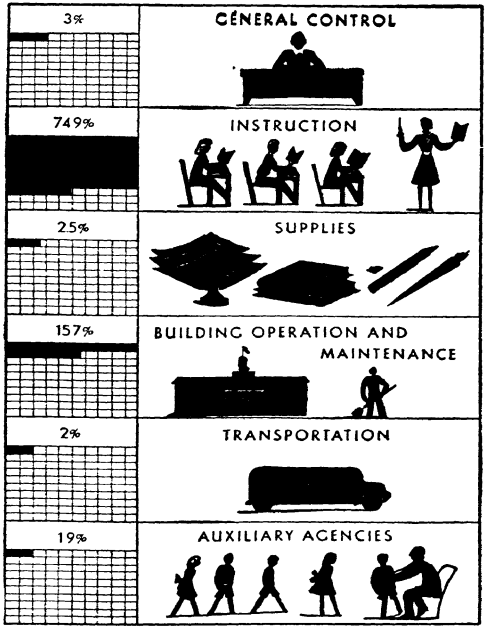
SCHOOLS

1943-4 Administrative Staff, 15
Teaching Staff, 247—Maintenance Staff, 69

The main duties of the Board of Education are, under competent professional leadership, to determine educational policies and to see that these policies are carried out. The public should remember that Board members are not educational experts. The Board also has a heavy responsibility to see that the large sum of money appropriated to it is spent wisely, and that our 11 school buildings and their equipment are adequately maintained.

A gratifying year's growth in the great majority of classes was shown in the standardized achievement tests given in the elementary schools in May, the Superintendent reports. A number of classes made scores considerably above the national average. Group intelligence tests were given in grades 1, 4 and 7; in the High School; and in grade 8 of the parochial schools. Reading tests were given in grades 2 through 4. Achievement tests in reading, language, spelling and arithmetic were given in grades 4 through 8 in the public schools and grade 8 in the parochial schools.

The many-sided needs of young children are being recognized increasingly by teachers. Their primary aim is to know the children well and to help them to think through and solve problems at each age level; to live together, with all this involves; to develop broader interests at each age level; to live up to the standards of work each is capable of; to help each find his own place in his group, so that he achieves security in his relationship with people. The teachers try to create a happy, wholesome, working atmosphere. The children must be helped to develop the ability to do the following things at each age level: interpret accurately when reading; express ideas clearly; learn to write with growing independence; understand thoroughly all processes in arithmetic before attempting to drill for speed and accuracy. More and more, recognition is being given to the fact that, with opportunities and the freedom to do things, go corresponding responsibilities for both teachers and children.



CONTENTS OF FINANCIAL SECTION OF ANNUAL POPULAR REPORT

	Figure
1. Condensed Balance Sheet for Each Fund or Group of Related Funds	65
2. Statement of Revenues—Estimated and Actual	23
3. Statement of Expenditures and Encumbrances Compared with Appropriations	28
4. Statement of Tax Rates and Tax Levies	82
5. Statement of Tax Levies and Tax Collections	84
6. Statement of General Bonded Debt per Capita	98
7. Statement of Direct and Overlapping Debt	100

Note that, owing to the fact that relatively few statements are exhibited, separate sections are not set up for financial statements and statistical statements, respectively. Instead, all statements pertaining to the governmental unit's finances are shown in one section.

Summary. From the discussion in this chapter, it is evident that many principles apply to the preparation of all reports. Naturally, the statements to be included will vary with the size of the governmental unit and the magnitude of its financial transactions. It should not be assumed, therefore, that the statements listed in connection with each report are necessarily the only ones to be included. A greater or smaller number of statements than those illustrated may be required. The statements referred to do, however, illustrate in a general way the nature of the contents of each of the reports and the manner in which the statements are arranged in the report.

APPENDIXES

APPENDIX I

Governmental Accounting Terminology[1]

Abatement. Cancellation of a part or the whole of a charge made in the form of taxes or for services.

***Account number.** The number assigned to a specific account title in a classification of accounts. *Note:* Where accounts are numbered, the account number and the account title may be used interchangeably.

***Accounting procedure.** Methods used in handling accounting information so that it will be reflected in the accounting records in an orderly manner.

***Accounting system.** All the records, formal and informal, together with the procedures which have to do with assembling, recording, and reporting of information concerning the financial operations and condition of an enterprise.

Accounts payable. Liabilities on open account owing to private persons, firms, or corporations, or to governmental units (but not including amounts due to other funds). *Note:* Amounts due to governmental units should be set up separately from other accounts payable on the balance sheet.

Accounts receivable. Amounts owing on open account from private persons, firms, or corporations, or from governmental units (but not including amounts due from other funds). *Note:* Although taxes and assessments receivable are covered by this term, they should each be set up separately in the balance sheet and not combined in one group with other accounts receivable. Similarly, amounts due from governmental units should be set up separately.

Accrual basis. The basis of accounting under which revenues are recorded when earned or when levies are made, and expenditures are recorded as soon as they result in liabilities, notwithstanding that the receipt of the revenue or payment of the expenditure may take place, in whole or in part, in another accounting period. *See also* **Accrue** (1).

---

[1] The terminology used here has been adapted with the permission of the copyright owners from two sources:

1. Most of the material is based on the terminology developed by the National Committee on Municipal Accounting and given on pages 153-186 of its publication *Municipal Accounting Statements* (Rev. Ed., 1941).

2. Those terms which are peculiar to governmental utility accounting have been adapted from the terminology developed jointly by the Municipal Finance Officers' Association and the American Water Works Association and contained on pages 443-458 of their publication *Manual of Water Works Accounting* (indicated by *).

Accrue. (1) To record revenues when earned or when levies are made, and to record expenditures as soon as they result in liabilities, notwithstanding that the receipt of the revenue or payment of the expenditure may take place, in whole or in part, in another accounting period. (2) Sometimes the term is used in a restricted sense to denote the recording of revenues earned but not yet due, such as accrued interest on investments, and the recording of expenditures which result in liabilities that are payable in another accounting period, such as accrued interest on municipal utility bonds. *See also* **Accrual basis, Accrued assets, Accrued expenses, Accrued liabilities,** *and* **Accrued revenue.**

Accrued assets. Assets arising from revenues earned but not yet due, such as unbilled utility sales accrued since the last bills were rendered to customers and accrued interest on investments. *See also* **Accrue** (2).

Accrued expenses. Expenses resulting in liabilities which are either due or are not payable until some future time. *See also* **Accrual basis** *and* **Accrue** (1).

Accrued income. *See* **Accrued revenue.**

Accrued liabilities. Amounts owed but not yet due; for example, accrued interest on municipal utility bonds. *See also* **Accrue** (2).

Accrued revenue. Levies made or other revenue earned and not collected regardless of whether due or not. *See also* **Accrual basis** *and* **Accrue** (1).

Activity. A specific line of work carried on by a governmental unit in order to perform its functions, for example, "food inspection" in connection with the function of "health conservation."

***Advances for construction.** A liability for money received to finance extension of utility facilities. *Note:* Such extensions are frequently financed at least partly from funds advanced by customers or prospective customers. Usually there is an agreement providing for the return of the money to the customers if revenues become sufficient to have justified making the extension. *See also* **Contributions in aid of construction.**

Agency fund. A fund consisting of resources received and held by the governmental unit as an agent for others; for example, taxes collected and held by a municipality for a school district. *Note:* Sometimes resources held by one fund of a governmental unit for other funds of the unit are handled through an agency fund. An example is taxes held by an agency fund for redistribution among other funds. *See also* **Suspense fund.**

Allot. To divide an appropriation (*which see*) into amounts for certain periods or for specific purposes.

Allotment. The amount allotted (*which see*) for a certain period or purpose.

Allotment ledger. A subsidiary ledger which contains an account for each allotment (*which see*) showing the amount allotted, expendi-

tures, encumbrances, the net balance, and other related information. *See also* **Appropriation ledger.**

Amortization. (1) Gradual reduction, redemption, or liquidation of the balance of an account according to a specified schedule of times and amounts. (2) Provision for the extinguishment of a debt by means of a sinking fund (*which see*).

Annuity Bonds. *See* **Serial annuity bonds.**

Apportionment. *See* **Allotment.**

Appropriation. An authorization granted by the legislative body to make expenditures and to incur obligations for specific purposes. *Note:* An appropriation is usually limited in amount and as to the time when it may be expended. *See, however,* **Indeterminate appropriation.**

Appropriation balance. *See* **Unallotted balance of appropriation, Unencumbered balance of appropriation or allotment,** *and* **Unexpended balance of appropriation or allotment.**

Appropriation expenditure. An expenditure chargeable to an appropriation.

Appropriation expenditure ledger. *See* **Appropriation ledger.**

Appropriation ledger. A subsidiary ledger containing an account with each appropriation. Each account usually shows the amount originally appropriated, transfers to or from the appropriation, amounts charged against the appropriation, the net balance, and other related information. If allotments are made and a separate ledger is maintained for them, each account usually shows the amount appropriated, transfers to or from the appropriation, the amount allotted, and the unallotted balance. *See also* **Allotment ledger.**

Appropriation ordinance or resolution. An ordinance (*which see*) or resolution (*which see*) by means of which appropriations are legally made. *Note:* It is the means by which the expenditure side of the budget (*which see*) is enacted into law.

Assessed valuation. A valuation set upon real estate or other property by a government as a basis for levying taxes.

Assessment. (1) The process of making the official valuation of property for the purpose of taxation. (2) The valuation placed upon property during such process. *Note:* "Assessment" is sometimes made to denote the amount of the tax levied, but such usage is not recommended since it fails to distinguish between the valuation and tax levy processes. The term is also used erroneously as the synonym of "special assessment" (*which see*).

Assessment roll. The official list showing the description and the assessed valuation of each parcel of real property and of other property for each owner thereof. *Note:* The assessment roll is frequently combined with the tax roll (*which see*) but even in these cases the two can be distinguished.

Assets. The entire property of a governmental unit. *Note:* Conventionally, debit balances subject to final disposition, such as deferred

charges and prepaid expenses, are classified as assets at closing periods, even though the stated values may not represent the realizable values.

Audit. The examination of records and documents and the securing of other evidence for one or more of the following purposes: (a) determining the propriety of proposed or consummated transactions, (b) ascertaining whether all transactions have been recorded, (c) determining whether transactions are accurately reflected in the accounts and in the statements drawn therefrom. The term is of little significance when used without a modifier. *See also* **Balance sheet audit, Cash audit, Complete audit, Continuous audit, General audit, Incomplete audit, Independent audit, Internal audit, Post-audit,** *and* **Pre-audit.**

Audit Program. A detailed outline of work to be done and the procedure to be followed in any given audit.

Audit Report. The report prepared by an auditor covering the audit or investigation made by him. As a rule the report should include (a) a statement of the scope of the audit, (b) summary of findings, (c) recommendations, (d) certificate, (e) financial statements, and (f) sometimes also statistical tables.

Audited claims payable. *See* **Accounts payable.**

Audited voucher. A voucher which has been examined and approved for payment. *See also* **Accounts payable.**

Auditor's certificate. A statement signed by an auditor in which he states that he has examined the accounting records and supporting evidence and expressing his opinion, based on such examination, regarding the financial condition of the governmental unit or any of its enterprises, the results from operations, and any facts which he has investigated in his professional capacity. The content of the certificate would be governed by the type and scope of examination. *See also* **Unqualified certificate.**

Authority bonds. Bonds payable from the revenues of a specific public authority (*which see*). Since such authorities usually have no revenue other than charges for services, their bonds are ordinarily revenue bonds (*which see*). *Note:* Such bonds differ from other revenue bonds (*which see*) in that the protections offered the bondholder, in addition to the pledges written into the bond contract, are often partially embodied in the statute which creates the authority.

Balance sheet. A statement ordinarily prepared from books kept by double entry showing assets and other resources (*which see*), liabilities and other obligations (*which see*), and surplus of a fund or governmental unit at a specified date properly classified to exhibit financial position of the fund or unit at that date. *Note:* If a single balance sheet is prepared for several funds, it must be in columnar or sectional form so as to exhibit the accounts of each fund individually.

Balance sheet audit. The examination as of a given date, of the assets, liabilities, surplus, and all reserve accounts, including, as incidental

thereto, such examination of the operations as may be necessary to give credence to the stated financial condition. It does not include the detailed examination of all receipts and disbursements or all details of revenues and expenditures, nor does it establish the accountability of the fiduciary parties, except broadly. It should be accompanied by a report stating the nature and extent of the examinations which have been made, drawing attention to any items requiring explanation or comment, and indicating the opinion of the auditor as to the correctness or incorrectness of the statement submitted.

Betterment. An addition made to, or change made in, a fixed asset which results in the prolongation of its life or in an increase in its efficiency over and above that arising from maintenance (*which see*) and the cost of which is therefore added to the book value of the asset. *Note:* The term is sometimes applied to sidewalks, sewers, and highways but these should preferably be designated as "improvements" (*which see*).

Bond. A written promise, generally under seal, to pay a specified sum of money, called the face value, at a fixed time in the future, called the date of maturity, and carrying interest at a fixed rate, usually payable periodically. *Note:* The difference between a note and a bond is that the latter usually runs for a longer period of time and requires greater legal formality.

Bond anticipation notes. Short-term notes of a municipality sold in anticipation of bond issuance which are full faith and credit obligations of the governmental unit and are to be retired from the proceeds of the bonds to be issued. *See also* **Interim borrowing.**

Bond discount. The excess of the face value of a bond over the price for which it is acquired or sold. *Note:* The price does not include accrued interest at the date of acquisition or sale.

Bond fund. A fund established to receive and disburse the proceeds of a governmental bond issue.

Bond ordinance or resolution. An ordinance (*which see*) or resolution (*which see*) authorizing a bond issue.

Bond premium. The excess of the price at which a bond is acquired or sold, over its face value. *Note:* The price does not include accrued interest at the date of acquisition or sale.

Bonded debt. That portion of indebtedness represented by outstanding bonds. *Note:* If there are sinking fund bonds, this term should be replaced by "gross bonded debt" (*which see*) and "net bonded debt" (*which see*).

Bonded indebtedness. *See* **Bonded debt.**

Bonds authorized and unissued. Bonds which have been legally authorized but have not been issued and which can be issued and sold without further authorization. *Note:* This term must not be confused with the "margin of borrowing power" or "legal debt margin" which represents the difference between the legal debt limit of a governmental unit and the debt outstanding against it.

Book of original entry. The record in which the various transactions are formally recorded for the first time, such as the cash journal, check register, or general journal. Where machine bookkeeping is used, it may happen that one transaction is recorded simultaneously in several records, one of which may be regarded as the book of original entry. *Note:* Memorandum books, check stubs, files of duplicate sales invoices, and so forth, whereon first or prior business notations may have been made, are not books of first (original) entry in the accepted meaning of the term, unless they are also used as the media for direct posting to the ledgers.

Book value. Value (*which see*) as shown by books of account. *Note:* In the case of assets which are subject to reduction by valuation reserves, "book value" refers to cost or stated value less the appropriate valuation reserve. Sometimes a distinction is made between "gross book value" and "net book value," the former term designating value before deduction of related reserves and the latter after their deduction. In the absence of any modifier, however, the term "book value" is understood to be synonymous with "net book value."

Budget. An estimate of proposed expenditures for a given period or purpose and the proposed means of financing them. *Note:* The term "budget" is used in two senses in practice. Sometimes it designates the financial plan presented to the appropriating body for adoption and sometimes the plan finally approved by that body. It is usually necessary to specify whether the budget under consideration is preliminary and tentative or whether it has been approved by the appropriating body. The term is also sometimes confused with the budget document (*which see*).

Budget document. The instrument used by the budget-making authority to present a comprehensive financial program to the appropriating body. The budget document usually consists of three parts. The first part contains a message from the budget-making authority together with a summary of the proposed expenditures and the means of financing them. The second consists of schedules supporting the summary. These schedules show in detail the proposed expenditures and means of financing them together with information as to past years' actual revenues and expenditures and other data used in making the estimates. The third part is composed of drafts of the appropriation, revenue, and borrowing measures necessary to put the budget into effect.

Budget message. A general discussion of the proposed budget presented either in writing or sometimes both orally and in writing by the budget-making authority before the legislative body. The budget message should contain an explanation of the principal budget items, an outline of the governmental unit's experience during the past period and its financial status at the time of the message, and recommendations regarding the financial policy for the coming period.

Budgetary accounts. Those accounts necessary to reflect budget operations and condition, such as estimated revenues, appropriations, and

encumbrances, as distinct from the proprietary accounts (*which see*).

Budgetary control. The control or management of a governmental unit or enterprise in accordance with an approved budget with a view of keeping expenditures within the limitations of available appropriations or revenues.

Callable bond. A type of bond which permits the issuer to pay the obligation before the stated maturity date by giving notice of redemption in a manner specified in the bond contract. Synonym: **Optional bond.**

Capital assets. *See* **Fixed assets.**

Capital budget. An improvement program and the methods of its financing. *Note:* The term is frequently limited to a long-term budget for improvements but is sometimes also used to designate that part of the current budget (*which see*) which deals with improvements. *See also* **Long-term budget.**

Capital expenditures. *See* **Capital outlays.**

Capital outlays. Expenditures which result in the acquisition of or additions to fixed assets.

Capital resources. Resources of a fixed or permanent character, such as land and buildings, which cannot ordinarily be used for meeting expenditures.

Cash. Currency, checks, postal and express money orders, and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash; and bank deposits. *Note:* All cash must be accounted for as a part of the fund to which it belongs. Any restrictions or limitations as to its availability should be indicated.

Cash audit. An audit limited to the examination of cash transactions for a stated period, for the purpose of determining that all cash received has been brought into account, that all disbursements are properly authorized and vouched, and that the balance of cash is either on hand or on deposit. A cash audit can be limited from a complete inquiry into all cash transactions to one involving only some of them. It is limited in scope in that it is concerned with the sources of receipts and the nature of disbursements only to substantiate their accuracy. Such an audit establishes the accountability of the persons responsible for cash.

Cash basis. The system of accounting under which revenues are accounted for only when received in cash, and expenditures are accounted for only when paid.

Cash discount. An allowance received or given if payment is completed within a stated period. *Note:* The term is not to be confused with trade discount (*which see*).

Certificate, audit. *See* **Auditor's certificate.**

Certified Public Accountant. An accountant to whom a state has given a certificate showing that he has met prescribed requirements designed to insure competence on the part of the public practitioner in accounting and that he is permitted to use the designation Certified Public Accountant, commonly abbreviated as C.P.A.

***Change funds.** Money on hand that is not to be deposited but is to be used in making change, so that collections may be deposited intact in the proper depository.

Character. As applied to an expenditure classification, this term refers to certain important groups of expenditures which are distinguished on the basis of the periods they are presumed to benefit. The three chief classes are expenses, provisions for the retirement of debt, and capital outlays. Expenses are presumed to benefit primarily the current fiscal period (*but see* "Note" *following definition of* **Expenses**). Provisions for the retirement of debt involve expenditures on account of benefits received at least in part in prior fiscal periods although their benefits may extend to the present period and future periods. Capital outlays represent expenditures for durable assets the benefit of which applies both to this fiscal period and to some subsequent period or periods. *See also* **Activity, Expenses, Function,** *and* **Object.**

Chartered Accountant. A member of an Institute of Chartered Accountants in the British Empire. Admission to such institutes is dependent upon serving a period of apprenticeship and passing an entrance examination.

Check. A bill of exchange drawn on a bank payable on demand; a written order on a bank to pay on demand a specified sum of money to a named person, to his order, or to bearer out of money on deposit to the credit of the maker. *Note:* A check differs from a warrant in that the latter is not necessarily payable on demand and may not be negotiable; and it differs from a voucher in that the latter may show the propriety of a payment or may show that a payment has been made, but is not an order to pay. A voucher-check combines the distinguishing marks of a voucher and a check; it shows the propriety of a payment and is an order for the payment thereof.

Clearing account. An account used to accumulate total charges or credits either for later distribution among the accounts to which such charges or credits are properly allocable or for posting the net difference to the proper account.

Code. *See* **Coding.**

Coding. A system of numbering, or otherwise designating, accounts, entries, invoices, vouchers, and so forth, in such a manner that the symbol used reveals quickly certain required information; for example, assigning numbers and letters to accounts to be used in the place of the account titles. To illustrate, the number "200" may be assigned to the department of finance and the letter "A" may be made to represent personal services. Expenditures for personal services for the department of finance can then be designated, for posting and other purposes, by the code "200-A." Other examples are the numbering of monthly recurring journal entries so that the number indicates the month and the nature of the entry and the numbering of invoices or vouchers so that the number reveals the date of entry. *See also* **Symbolization.**

Commitments. *See* **Encumbrances.**

Complete audit. An audit in which an examination is made of the details of all the books of account, including subsidiary records and supporting documents, as to legality, mathematical accuracy, complete accountability, and application of accepted accounting principles. This examination need not extend to all of the municipality's activities but may be limited to some of them. For example, there may be a complete audit of a sinking fund; that is, all the books, vouchers, and other documents relating to these funds may be examined in detail as to legality, mathematical accuracy, and so forth. Such an audit is designated as a complete "special audit" (*which see*). On the other hand, if the examination extends to all of the municipality's transactions, the audit is designated as a complete "general audit" (*which see*). One of the main features of a complete audit is that the auditor has full authority and is not expected to make any qualifications in his report, except such as are imposed by lack of information, that is, physical inability to get the facts. The term is not used by itself but is intended to describe further other classes of audits; for example, a complete special audit or a complete general audit. *See also* **General audit, Incomplete audit,** *and* **Special audit.**

***Composite rate of depreciation.** A single depreciation rate to be applied against the total depreciable assets, or groups of assets, in order to determine the depreciation for an accounting period. Its use assumes that the depreciation expense thus arrived at is the same as would be obtained by applying proper individual rates of depreciation against the cost of each unit and adding the individual amounts.

Construction work in progress. The cost of construction work done up to a given date but not yet completed. *See also* **Work in process.**

***Consumers' accounting and collecting.** *See* **Customer accounting and collecting,** which is preferred.

Contingent fund. Resources set apart to provide for unforeseen expenditures, or for anticipated expenditures of uncertain amount. *Note:* The term should not be used to describe a reserve for contingencies. The latter is set aside out of the unappropriated surplus of a fund but does not constitute a separate fund. Similarly, an appropriation for contingencies is not a contingent fund since an appropriation is not a fund.

Contingent liabilities. Items which may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending law suits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. *Note:* All contingent liabilities should be shown on the face of the balance sheet or in a footnote thereto.

Continuing appropriation. An appropriation which, once established, is automatically renewed without further legislative action, period after period, until altered or revoked. *Note:* The term should not be confused with "indeterminate appropriation" (*which see*).

Continuous audit. An audit in which the detailed work is performed either continuously or at short, regular intervals throughout the fiscal period, usually at the shortest intervals (for example, weekly or monthly) at which subsidiary records are closed and made available for audit in controllable form. Such "continuous" work leads up to the completion of the audit upon the closing of the accounting records at the end of the fiscal period.

A continuous audit differs from a periodic audit, even though the detailed work be performed, for example, monthly, in that no report is made in the case of the former, except of irregularities detected and adjustments found to be necessary, until the end of a complete fiscal period, and, further, in that the certification of balance-sheet figures, as such, may be deferred until the end of the fiscal period. A continuous audit is not necessarily a complete audit, but may be limited in scope according to understanding and to meet the requirements of the case.

Contracts payable. Sums due on contracts. *Note:* Amounts withheld as guarantees on contracts should be shown separately; for example, "Contracts Payable—Retained Percentage." *See also* **Accounts payable.**

***Contributions in aid of construction.** Cash or other assets contributed or donated to the utility for the purpose of financing wholly or in part extensions of utility facilities. *See also* **Advances for construction.**

Controlling account. An account, usually kept in the general ledger, which receives the aggregate of the debit and of the credit postings to a number of identical, similar, or related accounts called subsidiary accounts, so that its balance equals the aggregate of the balances in these accounts. *Note:* It serves as a check upon the mathematical accuracy of the detail ledger account postings and frees the control ledger of a mass of detail. *See also* **General ledger** *and* **Subsidiary account.**

Cost. The amount of money or money's worth given for property or services. *Note:* Costs may be incurred even before money is paid, that is, as soon as a liability is incurred. Ultimately, however, money or money's worth must be given in exchange. Again, the cost of some property or service may in turn become a part of the cost of another property or service. For example, the cost of part or all of the materials purchased at a certain time will be reflected in the cost of articles made from such materials or in the cost of those services in the rendering of which the materials were used.

Cost accounting. That method of accounting which provides for the assembling and recording of all the elements of cost incurred to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work or a specific job.

Cost ledger. A subsidiary record wherein each project, job, production center, process, operation, product, or service is given a separate account whereto all items entering into its cost are posted in the

required detail. Such accounts should be so arranged and kept that the results shown in them may be reconciled with and verified by a control account or accounts in the general books.

Cost of replacement. *See* **Replacement cost.**

Cost of reproduction. *See* **Reproduction cost.**

Cost of reproduction—Depreciated. *See* **Reproduction cost.**

Cost of reproduction—New. *See* **Reproduction cost.**

Cost records. All ledgers, supporting records, schedules, reports, invoices, vouchers, and other records and documents reflecting the cost of projects, jobs, production centers, processes, operations, products, or services, or the cost of any of the component parts thereof.

Cost unit. A term used in cost accounting to designate the unit of product or service whose cost is computed. These units are selected for the purpose of comparing the actual cost with a standard cost (*which see*) or with actual costs of units produced under different circumstances, or at different places and times. *See also* **Unit cost** *and* **Work unit.**

Coupon rate. The interest rate specified on interest coupons attached to a bond. The term is synonymous with nominal interest rate (*which see*).

Current assets. Those assets which are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments, and taxes receivable which will be collected within about a year from the balance sheet date.

Current budget. (1) The budget prepared for the succeeding fiscal year, or in the case of some state governments, the budget prepared for the succeeding biennium. (2) The budget in force during the current fiscal year or biennium. *Note:* It is assumed that the budget is prepared and adopted before the beginning of the fiscal year or biennium to which it relates.

Current expenses. *See* **Expenses.**

Current fund. *See* **General fund.**

Current liabilities. Liabilities which are payable within a relatively short period of time, usually no longer than a year. *See* **Floating debt.**

Current resources. Resources to which recourse can be had to meet current obligations and expenditures. Examples are current assets, estimated revenues of a particular period not yet realized, transfers from other funds authorized but not received, and, in case of certain funds, bonds authorized and unissued.

Current special assessments. (1) Special assessments levied and becoming due during the current fiscal period, from the date special assessment rolls are approved by the proper authority to the date on which a penalty for non-payment is attached. (2) Special assessments levied in a prior fiscal period but becoming due in the current fiscal period, from the time they become due to the date on which a penalty for non-payment is attached.

Current surplus. The excess of the current assets (*which see*) of a fund over its current liabilities (*which see*).

Current taxes. (1) Taxes levied and becoming due during the current fiscal period, from the time the amount of the tax levy is first established to the date on which a penalty for non-payment is attached. (2) Taxes levied in the preceding fiscal period but becoming due in the current fiscal period, from the time they become due until a penalty for non-payment is attached. *Note:* The term is also sometimes used to designate taxes levied for the current fiscal period but such usage is not recommended. *See* **Current year's tax levy.**

Current year's tax levy. Taxes levied for the current fiscal period.

***Customer account and collecting.** That phase of a utility's activity relating to the determination of the amount due from each customer, the billing therefor, and the collecting of amounts due, together with various procedures necessary to record in detail the transactions relating to these activities.

***Customers' accounts receivable.** Accounts receivable (*which see*) arising primarily as a result of supplying utility services to customers.

***Customers' deposits.** The liability of a utility for money deposited with it by customers as at least a partial guarantee that they will meet their bills.

Debentures, or municipal debentures. A term used in Canada and other countries for municipal bonds.

Debt limit. The maximum amount of gross or net debt legally permitted.

Debt service requirement. The amount of money necessary periodically to pay the interest on the outstanding debt and the principal of maturing bonded debt not payable from a sinking fund (*which see*) and to provide a fund for the redemption of bonds payable from a sinking fund.

Deferred assets. *See* **Deferred charges** *and* **Prepaid expenses.**

Deferred charges. Expenditures which are not chargeable to the fiscal period in which made but are carried on the asset side of the balance sheet pending amortization or other disposition; for example, discount on bonds issued. *Note:* Deferred charges differ from prepaid expenses in that they usually extend over a long period of time (more than five years) and are not regularly recurring costs of operation. *See also* **Prepaid expenses.**

Deferred credits. Credit balances or items which will be spread over following accounting periods either as additions to revenue or as reductions of expenses. Examples are taxes collected in advance and premiums on bonds issued.

Deferred debits. *See* **Deferred charges** *and* **Prepaid expenses.**

Deferred income. *See* **Deferred credits.**

Deferred serial bonds. Serial bonds (*which see*) in which the first installment does not fall due for two or more years.

Deferred special assessments. Special assessments which have been levied but are not yet due.

Deficiency. A general term indicating the amount by which anything falls short of some requirement or expectation. The term should not be used without qualification.

Deficit. The excess of the liabilities and liability reserves of a fund over its assets; or, where a fund has also other resources and obligations, the excess of its obligations over its resources.

Delinquent special assessments. Special assessments remaining unpaid on and after the date on which a penalty for non-payment is attached.

Delinquent taxes. Taxes remaining unpaid on and after the date on which a penalty for non-payment is attached. Even though the penalty may be subsequently waived and a portion of the taxes may be abated or canceled, the unpaid balances continue to be delinquent taxes until abated, canceled, or converted into tax liens. *Note:* The term is sometimes limited to taxes levied for the fiscal period or periods preceding the current one but such usage is not recommended. *See also* **Current taxes, Current year's tax levy,** *and* **Prior years' tax levies.**

Deposit. (1) Money placed with a banking or other institution or with a person either as a general deposit subject to check or as a special deposit made for some specified purpose. (2) Securities lodged with a banking or other institution or with a person for some particular purpose. (3) Sums deposited by customers for electric meters, water meters, and so forth, and by contractors and others to accompany and guarantee their bids.

Depreciation. Loss in service life of fixed assets, other than wasting assets (*which see*), attributable to wear and tear through use and lapse of time, obsolescence (*which see*), inadequacy, or other physical or functional cause.

Direct charges. *See* **Direct expenses.**

Direct debt. The debt which a governmental unit has incurred in its own name or assumed through the annexation of territory. *See also* **Overlapping debt.**

Direct expenses. Those expenses which can be charged directly as a part of the cost of a product or service, or of a department or operating unit, as distinguished from overhead and other indirect costs which must be prorated among several products or services, or departments or operating units.

***Direct labor.** Labor directly expended or applied in productive operations, as distinguished from labor not directly connected with a productive process.

***Direct materials.** Materials which can be identified with a particular product or service and whose cost can be charged directly to it.

Disbursements. Payments in cash.

Double entry. A system of bookkeeping which requires for every entry made to the debit side of an account or accounts an entry for a cor-

responding amount or amounts to the credit side of another account or accounts. *Note:* Double-entry bookkeeping involves the maintaining of a balance between assets and other resources on the one hand and liabilities, other obligations, and surplus on the other. To maintain this balance, it is necessary that entries for equal amounts be made in each group. Moreover, if a transaction affects only one group of accounts (for example, the asset group of accounts), the amount or amounts debited to an account or accounts within the group must be offset by a credit to another account or accounts within the group for a corresponding amount or amounts (for example, a debit to Cash would be offset by a credit for a corresponding amount to Taxes Receivable or some other asset).

Earnings. *See* **Income** *and* **Revenue.**

Effective interest rate or yield. The rate of earning on a bond investment based on the actual price paid for the bond, the coupon rate, the maturity date, and the length of time between interest dates; in contrast with the nominal interest rate (*which see*).

Encumbrances. Obligations in the form of purchase orders, contracts, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid or when the actual liability is set up.

Endowment fund. A fund whose principal must be maintained inviolate but whose income may be expended. *Note:* An endowment fund is usually a trust fund (*which see*) and is accounted for under that category.

Entry. (1) The record of a financial transaction in its appropriate book of account. (2) The act of recording a transaction in the books of account.

Equipment. Physical property of a more or less permanent nature ordinarily useful in carrying on operations, other than land, buildings, or improvements to either of them. Examples are machinery, tools, trucks, cars, ships, furniture, and furnishings.

Estimated revenue. If the accounts are kept on an accrual basis (*which see*), this term designates the amount of revenues estimated to accrue during a given period regardless of whether or not they are all collected during the period; if the accounts are kept on a cash basis (*which see*), the term designates the amount of revenues estimated to be collected during a given period. *See also* **Revenue** *and* **Revenue receipts.**

Estimated revenue receipts. A term used synonymously with "estimated revenue" (*which see*) by some governmental units reporting their revenues on a cash basis. *See also* **Revenue** *and* **Revenue receipts.**

Exhibit. (1) A balance sheet or other principal financial statement. (2) Any statement or other document that accompanies or is part of a financial report. *See also* **Schedules** *and* **Statements.**

Expendable fund. A fund whose resources, including both principal and earnings, may be expended. *See also* **Non-expendable fund.**

Expenditure disbursements. A term sometimes used by governmental units operating on a cash basis (*which see*) as a synonym for expenditures (*which see*).

Expenditures. If the accounts are kept on the accrual basis (*which see*) this term designates total charges incurred, whether paid or unpaid, including expenses, provision for retirement of debt not reported as a liability of the fund from which retired, and capital outlays. If they are kept on the cash basis (*which see*), the term covers only actual disbursements for these purposes. *Note:* Encumbrances are not considered expenditures.

Expenses. Charges incurred, whether paid or unpaid, for operation, maintenance, and interest, and other charges which are presumed to benefit the current fiscal period. *Note:* Legal provisions sometimes make it necessary to treat as expenses charges whose benefits extend over future periods. For example, purchases of materials and supplies which may be used over a period of more than one year and payments for insurance which is to be in force for a longer period than one year frequently must be charged in their entirety to the appropriation of the year in which they are incurred and classified as expenses of that year even though their benefits extend also to other periods.

External audit. *See* **Independent audit.**

Face value. As applied to securities, this term designates the amount of the liability stated in the security document.

Fiscal period. Any period at the end of which a governmental unit determines its financial condition and the results of its operations and closes its books. *Note:* It is usually a year, although not necessarily a calendar year.

Fixed assets. Assets of a long-term character which are intended to continue to be held or used, such as land, buildings, machinery, furniture, and other equipment. *Note:* The term does not indicate the immobility of an asset, which is the distinctive characteristic of "fixture" (*which see*).

Fixed charges. Expenses (*which see*) the amount of which is more or less fixed. The transactions giving rise to these expenses generally affect more than one fiscal period and the resulting costs are apportioned over the fiscal periods on the basis of the benefits receivable each period. Examples of fixed charges are interest, insurance, and contributions to pension funds.

Fixed liabilities. *See* **Bonded debt.**

Fixtures. Attachments to buildings which are not intended to be removed and which cannot be removed without damage to the latter. *Note:* Those fixtures with a useful life presumed to be as long as that of the building itself are considered a part of such building; all others are classed as equipment.

Floating debt. Liabilities (except bonds) payable on demand or at an early date; for example, accounts payable, bank loans, notes, or warrants. *See* **Current liabilities.**

Force account method. The employment of the governmental unit's own working forces in the making and maintaining of improvements instead of letting out the work to contractors. *Note:* This method also calls for the purchase of materials by the governmental unit and the possible use of its own equipment, but the principal distinguishing characteristic of the force account method is the use of the unit's own working forces.

Forfeiture. The automatic loss of cash or other property as a punishment for not complying with legal provisions and as compensation for the resulting damages or losses. *Note:* The term should not be confused with "confiscation." The latter term designates the actual taking over of the forfeited property by the government. Even after property has been forfeited, it cannot be said to be confiscated until the governmental unit claims it.

Franchise. A special privilege granted by a government permitting the continuing use of public property, such as city streets, and usually involving the elements of monopoly and regulation.

Full faith and credit. A pledge of the general taxing power for the payment of obligations. *Note:* Bonds carrying such pledges are usually referred to as "general obligation bonds" (*which see*) or "full faith and credit bonds."

Function. A group of services aimed at accomplishing a certain purpose or end; for example, public safety. *See also* **Activity, Character,** *and* **Object.**

Fund. A sum of money or other resources (gross or net) set aside for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations and constituting an independent fiscal and accounting entity *Note:* A fund is both a sum of resources and an independent accounting entity. A self-balancing group of accounts must be provided for each fund showing the assets and other resources on the one hand and obligations, surplus, and other credits on the other. Accounts must also be set up to permit the identification of revenues and expenditures and receipts and disbursements with the fund to which they apply.

Although the general fund is available for all legally authorized purposes the definition also applies to it, for the fund can be used for governmental purposes only and expenditures cannot be made from it without legal authorization. Moreover, frequently the general fund cannot be used for those purposes for which special funds have been established.

Fund accounts. All accounts necessary to set forth the financial operations and financial condition of a fund. *Note:* Sometimes the term is used to denote budgetary accounts as distinguished from proprietary accounts but such usage is not recommended.

Fund group. A group of related funds (*which see*).

Fund surplus. *See* **Current surplus** *and* **Unappropriated surplus.**

Funded debt. Same as **Bonded debt,** which is the preferred term.

Funded deficit. A deficit eliminated through the sale of bonds issued for that purpose. *See also* **Funding bonds.**

Funding. The conversion of judgments and other floating debt into bonded debt (*which see*).

Funding bonds. Bonds issued to retire outstanding floating debt and to eliminate deficits.

General audit. An audit which embraces all financial transactions and records and which is made regularly at the close of an accounting period. *Note:* The above definition should not be construed to mean that all the transactions are necessarily examined. The number to be examined will depend on the auditor's judgment in the light of the particular conditions encountered. However, the auditor is expected to certify concerning all of the transactions and records, even though he has only examined some of them, subject to such qualifications as may seem necessary. He makes the certification on the assumption that the examined transactions fairly represent the condition of the unexamined ones. Such an audit is known as an incomplete audit, or more fully, as an incomplete general audit. If the auditor examines all the transactions, the audit is known as a complete general audit. *See also* **Complete audit, Incomplete audit,** *and* **Test check.**

***General expenses.** A class of expense accounts grouped together for the purposes of the income and expense statement. They represent expenses incurred in the operation of the enterprise which are not otherwise classified and which are not directly connected with productive operations. These expenses are also sometimes referred to as *general and administrative expenses*. Examples are salaries of general officers and executives and general office expenses.

General fund. The fund that is available for any legally authorized purpose. *Note:* The general fund is used to finance the ordinary operations of a governmental unit.

General journal. A journal (*which see*) in which are made all entries not recorded in special journals.

General ledger. A book, file, or other device which contains the accounts necessary to reflect in summary or in detail the financial operations and the financial condition of a governmental unit. *Note:* In double-entry (*which see*) bookkeeping the debits and credits in the general ledger are equal and therefore the debit balances equal the credit balances. *See also* **Controlling account, Subsidiary account,** *and* **Subsidiary ledger.**

General obligation bonds. Bonds for whose payment the full faith and credit of the issuing body are pledged. More commonly, but not necessarily, general obligation bonds are considered to be those payable from taxes and other general revenues. *See also* **Full faith and credit.**

General obligation special assessment bonds. *See* **Special assessment bonds.**

Governmental accounting. The preparation, reporting, and interpretation of accounts for governmental bodies.

Grant. A contribution by a governmental unit to another unit. The contribution is usually made by a superior unit to an inferior one ordinarily to aid in the support of a specified function (for example, education) but sometimes also for general purposes.

Grants in aid. *See* **Grant.**

Gross bonded debt. The total amount of direct debt of a governmental unit represented by outstanding bonds before deduction of sinking fund assets. *See also* **Direct debt.**

Gross book value. *See* **Book value.**

Gross revenue. *See* **Revenue.**

***Group plan.** A plan used in accounting for depreciation whereby a composite rate of depreciation (*which see*) is applied in connection with a group of assets involved in some operating phase of the enterprise.

Imprest system. A system for handling minor disbursements whereby a fixed amount of money, designated as petty cash, is set aside for this purpose. Disbursements are made from time to time as needed. At certain intervals, a report is rendered of the amount disbursed, and the petty cash is replenished for the amount of the disbursements ordinarily by check drawn on the fund or funds from which the items are payable. The total of petty cash plus unreplenished disbursements must always equal the fixed sum of cash set aside. *See also* **Petty cash.**

Improvements. Buildings, other structures, and other attachments or annexations to land which are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains, and sewers. *Note:* Sidewalks, curbing, sewers, and highways are sometimes referred to as "betterments" but the term "improvements" is to be preferred.

Income. This term is used in accounting for governmental utilities and represents the excess of the revenues earned over the expenses incurred in carrying on particular phases of a utility's activities. For example, if a utility is engaged in selling appliances, the sales represent the revenues. These are reduced by the cost of the appliances sold plus expenses connected with such sales and the remaining balance is designated as income from the sale of appliances. As indicated elsewhere, the excess of the *total* revenues over the *total* expenses of the utility for a particular accounting period is called "net income." The term is also sometimes used in municipal accounting (outside the utility field) as synonymous with revenue (*which see*).

Income bonds. *See* **Revenue bonds.**

Incomplete audit. The audit of books of account, including subsidiary records and supporting documents, by means of test checks (*which see*). The term is also discussed in connection with the definition of "complete audit" (*which see*) and "general audit" (*which see*). Also known as a "partial audit" and a "test check audit."

Independent audit. An audit performed by an independent auditor. *See also* **Audit report** *and* **Independent auditor.**

Independent auditor. An auditor who is independent of the executive head of the governmental unit whose accounts are being audited. *Note:* An independent auditor may be an official of the governmental unit audited provided he is independent of the executive head of that unit. The term does not apply to an auditor who is merely independent of the department being audited.

Indeterminate appropriation. An appropriation which is not limited to any definite period of time but is in effect until the purpose for which it is made is accomplished; for example, an appropriation to construct a building may be made to continue in effect until the building is constructed. *Note:* The term is not to be confused with "continuing appropriation" (*which see*).

Indirect charges. *See* **Overhead.**

***Indirect labor.** Labor which cannot be identified with the specific furtherance of any construction, operation, or productive process, but which, nevertheless, does further general operations.

***Intangible fixed assets.** Nonphysical fixed assets, such as patents and franchises.

Inter-fund accounts. Accounts in which transactions between funds are reflected. *See* **Inter-fund transfers.**

Inter-fund loans. Loans made by one fund to another.

Inter-fund transfers. Amounts transferred from one fund to another.

Interim borrowing. The sale of short-term paper in anticipation of bond issuance. *See also* **Bond anticipation notes.**

Internal audit. An audit made by persons on the staff of the governmental unit whose accounts are being audited primarily for the purpose of internal control. *Note:* An internal audit is usually a continuous audit (*which see*).

Internal check. An accounting method or procedure so designed that the work of one employee is complementary to that of another, thus providing a continuous audit by the employees on the accuracy and integrity of their accounting work.

Inventory. A detailed list showing quantities, descriptions, and values of property and frequently also units of measure and unit prices. *Note:* The term is often confined to consumable supplies but may also cover fixed assets.

Investigation. A special examination of books and records. *Note:* The proper use of the word "investigation" in accountancy implies some particular object to be gained or particular result to be stated. It indicates something different from an audit, and seldom requires qualification by the addition of "special" or any similar adjective.

Investment in fixed assets. The book value (*which see*) of fixed assets.

Investments. Securities, including those issued by the governmental unit, or other property in which money is invested either temporarily or permanently.

Investments in default. Investments (*which see*) on which there exists a default in the payment of principal or interest.

Job account. An account pertaining either to an operation which occurs regularly (a "standing order"), or to a specific piece of work (a "job order"), showing all charges for material and labor used and other expenses incurred, together with any allowances or other credits.

Journal. Any book of original entry (*which see*). *See also* **Register.**

Journal voucher. A voucher (*which see*) provided for the recording of certain transactions or information in place of or supplementary to the journals or registers. The journal voucher usually contains an entry or entries, explanations, references to documentary evidence supporting the entry or entries, and the signature or initials of one or more officials.

Judgment. An amount to be paid or collected by a governmental unit as the result of a court decision, including a condemnation award in payment for private property taken for public use.

Judgment bonds. Bonds issued to fund judgments (*which see*).

Lapse. (*Verb*) As applied to appropriations, this term denotes the automatic termination of an appropriation. *Note:* Except for indeterminate appropriations (*which see*), an appropriation is made for a certain period. At the end of this period, it is said to lapse and the unencumbered balance thereof must be reappropriated unless otherwise provided by law.

Leaseholds. Rights to the use of real estate by virtue of a lease, usually for a specified term of years, for which a consideration is paid, as distinguished from the ownership of the real estate.

Legal investments. (1) Investments which savings banks, insurance companies, trustees, and other fiduciaries (individual or corporate) are permitted to make by the laws of the state in which they are domiciled, or under the jurisdiction of which they operate or serve. The investments which meet the conditions imposed by law constitute the legal investment list. (2) Investments which governmental units are permitted to make by law.

Legal opinion. (1) The opinion of an official authorized to render it, such as an attorney general or city attorney, as to legality. (2) In the case of municipal bonds, the opinion, usually of a specialized bond attorney, as to the legality of a bond issue. A preliminary legal opinion is made in advance of the original sale of the bonds; a final opinion, after the bonds have been issued and sold.

Levy. (*Verb*) To impose taxes or special assessments. (*Noun*) The total of taxes or special assessments imposed by a governmental unit.

Liabilities. Debt or other legal obligations arising out of transactions in the past which must be liquidated, renewed, or refunded at some future date. *Note:* The term should be confined to items payable but not necessarily due It does not include encumbrances.

Liability reserve. A liability the amount of which represents merely an estimate because of lack of invoices or other sources of information from which to determine its exact amount *Note:* The difference between a liability reserve and a contingent liability (*which see*) is that the former represents a definite liability the approximate,

though not the exact, amount of which is known, whereas the latter consists of items which may become liabilities as a result of conditions undetermined at the balance sheet date.

Loan fund. A fund whose principal is loaned to qualified beneficiaries and when repaid is available for loan to others. *Note:* The term should not be confused with bond fund (*which see*). *See also* **Revolving fund.**

Local improvement fund. *See* **Special assessment fund.**

Local improvement tax. *See* **Special assessment.**

Long-term budget. A budget prepared for a period longer than a fiscal year, or in the case of some state governments, the budget prepared for a period longer than a biennium. *Note:* Ordinarily a long-term budget is prepared for improvements and covers a period of five or more years. *See also* **Capital budget.**

Lump sum appropriation. An appropriation made for a stated purpose, or for a named department, without specifying further the amounts that may be spent for specific activities or for particular objects of expenditure; for example, an appropriation for the police department which does not specify the amounts to be spent for uniform patrol, traffic control, and so forth, or for salaries and wages, materials and supplies, travel, and so forth.

Maintenance. The upkeep of physical properties in condition for use or occupancy. Examples are the inspection of equipment to detect defects which may prevent its use or decrease its efficiency and the making of repairs.

***Matured interest.** Interest due but unpaid.

***Meter reading.** Securing and recording information with reference to the consumption of water, electricity, or other services by each customer. The term may include other activities of the meter reader, such as testing meters and investigating high consumption.

Mortgage bonds. Bonds secured by a mortgage against specified properties of a governmental unit, usually its public utilities. If primarily payable solely from revenues, they may be classed also as revenue bonds (*which see*).

Municipal. An adjective applying to any governmental unit below or subordinate to the state.

Municipal corporation. A body politic or corporate established pursuant to state authorization as evidenced by a charter primarily for the purpose of serving its inhabitants and secondarily to help the state in administering state affairs in the particular locality. A municipal corporation has defined boundaries and a population and is usually organized with the consent of the residents. It usually has a seal although a seal is not essential. Cities and villages are examples of municipal corporations. *See also* **Quasi-municipal corporation.**

Municipal improvement certificates. Certificates issued in lieu of bonds for the financing of special improvements. *Note:* As a rule, they are placed in the contractor's hands for collection from the special assessment payers.

Net bonded debt. Gross bonded debt (*which see*) less applicable sinking fund assets.

Net book value. *See* **Book value.**

Net income. This term is used only in accounting for utilities and other governmental enterprises of a business character and designates the excess of *total* revenues (*which see*) over *total* expenses for an accounting period. *See also* **Income.**

Net operating profit. *See* **Net income.**

Nominal interest rate. The contractual interest rate shown on the face and in the body of a bond and representing the amount of interest to be paid, in contrast with the effective interest rate (*which see*). *See also* **Coupon rate.**

Non-expendable fund. A fund the principal, and sometimes also the earnings, of which may not be expended. *See also* **Endowment fund** *and* **Loan fund.**

Non-expenditure disbursements. Disbursements which are not chargeable as expenditures; for example, a disbursement made for the purpose of paying an account payable previously recorded on the books.

Non-operating expenses. Expenses incurred in relation to non-operating properties (*which see*) or in the exercise of functions not directly related to the supplying of service.

Non-operating income. Income of municipal utilities and other governmental enterprises of a business character which is not derived from the operation of such enterprises.

Non-operating properties. Properties which are owned by a utility but which are not actually used and useful, and are not intended to be used, in the operation of the utility.

Non-revenue receipts. Collections, other than revenue (*which see*), such as receipts from loans where the liability is recorded in the fund in which the proceeds are placed and receipts on account of recoverable expenditures. *See also* **Revenue receipts.**

Note payable. In general, an unconditional written promise signed by the maker, to pay a certain sum in money on demand or at a fixed or determinable future time either to the bearer or to the order of a person designated therein. *See also* **Temporary loans.**

Note receivable. A note payable (*which see*) of another held by a governmental unit as designated payee or by endorsement. *Note:* While, in a legal sense, a note receivable may be merely a promise to pay and is not necessarily negotiable, the term "notes receivable" when used in a balance sheet means negotiable notes which the holder has received in the course of business.

Object. As used in an expenditure classification, this term applies to the article purchased or the service obtained (as distinguished from the results obtained from expenditures); for example, personal services, contractual services, and materials and supplies. *See also* **Activity, character,** *and* **function.**

Objects of expenditure. *See* **Object.**

Obligations. Amounts which the governmental unit may be required legally to meet out of its resources. They include not only actual liabilities but also unliquidated encumbrances.

Obsolescence. The decrease in the value of fixed assets due to economic, social, technical, or legal changes.

Operating expenses. (1) As used in the accounts of municipal utilities and other governmental enterprises of a business character, the term means such costs as are necessary to the maintenance of the enterprise, the rendering of services for which operated, the sale of merchandise, the production and disposition of commodities produced, and the collection of the revenues. Some utilities commissions interpret the term "operating expenses" in a narrow sense so as to exclude depreciation, taxes, and property losses chargeable to operations and require that each of these be classified independently as an operating revenue deduction. (2) The term is also sometimes used to describe expenses for general governmental purposes.

Operating revenues. Revenues derived from the operation of municipal utilities or other governmental enterprises of a business character.

Operating statement. A statement summarizing the financial operations of a municipality for an accounting period as contrasted with a balance sheet (*which see*) which shows financial condition at a given moment of time.

Optional bond. *See* **Callable bond.**

Ordinance. A by-law of a municipality, enacted by the council or governing body as a local law. If it is passed in due form, is authorized by the charter, and is not in conflict with any higher form of law, it has, within the municipal limits, the binding force of a state law. *Note:* The difference between an ordinance and a resolution (*which see*) is that the latter requires less legal formality. Ordinarily the statutes or charter will specify or imply which action must be by ordinance and all other action may be by resolution.

***Organization expense.** The incidental costs of organizing the utility. Examples are fees and expenses of incorporation and office expenses incident to organizing the utility.

***Other income.** *See* **Non-operating income.**

Outlays. Synonymous with **Expenditures.** *See also* **Capital outlays.**

Overdraft. (1) The amount by which checks, drafts, or other demands for payment on the treasury or on a bank exceed the amount of the credit against which they are drawn. (2) The amount by which requisitions, purchase orders, or audited vouchers exceed the appropriation or other credit to which they are chargeable.

Overhead. Those elements of cost necessary in the production of an article or the performance of a service which are of such nature that the amount applicable to the product or service cannot be determined readily or accurately. Usually they relate to those objects of expenditure which do not become an integral part of the finished product or service, such as rent, heat, light, supplies, management, supervision, and so forth.

Overlapping debt. The proportionate share of the debts of local governmental units located wholly or in part within the limits of the reporting government which must be borne by property within such government. *Note:* These debts, except for special assessment debt, are allocated to the reporting unit on the basis of the percentage of the assessed value of the taxable property of each overlapping jurisdiction, computed on a uniform basis of valuation, lying within the limits of the reporting governmental unit. Special assessment debt is allocated on the basis of the ratio of assessments receivable in each jurisdiction which will be used wholly or in part to pay off the debt to total assessments receivable which will be used wholly or in part for this purpose.

Partial audit. *See* **Incomplete audit.**

Pay-as-you-go basis. Basis upon which a governmental unit operates when it meets its expenditures (including those for improvements) from current revenues rather than by borrowing. A governmental unit which pays for some improvements from current revenues and others by borrowing is said to be on a "partial" or "modified" pay-as-you-go basis.

Pension fund. A fund out of which pensions are to be paid either to those entitled thereto under specific agreement or to those who may be selected by persons in control of the fund. *Note:* A pension fund is a trust fund (*which see*).

Perpetual inventory. A system whereby the inventory by units of property at any date may be obtained directly from the records without resorting to an actual physical count. An account is provided for each item or group of items to be inventoried, so divided as to provide a running record of goods ordered, received, and withdrawn, and the balance on hand, in units and frequently also in value.

Petty cash. A sum of money, either in the form of currency or a special bank deposit, set aside for the purpose of making change or immediate payments of comparatively small amounts. *See* **Imprest system.**

Post-audit. An audit made after the transactions to be audited have taken place and have been recorded or been approved for recording by designated officials, if such approval is required. *See note following definition of* **Pre-audit.**

Posting. The act of transferring to an account in a ledger the data, either detailed or summarized, contained in a book or document of original entry.

Pre-audit. An examination for the purpose of determining the propriety of proposed financial transactions and of financial transactions which have already taken place but have not yet been recorded, or, if such approval is required, before the approval of the financial transactions by designated officials for recording. *Note:* There is frequently confusion between the audit as a whole and the auditing of individual transactions. For example, if we speak of an audit as a whole, then an independent auditor may be said to be performing a post-audit, since most of the transactions whose propriety he examines have al-

ready taken place and been recorded or been approved for recording. The independent auditor may, however, also have to deal with transactions which have not been approved for recording (for example, accrued salaries and wages) but in speaking of an audit as a whole we may ignore these and say that the audit under consideration is a post-audit. On the other hand, if the audit of individual transactions is involved, the independent auditor, in the case illustrated, would be performing a post-audit with respect to most of the transactions but a pre-audit with respect to some of them. Sometimes the term "pre-audit" is used as a synonym for "internal audit" (*which see*) but such usage is not recommended. *See also* **Post-audit.**

Prepaid expenses. Expenses which have been entered in the accounts for benefits not yet received and which are therefore carried in the balance sheet; for example, prepaid rent, prepaid interest, and premiums on unexpired insurance. *Note:* Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operation. *See also* **Deferred charges.**

Prepayment of taxes. The deposit of money with a governmental unit on condition that the amount deposited is to be applied against the tax liability of a designated taxpayer after the taxes have been levied and such liability has been established.

Prior years' tax levies. Taxes levied for fiscal periods preceding the current one.

Private trust fund. A trust fund (*which see*), which will ordinarily revert to private individuals or will be used for private purposes; for example, a fund which consists of guarantee deposits.

Pro forma. For form's sake; an indication of form; an example. The term is used in conjunction with a noun to denote merely a sample form, document, statement, certificate, or presentation, the contents of which may be either in whole or in part hypothetical, actual facts, estimates, or proposals.

Project. A plan of work, job, assignment, or task.

Proportionately shared state tax. *See* **Shared state tax.**

Proprietary accounts. Those accounts which show actual financial condition and operations such as actual assets, liabilities, reserves, surplus, revenues, and expenditures, as distinguished from budgetary accounts (*which see*).

Public accountant. An accountant who provides his services professionally to the public.

Public accounting. The practice of accounting for various enterprises which stand to the accountant in the relation of client rather than employer. *Note:* The term is not synonymous with "governmental accounting" (*which see*).

Public authority. A public agency usually created to perform a single function which is financed from tolls or fees charged those using the facilities operated by the agency; for example, a bridge or tunnel authority.

Public corporation. *See* **Municipal corporation** *and* **Quasi-municipal corporation.**

Public trust fund. A trust fund (*which see*) whose principal, earnings, or both must be used for a public purpose; for example, a pension fund.

Purchase order. A document which authorizes the delivery of specified merchandise or the rendering of certain services and the making of a charge for them.

Quasi-municipal corporation. An agency established by the state primarily for the purpose of helping the state to carry out its functions; for example, a county or school district. *Note:* Some counties and other agencies ordinarily classified as quasi-municipal corporations have been granted the powers of municipal corporations by the state in which they are located. *See also* **Municipal corporation.**

Rebates. Abatements (*which see*) or refunds (*which see*).

Receipts. The term indicates cash received, unless otherwise qualified.

Recoverable expenditure. An expenditure made for or on behalf of another governmental unit, fund, or department, or for a private individual, firm, or corporation, which will subsequently be recovered in cash or its equivalent.

Refund. (*Noun*) An amount paid back or credit allowed because of an over-collection or on account of the return of an object sold. (*Verb*) To pay back or allow credit for an amount because of an over-collection or because of the return of an object sold. (*Verb*) To provide for the payment of a loan through cash or credit secured by a new loan.

Refunding bonds. Bonds issued to retire bonds already outstanding. The refunding bonds may be sold for cash and outstanding bonds redeemed in cash, or the refunding bonds may be exchanged with holders of outstanding bonds.

Register. A record for the consecutive entry of a certain class of events, documents, or transactions, with a proper notation of all the required particulars. *Note:* The form of register for accounting purposes varies from a one-column to a multi-columnar sheet of special design whereon the entries are distributed, summarized, and aggregated usually for convenient posting to the accounts.

Registered warrant. A warrant which is registered by the paying officer for future payment on account of present lack of funds and which is to be paid in the order of its registration. In some cases, such warrants are registered when issued; in others, when first presented to the paying officer by the holders. *See* **Warrant.**

Reimbursable expenditure. *See* **Recoverable expenditure.**

Reimbursement. Cash or other assets received as a repayment of the cost of work or services performed, or of other expenditures made for or on behalf of another governmental unit, fund, or department, or for an individual, firm, or corporation.

Related funds. Funds of a similar character which are brought together for administrative and reporting purposes; for example, sinking funds.

Replacement cost. The cost as of a certain date of a property which can render similar service (but need not necessarily be of the same structural form) as the property to be replaced. *See also* **Reproduction cost.**

Report. (*Noun*) A written or verbal formal statement (*which see*). (*Verb*) To make, prepare, or present a written or verbal formal statement.

Reproduction cost. The cost as of a certain date of reproducing an exactly similar property new in the same place. *Note:* Sometimes this term is designated as "reproduction cost new" to distinguish it from "depreciated reproduction cost" which is the reproduction cost of a given property less the estimated amount of accumulated depreciation applicable to it. In the absence of any modifier, however, the term "reproduction cost" is understood to be synonymous with "reproduction cost new." *See also* **Replacement cost.**

Requisition. A written demand or request, usually from one department to the purchasing officer or to another department, for specified articles or services.

Reserve. An account set up to indicate any of the following: (1) the amount by which the gross book value of certain assets is reduced, (2) a definite liability the exact amount of which is not yet determinable, (3) the segregation of surplus representing contingent liabilities, or (4) other segregations of surplus.

Reserve for depreciation. The accumulation of periodical credits made to record the estimated loss in the service life of fixed assets other than wasting assets (*which see*) attributable to wear and tear through use and lapse of time, obsolescence (*which see*), inadequacy, or other physical or functional cause. *Note:* When such a reserve is set up, it is shown on the balance-sheet as a deduction from the assets to which it relates so as to show the net book value of the assets.

Reserve for encumbrances. A reserve representing the segregation of surplus to provide for unliquidated encumbrances (*which see*). *See* **Reserve (3).**

Reserve for retirement of sinking fund bonds. A reserve (*which see*) equal to the amount of cash and other resources which should have been accumulated at a certain date in order eventually to redeem bonds outstanding. *Note:* In a utility fund, the reserve may represent the actual resources in the fund rather than the amount which should have been accumulated, since a utility fund is accounted for in the same manner as a private enterprise. However, the amount which should have been accumulated should also be shown on the balance sheet either in parentheses following the reserve account or in a footnote. *See also* **Sinking fund.**

***Reserve for uncollectible accounts.** The net accumulation of periodical credits made to record the estimated reduction in accounts receivable which it is estimated will not be collected.

Reserve for uncollectible taxes. A reserve (*which see*) out of tax revenues for that part which, it is estimated, will never be collected.

Resolution. A special or temporary order of a legislative body; an order of a legislative body requiring less legal formality than an ordinance. *Note:* For a fuller discussion of the distinction between a resolution and an ordinance, *see* **Ordinance.**

Resources. The actual assets of a governmental unit such as cash, taxes receivable, land, buildings, and so forth, plus contingent assets such as estimated revenues applying to the current fiscal period not accrued or collected and bonds authorized and unissued. *See* **Capital resources** *and* **Current resources.**

Revenue. If the accounts are kept on an accrual basis (*which see*), this term designates additions to assets which do not increase any liability, nor represent the recovery of an expenditure, and the cancellation of liabilities without a corresponding increase in other liabilities or a decrease in assets. The same definition applies in its entirety to those cases where the accounts are kept on a cash basis (*which see*) except that the additions must be to cash only. *See also* **Accrual basis** *and* **Cash basis.**

Revenue bonds. Bonds the principal of and interest on which are to be paid solely from earnings, usually those of a municipally owned utility or other public service enterprise the revenues and possibly the properties of which are pledged for this purpose.

Revenue receipts. A term used by some governmental units reporting their revenues on a cash basis (*which see*) synonymously with "revenue" (*which see*). *See also* **Non-revenue receipts.**

Revolving fund. A fund provided to carry out a cycle of operations. The amounts expended from the fund are restored thereto from earnings from operations or by transfers from other funds, so that it is always intact, either in the form of cash, receivables, inventory, or other assets. *See also* **Imprest system** *and* **Working capital fund.**

Schedules. (1) The explanatory or supplementary statements that accompany the balance sheet or other principal statement periodically prepared from the books. (2) The accountant's or auditor's principal work papers covering his examination of the books and accounts. (3) A written enumeration or detailed list in orderly form. *See also* **Exhibit** *and* **Statements.**

Scrip. An evidence of indebtedness, usually in small denomination, secured or unsecured, interest-bearing or non-interest-bearing, stating that the governmental unit, under conditions set forth, will pay the face value of the certificate, or accept it in payment of certain obligations.

Securities. Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments. *See also* **Investments.**

Self-supporting or self-liquidating debt. Debt obligations whose principal and interest are payable primarily or solely from the earnings of the municipal utility or enterprise for the construction or improvement of which they were originally issued.

Serial annuity bonds. Serial bonds in which the annual installments of bond principal are so arranged that the payments for principal and interest combined are approximately the same each year.

Serial bonds. Issues redeemable by installments, each of which is to be paid in full ordinarily out of revenues of the year in which it matures, or revenues of the preceding year. *Note:* Some state laws or regulations have further defined serial bonds to include some or all of the following features:

1. The payments must be in installments.
2. The installments must be consecutive.
3. Payments must be made during at least two-thirds of the life of the whole issue.
4. No one year's installment may be more than three times the amount of the smallest yearly installment unless the bonds are serial annuity bonds.

Shared state tax. A specific state-imposed tax shared with local governments in proportion, or substantially in proportion, to the amount of tax collected or produced in each local unit. The tax may be collected either by the state in the first instance and shared with the localities or collected locally and shared with the state.

Sinking fund. A fund established by periodical contributions and earnings thereon to provide for the retirement of the principal of term bonds (*which see*) and of other bonds specified to be retired from such funds.

Sinking fund bonds. Bonds issued under an agreement which requires the governmental unit to set aside periodically, ordinarily out of its revenues, a sum which, with earnings thereon, will be sufficient to redeem the bonds at their stated date of maturity. *Note:* Sinking fund bonds are usually also term bonds (*which see*).

Sinking fund requirements. The amount by which a sinking fund must be increased periodically through contributions and earnings so that the accumulation thereof will be sufficient to redeem sinking fund bonds as they mature. *Note:* The amount required periodically should be calculated on an actuarial basis unless another basis is provided by law.

Sinking fund reserve. *See* **Reserve for retirement of sinking fund bonds.**

Special assessment. A compulsory levy made by a local government against certain properties to defray part or all of the cost of a specific improvement or service which is presumed to be of general benefit to the public and of special benefit to the owners of such properties. *Note:* The term should not be used without a modifier (for example, "special assessments for improvements" or "special assessments for street sprinkling") unless the intention is to have it cover both im-

provements and services or unless the particular use is apparent from the context.

Special assessment bonds. Bonds payable from the proceeds of special assessments (*which see*). If the bonds are payable only from the collections of special assessments, they are known as "special special assessment bonds." If, in addition to the assessments, the full faith and credit of the governmental unit is pledged, they are known as "general obligation special assessment bonds."

Special assessment fund. A fund set up to provide for the financing of improvements or services to be paid for wholly or in part from the proceeds of special assessments (*which see*) levied against the properties benefited by such improvements or services.

Special assessment liens. Claims which governmental units have upon properties until special assessments (*which see*) levied against them have been paid. *Note:* The term is sometimes limited to those delinquent special assessments for the collection of which legal action has been taken through the filing of liens.

Special assessment roll. The official list showing the amount of special assessments (*which see*) levied against each property presumed to be benefited by an improvement or service.

Special audit. An audit which is limited to some particular phase of a governmental unit's activity, as for example, the examination of a sinking fund; or an audit which covers all of the governmental unit's activities for a shorter period of time than the usual audit period. *Note:* A special audit may be complete even if the activities covered are for a shorter period than the usual audit period providing all of the activities for the period under consideration are examined. For example, if the audit is to cover the transactions of the first three months of the current fiscal period and all the transactions for the three months are examined, the examination may be called a complete special audit. If only some of them are examined, the audit may be designated an incomplete special audit.

Special district bonds. Bonds of a local taxing district which has been organized for a special purpose, such as road, sewer, fire, drainage, irrigation, and levee districts.

Special fund. Any fund which must be devoted to some special use in accordance with specific regulations and restrictions. *Note:* The term applies to all funds other than the general fund (*which see*).

Special investigation. *See* **Investigation.**

Special lien bonds. Special assessment bonds which are liens against particular pieces of property.

Special revenue fund. A fund used to finance particular activities from the receipts of specific taxes or other revenues. Such a fund is usually created through statutory or charter provisions to provide certain activities with definite and continuing revenues. After the fund is once created, it usually continues year after year until discontinued or revised by proper legislative action. An example is schools financed from special tax levies.

Special special assessment bonds. *See* **Special assessment bonds.**

Standard cost. What the cost of performing an operation or producing a product should be when labor, materials, and equipment are utilized efficiently under normal and reasonable conditions. *Note:* Normal conditions exist when there is an absence of special or extraordinary factors affecting the quality or quantity of the work performed, or the time or method of performing it.

State-collected, locally shared tax. *See* **Shared state tax.**

Statements. In accounting, formal written presentations setting forth financial information. The term includes exhibits, schedules, and written reports. *See also* **Exhibit, Report,** *and* **Schedules.**

Stores. Goods on hand in store rooms subject to requisition.

Straight serial bonds. Serial bonds (*which see*) in which the annual installments of bond principal are approximately equal.

Subsidiary account. One of a group of related accounts which support in detail the debit and credit summaries recorded in a controlling account. An example is the individual property taxpayers' accounts which support the controlling accounts for taxes receivable in the general ledger. *See also* **Controlling account** *and* **Subsidiary ledger.**

Subsidiary ledger. A group of subsidiary accounts (*which see*) the sum of the balances of which is equal to the balance of the related controlling account. *See also* **Controlling account** *and* **Subsidiary account.**

Subvention. A grant (*which see*).

Surety bond. A written promise to pay damages or to indemnify against losses caused by the party or parties named in the document, through the non-performance of a contract or other duties or by defalcations; for example, a surety bond given by a contractor or by an official handling cash or securities.

Surplus. The excess of the assets of a fund over its liabilities and liability reserves; or if the fund has also other resources and obligations, the excess of resources over obligations. The term should not be used without a properly descriptive adjective unless its meaning is apparent from the context. *See also* **Current surplus, Investment in fixed assets, Unappropriated budget surplus,** *and* **Unappropriated surplus.**

Surplus receipts. Receipts which increase the surplus of a fund but are not properly a part of the normal revenue; for example, the collection of taxes or accounts receivable previously written off as uncollectible.

Surplus reserve. A reserve (*which see*) representing the segregation of surplus for specified purposes.

Suspense account. An account which carries charges or credits temporarily pending the determination of the proper account or accounts to which they are to be posted. *See also* **Suspense fund.**

Suspense fund. A fund established to account separately for certain cash receipts pending the distribution or disposal thereof. *See also* **Agency fund.**

Symbolization. The assignment of letters, numbers, or other marks or characters to the ordinary titles of the ledger accounts. Each letter or number should have the same meaning wherever used and should be selected with great care so that it will indicate immediately and with certainty the title of the account as well as its place in the classification. The use of proper symbols saves much time and space in making the book record and adds to its precision and accuracy. *See also* **Coding.**

Tax anticipation notes. Notes (sometimes called "warrants") issued in anticipation of collection of taxes, usually retirable only from tax collections, and frequently only from the proceeds of the tax levy whose collection they anticipate.

Tax anticipation warrants. *See* **Tax anticipation notes.**

Tax certificate. A certificate issued by a governmental unit as evidence of the conditional transfer of title to tax delinquent property from the original owner to the holder of the certificate. If the owner does not pay the amount of the tax arrearage and other charges required by law during the specified period of redemption, the holder can foreclose to obtain title. Also called in some jurisdictions "tax sales certificate" and "tax lien certificate." *See also* **Tax deed.**

Tax deed. A written instrument under seal by which title to property sold for taxes is transferred unconditionally to the purchaser. A tax deed is issued upon foreclosure of the tax lien (*which see*) obtained by the purchaser at the tax sale. The lien cannot be foreclosed until the expiration of the period during which the owner may redeem his property through paying the delinquent taxes and other charges. *See also* **Tax certificate.**

Tax levy ordinance or resolution. An ordinance (*which see*) or resolution (*which see*) by means of which taxes are levied.

Tax liens. Claims which governmental units have upon properties until taxes levied against them have been paid. *Note:* The term is sometimes limited to those delinquent taxes for the collection of which legal action has been taken through the filing of liens.

Tax limit. The maximum rate or amount of general property tax which a local government may levy. The limit may apply to taxes raised for a particular purpose, or to taxes raised for all purposes, and may apply to a single government or class of governments or to all governments operating in a particular area. Over-all tax limits usually restrict levies for all purposes and of all governments, state and local, having jurisdiction within a given area.

Tax notes. *See* **Tax anticipation notes.**

Tax rates. The amount of tax stated in terms of a unit of the tax base; for example, 25 mills per dollar of assessed valuation.

Tax roll. The official list showing the amount of taxes levied against each taxpayer or property. *Note:* Frequently the tax roll and assessment roll (*which see*) are combined, but even in these cases the two can be distinguished.

Tax title notes. Obligations secured by pledges of the governmental unit's interest in certain tax liens or tax titles.

Taxes. Compulsory charges levied by a governmental unit for the purpose of financing services performed for the common benefit. *Note:* The term does not include specific charges made against particular persons or property for current or permanent benefits and privileges accruing only to those paying such charges as licenses, permits, and special assessments.

Taxes levied for other governmental units. Taxes levied by the reporting government for other governmental units which when collected are to be paid over to these units.

Taxes receivable. The uncollected portion of taxes which a governmental unit has levied.

Temporary loans. Short-term obligations representing amounts borrowed for short periods of time and usually evidenced by notes payable (*which see*) or warrants payable (*which see*). They may be unsecured, or secured by specific revenues to be collected or otherwise. *See also* **Tax anticipation notes.**

Term bonds. Bonds of the same issue usually maturing all at one time and ordinarily to be retired from sinking funds (*which see*). *Note:* Sometimes a term bond has more than one maturity date; for example, a serial issue having postponed maturities in only a few late years of its term.

Test check. The checking of selected items on the assumption that they are representative of the entire group from which selected and therefore if no errors are found in them the unchecked items in the group are also correct. *See also* **Complete audit** *and* **Incomplete audit.**

Trade discount. An allowance, usually varying in percentage with volume of transactions, made to those engaged in certain businesses and allowable irrespective of the time when the account is paid. *Note:* These discounts are commonly considered as a reduction of the sales or purchase price and not as an earning. The term is not to be confused with cash discount (*which see*).

Transfer voucher. A voucher (*which see*) authorizing transfers of cash or other resources between funds.

Trial balance. A list of the balances of the accounts in a ledger kept by double entry (*which see*), with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or their net balance agrees with a controlling account, the ledger from which the figures are taken is said to be "in balance."

Trust fund. A fund consisting of resources received and held by the governmental units as trustee to be expended or invested in accordance with the conditions of the trust. *See also* **Endowment fund, Loan fund, Private trust fund,** *and* **Public trust fund.**

Trust and agency fund. *See* **Agency fund** *and* **Trust fund.**

Unallotted balance of appropriation. An appropriation balance available for allotment (*which see*).

Unappropriated budget surplus. If the balance of unappropriated surplus at the close of the preceding year is not included in the budget, the term designates that portion of the current fiscal year's estimated revenues which has not been appropriated. If the balance is included, the term is synonymous with unappropriated surplus (*which see*).

Unappropriated surplus. That portion of the surplus (*which see*) of a given fund which is not segregated for specific purposes. *See also* **Surplus reserve.**

***Uncollectible accounts.** Accounts receivable (*which see*) judged impossible, or impracticable, of collection.

Unearned income. *See* **Deferred credits.**

Unencumbered allotment. *See* **Unencumbered balance of appropriation or allotment.**

Unencumbered appropriation. *See* **Unencumbered balance of appropriation or allotment.**

Unencumbered balance of appropriation or allotment. That portion of an appropriation or allotment not yet expended or encumbered; the balance remaining after deducting from the appropriation or allotment the accumulated expenditures and outstanding encumbrances.

Unexpended appropriation. *See* **Unexpended balance of appropriation or allotment.**

Unexpended balance of appropriation or allotment. That portion of an appropriation or allotment which has not been expended; the balance remaining after deducting from the appropriation or allotment the accumulated expenditures.

Unit cost. A term used in cost accounting to denote the cost of producing a unit of product or rendering a unit of service; for example, the cost of manufacturing a ton of asphalt.

Unliquidated encumbrances. Encumbrances outstanding. *See also* **Encumbrances.**

Unqualified certificate. An auditor's certificate (*which see*) which contains no qualifications or exceptions.

Unrealized revenue. *See* **Accrued revenue.**

Utility debt. Debt which is to be retired primarily from the earnings of municipal utilities or other public service enterprises. *See also* **Revenue bonds.**

Utility fund. A fund established to finance the construction, operation, and maintenance of municipally owned utilities, such as gas, water, and light plants, and transportation facilities.

Value. As used in municipal accounting, this term designates (1) the act of describing anything in terms of money, or (2) the measure of a thing in terms of money. The term should not be used without further qualification. *See* **Book value** *and* **Face value.**

Voucher. A document which evidences the propriety of transactions and usually indicates the accounts in which they are to be recorded.

Voucher system. A system which calls for the preparation of vouchers (*which see*) for transactions involving payments and for the recording of such vouchers in a special book of original entry (*which see*)

known as a voucher register in the order in which payment is approved.

Warrant. (1) An order drawn by the legislative body or an officer of a governmental unit upon its treasurer directing the latter to pay a specified amount to the person named or to the bearer. It may be payable upon demand, in which case it usually circulates the same as a bank check; or, it may be payable only out of certain revenues when and if received, in which case it does not circulate as freely. (2) An order for the treasurer to receive money. *See also* **Registered warrant.**

Warrants payable. The amount of warrants outstanding and unpaid.

Wasting assets. Mines, timber lands, quarries, and other like assets which diminish in value by the removal of their product.

***Water distribution.** The activities relating to the distribution of water to consumers.

***Water pumping.** The activities connected with supplying "head" for the distribution of water.

***Water transmission.** Activities of the water utility in transporting water from the points of collection to the purification facilities or to the point where it enters the distribution system when the water is not purified. *Note:* (1) The term does not include water purification or water pumping (*which see*). (2) A transmission main is distinguished from a distribution main in that the former is used in conveying water to the distribution system and generally has no service connections.

Work in process. The cost of partially completed products manufactured or processed in the service departments, such as a partially completed printing job. Sometimes referred to as "work in progress." *See also* **Construction work in progress.**

Work order. A written order authorizing and directing the performance of a certain task, issued to the person who is to direct the work. Among the information shown on the order are the nature and location of the job, specifications of the work to be performed, and a job number which is referred to in reporting the amount of labor, materials, and equipment used.

Work program. A plan of the work proposed to be done during a particular period by a department or other agency. The work program is useful both in planning and in executing the budget since it provides a basis for making expenditure estimates. The program usually contains not only estimates of proposed work but also data concerning work done in preceding years on which the estimates are partly based.

Work unit. The parts into which a job or operation is subdivided for cost accounting and other purposes. *See also* **Cost unit.**

Working capital fund. A fund established to finance activities, usually of a manufacturing or service nature, such as shops and garages, asphalt plants, and central purchases and stores departments. Sometimes called a revolving fund (*which see*).

APPENDIX II

Bibliography[1]

Chapter 1. Essential Principles of Governmental Accounting

1. "Auditing Public Accounts," *Municipal Finance,* November 1941, entire issue.
2. California Society of Certified Public Accountants, "Standard Audit Procedures for Municipalities," *Journal of Accountancy,* August 1945, 80:152-158.
3. Chambers, Jay L., "Some Purposes and Principles of Government Accounting," *Journal of Accountancy,* August 1940, 70:135-141.
4. Ellis, G. P., "Essentials of Municipal Accounting," *Municipal Finance,* August 1936, 9:4-7.
5. "Financial Organization," *Municipal Finance,* November 1942, entire issue.
6. Frisbee, Ira N., "The Application of Governmental Accounting Principles to Practice," *Accounting Review,* March 1939, 14:27-33.
7. Kansas Legislative Council, Research Department, *State Financial Administration in Kansas.* Topeka: The Department, 1938. 46 pp.
8. Morey, Lloyd, and Hackett, Robert P., *Fundamentals of Governmental Accounting.* New York: John Wiley & Sons, Inc., 1942. 448 pp.
9. Municipal Finance Officers' Association, *County Finance and Accounting Standards.* Chicago: The Association, 1937. 35 pp.
10. ————, *Standard Practice in Municipal Accounting and Financial Procedure.* Chicago: The Association, 1943. 26 pp.
11. National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, pp. 1-19.
12. ————, *Municipal Audit Procedure.* Chicago: The Committee, 1941. 54 pp.
13. Peavey, James O., "What Constitutes an Adequate Accounting System for a Public Welfare Agency?" *Journal of Accountancy,* November 1942, 74:433-439.
14. Roberge, L., "Montreal's Financial Department," *Municipal Finance,* November 1940, 13:15-20.
15. Tannery, Fladger F., "Problems Relating to Governmental Accounting," *Journal of Accountancy,* October 1942, 74:332-340.

[1] For a list of and further details concerning most of the periodicals cited, see pages 431-432.

16. Tannery, Fladger F., *State Accounting Procedures.* Chicago: Public Administration Service, 1943. 442 pp.
17. Weigel, John C., *A Manual of Business Methods for the Institutions and Divisions of the Department of Public Welfare.* Springfield: State of Illinois, 1941. 499 pp.

Chapter 2. Classification of Revenue and Expenditure Accounts

1. American Public Welfare Association, and U. S. Social Security Board, *Standard Classification of Public Assistance Costs.* Chicago: The Association, 1942. 54 pp.
2. Kilpatrick, Wylie, "Classification and Measurement of Public Expenditures," *Annals of the American Academy of Political and Social Science,* January 1936, 183.19-26.
3. Lorig, Arthur N., "Classification of Municipal Income and Expenditures," *Accounting Review,* June 1937, 12:163-173.
4. National Committee on Municipal Accounting, *A Standard Classification of Municipal Revenues and Expenditures.* Chicago: The Committee, 1939. 103 pp.
5. Public Administration Service, *Handbook of Financial Administration, Commonwealth of Kentucky.* Chicago: The Service, 1937, pp. 279-313.
6. ———, *Report on Financial Administration in the Michigan State Government.* Chicago: The Service, 1938, pp. 427-482.
7. Uniform Accounting Committee, League of California Municipalities, *Manual of Accounting Procedures for California Municipalities.* Los Angeles: The League, 1939, pp. 85-177.

Chapter 3. Budgeting

1. Asfahl, W. D., "Control That Budget," *Nation's Schools,* August 1944, 34.44-45.
2. Bean, G. E., "An Operating and Budget Control System," *Public Management,* November 1940, 22:328-330.
3. Buck, A. E., *Budgeting for Small Cities.* Chicago: Public Administration Service, 1931. 21 pp.
4. ———, *Public Budgeting.* New York: Harper & Brothers, 1929. 612 pp.
5. "Budget Procedures," *Municipal Finance,* February 1941, entire issue.
6. Church, W. H., "How Accurate Is Your Budget?" *American School Board Journal,* December 1943, 107:25-26.
7. DeYoung, Chris A., *Budgeting in Public Schools.* Garden City: Doubleday, Doran & Company, 1936. 610 pp.
8. Diehl, O. W., "The Relationship of a Municipal Budget System to the Appropriation Ordinance," *Illinois Municipal Review,* May 1938, 17:82-83.
9. Martin, Roscoe C., *A Budget Manual for Texas Cities.* Austin: Bureau of Municipal Research, University of Texas, 1934. 131 pp.

10. Municipal Finance Officers' Association, *County Finance and Accounting Standards.* Chicago: The Association, 1937, pp. 4-9.
11. ———, *Standard Practice in Municipal Accounting and Financial Procedure.* Chicago: The Association, 1943, pp. 2-6.
12. National Municipal League, *A Model Municipal Budget Law.* New York: The League, 1928. 12 pp.
13. Phillipps, Miner B., "Budget Procedure in Pasadena," *Municipal Finance,* February 1941, 13:19-22.
14. Sundelson, J. Wilner, "Budgetary Principles," *Political Science Quarterly,* June 1935, 50:236-263.
15. Uniform Accounting Committee, League of California Municipalities, *Budgeting for California Municipalities.* Los Angeles: The League, 1939. 107 pp.

Chapter 4. The General Fund Balance Sheet

1. Langer, Charles H., *Accounting Principles and Procedure, Municipal Accounting Lectures.* Chicago: Walton Publishing Company, 1938, Lecture 2, pp. 1-20.
2. Lowery, Joseph M , "Surplus in a Municipal Balance Sheet," *Municipal Finance,* February 1940, 12:22-25.
3. Morey, Lloyd, and Hackett, Robert P., *Fundamentals of Governmental Accounting.* New York: John Wiley & Sons, Inc., 1942, pp. 49-64.
4. Municipal Finance Officers' Association, *Accounting Manual for Texas Cities and Towns.* Chicago: The Association, 1938, pp. 54-62.
5. National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, pp. 24-39, 121-126.
6. Oakey, Francis, *Principles of Government Accounting and Reporting.* New York: D. Appleton-Century Company, 1921, pp. 16-160, 258-281.
7. Public Administration Service, *Report on Financial Administration in the Michigan State Government.* Chicago: The Service, 1938, pp. 33-44.

Chapter 5. General Fund Revenues

1. Municipal Finance Officers' Association, *Manual of Accounting and Financial Procedure in the Office of the Controller of the City and County of San Francisco, California.* Chicago: The Association, 1938, pp. 99-114.
2. New York City Comptroller, *Manual of Revenue Accounts; Finding List.* New York: The Comptroller, 1942. 40 pp.
3. Uniform Accounting Committee, League of California Municipalities, *Manual of Accounting Procedures for California Municipalities.* Los Angeles: The League, 1939, pp. 45-48.
4. Wrenshall, C. M., *Municipal Administration and Accounting.* Toronto: Sir Isaac Pitman & Sons, 1937, pp. 98-125.

Chapter 6. General Fund Expenditures

1. Bernhardt, Elmer F., "Baltimore's Payroll Bureau," *Municipal Finance,* August 1937, 10:11-21.
2. Bowman, L. L., "Payroll Procedure for the Public-School System," *American School Board Journal,* December 1929, 79:45-46.
3. Hunter, Joel, "Expenditure Accounting for Smaller Counties and Cities," *Journal of Accountancy,* July 1941, 72:17-21.
4. Larson, Philip E., "County Accounting and Travel Expense," *New Mexico Tax Bulletin,* July 1942, 21:109-111.
5. Leavy, L. S., "Auditing Purchases and Invoices," *Municipal Finance,* May 1936, 8:3-6.
6. Messick, C. P., "Modern Municipal Payroll Procedure," *Public Management,* May 1933, 15:135-138.
7. Municipal Finance Officers' Association, *Accounting for Governmental Supplies.* Chicago: The Association, 1940. 60 pp.
8. ———, *Governmental Timekeeping and Payroll Procedure.* Chicago: The Association, 1940 62 pp.
9. Rodman, P. W., "Tabulating Robots Produce Letter Perfect City Payroll, Bridgeport, Connecticut," *American City,* May 1945, 60:103-105.
10. Sherman, William, "Suggested Procedure in Small Municipalities to Account for Payroll Deductions," *Minnesota Municipalities,* December 1942, 27:419-422.
11. Stone, Donald C., *The Management of Municipal Public Works.* Chicago: Public Administration Service, 1939, pp. 126-174.
12. Uniform Accounting Committee, League of California Municipalities, *Manual of Accounting Procedures for California Municipalities.* Los Angeles: The League, 1939, pp 49-52.

Chapter 7. Bond Funds

1. Langer, Charles H., *Accounting Principles and Procedure, Municipal Accounting Lectures.* Chicago: Walton Publishing Company, 1938, Lecture 3, pp. 6-12.
2. Morey, Lloyd, and Hackett, Robert P., *Fundamentals of Governmental Accounting.* New York: John Wiley & Sons, Inc., 1942, pp. 240-250.
3. Municipal Finance Officers' Association, *Accounting Manual for Texas Cities and Towns.* Chicago: The Association, 1938, pp. 70-75.
4. National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, pp. 52-57, 133-137.

Chapter 8. Sinking Funds

1. Barton, J. T., *A Debt Administration Manual for Texas Cities.* Austin: Bureau of Municipal Research, University of Texas, 1936, pp. 67-76.
2. Chatters, Carl H., and Hillhouse, Albert M., *Local Government Debt Administration.* New York: Prentice-Hall, Inc , 1939, pp. 119-164.
3. Meyers, A. Howard, *The Administration of Municipal Sinking Funds in New York State.* Albany: New York Conference of Mayors, 1933. 40 pp.
4. Municipal Finance Officers' Association, *Accounting Manual for Texas Cities and Towns.* Chicago: The Association, 1938, pp. 76-80.
5. National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, pp. 58-63, 137-140.
6. Stone, Donald C., "The Examination of Sinking Funds," *Public Management,* October 1927, 9:753-757.

Chapter 9. Working Capital Funds

1. Holtman, F. Walter, and Berry, Charles J , "Operation of the Equipment Fund of the City of Minneapolis," *American City,* March 1932, 46:100-102.
2. Morey, Lloyd, and Hackett, Robert P., *Fundamentals of Governmental Accounting.* New York: John Wiley & Sons, Inc., 1942, pp 170-193.
3. Municipal Finance Officers' Association, *Accounting for Government-Owned Motor Equipment.* Chicago: The Association, 1940. 60 pp.
4. ————, *Accounting for Governmental Supplies.* Chicago: The Association, 1940. 60 pp.
5. National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, pp. 40-45, 126-129.
6. Stone, Donald C , *The Management of Municipal Public Works.* Chicago: Public Administration Service, 1939, pp. 101-110.

Chapter 10. Special Assessment Funds

1. Burnstan, Arthur Rowland, *Special Assessment Procedure.* Albany: New York State Tax Commission, 1929, pp 71-83.
2. Chatters, Carl H., and Hillhouse, Albert M , *Local Government Debt Administration* New York: Prentice-Hall, Inc., 1939, pp. 187-240.
3. Dingle, Jos. G , "Accounting for Special Assessment Funds," *Illinois Municipal Review,* February 1933, 12:24-26.
4. Graham, George Adams, *Special Assessments in Detroit* Urbana: University of Illinois, 1929 318 pp (Studies in the Social Sciences.)
5. Green, Byron J., "Special Assessment Accounting," *The Comptroller* (now *Municipal Finance*), February 1932, 4:6-8.

6. Morey, Lloyd, and Langworthy, Benjamin F., *Special Assessment Accounting.* Springfield: Illinois Municipal League, 1927. 11 pp.
7. National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, pp. 46-51, 129-133.

Chapter 11. Trust and Agency Funds

1. Dobson, Ray R., "Accounts and Records for Retirement Systems," *Municipal Finance,* February 1944, 16:11-16.
2. Langer, Charles H., *Accounting Principles and Procedure, Municipal Accounting Lectures.* Chicago: Walton Publishing Company, 1938, Lecture 4, pp. 7-12.
3. Morey, Lloyd, and Diehl, O. W., *Municipal Accounting: Principles and Procedure.* New York: John Wiley & Sons, Inc., 1942, pp. 224-239.
4. Mucklow, Walter, *Cemetery Accounts.* New York: American Institute Publishing Company, 1935. 208 pp.
5. National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, pp. 64-69, 140-143.

Chapter 12. Utility Funds

1. Bailey, Warren G., and Knowles, D. E., *Accounting Procedures for Public Utilities.* New York: McGraw-Hill Book Company, 1926. 471 pp.
2. Federal Power Commission, *Uniform System of Accounts Prescribed for Public Utilities and Licensees.* Washington: Government Printing Office, 1937, pp. 12-36, 84-95, 146-151.
3. ———, *Uniform System of Accounts Prescribed for Public Utilities and Licensees,* Appendix III, "Application of Uniform System of Accounts to Class C and Class D Public Utilities and Licensees." Washington: The Commission, 1938, pp 6-9, 14-16
4. Municipal Finance Officers' Association and American Water Works Association, *Manual of Water Works Accounting.* Chicago and New York: The Associations, 1938. 483 pp.
5. "Municipal Utility Accounting," *Municipal Finance,* August 1945, entire issue.
6. National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, pp. 70-76, 143-147.
7. New York State Public Service Commission, *Uniform System of Accounts for Municipal Electric Utilities.* Albany: The Commission, 1936, pp. 34-52, 91-101.
8. Public Service Commission of Kentucky, *Uniform System of Accounts for Municipal Water Utilities.* Frankfort: The Commission, 1936, pp. 28-41, 62-65.

Chapter 13. Utility Revenues and Expenditures

1. Bailey, Warren G., and Knowles, D. E., *Accounting Procedures for Public Utilities.* New York: McGraw-Hill Book Company, 1926, pp. 181-335.
2. Federal Power Commission, *Uniform System of Accounts Prescribed for Public Utilities and Licensees.* Washington: Government Printing Office, 1937, pp. 96-145, 151-152.
3. ———, *Uniform System of Accounts Prescribed for Public Utilities and Licensees,* Appendix III, "Application of Uniform System of Accounts to Class C and Class D Public Utilities and Licensees." Washington: The Commission, 1938, pp. 17-27.
4. Municipal Finance Officers' Association and American Water Works Association, *Manual of Water Works Accounting.* Chicago and New York: The Associations, 1938, pp. 19-39, 65-134, 200-216, 227-290.
5. "Municipal Utility Accounting," *Municipal Finance,* August 1945, entire issue.
6. New York State Public Service Commission, *Uniform System of Accounts for Municipal Electric Utilities.* Albany: The Commission, 1936, pp 102-155.
7. Public Service Commission of Kentucky, *Uniform System of Accounts for Municipal Water Utilities.* Frankfort: The Commission, 1936, pp 66-89.
8. Sandberg, P. L., "Municipal Accounting," *Journal of the American Water Works Association,* December 1945, 37:1280-1288.
9. Williamson, E. V., "Uniform Classification of Accounts Suitable for Municipal and Private Plants," *Journal of the American Water Works Association,* December 1934, 26:1793-1800. Discussion, 1800-1803.

Chapter 14. General Fixed Assets. General Bonded Debt. Inter-Fund Relationships.

1. Hackett, R. P., "Property Accounts for Municipalities," *Accounting Review,* March 1937, 12:64-68.
2. Metz Fund and Bureau of Municipal Research, *Handbook of Municipal Accounting.* New York: D. Appleton-Century Company, 1923, pp. 43-60.
3. Municipal Finance Officers' Association, *Accounting for Public Property.* Chicago: The Association, 1939. 42 pp.
4. National Committee on Municipal Accounting, *Municipal Accounting Statements.* Chicago: The Committee, 1941, pp. 77-106, 147-149.

Chapter 15. Cash

1 Faust, Martin L., *The Security of Public Deposits.* Chicago: Public Administration Service, 1936. 45 pp.

2. Friswold, J. O., "How the Schools' Petty Cash May Be Handled," *American School Board Journal,* August 1932, 85:31-32, 83.
3. Harris, Walter O., *A Municipal General Ledger and Principal Supporting Records.* Chicago: Municipal Finance Officers' Association, 1934, pp. 23-27.
4. Kohlhepp, J. W., "Accounting Procedure for Recording Cash Received by County Government," *American Accountant,* August 1931, 16:238-240.
5. Municipal Finance Officers' Association, *Accounting Manual for Missouri Cities and Towns.* Chicago: The Association, 1938, pp. 25-28.
6. ——— and American Water Works Association, *Manual of Water Works Accounting.* Chicago and New York: The Associations, 1938, pp 293-303.
7. "Municipal Treasury Management," *Municipal Finance,* February 1942, entire issue.

Chapter 16. Investments

1. Chatters, Carl H., and Hillhouse, Albert M , *Local Government Debt Administration.* New York. Prentice-Hall, Inc , 1939, pp 119-164
2. Johns, Ralph S , "A Plan for Pooling the Investments of Endowment Funds," *Journal of Accountancy,* January 1939, 67.31-37. (Comments in subsequent two issues, February 1939, pp 91-93; March 1939, pp. 166-170)
3. Peters, Ralph W , "Accounting for Hospital Investments," *Journal of Accountancy,* September 1939, 68.183-188.
4. Weinberg, A. A., "Administration of a Public Employes' Retirement System," *Municipal Finance,* August 1938, 11:29-33.

Chapter 17. General Property Taxes

1. "Advantages of Unit Tax Ledger Accepted in Counties of Arkansas," *American City,* July 1945, 60·93.
2. Burroughs Adding Machine Company, *Tax Accounting of the City of Detroit.* Detroit: The Company, 1934. 35 pp.
3. Fishack, Howard G , and Miller, Loren B., *Mechanical Aids in Tax Accounting, City of Newark, New Jersey.* Cleveland: Addressograph-Multigraph Corporation, 1935. 24 pp.
4. Green, Byron J., "A Tax Ledger," *Municipal Finance,* November 1935, 8:54-55.
5. International Business Machines Corporation, *Billing, Collecting and Accounting for Taxes, County of Hamilton, Ohio.* New York: The Corporation. 33 pp.
6. ———, *Real Property Tax Accounting.* New York: The Corporation, 1940. 28 pp
7. ———, *State Tax Accounting* New York: The Corporation, 1934. 42 pp.

8. Roberge, Lactance, "Tax Accounting in Montreal," *Municipal Finance,* February 1939, 11·5-8.
9. Zangerle, John A., "Modernizing Tax Accounting," *Municipal Finance,* August 1935, 8:12-13.

Chapter 18. Fixed Assets

1. American Council on Education, Financial Advisory Service, *Plant Accounting.* Washington, D. C.: The Service, 1939. 30 pp.
2. Boozer, H. W. "Some Aspects of Plant Ledgers and Public Utility Plant Accounting," *Bulletin of the National Association of Cost Accountants,* September 1, 1937, 19:18-26.
3. Federal Power Commission, *Uniform System of Accounts Prescribed for Public Utilities and Licensees.* Washington: Government Printing Office, 1937, pp. 37-83.
4. ———, *Uniform System of Accounts Prescribed for Public Utilities and Licensees,* Appendix III, "Application of Uniform System of Accounts to Class C and Class D Public Utilities and Licensees." Washington: The Commission, 1938, pp. 10-12.
5. Gotaas, Harold B., "Physical Property Cards," *Journal of the American Water Works Association,* March 1939, 31:517-525.
6. ———, "Use of Property Ledgers in City Departments," *American City,* July 1939, 54:44-46, 72-73.
7. McCuen, T. L , "School Property Accounting in California," *American School Board Journal,* July 1939, 99 47-48.
8. Municipal Finance Officers' Association, *Accounting for Government-Owned Motor Equipment.* Chicago: The Association, 1940. 60 pp.
9. ———, *Accounting for Public Property.* Chicago: The Association, 1939. 42 pp.
10. ——— and American Water Works Association, *Manual of Water Works Accounting* Chicago and New York: The Associations, 1938, pp. 217-226, 340-360.
11. National Association of Railroad and Utilities Commissioners, *List of Retirement Units for Electric Utilities.* New York: State Law Reporting Company, 1937. 24 pp
12. ———, *Report of Special Committee on Depreciation: Depreciation Principles and Methods.* New York: State Law Reporting Company, 1938 85 pp.
13. New York State Public Service Commission, *Uniform System of Accounts for Municipal Electric Utilities.* Albany: The Commission, 1936, pp. 10-14, 53-90.
14. Public Service Commission of Kentucky, *Uniform System of Accounts for Municipal Water Utilities.* Frankfort: The Commission, 1936, pp. 42-61.
15. Tenner, Irving, "Depreciation Accounting for Municipal Property," *Public Management,* October 1942, 24:305-306.
16. Veatch, N. T., "Municipal Depreciation Accounting Practices,"

Journal of the American Water Works Association, August 1944, 36:811-820.
17. Walsh, M. B., "Plant Equipment Forms," *Bulletin of the National Association of Cost Accountants,* October 15, 1935, 17:175-183.
18. Yelland, George L., "Making an Inventory of School Equipment," *The School Executive,* November 1939, 59:29-31.

Chapter 19. Liabilities

1. Bird, Frederick L., "The Problem of Revenue Bonds," *National Municipal Review,* June 1938, 27:304-308, 313.
2. Chatters, Carl H., and Hillhouse, Albert M., *Local Government Debt Administration.* New York: Prentice-Hall, Inc., 1939, pp. 8-118, 165-186, 241-291.
3. Clerihue, V. Randolph, "Subsidiary Records of Bonded Indebtedness and Relative Sinking Fund," *Canadian Chartered Accountant,* December 1935, 27: 390-399.
4. Seaholm, W. E., "Adoption of an Accounts Payable Fund Reduces Check-Writing by One-Third, Austin, Texas," *American City,* November 1945, 60:109.
5. Smith, Wade S., "Suggestions on Reporting Local Finance," *National Municipal Review,* June 1945, 34:309-310.
6. Taft, Robert A., "A Review of the Special Lien Bond Situation," *Journal of the American Water Work Association,* October 1935, 27:1343-1353.
7. Tory, W. S, "Accounting for Municipalities with Respect to Unnegotiated Debentures and Debenture Principal and Interest in Default," *Canadian Chartered Accountant,* February 1936, 28:104-117.

Chapter 20. Cost Accounting

1. Baldwin, Emma V., and Marcus, William E., *A Study of Cost Accounting in Public Libraries.* New York: R. R. Bowker Co., 1941. 201 pp.
2. Blocker, John G., *Cost Accounting.* New York: McGraw-Hill Book Company, Inc., 1940 705 pp. (Chapter 13. "Cost Accounting for Governmental Units.")
3. Caskey, George B., "Cost Accounting for Small Park Systems," *Parks and Recreation,* February 1940, 23:240-243.
4. Cree, C. E., "Cost Accounting in Hospitals," *Municipal Finance,* May 1939, 11:4-10.
5. Dawson, William A., *Procedure for Hospital Costs.* New York: United Hospital Fund of New York, 1937. 30 pp.
6. Grace, A. G., and Moe, G. A., *State Aid and School Costs.* New York: McGraw-Hill Book Company, Inc., 1938. 400 pp.
7. Kimpel, H. M., "Cost Accounting for Municipalities," *Municipal Finance,* May 1944, 16:30-32.

8. Lorig, Arthur N., "Cost Accounting and the Classification of Municipal Expenditures," *Accounting Review*, September 1936, 11:291-295.
9. Messier, A. J., "Cost Accounting," *American Journal of Public Health*, May 1939, 29:515-520.
10. Municipal Finance Officers' Association, *Accounting for Government-Owned Motor Equipment*. Chicago: The Association, 1940. 50 pp.
11. ———, *Accounting for Governmental Supplies*. Chicago: The Association, 1940. 60 pp.
12. ———, Committee on Governmental Cost Accounting, *Governmental Cost Accounting*. Chicago: The Association, 1940. 78 pp.
13. Murphy, R. R., "Cost Accounting for Park Departments," *Parks and Recreation*, January 1939, 22:237-240.
14. ———, "Cost Accounting for Park Systems," *Parks and Recreation*, April 1939, 22:384-389.
15. National Association of Public School Business Officials, Committee on Pupil-Cost Accounting Research, *Public School Pupil-Cost Accounting*. Trenton: The Association, 1933. 85 pp.
16. National Committee on Standard Reports for Institutions of Higher Education, *Financial Reports for Colleges and Universities*. Chicago: University of Chicago Press, 1935, pp. 177-249.
17. Sedgwick, R. M., "Cost Accounting for Water Utilities," *Journal of the American Water Works Association*, April 1942, 34:564-568.
18. Stone, Donald C., *The Management of Municipal Public Works*. Chicago: Public Administration Service, 1939, pp. 111-125, 309-316.

Chapter 21. Financial Reports

1. Chatters, Carl H., "Essential Monthly Financial Reports for the Chief Administrator," *Public Management*, May 1937, 19.131-133.
2. "Financial Reports of Governments," *Municipal Finance*, May 1941, entire issue.
3. Foster, Emery M., *Financial Accounting for Public Schools*. Washington, D. C.: United States Office of Education, 1942. 58 pp.
4. Lorig, A. N., "Determining the Current Financial Position of a City," *Accounting Review*, March 1941, 16·41-49.
5. Martin, J. W., and Sawyer, R., "Independent State Post-Audit: Pre-Audit and Post-Audit Separate Functions," *State Government*, May 1941, 14:107-109.
6. Municipal Finance Officers' Association, *Country Finance and Accounting Standards*. Chicago: The Association, 1937, pp 21-32.
7. ———, *Standard Practice in Municipal Accounting and Financial Procedure*. Chicago: The Association, 1941, pp. 14-21.
8. ——— and American Water Works Association, *Manual of Water Works Accounting*. Chicago and New York: The Associations, 1938, pp. 387-425.
9. National Committee on Municipal Accounting, *Municipal Accounting Statements*. Chicago: The Committee, 1941. 206 pp.

10. National Committee on Standard Reports for Institutions of Higher Education, *Financial Reports for Colleges and Universities.* Chicago: University of Chicago Press, 1935. 285 pp.
11. Ridley, Clarence E., and Simon, Herbert A., *Measuring Municipal Activities.* Chicago: International City Managers' Association, 1938. 102 pp.
12. Scott, John L., "How Good Are Municipal Reports?," *Public Management,* August 1942, 24:234-237.
13. Tenner, Irving, "Common Errors in Financial Reports," *Municipal Finance,* February 1937, 9:70-71.
14. Uniform Accounting Committee, League of California Municipalities, *Financial Reports of Municipalities.* Los Angeles: The League, 1938. 133 pp.
15. U. S. Bureau of the Census, *Financial Statistics of Cities Having a Population of over 100,000.* Washington: Government Printing Office, published annually.
16. ———, *Financial Statistics of States.* Washington: Government Printing Office, published annually.
17. U. S. Bureau of Education, Bulletin No. 24, *Report of Committees on Uniform Records and Reports.* Washington: Government Printing Office, 1928. 80 pp.
18. Wahlberg, Nestor V., "An Examination of Municipal Annual Financial Reports," *Municipal Finance,* May 1941, 13:34-41.

List of Reports

In addition to the references on reporting just cited, the following reports, grouped by classes of government and by type of report, should prove helpful to an understanding of governmental reporting. These are not necessarily the best reports or even the only good ones published. They do represent, however, a fair sample of the better reports now being issued by governmental units. We have indicated in each case the official or group of officials who compiled the report or under whose direction the report is compiled. Copies can ordinarily be secured by writing to the official or officials listed.

Municipalities

Name of Unit	Compiler
Monthly Reports	
Baltimore, Maryland	Budget Director
Boston, Massachusetts	City Auditor
Flint, Michigan	Director of Finance
New York, New York	City Comptroller
Racine, Wisconsin	City Comptroller
Tulsa, Oklahoma	City Auditor

MUNICIPALITIES—*Continued*

Name of Unit	Compiler
Budget Reports	
Chicago, Illinois	City Clerk
Dallas, Texas	City Manager
Greenwich, Connecticut	The Board of Estimate and Taxation
Pasadena, California	City Manager
Roanoke, Virginia	City Manager
Rochester, New York	City Manager, Comptroller
Toledo, Ohio	City Manager
Trenton, New Jersey	City Manager
Wichita Falls, Texas	City Manager
Popular Reports	
Auburn, Maine	Treasurer-Auditor
Bangor, Maine	City Manager
Berkeley, California	City Manager
Cincinnati, Ohio	City Manager
Dayton, Ohio	City Manager
Greenwich, Connecticut	The Board of Estimate and Taxation
Long Beach, California	City Manager
Oregon City, Oregon	General Manager
Portland, Maine	City Manager
Portland, Oregon	Department of Finance
Ridgefield Park, New Jersey	Board of Commissioners
Saginaw, Michigan	City Manager
Schenectady, New York	City Manager
Two Rivers, Wisconsin	City Manager
West Bend, Wisconsin	City Clerk
Combined Auditor and Popular Reports	
Jackson, Mississippi	City Auditor
Kalamazoo, Michigan	Director of Finance, City Manager
Stratford, Connecticut	Town Manager
Tallahassee, Florida	City Auditor-Clerk
Topeka, Kansas	Department of Finance and Revenue
Controllers' or Auditors' Reports	
Atlanta, Georgia	City Comptroller
Berkeley, California	City Auditor
Binghamton, New York	Comptroller
Brantford, Ontario, Canada	City Treasurer
Detroit, Michigan	Auditor General
Duluth, Minnesota	City Auditor, City Treasurer
Hamilton, Ontario, Canada	City Auditor
New Rochelle, New York	City Auditor
Norfolk, Virginia	City Auditor
Pasadena, California	City Controller
Saginaw, Michigan	Department of Finance
San Francisco, California	Controller
Tuscaloosa, Alabama	City Clerk

MUNICIPALITIES—*Continued*

Name of Unit	Compiler
Sinking Fund Reports	
Louisville, Kentucky	Commissioners of the Sinking Fund
Regina, Saskatchewan, Canada	Sinking Fund Trustees
Utility Reports	
Colorado Springs, Colorado (Water, Light, Power)	Department of Water and Water Works-Light and Power Department
Des Moines, Iowa (Water)	Board of Water Works Trustees
Detroit, Michigan (Water)	Board of Water Commissioners
Dubuque, Iowa (Water)	Water Department
Jamestown, New York (Water, Light)	Board of Public Utilities
Los Angeles, California (Water, Power)	Board of Water and Power Commissioners
Madison, Wisconsin (Water)	Board of Water Commissioners
San Francisco, California (Water, Power, Railway)	Controller

COUNTIES

Monthly Reports	
Atlantic County, New Jersey (Atlantic City)	County Auditor
Wayne County, Michigan (Detroit)	Board of County Auditors
Popular Reports	
Henrico County, Virginia (Richmond)	County Manager
Pulaski County, Virginia (Pulaski)	County Treasurer
Budget Reports	
Fresno County, California (Fresno)	Board of Supervisors
Kern County, California (Bakersfield)	County Auditor
Los Angeles County, California (Los Angeles)	County Auditor
Multnomah County, Oregon (Portland)	Tax Supervising and Conservation Commission
Wayne County, Michigan (Detroit)	Board of County Auditors
Controllers' or Auditors' Reports	
Hudson County, New Jersey (Jersey City)	County Treasurer
Los Angeles County, California (Los Angeles)	County Auditor
Milwaukee County, Wisconsin (Milwaukee)	County Clerk
Northampton County, Pennsylvania (Easton)	Controller
Salt Lake County, Utah (Salt Lake City)	County Auditor

SCHOOLS

Name of Unit	Compiler
Budget Reports	
Beloit, Wisconsin	Superintendent of Schools
Des Moines, Iowa	Superintendent of Public Schools
Mankato, Minnesota	Superintendent of Schools
Montclair, New Jersey	Superintendent of Schools
Annual Reports	
Alhambra, California	Superintendent of Schools
Ann Arbor, Michigan	Superintendent of Schools
Buffalo, New York	Board of Education
Denver, Colorado	Secretary of Board of Education, Superintendent of Schools
Los Angeles, California	Controller, Board of Education
Madison, Wisconsin	Superintendent of Public Schools
Portland, Oregon	Board of Directors
Upper Darby Township, Upper Darby, Pennsylvania	Secretary of Board of School Directors
Winnipeg, Manitoba, Canada	Public School Board

STATES

Budget Reports

Most of the states issue good budget reports. These can usually be secured by writing to the governor. The following are a few examples of state budget reports:

California	Director of Finance
Illinois	Director of Finance
Kansas	Director of Budget
New Hampshire	Comptroller
New Jersey	Governor
New York	Director of Budget
North Carolina	Governor
Ohio	Director of Finance
Utah	Director of Budget

Controllers' or Auditors' Reports

Every state publishes a financial report. The following are a few examples:

Arizona	Auditor
California	Controller
Kentucky	Auditor of Public Accounts, Commissioner of Finance
Michigan	Auditor General
Nebraska	Auditor of Public Accounts
New Hampshire	Comptroller
New York	Comptroller
Territory of Hawaii	Treasurer

List of Current Periodicals in Which Articles on Governmental Accounting Are Published

(Monthly, unless otherwise stated. Subscription rates are per annum.)

1. *Accountant* (weekly). Gee & Company, Ltd., 17 Market Place, St. Albans, Herts., England. £2 16s.

2. *Accounting Review* (quarterly). American Accounting Association. School of Commerce, Northwestern University, Evanston, Ill. $4.
3. *American City.* American City Magazine Corporation, 470 Fourth Avenue, New York City 16. $2.
4. *American School Board Journal.* Bruce Publishing Company, 540 North Milwaukee Street, Milwaukee 1, Wis. $3.
5. *Bulletin of the National Association of Cost Accountants* (semi-monthly). 385 Madison Ave., New York City 17. $10.
6. *Canadian Chartered Accountant.* 10 Adelaide Street E., Toronto, Ontario, Canada. $3.
7. *Cost Accountant.* Institute of Cost and Works Accountants, 23 Queen Square, London, W. C. 1, England. £1.
8. *Journal of Accountancy.* American Institute Publishing Company, Inc., 13 East 41st Street, New York City 17. $4.
9. *Journal of the American Water Works Association,* 22 East 40th Street, New York City. $7.
10. *Journal of Educational Research* (monthly, September to May). University of Wisconsin, Madison 6, Wis. $3.50.
11. *Local Government Finance.* Institute of Municipal Treasurers and Accountants (Inc.), 1 Buckingham Place, Westminster, London, S. W. 1, England.
12. *Municipal Finance* (quarterly). Municipal Finance Officers' Association, 1313 East 60th Street, Chicago 37, Ill. $1.50.
13. *Nation's Schools.* Nation's Schools Publishing Company, 919 North Michigan Avenue, Chicago 11, Ill. $3.
14. *Public Management.* International City Managers' Association, 1313 East 60th Street, Chicago 37, Ill. $4.
15. *Review of Educational Research.* American Educational Research Association, 1201 16th Street, N. W., Washington 6, D. C. $4.
16. *South African Treasurer.* Institute of Municipal Treasurers and Accountants of South Africa (Inc.), P. O. Box 828, Durban, South Africa. 6s.

APPENDIX III

Questions and Problems

QUESTIONS AND PROBLEMS ON CHAPTER 1

Questions

Question 1-1. Cite at least two examples of procedures which may not be required by law but are nevertheless required by sound financial administration or accounting.

Question 1-2. In the course of an audit of the books of a municipality, you find that the financial statements, when prepared on the basis required by law, do not reflect the true financial condition or financial operations of the municipality. What would be your procedure?

Question 1-3. What is the difference, if any, between an income and expense statement prepared on a cash basis and a statement of receipts and disbursements?

Question 1-4. It is said that one of the differences between government and business is that business expenditures create revenues, whereas governmental expenditures do not. Is this statement entirely true, or are there any governmental expenditures which create revenues?

Question 1-5. A municipality's financial activities are administered by three officials: a comptroller, a treasurer, and a purchasing agent. Allocate each of the following duties to the proper official:

Designating the methods of accounting to be followed
Pre-auditing expenditures
Making disbursements
Supplying employees with forms necessary for filling in budget estimates
Seeing that materials are tested
Keeping records of bank deposits
Requesting bids
Preparing financial statements
Seeing that the government receives all revenues to which it is entitled
Preparing receipts and disbursements statements
Collecting interest on investments
Placing orders for materials

Problems

Problem 1-1. The following is a trial balance at December 31, 1947, of the cafeteria operated by Public School No. 5:

Cash	$ 8,350	
Inventory of Food and Candy	500	
Equipment	25,000	
Reserve for Depreciation—Equipment		$ 5,000
Accounts Payable		100
Capital		27,000
Unappropriated Surplus		1,400
Sales of Food and Candy		73,800
Purchases	46,700	
Discounts on Purchases		100
Salaries and Wages	24,600	
Gas and Electricity	400	
Free Meals	150	
Repairs	1,200	
Supplies Used	500	
	$107,400	$107,400

Adjustments:
Depreciation, 10 per cent
Closing inventory of food and candy, $600

Required:

Prepare a balance sheet and an income and expense statement.

Problem 1-2. The following is an income and expense statement prepared by a municipality's bookkeeper:

CITY OF *X*
Working Capital Fund
Income and Expense Statement
for Fiscal Year Ending December 31, 1947

Sales to Departments	$75,000	
Borrowed from Other Funds	20,000	$95,000
Less—Cost of Operating.		
Materials	$60,000	
Labor	5,000	
Heat	2,000	
Light and Power	2,000	
Superintendent's Salary	3,000	
Purchase of Machinery	10,000	
Payment of Liability to General Fund	15,000	
Total Cost of Operating		97,000
Net Loss		$ 2,000*

* Red.

The following are additional facts concerning this statement:

1. The amount shown for sales represents actual receipts of cash from other funds; only $65,000 of the total collections is applicable to sales of this year; $40,000 is still due from other funds on account of sales made this year.

2. The cost of materials shown in this statement is the total amount paid for materials during the year. An inventory of $10,000 was carried over from last year; $5,000 was paid for materials purchased during the preceding year; materials costing $15,000 were purchased during the year but have not yet been paid for; the closing inventory is $12,000.

3. The amounts shown for labor, heat, light and power, and superintendent's salary represent actual payments. Charges incurred last year but not paid until this year include the following: labor, $500; heat, $100; light and power, $200; superintendent's salary, $100. Charges incurred but not yet paid include the following: labor, $300; heat, $75; light and power, $150; superintendent's salary, $125.

Required:

Prepare a correct income and expense statement of the working capital fund.

Problem 1-3. If we assume that the above income and expense statement was prepared on a cash basis, is it accurate? If not, recast the statement so that it will show the financial operations on a cash basis.

QUESTIONS AND PROBLEMS ON CHAPTER 2

Questions

Question 2-1. For which of the following would you set up revenue account headings?

Revenues from Use of Money and Property:
- Interest on Bank Deposits
- Interest on Investments
- Rents and Concessions:
  - Rents and Concessions from Clifton Park
  - Rents and Concessions from Atlas Park
  - Rents and Concessions from Beverly Park

Question 2-2. Designate the main sources of revenue (for example, Taxes, Licenses and Permits, and so forth) to which the following revenues apply:

General Property Taxes
Sales Taxes
Plumbing Installation Permits
Scavengers' Licenses
Comfort Station Concessions
Sale of "No Parking" Signs
Interest on Bank Deposits
Gasoline Tax Received from State
Conscience Money
Rent from Water-Front Land
Court Fines
Cigarette Tax Received from State
Interest on Investments
Park Board Concessions
Motor Vehicle Registration Fees Received from State
Rent from Market Stalls
Telephone Pay Stations
Charges for Hospital Services
Rent from Public Buildings
City Railways Company Franchise
Taxi Meter Testing Fee
Ticket Speculator's License
Income Taxes
Milk Hauler License
Subscriptions to City Publications
Liquor Tax Received from State

Donations for Venereal Clinic
Sales of Electrical Code
Library Fines
Donations from Community Chest
Building Permits

Question 2-3. Distinguish between an expenditure and an expense.

Question 2-4. Designate the functions to which the following activities apply:

Enacting Laws
Judicial Activities
Detecting Crime
Preventing Fires
Supervising Banks
Maintaining Sewer System
Operating Hospitals
Payment of Old Age Assistance
Operating a Jail
Granting Aid to Libraries
Operating a Museum
Operating a Port
Retirement of Debt
Operating a Water Plant
Operating a Park
Payments for Pupils Attending Schools of Another Governmental Unit
Rendering Aid to Dependent Children
Activities of Parole Boards
Operating an Old Soldiers' Home
Constructing and Maintaining Highways
Fighting Fires
Prosecuting Offenders
Administering Elections
Rendering Legal Advice to the Legislative Body
Personnel Administration
Providing Pasteur Treatments
Operating a Hospital for the Blind
Operating a School
Training the National Guard
Payment of Interest
Inspecting Buildings
Keeping Accounts

Question 2-5. On page 438 is a part of an expenditure statement. Set up account headings to designate the function, organization unit, and so forth, with which the accounts are identified (see pages 24-25).

Public Safety:			
Police Department:			
Current Expenses:			
Personal Services	$40,000		
Contractual Services	2,000		
Materials and Supplies	2,000	$44,000	
Capital Outlays:			
Equipment		6,000	
Total Police Department			$50,000
Fire Department:			
Current Expenses:			
Personal Services	$30,000		
Contractual Services	2,000		
Materials and Supplies	1,500	$33,500	
Capital Outlays:			
Equipment		6,500	
Total Fire Department			40,000
Total Public Safety			$90,000

Question 2-6. Code the following expenditures, using the code symbols illustrated in the chapter:

1. A desk was purchased for the mayor's office.
2. Councilmen were paid their salaries.
3. Traffic policemen were paid their salaries.
4. Accountants submitted a bill for auditing the city's accounts.
5. A firm of reporters was hired to report a special court case and was paid in full.
6. Jurors were paid.
7. The law department paid wages to temporary employees.
8. Serial bonds were retired.
9. Interest on bonds was paid.
10. The city historian subscribed for periodicals.
11. Contributions were made to a sinking fund.
12. Rent was paid for office space occupied by the Board of Zoning Appeals.
13. An automobile was purchased for the Bureau of Traffic Control.
14. Firemen employed in the Bureau of Fire Prevention were paid.
15. An employee of the civil service commission took a long-distance trip. (Charge only the traveling expenses; disregard other expenses of the trip.)

Question 2-7. Prepare a set of symbols to be used in coding revenue accounts. Use the main sources of revenue described in Chapter 2, and list three detailed municipal revenue sources under each of four of the main sources.

Problems

Problem 2-1. From the following information, prepare a statement for the City of *Y* as of December 31, 1946, classifying expenditures by function, organization unit, activity (where possible), character, and object.

Salaries—Councilmen	$10,000
Telephone and Telegraph—City Council	200
Purchase of Desk—Council	100
Purchase of Automobile—Council	1,000
Compensation Insurance—Policemen	1,000
Rent of Equipment—Bureau of Purchases	500
Salaries and Wages—Construction of New Fire Station	5,000
Purchase of Police Cars	10,000
Printing of Ballots	1,000
Telephone and Telegraph—Fire	500
Interest on Bonds	40,000
Postage—City Council	100
Wages—Street Repair	10,000
Rent of Equipment—Repair of Bridges	1,000
Purchase of Land—Police Department	15,000
Salaries—Policemen	40,000
Freight and Express—Bureau of Purchases	500
Salaries—Firemen	40,000
Rent of Equipment—Fire Department	500
Traveling Expenses—Mayor	300
Salaries—Bureau of Accounts	5,000
Purchase of Fire Truck	5,000
Salaries—City Court Judges	10,000
Salary—Mayor	10,000
Purchase of Comptometers—Bureau of Accounts	1,000
Heat, Light, and Power—Police Department	1,000
Telephone and Telegraph—Police	2,000
Contributions to Pension Funds	10,000
Repairs to Fire Department Buildings—By Contract	1,000
Heat, Light, and Power—Department of Highways	1,500
Wages—Resurfacing Streets	15,000
Postage—Bureau of Purchases	500
Wages—Constructing Bridges	10,000
Telephone and Telegraph—Bureau of Purchases	100
Purchase of Bookcases for City Court	200
Repair of Streets—By Contract	5,000
Construction of Bridge—By Contract	2,000
Grants to Other Governmental Units	5,000
Advertising—Bureau of Accounts	500
Salaries—Department of Highways (All chargeable to Maintenance)	5,000
Purchase of Land—Fire Department	15,000
Wages—Constructing Streets	20,000
Rent of Equipment—Constructing Bridges	2,000
Subscriptions to Legal Magazines—City Court	200
Wages—Snow and Ice Removal	2,000
Salaries—Board of Elections	15,000
Compensation Insurance—Firemen	1,000

Purchase of Office Supplies—Bureau of Accounts	$ 100
Heat, Light, and Power—Fire Department	1,500
Salaries—Bureau of Purchases	5,000
Membership in Professional Association—Bureau of Accounts	50
Heat, Light, and Power—Bureau of Purchases	500
Purchase of Law Books for City Court	1,000
Salaries—Civil Service Commissioners	10,000
Purchase of Materials—Construction of Fire Station	10,000
Wages—Repair of Bridges	2,000
Surety Bonds—For Employees of Bureau of Accounts	500
Retirement of Serial Bonds	50,000
Purchase of Materials—Construction of Police Station	5,000

Problem 2-2. On the basis of the data in Problem 2-1, prepare a statement classifying expenditures by function. (Do *not* show details for organization units; show merely the total expenditures for each function.)

Problem 2-3. On the basis of the data in Problem 2-1, prepare a statement classifying expenditures by function and character.

Problem 2-4. On the basis of the data in Problem 2-1, prepare a statement classifying current expenses by function and by main classes of objects (that is, Personal Services, Contractual Services, Materials and Supplies, and Fixed Charges).

Problem 2-5. The following is part of an expenditure statement for a department of public welfare:

Salaries, Continuing	$32,367 49
Binding Records	3 00
Glass	12 05
Subscriptions—Newspapers and Periodicals	2.00
Recreation Equipment	59 00
Blueprinting and Photostating	5.40
Salaries, Seasonal or Temporary	2,015.07
Insurance—Fidelity—Personal	5 00
Hardware	35 41
Freight and Express (not otherwise classified)	4.15
Office Equipment	160 10
Furnishing and Operating Equipment	40 00
Wages of Laborers	48.49
Lumber	144 97
Rents—Equipment	1.47
Electrical Equipment	6.02
Nails, Screws, and Bolts	20 23
Furnishing and Operating Equipment (other than machines)	1 50
Instructors	1,200.00
Rents—Lands and Buildings	2,221 97
Electricity	485.86
Gas Fuel	27.90
Paints, Varnishes, and Painters' Supplies	173.53
Installing Equipment	25.93
Plaster, Lime, and Mortar Materials	5.02
Putty	2 54
Postage	122.82

Photography	$ 5 00
Printing	17.15
Roofing Supplies and Materials	.37
Repairing and Servicing Office Machines and Appliances	3 00
Sash and Blind Cord	.78
Sheet Metal and Sheet Metal Products	.78
Repairing and Servicing Furniture and Furnishings	12.75
Chalk and Crayons	.80
Motion Picture Supplies	45 10
Photographic Supplies	45 39
Repairing and Servicing Building Equipment	261 94
Repairing and Servicing Small Tools and Minor Equipment	68 87
Poster Supplies	12 87
Books	5 05
Friction Tape	.20
Fuses and Fuse Blocks	.36
Telegrams	.94
Light Bulbs	21 25
Light Globes and Shades	.54
Sockets, Switches, and Plugs	9 29
Wire	4 41
Small Implements and Minor Equipment	3 33
Cloth	71 66
Telephone—Regular Service	345.41
Minor Furniture Items	24.75
Notions	18.88
Paper Bags and Wrapping Paper	3 64
Utensils	.69
Telephone—Toll Service	14.96
Drugs, Medicines, and Chemicals (not otherwise classified)	94 04
Office Supplies	500 18
Fittings—Plumbing	.44
Steel and Iron Pipe	4 90
Washers and Valve Seats	.20
Arteraft and Handicraft Supplies	185 21
Baseball and Playground Ball Supplies	581 82
Basketball Supplies	166 11
Telephone—Installation and Changes	5 50
Gymnasium Supplies	116 13
Horseshoe Court Supplies	17 05
Lime	2 28
Nonathletic Game Supplies	34 99
Ping Pong Supplies	25 28
Traveling Expenses—Fare, Public Conveyance	230 00
Referees' Supplies	2 55
Supplies for Dramatic Presentation	107 88
Brooms and Brushes	21 66
Cement	.67
Other Recreation Supplies	146.49
Traveling Expenses—Allowances for Personally Owned Automobiles	615.00
Trophies	167 05
Coal, Fuel	711 43
Drinking Cups	42 63
Other Athletic Game Supplies	76 51
Traveling Expenses—Meals and Lodging	19.10

Glue	$ 1.25	
Grindstones and Abrasives	3.93	
Hose and Hose Valves	11.47	
Kerosene	.69	
Laundry Supplies, Miscellaneous	.99	
Traveling Expenses—All Other	1.15	
Mops	13.18	
Pails, Buckets, and Containers	8 82	
Refrigerating Supplies	32.76	
Rope and Twine	2.76	
Soaps, Cleansers, and Disinfectants	77 95	
Toilet Paper and Holders	7.20	
Repair Supplies for Boilers and Furnaces	1.86	
Transportation Service	751.28	
Repair Supplies for Building Maintenance Equipment	6.12	
Minor Office Equipment	11 02	
Small Tools	34 87	
Stoves and Heaters	2 50	
		$45,041 98

Required:

Prepare a statement classifying these expenditures by object and character.

Problem 2-6. The following is a statement of the general fund expenditures of the County of *M* for the fiscal year ending December 31, 1946:

	Expenditures
Agricultural Extensions	$ 3,523.00
Armory	9,000 00
Assessor	100,800.00
Auditor	21,975 00
Automobile Service	2,580.00
Blind Assistance	21,590 10
Board of County Commissioners (including Purchasing Agent)	27,967 00
Board of Equalization	1,470 00
Board of Health	18,120 00
Brand Inspector	35 00
Bridges and Ferries	322,541 80
Child Welfare	103,005 04
Circuit Court	113,696 50
Civil Service Commission	4,205 00
Constable	29,952.76
Coroner	14,683.00
County Clerk—Main Office	107,895.00
County Treasurer	10,331 33
Court House—Operation and Maintenance	79,446.66
Court of Domestic Relations	22,390 00
Debt Fund	1,223,272 50
District Attorney	32,553 00
District Court	32,712.50
Emergency Fund	65,334 16
Farm—Farm Division	33,444.00

	Expenditures
Farm—Main Division	$ 121,908.00
Frazer Detention Home—Operation and Maintenance	10,007.12
Free Dispensary Supplies	8,500.00
Fruit Inspector	3,014.00
Hospital-Operation and Maintenance	276,066.45
Hospital Laundry—Operation and Maintenance	17,597.00
Indemnity—Livestock	1,000.00
Indigent Soldiers—Disbursement	8,935.00
Indigent Soldiers—Fund	60,000.00
Insurance	4,538.79
Interest on Warrants	25,000.00
Justice Court	1,008.00
Lone Fir Cemetery	6,329.30
Municipal Court	300.00
Old Age Pensions	524,267.25
Pest Control	1,000.00
Probate Court	13,750.00
Public Assistance	183,312.45
Public Health Association	7,245.00
Registration and Election—County Clerk	82,455.00
Road Department	372,056.38
Sheriff—Civil Department	43,157.24
Sheriff—Criminal Department	66,847.82
Sheriff—Election and Rental	23,495.00
Sheriff—Identification Department	8,014.80
Sheriff—Jail	46,095.47
Sheriff—Kelly Butte	45,355.50
Sheriff—Tax Department (Collection of Taxes)	91,155.72
Special Tax Foreclosure	7,000.00
Superintendent of Schools	8,600.00
Supervisor of Elections	3,420.00
Surveyor	3,033.00
Tax Supervising and Conservation Commission	8,610.00
Tubercular Pavilion	21,698.00
Veterinary	3,165.00
Weights and Measures	200.00
Total	$4,510,660.64

Required:

Prepare a statement for 1946 classifying the expenditures by function. (Place any items which you cannot classify by function in a Miscellaneous Expenditures group.)

QUESTIONS AND PROBLEMS ON CHAPTER 3

Questions

Question 3-1. Prepare a table of contents for a budget document, using the statements illustrated in the chapter.

Question 3-2. What is the difference between an appropriation ordinance and a salary and wage ordinance?

Question 3-3. In making an audit, how would you ascertain that expenditures were properly appropriated for?

Question 3-4. Are the terms "budget" and "budget document" synonymous? If not, what is the difference between them?

Question 3-5. Distinguish between an appropriation and a special revenue fund.

Question 3-6. An ordinance provides that collections from the sale of dog licenses are "hereby appropriated for the maintenance of the dog pound." During the month of January, $5,000 was collected. Is another appropriation necessary to spend this money for the maintenance of the dog pound?

Question 3-7. In certain states, municipalities are required to pay annually property taxes of a fixed amount, to the state. The municipalities in turn levy taxes for this purpose. Should an appropriation be made by the municipality to cover these payments?

Problems

Problem 3-1. The City of *X* has adopted the following budget for the fiscal year 1946:

Estimated Revenues, $800,000, consisting of the following:	
Real Property Taxes	$400,000
Court Fines	5,000
Personal Property Taxes	140,000
Sales Taxes	25,000
Interest on Bank Deposits	500
Grants-in-Aid to Be Received from State	5,000
Other Revenues	169,500
Interest on Investments	2,000
Motor Vehicle Licenses and Fees	20,000
Portion of Income Tax to Be Received from State	10,000
Alcoholic Beverage Licenses	15,000
Interest and Penalties on Taxes	5,000
Building Permits	3,000

Appropriations, $791,000, consisting of the following:

Court	$ 20,000
Department of Finance—Bureau of Administration	10,000
Department of Finance—Bureau of Purchases	6,000
City Clerk	10,000
Department of Police—Bureau of Supervision	20,000
Interest	40,000
Department of Police—Bureau of Communication System	20,000
Department of Fire—Bureau of Supervision	15,000
Department of Police—Bureau of Criminal Investigation	20,000
Department of Police—Bureau of Police Training	10,000
Department of Finance—Bureau of Treasury	10,000
Council	20,000
Department of Finance—Bureau of Accounts	15,000
Mayor	15,000
Department of Finance—Bureau of Assessment	15,000
Department of Fire—Bureau of Training	10,000
Board of Elections	5,000
Department of Law	25,000
Department of Fire—Bureau of Prevention	20,000
Retirement of Debt	100,000
Civil Service Commission	5,000
Department of Police—Bureau of Uniformed Patrol	40,000
Department of Fire—Bureau of Fire Fighting	40,000
All Other Departments	300,000

Required:

a Prepare a journal entry to record the adoption of the budget, showing both the general ledger accounts and all of the subsidiary accounts involved, the latter properly classified.

b. Post the general ledger accounts to "T" accounts.

c. Post the estimated revenues for Alcoholic Beverage Licenses, Court Fines, and Building Permits to revenue accounts similar to the account illustrated in Figure 13.

d. Post the appropriations for the Department of Law, Department of Police—Bureau of Uniformed Patrol, and City Clerk to appropriation accounts similar to the account illustrated in Figure 14.

Problem 3-2. The following transactions took place on January 5, 1946:

1. Revenues were collected as follows:

Court Fines	$200
Building Permits	100
Alcoholic Beverage Licenses	200

2. Orders were placed for materials and supplies as follows:

Department of Law	$ 300
Department of Police—Bureau of Uniformed Patrol	1,000
City Clerk	400

On January 25, all the orders and invoices therefor were received, and the latter were approved. The invoices were for the following amounts:

Department of Law	$ 280
Department of Police—Bureau of Uniformed Patrol	1,000
City Clerk	450

Required:

a. Prepare journal entries to record the above transactions, showing both the general ledger accounts and subsidiary accounts.

b. Make postings to the subsidiary accounts which you have set up in solving Problem 3-1.

Problem 3-3. From the following information prepare a departmental estimate of personal services (see Figure 1) for 1947 for the Finance Department of the City of *X*. Submission date: October 1, 1946.

INFORMATION AS OF JANUARY 1, 1946

Code	No.	Positions	Rate per Annum
1420-A1 1	1	Director of Finance	$4,650
1420-A1 2	1	Cashier	2,400
1420-A1 3	2	Revenue Clerk	2,000
1420-A1.4	2	Parking Meter Collector	1,620
1420-A1.5	1	License Clerk	1,800
1420-A1 6	2	Machine Operator	1,500
1420-A1 7	1	Accountant	2,400

As of September 1, 1946, a stenographer-clerk (A1.8) was added to the staff at a salary of $1,200.

The Director of Finance, John Adams, recommended that for 1947 all salaries be increased by 5 per cent.

The chief executive recommended that the staff be reduced by one parking meter collector, that Mr. Adams' salary be increased by $350, and that all other salaries be increased by 3 per cent.

The legislative body approved the recommended staff reduction and allowed a 4 per cent increase in all salaries, including the salary of the Director of Finance.

Problem 3-4. From the information shown at the top of the next page prepare a departmental estimate of current expenses—other than personal services (see Figure 2) for the Fire Department of the City of *D*. Submission date: October 15, 1947.

The following additional information is available: The expenditures for the first nine months of 1947 are estimated to be 75 per cent of the total expenditures for 1947. Fire Chief J. T. Herman proposed that the 1948 appropriations for his department be 105 per cent of the total 1947 expenditures, with the exception of account 2100-C41, for which he proposed that $1,000 be appropriated. Mayor Johnson made the recommendation that the amounts for 1948 appropriations be the same as the actual (for the first nine months) plus the estimated (for the remaining three months) expenditures for 1947, with the exceptions that only $500 be appropriated for clothing, that accounts 2100-B26, C22, and C52 be decreased 7, 10, and 5 per cent, respectively, from the 1947 esti-

Actual Expenditures

Code		1945	1946	1947 (First Nine Months)
	Contractual Services:			
2100-B11	Transportation	$ 35	$ 42	$ 75
2100-B26	Hospital	115	698	375
2100-B31	Light and Power	3,069	2,545	1,938
2100-B43	Apparatus Repair	325	386	189
2100-B44	Automotive Repair	5,789	6,939	4,218
	Materials & Supplies:			
2100-C11	Office	216	265	210
2100-C22	Coal	7,533	5,871	4,875
2100-C41	Clothing	420	515	399
2100-C51	Mechanical	324	182	150
2100-C52	Automotive	2,035	2,267	1,653
2100-C61	Chemical	103	100	117
2100-C62	Medical	108	182	69
2100-C71	Books & Reports	15	18	12
	Fixed Charges:			
2100-D12	Insurance	450	475	375
2100-D25	Pension Contribution	6,137	6,143	4,620

mated and actual expenditures, and that accounts 2100-C61 and C62 be increased 10 per cent over the 1947 expenditures. The city council appropriated $500 for account 2100-B26, and for the remainder of the accounts it appropriated the amounts recommended by the mayor.

Problem 3-5. On the basis of the data shown in the statement illustrated in Figure 97, prepare a schedule showing the amount which must be appropriated for interest on general bonds and the amount to be appropriated for the retirement of general serial bonds for 1947. (Assumed date of issue January 1.)

Problem 3-6. On October 1, 1946, you are given the following data concerning the City of *K:*

	Work Unit	1945 No. of Units	1945 Unit Cost	Estimated 1946 No. of Units	Estimated 1946 Unit Cost	Estimated 1947 No. of Units	Estimated 1947 Unit Cost
Hauling Sweepings	Cubic Yard	3,546	$ 87	3,721	$ 85	3,500	$ 84
White Wing	Cleaning Mile	8,041	2 60	9,236	2.90	9,000	2.90
Snow Removal:							
Plowing	Cleaning Mile	12,200	2.16	15,306	2.17	13,000	2.16
Loading and Hauling	Cubic Yard	60,742	1 11	83,140	1.09	75,000	1 10
Street Flushing	Cleaning Mile	20,129	.84	22,439	.86	22,000	.86

Required:

a. Prepare a work program to be submitted on October 1 by A. B. Holden, Chief of the Division of Street Cleaning of the Department of Public Works.

b. Assuming that the estimates for 1947 were adopted by the legislative body, prepare a work program as of January 2, 1947, dividing the appropriations into four quarterly installments as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Hauling Sweepings	15%	40%	30%	15%
White Wing	20	35	25	20
Snow Removal:				
Plowing	85	—	—	15
Loading and Hauling	85	—	—	15
Street Flushing	—	40	40	20

Problem 3-7. You are asked as the City of *A*'s Director of Public Works, on January 5, 1948, to submit an allotment of the appropriation for your department for 1948 based on three-month periods. Prepare such a schedule from the following data, using Figure 12 as a model.

	Personal Services	Contractual Services	Materials & Supplies	Fixed Charges	Capital Outlays
First Quarter	$7,500	$625	$400	$105	$2,300
Second Quarter	6,500	591	120	105	200
Third Quarter	6,500	675	85	105	450
Fourth Quarter	7,500	610	240	105	300

Problem 3-8. The following appropriations were made for 1947 by the City of *F*:

City Council	$ 10,000
Mayor	10,000
Courts	20,000
City Clerk	10,000
Department of Finance	20,000
Department of Police	50,000
Department of Fire	40,000
Department of Public Welfare	20,000
Interest	10,000
Retirement of Debt	10,000
Reserve for Contingencies	20,000
	$220,000

The following transfers between appropriations were subsequently authorized:

Transferred from	Transferred to	Amount
City Council	Department of Police	$ 500
Mayor	City Clerk	1,000
Department of Finance	Department of Public Welfare	1,000
Department of Public Welfare	Courts	750
Reserve for Contingencies	Department of Police	1,000
	Department of Fire	1,500
	City Council	500
	Department of Public Welfare	2,000

Estimated revenues are $230,000.

Required:

a. Prepare the journal entry necessary to record the adoption of the budget, showing both the general ledger and the subsidiary accounts.

b. Prepare the journal entry to record the transfers between appropriations, showing both the general ledger and the subsidiary ledger accounts involved.

c. Prepare a statement showing the appropriation balances after the transfers have been made effective.

Problem 3-9. From the following information, prepare a comparative statement of monthly receipts (see Figure 15):

CITY OF *H*
General Fund

Receipts	Total Estimated 1948	June 1948		January 1-June 30	
		Estimated	Actual	Estimated	Actual
Revenues from Other Agencies	$ 60,000	$ 5,000	$ 8,752	$ 30,000	$ 48,732
Collections from Accounts Receivable	10,000	900	757	5,300	5,200
Licenses and Permits	21,000	1,800	2,206	13,000	15,921
Revenues from Use of Money and Property	18,000	2,300	2,175	9,500	9,995
General Property Taxes	750,000	100,000	87,312	450,000	444,726
Charges for Current Services	35,000	2,800	3,200	19,500	21,437
Fines, Forfeits, and Penalties	12,000	1,000	806	6,000	5,900
Interest and Penalties on Taxes	14,000	2,500	4,193	6,500	8,173

Problem 3-10. From the following information, prepare a statement of actual and estimated revenues (see Figure 6) for the City of *Q*'s general fund. The percentages apply to the first column.

	Actual 1947	Actual First Nine Months of 1948	Estimated Remainder of 1948	Estimated 1949
Sewer Permits	$ 2,231.50	75%	25%	105%
Concessions	1,465 00	42	21	50
Police Fines	1,210 00	80	30	112
Vendors' Licenses	6,559.14	67	30	98
Share of State-Collected Franchise Taxes	16,468.38	84	27	140
General Property Taxes	601,202 32	94	—	101
Fire Protection Service	4,277 50	69	30	103
Rent of Public Properties	1,522.00	77	23	95
Interest and Penalties—Delinquent Taxes	12,995 66	84	—	110
Building Permit Fees	141.50	125	50	200

Problem 3-11. Make up a statement of actual expenditures compared with appropriations from the information presented on the next page (see Figure 16). Percentages are to be applied to figures in the preceding columns (estimated expenditures).

CITY OF *O*

General Fund

	Total 1948 Appropriations	Expenditures				
		June 1948		January 1-June 30, 1948		Encumbrances
		Estimated	Actual	Estimated	Actual	
Election Expense	$ 460.41	—	—	$ 259.13	97%	—
Zoning Board	175.00	$ 15.00	80%	87.50	83	—
Reduction of Debt	49,000.00	30,000.00	100	49,000.00	100	—
Public Library	6,893.22	572.11	93	3,521.96	95	$ 13.00
Collector's Office and Acounting	9,068.95	759.30	106	4,907.59	103	5.60
Board of Health	1,463.66	121.42	101	722.69	99	10.20
Garbage Disposal	12,155.21	1,101.50	99	6,003.40	98	22.50
Administration	3,937.34	321.14	102	1,974.31	105	75.14
Police Protection	46,457.73	3,822.01	93	22,804.30	91	44.00
Legal Counsel	1,080.00	90.00	100	532.00	100	—
Parks and Plazas	7,566.56	619.82	128	3,721.49	130	25.72
Street Lighting	14,321.11	807.02	91	7,156.03	94	13.13
Patriotic Celebrations	1,347.99	122.42	86	643.21	89	2.00
Interest on Debt	31,828.75	9,341.18	100	22,436.12	100	—
Municipal Building	5,624.94	483.74	75	2,933.18	80	—
Streets—Repairs and Maintenance	13,653.04	2,319.47	96	8,413.68	95	70.30
Sewers and Sewage Disposal	10,374.20	843.21	100	5,249.38	103	18.47
Recreation and Playgrounds	5,257.83	438.21	131	2,479.37	129	51.67
Poor Relief	546.50	45.33	112	275.34	115	—
Fire Protection	23,502.91	1,998.43	115	11,753.07	112	421.02
Assessor's Office	1,845.34	83.21	122	832.17	118	4.95

QUESTIONS AND PROBLEMS ON CHAPTER 4

Questions

Question 4-1. Due to legal technicalities, the tax on a certain property will not be collected until 5 years from the date of the balance sheet (December 31, 1947). There is relative certainty that it will be collected at that time. Disregarding penalties and interest, how should these taxes be handled in the balance sheet of December 31, 1947?

Question 4-2. Referring to Figure 18, suppose that, after the balance sheet illustrated there was prepared but before the end of the year, additional revenues amounting to $5,000 were collected. Would the total assets be changed? Would the Unappropriated Surplus account be affected?

Question 4-3. Distinguish between a municipal balance sheet and a municipal trial balance.

Question 4-4. Can you see any *similarities* between a general fund balance sheet and a balance sheet of a business?

Question 4-5. It is claimed that the term *surplus* has no place in a general fund balance sheet because the term applies to accumulated profits, and a governmental unit is not established for the purpose of making profits. Is this claim correct?

Question 4-6. The following is a balance sheet of the general fund of the County of *X*:

COUNTY OF *X*
General Fund
Balance Sheet
December 31, 1945

Assets

Cash	.....	$ 50,000
Taxes Receivable	$200,000	
Less—Reserve for Uncollectible Taxes	30,000	170,000
Amount to Be Provided for Retirement of Funding Bonds	.....	280,000
		$500,000

Liabilities and Surplus

Liabilities:		
Funding Bonds of 1933 (that is, bonds issued to finance a deficit)	$280,000	
Accounts Payable	70,000	$350,000
Unappropriated Surplus	.....	150,000
		$500,000

The funding bonds (total issued, $1,000,000) were issued in 1933 to finance accumulated deficits due to an increase in relief expenditures. They have been retired at the rate of $60,000 each January.

(*a*) Is the amount of surplus stated in this statement correct? (*b*) Does the statement show the true financial condition of the general fund? (*c*) If not, recast the balance sheet so as to show the true financial condition of this fund.

Problems

Problem 4-1. The trial balance of the general fund of the County of *Y* on January 1, 1947, was as follows:

Cash	$10,000	
Taxes Receivable—Delinquent	20,000	
Reserve for Estimated Losses—Delinquent Taxes		$ 3,000
Interest and Penalties Receivable on Taxes	500	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		75
Accounts Receivable	10,000	
Reserve for Estimated Losses—Accounts Receivable		1,000
Vouchers Payable		16,000
Reserve for Encumbrances		10,000
Unappropriated Surplus		10,425
	$40,500	$40,500

The following are transactions which took place during the year 1947:

1. Revenues were estimated at $100,000; appropriations of $108,000 were made.

2. An order placed at the end of the preceding year and estimated to cost $10,000 was received; the invoice indicated an actual cost of $9,500.

3. Another order was placed for materials estimated to cost $20,000.

4. Taxes to the amount of $100,000 have accrued; provide a reserve for estimated losses of 5 per cent.

5. Collections were made as follows:

Current taxes	$80,000
Delinquent taxes	10,000
Interest and penalties receivable on taxes	300
Accounts receivable	5,000

6. Payments were made as follows:

Vouchers payable	$25,500
Payrolls	20,000

7. The materials ordered were received; a bill for $21,000 was also received.

8. Taxes amounting to $20,000 have become delinquent; the reserve for estimated losses on current taxes was transferred to the reserve for estimated losses on delinquent taxes.

9. Delinquent taxes amounting to $2,000 were written off; interest and penalties receivable on taxes to the amount of $20 were also written off.

10. Delinquent taxes amounting to $200, which were written off in preceding years, were collected with interest and penalties of $35.

11. An order was placed for an automobile for the sheriff; the estimated cost was $1,000.

12. Payrolls of $25,000 were paid.

13. An order was placed for materials estimated to cost $20,000.

14. The automobile ordered for the sheriff was received; the actual cost was $1,000.

15. Bonds to the amount of $10,000 have matured. (*Hint:* Charge Appropriation Expenditures.)

16. The matured bonds were paid.

17. Interest amounting to $5,000 was paid.

18 Interest of $600 accrued on delinquent taxes, and a reserve for estimated losses thereon of 5 per cent was provided.

Required:

a. Prepare journal entries.
b. Post to "T" accounts.
c. Prepare a balance sheet (before closing entries).
d. Prepare closing entries.
e. Post to "T" accounts.
f. Prepare a balance sheet as of the close of the fiscal year (that is, after closing entries).
g. Prepare a statement analyzing the changes in the Unappropriated Surplus account.

Problem 4-2. Part I. The following is a trial balance of the general fund of the City of *D* as of December 31, 1947, before closing entries:

Cash	$ 28,600	
Taxes Receivable—Delinquent	23,000	
Reserve for Estimated Losses—Delinquent Taxes		$ 3,500
Accounts Receivable	12,500	
Reserve for Estimated Losses—Accounts Receivable		1,500
Estimated Revenues	150,000	
Vouchers Payable		30,000
Appropriations		170,000
Reserve for Encumbrances		21,000
Unappropriated Surplus		7,100
Revenues		149,000
Encumbrances	21,000	
Appropriation Expenditures	147,000	
	$382,100	$382,100

The city closes out both the Encumbrances and Reserve for Encumbrances accounts at the end of the year but sets them up at the beginning of the following year immediately after the budget is adopted. Interest

and penalties on taxes are not accrued but are recorded as revenue when received.

Required:

a. Post the above trial balance to "T" accounts.

b. Prepare a balance sheet as of December 31, 1947 (before closing entries).

c. Prepare closing entries.

d. Post closing entries to "T" accounts.

e. Prepare a balance sheet as of December 31, 1947 (after closing entries).

f. Prepare a statement analyzing the changes in the Unappropriated Surplus account.

Problem 4-2. Part II. The following transactions took place during 1948:

1. The budget for the year was adopted. Revenues were estimated at $178,000; appropriations of $191,000 were made.

2. Police uniforms estimated to cost $15,000 were ordered.

3. Taxes to the amount of $171,000 accrued; a 4 per cent reserve for estimated losses was provided.

4. Collections were made as follows:

Current taxes	$115,000
Delinquent taxes	6,000
Interest and penalties on taxes	200
Accounts receivable	5,500

5. The materials ordered in 1947 and set up as an encumbrance of that year for $21,000 were received; the actual cost was $20,000.

6. The police uniforms were received; the invoice was for $16,000.

7. Serial bonds to the amount of $35,000 matured.

8. Current taxes became delinquent; the reserve for estimated losses on current taxes was transferred to a reserve for estimated losses on delinquent taxes.

9. Interest of $3,000 was paid.

10. Delinquent taxes amounting to $3,000 were declared uncollectible and written off the books.

11. An order was placed for a street sweeping machine estimated to cost $1,500.

12. Vouchers paid amounted to $60,000.

13. Payroll vouchers for $100,000 were approved.

14. Delinquent taxes to the amount of $350, written off in preceding years, were collected.

15. The payroll vouchers were paid.

16. An order was placed for fire alarm equipment at an estimated cost of $14,000.

17. The street sweeping machine was received; the invoice was for $1,550.

18. Matured serial bonds were retired.
19. Miscellaneous revenues of $5,000 were collected.

Required:

a. Prepare journal entries.
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1948 (before closing entries).
d. Prepare closing entries.
e. Post closing entries to "T" accounts.
f. Prepare balance sheet as of December 31, 1948 (after closing entries).
g. Prepare a statement analyzing the changes in the Unappropriated Surplus account.

Problem 4-3. The following is a statement analyzing the changes in the unappropriated surplus of the general fund of the City of *Y*. The municipality is required to keep its accounts for both revenues and expenditures on an accrual basis.

CITY OF *Y*
General Fund
Statement of Changes in
Unappropriated Surplus
for Fiscal Year Ending June 30, 1943

Unappropriated Surplus, July 1, 1942		$50,000
Add—Excess of Revenues Over Expenditures:		
Revenues	$300,000	
Less—Expenditures	270,000	30,000
Unappropriated surplus, June 30, 1943		$80,000

Among the revenues are included $10,000 estimated revenues not realized and $290,000 actual revenues, consisting among other items of cash receipts from the following sources: (1) collections applicable to the 1944 tax levy, $2,000; (2) sale of fixed assets carried in the utility fund, $1,500; (3) special tax levy made for the purpose of establishing a working capital fund, $50,000; (4) sale of general fixed assets which were financed by a general sinking fund bond issue still outstanding, $2,000; (5) sale of fixed assets originally financed 75 per cent from special assessments and 25 per cent from general fund revenues, $1,000; (6) a transfer from the sinking fund to the general fund, the money transferred to be used to retire sinking fund bonds, $100,000; (7) tax levy for the retirement of serial bonds, $10,000; (8) borrowed from the utility fund, $500.

The expenditures consist, among others, of the following items: (1) payments on account of the retirement of sinking fund bonds, $85,000; (2) payments for the retirement of serial bonds, $9,500; (3) repayment of a loan made from the trust fund, $300; (4) city's share of cost of special assessment project, $2,000; (5) purchase of general fixed assets, $10,000.

Included also among the expenditures are unliquidated encumbrances of $15,000 outstanding on June 30, 1943, as well as expenditures of $5,000 for which encumbrances amounting to $5,500 were outstanding on July 1, 1942.

Due to expected restrictions, the city council on April 1, 1943, made an appropriation of $10,000 in advance of the fiscal year for the purpose of enabling departments to place orders for certain equipment immediately. The understanding was that no bills chargeable against this appropriation would be paid before July 1, 1943. On April 2, 1943, an order was placed with the Acme Company for equipment estimated to cost $4,000 and with the Doe Company for equipment estimated to cost $6,000. On May 1, 1943, the Acme Company delivered the equipment ordered and rendered a bill for $4,200 dated July 1, 1943. The Doe Company has not yet delivered the equipment but is expected to do so within the next few weeks. Neither the $10,000 appropriation nor the encumbrances or expenditures, if any, applicable to such appropriation are reflected in the above statement.

Required:

Prepare a corrected statement analyzing the changes in unappropriated surplus and showing separately each item and amount by which the revenues or expenditures should be increased or decreased. Show also any other adjustments needed to reflect the correct balance of unappropriated surplus on June 30, 1943.

Problem 4-4. From the following list of accounts and additional data prepare a balance sheet for the general fund of the City of *X* as of December 31, 1946.

Cash	$50,000
Inventory of Supplies	10,000
Accounts Payable	30,000
Reserve for Encumbrances	460

The following additional facts have not been reflected in the accounts:

1. Taxes receivable on January 1, 1946, as a result of prior years' levies, amounted to $50,000; a tax levy of $100,000 was made on January 15, 1946.
2. It is estimated that $3,000 of the current year's tax levy and $6,000 of the taxes receivable from prior levies will never be collected.
3. Tax collections made during the year and included in cash were as follows: From taxes levied in 1946, $50,000; from taxes levied in prior years, $10,000; from taxes to be levied in 1947, $3,000.
4. The council, being convinced that $1,000 of the taxes levied in prior years would never be collected, authorized their cancellation, and they were duly canceled.
5. The general fund owes $8,000 to the water fund and has coming $5,000 from that fund.
6. A physical inventory of supplies revealed a shortage (due pri-

marily to breakages) of $200; it was also discovered that typewriters costing $200 were included among the inventory of supplies.

7. The Acme Company rendered services on December 19, 1946, amounting to $150 but the invoice was not received until January 3, 1947. However, the appropriation accounts had been encumbered for $160 on December 20, 1946.

8. An encumbrance for $300 representing the estimated cost of materials ordered on December 15, 1946, is still carried on the records. The materials were received January 5, 1947, and a bill for $302 covering the actual cost was received the same day.

9. Of the serial bonds outstanding $25,000 represent matured bonds.

QUESTIONS AND PROBLEMS ON CHAPTER 5

Questions

Question 5-1. Both tax rates and license rates are established by legislative action. Which rates (license or tax) are likely to remain in effect over a longer period of time?

Question 5-2. (*a*) What is the difference between revenues from charges for current services and license revenues? (*b*) A department charges $10, the approximate cost of inspection, for issuing a building permit. Would you classify this as revenues from permits or as charges for current services?

Question 5-3. The comptroller of the City of *F* publishes a statement of actual revenues alone. His argument is that he purposely underestimates revenues so as to keep expenditures down. If he were to publish estimated and actual revenues, the underestimation would become evident, and he would be forced to report accurate estimates of revenue, with the result that expenditures would rise. Is the comptroller's argument justified?

Question 5-4. In the City of *L*, persons fined on account of traffic violations are permitted to work out these fines by performing such work as washing and greasing police cars or painting curbs and lines on pavements for the traffic department. Should these fines be accounted for in the records? If so, give the entry or entries, using assumed figures.

Question 5-5. (*a*) What is the difference between state-collected, locally shared taxes, and grants-in-aid? (*b*) A statute provides that 50 per cent of state motor vehicle license collections are to be distributed annually among the municipalities and counties (that is, county territory outside of municipalities) on the basis of the number of licenses issued to residents thereof during the year. Are such payments a distribution of state-collected, locally shared taxes, or grants-in-aid? (*c*) Would your answer be different if the statute had provided, in addition, that the money received by the municipalities and counties was to be employed only for road purposes?

Problems

Problem 5-1. The following are the estimated revenues for the Village of *P* at January 1, 1947:

Taxes	$120,000
Interest and Penalties	1,500
Fines and Fees	500
Permits	50
Dog Tax	900
Rents	500
Licenses	1,400
Poll Tax	500
Interest	1,000

The village reports its transactions on a cash basis.

At the end of January, the following collections had been made:

Taxes	$50,000
Interest and Penalties	500
Fines and Fees	50
Permits	40
Dog Tax	800
Rents	45
Licenses	1,200
Poll Tax	300

An unanticipated grant-in-aid of $5,000 was received from the state.

Collections for the remaining eleven months were as follows:

Taxes	$60,000
Interest and Penalties	800
Fines and Fees	400
Permits	30
Dog Tax	70
Rents	455
Licenses	300
Poll Tax	100
Interest	900

Required:

a. Prepare the entries necessary to record on the books the estimated revenues as well as revenue collections.

b. Post to "T" accounts and to subsidiary revenue accounts (see Figure 13).

c. Prepare closing entries.

d. Post to the "T" accounts and to the subsidiary revenue accounts.

e. Prepare a statement of estimated revenues compared with actual revenues for 1947.

Problem 5-2. The following is a list of the revenue accounts in the general fund revenue ledger of the City of *X* at December 31, 1947:

Revenue Source	Estimated	Actual
Real Estate Taxes (Net)	$100,000	$95,000
Personal Property Taxes (Net)	50,000	45,000
Interest and Penalties on Taxes	5,000	5,500
Sales Taxes	26,000	26,000
Plumbing Installation Permits	5,000	4,800

Revenue Source	Estimated	Actual
Scavenger's License	500	500
Sale of "No Parking" Signs	300	300
Interest on Bank Deposits	500	500
Gasoline Tax Received from State	15,000	15,000
Conscience Money	200	300
Court Fines	5,000	4,200
Cigarette Tax Received from State	10,000	9,500
Interest on Investments	300	300
Motor Vehicle Registration Fees Received from State	18,000	16,000
Rent from Market Stalls	2,000	2,100
Telephone Pay Stations	1,000	1,200
Charges for Hospital Services	5,000	5,500
Rent from Public Buildings	2,000	2,000
City Railways Company Franchise	3,000	3,000
Taxi Meter Testing Fee	500	600
Ticket Speculator's License	600	400
Income Taxes	20,000	18,000
Milk Hauler's License	1,000	1,200
Subscriptions to City Publications	500	450
Alcoholic Beverage Licenses	15,000	16,000
Sales of Electrical Code	800	600
Library Fines	1,000	1,100
Donations from Community Chest	5,000	5,000
Building Permits	3,000	3,100
Charges for Private Police Service	2,000	1,800

Required:

a Set up "T" accounts for the general ledger accounts and enter in them the total amount of estimated revenues and actual revenues, respectively; also set up a "T" account for unappropriated surplus.

b Set up the following (subsidiary) revenue ledger accounts and post the amount of estimated and actual revenue thereto:

Rent from Market Stalls
Sales Taxes
Ticket Speculator's License

c. Prepare a journal entry to close out the estimated and actual revenues, showing both the general ledger and revenue ledger (that is, subsidiary) accounts.

d. Post the amounts shown in the closing entry to the general ledger accounts and to those subsidiary revenue accounts for which you have set up accounts.

e. Prepare a statement, properly arranged, comparing the estimated and actual revenues of the general fund of the City of *X* for the year ending December 31, 1947.

Problem 5-3. The following is a list of the estimated and actual general fund revenues for the fiscal year ending June 30, 1947 for a state government:

	Estimated	Actual
Inheritance Taxes	$ 750,000	$ 530,617
Licenses	2,400,000	2,323,866
Franchise Taxes	7,267,800	7,245,754
Insurance Department Fees	12,500	13,297
Income Taxes	7,690,000	8,088,119
Secretary of State	60,000	71,682
Governor's Office	15,000	18,551
Sales Tax	9,800,000	10,181,373
Gasoline Inspection	750,000	806,408
Beer Tax	400,000	623,815
Oil Inspection	100,000	106,028
Capital Issues	5,000	12,671
Miscellaneous Taxes	—	6,019
Railroad Dividends	210,014	210,014
Interest on Bank Deposits	50,000	11,671
Sales Tax on Gasoline	1,800,000	1,000,000
Miscellaneous Earnings	14,500	918
Poll Tax	—	3,823
Refund Imprest Cash—Revenue Department	—	25,000
State Property Tax (Schools)	175,000	153,744
Utilities Commission Fees	—	10
State Board of Elections	—	6,208
	$31,499,814	$31,439,588

Required:

Prepare a statement of estimated and actual revenues for the fiscal year ending June 30, 1947.

Problem 5-4. From the following accounts taken from a municipality's report for the fiscal year ending June 30, 1946, prepare a statement of estimated revenue compared with actual.

	Estimated	Actual
Licenses	$ 25,000.00	$ 67,914.11
Grants, Donations, and Contributions	34,000.00	24,453.95
Interest, Dividends, and Premiums	20,000.00	56,912.79
Severance Tax	200.00	159.87
Franchise Tax	1,200.00	1,296.09
Fines, Penalties, and Forfeitures	22,000.00	35,488.09
Property Taxes—Current	1,026,660.00	1,026,696.33
Permits	4,800.00	5,720.03
Proceeds of Sales of Commodities & Services	29,160.00	10,810.73
Gas & Weight Tax	106,000.00	141,764.04
Rents	3,500.00	2,792.06
Miscellaneous Receipts	2,000.00	2,541.71
Dockage Fees	25.00	400.00
Nuisance Tax	—	25.00
Fees	10,000.00	13,850.08

QUESTIONS AND PROBLEMS ON CHAPTER 6

Questions

Question 6-1. In a certain municipality the purchase of materials is charged against an appropriation set up for that purpose. Subsequently, as materials are withdrawn, their cost is charged to the appropriations of the departments by which they are withdrawn. What is wrong with this procedure, and what remedy would you propose?

Question 6-2. A governmental unit takes advantage of purchase discounts by paying its bills promptly. Should the full purchase price be recorded on the records with the discounts treated as revenue, or should the purchases be recorded at their net cost (that is, after deduction of discounts)?

Question 6-3. (*a*) Should the inventory of materials and supplies carried in the general fund of a governmental unit be recorded at cost, at cost or market, whichever is lower, or on some other basis? (*b*) Would your answer be different if the inventory was owned by a municipal water utility?

Question 6-4. In your opinion, is it preferable to head up the statement as is done on page 99 rather than to prepare a separate statement for expenditures chargeable against encumbrances? Give reasons for your answer.

Question 6-5. On January 2, 1946, materials costing $100 were transferred from inventory to the Police Department. Give the journal entry or entries to be made.

Question 6-6. Referring to Question 3-7, what entry should be made when the municipality pays the money over to the state?

Problems

Problem 6-1. Opposite is a list of the accounts in the general fund appropriation ledger of the City of *X* at December 31, 1946.

Required:

a. Set up "T" accounts for the general ledger accounts and enter in them the proper totals of appropriations, expenditures, encumbrances, and reserve for encumbrances, respectively; set up a "T" account for unappropriated surplus. *Hint:* Set up "T" accounts for appropriations (to include both current expenses and capital outlays), for appropriation expenditures, and so forth. You need not distinguish between current

Organization Unit	Appropriations		Expenditures		Encumbrances Outstanding	
	Current Expenses	Capital Outlays	Current Expenses	Capital Outlays	Current Expenses	Capital Outlays
Council	$10,000	$ 2,000	$ 9,000	$ 2,000	—	—
City Clerk's Office	10,000	2,000	10,000	1,000	—	$ 500
Department of Police	30,000	5,000	28,500	4,000	$1,000	1,000
Public Works Department—Sanitation and Waste Removal	15,000	5,000	14,000	4,500	—	500
Public Welfare Department—Charities	20,000	1,000	18,000	800	1,500	100
Civil Service Commission	5,000	—	4,500	—	500	—
Court	5,000	—	4,500	—	—	—
Interest	5,000	—	5,000	—	—	—
Mayor	10,000	1,000	9,000	500	1,000	500
Department of Finance	10,000	1,000	8,500	1,000	1,000	—
Department of Law	10,000	—	9,000	—	—	—
Department of Fire	20,000	5,000	19,000	4,000	500	500
Department of Health—Conservation of Health	5,000	1,000	5,000	1,000	—	—
Public Works Department—Highways	20,000	30,000	19,000	28,000	1,000	1,000
Department of Health—Hospitals	15,000	5,000	14,000	4,000	500	500
Retirement of Debt	15,000*	—	15,000*	—	—	—

* Not part of current expenses, shown in "Current Expenses" column to save space.

expenses, capital outlays, and retirement of debt in your *general ledger* accounts.

b. Set up the following (subsidiary) appropriation accounts and post appropriations, expenditures, and encumbrances to them:

Council—Current Expenses
Department of Finance—Capital Outlays
Department of Police—Current Expenses
Department of Police—Capital Outlays
Public Works Department—Highways—Current Expenses
Public Welfare Department—Charities—Current Expenses

c. Prepare a journal entry to close out appropriations, expenditures, and encumbrances, showing both the general ledger and appropriation ledger (subsidiary) accounts.

d. Post the amounts shown in the closing entry to the general ledger accounts and to those subsidiary accounts for which you have set up accounts.

e. Prepare a statement, properly arranged, comparing appropriations with expenditures and encumbrances of the general fund for 1946.

Problem 6-2. The following is a balance sheet of the School District of *R* as of January 1, 1947:

SCHOOL DISTRICT OF *R*
General Fund
Balance Sheet
January 1, 1947

Assets

Cash		$125,300
Taxes Receivable—Delinquent	$ 51,500	
Less: Reserve for Estimated Losses	2,200	49,300
Interest and Penalties Receivable on Taxes	$ 3,600	
Less: Reserve for Estimated Losses	1,400	2,200
Accounts Receivable	$ 6,800	
Less: Reserve for Estimated Losses	600	6,200
Due from Utility Fund		10,000
		$193,000

Liabilities and Surplus

Liabilities:		
Vouchers Payable	$100,000	
Due to Working Capital Fund	5,000	
Taxes Collected in Advance	300	$105,300
Unappropriated Surplus		87,700
		$193,000

The following transactions took place during the year:

1. The school board adopted the following budget:

Appropriations:	
General Control	$ 27,000
Instructional Service	114,000
Operation of Plant	34,000
Maintenance of Plant	25,000
Auxiliary Agencies	25,000
Capital Outlays	50,000
Debt Service	30,000
Estimated Revenues:	
Taxes	221,050
Interest and Penalties on Taxes	2,000
Interest Earnings	2,000
Rents and Concessions	200
State Appropriation	20,000
Tuition	24,000
Sale of Supplies	2,300
Telephone Receipts	450

2. Materials had been ordered last year, but the Encumbrances and Reserve for Encumbrances accounts had been closed out at the end of the year. However, they were reappropriated this year, and the following amounts were encumbered:

Instructional service	$12,000
Operation of plant	5,000
Auxiliary agencies	3,000

3. The school board levied a tax of $228,050. It was estimated that $7,000 of this levy would never be collected, and a reserve for this amount was set up.

4. Current taxes receivable of $300 were applied against the taxes collected in advance.

5. Salaries and wages were paid as follows:

General control	$12,000
Instructional service	60,000
Operation of plant	8,000
Maintenance of plant	2,000
Auxiliary agencies	6,000

6. Current tax collections amounted to $197,400.

7. Materials and supplies were ordered, estimated to cost as follows:

General control	$ 8,000
Maintenance of plant	10,000
Auxiliary agencies	9,000

8. The actual costs of materials ordered last year were as follows:

Instructional service	$11,500
Operation of plant	5,500
Auxiliary agencies	3,000

Vouchers were approved for these expenditures.

9. New equipment estimated to cost $50,000 was ordered.

10. Miscellaneous revenues were collected as follows:

Interest earnings	$ 1,000
Rents and concessions	40
Tuition	10,000
Sale of supplies	1,500
Telephone receipts	200

11. Uncollected current taxes were transferred with the reserve for losses to delinquent accounts.

12. Delinquent tax collections amounted to $12,321.

13. Vouchers in the amount of $106,500 were paid.

14. Taxes of $1,200 written off the books in previous years were collected without interest or penalties.

15. The equipment was received; the actual cost was $49,000.

16. Supplies were ordered at the following estimated costs:

Operation of plant	$13,000
Maintenance of plant	2,500
Auxiliary agencies	1,800

17. Interest on bonds accrued amounted to $5,000.

18. Materials and supplies ordered in transaction 7 were received with bills as follows:

General control	$ 7,500
Maintenance of plant	9,800
Auxiliary agencies	9,500

19. The state appropriation became due.

20. Delinquent taxes of $980 were written off.

21. The utility fund paid its liability to this fund.

22. Collections from interest and penalties receivable on taxes amounted to $800.

23. Supplies ordered in transaction 16 were received. Vouchers were approved for the actual cost as follows:

Operation of plant	$12,500
Maintenance of plant	3,000
Auxiliary agencies	1,700

24. Serial bonds in the amount of $25,000 were paid.

25. Miscellaneous collections of revenue were as follows:

Rents and concessions	$ 150
Tuition	13,240
Sale of supplies	1,250
Telephone receipts	169

26. The liability to the working capital fund was paid.

27. Supplies were ordered at the following estimated costs:

General control	$ 4,200
Instructional service	11,500
Maintenance of plant	5,000

28. Interest revenues in the amount of $500 accrued.

29. Interest and penalties of $2,607 accrued on taxes, but it was estimated that of this amount $500 would never be collected.

30. The following salaries and wages accrued:

General control	$ 3,000
Instructional service	27,500
Operation of plant	7,300
Maintenance of plant	4,500
Auxiliary agencies	5,000

Required:

a. Post the balance sheet accounts to "T" accounts.

b. Prepare all the entries necessary to record the transactions for the year.

c. Post to controlling accounts ("T" accounts) and to subsidiary revenue and appropriation accounts (see Figures 13 and 14, respectively).

d. Prepare all closing entries and post to controlling and subsidiary accounts.

e. Prepare a balance sheet as of December 31, 1947.

f. Prepare a statement analyzing the changes in the Unappropriated Surplus account.

g. Prepare a statement of estimated and actual revenues.

h. Prepare a statement of expenditures and encumbrances compared with appropriations.

Problem 6-3. On the basis of the data in the appropriation ledger on the following page, prepare a schedule classifying expenditures by character and main classes of objects.

CITY OF *X*
Appropriation Expenditure Ledger

Organization Unit: Department of Police
Year: 1947

Date	Description	Encumbrances				Expenditures			Appropriations	Unencumbered Balance
		Order No.	Paid or Canceled	Issued	Balance	Voucher No.	Amount	Total Expenditures		
1	2	3	4	5	6	7	8	9	10	11
1/4	Appropriation	—	—	—	—	—	—	—	$40,000	$40,000
	Insurance	—	—	—	—	20	$ 140	$ 140	—	39,860
	Expert Services	—	—	—	—	25	200	340	—	39,660
1/7	Office Supplies	10	—	$120	$120	—	—	340	—	39,540
	Land	—	—	—	120	32	1,000	1,340	—	38,540
1/10	Filing Cabinets	17	—	400	520	—	—	1,340	—	38,140
	Auto Repairs	—	—	—	520	40	200	1,540	—	37,940
1/14	Lubricants	23	—	30	550	—	—	1,540	—	37,910
1/16	Firearms	—	—	—	550	53	80	1,620	—	37,830
	Office Supplies	10	$120	—	430	57	125	1,745	—	37,825
1/20	Electricity	—	—	—	430	60	35	1,780	—	37,790
	Typewriters	35	—	160	590	—	—	1,780	—	37,630
1/22	Typewriters	35	160	—	430	72	150	1,930	—	37,640
	Gasoline	—	—	—	430	75	340	2,270	—	37,300
	Medical Services	—	—	—	430	79	50	2,320	—	37,250
1/24	Motorcycle Repairs	—	—	—	430	85	140	2,460	—	37,110
	Gas Masks	—	—	—	430	91	30	2,490	—	37,080
1/27	Surety Bond Premium	—	—	—	430	94	50	2,540	—	37,030
	Clothing	39	—	250	680	—	—	2,540	—	36,780
1/29	Lubricants	23	30	—	650	97	30	2,570	—	36,780
	Printing	—	—	—	650	106	25	2,595	—	36,755
	Filing Cabinets	17	400	—	250	111	415	3,010	—	36,740
1/31	Regular Salaries	—	—	—	250	133	1,430	4,440	—	35,310
	Water	—	—	—	250	135	20	4,460	—	35,290

Problem 6-4. The following is a balance sheet of the City of *Z* as of January 1, 1948:

CITY OF *Z*
General Fund
Balance Sheet
January 1, 1948

Assets

Cash		$ 47,000
Taxes Receivable—Delinquent	$410,000	
Less: Reserve for Estimated Losses	41,000	369,000
Interest and Penalties Receivable on Taxes	$ 7,150	
Less: Reserve for Estimated Losses	150	7,000
Accounts Receivable	$ 12,000	
Less: Reserve for Estimated Losses	200	11,800
Due from Utility Fund		5,000
		$439,800

Liabilities, Reserve, and Surplus

Liabilities:		
Vouchers Payable	$ 79,000	
Judgments Payable	35,000	
Due to Special Assessment Fund	50,000	
Taxes Collected in Advance	2,000	$166,000
Reserve for Encumbrances*		21,000
Unappropriated Surplus		252,800
		$439,800

* Reserve for Encumbrances includes supply orders for the following:

Fire Department	$13,500
City Jail	7,500

The following transactions took place during the year:

1. Appropriations and estimated revenues were as follows:

Appropriations

City Commission	$ 2,660
City Manager	8,565
City Clerk	4,585
Civil Service Board	1,400
Election Board	5,366
City Court	10,390
Attorney	4,485
Zoning Board	360
Auditor	10,277
Treasurer	11,093
Assessor	10,494
Purchasing Agent	8,703
Fire Department	195,090
Police Department	187,314
Department of Health and Welfare	21,235
City Jail	19,200
Park Department	27,251
Public Works Department	69,752
Interest on Bonds	10,450
Retirement of Bonds	10,000
	$618,670

Estimated Revenues

Property Taxes	$407,000
Interest and Penalties on Taxes	4,330
Licenses	37,000
Franchises	47,000
Fines and Fees	22,340
Rents	4,500
State Gas Tax	75,500
Service Charges	21,000
	$618,670

2. The city commission levied a tax of $422,000, of which $15,000 is estimated never to be collected.

3. The supplies ordered last year were received. The actual cost of these supplies was as follows:

City Jail	$ 7,490
Fire Department	14,150

4. Orders for supplies were placed as follows:

City Manager	$ 300
City Clerk	300
Civil Service Board	100
Election Board	4,100
City Court	150
Attorney	50
Zoning Board	200
Auditor	450
Treasurer	750
Assessor	1,000
Department of Health and Welfare	2,000

5. Current tax collections amounted to $320,000. Of this amount, $2,000 had been collected previously and is to be refunded to taxpayers.

6. Interest and penalties accrued on taxes amounted to $4,000. It was estimated that $150 of this amount would never be collected.

7. The judgments were paid in full.

8. The utility fund paid off its debt to the general fund.

9. An additional appropriation of $1,000 was made out of surplus to the city jail, and $2,000 was transferred from the police department's appropriation to the city jail.

10. Delinquent taxes of $1,500 were written off.

11. The foregoing supplies ordered were received, and vouchers were approved as follows:

City Manager	$ 294
City Clerk	296
Civil Service Board	100
Election Board	4,055
City Court	146
Attorney	41
Zoning Board	195
Auditor	444
Treasurer	801
Assessor	1,078
Department of Health and Welfare	2,000

12. Interest paid on outstanding bonds amounted to $10,450, and bonds retired amounted to $10,000.

13. Taxes collected in advance totaled $1,200.

14. Miscellaneous revenues received and other collections were as follows:

Interest and Penalties Receivable on Taxes	$ 3,200
Licenses	38,125
Franchises	45,000
Fines and Fees	20,436
Rents	4,500
State Gas Tax	70,000
Service Charges	18,765
Accounts Receivable	5,321
Delinquent Taxes	149,742

15. Salaries and wages were paid during the year as follows:

City Commission	$ 2,660
City Manager	8,000
City Clerk	4,200
Civil Service Board	900
Election Board	800
City Court	10,100
Attorney	4,400
Auditor	9,600
Treasurer	9,600
Assessor	8,400
Purchasing Agent	7,200
Fire Department	150,907
Police Department	142,629
Department of Health and Welfare	16,804
City Jail	8,881
Park Department	5,062
Public Works Department	32,206

16. Delinquent taxes in the amount of $2,143 and interest and penalties of $50, written off as uncollectible last year, were received.

17. All uncollected current taxes were transferred with the reserve for estimated losses to delinquent accounts.

18. The following capital outlays were made and paid for:

Purchasing Agent	$ 731
Fire Department	25,715
Police Department	32,163
City Jail	13,319
Park Department	20,143
Public Works Department	35,118

19. The following supply orders were placed:

Civil Service Board	$200
Election Board	100
Treasurer	300
Public Works Department	500

Required:

a. Prepare a balance sheet as of December 31, 1948.

b. Prepare a statement analyzing the changes in the Unappropriated Surplus account.

c. Prepare a statement comparing estimated and actual revenues.
d. Prepare a statement comparing expenditures and encumbrances with appropriations.

Problem 6-5. (Adopted from the American Institute of Accountants' examination of May 1944.) From the following information concerning the general accounts of the City of Doeville, prepare:

1. A statement of revenues, expenditures, and surplus of the general accounts for the year 1943.
2. A balance-sheet of the general fund as of December 31, 1943.
3. A comparative statement of revenue and budget estimates for the year.
4. A statement of expenditures and encumbrances in comparison with the budget estimates.
5. Closing entries.

The trial balance of the general accounts of the City of Doeville at the beginning of the new fiscal year, January 1, 1943, was as follows:

Cash	$37,452	
Taxes receivable—prior years	3,729	
Miscellaneous accounts receivable	1,868	
Tax liens	2,046	
Audited vouchers		$20,370
Reserve for encumbrances		8,010
Unappropriated surplus		16,715
	$45,095	$45,095

The transactions for 1943 are summarized below:

The budget was adopted for the 1943 fiscal year as follows:

Expenditures

State and county taxes	$ 10,370
Addition to sinking fund	20,000
General administration	28,200
Protection of life and property	30,000
Protection of health	21,000
Streets and roads	40,000
Education	120,000
	$269,570

Revenues

Licenses and permits	$ 6,250
Fines and penalties	6,715
Miscellaneous	11,580
Taxes	245,025
	$269,570

2. Appropriations were made to cover encumbrances outstanding at January 1, 1943, as follows:

General administration	$ 110
Protection of life and property	2,450
Protection of health	750
Streets and roads	2,500
Education	2,200
	$8,010

3. Of the taxes receivable for prior years, $3,427 was collected. Tax liens were obtained against the remaining delinquent taxpayers.

4. All of the tax liens outstanding at the beginning of the year were sold for cash, and all the outstanding miscellaneous accounts receivable were collected.

5. The tax levy for 1943 was $245,025, of which $236,421 was collected in cash.

6 Contracts were let and open-market orders were placed in the estimated amount of $126,382, as follows:

General administration	$ 10,824
Protection of life and property	15,933
Protection of health	8,422
Streets and roads	25,727
Education	65,476
	$126,382

7. Cash was received from licenses and permits totaling $5,276, and from fines and penalties totaling $6,956. Miscellaneous income aggregated $11,475, of which $9,375 was collected.

8. Claims presented and approved against outstanding contracts and open-market orders amounted to $125,955, as follows:

General administration	$ 10,853
Protection of life and property	13,877
Protection of health	8,887
Streets and roads	28,951
Education	63,387
	$125,955

The claims are the same as the amounts originally estimated except for one streets-and-roads claim which exceeded the original estimate by $1,000.

9. Payroll vouchers amounting to $116,450, not covered by contracts and open-market orders, were approved as follows:

General administration	$ 16,621
Protection of life and property	17,500
Protection of health	11,850
Streets and roads	13,479
Education	57,000
	$116,450

10. Vouchers were approved for payment of $20,000 appropriated to the sinking fund and of $10,370 for taxes due the state and county.

11. Cash payments made against audited vouchers amounted to $270,653, including those outstanding at January 1, 1943.

QUESTIONS AND PROBLEMS ON CHAPTER 7

Questions

Question 7-1. At the beginning of the year $100,000 of an issue of serial bonds was sold at a discount of $1,000. Subsequently there was a rise in the price of the bonds so that $200,000 of the same issue was sold several months later at a premium of $2,000. How should these premiums and discounts be recorded? Give entries.

Question 7-2. Suppose the same facts as in Question 7-1, except that the bonds were sold at a discount of $2,000 and at a premium of $1,000, respectively. Give the necessary entries.

Question 7-3. Suppose the same facts as in Question 7-1, except that the first sale was in one year and the second sale during the following year. Would the premiums and discounts be handled in the same way as those described in Question 7-1? If not, in what way should they be handled? Give entries.

Question 7-4. A bond fund had a deficit of $1,000, which arose because of the sale of bonds at a discount. The deficit was subsequently made up by a contribution from the general fund. Would you charge the amount transferred as an interest expense of the general fund or as a contribution expense of that fund?

Question 7-5. The following is an analysis of the changes in a Reserve for Authorized Expenditures account:

SCHOOL DISTRICT NO. 1

Bond Fund

Analysis of Changes in Reserve for Authorized Expenditures for Fiscal Year Ending June 30, 1947

Amount Authorized		$100,000
Less—Construction Expenditures	$99,000	
Discount on Bonds	1,000	100,000
Net Balance of Reserve		—

At what amount would you capitalize the expenditures of this fund? Give reasons for your answer.

Problems

Problem 7-1. Part I. The following is a list of transactions which took place in the Town of *X* during 1947:

1. A bond issue of $100,000 was authorized for the construction of a library.
2. The bonds were sold at a premium of $500.
3. The cost of handling bonds was $1,000, which was paid.
4. An order was placed for materials estimated to cost $50,000.
5. Salaries and wages amounting to $5,000 were paid.
6. The premium was transferred to the general fund.

Required:

a. Prepare all entries (including closing entries) to record the transactions for 1947.
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1947.

Problem 7-1. Part II. The following transactions took place during 1948:

11. The materials were received; the actual cost was found to be $51,000.
12. Salaries and wages amounting to $40,000 were paid.
13. All bills outstanding were paid.
14. The project was completed. The surplus, if any, was to be transferred to the general fund.

Required:

a. Prepare all journal entries (including closing entries) to record the transactions for 1948.
b. Post to "T" accounts.
c. Prepare a statement analyzing the changes in the Reserve for Authorized Expenditures account for the two years ending December 31, 1948.

Problem 7-2. Part I. The following transactions took place in the State of *Y* during 1946:

1. A bond issue of $400,000 was authorized for the construction of the Tri-Road Bridge.
2. One half of the bonds was sold; the sale was at par.
3. The cost of handling bonds was $1,000, which was paid.
4. A contract was entered into with Black & Company for the construction of the bridge at a cost of $380,000.
5. A bill for $150,000 was received from Black & Company for work done on the bridge to date.
6. Salaries of state engineers amounting to $5,000 were paid.

Required:

a. Prepare journal entries.
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1946.

Problem 7-2. Part II. The following transactions took place during 1947:

11 The bill due Black & Company was paid.

12. A bond issue of $300,000 was authorized for the purpose of constructing a warehouse.

13. Bonds (warehouse) to the amount of $150,000 were sold at par.

14. The cost of handling the bonds amounted to $1,500, which was paid.

15. Orders were placed for materials (warehouse project) estimated to cost $50,000.

16. A bill for $100,000 was received from Black & Company for further work performed on the contract.

17. Salaries and wages paid amounted to $50,000; of this total $4,000 applies to the Tri-Road Bridge project and the remainder to the warehouse project.

18. The materials ordered were received; the actual cost was $51,000.

19 An order was placed for materials (warehouse project) estimated to cost $100,000.

20. The remaining half of the Tri-Road Bridge bonds was sold at par.

Required:

a. Prepare journal entries.

b. Post to "T" accounts

c. Prepare a combined balance sheet of all funds as of December 31, 1947.

Problem 7-2. Part III. The following transactions took place during 1948:

31. A bond issue of $100,000 for financing the construction of a garage was authorized

32. The bill due Black & Company was paid.

33 The garage bonds were sold at par.

34. The cost of handling the bonds was $1,000, which was paid.

35. All outstanding bills were paid.

36. The order of materials (warehouse project) was received; the actual cost was $95,000.

37. The remainder of the warehouse project bonds was sold at par.

38. Black & Company completed the construction of the Tri-Road Bridge and submitted a bill for the remaining amount due on the contract.

39. Salaries and wages paid amounted to $104,000, of which $4,000 was applicable to the Tri-Road Bridge project and $100,000 to the warehouse project.

40. Black & Company was paid in full, except for 5 per cent of the contract. This amount was retained pending final approval of the project (See paragraph following transaction 57.)

41. An order was placed for materials (garage project) estimated to cost $30,000.

Required:

a. Prepare journal entries.
b. Post to "T" accounts.
c. Prepare a combined balance sheet of all funds as of December 31, 1948.
d. Prepare a combined statement analyzing the changes in the Reserve for Authorized Expenditures account of each fund.

Problem 7-2. Part IV. The following transactions took place during 1949:

51. Black & Company was paid the final amount that was due to it.
52. All other outstanding bills were paid.
53. Bonds were authorized for the construction of a hospital at an estimated cost of $300,000.
54. The materials ordered (garage project) were received; the actual cost was $33,000.
55. Salaries and wages paid amounted to $15,000, applicable as follows:

Warehouse Project	$ 5,000
Garage Project	10,000

56. The warehouse project was completed.
57. A contract was entered into with the Hospital Builders Company for the construction of the hospital at a cost of $290,000.

You are to assume that, at the completion of construction, surpluses in any fund were distributed in accordance with customary procedure, and that all bonds are to be paid through the general fund.

Required:

a. Prepare journal entries.
b. Post to "T" accounts.
c. Prepare a combined balance sheet of all funds as of December 31, 1949.

Problem 7-3. The trial balances of the general fund and the bond fund of the City of *N* as of January 1, 1947, are shown on page 477.

The following transactions took place in the two funds during the year:

1. The city council passed an appropriation ordinance. Revenues were estimated at $300,000, and appropriations amounted to $300,000
2 Bonds with a par value of $125,000 were sold at a premium of $1,000, the proceeds to be used for the construction of a municipal library.
3. The premium was transferred to the general fund.
4. On January 17, orders were placed for materials for the following:

City Court	$ 2,000
Board of Elections	1,500
Department of Finance	1,300
Library Construction	10,000
	$14,800

General Fund

Cash	$ 17,000	
Taxes Receivable—Current	49,000	
Reserve for Estimated Losses—Current Taxes		$ 2,000
Taxes Receivable—Delinquent	41,000	
Reserve for Estimated Losses—Delinquent Taxes		11,000
Interest and Penalties Receivable on Taxes	3,500	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		700
Accounts Receivable	25,500	
Reserve for Estimated Losses—Accounts Receivable		3,000
Vouchers Payable		67,000
Contracts Payable		33,000
Reserve for Encumbrances		10,000
Unappropriated Surplus		9,300
Totals	$136,000	$136,000

Bond Fund

Bonds Authorized—Unissued	$125,000	
Reserve for Authorized Expenditures		$125,000
	$125,000	$125,000

5. The cost of printing the bonds and miscellaneous handling charges connected with their sale amounted to $150 and were paid.

6. Taxes to the amount of $250,000 were accrued, and a 2 per cent reserve for estimated losses on these taxes was set up.

7. A contract was let for the partial construction of the library. The Kay Contracting Company was awarded the contract on a bid of $80,000.

8. Current taxes of $49,000 became delinquent, and $2,000 of the reserve for estimated losses on current taxes was transferred to the reserve for estimated losses on delinquent taxes.

9. Payroll vouchers were approved for the following:

General City	$64,000
Library Construction	9,000

10. The actual cost of the materials ordered in 1946 for the public works department and set up as an encumbrance of that year for $10,000 was $10,100.

11. A bill was received from the Kay Contracting Company for $10,000.

12. The materials ordered on January 17 were received. Actual bills were as follows:

City Court	$ 2,000
Board of Elections	1,700
Department of Finance	1,200
Library Construction	11,000
	$15,900

13. Collections were made as follows:

Current Taxes	$220,000
Delinquent Taxes	3,500
Interest and Penalties Receivable on Taxes	250
Accounts Receivable	15,000
Miscellaneous Revenues Not Previously Accrued	65,000

14. The approved payroll vouchers were paid.

15. Judgments incurred in connection with the construction of the library totaled $5,000.

16. The city council certified $1,700 of delinquent taxes to be uncollectible, and they were written off.

17. The Kay Contracting Company was paid.

18. Current taxes collected amounted to $15,000.

19. Vouchers payable of $67,000 carried in the general fund were paid.

20. Deferred serial bonds to the amount of $40,000 matured.

21. A bill was received from the Kay Contracting Company for $40,000.

22. The judgments were paid.

23. Materials were ordered by the city for library construction at an estimated cost of $10,000.

24. The Kay Contracting Company was paid.

25. Interest and penalties accrued on delinquent taxes amounted to $4,200; a reserve for estimated losses of 2 5 per cent was provided

26. Vouchers for bills for materials ordered on January 17 were paid

27. Delinquent taxes of 1944 to the amount of $300, written off as uncollectible in 1946, were collected.

28. The payroll for library construction work to the amount of $7,000 was approved and paid

29. The matured serial bonds were retired

30. Interest paid on bonded debt amounted to $8,000.

31. The materials ordered for the library at an estimated cost of $10,000 were received; the invoice was for $10,500.

32. The Kay Contracting Company submitted a bill covering the remaining cost of the contract.

33. Orders were placed for materials for general departments at an estimated cost of $100,000.

34. The Kay Contracting Company was paid, but 5 per cent of the contract was held pending the final approval of the project.

35. The surplus in the bond fund was transferred to the general fund.

36 A payroll for general departments amounting to $57,000 was paid.

37. The materials ordered for the general departments were received, together with a bill for $105,000.

38. Taxes collected in advance amounted to $500.

39 Materials were ordered for the fire department at an estimated cost of $3,000.

40. Contracts payable in the general fund to the amount of $33,000 were paid.

Required:

a. Post the above trial balances to "T" accounts.
b. Prepare journal entries.
c. Post to "T" accounts.
d. Prepare closing entries.
e. Post the closing entries to the "T" accounts.
f. Prepare a balance sheet for each fund as of December 31, 1947.
g. Prepare a statement analyzing the changes in the Unappropriated Surplus account of the general fund.
h. Prepare a statement analyzing the changes in the Reserve for Authorized Expenditures account of the bond fund.

Problem 7-4. (Adopted from the American Institute of Accountants' examination of November, 1943.) From the following data prepare a columnar work schedule, showing the financial transactions of the City of *M* in 1942 together with general-fund and bond-fund balance sheets and statement of bonded debt at the close of that year:

1. Balance sheet—January 1, 1942:

Assets	
Cash	$ 2,000
Taxes receivable—arrears	15,000
	$17,000
Liabilities	
Reserve for uncollectible taxes—arrears	$10,000
Accounts payable	3,000
Unappropriated surplus	4,000
	$17,000

Statement of bonded debt—January 1, 1942:

Assets	
Deferred charges to future taxation	$285,000
Liabilities	
4½% serial bonds payable	$285,000

2. Budget for the year 1942:

Estimated revenues:	
Taxes receivable—1942 levy	$225,000
Court fines	10,000
Licenses	6,000
Permits	10,000
Interest and penalties	8,000
	$259,000
Current appropriations:	
General government	$ 68,000
Police department	61,000
Fire department	12,000
Highway department	44,000
Sanitation department	39,000
Retirement of serial bonds	15,000
Interest on bonds	17,000
Interest on tax notes	3,000
	$259,000

3. The amount of taxes levied for the year 1942 is $236,250, which includes a 5% allowance for uncollectible accounts.

4. Receipts and disbursements in 1942:

Receipts:		
Current taxes		$223,000
Taxes in arrears		6,000
Tax anticipation notes		90,000
Other revenues		
Court fines	$10,600	
Licenses	6,100	
Permits	9,800	
Interest and penalties	8,400	34,900
		$353,900
Disbursements:		
Sundry appropriations		
General government	$67,000	
Police department	59,250	
Fire department	10,750	
Highway department	42,000	
Sanitation department	40,000	
Retirement of serial bonds	15,000	
Interest on bonds	17,000	
Interest on tax notes	2,700	$253,700
Tax anticipation notes		90,000
Accounts payable		3,000
		$346,700

5. Bills unpaid at December 31, 1942, amounted to $2,600.

6. The uncollected taxes originating prior to January 1, 1942, should be fully reserved for.

7. Other transactions in 1942:

(a) The construction of a new municipal center was authorized at an estimated cost of $100,000.

(b) 4½% serial bonds in the principal amount of $100,000 were authorized and issued at par.

(c) Contracts were let for construction of the municipal center, aggregating $95,000.

(d) $60,000 was paid on these contracts.

(e) On December 31, 1942, $80,000 construction work was completed.

QUESTIONS AND PROBLEMS ON CHAPTER 8

Questions

Question 8-1. A fund was established for the retirement of bonds of $100,000 maturing at the end of ten years. Annual contributions of $10,000 are to be made, but all earnings on the contributions are to be transferred to the general fund. Is this fund a sinking fund in the sense in which the term is used in the present chapter? Give reasons for your answer.

Question 8-2. A certain municipality provides that its sinking fund is to be built up from various licenses and fines. The revenues from these sources have been as follows: 1944, $5,000; 1945, $3,000; 1946, $8,000. Can you see what is wrong with such a provision?

Question 8-3. Matured sinking fund bonds may be shown as a liability of either the sinking fund or the general fund. Point out the arguments for showing these bonds as a liability of (*a*) the sinking fund, and (*b*) the general fund.

Problems

Problem 8-1. Set up a schedule showing the required sinking fund contributions and required earnings if it is assumed that a $100,000 bond issue is to be retired in ten years and contributions are to earn 4 per cent interest compounded annually. (*Hint:* Required annual contributions, $8,329.09.)

Problem 8-2. In 1944 the Central Township High School District issued bonds amounting to $100,000 and maturing in five years.

At the same time a sinking fund was established through an appropriation from the general fund. Subsequently, the general fund paid over the amount due to the sinking fund. The money was immediately invested (assume that no premiums, discounts, or accrued interest purchases are involved).

The procedure described in the preceding paragraph was repeated in 1945, 1946, 1947, and 1948, except that the contribution received in 1948 was not invested.

The investments all matured in 1948 and were liquidated.

In 1948, the matured bonds were set up in the sinking fund, and cash for their retirement was transmitted to fiscal agents.

Contributions at all times equaled requirements.

A comparison of sinking fund earnings with requirements showed the following:

Year	Excess of Earnings over Requirements	Deficiency of Earnings over Requirements
1944		$300
1945	$500	
1946	400	
1947	500	

Surplus was transferred to the general fund.

Required:

a. Prepare a schedule showing required contributions and earnings. (Assume that sinking fund investments will earn 4 per cent per year. According to sinking fund tables, the required annual contribution on the basis of this rate of interest is $18,463.)

b. Prepare journal entries (including closing entries) to be made each year.

c. Prepare a balance sheet as of December 31 of each year.

Problem 8-3. The City of *W*, pursuant to state law, consolidated all of its sinking funds into one fund, the balance sheet for which was as follows:

CITY OF *W*
Consolidated Sinking Fund
Balance Sheet
December 31, 1945

Assets

Cash		$100,000
Taxes Receivable—Delinquent	$ 90,000	
Less—Reserve for Estimated Losses	10,000	80,000
Investments	$226,000	
Less—Discounts on Investments	1,000	225,000
		$405,000

Reserves and Surplus

Reserve for Retirement of Sinking Fund Bonds:		
Hospital Bonds	$200,000	
Library Bonds	150,000	
Incinerator Bonds	50,000	$400,000
Unappropriated Surplus		5,000
		$405,000

The state supreme court subsequently held the law authorizing consolidated sinking funds unconstitutional.

Required:

Recast the above balance sheet so as to comply with the court decision (that is, show the financial condition of *each* fund).

Problem 8-4. From the following data prepare a statement comparing sinking fund contributions and earnings for 1947 with requirements of that year.

Required contribution for current year, $13,000
Required earnings, $23,000
Actual contribution, $13,000
Interest earned, $22,800
Amortization of discounts, $225
Amortization of premiums, $1,100

Problem 8-5. The following is a sinking fund statement taken from a municipality's annual financial report:

Sinking Fund

Balance, January 1, 1945		
Cash	$ 97,761 80	
Securities	321,679 00	$419,440 80
Income		
Interest and Dividends	$ 21,044 57	
Contribution from Bureau of Water	40,000 00	61,044 57
		$480,485 37
Balance, December 31, 1945		
Cash		$248,868 37
City of ——— Bonds	$ 17,000 00	
City of ——— Demand Notes	115,000 00	
City of ——— Paving Warrants	52,417.00	
Board of Education Certificates	37,200 00	
N. P S. & L. Assn. Certificates	10,000 00	231,617 00
		$480,485 37

Required:

Prepare a balance sheet as of the close of the year. Assume that actuarial requirements to date are $495,000.

Problem 8-6. On January 2, 1946, the City of Z issued $200,000 in bonds for the purpose of constructing a tunnel. The trial balance of the bond fund on January 1, 1947, was as follows:

Cash	$125,100	
Encumbrances	30,000	
Vouchers Payable		$ 3,100
Judgments Payable		11,500
Reserve for Encumbrances		30,000
Reserve for Authorized Expenditures		110,500
	$155,100	$155,100

The trial balance of the sinking fund established for the retirement of these bonds was at the beginning of 1947 as follows:

Cash	$ 2,411	
Taxes Receivable—Delinquent	4,350	
Reserve for Estimated Losses—Delinquent Taxes		$ 1,500
Interest and Penalties Receivable on Taxes	135	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes		20
Investments	12,000	
Reserve for Retirement of Sinking Fund Bonds		17,324
Unappropriated Surplus		52
	$18,896	$18,896

The following transactions took place in these funds during 1947:

1. Sinking fund requirements for this year were set up. (Required contributions were $16,658, and required earnings were $1,359.)
2. Taxes to the amount of $17,658 were levied; a reserve for estimated losses of $1,000 was provided.
3. Court judgments were paid in full.
4. Vouchers were paid in full.
5. The order for materials placed last year and estimated to cost $30,000 was received. The price of the materials was as estimated, but transportation expenses amounted to $500.
6. Collections of current taxes amounted to $10,436.
7. A payroll for $26,000 was approved.
8. Current taxes became delinquent; the reserve for estimated losses on current taxes was transferred to the reserve for estimated losses on delinquent taxes.
9. Interest and penalties on taxes accrued amount to $165; the loss on these receivables was expected to be $25.
10. Collections were made as follows:

Delinquent taxes . .	$7,100
Interest and penalties receivable on taxes.	120

11. The labor payroll voucher for $26,000 was paid.
12. Another judgment, $1,000, was declared against the city's tunnel project.
13. Ventilating equipment estimated to cost $15,000 was ordered for the tunnel.
14. Vouchers paid amounted to $30,500.
15. Investments to the amount of $20,000 were acquired at par.
16. The judgment was paid.
17. Engineering expenses amounting to $7,900 were paid.
18. Interest received on investments amounted to $1,400.
19. The ventilating equipment was received; the actual cost billed was $14,800.
20. Payrolls to the amount of $30,000 were paid.
21. Delinquent taxes of $75 were written off.
22. The project was completed.

Required:

a Post trial balances to "T" accounts.
b. Prepare journal entries.
c. Post journal entries to "T" accounts.
d. Prepare closing entries.
e. Post to "T" accounts.
f. Prepare individual balance sheets for the bond fund and sinking fund, respectively, as of December 31, 1947.
g. Prepare a statement analyzing the changes in the Reserve for Authorized Expenditures account.

QUESTIONS AND PROBLEMS ON CHAPTER 9

Questions

Question 9-1. Can you think of any methods, besides those given in the text, of disposing of profits or making up deficits of the working capital fund?

Question 9-2. A working capital fund was established through the sale of bonds. What disposition should be made of the current assets of the working capital fund if the fund is dissolved?

Question 9-3. (*a*) What is the effect of an understatement of the closing inventory upon the financial statements of the current and subsequent fiscal years? (*b*) What is the effect of an overstatement?

Problems

Problem 9-1. The following is a trial balance of a working capital fund (established to finance the operation of a central garage) of the City of *W* at January 1, 1947:

Cash	$ 20,000	
Due from General Fund	10,000	
Inventory:		
Gas	2,000	
Oil and Grease	1,000	
Tires	4,000	
Parts	7,000	
Land	20,000	
Buildings	70,000	
Reserve for Depreciation—Buildings		$ 10,000
Machinery	30,000	
Reserve for Depreciation—Machinery		5,000
Equipment	100,000	
Reserve for Depreciation—Equipment		20,000
Vouchers Payable		20,000
Capital		208,000
Unappropriated Surplus		1,000
	$264,000	$264,000

The following transactions took place in this fund during the year:

1. Departments are charged at a predetermined rate based on mileage. During the year 1947, billings to departments amounted to $90,000, all of which was payable from the general fund. At December 31, 1947, the general fund owed the working capital fund $15,000.
2. Purchases (on account) were as follows:

Gas	$10,000
Oil and grease	1,000
Tires	8,000
Parts	10,000

3. Wages and salaries paid and all chargeable to 1947 were as follows:

Salary of superintendent	$ 4,000
Mechanics' wages	20,000
Garage office salaries	3,000

4. Other expenses were as follows:

Heat, light, and power, $10,000, which amount is still due to the utility fund

Depreciation:

Buildings, 5 per cent
Machinery, 10 per cent
Equipment, 10 per cent

5. Closing inventories were as follows:

Gas	$3,000
Oil and grease	1,000
Tires	6,000
Parts	8,000

6. Accrued salaries and wages were as follows:

Salary of superintendent	$165
Mechanics' wages	830
Garage office salaries	125

7. Vouchers payable paid amounted to $35,000.

Required:

Prepare a balance sheet as of December 31, 1947, and an income and expense statement for the year ending December 31, 1947.

Problem 9-2. The following is a trial balance of the working capital fund of the City of *M* as of July 1, 1947:

Cash	$ 25,000	
Due from General Fund	38,800	
Inventory of Materials.		
Sand	2,000	
Filler	2,100	
Asphalt	5,700	
Crushed Rock	2,300	
Work in Process Inventory	4,000	
Land	27,000	
Buildings	16,000	
Reserve for Depreciation—Buildings		$ 4,000
Machinery	13,000	
Reserve for Depreciation—Machinery		2,800
Equipment	18,000	
Reserve for Depreciation—Equipment		5,000
Vouchers Payable		25,000
Capital		110,000
Unappropriated Surplus		7,100
	$153,900	$153,900

The following transactions took place during the year:

1. The city treasurer transferred cash to the working capital fund for the amount due to this fund for past services.
2. Vouchers payable to date were paid in full.
3. Materials were ordered.
4. Telephone and telegraph charges of $300 were paid.
5. Plant office supplies were purchased on account for $100.
6. The materials ordered were received together with an invoice.

The cost of materials ordered was as follows:

Sand	$ 6,000
Filler	7,200
Asphalt	16,500
Crushed rock	8,000

7. Payrolls were approved as follows:

Direct labor	$6,000
Indirect labor	2,000
Plant office	3,000

8. Electric bills for $2,000 were paid.
9. A small secondhand truck was purchased for $300 in cash.
10. Repair bills this period amounted to $700.
11. Depreciation charges:

Buildings	$ 800
Machinery	1,300
Equipment	1,800

12. The general fund was billed for $55,000 for asphalt manufactured for and used by it.
13. Materials used during this period were as follows:

Sand	$ 4,500
Filler	8,000
Asphalt	17,000
Crushed rock	6,500

14. Insurance expenses paid amounted to $300, of which $200 is applicable to succeeding years.
15. Work in process on June 30, 1948, amounted to $3,500.

Required:

Prepare a balance sheet as of June 30, 1948, and an income and expense statement for the fiscal year ending June 30, 1948.

Problem 9-3. The following is a trial balance prepared for the Central Stores Department of the City of *X* at December 31, 1947:

Cash	$ 10,000	
Due from General Fund	48,000	
Notes Receivable	2,000	
Inventory	50,000	
Prepaid Insurance	400	
Land	40,000	
Buildings	75,000	
Reserve for Depreciation—Buildings		$ 10,000
Machinery and Equipment	65,000	
Reserve for Depreciation—Machinery and Equipment		10,000
Accounts Payable		11,300
Bonds Payable		75,000
Capital		150,000
Unappropriated Surplus		15,700
Sales to Departments		150,000
Sales Returns and Allowances	2,000	
Purchases	100,600	
Freight In	1,000	
Wages	22,000	
Office Salaries	4,000	
Office Expenses	1,000	
Miscellaneous General Expenses	1,000	
	$422,000	$422,000

Adjustments:

Insurance expired, $100
Accrued wages, $1,000; accrued salaries, $200
Accrued interest payable, $2,000
Depreciation:
Buildings, 4 per cent
Machinery and equipment, 8 per cent
Closing inventory, $60,000

Required:

Prepare a balance sheet and an income and expense statement.

Problem 9-4. (Adopted from the American Institute of Accountants' examination of May 1939.) A governmental authority was constituted about July 1, 1937, to carry out certain recreational activities for which the authority was to buy or construct the equipment.

It was decided that the accounts of the authority will show budgetary estimates as well as actual income and expenditures in an approved manner, and that the transactions will be recorded in the following funds:

General operating fund
Working capital fund
Sinking fund for redemption of bonds
Property fund

From the following information, prepare a columnar work sheet recording the transactions of the authority so as to show the asset and liability and budgetary accounts for the year ended June 30, 1938:

1. An advance of $50,000 was made by the government creating the authority to finance the initial construction and activities, to be repaid out of operating revenues.

2. From the working capital fund thus created, $10,000 was transferred to the general fund for current operating expenses until revenues could be realized.

3. A budget of recreational activities for the year was adopted as follows:

Revenues		
Licenses	$ 50,000	
Fees	100,000	
Sales	30,000	
Miscellaneous	10,000	$190,000
Expenditures		
Administration	$ 10,000	
Bathing pavilion	65,000	
Boating	25,000	
Park maintenance	54,000	
Interest on bonds	6,000	
Sinking fund requirements	20,000	180,000

4. Purchases of supplies were made for central stores to the amount of $36,000 and paid in full.

5. A bond issue of $200,000 for improvements was authorized as of July 1, 1937, bearing interest at 3 per cent per annum, payable semi-annually. It was disposed of on August 1st at par and accrued interest of $500.

6. Contracts amounting to $165,000 were let for improvements. Work was completed and contracts paid to the extent of $156,000, which included $1,000 extras, leaving $10,000 in progress on June 30, 1938.

7. Additional construction work was supplied through the working capital fund to the extent of $34,000, which included $18,000 labor paid in cash, $14,000 material from stores at cost, and $2,000 overhead. The working capital fund was reimbursed in full for this service.

8. Other services (labor only) supplied to authority activities and paid for by the working capital fund were as follows, including 10 per cent or $920 for overhead:

Bathing pavilion	$ 3,300	
Boating	1,100	
Park maintenance	5,720	$10,120

Of the above, $2,200 for park maintenance was incomplete and not billed as of June 30, 1938. Otherwise, reimbursement to the working capital fund was completed.

9. Revenues collected during the year were as follows:

Licenses	$ 48,500	
Fees	101,400	
Sales	29,200	
Miscellaneous	9,400	$188,500

In addition there were $1,600 of licenses billed but not collected, on which possible losses should not exceed 20 per cent.

Of the fees collected, it was necessary to refund $210.

Of the licenses collected, $500 represented advance payments on account of the following year.

10. Supplies were issued to authority departments by the central stores as follows, the figures in each case including 10 per cent or a total of $1,050 for working-capital-fund overhead:

Administration	$ 330	
Bathing pavilion	2,640	
Boating	1,650	
Park maintenance	6,930	$11,550

Transfers were made to the working capital fund to the amount of $10,600 on account of these items.

11. Contracts and orders issued during the year for operating expenses totaled $83,000. These were liquidated to the extent of $81,160, leaving $1,200 for bathing pavilion, and $640 for boating, or a total of $1,840 outstanding at June 30th.

12. Vouchers approved during the year for payrolls, invoices, and miscellaneous, including those covering contracts and orders liquidated, as well as other items, were as follows:

Administration	$ 9,450	
Bathing pavilion	59,160	
Boating	21,600	
Park maintenance	41,000	
Interest	6,000	$137,210

Treasury warrants were issued and paid in settlement of these items to the amount of $135,610.

13. Transfer was made to the sinking fund for $18,000 of the amount due it from the general fund, leaving the remainder as still owing. Securities costing $18,000 were purchased for this fund, and income thereon was realized to the amount of $300. Among the securities purchased were $5,000 bonds of the authority, which were immediately retired.

14. The sum of $5,000 was repaid to the working capital fund on the advance made to the general fund.

15. Purchases of office and general equipment to the amount of $20,000 were made from the working capital fund. This equipment is to be written off by charges to overhead at the rate of 5 per cent per year, beginning with the current year.

16. Overhead expense of the working capital fund paid for the year was $2,600. The physical inventory of stores at the end of the year was $12,300. Stores and overhead surplus were carried to the surplus account of the fund. The sum of $1,000 was repaid to the central government to apply on the advance made to the authority.

17. Among the invoices paid during the year from the general fund were items totaling $16,540 for park maintenance equipment.

QUESTIONS AND PROBLEMS ON CHAPTER 10

Questions

Question 10-1. What is the difference between a special assessment and a reimbursement?

Question 10-2. Why is the interest rate on assessments receivable ordinarily greater than the interest rate on bonds?

Question 10-3. Property *A* has been assessed $5,000 and granted a condemnation award of $5,000. Should the assessment and judgment be recorded on the books or should they both be ignored, since they offset each other? Explain.

Question 10-4. What is meant by "making assessments liens against property"?

Question 10-5. Would it be advisable to prepare a statement comparing revenues and expenditures of a special assessment fund for any given year?

Problems

Problem 10-1. The following transactions took place during 1947 in the City of *W:*

1. The construction of pavements estimated to cost $100,000 and to be financed from special assessments was authorized.
2. Pending the collection of assessments, construction was financed through the sale of notes for $60,000.
3. A contract was entered into with Jones & Company for the construction of the pavements at a cost of $90,000.
4. Assessments to the amount of $80,000 were levied; the municipality agreed to contribute $20,000 as its share of the cost of financing the project.
5. A bill was received from Jones & Company for $50,000.
6. Supervisory engineering expenses amounting to $5,000 were paid.
7. Jones & Company was paid.
8. All assessments and the city's contribution were collected.
9. A bill was received from Jones & Company for the remaining amount due on the contract.
10. Notes payable outstanding and interest of $3,000 were paid.
11. The project was completed.
12. Jones & Company was paid in full, except for $10,000, which was retained pending the final inspection and approval of the project.

Required:

a. Prepare journal entries (including closing entries).

b. Post to "T" accounts.

c. Prepare a balance sheet as of December 31, 1947.

d. Prepare a statement analyzing the changes in the Reserve for Authorized Expenditures account.

Problem 10-2. Part I. The following transactions took place in the City of *X* during 1946:

1. The legislative body authorized the widening of a street at an estimated cost of $300,000.

2. Bonds to the amount of $200,000 were authorized and were sold at a discount of $1,000.

3. The city agreed to contribute $80,000 as its share of the estimated cost; the remainder was assessed against property owners. The assessments were made payable in installments, and particular series of bonds were to be paid from particular installments and no others. Assessment installments and bonds retirable therefrom were as follows:

No.	Due Date	Amount of Installment	Amount of Bonds to Be Retired
1	1946	$20,000	—
2	1947	22,000	$22,000
3	1948	22,000	22,000
4	1949	22,000	22,000
5	1950	22,000	22,000
6	1951	22,000	22,000
7	1952	22,000	22,000
8	1953	22,000	22,000
9	1954	22,000	22,000
10	1955	24,000	24,000

4. A contract was entered into with the Sound Construction Company for the construction of the project at a cost of $240,000.

5. Supervisory engineering expenses amounting to $10,000 were paid.

6. The city's contribution and assessments to the amount of $18,000 were received.

7. The remainder of the first installment became delinquent.

8. Judgments to the amount of $80,000 were awarded for property condemned.

9. A bill for $100,000 was received from the Sound Construction Company.

10. Payments were made as follows:

Judgments payable	$ 80,000
Sound Construction Company	100,000

11 and 12. Interest of $7,600 became receivable; of this amount $7,500 was collected.

13 and 14. Interest of $5,300 became payable; of this amount $4,000 was paid.

Required:

a. Prepare all entries (including closing entries).
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1946.

Problem 10-2. Part II. The transactions taking place in 1947 were as follows:

20. Interest payable outstanding at the close of the last fiscal year was paid.
21. Current assessments receivable were set up.
22. Delinquent assessments to the amount of $1,000 were collected.
23 and 24. Current assessments amounting to $21,000 were collected; the remaining part of the second installment became delinquent.
25. Collections were applied to the payment of bonds.
26. A bill was received from the Sound Construction Company for the remaining amount due on the contract.
27. The Sound Construction Company was paid the full amount of the contract, except for $35,000, which was retained pending the final approval of the project.
28 and 29. Interest of $9,000 became receivable during this year; interest receivable collected amounted to $8,900.
30 and 31. Interest of $7,100 became payable; of this amount $3,550 was paid.

Required:

a. Prepare all entries (including closing entries).
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1947.
d. Prepare a subsidiary schedule supporting the balance sheet as of December 31, 1947, and showing the assets, liabilities, and so on, applicable to each bond installment.
e. Prepare a statement analyzing the changes in the Reserve for Authorized Expenditures account for the fiscal years ending December 31, 1946, and 1947.

Problem 10-2. Part III. The transactions taking place in 1948 were as follows:

40. Interest payable outstanding at the close of 1947 was paid.
41. The city agreed to contribute $6,000 for the purpose of eliminating the deficit.
42. The remaining part of the deficit was to be eliminated through the levy of supplemental assessments. Supplemental assessments were subsequently levied and were made payable in three equal annual installments.
43. Notes to cover the last two annual installments of the supplemental assessments were issued and sold.
44. Current assessments receivable were set up.
45. Assessments (not supplemental) were collected as follows:

From 1st installment	$ 500
From 2nd installment	500
From 3rd installment	21,500

46. The proceeds, in so far as applicable, were used to retire bonds.

47 The uncollected portion of the third installment was set up as delinquent.

48 and 49. Interest on assessments to the amount of $7,900 became receivable during this year; interest receivable collected amounted to $7,750.

50 and 51. Interest on bonds to the amount of $6,240 became payable; of this amount $3,120 was paid.

52. The first installment of the supplemental assessment was collected in full, except for $800, which is to be set up as delinquent.

53. The city paid over its contribution.

54 and 55. Interest on supplemental assessments to the amount of $464 was collected; $16 was set up as receivable but was not collected.

56. The project was found to be satisfactory, and the Sound Construction Company was paid the amount due it. A loan was made for this purpose from the general fund

57. Interest on notes to the amount of $360 was paid.

Required:

a. Prepare journal entries (including closing entries).

b. Post to "T" accounts.

c. Prepare a balance sheet as of December 31, 1948.

d. At what amount should the improvement be capitalized? Give reasons for your answer.

Problem 10-3. Part I. The following is a list of transactions which took place in the City of *K* during 1947:

1. The city commission authorized the paving of certain streets at an estimated cost of $150,000, the work to be performed by the city's own labor forces.

2. The project is to be financed in the following manner:

City's share	$ 30,000
1947 installment	12,000
Deferred assessments (nine installments)	108,000
	$150,000

3. Special-special assessment bonds were sold at par in the amount of $108,000 These bonds will be paid from the deferred assessments.

4. Assessments were levied.

5. The city paid over its share of the estimated cost.

6. Assessments to the amount of $9,000 were collected.

7. Materials estimated to cost $81,500 were ordered.

8. The Keen Company was paid $2,000 in surveying fees.

9. The materials ordered were received. The actual cost was $82,000, and the invoice was approved for payment.

10. A bill for $3,000 was received from the Ajax Construction Company covering the rental charges for equipment hired by the city and was approved for payment.

11. Payrolls paid during the year amounted to $45,000.

12. Judgments for $10,000 on account of condemnation of property were awarded and paid.

13. Interest on bonds to the amount of $2,200 became due.

14. Vouchers payable amounting to $82,000 were paid.

15. Uncollected current assessments became delinquent.

16. Interest accrued on deferred assessments amounted to $2,500.

Required:

a. Prepare all journal entries (including closing entries).

b. Post to "T" accounts.

c. Prepare a balance sheet as of December 31, 1947.

d. Prepare a schedule showing the assets, liabilities, and so forth, applicable to each bond installment.

Problem 10-3. Part II. Transactions taking place in 1948 were as follows:

20 Another special assessment installment became due.

21. Collections were made as follows:

1947 installments	$1,500
Current installments	9,500
Interest collected	2,350

22 Interest due on bonds was paid.

23 Uncollected current assessments became delinquent.

24 Payrolls amounted to $5,000 and were paid.

25 Interest on bonds to the amount of $4,000 became due.

26. Interest on assessments to the amount of $4,500 accrued.

27 The cost of selling properties for unpaid special assessments was $65, which was paid out of construction cash.

28 Property *A*, on which no assessments had been paid, was sold. Total unpaid special assessments on this parcel of property amounted to $1,200, accumulated interest was $70, and the cost of selling the property was $20. The property was sold for $1,500.

29 Properties *B* and *C*, on which no assessments had been paid, were offered for sale, but, the price not being satisfactory, the governmental unit bid them in. Unpaid assessments, interest, and cost of holding the sale of these properties were as follows:

Property	Unpaid Assessments	Interest	Cost of Holding Sale
B	$2,000	$120	$25
C	1,500	90	20

30. Property *B* was redeemed by the owner, who paid, in addition to all other interest and charges due, interest of $40.

31. Bonds to the amount of $10,000 were called in and retired, and interest of $350 due thereon was paid.

32. Property *C* was taken over by the city and is to be used for recreation purposes. The city paid the full amount of the assessment certificate out of the general fund.

Required:

a. Prepare all journal entries (including closing entries).
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1948.
d. Prepare a statement analyzing the changes in the Reserve for Authorized Expenditures account.

Problem 10-4. Part I. The following is a trial balance of the special assessment fund of the city of *M* as of January 1, 1940:

Assessments Receivable—Deferred	$240,000	
City's Share of Cost	60,000	
Bonds Payable		$300,000
	$500,000	$300,000

Special assessments were levied after all construction had been completed. Installments and bond maturities are as follows:

No.	Year	Installments	City's Share of Installments	Bonds Maturing
1	1940	$ 24,000	$ 6,000	$ 30,000
2	1941	24,000	6,000	30,000
3	1942	24,000	6,000	30,000
4	1943	24,000	6,000	30,000
5	1944	24,000	6,000	30,000
6	1945	24,000	6,000	30,000
7	1946	24,000	6,000	30,000
8	1947	24,000	6,000	30,000
9	1948	24,000	6,000	30,000
10	1949	24,000	6,000	30,000
		$240,000	$60,000	$300,000

The following transactions took place during 1940:

1. The first installment became current.
2. The general fund paid the city's 1940 installment.
3. Interest on assessments accrued amounted to $13,500.
4. Collections of current assessments amounted to $22,000.
5. Collections of interest amounted to $12,600.
6. Bonds in the amount of $28,000 were retired.
7. Interest paid on bonds amounted to $12,000.
8. Uncollected current assessments became delinquent.

Required:

a. Prepare journal entries (including closing entries).
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1940.

Problem 10-4. Part II. The following transactions took place during 1941:

20. The 1941 installment became current.
21. Accrued interest to the amount of $12,150 became receivable.
22. Cash collections for this fund were as follows:

1941 installment	$23,000
Interest on deferred assessments	10,935
City's installment	6,000

23. Payments were made as follows:

Bonds	$29,000
Interest	10,800

24. The uncollected portion of the 1941 installment was placed in the delinquent account.

Required:

a. Prepare journal entries (including closing entries).
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1941.

Problem 10-4. Part III. The following transactions took place during the years 1942 to 1947, inclusive:

30. The installments for 1942-1947 became current.
31. Interest becoming receivable on assessments during this period amounted to $44,550.
32. Collections during this period were as follows:

Current assessments	$126,000
Interest on assessments	42,120
City's installments	36,000
Delinquent assessments	3,000

33. Payments were made as follows during these six years:

Bonds	$165,000
Interest	39,600

34. The uncollected current assessments became delinquent.
35. Cash for interest payments to the amount of $45 was used to pay the county for the cost of holding the sale of delinquent properties.
36. At the end of 1947, the properties listed below, on which the last two (1946 and 1947) installments had not been paid, were put up for sale. Property *A* was sold to a private person for $1,377, and *B* and *C* were bid in by this fund.

	Unpaid Assessments	Accrued Interest	Cost of Sale	Total
A	$1,250	$112	$15	$1,377
B	1,500	135	15	1,650
C	1,150	104	15	1,269

Required:

a. Prepare journal entries (including closing entries).
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1947.

Problem 10-4. Part IV. The following transactions took place during 1948:

40. The installment for this year became current.
41. Interest accrued on assessments amounted to $3,000.
42. Collections for this fund during the year were as follows:

1948 installment	$22,725
Delinquent assessments	7,000
Interest on assessments	3.500
City's installment	6,000

43. Bonds retired this year amounted to $36,000.
44. Interest expenses on bonds paid amounted to $3,100.
45. Property *B* was redeemed by the owner, who was charged additional interest of $11.
46. The uncollected portion of the 1948 installment became delinquent.

Required:

a. Prepare journal entries (including closing entries).
b. Post to "T" accounts.
c. Prepare a balance sheet as of December 31, 1948.

Problem 10-4. Part V. The following transactions took place during 1949:

50. The final installment became current.
51. Interest receivable on assessments amounted to $1,600.
52 Property *C* was transferred to the general fixed assets of the city, and the general fund reimbursed this fund for the amount of the special assessment sale certificate.
53. Collections from assessments were as follows:

1949 installment	$23,025
City's installment	6,000

54 Cash for interest payments of $20 was used to pay the county for holding a delinquent assessment sale.
55. Property *D*, with a total unpaid assessment of $1,300, plus $200 interest and $20 for cost of sale, was sold for $1,600.
56. All delinquent installments were collected.
57. All interest receivable was collected.
58. The remaining bonds were retired.
59. Interest paid on bonds amounted to $1,600.
60. The surplus was rebated.

Required:

a. Prepare journal entries (including closing entries).
b. Post to "T" accounts.

Problem 10-5. N. E. Larson's property, designated as Lot No. 7 in Block 8, was assessed $1,200 on January 15, 1946. The assessments are payable in ten equal installments beginning with 1946, and the interest rate is 4½ per cent. On January 25, 1946, Mr. Larson paid the first installment. On January 15, 1947, he paid the second installment, together with interest on the nine deferred installments; on January 15, 1948, he paid the third installment, together with interest on the eight deferred installments.

Required:

Set up an individual special assessment record (Figure 43, page 150) and record the above transactions.

QUESTIONS AND PROBLEMS ON CHAPTER 11

Questions

Question 11-1. What is the difference between a non-expendable trust fund and an agency fund?

Question 11-2. Classify the following as to whether they are expendable trust funds, nonexpendable trust funds, or agency funds:

a. A fund established to handle tax collections by this governmental unit for other governments.
b. A pension fund.
c. A loan fund.
d. A fund whose principal is to be held intact but whose income must be expended for bravery rewards.
e. A fund established to handle deposits.
f. A fund established to handle that part of the proceeds from the sale of property for taxes which is to be refunded to the property owner.
g. A fund whose principal and income are both to be used in granting scholarships.

Question 11-3. According to the terms of *A*'s will, the city is to become the owner of an apartment building. The net income from the building is to be added to the policemen's pension fund. (*a*) Is this an expendable or nonexpendable trust fund? (*b*) Suppose that, in computing net income, the city does not take into account depreciation. Is the fund expendable or nonexpendable?

Question 11-4. Some municipalities classify their sinking funds as trust funds. Can you see any objection to such a procedure?

Question 11-5. Classify the trust funds in Question 11-2 according to whether they are public trust funds or private trust funds.

Question 11-6. What is the difference between a special assessment fund and a private trust fund?

Question 11-7. A county's fee officers (sheriff, county clerk, etc.) deposit their collections with the county treasurer. Once a month, the county auditor determines the accounts to which such collections apply

nd makes the proper entries. Most of these collections apply to the eneral fund but some of them apply also to other funds. (*a*) Should ıese collections, pending their allocation, be handled through the general ınd or a trust and agency fund? (*b*) Assuming they are handled through ıe general fund, what entry should be made in that fund (1) when the ıoney is collected and (2) when the allocation is made? Assume $14,000 pplies to the general fund and $1,000 to other funds.

Problems

Problem 11-1. The following is a trial balance of the Music Festival rincipal Trust Fund as of January 1, 1947.

Cash	$ 65,000	
Land	50,000	
Buildings	115,000	
Reserve for Depreciation		$ 45,000
Accrued Wages		75
Accrued Taxes		1,200
Due to Music Festival Earnings Trust Fund		10,000
Music Festival Principal Trust Fund Balance		173,725
	$230,000	$230,000

The endowment was in the form of an apartment building. Endowıent principal is to be kept intact, and the net earnings are to be used ı financing music festivals.

The following transactions took place during the year:

1. The amount due to the Music Festival Earnings Trust Fund was aid over.
2. Rents for 1947 (all collected) amounted to $30,000.
3. Expenses and accrued liabilities paid in cash were as follows:

Coal	$3,500
Janitor's wages (including $75 previously accrued)	2,000
Painting and decorating	2,500
Repairs	1,000
Taxes (including $1,200 previously accrued)	2,500
Managerial commissions	3,000
Miscellaneous expenses	1,000

4. The following adjustments were made at the close of the year:

Depreciation	$4,000
Accrued taxes	1,200
Accrued wages	75

5. A special assessment amounting to $2,000 was levied by the municiality against the property and was paid.
6. Expenditures of $10,000 were made out of the Music Festival arnings Trust Fund to finance the 1947 summer music festival.

Required:

a. Prepare a balance sheet as of December 31, 1947, and a profit and loss statement for the fiscal year ending December 31, 1947, for the Music Festival Principal Trust Fund.

b. Prepare a balance sheet as of December 31, 1947, for the Music Festival Earnings Trust Fund.

Problem 11-2. The following statements are taken from an annual town report:

JOHN L. GARDNER FUND, 1871

(Capital account):		
Receipts:		
Cash unmvested January 1, 1945	$1,324 93	
1000 Ohio Public Service Co	1,036 25	$2,361.18
Payments:		
2000 Empire Gas & Electric Co	$2,180 00	
Cash unmvested, December 31, 1945	181 18	$2,361.18
Investments, December 31, 1945:		
8 Shares Am. Tel & Tel. Co. M24521/F32822 BA35432/KN23821	$ 1,136 26	
26 Shares Old Colony R R 35778/38233	2,698 00	
2,000 Empire Gas & Electric 6/52/M172/M720	2,180 00	
1,000 Green Mt Power Corp 5/48/M7985	900 00	
2,000 No Penn Power Co 5/62/M2009-10	2,025 00	
3,000 Wisconsin Power & Light 4/66/M31934-6	2,985 00	
	$11,924 26	
Deposit, First National Bank, Book No. 70223	181.18	$12,105.44
(Income account):		
Receipts:		
Cash on hand January 1, 1945	$ 56 17	
Interest and dividends on investments	441.84	$498.01
Payments:		
Books and supplies	$407.53	
Cash on hand December 31, 1945	90.48	$498.01

Required:

On the basis of the above data prepare a balance sheet (or balance sheets, if you think two balance sheets are necessary).

Problem 11-3. The following is a list of the accounts of the trust and agency funds of the City of *M:*

Accrued Bond Interest Receivable—Employees' Retirement Fund	$ 3,226.67	
Accrued Employees' Contributions Receivable	12,891.46	
Cash—Kaye Cemetery Perpetual Care Earnings	1,267 30	
Cash—Kaye Cemetery Perpetual Care Principal	2,435 00	
Cash—Employees' Retirement Fund	88,953 00	
Cash—Returnable Deposits	46,658 55	
Cash—Rook County Taxes	13,500.00	
Cash—Thorne Park Endowment	1,093 74	
Cash—Thorne Park Income	564 51	
Due to City Treasurer—Employees' Retirement		$ 2 50
Employees' Retirement Fund Balance		618,989 94
Interest Receivable—Kaye Cemetery Perpetual Care Earnings	1,543 21	
Investments—Kaye Cemetery Perpetual Care Principal	75,000.00	
Investments—Employees' Retirement.		
Municipal Bonds	468,000 00	
Unamortized Premiums on Bonds	45,921 31	
Investments—Thorne Park Endowment	95,571.14	
Kaye Cemetery Perpetual Care Earnings Balance		2,810.51
Kaye Cemetery Perpetual Care Principal		77,435.00
Returnable Deposits		46,658 55
Rook County Taxes Balance		105,100.00
Taxes Receivable for Rook County—Current	73,200 00	
Taxes Receivable for Rook County—Delinquent	18,400 00	
Thorne Park Endowment Principal		96,664 88
Thorne Park Income Balance		564.51
Totals	$948,225 89	$948,225 89

Required:

Prepare a combined trust and agency funds balance sheet as of December 31, 1946.

Problem 11-4. You are given the following facts for the Riverside Cemetery Perpetual Care Fund:

Cash on deposit	$23,286 69
Purchase of Ver Sluis property—April 8, 1946	2,500.00
Purchase of detention home property—May 24, 1946	8,000.00
Investments—Street improvement bonds dated April 15, 1940	25,000.00
Investments—Street improvement notes dated as follows:	
August 1, 1939	864.00
May 1, 1940	1,382 25
May 1 and July 1, 1941	8,200 00
May 15, 1942	4,000.00
Due from general fund for financing improvement of old city hall and for financing unbonded sewer rolls	46,953.51
Due from paving sinking fund for financing unbonded paving rolls	22,183.89
Due from sewer sinking fund for financing unbonded sewer rolls	428.74

Required:

Prepare a balance sheet of the Riverside Cemetery Perpetual Care Fund as of December 31, 1946.

Problem 11-5. The following is a trial balance of the tax agency funds of the County of *M* as of June 30, 1947:

Cash	$ 60,000	
Taxes Receivable for City *A*	15,000	
Taxes Receivable for City *B*	32,000	
Taxes Receivable for City *C*	46,000	
Taxes Fund Balance—City *A*		$ 25,000
Taxes Fund Balance—City *B*		52,000
Taxes Fund Balance—City *C*		76,000
	$153,000	$153,000

The following transactions took place:

1. Cash to the amount of $59,400 was paid over as follows:

City	Amount Due	Collection Fee	Amount Paid Over
A	$10,000	$100	$ 9,900
B	20,000	200	19,800
C	30,000	300	29,700

2. The collection fees were paid over to the general fund.
3. Taxes were levied as follows:

City	Amount Levied
A	$ 50,000
B	100,000
C	150,000

Required:

a. Prepare journal entries.
b. Post to "T" accounts.
c. Prepare a balance sheet as of November 30, 1947.

Problem 11-6. The following is a receipts and disbursements statement of the Cemetery Fund of the City of *Q* for the year ending December 31, 1945:

Receipts	
Balance in Bank, January 4, 1945	$1,040.65
County Treasurer—Tax Collections for Cemetery	3,234 55
Sale of Lots	3,078 94
Grave Digging	856 00
Fees—Monuments and Markers	85 85
Lot Upkeep	28.75
Monument and Marker Bases	108.20
Interest on Endowment Fund	914.25
Cemetery Endowment Fund	269.00
Miscellaneous Revenues	17 83
Total	$9,634.02

Disbursements

Salary—Sexton	$1,440 00
Other Salaries and Wages	2,501.71
Salaries and Wages--New Improvements	28.00
Equipment Rental	92.10
Water, Light, Power, and Fuel	329.75
Maintenance of Buildings and Equipment	165.27
Material and Supplies—Operating	144.58
Insurance and Bond Premiums	81 36
Gas, Oil, and Transportation	109.67
New Equipment—Includes Tools	91.69
New Improvements	2,405.33
Transfer of Endowment Funds	720.00
Contract—New Paving	436.00
Miscellaneous Expenses	173 82
Balance in Bank, January 3, 1946	914.74
Total	$9,634 02

Required:

Convert this statement into an income and expense statement on a cash basis.

QUESTIONS AND PROBLEMS ON CHAPTER 12

Questions

Question 12-1. A pension fund is maintained through contributions from both the utility and its employees and is administered by an independent pension board. (*a*) Should such a fund be shown as part of the utility fund? (*b*) Would your answer be different if contributions were made by the utility alone?

Question 12-2. The utility of the City of *A* follows the practice of amortizing premiums on bonds, whereas the utility of the City of *B* does not amortize such premiums. (*a*) If construction costs and nominal interest expenses (that is, interest expenses before amortized premium is taken into account) are the same in both cases, will the fixed assets of the utility of the City of *B* be capitalized at a greater or smaller figure than those of the utility of the City of *A*? (*b*) Suppose the same situation is true with discounts; that is, suppose that the utility of the City of *A* amortizes discounts, whereas the utility of the City of *B* does not. Would the utility of the City of *B*, in that event, if construction costs and nominal interest expenses are the same in both cases, capitalize its fixed assets at a greater or smaller figure than the utility of the City of *A*?

Question 12-3. The condensed balance sheet of a utility is as follows:

CITY OF *K*
Utility Fund
Condensed Balance Sheet
December 31, 1946

Assets		Liabilities		
Fixed Assets (Net)	$148,000	Bonds Payable	$150,000	
Current Assets (Net)	30,000	Current Liabilities	30,000	$180,000
Sinking Fund	40,000	Reserve for Retirement of Sinking Fund Bonds		40,000
		Unappropriated Surplus	$ 3,000	
		Less—Loss, 1946	5,000	2,000*
	$218,000			$218,000

* Red.

On January 2, 1947, a contribution of $10,000 was made to the sinking fund. Give the entries necessary to record this transaction.

Question 12-4. A utility carries a pension fund as part of the utility fund. Should earnings on pension fund investments be included as part of the utility fund revenues?

Question 12-5. Is there any relationship between a governmental utility's estimated revenues and its appropriations?

Question 12-6. Distinguish between the use of the term *fund* in commercial accounting and in governmental accounting. Is a petty cash "fund" a fund in the sense in which the term is ordinarily used in governmental accounting?

Problems

Problem 12-1. The following is a trial balance of the utility fund of the City of *Y* as of January 1, 1947:

Budgetary Group		
Budget Requirements	$ 10,000	
Reserve for Encumbrances		$ 10,000
	$ 10,000	$ 10,000
Proprietary Group		
Land	$100,000	
Structures and Improvements	255,000	
Reserve for Depreciation—Structures and Improvements		$ 50,000
Equipment	105,000	
Reserve for Depreciation—Equipment		48,000
Cash	70,000	
Accounts Receivable	35,000	
Reserve for Estimated Losses—Accounts Receivable		4,000
Inventory of Materials and Supplies	17,000	
Prepaid Insurance	400	
Interest Receivable	200	
Bonds Payable		200,000
Vouchers Payable		20,000
Accrued Salaries and Wages		3,000
Accrued Taxes		4,500
Interest Payable		4,000
Governmental Unit's Contributions		225,000
Unappropriated Surplus		24,100
	$582,600	$582,600

The following transactions took place during the year:

1. Appropriations to the amount of $160,000 were made. (All expenditures, with the exception of depreciation and losses on uncollectible accounts, have been appropriated for.)
2. The materials ordered at the close of the previous year were received, together with a bill for $11,000.
3. Total salaries and wages paid amounted to $50,000.
4. An order was placed for equipment estimated to cost $30,000.
5. Total revenues billed for amounted to $130,000.
6. An order was placed for materials estimated to cost $20,000.

7. The equipment was received; the actual cost was $32,000.
8. The material was received; the actual cost was $19,000.
9. Collections on accounts receivable amounted to $135,000.
10. Payments were made as follows:

Accrued salaries and wages	$ 3,000
Accrued taxes	4,500
Interest payable	4,000
Vouchers payable	70,000

11. Interest receivable amounting to $200 was collected.
12. Telephone and telegraph charges of $500 were paid.
13. Interest paid amounted to $8,000.
14. Taxes paid amounted to $1,000.
15. Interest received amounted to $300.
16. An order was placed for materials estimated to cost $12,000.
17. Bonds to the amount of $20,000 were retired.
18. A transfer of $10,000 was made to the city's general fund. (*Note:* This transfer was appropriated for.)
19. Adjustments were made as follows:
    (a) Accrued salaries and wages, $2,800
    (b) Interest payable, $4,000
    (c) Interest receivable, $300
    (d) Accrued taxes, $4,300
    (e) Insurance expired, $300
    (f) Closing inventory, $20,000
    (g) Estimated losses on accounts receivable, $300
    (h) Depreciation:

Structures and improvements	$14,350
Equipment	10,250

Required:

a. Prepare journal entries (including closing entries).
b. Post to "T" accounts.
c. Prepare a balance sheet of the proprietary group of accounts as of December 31, 1947, and an income and expense statement for 1947.
d. Prepare a balance sheet for the budgetary group of accounts.

Problem 12-2. The following is a trial balance of the utility fund proprietary accounts of the City of *A* as of December 31, 1947, before certain transactions have been made effective:

Land	$100,000	
Structures and Improvements	260,000	
Reserve for Depreciation—Structures and Improvements		$ 60,000
Equipment	100,000	
Reserve for Depreciation—Equipment		35,000
Cash	115,100	

Accounts Receivable	40,000	
Reserve for Estimated Losses—Accounts Receivable		4,000
Inventory of Materials and Supplies	16,000	
Interest Receivable	200	
Sinking Fund Cash	15,000	
Bonds Payable		350,000
Vouchers Payable		15,000
Accrued Salaries and Wages		3,000
Accrued Taxes		4,000
Interest Payable		300
Governmental Unit's Contributions		100,000
Reserve for Retirement of Sinking Fund Bonds		15,000
Unappropriated Surplus		25,000
Operating Revenues		200,000
Operating Expenses	120,000	
Depreciation—Structures and Improvements	12,500	
Depreciation—Equipment	10,000	
Taxes	9,000	
Interest Revenues		500
Interest Expenses	14,000	
	$811,800	$811,800

The following additional transactions, not yet recorded, took place during the year:

1. An issue of serial bonds to the amount of $100,000 was authorized for the purpose of making additions to the plant.
2. The bonds were sold at a premium of $1,000.
3. A contract was entered into with the Long Construction Company for the construction of the project at a cost of $95,000.
4. A bill was received from the contractor for $40,000.
5. Sinking fund cash to the amount of $14,500 was invested.
6. The Long Construction Company was paid.
7. Interest paid on bonds amounted to $16,000; interest accrued on bonds at the end of the year amounted to $2,000.
8. Premiums to the amount of $40 were amortized.
9. Sinking fund revenues received in cash amounted to $300; those accrued at the end of the year amounted to $400; required earnings were $550.
10. A bill was received from the contractor for $55,000, covering the remaining amount due on the contract.
11. The project was completed; the contractor was paid in full except for $5,000, which was retained pending the inspection and approval of the project.
12. Inspection expenses amounted to $1,000 and were paid.
13. The excess of bond proceeds over bond expenses was transferred to the proper cash account.
14. A bill for $10,000, covering services rendered for the utility by one of the city's working capital funds, was received.
15. Serial bonds to the amount of $5,000 were retired.
16. Sinking fund cash was increased by $15,000, which represented the utility fund's contribution.

Required:

a. Prepare all necessary journal entries (including closing entries).

b. Prepare a balance sheet of the utility fund as of December 31, 1947.

c. Prepare an income and expense statement for the fiscal year ending December 31, 1947.

d. Prepare a statement analyzing the changes in the Reserve for Authorized Expenditures account.

Problem 12-3. The charter of the City of *Y* provides that the utility shall pay over to the general fund either 50 per cent of the net income after provision is made for various reserves or a 3 per cent return on the city's net equity in the utility, whichever is greater. (*Note:* The term *net equity* is here used in the same sense as the term *proprietorship* is used in commercial accounting.)

The balance sheet of the fund at December 31, 1946, in condensed form after all closing entries and all reservations of surplus were made but before the liability to the general fund was set up is shown on the next page.

Required:

a. Prepare a statement showing how the amount to be paid over to the general fund is arrived at.

b. Prepare a balance sheet in proper form, taking into account the liability to the general fund.

Problem 12-4. The City of *X* has been donating property and services to its electric utility, and the electric utility has in turn been donating services and property to the city. Beginning with January 1, 1947, the utility is to charge the city for all services and is to be charged for any services rendered to it by the city. Past donations of property and services made by the city to the utility or vice versa are to be credited or charged respectively, on the utility's books to a Contributions from Municipality account.

These donations and services are as follows:

Donation of cinders to Department of Public Works	$ 953.18
Donation of electric clock—City Council Chamber	22.50
Donation of land for street widening purposes	8,701.77
Donation of steam to storehouse of Department of Public Works	6,727.44
Donation to City General Hospital	10,000.00
Donation to reduce debt service of City other than utility bonds and indebtedness	143,140 21
Electric service rendered below cost	1,500.48
Engineering services rendered gratis in connection with fire alarm system	500 00
Excess amount billed over cost for jobbing work done for the City	81.95
Excess of amount billed over cost of electric energy supplied for City	88,217.70
Jobbing work done for the City below cost	6.42
Rental of office space used by utility but not paid	16,237 50
Services of City Comptroller unremunerated	4,252.50
Services of City Treasury unremunerated	1,900.00
Services of Corporation Counsel unremunerated	19,525.00

CITY OF Y
Utility Fund
December 31, 1946

Fixed Assets	
Land	$ 343,869.91
Structures, Improvements, and Equipment	10,206,573 22
Total Fixed Assets	$10,550,443.13
Floating Assets	
Current Cash	$ 66,788.63
Petty Cash	2,130.00
Accounts Receivable	97,282.82
Other Current Assets	1,861,909.15
Total Floating Assets	$ 2,028,110.60
Grand Total	$12,578,553.73

Liabilities	
Bonds Payable	$ 4,911,000.00
Customers' Deposits	51,629.15
Accounts Payable	12,746.73
Other Liabilities	61,087.53
Total Liabilities	$ 5,036,463.41
Reserves	
Sinking Funds	$ 352,132 43
Renewals and Replacements	1,186,361.84
Casualty Fund	35,705.27
Working Capital	200,000.00
Bad Bills, Reserve Fund	23,836 52
Auditing Accounts	1,996 81
Maintenance of Grounds	11,463.21
Fund for Loans	74,480.00
Total Reserves	$ 1,885,976.08
Unreserved Surplus	
Accrued Depreciation	$ 1,443,309 77
Surplus	3,992,501.36
Net Profit, Year 1946	220,303 11
Total Unreserved Surplus	$ 5,656,114 24
Grand Total	$12,578,553.73

Required:

Prepare a statement showing how you arrive at the net balance in the Contributions from Municipality account.

Problem 12-5. The following is a list of the accounts of the utility fund of the City of *D* as of June 1, 1947:

Accounts Receivable	$ 52,000	
Bond Fund—Cash	20,000	
Bond Fund—Expenditures	100,000	
Bond Fund—Vouchers Payable		$ 40,000
Bonds Authorized—Unissued	50,000	
Cash	50,000	
Deposits Fund—Cash	1,000	
Deposits Fund—Interest Payable		350
Deposits Fund—Interest Receivable	400	
Deposits Fund—Investments	10,000	
Deposits Fund—Surplus		2,050
Deposits Payable		9,000
Inventory of Materials	10,000	
Reserve for Authorized Expenditures		130,000
Reserve for Estimated Losses—Accounts Receivable		3,000
Reserve for Retirement of Sinking Fund Bonds		65,000
Sinking Fund—Cash	20,000	
Sinking Fund—Investments	50,000	
Sinking Fund—Unappropriated Surplus		5,000*
Unappropriated Surplus		104,000
Vouchers Payable		5,000

* Red.

You are given the following additional information:

The utility was formerly accounted for in the same manner as any other department. Beginning with June 1, 1947, the utility is to be accounted for as a self-supporting enterprise, and no formal records are to be kept of appropriations or other authorizations.

Fixed assets of the utility consist of the following:

Assets	Cost	Reserve for Depreciation
Land	$100,000	—
Structures and Improvements	250,000	$40,000
Equipment	75,000	20,000
	$425,000	$60,000

Bonds outstanding amounted to $300,000.

Bond fund expenditures consist of construction work in progress.

Required:

Prepare a balance sheet for the utility fund of the City of *D* as of June 1, 1947.

QUESTIONS AND PROBLEMS ON CHAPTER 13

Questions

Question 13-1. (*a*) A utility bills its customers separately for service and for sales taxes. Should billings for sales taxes be included among the revenues? (*b*) Suppose that the utility is not allowed to bill customers for the sales tax. However, rates have been raised approximately by the amount of the tax. Should the revenues be reduced by the amount of the sales tax? (*c*) Give the entries to show how the payment of the taxes by the governmental utility would be recorded in each of the above cases.

Question 13-2. A governmental water utility allowed a 10 per cent discount on each bill paid within ten days from the date of billing. Subsequently, it was decided to bill all customers net (that is, to reduce each bill by 10 per cent) but to add a 10 per cent penalty to all bills not paid within ten days. (*a*) If the total sales for the month in the first instance (when discounts were allowed) before deducting discounts were $100,000, and if 80 per cent of the amount billed was collected within ten days and 10 per cent during the remainder of the month, give the entries to record billings and collections. (*b*) If the total sales during the second month before adding penalties were $90,000, and if 80 per cent of the amount billed was collected within ten days and 10 per cent during the remainder of the month, give the entries to record billings and collections. (*c*) On the basis of (*a*) and (*b*) above, would you say that the change affected the accounting procedure? (Assume that metered residential sales are involved and use both general ledger and subsidiary accounts.)

Question 13-3. Comment on the following, which is part of an operating statement taken from a municipal water works report:

CITY OF X
Utility Fund
Operating Statement
January 1, 1945, to December 31, 1945

Operating Revenue:		
Water Rates	$747,568.68	
Cisterns	30.00	
Damaged Meters	477.50	
Rental of Mains	123,453.80	$871,529.98
Deductions from Operating Revenue:		
Shortage of Revenue from Rental of Mains	$ 61,153.80*	
Refunds	408.06	61,561.86
		$809,968.12

* Bills owing by the City for water for 1945 exceed the levy made by the City Council by approximately $61,153.80. This amount will remain unpaid until the City makes provision for payment.

Question 13-4. A certain city, wishing to acquire a privately owned utility, had an appraisal made of the property. The appraisers valued the assets on the basis of original cost less accrued depreciation and arrived at a value of $400,000. The owners, however, refused to sell the plant for less than $425,000, and the municipality was forced to pay the full amount asked. Give the entry necessary to record the excess of the cost of the utility to the municipality over its appraised value.

Question 13-5. The City of *K* operates both an electric utility and a water utility. The electric utility uses water to generate steam, and the water utility uses electricity for pumping purposes. If both utilities make each year a sufficient profit from sales of services to customers to provide the money necessary for the retirement of bonds, should the charges made by the electric utility to the water utility (or vice versa) for services be sufficiently high to yield a profit or should they be limited to the cost of rendering the service (exclusive of profits)?

Question 13-6. A governmental water utility uses water in connection with the operation of pumps. Should the cost of this water be charged as an expense? If so, should the cost be limited to actual operating expenses, or should profits be taken into account?

Problems

Problem 13-1. You are given the following data for the water utility of the City of *W* for the fiscal year ending December 31, 1947:

Income and Expense Accounts:

Operating Revenues (Control)*	$270,000
Operating Expenses (Control)**	209,500
Taxes	25,000
Customers' Deposits—Interest Revenues	5,000
Customers' Deposits—Interest Expenses	4,000
Interest Revenues	10,000
Sinking Fund Revenues	10,000
Interest Expenses	30,000

*Detailed Operating Revenue Accounts:

Private Fire Protection	5,000
Metered Sales to General Customers	177,500
Servicing of Customers' Installations	2,500
Interdepartmental Sales	2,500
Merchandising, Jobbing, and Contract Work	5,000
Sales to Other Water Utilities	10,000
Rent from Water Property	2,500
Public Fire Protection	20,000
Other Sales to Public Authorities	5,000
Interdepartmental Rents	3,000
Flat Rate Sales to General Customers	25,000
Customers' Forfeited Discounts and Penalties	1,000
Sales to Irrigation Customers	10,000
Miscellaneous Water Revenues	1,000

**Detailed Operating Expense Accounts:

Operation Supplies and Expenses—Source of Supply	$ 1,500
Purification Supplies and Expense	8,000
Operation of Transmission and Distribution Lines	12,900
Maintenance of Other Distribution Plant	2,000
Miscellaneous Expenses—Customers' Accounting and Collecting	4,287
Insurance	5,000
Supplies and Expense—Power and Pumping	2,500
Maintenance Supervision and Engineering—Source of Supply	1,150
Operation Supervision and Engineering—Source of Supply	4,800
Maintenance of Purification Equipment	2,250
Maintenance of Structures and Improvements—Transmission and Distribution	250
Customers' Contracts, Orders, Meter Reading, and Collecting	9,250
Fuel for Power and Pumping	15,000
Supervision—Customers' Accounting and Collecting	2,400
Other General Office Salaries	4,000
Customers' Billing and Accounting	14,050
Expenses of General Officers and General Office Employees	400
Uncollectible Accounts	1,213
General Office Supplies and Expenses	650
Operation Supervision and Engineering—Purification	3,500
Legal Services	1,000
Supervision and Engineering—Transmission and Distribution	3,500
Operation of Meters	2,800
Maintenance Supervision and Engineering—Power and Pumping	250
Miscellaneous General Expenses	500
Services on Customers' Premises	1,900
Maintenance of Mains	7,500
Maintenance Supervision and Engineering—Transmission and Distribution	1,900
Maintenance Supervision and Engineering—Purification	1,250
Maintenance of General Property	750
Purification Labor	15,000
Maintenance of Power and Pumping Structures and Improvements	390
Maintenance of Source of Supply Plant	12,500
Maintenance of Power and Pumping Equipment	1,660
Operation Labor—Source of Supply	30,200
Operation Supervision and Engineering—Power and Pumping	2,800
Maintenance of Purification Structures and Improvements	750
Operation Labor—Power and Pumping	23,100
Salaries of General Officers	5,550
Departmental Office Expenses—Transmission and Distribution	1,100

Required:

a. Prepare an income and expense statement.

b. Prepare a schedule of detailed operating revenues.

c. Prepare a schedule of detailed operating expenses.

Problem 13-2. From the following information, prepare a statement analyzing the changes in the Unappropriated Surplus account of the water fund of the City of *A* for the fiscal year ending June 30, 1947.

1. The net income for the year was $2,426,555.45.

2. Contributions by the utility fund to other funds totaled $2,295,505.31.

3. A bond premium of $808,292.40 was realized during the year and was credited directly to this account.

4. The balance in the account as of June 30, 1946, was $11,937,021.93.

5. Fixed assets of $86,566.56 were donated to this fund by the City of *A*.

6. The plant was appraised in December 1946; the appraised value is $1,990,666.71 less than the net book value.

7. The reserve for uncollectible accounts was reduced by $67,571.72.

8. Other miscellaneous surplus additions minus deductions totaled $2,318.34.

Problem 13-3. A utility owned by the City of *J* operates a plant in which electricity is generated by steam. The following are detailed operating expense account balances of the electric utility fund as of December 31, 1947:

Electric Generation—Supervision and Labor	$ 34,426 19
Treasury and Accounting Departments	3,140 11
Insurance	259 80
Collecting	5,235 56
Consumers' Orders	989 08
Repairs to Boiler Plant Equipment	11,555 41
Depreciation of Power Plant	112,680 66
Street Lighting Operation	2,273 90
Depreciation of General Property	3,649 21
Distribution System Operation	27,632 85
Repairs to General Property	244 47
Depreciation of Poles, Towers, Fixtures, Conduits	19,042 15
Miscellaneous Sales Expense	410 63
Repairs to Power Plant Equipment and Structures	19,820 61
Depreciation of Distribution Property	71,204 34
Injuries and Damages	1,589 88
Consumers' Billing and Accounting	9,016 84
Depreciation of Transmission Property	1,708 17
General Rents	1,956.71
Electricity Purchased	87,039 01
Repairs to Underground Conduits	41 84
Miscellaneous General Expenses	3,389 33
Street Lighting System Rents	134 63
Appliance Selling and Jobbing	340 68
Purchased Electricity Expense	7 00
Employees' Welfare Expense	67 18
Production Rents	200 00
Other General Office Supplies and Expense	363 99
Steam Transferred—Credit	339 99*
Executive Department	5,777 27
Meter Reading	7,864 71
Fuel	136,313 32
Transmission Supervision and Engineering	144 70
Depreciation of Street Lighting System Equipment	8,526 91
Repairs to Distribution System	18,461 13
Repairs to Poles, Towers, and Fixtures	1,924 04
Electric Generation—Supplies and Expenses	4,884.49
Law Department	1,157 17
Operation of Underground Transmission Lines	2.24
Distribution Rents	341 44
Repairs to Street Lighting Equipment	9,477 73
Consumers' Accounting and Collecting Supervision	1,469 52

* Red

Operating revenue account balances are as follows:

Other Sales to Operating Municipality	$ 17,255 09
Commercial Sales	244,611.75
Sales to Railroad and to Street Railroads	24,510 00
Residential Sales	338,030.55
Public Street Lighting—City of *J*	45,325 70
Other Sales to Other Public Authorities	4,605.91
Rent from Electric Property	23 38
Industrial Sales	316,746 84
Miscellaneous Electric Revenues	1,718 77
Public Street Lighting—Other	15,936 48

Income and expense account balances are as follows:

Interest Charged to Construction—Credit	$ 887 34*
Uncollectible Revenues	424 99
Interest Revenues	4,292 89
Taxes	4,283 62
Interest on Long-Term Debt	4,583 33

* Red.

Required:

a. Prepare an income and expense statement.
b. Prepare a detailed schedule of operating revenues.
c. Prepare a detailed schedule of operating expenses.

Problem 13-4. You are handed the following income and expense statement, which was prepared by the bookkeeper for the utility fund of the City of *M:*

CITY OF *M*
Utility Fund
Income and Expense Statement
for Year Ending June 30, 1948

Operating Revenues:		
Sale of Water	$ 44,000	
Fire Hydrant Rental	4,800	
Metered Sales of Electricity	107,700	
Street Lighting	12,000	$168,500
Less—Operating Expenses:		
Fuel	$ 21,000	
Salaries and Wages	24,700	
Materials and Supplies	3,000	
Maintenance of Plant	15,500	
Office Rent and Expense	3,000	
Insurance	4,600	
Interest on Deposits	200	
Meter Reading	700	
Interest on Bonds	4,200	
Depreciation	36,000	112,900
Net Income		$ 55,600

Upon investigation, you find that the municipality operates jointly a water utility and an electric utility, both of which are financed from one fund, and that the above income and expense statement includes the

revenues and expenses of both plants. It is desired, however, to allocate the proper share of revenues and expenses to each utility.

Upon further investigation, you find the following facts:

1. The cost of fuel is all allocable to the production of electricity.
2. Of the total salaries and wages, $2,800 is applicable to water.
3. Materials and supplies are distributable as follows: water, $800; electricity, $2,200.
4. Of the total office rent and expense, $1,500 is applicable to water.
5. Insurance expenses: water, $1,000; electricity, $3,600.
6. Maintenance of plant: water, $3,500; electricity, $12,000.
7. The interest on deposits and the meter reading expenses apply to electricity only.
8. Interest on bonds: water, $1,700; electricity, $2,500.
9. Depreciation: water, $5,600; electricity, $30,400.

The electric department has not included among its revenues the cost of current for pumping water, $6,200, nor among its expenses the cost of water used by it, $1,300. Neither did the water plant make any adjustments for services rendered to the electric plant or services received from that plant.

Required:

Prepare income and expense statements for the water and electric plants, respectively.

Problem 13-5. The public works department of the City of *K* has an agreement with the municipally owned electric utility whereby street lighting is charged to the department at the cost of generation, transmission, and distribution.

The total cost of generating, transmitting, and distributing electricity, exclusive of charges for use of equipment was $317,077 in 1946. The public works department charges the utility for the use of municipal equipment, such charges being based on actual cost of operation to the department. During 1946, equipment No. 3, 11, and 12 worked part of the time for the utility. Data regarding the number of hours operated and costs of operation are as follows:

Equipment No.	Cost of Operation	Total Miles or Hours* Operated	Miles or Hours* Operated for Utility
3	$840	15,000	10,000
11	966	4,600*	3,100*
12	600	2,500*	2,300*

The utility generated a total of 66,382,000 K.W.H. (kilowatt hours) which were disposed as follows:

Used by Utility Itself:	
Station Auxiliaries	3,925,000 K.W.H.
Other Use by Utility	565,000
Sales to Public Works Department	1,567,000
Sales to Other Consumers	54,525,000
Lost and Unaccounted for	5,800,000

Required:

Prepare a statement for the electric utility of the City of *K* showing the cost of electricity furnished to the public works department for street lighting during the year ending December 31, 1946.

QUESTIONS AND PROBLEMS ON CHAPTER 14

Questions

Question 14-1. What is meant by general fixed assets?

Question 14-2. A municipality was granted certain land for use as a playground. The property was appraised at $10,000. Subsequently, all land in the neighborhood rose in value by 20 per cent. Should the increase be reflected in the records?

Question 14-3. Suppose the same situation as above, except that there was a 10 per cent decline in the value of the land. Should the decline be reflected in the records?

Question 14-4. A municipality owns a fire station and is required to pay assessments of $10,000 as an owner of property in the benefited area. As a result of the improvements, the property has risen in value by $15,000. Should the asset be written up, and, if so, by how much?

Question 14-5. An asset was financed out of a special revenue fund and was carried in the general fixed assets group of accounts. Subsequently the asset was sold. To which fund would you credit the proceeds?

Question 14-6. Assume that the asset referred to in the preceding question was financed from a special assessment fund or a bond fund. To which fund should the proceeds from the sale of this asset be credited?

Question 14-7. What is meant by general bonds?

Question 14-8. A municipality's share of special assessment costs was $250,000. To finance these costs, the municipality issued bonds for a corresponding amount. Should these bonds be shown as part of the general bonded debt group of accounts or as part of the special assessment fund?

Question 14-9. In 1927, general sinking fund bonds to the amount of $200,000 were issued. All were to mature in 1946. On December 31, 1946, the sinking fund had accumulated only $20,000, so that there was no possibility of the matured bonds being retired that year. Should the matured bonds be shown in the general fund or in the sinking fund, or should they continue to be carried in the general bonded debt group of accounts?

Question 14-10. Why should general fixed assets and general bonds not be shown in the same group of accounts?

Question 14-11. Why is it unsound to cancel inter-fund receivables and payables in a combined fund balance sheet?

Question 14-12. The legislative body of a municipality has established an unemployment relief fund through a special levy authorized for this purpose by the state legislature. The city also has a mayor's contingency fund set up by order of the mayor out of an appropriation made for his department. Can the mayor's contingency fund lend money to the unemployment relief fund? Can the unemployment relief fund lend money to the mayor's contingency fund?

Question 14-13. Can you see any reason for following a stricter accrual basis of accounting in some funds than in others?

Problems

Problem 14-1. The following transactions took place in the City of *Y* during the year 1946:

1. (a) Furniture for the mayor's office estimated to cost $500 was ordered. (b) The furniture and a bill therefor were received; the actual cost was $525.
2. Sinking fund bonds amounting to $100,000 matured.
3. Sinking fund bonds to the amount of $200,000 were sold at a premium of $1,000.
4. The project financed from the bonds referred to in the preceding transaction was completed. Construction expenditures to the amount of $197,000 were closed out of the bond fund; proper disposition was made of the surplus.
5. A contribution of $20,000 became due from the general fund to the sinking fund.
6. A lot, appraised at $25,000, was received as a gift from an individual for the purpose of establishing a playground.
7. (a) Special assessment improvements to the amount of $500,000 were authorized.
   (b) Special assessment notes to the amount of $350,000 were sold at par.
   (c) Assessments to the amount of $350,000 were levied on private property; the remainder of the cost is to be paid by the municipality.
   (d) The municipality authorized the issuance of bonds for the purpose of financing its share of the cost ($150,000).
   (e) The bonds were sold at a premium of $1,000.
   (f) The proceeds from the sale of the bonds, as well as the premiums, were transferred to the proper fund or funds.
   (g) The municipality authorized the issuance of special assessment bonds to the amount of $300,000.
   (h) The bonds were sold at par.
   (i) Construction expenditures at the end of the first year amounted to $100,000 and were closed out of the special assessment fund.

Required:

Prepare *all* journal entries needed to record the above transactions.

Problem 14-2. (Adopted from the American Institute of Accountants' Examination of May 1935.) From the following municipal trial balance at the close of a fiscal year but before closing the books, prepare a balance sheet, properly subdivided into funds, after giving effect to necessary entries of the general fund and the sinking fund as of the close of the year and to settlements of all inter-fund balances other than permanent advances:

	Debit	Credit
Accounts receivable, general fund	$ 3,321.74	
Appropriation balances (unencumbered), general fund		$ 1,117.09
Assessments receivable	72,621.70	
Bond fund cash	2,005.60	
Bond fund balance (unencumbered)		678 00
Bonds payable, general capital account		250,000 00
Bonds authorized and unissued	8,000.00	
Contracts payable, bond fund		4,700 00
Due stores fund from bond fund		1,227.60
Due stores fund from general fund		1,593.96
Due stores fund from other funds	2,821 56	
Estimated revenues	1,500 00	
Fixed property	897,640 00	
Fixed property (income-producing, trust fund)	62,000 00	
General fund cash	1,842.10	
Income account, sinking fund		1,960.00
Interest account, special assessments	620 00	
Loan from general to stores and service fund	25,000 00	
Public benefit receivable (assessment fund)	6,400.00	
Reserve for encumbrances, general fund		2,827.10
Reserve for working capital		25,000 00
Reserve for retirement of bonds		160,000 00
Reserve for uncollectible taxes		2,875.00
Sinking fund cash	1,450 00	
Sinking fund investments	160,000 00	
Sinking fund requirements	1,000.00	
Sinking fund surplus		490 00
Special assessment bonds		80,000.00
Special assessment fund cash	1,872 65	
Stores and service fund working capital (loan from general fund)		25,000 00
Stores and service fund cash	1,408 22	
Stores inventory	15,942 80	
Surplus receipts, general fund		896 00
Surplus, special assessment fund		1,514.35
Surplus invested in fixed assets		647,640.00
Taxes receivable, general fund	6,972.61	
Temporary loans, general fund		3,000 00
Trust funds balance		96,320.00
Trust fund cash	6,820 00	
Trust fund investments	27,500.00	
Vouchers payable, bond fund		3,400 00
Vouchers payable, general fund		1,327 30
Work in process, stores and service fund	4,827 42	
	$1,311,566 40	$1,311,566 40

Problem 14-3. The following is a balance sheet of the capital fund of the City of *S* taken from its audit report:

CITY OF *S*
Capital Fund
Balance Sheet
November 3, 1946

Cash in Banks:		Bonded Debt:	
Unexpended Bond Proceeds	$ 17,364 39	Maturing Within One Year:	
Bond Sinking Funds	318,471 48	Public Improvement Serial Bonds	$ 128,000.00
	$ 335,835 87	Public Improvement Sinking Fund Bonds	20,000 00
Amount Necessary to Be Raised by Taxation to Retire Future Bond Maturities	$2,118,528.52	Maturing After One Year:	
		Public Improvement Serial Bonds	1,901,000 00
		Public Improvement Sinking Fund Bonds	388,000 00
			$2,437,000.00
Land, Structures, and Equipment	2,710,316.77	Fixed Property Balancing Account	2,727,681.16
	$5,164,681,16		$5,164,681 16

The unexpected bond proceeds represent part of the money received from the sale of serial bonds. The project has been completed, and the money is not needed to finance construction, the cost of the project having been overestimated.

Required:

Prepare statements of general fixed assets and general bonded debt accounts, respectively.

Problem 14-4. In beginning your audit of the City of *A*, you call for a balance sheet of each fund as of December 31, 1946 (that is, the year preceding the one to be audited). You are handed the balance sheet which appears on page 524.

A cursory examination reveals that the statement in question is a combined balance sheet of all funds in which no fund segregation has been kept. Upon further investigation, you discover that the City of *A* maintains the following funds:

Current fund (general fund)
Cemetery fund
Water fund
Interest and bond retirement fund
Special assessment improvement fund

The assets, liabilities, and surplus shown in the combined balance sheet are applicable to the various funds as follows:

1. Of the total cash, $24,689.76 is applicable to the cemetery fund; $18,422 04 to the water fund; $34,670.45 to the interest and bond retirement fund; and $68,211 00 to cash for bond payments of the improve-

CITY OF *A*

Consolidated Balance Sheet
December 31, 1946

ALL FUNDS

Assets		Liabilities	
CURRENT:		CURRENT:	
Cash	$ 80,400.44	Warrants Payable	$ 6,097.15
Investments	12,834.80	Interest Payable	5,677 39
Taxes (Less Reserve)	62,941.34	Deposits	5 00
Accounts Receivable	667.15	Total Current Liabilities	$ 11,779.54
Interest Receivable	301.87		
Assessments Receivable (Less Reserve)	112,860 33		
Supplies—Inventory	7,027.69		
Total Current Assets	$277,033 62		
DEFERRED CHARGES:			
Prepaid Insurance	$ 403 13		
		BONDED INDEBTEDNESS:	
PROPRIETARY:		Outstanding Bonds	$421,500 00
Land	$ 65,800.00		
Buildings	77,818.66		
Equipment	477,204 06	PROPRIETARY:	
Office Furniture & Fixtures	1,375 31	Surplus	$469,999.67
Autos	3,641 43		
Total Proprietary	$625,842 46		
Total Debits	$903,279 21	Total Credits	$903,279.21

ment fund. The current fund had a cash overdraft of $6,522.03, and the cash for interest payments in the improvement fund was overdrawn by $59,070 78.

2. The investments are all applicable to the cemetery fund.

3. Taxes (less reserve) are applicable to the following funds: Current fund, $43,360.21; water fund, $907.13; interest and bond retirement fund, $18,674.00.

4. Accounts receivable are distributed as follows: Current fund, $252.53; water fund, $414 62.

5. Interest receivable is divisible as follows: Cemetery fund, $89.37; water fund, $212 50.

6. Assessments receivable belong to the improvement fund, and the inventory of supplies belongs to the water fund.

7. Prepaid insurance is applicable to the following funds: Cemetery fund, $19.80; current fund, $360.67; water fund, $22 66.

8 Fixed assets apply to the following funds: *Current fund:* land, $65,800 00; buildings, $77,099 76; equipment, $25,474 11; office furniture and fixtures, $1,375 31; automobiles, $3,644.43. *Cemetery fund:* buildings, $718.90; equipment, $338.06. *Water fund:* equipment, $451,391 89.

9 Warrants payable are distributed as follows: Current fund, $4,787.24; cemetery fund, $381.97; water fund, $927.94.

10. Interest payable is distributed as follows: Water fund, $2,343.75;

CITY OF *W*

Consolidated Fund Balance Sheet
as of the Close of Business on December 31, 1946

	General Fund	Capital Fund	Special Assessment Fund	Water Fund	Total	Eliminations	Consolidated
Assets							
Cash	$ 703,987.49	—	$ 42,166 26	$ 27.00	$ 746,180.75	—	$ 746,180.75
Taxes Receivable	1,884,460.51	—	1,810,704.83	—	3,695,165.34	—	3,695,165.34
Accounts Receivable	645,469.42	—	—	42,074.61	687,544.03	—	687,544.03
Inventories	21,968.13	—	—	59,818.72	81,786.85	—	81,786.85
Property, Plant, and Equipment (after Depreciation)	—	$10,885,985.17	—	2,772,287.91	13,658,273.08	—	13,658,273.08
Due from Other Funds	9,353.18	—	—	363,710.74	373,063.92	$373,063.92	—
Unexpired Insurance Premiums	368.89	—	—	—	368.89	—	368.89
Total Assets	$3,265,607.62	$10,885,985.17	$1,852,871.09	$3,237,918.98	$19,242,382.86	$373,063.92	$18,869,318.94
Liabilities							
Accounts Payable	$ 85,901.64	—	$ 552.50	$ 1,846.84	$ 88,300.98	—	$ 88,300.98
Contracts Payable	44,383.66	—	—	—	44,383 66	—	44,383.66
Accrued Liabilities	37,925.00	—	16,840.00	15,965.32	70,730 32	—	70,730 32
Deposits Held	416,235.07	—	13,432 37	—	429,667.44	—	429,667.44
Bond Indebtedness	—	$ 3,733,250.00	1,684,000.00	1,446,000.00	6,863,250 00	—	6,863,250 00
Due to Other Funds	175,966 82	—	197,097.10	—	373,063.92	$373,063.92	—
Surplus	2,505,195.43	7,152,735 17	59,050 88*	1,774,106 82	11,372,986.54	—	11,372,986 54
Total Liabilities	$3,265,607.62	$10,885,985 17	$1,852,871.09	$3,237,918.98	$19,242,382.86	$373,063.92	$18,869,318 94

* Deficit

interest and bond retirement fund, $1,662.50; improvement fund, $1,671.14.

11. Deposits apply to the water fund.

12. Bonded indebtedness applies to the following: Water fund, $170,500; interest and debt retirement fund, $75,500; improvement fund, $175,500.

13. Inter-fund receivables are as follows: Due to cemetery fund from current fund, $4,400, and from interest and bond retirement fund, $1,000. Due to water fund from interest and bond retirement fund, $9,000.

Required:

On the basis of the above data prepare a combined balance sheet as of December 31, 1946, properly subdivided between funds.

Problem 14-5. The statement on the preceding page is a consolidated fund balance sheet for the City of *W*.

Required:

Recast this balance sheet so that it will reflect the true financial condition of the municipality's funds as of December 31, 1946.

Problem 14-6. The following balance sheet of the Town of *S* was taken from the town's annual report. (References are to schedules in the report that are not here reproduced.)

TOWN OF *S*
Balance Sheet
as of September 30, 1936

ASSETS

REVENUE ASSETS:		
Cash in Banks as per Schedule 4	$ 867,488.24	
Change Fund in Tax Collector's Office	75 00	
Petty Cash Fund in Welfare Department	25 00	
Property Taxes Receivable, as per Schedule 5	1,369,873 86	
Personal Taxes Receivable, as per Schedule 5	20,581.00	
Old Age Assistance Taxes Receivable, as per Schedule 5	29,805 00	
Accounts Receivable, as per Schedule 7	86,222.18	
Amount Advanced to Board of Education Between July 1, 1936, and September 30, 1936, to apply against 1936-1937 Appropriation	82,509 86	
Revenue Deficit, as per Schedule 10	335,989 96	
Total Revenue Assets		$2,792,570.10
CAPITAL ASSETS:		
Land, Buildings and Structure, as per Schedule 1:		
School Buildings and Land	$5,681,355 64	
Town Hall, Building and Land	542,000 00	
Sunset Home—Land	38,700 00	
Sunset Home—Buildings	146,926.82	
June Road and Cold Spring Road Bridges	40,274.27	
Miscellaneous Land	62,186 50	$6,511,443.23

ASSETS—*Continued*

CAPITAL ASSETS—*Continued:*		
Work in Progress—Trade School Addition		$ 1,195 50
Bond Redemption Funds—Cash in Banks, as per Schedule 2		486,979 75
Special Funds—Town Deposit Funds, as per Schedule 3		9,520 83
School Funds, as per Schedule 3		3,526.08
New Franklin Street School Fund, Cash on Deposit—*S* Trust Company—Checking Account		6,633 82
Belltown School Addition Fund—Cash on Deposit—*S* Trust Company—Checking Account		1,817 57
New Town Almshouse Fund—Cash on Deposit—*S* Trust Company—Checking Account		10,374.82
June Road and Cold Spring Road Bridge Fund—Cash on Deposit—*S* Trust Company—Checking Account		398 55
State Trade School Addition Fund—Cash on Deposit—*S* Trust Company—Checking Account		100,875 35
New Printed Index Fund—Cash on Deposit—Fidelity Title & Trust Company—Savings Account		5,748.53
Dog License Fund—Cash on Deposit—Fidelity Title & Trust Company—Checking Account		399 18
Sunset Home Fire Insurance Fund—Cash on Deposit—Fidelity Title & Trust Company—Savings Account		3,449.26
Special Sidewalk Fund—Cash on Deposit—Fidelity Title & Trust Company—Checking Account		3,187.72
Janitor's Pension Fund—Cash on Deposit—First *S* National Bank & Trust Company:		
Savings Account	$3,528 23	
Checking Account	1,145 09	4,673 32
Total Capital Assets		$7,150,223 51
Total Assets—All Funds		$9,942 793 61

LIABILITIES

REVENUE LIABILITIES:		
Notes Payable, as per Schedule 8	$ 700,000.00	
Contracts Payable, as per Schedule 9	39,148 50	
Unidentified Property Tax Collections	88 68	
Unidentified Personal Tax Collections	2 00	
Tax Refund Account—Overpayments	21.32	
Reserve for Certificates of Errors, Abatements and Uncollectible Taxes, as per Schedule 15	83,309 60	
General Fund Bonds Outstanding, as per Schedule 6	1,970,000 00	
Total Revenue Liabilities		$2,792,570.10
CAPITAL LIABILITIES:		
Bonded Debt, as per Schedule 6		$3,235,500.00
Reserve for Bond Redemption and Special Funds:		
Reserve for Bond Redemption Fund	$ 486,979.75	
Reserve for Town Deposit Funds	9,520.83	
Reserve for Special School Funds	3,526.08	
Reserve for New Printed Index Fund	5,748.53	
Reserve for Dog License Fund	399.18	
Reserve for Sunset Home Fire Insurance Fund	3,449.26	
Reserve for Special Sidewalk Fund	3,187.72	
Reserve for Janitor's Pension Fund	4,673 32	517,484.67
Capital Surplus, as per Schedule 11 (Excess of Recorded Value of Land and Buildings and Cash over Bonded Indebtedness and Liability Under Special Funds)		3,397,238.84
Total Capital Liabilities		$7,150,223 51
Total Liabilities—All Funds		$9,942,793 61

You are given the following additional facts:

The bonded indebtedness of the general fund (shown as a "revenue liability") consists of bonds issued to finance deficits of prior years.

Note that no reserves have been set up for some of the special funds.

Required:

a. Prepare a combined balance sheet in columnar form subdivided so as to show the proper data for the general fund, general fixed assets, general bonds, and for all of the special funds combined. (Do *not* provide a separate column for each special fund.)

b. Prepare a subsidiary schedule to support the combined "Special Funds" column of the combined balance sheet. (The schedule should show the data for each special fund.)

QUESTIONS AND PROBLEMS ON CHAPTER 15

Questions

Question 15-1. Why is it improper for an official to deposit government money to the credit of his own personal account?

Question 15-2. (*a*) Is it necessary to have a separate bank account for each fund? (*b*) What are the advantages and disadvantages of providing a separate bank account for each fund? (*c*) Under what circumstances would you recommend the establishment of a separate bank account for each fund?

Question 15-3. A municipal golf course charges 25 cents per hour for games played during regular hours but only 15 cents for games played during the twilight hours. It has been found that the clerk has been charging players at the rate of 25 cents an hour but recording the receipts as twilight hour receipts and pocketing the difference. What steps would you recommend to insure that all receipts are being properly accounted for?

Question 15-4. The treasurer of the City of *F* does not consider a disbursement as such until the checks have cleared through the bank, whereas the treasurer of the School District of *F* considers disbursements as such as soon as the checks are issued, regardless of when they clear. Which treasurer in your opinion is following the more proper procedure?

Question 15-5. A city charter provides that the general fund shall make up all losses in the special assessment fund. Special assessment fund cash to the amount of $50,000 is in a closed bank, and it is estimated that only 60 per cent of this amount will be ultimately collected. However, the liability cannot be set up in the general fund until the actual loss is determined. How would you indicate these facts on the balance sheet prepared at the close of the year (*a*) for the special assessment fund, and (*b*) for the general fund?

Problems

Problem 15-1. The *Z* City Council on January 3, 1946, created a park fund by levying a special tax in the amount of $125,000 and appropriating $120,000 for park purposes. The amounts received by the city from this levy for each month during the year were as follows:

January	$ 8,125	July	$ 8,200
February	11,420	August	9,341
March	13,650	September	10,426
April	8,472	October	9,736
May	9,150	November	8,640
June	12,220	December	9,988

The following vouchers were certified, and the following warrants were issued each month:

	Vouchers	Warrants		Vouchers	Warrants
January	$ 7,127	$ 7,027	July	$13,432	$12,856
February	8,520	8,320	August	12,650	12,729
March	9,720	9,840	September	9,236	9,140
April	9,472	9,325	October	9,320	9,420
May	10,320	10,160	November	8,560	7,475
June	12,196	12,220	December	7,250	3,926

The city treasurer during the year paid warrants amounting to $109,376.

Required:

a. Set up "T" accounts as they should appear on the books of (1) the comptroller, and (2) the treasurer.

b. Prepare a statement reconciling the comptroller's cash with that of the treasurer.

c. Prepare closing entries and post to "T" accounts.

d. Prepare a balance sheet as of December 31, 1946.

Problem 15-2. From the following information for the City of *F*, prepare a statement of cash receipts, disbursements, and balances properly classified by funds as of December 31, 1947:

Cash Balances, January 1, 1947:	
General Fund	$ 31,246
Pension Fund	10,621
Electric Fund	18,918
Special Assessment Fund	20,436
Public School Fund	12,850
Receipts of 1947:	
General Fund:	
Current Taxes	385,000
Taxes Paid by Electric Fund	8,926(a)
Parking Meters	3,201
Dog Licenses	1,585
Police Fines	8,324
Interest Earnings	821
Concessions	2,500
State Gas Tax	15,300
Weights and Measures	2,229
Clinic Fees	1,746
Golf Fees	3,921
Pension Fund:	
Taxes	25,721(b)
Employees' Contribution	25,000
Interest on Investments	5,436

Receipts of 1947—*Continued:*

Electric Fund:	
Sales	$429,343
Accounts Receivable Collections	18,921
Public Street Lighting	15,842(c)
Rents	1,526
Special Assessment Fund.	
Installment Collections	21,340
City's Share	6,000(d)
Interest Collections	4,228
Public School Fund:	
Taxes	121,400(e)
State Appropriation	60,117

Disbursements During 1947·

General Fund.	444,219*
Pension Fund	50,948
Electric Fund	459,139**
Special Assessment Fund.	48,632
Public School Fund	190,287

* Includes items (b), (c), (d), and (e)
** Includes item (a).

Problem 15-3. The following are the opening cash balances and receipts and disbursements for special assessment districts 4, 5, 6, and 7 of the City of *M* for the year ending December 31, 1947:

	District			
	4	5	6	7
Cash Balances:				
For Construction	$20,000	$30,000	$ 40,000	$10,000
For Bond Payments	10,000	15,000	20,000	5,000
For Interest Payments	2,000	3,000	4,000	500
Receipts:				
Interest	2,500	3,000	3,500	500
Sale of Bonds	50,000	—	—	60,000
Current Assessments—For Construction	—	—	15,000	10,000
Delinquent Assessments—For Bonds	10,000	5,000	1,000	1,000
Delinquent Assessments—For Construction	2,000	2,500	2,000	3,000
Sale of Notes	—	—	20,000	—
Municipality's Share of Cost	10,000	20,000	30,000	25,000
Payments:				
Capital Outlays	60,000	50,000	100,000	95,000
Interest	2,000	3,000	4,000	500
Bond Retirement	15,000	20,000	21,000	5,000

Required:

Prepare a statement showing opening cash balances, receipts, disbursements, and closing cash balances for each district and for all the districts combined.

Problem 15-4. The following data were taken from the treasurer's report of the City of *K* for the fiscal year ending December 31, 1945:

CITY OF *K*

Statement of Cash Receipts, Disbursements, and Balances for Fiscal Year Ending December 31, 1945

Fund	Opening Balance	Receipts	Disbursements	Closing Balance
Current	$1,271,432 39	$4,305,206 57	$4,271,431 12	$1,305,207.84
Capital	31,009 11	75,743 86	54,692.84	52,060.13
Local Assessment	103,597 83	298,385 82	386,072 78	15,910.87
School	325,196 01	2,194,825.98	2,505,247.97	14,774 02
Pension	2,128 01	17,144.43	15,724 89	3,547 55
Water Works Improvement	69,155 36	172,873 57	179,370 33	62,658 60
Sewage Disposal	1,237,825 80	615,412 50	1,104,383 84	748,854 46
Central Fire Alarm	—	50,000 00	21 32	49,978 68
	$3,040,344 51	$7,729,592 73	$8,516,945 09	$2,252,992 15

The following transfers were made during the year and reflected in the comptroller's records but not on the treasurer's books:

Transferred from	Transferred to	Amount
Current	Capital	$ 16,385 21
Current	Local Assessment	137,382 34
Current	School	844,068 10
Local Assessment	Current	1,592 89
Central Fire Alarm	Current	61.87

Required:

a. Prepare a statement showing receipts, disbursements, and balances according to the comptroller's records.

b. Prepare a statement reconciling the cash balances according to the comptroller's records with the cash balances according to the treasurer's books.

Problem 15-5. The following transfers were made between a state's funds during the fiscal year ending May 31, 1946:

The general fund transferred money to other funds as follows:

Motor License Fund	$ 3,140,000 00
State Stores Fund	6,000,000.00
Flood Control Fund	150,000 00
Sinking Fund	3,203,125 00
Liquid Fuels Tax Fund	3,500,000 00
School Employees' Retirement Fund	337,710.16
State Employees' Retirement Fund	204,215 00
Liquor License Fund	1,000,000.00
Veterans' Compensation Sinking Fund	4,962,349 46
General AT Tax Sinking Fund	50,000,000 00
General BT Tax Sinking Fund	45,000,000.00
Administration Fund	20,000 00
Gettysburg Peace Memorial Fund	5,000 00

The motor license fund transferred $6,334,693 11 to the sinking fund.

In addition to the transfer from the general fund, the state employees' retirement fund received money from the following:

Motor License Fund	$153,140.00
Fish Fund	4,495 00
Game Fund	10,152.50
Banking Department Fund	17,050 00
State Workmen's Insurance Fund	10,927 50
Manufacturing Fund	3,720.00

The general fund received money from the following funds:

State Stores Fund	$36,290,262 12
State Insurance Fund	1,000,000 00
Liquid Fuels Tax Fund	3,500,000.00
Federal Rehabilitation Fund	170,096 41
Federal Vocational Education Fund	697,880.43
Liquor License Fund	1,000,000.00
Administration Fund	20,000.00

Required:

Prepare a statement analyzing the inter-fund transfers.

Problem 15-6. The City of *F* maintains three bank accounts. On June 30, 1947, the balances according to the bank statements were as follows:

First National Bank	$125,750
American National Bank	59,415
Liberty State Bank	37,525

The balances according to the treasurer's books on that day were as follows:

Fund	First National Bank	American National Bank	Liberty State Bank
General	$70,000		
Special Revenue	50,000		
Sinking		$40,800	
Utility			$39,000

The treasurer considers disbursements as such as soon as he issues checks.

The balances of cash according to the comptroller's books were as follows:

Fund	Amount
General	$68,300
Special Revenue	49,500
Sinking	35,800
Utility	38,000

The comptroller considers cash disbursements as such as soon as warrants are issued.

The following checks are still outstanding:

General Fund		Sinking Fund	
#1411	$ 300	#3119	$ 25
1590	200	3270	100
1591	150	3271	1,000
1592	5,000	3272	15,000
1593	2,000	3273	2,000
1594	300		
1595	35		

Special Revenue Fund		Utility Fund	
#2190	$ 100	#5206	$ 50
2191	250	5309	25
2305	300	5315	30
2306	1,500	5508	1,000
2307	2,500	5510	200
2308	650	5511	50
		5512	100

Warrants issued for which checks have not yet been written are as follows:

Fund	Amount
General	$1,700
Special Revenue	500
Sinking	5,000
Utility	1,000

Interest credited by the bank but not taken up by the city is as follows:

Fund	Amount
General	$1,000
Special Revenue	500
Sinking	1,000
Utility	500

The following deposits were in transit on June 30:

Fund	Amount
General	$7,000
Special Revenue	2,000
Sinking	500
Utility	3,400

Exchange charged by the bank and not yet recorded on the city's books is as follows:

Fund	Amount
General	$25
Special Revenue	10
Sinking	10
Utility	30

Required:

Prepare a statement reconciling the cash accounts as shown by the bank statements with the balances shown on the treasurer's records and on the comptroller's records, respectively.

Problem 15-7. On the basis of the following data, prepare a statement reconciling the receipts and disbursements as recorded by the county clerk of the County of *F* and as shown on the books of the county asylum:

According to the county asylum records, the asylum received $64,-896.10 during 1946, whereas on the county clerk's books the asylum was charged with receipts of $65,382.38. The asylum received money from the sale of farm products in December to the amount of $397.05, which was not recorded on the county clerk's books until January 1947. On the other hand, the county clerk recorded the receipt of $883 33 from the state for the benefit of the asylum, but the asylum did not receive the money until 1947 and therefore did not record it as a receipt of 1946.

According to the county records, the asylum disbursed $77,838.15 during 1946, whereas, according to the asylum records, the asylum disbursed $78,579,69 during that period. However, disbursements of $741.54 were charged as such on the asylum's books in December 1946, whereas they were not recorded on the county clerk's records until January 1947.

Problem 15-8. The City of *K* operates on an accrual basis with respect to both revenues and expenditures. It maintains two bank accounts at the First National Bank, one for the general fund and one for the utility fund. You are asked to prepare from the following data (1) a statement reconciling the balances per bank with the balances of cash for each fund per comptroller's books on December 31, 1946, before any correcting entries are made, and (2) journal entries necessary to correct the comptroller's records.

1. Balance per bank statement: (*a*) general fund, $50,000; (*b*) utility fund, $28,000.

2. The bank made service charges of $50. Of this amount $20 was chargeable to the general fund and the remainder to the utility fund. These charges have not been recorded by the city.

3. The following checks were outstanding:

General Fund		Utility Fund	
G114	$115	U901	$50
G115	200	U902	5
G116	300	U903	65
G117	150	U904	1000

4. Check G108 was for $100 but was recorded in error on the comptroller's books as $110 because the voucher payable was for that amount.

5. On December 30, 1946, the treasurer wrote check G112 for $35 in payment of a voucher chargeable against the utility fund. The comptroller caught this error but the check had already been cashed. To date no action has been taken on this matter.

6. Checks G116 and G117 were written on December 31, 1946. Check G116 was mailed on that day while check G117 was not mailed until January 5, 1947. Both were recorded by the comptroller as December disbursements.

7. Due to an oversight general fund money received on December 31, 1946 ($250 from taxes receivable, $50 from fines, and check U904 described below) was not recorded until its deposit on January 5, 1947. The total deposit on that day, which included also January, 1947, receipts, was $2,000 and the entire amount was recorded as a January 1947 receipt on the comptroller's books.

8. Check U904 is a payment in lieu of taxes made to the general fund and turned over to that fund on December 31, 1946, but not put through for collection by the general fund until January 5, 1947. (See 7 above.)

9. Utility accounts receivable to the amount of $300 were collected on December 31, 1946, and reflected on the records but were not deposited until January 2, 1947.

QUESTIONS AND PROBLEMS ON CHAPTER 16

Questions

Question 16-1. A sinking fund was established for the purpose of retiring Michigan Street Bridge bonds, which do not mature until 1961. In 1946, the sinking fund included among its investments $40,000 of Michigan Street Bridge bonds. Should these bonds be canceled, or should they be held alive until 1961?

Question 16-2. In choosing investments for a sinking fund would you select those selling at a premium or at a discount?

Question 16-3. Give the entries to record the following: (*a*) the sale of general sinking fund investments with a par value of $100,000 at a profit of $2,000; (*b*) the sale of general sinking fund investments with a par value of $95,000 at a loss of $1,500.

Question 16-4. (*a*) General sinking fund securities have risen in value. Should the appreciation in value be recorded on the books? (*b*) Would your answer be different if the securities had declined in value?

Question 16-5. If the investments referred to in the preceding question are owned by a governmental utility, should an appreciation in value be recorded on the books? Should a decline in value be recorded?

Problems

Problem 16-1. On May 1, 1946, the City of *K* purchased bonds with a par value of $100,000 at a premium of $2,250 plus accrued interest. The bonds are to run for five years and bear a nominal interest rate of 4½ per cent, payable semiannually on April 1 and October 1. Bond tables show that bonds purchased on this basis yield 4 per cent (that is, the effective interest rate is 4 per cent).

Required:

a. Prepare an entry to record the purchase of the bonds.

b. Prepare a table similar to Table 2, showing the amortization of premiums over the life of the investments.

c. Prepare the entries to be made when interest is received on (1) October 1, 1946, (2) October 1, 1948, and (3) April 1, 1949.

Problem 16-2. Assume that the City of *K* sold the investments on June 1, 1949, for $101,750, and give the entry to record this transaction.

Problem 16-3. On May 1, 1946, the City of *M* purchased bonds with a par value of $100,000 at a discount of $2,190 plus accrued interest.

The bonds are to run for five years and bear a nominal interest rate of 4½ per cent, payable semiannually on April 1 and October 1. Bond tables show that bonds purchased on this basis yield 5 per cent.

Required:

a. Prepare an entry to record the purchase of the bonds.

b. Prepare a table similar to Table 3, showing the amortization of discounts over the life of the investments.

c. Prepare the entries to be made when interest is received on (1) October 1, 1946, (2) October 1, 1948, and (3) April 1, 1949.

Problem 16-4. Assume that the City of *M* sold the investments on June 1, 1949, for $101,750, and give the entries to record this transaction.

Problem 16-5. A municipality purchased investments with a par value of $50,000 at a premium of $1,000. The bonds are to run for ten years, with $5,000 maturing each year and interest to be paid semiannually. Set up a table showing the amount of premium to be amortized at each interest payment date on the basis of the bonds outstanding method (see Table 4).

Problem 16-6. A municipality purchased investments with a par value of $100,000 at a discount of $1,000. The bonds are to run for ten years, with $10,000 maturing each year and interest to be paid semiannually. Set up a table showing the amount of discount to be amortized at each interest payment date on the basis of the bonds outstanding method (see Table 4).

Problem 16-7. On the basis of the data shown on the opposite page, prepare a schedule of sinking and trust fund investments showing for each issue the following information in so far as it applies to a particular issue: description, interest rate, par value, premium, discount, book value, accrued interest purchased, and accrued interest. You may assume that interest on all of these investments except United States Savings Bonds and Federal Savings and Loan Association Certificates is payable semiannually on January 1 and July 1.

Problem 16-8. Draw up a form similar to the one illustrated in Figure 72 and enter in it the data outlined in Problems 16-1 and 16-3.

Problem 16-9. Draw up a form similar to the one illustrated in Figure 73 and enter in it the data given in Problem 16-1 as far as applicable. Make entries in the Interest Earnings section on the basis of the table which you have set up in solving Problem 16-1. Assume that the interest for each period was received on the day it became due.

Problem 16-10. Draw up a form similar to the one illustrated in Figure 73 and enter in it the data given in Problem 16-3 as far as applicable. Make entries in the Interest Earnings section on the basis of the table which you have set up in solving Problem 16-3. Assume that the interest for each period was received on the day it became due.

CITY OF *X*

Sinking and Trust Fund Investments
December 31, 1938

Date Purchased	Description	Interest Rate	Par Value	Cost Items	Cost Totals
	Ad Valorem Sinking Fund				
Dec. 6, 1932	Waivers N. Upper Street Improvement	6%	$ 74.04	$ 74.04	$ 74.04
	Sewer Sinking Fund				
Apr. 1, 1917	City of *X* Refunding Bonds	4	$22,000 00	$22,000.00	
Feb. 13, 1932	U. S. Treasury Bonds	4½	10,000.00	10,031 26	
Feb. 17, 1932	U. S. Treasury Bonds	4¼	5,000.00	5,015 63	
Oct. 30, 1934	City of *X* Colored Park Bonds	4	23,000 00	22,400.00	
Oct. 30, 1934	City of *X* Sewerage Bonds	4	3,000.00	2,880.00	
Apr. 15, 1935	U. S. Treasury Certificates	2¾	2,000 00	1,996.13	
Feb. 3, 1936	City of *X* Sewerage Bonds	4½	2,000 00	2,404.40	
Oct. 31, 1938	U. S. Savings Bonds		20,000.00	15,000 00	81,727.42
	Park Sinking Fund				
Feb. 13, 1932	U. S. Treasury Bonds	4¼	$12,500 00	$12,526.28	
Apr. 15, 1935	U. S. Treasury Certificates	2¾	2,000.00	1,996.53	
Jan. 14, 1935	City of *X* Duncan Park Bonds	4	8,000.00	8,000.00	22,522.81
	Viaduct Sinking Fund				
Apr. 1, 1917	City of *X* Refunding Bonds	4	$ 3,000.00	$ 3,000 00	
Feb. 17, 1932	U. S. Treasury Bonds	4¼	7,500.00	7,510 66	
Apr. 15, 1935	U. S. Treasury Certificates	2¾	2,000.00	1,996.53	
Jan. 14, 1935	City of *X* Duncan Park Bonds	4	2,000.00	2,000.00	14,507.19
	P.W.N.R. Sinking Fund—City				
Jan. 14, 1935	U. S. Treasury Bonds	3¼	$ 5,000.00	$ 5,015 63	
Jan. 14, 1935	U. S. Treasury Bonds	4¼	10,000 00	10,031 24	
Jan. 14, 1935	U. S. Treasury Bonds	4	25,000.00	25,515 63	
Jan. 14, 1935	City of *X* Duncan Park Bonds	4	10,000 00	10,000.00	
July 10, 1937	City of *X* Funding Bonds	3½	52,000 00	52,000 00	
Nov. 30, 1938	City of *X* Sewerage Bonds	4	4,000.00	4,563.99	
Nov. 30, 1938	First Federal Savings & Loan Assn. Investment Shares Certificates		5,000 00	5,000.00	112,126.48
	P.W.N.R. Sinking Fund—Schools				
July 10, 1937	City of *X* Funding Bonds	3½	$20,000 00	$20,000 00	
Jan. 31, 1938	City of *X* P.W.N.R. School Bonds	4	5,000.00	5,876.87	25,876 87
	Total Sinking Fund Investments				$256,834.82
	Auditorium Equipment Trust Fund				
Oct. 31, 1937	Waivers, Virginia Ave.	6	$ 175 92	$ 175.92	
Oct. 31, 1937	Waivers, N. Broadway	5	258.96	258 96	
Oct. 31, 1937	Waivers, Hammond Ave.	6	662 22	662 22	$ 1,097.10
	James Lane Allen Trust Fund				
Jan. 1, 1932	Scioto Valley and M.E.R.R. Bonds	4	$ 5,000 00	$ 3,965 67	
Sept. 30, 1937	Waivers, Embry Ave.	6	597.25	597.25	4,562.92
	Total Trust Fund Investments				$ 5,660.02
	Total Sinking and Trust Fund Investments				$262,494.84

QUESTIONS AND PROBLEMS ON CHAPTER 17

Questions

Question 17-1. In a certain governmental unit, homesteads are exempt from taxation up to $2,500 of their assessed value except taxes levied for the payment of bonds issued prior to the enactment of the homestead exemption law and for the payment of the interest on such bonds. The assessed valuation of the municipality in 1946 was $100,000,000, out of which properties with an assessed value of $20,000,000 were entitled to the exemption privilege. The tax levy for 1946 was as follows: (*a*) for all expenses excepting interest and bond retirements, $700,000; (*b*) for interest and bond retirements, $100,000, out of which $70,000 is applicable to bonds issued prior to the enactment of the homestead exemption act and $30,000 to bonds issued after passage of the act. Calculate the tax rate or tax rates of the governmental unit in question.

Question 17-2. Referring to Question 17-1, assume that taxpayer *A* resides in a homestead with an assessed valuation of $10,000. What is his tax bill for 1946?

Question 17-3. Taxes for the Sanitary District of *R* are collected by the county of *C*. The county clerk maintains the records of the individual taxpayers and enters in them the amount due from each taxpayer. For rendering this service, the clerk is permitted to add to each taxpayer's bill 2 cents for each governmental unit. For example, if a taxpayer is charged with taxes for the county, city, and sanitary district, 6 cents is added to his bill. Taxes are collected by the county treasurer, who is allowed a fee of 2 per cent of the amount collected. Before transmitting the proceeds of any collections to a governmental unit, the treasurer deducts the county clerk's fee and his own fee. (*a*) Should the county clerk's fee be included as part of the sanitary district's tax levy? If not, should such fee be recorded at all on the sanitary district's books? (*b*) Should the treasurer's fees be included as part of the tax levy of the sanitary district? How would you treat such fees on the sanitary district's books?

Question 17-4. In one state, cities collect their own current taxes, but delinquent taxes are turned over for collection to the county treasurer, who adds to each bill a 4 per cent collection fee, which, upon collection, he retains. Should this collection fee be considered a revenue of the city?

Question 17-5. Is it more proper to consider discounts on taxes as direct deductions from revenue or as expenditures?

Question 17-6. Is it more proper to consider estimated losses on taxes receivable as direct deductions from revenue or as expenditures?

Question 17-7. The law in certain states does not provide for the payment of taxes in installments. Small taxpayers, however, desire to start making installment payments long before the taxes are due or sometimes even before the taxes are levied. How should these installments be handled on the records?

Question 17-8. A municipality removes from the general fund all taxes delinquent more than one year. As these taxes are collected, the proceeds are transferred to the general fund. (*a*) What effect will the removal of the delinquent taxes have on the financial condition of the general fund? (*b*) How will the revenues of the general fund be affected by the collections of delinquent taxes?

Question 17-9. In certain states, uncollected city taxes are turned over to the city sheriff, who proceeds to collect them. Give the entries to be made on the books of the city and on the sheriff's records (*a*) at the time the taxes are turned over to the sheriff, (*b*) at the time the sheriff collects these taxes, and (*c*) at the time the sheriff turns the money over to the city treasurer.

Question 17-10. You are called in to audit the books of a municipality for which taxes are collected by a county. How would you verify that taxes receivable controlling accounts are correct?

Question 17-11. In your audit of the taxes receivable of a county which collects both its own taxes and taxes for other units, how would you verify that the taxpayers' individual account balances, as reflected in the records, are correct?

Problems

Problem 17-1. The following are the tax rates for the City of *K* for 1944, 1945, and 1946:

	Rate per $100 of Assessed Value		
	1944	1945	1946
General Fund	$1.00	$1.00	$1.00
Library Fund	.09	.09	.09
School Bond 1906—Redemption	.01	—	.01
Municipal Bond 1912-1913—Redemption	.02	.02	.01
Municipal Bond 1919—Redemption	.04	.03	.03
School Bond 1921—Redemption	.03	.03	.02
Sewer Bond 1934—Redemption	.04	.03	.03
City School Fund	.13	.16	.22
	$1.36	$1.36	$1.41

The total assessed value for 1946 was $88,400,000.

Required:

Compute the amount of taxes levied for each fund for 1946.

Problem 17-2. In the City of *K* (Problem 17-1), collections were made in 1946 as follows:

1946 levy	$600,000
1945 levy	100,000
1944 levy	50,000
Total Collections	$750,000

Required:

Compute the amount of collections applicable to each fund for each year.

Problem 17-3. The City of *M* collects taxes for various governmental units. The following are the tax levies for 1944, 1945, and 1946:

	1944	1945	1946
City	$110,000	$110,000	$120,000
School District	80,000	75,000	80,000
County	45,000	50,000	50,000
State	100,000	100,000	40,000
	$335,000	$335,000	$290,000

Collections during 1946 were as follows:

1944 levy	$ 13,400
1945 levy	33,500
1946 levy	232,000

The city tax levies were in turn distributed among the following funds:

	Mills per Dollar of Assessed Value		
Fund	1944	1945	1946
General	4.53	4 83	4 86
Street Improvement	1.14	1.18	1.50
Library	.70	.65	.67
Park	.73	.69	.75
Debt Retirement	4.84	4.08	3.19
Cemetery	56	57	53
Total	12.50	12 00	11 50

Required:

a. Compute the amount of the collection of each levy applicable to each governmental unit.

b. Compute the amount of the collection from each city levy applicable to each fund.

c. Prepare the journal entry to be made on the city's books to record the collection of taxes in 1946 (that is, the collection of 1944, 1945, and 1946 taxes in 1946).

d. Assuming that the municipality charges a fee of 2 per cent for collecting these taxes, prepare the entry to record on the city's books the collection of the fee and its transfer to the general fund. Prepare also an entry to record the transmittal of the money to the units for which it is collected.

e. Prepare the entries to be made transferring the city's collections to the proper city funds, and the entries in each fund.

Problem 17-4. On the basis of the following facts, determine the assessed value of the City of *K:*

Kind of Property	True Value
Real Estate:	
Homesteads on platted property up to $4,000	$ 12,000,000
Homesteads on unplatted property up to $4,000	1,600,000
Homesteads on platted property in excess of $4,000	2,000,000
Homesteads on unplatted property in excess of $4,000	200,000
Other real estate	295,200,000
Personal Property:	
Household goods and furniture	15,100,000
Livestock, agricultural products, stocks of merchandise, and so on	55,300,000
Other personal property	13,400,000
Money and Credits	144,000,000

Basis of Assessment

Real estate is assessed at 40 per cent of true value. Homesteads on platted property up to $4,000 true value are assessed at 25 per cent of true value, and homesteads on unplatted property up to $4,000 true value are assessed at 20 per cent of true value. Homesteads on platted property in excess of $4,000 true value are assessed 40 per cent of true value, and homesteads on unplatted property in excess of $4,000 true value are assessed at 33⅓ per cent of true value.

Household goods and furniture, including musical instruments, sewing machines, wearing apparel of members of family, and all personal property actually used by the owner for personal and domestic purposes or for the furnishing or equipment of the family residence, at 25 per cent of true value.

Live stock, poultry, all agricultural products, stocks of merchandise, together with the furniture and fixtures used therewith, manufacturer's materials and manufactured articles, and all tools, implements, and machinery which are not permanently attached to and a part of the real estate where located, at 33⅓ per cent of true value.

Other personal property is assessed at 40 per cent of its true value.

Money and credits are assessed at 100 per cent of their true value.

Problem 17-5. On the basis of the following data, prepare a statement similar to the one illustrated in Figure 83:

CITY OF *R*
Statement of Tax Levies and Tax Collections
January 1-January 31, 1947

Year	Total Tax Levy for Year	Uncollected Beginning of This Year	Amount Collected This Month
1938	$1,000,000	$ 60,000	$ 3,000
1939	950,000	70,000	4,000
1940	925,000	80,000	6,000
1941	900,000	70,000	5,000
1942	930,000	90,000	8,000
1943	960,000	90,000	9,000
1944	1,000,000	100,000	10,000
1945	1,000,000	110,000	20,000
1946	1,100,000	120,000	20,000
1947	1,100,000	1,100,000	400,000

Problem 17-6. On the basis of the following data, prepare a statement similar to that illustrated in Figure 84:

CITY OF *B*
Statement of Tax Levies and Tax Collections
for Fiscal Periods 1938-1947

Fiscal Period	Total Tax Levy	Collection of Current Taxes During Fiscal Period	Collection of Delinquent Taxes During Fiscal Period	Accumulated Delinquent Taxes
1938	$1,427,315 71	$1,389,195 28	$26,716 03	$ 87,070.23
1939	1,436,788 34	1,393,933 07	34,292 51	95,632.99
1940	1,418,678 05	1,371,841 33	42,809 66	99,660.05
1941	1,441,288 72	1,372,060 94	52,716 33	116,171.50
1942	1,267,183 83	1,174,818 47	55,140.92	153,395 94
1943	1,095,953 92	1,034,642 38	73,807.71	140,899 77
1944	1,081,375 23	1,028,771.11	56,725 53	136,764.82
1945	1,153,631 75	1,121,232 23	56,965 77	112,198 57
1946	1,162,104 72	1,138,005 55	38,949 86	97,457 88
1947	1,215,650 32	1,193,508 49	32,885 76	86,713 95

Problem 17-7. (Adopted from American Institute of Accountants' examination of November 1937.) The following is a balance sheet of the City of Croix at December 31, 1935:

CURRENT FUND

Assets

Cash	$ 15,482.34
Taxes receivable:	
Year 1932	1,917 66
Year 1933	7,308 14
Year 1934	8,133 11
Year 1935	123,170.65
Deferred charges:	
Overexpenditures of 1935 appropriations	437.10
Taxes canceled—1935	850.00
	$157,299 00

CURRENT FUND—*Continued*

Liabilities

Tax revenue notes:	
Year 1933	$ 7,000.00
Year 1934	8,000 00
Year 1935	123,000.00
Accounts payable	17,601.00
Surplus revenue	1,698 00
	$157,299 00

CAPITAL FUND

Assets

Cash	$ 17,810 95
Improvements in progress	39,152 62
Deferred charges to future taxation for cost of completed improvements	25,380 00
	$ 82,343.57

Liabilities

Serial bonds	$ 26,000.00
Notes payable	49,000.00
Accounts payable	7,343 57
	$ 82,343 57

The governing body of the city adopted the following budget for 1936:

Appropriations

Department of Public Works	$ 275,450 00	
Department of Revenue and Finance	48,500 00	
Department of Public Safety	535,375 00	
Department of Public Affairs	190,000.00	
Department of Parks and Public Property	60,000.00	
Interest on bonds	3,500 00	
Retirement of bonds	7,000 00	
Interest on notes	4,500 00	
Overexpenditures of 1935 appropriations	437.10	
Taxes canceled—1935	850 00	
		$1,125,612.10

Anticipated Revenues

General licenses	$ 10,700 00	
Liquor licenses	63,000 00	
Interest on taxes	22,000 00	
City clerk's fees	700.00	
Building permits	2,500 00	
Bureau of health fees	5,400 00	
Police court fines	3,000 00	
	$ 107,300.00	
Amount to be raised by taxation	1,018,312.10	
		$1,125,612.10

The actual amount of taxes levied for the year 1936 was $1,018,603.75. During the year 1936, improvements in progress costing $30,000 were

completed. The notes payable issued to finance the improvements were retired from the proceeds of a serial bond issue, which was sold at par.

A statement of receipts and disbursements for the year 1936 follows:

Receipts:			
1932 taxes	$ 1,012 75		
1933 taxes	5,475.63		
1934 taxes	6,125 47		
1935 taxes	115,245 78		
1936 taxes	787,375 62		
General licenses	10,754 00		
Liquor licenses	63,125 00		
Interest on taxes	21,900 00		
City clerk's fees	725.00		
Building permits	2,530 00		
Bureau of health fees	5,350.00		
Police court fines	2,925 00		
Miscellaneous fees	250 00		
Tax revenue notes—1936	215,000 00		
		$1,237,794 25	
Serial bonds		30,000 00	
			$1,267,794 25
Disbursements:			
Department of Public Works		$ 270,680 00	
Department of Revenue and Finance		47,350 00	
Department of Public Safety		525,250 00	
Department of Public Affairs		187,325 00	
Department of Parks and Public Property		59,100 00	
Interest on bonds		3,500 00	
Retirement of bonds		7,000 00	
Interest on notes		4,300 00	
Tax revenue notes—1933		7,000 00	
Tax revenue notes—1934		6,000 00	
Tax revenue notes—1935		114,000 00	
Accounts payable—current fund		16,751 00	
		$1,248,256.00	
Improvements in progress	$ 5,900 00		
Notes payable	30,000 00		
Accounts payable—capital fund	7,343 57		
		43,243 57	
			$1,291,499 57

The following bills applicable to the year 1936 were unpaid at December 31, 1936:

Department of Public Works	$4,000
Department of Revenue and Finance	1,000
Department of Public Safety	9,500
Department of Public Affairs	2,000
Department of Parks and Public Property	700

Required:

Prepare a work sheet showing (1) the balance sheet at December 31, 1936, (2) the changes in revenue surplus, (3) journal entries, and (4) cash transactions.

Problem 17-8. Prepare journal entries to record the following transactions:

1. Property *A* was sold for unpaid taxes covering 1945 and 1946 levies and interest and penalties, as follows:

Levy of	Taxes	Interest and Penalties
1946	$5,000	$500
1945	4,800	820

The cost of holding the sale was $40, and the property was sold for $15,000.

2. The taxpayer redeemed the property.

3. Assume the same facts as in the first transaction except that the property was sold for $10,000.

4. Assume the same facts as in the first transaction except that the governmental unit itself bid in the property. (*Note:* Set up a reserve for estimated losses on tax sale certificates through debiting Reserve for Estimated Losses—Delinquent Taxes, $500, and Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes, $65.)

5. The governmental unit decided to use the property for recreational purposes. The taxes all belonged to the general fund. (Assume salable value of property is 75 per cent of the amount of the tax sale certificate.)

Problem 17-9. On the basis of the following data, prepare a statement for the City of *W* analyzing the changes in the Tax Sale Certificates account during 1946:

Tax sale certificates canceled	$10,000
Transfers from taxes receivable	40,000
Property transferred to general fixed assets	15,000
Payments received	25,000
Interest, penalties, and costs on taxes transferred	5,000
Balance, January 1	20,000

Problem 17-10. From the following data, prepare a statement analyzing the changes in the Taxes Receivable account during 1947:

Tax collections on current taxes were $900,000 and on delinquent taxes $100,000.

Taxes levied amounted to $1,000,000.

Taxes to the amount of $200,000 became delinquent.

On January 1, the balance of current taxes receivable was $150,000 and of delinquent taxes receivable $600,000.

Taxes canceled on the current year's levy amounted to $4,000 and on delinquent taxes to $6,000.

QUESTIONS AND PROBLEMS ON CHAPTER 18

Questions

Question 18-1. State to which asset, (*a*) land, (*b*) structures and improvements, or (*c*) equipment, you would charge the following expenditures:

1. Cost of demolishing structure (less proceeds from sale of salvage) for purpose of clearing site for construction of new building.
2. Cost of preliminary engineering surveys.
3. Cost of transporting equipment purchased.
4. Purchase of tools at 50 cents each.
5. Broker's fees in connection with acquiring a lot on which new city hall is to be erected.
6. Cost of installing equipment.
7. Special assessments levied on governmental property located in special assessment district.
8. Legal expenses incurred by governmental unit in connection with perfection of title.

Question 18-2. An asset costing $10,000 was transferred from the general fixed assets group of accounts of a governmental unit to the governmental unit's utility. What effect would this transfer have on the surplus of the general fund and the utility fund, respectively?

Question 18-3. A utility's engineers claim that no depreciation charges should be made during 1947 on certain machines, because these machines are operating with 95 per cent efficiency. Are the engineers' claims correct?

Question 18-4. The engineers of a municipal utility claim that, in view of the fact that the city is spending money for maintaining the plant, depreciation should not be charged. Is their claim correct?

Question 18-5. What is the effect of undercharging depreciation during a particular year on the current year's profits and on future years' profits?

Question 18-6. Why is it not necessary to segregate an amount of surplus corresponding to the amount of assets set aside in the replacement fund? (Note particularly that this procedure is contrary to the practice followed in the case of a sinking fund, where an amount of surplus corresponding to the addition made to the sinking fund is segregated.)

Question 18-7. It is sometimes claimed that to include depreciation among the expenses and to provide money out of earnings to retire bonds

which were used to finance the acquisition of the assets being depreciated is to overcharge customers. Through retiring the debt, the customers are paying for the old plant, and through depreciation charges they are paying for a new plant. Is this claim correct?

Question 18-8. Explain what is wrong with the following condensed balance sheet:

CITY OF *K*
Lighting Department
Balance Sheet
December 31, 1947

Assets

Fixed Assets (Less Reserve for Depreciation)		$419,055.17
Current Assets		57,647.80
Miscellaneous—Reserves:		
Depreciation	$11,874.08	
Compensation	3,890.04	
Fire	6,084 67	51,848.79
Work in Progress		2,618 08
		$531,169 84

Liabilities and Surplus

Liabilities	$ 1,166.63
Donated Surplus	105,774 49
Surplus	424,228.72
	$531,169.84

Question 18-9. A municipal utility owns fixed assets costing $200,000 and estimated to have a life of 20 years. For 10 years the municipality has been transferring to the general fund at the end of each year all profits earned during that year. But, in determining the amount of profit earned, no cognizance had been taken of depreciation. It is now recognized that, unless provision is made for depreciation, the plant will be completely depreciated at the end of the next 10 years, with no provision made for its replacement. How much depreciation should be charged each year over the remaining 10 years, if the straight-line method of depreciation is to be used?

Problems

Problem 18-1. The following equipment acquired during 1948 was paid for by the general fund:

Department	Amount
Fire	$15,000
Police	20,000
Public Works	35,000
Health	10,000

Required:

a. Prepare the entries necessary to record the transaction in the general fund (show both general ledger and subsidiary ledger accounts).

b. Prepare the entries necessary to record the transaction in the general fixed assets group of accounts (including the subsidiary ledger accounts).

Problem 18-2. The following transactions took place in the City of *Y* during the fiscal year ending December 31, 1947:

	Fund		
	General	Bond	Special Assessment
Assets purchased	$40,000	$50,000	—
Assets constructed	—	80,000	$100,000
Work in progress at end of 1946 completed	—	40,000	50,000
Work in progress at end of 1947	—	20,000	30,000

The balance of complete fixed assets at the beginning of the year was $100,000.

Assets disposed of amounted to $40,000.

Required:

Prepare a statement showing the opening balance of general fixed assets, additions, deductions, and the closing balance.

Problem 18-3. Give the entries necessary to record the following transactions in all funds and accounts, including subsidiary accounts:

1. Desks were ordered as follows:

Organization Unit	Estimated Cost
Mayor	$ 500
City Clerk	200
Election Board	300
Commissioner of Finance	1,000
Purchasing Department	200
Police Department	2,000
Library	5,000
Parks Administration Building	1,000

The purchase is to be financed out of the general fund.

2. The desks ordered were received. The actual cost was as follows:

Mayor	$ 550
City Clerk	225
Election Board	275
Commissioner of Finance	1,000
Purchasing Department	180
Police Department	1,950
Library	4,800
Parks Administration Building	1,050

3. General fixed assets (equipment) financed from general fund revenues were contributed to the governmental unit's utility from the following departments:

	Book Value	Estimated Accrued Depreciation
Department of Public Works	$ 5,000	$1,000
Department of Health	3,000	500
Department of Fire	10,000	7,000

4. A machine costing $10,000 and carried in the general fixed assets group of accounts was sold for $1,000.

5. Upon taking an inventory, it was discovered that general fixed assets belonging to the Police Department and costing $2,000 were missing.

6. A fire truck costing $5,000 was traded in for another truck. The price of the new truck was $6,200, but $1,000 was allowed on the old truck.

7. A playground shelter was torn down. The cost of dismantling the building was $1,000, and $900 was realized from the sale of salvage. The building cost $20,000 and had been financed from a special revenue fund.

8. A library building, which had been financed through the issuance of bonds, was torn down. The cost of the building was $75,000 and the cost of dismantling $2,500. Cash of $3,500 was realized from the sale of salvage.

9. Telephone switchboard wires costing $20 were removed.

10. The telephone switchboard, costing $1,000, was retired.

Problem 18-4. The following is a list of the fixed assets of the City of *L* as of June 30, 1947:

Attorney—Equipment	$ 73,260 05
Building and Safety Department—Structures and Improvements	68,000.00
Building and Safety Department—Equipment	74,357.17
Bureau of Budget and Efficiency—Equipment	8,299 34
Civil Service—Equipment	26,992 60
City Clerk—Equipment	50,629 98
City Hall—Land	2,500,000 00
City Hall—Structures and Improvements	7,510,000 00
City Hall—Equipment	55,575.00
City Planning—Equipment	13,636.62
Coliseum—Structures and Improvements	930,083 42
Controller—Equipment	44,694 23
Council—Equipment	36,358.25
Department of Health—Equipment	77,601 37
Department of Health—Land	9,000 00
Department of Health—Structures and Improvements	22,500.00
Fire Department—Equipment	2,922,384.28
Fire Department—Land	492,225.00
Fire Department—Structures and Improvements	1,587,826 00
Fire and Police Pension—Equipment	6,943.44
Fire and Police Signal System	1,593,850.00
Garbage and Refuse—Equipment	170,939.34
Humane Division—Equipment	17,411.76
Humane Division—Land	9,000.00
Humane Division—Structures and Improvements	32,500 00
Library—Equipment	2,158,669 76
Library—Land	4,198,914 45
Library—Structures and Improvements	3,292,382 96
Mayor—Equipment	22,335 89
Municipal Art—Equipment	4,237.09
Parks—Equipment	753,876.46
Parks—Land	23,491,420.15

Parks—Structures and Improvements	4,696,066.49
Playgrounds—Equipment	274,147.27
Playgrounds—Land	11,818,973.30
Playgrounds—Structures and Improvements	2,631,337 07
Police Department—Equipment	743,790 84
Police Department—Land	355,600 00
Police Department—Structures and Improvements	1,239,900 00
Public Defender—Equipment	1,022.43
Public Works—Equipment	11,815,189.92
Public Works—Land	5,520,688.00
Public Works—Structures and Improvements	9,254,532.27
Purchasing Agent—Equipment	4,384 05
Sewer Maintenance—Equipment	35,122.97
Social Service—Equipment	4,067 86
Street Sweeping—Equipment	188,785 43

Required:

Prepare a statement classifying the fixed assets by function and organization unit.

Problem 18-5. The following is an inventory of fixed assets of the City of *G* at January 1, 1947, and additions made during the year:

	Inventory at Beginning of Year	Additions
Airport	$ 2,890,000	$ 50,000
Art	7,694,000	200,000
Building and Safety Engineering	12,000	2,000
Fire	16,847,000	300,000
General Administrative Departments	585,000	50,000
Health	6,470,000	100,000
House of Correction	3,156,000	40,000
Housing	1,000	
Libraries	7,697,000	45,000
Lighting	35,078,000	100,000
Motor Transportation	1,273,000	70,000
Parks and Boulevards	65,757,000	200,000
Planning	7,000	2,000
Police	4,151,000	70,000
Public Works	215,760,000	300,000
Purchasing	3,000	1,000
Recorder's Court	79,000	5,000
Recreation	3,506,000	81,000
Schools	81,772,000	500,000
Welfare	3,180,000	75,000
Zoological Park	2,970,000	100,000

Assets of the following departments were disposed of during the year:

Fire	$20,000
General Administrative Departments	10,000
Health	40,000
House of Correction	30,000
Libraries	40,000
Lighting	25,000
Motor Transportation	35,000
Parks and Boulevards	10,000
Police	30,000

Public Works	$25,000
Recreation	10,000
Schools	70,000
Welfare	60,000
Zoological Park	56,000

Required:

Prepare a statement classifying the above general fixed assets by functions and showing for each asset its value at the beginning of the year, additions, deductions, and the balance at the end of the year.

Problem 18-6. From the following data, prepare a statement classifying the assets of the water utility of the City of *F* by function and showing the book value of assets at January 1, 1948, additions, retirements, and book value of the assets at the end of the year.

	Beginning of Year	Additions	Retirements
ntangible Plant:			
Organization Expense	$ 50,000	—	—
Tangible Plant:			
Water Rights	105,000	$ 15,000	—
Reservoir Land	27,000	2,000	—
Power and Pumping Land	22,000	—	—
Purification Land	35,000	—	—
Transmission Land	21,500	—	—
Standpipe Land	3,000	—	—
Distribution Land	5,000	—	—
Office Land	4,000	—	—
Stores, Shop, & Garage Land	20,000	—	—
Collecting and Impounding Reservoirs	95,000	5,000	—
Wells & Springs	88,000	14,000	$ 2,000
Other Water Source Structures	84,000	2,000	1,000
Power & Pumping Structures	35,000	—	—
Purification Buildings	33,500	1,500	—
Distribution Standpipe	20,000	—	—
Office Buildings	10,000	—	—
Stores, Shop, & Garage Buildings	14,500	500	—
Boiler Plant Equipment	30,000	4,000	8,000
Steam Pumping Equipment	150,000	5,000	34,650
Electric Pumping Equipment	60,000	46,900	—
Purification System	140,000	20,000	—
Transmission Mains & Accessories	235,000	7,000	2,000
Distribution Mains & Accessories	295,600	48,975	13,650
Services	40,800	1,400	600
Meters	78,600	2,900	500
Hydrants	74,500	2,500	1,000
Fire Mains & Cisterns	19,900	100	1,000
Office Furniture and Equipment	42,300	1,600	75
Transportation Equipment	15,500	1,500	2,000
Stores Equipment	5,600	—	—
Shop Equipment	5,500	500	—
Laboratory Equipment	1,800	—	—
Communications Equipment	6,000	—	—
Miscellaneous Equipment	17,900	—	—
	$1,891,500	$182,375	$66,475

Problem 18-7. Classify the following fixed assets of the electric utility of the City of *K* by function, and show for each asset the balance at the beginning of the year, additions during the year, withdrawals, and the book value at the end of the year.

Note: Classify as general plant all properties which you cannot group otherwise.

	Balance January 1, 1948	Additions During Year	Withdrawals During Year
Operating Fixed Assets:			
Land	$ 74,123 80	—	—
Structures	501,781.49	$ 374 34	$ 1,144 00
Boiler Plant Equipment	652,117.27	5,818 28	1,419 15
Turbo-Generators—Steam	649,822 21	85 99	3,199 00
Accessory Electric Equipment—Steam	160,081.42	1,075 67	—
Miscellaneous Power Plant Equipment—Steam	4,322 80	1,242 92	—
Transmission Overhead Conductors	1,746 00	1,696 84	—
Transmission Underground Conductors	39,696.21	2,399 38	—
Poles, Towers, and Fixtures—Distribution	265,453 32	15,264 20	12,714 80
Underground Conduits—Distribution	102,312 00	—	—
Distribution Substation Equipment	218,227 81	17,714 33	190 00
Distribution Overhead Conductors	347,558 10	7,818 65	9,431 53
Distribution Underground Conductors	21,490 65	404 82	506 66
Line Transformers	300,696 03	26,368 71	22,193 78
Overhead Services	129,414 58	2,422 52	3,059 84
Underground Services	—	412 05	—
Consumers' Meters	152,147 05	19,462 80	18,909 15
Consumers' Meter Installation	61,319 87	424 07	999 78
Other Property on Consumers' Premises	2,492.13	—	—
Street Lighting and Signal System Equipment	185,917.86	1,327 60	475 20
Office Equipment	13,945 53	4,088 93	1,328 97
Stores Equipment	1,935 34	72 87	—
Shop Equipment	1,514 65	—	—
Transportation Equipment	17,089 98	2,423 86	1,291.77
Communication Equipment	140 90	—	—
Laboratory Equipment	6,864 93	406 96	—
General Tools and Implements	3,748 84	105 00	45 00
Miscellaneous General Equipment	214 57	—	—
Total Operating Fixed Assets	$3,916,175.34	$111,410.79	$76,908 63
Nonoperating Fixed Assets:			
Land	$ 1,830.62	$ 4,169 38	—
Structures	15,856.03	—	—
Total Nonoperating Fixed Assets.	$ 17,686 65	$ 4,169 38	—
Total Fixed Assets	$3,933,861.99	$115,580.17	$76,908 63

Problem 18-8. You are given the following data concerning equipment owned by the County of *Z:*

Cost	$19,000
Transportation Expenses	1,000
Installation Expenses	1,000
Estimated Net Salvage Value	1,000
Estimated Life	5 years

Required:

Prepare a schedule showing annual depreciation charges, the accumulated reserve for depreciation, and the net value at the end of each year for the life of the asset.

Problem 18-9. You are given the following transactions:

1. (*a*) A machine financed from a utility fund and costing $10,000 was sold for $500. The accumulated depreciation reserve was $10,000. A fund had been established for the replacement of the machine. (*b*) The asset was replaced at a cost of $12,000. Up to the time of the sale of the old machine, the replacement fund had accumulated $9,000.

2. General municipal equipment costing $5,000 was destroyed by fire; the same fire destroyed utility equipment costing $5,000. The accumulated reserve for depreciation on the utility equipment was $2,000. The equipment was not insured against fire.

3. A machine owned by the utility, costing $10,000 and having an accumulated reserve for depreciation of $8,000, was traded in for another machine. The new machine cost $12,000, but the utility was allowed $3,000 on the old machine.

Required:

Prepare *all* the entries necessary to record the foregoing transactions.

Problem 18-10. Utility equipment costing $10,500 is estimated to have a scrap value of $500 and to last five years. It is decided to set up a replacement fund to replace the asset when it becomes worn out. A sinking fund table shows that, if the replacement fund assets are assumed to earn 4 per cent, the required annual contribution to the fund is $1,846.27. It is assumed further that contributions to the fund are made at the end of each year and are invested immediately at the beginning of the following year, and that earnings are received at the end of that year. For example, if the contribution is made on December 30, 1941, the money is invested on January 2, 1942, and the full amount of interest thereon for 1942 is received before December 31, 1942.

Required:

a. Prepare a table showing the amount to be contributed annually to the fund (assume the first contribution to be made on December 30, 1941), the required earnings, and the total required contributions and earnings.

b. Prepare for each year the entries necessary to record (1) depreciation charges, (2) contributions made to the replacement fund, and (3) earnings of the replacement fund. (You are to assume that earnings are per requirements.)

QUESTIONS AND PROBLEMS ON CHAPTER 19

Questions

Question 19-1. A city has an assessed valuation of $100,000,000, out of which $25,000,000 is homestead property exempt from taxation for all purposes except bonds issued prior to 1946. Total bonded indebtedness is $1,000,000, out of which $500,000 consists of bonds issued prior to 1946. What is the ratio of bonded indebtedness to assessed value?

Question 19-2. (*a*) A municipality has issued bonds to the amount of $200,000 for the purpose of financing the acquisition of a utility. The municipality has agreed to pay the principal and interest on the bonds without specifying any particular source from which they are to be paid. Should such bonds be shown as a liability of the utility fund? (*b*) Suppose that the amount of surplus transferred annually for the past few years from the utility fund to the general fund has been more than sufficient to pay both the principal and the interest that becomes due each year. Should the bonds be shown as a liability of the utility fund? (*c*) Suppose the bonds are to be repaid primarily from utility earnings but that, in the event that the earnings are not sufficient, the municipality guarantees the payment of the bonds from general revenues. Should the bonds in that event be shown as a liability of the utility fund?

Question 19-3. Many states prohibit the sale of bonds at a discount. Can you see any justification for such a prohibition?

Question 19-4. Recast the following balance sheet so that it will reflect the true financial condition of the City of *K:*

CITY OF *K*
General Fund
Balance Sheet
March 31, 1946

Assets

Current Assets			$ 300,000
Fixed Assets			8,196,000
			$8,496,000

Liabilities and Surplus

Liabilities:			
Current Liabilities		$ 350,000	
Bonded Indebtedness:			
Not Matured	$3,300,000		
In Default	100,000	3,400,000	$3,750,000
Surplus			4,746,000
			$8,496,000

Question 19-5. Explain what is wrong with the following statement:

CITY OF X
General Fund
Balance Sheet
December 31, 1946

Assets

Cash		$82,000
Taxes Receivable	$100,000	
Less—Reserve for Uncollected Taxes	100,000	—
		$82,000

Liabilities and Surplus

Tax Anticipation Notes	$80,000
Unappropriated Surplus	2,000
	$82,000

Problems

Problem 19-1. From the following data, prepare a statement of legal debt margin of the City of *T* as of June 30, 1947:

Bonded Debt:	
General bonds	$ 4,402,333 32
Water plant bonds	1,366,279 50
Gas plant bonds	414,720.50
Special assessment bonds	340,000.00
Sewage disposal revenue certificates	900,000.00
Assessed valuation	105,811,885.00
Debt margin, 5 per cent of assessed valuation.	
Deductions allowable:	
Gas plant bonds	414,720 50
Water plant bonds	1,366,279 50
Sewage disposal revenue certificates	900,000 00
Sinking fund	9,482 75
Special assessment bonds	340,000.00
Amount of general bonds without limitation by special legislative acts	1,645,000.00

Problem 19-2. From the following data, prepare a statement of legal debt margin of the County of *C* as of June 30, 1947, for (*a*) the electoral debt, and (*b*) the debt which may be incurred by the county commissioners:

Bonded debt created by vote of electors	$ 4,291,070.00
Bonded debt created by vote of commissioners	4,377,930.00
Floating debt created by commissioners—tax anticipation loan	500,000.00
Assessed valuation	157,345,318.00
Debt limit: Commissioners, 2 per cent of assessed valuation; electors, 5 per cent of assessed valuation.	
Sinking fund assets applicable to electoral debt	515,299.39
Sinking fund assets applicable to commissioners' debt	835,444.35
Other credits deductible from commissioners' debt	910,207.07

Problem 19-3. Give the entries to record the following transactions:

1. Warrants payable of $100,000, together with interest thereon of $1,000, were paid.
2. Tax anticipation notes of $200,000 were sold.
3. Taxes receivable to the amount of $150,000 were collected. Of this amount 80 per cent represents cash which must be used to retire tax anticipation notes.
4. General bond anticipation notes to the amount of $100,000 were sold.
5. General bonds to the amount of $100,000 were sold at par, and the money was used to retire the bond anticipation notes.
6. Judgments to the amount of $10,000 were rendered against the city on account of accidents.
7. Cash to the amount of $50,000 for payment of bonds was transmitted by the governmental unit to its fiscal agent.

Problem 19-4. On April 1, 1942, School District *X* sold an issue of bonds amounting to $100,000 at a premium of $4,610 plus accrued interest. The bonds are to run for five years and bear a nominal interest rate of 4 per cent, payable semiannually on June 1 and December 1. Bond tables show that bonds sold on this basis yield 3 per cent (that is, the effective interest rate is 3 per cent).

Required:

a. Prepare an entry to record the sale of the bonds.
b. Prepare a table similar to Table 2, page 248. (Column 2 should read "Interest Paid," and column 6 should read "Par Value of Bonds.")
c. Prepare the entries to be made when interest is paid on (1) June 1, 1942, (2) June 1, 1944, and (3) December 1, 1946.

Problem 19-5. Assume that the bonds referred to in Problem 19-4 were purchased by the City of *Y* for its sinking fund and that the bonds are to be held over their life.

Required:

a. Prepare the entry to be made on the city's books to show the purchase of the investments.
b. Prepare the entries to be made when interest is received on (1) June 1, 1942, (2) June 1, 1944, and (3) December 1, 1946.

Problem 19-6. On April 1, 1942, the City of *N* sold an issue of bonds amounting to $100,000 at a discount of $4,490 plus accrued interest. The bonds are to run for five years and bear a nominal interest rate of 3 per cent, payable semiannually on June 1 and December 1. Bond tables show that bonds sold on this basis yield 4 per cent (that is, the effective interest rate is 4 per cent).

Required:

a. Prepare an entry to record the sale of the bonds.
b. Prepare a table similar to Table 3, page 249, showing the amor-

tization of discounts over the life of the bonds. (Column 2 should read "Interest Paid," and column 6 should read "Par Value of Bonds.")

c. Prepare the entries to be made when interest is paid on (1) June 1, 1942, (2) June 1, 1944, and (3) December 1, 1946.

Problem 19-7. Assume that the bonds referred to in Problem 19-6 were purchased by the *N* School District as a sinking fund investment and that the bonds are to be held over their life.

Required:

a. Prepare the entry to be made on the school district's books to show the purchase of the investments.

b. Prepare the entries to be made when interest is received by the school district on (1) June 1, 1942, (2) June 1, 1944, and (3) December 1, 1946.

Problem 19-8. A municipality sold bonds with a par value of $100,000 at a premium of $1,500. The bonds are to run for ten years with $10,000 maturing each year. Interest is payable semi-annually. Set up a table showing the amount of premium on bonds to be amortized at each interest payment date on the basis of the bonds outstanding method (see Table 4).

Problem 19-9. Assume the same facts as above except that the bonds were sold at a discount of $1,200. Set up a table showing the amount of discount on bonds to be amortized at each interest payment date on the basis of the bonds outstanding method.

Problem 19-10. On the basis of the following data, prepare a statement of bonds payable for the City of *M* as of December 31, 1947, similar to that illustrated in Figure 97:

General Sinking Fund Bonds

Fire department building bonds of $100,000 were issued January 1, 1932, and are due January 1, 1956. The interest rate is 4 per cent. Actuarial requirements to date are $50,564; the amount actually in the sinking fund is $50,710.

Municipal hospital bonds of $200,000 were issued November 1, 1935, and are due November 1, 1960. The interest rate is 4 per cent. Actuarial requirements are $68,308; the amount actually in the sinking fund is $68,100.

General Serial Bonds

Maumee River Bridge bonds of $500,000 were issued December 1, 1939, with maturities of $20,000 each year for the succeeding 25 years. The interest rate is 4 per cent.

Park bonds of $200,000 were issued September 1, 1945, with maturities of $10,000 each year for the succeeding 20 years. The interest rate is 3½ per cent, and the amount authorized is $300,000.

Water-front boulevard bonds of $100,000 were issued April 1, 1946, and are due $5,000 each year for the succeeding 20 years. The interest rate is 4 per cent.

You are to assume that, unless otherwise stated, the full amount of bonds authorized was issued.

Problem 19-11. On the basis of the following data, prepare a statement of debt service requirements of the County of *Y* for the 20 years ending December 31, 1940–1959 (see Figure 101):

Date of Issue	Rate of Interest	Amount Issued	Interest Due	Principal Due	
				Date	Amount
Jan. 1, 1930	5%	$200,000	June 30, Dec. 31	Dec. 31	$10,000 each year
July 1, 1932	4½	150,000	Dec. 31, June 30	June 30	15,000 each year
July 1, 1936	4	300,000	Dec. 31, June 30	June 30	10,000 each year
Jan. 1, 1939	4	200,000	June 30, Dec. 31	Dec. 31, 1958	Sinking fund contribution of $6,717 on January 1 of each year beginning with 1939
Jan. 1, 1940	4	100,000	June 30, Dec. 31	Dec. 31	$ 5,000 each year

Problem 19-12. From the following data, prepare a statement of direct and overlapping debt as of June 30, 1947, for the City of *S:*

Assessed valuation of city	$ 70,990,100
Assessed valuation of school district	71,110,780
Assessed valuation of county	103,189,000
Net bonded debt—city	840,000
Net bonded debt—school district	1,793,000
Net bonded debt—county	1,336,000

Problem 19-13. From the following data, prepare a statement for the City of *F* showing (*a*) the ratio of net bonded debt to assessed valuation, and (*b*) net bonded debt per capita:

Year	Population	Assessed Valuation	Gross General Bonded Debt	Less General Sinking Fund
1939	61,501	$88,998,895.00	$1,860,717.34	$225,515.66
1940	64,120	94,300,000.00	1,749,570 83	65,348.26
1941	58,893	84,752,644.00	1,795,026.43	68,838.96
1942	58,364	80,789,772.00	1,712,877.12	—
1943	65,098	68,682,312.00	1,546,307.40	—
1944	66,751	69,260,863.00	1,297,259.67	—
1945	68,870	68,624,694.00	1,088,269 80	—
1946	73,677	68,400,758.00	953,203.97	—
1947	75 127	70,228,644.00	900,016.71	—
1948	77,468	70,990,010.00	839,752.79	—

QUESTIONS AND PROBLEMS ON CHAPTER 20

Questions

Question 20-1. What is the difference between general accounting and cost accounting?

Question 20-2. What is a unit cost standard and of what value is it in municipal cost accounting?

Question 20-3. Mention at least three factors which are likely to make the unit cost of collecting and hauling garbage in two cities differ.

Question 20-4. The City of *A* and the County of *N* share certain expenses jointly. The detailed arrangement is as follows:

The city pays the expenses of the sinking fund commission, the juvenile court, milk inspection, meat inspection, venereal disease clinics, and the city-county plaza. Once a month the city bills the county with its proportionate share of the cost (determined on a well-defined basis) and credits its own appropriation accounts in detail as to department, activity, character, and object.

The county pays for the following activities in which the city has an interest: the tax commission, the police radio, the fingerprint bureau, and the boys' reformatory. It bills the city for a share of the cost, which the city, in turn, charges to its own appropriation accounts.

It is proposed to allocate the cost of some of the functions entirely to the city and of others to the county, thereby obviating the additional accounting work involved. Would you approve of the proposed change?

Problems

Problem 20-1. On the basis of the following data, prepare a statement for the City of *R* for the year ending June 30, 1947, showing the total cost of refuse collection and the cost per ton or cubic yard, as the case may be (carry unit costs to three decimal places).

	Garbage	Rubbish	Dead Animals
By City Forces:			
Salaries and Wages	$469,000	$159,000	$3,800
Materials and Supplies	28,000	22,200	—
Equipment Use	100,040	47,300	1,800
Tons Collected	165,000	—	—
Cubic Yards Collected	—	248,000	—
By Contract:			
Cost	$ 52,600	$ 16,400	$2 300
Tons Collected	18,000	—	—
Cubic Yards Collected	—	26,000	—

Overhead is 10 per cent of total cost in the case of city force collection and 3 per cent in the case of collection by contract.

Problem 20-2. On the basis of the following data, prepare a statement of the City of *K* for the year ending June 30, 1947, showing the total expenses of the street cleaning division and unit costs for each activity (carry unit costs to three decimal places).

Activity	Unit	No. of Units	Total Cost
Ashes and Trash Collection	Cubic Yards	450,000	$150,000
Garbage Collection	Tons	7,000	38,000
Garbage Disposal	Tons	9,000	5,000
Streets Cleaned by Hand Broom	M Square Yards	69,000	27,000
	or		
	Cubic Yards Sweepings	15,000	
Streets Cleaned by Hand and Truck Patrol	M Square Yards	97,000	18,000
	or		
	Cubic Yards Sweepings	5,000	
Flushing	M Square Yards	43,000	3,000
Gutter Cleaning	M Square Yards	3,500	7,000
	or		
	Cubic Yards Sweepings	6,000	
Alley Cleaning	M Square Yards	700	2,000
	or		
	Cubic Yards Sweepings	1,400	
Sweeping and Collection of Leaves	M Square Yards	18,000	12,000
	or		
	Cubic Yards Sweepings	14,000	

Add overhead of 10 per cent of total cost in each case.

Problem 20-3. The City of *K* operates a central equipment bureau, renting out the equipment to various departments as needed. The following is a condensed statement of the expenses and miles or hours of use of each piece of equipment for the year ending December 31, 1947:

Equipment No	Operating Expenses	Maintenance Expenses	Other Expenses	Miles or Hours* Used	Rental Rate per Mile or Hour*
1	$ 93 20	$ 71.21	$284.10	3,764	$ .1215
2	135 58	142.72	187.32	6,500	.0903
3	302.94	345.95	195 60	15,008	.0912
4	296 00	215.47	162.40	12,036	.0642
5	91.23	99.85	197.40	5,606	.0885
6	222.01	343.53	177.60	13,992	.0526
7	86 29	18.22	127.70	4,656	.0690
8	134 35	114.13	133.63	6,685	.0921
9	90 60	61.80	230.00	117*	1.8004*
10	127.51	99.93	260.40	2,407*	.4464*
11	436.10	347.04	149 90	4,610*	.3600*
12	288.46	124.93	178 65	2,506*	.3402*
13	161 88	70.39	209.16	10,343	.0560
14	355.41	650.72	693.60	541*	2.0028*
15	267.03	294.93	109.80	18,433	.0527

The equipment was used during the year by the following departments, which were charged at the rental rates indicated above:

Equipment No.	Department Using the Equipment	Miles or Hours* Used
1	Mayor	3,764
2	Department of Public Safety:	
	Division of Weights and Measures	3,000
	Department of Health:	
	Food and Sanitary Division	3,500
3	Department of Finance:	
	Comptroller	1,000
	City Treasurer	2,000
	Purchasing Agent	12,008
4	Department of Public Welfare:	
	Division of Administration	2,000
	Division of Recreation	6,000
	Department of Public Safety:	
	Division of Weights and Measures	4,036
5	City Council	5,606
6	Department of Public Works:	
	Director of Public Works	2,000
	Division of Engineering	11,992
7	Department of Public Welfare:	
	Home for the Aged	2,000
	Department of Health:	
	Medical Division	2,656
8	Department of Health:	
	Medical Division	6,685
9	Department of Public Works:	
	Division of Construction and Repairs:	
	Job *A*	60*
	Job *B*	25*
	Job *C*	32*
10	Department of Public Works:	
	Division of Construction and Repairs:	
	Job *B*	100*
	Job *C*	300*
	Job *D*	500*
	Job *F*	1,000*
	Job *H*	507*
11	Department of Public Works:	
	Bureau of Streets and Alleys	4,610*
12	Department of Public Works:	
	Bureau of Streets and Alleys	1,000*
	Bureau of Sewers	1,506*
13	Department of Health:	
	Nursing Division	5,000
	Board of Elections	2,000
	Department of Law	3,343
14	Department of Public Works:	
	Bureau of Street Cleaning:	
	Street *A*	50*
	Street *B*	75*
	Street *C*	100*
	Street *D*	70*
	Street *E*	100*

Equipment No	Department Using the Equipment	Miles or Hours* Used
	Street *F*	95*
	Street *G*	51*
15	Department of Finance:	
	Comptroller	1,000
	Assessor	8,000
	Civil Service Board	1,000
	Zoning Commission	2,000
	Department of Law	3,000
	Department of Public Works:	
	Division of Administration	2,000
	Department of Public Welfare:	
	Division of Administration	1,000
	Bureau of Social Service	433

Required:

a Prepare a statement showing the cost of operating each piece of equipment, the earnings for each piece, and the net profit or loss, for the year ending December 31, 1947.

b. Prepare a statement showing for each organization unit the number of miles or hours worked for it by each piece of equipment, the amount charged to it on account of the use of each piece, and the total charges to it on account of equipment use.

c. Prepare a statement showing the amounts charged to the various construction and repair jobs and to the streets cleaned.

Problem 20-4. Counties *A* and *B* operate a sanitarium jointly. Operating and maintenance costs, after revenues applicable to them have been deducted, are apportioned on the basis of the number of patient-days (the care of one patient for one day) attributable to each county. Expenditures for fixed assets, after rental income has been deducted, are distributed on the basis of the assessed value of the taxable property of each county. Settlements are made every six months.

You are given these facts for the first six months of 1946:

Operating and Maintenance Expenses		$35,000
Revenues Earned in Connection with Operations		500
Number of Patient-Days:		
County *A*	$ 9,400	
County *B*	5,600	
Capital Outlays		1,200
Rental Income		200
Assessed Valuation of Taxable Property:		
County *A*	$100,000,000	
County *B*	50,000,000	

Required:

Prepare a statement showing the apportionment of sanitarium expenditures for the first six months of 1946 between the counties.

Problem 20-5. The County of *X* operates a quarry financed from a working capital fund for the purpose of obtaining rock needed for high-

way construction purposes. A small amount of rock is also sold to a municipality located near by. The operations of the quarry are financed through charges made to the county highway department and the nearby municipality.

The following is a summary of transactions taking place in 1946:

	Tons	Pounds	Per Ton
Sales to highway department:			
Crushed rock—from bins	3,173	1,100	$3 00
Crushed rock—from quarry	892	1,180	2 50
Rubble—from quarry	347	100	1 00
Rock dust—from quarry	71	1,500	.50
Sales to City of *A:*			
Crushed rock—from quarry	207	1,200	2.55
Rock dust—from quarry	145	100	.50

Expenditures were incurred as follows:

	Quarry	Crusher	Other
Labor	$5,351	$ 397	
Dynamite	82		
Repairs to machinery and equipment	147	1,328	
Building repairs	84		
Oil and supplies	124		
Tools	286		
Purchase of machinery and equipment	500	1,500	
Taxes, insurance, and royalty			$989
Freight on crushed rock			937
Labor unloading rock			229
Repairs and sundry expense			162
Power		225	

Use the short ton (2,000 pounds) in making your computations.

Required:

Prepare an income and expense statement for the quarry fund of the County of *X* for the year ending December 31, 1946.

Problem 20-6. (Adopted from the American Institute of Accountants' examination of May 1938). Four municipalities—Rose City, Copperville, Pineboro, and Coletown—formed the Spring Valley Water Commission for the construction and operation of a joint water supply. The project was estimated to cost $10,000,000 and to have a capacity of 100 million gallons daily (MGD).

It was agreed that the capital costs were to be apportioned among the participating municipalities according to the daily water allotments, but no municipality should be charged for the cost of any part of the project unless it were to receive benefit therefrom.

Capital assessment:

The four municipalities allotted the entire estimated supply of 100 MGD among themselves and agreed to an initial assessment of the estimated cost of $10,000,000 in proportion to these allotments, as follows:

	MGD	Assessment
Rose City	30	$ 3,000,000
Copperville	20	2,000,000
Pineboro	10	1,000,000
Coletown	40	4,000,000
	100	$10,000,000

All capital assessments were collected in full except that of Copperville, which paid only 90 per cent of its assessment.

Expenditure to Dec. 31, 1935:

At the close of 1935, Spider Dam and Crabtree Reservoir were completed, and pipe lines had been laid—namely, twin pipe lines from Spider Dam to the point where Rose City takes off the water and a single pipe line below that point. The cost per mile of the twin pipe lines was twice the cost per mile of the single line, and it was assumed that the twin lines were constructed for the benefit of all the municipalities. For convenience, the capital costs are identified by classes as follows:

Class A. Cost of Spider Dam and other costs at the headworks.

Class B. Twin pipe lines from Spider Dam and the headworks to the Rose City take-off—a distance of five miles. (In accordance with the agreement, the expenditures under Classes A and B are to be distributed to all of the four participating municipalities on the basis of the contract allotments.)

Class C. Single pipe line from Rose City take-off to Copperville take-off—a distance of three miles. (This capital cost is accordingly apportionable to Copperville, Pineboro, and Coletown.)

Class D. Single pipe line from Copperville take-off to Pineboro take-off—a distance of two miles. (This capital cost is apportionable to Pineboro and Coletown.)

Class E. Single pipe line from Pineboro take-off to Coletown take-off—a distance of ten miles. (This entire capital cost is chargeable to Coletown.)

The capital costs up to January 1, 1936, when operation began, were as follows:

Construction costs:	
Headworks:	
Spider Dam	$2,000,000
Pumping station	300,000
Power house	200,000
Total	$2,500,000

Aqueduct:

$100,000 per mile of single pipe line.

Land, rights of way, etc.:

Class A	$1,993,100
Class B	447,800
Class C	198,900
Class D	104,200
Class E	256,000
Total	$3,000,000

Engineering costs:

Direct charges to classes:

Class A	$440,000
Class B	120,000
Class C	80,000
Class D	60,000
Class E	100,000
Total	$800,000

Indirect charges—$200,000 (to be apportioned to classes in proportion to direct engineering costs).

Administrative expenses—$500,000 (to be apportioned to classes in proportion to all construction costs up to January 1, 1936, exclusive of land and engineering costs).

Operating assessment 1936:

It was further agreed that the operating costs were to be apportioned according to actual water consumption, but in no event was the basis for any municipality's portion to be less than the contract allotment. The surplus or deficit resulting from each year's operations was to be credited or charged to the succeeding year's operating assessments.

In 1936 the average daily consumption was as follows:

	MGD
Rose City	40
Copperville	10
Pineboro	5
Coletown	25
	80

The 1936 operating expenses, estimated at $100,000, had been assessed as follows:

Rose City	$ 30,000
Copperville	20,000
Pineboro	10,000
Coletown	40,000
	$100,000

Rose City was the only municipality that paid its operating assessment in 1936.

Expenditure 1936:

The actual expenditures for 1936 were as follows:

Capital:

It was necessary to build a surge tank to prevent water surges from breaking the aqueduct. The tank cost $100,000 and was constructed halfway between the Rose City and Copperville take-off points. It was agreed that this surge tank was of benefit to all the participating municipalities.

Operating:

$71,000

In addition to the capital and operating expenses listed above, 1936 engineering expenses were $16,000, 50 per cent of which was to be apportioned to the capital division and 50 per cent to the operating division; and 1936 administrative expenses were $25,000, 80 per cent of which was to be apportioned to the operating division and 20 per cent to the capital division. The portions of the engineering and administrative expenses chargeable to the capital division are to be applied to the several classes of property on the basis of the engineering and the construction costs, respectively, to January 1, 1936.

Water sales 1936:

The Spring Valley Water Commission, in anticipation of the underconsumption of water on the part of some of the participating municipalities, entered into a contract with Glendale for 1936, whereby this municipality agreed to pay $30 a million gallons for water. The contract provided that Glendale would take a minimum of ten million gallons a day. Glendale paid the commission, $7,500 a month, on account; its consumption for the year was 3,300 million gallons. There were no expenses chargeable to the water sales division except $30,000, representing the cost of connecting the pipe lines, which is not included in the above $71,000 operating expenses.

Profits from the sale of water to municipalities not participating in the project were to be apportioned annually to the participating municipalities on the basis of operating expenses charged to them.

General data and requirements:

The accounts of the commission are kept in three self-balancing divisions, namely: "capital," "operating," and "water sales." At the end of 1936, all interdivisional balances are settled in cash to the extent that funds are available in the divisions.

Prepare a balance sheet (with supporting schedules and work papers) showing assets and liabilities of each division separately as of December 31, 1936, including the balances due from and due to the respective municipalities, and the equities of the participating municipalities.

QUESTIONS AND PROBLEMS ON CHAPTER 21

Questions

Question 21-1. What is a report?

Question 21-2. List and describe briefly some of the technical points to be kept in mind in preparing a financial report.

Question 21-3. Describe briefly the contents of the audit report of a governmental unit.

Question 21-4. Contrast the monthly financial report with the annual financial report.

Question 21-5. Briefly contrast the annual popular report with the annual financial report.

Problems

Problem 21-1. The following is a trial balance of the general ledger accounts of the general fund of the City of *F* at December 1, 1947:

Cash		$359,000	
Cash for Tax Anticipation Notes		20,000	
Cash in Closed Banks		10,000	
Reserve for Estimated Losses—Cash in Closed Banks			$ 10,000
Cash with Fiscal Agent for Payment of Bonds and Interest		30,000	
Taxes Receivable—Current		100,000	
Reserve for Estimated Losses—Current Taxes			8,000
Taxes Receivable—Delinquent:			
Levy of 1946	$ 25,000		
1945	30,000		
1944	27,000		
1943	13,000		
1942	8,000		
1941 and prior	5,000	108,000	
Reserve for Estimated Losses—Delinquent Taxes			$ 20,000
Interest and Penalties Receivable on Taxes		$ 17,000	
Reserve for Estimated Losses—Interest and Penalties Receivable on Taxes			2,000
Accounts Receivable		30,000	
Reserve for Estimated Losses—Accounts Receivable			4,000
Tax Sale Certificates		50,000	
Reserve for Estimated Losses—Tax Sale Certificates			15,000
Recoverable Expenditures		12,000	
Reserve for Estimated Losses—Recoverable Expenditures			1,500

Due from Working Capital Fund	$ 11,000	
Due from Special Assessment Fund—Sewers Project	13,000	
Due from Utility Fund	14,500	
Due from County	350,000	
Inventory of Supplies	8,000	
Estimated Revenues	862,000	
Revenues		$774,400
Contracts Payable		50,000
Vouchers Payable		400,000
Tax Anticipation Notes		25,000
Judgments Payable		15,000
Matured Bonds and Interest Coupons Payable Through Fiscal Agent		30,000
Matured Serial Bonds		20,000
Due to Bond Fund—City Hall Project		150,000
Due to Public Schools Fund		2,000
Due to Special Assessment Fund—Sewers Project		21,000
Due to Special Assessment Fund—Boulevard Project		10,000
Taxes Collected in Advance		500
Appropriations		859,000
Appropriation Expenditures	613,000	
Reserve for Inventories		8,000
Encumbrances	12,000	
Reserve for Encumbrances		12,000
Unappropriated Surplus		182,100
	$2,619,500	$2,619,500

Balances of subsidiary revenue accounts are as follows:

Revenue Source	Estimated	Actual
Real Property Taxes	$495,000	$495,000
Interest and Penalties on Taxes	20,000	18,000
Alcoholic Beverage Licenses	15,000	14,000
Building Permits	3,000	2,800
Court Fines	10,000	9,000
Market Stalls Rents	8,000	7,600
State Sales Taxes Share	20,000	
State Gasoline Taxes Share	35,000	
Share of State Grants from County	200,000	200,000
Private Police Charges	11,000	10,000
Hospital Charges	20,000	18,000
Contributions from Active Funds	25,000	
	$862,000	$774,400

Balances of subsidiary appropriations, expenditures, and encumbrances accounts are as follows:

	Encumbrances	Appropriations	Expenditures
General Government:			
Legislative:			
Council:			
Current Expenses	$ 3,000	$ 70,000	$ 65,000
Capital Outlays		10,000	10,000

	Encumbrances	Appropriations	Expenditures
Executive:			
Mayor:			
Current Expenses		$25,000	$22,000
Capital Outlays		2,000	2,000
Public Safety:			
Police Department:			
Communication System:			
Current Expenses		23,000	20,000
Capital Outlays		154,000	100,000
Traffic Control:			
Current Expenses		78,000	70,000
Capital Outlays		50,000	20,000
Fire Department:			
Fire Fighting Force:			
Current Expenses	6,000	80,000	70,000
Capital Outlays		30,000	10,000
Highways:			
Maintenance:			
Current Expenses		41,000	45,000
Capital Outlays		1,000	1,000
Sanitation and Waste Removal:			
Sewers and Sewage Disposal:			
Current Expenses	3,000	30,000	25,000
Capital Outlays		40,000	10,000
Waste Collection:			
Current Expenses		45,000	35,000
Capital Outlays		19,000	17,000
Recreation:			
Parks and Playgrounds:			
Current Expenses		10,000	10,000
Capital Outlays		50,000	25,000
Interest Charges		8,000	6,000
Bond Redemptions		50,000	50,000
Reserve for Contingencies		10,000	
Contributions to Other Funds		33,000	
Total	$12,000	$859,000	$613,000

The following transactions took place during December:

1. Revenue billed for private police charges was $3,000, and for hospital charges $2,000. Losses were estimated at $60 and $100, respectively.

2. Supplies were ordered on December 3, 1947, as follows:

Police Department—Traffic Control	$3,000
Fire Department—Fire Fighting Force	1,000
Sanitation and Waste Removal—Waste Collection	3,000

3. The amount due from the utility fund was paid over by that fund.

4. The supplies ordered for departments in November were received with bills as follows:

Council	$2,800
Fire Fighting Force	6,100
Sewers and Sewage Disposal	3,000

5. Collections of taxes were made as follows:

Current	Delinquent		Interest and Penalties
$90,000	1946	$6,000	$60
	1945	2,000	40
	1944	1,500	35
	1943	1,000	25
	1942	500	15

6. Accrued interest of $150 on bonds sold and placed in the Bond Fund—Railroad Underpass Project is due to this fund.

7. Current taxes of $10,000 have become delinquent; the reserve for estimated losses on current taxes of $8,000 was transferred to the reserve for estimated losses on delinquent taxes.

8. Miscellaneous receipts this month were as follows:

Alcoholic Beverage Licenses	$ 500
Building Permits	100
Court Fines	2,000
Market Stalls Rents	400

9. Taxes collected in advance of due date amounted to $150.

10. The supplies ordered December 3, 1947, were received, together with bills as follows:

Traffic Control	$3,100
Fire Fighting Force	900
Waste Collection	3,000

11. Taxes for 1942 amounting to $2,000 were certified as uncollectible and were written off.

12. A loan of $6,000 was made to the Special Assessment Fund—Street Lights Project.

13. Vouchers payable to the amount of $18,900 were paid.

14. Equipment was purchased and vouchers were approved for the following:

Communication System	$40,000
Fire Fighting Force	10,000
Traffic Control	25,000
Sewers and Sewage Disposal	10,000
Waste Collection	2,000

15. A transfer was made within the Police Department's appropriation, $1,000 being transferred from Traffic Control—Capital Outlays to Communication System—Capital Outlays.

16. An ordinance appropriating an additional $5,000 for Highways—Current Expenses was passed by the city council.

17. Supplemental assessments were made for the street lights project. The city's share of the supplemental assessment was $6,000 and was set up as a liability.

18. The receivers of the closed bank in which the general fund had money paid $6,000 in final settlement.

19. A piece of property was bid in by the city at a tax sale. The amount of taxes due was $3,000; interest and penalties amounted to $370. The delinquent taxes were of the 1945 levy; the cost of the sale was $20.

20. Assessments levied on city-owned property for the sewers project amounted to $10,000.

21. One of the properties acquired by the city during a tax sale in 1946 (the preceding year) was redeemed. The tax sale certificate cost $20,000, and additional interest and penalties of $500 (not previously accrued) were collected from the owner of the property.

22. A check was received from the state to cover the city's share of state-collected taxes, as follows:

Sales Taxes	$21,000
Gasoline Taxes	34,000

23. A building was retired. The cost of dismantling it was $2,000, and proceeds from the sale of salvage amounted to $3,000. The book value of the building was $25,000.

24. The city council voted to pay the assessments on the city's property by canceling $10,000 of the amount due from the sewers project special assessment fund.

25. Fire station no. 2 was repaired at a cost of $10,000, for which vouchers have been approved. Of this amount, $5,000 represents a betterment.

26. Two new trucks were bought for the Sewers and Sewage Disposal activity at $7,500 each. The city was allowed $1,500 on each old truck. Each truck was carried on the books at $8,000. Vouchers covering this transaction were approved.

27. The cost of the work performed this month by the city's general labor gang for the sewers project special assessment fund amounted to $6,000. (*Hint:* First charge the Recoverable Expenditures account and then bill the sewers project special assessment fund with the cost of the work.)

28. The municipal park auditorium, which was carried on the books at $40,000, burned down. The city received $30,000 insurance, which is to be used for the purpose of replacing the auditorium.

29. Tax anticipation notes amounting to $20,000 matured and were paid, together with interest of $1,000.

30. Judgments payable of $15,000 were paid.

31. The liability to the Public Schools fund was paid.

32. Vouchers payable of $420,000 were paid.

33. Taxes of $1,500, written off last year as uncollectible, were collected without interest or penalties.

34. The fiscal agent submitted a report showing he had paid matured bonds and interest coupons totaling $30,000.

35. The treasurer paid matured serial bonds and interest, as follows:

Principal	$20,000
Interest	500

36. Judgments of $12,000 were declared against the city. The city had previously acknowledged $9,000 by a voucher. The difference is to be charged to the reserve for contingencies.

37. Contracts payable paid amounted to $50,000.

38. An addition to the police department radio station, which was built by city labor, was completed. Vouchers approved for work done this month amounted to $5,000. The total cost of the project was $30,000.

39. It was decided to use the property acquired in transaction 19 as a playground. The market value of this property is estimated to be $2,500.

40. Interest and penalties on taxes accrued amounted to $2,000, of which $400 is estimated to become uncollectible.

41. The payroll for the month was approved, and vouchers to cover it were issued. Departmental appropriations were charged with current expenses as follows:

Council	$1,000
Mayor	3,000
Communication Systems	3,000
Traffic Control	3,000
Fire Department	2,000
Highways	1,000
Sewers and Sewage Disposal	1,000
Waste Collection	3,000
Parks	1,000

42. The payroll was paid.

Required:

a. Prepare closing entries.

b. Prepare a balance sheet of the general fund and of general fixed assets, assuming no opening balances for the latter.

c. Prepare a statement analyzing the changes in the Unappropriated Surplus account.

d. Prepare a statement comparing actual and estimated revenues.

e. Prepare a statement comparing expenditures with appropriations.

Problem 21-2. The following statement is taken from a state's financial report. (References are to schedules carried in the report but not reproduced here.)

Capital Balance Sheet
Property Assets, Investments, and Liabilities
June 30, 1944

Capital Assets

1. Sinking Fund Assets			$ 23,528,921.16
Consisting of:			
(a) Cash in State Treasury (Schedule A1)		$ 774,144 82	
(b) Investments and Bonds (Schedule B1)		12,707,000 00	
(c) County Notes Receivable (Schedule B2)		10,047,776 34	
2. Investments in Railroad Stocks (Schedule B3) (*Assume they apply to a trust fund.*)			5,233,584.00
	Par Value	Market Value	
(a) *X* Railroad Stocks	$3,000,200	$ 4,410,294 00	
(b) Atlantic and *X* Railroad Stocks	1,266,600	823,290.00	
(c) Miscellaneous Stocks	775,080	—	
3. Fixed Assets:			
Consisting of:			
State Highways, State Institutions, Departmental Buildings, Real Estate, Equipment, and other fixed assets			$290,171,055.22
Total Capital Assets			$318,933,560 38
Balancing Totals			$318,933,560.38

Capital Liabilities

4. State Debt (Schedule B4)		$167,360,000.00
Consisting of:		
(a) State Highway Bonds	$97,171,000.00	
(b) General Fund Bonds (Funding, refunding, public improvement, permanent improvement for Educational and Charitable Institutions)	54,979,000.00	
(c) Special School Building Bonds (Reimbursable by Counties)	12,710,000.00	
(d) World War Veterans' Loan Bonds (Redeemable from Loans to Veterans)	2,500,000.00	
Total Capital Liabilities		$167,360,000.00
5. Capital Surplus (Value of Fixed Assets in excess of Funded Debt of State)		151,573,560.38
Balancing Totals		$318,933,560 38

Required:

Recast this statement so as to show the true financial condition of the state. You may split up this statement into as many statements as you think desirable. Assume actuarial sinking fund requirements of $23,520,800.

Problem 21-3. (Adopted from the American Institute of Accountants' examination of November 1933.) On the basis of the following information prepare:

1. A balance sheet of all funds after closing the books at December 31, 1932.

2. A statement of the current surplus of the general fund for the year, showing the revenue, the expenditures and other items increasing or decreasing surplus during the year, and the balance of surplus at the end of the year.

3 A statement of income and expense of the water department for the year.

The City of Dowell classifies its accounts under four different funds. The balances in the accounts of those funds on January 1, 1932, and on December 31 of the same year before closing were as follows:

General fund:	January 1	December 31
Cash	$ 10,162	$ 21,215
1931 taxes receivable	15,676	12,429
Accounts receivable	2,325	3,545
Stores	9,641	9,533
Permanent property	3,154,695	3,154,695
1932 taxes receivable		60,838
Estimated revenue from taxes		225,000
Estimated revenue from miscellaneous sources		62,000
Appropriation expenditures for current purposes		234,398
Appropriation expenditures for capital additions		8,716
Appropriation expenditures for payment of bonds		25,000
Appropriation encumbrances (1932)		5,842
	$3,192,499	$3,823,211
Accounts payable	$ 2,826	$ 5,626
Reserve for 1931 taxes	10,200	10,200
Reserve for orders and contracts	3,286	5,842
Reserve for stores	10,000	10,000
Current surplus	11,492	11,603
Bonds payable	250,000	225,000
Capital surplus	2,904,695	2,929,695
1932 tax anticipation notes payable		25,000
Reserve for 1932 taxes		24,766
Revenue from taxes		222,894
Revenue from miscellaneous sources		64,325
Appropriations		276,000
Estimated budget surplus		11,000
Sale of old equipment		1,260
	$3,192,499	$3,823,211

Water Fund:		
Cash	$ 6,126	$ 717
Accounts receivable	7,645	5,573
Stores	13,826	12,635
Investments of replacement fund	21,700	24,500
Permanent property	212,604	214,204
Labor and material expense		109,638
Interest on bonds		3,000
Depreciation charge		10,600
Accounts of prior years written off		1,097
Expended for additions to plant		12,460
	$ 261,901	$ 394,424

	January 1	December 31
Accounts payable	$ 4,324	$ 4,318
Customers' deposits	1,500	1,600
Replacement fund reserve	21,700	24,500
Operating surplus	21,773	21,773
Bonds payable	60,000	40,000
Capital surplus	152,604	154,204
Services billed		146,867
Deposits lapsed		60
Interest on investments		1,102
	$ 261,901	$ 394,424
Assessment fund:		
Improvement No. 50:		
Cash	$ 4,653	$ 1,844
Assessments receivable	46,829	33,414
Delinquent assessments receivable	4,826	2,010
Public benefit receivable	5,632	4,516
Interest on bonds		3,000
	$ 61,940	$ 44,784
Bonds payable	$ 60,000	$ 40,000
Surplus	1,940	1,940
Interest on assessments		2,844
	$ 61,940	$ 44,784
Improvement No 51:		
Cash		$ 851
Assessments receivable		21,600
Public benefit receivable		2,400
		$ 24,851
Bonds payable		$ 24,000
Surplus		390
Interest on assessments		461
		$ 24,851
Trust funds:		
Cash	$ 3,216	$ 31
Investments	94,425	99,425
Premium on investments		800
Accrued interest purchased		260
Cemetery maintenance		849
Cemetery expense		2,976
Policemen's pensions paid		3,200
Firemen's pensions paid		2,400
	$ 97,641	$ 109,941
Cemetery endowment fund reserve	$ 60,000	$ 60,000
Policemen's pension fund reserve	18,691	18,691
Firemen's pension fund reserve	16,824	16,824
Cemetery maintenance fund reserve	2,126	2,126
Profit on sale of investments		600
Undistributed income		4,800
Policemen's pension fund contributions		4,160
Firemen's pension fund contributions		2,740
	$ 97,641	$ 109,941

It is the practice of the city to close out the unencumbered balance of appropriations of the general fund at the end of each year. Depreciation on the general property of the city is not entered, and accrued interest on investments or on outstanding bonds is disregarded. Income and profit on trust fund investments are distributed 62 per cent to cemetery funds, 20 per cent to the policemen's pension fund, and 18 per cent to the firemen's pension fund.

The cemetery maintenance fund consists of the income from the cemetery endowment fund and is used for cemetery expense. Excess of receipts over disbursements of pension funds are closed to the reserve accounts of the respective funds at the end of each year.

Attention is directed to the following facts and conditions at the close of the year 1932:

1. Taxes for 1931 in excess of the reserve against them are to be written off.
2. Because of the increased uncertainty of 1932 tax collections, the reserve on them is to be increased by 50 per cent.
3. Invoices on all orders and contracts outstanding at beginning of year have been paid with a saving of $111, which has been credited to current surplus.
4. The old property sold during the year was carried in the accounts at a value of $6,000.
5. Permanent property valued at $1,820 became useless and was discarded during the year.
6. Replacements of water department equipment costing $6,200 were made from the replacement fund during the year at a cost of $7,800.

Problem 21-4. (Adopted from the American Institute of Accountants' examination of November 1944.) The following account balances are taken from the books of the City of Mariwood on June 30, 1943, the close of the fiscal year.

1. Segregate the data into the applicable fund or account-group trial balances, supplying the needed account titles.
2. Prepare closing entries.

Accounts payable—general	$ 6,000
Appropriations—general	106,000
Bonds payable—general	300,000
Bonds payable—special assessment—District No 1	25,000
Bonds payable—premium—special assessment—District No. 1	1,000
Building—garage	20,000
Building—garage—reserve for depreciation	5,000
Buildings—other	300,000
Capital outlays for construction—bridge	70,000
Capital outlays for construction—special assessment—District No. 1	26,000
Cash	47,600
Contracts payable—bridge	5,000
Depreciation—garage	2,500
Encumbrances—bridge	25,000
Encumbrances—general	7 000
Equipment—garage	50,000

Equipment—reserve for depreciation	$ 10,000
Equipment—other	75,000
Estimated revenues	100,000
Expenditures—general	104,000
Garage—original appropriation	60,000
Inventory of materials and supplies—garage	1,500
Inventory of materials and supplies—general	4,000
Labor—garage	5,000
Land—garage	4,000
Land—other	20,000
Materials and supplies used—garage	2,000
Overhead—garage	2,500
Public improvements	1,250,000
Receipts—interest on special assessments—District No. 1	1,000
Reserve for authorized expenditures—bridge	100,000
Reserve for authorized expenditures—special assessments	25,000
Reserve for encumbrances—bridge	25,000
Reserve for encumbrances—general	7,000
Revenues—garage	12,500
Revenues—general	102,000
Special assessments receivable—District No. 1 deferred	18,000
Special assessments receivable—District No. 1 delinquent	400
Surplus	1,419,000
Taxes receivable—delinquent	75,000

Explanatory Data:

1. The city has deposited all cash in a single bank account. The fund segregation will require a separate account for each fund. The cash is owned as follows: garage, $2,000; bridge, $35,000; construction of pavement, $2,000; special assessment bond payments, $1,600; interest on special assessment bonds, $2,000; balance, general city.

2. $3,000 of the special assessment construction expenditures is from cash belonging to the general fund.

3. The city's share of special assessment construction unpaid is $5,000.

4. The municipal garage has supplied services in the amount of $1,000 for the general fund for which no settlement has been made.

5. The municipal garage was built and equipped out of general taxes. The surplus earned by the garage to July 1, 1942, is $3,000.

Index

Index

A

Account coding, 20–24
Accounting:
  cost (*see* Cost accounting)
  general, distinguished from cost accounting, 337
  governmental:
    essential principles of, 1–6
    legal provisions for, 2–3
    purpose of, 1–2
  stores (*see* Stores accounting)
Accounts:
  budgetary, distinguished from proprietary, 60–61
  clearing (*see* Clearing accounts)
  reserve for encumbrances:
    in bond fund, 106
    in general fund, 68–71
    in special assessment fund, 154
Accounts receivable, losses on uncollectible, 200
Accrued interest:
  purchase of, 242–245
  sale of, 252–254, 327–328
Accrued liabilities, 320
Activities:
  classification of, 10
  compiling unit costs of, 341-345
  costs of maintenance, 341–345
Advance tax collections, 270–271
Agency funds, 175
  collection of taxes for other units through, 271–274
  purpose of, 170
Allotment distinguished from appropriation, 46
Allotments, use of, for budget control, 42–46
Allotment schedules, call for, 42
Amortization:
  of bond discounts:
    by bonds outstanding method, 250–251
    by interest method, 247–250
    by straight-line method, 246–247
  of bond premiums:
    by bonds outstanding method, 250–251
Amortization (*Cont.*):
  of bond premiums (*Cont.*):
    by interest method, 247–250
    by straight-line method, 246–247
Annual financial report (*see also* Report), 356–368
Annual popular report (*see also* Report), 376–378
Appropriation:
  distinguished from allotment, 46
  distinguished from fund, 4–5
  encumbering of, in general fund, 61–62
Appropriation expenditure ledger, 49–51
Appropriation ordinance, 41
Appropriations:
  additional, 52
  changes in, 52–54
  for expenditures other than personal services, 30
  for payments out of sinking fund, 54
  for personal services, 28–29
  subsidiary accounts for, 49–51
  utility, 191–195
Assessment of property, 255–256
Assessment procedure for special assessments, 148–151
Assessment roll:
  combined with tax roll, 258–259
  for special assessments, 150–151
  grouping of properties on, 255–256
Assessment sale certificates, 165–168
Asset retirements, 294–299, 307–308
Assets, fixed (*see* Fixed assets)
Auditing:
  invoices, 88
  payrolls, 84
Auditors, classes of independent, 368–369
Auditor's certificate, 370
Audit report, 368–371
  combined with financial report, 371
  contents of, 369–371
Audits:
  classification of, 369
  general, 369
  special, 369
Authorization:
  of special assessment improvements, 146
  to issue bonds, 103, 146–147

Budgetary control:
in utility funds, 191–197
through allotments, 42–46
through appropriation expenditure ledger, 49–51
through financial statements, 54
Budget calendar, 28
Budget document, contents of, 37–40
Budget estimates:
call for departmental, 28–33
revision of, 36–37
Budgeting, 27–59
appropriation ordinance in, 41
call for allotment schedules in, 42
call for departmental estimates in, 28–33
estimating fixed charges in, 36
estimating revenues in, 33–36
for bond funds, 54–57
for expenditures other than personal services, 30
for personal services, 28–29
for sinking funds, 54
for special assessment funds, 57–59
for trust and agency funds, 54
for utility funds, 59
for working capital funds, 54
revenue estimates in, 33–36
revision of departmental estimates in, 36–37
salary and wage ordinance in, 43
work programs in, 33–40
Budget message, 37
Budgets:
for funds other than the general fund, 54–59
special, 54–59
Buildings, items included in cost of, 285–286

C

Calendar, budget, 28
Cancellation of sinking fund bonds, 122, 241
Capitalization:
of interest during construction, 112, 183
of special assessment expenditures, 161
Cash
accounting procedure for, 226–240
preparing daily report of, 228
reconciliations of, 240
segregation of, in special assessment fund, 147
warrant permitting deposit of, 228
Cash basis, 316, 365
Cash disbursements, 232
Cash receipts:
accounting for departmental, 227–230
internal check in connection with handling of, 226
recording of, 226–232
use of pre-numbered financial stationery for, 226
Cash statements, 232–239
number of, to be prepared, 232–233
Central equipment bureau
distributing overhead costs of, 340–341
operating costs of equipment handled by, 338–341
Central storeroom:
accounting for materials and supplies handled through, 139–144
determining overhead rates for, 141–142
Certificate, auditor's, 370
Change funds, 240
Character classification, 14
Charges for current services, 76–77
Check register
payroll sheets converted into, 232
voucher register converted into, 232
Checks, warrants converted into, 232
Classification:
of expenditures, 9–26, 200–203
by activity, 10
by character, 14
by character and object, 17
by function, 9–10
by function and organization unit, 17–18
by function, organization unit, and character, 17–18
by function, organization unit, character, and object, 18–19
by object, 14–17
by organization unit, 10–14
purpose of, 7, 9
relation to funds of, 19–20
subdivision of:
contractual services as, 15–16
fixed charges as, 16
materials and supplies as, 16
personal services as, 15
of revenues, 7–9, 198–200
of utility, 198–200
Classifications of expenditures, relationships between, 17
Clearing accounts, 206–208
Coding expenditure accounts, 20–24
Composite rate of depreciation, 307
Consolidated sinking fund, operation of, illustrated, 125–129
Construction costs, accounting for, 347–352

Contingencies account, 52–53
Contractural services:
  accounting for, 85
  subclassification of, 15–16
Cost accounting, 337–355
  applied to utilities, 352–355
  defined, 337
  distinguished from general accounting, 337
  for construction, 347–352
  purpose of, 337
Cost statements, 343, 346, 351–355
  for utilities, 352–355
Coupon bond, 322
Coupon interest rate, 246
Customers' deposits fund, handling of, in utility fund, 186

D

Daily cash report, preparation of, 228
Debt (*see also* Bonds *and* General bonded debt):
  limitations on incurrence, 312–314
  subsidiary statements of, 330–336
Debt margin:
  calculation of, 312–313
  defined, 312
Debt retirement (*see* Bond retirements)
Debt service charges:
  accounting for, 326–330
  sources of financing, 321
Debt service requirements (*see* Debt service charges)
Defaulted investments, 242
Deficits:
  disposing of:
    in bond fund, 109–110
    in sinking fund, 124–125
    in special assessment fund, 162–163
  making up utility, from general fund, 188
Delinquent special assessments:
  accounting for, 165–168
  bidding in property for, 165–168
  penalties on, 168
Delinquent taxes:
  interest and penalties on, 266–267
  liquidation of, in sinking fund, 124
Departmental earnings, as a source of revenue, 76–77
Departmental estimates, revision of, 36–37
Departmental reports, financial, 374–376
Departments, materials and supplies acquired for, directly, 88–89
Depository, choosing, 239
Depreciation:
  composite rate of, 307
  defined, 302
  on general fixed assets, 297–298
  on utility fixed assets, 302–307
  recommended treatment of:
    by National Association of Railroad and Utilities Commissioners, 200
    by New York State Public Service Commission, 200
Depreciation charges:
  determining periodic, 302–307
  use of straight-line and work-unit methods in computing, 306–307
Discounts:
  bond sales at, 111–112
  bonds outstanding method of amortizing, 250–251
  capitalizing, 183
  interest method of amortizing, 247–250
  on bonds in special assessment fund, 147–148
  on taxes, 265–266
  straight-line method of amortizing, 246–247
  treatment of, if not amortized, 251–252

E

Effective rate of interest, 246
Eminent domain, 318
Encumbrances accounts, setting up of:
  in bond fund, 105
  in general fund, 61
  in special assessment fund, 154
Endowment funds, 173–175
Equipment:
  calculating rental rates on, 137–139
  direct cost of operating, 338–340
  distributing overhead costs of central bureau operating the, 340–341
  items entering into cost of, 286–287
Equipment operation costs, 338–341
  purpose of statements of, 341
Equipment record, 339
Estimates, budget (*see* Budget estimates)
Executive budget, 28
Expendable trust funds, accounting for, 171
Expenditure accounts:
  classifications of (*see also* Classification, of expenditures), 9–26
  closing out, 92–93
  coding, 20–24
  purposes of classifying, 9
Expenditures:
  accounting for and reporting, 200–209
  purpose of securing data on, 99–102

Expenditures (*Cont.*):
statements of, 96–102
utility, accounting for, 200–209

F

Financial report (*see* Report)
Financial statements:
classified, 357
distinguished from statistical statements, 357
Fines, forfeits, and penalties, 74
First-in, first-out method for pricing requisitions, 141
Fiscal agent, paying matured bonds and interest through, 329–330
Fixed assets:
accounting for, of self-supporting enterprises, 302–311
acquired by foreclosure or gifts, 287
additions to, 292–293
buildings as, 285–286
classifying individual records of, 290–292
depreciation of (*see* Depreciation)
exclusion of, from general fund, 65–66
general:
accounting for, 210–213, 297–302
damaged or destroyed, 300–302
depreciation on, 297–298
financed from:
bonds, 211
current revenues, 211
grants or gifts, 212–213
special assessments, 212
statements of, 302–305
inclusion of, in working capital fund, 135
inventories of, 294
land, 285
recording acquisition of, 285–287
replacement of, 294–297
retirement of, 294–297, 307–308
setting up records of, 287–290
transfers of, 293–294
utility:
accounting for depreciation on, 302–307
replacement of, 308–310
retirement of, 307–308
Fixed charges:
estimating, 36
subclassification of, 16
Forfeits (*see* Fines, forfeits, and penalties)
Forms (*see the list of figures on pages xi–xiv*)
Functional classification (*see* Classification of expenditures)
Fund (*see* Funds)
Fund accounting:
general summary of, 224–225
principles of, 3–6
Funding bonds (*see* Bonds, funding)
Funds:
agency, illustration of operation of, 175
bank accounts for, 237–239
bond, 103–116
classification of, 5
consolidated sinking, illustration of operation of, 125–129
distinguished from appropriations, 4–5
endowment, accounting for, 173–175
establishment of, 3–4
expendable trust, illustration of operation of, 171
general, 60–102
inter-fund relationships, 215–225
inter-fund settlements, 239
loan, illustration of operation of, 172–173
nonexpendable trust, illustration of operation of, 171–175
number and kinds of, 5
presentation of, in combined balance sheet, 219–223
relation of classification of expenditures to, 19–20
relationship between, and the budget, 27
replacement, accounting for, 308–310
sinking, 117–129
special assessment, 145–169
special revenue, resources of, 5
trust and agency, 170–176
utility, 177–209
customers' deposits in, 186
sinking, 183–186
working capital, 130–144

G

General bonded debt (*see also* Bonds *and* Debt), 213–215
General fixed assets (*see* Fixed assets)
General fund:
activities financed from, 5
analyzing changes in unappropriated surplus of, 66–69
closing entries in, 64
closing out budgetary accounts of, 64
encumbering appropriations in, 61–62
establishment of, 60
expenditures, 81–102

General fund (*Cont.*):
illustration of operation of, 60-102
providing for uncollectible taxes of, 61
relation of, to utility fund, 190–191
reserve for encumbrances in, 68–71
revenues of, 72–80
unappropriated surplus in, 66–69
General obligation utility bonds, 322
General property taxes (*see* Taxes)
General-special assessment bonds, 145
Governmental revenues (*see* Revenues)
Governmental unit's contribution, treatment of, in utility fund, 188–191
Grants-in-aid, 75–76

H

Highways function, 9
Hospitals function, 9

I

Improvement funds (*see* Special assessment funds)
Income deductions, 200
Indebtedness (*see* Bonds, Debt, *and* General bonded debt)
Independent auditors, 368–369
Interest:
accounting for, in special assessment fund, 153–155
and penalties on taxes, 266–267
during construction, capitalization of, 112, 183
on investments, 242–252
purchase of accrued, 242–245
sale of accrued, 252–254, 327–328
Interest rate:
coupon, 246
effective:
defined, 246
method of arriving at, 246
nominal, 246
Inter-fund borrowing, 223
Inter-fund relationships, 215–225
Inter-fund transactions, settlements of, 239
Inventories:
losses on, in a central storeroom, 143
of general fixed assets, 294
perpetual inventory cards for, 140
physical, 142–143
Investments:
accounting for, 241–254
accrued interest purchases on, accounting for, 242–245
Investments (*Cont.*):
amortization of premiums and discounts on, 245–252
bonds outstanding method of, 250–252
interest method of, 247–250
straight-line method of, 246–247
cancellation of bonds held as, of sinking fund, 241
defaulted, 242
interest on, 242–252
maturity dates of, in sinking fund, 241
method of arriving at effective interest rate on, 246
sale of, accounting for, 252–254
statement of, 253–254
Invoices, auditing of, 88

J

Judgments, 153–155, 318–319

L

Labor, unit costs of, 342
Labor hour, defined, 340
Land, items entering into cost of, 285
Land records, 287–288
Legal debt margin, 313–315
Letter of transmittal:
in annual financial report, 357–359
in auditor's report, 369–371
in budget, 37
Liabilities, 312–336
accrued, 320
bond anticipation notes, 317–318
bonds, 320–336
judgments payable, 318–319
other than bonds, 312–320
tax anticipation notes, 316–317
vouchers payable, 314
warrants payable, 314–316
License collections, 226–227
Licenses and permits, 73–74
Liens:
on property, 165, 261–262, 267–269
on real property for personal property taxes, 261–262
special assessment, 165
tax, 267–269
Loan funds, 172–173

M

Maintenance activity costs, 341–347
Materials and supplies:
acquired for a department directly, 88–89

Materials and supplies (*Cont.*):
acquired for a working capital fund storeroom, 139–144
physical inventory at end of year, 142–143
recording, on perpetual inventory cards, 139–140
subclassification of, 16
unit costs of, 141, 342–344
withdrawing, from a central storeroom, 139–142
Maturity dates on sinking fund investments, 241
Monthly financial report (*see also* Report), 371–374
contents of, 373
Municipal functions (*see* Functions)
Municipality's contribution, treatment of, in utility fund, 188–191

N

National Association of Railroad and Utilities Commissioners:
recommended statements of, 188–190
treatment of depreciation recommended by, 200
National Committee on Municipal Accounting, recommendations of.
on depreciation, 297–298
on funds, 5
Net indebtedness, in calculating debt margin, 314
New York State Public Service Commission
classification of operating expense accounts for municipal electric utilities prescribed by, 201–202
classification of revenues for municipal electric utilities prescribed by, 199
treatment of depreciation and losses on uncollectible accounts prescribed by, 200
Nominal rate of interest, 246
Nonexpendable trust funds, accounting for, 171–175
Notes.
advantages of, 148
bond anticipation, 317–318
special assessment, 148
tax anticipation, 316–317

O

Object classification, 14–17
Operating expenses:
classification of, for municipal electric utilities, 201–202
Operating expenses (*Cont.*):
functional classification of utility, 201–203
Operating revenues, classification of, for municipal utilities, 198–200
Ordinance:
appropriation, 41
salary and wage, 43
Overhead costs:
compilation of, 340–341, 344–345
recovery of, by central storeroom, 141–143
Overhead rates, determination of:
for central storeroom, 141–142
for maintenance activities, 344–345

P

Payroll accounting, 82–86
auditing payrolls as part of, 84
determining amounts due employees as part of, 82–85
determining rates of pay as part of, 81–82
for temporary employees, 84–85
internal check in connection with, 85
recording payments as part of, 85
use of payroll sheets as check register in, 232
use of time sheets in, 82
Penalties (*see* Fines, forfeits, and penalties)
Permits (*see* Licenses and permits)
Perpetual inventory cards, 140
Personal property taxes as liens on real property, 261–262
Personal services
accounting for, 81–88
appropriations for, 28–29
budget for, 28–29
subclassification of, 15
Petty cash, 239–240
Plant accounting (*see* Fixed assets)
Popular report (*see* Report)
Premiums:
amortization of, on investments, 245–252
bond sales at, 111
bonds outstanding method of amortizing, 250–251
in special assessment fund, 147
interest method of amortizing, 247–250
straight-line method of amortizing, 246–247
treatment of, if not amortized, 251–252
Pricing requisitions, 141
Profits, utility, transfers of, 190

Property records:
classifying individual, 290–292
setting up, 287–290
Property taxes, general (*see* Taxes)
Property tax statements, 274–284
Proprietary accounts distinguished from budgetary accounts, 60–61
Public depository, 239
Public property (*see also* Fixed assets), 149
Public Service Commission of Kentucky:
classification of revenues for municipal water utilities prescribed by, 199–200
functional classification of utility operating expenses prescribed by, 203
Purchase orders, 87
Purchasing (*see* Stores accounting)
Purchasing agent:
filing requisitions with, 86–87
placing of orders by, 87
securing of bids by, 87

R

Real property assessment, 255
Receipts (*see also* Cash receipts)
recording cash collections, 230–232
revenue and nonrevenue, distinguished, 226–227
Receiving report, use of, 87
Reconciliations of cash, 240
Records (*see also the list of figures on pages xi-xiv*)
classifying individual property, 290–292
for expenditures, 92–94
for revenues, 80
of fixed assets, 287–290
Refunding bonds, 103, 321
Registered bonds, 322–323
Registering warrants, 314–316
Rental rates, calculation of, for equipment, 137–139
Replacement fund, 308–310
Replacement of fixed assets, 308–310
Report, 356–378
annual financial, 356–368
contents of, 357–360
outline of financial section of, 362–363
outline of statistical section of, 364
annual popular, 376–378
contents of financial section of, 378
audit, 368–371
contents of, 369–371
budget, 374
combined financial and audit, 371
Report (*Cont.*):
combined statements for unrelated funds in, 360–361
departmental financial, 374–376
financial section of, arrangement of statements in, 360–363
financial statements in, classification of, 357-359
for whom prepared, 356
general fund subsection of, arrangement of statements in, 360
letter of transmittal in, 365
monthly financial, 371–374
contents of, 373
numbering statements in a, 367
preparing a daily cash, 228
proper heading of statements in a, 365–367
statistical section of, arrangement of statements in, 364
statistical statements in, classification of, 359
table of contents of a, 367–368
technical points for preparing an annual, 364–368
use of proper title for a, 365
water utility financial, contents of, 375
Report title, 365
Requisitions:
filing of, with purchasing agent, 86–87
pricing of, 141
Reserve:
for amortization of utility plant acquisition adjustments, nature of, 206
for authorized expenditures:
in bond fund, 106
in special assessment fund, 146
in utility fund, 196–197
for contingencies, use of, 52–53
for depreciation, re-examining the, 307
for encumbrances:
carried over to new year, 93–95
closing out of, in general fund, 70–71
expenditures charged against, 68–69
for inventories, in general fund, 66
for retirement of sinking fund bonds.
in general sinking fund, 121–123
in utility fund, 185–186
recalculation of, 121-123
Revenue accounts (*see* Classification, of revenues)
Revenue bonds, nature of security behind, 322
Revenue estimates, 33–36
Revenue mortgage bonds, 322
Revenue records, 49, 80

Revenues:
bond fund, 8
classification of (*see* Classification, of revenues)
effect on subsidiary accounts of closing out of, 77–78
from charges for current services, 76–77
from fines, forfeits, and penalties, 74
from grants-in-aid, 75–76
from licenses and permits, 73–74
from other agencies, 75–76
from special assessments, 8
from state-collected, locally shared taxes, 75–76
from use of money and property, 74–75
general fund, 72–80
of a governmental unit distinguished from fund revenues, 8–9
providing for, in budget, 41–42
sinking fund, 8
special assessment fund, 8
special revenue fund, 5–6
subsidiary accounts for, 49
tax, 72–73, 255–284
trust fund, 8
utility fund, 8
utility operating, 198–200
working capital fund, 8
Revenue sources, 7–8
Revolving funds (*see* Working capital funds)

S

Salary and wage ordinance, 43
Sales taxes, accounting for, by utilities, 203–204
Securities (*see* Investments)
Serial bonds:
for special assessment funds, 146
method of retiring, 323
Shop Expenses—Clearing account, 206
Short-term notes (*see* Notes)
Sinking fund (*see also* Sinking funds):
accounting for retirement of bonds from, 123–125
appropriations for payments out of, 54, 123
for several bond issues, 125–129
general, reserve for retirement of sinking fund bonds in, 121–123
illustration of operation of, 117–129
in utility fund, 183–186
liquidation of delinquent taxes carried in, 124
utility, reserve for retirement of sinking fund bonds in, 185–186
Sinking fund bonds, canceling, 122, 241
Sinking fund contributions, determining amount of, 117–118
Sinking fund investments, maturity dates of, 241
Sinking funds, 117–129
accounting for groups of, 129
budgeting for, 54
canceling reacquired bonds of, 122, 241
disposing of deficits in, 124–125
disposing of surpluses in, 124–125
investment procedure for, 119–120
purpose of, 117
revenues of, 8
Special assessment funds, 145-169
assessment procedure for projects financed from, 148–152
assessment sale certificates in, accounting for, 165-168
bidding in of property by, 165–168
budgeting for, 57–59
construction expenditures financed from, accounting for, 153–155
discounts on bonds of, 147–148
disposing of deficits in, 162–163
disposing of surpluses in, 161-162
financing government's share of project, 151–152
groups of, accounting for, 164–165
illustration of operation of, 145–169
interest in, accounting for, 153
judgments awarded against, 154–155
penalties on delinquent assessments in, 168
premium on bonds of, 147
revenues of, 8
sale of notes by, 148
segregating cash in, 147
uncollectible assessments carried in, 151
use of serial bonds in, 146
Special assessment improvements:
authorization of, 145
capitalizing expenditures on, 161
financed from a working capital fund, 145
Special assessment liens, 165
Special assesment roll, 150–151
Special assessments:
delinquent:
accounting for, 165–168
penalties on, 168
fixed assets financed from, 212
levy and collection of, 148–153
on public property, 149
recording, 149–152
Special assessment sale certificates, 165–168
Special budgets, 54–59

Special revenue funds, 5
relation of, to general budget, 27
revenues of, 5
Special-special assessment bond, 145
State-collected, locally shared taxes, accounting for revenues from, 75–76
Statements (*see also the list of figures on pages xi–xiv*)
cash, 232–237
classification of, 357–359
cost, 345–346, 350–352, 354–355
and statistical, for utilities, 354–355
equipment operation, 338–341
debt, 330–336
expenditure, 95–102
financial, 357–359
general fixed assets, 302–305
general property tax, 274–284
in financial section of report, arrangement of, 359–364
in statistical section of report, arrangement of, 364
investments, 253
proper heading of, 365–366
statistical, 359
utility, 375
Stores accounting (*see also* Materials and supplies), 139–144
determining overhead rates for central storeroom in, 141–142
filing requisitions with purchasing agent in, 86–87
placing purchase orders in, 87
purchasing procedure for materials and supplies in, 86–88
recovering overhead costs in, 141–142
securing competitive bids in, 87
use of receiving report in, 87
withdrawing materials and supplies from central storeroom in, 139–142
Stores Expenses—Clearing account, 206
Stores requisitions, 141–143
Structures and improvements records, 287, 289
Subsidiary accounts:
appropriation, 49–51
bond fund, 113
closing out revenue, 77–78
revenue, 49
Supplies (*see* Materials and supplies)
Surplus:
disposing of:
in bond funds, 109
in sinking funds, 124–125
in special assessment funds, 161–162
Surplus (*Cont.*):
segregation of, in utility fund, 184–186
transfers of utility, 188–191

T

Tax accounting, 255–284
Tax anticipation notes, 316–317
Tax discounts, recording of, 265–266
Taxes:
accounting in agency fund for collection of, 271–274
as a revenue source, 72–73
collected for other governmental units, 271–274
collected in advance, 270–271
delinquent (*see* Delinquent taxes)
enforcing collection of, 261–262
general property, 255–284
interest and penalties on, 266–269
levying, 256–257
of state governments, 72–73
paid by utilities, 203–204
recording of, on books, 262–265
Taxes receivable, setting up, 259–261
Tax levies, effect of detailed, 256–257
Tax lien property, accounting for sale of, 267–269
Tax rates:
determining, 257–259
maximum, 257–259
Tax receipts, 226
Tax roll:
converted from assessment roll, 259
grouping of properties on, 259
Tax sale certificates, 268
Tax sales, accounting for, 267–269
Tax statements, general property, 274–284
Terminology, governmental accounting, 381–415
Time sheets, 82
Transportation Expenses—Clearing account.
for utility funds, 206
illustration of use of, in utility funds, 206–208
Trust and agency funds, 170–176
Trust funds:
accounting for, 170–176
budgeting for, 54
endowment, 173–175
expendable, accounting for, 171
loan, 171–172
nonexpendable, accounting for, 171–175
private, 170
public, 170
purpose of, 170

U

Unappropriated surplus, analyzing changes of, in general fund, 67–69
Uncollectible assessments, 151
Uncollectible taxes, provision for, in general fund, 61
Unit costs·
  compilation of, 338–355
  compiling overhead, 340–341, 344–345, 350
  examples of activities susceptible to, 342, 347, 352–355
  for utilities, 352–355
  of equipment used in connection with maintenance activities, 344
  of labor, 342, 350
  of materials and supplies, 342–344, 350
Unit cost standard, 345
Utilities·
  classes of, 198
  classifying fixed assets of, 311
  cost accounting applied to, 352–355
  cost statements for, 352–355
  expenditures of, 200–209
  income deductions of, 200
  operating revenues of, 198–200
  taxes paid by, accounting for, 203–204
  unit costs for, 352–355
Utility bonds, general obligation, 322
Utility deposits, accounting for, 186
Utility expenditures, clearing accounts for, 206–208
Utility fixed assets (*see* Fixed assets)
Utility funds, 177–209
  allocation of joint expenses of two utilities to proper, 208–209
  amortization of utility plant acquisition adjustments in, 204–206
  appropriations in, accounting for, 191–196
  bond authorizations in, accounting for, 196–197
  budgeting for, 59
  capitalizing interest during construction period in, 183
  clearing accounts in, 206–208
  construction financed through sales of bonds by, accounting for, 181–183
  contents of financial report for water, 375
  customers' deposits in, accounting for, 186
  establishment of, 177
  expenditures of, 200–209
  governmental unit's contribution in, 188–191
Utility funds (*Cont.*):
  proprietary operations in accounting for, 178–191
  purpose of, 177
  relation of, to general fund, 190–191
  Reserve for Retirement of Sinking Fund Bonds account in, 185–186
  revenues of, 8, 198–200
  segregation of surplus in, 185
  Shop Expenses—Clearing account in, 207
  sinking funds in, accounting for, 183–186
  Stores Expenses—Clearing account in, 206
  transfers of profits of, 190
  Transportation Expenses—Clearing account in, 206–208
Utility plant acquisition adjustments:
  amortization of, 204–206
    reserve for, 206
Utility sinking fund, 183–186

V

Voucher register, conversion of, into check register, 232
Vouchers, preparation of, in duplicate, 232
Vouchers payable, 314

W

Wage and salary ordinance, 43
Warrants:
  for depositing collections, 228
  procedure in registering, 314
  use of, as checks, 232
Warrants payable, 314–316
Working capital funds
  basis of accounting followed in, 131
  budgeting for, 54, 131
  dissolution of, 144
  fixed assets of, 135–136
    depreciation on, 302–307
    replacements of, 308
    retirement of, 307–308
  for a central equipment bureau, 132–139
  for a central stores bureau, 139–144
  purpose of, 130
  revenues of, 8
Work programs, 33–34, 42–44
Work units
  examples of:
    for sanitation, 342
    for sewer construction, 347
    for utilities, 353