



The Government and Not-for-Profit Environment

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Textbook: Government and Not-for-Profit Accounting, Granof

- This presentation contains information, in addition to the material prepared and provided by the professor, from the book Government and Not-for-Profit Accounting, 7th. Ed., Granof which is the textbook assigned for the course CONT 4059 – “Contabilidad para Entidades que no son Negocios” at the University of Puerto Rico, Río Piedras Campus.



Overview

Overview

BUSINESSES

GOVERNMENT

NOT-FOR-PROFIT

Government v. Businesses

Government v. Businesses

1. Different Mission

BUSINESSES	GOVERNMENT AND NOT-FOR-PROFIT
<ul style="list-style-type: none">• The main objective of a typical business is to earn a profit.	<ul style="list-style-type: none">• The goal of government and similar organizations is something other than earning profit.• Government and not-for-profit provide services targeted at groups of constituents either advocating a political or social cause or carrying out research or other activities for the betterment of the society.

Government v. Businesses

2. Budget

BUSINESSES	GOVERNMENT AND NOT-FOR-PROFIT
<ul style="list-style-type: none">• Governed by the marketplace.	<ul style="list-style-type: none">• Govern by the budget (Presupuesto).• Government and not-for-profit establish the level of services that they will provide, calculate their cost, and then set tax rates and other fees to generate the revenues required to pay for them.

Government v. Businesses

3. Financial Document

BUSINESSES	GOVERNMENT AND NOT-FOR-PROFIT
<ul style="list-style-type: none">• Most important document: Annual Report.• The Annual Report provides the major company's announcement of annual earnings.	<ul style="list-style-type: none">• Most important document: Budget.• The Budget takes center stage because the budget is the culmination of the political process. It encapsulates almost all the decisions of consequence made by the organization.

Government v. Businesses

4. Accounting

BUSINESSES	GOVERNMENT AND NOT-FOR-PROFIT
<ul style="list-style-type: none">• Financial accounting and reporting are concerned almost exclusively with the goal of maximizing either profits or some variant of it, such as cash flows.	<ul style="list-style-type: none">• Constituents of an organization want information on the extent of adherence to the budget.• The accounting system and the resultant financial reports must be designed to provide that information.

Government v. Businesses

5. Interperiod Equity

BUSINESSES	GOVERNMENT AND NOT-FOR-PROFIT
<ul style="list-style-type: none">• N/A	<ul style="list-style-type: none">• Most government are required by law, and most not-for-profit area expected by policy, to balance their operating budgets.• If organizations fail to balance their budgets and borrow to cover operating deficits, then the cost of benefits enjoyed by the citizens of today must be borne by those of tomorrow.

Government v. Businesses

6. Revenues and Expenses

BUSINESSES	GOVERNMENT AND NOT-FOR-PROFIT
<ul style="list-style-type: none">• Revenues signal customer demand for goods and services. The greater the revenues, the greater the demand.• Businesses attempt to match the costs of specific goods or services with the revenues that they generate.	<ul style="list-style-type: none">• Revenues may not be linked to constituent demand or satisfaction. Example: an increase in taxes tells nothing about the amount or quality of services provided.• Revenues of governments may not be directly linked to customers demand, they may also be unrelated to expenditures.

Government v. Businesses

7. Capital Assets/Restrictions

BUSINESSES	GOVERNMENT AND NOT-FOR-PROFIT
<ul style="list-style-type: none">• The economic value of an asset is the present or discounted value of the cash inflows that it will generate or the cash outflows that it will enable the entity to avoid.	<ul style="list-style-type: none">• Many capital assets of government and not-for-profit cannot be associated with revenues or saving.• Many of the assets of the government are restricted to particular activities or purposes.

Government v. Businesses

8. Ownership Interests

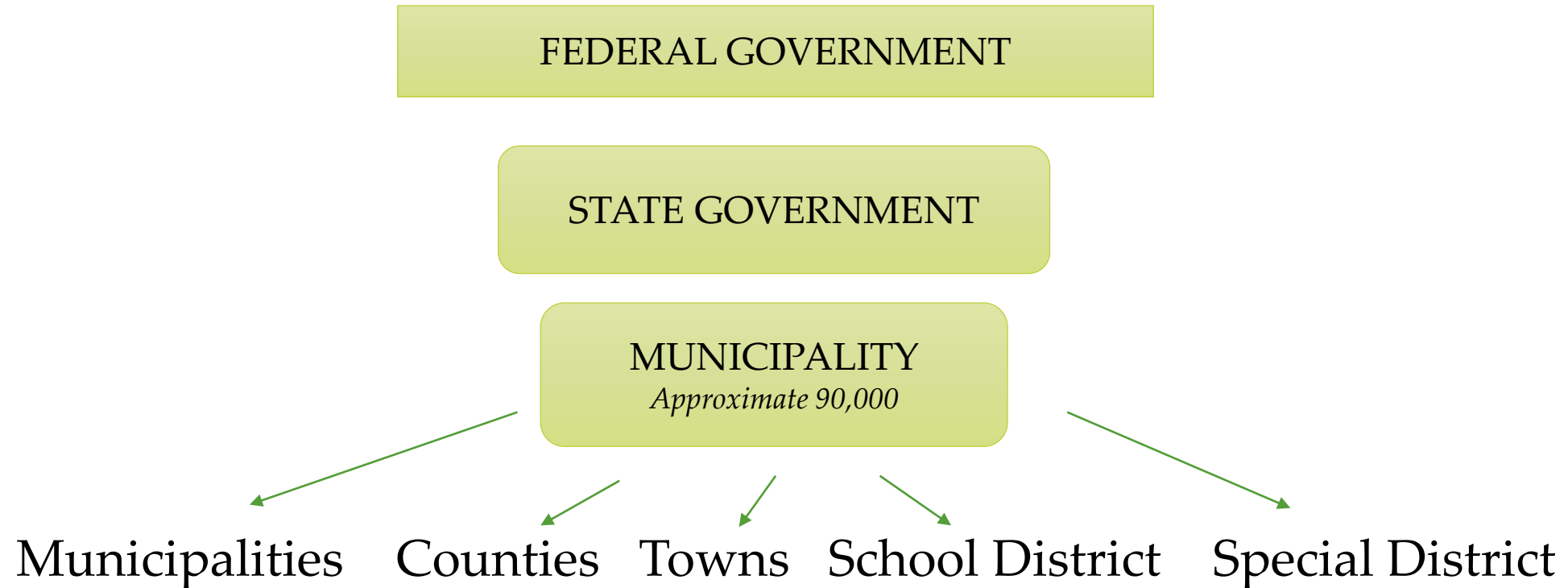
BUSINESSES	GOVERNMENT AND NOT-FOR-PROFIT
<ul style="list-style-type: none">• The businesses have defined ownership interests.• <i>Example:</i> Stockholders	<ul style="list-style-type: none">• Neither governments nor not-for-profit have defined ownership interests like those of businesses.



Different Types of Governments and Not-for-Profits

Different Types of Governments and Not-for-Profits

- **Average Local U.S. Government**



Government v. Not-for-Profit

Government v. Not-for-Profit

- Differences

GOVERNMENT	NOT-FOR-PROFITS
<ol style="list-style-type: none">1. Government has the authority to command resources. They have the power to tax.2. May issue tax-exempt debt (bonds).3. Its governing bodies are either popularly elector or appointed by another government.4. Another government can unilaterally dissolve it and assume its assets without compensation.	<ul style="list-style-type: none">• Need money?: Fund raising or earn revenue.



Financial Reporting

Financial Reporting

The overall purposes of financial reporting:

1. **Assess financial condition:** Users need to analyze past results and current financial conditions to determine the ability to meet its obligations and to continue to provide expected services.

Example: Qualified financial statements of the Government of Puerto Rico

Financial Reporting

The overall purposes of financial reporting:

2. Compare actual result with budget.
3. Determine compliance with appropriate laws, regulations, and restrictions on the use of funds.
Example: Bond covenants, donor restrictions.
4. Evaluate efficiency and effectiveness: Whether the entity is achieving its objectives.



User of Financial Reports

User of Financial Reports

1. Governing boards
2. Investors and Creditors
3. Citizens and Organizational Members
4. Donors and Grantors
5. Regulatory Agencies
6. Employees and Other Constituents

Exercise 1-1

1. The traditional business model of accounting is inadequate for governments and not-for-profit organizations primarily because businesses differ from governments and not-for-profit organizations in that
 - a) They have different mission
 - b) They have fewer assets
 - c) Their assets are intangible
 - d) Taxes are mayor expenditure of business

Exercise 1-1

2. If businesses are “governed by the marketplace”, governments are governed by
- a) Legislative bodies
 - b) Taxes
 - c) Budgets
 - d) State constitutions

Exercise 1-1

3. The primary objective of a not-for-profit organization or a government is to
 - a) Maximize revenues
 - b) Minimize expenditure
 - c) Provide services to constituents
 - d) All of the above

Exercise 1-1

4. In governments, in contrast to businesses,
 - a) Expenditures are driven mainly by the ability of the entity to raise revenues
 - b) The amount of revenues collected is a signal of the demand for services
 - c) There may not be a direct relationship between revenues raised and the demand for the entity's services
 - d) The amount of expenditures is independent of the amount of revenues collected.

Exercise 1-1

6. The number of governmental units in the United States is approximately
- a) 900
 - b) 9,000
 - c) 90,000
 - d) 900,000

Exercise 1-1

7. Government differ from businesses in that they
 - a) Do not raise capital in the financial markets
 - b) Do not necessarily engage in transactions in which they “sell” goods or services
 - c) Are not required to prepare annual financial reports
 - d) Do not issue common stock

Exercise 1-1

8. Interperiod equity refers to a condition whereby
- a) Total tax revenues are approximately the same from year to year
 - b) Taxes are distributed fairly among all taxpayers, regardless of income level
 - c) Current-year revenues are sufficient to pay for current-year services
 - d) Current-year revenues cover both operating and capital expenditures



Generally Accepted Accounting Principles

Generally Accepted Accounting Principles

1. Primary Standard-Setting Authorities

Financial Accounting
Standards Board
(FASB)

Governmental Accounting
Standards Board
(GASB)

Federal Accounting
Standards Advisory
Board (FASAB)

Generally Accepted Accounting Principles

Financial Accounting Standards Board
(FASB)

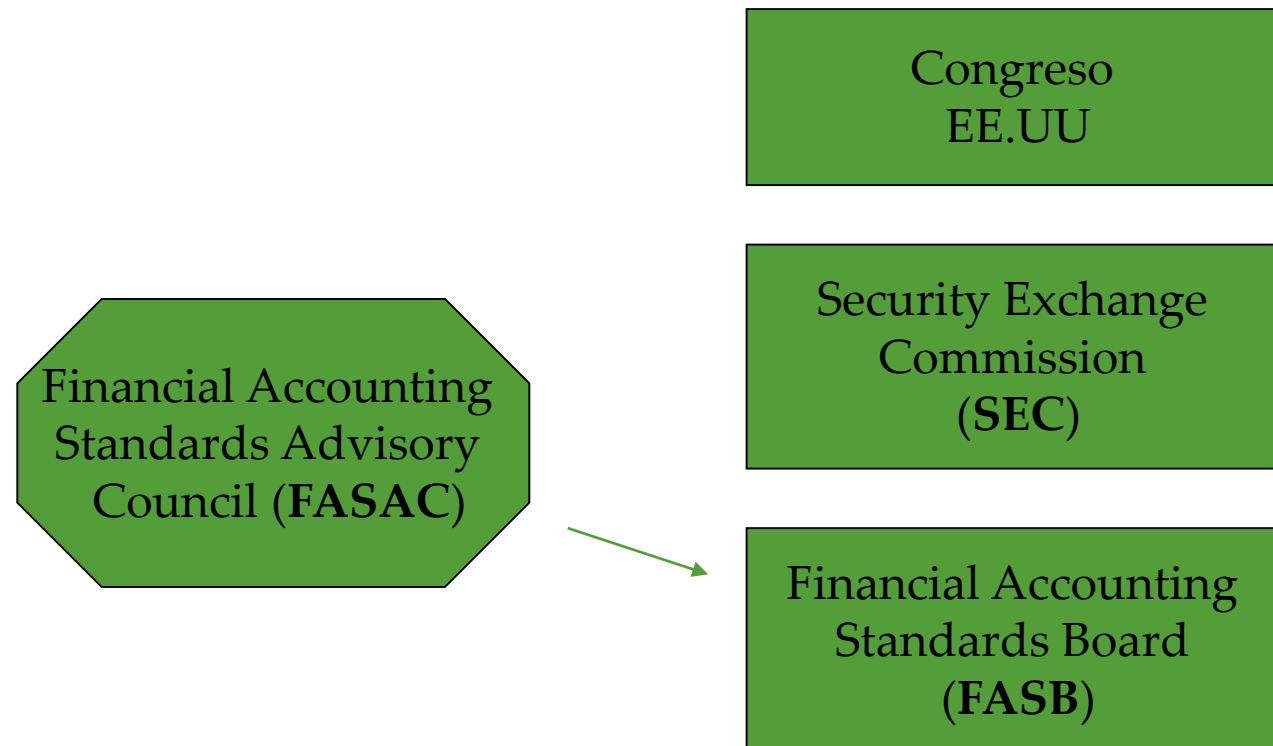
Generally Accepted Accounting Principles

- **FASB**

- Created in 1973, has directed its attention mainly to business enterprises rather than not-for-profit.
- However, in 1979 it assumed responsibility for the not-for-profit (not government) and other specialized-industry accounting principles.

Generally Accepted Accounting Principles

Hierarchy in Entities Establishing Accounting Principles in the Private Sector



Generally Accepted Accounting Principles

FASB Accounting Standard Codification

FASB

FASB Accounting
Standards Codification

GAAP

*Private Entities and
Not-for-Profit Entities*

Generally Accepted Accounting Principles

- **FASB**

<http://www.fasb.org/home>

Not-for-profits

Generally Accepted Accounting Principles

Governmental Accounting Standards Board
(GASB)

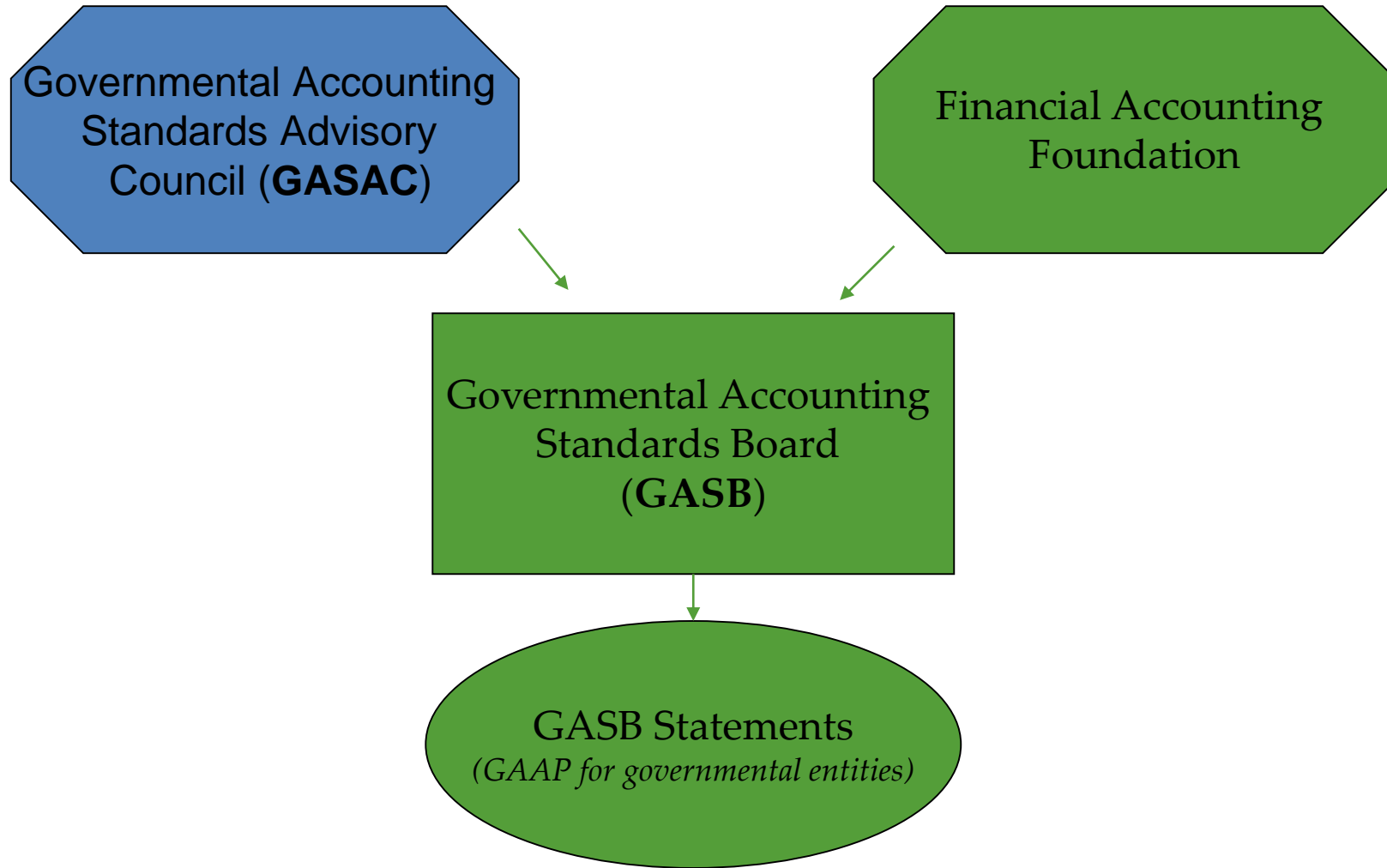
Generally Accepted Accounting Principles

- **GASB**

- Established in 1984 as the standard-setting body for state and governments.

Generally Accepted Accounting Principles

- **GASB**



Generally Accepted Accounting Principles

Federal Accounting Standards Advisory Board
(FASAB)

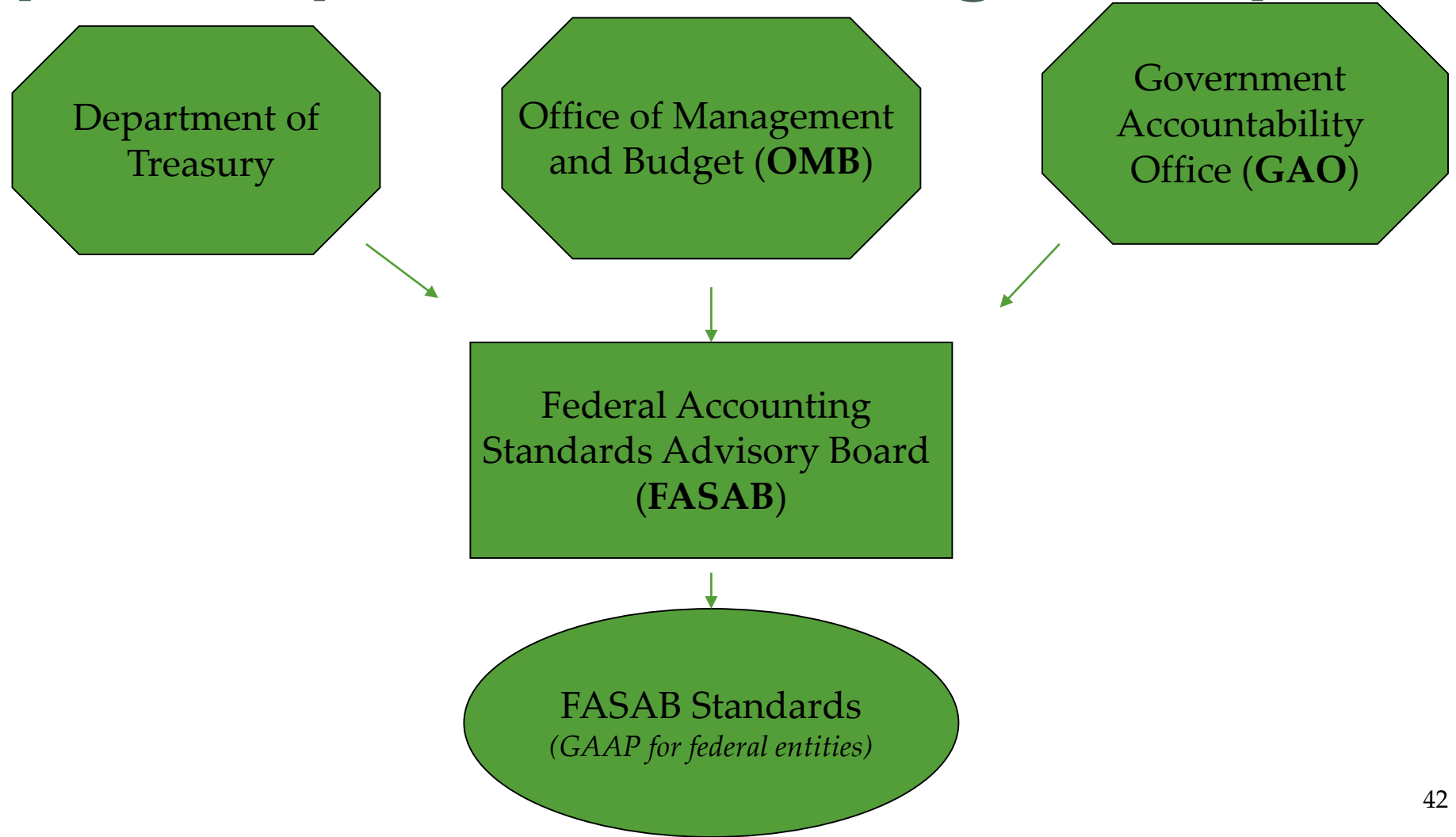
Generally Accepted Accounting Principles

- **FASAB**

- Established in 1990, this board sets accounting standards for both the federal government at large and the individual federal agencies.

Generally Accepted Accounting Principles

- **FASAB**



Exercise 1-1

5. The organization responsible for setting accounting standards for state and local governments is the
- a) FASB
 - b) GASB
 - c) FASAB
 - d) AICPA