

Business-Type Activities

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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.



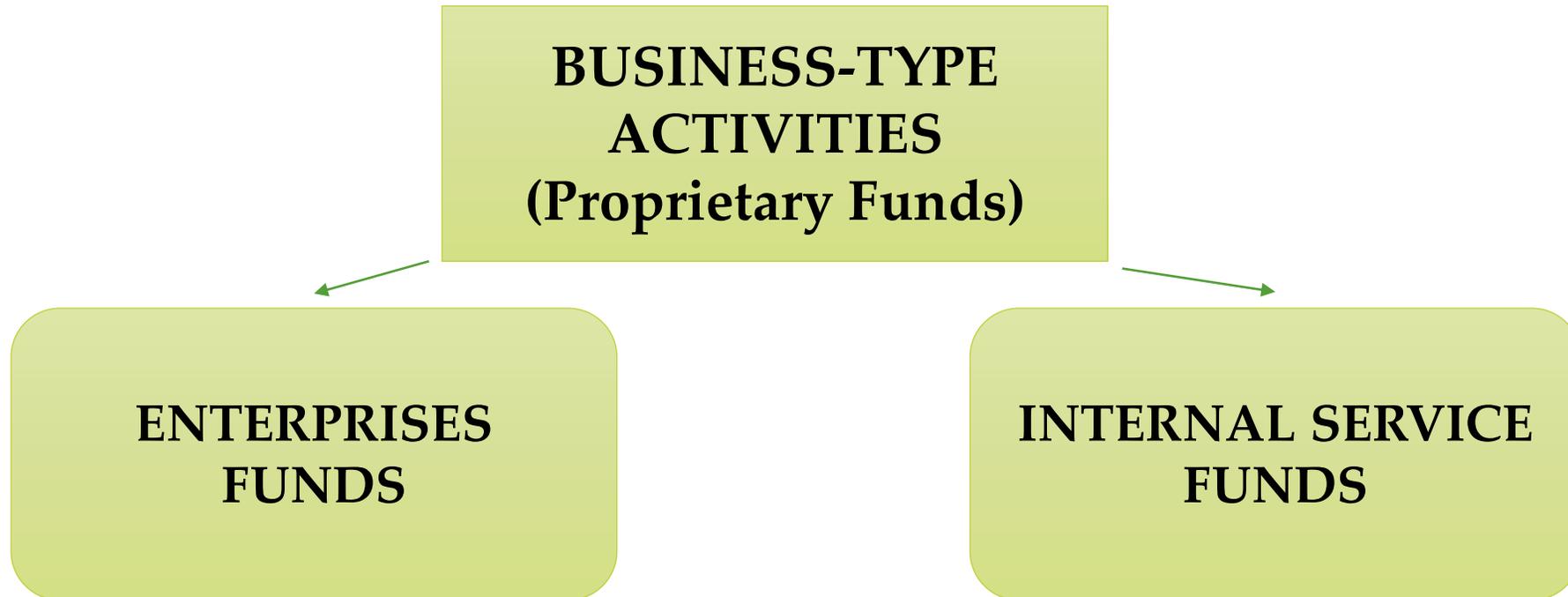
Business-Type Activities

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1.1 General

Business-Type Activities

1.1 General



Business-Type Activities

1.2 Enterprise Fund

Business-Type Activities

1.2 Enterprise Fund

- As a general rule (GASB 34), government **may** account for an activity in an enterprise fund if it **charges fees to external users** for goods and services.
- However, government **must** account for it in an enterprise fund if it is
 - Financed with revenue debt. (Revenue stream produced by the assets that the debt financed)
 - Required by law to cover its expenses with user charges.
 - Expected to be self-supporting.

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1.3 Internal Fund

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1.3 Internal Fund

- Internal funds are established to promote efficiency in the acquisition, distribution, and use of goods and services between the government funds and units.
- Internal service funds bill the funds to which they provide services at rates intended to cover their costs. However, in the absence of standards as to how the costs should be calculated, governments have considerable flexibility in establishing those rates.

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1.3 Internal Fund

- There are a range of activities that some governments account for in internal service funds. For example:
 - Supplier store
 - Central parking garage
 - Printing and reproduction services
 - Legal, accounting, auditing, and personnel services
 - Maintenance and janitorial services
 - Insurance and self-insurance (subject to GASB requirements)
 - Capital asset leasing
 - Telecommunications and information

Business-Type Activities

1.4 Method of Accounting

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1.4 Method of Accounting

- Full accrual basis.
 - Recognition of Revenues: As earned.
 - Recognition of Expenses (not expenditure): As incurred.

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2.1 Financial Statements

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2.1 Financial Statements

1. Statement of Net Position (Balance Sheet)
2. Statement of Revenue, Expenses and Changes in Net Position (Income Statement)
3. Statement of Cash Flows

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2.1 Financial Statements

- Whereas the amounts reported in the individual fund statements of governmental funds are significantly different from those incorporated in the government-wide statements, those of proprietary funds are generally the same.

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Basic Statements

2.2 Statement of Net Position (Balance Sheet)

Business-Type Activities

Basic Statements

2.2 Statement of Net Position (Balance Sheet)

- **Assets**
 - Current assets
 - Noncurrent assets
- **Liabilities**
 - Current liabilities
 - Noncurrent liabilities
- **Net Position**
 - Invested in capital assets
 - Restricted
 - Unrestricted

Business-Type Activities

Basic Statements

2.2 Statement of Net Position (Balance Sheet)

Business-Type Activities (Net Position)	Fund Accounting (Fund Balance)
<ul style="list-style-type: none">• Invested in capital assets• Restricted• Unrestricted	<ul style="list-style-type: none">• Restricted• Committed• Assigned• Unassigned• Nonspendable

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Basic Statements

2.2 Statement of Net Position (Balance Sheet)

- **Restrictions**

- Some of their resources may be restricted. For example:
 1. Bond proceeds and grants from other government may have to be used for the construction or acquisition of specific assets.
 2. Resources may have to be set aside for the repayment of bond principal or the payment of interest.
 3. Customer deposits may have to be segregated from other resources to ensure that they are available for return.

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Basic Statements

2.3 Statement of Revenues, Expenses, and Changes in Net Position (Income Statements)

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Basic Statements

2.3 Statement of Revenues, Expenses, and Changes in Net Position (Income Statements)

- **Operating revenues**
 - Fees and charges
 - Other revenues
- **Operating expenses**
 - Wages and salaries
 - Other expenses
- **Nonoperating revenues and expenses**
 - State operating grants
 - Others
- **Capital contributions and other changes in net position**
 - Federal Capital grants and others

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Basic Statements

2.4 Statement of Cash Flows

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Basic Statements

2.4 Statement of Cash Flows

BUSINESS (FASB 95)	BUSINESS-TYPE FUNDS (Statement No. 9 and GASB 34)
<u>Section of Statement</u> <ul style="list-style-type: none"> • Operating • Financing • Investing 	<u>Section of Statement</u> <ul style="list-style-type: none"> • Operating • Financing (Noncapital) • Financing (Capital) • Investing
<u>Interest</u> <ul style="list-style-type: none"> • Interest Paid (Operating) • Interest Received (Operating) 	<u>Interest</u> <ul style="list-style-type: none"> • Interest Paid (Financing) • Interest Received (Investing)
<u>Method</u> <ul style="list-style-type: none"> • Direct or Indirect 	<u>Method</u> <ul style="list-style-type: none"> • Direct

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Basic Statements

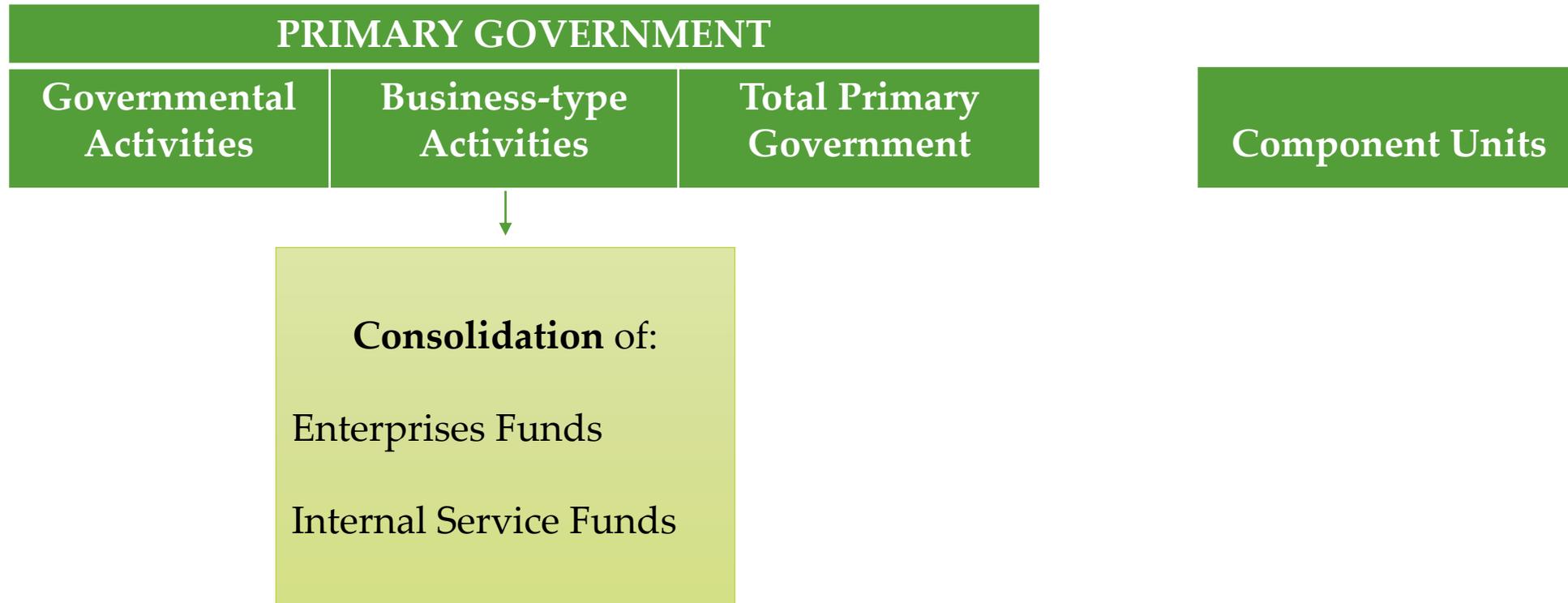
2.5 Government-wide Statement (“Primary Government”)

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Basic Statements

2.5 Government-wide Statement (“Primary Government”)

- **Presentation**



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Basic Statements

2.5 Government-wide Statement (“Primary Government”)

- **Consolidation Process**

- Internal service fund do not exist to earn a profit. As noted earlier, their billing to other departments should reflect actual costs.
- Accordingly, their revenues should equal their expenses, and both can be eliminated in their entirety in the consolidation process.
- In addition, interfund receivable and payables are eliminated in the consolidation process.

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Basic Statements

3.1 Budget

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Basic Statements

3.1 Budget

- The budgets of proprietary funds play a decidedly different role than those of governmental funds.
- Like those of businesses, they facilitate planning, control, and evaluation.
- They are not, however, the equivalent of either spending authorizations or tax levies. (as in government)
- Accordingly, governments are not required to obtain formal legislative approval for their proprietary fund budgets or to incorporate them into their accounting systems. In their annual reports they need not compare the budgeted amounts with actual results.