

SAM—INTRODUCTION TO UNIFORM SYSTEM OF ACCOUNTING

DISTINCTIVE FEATURES OF GOVERNMENTAL ACCOUNTING

7130

(Revised 5/85)

Although the basic principles of accounting apply in government as in commerce, certain features of governmental accounting make its pattern quite different from that of the typical set of commercial accounts. The underlying differences should be understood to avoid confusion that sometimes results in attempting to apply, with little or no modification, conventional commercial accounts to a governmental unit.

The distinctive features of governmental accounting are the reflection of the essential difference in the method of financing governmental operations as contrasted with business undertakings.

Private business must obtain its capital from voluntary investments made with the hope of deriving an increment. Private business, then, to survive must realize a profit over and above the cost of the commodities or services it sells in order to preserve its capital and to return a profit to its proprietors or shareholders. Accordingly, commercial accounts are focused upon "net profit"—the amount gained over costs, the difference between income and expenses—and "net worth"—the current value of the invested capital, the difference between assets and liabilities.

Government furnishes services to all directly or indirectly and levies taxes or provides other revenue measures to meet the cost of those services. Governmental accounting usually has no "net profit" to report. Particular sources of revenue generally have no direct relation to particular items of expenditures. An excess of revenues over expenditures is not "net profit" and is not necessarily an indication of good financial policy in the government unit. Capital invested in government by its citizen-proprietors (represented by such capital assets as land, buildings, highways, and equipment) is investment in future public services. "Net worth," if that term can be employed, of a governmental unit has an entirely different significance from "net worth" of a commercial enterprise.

Another difference is the necessity that the governmental unit account its authorizations to incur expenditures. It is a long established principle of free government that public moneys be expended only as authorized by the legislative body. Hence, the governmental unit must maintain budgetary accounts in which are reflected the authorization for expenditures. While large commercial organizations are coming more and more to establish budget procedures somewhat similar to those employed by government, the budget and the accounts essential to its operation are still largely a distinctive feature of governmental accounting.

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Still another peculiar characteristic of governmental accounting is the employment of separate funds. A business enterprise, even the largest and most extensive, usually is engaged in activities closely interrelated with the ultimate objective of profit in one particular field. The governmental unit, on the other hand, is engaged in an ever-growing number of operations and activities which are quite unrelated to each other. Particular sources of revenue or income often are dedicated to use for a particular phase of the government's operations. The accounts must segregate these specially dedicated resources and isolate them from all other transactions in a separate "fund." While a business concern can maintain a single set of accounts for all of its transactions, a governmental agency must maintain a number of independent sets of accounts, one for each "fund."