



Oduware Uwadiae

## Government and Not-for-Profit Entities (4)

Whenever a revenue source is restricted by an outside donor or grantor, or a tax or other revenue source is authorized by a legislative body for a specified purpose, a government should create a special revenue fund to demonstrate that all revenue from that source was used for the specified purpose only

### Classification and Reporting of Expenses and Revenue

The format prescribed for the government-wide statement of activities displays the net expense or revenue of each function or program reported for the governmental activities of the government. Functions are group of related activities that are aimed at accomplishing a major service or regulatory responsibility, such as public safety or highways and streets. Programs are group of activities, operations, or organizational units that are directed to the attainment of specific purposes or objectives, such as highway beautification or youth empowerment.

In some cases, an activity such as public safety could be identified as a function of one government and a program of another; however, the important thing to note is that functions and programs represent major activities or services of a government.

Reporting in the net expense or revenue format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. The sum of general revenues and any special or extraordinary items is then added to net (expense) revenue to obtain the change in net position for the period.

### Reporting Direct and Indirect Expenses

Except for extraordinary or special item expenses, expenses generally are reported by function or program. Direct expenses—those that are specifically associated with a function or program should be reported on the line for that function or program. Indirect expenses—those that are not directly linked to an identifiable function or program—can be reported in a variety of ways. A typical indirect expense is interest on general long-term borrowing. In most cases, interest on general long-term borrowing should be reported as a separate line item rather than being allocated to functions or programs. Government should report at a minimum major functions. Governments are encouraged to provide additional information for more detailed programs if such information is

Expenditure is the word that represents the cost to purchase a good or service, whereas expense represents the cost of a good or service consumed or expired during the period

useful and does not detract from readers' understanding of the statement.

### Program Revenues and General Revenues

Reporting in the net (expense) revenue format requires a government to distinguish carefully between program revenues and general revenues. Revenues are reported in the functions/programs section of the statement of activities, where they reduce the net expense of each function or program or produce a net revenue. General revenues are not directly linked to any specific function or program and thus are reported in a separate section in the statement.

Three categories of program revenues are reported in the same statement of activities: charges for services, operating grants and contributions, and capital grants and contributions. Charges for services include charges to customers or others for both governmental and business-type activities. Charges for services within the governmental activities category include items such as licenses and permits (for example, business licenses and building permits), fines and forfeits, and operating special assessments sometimes charged for

services provided outside the normal service area or beyond the normal level of services.

Grants and contributions restricted by other governments, organizations, or individuals for the operating purposes of a particular function or program are reported in a separate column from those restricted for capital purposes. Earnings from endowments or permanent fund investments that are restricted for a specific public purpose in the endowment contract or agreement should be reported as program revenue in the appropriate grants and contributions category. Unrestricted earnings from such sources should be reported as general revenue. In addition, all taxes, even those specified by law for a particular use should be reported as general revenue.

### Structure and Characteristics of the General Fund and other Governmental Funds

The general fund has long been the accounting entity of a state or local government that accounts for current financial resources raised and expended for the core governmental services provided to the citizenry. The general fund is sometimes known as an operating fund or current fund; the purpose, not the name, is the true test of identity. A typical government now engages in many activities that for legal and historical reasons are financed by sources other than those available to the general fund. Whenever a revenue source is restricted by an outside donor or grantor, or a tax or other revenue source is authorized by a legislative body for a specified purpose, a government should create a special revenue fund to demonstrate that all revenue from that source was used for the specified purpose only. A common example of a special revenue fund is one used to account for state land use charge or tolls receipts distributed to local governments; in some states, the use of this money is restricted to the construction and maintenance of streets, highways, and bridges.

There are three other fund types besides the general fund and special

revenues funds that are classified as governmental funds. Those other fund types are debt service funds, capital project funds, and permanent funds.

### Governmental Fund Balance Sheet and Operating Statement Accounts

It should be emphasized that the general fund and all other funds classified as governmental funds account for only current financial resources (cash, receivables, marketable securities, and, if material, prepaid items and inventories). Economic resources, such as land, buildings, and equipment utilized in fund operations, are not recorded by these funds because they are not normally converted into cash. Similarly, governmental funds account for only those liabilities that will be paid with fund assets. There is going to be a modification to this position with the full adoption of International Public Sector Accounting Standards (IPSAS).

General capital assets and general long term liabilities are reported only in the governmental activities column of the statement of net position at the government-wide level.

The arithmetic difference between the amount of (1) current assets and deferred outflows and (2) current liabilities and deferred inflows recorded in governmental funds is the fund balance. Residents of a governmental jurisdiction have no legal claim on any excess of liquid assets over current liabilities; therefore, the fund balance is not analogous to the capital amounts of an investor-owned entity. Accounts in the fund balance section of governmental fund financial statements include accounts established to disclose that portions of the fund balance are not available for spending or that constraints have been placed on the purposes for which they can be expended.

In addition to the balance sheet accounts, governmental funds record financial transactions in operating statement accounts classified as revenues, other financing sources, expenditures, and other financing uses.

Expenditure is the word that represents the cost to purchase a good or service, whereas expense represents the cost of a good or service consumed or expired during the period. Government funds are concerned with flows of current financial resources, not with determination of income or cost of services. Thus governmental funds report expenditures, not expenses. In the case of employee payroll, utilities, and other similar items, expenditures and expenses are essentially the same. In other cases, such as the purchase of equipment using governmental fund resources, an expenditure is recorded in the associated fund for the full cost of the equipment—which differs greatly from depreciation expense, the cost of the utility of the equipment deemed to have been consumed during the year.

Oduware is the partner-in-charge of Accounting and Business Process Solutions in Akintola Williams Deloitte

This publication contains general information only and Akintola Williams Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

Akintola Williams Deloitte a member firm of Deloitte Touche Tohmatsu Limited, provides audit, tax, consulting, accounting and business process solutions, corporate finance and risk advisory services to public and private clients spanning multiple industries. Please visit us at [www.deloitte.com/ng](http://www.deloitte.com/ng)

## IPSAS reporting automation accelerating your compliance

- Performance efficiency:** Reduce the time taken to prepare annual financial statements.
- Increased accuracy:** Prepare financial statements with assurance of highest quality that is error free.
- Increased flexibility:** Ability to adapt to changing reporting framework and environment.
- Compliance:** Be assured of complete compliance with International Public Sector Accounting Standards.
- Control:** Eliminate the risk of errors and inconsistencies associated with using massive spreadsheets.
- Audit management process:** Lead sheets and overall analytical review documents are automatically updated in real-time providing a complete electronic audit file.



### Contacts

Folorunso Agunbiade  
fagunbiade@deloitte.com  
+234-805-669-6794

Paul Durosaro  
pdurosaro@deloitte.com  
+234-807-988-7072