

with budgeted appropriations, managers, legislators, and other decision makers can assess the organization's financial performance and can take corrective action when necessary. If revenue collections are lagging behind estimates, knowledge of departmental spending to date can help the central budget office determine where savings can be achieved to bring expenditures in line with projected revenues for the year. For example, a "freeze" can be placed on new hiring intended to fill personnel vacancies, overtime can be limited, and external travel and purchasing of lower priority supplies can be stopped.

As we will see later in this chapter, centralized governmental accounting systems are designed to keep track of actual revenues against budgetary estimates, actual expenditures against appropriations, and even purchase orders placed against appropriations for supplies and equipment. If not done centrally, departmental accounting systems are needed to keep track of personnel line-by-line to ensure that spending on personal services does not exceed the amount appropriated.

Well-managed governments produce monthly statements for internal use that detail budgeted and actual expenditures, by object, and the remaining amount available for spending. This information is particularly important to organizations that are subject to anti-deficiency laws (laws that make the overspending of one's budget an act subject to civil and/or criminal penalties), as well as to those managers whose performance is judged by whether they meet their objectives within their budgets. In addition, knowledge of amounts available for spending is helpful to organizational personnel when planning activities for the rest of the fiscal year. If the spending rate is greater than originally planned, their unit must curtail its activities or ask for a supplemental appropriation. If the remaining amount available for spending is higher than originally planned, the unit can expand its activities.

Table 3-3 illustrates a budgetary control report. In addition to showing the budget for the current month and the year to date, it shows (1) actual expenditures incurred for these periods; (2) differences between budgeted and actual expenditures (called variances) in both absolute numbers and

These year-to-date amounts are for 9 months.

This government has a December 31 year end.

TABLE 3-3 ■ Budgetary Control Report

Fund: General
Function: Public Safety
Department: Police

Prepared by RGS
Date: September 30, 2022

Year to Date

Current Month

Available for Spending

Budget	Actual	Variance	% Budget	Code	Object-of-Expenditure	Budget	Actual	Variance	% Budget	
Contractual Services										
\$ 75	\$ 60	\$ 15(F)	20	301	Advertising	\$ 8	\$ 10	\$ 2(U)	25	\$ 40
1,200	1,300	100(U)	8	310	Printing	133	120	13(F)	10	300
6,000	6,200	200(U)	3	320	Vehicle maintenance . . .	667	645	22(F)	3	1,800
4,200	3,900	300(F)	7	330	Communication.	467	378	89(F)	19	1,700
150	180	30(U)	20	350	Dues and subscriptions . .	17	21	4(U)	24	20
225	200	25(F)	11	360	Postage	25	30	5(U)	20	100
450	550	100(U)	22	370	Telephone.	50	35	15(F)	30	50
300	300	—	—	380	Professional services . . .	33	0	33(F)	100	100
\$ 12,600	\$ 12,690	\$ 90(U)	1		Subtotal	\$ 1,400	\$ 1,239	\$ 161(F)	12	\$ 4,110
Supplies and Materials										
\$ 825	\$ 850	\$ 25(U)	3	401	Office supplies	\$ 92	\$ 97	\$ 5(U)	5	\$ 250
3,525	3,595	70(U)	2	410	Building maintenance . . .	392	370	22(F)	6	1,105
7,875	7,750	125(F)	2	420	Fuel.	875	825	50(F)	6	2,750
\$546,375	\$563,430	\$17,055(U)	3		Grand total	\$60,708	\$63,386	\$2,678(U)	4	\$165,070

September budget is \$60,708.33. The year-to-date budget is \$546,375 (\$60,708.33 × 9).

Annual budget of \$728,500 (or \$60,708.33 × 12) less actual expenditures of \$563,430.

the beginning of 2023, the city needs to reestablish the budgetary accounts for encumbrances (\$12,140,000). The city should also record the budget for the estimated project revenues for 2023—the unrecognized portion of the state grant (\$2,500,000) and the earnings on the investments (estimated to be \$150,000). The entries to record these items are as follows:

Encumbrances—capital project	12,140,000	
Budgetary fund balance reserved for encumbrances		12,140,000
<i>To establish the encumbrances account.</i>		
Estimated revenues	2,650,000	
Budgetary fund balance	9,490,000	
Appropriations		12,140,000
<i>To record the remainder of the budget for the sports complex project.</i>		

When the project is completed, the contractor submits a final bill for the amount due—\$12,100,000 (assume, for simplicity, that only one billing is made in 2023)—and the architect submits a final bill for \$40,000. Because the project has not yet been inspected and accepted, the city retains 10 percent from the payment to the contractor. The entries to record these events are as follows:

Budgetary fund balance reserved for encumbrances	12,140,000	
Encumbrances—capital project		12,140,000
<i>To remove the encumbrances for the remaining cost of the contracts.</i>		
Expenditures—architect's fees	40,000	
Vouchers payable		40,000
<i>To record the balance due to the architect.</i>		
Expenditures—construction costs	12,100,000	
Retainage payable		1,210,000
Construction contracts payable		10,890,000
<i>To record the balance due to the contractor.</i>		

To pay these liabilities, the city liquidates all the investments held by the Capital Projects Fund and recognizes the related investment interest income for the year of \$130,000. Assuming \$12,430,000 of cash is received (covering the \$12,000,000 investment, the \$300,000 of interest previously accrued, and the \$130,000 of interest earned in 2023), the entry is as follows:

Cash	12,430,000	
Interest receivable		300,000
Revenues—interest		130,000
Investments		12,000,000
<i>To record liquidation of investments and related revenues.</i>		

The entry to record the payment of the architect and contractor liabilities is this:

Construction contracts payable	10,890,000	
Vouchers payable	40,000	
Cash		10,930,000
<i>To record payment of vouchers to contractor and architect.</i>		

The balance in the Retainage payable account is \$1,760,000, representing the balance at the beginning of 2023 (\$550,000) plus the amount retained during 2023 (\$1,210,000). Assume that, upon final inspection, the project manager finds some defects that need to be remedied before the project can be accepted. The construction company already has removed its equipment and employees, so it authorizes the city to have the defects remedied by a local contractor. The repairs cost \$450,000, so the following entry is made:

- Q15-14.** What is the typical structure of a fundraising organization associated with a public college or university? What document guides the relationship between the organization and the college or university?
- Q15-15.** How is a fundraising organization associated with a public university reported in the public university's financial statements? How would this differ for a fundraising organization associated with a private university?

Multiple Choice

- MC15-16.** Which of the following organizational structures is (are) possible for colleges and universities? **LO 1**
- Public
 - Private, nonprofit
 - Private, for-profit
 - All of the above
- MC15-17.** What basis of accounting is used for public colleges and universities and for private, nonprofit colleges and universities? **LO 1**

	Public Colleges and Universities	Private, Nonprofit Colleges and Universities
a.	Modified accrual	Modified accrual
b.	Modified accrual	Accrual
c.	Accrual	Modified accrual
d.	Accrual	Accrual

- MC15-18.** Which of the following accurately describes the most common treatment of public colleges and universities for purposes of financial reporting? **LO 1**
- Special-purpose governments engaged in business-type activities
 - Special-purpose governments engaged in governmental activities
 - General purpose governments engaged in business-type activities
 - General purpose governments engaged in governmental activities
- MC15-19.** Massengale University, a private, nonprofit university, has gross tuition and fees revenue of \$4,000,000 for the semester. Of this amount, \$100,000 is not expected to be collected. Which of the following describes the journal entry that would be recorded? **LO 2**
- Debit tuition and fees receivable \$4,000,000; credit tuition and fees revenue \$4,000,000
 - Debit tuition and fees receivable \$3,900,000; credit tuition and fees revenue \$3,900,000
 - Debit tuition and fees receivable \$3,900,000; debit bad debt expense \$100,000; credit tuition and fees revenue \$4,000,000
 - Debit tuition and fees receivable \$4,000,000; credit allowance for **uncollectible tuition and fees** \$100,000; credit tuition and fees revenue \$3,900,000
- MC15-20.** Which of the following describes the appropriate treatment of appropriations revenue by a public college or university? **LO 2**
- Exchange transaction; operating revenue
 - Exchange transaction; nonoperating revenue
 - Nonexchange transaction; nonoperating revenue
 - Nonexchange transaction; operating revenue
- MC15-21.** Ellis University, a private, nonprofit university receives a letter pledging to donate \$1,000,000 to the university. The pledge is unconditional, is expected to be received in the current fiscal year, and the pledge may be used for any purpose. What journal entry should Ellis University record? **LO 3**
- No entry would be recorded until the pledge is received
 - Debit pledge receivable; credit contribution revenue—without donor restrictions
 - Debit cash; credit contribution revenue—without donor restrictions
 - Debit pledge receivable; credit contribution revenue—with donor restrictions

Solutions to Chapter 15 In-Chapter Review Questions

Review 15-1

- Both public and private, nonprofit colleges and universities use the accrual basis of accounting.
- Both types of colleges and universities have the equivalent of a balance sheet, and income (or activity) statement, and a statement of cash flows. The titles of these statements for a public college or university are: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, and (3) statement of cash flows. The titles of these statements for a private, nonprofit college or university are: (1) statement of financial position, (2) statement of activities, and (3) statement of cash flows. In addition, private, nonprofit colleges and universities are required to present a matrix of expenses with functional and natural classification. Some private, nonprofit universities will report this as a fourth statement called a statement of functional expenses.
- The statement of net position of a public college or university differs from the statement of financial position of a private, nonprofit college or university by also including deferred outflows and deferred inflows and by the title of the residual, "net position," instead of "net assets." The income (operating) statements differ in that private, nonprofit colleges and universities report support and revenue by the presence or absence of donor restrictions. The statements of cash flows differ, with public colleges and universities reporting four categories, and private, nonprofit colleges and universities reporting only three.

Review 15-2

- For NSU, a public university:

Tuition and Fees Receivable	8,250,000	
Tuition and Fees Discounts and Allowances	750,000	
Tuition and Fees Revenue		8,850,000
Allowance for Uncollectible Tuition and Fees		150,000
<i>To record tuition and fees revenue and related scholarships and bad debt.</i>		

For NSU, a private, nonprofit university, the journal entry would be the same.

Review 15-3

- Because the grantee is a private, nonprofit university, the process requires evaluating whether the transaction is exchange (in which Topic 606 would apply) or nonexchange (in which ASU 2018-08 and related guidance would apply). The transaction is nonexchange as there is no reciprocal benefit to U.S. Department of Energy (DOE), but rather a benefit to the public at large. Under ASU 2018-08, this transaction would be viewed as conditional (barrier to overcome is the incurring of expenditures for the grant's purpose and there is a right of release).
- No journal entry would be recorded at the time of the grant award because the transaction is conditional.
- When expenses are incurred and the report is submitted to DOE, the following journal entry would be recorded:

Expenses	800,000	
Cash		800,000
Grant receivable	800,000	
Grant revenue		800,000
<i>To record expenses associated with DOE grant and related revenue recognition.</i>		

- Although the process for determining revenue recognition differs for public universities, a public university grantee would record the same journal entry as that of a private, nonprofit university grantee for expenditure-driven grant activity.

Review 15-4

- The journal entry for the public university is as follows:

Public University:

Due from foundation	18,000	
Cash (paid to employee)		12,500
Accrued liabilities—employee's portion		2,500
Accrued liabilities—employer's portion		3,000
<i>To record payment of salaries for employee serving the foundation.</i>		