

## Handbook Highlight from the Montana Municipal Officials Handbook

### 5.3 Accounting

#### 5.301 Accounting Principles

Montana local governments are required to manage and account for their financial activities in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB) (2-7-504 MCA, 2.4.401 & 2.4.411 A.R.M). GASB is the recognized authority with respect to governmental accounting. Managing the local government's finances in accordance with GAAP and with the rules set forth by GASB, provides the citizens assurance that their public funds are being accounted for in a proper manner. Compliance with GASB's standards is enforced through the audit process, when auditors render an opinion on the fairness of the financial statement presentations in conformity with GAAP.

The information needs of the users of government financial statements are different from the needs of the users of private company financial statements. A government's performance cannot be assessed by profit, which is the main objective of businesses. Governments have objectives other than profit maximization. Therefore, governments need accounting principles and reporting systems that differ from those of businesses.

#### 5.302 Basis of Accounting

Basis of accounting determines when transactions are recognized. Under an accrual basis, an expenditure is recognized when a bill is incurred, whereas on a cash basis, the expenditure is recognized when the bill is paid. Most local governments maintain their accounting records for general governmental operations on a modified accrual basis, with revenues recorded when available and measurable, and expenditures recorded when services or goods are received and liabilities incurred. Accounting records for enterprise funds are maintained on an accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt or

payment of cash.

Local governments maintain their accounts in accordance to the principle of fund accounting to ensure that limitations and restrictions on available resources are observed and adhered to. Fund accounting classifies resources into funds or account groups with respect to the intended activities or objectives specified by those resources for accounting controls and financial reporting purposes. Governments use several funds to account for their resources and activities.

Fund is a fiscal and accounting entity with a self-balancing set of accounts for recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The most common reason for establishing a fund is to separately account for restricted-use revenue or to comply with state or federal law.

There is no limit to the number of funds that a government may establish and maintain for accounting and financial reporting. A generally practiced governmental accounting guideline is that a government should use the smallest number of individual funds as possible, consistent with its particular circumstances, and that individual funds are closed when its intended purpose no longer exists.

Account is an organizational or budgetary breakdown which is found within the government's funds. Each department serves a specific function as a distinct organizational unit of government within the given fund. Its primary purpose is organizational and budgetary accountability. An example of an account is the Police Department or possibly, the detective division within the Police Department.

Object of expenditure refers to specific, detailed expenditure classification. It relates to a specific type of item purchased or service obtained. Examples of objects of expenditure include salaries, supplies, contracted services, and travel.