

# Intermediate Accounting – Measurement Focus & Basis of Accounting Recognition

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# Agenda of Topics

- Measurement Focus
- Basis of Accounting
- Recognition of Transactions/Events
  - Revenues
  - Expenditures/Expenses

# Measurement Focus and Basis of Accounting



- Measurement Focus – determines *what* is measured in a set of financial statements (Asset, Liability, Deferred Inflow/Outflow)
- Basis of Accounting – determines *when* recognition should take place (revenues and expenses/expenditures)
  - i.e. at what point does an inflow become a revenue or an outflow become an expense

# Measurement Focus

## What?

Describes the types (“what”) of transactions and events that are reported in various financial statements

- Economic *vs* Current Financial Resources
- Economic Resources (include short and long term)
  - Like private sector
  - Reports transactions/events (“what”) that changes a government's economic resources (ex. cash, capital asset and long-term liabilities)

NOW AVAILABLE

# Measurement Focus

## Current financial resources

- Reports transactions/events that change the “financial” resources available for spending in the near future (ex. cash, prepaid).
- “Available”- Governments determine the period as to when resources are typically collected, soon enough after year end, in order to be available to pay obligations of the current period (most commonly 30 or 60 days).
  - If received after this available period, then the receivable will be offset to Deferred Inflows (modified accrual basis only)

# Measurement Focus Differences: Statement of Financial Position

Item	Economic Resources (accrual) ?	Current Financial Resources (modified)?
Financial resources	Yes	Yes
Capital assets	Yes	No
Liabilities normally expected to be liquidated currently with expendable available resources	Yes	Yes
Liabilities normally NOT expected to be liquidated currently w/ expendable available financial resources	Yes	No

# Measurement Focus Differences: Operating Financial Statements

Item	Economic Resources (accrual)?	Current Financial Resources (modified)?
Issuance of long-term debt	No	Yes
Repayment of the principal of long-term debt	No	Yes
Capital outlay	No	Yes
Depreciation/amortization	Yes	No

# Basis of Accounting



- Establishes criteria governing the timing or “when” recognition of transactions and events occur.
- Accrual and ”Modified” Accrual (Gov’tl funds) Basis
- Accrual Basis – Transactions/events are recognized when they occur, regardless of when cash is received/disbursed (revenue and expenses). Similar to the private sector.
- Combining the Accrual Basis with Economic Recourses Measurement focus you will recognize all assets, liabilities, deferred inflows/outflows, revenues and expenses.



# Basis of Accounting

- Modified Accrual Basis:
  - Revenues are recognized only to the extent that they are susceptible to accrual (Both measurable and available to finance expenditures of the current period)
  - Expenditures are recognized when incurred. However, there are multiple exceptions (discussed later)
- Combining the Modified Accrual with Current Financial Resources measurement focus will exclude:
  - Long term assets and long-term liabilities
  - Certain deferred inflows and outflows (ex. items associated with issuance of debt and accruals associated with the GASB 68/75 Unfunded Pension & OPEB Liability)

# Difference in Basis of Accounting

Item	Accrual Basis	Modified Accrual Basis
Revenue	When earned	When earned, <i>IF</i> Measurable AND Available * Collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period
Expense/ Expenditure	When liability incurred	When liability incurred, EXCEPT FOR: <ul style="list-style-type: none"><li>• Unmatured debt</li><li>• Accrued interest on LT Debt</li><li>• Certain accrued liabilities normally not expected to be liquidated currently with expendable <b>available</b> financial resources (ex. Compensated Absences)</li><li>• Prepays</li></ul>

# Financial Statement Application

- Governmental Funds use the current financial resources measurement focus and the modified accrual basis of accounting
- All other financial statements use the economic measurement focus and accrual basis of accounting (Entity-Wide, Proprietary and Fiduciary Funds)

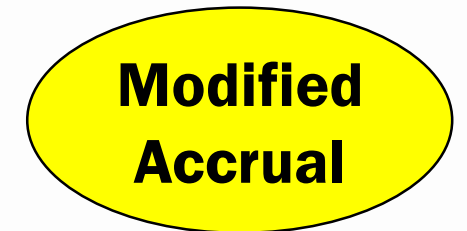


# Exercises



Which basis of accounting is consistent with the economic resources measurement focus?

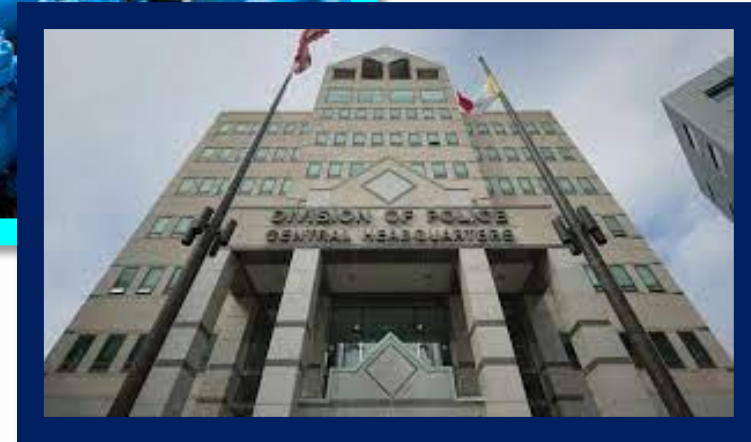
- A. Accrual Basis
- B. Modified Accrual Basis
- C. Cash Basis (Regulatory or OCBOA)
- D. All of the above
- E. None of the above



# Exercises

Which of the following operations would be most likely to have a measurement focus different from the other departments (hint: consider the fund type each is reported in).

- A. Fire
- B. Streets
- C. Water
- D. Police



# Exercises

- Measurement focus determines *what* is measured, while basis of accounting determines *when* recognition should occur?
  - True or False?
- Under the accrual basis of accounting, revenues and expense recognition are unaffected by the timing of related cash flows?
  - True or False?

# Exercises

The same item might qualify for recognition as revenue under both the accrual and modified accrual basis of accounting?

- True or False?



# Revenue Categories, Transactions & Events Recognition

**NON-Exchange**

- Exchange and exchange-like transactions
- Non-exchange transactions
  - Derived Tax
  - Imposed Non-Exchange
  - Government-Mandated Non-Exchange
  - Voluntary Non-Exchange
- Extraordinary and special items



# Exchange/Exchange Like

- Transactions in which each party receives and gives up essentially equal values
  - Charges for Service (Sewer and Water)
  - Tuition and Fees (Education)
  - Lease Revenues (Building)
  - Special Assessments (Street Lighting)
- Receivable recognized when exchange takes place (for both basis of accounting)
- Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be “available”



# Non-Exchange Transactions

Occur when a government gives/receives something without an exchange of equal value

- Derived tax revenues
- Imposed non exchange revenues
- Government-mandated non-exchange transactions
- Voluntary non-exchange transactions





# Derived Tax Revenues

- Governments generate revenues by imposing a tax on certain exchange transactions that they are not a party to.
  - Motel Tax
  - Sales Tax
  - Income Tax
- Receivable recognized when exchange takes place (net of estimated refunds and uncollectable)
- Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be “available”





# Imposed Non-Exchange

- Governments can generate revenues by assessing without an “exchange” taking place
  - Property Tax
  - Fines and penalties
- Receivable recognized as soon as the government obtains an enforceable legal claim (net of estimated refunds and uncollectable)
- Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be “available”
  - *Exception* – If there is a timing requirements as to when resource can be spent (ex. property taxes cannot be spent until year after the lien date)

# Government Mandated Non-Exchange

- One Gov't mandating another Gov't to provide a service while offering partial or full funding
  - State Local Gov't revenues
  - Gas tax
  - Homestead and rollback
  - Grants
- Receivable recognized as soon as the government has met eligibility requirements
- Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be “available”



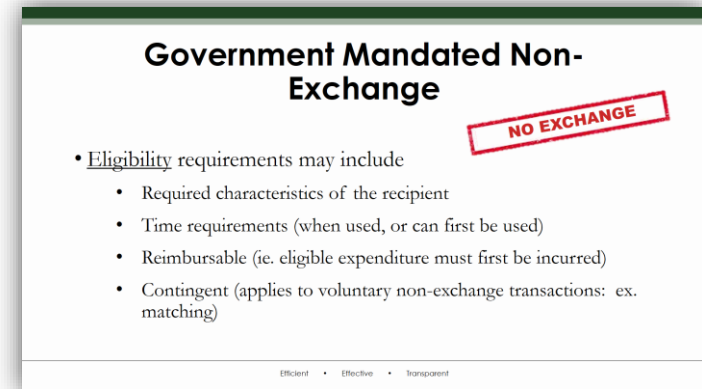
# Government Mandated Non-Exchange

**NO EXCHANGE**

- Eligibility requirements may include
  - Required characteristics of the recipient
  - Time requirements (when used, or can first be used)
  - Reimbursable (ie. eligible expenditure must first be incurred)
  - Contingent (applies to voluntary non-exchange transactions: ex. matching)

# Voluntary Non-Exchange

- Not meeting the other types, which are primarily Grant Awards
- Receivable recognized as soon as the government has met eligibility requirements
- Eligibility requirements (same as previous slide)
- Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be “available”



**Government Mandated Non-Exchange**

**NO EXCHANGE**

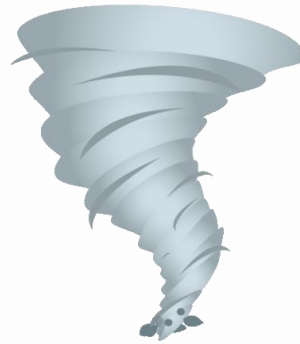
- Eligibility requirements may include
  - Required characteristics of the recipient
  - Time requirements (when used, or can first be used)
  - Reimbursable (i.e. eligible expenditure must first be incurred)
  - Contingent (applies to voluntary non-exchange transactions: ex. matching)

Efficient • Effective • Transparent

# Extraordinary and Special Items – Revenues and Expenditures/Expenses

- Extraordinary Items – must be BOTH:

- Unusual in nature
- High degree of abnormality
- Clearly unrelated to or only incidentally related to activities of government
- Ex. A tornado in Oklahoma (No) but in Hawaii (Yes)
- Infrequent in occurrence
- Special Item – meets one of the two, however must be within the control of management
- Ex. Sale of a major piece of land/building by a government (may not be “unusual” but probably “infrequent”)





# Receivable/Revenue Recognition

Category	Receivable Recognition	Revenue Recognition*
Exchange transactions	When transaction takes place	When transaction takes place
Exchange-like trx	When transaction takes place	When transaction takes place
Derived tax revenues	When underlying transaction takes place	When underlying transaction takes place
Imposed non-exchange revenues	Enforceable legal claim**	Enforceable legal claim and start of period intended to finance**
Government-mandated non-exchange revenues	Eligibility requirements met	Eligibility requirements met
Voluntary non-exchange revenues	Eligibility requirements met	Eligibility requirements met
<p>*In governmental funds revenue recognition must be deferred until amounts are <i>available</i>.</p> <p>**In the specific case of property taxes, the start of the period the taxes are intended to finance, if earlier.</p>		

# Revenue Recognition Criteria

Basis of Accounting	Criteria
Accrual	Earned
Cash	Earned + Collected
Modified Accrual	Earned + Collected or Collectable (available)

Modified accrual accounting focuses on whether resources *can* be collected (*collectible*). If a government is in a position to obtain resources to which it has a claim during its availability period, but fails to do so, those resources *could* be considered to be available for revenue recognition purposes, even if they were not actually collected during the availability period (for example, a delinquent filing for a reimbursement grant)

# Exercises

**Ex**

- Classify each transaction as:
  - Exchange (Ex), Exchange Like (EXL), Derived Tax revenue (DT), Imposed non-exchange (INE), Government-mandated non-exchange (GMN) or Voluntary non-exchange (VN)

• Property Tax

\_\_\_\_\_

• Charge for Water Utilities

**EXL**

\_\_\_\_\_

**INE**

• Fines and Forfeitures

\_\_\_\_\_

**GMN**

• Sale of Administration Building at slightly less than FMV

\_\_\_\_\_

• Income Tax

\_\_\_\_\_

**VN**

• State-mandated Grant

**DT**

\_\_\_\_\_

# Exercises

- There is no difference in accounting and financial reporting between exchange and exchange-like transactions?

**TRUE** OR **FALSE**

- Which of the following would potentially qualify as an extraordinary item?

- A. Tornado
- B. Major sale of land
- C. Both
- D. Neither



# Exercises



Which of the following would potentially qualify as a special item?

- A. A hurricane on the Gulf Coast
- B. Major sale of land
- C. Both
- D. Neither



# Exercises



Which of the following actions would a Gov't take upon levying a property tax that is intended to fund the subsequent fiscal year, assuming that the levy constitutes a legally enforceable claim?

- A. Recognize a Receivable
- B. Recognize Revenue
- C. Both
- D. Neither

# Resources

AUDITOR OF STATE BULLETIN 2001-004  
March 15, 2001

TO: ALL SCHOOL DISTRICT TREASURERS  
ALL COUNTY AUDITORS  
ALL CITY FINANCE DIRECTORS  
ALL CITY AUDITORS  
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: GASB STATEMENT NO. 33

## Introduction

Although the new reporting model established by the Governmental Accounting Standards Board (GASB) in Statement No. 34 is generating the most discussion, another new statement from the GASB will become effective before the transition to the new model is required. GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" is effective for financial statements for periods beginning after June 15, 2000. For school districts, GASB Statement No. 33 will need to be implemented for the fiscal year ending June 30, 2001. For counties and cities, implementation will be required for the year ending December 31, 2001.

GASB has also issued Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues" which modified the provisions of Statement No. 33 for certain specific nonexchange revenues. The provisions of Statement No. 36 are to be implemented simultaneously with those of Statement No. 33 and are incorporated into this Bulletin.

The purpose of GASB Statement No. 33 is to clarify the timing requirements for recognizing assets, liabilities, revenues and expenditures/expenses associated with nonexchange transactions. The Statement defines a nonexchange transaction as one in which the government receives value without directly giving equal value in return. (This is in contrast to exchange transactions in which each party receives or gives up essentially equal value.) Examples of nonexchange transactions include sales, income and property taxes, hotel-motel tax, gasoline tax, fines and penalties and grants. Inadequate guidance has resulted in these transactions being reported differently from one government to another. The GASB is hoping to generate more consistency and comparability in financial reporting by establishing more detailed recognition criteria.

GASB Statement No. 33 groups nonexchange transactions into the following four categories:

*Derived tax revenues* result from assessments imposed by governments on exchange transactions.

*Imposed nonexchange revenues* result from assessments by governments on non-governmental entities, including individuals, other than assessments on exchange transactions.

*Government-mandated nonexchange transactions* occur when a government at one level provides services to a government at another level and requires that government to use them for a purpose or purposes established in the provider's enabling legislation.

*Other nonexchange transactions* result from legislative or contractual agreements, other than those imposed by two or more parties.

## AOS Technical Bulletin 2001-004

<https://ohioauditor.gov/publications/bulletins/2001/2001-004.pdf>

# Expense Recognition

- Basic Rule:
  - Modified accrual basis of accounting is, in fact, a *modified* form of the *accrual* basis of accounting. Consequently, the regular rules that apply to *expense* recognition are presumed to apply to *expenditure* recognition unless a modification has been explicitly prescribed
- Accrual Basis Reminder – Transactions/events are recognized when they occur, regardless of when cash is dispersed (expenses).
- Covers Entity-Wide, Proprietary and Fiduciary Funds
  - Purchases
  - Payroll
  - Debt
  - Capital Assets

**RECOGNIZE!**



# Expenditure Recognition- Governmental Funds

- Modified Accrual Basis-Reminder:
  - Expenditures are recognized when due and liquidation of the liability normally would require the use of current financial resources (held or received shortly after year end)
- Absent explicit requirements to do otherwise, expenditures are recognized when incurred and due:
  - Purchases
  - Payroll
  - Utilities
  - Professional services
  - Supplies

**RECOGNIZE!**

# Expenditure Recognition- Governmental Funds *cont'd*

- Exceptions to the basic rule
  - Debt Service (accrued interest payable on LT Debt)
  - Certain specified accrued liabilities (comp abs, judgments, termination benefits, landfill)
  - Pension and OPEB
  - Operating Leases with schedule rent increases (not common)
  - Inventories of supplies (method: purchases vs consumption)
  - Prepays (method: purchases vs consumption)



# Expenditure Recognition- Governmental Funds cont'd

- Debt Service – We learned debt is accounted for under the Economic Resources measurement focus, as a result, *accrued interest payable (related to Long Term Debt)* covering the accrual period would only be recorded as an expense on the accrual basis of accounting.
  - If Short Term debt, record on modified accrual basis.
- Example: June 30 year end with an Interest Payment (on LT Debt) Due on 6/1 & 12/1. 1/6 of the interest payment would be accrued on the 6/30 accrual basis financial statements since not “due



2026

2028

2031

2034

2037

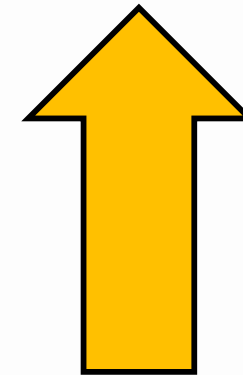
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# Expenditure Recognition- Governmental Funds *cont'd*

## Current Focus

- Certain Specific Accrued Liabilities
  - Compensated absences (unmatured)
  - Claims and judgments
  - Termination benefits
  - Landfill closure/post closure care costs
- These do not meet the “current” financial measurement focus. They are not typically budgeted or paid until they come due for payment. Amounts could be estimated and the due date is known (in the future), however these would be reported on the Accrual Basis financial statements only since not due



# Expenditure Recognition- Governmental Funds *cont'd*

- Inventories of Supplies and Prepaids – There is the option to use the “Purchase” method or the “Consumption” method on the Modified Accrual Basis
  - Purchase Method – Recognizes the expenditure when the purchase is made
  - Consumption Method – Recognizes the expenditure when the item/service is consumed
- Examples:
  - Insurance
  - Annual maintenance agreements/contracts
  - Road Salt
- There is NO Option for reporting on the Accrual Basis of accounting. Must use the Consumption Method (reporting “what” and “when” used)

# Exercises

When is an *expense* first recognized under the accrual basis of accounting?

- A. When a liability is incurred
- B. Either when a liability is incurred or when a liability is incurred and liquidation normally is expected to be made using current financial resources
- C. When payment is due
- D. When payment is made



# Exercises

## Modified Accrual

When is an *expenditure* first recognized under the modified accrual basis of accounting?

- A. When a liability is incurred
- B. Either when a liability is incurred or when a liability is incurred and liquidation normally is expected to be made using current financial resources
- C. When payment is due
- D. When payment is made



# Exercises

Which of the following would always be recognized as an expenditure at the time a liability is incurred under the modified accrual basis of accounting?

- A. Salaries
- B. Professional Services
- C. Utilities
- D. All of the above
- E. None of the above





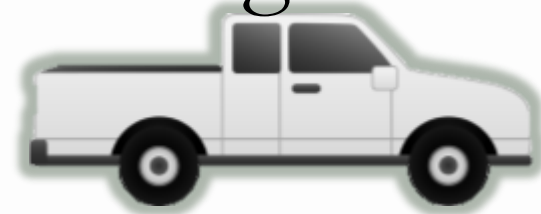
# Exercises

When should an *expenditure* normally be recognized in connection with the interest on long-term debt?

A. When incurred

B. When due

C. When paid



# Exercises

Employees of the general fund accrue \$150,000 of vacation leave prior to the close of the fiscal year end. It is anticipated that \$70,000 of that amount will be used in the following 12-month period (\$10,000 within the first 60 days). How much should be reported as an *expenditure* of the current period?

- A. \$150,000
- B. \$70,000
- C. \$10,000
- D. \$0



**\$150,000**  
**12/31/2021**

**\$70,000**  
**12/31/2022**



**\$10,000**  
**3/2/2022**



# Key Concepts-Summary



- Economic vs Current Financial Resources Focus  
(recording the types of transactions/events “what”)
- Accrual vs Modified Accrual Basis of Accounting  
(considers the timing of recording of transactions/events “when”)
  - Importance of the “Available” period when recognizing revenue under each Basis

# Key Concepts-Summary

- Receivable/Revenue recognition
  - Exchange and exchange-like transactions
  - Non-Exchange transactions
  - Keep in mind some of the key differences regarding the “eligibility” requirements
- Extraordinary vs Special Items
- Expense vs Expenditure recognition and the concepts
  - Incurred
  - Due and liquidated with current financial resources

# Resources

## **Governmental Accounting, Auditing, and Financial Reporting (GAAFR) Chapters 7, 8, 9 and 10**

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