NEW JERSEY COMPREHENSIVE FINANCIAL SYSTEM

INSTRUCTIONAL MANUAL

INTRODUCTION TO GOVERNMENTAL ACCOUNTING

OUTLINE – INTRODUCTION TO GOVERNMENTAL ACCOUNTING

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TOPIC I: GOVERNMENTAL ACCOUNTING ENVIRONMENT

A. Introduction

This topic is a high-level overview of the characteristics of fund accounting and the governmental accounting environment.

B. Fund Accounting

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. A fund is established to achieve specified objectives and to ensure that monies collected are spent for the intended purpose. Each fund has operating transactions and financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP). The fund most NJCFS users will be working with is the General Fund, which is defined as the fund where all State revenues not otherwise restricted by statute are deposited and from which appropriations are made. The majority of the State's financial operations are accounted for in the General Fund and the Property Tax Relief Fund (PTRF). The gross income tax is dedicated to the PTRF, whereas other tax revenues, most federal revenue, and certain miscellaneous revenue items are recorded in the General Fund.

C. Governmental Accountability

The accounting principles followed by a governmental entity are quite different from that of a corporate entity. Accountability is an important part of a government's accounting environment. Governments answer to the citizenry, and are required to justify the amount of public resources needed and how those resources are to be spent. They have the responsibility of demonstrating good stewardship over the funds collected.

D. Government Budget

The Governor's Budget Message is an integral part of governmental accountability. The budget encompasses all anticipated resources and proposed appropriations, and is the proposed financial plan for the State for the fiscal year. In other words, the budget takes into account all necessary expenditures for each agency and identifies the means of financing them. Governments are required to prepare a balanced budget (resources equal expenses) and are legally unable to spend in excess of their means. The approved budgets for governmental funds become law through the enactment of the annual Appropriations Act. The Appropriations Act is the legal framework through which all spending is authorized and line item appropriations are recorded in the budgetary accounts in NJCFS.

TOPIC II: ACCOUNTING PERIODS AND ACCOUNTING FISCAL YEAR VS BUDGET FISCAL YEAR

A. Fiscal Year and Months

The State of New Jersey's fiscal year runs from July 1 through June 30. Fiscal months are numbered as follows:

July = 01	January = 07
August = 02	February = 08
September = 03	March = 09
October = 04	April = 10
November = 05	May = 11
December = 06	June = 12

B. Budget Fiscal Year and Accounting Fiscal Year

The budget fiscal year is the year for which the annual budget applies and funding is appropriated. The accounting fiscal year is the year in which a transaction is posted and for which financial statements are prepared. NJCFS distinguishes between budget fiscal year and accounting fiscal year, thus allowing transactions to be posted to a budget fiscal year account that is different from the accounting fiscal year during which the transaction is taking place. Typically, this occurs when posting transactions to federal accounts that span multiple budget fiscal years or when paying an invoice against a prior year encumbrance.

C. Accounting Periods

Transactions posted in NJCFS must contain the accounting period, which is defined as the combination of fiscal month and fiscal year. The accounting period must always equal the current, open accounting period. For example, if posting an entry against a federal fiscal year 2004 account during September 2006, the proper budget fiscal year would be 04 and the proper accounting period would be the current, open accounting period 03 06.

D. July

Although the fiscal year ends on June 30, the Office of Management and Budget (OMB) keeps the accounting records open for one additional month (until July 31) to allow agencies to post year-end closing entries, adjustments, etc. Therefore, the month of July is open for two accounting fiscal years. In July, transactions can be posted for either the first accounting month of the new fiscal year (fiscal month 01) or the last accounting month of the closing fiscal year (fiscal month 12). During July, it is imperative that the correct accounting period be entered to ensure the transaction is posted to the correct fiscal year.

Subsequent to July, there is the 13th accounting period for use by OMB. During the 13th accounting period, fiscal year-end adjustments are made to record receivables, payables, and other year-end adjustments to properly reflect assets, liabilities, and the results of operations in the annual audited financial statements.

TOPIC III: INTEGRATED PLANNING AND BUDGET SYSTEM (IPB) AND THE IPB/NJCFS INTERFACE

A. IPB and the May Interface

OMB uses IPB to prepare the State of New Jersey's Budget Message and Appropriations Act. All estimated revenue amounts and recommended appropriation amounts approved in the Governor's Budget Message are contained in IPB. In May, prior to the start of the new fiscal year, an interface process passes the information contained in IPB to NJCFS. This establishes the Governor's recommended appropriation amounts and estimated revenue amounts in valid appropriation (APPR) and revenue budget (REVB) accounts. This initial interface of accounts and amounts to NJCFS allows agencies to prepare for the new fiscal year by entering certain transactions during May and June, such as expense budgets, pre-encumbrances, encumbrances, and federal aid master records.

B. July Interface

During July, a second interface occurs to update the appropriation and estimated revenue accounts to reflect the amounts approved by the Legislature and enacted by the Appropriations Act. NJCFS will now reflect the legal limits in which agencies are required to operate and record transactions.

C. NJCFS to IPB Interface

In addition to the pass of budget information from IPB to NJCFS, there are interfaces that pass actual revenue and expenditure data from NJCFS to IPB for the prior fiscal year. This occurs sometime after the fiscal year is officially closed and amounts are finalized. This pass of the actual results of revenues and expenditures appear on the left-hand side of the Governor's Budget Message Budget Book.

TOPIC IV: ACCOUNT TYPES AND THEIR EFFECTS ON FINANCIAL STATEMENTS

A. Balance Sheet Accounts

All account types relate to the basic accounting equation **Assets = Liabilities + Fund Balance.**

These three account types represent balance sheet accounts, which give a point-in-time dollar amount for the given account. Balance sheet accounts include cash, receivables, and payables, and are not closed to fund balance at year-end.

Account type codes are used within NJCFS to denote account types. These codes are fixed and uniform across all agencies. Account types are stored online in the Account Type Table (ACCT).

NJCFS is a double-entry accounting system. Every document processed in NJCFS will post debits and credits as necessary to keep the basic accounting equation shown above in balance as follows:

Account Type Code	Account Type	Debit	Credit
01	Assets	Increase	Decrease
02	Liabilities	Decrease	Increase
03	Fund Balance	Decrease	Increase

B. Other Account Types

Other account types represent operating accounts/income statement accounts. Debits and credits increase or decrease the balance in an operating account depending on the purpose of the transaction. The following chart shows operating account types and the effects of a debit and credit on the accounts:

Account Type Code	Account Type	Debit	Credit
20	Pre-Encumbrances (memorandum only)	Increase	Decrease
21	Encumbrances	Increase	Decrease
22	Expenditures	Increase	Decrease
31	Revenue	Decrease	Increase

C. Debits and Credits

In the NJCFS accounting ledgers, debits are stored as positive numbers and credits are stored as negative numbers. Therefore, when viewing an online ledger for revenue transactions, a revenue inflow is stored as a negative number (credits increase revenue).

The following are examples of the most common accounting transactions and their corresponding double-sided ledger entries.

Transaction	Debit	Credit
Cash Receipt (CR)	Cash	Revenue
Invoice (IN)	Accounts Receivable	Revenue
CR referencing an IN	Cash	Accounts Receivable
Pre-Encumbrance (RA, RD)	Pre-encumbrances	Reserve for Pre-encumbrances
Encumbrance (AO, PO, GO)	Encumbrances	Reserve for Encumbrances
Expenditure (AV, PV, U1)	Expenditure	Vouchers Payable

Note: If an encumbrance transaction references a pre-encumbrance, an additional entry will be generated to reverse the entry made when the pre-encumbrance was created. Similarly, if an expenditure transaction references an encumbrance, an additional entry will be generated to reverse the entry made when the encumbrance was created.

D. Budgetary Accounts

In addition to the account types described above, governmental accounting makes use of budgetary accounts, which are accounts used to record revenue estimates, appropriations, and other budgetary transactions. Debits and credits may increase or decrease the balance in a budgetary account, depending on the purpose of the transaction. The following chart shows budgetary account types and the effects of a debit and credit on the accounts:

Account Type Code	Account Types	Debit	Credit
41	Budgeted Obligations	Decrease	Increase
42	Appropriation Authority	Decrease	Increase
51	Estimated Revenue	Increase	Decrease

The effects of debits and credits posted to these account types are the opposite of the companion operating accounts. Following are examples of the most commonly used budgetary transactions and their corresponding double-sided ledger entries.

Transaction	Debit	Credit
Appropriation (AP)	Fund Balance	Appropriation
Transfer of Appropriation (TA)	Appropriation (trans out)	Appropriation (trans in)
Revenue Budget (RB)	Estimated Revenue	Fund Balance

The Expense Budget (EB) and Transfer of Expense Budget (TB) are memo entries only and do not affect the accounting equation.

TOPIC V: TRANSFER OF APPROPRIATION VS EXPENDITURE MODIFICATION VS INTRA-GOVERNMENTAL PAYMENT VOUCHER

A. Transfer of Appropriation (TA)

TAs are budgetary transactions that move budget authority from one account to another. A transfer results in budget authority residing in the appropriate account from which expenditures should be made. For example, if an expenditure must be made for supplies, and sufficient authority does not exist in the appropriate account, funds may be transferred into the supply account from an equipment or salary account. Budget authority and the corresponding expenditure for supplies now reside in the supply account.

B. Expenditure Modification (EM)

EMs are accounting transactions that correct an accounting distribution of a previously processed expenditure. For example, if an expenditure was posted in a supply account, and subsequently it is realized the charge should have been made to a maintenance account, an EM will move the charge to the correct account. Budget authority is unchanged. The result of the transaction is a decrease of the expenditure in the incorrect account and an increase of the expenditure in the correct account.

C. Intra-Governmental Payment Voucher (UA)

UAs are accounting transactions that are used to reflect expenditures, reimbursements, and revenues in the appropriate accounts. UAs are used when a “buyer/seller” relationship exists between government units. For example, if one unit performs data processing services for another, the “buyer” records an expenditure and the “seller” records revenue. UAs are also used where one unit is reimbursing another for expenditures made on their behalf. For example, agencies reimburse the Treasury central account for postage and telephone expenditures made on their behalf. Agencies that incurred the telephone charges record an expenditure and the Treasury central account, which paid the bill on the agencies’ behalf, records a decrease to expenditure (reimbursement).

TOPIC VI: REVENUE CLASSIFICATIONS

A. Anticipated Revenue

Anticipated revenue is defined as "that portion of estimated revenues to be realized in any fiscal year that have been anticipated as resources to support the appropriations made in the annual Appropriations Act." In other words, anticipated revenue does not belong to any particular agency or division to spend, but is collectively used to finance State operations. There may or may not be a one-to-one revenue amount to match a specific appropriation. For example, Sales Tax is anticipated revenue. It does not belong to any particular agency, but is considered general State revenue that is used to finance various State programs in various agencies. Anticipated revenue is associated with "Schedule 1: State Revenues" in the Appropriations Act, and will not contain an appropriation unit on the Revenue Budget (REVB) discussed in the Budget Module, Topic II: Revenue Budgets.

B. Appropriated Revenue

Appropriated revenues are defined as "those revenues that upon receipt increase appropriation balances (budget authority) of an agency for specified purposes as authorized in the Appropriations Act." In other words, the revenues are collected by an agency for a particular program, and are allowed to be spent by that agency alone. For example, the Department of Health and Senior Services may collect funds from a hospital or other organization to do cancer research. The Department of Health and Senior Services alone retains this revenue and spends it for the specified purpose. Appropriated revenue is associated with "Schedule II: Other Revenues" in the Appropriations Act, and will contain an appropriation unit (appropriating the revenue to a specific account) on REVB.

Note: Multiple revenue sources can be linked to the same appropriation record. In the above example, we might receive funding from five different hospitals. Cancer research would be the appropriation account, and each of the five hospitals would be a revenue source.

C. Appropriations Act Language

In addition to these general definitions, certain language provisions in the Appropriations Act might authorize certain State revenues (Schedule 1: State Revenues) to be appropriated to a particular agency. Below is an example of such a language provision found in the Department of Agriculture.

> *"Receipts from laboratory test fees <u>are appropriated</u> to support the Animal Health Laboratory program."*

In this case, every dollar collected by Agriculture for laboratory test fees is allowed to be retained and spent by Agriculture for its Animal Health Laboratory program. In some cases, an agency has a language provision allowing it to retain and spend *a portion* of receipts collected. Below is an example found in the Department of Law and Public Safety:

> *"Receipts <u>in excess of the amount anticipated are appropriated</u> to the Controlled Dangerous Substance Registration program for the purpose of offsetting the costs of the administration and operation of the program."*

In this case, assuming an anticipated amount of $100,000 on Schedule 1: State Revenues, collections up to the estimated amount of $100,000 are anticipated revenue and not available to the agency. Any *additional* collections are appropriated and can be obligated or expended by the agency.