



Recognizing Revenues

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Textbook: Government and Not-for-Profit Accounting, Granof

- This presentation contains information, in addition to the material prepared and provided by the professor, from the book Government and Not-for-Profit Accounting, 7th. Ed., Granof which is the textbook assigned for the course CONT 4059 – “Contabilidad para Entidades que no son Negocios” at the University of Puerto Rico, Río Piedras Campus.



Modified Accrual Basis

Modified Accrual Basis

1.1 Rationale

BUDGET

(CASH BASIS)

ACCOUNTING

(MODIFIED ACCRUAL BASIS)

Modified Accrual Basis

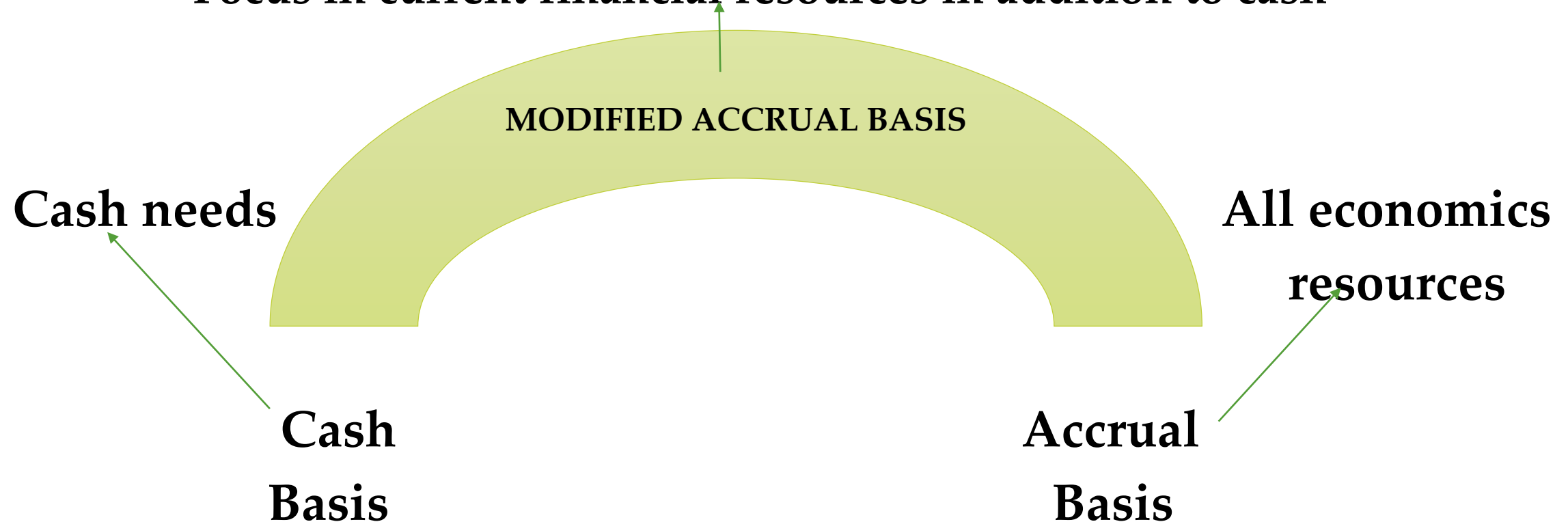
1.1 Rationale

- The Modified Accrual Basis is far more oriented than the full accrual basis in that the budgets of most governments focus on either cash plus selected short-term financial resources.
- Generally, the revenues and expenditure principles that underlie the government's fund statements would not necessarily be identical to those of their legally adopted budgets.
- Hence, schedules that show the variances between budgetary estimates and actual results may have to include a reconciliation that indicates the portion of the variances attributable to differences in accounting principles.

Modified Accrual Basis

1.1 Rationale

Focus in current financial resources in addition to cash





Recognition of Revenue

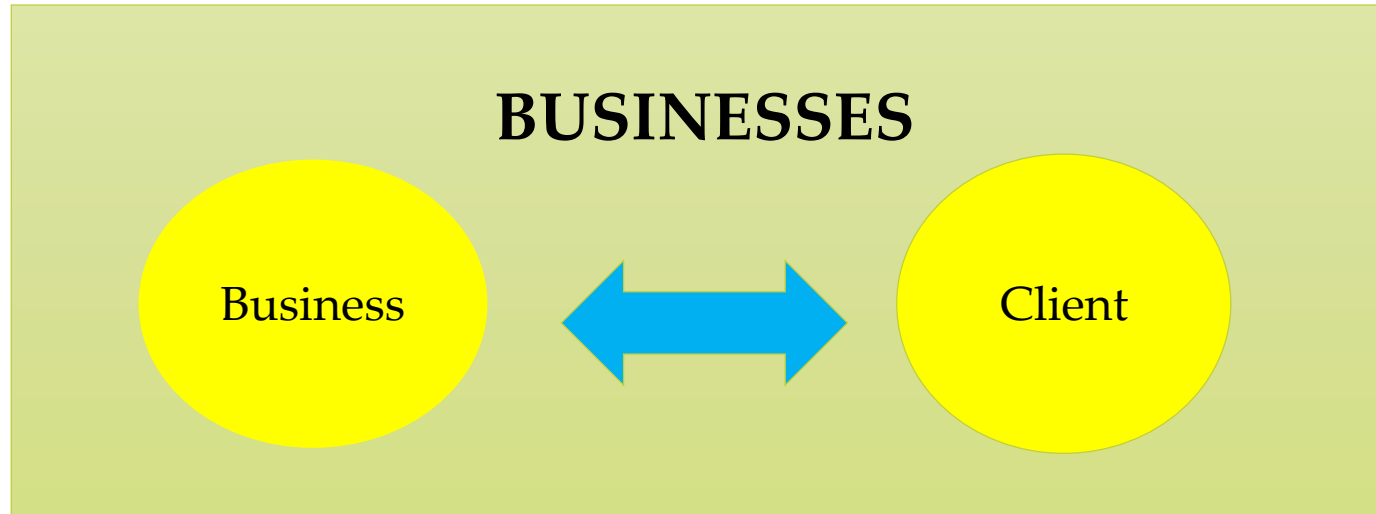


Recognition of Revenue

2.1 Distinction between Businesses and Government

Recognition of Revenue

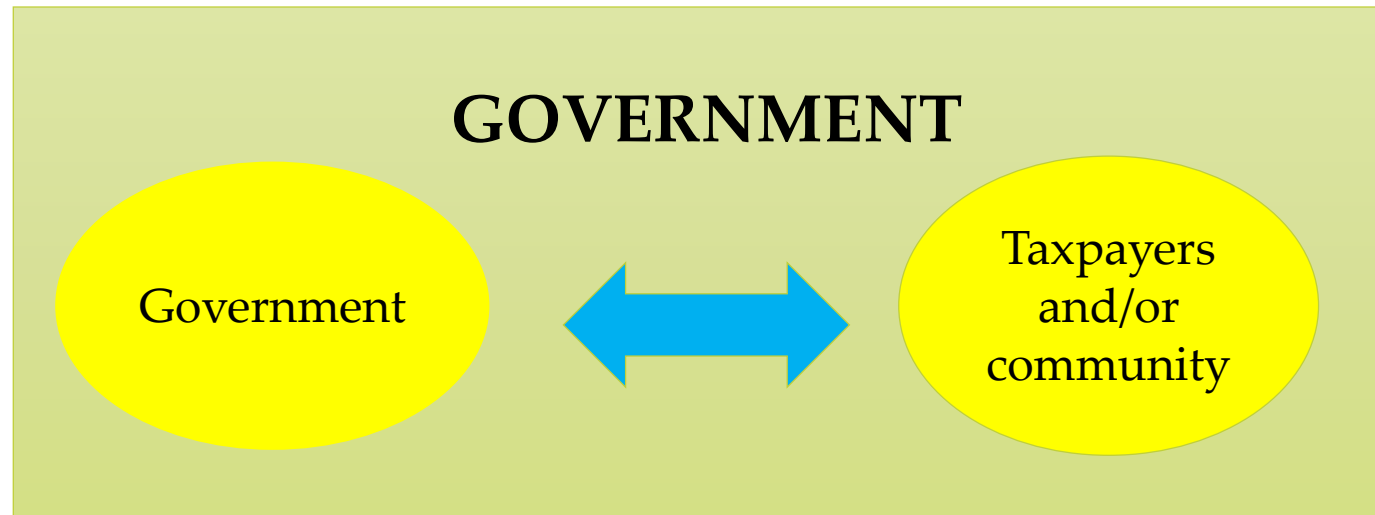
2.1 Distinction between Businesses and Government



Businesses derive their revenues mainly from exchange transactions (those in which each party gives and receives consideration of equivalent value).

Recognition of Revenue

2.1 Distinction between Businesses and Government



Governments (except business-type activities) derive their revenues mainly from nonexchange transactions (One party gives or receives value without directly receiving or giving equivalent value in exchange)

Recognition of Revenue

2.2 Recognition of Revenue - General

Recognition of Revenue

2.2 Recognition of Revenue - General

- GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transaction (1998):
 - **Modified** Accrual Basis = Governmental funds
 - **Full** Accrual Basis = Proprietary and Fiduciary funds

Recognition of Revenue

2.2 Recognition of Revenue – General

- GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transaction (1998):
 - The revenues cannot be recognized until they are both:
 - **Measurable**, and
 - **Available**
- to finance expenditures of the fiscal period.

Recognition of Revenue

2.2 Recognition of Revenue – General

- **Available:** The cash has been collected or will be collected soon enough to pay the liabilities they are intended to cover.

Recognition of Revenue

2.2 Recognition of Revenue – General

- *How many days after the close of the year must revenues be received to satisfy the criteria of having been received “soon enough” to pay the liabilities of the current period?*

Recognition of Revenue

2.2 Recognition of Revenue – General

- *How many days after the close of the year must revenues be received to satisfy the criteria of having been received “soon enough” to pay the liabilities of the current period?*
 - **GASB Interpretation No. 5, Property Tax Revenue Recognition in Governmental Funds** = Revenues should be recognized only if cash is expected to be collected within 60 days of year-end.
 - This “**60-day-rule**” has become widely used benchmark for all types of revenues, not just property taxes.

Recognition of Revenue

2.3 Types of Nonexchange Revenues

Recognition of Revenue

2.3 Types of Nonexchange Revenues

1. **Imposed nonexchange revenues:** Assessment imposed on individual and businesses. Ex. Property tax and fines.
2. **Derived Tax Revenues:** These are taxes derived, that result from assessments on exchanged transactions carried on by taxpayers. Ex. Income taxes.

Recognition of Revenue

2.3 Types of Nonexchange Revenues

3. Government - mandated nonexchange transaction: When a government at one level (ex. Federal) provides resources to a government at another level (ex. State) and requires the recipient to use the resources for a specific purpose.

- **Example:** Federal grant.

Recognition of Revenue

2.3 Types of Nonexchange Revenues

4. **Voluntary nonexchange transaction:** Same as #3, but, the recipient government is not required to accept the awards.

- **Example:** gift to public university.

Recognition of Revenue

2.4 Limitations of Nonexchange Revenues

Recognition of Revenue

2.4 Limitations of Nonexchange Revenues

The limitations constrain when and how a government may use the resources it receives in nonexchange transactions:

1. **Time requirements:** the period during which resources must be used or when use may begin.
2. **Purpose restrictions:** The purpose for which the resources must be used.



Imposed Nonexchange Revenues

Imposed Nonexchange Revenues

3.1 General

Imposed Nonexchange Revenues

3.1 General

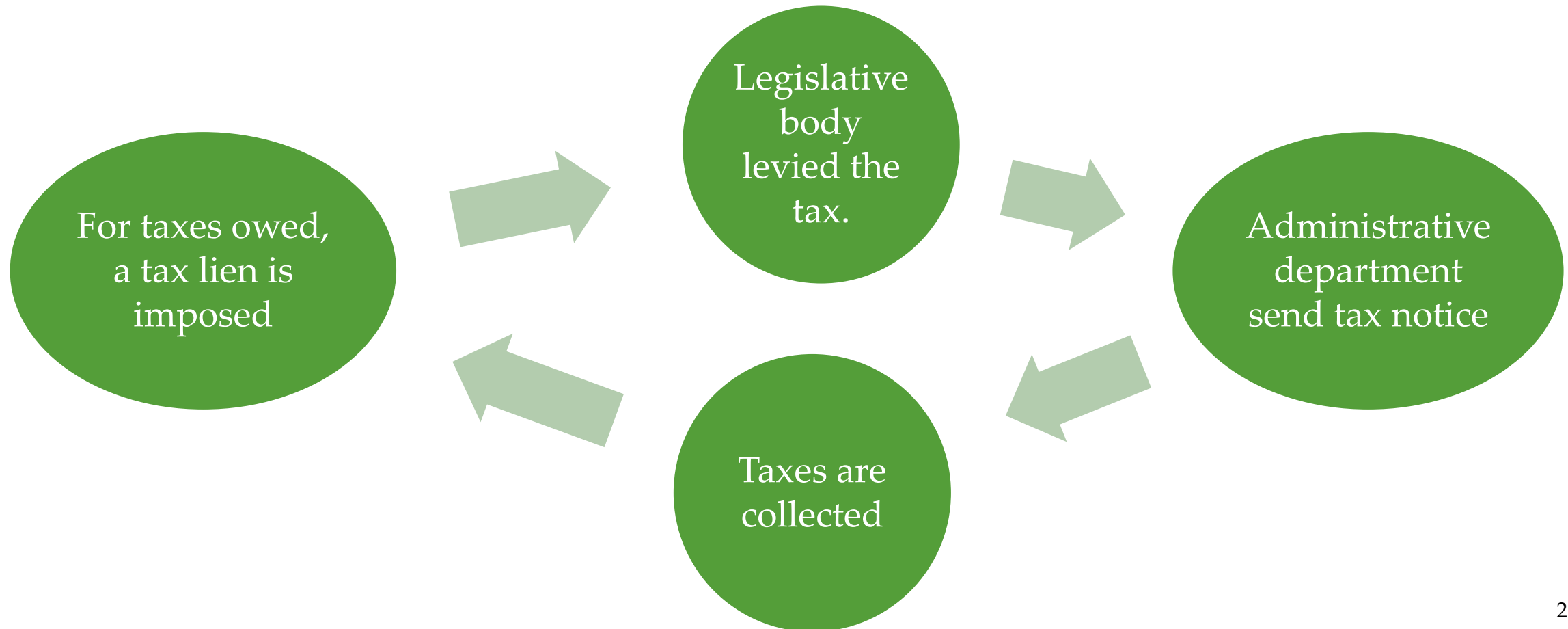
- The main imposed nonexchange revenue is Property Taxes. They still account for 27% of local government revenues.
- They are classified as Ad Valorem Taxes.
- Property taxes:
 - most typically levied against real estate property (land, building).
 - However, some jurisdiction also include within the tax base personal property (automobiles, boats, and business inventories and other business properties).
- Property taxes are levied against the assessed value of taxable assets.

Imposed Nonexchange Revenues

3.2 Significant Events in the Revenue Generation Process

Imposed Nonexchange Revenues

3.2 Significant Events in the Revenue Generation Process



Imposed Nonexchange Revenues

3.3 Revenue Recognition Rule – Property Taxes

Imposed Nonexchange Revenues

3.3 Revenue Recognition Rule – Property Taxes

1. Governments should recognize revenues from property taxes in the period for which the taxes are levied. (The lien date = the date when government have an enforceable claim)
2. When the asset is recorded in governmental fund financial statements, but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.
 - Assets received, but use is not allowed. (tax collected in advance)
 - Use is allowed, but assets has not been received. (Tax levied but not collected)

Imposed Nonexchange Revenues

EXAMPLE

In October 2016 a city levies property taxes of \$515 million for the year beginning January 1, 2017. During 2017 it collects \$410 million. It collects \$30 million of the remaining 2017 taxes during each of the first three months of 2018, and estimates that the \$15 million balance will be uncollectible.

Imposed Nonexchange Revenues

EXAMPLE

1. In October 2016 a city levies property taxes of \$515 million for the year beginning January 1, 2017. During 2017 it collects \$410 million. It collects \$30 million of the remaining 2017 taxes during each of the first three months of 2018, and estimates that the \$15 million balance will be uncollectible.

2017	DESCRIPTION	DR.	CR.
Jan. 01	PROPERTY TAXES RECEIVABLE	515	
	ALLOWANCE FOR UNCOLLECTIBLE PROPERTY TAXES		15
	PROPERTY TAXES (Deferred Inflows of Resources)		500
	<i>To record the property tax levy for 2017</i>		

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes Receivable

1/1/17 \$515

Allowance for Uncollectible

1/1/17 \$15

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes (Deferred)

1/1/17 \$500

Property Taxes

Imposed Nonexchange Revenues

EXAMPLE

2. In October 2016 a city levies property taxes of \$515 million for the year beginning January 1, 2017. **During 2017 it collects \$410 million.** It collects \$30 million of the remaining 2017 taxes during each of the first three months of 2018, and estimates that the \$15 million balance will be uncollectible.

2017	DESCRIPTION	DR.	CR.
	CASH	410	
	PROPERTY TAXES RECEIVABLES		410
	PROPERTY TAXES (Deferred Inflows of Resources)	410	
	PROPERTY TAXES REVENUE		410
	<i>To recognize revenue on the taxes collected.</i>		

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes Receivable			
1/1/17	<u>\$515</u>	x/x/17	\$410
Bal.	105		

Allowance for Uncollectible	
1/1/17	\$15

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes (Deferred)			
		1/1/17	<u>\$500</u>
2017	410	Bal.	90

Property Taxes		
	2017	\$410

Imposed Nonexchange Revenues

EXAMPLE

3. In October 2016 a city levies property taxes of \$515 million for the year beginning January 1, 2017. During 2017 it collects \$410 million. **It collects \$30 million of the remaining 2017 taxes during each of the first three months of 2018,** and estimates that the \$15 million balance will be uncollectible.

2017	DESCRIPTION	DR.	CR.
	PROPERTY TAXES (Deferred Inflows of Resources)	60	
	PROPERTY TAXES REVENUE		60
	<i>To recognize revenue on the taxes to be received in the first</i>		
	<i>60 days of 2018.</i>		

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes (Deferred)				Property Taxes			
		1/1/17	<u>\$500</u>		2017		\$410
2017	410	Bal.	90		12/31/17	<u>60</u>	
<u>12/31/17</u>	<u>60</u>	<u>Bal.</u>	<u>30</u>		<u>Bal.</u>		<u>470</u>

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes Receivable			
1/1/17	<u>\$515</u>	x/x/17	\$410
Bal.	105		

Allowance for Uncollectible		
1/1/17		\$15

\$60 recorded as revenue, but not collected yet.

Imposed Nonexchange Revenues

EXAMPLE

4. In addition, in 2017 it collects \$20 million in taxes applicable to 2018. Taxes are due on January 31 of each year, and the government has the right to impose a lien on the taxed property if it has not received payment by that date.

Imposed Nonexchange Revenues

EXAMPLE

4. In addition, in 2017 it collects \$20 million in taxes applicable to 2018. Taxes are due on January 31 of each year, and the government has the right to impose a lien on the taxed property if it has not received payment by that date.

2017	DESCRIPTION	DR.	CR.
Dec 31	CASH	20	
	PROPERTY TAXES (Deferred inflow of resources)		20
	<i>To record collection of property taxes received in advance of the</i>		
	<i>year to which they are applicable.</i>		

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes (Deferred)			
		1/1/17	<u>\$500</u>
2017	410	Bal.	90
12/31/17	60	Bal.	30
		12/31/17	<u>20</u> (Revenue 2018)
		Bal.	50

Property Taxes	
2017	\$410
12/31/17	<u>60</u>
Bal.	470

Imposed Nonexchange Revenues

EXAMPLE

5. At year-end, overdue taxes receivable should be reclassified as delinquent so they are not intermingled with the current receivable of the following year.

Imposed Nonexchange Revenues

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2017	DESCRIPTION	DR.	CR.
Dec 31	PROPERTY TAXES RECEIVABLE – DELINQUENT	105	
	PROPERTY TAXES RECEIVABLE		105
	<i>To reclassify uncollected taxes as delinquent.</i>		

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes Receivable			
1/1/17	<u>\$515</u>	x/x/17	\$410
	105	12/31/17	<u>105</u>
Bal.	<u>\$ 0</u>		

Property Taxes Rec. - Delinquent	
12/31/17	\$105

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Allowance for Uncollectible

1/1/17	\$15
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Imposed Nonexchange Revenues

EXAMPLE

6. During the first two months of 2018, delinquent property taxes of \$60, recorded as revenue of 2017, are collected.

Imposed Nonexchange Revenues

EXAMPLE

6. During the first two months of 2018, delinquent property taxes of \$60, recorded as revenue of 2017, are collected.

2018	DESCRIPTION	DR.	CR.
02/28	CASH	60	
	PROPERTY TAXES RECEIVABLE - DELINQUENT		60
	<i>To record the tax collections, which has been recognized as revenue of 2017.</i>		

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes Receivable			
1/1/17	<u>\$515</u>	x/x/17	\$410
	105	12/31/17	<u>105</u>
Bal.	<u>\$ 0</u>		

Property Taxes Rec. - Delinquent			
12/31/17	<u>\$105</u>		
Bal.	55	2/28/18	\$60

Imposed Nonexchange Revenues

EXAMPLE

7. During the third month of 2018, delinquent property taxes of \$30, recorded as revenue of 2017, are collected.

Imposed Nonexchange Revenues

EXAMPLE

7. During the **third** month of 2018, delinquent property taxes of \$30, recorded as revenue of 2017, are collected.

2018	DESCRIPTION	DR.	CR.
03/31	CASH	30	
	PROPERTY TAXES RECEIVABLE – DELINQUENT		30
	PROPERTY TAXES (Deferred inflow of resources)	30	
	PROPERTY TAX REVENUE (2018)		30
	<i>To record the tax collection which had not been recognized as revenue of 2017.</i>		

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes Receivable			
1/1/17	<u>\$515</u>	x/x/17	\$410
	105	12/31/17	<u>105</u>
Bal.	<u>\$ 0</u>		

Property Taxes Rec. - Delinquent			
12/31/17	<u>\$105</u>		
Bal.	45	2/28/18	\$60
<u>Bal.</u>	<u>15</u>	3/31/18	30

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes (Deferred)			
		1/1/17	<u>\$500</u>
2017	410	Bal.	90
12/31/17	60	Bal.	30
		12/31/17	<u>20</u> (2018)
		Bal.	50
<u>3/31/18</u>	<u>30</u>	<u>Bal.</u>	<u>20</u>

Property Taxes		
	2017	\$410
	12/31/17	<u>60</u>
	Bal.	<u>470</u>
	<u>3/31/18</u>	<u>30</u>

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances: How the Property Tax balance can be converted to accrual basis?

Property Taxes (Deferred)			
		1/1/17	<u>\$500</u>
2017	410	Bal.	90
12/31/17	60	Bal.	30
		12/31/17	<u>20</u> (2018)
		Bal.	50
3/31/18	30	<u>Bal.</u>	<u>20</u>

Property Taxes		
	2017	\$410
	12/31/17	<u>60</u>
	Bal.	<u>470</u>
	3/31/18	30

Imposed Nonexchange Revenues

EXAMPLE

8. During 2018, government writes off uncollectible taxes of \$15.

Imposed Nonexchange Revenues

EXAMPLE

8. During 2018, government writes off uncollectible taxes of \$15.

2018	DESCRIPTION	DR.	CR.
	ALLOWANCE FOR UNCOLLECTIBLE TAXES	15	
	PROPERTY TAXES RECEIVABLE – DELINQUENT		15
	<i>To write off delinquent taxes.</i>		

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Property Taxes Receivable			
1/1/17	<u>\$515</u>	x/x/17	\$410
	105	12/31/17	<u>105</u>
Bal.	<u>\$ 0</u>		

Property Taxes Rec. - Delinquent			
12/31/17	<u>\$105</u>		
Bal.	45	2/28/18	\$60
Bal.	15	3/31/18	<u>30</u>
<u>Bal.</u>	<u>0</u>	2018	15

Imposed Nonexchange Revenues

EXAMPLE

- Account Balances:

Allowance for Uncollectible			
		1/1/17	<u>\$15</u>
<u>2018</u>	<u>15</u>	Bal.	<u>\$ 0</u>

Imposed Nonexchange Revenues

3.4 Revenue Recognition Rule – Fines

Imposed Nonexchange Revenues

3.4 Revenue Recognition Rule – Fines

1. Tickets are issued and the government can estimate the percentage of tickets that will actually be paid.
2. Violators must either pay or protest the fines by specified dates.
 - If they do no protest, the government has a legal claim to the basic fines plus penalties for late payment.
 - For ticketed parties who opt to protest, hearings are scheduled and held, if a party is found guilty, the government has a legal claim to the basic fine plus penalties for late payment.

Imposed Nonexchange Revenues

3.4 Revenue Recognition Rule – Fines

3. GASB Standard

- a. Both the assets and the revenues from fines, penalties, and most other imposed nonexchange transactions be recognized when:
 - i. the government has an enforceable legal claim to the assets to be received, or
 - ii. has collected the cash.
- b. Most commonly a government has a legal claim to a fine only after the protest period expires, or if a court imposes a penalty.
- c. However, in the fund statements, revenue recognition is, of course, also subject to the “measurable and available” stipulation.

Imposed Nonexchange Revenues

Example

In November 2017 police issued \$200,000 in parking tickets. Of the fines assessed, \$130,000 were paid without protest by the due date of December 31, 2017. Of the balance, \$4,000 have been protested and are subject to hearing. The government estimates that an additional \$18,000 will trickle in but will not be available for expenditure in 2017. The balance of \$48,000 will be uncollectible.

Imposed Nonexchange Revenues

Example

In November 2017 police issued \$200,000 in parking tickets. Of the fines assessed, \$130,000 area paid without protest by the due date of December 31, 2017. Of the balance, \$4,000 have been protested and are subject to hearing. The government estimates that an additional \$18,000 will trickle in but will not be available for expenditure in 2017. The balance of \$48,000 will be uncollectible.

2017	DESCRIPTION	DR.	CR.
	CASH	130,000	
	PARKING FINES REVENUE		130,000
	PARKING TICKETS RECEIVABLE	66,000	
	PARKING FINES (DEFERRED)		18,000
	ALLOWANCE FOR DOUBTFUL ACCOUNT		48,000



Derived Nonexchange Revenues

Derived Nonexchange Revenues

4.1 Sales Taxes

Derived Nonexchange Revenues

4.1 Sales Taxes

1. The date of the sales transaction and the collection of the tax by the merchant.
2. The date the merchant is required to file the tax return and transmit the taxes (generally the same).
3. The date the merchant actually files the return and transmits the taxes.

Derived Nonexchange Revenues

4.1 Sales Taxes

The date of the sales is arguably the most significant of the three dates because the transaction producing the tax takes place then, the amount of the tax is established, and the liability of the merchant to transmit the tax is created.

Derived Nonexchange Revenues

4.2 GASB Standard

- The City should recognize revenue as if it had received the taxes directly, as long as they will be received in time to meet the “available” criterion.

Derived Nonexchange Revenues

Example

In December 2017 merchant collect \$20 million in sales taxes. Of these, \$12 million are collected prior to December 15 and must be remitted by February 15, 2018; the remaining \$8 million must be remitted by March 15, 2018.

Derived Nonexchange Revenues

Example

In December 2017 merchant collect \$20 million in sales taxes. Of these, \$12 million are collected prior to December 15 and must be remitted by February 15, 2018; the remaining \$8 million must be remitted by March 15, 2018.

2017	DESCRIPTION	DR.	CR.
	SALES TAX RECEIVABLE	20	
	SALES TAX REVENUE		12
	SALES TAX (DEFERRED)		8

Derived Nonexchange Revenues

4.2 Income Taxes

1. The tax is based on income of either the calendar year or a fiscal year elected by the taxpayer, but such year might not coincide with the government's fiscal year.
2. Taxpayer are required to remit tax payments throughout the tax year, either through payroll withholdings or periodic payments of estimated amounts.
3. Within three or four months after the close of the year, they are required to file a tax return in which they inform the government of the actual amount of tax owed.

Derived Nonexchange Revenues

4.2 Income Taxes

4. Government review all tax returns for reasonableness and select a sample for audit. Moreover, some taxpayers are delinquent on their payments. Thus, taxes continue to trickle in for several years after the due date.

Derived Nonexchange Revenues

4.2 Income Taxes

5. GASB Standard

- The GASB suggest that governments base the amount of income to be recognized on the amount of withholding and estimated tax payments received during the year (adjusted for settlements and refunds when tax returns are actually filed) in essence that they recognize revenue on a cash basis.
- In practice, several states recognize income tax revenue, not on a strict cash basis, but rather on one in which they adjust actual cash collections during the year for collections applicable to the current year but received within a specified period after the end of the year.

Derived Nonexchange Revenues

Example

A state is on a June fiscal year. However, income taxes are based on taxpayer income during the calendar year ending December 31. Employers are required to withhold taxes from employees and remit the withheld taxes monthly, and individuals with significant nonsalary earnings are required to make quarterly estimated tax payments. By April 15 of the year following the end of the calendar year, taxpayer must file a tax return on which they either request a refund of overpayment or pay any remaining tax owed.

Derived Nonexchange Revenues

Example

In its fiscal year ending June 30, 2017, the state collects \$95 billion in income taxes for the calendar years 2016 and 2017. It refunds \$15 billion of taxes based on the returns filed by April 15, 2017. As a result of audits of prior-year returns, the state bills taxpayers \$10 billion for earlier calendar years; it collects \$7 billion of this before its fiscal year-end and expects to eventually collect the entire remaining \$3 billion.

Derived Nonexchange Revenues

Example

In its fiscal year ending June 30, 2017, the state collects \$95 billion in income taxes for the calendar years 2016 and 2017. It refunds \$15 billion of taxes based on the returns filed by April 15, 2017. As a result of audits of prior-year returns, the state bills taxpayers \$10 billion for earlier calendar years; it collects \$7 billion of this before its fiscal year-end and expects to eventually collect the entire remaining \$3 billion.

2017	DESCRIPTION	DR.	CR.
	CASH	87	
	TAX BILLED BUT NOT COLLECTED (RECEIVABLE)	3	
	INCOME TAXES REVENUE		87
	INCOME TAXES (DEFERRED)		3
			76



Mandatory and Voluntary Grants

Mandatory and Voluntary Grants

5.1 General

- State and local governments receive grants and similar forms of financial assistance from both other governments and private sources.
 - Some grants are mandated by a higher-level documents.
 - Most, however, are voluntary.

Mandatory and Voluntary Grants

5.2 Intergovernmental Grants/Nonexchange Revenues

Mandatory and Voluntary Grants

5.2 Intergovernmental Grants/Nonexchange Revenues

- Typical intergovernmental grants and similar nonexchange revenues include the following:
 1. **Restricted grants:** Intended for designated purposes, projects, or activities. The most common form of grants, they are usually made to reimburse specific types of expenditures. They may be either **mandated** or **voluntary**.

Mandatory and Voluntary Grants

5.2 Intergovernmental Grants/Nonexchange Revenues

2. **Unrestricted grants:** Unrestricted as to purpose, project, or activity.
3. **Contingent grants:** Contingent upon a specific occurrence or action on the part of the recipient (ex. The ability of the recipient to raise resources from other parties)

Mandatory and Voluntary Grants

5.2 Intergovernmental Grants/Nonexchange Revenues

4. **Shared revenues:** These are revenues raised by one government, such as a state, but shared on a predetermined basis with other governments, such as with cities.
5. **Payment in lieu of taxes:** These are amounts paid by one government to another in place of property taxes that it would otherwise be required to pay where it not a government and thereby tax-exempt. Such payments constitute an important source of revenue for governments that have within their jurisdiction a substantial amount of facilities of other governments.

Ex. Military bases.

Mandatory and Voluntary Grants

5.3 Private Voluntary Nonexchange Revenues

Mandatory and Voluntary Grants

5.3 Private Voluntary Nonexchange Revenues

- Include donations to school district and universities, contributions of land developers, and gift of collectible items to museums or cultural centers.
- Sometimes they take the form of endowments.
- Endowments are gifts that stipulate that the contribution must be invested, and only the income from the investment can be spent.

Mandatory and Voluntary Grants

5.4 GASB Standard

Mandatory and Voluntary Grants

5.4 GASB Standard

1. Grants:

- Recipients of grants, irrespective of whether the grants are mandatory or voluntary, should recognize both revenues and related receivable **only** when all eligibility requirements have been met (“availability” criterion).
- Resources received before the eligibility requirements have been met should be reported as deferred inflow of resources.

Mandatory and Voluntary Grants

5.4 GASB Standard

2. Reimbursement Grants:

- Reimbursement grants are generally considered to have an inherent eligibility requirements, the recipient is eligible for the grant **only** if and when it incurs allowable costs.
- Hence, recipients typically must recognize revenues from reimbursement grants during the period in which they make the expenditures for which they will be reimbursed.

Mandatory and Voluntary Grants

5.4 GASB Standard

3. Endowment Contributions:

- Stipulate that only the income from investing the contributions can be spent are subject to infinite time requirements.
- GASB makes an exception to the general rule that revenues from contributions cannot be recognized until all time requirements have been satisfied. ‘
- Per GASB No. 33, governments can recognize revenue from endowments and similar gift in which the main benefit to the recipient is from the derived income, not the gift itself, as soon as they receive the gift.

Mandatory and Voluntary Grants

Example – Grant with Purpose Restriction

Mandatory and Voluntary Grants

Example – Grant with Purpose Restriction

In October 2017 a school district is notified that, per legislatively approved formulas, the state granted it \$15 million to enhance its technological capabilities. The funds, transmitted by the state in December 2017, must be used to acquire computers but may be spent at any time.

Mandatory and Voluntary Grants

Example – Grant with Purpose Restriction

In October 2017 a school district is notified that, per legislatively approved formulas, the state granted it \$15 million to enhance its technological capabilities. The funds, transmitted by the state in December 2017, must be used to acquire computers but may be spent at any time.

2017	DESCRIPTION	DR.	CR.
	SPECIAL REVENUE FUND		
	CASH	15	
	GRANT REVENUE		15
	<i>To recognize grant revenue in 2017.</i>		

Mandatory and Voluntary Grants

Example – Grant with Purpose Restriction

In October 2017 a school district is notified that, per legislatively approved formulas, the state granted it \$15 million to enhance its technological capabilities. The funds, transmitted by the state in December 2017, must be used to acquire computers but may be spent at any time.

How the government should report the \$15 million in its Government-wide statements (Net Position)?

Mandatory and Voluntary Grants

Example – Grant with Purpose Restriction

In October 2017 a school district is notified that, per legislatively approved formulas, the state granted it \$15 million to enhance its technological capabilities. The funds, transmitted by the state in December 2017, must be used to acquire computers but may be spent at any time.

How the government should report the \$15 million in its Government-wide statements (Net Position)?

Restricted To Purchase of Computers

Mandatory and Voluntary Grants

Example – Unrestricted Grant with Time Requirements

Mandatory and Voluntary Grants

Example – Unrestricted Grant with Time Requirements

In October 2017 a school district is notified that, per legislative approved formulas, the state awarded it \$15 million in assistance. The funds, transmitted to the district in December 2017, may be used to supplement teacher's salaries, acquire equipment, and support educational enrichment programs. The funds can be used only in the year ending December 31, 2018.

Mandatory and Voluntary Grants

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2017	DESCRIPTION	DR.	CR.
	GENERAL FUND		
(1)	CASH	15	
	STATE GRANT (Deferred)		15
	<i>To recognize the receipt of the state funds in 2017.</i>		

Mandatory and Voluntary Grants

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2017	DESCRIPTION	DR.	CR.
	GENERAL FUND		
(2)	STATE GRANT (Deferred)	15	
	GRANT REVENUE		15
	<i>To recognize grant revenue in 2018.</i>		

Mandatory and Voluntary Grants

Example – Unrestricted Grant with Contingency Eligibility Requirement

Mandatory and Voluntary Grants

Example – Unrestricted Grant with Contingency Eligibility Requirement

In January 2017, a private foundation agrees to match all private cash contributions up to \$20 million received by a state-owned museum during its 2017-18 fund drive. In 2017, the museum receives \$14 million in private cash contributions.

Mandatory and Voluntary Grants

Example – Unrestricted Grant with Contingency Eligibility Requirement

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2017	DESCRIPTION	DR.	CR.
	GRANT RECEIVABLE	14	
	GRANT REVENUE		14
	<i>To recognize \$14 million of foundation grant.</i>		

Mandatory and Voluntary Grants

5.5 Accounting for Gifts of Capital Assets

Mandatory and Voluntary Grants

5.5 Accounting for Gifts of Capital Assets

- Gifts of capital assets present an especially intriguing accounting issues, mainly because capital assets are not typically reported in governmental funds.
- Current standards requires that donated property to:
 1. Proprietary fund must be recorded on the fund.
 2. Governmental fund must be recorded in the Schedule of Capital Assets, NOT in the fund.

Mandatory and Voluntary Grants

Example – Donations of Land

A builder donates two parcel of land to a city. Each has a fair value of \$4 million. The city intends to use one as a park and to sell the other.

Mandatory and Voluntary Grants

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A builder donates two parcel of land to a city. Each has a fair value of \$4 million. The city intends to use one as a park and to sell the other.

The donated parcel of land, intended for use, cannot be recorded in a governmental fund as assets. The donated assets should be recorded in the schedule of capital assets.

Date	DESCRIPTION	DR.	CR.
	N/A		

Mandatory and Voluntary Grants

Example – Donations of Land

A builder donates two parcel of land to a city. Each has a fair value of \$4 million. The city intends to use one as a park and to sell the other.

By contract, capital assets held for sale are unlike capital assets held for use. They are equivalent of marketable securities or other short-term investment. They are expected to be transformed soon into cash.

Mandatory and Voluntary Grants

Example – Donations of Land

A builder donates two parcel of land to a city. Each has a fair value of \$4 million. The city intends to use one as a park and to sell the other.

In case the parcel of land is sold within the availability period (during the fiscal year or the next 60 days):

Date	DESCRIPTION	DR.	CR.
	Land held for Sale	4,000,000	
	Revenue from Donation		4,000,000
	<i>To record a gift of land that he city sold within the availability period.</i>		

Mandatory and Voluntary Grants

Example – Donations of Land

A builder donates two parcel of land to a city. Each has a fair value of \$4 million. The city intends to use one as a park and to sell the other.

In case the parcel of land is sold after the availability period (during the fiscal year or the next 60 days) but before the city issued the financial statements

Date	DESCRIPTION	DR.	CR.
	Land held for Sale	4,000,000	
	Donated Land (Deferred)		4,000,000
	<i>To record a gift of land that he city sold after the availability period.</i>		

Mandatory and Voluntary Grants

5.6 On-Behalf Payments

- In the multigovernment system of the United States, one government may make payments for employee fringe benefits “on behalf” of another.
- For example, a state may contribute to a pension plan for schoolteachers on behalf of the independent school districts that employ the teachers.

Mandatory and Voluntary Grants

5.6 On-Behalf Payments

- The GASB ruled that the recipient government should recognize both revenue and corresponding expenditures for all on-behalf payments of fringe benefits and salaries.
- It required recognition irrespective of whether or not the beneficiary government was legally responsible for the payments.

Mandatory and Voluntary Grants

Example – On-Behalf Payment

In a particular year, a state government elects to subsidize teachers' health insurance benefits. It contributes \$3 million to the state's health insurance plan on behalf of an independent school district.

Mandatory and Voluntary Grants

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School District

Date	DESCRIPTION	DR.	CR.
	Health Insurance Expenditure	3,000,000	
	State Aid – Insurance Premium (Revenue)		3,000,000
	<i>To record the on-behalf insurance premiums paid by the state.</i>		

Mandatory and Voluntary Grants

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State

Date	DESCRIPTION	DR.	CR.
	State Aid to School Districts (Expenditure)	3,000,000	
	Cash		3,000,000
	<i>To record the insurance premiums paid on behalf of a district school.</i>		