9-1992

General Fixed Asset Accounting

Dick Phebus
Municipal Technical Advisory Service

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Accounting

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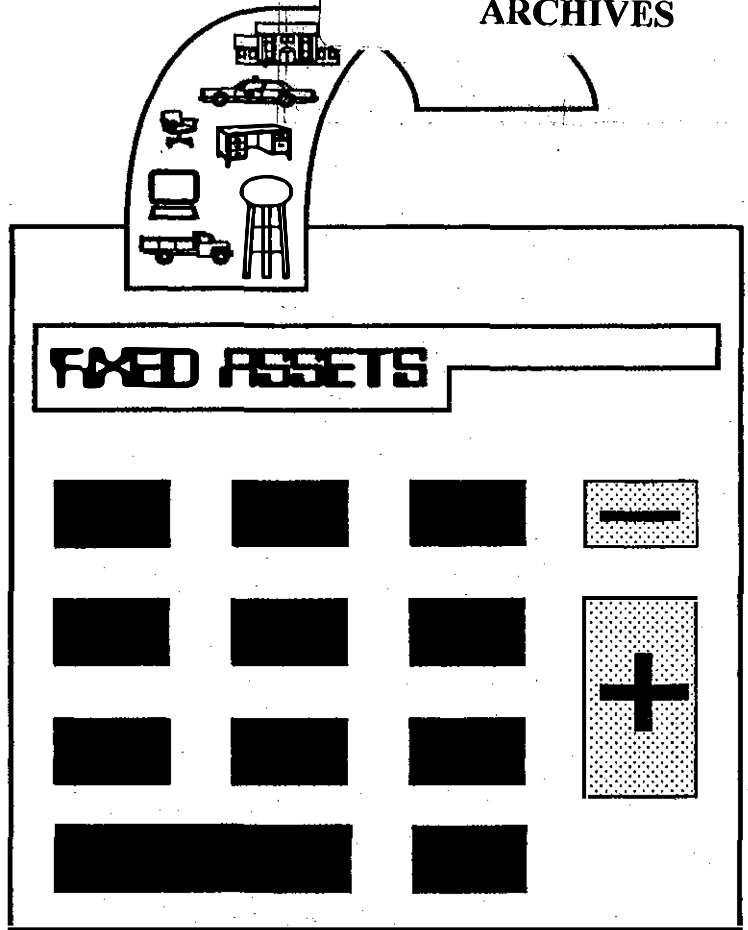

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By C. Richard Phebus
MTAS Finance and Accounting Consultant

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Municipal Technical Advisory Service

The University of Tennessee
Municipal Technical Advisory Service
In cooperation with
The Tennesssee Municipal League

September 1992

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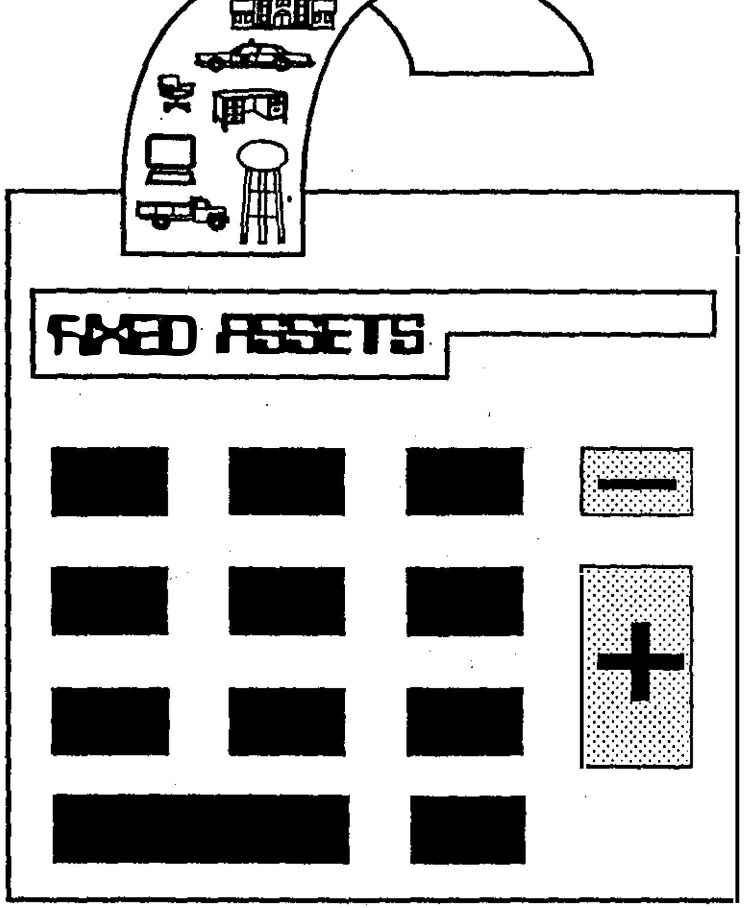

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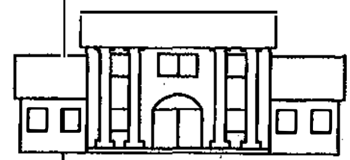
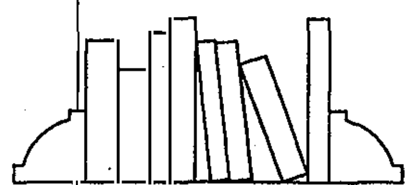
INTRODUCTION



A MUNICIPALITY'S FIXED ASSETS are tangible assets bought or obtained through past transactions or events. They include buildings, equipment, improvements other than buildings, and land. In the private sector, these assets are generally referred to as property, plant, and equipment.

A LITTLE HISTORY

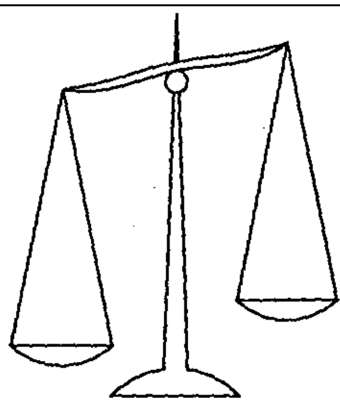


GOVERNMENTAL ACCOUNTING has seen many changes over the last 50 years. The Governmental Finance Officers Association (GFOA) was founded in 1906 to support advancement of governmental accounting, auditing, and financial reporting. However, it wasn't until 1934 that GFOA established the National Committee on Municipal Accounting (NCMA), which began to promote accounting standards for governments.

In 1951, the National Committee on Governmental Accounting (NCGA), the successor body to the NCMA, published Bulletin No. 14, *Municipal Accounting and Auditing*. This set of standards for governmental accounting was widely accepted and spurred the GFOA to publish the first "blue book" in 1968. This book was a guide to generally accepted governmental accounting principles.

Accounting standards for private industry are set by the Financial Accounting Standards Board and supported by the American Institute of Certified Public Accountants (AICPA). In 1974, the AICPA issued an industry audit guide for governments, which had some provisions contrary to those in the GFOA's blue book. To resolve the problem, the NCGA issued Statement 1, *Governmental Accounting and Financial Reporting Principles*, which enjoyed uniform acceptance as a guide to governmental accounting.

The blue book has been revised several times and reissued by the GFOA and is now considered a nonauthoritative guide for practitioners. The most recent revision was in 1988: *Governmental Accounting, Auditing, and Financial Reporting*. The definitions found in the glossary at the end of this manual, along with examples of reporting in the text, have been taken from this GFOA publication.



TO HELP UNDERSTAND ACCOUNTING PROCEDURES for fixed assets in governmental funds, it's important to first understand the model of governmental fund accounting. This model is based on two concepts: the **measurement focus** and the **basis of accounting**. Notes to the financial statements in all governmental audits should detail these two concepts as they apply to the governmental unit being audited.

General fund operations measure the flow of financial resources of the government. Revenues in the form of taxes, fees, and charges for services are received and used for current year expenditures as they become available. In most governmental funds, the measurement focus is on current year revenues or resources and current year expenditures to provide services. This measurement focus is called the "financial flow" focus, because it simply measures the flow of resources into and out of the governmental fund on a fiscal year basis.

Contrasting with this focus, various other funds of the government deal with both short-term (one year or less) and long-term effects of revenues and expenditures. The measurement focus of these funds is called the "capital maintenance" focus. This applies to enterprise funds of the government such as water, sewer, and gas funds, and trust funds.

Since the financial flow focus only records current revenues and expenditures, the balance sheet for these type of governmental funds doesn't include a provision for capitalized assets or long-term liabilities. Payments from the general fund for land, equipment, or buildings are simply recorded as "capital outlay" expenditures. On the other hand, payments for these items in an enterprise fund, which uses the capital maintenance focus, would be capitalized on the balance sheet as land, equipment, or other capital expense.

From the above analysis, it follows that purchases of fixed assets in enterprise funds would be set up on the balance sheet of that fund. Purchases of similar fixed assets in the general fund, however, wouldn't be entered on its balance sheet. For this reason, the NCGA Statement 1 requires fixed assets not accounted for in individual funds (for example, the general fund) **must be accounted for** in a self-balancing group of accounts called the **General Fixed Assets Account Group** (GFAAG).

What follows is the procedure for establishing the GFAAG and how transactions of the general fund involving fixed assets require corresponding entries into the GFAAG.

Purpose and Benefit

A SYSTEM OF FIXED ASSET RECORDS must provide for:

- a simple method of positive identification for each piece of equipment.
- a method of accounting for each piece (or grouping) of property.

A records system should be simple and flexible, yet it must also provide essential information to account for city property. The system should identify responsibility of custody and proper use of a distinct fixed asset with a specific individual. Some benefits from fixed asset records systems include a record of price, source of supply, maintenance cost (optional), useful life, and location. Referring to this information helps determine the amount of property insurance needed and forms a basis for cost accounting records. The system must also provide sufficient information to be included in the city's financial report, as required by NCGA Statement 1.

Although fixed assets bought with general fund revenues aren't reflected in that fund's balance sheet, the annual financial report of the city should include a GFAAG balance sheet and a statement of changes in General Fixed Assets. The information accumulated in the fixed asset records system should allow for proper presentation of these financial statements.

Classification of Fixed Assets

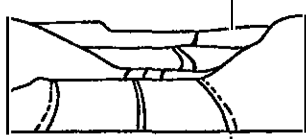
TO BE CLASSIFIED AS A FIXED ASSET, a specific item must:

- be tangible,
- have a life longer than the current year, and
- have significant value.

Significant value varies depending on the size of the city and class of fixed asset bought. Equipment that costs less than $100 and structure and improvements that cost less than $500 generally shouldn't be recorded in the GFAAG. A city may include any borderline items that it wants to maintain accounting control over. The cost test may be applied to a combination of similar units rather than a single unit. Whether an expense is classified as an operating expense or capitalized is often determined by its relationship to an existing asset.

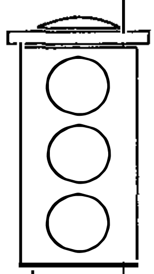
The amounts specified above are arbitrary. A city could and probably should establish different threshold values for fixed asset accounting than those suggested on page 3. These values could also vary from fund to fund.

The following classifications for general fixed assets are recommended for accounting and financial statement presentations:



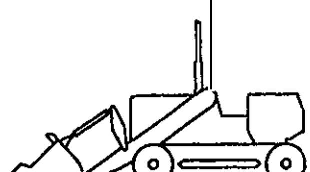
Land: Includes the investment in real estate other than: structures, improvements, and land acquired and used for street and road purposes. All land should be capitalized without regard to significant value. Include legal and surveying fees, damage payments, and site preparation costs including removal of old buildings, etc. Receipts from the sale of salvage should be credited against the land cost.

Building: Includes costs directly incurred to put the building into its intended state of use, including construction or purchase price, architects' fees, accident or injury costs, payments for damage, and insurance during construction. The cost should be reduced for discounts, insurance recoveries, and other credits.

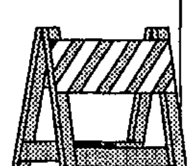


Improvements other than buildings: Includes costs directly incurred in placing the improvement into use. This would include storage tanks, parking areas, landscaping, connector driveways, traffic lights, parking meters, bridges, and other improvements.

Construction of streets and most asphalt overlays are classified under "improvements other than buildings." Reporting these expenses for infrastructure fixed assets is optional in the GFAAG. Technically, a city could place a value on the existing streets and capitalize expenditures made when constructing new roads.



Equipment: Includes moveable personal property such as furniture, machines, tools, and vehicles. The value should include the total purchase price before any trade-in allowance less any discounts. It should include other costs required to place the equipment in its intended state of operation, such as dealer add-ons or modifications.



Construction work in progress: Represents a temporary accumulation of labor, materials, equipment, and overhead costs (excluding administrative overhead) of a construction project. When the work is finished, the total cost is transferred to one or more of the above classes of fixed assets.

Since the GFAAG is a separate, self-balancing account, it's necessary to enter offsetting debits and credits into the account group. The debit entry would be an entry identifying one of the above asset groups. In establishing credit accounts to balance the five asset categories, the National Committee on Governmental Accounting recommends the following account titles, which indicate the source of funds used to acquire the asset:

Investment in General Fixed Assets from:

- Capital Project Funds
  - General Obligation Bonds
  - Federal Grants
  - State Grants
  - Local Grants
- General Revenues
- Special Revenues
- Special Assessments
- Private Gifts

ESTABLISHMENT OF GFAAG

IN MOST SMALL AND MEDIUM-SIZE CITIES, establishing a GFAAG isn't a major undertaking. However, it requires planning, direction, and cooperation of department heads and staff. The following steps are suggested in establishing the initial fixed asset records:

- One responsible person should be in charge of establishing fixed asset records.
- Take an initial physical inventory. Description, location, model number, serial number, manufacturer, size, and capacity are a few suggested characteristics used to identify each asset.
- Establish value for all fixed assets. Use historical cost records if available, or estimate value. Donated fixed assets should be recorded at fair market value when they're received.
- Complete and file an individual property record card or ledger card on each fixed asset.
- Label or mark fixed assets. Adhesive metal tags or labels are a handy method.

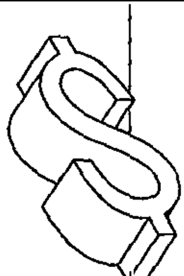
Designation of Responsible Official

It's a good idea to have the office of the chief fiscal officer handle the property accounting system. This office keeps general ledger control accounts and most of the source documents used to process and file property information. The chief fiscal officer, or deputy acting as property accounting officer, should control the identification of equipment, detail records, physical inventory planning, entries in the books of account, and report preparation. It's more efficient and accurate to centralize this responsibility than to maintain it in separate departments. The official assigned with establishing GFAAG will need the cooperation of all department heads during system establishment, annual inventories, and day-to-day buying of fixed assets.

Initial Inventory

The next step in establishing the GFAAG is to take a physical inventory and prepare an initial data base. It's important to make every effort to get a complete record of all city-owned fixed assets. The chief administrative officer should tell all department heads and agencies that fixed asset controls have been established and let them know who's in charge. Each department should name a person to help take inventory for the department. A formal meeting of department heads may be required, depending on a city's size.

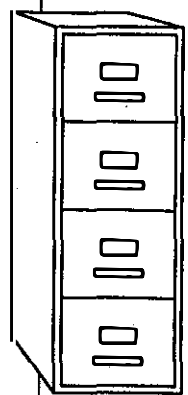
Fixed Asset Valuation



After documenting a complete physical inventory, the next step, which can be time consuming, is to assign a dollar value to each fixed asset identified. Where possible, fixed assets should be recorded at cost. Actual cost can usually be found only through searching prior financial records and source documents. The object is to determine the initial investment, not the present market or replacement value. If you can't determine original cost, the following alternatives, in order, can be used to place a value on the fixed assets:

- estimated market value at the time of purchase, construction, or donation.
- fair market value (or appraised value) at the time when establishing the fixed asset records.

While this procedure of estimating value may leave room for error, once a city makes the decision to establish a GFAAG, it must do the best job possible. When properly maintained, the GFAAG will become more accurate as new entries are made and old or retired assets removed.



A SUBSIDIARY LEDGER CARD or ledger sheet system should be adequate for small and medium cities. Cities with computer capabilities should computerize property records. Exhibits A, B, and C on pages 12 through 14 present sample ledger cards useful for most cities.

A separate card should be prepared for each unit of property (any item that can be readily identified and accounted for individually or any group of items such as chairs purchased at the same time). This record of individual properties makes up the subsidiary ledger for the GFAAG. The total of the amounts shown on the cards represents the detail for the asset totals for the General Fixed Asset Balance Sheet.

The National Committee on Government Accounting recommends including the following information on each property card:

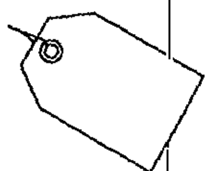
- class code (land, buildings, etc.),
- sequence or payment voucher number,
- date of acquisition,
- name and address of vendor,
- abbreviated description,
- department, division, and unit charged with custody,
- location,
- cost,
- fund and account from which purchased,
- method of acquisition,
- estimated life, and
- date, method, and authorization for disposition.

Once this information has been put on the card, the next step is to develop a filing system by grouping the cards by department. In the case of equipment, you'll probably have to group by location. Under each department or location, arrange the cards according to the classification of fixed asset (land, building, improvements other than buildings, equipment, etc.). Further subdivisions may be necessary if there's a large number of cards. For example, equipment could be divided into automotive, construction, office, etc.

Before completing the card, assign and attach an individual asset or property number to each of the assets. This number should appear on the property card. Assigning each item a permanent number gives the necessary link between asset and property record card.

There are a number of adequate code numbering systems for recording fixed assets. A simple, flexible system might include adding a numerical sequence code system with an alpha prefix. The alpha prefix classifies the asset according to the five classes recommended for accounting and statement presentation purposes (L - land, B - building, I - improvements other than building, E - equipment, and C - construction in progress). This code numbering system might also identify the department and asset number.

Proper Marking of Fixed Assets



Regardless of the code system adopted, you should assign individual asset numbers and permanently attach them to each asset. You can attach numbers with labels, tags, decals, epoxy paint, etc. Put the number where it won't be worn or knocked off. Try to use the same place on similar items. On some items, it may not be practical to place a number. If not, assign numbers and indicate on the cards that the number isn't present.

Maintenance of GFAAG

Once you establish the inventory system and corresponding GFAAG, proper maintenance is critical. The best fixed asset records can quickly become outdated. On the other hand, the most elementary records will stay current if properly maintained. Small cities may only have to update the fixed asset records at the close of each fiscal year. Large cities may need monthly updates. The person paying or approving invoices should prepare a preliminary list of all items to be accounted for in the GFAAG. Establish definite accounting procedures to ensure proper recording of asset purchases, sales, transfers, and retirements.

Sources of Information

The best source of information on subsequent additions to the fund's fixed assets is from vendors' invoices or contracts. In cities where a purchasing agent handles surplus property sales, interdepartmental transfers of equipment, or retirements, close cooperation with the property accounting officer helps keep these items maintained. Where department heads control the purchase, movement, and disposal of assets, a city should design procedures and reports to give the property accounting officer prompt notice of any changes affecting fixed assets.

Physical Inventory

To make sure the system is living up to its purpose, the city should initially take a complete inventory every three or four months. The inventory should agree with the records maintained in the GFAAG. If the system is operating properly, an annual physical inventory (coinciding with the end of the city's fiscal year) should be sufficient. For even better internal control, the property accounting officer should check inventories on a random, unannounced basis.

Ideal internal control requires strict procedures. Variances in amounts recorded should be investigated immediately with cooperation from the department involved. Frequently such conditions are due to the accounting delay in recording acquisitions, transfers, and dispositions. Report any unexplained shortage to the chief fiscal officer. Write an explanation of all items accounted for and be available for administrative or legislative inquiry regarding discrepancies.

Taking inventories will be easier if the property accounting officer gives a current listing, in numerical order, of the equipment charged to departments. The form should provide space for checking each item present, notation of exceptions, and certification of location and existence.

Disposition of Fixed Assets

Fixed assets may be sold, lost, junked, or traded for new assets. Regardless of how the assets are disposed of or the amount of proceeds, accounting entries should be made to remove the asset from the GFAAG at its recorded value. The fixed asset card should show clearly the method of disposal and, if sold, the amount of money received. When there are changes to fixed assets, a form (Exhibit D) should be filled out and given immediately to the property officer.

Cost Subsequent to Acquisition

Maintenance is an expense that neither materially adds to the value of property nor appreciably prolongs its life. Maintenance keeps the property in efficient operating condition. Maintenance costs don't add value and should not be recorded in the GFAAG.

Betterment is the replacement of a unit of an existing asset with an improved or superior unit, resulting in a more productive, efficient, or longer-lived asset. Significant betterments are fixed assets and should be added to the value of the property improved on the GFAAG.

Before recording the cost of additions to fixed assets, decide if the expenditure has "bettered" the asset. Analyze expenses and add the part that bettered the asset to the value of the asset. Treat only the part that restored the asset to its former operation as a current expense.

Though arbitrary, a "significant betterment" is one resulting in an improvement of at least $500 or 10 percent of the recorded value of the asset, whichever is lower. Equipment betterment of $100 or more could be considered significant. Policies should be developed which outline threshold limits to record betterments.

Depreciation

Governmental funds, as opposed to proprietary and trust funds, measure the flow of financial resources. Since depreciation expense is neither a source nor a use of governmental fund financial resources, it shouldn't be recorded in the accounts of these funds.

Recording accumulated depreciation in the General Fixed Asset Account Group is optional. If it is recorded, the entry should increase the Accumulated Depreciation account and decrease the Investment in General Fixed Assets account.

Accounting for General Fixed Assets

To illustrate the relationship between the fund from which the purchase is made and the GFAAG, see Exhibit E. This exhibit includes sample general journal entries made to the operating fund and the GFAAG. Examples of the different types of transactions which normally occur are also included, along with accounting entries and an explanation or reason for the entry to the GFAAG.

The examples in Exhibit E show transactions in the operating or governmental fund with appropriate debit and credit entries. Corresponding entries are shown in the GFAAG where appropriate.

The debit entry in the GFAAG should be made to an account describing one of the classifications of fixed assets. Examples include land, buildings, infrastructure, equipment, or construction in progress.

The credit entry in the GFAAG generally describes the way fixed assets were acquired. It should be classified according to the sources by which such assets were financed. There are three major governmental fund types that finance fixed assets: the general fund, special revenues funds, and capital projects funds. Within these funds a number of financing sources are available:

- general revenues,
- special revenues,
- general obligation bonds,
- state grants,
- federal grants, and
- gifts or donations.

Therefore, a single acquisition of fixed assets could require several credits to source accounts. It's not enough to merely classify fixed assets sources by fund. The funding source(s) should also be listed in the journal entry.

Other examples of recording fixed assets in the GFAAG can be found in the GFOA publication *Governmental Accounting, Auditing, and Financial Reporting*.

Exhibit A
Equipment Ledger Card

City of ______________________ Property Number ______________________
Ledger Card - Equipment Accumulated Fixed Asset Amount $______________

Description ____

Department ______________________ Invoice Price $______________________
Location ______________________ Installation $______________________
Manufacturer ______________________ Other Costs $______________________
Mfg. Serial #______________________ Total Costs $______________________
Make & Model ______________________ Estimated Life ______________________
Source of Funds ______________________ Estimated Salvage $______________________
Purchase Order or Check Number _______ Annual Dep. (Memo only)______________
Date of Purchase ______________________ Method of Evaluation______________
By Whom______________________

Disposal Authorization

Authority ______________________
Reference ______________________
Reason ______________________
Date ______________________
How Disposed of ______________________ Amount Received $______________________

To Whom ____

Other Comments ____

(front side - standard 5"x8" ledger card)

The following explanations may help complete the ledger card:

- **Property No.**: This refers to the GFA number assigned to this particular fixed asset. It should be noted if this number hasn't been placed on the asset.

- **Accumulated Fixed Asset Amount**: Include in this amount the cost plus betterments to arrive at total investment cost.

- **Method of Evaluation**: Describe how the price of the asset was determined. If other than cost, the person's name who is making the evaluation should appear on the next line.

- **Authority**: Name of the person, board, or council authorizing disposal of the asset.

- **Reference**: Use this space to show the source of the authority, such as minute book number and page number.

- **Other Comments**: Should be used to report anything unusual or unique about this asset.

Exhibit B
Land Building Improvement Ledger Card

City of ______________________ Property Number ______________________
Ledger Card - Land, Building, or Accumulated Fixed Asset Amount $ __________
Improvements other than Building

Location of Property ____

Tax Map Reference - Book No. __________ Map No. _________ Parcel No. __________
Department Assigned ________________ Dimensions & Area ________________
Method of Finance ________________ Check No. # ________________
Original Cost ________________ Date of Acquisition ________________

How & From Whom Acquired ____

Method of Evaluation & By Whom ____

Land **Buildings/Improvements Other Than Buildings**

Kind of Deed __________ Date _________ Estimated Life ________________
Where Recorded _______ Book/Page _____ Salvage Proceeds ________________
Revisionary Clause ________________ Cost of Dismantling ________________

Conditions ____

Title Abstract (Name) ____

Disposition Authority ______________ Reference ________________ Amt. Rec. $ ____________

(front side - standard 5"x8" ledger card)

The following explanations may help to complete the ledger card:

- **Property No.**: This refers to the GFA number assigned to this particular fixed asset. It should be noted if this number has not been put on the asset.

- **Accumulated Fixed Asset Amount**: Include in this amount the cost plus betterments to arrive at total investment cost.

- **Method of Evaluation**: Show how the price of the asset was found. If other than cost, the person's name who is making the evaluation should appear on the next line.

- **Tax Map Reference**: For counties where the reappraisal program has been completed, this information can be obtained from the tax assessor.

- **Method of Finance**: This refers to the fund financing the asset as well as whether by rental, purchase, etc.

- **How & From Whom Acquired**: The "how" should show such things as condemnation, gift, etc.

Exhibit C
Additions, Betterments, and Major Reports

			Costs	
Date	Check Number or Reference	Description of Repair or Additions	Additions/ Betterments	Repair

Give space for the above data on the back side of ledger cards (Exhibits A and B). This side of the card should be used to provide a history on the asset. Major costs should be divided so "Additions and Betterments" cost information is available. These amounts support any changes in the "Accumulated Fixed Asset Amount" on the front of the card.

Exhibit D
Fixed Asset Disposal or Transfer Card

City of ____________________ Property Number ____________________

Report of Fixed Asset Reduction or Transfer

Disposal Date ____________________

Item Description ____________________

Removed From Department __________ Location ____________________

Method of Disposal: ____________________

____

[ ] Trade-in (list new items acquired) ____________________

[ ] Sold (how sold: advertised, sealed bids, etc.) ____________________

[ ] Transfer (list department receiving) ____________________

[ ] Junked and/or salvaged for parts ____________________

[ ] Other (explanation) ____________________

Location at time of final disposal ____________________

Person authorized fixed asset reduction (signature required) ____________________

By what authority ____________________

Condition of property ____________________

Exhibit E
Journal Entries and Explanations

Operating Fund				General Fixed Asset Account Group			
Type of Transaction	**Journal Entries**	**Debit**	**Credit**	**Journal Entries**	**Debit**	**Credit**	**Explanation**
Fixed asset purchased (park land for $20,000).	Capital Outlay-Land Cash in bank	$20,000	 $20,000	Land Investment in fixed assets- General revenue	$20,000	 $20,000	The asset is capitalized in the amount of expenditure.
Distinction between expenditures affecting fixed assets and maintenance expenditures. (A chair is purchased for city council meeting room for $40. This is a replacement for one of a block of 20 chairs.)	Maintenance Cash in bank	$40	 $40	No entry			The chair replaces part of the larger accountable unit of 20 chairs, and is therefore maintenance.
A new engine is installed in a city police car (cost is $500).	Repairs Cash in bank	$500	 $500	No entry			The new engine may extend the useful life of a vehicle, but it is a replacement of an existing part with one of the same quality.
Purchase of fire truck with 80 percent state grants and 20 percent local matching funds. Purchase price is $35,000.	Capital Outlay-Fire Truck Cash in bank	$35,000	 $35,000	Equipment Investment in fixed assets- General revenues State grants	$35,000	 $7,000 $28,000	The fire truck is capitalized at total cost. A distinction is made between sources of funds used to acquire the asset.
A new six-ton air conditioning unit is installed at city hall. Cost is $3,000. It replaces a three-ton unit which originally cost $1,500.	Capital Outlay Cash in bank	$3,000	 $3,000	Improvement other than building Investment in fixed assets-general revenue Investment in fixed assets-general revenue Improvement other than in building	$3,000 $1,500	 $3,000 $1,500	The expenditure is a betterment. Capitalize the new unit, write off three-ton replaced unit.
The three-ton air conditioning unit is sold for $150.	Cash Revenue - sale of surplus property	$150	 $150	No entry			No entry is required since the unit has been taken off the books by previous entry.

Operating Fund				General Fixed Asset Account Group			
Type of Transaction	**Journal Entries**	**Debit**	**Credit**	**Journal Entries**	**Debit**	**Credit**	**Explanation**
Improvements costing $800 are made on a building just purchased to serve as city hall.	Capital outlay-Improvements Cash in bank	$800	 $800	Building Investment in fixed assets- General revenue	$800	 $800	This qualifies as a betterment since this was part of the cost of getting the building into usable form. Also, the cost exceeded $500.
The city spent $1,000 painting and redecorating the safety building.	Repairs/Maintenance Cash in bank	$1,000	 $1,000	No entry			This doesn't qualify as a betterment since it's an expense of maintaining the original building.
Purchase of fixed asset with trade-in. (A new calculator is purchased for finance officer. The price is $600; the vendor allows $50 trade-in for an old machine costing $200.)	Capital outlay-Equipment Cash in bank (net method) *or* Capital outlay-Equipment Other financing source - trade-in Cash in bank (gross method)	$550 $600	 $550 $50 $550	Equipment Investment in fixed assets- General revenue Investment in fixed assets- General revenue Equipment	$600 $200	 $600 $200	The new asset is recorded at cost before trade-in allowance. The old asset is removed at its recorded cost.
Sale of fixed asset (fire truck originally cost $25,000 is sold for $1,000).	Cash Revenue-Sale of surplus equipment	$1,000	 $1,000	Investment in fixed assets- General revenues Equipment	$25,000	 $25,000	Assets disposed of in any manner must be removed from GFAAG at recorded value.
Truck junked, retained for parts. (Truck costing $4,000 retired from service and retained by city for spare parts).	No entry			Investment in fixed assets- General revenues Equipment	$4,000	 $4,000	Assets disposed of must be removed from GFAAG at recorded value.
Construction of auditorium. Initial payment: city paid the contractor $100,000 on the architect's first estimate. Date of payment was June 30.	Capital outlay-Construction Cash in bank	$100,000	 $100,000	Construction work in progress. Investment in fixed assets- General obligation bond	$100,000	 $100,000	The amount of expenditures is recorded in GFAAG at the end of the fiscal year.
Completion of construction formerly in progress. (On April of the following year, the auditorium is completed, at a total cost of $900,000.)	Capital outlay-Construction Cash in bank	$800,000	 $800,000	Building Construction in progress Investment in fixed assets- General obligation bonds	$900,000	 $100,000 $800,000	The $100,000 in construction in progress is transferred to building. The additional $800,000 expenditure is also posted to this account.

Accountabilities: Resources for which a person or organization (including a governmental unit) must give an accounting, although the person or organization may not be personally liable for them. For example, a public official is responsible for all assets under his or her control and must account for them. Even if a trustee has allocated all funds put in his care and has relieved himself of liability, he's still obligated to account for them. The items are, therefore, accountabilities.

Accrual Basis: The process in which revenues are recorded when earned and expenditures are recorded as soon as they result in liabilities for benefits received, although receipt of the revenue or payment of the expenditure may take place, in whole or in part, in another accounting period.

Buildings: A fixed asset account that reflects the acquisition value of permanent structures used to house people and property owned by a governmental unit. If buildings are bought or built, this account includes the purchase or contract price of all permanent buildings and fixtures attached to and forming a permanent part of such buildings. If buildings are acquired by gift, the account reflects their appraised value at time of acquisition.

Capital Outlays: Expenditures which result in the acquisition of or addition to fixed assets.

Cost Records: All ledgers, supporting records, schedules, reports, invoices, vouchers, and other records and documents showing the cost of projects, jobs, production centers, processes, operations, products, or services, or the cost of any of the component parts thereof.

Enterprise Fund: A fund created to finance and account for the acquisition, operation, and maintenance of governmental facilities and services which are entirely or predominantly self-supporting by user charges. Some examples of enterprise funds are those for water, gas, and electric utilities, swimming pools, airports, parking garages, and transit systems.

Fixed Assets: Assets of a long-term character which are intended to continue to be held or used, such as land, buildings, machinery, furniture, and other equipment.

General Fixed Assets: Fixed assets of a governmental unit which are not accounted for in enterprise, trust, or intragovernmental service funds.

General Fixed Assets Group of Accounts: A self-balancing group of accounts set up to account for the general fixed assets of a governmental unit.

Improvements: Buildings, other structures, and other attachments or annexations to land which are intended to remain attached or annexed, such as sidewalks, trees, drives, tunnels, drains, and sewers. **NOTE:** Sidewalks, curbing, sewers, and highways are sometimes called "betterments," but the term "improvements" is preferred.

Improvements other than Buildings: A fixed asset account which reflects the acquisition value of permanent improvements, other than buildings, which add value to land. Some examples of such improvements are fences, retaining walls, sidewalks, pavements, gutters, tunnels, and bridges. If the improvements were a gift, it reflects the appraised value at the time of acquisition.

Inventory: A detailed list showing quantities, descriptions, and values of property. Inventory frequently includes units of measure and unit prices.

Land: A fixed asset account which reflects the value of land owned by a governmental unit. If land is bought, this account shows the price and costs such as legal fees and filling and excavation costs necessary to put the land in condition for its intended use. If land is a gift, the account shows its appraised value at time of acquisition.

Maintenance: The upkeep of physical properties. Some examples include inspection of equipment to find defects and repairs made.

Overhead: Cost necessary in the production of an article or the performance of a service. The exact amount of overhead is difficult to figure out. Usually this expense isn't an integral part of the finished product or service. Some examples include rent, heat, light, supplies, management, supervision, etc.

Resources: The actual assets of a governmental unit, such as cash, taxes receivable, land, buildings, etc., plus contingent assets such as estimated revenues applying to the current fiscal year not accrued or collected and bonds authorized and unissued.

Self-Balancing Group of Accounts: A group of accounts set up to account for either the fixed assets or the long-term debts of a governmental unit which aren't accounted for in its individual funds.

Self-Supporting: Debt obligations whose principal and interest are payable solely from the earnings of the enterprise for the construction or improvement of which they were originally issued.

Special Fund: Any fund which is devoted to some special use in accordance with specific regulations and restrictions. Generally, the term applies to all funds other than the general fund.

Special Revenue Fund: A fund used to account for revenues from specific taxes or other earmarked revenue sources which by laws are designated to finance particular government functions or activities. After the fund is established, it usually continues year after year until discontinued or revised by proper legislative authority. A motor fuel tax fund used to finance highway and road construction is an example of a special revenue fund.

The above definitions are taken from the GFOA publication entitled *Governmental Accounting, Auditing, and Financial Reporting, June 1988.*

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