

MUNICIPAL BUDGETS AND BUDGET ACCOUNTING

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TABLE OF CONTENTS

Page  
1

INTRODUCTION

Chapter I - PRESENT STATUS OF THE BUDGET AND ACCOUNTING  
IN THE FIRST CLASS CITIES OF KANSAS

A. Kansas Statutes Pertaining to the Budget	7
B. Experience at Budgeting in Kansas	11
C. Some Important Accounting Records and Reports	12
D. Methods of Accounting Now in Use	20

Chapter II - THE PROPOSED BUDGET AND BUDGET ACCOUNTS

A. The Budget Making Organization	24
B. Character of Budget Information	27
C. Classification of Budget Information	30
D. The Budgetary Procedure	41
E. Budget Forms	47
F. The Budget Accounting Entries	56

Chapter III - REVENUES AND REVENUE ACCOUNTS

A. Classification of Revenues	62
B. Control of Revenues	64
C. Accounting Entries for Revenues	66
D. The Revenue Statement	75
E. Accounting Entries for Non-revenue Receipts	78
F. Accounting Records for Receipts	83
G. Statement of Receipts	84

Chapter IV - APPROPRIATIONS AND APPROPRIATION ACCOUNTS

A. Classification of Appropriations	89
B. Classification of Expenditures	92
C. Expenditure Estimate Forms	95
D. Accounting Entries for Appropriations	101
E. The Voucher Register	109
F. The Appropriation Ledger	115
G. Statement of Appropriations	117
H. Entries and Statements for Disbursements	119
I. Statements of Expenditures	123

Chapter V - MUNICIPAL ACCOUNTING — CLOSING PROCESS

A. First Method of Accounting	126
B. Second Method of Accounting	133
C. Consolidated Balance Sheet	141
D. Statements and Reports	147

Chapter VI - SUMMARY AND CONCLUSIONS

150

## RECOMMENDED FORMS

Number	Page
1. Budget Summary - Schedule A	51
2. Schedule of Revenues - Schedule B	51
3. Schedule of Appropriations - Schedule C	52
4. Schedule of Appropriation Analysis - Schedule C-1	52
5. Cash Journal	87
6. Expenditure Estimate Forms -	
(a) For Services - Personal --- Form C-1A	97
(b) For all other departmental expenses - Form C-1B	97
7. Voucher Register	111
8. Expenditure Journal	113
9. Appropriation Ledger	116
10. Consolidated Balance Sheets -	
(a) Columnar	143
(b) Sectional	145

## STATEMENTS

1. Revenue Statement	76
2. Statement of Receipts	85
3. Statement of Appropriations	118
4. Statement of Disbursements	120
5. Statement of Receipts and Disbursements	122
6. Statements of Expenditures	124
(a) Schedule A	124
(b) Schedule B	124
(c) Schedule B-1	124
(d) Schedule B-2	125
(e) Schedule B-3	125
7. Statement of Operations	140

# MUNICIPAL BUDGETS AND BUDGET ACCOUNTING

## INTRODUCTION

Much has been said about budgets and budgeting during this period of rapidly mounting costs and taxes, which are due to increasing demands on public corporations for services. Most people have a vague idea that the budget is a means of limiting the expenditures of an organization, so quite naturally it has become very popular in the public mind.

To clear up any misconception as to the meaning of the term, budget, and especially as it pertains to the subject under discussion, the writer will quote from eminent authorities on municipal budgets. Mr. Buck says, "The budget is a complete plan of proposed expenditures and means of financing them for a definite period."<sup>1</sup> In this definition the budget is referred to as a financial plan or program for the city to follow over a definite period of time. Mr. McKinsey's definition covers essentially the same thing a little more in detail. He says, "A Municipal budget is a statement of estimated revenues and estimated expenditures of a city, for a certain period of time, set forth in such form, and supported by such data, as to show its financial needs and revenue possi-

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1. A. E. Buck, "Municipal Budgets and Budget Making," p. 1.

bilities."<sup>2</sup> However, a more complete definition of the budget in both its broad and narrow sense is given by Mr. Morey. "The 'budget', in its broad sense, is a fiscal document exhibiting the estimated and actual revenues and expenditures of previous periods, the proposed appropriations for expenditures for the succeeding period or periods, and the proposed sources of revenue to meet those appropriations. In its narrow sense, as an accounting document of a given period, the budget is a statement of the estimated revenues for that period, and of the appropriations made from those revenues."<sup>3</sup>

From the above definitions it is clearly seen that the budget implies a great deal more than the limitation of expenditures. It includes the proposed sources of revenue to meet the proposed appropriations for expenditures, and as a basis for these estimates the actual revenues and expenditures of previous periods. It is, therefore, a financial program, which, after approval and adoption, becomes a guide and means of controlling the financial activities of the government. It is a source of information to the public as to financial matters, and finally serves as a basis for the accounting system.

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2. R. Emmett Taylor, "Municipal Budget Making."  
Foreward by J. O. McKinsey, p. 6.
3. Lloyd Morey, "Introduction to Governmental Accounting,"  
p. 17.

From the above discussion it can readily be seen that if properly made up and carried out, the budget becomes a very important part in the financial activities of the city government. Mr. Buck says, "The budget system, when properly understood and applied, ramifies through the whole structure of the city government."<sup>4</sup> According to Mr. Eggleston, "No expedient for controlling the finances of a city has been found more satisfactory than a properly made budget."<sup>5</sup>

Very little has been written concerning the municipal budget, and most of what has been written has consisted of how to make a budget. A few writers have shown the methods of recording the budget information on the books, but have said little or nothing about how the budget was made up. It is, therefore, the purpose of the writer, first, to show forms which will aid in making up the budget, and second, to show the accounting procedure in carrying out the budget idea to proper accounting records; that is, to tie up the budget to the accounting system. In this study it was discovered that in some cases much time had been spent in preparing a budget, only to file it away to be of little use as a means of control because of not being properly tied up

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4. A. E. Buck, "Municipal Budgets and Budget Making," p. 2.  
5. D. C. Eggleston, "Municipal Accounting," p. 54.

with the accounting system. Feeling that sufficient information can be found as to the budget making procedure, the writer will touch briefly upon this, showing only some simple forms, but will place emphasis upon a simple, though complete method of accounting for the information derived from these forms.

The auditor for the League of Kansas Municipalities has found but few of the smaller cities of Kansas even attempting a budget, and these few not very successfully. This has resulted in many cities going heavily in debt, due to extravagant expenditures and poor administration of the finances in general. These cities also had very poor accounting systems, so it was difficult to tell what had been done with their funds, many illegal transactions being the result. In consultation with officials of cities of the first class where a budget is required by law in Kansas, some stated that they were handicapped by not having a complete system of accounting that was simple enough to carry out the transactions of the government without incurring much expense and requiring more clerical help.

In selecting this subject and making the study of municipal budgets and accounting methods, the writer had constantly in mind the situation as he found it in Kansas. He, therefore, tried to solve such problems that were suggested to him,

such as, making forms that could be used in collecting and summarizing budget information, how and by whom this information was to be handled, a simple method of recording this information on the books, and a complete method of control of the budget accounts throughout.

With these problems in mind the most important literature on the subject was reviewed, references to which will be made throughout the thesis. The writer, then, visited all the cities of the first class (over 15,000 population) in Kansas, interviewing the official, or officials, in charge of the budget and accounting systems, and made a first hand study of these records and forms. The following cities were visited: Topeka, Salina, Wichita, Hutchinson, Coffeyville, Parsons, Pittsburg, Ft. Scott, Atchison, Leavenworth, and Kansas City, Kansas. Utilizing the best forms and records that could be found in these cities, and the best methods gleaned from reading the literature on the subject, he attempted to draw up some forms and develop a simple system that would fit the needs of the cities of Kansas. It was the purpose to make it complete enough for the large cities, and still make it simple enough for the smaller cities, if certain parts were left out. Since the requirements for cities of Kansas are very little different from cities in other states the forms



and principles involved can be used in general by any city.

In the first chapter, the writer will show the present status of the budget and principal accounting records as found in the cities of the first class in Kansas. Chapter II will present the proposed budget evolved from this study, show how the proposed budget is made up, and the method of tying up the budget to the accounting system by control entries. In the definition of the budget as given by Lloyd Morey, he states that as an accounting document it has to do with 'revenues' and 'appropriations.'<sup>6</sup> A thorough discussion of these two divisions will therefore be made. Proper forms and methods of accounting for revenues throughout will be shown in chapter III, as well as statements that will present the kind of information needed. A similar presentation of appropriations will be made in chapter IV, and the closing procedure for all accounts in chapter V. The final chapter will contain a summary of the main principles presented in the above study together with some important conclusions.

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6. Lloyd Morey, "Introduction to Governmental Accounting,"  
p. 17.

## Chapter I

### PRESENT STATUS OF THE BUDGET AND BUDGET ACCOUNTING IN FIRST CLASS CITIES OF KANSAS

#### Kansas Statutes Pertaining to the Budget

A budget is required, by law, to be made up and closely adhered to by all cities of the first class in Kansas. Quoting the entire section in the Kansas Revised Statutes, 1923, concerning the annual budget, "The board of commissioners shall have full authority over the financial affairs of such city, and shall provide for the levying of taxes, and the collection of all revenues and other assets, the auditing and settlement of all accounts, and make all appropriations for the payment of liabilities and expenses. The fiscal year of such city shall begin on January 1 of each year. In the month of July of each year, or as soon thereafter as practicable, said board of commissioners shall make a careful estimate of the probable revenues for the next fiscal year and apportion the same to the several departments of the city government, including a reserve fund of not to exceed twenty-five thousand dollars, to be used only in case of extraordinary emergencies, such as act of God or other sudden disaster, which could not have been foreseen before the occurrence. Any unexpended portion of this reserve fund

created for any year shall constitute part of such reserve fund for the next ensuing year. Such estimate or budget shall be so prepared in detail as to the aggregate sum and items thereof as said board shall deem advisable. In order to enable said board to properly prepare such estimate or budget, the heads of all departments shall, at least thirty days before such estimate or budget is hereby required to be made, send to the said board estimates of the amounts needed for the conduct, respectively, of each department of such city for the next ensuing fiscal year. Such items shall be certified to by the parties making them, and shall specify in detail the objects thereof and the items required for the respective departments, including a statement of each of the salaries of the officers, employees, deputies and subordinates in each department. It shall be the duty of the said board of commissioners, when assembled for the consideration of said budget, to consider and investigate the estimates prepared by said officers, and to hold daily sessions, if necessary, for the consideration, approval and adoption of said budget. After said budget shall have been duly passed and adopted said board shall not have the power to increase the amounts fixed therein beyond the estimated revenues, unless the actual revenues shall have exceeded such estimates; and, in such event, said budget shall

not be increased beyond such actual revenues. The sums as fixed in said budget shall be appropriated after the beginning of the next ensuing fiscal year for the purpose named. Said board of commissioners shall levy taxes annually and make provision for sufficient revenue to meet all contemplated expenses included in such budget. In case the actual revenue is less than the estimates in said budget, there shall be a pro rata abatement of all appropriations contained therein. In case of a surplus in any fiscal year by reason of an excess of actual revenues received over and above the estimated revenues and expenditures for such year, the surplus shall be credited pro rata to the several funds of said city from which said revenue is derived, and shall be added to the revenues available for the next ensuing fiscal year. Any member of said board of commissioners who shall knowingly vote for or in any manner aid or promote the passage or adopting of any ordinance, legislation or other act of said board increasing the appropriations for the expenses of said city beyond the estimates in said budget, unless the actual revenues shall have exceeded such estimates, shall thereby be guilty of misfeasance in office, and such action shall, ipso facto, vacate his office, and any appropriation over and above said estimated revenues shall be null and void,

and said commissioner shall be liable on his official bond for the money so misappropriated."<sup>1</sup>

In the city manager type of government the city manager is responsible for preparing the annual budget, which is submitted to the governing body for their approval,<sup>2</sup> after which it is published in some newspaper.<sup>3</sup>

The cities of the second class, especially of the commission form of government, are required to make up an annual budget having about the same restrictions as cited for that of the cities of the first class. It is prepared by the commissioner of finance and revenue in July from estimates sent in a short time previously by the heads of the departments.<sup>4</sup>

In the third class cities with commission form of government, a 'commissioner of finance, revenue, and waterworks,' is elected by the board of commissioners from their own group, to have special charge of the preparation of an annual budget, and management of finances of the city.<sup>5</sup> In the mayor-council form of government no budget is required, and consequently no apparent restrictions as to expenditures are made, but limitations are placed on tax levies by the state.

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1. Kansas Revised Statutes 1923 - Section 13-2601.
  2. Kansas Revised Statutes 1923 - Section 12-1014.
  3. Kansas Revised Statutes 1923 - Section 12-1016.
  4. Kansas Revised Statutes 1923 - Section 14-1601.
  5. Kansas Revised Statutes 1923 - Section 15-1407.

Thus the state realizes the importance of the budget as a means of controlling the expenditures of the government of all cities, and has enacted it into law.

#### Experience at Budgeting in Kansas

Since budgets are required by law in the larger cities, they are made up in some form or other and used as a basis for the annual tax levy. But in so many cases they are not made up with enough care and, consequently, the city is handicapped by running short of funds. Sometimes one department will be allotted too much while another will be cut short, due to the fact that the estimates turned in by department heads are made too hurriedly and in too little detail for the officer responsible for the budget to get an accurate idea of the needs of the department. This, it seems, is the greatest error in loosely made budgets in Kansas. Due to the fact that the needs of most of the cities require them to levy taxes to the limit allowed by law there is little danger of their spending much more by not using a properly made budget, but one department with far greater needs may be handicapped by allowing a department with lesser needs to spend more than its share of the funds.

Very little could be found concerning the method of making up the budget in cities of Kansas. It seems that they fol-

low the requirements of the law that estimates be made up by department heads, who make up these estimates from past estimates or expenditures. However, these estimates are loosely made in some cases due to lack of adequate forms upon which to make them, but mostly in commission form of government to the fact that the responsibility for making up the budget is divided among the different commissioners. There is a tendency here for each commissioner to ask for all he can get so as to make a better showing in his department. Of course the commissioner of finance has charge of preparing the budget,<sup>6</sup> but since he meets together with the other commissioners as a board to review the estimates and adopt the budget, he cannot be held individually responsible for either the making or the execution of it. Making one person responsible for the budget as in the city manager plan of government is the better way. Salina, Atchison, and Wichita have this form of government and the city manager makes up the budget. The advantage of different types of organization will be brought out in chapter II.

#### Some Important Accounting Records and Reports

In the following table will be shown some important items of interest concerning the budget and budget accounts in the first class cities of Kansas.

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6. Kansas Revised Statutes 1923 - Section 13-1808.

Table I.

City	Voucher Register	Warrant Reg.	Combined Voucher & Wt. Reg.	Inv'ty Record	Published Reports (annual)	Records kept by
Topeka	Yes	Treas.		Yes	Yes-booklet	Auditor
Salina	Yes	Treas.		No	Yes-booklet	Clerk
Wichita	Yes	Treas.		No	Yes-booklet	Auditor
Hutchinson			Yes	No	No	Clerk
Coffeyville		Treas.	Yes	No	No	Clerk
Parsons			Yes	Yes	Yes	Auditor
Pittsburg			Yes	Yes	No	Auditor
Fort Scott			Yes	No	Yes	Clerk
Atchison			Yes	No	Yes-booklet	Clerk
Leavenworth		Yes		Yes	No	Auditor
Kansas City	Yes	Treas.		Yes	Yes-booklet	Auditor

By law, no claims against the city can be allowed unless a voucher is made and sworn to by the claimant. "All claims against the city must be presented in writing with a full account of the items, and verified by oath of the claimant or his agent that the same is correct, reasonable, and just, and no claim or demand shall be audited or allowed unless presented and verified as provided in this section."<sup>7</sup> Also by law it is a part of the duty of the auditor to keep a record of all disbursements, the cause of each, and to keep an account with each person who has money transactions with the city; to keep a separate account of each and every appropriation made, the date and the purpose of same, and separate accounts with each department.<sup>8</sup>

7. Kansas Revised Statutes 1923 - Section 13-1414.

8. Kansas Revised Statutes 1923 - Section 13-2108.



Section 10-804 R. S. provides that "the clerk of every city shall keep a correct record of all warrants drawn on the treasury of such city, showing the number, date and amount thereof, on what funds drawn and the name of the person or persons to whom the same are made payable."<sup>9</sup>

Section 10-805 R. S. provides that the treasurer, before countersigning the warrants, must also keep a similar record of each warrant issued in a book for that purpose.<sup>10</sup>

Therefore some record must be made showing for each claim allowed, the date, the number, the name of the payee, the amount, the object of the expenditure, the fund and department out of which allowed, and the date when paid. This is shown in some cities by two separate books, a voucher register and a warrant register. In the voucher register is kept a detailed record of the liability when allowed, and in the warrant register a similar record when the warrant is issued and paid. Since the voucher register is usually kept by the auditor or clerk, and the warrant register by the treasurer, these records serve as a check against each other. In other cities the auditor or clerk keeps all this information combined into one book which,

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9. Kansas Revised Statutes 1923 - Section 10-804.

10. Kansas Revised Statutes 1923 - Section 10-805.

in this thesis, has been styled a combination voucher and warrant register. This can be used very effectively where the voucher and warrant number are the same. Of course even in this case the treasurer must keep a record of payments supported by cancelled-warrants to present to the board of commissioners.

At Leavenworth the vouchers are filed away until a few days before the commissioners meet to authorize their payment, at which time the auditor classifies them according to department or fund and object on a sheet for that purpose. At the meeting they are authorized, warrants written out immediately and the entry made on what may be called the warrant register. This saves entering this information twice and can be used effectively where the number of vouchers is not large. Those who present claims soon learn when the commissioners meet and present their claims accordingly.

At Kansas City, Kansas, a combination order voucher form is kept in which a record is made of the transaction from the time an order is made until it is vouchered or becomes a real liability. This is exceptionally good since all encumbrances against a fund should be recorded just the same as the actual liability. It is expected to become one soon, so to show the true status of the fund as to how much remains to be spent, the encumbrance should be a deduction from the account in the

appropriation ledger. When the order is vouchered and thus becomes a real liability the encumbrance is cancelled and the liability put in its place, the actual balance of the account remaining the same, providing the estimated amount of the order was exactly the same as the voucher. Any difference in the two amounts should be reflected in the balance of the account. At Kansas City, although they keep a record of these two together they do not carry the encumbrances daily to the books as a deduction from the ledger balances. They use it simply as a check against the account to see if a balance still remains. The daily balances can be shown by using a bookkeeping machine with the form which will be presented in chapter IV. None of the other cities account for encumbrances in the ledger.

As a part of the regular duties of the auditor prescribed by statute, "The auditor shall be the general accountant of said city, and shall keep in books regular accounts of all real, personal and mixed property of said city."<sup>11</sup> It is his business to keep a complete inventory record. In most of the cities some record is kept by the heads of the departments of the tools, fixtures, equipment, and other personal property, but only in Topeka, Parsons, Pittsburg, Leavenworth and Kansas City, Kansas, has an attempt been made to keep a complete re-

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11. Kansas Revised Statutes 1923 - Section 13-2108.

cord of all the real property as well as personal property owned by the city. Some of these attempts to make an inventory of the real property have been crude, since only rough estimates were made, but it is a start in that direction. Accountants differ as to whether accounts should be kept with real property, or especially as to whether they should be shown on the balance sheet, and if so, whether at cost, or depreciated value. More will be said about this in the discussion of the balance sheet.

A general requirement of all cities for certain published reports is made. "The treasurer of each and every city shall publish, or cause to be published, in some newspaper published in such city, or in some newspaper published in the county in which such city is located and having general circulation in such city, between the tenth and twentieth days of March, June, September and December in each year, a full and detailed statement of the receipts, expenditures and liabilities of such city for the quarter ending on the fifteenth of said months respectively."<sup>12</sup>

Similar specific requirements for published quarterly reports for cities of the first,<sup>13</sup> second,<sup>14</sup> and third class <sup>15</sup> have been made in earlier laws of Kansas.

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12. Kansas Revised Statutes 1923 - Section 12-1608.

13. Kansas Revised Statutes 1923 - Section 13-1809.

14. Kansas Revised Statutes 1923 - Sections 14-413 and 14-1505.

15. Kansas Revised Statutes 1923 - Section 15-417.

As part of the duties of the auditor of cities of the first class, "At the close of the fiscal year it shall be the duty of the auditor to make a complete and accurate statement, showing in detail the financial receipts of the city from all sources and the expenditures of the city for all purposes, together with a detailed statement of the debt of said city and the purposes for which it was incurred, and all the property of said city and the income derived therefrom, if any."<sup>16</sup>

In compliance with the statutes all the cities publish some form of quarterly report, either in brief summary form or a more detailed statement.

Since the annual report of the auditor is not required to be published some city authorities do not care to go to this expense, the report being made up and filed with the commissioners for their inspection and also for the inspection of any citizen who cares to do so. However, annual reports are published as is shown by the above table by Topeka, Salina, Wichita, Atchison, Kansas City, Parsons and Fort Scott. The two latter cities publish a summary report in the official newspaper while the other cities publish a booklet showing in detail all the financial transactions of the city and property

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16. Kansas Revised Statutes 1923 - Section 13-2108.

owned, as well as results of work accomplished in each department. This is very commendable for, even though a majority of the citizens as yet do not pay any attention to it, still they have the feeling that when the acts of their public servants can easily be checked up their activities are above suspicion. It is also a splendid way of interesting many citizens in the work of the city and therefore makes them more energetic in the support of public policies.

Cities of the first class may have an auditor to take over the work that was formerly performed by the clerk. Six of the cities of the first class have done this, while in the other five the clerk performs the combined duties of auditor and clerk. The auditor is almost necessary in the larger cities where the ordinary duties of the clerk are enormous.

In order to keep a satisfactory record of encumbrances on the books it is essential that the city have a central purchasing agent, so that orders can be properly recorded as made. In Kansas, "In all cities containing more than fifty thousand inhabitants, the mayor shall, by and with the consent of the council appoint an elector who shall be known as the city purchasing agent."<sup>17</sup>

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17. Kansas Revised Statutes 1923 - Section 13-1454.

Kansas City is the only city of the first class with commission form of government that has a purchasing agent. In the city manager cities, Wichita, Salina and Atchison, this function is performed by the city manager. However, if there is no purchasing agent, a record could be made if a requisition were first required to be made out and sent to the auditor for audit and record.

The big advantage of a central purchasing agent is that uniform forms for requisitions, orders, invoices, and vouchers may be had, and responsibility for the quality and price of goods ordered can be located.

#### Methods of Accounting Now in Use

Most municipalities as yet, have very simple and crude methods of accounting. Mr. Taylor divides the different methods of accounting as used by cities into three classes.

"1. A simple record of the amount of cash received and the amount of cash paid out.

"2. The use of journals and ledgers in addition to the cash book, in which a record of the real accounts is kept by the use of the single entry. This method makes possible the preparation of a balance sheet.

"3. The use of the double entry with a record of nominal, revenue, and expense accounts, which provides for an internal

check and makes possible the preparation of a statement of profit and loss."<sup>18</sup>

In municipal accounting, profit and loss accounts are seldom kept, except in accounts with an enterprise that is established for profit or to pay its own way, as a municipal water works, etc. But the use of the double entry is absolutely essential if the accounting system is to be complete. Also the only proper method is to keep the accounts on an accrual basis. Actual revenues are accrued and expense liabilities incurred whether or not cash is received or paid. To show the true financial position of the city, the accrued and deferred items and accounts receivables and payables must be represented. Arguments for this will be brought out in the concluding chapter.

In accounting methods used, a great many of the smaller cities of Kansas fall into the first class stated above, that is, the cash basis. The cities of the first class of Kansas use the second method mostly, although the double entry is making some progress. Leavenworth has the most complete double entry system, and Kansas City has an excellent method of control over the transactions where such a large number are involved. The Kansas City officials intend to keep their books on the accrual basis as soon as they get a bookkeeping machine,

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18. R. Emmett Taylor, "Municipal Budget Making," p. 41.



which is quite necessary where a great number of items occur. However, the complete double entry system could be applied in all the cities of Kansas with the possible exception of Kansas City, Wichita, and Topeka, without the use of a bookkeeping machine with very little extra effort.

In no other city excepting Leavenworth were controlling entries made through the journal and ledger for estimated revenues as well as estimated appropriations, the two major divisions of the budget. It is quite necessary that these be carried with accruals offsetting them if the double entry system is to be complete. If there is any argument for the double entry system at all, the argument should carry through for having it complete in all respects, and especially as it applies to the budget.

Several different forms of ledgers, journals, and cash books were found, the most useful of which will be incorporated in the accounting forms in later chapters. Many good bond registers were found, those at Pittsburg and Kansas City being among the best. Since this thesis will not include a discussion of bond registers, only passing mention of them will be made.

The above is the status in which one would find the most important items pertaining to the budget and the accounting for

the same in the cities of the first class of Kansas. With the officials responsible for these records, in most cases, well trained and open to suggestions, and the research that is being made in this field, one may feel that a great change will soon be made in the budget and budget accounting procedure in Kansas.

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## Chapter II

### THE PROPOSED BUDGET AND BUDGET ACCOUNTS

The main emphasis of this thesis is to be placed upon the budget forms and budget accounts. However, a better appreciation of these different forms may be had, if the methods, by which the proposed budget is made up, are presented. In this brief presentation of the budgetary procedure, materials have been selected from the best authorities on municipal budget making.

#### The Budget Making Organization

A budget system to be successful will depend upon a well chosen organization to insure that the budget will be carefully prepared, and most important of all, that it will be closely adhered to at all times. This may depend upon a number of factors, chief among which are: "An orderly arrangement of the financial activities of the city, modern methods of accounting and reporting, proper supervision of personal services and the purchase of commodities, and simplified organization of the whole government to fix administrative responsibility."<sup>1</sup> It would seem, therefore, that control of the financial activities of the city should be centralized, that adequate accounts be kept to form a basis for wise budget making in the future, that such reports be given as will convey adequate information con-

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1. A. E. Buck, "Municipal Budgets and Budget Making," p. 1.

cerning the working of the budget, and a form of governmental organization such that responsibility can be fixed for purchases as well as proper administration of all the activities of the government should prevail.

Before 1900, most city governments were very much disorganized with little or no fixed responsibility in the financial management. In 1901, the commission form of government was first established in Galveston, Texas, and has made a great deal of headway since. It was established in Kansas in 1907. The administrative functions of the government are grouped into departments, usually five, and a commissioner has supervision of all the work falling under each department. The financial functions are grouped together under one department, therefore giving greater coordination among officials responsible for the finances. But its great weakness is in making up and carrying out the budget program. The other four commissioners being independent of the commissioner of finance, who is usually responsible for making up the budget, will not allow their departmental work to be curtailed or supervised in the expenditure of funds by a fellow commissioner. As a result there is no centralization so one person can be held responsible for planning and supervising the financial activities of the city.

This defect has been remedied somewhat by the city manager form of government established in 1908 at Staunton, Va. It was first established in Kansas at Wichita, April 17, 1917. In this plan the departmental work is carried on as before, but the responsibility for the administration is centered in the city manager, who is appointed by, and responsible to, the council or board of commissioners. The finance department is made one of the most important departments, and has complete authority to enforce all fiscal regulations, collect data for budget making, and prepare the budget for the city manager to present to the legislative body.

Several cities have retained the old mayor-council form of government, and have given greater authority to the mayor. He handles the finances very similarly to the methods used in the city manager form, the apparent weakness here being that the mayor is elected by, and responsible to, the people instead of the legislative body. This carries out the idea of the national and state governments in separating the executive from the legislative functions. There is no mayor-council form of city government among the first class cities of Kansas.

The individual or individuals responsible for the budget planning depends upon the form of city government. In the city manager and mayor-council form, the city manager and mayor,

respectively, will do this work. The commission form is the least satisfactory since the commissioners plan the budget separately and adopt it jointly, and there is no adequate method of enforcing the budget program. This situation is remedied in some cities, such as New York, by having a board of estimate, consisting of the mayor, certain administrative officers, and a representative of the council, which is the budget making authority. This board plans and adopts the budget and the council can do nothing but accept it. In this way a more scientific and carefully planned budget is the result.

Budget planning presupposes a budget staff agency, that is, some agency to gather the data necessary to be used as a basis for budget planning. The agency responsible for this should be permanent, insuring regularity and uniformity, have free access to records of receipts and expenditures, and have control of carrying out of the plans. For these reasons the finance department is the most logical for carrying out this work, and in most cities the head of the department of finance is directly responsible for collecting the budget data. In some cities, however, a deputy in the finance department, is given this responsibility.

#### Character of Budget Information

The next thing is the character of information required in

budget making. Mr. Buck says, "In budget making, we should know four things: (1) the work the government is undertaking to do (activity); (2) the agency of the government that will do this work (organization unit); (3) the cost of the work (expressed in terms of purchases, operation costs and results); and (4) how the cost is to be met (from revenues, borrowings, etc.)"<sup>2</sup>

If the work to be done is of a type that has been carried on in the past, the information can be collected from the accounting records, but if it is a new venture, this information must be collected from other cities that have a like undertaking.

It is also necessary to know whether an organization unit already in existence can carry on the work or whether a new one must be created. Creation of a new unit with extra office help will necessarily entail extra expense.

It is also essential that estimates must be made of the costs. To do this an adequate cost system should be set up. A complete analysis should be made of services and commodities purchased, of operation costs of the different divisions of government, and the actual results of the departmental services. This requires the listing of the number and cost of individuals

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2. A. E. Buck, "Municipal Budgets and Budget Making," p. 11.

needed, the burden expense attached, and the arrangement of these items so that the unit cost and the cost of operation can be found. Per capita costs is being used to a great extent to compare the efficiency of one department or service with another. The total cost is divided by the number of individuals served and the per capita cost made known to the public so that the citizens can be satisfied as to the desirability of continuing with the service. "The per capita cost is a sort of index of efficiency, and any material variation calls for investigation."<sup>3</sup> To have a more accurate knowledge of what is to be done, involves a careful measure of the results of governmental activities throughout the year. This is a new phase in budget planning that is worthy of a great deal of study.

After deciding upon the work to be done, the agency responsible for it, and the cost of the work, it is quite important to determine the methods of meeting the costs. These costs may be met out of the current revenues, or by borrowing. If the city is in good financial condition and the extra expense is not large, it will use the former method. However, any program in which the service is spread over several years, usually involves the latter method. "The increase of revenues brings

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3. D. C. Eggleston, "Municipal Accounting," p. 137.



up the vexations problems of taxation. Borrowing involves such questions as the nature of expenditures for which bonds may be issued, the kind of bonds, and the term of such bonds."<sup>4</sup>

### Classification of Budget Information

Once the character of the information has been determined, it is very important that it be properly classified so that the greatest use can be made of it. Mr. Buck says, "The proper classification of budget information insures uniformity in presentation; makes for accuracy in planning; facilitates gathering, compiling, and reviewing; enables comparisons to be made with past years as well as between departments and institutions of similar character; and makes the budget easier to understand when it is set up."<sup>5</sup>

In classifying the above information it is at once evident that there must be an expenditure classification, an income classification ( each of which are on different sides of the budget) and a fund classification, which shows the nature of the funds of the city government into which the income goes and from which expenditures are made.

Many elaborate schemes for the classification of expenditures have been devised, almost all of which have to do with the purchases and payments made by the government. The most

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4. A. E. Buck, "Municipal Budgets and Budget Making," p. 1.  
5. A. E. Buck, "Budget Making," p. 39.

common bases of classification to be found are according to functions, organization units, objects, character, and funds. In order to prepare estimates for the budget, any one of the above classifications could be used, but to get an intelligent classification that is satisfactory for all purposes a combination of all the above bases must be taken into consideration. This is rather difficult to do since some of them overlap and are sometimes confusing. However, if the city government is properly organized, the classification can be made quite uniform and complete. In this thesis the classification by Mr. Buck will be used since it can be adapted readily to any sized city, and the forms used in chapter IV will be based upon it.

EXPENDITURE CLASSIFICATION<sup>6</sup>

1000-SERVICES-PERSONAL

- \*1100-Salaries and wages regular
- \*1200-Salaries and wages temporary
- \*1300-Other compensations

2000-SERVICES-CONTRACTUAL

- 2100-Communication and transportation
  - \*2110-Postage
  - \*2120-Telephone and telegraph
  - \*2130-Freight and express
  - \*2140-Traveling expenses
  - \*2150-Hired horses and vehicles
- 2200-Subsistence, care and support
  - \*2210-Subsistence and support of persons
  - \*2220-Subsistence and care of animals
  - \*2230-Storage and care of vehicles
- 2300-Printing, binding and advertising
  - \*2310-Printing
  - \*2320-Typewriting and mimeographing
  - \*2330-Binding

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6. A. E. Buck, "Municipal Budgets and Budget Making," pp. 18-21.

- \*2340-Advertising
- \*2350-Engraving and stamping
- \*2360-Lithographing
- \*2370-Photographing and blue-printing
- \*2380-Publication of notices
- 2400-Heat, light, power and water
  - \*2410-Furnishing heat
  - \*2420-Furnishing light and power
  - \*2430-Furnishing water
- 2500-Repairs
  - \*2510-Repairs to equipment
  - \*2520-Repairs to buildings and other structures
- 2600-Janitorial, cleaning and other services

### 3000-COMMODITIES

- 3100-Supplies
  - \*3110-Office
  - 3120-Food
    - \*3121-Food for persons
    - \*3122-Food for animals
  - 3130-Fuel and lubricants
    - \*3131-Coal
    - \*3132-Other fuels
    - \*3133-Lubrication oils
  - 3140-Institutional
    - \*3141-Clothing and household
    - \*3142-Laundry and cleaning
    - \*3143-Refrigerating
    - \*3144-Surgical and medical
    - \*3145-General
  - \*3150-School and recreational
  - \*3160-Farm and dairy
  - \*3170-Laboratory
  - \*3180-General
- 3200-Materials
  - \*3210-Building
  - \*3220-Road
  - \*3230-General
- 3300-Repairs
  - \*3310-Parts of equipment
  - \*3320-Parts of structures

### 4000-CURRENT CHARGES

- 4100-Rents
  - \*4110-Of buildings and offices
  - \*4120-Of equipment
- 4200-Insurance
  - \*4210-On buildings and structures
  - \*4220-On stores

## 4000-CURRENT CHARGES (continued)

- \*4230-On equipment
- \*4240-Official bonds
- \*4250-Employees liability
- \*4300-Refunds, awards and indemnities
- \*4400-Registrations and subscriptions
- \*4500-Taxes

## 5000-CURRENT OBLIGATIONS

- \*5100-Interest
- \*5200-Pensions and retirements
- \*5300-Grants and subsidies

## 6000-PROPERTIES

- 6100-Equipment
  - \*6110-Office
  - \*6120-Furniture and fixtures
  - \*6130-Instruments and apparatus
  - \*6140-Tools
  - \*6150-School
  - \*6160-Motor vehicles
  - \*6170-Farm
  - \*6180-Live stock
  - \*6190-General
- 6200-Buildings and improvements
  - \*6210-Buildings and fixed equipment
  - \*6220-Walks and pavements
  - \*6230-Sewers and drains
  - \*6240-Roads
  - \*6250-Bridges
  - \*6260-Trees and shrubs
- \*6300-Land

## 7000-DEBT PAYMENTS

- \*7100-Serial bonds
- \*7200-Sinking fund installments

This classification will permit expansion and contraction to suit the accounting requirements of any city. For instance under the different headings of salaries, a separate account can be kept with each employee, and will be easily located by the code number which can be expanded to suit the need. Many other accounts may be left out entirely, but the

seven main headings should be the same, and most of the first subheadings should be similar. The starred items may be used as account titles. If the government is organized so that the different units and divisions will fall along functional lines and the above classification is used under each organization unit, the essential information on the expenditure side of the budget will be shown. The classification on the basis of functions and organization units will be made if organized in this way, and the character classification will be brought out. The character classification shows whether the expenditures are current, for fixed charges, for acquisition of property, or for capital outlay. The first four main divisions of the above classification, namely, services-personal, services-contractual, commodities, and current charges are current expenses; the last three, current obligations, properties, and debt payments, correspond respectively to fixed charges, acquisition of property, and debt redemption. Current expenses and fixed charges should be met from current revenues. Debt payments are usually met from current revenues, although they are sometimes refunded, while acquisition of property may be met from current revenue, special assessment, or from borrowing.

The character classification is sometimes arranged into

less than the four groups referred to above. The three group classification often made is, current expenses, fixed charges, and capital outlay.<sup>7</sup> In this the capital outlay will include acquisition of property and debt redemption of the four group classification.

Some cities<sup>8</sup> group them all into expenses and capital outlay. Expense, in this case, comprising all items of expenditure necessarily incurred for current administration, operation and maintenance of the several departments; those for which the general fund is reimbursed; and those for materials and equipment in the nature of renewals or replacements, which do not add to the capital assets of the corporation. Capital outlay comprising expenditures of every character made from the general fund which increase the capital assets of the corporation. Dayton, Ohio includes any item that decreases the capital liabilities, such as debt redemption. Therefore, capital outlay includes only expenditures for equipment, land, building, structures, etc., which are more permanent in nature, and since these items will be used in future years this burden of expense should be spread out over the years benefited. The current expenses will include all items that are met by current revenue, those

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7. Francis Oakey, "Prin. of Governmental Accounting and Reporting," p. 338.

8. Kalamazoo, Michigan; Dayton, Ohio.

that are ordinarily known as current expenses, as well as fixed charges, and debt redemption. This method of classification is the simplest and least confusing of all, and probably serves the purpose as well as any. The main purpose of the character classification for the budget is to serve as an index to the means of financing; and for accounting and reporting to reflect any changes in assets and show the actual operating expenses for the period. Since nearly all expenditures are met either by current revenues or sale of bonds, the classification needs to include only those two groups. The four group or three group classification may be confusing since some authorities include both the acquisition of property and redemption of debt in capital outlay, while others call redemption of debt a fixed charge to be met by current revenue. The most confusing perhaps are the items included in fixed charges. Mr. Morey includes within fixed charges such items as redemption of debt, interest on funded debt, pensions, etc. Mr. Buck includes only interest, pensions and retirements, grants and subsidies. Others include besides these, such items as rent, insurance, care of dependents, advertising, etc. "By 'Fixed charges' is meant expenditures which are not required to carry on current activities but in respect to which the administrative and appropriation authorities of the service have no choice of action, since they constitute

obligations created by a previous administration which must be met each year. Examples of fixed charges in governmental services are: interest on bonded indebtedness, pension, and grants and subsidies to subordinate governmental units. Expenditures such as those for rent, taxes, insurance, etc., should not be treated as fixed charges, even though they represent fixed obligations, since they constitute integral items of current expense and should appear under that head."<sup>9</sup> It might be of interest in large cities to separate fixed charges from the ordinary departmental expenses. However, to secure accurate control over expenditures through the accounting procedure, it is best to have the simple classification with the terms carefully defined.

The object classification in the above illustration is found under the subheads of the main groups. This classification refers to the article purchased, or the service obtained, as distinguished from the results secured by expenditures. The fund classification will be brought out in connection with the classification of revenues.

By using this classification a comparison can be made between departments and also between cities if generally adopted by them. To get a uniform classification it would have to be

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9. Henry P. Seidemann, "Manual of Accounting and Reporting for the Operating Services of the National Government." p. 9



adopted by the state legislature. New York, Massachusetts, Wisconsin, Ohio, Indiana, and Iowa are some states that have adopted uniform accounting and reporting procedure for the various municipalities.<sup>10</sup> In Kansas nothing is said about a division except along functional and departmental lines. Funds and departments are mentioned which should be organized for certain purposes, but a great deal of freedom is allowed as to the number. In the city manager form, R. S. 12-1015, "Administrative departments shall be created by the commissioners as the public business may demand. In so far as it is possible and necessary, these departments shall be the following: (1) department of law; (2) department of service; (3) department of public welfare; (4) department of safety; (5) department of finance."<sup>11</sup> In the city manager cities of Kansas many more departments are found than this. In the commission form of government certain departments are mentioned that must be established, but no limitation is made on the number. However, in regard to the collection and disbursements of revenues in cities over 75,000, R. S. 13-2701, the governmental functions of such cities shall be separated into the following divisions and each of said divisions into the departments herein mentioned to wit: First. General Government: Consisting of the de-

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10. E. F. Mac Donald, "Municipal Accounting," - Bennett Accountancy Institute, p. 31.

11. Kansas Revised Statutes 1923 - Section 12-1015.

partment of city treasurer, department of city auditor, department of purchasing agent, department of license inspector, department of commissioner of elections and election supervisors, legal department, and any other department which may have to do with general government or is not otherwise provided for. Other main divisions are, Protection of Life and Property; Health and Sanitation; Highways; Recreation; Municipal Industries; Trusts. Under each of these are found the departments that naturally pertain to them.<sup>12</sup> Kansas City is the only city in Kansas that has grouped its units in this way.

For budget purposes, income should be classified by sources and by funds. Mr. Buck gives the following classification by sources.

#### CLASSIFICATION OF INCOME<sup>13</sup>

##### 1-REVENUES

##### 11-Taxes

111-116 (Kinds)

##### 12-Rights and privileges

121-Licenses

1211-1214 (Kinds)

122-Permits (specify)

123-Franchises (specify utility)

124-Concessions (specify)

125-Rents (specify)

126-Royalties (specify)

##### 13-Services and sales

131-Fees

1311-1314 (Kinds)

132-Sales of services and commodities (specify)

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12. Kansas Revised Statutes 1923 - Section 13-2701

13. A. E. Buck, "Municipal Budgets and Budget Making," p. 26.

- 1-REVENUES (continued)
  - 14-Interest and premiums
    - 141-Interest (specify)
    - 142-Premiums
    - 143-Discount
  - 15-Fines and forfeitures
    - 151-Fines
    - 152-Forfeitures
    - 153-Penalties
  - 16-Grants and donations  
(specify)
  - 17-Pension assessments
- 2-PROCEEDS FROM SALES OF BONDS
- 3-PROCEEDS FROM SALES OF CAPITAL ASSETS
- 4-SPECIAL ASSESSMENTS

The last three are non-revenue items. As in the expenditure classification only the smaller subheads are to be used as account titles. The grouping as above is for convenience in reporting. The separate accounts can easily be grouped if they are numbered as shown.

The fund classification takes into consideration both the income and expenditures side of the budget. A fund is a sum of money set aside to make an expenditure. Funds may be classified in several ways, but from the standpoint of the budget the following classification will suffice:

1. General Fund
2. Special expendable funds
3. Sinking funds
4. Working capital funds
5. Endowment funds

There may be any number of the last four types of funds, but it is better to have as few funds as possible. The first two

classes known as revenue funds reflect the current operations of the government, and their operations are controlled by the budget. In fact most of the accounts that are fiscal in character are found in them, and for this reason will be used for the accounting illustrations.

### The Budgetary Procedure

After the proper budget making organization has been developed and the character of information, as well as the methods of classifying it, has been learned, the first step in the regular budgetary procedure is ready to be taken. This consists of the preparation of budget estimates, which are statements showing the actual revenues and expenditures of previous periods and the proposed revenues and appropriations for the budget period. These estimates are of two classes, general and departmental.

The general estimates include the estimates of revenues made up by the treasurer or auditor, and estimates of expenditures that are of a general nature, such as interest and the retirement of debt obligations. These expenditure estimates are made up by the auditor or clerk from the records that he keeps. These can usually be estimated exactly since the records show how much in interest and bonds are to be paid the next year.

The departmental estimates consist of the estimate of the needs of the departments for the ensuing year as prepared by the department heads. These are the most important estimates in the budget and have to be scrutinized more carefully. Since there are so many departments asking for budget appropriations it is very important that they have complete and uniform sheets upon which to make their estimates. The two main forms for this purpose will be shown in chapter IV in the discussion of appropriations.

The next step consists in making up the budget summaries. The auditor, or financial officer who is responsible for collecting the budget data summarizes the departmental estimates and the general estimates of expenditures together with the estimate of revenues and arranges the entire budget in balanced form. These summaries, with adequate supporting schedules, will then be presented to the budget making authority, usually the chief executive, for review and revision. If the officer who collects the budget data has had much experience at the work and is well acquainted with the wishes of the mayor or city manager, he can eliminate some expenditures which he knows will not meet with executive approval. However, in the main, the budget estimates will remain unchanged.

The chief executive, in conference with the department heads, will revise the budget estimates so that the most im-

portant needs of the entire government can be made to fall within the range of the estimated revenues without destroying the efficiency of any of the departments. The revenues, exclusive of property taxes, all of which are required to be turned in to the treasury, where a record is kept by the treasurer and auditor, seldom vary more than 10% from year to year, so a fairly close estimate can be made. The difference between the expenditure needs and these revenues is made up by the property tax. However, the chief executive must be very careful to keep the expenditures down low enough so that the tax rate will not be changed to any appreciable extent over the previous years, and that it will be kept within the limits established by law.

A tentative budget is now made up and published in the newspaper and other opportunities given for public discussion. This tentative budget must be complete in all respects showing not only the desired expenditures, but the proposed sources of revenues to finance them. In Kansas nothing is said about public hearings on the budget excepting in the city manager form of government. "Opportunities for public hearings on the making of the city budget shall be given during the two weeks previous to the submission of the estimates to the commission. The budget shall then be printed in the city papers and a

further public hearing given by the commission."<sup>14</sup>

In its final stages the tentative budget, with the recommendation of the chief executive, goes to the council or board of commissioners for legislative consideration. Here the estimates are gone over very thoroughly and to insure proper consideration of all items the method of presentation is very important. The budget is usually formally presented in a message to the legislature. Charts and graphs are very helpful as well as financial statements and reports, "such as, a current balance sheet, and operation statement for the last preceding fiscal year, a surplus account, showing condition of the current surplus or deficit, a statement of fund balances and transactions, a statement of appropriation balances and transactions, a statement of stores, and a statement of fixed property."<sup>15</sup>

An appropriation ordinance should be framed to incorporate the main provisions of the budget as to definite amounts applied to certain purposes during a fixed period. The budget document should be presented with the ordinance as a source of information. The ordinance does not necessarily have to be long, but provided so as to fix responsibility for expenditures. The appropriations are accordingly made to organization units, that is, to the departments. There are two types of budget

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14. Kansas Revised Statutes 1923 - Section 12-1016.

15. A. E. Buck, "Municipal Budgets and Budget Making," p. 53.

appropriations known as the itemized appropriations and the lump sum appropriations. In the itemized appropriations the ordinance designates each item or object of expense assigned to each department, while in the lump sum appropriation only the total amount assigned to each department is shown, but is based upon the itemized estimates. The lump sum appropriation is preferable since it makes the budget more flexible. The accounts are kept with the itemized estimates and no expenditures beyond these will be made without proper administrative authority, so adequate control can be had at all times.

Some authorities group the budget into three types,

"1. The lump sum, in which there is little limitation upon the administration of the fund.

2. The highly segregated type, in which items are set forth in great detail.

3. The segregated or flexible type, in which provisions are made for transfers under the supervision of the mayor or manager, or between divisions, by action of the city council."<sup>16</sup>

There are greater possibilities in the latter type.

Accompanying the appropriation ordinance should be the revenue and borrowing ordinances to provide for the necessary means of financing. These are simple in form and in some cities

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16. R. Emmett Taylor, "Municipal Budget Making," p. 23.



may carry over from year to year. However, in Kansas provisions must be made annually. "Said board of commissioners shall levy taxes annually and make provisions for sufficient revenue to meet all contemplated expenses included in such budget."<sup>17</sup>

These appropriation and revenue ordinances when passed and adopted by the governing body become laws. It is a summary of these acts that form the real budget and forms the basis for the budget accounts to be kept. The budget as passed is again published showing any changes made from the tentative budget proposed by the executive officer.

According to the law relating to the annual budget quoted in the previous chapter, R.S. 13-2601, the board of commissioners must begin preparing these estimates sometime in July or soon thereafter. In order for the commissioners to begin their work on time the law also requires the heads of departments to turn in their estimates to the board at least thirty days before such budget is required to be made. This would necessitate the beginning of the actual budget preparation not much later than the first of June for the fiscal year which begins January first.

"All taxes and special assessments must be levied and certified by the city clerk to the county clerk prior to the

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17. Kansas Revised Statutes 1923 - Section 13-2601.

25th day of August each year."<sup>18</sup> This statute sets the limit as to when the budget must be completed in Kansas.

After the budget is enacted into law a work program should be prepared by each department head showing the amounts within the budget that is needed to be allocated to said department for definite periods of the year, monthly or quarterly. Changes in these allocations should not be made without executive approval. In this way each department can be kept within the budgetary limits, and unnecessary expenditures prevented. In order to insure prompt and careful action on all parts of the budget, and proper attention to expenditures a financial calendar should be prepared by the chief executive officer for constant reference.

The remainder of the chapter will be given over to the budget forms and the budget entries required to properly account for the different budget items.

### Budget Forms

Some authorities show in the general summary the total of all expenditures by main items and the total of all means of financing them by sources without any grouping according to funds. The grouping according to funds and departments are added as supporting schedules.

Since certain revenues are required to be paid into cer-

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18. Kansas Revised Statutes 1923 - Section 13-907.

tain specific funds and it is the main purpose of the budget to restrict and control the revenues within these funds, it would seem that a summary of estimated revenues and appropriations by funds would be the most important. Next in importance would be a supporting schedule of revenues showing them by funds and sources, and a schedule of appropriations grouping them by funds and departments. This appropriation schedule should then be supported by a schedule grouping the appropriations by departments and objects. The budget made up in this way would contain only those items that were most essential, and place the most important groupings from a budget standpoint first.

In following the latter plan the forms illustrated by Mr. Morey<sup>19</sup> are very good because they are simple and show only those groupings necessary to fulfill the purposes of the budget. These forms will be presented here with a few additions to provide a little more detail. Since the revenue items are the only items that can be budgeted, the forms and entries concerning them only will be discussed. The forms should show the following information:

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19. Lloyd Morey, "Introduction to Governmental Accounting," pp. 18, 19, 20.

- (a) Revenue estimates
  - (1) Analysis by funds (See Schedules A & B)
  - (2) Classification by source (See Schedule B)
  - (3) Comparison with former years (See Schedule A & B)
- (b) Appropriations and Expenditures
  - (1) Classification by funds (See Schedules A & C)
  - (2) Classification by departments (See Schedule C)
  - (3) Classification by object of expenditure  
(See Schedule C-1, also C-1 forms A & B of Chpt. IV)
  - (4) Comparison with previous periods (See Schedules A & C, and supporting schedule C-1)

The analysis by funds is necessary since revenues by law accrue to certain funds and all appropriations must be designated as to the funds from which they are to be paid.

After classifying revenues by funds it is important from a budgetary standpoint to classify them by sources. Sometimes they are classified according to collecting agencies, but this is of no value from the budget and accounting standpoint. In Kansas, especially, all the revenues are turned over to the treasurer immediately so there would be no need of such a classification. "All moneys belonging to such city and received by any officer or agent thereof, from collections, fines, or any other source whatsoever, shall be by him deposited with the city treasurer daily."<sup>20</sup>

It is not only important to classify appropriations by funds, but by departments as well. Most all appropriations are made to departments as the unit, in order to insure responsibility for expenditures. There should also be a com-

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20. Kansas Revised Statutes 1923 - Section 13-2107.

plete analysis of the proposed expenditures of each department by objects or purposes in the budget. It is not necessary, however, that appropriations be made this way, but it is desirable to account for them in this way in the accounting records.

Comparisons with former years, at least the current and past year, is necessary in order to form a helpful basis for estimates in the new budget.

The forms for schedules A, B, C, and C-1, which follow show all the above information clearly and simply. Schedules C-1A and C-1B which support C-1, will be shown in chapter IV. An explanation of each of these schedules will follow immediately after the forms.

Schedule A  
Budget Summary

Fund	1 9 2 5		Current Year 1 9 2 6		Balance from previous year (if any)	1 9 2 7		Unappro- riated Balance
	Actual Revenues	Actual Ex- penditures	Estimated Revenues	Appropri- ations		Estimated Revenues	Appropri- ations	
1. General Fund	---	---	---	---		75 000	72 500	2 500
2. Special Fund	---	---	---	---		50 000	49 000	1 000
Totals	---	---	---	---		125 000	121 500	3 500

Form 1.

Schedule B  
Estimated Revenues

Fund and Source	Reference to Law or Ordinance	Proposed Changes	Previous Year 1 9 2 5		Current Year 1 9 2 6		Estimate 1 9 2 7	
			Items	Fund Totals	Items	Fund Totals	Items	Fund Totals
1. General Fund								
a. Taxes (all kinds)			---		---		50 000	
b. Rights & Privileges			---		---		10 000	
c. Services & Sales			---		---		15 000	
d. Etc.			---	---	---	---		75 000
2. Special Fund								
a. Taxes			---		---		40 000	
b. Services & Sales			---		---		10 000	
c. Etc.			---	---	---	---		50 000
Total, Schedule A				---		---		125 000

Form 2.

Schedule C  
Appropriations

Fund and Department	Previous Year 1 9 2 5		Current Year 1 9 2 6		Estimate 1 9 2 7	
	Items	Fund Totals	Items	Fund Totals	Items	Fund Totals
1. General Fund						
a. Executive Department	- - - -		- - - -		5 000	
b. Financial Department	- - - -		- - - -		10 000	
c. Public Welfare Department	- - - -		- - - -		20 000	
d. Public Works Department	- - - -		- - - -		30 000	
e. Legal Department	- - - -		- - - -		7 500	72 500
	<hr/>		<hr/>		<hr/>	
2. Special Fund						
a. City Engineer's Department	- - - -		- - - -		15 000	
b. Street Department	- - - -		- - - -		34 000	49 000
	<hr/>		<hr/>		<hr/>	
Total, Schedule A		<hr/> <hr/>		<hr/> <hr/>		<hr/> <hr/> 121 500

Form 3.

Schedule C-1  
Appropriation Analysis  
Executive Department

Expenditure Classification	Previous Year 1 9 2 5		Current Year 1 9 2 6		Requests for 1 9 2 7		Allowance by Budget-Making Authority 1927	
	Items	Totals	Items	Totals	Items	Totals	Items	Totals
1. Services-Personal								
a. Salaries and wages regular	- - - -		- - - -		3 700		3 700	
b. Salaries and wages temporary	- - - -		- - - -		- - -		- - -	
c. Other compensations	- - - -		- - - -		- - -	3 700	- - -	3 700
	<hr/>		<hr/>		<hr/>		<hr/>	
2. Services-Contractual								
a. Communication and transportation	- - - -		- - - -		200		200	
b. Printing, binding and advertising	- - - -		- - - -		500		400	
c. Repairs	- - - -		- - - -		- - -	700	- - -	600
	<hr/>		<hr/>		<hr/>		<hr/>	
3. Commodities								
a. Supplies						200		200
4. Current Charges								
5. Current Obligations (fixed charges)								
6. Properties (from current revenues)								
a. Equipment						500		500
7. Debt Payments (from current rev.)								
		<hr/>		<hr/>		<hr/>		<hr/>
Total, Schedule C		<hr/> <hr/>		<hr/> <hr/>		<hr/> <hr/> 5 100		<hr/> <hr/> 5 000

Form 4.

The budget summary, Schedule A shows the complete budget in balanced form ready to be entered in the books at the beginning of the fiscal year. Usually the estimated revenues and appropriations are made to be exactly the same, but it isn't always possible to adjust the tax rate so it will bring in exactly the right amount of revenues, and in such case the revenues will exceed the estimated appropriations slightly. Such is the case in this illustration. However, since both the revenues and appropriations are estimates, they could be made the same, no doubt, without affecting the accuracy of the estimates. Since the budget in Kansas has to be made up in July the revenues and appropriations for the current year may be either the exact revenues and expenditures to date for the first six months, or it may be an estimate for the whole year based upon the first six months experience. At Atchison, for instance, they estimate it as double the actual amounts for the first six months. There will be as many special funds such as Park fund, Library fund, General Improvement fund, etc., as are needed by the city, but they would be accounted for in the same way.

The schedule for estimated revenues shows the revenues arranged according to funds and sources. The source classification is the same as suggested by Mr. Buck and as used in



the first part of this chapter. Since all revenues, and especially changes in revenue, must have legislative authorization, it is important to make note of these in the budget.

The schedule for appropriations shows the appropriations by funds and departments. From this the proper entries can be made controlling each agency to which the appropriation is made. In a larger city the appropriations may profitably be made to smaller departmental units than those mentioned. For instance, the financial department may be broken up into the City Clerk's department, Treasurer's department, the Auditor's department, and License department. The heads of each of these departments will then be held directly responsible for the proper expenditures of the funds appropriated to them. Very few special funds have more than one department and appropriations are made to them directly. This accounts for the fact that an account may have the title of fund in one city and department in the other. It makes no difference just so each appropriation is properly recorded and some individual is made responsible for expenditures.

In the appropriation analysis schedule the expenditures classification of Mr. Buck is used. These main account titles may be analyzed into smaller account titles if desired for accounting purposes. Ordinarily this should be done so as to

know at all times if the departments are keeping within their budget in all respects. However, these may be shown by supporting schedules. These entries will be kept in subsidiary expenditure analysis ledgers. This form is the form that is handed in by the head of each department or the bureau or division under each department. It is a summary of the detailed estimates made up by the departments on forms A and B of schedule C-1. Any increases over previous expenditures must be accounted for. When the budget making authority has gone over the requests of the department and finally decided upon a certain amount, it is entered in the last column. This is the same as the total allotted to each department as is shown in the appropriation schedule.

In order to give complete information concerning all financial items, non-revenue as well as revenue supporting schedules should be made regarding bond issues. To support the item, called debt payments, in the expenditure classification, a schedule should be made showing redemption of serial bonds and if sinking fund bonds are also included, a supporting schedule for sinking fund installments. If a new issue of bonds is proposed for the year two more schedules supporting borrowings in the income classification should be made. One showing proposed bonds and one showing redemption require-

ments and annual interest charges as affected by proposed bonds. This is information needed by the chief finance officer who is responsible for making up the general budget estimates, but is not used to make up the departmental estimates so they will not be illustrated here. Other supporting schedules may be made showing a description of proposed expenditures for land and buildings.

### The Budget Accounting Entries

Accounting entries will be made throughout this thesis for both the general and the special funds from the beginning until the accounts are closed at the end of the year in order to illustrate the accounting procedure used by Mr. Morey. Entries, accounting only for the general fund, illustrating the procedure used by most of the other accounting authorities and taken from Eggleston's Municipal Accounting will be presented to show the difference between the two methods. Explanations of other methods for certain parts of the accounting procedure will be made at the proper places.

#### OPENING BUDGET ENTRIES<sup>21</sup>

(Simplified method)

Budget Accounts for Revenues  
Through General Journal:

(1) In General Ledger (from Budget Schedule A):

General Fund:		
Dr. Estimated Revenue	75 000	
Cr. Unappropriated surplus		75 000

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21. Lloyd Morey, "Introduction to Governmental Accounting," pp. 21 and 22.

Special Fund		
Dr.	Estimated Revenue	50 000
Cr.	Unappropriated surplus	50 000

In subsidiary "Revenue Ledger," from budget Schedule B:

Dr.	Individual accounts with revenue items (taxes, licenses, etc.)
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#### Budget Accounts for Appropriations

(2) In General Ledger, (from Budget Schedule A)

General Fund		
Dr.	Unappropriated surplus	72 500
Cr.	Appropriations	72 500
Special Fund		
Dr.	Unappropriated surplus	49 000
Cr.	Appropriations	49 000

In subsidiary "Appropriations Ledger," (from Budget Schedule C)

Cr.	Individual appropriation accounts (Executive department, Financial Department, etc.).
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The General Ledger, as well as the subsidiary ledgers, should be separated into sections for the various funds, and all accounts of a given fund should be grouped together. A special form for the proper handling of the subsidiary appropriation accounts will be illustrated in chapter IV.

The unappropriated surplus account becomes in reality a clearing account, into which are credited all estimated revenues and to which are charged all appropriations from that revenue. If these two items in the budget are the same there will be no balance in this account during the fiscal year. If unequal, a credit balance would represent the unappropriated surplus.

riated balance of estimated revenues for the fiscal period and a debit balance would indicate that the appropriations have exceeded the estimated revenues and that a deficit exists. As other entries are made to this account it will be explained more fully.

OPENING BUDGET ENTRIES  
(Usual method)<sup>22</sup>

Appropriations authorized

Through General Journal:

(1) In General Ledger (from Budget Schedule A):

General Fund:

Dr.	Budget Requirements	75 000	
Cr.	Appropriations, 1927		72 500
Cr.	Unapplied Surplus		2 500

To record the annual budget

In subsidiary "Appropriations Ledger," (from  
Budget Schedule C)

Cr. Individual appropriation accounts (Execu-  
tive Department, etc.)

Individual revenue items could be posted to a revenue ledger as referred to in the other method if desired, although it is not always done.

The account title "Budget Requirements" is the same thing as "Estimated Revenues" in the first method. Many accountants prefer the latter title. Also unapplied surplus may be known as available balance or unappropriated surplus. However, entries are not made to it as they are in the first method. It is not necessarily a clearing account, but an account set

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<sup>22</sup>. D. C. Eggleston, "Municipal Accounting," p. 195.

up to show the excess of accounts receivable over temporary loans. Many accountants use it to represent just the revenue accounts receivable uncollected. If used in this sense the above entry is not correct since it does not represent a reduction of revenue accounts receivable. To avoid such an entry the fiscal budget requirements and appropriations should be the same. However, the above entry will be carried through in order to have the same entries for comparison between the two methods. It will be noted in the closing journal entries in Chapter V that the balance of this account had to be adjusted in order to be closed out. It is strictly a fund account. The distinction between fund and proprietary accounts will be brought out in the explanation of journal entries in the next chapter.

In this method, as in the others, accounts with the different funds must be kept separate.

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## Chapter III

### REVENUES AND REVENUE ACCOUNTS

Accounting terminology is sometimes very confusing to the lay mind, and consequently these confusing terms must be defined before a clear discussion can be made. It is very difficult for some persons to distinguish between revenues and receipts of a given fiscal period, but from the following definitions it will be noted a very important distinction exists.

Mr. Morey says, "Governmental revenues include moneys or other expendable wealth accruing during a given fiscal period, which increases assets without increasing liabilities or reserves."<sup>1</sup> According to Mr. Oakey, "Revenues may be defined as comprehending those receipts applicable to the current period which increase assets or decrease reserves without increasing liabilities or reserves; which do not represent the recovery of particular expenditures, and the sources of which are known or ascertainable."<sup>2</sup> Revenues decreasing reserves are the amount of the periodical amortization of any premiums received on bonds sold. Examples of revenues increasing assets, such as, taxes, licenses, etc., were given in the revenue classification in the preceding chapter.

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1. Lloyd Morey, "Introduction to Governmental Accounting," p. 26.
  2. Francis Oakey, "Principles of Governmental Accounting and Reporting," p. 292.

"Cash receipts of a government include all sums of money coming into possession of the government during a stated period, from whatever source and for every purpose."<sup>3</sup> Receipts of a given period then include all the cash actually received by the government from every source and every purpose.

The revenues of a given period, however, include all receipts expendable for governmental purposes pertaining to the given period that has accrued, that is, whether or not they are received or collected within that period. Taxes, licenses, or water rents of a certain period that are due and have been levied or assessed as receivables are accrued items and are credited to revenues, even though no cash has been received or collected during the period. Revenues must also be receipts both realizable in cash and expendable for governmental purposes. A gift of real estate or other permanent property to be used permanently by the government, even though it was for governmental purposes, would not be considered revenue since it can not be converted into cash for expenditure. A gift of an endowment fund in which the principal is to be held permanently intact, would not be revenue, since it can not be expended even though it is convertible into cash. Revenues

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3. Lloyd Morey, "Introduction to Governmental Accounting,"  
p. 32.



must increase assets without increasing liabilities or reserves. Therefore, receipts from loans, which increase liabilities to the same extent as they increase assets are not revenues. Revenues must also relate to the current fiscal period. Receipts of revenues of some previous period, known as surplus receipts, increase the expendable surplus, but are not current revenues. Therefore, receipts include many non-revenue items as well as revenue items, and while revenues include some items that have not yet become receipts (receivables, etc.) they must all eventually become receipts or be deducted from revenues.

Revenues relating to a certain fiscal period are the only items of income that can affect the budget accounts, but it is easily seen that no presentation of the subject of revenues can be made without including a discussion of, and accounting entries for, cash receipts.

### Classification of Revenues

Revenues, for budgetary purposes, may be classified by funds and by sources. They must be classified by funds since all authorization of resources by the legislative body are made to apply to specific purposes. They must be classified by sources in order that adequate information concerning the distribution of the revenues may be revealed. A classification of revenue by source was presented in the income classification

by Mr. Buck in the preceding chapter. However, since no explanation was made of the individual items, the classification of governmental revenues by source under the major heads with proper explanation of each heading, as presented by Mr. Morey will be given.

#### CLASSIFICATION OF GOVERNMENTAL REVENUES BY SOURCES<sup>4</sup>

- (1) Taxes, which consist of charges levied at regular intervals against persons, property, or business, which must be paid. They are as a rule levied to provide funds for the general expense of the government, without relation to any specific service; occasionally, however, a tax is levied for the express purpose of meeting the expense of a certain service, as for instance, a "garbage" tax.
- (2) Licenses, Franchises, and Privileges. These charges are made for certain rights granted by the government to the persons or concerns paying the charge. They may relate to the right to carry on a certain business continuously for a certain period; the right to do a certain act, such as erecting a building; the right to use certain public property.
- (3) Fees, representing specific charges made for definite services rendered by the government or institution.
- (4) Fines, penalties, and forfeits, representing charges assessed for offenses, failure to pay debts due the government within the time allowed, and damages.
- (5) Sales and Services, including all charges made for services or sales of a commercial nature. These include utilities, sale of publications, manufactured articles, farm products, etc.; institution service; special service.
- (6) Grants of Superior Governments, when used for current expenditures; when such items are for permanent endowment they are not revenue.

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4. Lloyd Morey, "Introduction to Governmental Accounting," p. 27.

- (7) Incomes of Funds, properties, and Investments. These include interest on bank balances, rents of income-producing properties, interest on investments, also premium on bonds sold or discount on bonds purchased.
- (8) Gifts for current purposes, including all gifts to be used for governmental purposes, which are not endowments.

### Control of Revenues

To insure that all revenues due the municipality are properly accounted for, an adequate system of control accounts should be effected. These control accounts will relate to the budget estimates, levies, and collection of accounts.

After the budget estimate for revenues is set up in the books, as a control account, offsetting entries will be made to the account regularly as these revenues accrue. Periodic reports should be made showing the condition of each class of revenue.

In an accounting system kept on the accrual, instead of the cash, basis the next important step will be the process of levying or assessing against citizens for revenues that are due. This is done by the legislative body for revenues, the particular items of which are known in advance. For example, in the cities of some states all the taxes due the city are assessed against the citizens and collected by the city. In Kansas, however, this is done by the county and the revenues turned over to the city by the county treasurer in a lump sum.

It would therefore be of little or no use to keep an account of taxes receivable in this state. But, in Kansas, as well as in most other states, levies are made against persons receiving services or privileges, or for other reasons, such as licenses, fees, fines, sales, utility services, etc., for the sums due in each case. In most of the cities such a record is made of each levy and the amounts due, either in a special book for that purpose or on cards, a separate card for each individual who is in debt to the city. But seldom are control entries, or in fact any entries, made in the accounting records until these items have been collected. Failure to properly account for these revenues when the levy is made, may result in some items being overlooked, or at least prevent the accounting officer from presenting a statement of the correct condition of the revenues. It is essential that each levy or assessment be made on multiple forms so that each department or official concerned will have a copy. The chief accounting officer must return one copy in order to make entries in the general accounts. Then a copy must be placed in the hands of the collecting officer who must account for every item. In this way a careful check can be made and proper accounting entries kept at all times.

The last step in accounting for revenues will be for the

collection of receivables and all items of revenue that have not been previously levied or assessed. This will be done as the collecting officer makes his daily report to the accounting officer concerning the collections in money or in uncollectible items.

Many auditors keep a budget control of only the appropriation side of the budget, and although they keep account of all the revenues actually received, they have no way of actually knowing from time to time whether the individual items of revenue are coming up to the estimates. It is very important that this be done since some items of revenue may be much less than was estimated, necessitating a material reduction in expenditures to prevent a deficit. If control accounts are not kept with estimated revenues throughout the year, this information may not be known until too late.

### Accounting Entries for Revenues

Entries showing how the accounts are set up with the budget estimate of revenues, have already been made in Chapter II.

Accounting entries showing the levying or assessment of revenues by the two methods indicated in the preceding chapter will now be shown. The method used by Mr. Morey will always be presented first, and the method used by Mr. Eggleston, (the customary method in use) second. All entries for the first

method will be numbered consecutively continuing from the opening budget entries in chapter II. Corresponding entries of the second method will receive the same number, so that comparison of the entries can be easily made.

Entries showing levying or assessment of revenues<sup>5</sup>

(3) In General Ledger (from General or Special Journal):

General Fund		
Dr. Taxes Receivable	52 300	
Cr. Reserve for Uncollectible Taxes		2 092
Estimated Revenues		50 208

Special Fund		
Dr. Taxes Receivable	41 400	
Cr. Reserve for Uncollectible Taxes		1 656
Estimated Revenue		39 744

In subsidiary Tax rolls, register, or ledger:		
Dr. Individual accounts, total	93 700	

In subsidiary Revenue ledger:		
Cr. Taxes, General Fund	50 208	
Taxes, Special Fund	39 744	

The above entries showing taxes receivable are the ones used by the authorities from whom the illustrations were taken. Although entries for tax levies may not be needed in cities in Kansas, the method will be the same for any kind of levy whatsoever. Separate accounts should be kept with each class of receivable; for example, taxes receivable, water rents receivable, etc. Each account should be classified so as to properly

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5. Lloyd Morey, "Introduction to Governmental Accounting," pp. 28 and 29.

indicate its character and the period to which it is applicable, as for example the year or month.

The reserve for uncollectible taxes is set up to provide for any taxes that will not be collected and the estimate is based on past record and conditions. Later, whenever any accounts are actually determined to be uncollectible they may be written off by debiting reserve for uncollectible taxes and crediting taxes receivable. If the amount set aside for the reserve has been too large, the balance will be closed to the credit of estimated revenues since that amount lacked that much of being credited with the amount of taxes actually realized. If the amount set aside was not large enough, the estimated revenue will have to be debited and reserve for uncollectible taxes credited with enough to correct the accounts.

Instead of crediting 'estimated revenues' account for all revenues accruing, a separate account for 'revenues' could be credited. This is done by some accountants so as to make up an operation statement. If it is done, the revenues account must be deducted from the balance of the estimated revenues account in preparing the fund balance sheet.

Entries showing levying or assessment of revenues<sup>6</sup>

(3) In General Ledger (from General or Special Journal):

General Fund

Dr. Taxes Receivable, 1927	52 300	
Cr. Reserve for Abatement of Taxes, 1927		2 092
Revenue - General		50 208

(3a)	Dr. Unapplied Surplus	50 208	
	Cr. Budget Requirements		50 208
	Per register of tax rolls for 1927		

The same subsidiary ledger entries should be made here as in the method used by Mr. Morey.

The account Reserve for Abatement of Taxes, 1927 means the same as Reserve for Uncollectible Taxes in the first method. Mr. Eggleston makes a credit to Revenue instead of Estimated Revenues, but as was explained above this can be done in the method used by Mr. Morey. Therefore, the first entry by the two methods is practically the same. However, in the second method a collateral journal entry must be made to show the proper change in the fund accounts. The Unapplied Surplus entry is required in order to make the balance of the Unapplied Surplus account equal to the difference between the accounts receivable and the temporary loans. The Unapplied Surplus account is charged with the same amount as was credited to Revenue-General account.

Where the fund and proprietary accounts are kept separate, two sets of entries must be made instead of one; wherever both fund and proprietary accounts are affected. In the opening budget entries only the fund accounts were affected; consequently only one entry was required. Since most all the remaining entries affect both types of accounts, it can readily be



seen that the second method will require almost twice as many entries.

It must be realized that fund accounts represent the unrealized fund resources and the commitments of these resources while the proprietary accounts represent the usual assets and liabilities. Fund accounts would include the following:

Available Cash, Available Cash Surplus, or Unapplied (net cash) balance (representing the excess of cash over vouchers payable or current liabilities.)	Reserve for temporary loans Reserve for encumbrances (orders and contracts outstanding) Unencumbered Appropriations Unappropriated Surplus, Unapplied Surplus, or Available Balance (usually the uncollected receivables)
Budget Requirements, or Estimated Revenues not yet accrued.	

Proprietary accounts would include the following:

Cash	Revenues (to be closed to Surplus)
Accounts Receivable	Vouchers Payable
Prepaid items	Accounts Payable (not vouchered)
Stores	Reserve for prepaid items
Expenditures (to be closed to Surplus)	Reserve for stores
	Temporary loans
	Surplus (representing the excess of current assets over current liabilities)

Where more than one title is applied to the above accounts, it is done to show the different terms which are applied to the same account by different authorities. The account 'Reserve for temporary loans' in the fund accounts, is not used by Mr. Eggleston, but instead the account is credited to Unapplied

Surplus, making that account equal to the difference between the accounts receivable and temporary loans providing the Budget Requirements and Appropriations at the beginning are the same.

As an argument for the unification of the two groups of accounts the statement by Mr. Morey in the Introduction to Governmental Accounting will be quoted:

"The writer believes that the segregation of these groups of accounts accomplishes no real purpose, but in fact results in a false showing of financial condition and in the unnecessary duplication of accounting entries. The resources of a fund consist of its assets in hand and the resources which are expected to produce tangible assets during the fiscal period. The obligations of a fund consist of the actual liabilities, the obligations in the form of orders and contracts which must be met out of the fiscal resources of the fund, and the commitments of those resources in the form of appropriations. The excess of resources over obligations represents the sum available for further appropriation, or the "unappropriated surplus." No other figure of surplus can be of significance for any purpose, and any figure not taking into account all of these items will be misleading and may lead to embarrassment."<sup>7</sup>

If Mr. Morey's method should be carried out, as shown in the first method of accounting presented, the accounts of 'available cash,' 'reserve for temporary loans,' and 'surplus' should be omitted; and 'expenditures' and 'revenues' may be omitted by having expenditures charged to 'appropriations' and revenues credited to 'estimated revenues.' Since the budget accounts, such as estimated revenues not yet accrued, and

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7. Lloyd Morey, "Introduction to Governmental Accounting," p. 7.

appropriations not yet encumbered are fiscal, they must be closed back into unappropriated surplus at the end of the year. All the accounts after the books are closed will then become real or proprietary accounts.

In accounting for the collection of revenues two types of accounts are found: (1) Those relating to the collection of revenues which have been previously set up as accounts receivable, and (2) those relating to the collection of revenues which have not been previously set up as accounts receivable. The first type of accounts pertains to revenue accounts only indirectly, since the revenue accounts were credited when the accounts receivable were set up.

Accounting for the collection of revenues. First method.<sup>8</sup>

Entries for collection of revenue previously set up as accounts receivable.

(4) In General Ledger (from Cash Receipts Journal)

General Fund		
Dr. Cash	51 240	
Cr. Taxes Receivable		51 240
Special Fund		
Dr. Cash	38 760	
Cr. Taxes Receivable		38 760

In subsidiary tax records  
 Cr. Individual accounts

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8. Lloyd Morey, "Introduction to Governmental Accounting," pp. 29 and 30.

Entries for collection of revenue not previously set up as accounts receivable.

(5) In General Ledger (from Cash Receipts Journal)

General Fund		
Dr. Cash	23 560	
Cr. Estimated Revenues		23 560
Special Fund		
Dr. Cash	10 400	
Cr. Estimated Revenues		10 400
In subsidiary Revenue Ledger		
Cr. Licenses, General Fund		9 500
Fees, General Fund		9 560
Departmental earnings, General Fund		4 500
Fees, Special Fund		10 400

Accounting for the collection of revenues. Second method.<sup>9</sup>

Entries for collection of revenue previously set up as accounts receivable.

(4) In General Ledger (from Cash Receipts Journal)

General Fund		
Dr. Cash	51 240	
Cr. Taxes Receivable		51 240
(4a) Dr. Available Cash Surplus	51 240	
Cr. Unapplied Surplus		51 240
Per register of collections		

These illustrative journal entries show collections in book accounts, which are applied to reduce the amount of accounts receivable outstanding, and to increase the available cash surplus.

Entries for collection of revenue not previously set up as accounts receivable.

(5) In General Ledger (from Cash Receipts Journal)

General Fund		
Dr.	Cash	23 560
Cr.	Revenue - General - Licenses	9 500
	Revenue - General - Fees and Dept. Earn- ings	14 060
(5a)	Dr. Available Cash Surplus	23 560
	Cr. Budget Requirements	23 560
	Per register of collections	

A subsidiary Revenue Ledger should be kept showing a separate account for each item or source of revenue. Each item, such as Taxes, Rights and Privileges, Services and Sales, etc., according to the main headings of Mr. Buck's classification, or as detailed as desired, such as, taxes (each kind), licenses, fees, etc., should be kept showing a debit at the first of the year for the estimated amount of revenue for this item according to the budget, and periodic, usually monthly, credits from the cash receipts journal for all revenues directly accrued, and from the general journal for all revenues that have been assessed or levied. The balance of each account will show the amount of revenue still expected from that item for the year. In this way a monthly statement of revenues can be made showing how the accrual and collection of revenues are progressing.

Separate subsidiary accounts receivable ledgers may be kept with each type of accounts receivable, such as, taxes receivable, water rents receivable, licenses receivable, etc., and within these separate accounts with each individual concerned. A charge or debit is made against each individual when the levy or assessment is made, and a credit to this individual when payment is received. The balance will show the amount due, and the total of all these balances in each accounts receivable ledger will equal the controlling accounts receivable account in the general ledger. Separate sections of the ledgers are kept for the accounts of the different kinds.

#### The Revenue Statement

Since none of the cities of the first class in Kansas keep accounts through the ledger on the accrual basis no statements of the revenues were shown, excepting for those that had been collected. The form for the statement of revenues as shown by Mr. Morey will be presented as a good illustration.

REVENUE STATEMENT<sup>10</sup>

	(1) <u>Budget</u> <u>Estimate</u>	(2) <u>Assessed</u>	(3) <u>Res-</u> <u>erve</u> (a)	(4) <u>Net Ac-</u> <u>crued</u>	(5) <u>Unac-</u> <u>crued</u> <u>Bal-</u> <u>ance</u>	(6) <u>Collect-</u> <u>ed</u>	<u>Out-</u> <u>stand-</u> <u>ing</u>
<u>Fund, Gen-</u> <u>eral</u>							
Taxes	50 000	52 300	2 092	50 208	c 208	51 240	1 060
Licenses	10 000	1 500		9 500	500	1 500	
Fees	10 000	1 200		9 560	440	1 200	
Dept. Earn- ings	5 000			4 500	500		
Total	75 000	55 000	2 092	73 768	1 232	53 940	1 060
<u>Fund,</u> <u>Special</u>							
Taxes	40 000	41 400	1 656	39 744	256	38 760	2 640
Fees	10 000	1 300		10 400	c 400	1 300	
Total	50 000	42 700	1 656	50 144	c 144	40 060	2 640
Grand Total	125 000	97 700	3 748	123 912	1 088	94 000	3 700

(a) At the end of the fiscal period this column would contain amounts of actual losses in accounts assessed, if any, as well as the unused reserve or reserve expected to be used next year.

## Statement 1.

In this statement column (1) represents the debit side of the estimated revenues account, (4) the credit side of the same account, and (5) the debit balance of this account or the balance of estimated revenues not yet accrued. If the amount

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10. Lloyd Morey, "Introduction to Governmental Accounting,"  
p. 31.

accrued is greater than the budget estimate, then there will be a credit balance designated by the letter c. Therefore, (1) minus (4) equals (5).

Columns (2), (6) and (7) represent the accounts receivable accounts. Column (2), the debit side, (6), the credit side and (7) the debit balance or amount of receivables outstanding. Column (6) does not represent all collections, but only the collections of receivables. Therefore, (2) minus (6) equals (7). Column (4), net accrued, represents all accruals whether or not assessed. Therefore column (4) represents the difference between columns (2) and (3) only in those items where all accruals are assessments.

In the budget problem thus far carried out no entries were made for assessments of licenses and fees. It is quite likely that assessments for licenses, such as those on business houses and for fees for services already performed but not collected, will be made. However, it is also very likely that a great many licenses and fees will not be known in advance of collections, so these revenues will accrue without assessment. If such assessments or levies had been made the entries would have been the same as for taxes receivable. In the above statement, however, it is taken for granted that some assessments for licenses and fees have been made to show



how they would be represented.

Where there are several special funds, as in cities of Kansas, a separate statement could be made out for each fund, and a summary of all fund totals with a grand total of all items, if desired.

The revenue statement should be a very important statement for the chief executive officer and other officials responsible for the collection of revenues. This statement should be made out at least once a month after postings from the subsidiary accounts receivable and revenue ledgers and cash receipts journal are made.

#### Accounting Entries for Non-revenue Receipts

From the definition of cash receipts at the first of this chapter, it was seen that it included both revenue and non-revenue receipts. A discussion of revenue receipts and accounting entries for them has already been made. A similar presentation of non-revenue receipts of expendable revenue funds will now be carried out.

Non-revenue receipts of expendable revenue funds include temporary and long term loans, sale of stores, refunds of payments made in error, etc., and surplus receipts. Non-revenue receipts of other funds are receipts from assessments and reimbursements, endowment gifts and income of trust funds. Only

the non-revenue receipts of expendable revenue funds mentioned above will be considered.

Temporary loans are those to be repaid out of the revenues of the current fiscal period, and may be in the form of notes, revenue bonds, or anticipation warrants.

Entries for receipts from loans. First method.<sup>11</sup>

(6) In General Ledger (from Cash Receipts Journal)

General Fund		
Dr. Cash	5 000	
Cr. Loans Payable		5 000
(describe)		

Separate accounts should be kept with notes, revenue bonds, anticipation warrants, etc.

In subsidiary register:

Detailed record of each obligation entered into.

Entries for receipts from loans. Second method.<sup>12</sup>

(6) In General Ledger (from Cash Receipts Journal)

General Fund		
Dr. Cash	5 000	
Cr. Loans Payable		5 000
(6a) Dr. Available Cash Surplus	5 000	
Cr. Unapplied Surplus		5 000
Per register of notes, bonds, or warrants		

Some accountants instead of crediting unapplied surplus make a credit to reserve for temporary loans, thereby making

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11. Lloyd Morey, "Introduction to Governmental Accounting,"

12. D. C. Eggleston, "Municipal Accounting," p. 34.  
p. 200.

the balance of the unapplied surplus account equal to the uncollected accounts receivable. A few also do not make the collateral entry for the reason that this transaction does not increase surplus. The results will be the same in the long run, since a reverse entry will have to be made when the loan is paid, and since it is temporary it must be paid during the fiscal year.

When long term loans are negotiated to provide revenues, it is an evidence that the revenues of the fiscal period are insufficient and that a deficit exists. This deficit must be funded so that it will be met out of the revenues for more than one period. Two journal entries will be required, the first one the same as for temporary loans, and another with a debit to 'Funded Deficit' and a credit to Unappropriated Surplus. The last entry exhibits the deficit in relation to the current resources and obligations of the fund.

Money is often borrowed from one fund to meet the demands of another for cash. Entries should be made as follows. First method.<sup>13</sup>

(7) In General Ledger (from General Journal):

General Fund (lending):			
Dr. Due from Special Fund	3 000		
Cr. Cash			3 000

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13. Lloyd Morey, "Introduction to Governmental Accounting," p. 34.

Special Fund (borrowing):		
Dr. Cash	3 000	
Cr. Due to General Fund		3 000

The remaining entries for cash receipts by the second method will be made in accordance with the principles used for the other entries, although no illustration of them can be cited from Mr. Eggleston's Municipal Accounting.

#### Second Method

(7) In General Ledger (from General Journal):

General Fund		
Dr. Due from Special Fund	3 000	
Cr. Cash		3 000

Since no revenue accounts receivable have been created in this transaction, and the total cash belonging to the city has not been changed, no collateral entry should be made here.

A sale of stores of a fund simply involves a change in the form of the asset, whereby the inventory account is reduced and receivables or cash increased. An entry for this would simply be a debit to fund cash or accounts receivable and a credit to stores.

When an expenditure from an appropriation has been made in error and the amount is returned, the fund and account originally affected by the transaction should be credited.

First method<sup>14</sup>

(8) In General Ledger (from Cash Receipts Journal):

General Fund		
Dr. Cash	1.80	
Cr. Appropriations		1.80

In subsidiary Appropriation Ledger:

Cr. Individual Appropriation Account		
Executive Department		1.80

When a report is made of expenditures under this appropriation, refunds should be deducted from the expenditures.

## Second method.

(8) In General Ledger (from Cash Receipts Journal):

General Fund		
Dr. Cash	1.80	
Cr. Expense		1.80

(8a)	Dr. Available Cash Surplus	1.80	
	Cr. Appropriations		1.80

Surplus receipts are receipts of all accounts or from sales of old property pertaining to a previous fiscal period, and since they are not revenues, must be set up with a separate general ledger account. This account is credited with such receipts from the Cash Receipts Journal, and closed at the end of the fiscal period into Unappropriated Surplus.

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14. Lloyd Morey, "Introduction to Governmental Accounting," p. 35.

First method<sup>15</sup>

(9) In General Ledger (from Cash Receipts Journal):

General Fund			
Dr.	Cash	500	
Cr.	Surplus Receipts		500

In subsidiary ledger credits might be made to the individual accounts if they are still open.

## Second method

(9) In General Ledger (from Cash Receipts Journal):

General Fund			
Dr.	Cash	500	
Cr.	Surplus Receipts		500

Since these receipts do not pertain to the fiscal period no collateral entry should be made.

Accounting Records for Receipts

Since all cash receipts must be turned over to the treasury daily, and no payment of expenditures except by warrant against the treasury, it is very important that all officials who make collections be held strictly accountable. In order to do this the following records of receipts should be kept:

(a) Multiple Account Forms so that all collecting officials and the accounting department will get the proper information for receivables.

(b) Multiple Receipt Forms to go with the multiple account

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15. Lloyd Morey, "Introduction to Governmental Accounting," p. 35.

forms and upon which to acknowledge payments upon a given account.

(c) Cash Receipts Voucher or Recapitulation, which is a daily or periodic summary of all receipts from accounts shown on the above forms, and serves as a basis for the accounting entry.

(d) Cash Receipts Journal, a columnar journal in which the receipts are analyzed as to debits by funds and credits by sources. Postings are usually made monthly from this journal to the debit of the respective fund cash accounts and to the credits of the different sources, as accounts receivable, estimated revenues, loans, surplus receipts, etc. A separate cash receipts journal may be used for each source of revenues collected, as for taxes, licenses, fees, etc.

#### Statement of Receipts

Since, in most of the cities of Kansas, the accounts have been kept on a cash basis, the cash receipts and expenditures statements have been the most important statements presented. Even on the accrual basis of accounting, although not so important as some other statements, it is quite important to know how much cash is being received into the different funds. None of the statements of cash receipts found in the cities of the first class in Kansas made any distinction be-

tween revenue and non-revenue receipts, so the statement by Mr. Morey will be presented to bring this out.

STATEMENT OF RECEIPTS<sup>16</sup>

Source	General Fund	Special Fund	Fund	Fund	Fund	Total
I. Revenue Receipts						
1. Taxes	51 240 00	38 760 00				90 000 00
2. Licenses	9 500 00					9 500 00
3. Fees	9 560 00	10 400 00				19 960 00
4. Dept. earnings	4 500 00					4 500 00
TOTALS	(74 800 00)	(49 160 00)				(23 960 00)
II. Non Revenue Receipts						
1. Loans	5 000 00					5 000 00
2. Old accounts	200 00					200 00
3. Surplus property	300 00					300 00
4. Refund	1 80					1 80
TOTALS	(5 501 80)					(5 501 80)
Grand Totals	80 301 80	49 160 00				129 461 80
III. Transfers						
1. Loans	-3 000 00	3 000 00				
Net Totals	77 301 80	52 160 00				129 461 80

Statement 2.

Transfers or loans from one fund to another should be kept separate from the regular receipts and disbursements since they

16. Lloyd Morey, "Introduction to Governmental Accounting," p. 37.



do not represent receipts from outside sources, nor disbursements made by warrant in the regular way. They should not be inserted with the other items so as to inflate receipts or disbursements.

Where there are several funds a separate statement can be made for each fund. A more detailed list of receipts may be put in the statement, showing the different kinds of licenses, fees, permits, etc. Sometimes twenty-five or thirty items are listed.

Kansas City, Kansas has a good system of control over the cash receipts showing at all times the receipts by sources and funds, and the daily cash balance with the treasurer for all funds. It also has separate columns for transfers. Since the form used is simple and gives an accurate control in a city where receipts are numerous, it will be reproduced on the next page. As a record of receipts here is kept by the month, the statement of receipts in Kansas City for each fund is made in that way. This gives a monthly and a yearly total of each and all items.

CASH JOURNAL

TRANSFERS				GENERAL GOVERNMENT FUND											
				RECEIPTS FROM											
Date	Items	From	To	Date	Warrants	County	Occupation Licenses	Dog Tax	Int. on Bank Dep.	Franchises	Unclassified	Balance			
				HIGHWAY FUND			OTHER FUNDS			MEMORANDA		CITY TREASURER			
				RECEIPTS FROM											
				Warrants	County	etc.	Balance	Warrants	Receipts	Balance			RECEIPTS	PAYMENTS	BALANCE

## Chapter IV

### APPROPRIATIONS AND APPROPRIATION ACCOUNTS

After provisions have been made by ordinance to secure the revenues needed to meet the estimated expenditures of a certain fund, the next step in the legal procedure is to secure an appropriation in order that such expenditures can be made. According to the Kansas Statutes R.S. 13-1404, "All expenditures of moneys for any purpose shall be in pursuance of a specific appropriation made by ordinance, and in no other manner whatever."<sup>1</sup> These revenue and appropriation ordinances are usually made when the budget is adopted to take effect at the beginning of the next fiscal year. However, the appropriation ordinance for the budget may be in a lump sum, and more specific appropriations be made later to provide for the specific needs within the budget.

It can readily be seen that the appropriation is the first step necessary before any liability can possibly be incurred or an expenditure made. Therefore, in the accounting system, it is essential that accounts be kept with appropriations in order to limit and control the expenditure of an expendable revenue fund. Since expenditures are made daily, a record of the exact condition of each appropriation should

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1. Kansas Revised Statutes 1923 - Section 13-1404.

be kept daily. In order to do this satisfactorily in a large city, a special appropriations ledger must be provided. This ledger form will be presented and explained later in this chapter.

"An appropriation may be defined as an assignment from the estimated revenues of a government fund to meet specific expenditures."<sup>2</sup>

All appropriations from a fund must be in accordance with the specific purpose of the fund and not in excess of the actual revenues received for the year.<sup>3</sup> Therefore, accounts for appropriations must be made according to funds.

#### Classification of Appropriations

Since all appropriations must be in accord with some specific purpose, cannot exceed a certain amount, and must relate to a fiscal period if pertaining to a budget item, an act of appropriation not only authorizes expenditures but fixes limitations governing such expenditures. Appropriations may be classified according to these restrictions as follows:

- "(1) Restrictions as to amount and period of availability.
- (2) Restriction as to manner of spending."<sup>4</sup>

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2. Lloyd Morey, "Introduction to Governmental Accounting," p. 39.

3. Kansas Revised Statutes 1923 - Section 13-2601.

4. Francis Oakey, "Government Accounting and Reporting," p. 162.

As to amount appropriations may be definite or indefinite. Appropriations are definite when a specific amount is stated, such as are generally found in budget appropriations. Appropriations are indefinite when no specific amount is stated, but the authorization may be granted to spend such an amount as may be necessary to accomplish a certain specified object or to carry on a certain specified activity; as capital appropriations for additions to fixed assets or permanent property; or it may be an authorization to spend an estimated sum, such to consist of the total receipts from a certain source or a certain fund for the period. This kind is not at all satisfactory for budgetary purposes.

As to period of availability appropriations may be fiscal or current and continuing or recurrent. Appropriations are fiscal when made to meet the expenditures of a given fiscal period, usually annual or biennial. In cities of Kansas, the fiscal period is annual. If there is any unencumbered balance in the appropriation at the end of the year it should be closed back into the surplus of the fund to which it pertains to be added to the revenues available for the next ensuing fiscal period. Continuing appropriations (some authorities prefer to call them recurrent) are those which, when once established, are renewed automatically each year, without fur-

ther action on the part of the legislative body until altered or revoked. These, like the indefinite appropriations, are not desirable from a budget and accounting standpoint.

In regard to the restrictions as to the manner of spending, "conditions may be attached to an appropriation respecting (1) the locality in which the expenditures are made; (2) the object of expenditures; (3) the activity or class of work to be undertaken; (4) the rate or price to be paid; (5) the kind of service to be obtained; or (6) the kind of supplies, materials, and equipment to be purchased."<sup>5</sup>

A classification by purpose is sometimes made and may be included in the above restrictions. According to this classification, "appropriations will usually be made either for (a) departments, providing for the fiscal expenditures of the various departments of government, or (b) object of expenditure such as salaries, equipment, materials, etc., or (c) specific purpose, such as new building, purchase of land, etc."<sup>6</sup>

When the appropriation is made to departments it is considered a lump sum appropriation, but if to objects of expenditure, an itemized appropriation.

5. Francis Oakey, "Government Accounting and Reporting,"  
p. 166.

6. Lloyd Morey, "Introduction to Governmental Accounting,"  
p. 40.

Each appropriation should be kept separate in the accounting records and should be identified by a code number.

### Classification of Expenditures

The budget classification of appropriations must correspond to the expenditure classification of the various departments if accurate estimates are to be obtained. The expenditure classification was discussed in chapter II and the discussion will be supplemented here. Its most important use is for budget purposes. The department head needs it to determine the expenditures of his department for various purposes over preceding years to be used as a basis for estimating future expenditures. The executive and financial administrator must have it to make an accurate comparison of the city expenditures over previous years, and also a comparison of the expenditures of the different departments. Legislative bodies need it to make up a serviceable budget and as a basis for making appropriations. The public can be informed adequately concerning financial operations only by means of a classification that is practical and uniform.

The expenditure classification by Mr. Buck, presented in chapter II, has been used in this thesis, because it is complete and can be made to include the five bases of classification as follows:

1. By funds
2. By organization units
3. By activities or functions
4. By character of expenditures
5. By object of expenditures

It includes the classification by funds since all expenditures are required by law to be made from the funds into which revenues are paid; therefore, the fund classification is made automatically, and must be accounted for in that way.

Classification by organization units is brought out since nearly all appropriations are made to departments within the fund. This is done in order to fix responsibility for the proper administration of the expenditures. This classification can be made through the appropriation accounts since they are arranged that way in the budget.

Since each department may carry on various activities, the appropriations will probably designate the activity to which the expenditure is made. Therefore, the classification and the accounting for it will be made from the appropriation accounts as it was for the departments.

The classification by object is necessary to show the purpose for which the expenditure was made. This classification is made on the voucher by which the expenditure is consummated, and entered in the appropriation account by means of a code number. This will constitute the basis for a month-



ly classification by object through the expenditure analysis ledger. At Wichita, the expenditure analysis is made from the voucher register to the expenditure analysis ledger. The object analysis can be shown in Mr. Buck's classification by breaking the expenditures up into as detailed items as one could wish under the main group headings, the detailed heading, of course, furnishing the account titles. It is preferable for statements and comparisons to group the smaller items under the seven main headings, since many minor expenditures in the different departments are not alike. At Kansas City, the expenditure control journal or ledger form is arranged so that the seven most usual objects of expenditure such as salaries, equipment, repairs, supplies, telephone, laundry, and telegrams, will be presented with one or two extra blank lines and a space for unclassified items. All minor items are placed in this unclassified group and re-analyzed for reports. At Topeka, the vouchers register is divided up into about this same number of headings and all the expenditures are classified under them. At Salina and Wichita, the items of expenditures are numbered consecutively through each department and division of government. The number of items in each division ranges from one to forty and the total for all is well above two hundred. These, of course, represent similar items in the different divisions and are

consequently a duplication of items. This arrangement shows each detailed item, as salaries for each individual, etc. Such detailed items, of course, should be kept, but to compare the expenditures of one department with the other or that of one city with another, these minute items would have to be grouped under larger and more inclusive headings. At Atchison, the expenditures are divided into seventy or more different items.

The character classification can be made from the expenditure analysis ledger, on the basis of the object classification whenever desired for reporting purposes. A statement of expenditures should be made for all the departments and funds according to the main character classification, and a separate supporting statement for each character grouping divided up according to objects. The character classification need not be shown in the books of account, but is used in statements to show how the different expenditures are financed.

#### Expenditure Estimate Forms

Since one of the most important uses of a proper expenditure classification is to aid the department head in preparing the budget estimate, it is important that the budget estimate forms be prepared so as to include this classification. The budget forms for expenditure estimates presented here, are made up from suggestions presented by Mr. Buck.<sup>7</sup> These forms

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7. A. E. Buck, "Municipal Budgets and Budget Making," p. 33.

are simple, yet complete enough to record all items in each department and division in sufficient detail to be easily understood. Only three forms are required to make up the estimates for all the departments. The summary form C-1 was shown in chapter II, and the two supporting forms A and B of C-1 are shown on the following page.

Schedule C-1A

Sheet No.....

EXPENDITURE ESTIMATES FOR THE FISCAL YEAR \_\_\_\_\_

I. Services - Personal  
Salaries and Wages Regular

Department.....  
Division.....

Location.....  
City.....

Code No.	Title of Position	Name of incumbent, or specify "Vacant" or "New Position"	Law or Ordin. Fixing Salary	Salaries Previous Year	Salaries Current Year	Compens. Requested			Increase or Decrease	Allowance by Budget Making authority	Memo-randa
						No. of Employees	No. of days	Salaries or Wages proposed			

Form 6 (a)

Schedule C-1B

Sheet No.....

EXPENDITURE ESTIMATES FOR THE FISCAL YEAR \_\_\_\_\_

II. Services - Contractual  
Communication and Transportation

Department.....  
Division.....

Location.....  
City.....

Code No.	Commodity or Purpose	Expenditures for Previous Year	Estimated Expenditures for Current Year	Request for Budget Year			Increase or Decrease	Allowance by Budget Making authority	Memoranda
				No. of Units	Price per Unit	Amount			

Form 6 (b)

All the information needed for Services-Personal, the first main heading of the expenditure classification will be made on form C-1A. A separate sheet should be made out for each of the three subdivisions of Services-Personal, that is, Salaries and Wages regular, Salaries and Wages, temporary, and Other Compensation. This form shows the name of the position, and the name of the person in this position. However, if it is a new position being created or an old one eliminated, it can be designated as "New Position" or "Vacant," instead of the incumbent's name. Compensation for the previous year and current year for each position is shown as a basis to make the estimate. This is followed by the compensation requested. In case of temporary employees where the names are not important, spaces for the number of employees and estimated days required for each are entered together to get the total estimated wages. Any increases or decreases over the present year can be shown in an extra column, and a space under memoranda to give reasons for this or any other suggestions necessary. A column referring to the law or ordinance fixing the salary is also very helpful in making the estimates. After the budget has actually been made up, the amount allowed can be entered in the column, Allowance by budget-making authority. A space should be left for the code number to aid in proper identification of each item and to

record in the books of account.

The second form C-1B can be used for all expenditures included under the main headings of the expenditure classification from two to six inclusive, that is, Services-Contractual, Commodities, Current Charges, Current Obligations, and Properties to be met by current revenue. The same form, but on separate sheets could be used for all properties to be met by assessments or deferred charges. However, supporting expenditure data should be attached for all requests that are out of the ordinary. Requests for buildings, land, or general improvements should be accompanied by plans, descriptions, location, etc. In the first column of this form may be stated the specific commodity, article, or item, and, if necessary, the purpose for which the expenditure is to be made. The next two columns show the expenditures for each item for the previous year, and the estimated amount for the current year, respectively. The column, estimated expenditures for the current year, could be designated the actual expenditures so far in the current year, if desired. The column for requests for the budget year is divided up into the number of units desired, the price per unit, and the amount. Columns to show increases or decreases, and a memorandum for such reasons as are necessary for proper explanation follow. A column to show the actual amount allowed by the budget making authorities should be included.

The above forms will be used by departments, bureaus, institutions, and all other spending agencies. The forms will then be collected by the department head responsible, and the information summarized by him on the appropriation analysis form, schedule C-1 shown in chapter II. If separate sheets are provided for each expenditure heading, the classification under the proper groups can easily be made in the summary sheet.

Each department head then will turn in to the budget staff agency one summary sheet, schedule C-1, and as many sheets of the two supporting forms, schedules C-1A and C-1B, as were used to make up the summary. The supporting sheets will be used only as a reference as to specific items. Each department head must be prepared to defend his estimates.

The last main heading of the expenditure classification, Debt Payments, is not entered in the estimates of the various spending agencies. It is usually made up for the budget on a special form by the chief finance officer.

After the budget is approved and the appropriations made the steps incidental to making an expenditure from it are as follows:

- "1. The issuance of a requisition by the department head or officer in charge of the work for which the appropriation was made. This requisition is a request on the central purchasing authority to supply certain materials or equipment as listed. The requisition must show the appropriation out of

which the expense is to be met, must be signed by the officer making the request and should be approved by the head of the division of government under which this department falls.

2. The certification of the requisition by the auditing division indicating that there is a sufficient balance in the appropriation to meet the proposed expenditure and that the expenditure is in accordance with the purpose of the appropriation.

3. The placing of an order or contract for supplying material or equipment requisitioned, this to be done by the central purchasing authority. This may consist of an order or contract with an outside concern or an order on a service or stores department of the government.

4. The entering of the order or contract as an encumbrance of the appropriation to which it is chargeable.

5. The checking of the goods on receipt to determine whether they are the quality and quantity ordered.

6. The preparation of claims for payment in the form of a voucher to be certified as follows:

- (a) By the person opening or examining the goods.
- (b) By the department head or officer who issued the requisition.
- (c) By the purchasing authority placing the order or contract.

7. The auditing of the voucher by the Auditing Department.

8. The entry of the voucher including an entry of liquidation of the order or contract.

9. The issuance of a warrant against the Treasury for the payment of the voucher.

10. The payment of the warrant by the Treasury."<sup>8</sup>

#### Accounting Entries for Appropriations

The first accounting entry must be made when the order or contract is placed. This is an encumbrance against the appro-

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8. Lloyd Morey, "Introduction to Governmental Accounting," p. 41.



priation, and although not a real liability, it is a fund liability, and must be recorded to show the true condition of the various appropriations. A real liability is created and an expenditure is consummated when a voucher is passed for payment. If this voucher is made to pay for a previous encumbrance, the fund liability becomes a real liability, but the free balance remains the same, unless the actual expenditure was more or less than the estimated amount of the order or contract. In such case an adjustment must be made. If the voucher has not previously been entered as an encumbrance, such as, payrolls, travel vouchers, freight, express, etc., the free balance will be reduced by that amount. Accounting entries will have to be made then to clear the encumbrances from the appropriation account, for those items already encumbered, and other entries for all the vouchers made and audited. The last entry is made when the warrant is issued in payment of the voucher.

Illustration of these entries according to the two methods presented in the other chapters will now be shown.

The accounting entries for the budget estimates for appropriations have already been set up in chapter II. The controlling accounts for the appropriations from each fund were credited with the appropriation as made in the budget, unappropriated surplus being debited. As expenditures are made the appropriations

account, both controlling and subsidiary, will be debited. If the appropriations account shows an unencumbered credit balance at the close of the fiscal year it will indicate that expenditures were not as much as expected, and will be closed back as an addition to the surplus. If a debit balance, it will show that the expenditures have been greater than estimated. This, of course, should never happen unless the revenues turned out to be greater than the budget estimates to make a surplus available from which these extra current expenditures could be paid. The balance of appropriations, as in the balance of estimated revenues, will always be closed into surplus at the end of the fiscal period. When expenditures are made, expense may be debited, instead of appropriations, in which case expense must be deducted from appropriations in making the fund balance sheet.

It is necessary to make accounting entries for these expenditures when they are first entered into, in the form of contracts or orders. These are expected fund liabilities and since accounts have previously been set up for estimated fiscal resources, accounts must be set up with them also. These encumbrances will be kept in contract and order registers at estimated cost, from which they will be posted periodically to the controlling accounts in the general ledger. They should be entered daily to the respective appropriations accounts in the subsidiary appropriation ledger.

Entries for encumbrances. First Method<sup>9</sup>

To post order and contract register:

(10) In General Ledger (Monthly totals of all encumbrances under each fund):

General Fund			
Dr. Appropriation Encumbrances	42 800		
Cr. Reserve for Encumbrances		42 800	
Special Fund			
Dr. Appropriation Encumbrances	23 600		
Cr. Reserve for Encumbrances		23 600	

In subsidiary Appropriation Ledger

Dr. Individual appropriation accounts (post each item)			
Executive Department-Gen. Fund	837		
Financial " " "	3 000		
Public Welfare " " "	11 963		
Public Works " " "	25 000		
Legal " " "	2 000		
City Engineer's " Spec. "	5 600		
Street " " "	18 000		

Second Method<sup>10</sup>

(10) In General Ledger (Monthly totals):

General Fund			
Dr. Appropriations, 1927	42 800		
Cr. Open Market Orders Reserve- Appropriations		42 800	
Per register of orders placed			

Since this entry affects the fund accounts only, there is no need of a collateral entry. It is preferable to credit the specific encumbrance affected rather than to credit reserve for encumbrances, and this should be done in both methods. If the

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9. Lloyd Morey, "Introduction to Governmental Accounting," p. 42.

10. D. C. Eggleston, "Municipal Accounting," p. 186.

encumbrance was for contracts, the credit would be to contracts reserve, and if for miscellaneous claims, to miscellaneous claims reserve.

The next accounting entries will be for the actual expenditures which have been consummated by vouchers, and will fall under two general classes:

(a) Items which have been previously entered as encumbrances.

(b) Items which have not been previously entered as encumbrances.

When vouchers, which have been previously encumbered, are certified and audited, entries must be made in the order or contract register liquidating the item or items previously entered as an encumbrance. These entries will be made at the estimated cost as originally entered. These entries will be made in the subsidiary appropriations ledger daily as they are vouchered in order to clear the account, so that the other charge to appropriations on account of the vouchers can be entered. Thus, if only the encumbered items are vouchered and the vouchers are the same as the estimated cost recorded in the encumbrance, the free balance of the appropriations will remain unchanged. If different, the balance will automatically take care of itself, as will be explained later.

Entries for Encumbrances vouchered. First Method<sup>11</sup>

To post orders vouchered:

(11) In General Ledger (Monthly totals of all encumbrances under each fund):

General Fund			
Dr. Reserve for Encumbrances	37	400	
Cr. Appropriation Encumbrances			37 400
Special Fund			
Dr. Reserve for Encumbrances	23	600	
Cr. Appropriation Encumbrances			23 600

In the subsidiary appropriations ledger, entries will have been made on the day the voucher is posted to offset the debits to encumbrances. The general ledger postings at the end of the month will represent the totals of the subsidiary ledger postings during the month. It must be remembered that these postings to the subsidiary ledger during the month are to offset the encumbrances previously debited so as to clear the encumbrances. These entries therefore must be at the estimated costs of encumbrances.

Cr. Executive Department-Gen. Fund				765
Financial	"	"	"	2 600
Public Welfare	"	"	"	11 035
Public Works	"	"	"	21 000
Legal	"	"	"	2 000
City Engineer's	"	Spec.	"	5 600
Street	"	"	"	18 000

The last three items will be closed out in the subsidiary ledger, since all the encumbrances in these departments were vouchered.

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11. Lloyd Morey, "Introduction to Governmental Accounting," p. 43.

Instead of having the above entry, the credit could be made directly to vouchers payable with a debit to reserve for encumbrances to clear the latter account, but if the actual cost of the encumbrance were different from the estimated cost, an adjustment would have to be made in the general ledger control account; that is, if the actual expense were greater than the estimate, the reserve for encumbrances would be debited for the estimated cost, and appropriations debited for the difference, while vouchers payable would be credited for the actual cost. Therefore, the extra entry above will avoid such necessary adjustments in the general ledger control account and adjustments need be made only in the detail or subsidiary accounts. The appropriation encumbrances account is really a part of the appropriations account, and should be deducted from the latter in the balance sheet to show the unencumbered balance. No corresponding entry is made for this entry in the second method.

Since vouchers are required to be made out for every claim against the government before a liability is incurred, R.S. 13-1414 and 10-802,<sup>12</sup> postings from the vouchers register will include both appropriation items and non-appropriation items. The appropriation items will include both the items already encumbered and those not encumbered. Since the above entry has

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12. Kansas Revised Statutes 1923 - Sections 13-1414 and 10-802.

cleared the appropriation encumbrances account in the general ledger and it is cleared in the subsidiary ledger through the daily postings, the totals from the vouchers register may be entered as follows:

First Method<sup>13</sup>  
(Control Accounts)

(12) In General Ledger (Monthly totals):

General Fund			
Dr. Appropriations	65 820		
Loans Payable	5 000		
Cr. Vouchers Payable		70 820	
Special Fund			
Dr. Appropriations	47 800		
Cr. Vouchers Payable		47 800	

In the subsidiary appropriations ledger the individual appropriations accounts will be debited daily.

Dr. Executive Department	Gen. Fund	4 800
Financial	" "	9 600
Public Welfare	" "	19 000
Public Works	" "	25 500
Legal	" "	6 920
City Engineer's	Spec."	14 800
Street	" "	33 000

The above debits will be made at the same time the credits for encumbrances were made, therefore, leaving the free balance of appropriations so far as the encumbrances are concerned the same, except when there is a difference between the estimated and actual costs.

The vouchers register is closed and posted monthly to the

general ledger control. Most of the items of expenditures will be appropriation items, but a few such as loans payable, will be vouchered and posted to the respective account title.

#### Second Method<sup>14</sup>

##### (12) In General Ledger (Monthly totals)

General Fund		
Dr. Expense	65 820	
Loans Payable	5 000	
Cr. Vouchers Payable		70 820
(12a) Dr. Appropriations 1927	28 420	
Open Market Orders Res.-		
Appropriations	37 400	
Unapplied Surplus	5 000	
Cr. Available Cash Surplus		70 820
Per register of vouchers.		

In addition to the previous debits to the subsidiary appropriations ledger totaling 42 800, the above amount of 28 420 will be divided among the separate individual appropriations accounts. The 5 000 charged to Unapplied Surplus represents the temporary loans paid.

#### The Voucher Register

Since it is a part of the duties of the auditor, R.S. 13-2108,<sup>15</sup> to keep a record of all liabilities or vouchers, a voucher register or registers must be provided. A warrant register is also kept by the treasurer to record similar information for the warrants drawn, but if the warrant and voucher are num-

14. D. C. Eggleston, "Municipal Accounting," p. 196.

15. Kansas Revised Statutes 1923 - Section 13-2108.



bered alike, the vouchers register would contain all the information needed in the warrant register, which could therefore be dispensed with. The vouchers register form shown on the following page may constitute the warrant register provided the warrants and vouchers correspond, so for this reason no warrant register form will be shown: Several good forms of voucher registers were found but this form is well adapted to a city of any size, and by use of the expense classification columns, the items can be made as detailed as desired. It is almost exactly the form used at Wichita and Salina. If it is desired to use separate voucher registers for each department and fund, the separate columns for debits to other funds and for the appropriation items will not be needed, since all the debits to appropriations and non-appropriation items, and credits to vouchers payable will be made to the fund for which the voucher register is used.

Vouchers will be entered consecutively as they are made, and the appropriation items will be posted daily from the appropriations column to the individual appropriation accounts in the subsidiary Appropriations Ledger. The other columns will be closed and posted monthly to the general ledger as is shown in entry number (12). The total credits will be to vouchers payable according to the different funds and the debits will be

VOUCHER REGISTER

Date	Vouch- er No.	Warrant No.	Name of Payee	Item (Description)	Credit Vouchers Payable	Debit General Fund	Debit Other Funds	Appropri- ation (Dept. or Fund) and No.	Expense Classification	
									Acct. No.	Amount

divided among the appropriation and non-appropriation items. The expense classification is made immediately as the voucher is entered, but need not be posted to the expenditure analysis ledger until the close of the month. However, the expense analysis can be made from the subsidiary appropriation ledger if so desired.

At Topeka, extra columns were used so as to analyze the expenditures into seven or eight main heads in order that the totals could be posted to the proper expense classification. This could be done if most of the expenditures fell under seven or eight main heads. Then an extra column could be provided for miscellaneous or unclassified expense items to be classified at the end of the month. Nearly all the other cities had the expenditures classified only by funds or departments, a separate column for each one. The expenditure classification by objects being made at the end of the month directly from the vouchers.

In Kansas City the expenditure analysis is made through an expenditures journal or ledger (form on next page) in which the expenditures are classified at once by funds, organization units, and objects. Since the departments are organized along functional lines it also gives the functional classification. It is a splendid method of control and arises immediately from the ordinance which created the liability, instead of from the

EXPENDITURES FOR MONTH OF MARCH

Division	Items	Account Title	Date	---	Date	---	Date	---	1	2	3	
			Ord.No.	Amount	Ord.No.	Amount	Ord.No.	Amount				Ord.No.
			127623	\$51254	-----	-----	-----	-----	Expendi- tures for Month of March	Expendi- tures from Dec.31-'25 Feb.28-'26	Expendi- tures from Dec.31-'25 Mar.31-'26	
			4	-----	-----	-----	-----	-----				
			5	-----	-----	-----	-----	-----				
			6	-----	-----	-----	-----	-----				
			-	-----	-----	-----	-----	-----				
			Total	-----	Total	-----	Total	-----				
GENERAL GOVERNMENT FUND Budget Estimates	Commissioner's Department	Salaries	1									
		Equipment	2									
		Repairs	3									
		Supplies	4									
		Telephone	5									
Laundry	6											
Telegram	7											
Unclassified Dept. Total	8 9											
GENERAL GOVERNMENT FUND Budget Estimates	City Clerk's Department											
		Dept. Total										
		Dept. Total										
GENERAL GOVERNMENT FUND Budget Estimates	Sundry Exp.											
		Dept. Total										
		Dept. Total										
		FUND TOTAL										
HIGHWAY FUND												

voucher. The voucher register then would have to only record the date, the voucher number, the payee's name, and the amount of each voucher. The board of commissioners meet twice a week to pass ordinances in which all claims are allowed, and these are recorded in the expenditures record on that day. There would be as many appropriation columns in the monthly record as the commissioners met or from eight to ten. A column is then shown for the totals of each item, each department, and each fund for the month; another column for the expenditures up to the current month; and a third column showing the total of all expenditures to date. The department totals and fund totals are entered in red ink so as to readily distinguish them. In the auditor's annual report the expenditures are shown for each month as it is in the report of receipts. The budget amounts are also set up by the department headings as a guide to show whether the expenditures are within the budget. This method, however, does not show the exact balance in the appropriation account at all times, nor does it take into account the encumbrances against the appropriations. This form is arranged so as to allow for the usual number of main items and an extra line for other miscellaneous items which are classified separately for reports. An extra division under the General Government fund is the sundry expense account in which is placed all items of expense that do not fall into the other departments.

### The Appropriation Ledger

In order to keep a proper account of all transactions relating to each appropriation account, a special form is desirable, a reproduction of which will be shown on the next page.<sup>16</sup> It shows each encumbrance, the liquidation of each encumbrance, the vouchers, transfers, etc. charged against the budget appropriations and other special credits, and shows at all times the free and unencumbered balance of the appropriations. The explanation of this form as given by Mr. Morey will be given in full.

"The first entry in an appropriation account is the budget appropriation itself, made from the budget, through the General Journal. Entries are then made from the Order and Voucher Registers as transactions arise. Order No. 32, for example, in the form given, is estimated to cost \$100, and this amount is deducted from the free balance. Other orders follow and are similarly treated. On January 5, two vouchers are presented which do not relate to orders entered. These items must be deducted in full from the free balance. Voucher No. 64 is for order N. 78, which was entered as \$450. The voucher is for the same amount, and no change in the balance results. Voucher 87 is for order No. 114, which was entered at \$215. The voucher is for only \$212.10, so that the balance is increased by the difference, or \$2.90. Voucher No. 112 is for order No. 32, which was entered for \$100. The voucher is for \$104.16, so that the balance must be reduced \$4.16. Item of January 20 represents a refund on a payment made in error, which is now credited back to the appropriation."<sup>17</sup>

This ledger form can be kept with pen and ink, but it is easily adapted to the use of the bookkeeping machine. In this way the transactions can be recorded rapidly and accurately, and

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16. Lloyd Morey, "Introduction to Governmental Accounting,"  
p. 47a.
17. Lloyd Morey, "Introduction to Governmental Accounting,"  
p. 44.

APPROPRIATION LEDGER FORM  
(with illustrative entries)

APPROPRIATION TITLE  
YEAR 1924

Executive Department

Notes	1	2	3	4	5	6		7	8	9	10
	Date 1924	Reference	No.	Name	Item	Dr.	Cr.	Voucher Debits	Transfer Debits	Credits	Balance
(1)	Jan. 1	Jour.	1	Budget Appro.						5 000 00	5 000 00
(2)	2	Or. Reg.	32	Smith & Co.		100 00					4 900 00
(2)	4	" "	78	Brown & Co.		450 00					4 450 00
(3)	5	Vou. Reg.	16	A. B. Jones	3			41 18			4 408 82
(3)		" "	21	Anna Brown	1			100 00			4 308 82
(2)	8	Or. Reg.	114	Jones & Co.		215 00					4 093 82
(4)	10	Vou. Reg.	64	Brown & Co.(78)	6		450 00	450 00			4 093 82
(3)	12	Or. Reg.	165	Green & Co.		72 00					4 021 82
(5)	15	Vou. Reg.	87	Jones & Co.(114)	2		215 00	212 10			4 024 72
(6)	18	" "	112	Smith & Co.(32)	4		100 00	104 16			4 020 56
(7)	20	Cash Rec.	12	Jones & Co.(114)	Ref.					1 80	4 022 36
(8)	24	Stores Reg.	64	Off. Sup.					62 15		3 960 21
	31			Totals and Proof		837 00	765 00	907 44	62 15	5 001 80	3 960 21

Columns

1. Date of original entry
2. Register or book of original entry
3. Document number
4. Name of payee or other description
5. Symbol or other description of item
6. Entry of estimated cost of order in Dr. column; when paid, entry of original estimate is made in Cr. column.
7. Vouchers audited
8. Stores or other "intra-mural" charges
9. Credit items
10. Perpetual balance

Notes

1. Budget appropriation entry
2. Entry of order placed
3. Entry of non-purchase vouchers
4. Entry of purchase voucher paid at same amount as order estimate

Footings

6. Dr. Total orders placed; checks with order register
6. Cr. Total orders paid (original estimate); difference between Dr. and Cr. represents orders outstanding, and checks with "Appropriation encumbrances" account.
7. Total vouchers charged; checks with voucher register
10. Prove as follows:  $9 - (6 + 7 + 8) = 10$ . Checks with "Appropriations" account less "Appropriation" Encumbrances.

5. Entry of purchase voucher paid at less than estimate
6. Do. more than estimate
7. Refund for overpayment
8. Entry for stores order

several copies can be made for each appropriation account.

Since the appropriation accounts are probably the most important accounts to control that are used in municipal accounting, due to the fact that a severe penalty is attached to overspending the amount allowed in the budget, it is very important that a daily balance be kept at all times. The task is made easy by the bookkeeping machine, and in a large city its use is very essential.

#### Statement of Appropriations

Although each copy of the appropriation account in this form is a splendid report of the respective appropriations, a statement in the form<sup>18</sup> on the next page should be made up for all appropriations, and the totals carried forward to a summary statement showing the appropriations in total by funds and divisions.

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18. Lloyd Morey, "Introduction to Governmental Accounting,"  
p. 47.



STATEMENT OF APPROPRIATIONS

	(1)	(2)	(3)	(4)	(5)
Fund Division Appropriation	Appropriation and Credits	Expenditures	Unexpended Balance	Encumbrances	Unencumbered Balance
			(1-2)		(3-4)
General Fund					
Executive Department(a)	5 001 80	4 800 00	201 80	72 00	129 80
Financial           "	10 000 00	9 600 00	400 00	400 00	
Public Welfare   "	20 000 00	19 000 00	1 000 00	928 00	72 00
Public Works     "	30 000 00	25 500 00	4 500 00	4 000 00	500 00
Legal             "	7 500 00	6 920 00	580 00		580 00
Total	(72 501 80)	(65 820 00)	(6 681 80)	(5 400 00)	(1 281 80)
Special Fund					
City Engineer's Dept.	15 000 00	14 800 00	200 00		200 00
Street	34 000 00	33 000 00	1 000 00		1 000 00
Total	(49 000 00)	(47 800 00)	(1 200 00)		(1 200 00)
Grand Total	121 501 80	113 620 00	7 881 80	5 400 00	2 481 80

- (1) Column 9, Appropriation Ledger
- (2) Column 7 and 8, Appropriation Ledger
- (3) Total agrees with "Appropriations" balance, General Ledger
- (4) Column 6, Appropriation Ledger
- (5) Column 10, Appropriation Ledger
- (a) See special form

Statement 3.

Entries and Statements for Disbursements

After the vouchers are properly certified and audited, warrants will be issued by the accounting department covering these vouchers and payable from the respective fund. Since a warrant is an order on the Treasury to pay a given sum of money, it is treated as cash on the accounting records. The cash account for the respective fund being credited for the amount of the warrants, the total of which is posted monthly from the voucher or warrant registers.

First Method<sup>19</sup>

(13) General Fund			
Dr. Vouchers Payable	67 420		
Cr. Cash		67 420	
Special Fund			
Dr. Vouchers Payable	45 200		
Cr. Cash		45 200	

If the paid warrants are returned daily by the Treasury, an entry could be made debiting vouchers payable and crediting warrants payable when all warrants are issued and another entry debiting warrants payable and crediting cash when the warrants are paid.

Second Method<sup>20</sup>

(13) General Fund			
Dr. Vouchers Payable	67 420		
Cr. Cash		67 420	
Per register of checks			

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19. Lloyd Morey, "Introduction to Governmental Accounting,"

p. 48.

20. D. C. Eggleston, "Municipal Accounting," p. 188.

Since this entry affects only the proprietary accounts no other entry is needed.

When money is transferred from the special fund back to the general fund an entry just the reverse of the entry number (7) must be made by transfer, rather than by the issuance of warrants, and these transfers should be shown separately in all reports.

#### First Method<sup>21</sup>

(14) General Fund			
Dr. Cash	2 000		
Cr. Due from Special Fund		2 000	
Special Fund			
Dr. Due from General Fund	2 000		
Cr. Cash			2 000

#### Second Method

(14) General Fund			
Dr. Cash	2 000		
Cr. Due from Special Fund		2 000	

This does not affect the budget accounts so no collateral entry need be made.

Statements should be prepared to show receipts and disbursements from all funds. The statement of disbursements would be a simple statement as presented below.<sup>22</sup>

#### Statement of Disbursements

	: General Fund	: Special Fund	: — Fund	:	: Total
1. Appropriations	: 65 820	: 47 800	:	:	: 113 620
2. Loans	: 5 000	:	:	:	: 5 000
3.	:	:	:	:	:
4.	:	:	:	:	:
Totals	: 70 820	: 47 800	:	:	: 118 620

#### Statement 4

21. Lloyd Morey, "Introduction to Governmental Accounting," p. 49

22. Lloyd Morey, "Introduction to Governmental Accounting," p. 50

A separate statement could be made for each fund, or if the funds were numerous the statement could be rearranged so that the different fund titles would appear to the left and the different disbursement items at the top of the statement. Most cities make their statement of disbursements by fund or departments separately, and show the different items of expense also. This is not necessary if an expenditure statement is shown. The only individual items necessary will be appropriations for the totals of all appropriation items, and each non-appropriation item listed separately.

In order to show the total receipts and disbursements and the balance at the beginning and end of the period for each fund, a statement of receipts and disbursements should be shown. This is about the only statement ordinarily shown for the operation of funds. However, in these statements the receipts are shown by sources and the disbursements by objects. Such a statement is then made up for each fund in the following order:

Balance previous report	-- ---	
Receipts (itemized)	--- ---	
Disbursements (itemized)		--- ---
Balance this date		- ---
	<u>          </u>	<u>          </u>
	--- ---	--- ---

Various arrangements of the above material is usually made, but if a separate statement is made of receipts and a statement

of expenditures by objects all that will be necessary in the above statement are the totals of receipts and disbursements and balances. To show this information for all funds together a statement such as the following will suffice.

Statement of Receipts and Disbursements <sup>23</sup>						
Fund	:Balance : :Previous: :Report :	:Receipts : (1)	:Dis- bursements: (2)	:Transfers: :	:	Balance this date
1. General	:80 301 80	:70 820 00	:-1 000 00	:	:	8 481 80
2. Special	:49 160 00	:47 800 00	: 1 000 00	:	:	2 360 00
3. _____ etc.	:	:	:	:	:	
<b>TOTALS</b>	<b>:129 461 80</b>	<b>:118 620 00</b>	<b>:</b>	<b>:</b>	<b>:</b>	<b>10 841 80</b>

(1) See statement of receipts in chapter III.

(2) See statement of disbursements on preceding page.

Statement 5

The balance of the transfers accounts must be shown so as to present the true net balance.

The accounts of the Treasury will show a debit to cash and a credit to the respective funds for all receipts; a debit to the respective funds and a credit to cash for warrants paid. The monthly report of the Treasury must show a statement of receipts and disbursements by funds. This should be supported by the date of each receipt and cancelled warrants which are verified by the auditor.

A reconciliation must then be made between the balances reported by the Treasury and those reported by the general account-

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23. Lloyd Morey, "Introduction to Governmental Accounting," p. 50.

ing office. This is done by taking into consideration warrants outstanding and unpaid and such other transactions that may be entered on the books of one but not on the other.

### Statements of Expenditures

The statement of expenditures with supporting schedules should show the expenditures in complete classification, that is, by funds, organization units, activities, character and funds. These statements should not show deferred items of expense, such as supplies and stores on hand, but only actual expenditures for the period. These statements are very important to the public and should be of uniform classification for comparative purposes. The object classification should be under general, easily definable headings. A statement of each item of expenditure is sometimes confusing, and an audit by a responsible auditing firm should be sufficient to show that the items of expenditure have been handled accurately.

Many different arrangements may be made for these statements, but it should include the following:

Summary statement showing expenditures by funds, departments, and character. Another statement should show this same information, but subdivided into the various activities.

Supporting schedules for departments and activities for each respective character classification represented.

Expenditures for fixed charges and redemption of debt will be made by funds only. These statements may be divided by funds or departments if desired. The forms follow.

Statement of Expenditures - Schedule A<sup>24</sup>

	: Total:	: Current:	: Fixed:	: Capital:
	: Expense:	: Charges:	: Outlay:	
Fund	:	:	:	:
Fund	:	:	:	:
Etc.	:	:	:	:
Grand Total	:	:	:	:

Statement 6 (a)

Statement of Expenditures - Schedule B

	: Fund Distribu-			: Classification		
	: Total:	: Fund:	: Fund:	: Current:	: Capital:	: Fixed:
	: Fund:	: Fund:	: Fund:	: Expense:	: Outlay:	: Charges:
(Department)	:	:	:	:	:	:
(Activity)	:	:	:	:	:	:
Etc.	:	:	:	:	:	:
Total	:	:	:	:	:	:
(Department)	:	:	:	:	:	:
(Activity)	:	:	:	:	:	:
Etc.	:	:	:	:	:	:
Total	:	:	:	:	:	:
Etc.	:	:	:	:	:	:
Grand Total:	:	:	:	:	:	:

Statement 6 (b)

Statement of Expenditures - Schedule B-1  
Current Expense

	: Personal:	: Office:	: Travel:	: Supplies:	: Repairs:	: Etc.
	: Service:	: Expense:	: Travel:	: Supplies:	: Repairs:	: Etc.
(Department)	:	:	:	:	:	:
(Activity)	:	:	:	:	:	:
Total	:	:	:	:	:	:
Etc.	:	:	:	:	:	:
Grand Total:	:	:	:	:	:	:

Statement 6 (c)

24. Lloyd Morey, "Introduction to Governmental Accounting," pp. 101-102.

Schedule B-2: Capital Outlay

	Total	Land	Buildings	Improvements	Equipment
(Department)					
(Activity)					
Total					
Etc.					
Grand Total					

Statement 6(d)

Schedule B-3: Fixed Charges

Fund	Total	Redemption of Debt	Interest on Funded Debt	Pension	Etc.

Statement 6(e)

Another form can be made for Redemption of Debt if it is desired to keep it separated from the other expenditures and more detailed information is required. Since the items under fixed charges are fixed obligations they are made up by the finance department for the whole government and are usually grouped according to funds instead of departments.

If the classification of expenditure used by Mr. Buck is carried out Schedule B-1 could be made to include the first four main headings as follows, Services-Personal, Services-Contractual, Commodities, and Current Charges, or these headings could be subdivided as much as desired.



## Chapter V

### MUNICIPAL ACCOUNTS--CLOSING PROCESS

In order to show the results of the various transactions made for the fiscal period, the journal entries will now be brought together in the general ledger accounts. These ledger accounts will be divided according to the two funds presented in the first method. The books will then be closed and the fund balance sheets and a consolidated balance sheet of all funds will be shown. The general ledger accounts of the general fund by the second method together with the fund balance sheet will be illustrated to show the difference between the two methods.

#### First Method of Accounting

##### GENERAL LEDGER - First Method<sup>1</sup>

#### General Fund

Cash			
(6) Loans	5 000 00	:	(7) Special Fund
(9) Surplus Receipts	500 00	:	(13) Warrants
(8) Refunds	1 80	:	
(4) Taxes	51 240 00	:	
(5) Revenues	23 560 00	:	
(14) Special Fund	2 000 00	:	
			3 000 00
			67 420 00

Taxes Receivable			
(3) Levy	52 300 00	:	(4) Collections
		:	(a) To Reserve
			51 240 00
			1 060 00

Reserve for Uncollectible Taxes			
(a) Taxes uncollectible	1 060	:	(3) Reserve
(b) To Estimated Revenue	1 032	:	
			2 092 00

1. Lloyd Morey, "Intro. to Governmental Accounting," p. 54.

## Due from Other Funds

(7) Loan	3 000	:	(14) Repayment	2 000 00
		:		

## Estimated Revenue (year)

(1) Budget Estimate	75 000	:	(3) Taxes	50 208
		:	(5) Receipts	23 560
		:	(b) Unused reserve	
		:	taxes	1 032
		:	(c) To Unappropriated	
		:	surplus	200
	<u>75 000</u>	:		<u>75 000</u>
		:		

## Surplus Receipts

(d) To Unappropriated		:		
Surplus	<u>500</u>	:	(9) Miscellaneous Cash	<u>500</u>
		:		

## Vouchers Payable

(13) Warrants	67 420	:	(12) Vouchers	70 820
		:		

## Loans Payable

(12) Voucher	<u>5 000</u>	:	(6) Loan	<u>5 000</u>
		:		

## Reserve for Encumbrances

(11) Orders vouchered	37 400	:	(10) Orders placed	42 800
		:		

## Appropriation Encumbrances

(10) Orders placed	42 800	:	(11) Orders vouchered	37 400
		:		

## Appropriations

(12) Vouchers	65 820 00	:	(2) Budget	72 500 00
(e) To Unappropriated		:	(8) Refunds	1 80
Surplus	1 281 80	:		
		:		

Unappropriated Surplus

(2) Appropriations	72 500.00:	(1) Estimated Revenue	75 000 00
(c) Estimated Revenue unrealized	200 00:	(d) Surplus Receipts	500 00
	:	(e) Appropriations un-	
	:	used	1 281 80
	:		

Special Fund

Cash

(7) General Fund	3 000 :	(14) General Fund	2 000
(4) Taxes	38 760 :	(13) Warrants	45 200
(5) Revenues	10 400 :		
	:		

Taxes Receivable

(3) Levy	41 400 :	(4) Collections	38 760
	:	(a) Uncollectible	620
	:		

Reserve for Uncollectible Taxes

(a) Uncollectible	620 :	(3) Reserve	1 656
	:		

Estimated Revenue

(1) Budget estimate	50 000 :	(3) Taxes	39 744
(c) To Unappropriated Surplus	144 :	(5) Receipts	10 400
	<u>50 144</u> :		<u>50 144</u>

Vouchers Payable

(13) Warrants	45 200 :	(12) Vouchers	47 800
	:		

Reserve for Encumbrances

(11) Orders vouchered	<u>23 600</u> :	(10) Orders placed	<u>23 600</u>
	:		

Appropriation Encumbrances

(10) Orders placed	<u>23 600</u> :	(11) Orders vouchered	<u>23 600</u>
	:		

Appropriations

(12) Vouchers	47 800	:	(2) Budget	49 000
(e) To Unappropriated Surplus	<u>1 200</u>	:		<u>          </u>

Unappropriated Surplus

(2) Appropriations	49 000	:	(1) Estimated Revenues	50 000
		:	(c) Excess Revenues	144
		:	(e) Unused Appropriations	1 200
		:		

Due to other Funds

(14) Repaid	2 000	:	(7) Loan	3 000
		:		

TRIAL BALANCE  
Before Closing

General Fund

Cash	11 881 80	
Taxes Receivable	1 060 00	
Reserve for Uncollectible Taxes		2 092 00
Due from other funds	1 000 00	
Estimated Revenues	1 232 00	
Surplus Receipts		500 00
Vouchers Payable		3 400 00
Reserve for Encumbrances		5 400 00
Appropriation Encumbrances	5 400 00	
Appropriations		6 681 80
Unappropriated Surplus		2 500 00
	<u>20 573 80</u>	<u>20 573 80</u>

Special Fund

Cash	4 960 00	
Taxes Receivable	2 640 00	
Reserve for Uncollectible Taxes		1 656 00
Estimated Revenues		144 00
Vouchers Payable		2 600 00
Appropriations		1 200 00
Unappropriated Surplus		1 000 00
Due to other Funds		1 000 00
	<u>7 600 00</u>	<u>7 600 00</u>

Closing Entries - First Method<sup>2</sup>General Fund

(a) Reserve for uncollectible taxes	1 060 00	
Taxes Receivable		1 060 00
To write off uncollectible taxes		
(b) Reserve for uncollectible taxes	1 032 00	
Estimated Revenue		1 032 00
To close unused reserve		
(c) Unappropriated Surplus	200 00	
Estimated Revenue		200 00
To close estimated revenue		
(d) Surplus Receipts	500 00	
Unappropriated Surplus		500 00
To close surplus receipts		
(e) Appropriations	1 281 80	
Unappropriated Surplus		1 281 80
To close unencumbered balance of appropriations		

Special Fund

(a) Reserve for uncollectible taxes	620	
Taxes Receivable		620
To write off uncollectible taxes		
(c) Estimated Revenue	144	
Unappropriated Surplus		144
To close estimated revenue		
(e) Appropriations	1 200	
Unappropriated Surplus		1 200
To close unencumbered balance of appropriations		

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2. Lloyd Morey, "Intro. to Governmental Accounting," p. 56.

BALANCE SHEETS - First Method<sup>3</sup>  
After closing

General Fund

Cash	11 881 80	Vouchers Payable	3 400 00
Due from other funds	1 000 00	Reserve for encumbrances	5 400 00
		Unappropriated Surplus	4 081 80
	<u>12 881 80</u>		<u>12 881 80</u>

Special Fund

Cash	4 960 00	Vouchers Payable	2 600 00
Taxes Receivable	2 020	Due other funds	1 000 00
Less: Reserve	<u>1 036</u>	Unappropriated Surplus	2 344 00
	984 00		
	<u>5 944 00</u>		<u>5 944 00</u>

The accounts which are fiscal in character, such as, estimated revenues, appropriations, and unappropriated surplus, must be closed at the end of the fiscal year, and new accounts opened for them at the beginning of the next year. After closing entries have been made to write off uncollectible taxes and to adjust for unused revenues, etc., the estimated revenues and appropriations accounts are closed out into the unappropriated surplus account, which now becomes the real surplus of the fund. In fact only the real or proprietary accounts, such as, cash, receivables, payables, etc., are carried forward. Therefore, the balance sheets at the end of the year, by both methods of accounting, will be exactly the same.

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3. Lloyd Morey, "Intro. to Governmental Accounting," p. 57.

In the general fund it was decided that all the taxes receivable were uncollectible and they were written off. This left in the reserve for uncollectible taxes account, an unused balance of \$1 032 which was credited back to the estimated revenues account. In the special fund only a portion of the taxes was decided to be uncollectible and the remaining reserve was left on the books.

After the reserve for uncollectible taxes was closed to the estimated revenue account in the general fund there remained a debit balance of \$200 showing that the actual revenues had not reached the estimates. This balance was charged back to unappropriated surplus. In the special fund a credit balance of \$144 showed that the actual revenues were more than the estimates and it was credited to unappropriated surplus.

After a sufficient sum (\$5 400) was retained in the appropriations account in the general fund to meet all encumbrances the unencumbered balance of \$1 281.80 was credited to unappropriated surplus. In the special fund no encumbrances were left so the unused balance of the appropriations account, \$1 200 was credited to surplus. A closing trial balance would have shown a credit balance of \$5 400 in the appropriation account and a debit balance of the same amount to appropriation encumbrances, in the general fund. However, since in the fund balance sheet

appropriation encumbrances are deducted from the appropriations balance, nothing remains to be shown.

### Second Method of Accounting

To carry out the comparison, the same illustrations by the second method of accounting will be shown. In the general ledger the fund and proprietary accounts will be kept separately.

#### GENERAL LEDGER - Second Method<sup>4</sup>

#### Fund Accounts

#### General Fund

#### Budget Requirements

(1) Appropriations and	:	(3a) Unapplied Surplus	50 208
Unapplied Surplus 75 000	:	Taxes accrued	
	:	(5a) Available Cash	
	:	Surplus	23 560
	:	Rev. collected	
	:	(a) Unapplied Surplus	1 032
	:	Excess collections	
	:	(c) Unapplied Surplus	200
	:		<u>75 000</u>
	:		<u>75 000</u>

#### Unapplied Surplus

(3a) Budget Requirements	50 208	:	(1) Budget Requirements	2 500
Taxes accrued		:	Excess Rev. estimate	
(12a) Available Cash		:	(4a) Available Cash Sur-	
Surplus	5 000	:	plus	51 240
Payment of loan		:	Taxes collected	
(b) Budget Requirements	1 032	:	(6a) Available Cash Sur-	
(g) Available Cash		:	plus	5 000
Surplus	2 500	:	Temporary loan	
To close		:		
	<u>58 740</u>	:		<u>58 740</u>

4. D. C. Eggleston, "Municipal Accounting," pp. 237-242.



Available Cash Surplus

(4a) Unapplied Surplus	51 240 00:	(12a) Vouchers Liquid-	
Taxes collected	:	ated	70 820 00
(5a) Budget Require-	23 560 00:	(e) Orders Unliquid-	
ments	:	ated	5 400 00
Rev. collected	:	(f) Appropriations un-	
(6a) Unapplied Surplus	5 000 00:	encumbered	1 081 80
Temporary loan	:	(g) Unapplied Surplus	2 500 00
(8a) Appropriations	1 80:	To close	
Refund of expenses	:		
	<u>79 801 80:</u>		<u>79 801 80</u>

Appropriations

(10) Open Market Orders	42 800 00:	(1) Budget Require-	
Reserve	:	ments	72 500 00
(12a) Available Cash Sur-	28 420 00:	(8a) Available Cash Sur-	
plus	:	plus	1 80
Unencumbered exp.	:	Refund of exp.	
(c) Budget Requirements	200 00:		
Excess of est. rev.	:		
(f) Available Cash Sur-	1 081 80:		
plus	:		
Unencumbered appr.	:		
	<u>72 501 80:</u>		<u>72 501 80</u>

Open Market Orders Reserve

(12a) Available Cash	37 400 00:	(10) Appropriations	
Surplus	:	42 800 00	
Vouchers Liquidated	:		
	:		
	:		

Proprietary Accounts

Cash

(4) Taxes collected	51 240 00:	(7) To Special Fund	
(5) Revenues "	23 560 00:	(13) Vouchers	3 000 00
(6) Temporary Loan	5 000 00:		67 420 00
(8) Refunds	1 80:		
(9) Surplus Receipts	500 00:		
(14) Special Fund	2 000 00:		

Taxes Receivable	
(3) Tax levy	52 300 00:
	:(4) Cash 51 240 00
	: Taxes collected
	:(a) To reserve 1 060 00
	<u>52 300 00:</u>
	<u>52 300 00</u>

Reserve for Abatement of Taxes

(a) Taxes uncollectible	1 060 00:	(3) Taxes Receivable	2 092 00
(b) To Revenues	<u>1 032 00:</u>		

Revenues - General	
(i) Operation account	74 800 00:
	:(5) Rev. from taxes 50 208 00
	:(5) Cash 23 560 00
	:(b) Unused reserve 1 032 00
	<u>74 800 00:</u>
	<u>74 800 00</u>

Loans Payable

(12) Vouchers Payable	<u>5 000 00:</u>	(6) Loan	<u>5 000 00</u>
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Due from Special Fund

(7) Loan	3 000 00:	(14) Repayment	2 000 00
----------	-----------	----------------	----------

Expenses - General

(12) Vouchers Payable	65 820 00:	(8) Refunds	1 80
(e) Unliquidated Orders	5 400 00:	(h) Operation Account	71 218 20
	<u>71 220 00:</u>		<u>71 220 00</u>

Surplus Receipts

(d) To current surplus	<u>500 00:</u>	(9) Miscellaneous	<u>500 00</u>
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Vouchers Payable

(13) Cash	67 420 00:	(12) Vouchers audited	70 820 00
-----------	------------	-----------------------	-----------

Current Surplus

	:(d) Surplus Receipts	500 00
	:(j) Operations - Net	3 581 80

Operation Account

(h) Fiscal Expenses	71 218 20:	(i) Fiscal Revenues	74 800 00
(j) Current Surplus	3 581 80:		
	<u>74 800 00:</u>		<u>74 800 00</u>

TRIAL BALANCE  
Before Closing

General Fund

Budget Requirements	1 232 00	
Unapplied Surplus		3 532 00
Available Cash Surplus	8 981 80	
Appropriations		1 281 80
Open Market Orders Reserve		5 400 00
Cash	11 881 80	
Taxes Receivable	1 060 00	
Reserve for Abatement of Taxes		2 092 00
Revenues - General		73 768 00
Due from Special Fund	1 000 00	
Expenses - General	65 818 20	
Surplus Receipts		500 00
Vouchers Payable		3 400 00
	89 973 80	89 973 80
	89 973 80	89 973 80

Closing Entries - Second Method<sup>5</sup>

General Fund

(a) Reserve for Abatement of Taxes	1 060 00	
Taxes Receivable		1 060 00
To write off uncollectible taxes		
(b) Reserve for Abatement of Taxes	1 032 00	
Taxes Receivable		1 032 00
Unapplied Surplus	1 032 00	
Budget Requirements		1 032 00
Tax collections in excess of estimates		
(c) Appropriations	200 00	
Budget Requirements		200 00
Excess of estimates over collections		
(d) Surplus Receipts	500 00	
Current Surplus		500 00
To close surplus receipts		

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5. D. C. Eggleston, "Municipal Accounting," pp. 201-202.  
E. F. MacDonald, "Municipal Accounting," p. 41  
Bennett Accountancy Institute

(e) Expense	5 400 00	
Available Cash Surplus		5 400 00
Orders unliquidated		
(f) Appropriations	1 081 80	
Available Cash Surplus		1 081 80
Appropriations Unencumbered		
(g) Unapplied Surplus	2 500 00	
Available Cash Surplus		2 500 00
To close the fund surplus accounts		
(h) Operation Account	71 218 20	
Expense		71 218 20
Expenses incurred during the year		
(i) Revenues	74 800 00	
Operation Account		74 800 00
Revenues accrued and collected		
during the year		
(j) Operation Account	3 581 80	
Current Surplus		3 581 80
Excess of revenues over expenses		
for fiscal year		

Mr. Eggleston closes Revenues and Expenses directly into Current Surplus, but the above method is better since it shows the net fiscal operations of the government separated from other transactions.

The closing entry (c) above could be a charge to Unapplied Surplus instead of Appropriations so that the unencumbered balance of appropriations will be \$1 281 80. However, when the actual revenues do not come up to the estimates a corresponding decrease in appropriation estimates should be made, if the Budget Requirements and Appropriations accounts were the same at the beginning of the budget year.

Entry (g) was made in order to close out the surplus accounts. This balance of \$2 500 was due to the fact that the budget estimate of revenues was \$2 500 more than the estimate of appropriations, the difference being credited to unapplied surplus in the opening budget entry. Had the budget Requirements and Appropriations accounts in the opening entry been equal and the fund surpluses affected only by budget transactions these surplus accounts would have been closed out with the other fund accounts.

The fund and proprietary accounts may be constantly checked against each other where budget items only are concerned, since the balance of the Available Cash Surplus should be equal to the difference between the balances of Cash and Vouchers Payable in the proprietary accounts at all times. It will be noted in the balances of the accounts in the trial balance before closing that the Available Cash Surplus is \$500 greater than the difference between the two latter accounts. This is due to the \$1 000 paid out to the Special Fund and not yet returned less the \$500 received from surplus receipts. These two items were not budget items and resulted in a net decrease of the cash account of \$500. Mr. Eggleston also keeps the balance of Unapplied Surplus equal to the balance of the revenue accounts receivable in the proprietary accounts. From the trial

balance it will be noted that there is a credit balance of \$3 532 to Unapplied Surplus, while there is a debit balance of \$1 060 in the Taxes Receivable, less a credit balance of \$2 092 to Reserve for Abatement of Taxes, leaving a net credit balance of \$1 032. The difference of \$2 500 here is due to the \$2 500 credit to Unapplied Surplus just explained in the opening budget entry.

BALANCE SHEET - Second Method  
After Closing

<u>General Fund</u>			
Cash	11 881 80	Open Market Orders	
Due from Special Fund	1 000 00	Reserve	5 400 00
		Vouchers Payable	3 400 00
		Current Surplus	4 081 80
	<u>12 881 80</u>		<u>12 881 80</u>

Since fund accounts are fiscal in character they are closed out at the end of the period, so that only proprietary accounts are left, making the closing balance sheet exactly the same in both methods. Open Market Orders Reserve continues as a fund liability and is an encumbrance against the appropriation account, which should maintain a balance sufficient to take care of it.

A statement of operations is sometimes made out to accompany the balance sheet, for the purpose of showing the various factors of operating a municipality for a fiscal period,

resulting in changes in the surplus. This is often called a statement of surplus. This statement shows the revenues accrued, the expenses incurred, together with the surplus or deficit for the fiscal period. A separate statement should be made out for each fund.

STATEMENT OF OPERATIONS

General Fund<sup>6</sup>

Revenues Accrued

Taxes .....	51 240 00	
Licenses .....	9 500 00	
Fees .....	9 560 00	
Departmental Earnings .....	<u>4 500 00</u>	
Total Revenues Accrued .....		74 800 00

Expenses Incurred

Executive Department .....	4 870 00	
Financial Department .....	10 300 00	
Public Welfare Department .....	19 628 00	
Public Works Department .....	29 500 00	
Legal Department .....	<u>6 920 00</u>	
Total Expenses Incurred .....		<u>71 218 20</u>
Current Surplus .....		<u><u>3 581 80</u></u>

Statement 7

If the accounting officer cares to do so the expenses may be shown for all the minor divisions of the government. If the city has charge of different institutions, as the water system, light system, etc., through the general fund, the revenues, expenses and net profit or loss may be shown for each.

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6. E. F. MacDonald, "Municipal Accounting," p. 46.  
Bennett Accountancy Institute.

A consolidated surplus account may then be shown, bringing the surplus of the various funds together to show the surplus as revealed in the consolidated balance sheet.

### Consolidated Balance Sheet

A consolidated balance sheet should now be made showing the resources and assets, obligations and liabilities of all funds, but each fund must be kept separate. Many accountants keep the fund resources and obligations separated from the real assets and liabilities, but Mr. Morey feels that this serves no good purpose. His argument in regard to keeping them together was presented in chapter III, page 71. The consolidated balance sheet presented here will be according to Mr. Morey's illustrations. It will be noted that since the fiscal period has closed only real assets and liabilities will appear.

Property accounts, which are accounts kept with all property owned by the government, should be shown in the balance sheet but separated from the fund accounts. The reason for this is that the surplus of property accounts represents the amount invested by the city in property, while the surplus of funds represent cash or other wealth available for expenditures. The property accounts should be kept at cost with a contra account for the specific bonds that were sold in order to finance the buying or construction of this property. As these bonds



are retired by current revenues, the balance or other contra account will be set up and known as "surplus invested in fixed assets." When the property is sold or worn out, it is credited at cost and the account is closed. Therefore, surplus invested in fixed assets does not represent an expendable surplus, but what has been actually spent for property. It is very important that these accounts be shown in the balance sheet since it is of both administrative and public interest to know how much the government has invested in property. A property register should be kept, giving an adequate description, location and condition of all property owned by the city. There would be no need of keeping an account with depreciation on permanent property since most of this property of a city is purchased by sale of bonds all of which are supposed to be paid during the life of the property. Depreciation records can be kept to show the condition of the buildings and may be made the basis of expenditure for repairs and other outlay, but it is not made an expenditure itself. Depreciation accounts must be kept, however, with any property belonging to an institution or agency conducted for profit.

The consolidated balance sheet may be shown in two forms, columnar or sectional. The columnar form will show the assets and liabilities of each fund, and also the total of similar

assets and liabilities of the different funds. This form would be somewhat as follows:

Columnar Form<sup>7</sup>

	: General	: _____	: _____	: Etc.	: Total
	: Fund	: Fund	: Fund	: _____	: _____
<u>Assets</u>	:	:	:	:	:
Cash	:	:	:	:	:
Receivables	:	:	:	:	:
Etc.	:	:	:	:	:
	-----	-----	-----	-----	-----
Total	:	:	:	:	:
<u>Liabilities</u>	:	:	:	:	:
<u>&amp; Surplus</u>	:	:	:	:	:
Payables	:	:	:	:	:
Etc.	:	:	:	:	:
	-----	-----	-----	-----	-----
Total	:	:	:	:	:
	-----	-----	-----	-----	-----

Form 10(a)

This form would not take up so much space, and it would show the total of such items, as cash, for all funds. However, it is doubtful if this would be of much value.

Probably the best complete picture of all the assets and liabilities would be presented in the sectional form. In this form the assets and liabilities of each fund is kept segregated so that there is no chance of getting those of one fund mixed with the other. It consists simply of all the fund balance sheets being brought together, one just below the other, so that a correct picture of each fund, as well as, a grand total of all funds may be shown. In the sectional form that follows the

7. Lloyd Morey, "Intro. to Governmental Accounting," p. 106.

illustration<sup>8</sup> by Mr. Morey is used, but actual figures for only the General and Special funds as they pertain to the problem in this thesis are shown.

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8. Lloyd Morey, "Intro. to Governmental Accounting," p. 107.

CONSOLIDATED FUND BALANCE SHEET

ASSETS

LIABILITIES AND SURPLUS

<u>General Fund</u>		
Cash	11 881 80	
Due from other funds	<u>1 000 00</u>	
Total		12 881 80

<u>Special Fund</u>		
Cash	4 960 00	
Taxes Receivable	2 020	
Less, Reserve	<u>1 036</u>	
Total		<u>984 00</u>
		5 944 00

<u>Bond Fund</u>		
Resources	--- --- ---	

<u>Assessment Fund</u>		
Resources	-- --- ---	

<u>Stores Fund</u>		
Resources	- --- ---	

<u>Service Fund</u>		
Resources	- --- ---	

<u>Trust Fund</u>		
Resources	--- ---	

<u>Sinking Fund</u>		
Resources	-- --- ---	

<u>Property</u>		
Property	-- --- ---	

GRAND TOTAL

<u>General Fund</u>		
Vouchers Payable	3 400 00	
Reserve for encumbrances	5 400 00	
Unappropriated Surplus	<u>4 081 80</u>	
Total		<u>12 881 80</u>

<u>Special Fund</u>		
Vouchers Payable	2 600 00	
Due other funds	1 000 00	
Unappropriated Surplus	<u>2 344 00</u>	
Total		<u>5 944 00</u>

<u>Bond Fund</u>		
Liabilities & Surplus	--- --- ---	

<u>Assessment Fund</u>		
Liabilities & Surplus	-- --- ---	

<u>Stores Fund</u>		
Liabilities & Surplus	- --- ---	

<u>Service Fund</u>		
Liabilities & Surplus	- --- ---	

<u>Trust Fund</u>		
Liabilities & Surplus	--- ---	

<u>Sinking Fund</u>		
Liabilities & Surplus	-- --- ---	

<u>Property</u>		
Bonds Payable for Property		
Surplus Invested in Fixed Assets	- --- ---	

GRAND TOTAL

Mr. Oakey divides the assets and liabilities of funds for consolidated balance sheet purposes in from one to four groups, and suggests that the four group classification is the best. In this classification all the assets and liabilities are divided into the following main groups:<sup>9</sup>

1. Current assets, liabilities, and reserves.
2. Capital assets, liabilities, and reserves.
3. Sinking fund assets, liabilities, and reserves.
4. Trust and special fund assets and liabilities.

The assets and liabilities of all the funds under each of these groups are added together. In this way these funds that are very similar in nature are brought together. This is much better than bringing them all together, but even in this way the surplus for each fund can not be shown separately and unless this is done the true statement of surplus cannot be presented. However, in Kansas where some cities have from ten to twenty-five special revenue funds such a segregated balance sheet would be bulky.

Kansas City has its balance sheet grouped into capital assets and liabilities, current assets and liabilities, and assets and liabilities of trust funds. The capital assets correctly include all real estate, buildings, machinery, furniture, equipment and other properties owned by the city government; the capital liabilities include all bonds outstanding against this property. The resulting surplus is the surplus invested in

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9. Francis Oakey, "Principles of Governmental Accounting and Reporting," p. 242.

fixed capital. These assets are grouped according to the main functions of the government and both the assets and liabilities are later classified into the particular items.

In the annual report of the auditor for 1924 at Topeka the current fund assets and liabilities are shown in one group and a capital account balance sheet is shown. However, the capital account balance sheet includes both the current and property assets and liabilities, giving a surplus that is a mixture of current fund surplus and surplus invested in fixed assets. Since only five of the first class cities of Kansas keep accounts with all properties, most of the balance sheets that were made up showed the assets and liabilities of all current funds together, followed by a statement of the bonded indebtedness of the city.

#### Statements and Reports

The preparation of reports is among the most important duties of the financial officer, and is not only informative in character, but presents an accurate history of the financial facts of the city government over the period covered. These reports may be classified as, reports to heads of departments, reports to administrative officers, and reports to the public. The following suggestions for reports are taken from Mr. Morey, Introduction to Governmental Accounting.<sup>10</sup>

The reports to department heads consist mostly of a

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10. Lloyd Morey, "Intro. to Governmental Accounting," pp. 109-112.

statement of the condition of appropriations. This can be presented at any time by making an extra copy of the appropriation ledger form shown in chapter IV, page 116, where a bookkeeping machine is used. These statements are usually presented once a month.

The reports to administrative officials are usually made out monthly or quarterly. They include

1. Statements of receipts and disbursements (Chapter IV)
2. Revenue statements (See chapter III)
3. Statements of Appropriations (See chapter IV)
4. Statements of the operation of special funds, such as bond funds, special assessment funds, working capital funds, trust funds, etc.
5. Statements of funded indebtedness.
6. Fund balance sheets of all funds.
7. Statements of the Treasury with a reconciliation between the Treasury balances and the accounting office balances.

Reports to the public are usually made quarterly or annually. This is the most difficult type of report to present. However, it may include

1. Comparative condensed summary statements.
2. Consolidated balance sheet (See chapter V)
3. Statement of income or revenue (See chapter III)
4. Statements of expenditures classified according to funds, functions, departmental units, character, and objects.
5. Statement of the operation of special funds.
6. Statement of funded indebtedness.
7. Statements of inventories of property and equipment.
8. Special financial or statistical statements.
9. Certificate of audit by certified public accountant.

It is also well to give a report of the results of work

accomplished by each department. This is done in the annual report at Salina, Wichita, and Atchison, and shows what the departments are actually doing. This is probably the most interesting part of the report to the public, and Wichita eliminates most of their detailed financial reports in order to give this type of information the preference.

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## Chapter VI

### SUMMARY AND CONCLUSIONS

In this thesis the status of the budget and accounting methods used in the first class cities of Kansas was presented first, followed by a thorough explanation of the budget and budget procedure together with two of the most up to date methods of accounting now in use. In chapter V the results of the various transactions were brought together, the accounts closed, and proper statements to reveal the necessary information from them suggested and explained. The chapter was, in reality, a summarization of the accounting transactions. It will now be the main purpose of the writer in this concluding chapter to summarize the main points that have been brought out in the thesis proper.

1. The budget is very essential to effective administration and control of the financial activities of the municipality. So essential has it become that the state of Kansas, and other states to a more or less degree, have passed strict legal requirements concerning the making of a budget and the limitation of the expenditures of the cities to the amounts allotted in the budget. It assures the proper coordination of all branches of the government, careful planning for the future, and, if proper accounting records are kept, adequate control over all

branches of the government.

2. The budget forms a basis for the accounting system and to be of the most value must be closely correlated with it in every detail.

3. The budget plan should be complete showing a statement of proposed expenditures, balanced by the estimated revenues from which these expenditures are to be met. Failure to consider properly the means of financing may later reveal a deficiency in the expected revenues necessitating a reduction in appropriations after plans for certain activities have been started.

4. It is important that control accounts be kept with items on the revenue side of the budget as well as with appropriation items. This will show at all times whether the revenues are coming up to the estimates. If revenues fail to come up to expectations a knowledge of it early in the year will allow for a reduction in appropriations without impairing the efficiency of departments.

5. All cities should have a complete double entry system. This insures an accurate system of checking of the records in each book and between books. It also insures that a record will be kept through the accounting books of all financial transactions of the government. The double entry system has proved its superiority in private undertakings, and is beginning to

be considered as necessary in public enterprises. If there is any argument for the double entry system in part, it should be used completely.

6. Cities should account for all encumbrances, that is, contracts or purchase orders outstanding against funds. This is a fund liability which is expected to become a real liability, and failure to account for them may cause embarrassment later.

7. A central purchasing agent is necessary in order to keep a proper account of purchase orders. Each department desiring an order must first fill out a requisition and file it with the purchasing agent for his approval. All orders are then made through this office from which a complete record can be made for the accounting office. If the city had no purchasing agent a requisition should at least be filed with the accounting office and audited so that a proper record can be made of it. If this is not done, many orders will be made by the different departments without the knowledge of the accounting office and will result in an inadequate record of the appropriation encumbrances. This was the experience at Leavenworth, when the auditor desired to keep a record of encumbrances there.

8. The accounting system should be kept on an accrual basis. In a municipality thousands of dollars of expense items are accrued and unpaid, and many revenue items are accrued and

uncollected, at the end of any accounting period. An accurate condition of the funds cannot be shown then if the accounts are kept on a cash basis. The argument that the receivables are always equal to the payables is unreasonable. Such methods are only a matter of guesswork. An accurate budget control cannot be kept without confining the receipts and expenditures of each fiscal period within the period to which it applies.

9. There should be a uniform classification of all financial items in the budget and the accounting system. This will insure a close correlation of the budget and accounting records, resulting in better control and more efficient reporting. It will also be a means of comparison between departments and cities, thereby creating a greater interest in the financial affairs of the city and bring about a more scientific system of budget making.

10. Uniform budget estimate forms are quite essential if a uniform classification of items is to be carried out completely with the least amount of wasted time. New York state specifies the kind of forms and the proper classification to use. If any uniformity is to be had it must come through the state, but the forms must be flexible enough to allow for local conditions.

11. Flexible appropriation ordinances should be made so as

to insure more freedom on the part of department heads in spending, but made so that the executive in charge is responsible for keeping the expenditures within the budget. This may be accomplished by lump sum appropriations with allotments being made by the executive to the department as he sees fit. Without the executive allotments the department head may spend too rapidly at first, and with itemized appropriation ordinances he is cramped too closely for efficient work.

12. Much publicity should be given to the budget during the time of its preparation. It creates an interest in municipal projects that cannot be secured in any other way. New York City has been unusually successful in this through the use of exhibits and newspaper stories.

13. After the budget is adopted few changes should be allowed, or the purpose of the budget will be defeated. This will require greater care in making up the budget, and probably some provision for contingencies will have to be made.

14. Clear and concise statements and reports should be made throughout the year to keep the department heads, administration officials and the public informed as to how the budget plans are being carried out. A statement of cash receipts and disbursements of each fund, and a statement of bonded indebtedness does not do this. In addition to this a

statement of the revenues showing the accruals against the budget estimates and the balances should be made, and also a statement of appropriations showing the unencumbered as well as the unexpended balances. Other statements showing the condition of the funds, the city debt, and the amount of property owned should be made periodically.

15. Records of properties of all kinds, real as well as personal, should be kept, showing the original cost, present condition, expected future life, repairs, etc. at all times. These should be shown in the consolidated balance sheets and offset by the bond liabilities against them, the difference being the surplus invested in fixed assets. Only five cities of the first class in Kansas are doing this completely. These are Topeka, Parsons, Pittsburg, Leavenworth and Kansas City. However, it is of administrative as well as public interest.

16. The best results with the budget will be had if the party or parties responsible for making it have charge of carrying it out. This will insure that all items will be used as intended.

17. A work program over a period of four or five years should be made out as a goal toward which to work. A program for improvements should be carried out in this way so that it will be continuous and the tax burden will be spread out.

The main purpose of this thesis was, first, to show a simple system of accounting procedure necessary for the cities of Kansas to carry out the budget idea to the proper accounting records, and second, to show forms that would aid in making up the budget. The accounting procedure and forms shown throughout are the result of this study. Conclusions concerning the status of the budget and accounting in the first class cities of Kansas and the prospect of improving these conditions will now be made.

#### CONCLUSIONS

1. The cities of Kansas are not living up to their full possibilities in the use of a budget. Although budgets are made up in accordance with the legal requirements they are not tied up with the accounting system in a way that will insure adequate control over the appropriations. Leavenworth is the only city of the first class that carries budget control accounts through the books completely. The other cities of the first class set up the budget amounts in some conspicuous place in or near the ledger account affected, to serve as a guide as to the condition of the appropriation. A monthly statement is then made of the budget balances to present to the commissioners. This serves as a fairly accurate control, but where large sums of money are being expended, a daily record of unencumbered

balances of appropriations should be kept. This is made possible by a special appropriation ledger form shown in chapter IV, page 116. Many of the smaller cities of Kansas not only make up their budgets loosely, but fail to even keep a monthly or quarterly record of the conditions of the appropriation accounts.

2. Adequate accounting methods are not impossible in Kansas. One is often met with the argument that in order to keep the records up according to modern methods of accounting, several extra clerks will be required so that the net result will not be worth the extra cost. However, in Wichita, a city of 100 000 population, all the records were kept in good shape by the auditor and one assistant. In Leavenworth, a city of the first class, where the budget was tied up with the accounting system in an excellent way, the work was done by the auditor alone. If the appropriation ledger form shown in chapter IV is adopted, and a bookkeeping machine purchased, a daily record of appropriations can be kept with less help than previously. In fact where a bookkeeping machine is used, a system has been worked out where the entire system of accounting can be kept mechanically. Knoxville, Tennessee is one city where such a system is being used very successfully. In this way statements that have been rendered monthly at best can be made daily, and



an accurate control can be kept at all times. It is stated that one bookkeeper can thus handle all the bookkeeping work for a city with as many as 150,000 population. It seems, therefore, that modern methods can be used just as cheaply as the other methods, and the savings from such methods would be enormous.

3. Many city officials recognize the need of an adequate budget and accounting system, and would gladly welcome it, if all cities were required to install them.

Since the only practical method of accomplishing this goal is through the state legislature, the writer recommends that a law be passed requiring all cities of Kansas to install a simple budget and accounting system enabling them to properly care for their finances.

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