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Uses and Purpose of a Municipal General Ledger

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For point of departure, it is assumed that the uses and purpose of a general ledger need only be stated, viz.:

1. To make available, in a single record, all the facts necessary to inform those in official position concerning the true financial condition and operative results of the corporation.
2. To provide the means for the exercise of administrative control over the completeness and accuracy of all summary as well as all detail accounting records and reports of the institution.

This assumption, however, raises certain fundamental questions which must be answered before the form and contents of a municipal general ledger may be intelligently discussed. If one of the purposes of a general ledger is to make available all the facts necessary to the consideration of the financial condition, then what are these essential facts? What is it that the officer must know? What must anyone know who is called upon to think about the finances of the city?

THE GENERAL LEDGER OF A MUNICIPALITY

Municipal charters have made ample provision for powers of central administrative and financial control. This done, constructive effort has ceased, notwithstanding the fact that officers and boards charged with the exercise of these powers have been left without means to make them effective. Mayors have been charged with the executive direction of diverse, highly technical, and highly complex branches of business, with little or no provision for current knowledge of detail or of results; boards have been made responsible for granting appropriations and levying

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taxes, without the means of previously informing themselves with respect to corporate needs; citizens have not infrequently complained that public business is not conducted with the same degree of intelligence as private undertakings; yet comptrollers have been expected to audit claims without evidence competent to prove their justness, and to supervise the fiscal concerns of public corporations without the instruments of official intelligence which have been found to be absolutely necessary to the exercise of official discretion in private business. Moreover, the technique of administration of cities has been so far neglected that even those who have been called into advisory relation have reached no conclusions which are commonly accepted by the general professional group to which they belong, each member of the profession raising serious question with respect to the premises and conclusions of his fellows, the confidence of the officer thereby being shaken in the competence of any and all to give advice pertaining to the technique of administrative control. It is for the purpose of raising for consideration certain questions with respect to the general ledger as a central controlling device, questions seemingly fundamental to sound reasoning and intelligent judgment, that these suggestions are ventured.

FACTS ESSENTIAL TO JUDGMENT WITH RESPECT TO FINANCIAL CONDITION

By those accustomed to corporate management it will be accepted as axiomatic that intelligent consideration of financial condition requires that the administrator should know at least:

1. What the corporation owns.
2. What the corporation owes.
3. Excess of assets over liabilities (or vice versa).

A municipal corporation has also certain conditions and relations to be expressed and considered that are *sui generis*. In order to protect its properties and vouchsafe its purpose, its officers are hedged about by limitations not common to private concerns. Acquiring its properties and funds through *eminent domain* and through the exercise of other powers of sovereignty, devoting its funds to definitely described uses, its agents are permitted to proceed only on definite warrant and specific authorization. Not only is the municipal officer and employee subject to

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all the duties and obligations of corporate trusteeship, but each class of revenues is to be assigned to the particular purpose of the levy or accrual, and expenditures can be made only after compliance with the terms of specific grants.

If we consider the accounts and reports of a city from the viewpoint of the information needed for intelligent direction and supervision, the data reflected on the general ledger must be collected and classified with reference to two essentially different legal and institutional relations, viz.:

The *first relation*, which may be called *proprietary*, deals with the corporation as a legal person: it comprehends the legal rights and obligations of the institution as a whole; considers what the corporation owns; what it owes; what have been the results of its operations expressed in terms of revenue, expense, surplus, deficit.

The *second relation*, which may be called *funding*, deals not with the corporation as such, but with its officers and agents: it comprehends acts of appropriation, charter and other restrictions or mandates laid on those who serve it as agents; it determines what each may do or may not do with monies or resources in his hands, without respect to what the corporation owns, what it owes, or what may have been the results of operation, except in so far as these may have been taken into account at the time such limitations were established or definite authorities were given.

While the corporation, as such, and its officers have been constantly required to act and think in terms of proprietorship and in terms of authorities, the accounts have not been so organized. The suggestion now is made that what has been an administrative requirement and subconscious theory shall be accepted as a first principle of classification; that in exemplification of this principle there should be one category or complement of general ledger accounts dealing with the corporation as such, another dealing with its officers and agents; that one class of accounts should be based on evidence of ownership, debt, and credit, and that the other class of accounts should be based on evidence of agency, trusteeship, and the power of *ultra vires* and administrative control invoking the punitive powers of the courts.

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ADMINISTRATIVE CONSIDERATIONS GOVERNING CLASSIFICATION

By accepting these legal and institutional relations as guiding principles of classifications a beginning has been made; upon this foundation the superstructure of accounting detail is to be erected. If the general ledger of a city is to be the instrument of central administrative control, and if this control is to be exercised through knowledge of facts made accessible to the officers through reports, then what are the essential facts pertaining to *proprietorship*, what must be known about municipal *funding*? Hazardous as may be any attempt to outline or describe the central instrument of accounting control for the use of municipalities, constructive suggestion is offered as a basis for professional consideration.

ACCOUNTS REFLECTING RELATIONS OF PROPRIETORSHIP

With respect to municipal Proprietorship it is assumed that it is desirable clearly to separate the assets and liabilities which are available for or have grown out of *current operation* from those which are available for and have grown out of the acquisition of *permanent properties and improvements*. With this general basis for classification, the information concerning assets and liabilities to be carried on the general ledger is suggested in a *pro forma* corporation Double-Balance-Sheet, shown on page 405.

It is to be noted that in the *pro forma* double balance sheet suggested every kind of property obligation is included, but that in the Current Account, only "assets applicable to the payment of liabilities incurred in current operation" is provided for. This does not signify that "assets applicable to future expenses only" are not to be carried on the general ledger. These are exhibited in the statements which carry the "current operation and surplus account" subjoined to the "Current Account." It is further to be noted that, although the "Sinking Fund" is in its nature a "Capital Account," it is eliminated from the statement for purposes of simplicity. The accounts necessary to control of sinking funds, however, would be carried on the general ledger.

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CURRENT ACCOUNT

| | | |
|---|--------------|--------------|
| I.—Assets applicable to the payment of liabilities incurred in current operation: | | |
| 1. Cash on hand..... | | \$000,000.00 |
| 2. Revenues receivable..... | | 000,000.00 |
| (a) Uncollected Taxes..... | \$000,000.00 | |
| (b) Uncollected Water Rates..... | 000,000.00 | |
| (c) Other Revenues Receivable.... | 000,000.00 | |
| 3. Miscellaneous Accounts Receivable | | 00,000.00 |
| Total Assets..... | | 000,000.00 |
| | | |
| II.—Liabilities to be met by revenue receipts and temporary taxes: | | |
| 1. Immediate Demands for Cash.... | | 000,000.00 |
| (a) Invoices Payable..... | 00,000.00 | |
| (b) Vouchers Payable..... | 00,000.00 | |
| (c) Payrolls Payable..... | 00,000.00 | |
| (d) Warrants Payable..... | 00,000.00 | |
| (e) Judgments and Mandamuses... | 00,000.00 | |
| 2. Temporary Loans (revenue bonds, etc.)..... | | 00,000.00 |
| 3. Other Liabilities..... | | 00,000.00 |
| Total Liabilities..... | | 000,000.00 |
| Excess of Assets over Liabilities..... | | 00,000.00 |
| Excess of Liabilities over Assets..... | | 00,000.00 |

CAPITAL ACCOUNT

| | | | |
|---|--------------|--|--------------|
| I.—Assets applicable to the payment of liabilities to be met out of capital funds (other than sinking fund)..... | | | \$000,000.00 |
| 1. Cash on hand (for purchase of properties, etc.)..... | \$000,000.00 | | |
| 2. Accounts Receivable..... | 000,000.00 | | 000,000.00 |
| | | | |
| II.—Liabilities to be met out of capital assets (other than sinking fund): | | | |
| 1. Invoices Payable..... | 00,000.00 | | |
| 2. Vouchers Payable..... | 00,000.00 | | |
| 3. Payrolls Payable..... | 00,000.00 | | |
| 4. Warrants Payable..... | 00,000.00 | | |
| 5. Judgments, Mandamuses Awardable..... | 00,000.00 | | |
| Excess of Available Assets over Immediate Liabilities..... | | | 00,000.00 |
| | | | |
| III.—Cost of Permanent Improvements: | | | |
| 1. Land..... | 00,000.00 | | |
| 2. Buildings..... | 00,000.00 | | |
| 3. Equipment..... | 00,000.00 | | |
| | | | |
| IV.—Bonded Debt (less sinking funds available for meeting same), amount of cost of properties, and equipment provided for out of revenue and surplus..... | | | |
| | | | 000,000.00 |
| | | | \$000,000.00 |

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The classification shown under the caption "Current Account" has a double purpose:

1. To show the value and kinds of assets owned by the city which may be used to meet liabilities incurred in current operation or chargeable to current account, and to oppose to these every kind of obligation to be met.
2. To classify assets and liabilities in such a manner that (a) "cash" may be opposed by "immediate demands for cash," and (b) "uncollected taxes," or other revenues receivable which may be pledged, may be opposed to "temporary loans.*"

Intelligent consideration of financial condition requires not only that an instantaneous photograph be taken from time to time showing what the corporation owns and what it owes, but also that this be supplemented by a biographic picture. The administrator must see the institution as a going concern. It is not enough to know present condition; information must be available which will enable him to account for this condition, whether it be favorable or unfavorable. In historic sequence the results of transactions must pass before his eye. The premises for administrative judgment lie in a true representation of:

1. Condition at the beginning of the period under review.
2. What the corporation has acquired.
3. What the corporation has disposed of.
4. Condition at the end of the period.
5. Results analyzed to explain changes in condition.

The four conclusions first above mentioned may be drawn from a comparative balance sheet; they require only that the accounts already suggested be historically displayed. The fifth conclusion—the explanation of resultant changes in assets and liabilities necessitates the keeping of operation and surplus accounts. The transactions affecting assets and liabilities must also be translated in terms of revenue and expense or surplus and deficit, and analysis of surplus requires that the accounts shall show what assets are available for future expenses only, such as "stores," "prepaid rents," "prepaid insurance," etc.;

* While the summary statement is necessarily general in character, any significant grouping may be used that may be serviceable, so long as the general theory of the account is not destroyed. The terms used in the balance sheet are so common that it is not thought worth while to enlarge on their content.

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what distribution of current funds has been made to "sinking fund" or other "capital" or "trust" uses; what "sales of old material" and other abatements of operating expenses, etc., are to be reckoned with. The general ledger accounts through which these working relations may be represented are suggested by the "operation and surplus" account appended. (Page 421.)

ACCOUNTS REFLECTING FUNDING RELATIONS ONLY

For the purpose of enabling the finance officer to exercise control over the many and complex fund accounts which municipal offices are required to maintain it is suggested that the general ledger should carry the following accounts with each group so far as they may apply:

Fund Debit Accounts:

1. Estimated requirements.
2. Available balances (other than cash).
3. Unapplied balance (net cash).

Fund Credit Accounts:

1. Authorizations to incur liabilities (unencumbered balance).
2. Reserve for contracts.
3. Reserve for open market orders.
4. Other reserves.

As has been pointed out, the purpose of these accounts (aside from the exercise of accounting control) would be to show in summary form all the information necessary to the guidance of the executive and council pertaining to restrictions and limitations placed on funds of the city and on the officers who are responsible for their administration. To this end it is conceived that the foregoing summary is the minimum of information needed. Since the terms used here are not found in common accounting practice, an explanation follows:

"*Estimated Requirements*" as a debit fund account would be installed for the purpose of keeping before the finance officer (and those who are required to administer on or protect the funds of the city) the amount of the estimated revenue or other provision to be made to meet obligations previously authorized—these requirements to be met through tax levies, miscellaneous revenues or other sources of replenishment, the balance in the account being the difference between the estimate on which author-

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izations were based and the amount actually accrued or collected. When applied to a fund against which annual appropriations are made the balance would show at the end of the fiscal year the amount of deficiency to be met or made up in the next budget, or conversely the amount which would go to reduce taxation. In most cities at the present time such information must be compiled as needed.

"Available Balances (other than cash)" is the title suggested for an account to be kept of the amount of taxes levied which inure to the benefit of each fund or class of funds and which goes to reduce the "estimated requirement," as a matter of law. The balance of this account would be the difference between the amount accruing to the benefit of the fund and the amount collected and cancelled, thereby keeping before the administrator the amount of collectible taxes to be realized in the future. The information is not at present found in the accounts of most cities. The total of taxes receivable as shown on the "proprietary" balance sheet would equal the total of all "available balances" as shown on the "fund balance sheet."

"An Unapplied Balance (net cash)" is suggested as the title of an account in each fund or class of funds carried on the general ledger, which would show the net amount of cash available after deducting all the liquidated outstanding obligations, such as warrants payable, payrolls payable, judgments, etc., chargeable against the fund. This information is not usually shown in a single account, but must be obtained by compilation of data or by calculation. The total of the "unapplied balances" in all funds would equal the total of cash shown on the "proprietary" balance sheet, less the amounts of outstanding liabilities which are immediately payable.

"Authorizations to Incur Liabilities" (unencumbered balances) is suggested as the title of an account which shows the balance unencumbered of all authorizations to incur liabilities against each of the funds or classes of funds carried in the general ledger. For example, the total of authorizations to incur liabilities against a revenue fund may be the total of appropriations. This would be reduced by the contracts entered into, open market orders issued, and other obligations incurred under the authorization, leaving in the account the unencumbered balance. The administrative value of this account cannot be overestimated,

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in that it will keep before the finance officer and others the limitations placed by law upon the administration with respect to the incurring of obligations, making it impossible to exceed appropriations or bond authorizations except with due knowledge on the part of the officer making the contract as well as the controlling office. This information is obtainable in but few cities or, for that matter, other governmental corporations. It follows that, if a fund may not be overincumbered, it cannot be overspent.

"*Reserve for Contracts*" is the title of an account to be kept with each fund, showing all contracts entered into, the payment of which will be chargeable against the fund. The balance of this account would be the total amount entered into, less vouchers or warrants drawn for payment. While this amount is usually obtainable, in most instances it is not properly related in the accounts and reports to authorizations to incur liabilities as no regular method obtains for taking into account the open market order and other obligations at the time contracts are presented to the finance officer for certification.

"*Reserve for Open Market Orders*" is the title of an account suggested to show the total open market orders issued, payable out of the fund or class of funds carried in the general ledger, reduced by the vouchers or warrants drawn for the payment of the same. This information is seldom available.

"*Other Fund Reserves*" is a general title suggested for such reservations as for temporary loans payable out of the particular fund or class of funds carried on the general ledger and which must be taken into account in determining the fund "requirements."

THE GENERAL LEDGER AS A DEVICE THROUGH WHICH CONTROL MAY BE EXERCISED OVER THE COMPLETENESS AND ACCURACY OF DETAIL ACCOUNTS

If the general ledger fulfills its highest purpose it must not only be an independent controlling device, but it must be up to date. This is essential both for reporting and to the administration of discipline. If it is to be used as a controlling device it must obtain its posting totals by means of independent registration of transactions. Again, if the several classes of transactions are registered or journalized as they pass through the

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central accounting office, then the corresponding totals may be obtained daily, weekly, or monthly, as desired. To enable the central finance officer to have knowledge of work or processes in arrears it is desirable that he have daily totals before him. In order that he may have these totals reported daily without requiring a daily posting to the ledger, it is suggested that a daily balance book after the style of a Boston ledger be kept as an auxiliary accounting and reporting medium, these cumulative totals to be proved with and reconciled to the weekly or monthly totals on posting dates. The accuracy of detail subsidiary ledgers would be controlled through periodical trial balances and reports supporting the summary accounts on the general ledger.

To the end that concreteness may be given to the consideration of suggestions here made, forms of journal entries and outlined ledger postings are subjoined. The example given is adapted to the accounts of a particular city having a population of about half a million whose accounts have been critically examined, and therefore are not "assumed." Moreover, the general plan is in operation in another city. Consequently it is not to be considered as an idealistic dream. The primary purpose of this paper is to raise questions as to whether there is not some common basis for general ledger accounting classification in municipalities, and to suggest some of the fundamental legal and institutional relations that have been overlooked in devising systems of accounting and administrative control.

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OPENING JOURNAL ENTRIES

000 00 omitted

| <i>Current Accounts</i> | Dr. | Cr. |
|--|-----------------|-----------------|
| Cash | \$1,750 | |
| Accounts receivable—taxes | 1,500 | |
| —water | 500 | |
| —other | 10 | |
| Warrants payable | | \$100 |
| Payrolls payable | | 20 |
| Temporary loans | | 250 |
| Reserve for appropriations | | 1,500 |
| Free and appropriable surplus | | 1,890 |
| | <u>\$3,760</u> | <u>\$3,760</u> |
| <i>Capital Accounts</i> | | |
| Cash | \$3,000 | |
| Lands (value \$19,500) cost | 5,400 | |
| Improvements—cost | 24,400 | |
| Warrants payable | | \$25 |
| Payrolls payable | | 5 |
| Bonded debt | | 25,000 |
| Excess of cost of permanent improvements over debt | | 7,770 |
| | <u>\$32,800</u> | <u>\$32,800</u> |
| <i>Interest and Public Debt Revenue Fund</i> | | |
| Estimated requirements | | |
| Available balance (other than cash) | \$400 | |
| Unapplied balances (net cash) | 230 | |
| Authorizations | | \$630 |
| Reserve for contracts | | |
| Reserve for open market orders | | |
| | <u>\$630</u> | <u>\$630</u> |
| <i>Municipal Revenue Fund</i> | | |
| Estimated requirements | | |
| Available balance (other than cash) | \$1,100 | |
| Unapplied balance (net cash) | 530 | |
| Authorizations | | \$1,130 |
| Reserve for contracts | | 200 |
| Reserve for open market orders | | 50 |
| Reserve for retirement of temporary loan | | 250 |
| | <u>\$1,630</u> | <u>\$1,630</u> |
| <i>Harbor Revenue Fund</i> | | |
| Estimated requirements | | |
| Available balance (other than cash) | | |
| Unapplied balance (net cash) | \$74 | |
| Authorizations | | \$60 |
| Reserve for contracts | | 4 |
| Reserve for open market orders | | 1 |
| | <u>\$74</u> | <u>\$74</u> |
| <i>Water Works Revenue Fund</i> | | |
| Estimated requirements | | |
| Available balance (other than cash) | | |
| Unapplied balance (net cash) | \$796 | |
| Authorizations | | \$716 |
| Reserve for contracts | | 60 |
| Reserve for open market orders | | 20 |
| | <u>\$796</u> | <u>\$796</u> |
| <i>Various Special Funds and Accounts</i> | | |
| Estimated requirements | | |
| Available balance (other than cash) | | |
| Unapplied balance (net cash) | \$2,970 | |
| Authorizations | | \$2,835 |
| Reserve for contracts | | 125 |
| Reserve for open market orders | | 10 |
| | <u>\$2,970</u> | <u>\$2,970</u> |

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CURRENT JOURNAL ENTRIES

| Source of Entry | Class of Entry | Description of Entry | Dr. | Cr. |
|--------------------|-------------------|--|--|-----|
| Budget | P | <p style="text-align: center;"><i>a</i></p> Estimated revenues from taxes and miscellaneous receipts, including fund surpluses required: Interest and the public debt revenue fund..... \$1,750 Municipal revenue fund..... 9,000 Water works revenue fund..... 1,100 Harbor revenue fund..... 80 To Authorizations to incur liabilities under ordinances of appropriation: Interest and public debt revenue fund..... \$1,750 Municipal revenue fund..... 9,000 Water works revenue fund..... 1,100 Harbor revenue fund..... 80 being the total amount of appropriations for the year 1909, effective April of that year as shown by the certified copies thereof on file in the office of the comptroller. NOTE: The debit accounts would be established for the purpose of showing at all times the revenue requirements of each of the funds affected thereby, based on the comptroller's estimate of revenues to accrue during the year and to which the taxes annually accrued and the miscellaneous revenue receipts and the fund surpluses may be credited and taken into account. The credit accounts would be established for the purpose of enabling the comptroller to limit the liabilities incurred by officers and agents of the city by setting up the total amount of liabilities which may be incurred and charging against the same all liabilities payable out of appropriations as soon as they accrue. | \$1,750 9,000 1,100 80 \$1,750 9,000 1,100 80 | |
| Tax levy | P | <p style="text-align: center;"><i>b</i></p> Revenues receivable: Tax levy of 1909..... \$7,560 To Revenue—debt service..... \$1,555 Revenue—general government..... 6,005 and Available balance (other than cash): Interest and public debt revenue fund..... 1,555 Municipal revenue fund..... 6,005 To Estimated revenues from taxes and miscellaneous receipts including fund surpluses required: Interest in public debt revenue fund..... 1,555 Municipal revenue fund..... 6,005 being the total amount of the tax books or tax rolls for the year 1909 certified to the comptroller and the collector of revenues. NOTE: The debit proprietary account would be established for the purpose of enabling the city comptroller to have before him at all times the balance of revenues receivable uncollected as represented by bills in the hands of the collector of revenue, and enabling him to prove the accuracy of the subsidiary books which carry the receivable accounts, by means of trial balances, and schedules supporting the general account. The credit proprietary accounts would be established for the purpose of enabling the comptroller to set aside the adjusted gross revenue of the city from taxes, and to have before him at all times definite and exact information concerning accruals for the purpose of budget-making and reporting. The debit fund accounts would be established for the purpose of keeping before the city comp- | \$7,560 1,555 6,005 1,555 6,005 | |

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| Source of Entry | Class of Entry | Description of Entry | Dr. | Cr. |
|------------------------|----------------|--|---------|---------|
| | | <p>troller the total available assets of the interest in public debt revenue fund and the municipal revenue fund other than cash.</p> <p>The credit fund entry would be made to reduce the amount of the estimate of revenues from taxes and miscellaneous receipts, including fund surplus required, as shown in each of the fund accounts established through journal entry "b" described above, this reduction being the amount actually accruing from taxes during the period for which the estimate was made.</p> | | |
| | c | | | |
| Register of bond sales | P | Cash—capital account..... | \$200 | |
| | | to Bonded debt..... | | \$200 |
| | F | Unapplied balances (net cash) Various special funds and accounts..... | 200 | |
| | | To Authorizations to incur liabilities Various special funds and accounts..... | | 200 |
| | | being the total proceeds of bond sales (assuming that the bonds were sold at par). | | |
| | | NOTE: The debit proprietary account would be established as a basis for determining the balance of cash on hand which may be used for the liquidation of liabilities incurred for construction and other capital uses. | | |
| | | The credit proprietary account would be established as a controlling balance over the accuracy of subsidiary records showing the details of the funded debt. | | |
| | | The debit fund entry would establish an account against which all claims may be charged as liquidated, and before payment thus making allowance for other entries affecting the same, showing the true net cash balance unapplied for the purpose comprehended within "various special funds and accounts." | | |
| | | The credit fund account would be established for the purpose of keeping before the comptroller the balance of authorizations to incur liabilities which must be met out of "various special funds and accounts" as shown on the general ledger of the city. | | |
| | | d | | |
| Contract Register | F | Authorizations to incur liabilities: | | |
| | | Municipal revenue fund..... | \$3,500 | |
| | | Water works revenue fund..... | 250 | |
| | | Harbor revenue fund..... | 10 | |
| | | Various special funds and accounts..... | 800 | |
| | | To Reserved or contracts: | | |
| | | Municipal revenue fund..... | | \$3,500 |
| | | Water works revenue fund..... | | 250 |
| | | Harbor revenue fund..... | | 10 |
| | | Various special funds and accounts..... | | 800 |
| | | being the amount of contracts awarded, advice of which would be received by the city comptroller at the time the awards are made, these awards being currently recorded as received on a register of contract awards, the total thereof being the basis for this entry; the formal instruments as evidence of the contract being submitted to the comptroller for his certificate, after the same have been executed. | | |
| | | NOTE: The debit fund entries would be made to reduce the balance of authorizations to incur liabilities against the funds represented by the amounts of contracts awarded. | | |
| | | The credit fund account would be established for the purpose of keeping before the city comptroller the balance of contracts which have not been liquidated by warrants, judgments or other | | |

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| <i>Source of the Entry</i> | <i>Class of Entry</i> | <i>Description of Entry</i> | <i>Dr.</i> | <i>Cr.</i> |
|--|---------------------------|--|------------|------------|
| | | charges against the same, and for the purpose of establishing on the general ledger a balance by means of which the accuracy of postings to subsidiary contract ledgers may be proved by trial balance and report. | | |
| Register of open mar- ket orders | F | <p style="text-align: center;">e</p> Authorizations to incur liabilities: Municipal revenue fund..... \$1,000 Water works revenue fund..... 200 Harbor revenue fund..... 5 Various special funds and accounts..... 100 To Reserve for open market orders: Municipal revenue fund..... \$1,000 Water works revenue fund..... 200 Harbor revenue fund..... 5 Various special funds and accounts..... 100 being the amount of orders issued for the purchase of supplies in the open market and for services to be rendered not under formal contract, as evidence of which instruments in writing would be presented to the city comptroller for his approval and for registration against the funds out of which the liabilities so incurred would be liquidated, the same to be currently registered and recorded as received in the office of city comptroller, the classified total of the register being the basis for this entry. | | |
| | | NOTE: The debit fund entry would be made to reduce the balance of authorizations to incur liabilities against each fund represented and in the amount certified. | | |
| | | The credit fund account would be established for the purpose of keeping before the comptroller at all times the balance of orders not liquidated; also for the purpose of establishing on the general ledger a balance by means of which the accuracy of postings to subsidiary ledgers containing detail accounts with open market claimants might be proved by the trial balance and report, should such ledgers be established and maintained in any or all of the several departments of the city; primarily, in the office of the commissioner of supplies. | | |
| Cash re- ceipts (other than bond sales) | P | <p style="text-align: center;">f</p> Cash—current account..... \$13,215 To Temporary loans..... \$1,000 Accounts receivable—taxes..... 7,138 —water..... 1,867 —miscellaneous..... 3,210 and Unapplied balances (net cash) Interest and public debt revenue fund..... 1,482 Municipal revenue fund..... 9,795 Water works revenue fund..... 1,867 Harbor revenue fund..... 71 To Available balances (other than cash) Interest and public debt revenue fund..... 1,482 Municipal revenue fund..... 5,656 Estimated revenue from taxes and miscellaneous revenues, including fund surpluses required: Municipal revenue fund..... 3,139 Water revenue fund..... 1,867 Harbor revenue fund..... 71 Reserve for retirement of temporary loan— municipal revenue fund..... 1,000 being the total amount of cash received other than the proceeds of bond issues. | | |
| | | NOTE: The debit proprietary account would be established to show the balance of cash available for current or general municipal purposes. | | |

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| Source of Entry | Class of Entry | Description of Entry | Dr. | Cr. |
|----------------------------------|----------------|---|-----|-----|
| | | market orders, thereby reducing the open market order reserve. | | |
| | | The debit entry to the fund account, "Authorizations to Incur Liabilities," would be the amount of warrants drawn on payrolls and miscellaneous claims for which no reserve had previously been set up, thereby reducing the balance of authorizations which may be incurred. | | |
| | | The credit entry to the fund account "Unapplied Balances" would be the amount by which the net cash of each fund is reduced. | | |
| Payroll register | P | <div style="text-align: center;">h</div> Departmental expenditures \$3,990 Construction in progress 50 To Payrolls payable (current account) \$3,990 Payrolls payable (capital account) 50 and | | |
| | F | Authorizations to incur liabilities Municipal revenue fund 3,560 Harbor revenue fund 30 Water works revenue fund 400 Various special funds and accounts 50 To Unapplied balances: Municipal revenue fund \$3,560 Harbor revenue fund 30 Water works revenue fund 400 Various special funds and accounts 50 | | |
| | | being the amount of payrolls registered as taken from the classified totals of the payroll register. | | |
| | | NOTE: The debit entries to both the proprietary accounts would be for the same purpose as described in journal entry "G," the credit proprietary accounts being established for the purpose of showing the unpaid liability for payrolls registered which have not yet been audited. | | |
| | | The entries to the fund accounts would be for the same purpose as above described under journal entry "G." | | |
| Register of departmental reports | F | <div style="text-align: center;">i</div> Stores \$2,000 Rents paid in advance 700 Insurance paid in advance 30 Other expenses paid in advance 20 Expenses 10,350 To Departmental expenditures \$13,100 being the amount distributed from departmental expenditures as reported from the several departments in which records are kept showing such distribution. | | |
| | | NOTE: The debit proprietary account, "Stores," would be established to show the balance of stores on hand, the department store accounts under this control showing both the receipts, deliveries and balance supported by inventories. | | |
| | | The debit proprietary account, "Rents Paid in Advance," would be established to show the balance of rents paid in advance which had not been taken into expense; in other words, the net balance of the city's expenditure for prepaid rent. | | |
| | | The debit proprietary account, "Insurance Paid in Advance," would be established for the purpose of showing the balance of expenditures of this class which had not yet been taken into expense. | | |
| | | The debit proprietary account, "Other Expenses," would be established for the purpose of showing any other or miscellaneous prepayment which had not yet been absorbed in current expenses. | | |
| | | The debit proprietary account, "Expenses," would be the total amount of the expenses incurred in the several departments of the city, the details of which will be shown by the statements or | | |

The General Ledger of a Municipality

| Source of Entry | Class of Entry | Description of Entry | Dr. | Cr. |
|---|----------------|---|-----|-----|
| | | <p>trial balance taken from departmental expense ledgers and cost accounts, the general ledger balance being used for purposes of control over the accuracy of these subsidiary books.</p> <p>The credit entry to the proprietary account, "Departmental Expenditures," would be made for the purpose of clearing the undistributed expenditures entered in this account from the warrant register and payroll register as above described.</p> | | |
| Judgment register | P | <p style="text-align: center;"><i>j</i></p> <p>Departmental expenditures \$100</p> <p>Construction in progress 10</p> <p style="text-align: center;">To</p> <p>Judgments and mandamuses (current account) \$100</p> <p>Judgments and mandamuses (capital account) 10</p> | | |
| | P | <p>Authorization to incur liabilities:</p> <p>Municipal revenue fund 70</p> <p>Harbor revenue fund 10</p> <p>Water works revenue fund 20</p> <p>Various special funds and accounts 10</p> <p style="text-align: center;">To</p> <p>Unapplied balances:</p> <p>Municipal revenue fund 70</p> <p>Harbor revenue fund 10</p> <p>Water works revenue fund 20</p> <p>Various special funds and accounts 10</p> <p>being the amount of judgments as shown from the classified totals of the judgment register.</p> <p>NOTE: All of the debit and credit accounts shown in this entry, except the credit proprietary account "Judgments and Mandamuses," are used in the manner previously described.</p> <p>The credit account, "Judgments and Mandamuses," is established for the purpose of showing the balance of judgments and mandamuses which had been filed in the office of the comptroller for which warrants have not yet been drawn and which have not yet been paid.</p> | | |
| Miscellaneous revenue register | P | <p style="text-align: center;"><i>k</i></p> <p>Accounts receivable—water \$1,000</p> <p style="text-align: center;">—other 3,230</p> <p style="text-align: center;">To</p> <p>Revenue—water \$1,000</p> <p style="text-align: center;">—general government 3,230</p> <p>being the amount of miscellaneous revenues as shown from the classified totals of the miscellaneous revenue register.</p> <p>NOTE: The debit proprietary account, "Accounts Receivable," would be established for the purpose of setting up the total amount of accounts receivable accruing to the city from miscellaneous revenue sources, and the balance of these accruals which are still uncollected, thereby separately representing this class of assets on the general ledger.</p> <p>The credit proprietary account, "Revenue," would be established for the purpose of cumulating the revenues accruing to the city and enabling the comptroller and other officers to have before them such accumulative totals for purposes of comparison with expenses and for purposes of budget-making.</p> | | |
| Payroll and judgment warrants registers | P | <p style="text-align: center;"><i>l</i></p> <p>Payrolls payable (current) \$4,000</p> <p>" " (capital) 53</p> <p>Judgments and mandamuses payable (current) 90</p> <p>" " " (capital) 8</p> <p style="text-align: center;">To</p> <p>Warrants payable (current) \$4,090</p> <p>" " (capital) 61</p> <p>Payrolls and judgments and mandamuses warranted during the year</p> <p>being the amount of warrants registered in payment of payrolls and judgments.</p> | | |

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| Source of Entry | Class of Entry | Description of Entry | Dr. | Cr. |
|----------------------------------|----------------|--|----------|----------|
| Warrants paid | | m | | |
| | | Warrants payable (current)..... | \$13,110 | |
| | | " | | |
| | | (capital)..... | 875 | |
| | | To | | |
| | | Cash (current)..... | | \$13,110 |
| | | " | | 875 |
| | | (capital)..... | | |
| | | being the amount of warrants paid as shown by the treasurer's returns supported by warrants paid. | | |
| Stores reports | P | n | | |
| | | Expenses..... | \$2,590 | |
| | | To | | |
| | | Stores..... | | \$1,000 |
| | | Rents paid in advance..... | | 670 |
| | | Insurance paid in advance..... | | 10 |
| | | Other expenses paid in advance..... | | 10 |
| | | being the amount distributed through "Stores," "Prepaid Rents," "Prepaid Insurance," etc., to expenses as shown by reports from the several departments of the city, taken from the departmental records and reports of stores distributed, etc. | | |
| Construction contracts completed | P | o | | |
| | | Improvements..... | \$400 | |
| | | To | | |
| | | Construction in progress..... | | \$400 |
| | | being the amount transferred from cost of construction in progress to cost of improvements. | | |
| Operation account | P | p | | |
| | | Surplus current account..... | \$250 | |
| | | To | | |
| | | Deficiency for the year transferred to surplus account..... | | \$250 |
| | | being the amount transferred by journal entry from the operation account to the surplus account. | | |
| | F | q | | |
| | | Interest and public debt revenue fund: | | |
| | | Unapplied balances..... | \$480 | |
| | | To | | |
| | | Estimated requirements..... | | \$480 |
| | | and | | |
| | | Water works revenue fund: | | |
| | | Estimated requirements..... | 480 | |
| | | To | | |
| | | Unapplied balances..... | | 480 |
| | | being the amount transferred from "Water Revenue Fund" to the "Interest and Public Debt Revenue Fund" in order to provide the necessary cash to meet debt service requirements. | | |

The General Ledger of a Municipality

SUMMARY BALANCE SHEET SHOWING THE FUNDS AND PROPERTIES OWNED BY THE CITY, THE CURRENT LIABILITIES,
THE BONDED DEBT AND SURPLUS OR DEFICIT

| ASSETS | | LIABILITIES | |
|--|----------|--|---------|
| | | <i>Current Account</i> | |
| I.—Cash (Current Account)..... | \$1,855 | I.—Immediate Demands for Cash: | |
| II.—Accounts Receivable: | | Payrolls payable..... | \$10 |
| Taxes collected..... | \$1,022 | Judgments and mandamuses payable..... | 90 |
| Water Rates uncollected..... | 533 | Warrants payable..... | 0 |
| Miscellaneous..... | 0 | Total immediate demands..... | \$110 |
| Total accounts receivable..... | 2,485 | I.—In Anticipation of Collections: | |
| Total Assets (Current account)..... | \$4,340 | Temporary loans..... | 1,350 |
| III.—Deficit..... | | III.—Surplus and Reserves: | |
| Total Assets and Deficit..... | \$4,340 | Reserve for appropriations..... | \$2,745 |
| | | Free and applicable surplus..... | 235 |
| | | Total surplus and reserves..... | \$2,980 |
| | | TOTAL LIABILITIES AND SURPLUS..... | \$4,340 |
| | | <i>Capital Account</i> | |
| I.—Cash (Capital Account)..... | \$2,325 | I.—Immediate Demands for Cash: | |
| II.—Permanent Properties and Equipment: | | Payrolls payable..... | \$ 2 |
| Lands (value \$19,500) cost..... | \$5,400 | Judgments and mandamuses payable..... | 2 |
| Improvements..... | 24,800 | Warrants payable..... | 11 |
| Construction in progress..... | 400 | Total immediate demands..... | \$15 |
| Total permanent properties and equipment.. | 30,600 | II.—Bonded debt..... | 25,200 |
| Total Capital Assets..... | \$32,925 | III.—Excess of permanent properties over debt..... | 7,770 |
| | | TOTAL CAPITAL LIABILITIES AND SURPLUS... | \$3,985 |

* To the balance of \$2,980 must be added the amount (\$160) by which amounts applicable to future expenses exceed unvouchered invoices.

GENERAL STATEMENT SHOWING PRESENT CONDITION OF FUNDS OF THE CITY OTHER THAN TRUST FUNDS

| | |
|--|---------|
| <i>Interest and Public Debt Revenue Fund</i> | |
| Balance not realized of estimated requirements for the year... | \$287 |
| Available balance (other than cash)..... | 413 |
| Unapplied balance (net cash)..... | 108 |
| Total..... | \$808 |
| Authorizations to incur liabilities..... | |
| | \$80 |
| Total..... | |
| | \$80 |
| <i>Municipal Revenue Fund</i> | |
| Balance not realized of estimated requirements for the year... | \$144 |
| Available balance (other than cash)..... | 1,449 |
| Unapplied balance (net cash)..... | 895 |
| Total..... | \$2,200 |
| Authorizations to incur liabilities..... | |
| Reserve for contracts..... | \$100 |
| Reserve for open market orders..... | 700 |
| Reserve for retirement of temporary loan..... | 150 |
| Total..... | \$1,250 |
| Total..... | |
| | \$2,200 |
| <i>Harbor Revenue Fund</i> | |
| Balance not realized of estimated requirements for the year... | \$0 |
| Unapplied balance (net cash)..... | 45 |
| Total..... | \$45 |
| Authorizations to incur liabilities..... | |
| Reserve for contracts..... | \$44 |
| Reserve for open market orders..... | 0 |
| Total..... | \$44 |
| Total..... | |
| | \$89 |
| <i>Water Works Revenue Fund</i> | |
| Balance not realized of estimated requirements for the year... | \$287 |
| Unapplied balance (net cash)..... | 913 |
| Total..... | \$626 |
| Authorizations to incur liabilities..... | |
| Reserve for contracts..... | \$446 |
| Reserve for open market orders..... | 110 |
| Total..... | \$626 |
| Total..... | |
| | \$626 |
| <i>Various Special Funds and Accounts</i> | |
| Unapplied balance (net cash)..... | \$2,310 |
| Total..... | \$2,310 |
| Authorizations to incur liabilities..... | |
| Reserve for contracts..... | \$2,075 |
| Reserve for open market orders..... | 200 |
| Total..... | \$2,310 |

The General Ledger of a Municipality

OPERATION ACCOUNT

| EXPENSES | | REVENUES | |
|--|-----------------|-------------------------------------|-----------------|
| I.—Interest and Amortization of Public Debt: | | | |
| Interest..... | \$1,000 | Taxes..... | \$1,555 |
| Amortization..... | 1,155 | Transfer from water works fund..... | 480 |
| Total..... | <u>\$2,155</u> | Deficiency for Period..... | 120 |
| | | Total..... | <u>\$2,155</u> |
| II.—General Government—(Gross): | | | |
| Less abatements: | \$12,420 | General Government—(Gross)..... | \$11,550 |
| Sales of old material..... | \$290 | Less rebates: | |
| Advances..... | 50 | Taxes..... | \$400 |
| Total..... | 340 | Other..... | 100 |
| Net Expenses—General Government..... | <u>\$12,080</u> | Net Revenue—General Government..... | 500 |
| Revenue Surplus for Period..... | | Revenue Deficiency for Period..... | \$11,050 |
| Total..... | <u>\$12,080</u> | Total..... | <u>\$12,080</u> |
| III.—Water Works—(Gross): | | | |
| Less abatements: | \$1,110 | Water Works—(Gross)..... | \$2,100 |
| Sales of old material..... | \$100 | Less rebates: | |
| Advances..... | 10 | Water rates..... | \$150 |
| Total..... | 110 | Other..... | 50 |
| Net Expenses—Water Works..... | <u>\$1,000</u> | Net Revenue—Water Works..... | \$1,900 |
| Revenue Surplus for Period..... | 900 | Revenue Deficiency for Period..... | |
| Total..... | <u>\$1,900</u> | Total..... | <u>\$1,900</u> |
| CURRENT ACCOUNT SURPLUS | | | |
| I.—Assets Applicable to Future Expenses Only: | | | |
| Inventories Jan. 1, 19..... | \$..... | I.—Reserve for Stores..... | \$90 |
| Received during the year..... | 2,000 | Amount in excess of reserve..... | 10 |
| Dispensed on requisitions and charged to expenses..... | 1,900 | (under in red) | |
| Inventories —, 19..... | \$100 | Total..... | <u>\$100</u> |

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CURRENT ACCOUNT SURPLUS—Continued

| | | | |
|---|--------|---------|----------------|
| II.—Advances—Current Account: | | | |
| Rents paid in advance..... | \$ 700 | | |
| Paid during the period..... | 700 | | |
| Accrued and charged to expenses during the period..... | 670 | | |
| Schedule as at —, 19—..... | | \$30 | |
| <i>Advances</i> paid in advance..... | | | |
| Schedule Jan. 1, 19—..... | | | |
| Paid during period..... | 30 | | |
| Accrued and charged to expenses during period..... | \$10 | | |
| Schedule as at —, 19—..... | | \$20 | |
| Other advances: | | | |
| Schedule Jan. 1, 19—..... | | \$20 | |
| Paid during period..... | | | |
| Cancelled during period..... | 10 | | |
| Schedule as at —, 19—..... | | \$10 | |
| Total Advances and Assets applicable to future expenses only..... | | \$160 | |
| III.—Other Charges to Current Account Surplus: | | | |
| Revenue deficiency for period: | | | |
| General government..... | | \$1,030 | |
| Water works..... | | | |
| Other industries and investments..... | | | |
| Interest and amortization of public debt..... | | 120 | |
| Total Revenue Deficiency..... | | \$1,150 | |
| <i>Transfers to other funds and accounts:</i> | | | |
| Sinking funds..... | | | |
| Capital account..... | | | |
| Total Transfers to other Funds and Accounts..... | | | |
| Total Charges to Current Account Surplus During Period..... | | \$1,150 | |
| Net charge as per balance sheet..... | | \$25 | |
| Deficit current account as at —, 19—..... | | | |
| Deficit Current Account as at —, 19—..... | | | |
| II.—Reserve for Advances: | | | |
| Amount in excess of reserve..... | | 10 | |
| Total..... | | | \$60 |
| Total Reserve for Advances and Credits to Surplus..... | | | \$160 |
| III.—Other Credits to Current Account Surplus: | | | |
| Revenue surplus for period: | | | |
| General government..... | | \$900 | |
| Water works..... | | | |
| Other industries and investments..... | | | |
| Total Revenue Surplus..... | | | \$900 |
| <i>Transfers from other funds and accounts:</i> | | | |
| Capital account..... | | | |
| Other accounts..... | | | |
| Total Transfers from other Funds and Accounts..... | | | |
| Total Credits to Current Account Surplus During Period..... | | | \$900 |
| Net credit as per balance sheet..... | | | |
| Surplus current account as at beginning of period..... | | | \$3,390 |
| Surplus Current Account as at —, 19—..... | | | \$3,140 |

The General Ledger of a Municipality

SUMMARY BALANCE SHEET SHOWING THE FUNDS AND PROPERTIES OWNED BY THE CITY, THE CURRENT LIABILITIES
THE BONDED DEBT AND SURPLUS OR DEFICIT

| ASSETS | Balance April 12, 1908 | Increase Dr. | Decrease Cr. | Balance April 12, 1909 | LIABILITIES | Balance April 12, 1908 | Increase Cr. | Decrease Dr. | Balance April 12, 1909 |
|-------------------------------------|------------------------|--------------|--------------|------------------------|-----------------------------|------------------------|--------------|--------------|------------------------|
| Cash (current account)..... | \$1,750 | (f) \$13,215 | (m) \$13,110 | \$1,855 | Immediate demands for cash: | | | | |
| Accounts receivable: | | | | | Payrolls payable..... | \$ 20 | (l) \$3,990 | (l) \$4,000 | \$ 10 |
| Taxes..... | 1,500 | (b) 7,560 | (f) 7,138 | 1,922 | Warrants payable..... | 100 | (g) 9,010 | (m) 13,110 | 90 |
| Water..... | 500 | (k) 1,900 | (f) 1,807 | 533 | Judgments and man- | | (j) 100 | (l) 90 | 10 |
| Other..... | 10 | (k) 3,230 | (f) 3,210 | 30 | damuses..... | | | | |
| Stores..... | | (l) 2,000 | (n) 1,900 | 100 | In anticipation of col- | | | | |
| Rents paid in advance..... | | (l) 700 | (n) 570 | 30 | lections: | | | | |
| Insurance paid in advance..... | | (l) 30 | (n) 10 | 20 | Temporary loans..... | 250 | (f) 1,000 | | 1,250 |
| Other expenses paid in ad- | | (l) 20 | (n) 10 | 10 | Surplus and reserves..... | 3,390 | (p) 250 | | 3,140 |
| vance..... | | | | | Total..... | | | | \$4,500 |
| Total..... | | | | \$4,500 | | | | | |
| | | | | | | | | | |
| | Balance April 12, 1908 | Increase Dr. | Decrease Cr. | Balance April 12, 1909 | | Balance April 12, 1908 | Increase Cr. | Decrease Dr. | Balance April 12, 1909 |
| Cash (capital account)..... | \$3,000 | (c) \$200 | (m) \$875 | \$2,325 | Immediate demands for cash: | | | | |
| Permanent properties and equipment: | | | | | Payrolls payable..... | \$ 5 | (h) \$ 50 | (l) \$ 53 | \$ 2 |
| Lands (value \$19,500) cost..... | 5,400 | (b) 400 | (o) 400 | 24,800 | Warrants payable..... | 25 | (g) 800 | (m) 875 | 11 |
| Improvements cost..... | 24,400 | (b) 800 | (o) 400 | 24,800 | Judgments and man- | | (e) 61 | | |
| Construction in progress. | | (b) 50 | (o) 10 | 460 | damuses..... | | | | |
| | | (h) 50 | (o) 10 | | Bonded debt..... | 25,000 | (c) 200 | | 25,200 |
| | | (f) 10 | | | Excess of cost of perman- | | | | |
| | | | | | ent improvements over | | | | |
| | | | | | debt..... | 7,770 | | | 7,770 |
| Total..... | | | | \$32,985 | Total..... | | | | \$32,985 |

OPERATION ACCOUNT

| | Balance April 12, 1909 | Increase Dr. | Decrease Cr. | Balance April 12, 1909 | | Increase Cr. | Increase Dr. | Balance April 12, 1909 |
|---------------------------|------------------------------|-------------------------------------|-----------------|------------------------------|--|--|-----------------|------------------------------|
| Departmental expenditures | | (g) \$9,010 (h) 3,990 (j) 100 | (i) \$13,100 | | Revenues—debt service, general gov't, water..... | (b) \$1,555 (b) 6,005 (k) 3,230 (k) 1,900 | | \$12,600 |
| Expenses..... | | (i) \$10,350 (n) 2,590 | | | Revenue deficiency..... | (p) 250 | | 250 |
| Revenue surplus..... | | | | \$12,940 | Total..... | | | \$12,940 |
| Total..... | | | | \$12,940 | | | | \$12,940 |

