**CHAPTER THREE**

**The General Fund and Special Revenue Funds**

**Introduction**

Every state and local government must have a general fund that is used to account for all financial resources, except for those resources that must be accounted for in a different fund. A government maintain only one general fund. This unit will discuss: The nature and purpose of the general and special revenue funds; Revenues and expenditures recognitions; and Examples of common journal entries.

* 1. **The General Fund**

 **3.1.1 Nature and Purpose**

Every governmental unit must establish a General Fund. The General Fund is used to account for most of the current operating revenues and expenditures of the unit including certain capital outlays and certain debt service expenditures. All tax revenues and other receipts and expenditures not specified by law or contractual agreement to another fund type are accounted for in the General Fund. This includes revenues and expenditures for federal programs. The General Fund is usually the largest and most important of the funds maintained by governmental units.

The General Fund typically has a greater number and variety of revenue sources than other funds and its resources finance a wide range of governmental activities. The General Fund is established at the inception of the governmental units and continues to exist throughout the life of the governmental system.

 **3.1.2 Number of Funds**

The governmental units will report only one General Fund

 **3.1.3 Basis of Accounting and Measurement Focus**

The focus of General Fund accounting is sources and uses of “available spendable resources” rather than upon net income determination. The General Fund uses the modified accrual basis of accounting. Therefore, revenues are recognized when they are both measurable and available. This fund also uses the flow of current financial resources measurement focus.

The General Fund contains only “current” assets and “current” liabilities. “Current,” meaning the asset is expected to be received or the liability paid within one year from the Balance Sheet date. General Fund assets and liabilities having a life greater than one year are reported on the Government wide statements.

Claims against the governmental unit should be recognized as General Fund liabilities when the claims are scheduled or applicable for liquidation with existing resources.

The General Fund has many sources of revenue and many types of expenditures, and hence, a need for numerous general ledger accounts. Excessive general ledger accounts are very inconvenient to work with. The local and state governmental unit may, therefore, use general ledger control accounts and subsidiary ledgers.

* + 1. **Accounts and Transactions**
	1. **Revenues and Other Sources of Financing**

Revenues represent increases in current financial resources. Proceeds from issuance of long-term debt and receipt of inter fund transfers are not classified as revenue. Instead, these items are classified as “other sources of financing.” General Fund revenues are susceptible to accrual when they are both measurable and available. Revenues are measurable when they can be reasonably estimated. In order to be available, revenues are estimated to be collected during the current budgetary period or after the end of the period, but in time to pay liabilities outstanding at the close of the budgetary period. When amounts are both determined to be measurable and available, we classify them as “revenue accruals.” Do not record the item as revenue in the General Fund if the “measurable” and “available” conditions are not met. Many general fund revenues are measurable, such as taxes, grants and fees.

**Classification of Revenues**

The primary classification of government revenues is by fund. Within specific revenues may be classified by sources. Generally, there are six sources. These are explained under:

* + 1. **Tax revenues**

Tax revenues constitute the large portion of governmental revenues and are compulsory or obligatory. In general, tax revenues may be classified in to three categories. These are direct taxes (personal income tax, business income tax, tax on dividend, rental income tax and miscellaneous income taxes), indirect taxes (turn over tax, value added tax, excise tax) and taxes on foreign trade (custom duty on imported goods and services, etc).

* + 1. **Licenses and permits**

They include those revenues collected by the governmental unit from individuals or business concerns for various rights or privileges granted to them, such as business license, driving license, building permit, etc.

* + 1. **Intergovernmental Revenues**

They include grants, entitlements, and shared revenues. A grant is a contribution or gift of cash or other assets from other governmental unit to be used or expended for specific purpose, activity or facility. There are two types of grants, namely capital grants and operating grants. Capital grants are restricted by the grantor for the acquisition or construction of fixed assets. All other grants are considered operating grants.

* + 1. **Charges for services**

They include revenues collected by the government from the public for the services rendered to them. These include revenue from courts, receipts from parking lots, library use fees, tuition fees etc. Library use fees do not include fines.

* + 1. **Fines and forfeits**

Forfeiture is the automatic loss of cash or other properties as a punishment for not complying with legal provisions and as compensation form the resulting damages, or losses. Fines and forfeits include; Fines and penalties for commissions of statutory offences; Fines and penalties for neglect of office duties; Library fines; Forfeitures of amounts held as a security against loss or damages and Penalty of any sort. Penalties levied on delinquent taxes (past due taxes) are not considered as fines, rather are considered as tax revenues.

* + 1. **Miscellaneous revenues**

They include all revenues other than the above six categories of revenues, such as: Interest earnings on temporary investments; Rent and royalties; Compensation for loss of fixed assets; Contributions from public enterprises; Contributions from private sources; Contributions from donors, and others.

**Budgetary Accounts**

Budgetary accounts are those accounts that affect budgetary operations and conditions. Budgetary accounts include:

* **Estimated Revenue-** It is used to record total amount of revenue expected to be recognized (from revenue budget).
* **Appropriations-** which are used to record budgeted expenditures.
* **Encumbrances -** which are used to record estimated amount of purchase orders or contracts.
* **Estimated other financing sources-** are used to record estimated other financing sources.
* **Estimated other financing uses-** which are used to record estimated other financing uses.

In order to facilitate the preparation of financial statement that show budget and actual amounts, the accounting systems of funds which budgets are required by law should incorporate budgetary account.

**Journal Entries to record the various items:**

1. **Recording the Budget: Budgetary entry:**

Estimated Revenues xxx

Estimated Other Financing Sources xxx

 Appropriation xxx

 Estimated Other Financing Uses xxx

 Fund Balance xxx

**Example 1**: Assume that a given governmental unit has made the following budget estimate for its general fund:

Estimated Revenues:

 Taxes 780,000

 Licenses and permits 256,000

 Charges for services 184,000

Appropriations:

Estimated Other Financing Sources:

Transfer from other funds 115,000

Bond issue proceed 115,000

Health and Welfare 270,000

General Government 590,000

Public safety 440,000

Required: Prepare a budgetary entry.

Estimated Revenue 1,220,000

Estimated Other Financing Sources 230,000

 Appropriations 1,300,000

 Fund Balance 150,000

Note that budgetary surplus is said to exist when budgeted sources exceed budgeted uses. On the other hand, budgetary deficit is said to exist if budgeted uses exceed budgeted sources.

1. **Property Taxes and Uncollectible**

Taxes are a forced contribution on the citizens by the government. There are a number of different kinds of taxes possible, including property taxes

Property Taxes should be recorded in the fiscal year, in which they are levied, assuming that they are also classified as available. Giving a formal notice of a tax to be paid is called a levy.

The governmental unit should disclose the assessment date, levy date, due dates and collection dates of taxes. Additionally, they must disclose their policy for recognizing property taxes.

State and local governmental units usually do not collect the entire tax levy. Accordingly, the amount recorded as revenue receivable from taxes often needs to be offset by an allowance for uncollectible taxes account. Governmental accounting does not recognize a “bad debt expense,” for these uncollectible, as does private business accounting. Instead, an allowance for uncollectible taxes account is established in the General Fund by reducing the amount of revenue recognized from taxes.

**Example 2:** Property taxes of Br. 20,000,000 are levied. Five percent of the levy is estimated to be uncollectible. The following entry would be made to record the levy:

Property Taxes Receivable-Current 20,000,000

 Revenue—Current (Real Estate Taxes) 19,000,000

 Allowance for Uncollectible Taxes-Current 1,000,000

**Example 3:** Assume thatBr.16, 000,000 of the tax receivables are collected and Br.750, 000 of the receivables is now deemed uncollectible: the following entry is made to record the collection:

1. Cash 16,000,000

 Property Taxes Receivable-Current 16,000,000

1. Allowance for Uncollectible Taxes 750,000

 Property Taxes Receivable-Current 750,000

**Example 4:** Assume that the remaining receivable balance is considered delinquent; the journal entry used to record is as follow:

* + - 1. Property Taxes Receivable-Delinquent 3,250,000

 Property Taxes Receivable -Current 3,250,000

* + - 1. Allowance for Uncollectible Taxes-Current 250,000

 Allowance for Uncollectible-Delinquent 250,000

 **Change in Estimate**

A change in estimate does not require that you restate prior financial statements. Only adjusting entries to the current year are required. Include an appropriate disclosure concerning the change in estimate in the financial statements if the effects of the change in estimate are material.

* A particular governmental unit may discover at the end of the accounting period that the allowance for uncollectible accounts for the current period was overstated or understated. To record the revised estimate, adjust the **allowance and revenue accounts.**
* An estimated uncollectible rate could be incorrect for several years, resulting in consistently overstating or understating uncollectible amounts.

**Example 5:** The uncollectible account should have been six percent, instead of five percent in ***Example 2***. The entry to record the revision at the end of the year would be:

 Revenue – Current –Property Taxes 200,000

 Allowance for Uncollectible Taxes 200,000

(Br. 20,000,000 x 6% = Br. 1,200,000; Br. 1,200,000 – Br. 1,000,000 = Br. 200,000)

**Delinquent Property Taxes**

Taxes not paid by the **due date** on the bill are delinquent. The amount of taxes remaining in “taxes receivable – current year” should be transferred to “taxes receivable – delinquent.” If you maintain separate “allowance for uncollectible taxes” by year, then this account should also be transferred from a current account, to a delinquent account.

Delinquent taxes are usually subject to penalties and interest charges. The cash collection of interest and penalties is similar to the collection of the property taxes.

**Example 7:** To record the receipt of interest and penalties:

 Cash XXX

 Interest and Penalties Receivable – Delinquent Taxes XXX

1. **Tax Anticipation Notes Payable**

Notes (or warrants) issued in anticipation of the collection of taxes, usually retirable only from tax collections, and frequently only from the proceeds of the tax levy whose collection they anticipate.

Taxes anticipation notes payable is issued by the governmental unit when expenditures are expected to be made before major items of revenues are received. The unit borrows in the anticipation of the collection of taxes in later months and use for the payment of notes. The transaction is recorded as follows:

Cash xxx

 Tax Anticipation Notes Payable xxx

The repayment of the note, with interest, is recorded as follows:

 Tax Anticipation Notes Payable xxx

 Expenditures (Interest) xxx

 Cash xxx

1. **Taxpayer-Assessed Revenues & Income Taxes**

In the past, accounting standards required that **these revenues** be recognized on a cash basis, although many governmental units chose to record these revenues when they were measurable and available. The Governmental Accounting Standards Board (GASB) Statement No. 22 put an end to this discrepancy between theory and practice by stating that these taxes must be accounted for using *modified accrual accounting*. Therefore, these amounts must meet the definitions of measurable and available in order to be recognized as revenue. Taxes should be reported net of anticipated refunds to taxpayers.

The Journal entry to record other taxes:

1. If Business income tax is collected:

 Cash xxx

 Revenue –B.I.Tax xxx

Note: For all other taxes, when collected, record the entry like the above.

**Other Revenues:**

For Special assessments, Licenses & Permits, Charges for services, Fines & Forfeits, Miscellaneous revenues, the journal entry is as follows:

 Cash xxx

 Revenue – Name xxx

**Grant** means a contribution received from another government, which is to be used or expended for a specific purpose or activity.

**Entitlement** is the amount of payment a local government receives from another government as determined by a formula established by law. For example, Basic Education, Special Education, Transportation.

Before revenue can be recognized, you must evaluate the circumstances surrounding the grant or entitlement to determine if the measurable and available criteria have been met.

1. ***State Subsidies***

Recognize current fiscal year state subsidies as current revenue, even though the funds will be received in the subsequent fiscal year.

**Example 8:** Assume that Br. 50,000 of the current year transportation subsidy was not received as of the end of the budget period.

 State Subsidies Receivable – Transportation 50,000

 Revenue – Transportation 50,000

1. **Donations**

Financial donations are usually recorded on the cash basis because they are not considered measurable until they are received.

The proper treatment of donated fixed assets depends on the governmental unit’s plans for those assets. If the unit intends to retain the fixed assets, they are recorded directly in the government wide statement of net assets, with no effect on the governmental funds. If, however, the unit intends to sell the donated fixed assets, that unit should record the transaction in one of three ways:

* + 1. If the assets are sold by the end of the fiscal year, report revenue in the operating statement.
		2. If the assets are sold after the end of the budget year, but before the financial statements are issued, report the fixed assets on the fund’s balance sheet as “assets held for resale” and report revenue on the operating statement.
		3. If the assets were not sold before the issuance of the financial statements, the assets should be reported only in the statement of net assets. When they are sold, the unit would report the sale.

Donations are valued at the Fair Market Value of the item at the time of the donation.

**Example 9:** Assume that a particular governmental unit receives a cash gift of Br. 1,000 from a private benefactor to be used at the discretion of the higher officials for general operations.

 Cash 1,000

 Revenue - Contributions and Donations 1,000

 (To *record receipt of revenue from a donation)*

**Example 10:** Assume that a particular governmental unit receives a gift of land from a donor. An independent appraiser values the land at Br. 50,000 on the current market.

The land received as donation is sold for 50,000. The entry to record the above transaction is:

 a) Land Br. 50,000

 Revenue - donations Br. 50,000

 *(To record donated land as revenue)*

1. Cash 50,000

 Land 50,000

(To record the sale of land)

1. **Proceeds From Issuance of Long-Term Debt**

When long-term debt is issued and the proceeds are available to the **General Fund**, you should record the proceeds as part of “**other financing sources**.” These proceeds are reported in the General Fund on the **Statement of Revenues and Expenditures**, under the “Other Financing Sources” section of the statement. These proceeds should **not** be reported under the General Fund’s operating revenues. Although **bond proceeds** are reported in the General Fund, the long-term debt is reported in the non- current liabilities section on the statement of net assets, **no**t in the General Fund.

If short-term debt is issued by the General Fund, i.e. debt to be paid off in one year or less, the debt liability is recorded in the General Fund because, the payment of the debt will require **current resources**.

**Example 12:** Assume that $10,000,000 of long-term notes is sold and the proceeds are available to the General Fund: the following entry should be recorded in the general fund;

 **GENERAL FUND:**

 Cash 10,000,000

 Proceeds from Issuance of Long-Term Debt 10,000,000

**B. Appropriations and Expenditures:**

Appropriation is the authorization to make expenditure. An appropriation when enacted by law will have authorization to incur on behalf of the governmental unit expenditures and liabilities for goods or services.

**Expense Vs Expenditure:**

**Expense:** An expense is cost expiration or cost consumption

Ex: supplies purchased are Birr 10,000 and used supplies are 6,000. Expense of supplies are Birr 6,000 because this amount of cost consumption.

**Expenditure:**

Expenditures are decreases in fund financial resources. This means when fund financial resources are used or fund liabilities are incurred during a fiscal period, it is called expenditure. Some examples of General Fund expenditures are **current operations like payment of salaries, Capital outlays like purchase of capital assets and payment of interest on long-term debt**. Depreciation and amortization are **not** expenditures within the General Fund.

 **Expenditures** are generally accrued when incurred if the **transaction results in a reduction of the General Fund’s current financial** resources. However, expenditures for long-term debt principal and related interest are recognized when they are **due**. Expenditures are generally classified by **function and object**.

By Function or Program:

General government

Public safety

Health & Welfare

Culture & Recreation

By Object:

Personal services

Other services

Supplies

Capital Outlays

**The Journal Entries to record Expenditure:**

1. When expenditure is paid

 Expenditure Account XXX

 Cash XXX

 **OR**

1. Expenditure xxx

 Voucher Payable xxx

1. Voucher Payable xxx

 Cash xxx

1. When expenditure is due:

 Expenditure xxx

 Accrued Expenditure xxx

Examples of expenditure items that can be accrued:

1. **Salaries and Benefits**

**Example 1:** Assume that there are total salaries and benefits of Br.425,000 paid for the month of June, 2006

Expenditures – Salaries and Benefits 425,000

 Cash 425,000

**Example 2:** Assume that there are total salaries and benefits of Br.425,000 approved but not paid for month of June, 2006

Expenditures – Salaries and Benefits 425,000

 Voucher Payable 425,000

**Example 3:** Interest on short term debt 3,000 incurred but not paid:

 Expenditures –Interest 3,000

 Interest Payable 3,000

1. **Accounting Treatment for Deferred Expenditure: (Insurance Premium, Rent etc)**

**Insurance Premium**

**Example 4:** Annual insurance premium of Br.12, 000 paid on SENE 1, 2001.

* 1. Expenditures 12,000

 Cash 12,000

 (To record payment of premium)

* 1. Prepaid Insurance 11,000\*

 Expenditure 11,000 (12,000\*11/12)

 *(To record the amount paid in advance as of SENE 30, 2001)*

1. **Capital Outlays**

The General Fund may purchase capital assets, such as land, buildings, and equipment. The general entries for these transactions are:

***GENERAL FUND:*** Expenditures – Capital Outlay XXX

 Cash XXX

The asset obtained is accounted for in the government wide statement of net assets.

Example 6: Equipment worth 250,000 is purchased from General Fund:

 Expenditures –Equipment 250,000

 Cash 250,000

1. **Debt Service Payments**

**Debt service payments made from the debt service fund** should be recorded in the debt service fund. Debt service transactions are described in detail in the chapter debt service fund of this module.

A state and local governmental unit can appropriate and make certain debt payments from their general fund. Debt service payments made from the general fund are recorded in the general fund, not the debt service fund.

Principal and interest payments are recorded when principal and interest payments become due and payable.

**Example 7:** Assume that Br.1, 000,000 of 6% bonds are issued on April 1, 2XX1 and pay interest semiannually beginning on October 1, 2XX1. A condition of this specific bond is to be maintained within the general fund. The entry on October1, 2XX1 in the general fund would be:

 Expenditures – Interest 30,000\*

 Cash 30,000

 (To record semi-annual interest payment \*1,000,000\*6%/2)

**Example 6:** Assume there is no requirement to maintain the bond within the general fund. Funds for the interest payment are transferred from the general fund to the debt service fund:

GENERAL FUND

 Transfer to Debt Service Fund 30,000

 Cash 30,000

DEBT SERVICE FUND

* 1. Cash 30,000

 Transfer from General Fund 30,000

* 1. Expenditures – Interest 30,000

 Interest Payable 30,000

**C. Other Transactions Affecting the General Fund**

1. **Encumbrances**

Encumbrance accounts **allow** for the recording of **legal commitments issued** against the appropriation of a fund. Legal commitments include items such as **purchase orders for goods and/or supplies and contracts with suppliers.** Recording encumbrances is essential to keeping expenditures within the approved budget. **An encumbrance reserves a part of the appropriation at the time of commitment to ensure that resources will be available to cover the expenditure when the goods are delivered or the services rendered to the governmental unit**. It is essential for good management and budgetary control to record expenditure commitments that will be paid later from fund resources. The accounting entry to record a commitment is debit Encumbrances and credit Reserve for Encumbrances.

The encumbrance account **does not** represent expenditure for the period, only a commitment to expend resources. Likewise, the account *reserve for encumbrances* is not synonymous with a liability account since the liability is recognized only when goods are received or the services are actually performed.

**Example 1:** Assume that a purchase order is written for Br.20, 000 on TIKIMIT 20, 2002.

- Later, on HIDAR 10, 2002, the actual invoice is received with the delivery in the amount of Br.18, 250. The entry to record this transaction is:

**TIKIMIT 20, 2002:**  Encumbrance 20,000

 Reserve for Encumbrances 20,000

 *(To record issuance of the purchase order)*

**HIDAR 10, 2002:** Reserve for Encumbrances Br.20, 000

 Expenditure Br.18, 250

 Encumbrances Br.20, 000

 Vouchers Payable Br.18, 250

*(To record acquisition of the goods order and to offset the encumbrance accounts using combined entries)*

If this should happen, the available balance at the end of the initial accounting period would be overstated.

Expenditures and the liability account must both be recorded in the actual amount due to the supplier. The fact that estimated and actual amounts differ causes no accounting difficulties as long as goods or services are received in the same fiscal period.

**Year-End Treatment of Encumbrances**

At the end of the fiscal year, all remaining encumbrances are considered reservation of fund balance not liabilities. They will become a liability when the goods and / or services are received in the following fiscal year. The budgetary estimate should include an estimated Reservation of Fund Balance as part of the funds available in the following fiscal year.

1. **Fund Balance**

The difference between governmental fund assets and liabilities is referred to as the fund balance. Therefore, the fund balance, for a particular governmental unit, is the difference between total assets and total liabilities as shown on the Balance Sheet or the Statement of Revenues, Expenditures, and Changes in Fund Balance in the Annual Financial Report.

1. **Inter fund Activity**

Transactions may occur between funds. These inter fund transactions are classified as revenue, expenditure or expense within the **individual funds**, but **not to the governmental units overall**. Inter fund transactions are divided into three categories. These categories are

 (a) Quasi-external transactions,

 (b) Reimbursements

 (c) Loans.

* + 1. **Quasi-External Transactions**

Those transactions that would have been recorded as **revenues, expenditures or expenses** had they involved external organizations. The quasi-external transaction suggests the **existence of a buyer-seller relationship**. For example, **charges for utilities** or **data processing provided by one fund to another fund.**

These transactions should be accounted for as revenues and expenditures (or expenses) in the funds involved. Since each fund is an accounting entity, the amounts due to one fund from other funds, as well as the amounts owed to other funds, should be reflected in the fund accounts as **‘*due to*** ‘and **‘*due from’*** other funds transactions.

***Due to Other Fund*** is a liability account that reflects amounts owed to another fund for goods sold or services rendered. These amounts include **only short-term** obligations on open accounts, not inter fund loans.

***Due from Other Funds*** is an asset account used to indicate amounts owed to a particular fund by another fund for goods sold or services rendered. This account also include only short-term obligations on open accounts, not inter fund loans.

**Example 2:** Internal Service Fund Billings: Assume that in a particular governmental unit the printing center gives a printing service costing Br.5, 000 to the general-type activities; the journal entry is:

**General Fund:** Expenditure – Printing Service 5,000

 Due to Internal Service Fund 5,000

**Internal Service Fund:**

 Due from General Fund 5,000

 Revenues - Printing Service 5,000

**Example 3:**  The Enterprise Fund bills the General Fund Br. 6,000 for services rendered, the quasi-external transactions would be recorded as follows:

**General Fund:** Expenditures 6,000

 Due to Enterprise Fund 6,000

**Enterprise Fund:** Due from General Fund 6,000

 Revenues 6,000

* + 1. **Reimbursements**

A reimbursement is a repayment of expenditure or expense initially made in one fund, but properly accounted for in another fund. One fund (the reimbursed fund) pays the expenditures or expenses of another fund (the reimbursing fund) with the understanding that the reimbursing fund will pay the reimbursed fund at a later date. Do not confuse these transactions with loans, advances or inter fund transfers. The proper accounting for reimbursements is to record an expenditure or expense in the reimbursing fund, and a reduction of expenditure or expense in the reimbursed fund.

1. **When the General Fund is the Reimbursed Fund**

Record the initial payment of the expenditure or expense as expenditure in **the General Fund**. No entry is made in the reimbursing fund. When the reimbursing fund reimburses the General Fund, the General Fund reduces its expenditures by the amount received. The reimbursing fund then recognizes the expenditure or expense.

**Example 4:** The general fund pays a utility bill of Br.20, 000 for the cafeteria fund. The initial payment is recorded in the general fund as:

1. Expenditures – Utilities 20,000

 Cash 20,000

When the cafeteria fund reimburses the general fund, the general fund reverses its original entry:

1. Cash 20,000

 Expenditures – Utilities 20,000

1. **When the General Fund is the Reimbursing Fund**

When the general fund is the reimbursing fund, this initial payment made by the other fund (reimbursed fund) is **not recorded in the general fund.** When the general fund reimburses the other fund, the expenditure is recorded in the general fund.

**Example 5:** The cafeteria fund made a Br.20, 000 utility bill payments on behalf of the general fund. When the General Fund reimburses the cafeteria fund, the following entry would be made in the General Fund:

 Expenditures – Utilities 20,000

 Cash 20,000

1. **Inter fund Loans**

Inter fund loans are made from one fund to another. The fund that made t

he loan expects to be repaid. Loans may be short-term or long- term. Inter fund loan amounts are reported as gross. You should not net inter fund loan amounts. Loans between funds are treated as balance sheet transactions. The borrowing fund reports a liability and an increase in cash. The lending fund reports a receivable and a decrease in cash.

1. ***Short Term Loans and the Short Term Portion of Long Term Loans***

Short-term loans and the short-term portions of long-term loans are expected to be repaid within twelve months. “Due To” and “Due From” accounts are used for short-term loans. The total of governmental unit’s “Due To Other Funds” account should equal the total of the “Due From Other Funds” account. The journal entries to record a short-term inter fund loan of Br.1, 000 would be:

**General Fund:** Due From Fund B 1,000

 Cash 1,000

**Fund B:** Cash 1,000

 Due to General Fund 1,000

 (To record an inter fund loan to Fund B)

**Closing Entries for General Fund:**

**To close Budgetary ledger accounts**

Appropriations xxx

Estimated other financial uses xxx

Budgetary Fund Balance xxx

 Estimated Revenues xxx

 Estimated other financial sources xxx

**To close Encumbrances:**

 Fund Balance xxx

 Encumbrances xxx

**To close Revenues, Other Financial Sources, Expenditure, and Other Financial Uses:**

Revenues xxx

Other Financial Sources xxx

 Expenditures xxx

 Other Financial Usesxxx

 Fund Balance xxx

* 1. **Special Revenue Funds**

The purpose of a special revenue fund is to account for the proceeds of revenue sources that are **legally** restricted for specific purposes. Special Revenue Funds differ from enterprise funds in that the services delivered by a Special Revenue Fund are not financed by user charges. NCGA Statement 1 states that special revenue funds should be used only when legally mandated. Additionally, if resources are used to support expenditures made from the General Fund, these resources should be accounted for in the General fund. This task will discuss: the nature and purpose of Special Revenue Funds; and how Special Revenue Funds are established.

**3.2.1. Nature and Purpose**

Special Revenue Funds are used to account for financial resources, which are restricted to expenditures for specified purposes.

**3.2.2. Basis of Accounting and Measurement Focus**

As a governmental fund type, the focus of Special Revenue Fund accounting is on sources and uses of “available expendable resources” rather than upon net income determination. Special Revenue Funds are accounted for on a modified accrual basis of accounting as defined in this unit.

The Special Revenue Fund contains only current assets and current liabilities. Current meaning the asset is expected to be received or the liability paid within one year from the Balance Sheet date. Liabilities should be recognized as fund liabilities when the claims are scheduled or applicable for liquidation with existing resources.

**Note:** Accounting for Special Revenue Funds is similar to that of the General fund.

**Practice Question:**

**Record Journal entries for the following transactions in General Fund for the financial year 2005-2006.**

1. Property taxes levied for the year is Birr 1,500,000; and estimated allowance for uncollectible is 10%.
2. Collection of property taxes during the year by due date is Birr 1,200,000 and uncollectible is deemed Birr 120,000.
3. Business income tax collected for the year is Birr.800,000.
4. Value added tax collected during the year is Birr750,000.
5. Fines and forfeits collected during the year is Birr 150,000.
6. Received towards licenses and permits during the year is Birr 210,000
7. Subsidy receivable from state government is Birr. 175,000.
8. The remaining balance of property taxes receivable for 2005-06 is considered delinquent.
9. During the current year, previous year i.e. 2004-05 delinquent property taxes of Birr 40,000 plus interest & penalties of Birr 10,000 were collected.
10. Donations of Birr 30,000 received from a private company in cash.
11. Donations of equipment is received from a foreign country whose fair market value is birr 180,000 which is intended for sale and was sold during the year for Birr 180,000.
12. Issued long term bonds during the year worth Birr 500,000.
13. Paid for salaries and benefits Birr 900,000.
14. Salaries and benefits approved but not paid Birr 100,000.
15. Salaries and benefits incurred but not paid Birr 200,000.
16. Insurance policy purchased for one year on 1 January, 2006 Birr 80,000.
17. Paid for interest on Debt birr 25,000.
18. Transferred Birr 125,000 to Debt service fund.
19. Purchased order issued for goods and material birr 75,000.
20. Invoice and delivery of goods and material received for Birr 68,000.
21. Enterprise fund billed for utilities consumed Birr 15,000
22. Reimbursed to Fund X for Rent expense Birr 12,000.