

ACCOUNTING BASIS INTRODUCTION

Each basis of accounting has a different purpose and benefits. All three are required for compliance with various state laws and governmental accounting standards. Each basis builds on the prior, much like a two lane road can be expanded to become a divided four lane highway and then can be rebuilt to become an interstate – a road was there all along, but it now has a greater level of service for some (cross country drivers), but becomes cumbersome for others (a farmer who needs to get equipment to a different field).

Budget basis = Budget-to-actual statements

Budget basis is the two lane road. It has the basics - cash receipts and cash disbursements - and everyone is familiar with it. Appropriations are requested and spending is charged against the approved budget amounts.

Under this basis, revenues are recognized when cash is received. Expenditures are recognized when cash disbursements are made.

Modified accrual basis = Fund financial statements

Modified accrual basis is the divided four lane highway. It starts with the budget basis, then adds in certain items that have yet to be paid or received (hence the accrual), but not all (hence the modified). State funds (Road, Highway, STAR, etc.) are reported separately. Payables and receivables at year-end are included to provide a more complete picture about the actual financial status of each fund than when compared to the budget basis.

Under this basis, revenues are recorded as accruals if they are collected within 60 days of the end of the current fiscal year, as established by the State of Missouri. Expenditures are recorded as accruals, such as principal and interest, claims and judgments, and accumulated leave balances, only to the extent they have matured (i.e. there is no liability for future years' bonds, etc.).

Full accrual basis = Government-wide financial statements

Full accrual basis is the interstate. It adds more items (hence the full), like all the infrastructure asset values and all the bond debt. Yet it takes away some of the access from the modified basis, such as individual fund information. Government-wide financial statements are presented to report the overall financial activities of the department. This is the basis that makes government financial statements look more like businesses and should be of most interest to bondholders.

Under this basis, revenues are recorded as accruals at the time receivables are earned, and expenses are recorded as accruals at the time liabilities are incurred, regardless of when the related cash changes hands. The entire amount of debt related to bond principal, claims and judgments, other post-employment (retiree health) benefits, capital leases, and accumulated leave balances are recorded as liabilities, and the entire amount of capital assets (infrastructure, land, equipment, etc., net of depreciation) is included, even though some are estimates. These statements also include the department's medical and life insurance plan and self insurance plan.