2001. Basis of Accounting

A. In 1999, the Governmental Accounting Standards Board implemented the Codification of Governmental Accounting and Financial Reporting. The Codification of Governmental Accounting explained an important principle, called the “basis of accounting.” The basis of accounting “refers to the point in time when a DFCS office recognizes revenues, expenditures or expenses, and the related assets and liabilities in the accounts and reports them in the financial statement.”

B. The basis of accounting governs the time at which the accounting system recognizes transactions. For example the basis of accounting determines when DFCS should recognize a transaction as revenue/expenditure.

C. There are three common basis of accounting:
- Cash Basis
- Accrual Basis
- Modified Accrual Basis

D. CASH BASIS OF ACCOUNTING

1. Some governments still use the cash basis of accounting in their day-to-day operations. This basis is usually not the desirable practice.

2. The Cash Basis recognizes transactions only when cash changes hands. That is only when DFCS receives or disburses cash. Cash basis does not include assets and liabilities arising from non-cash transactions. Meaning they ignore the effects of accounts receivable, account payable and other accruable items. Since these items are usually a significant amount, the cash basis does not present financial position or results of operations in conformity with generally accepted accounting principles.

3. The only instance in which the cash basis financial statement representations are in conformity with GAAP is in the unlikely situation where all accounts receivable, accounts payable, and other accrued items are nonexistent or insignificant. In summary, under the cash basis, revenues and expenditures are recognized when the cash changes hands.

E. ACCRUAL BASIS OF ACCOUNTING

1. The accrual basis of accounting recognizes transactions when they occur, regardless of the timing of related cash flows.

2. The use of the accrual accounting technique prevents distortions in financial statement representations due to shifts in the timing of cash flows and related underlying economic events near the end of a fiscal period.

3. Revenue Recognition - In the accrual basis, revenue recognition occurs in the accounting period in which the revenue becomes objectively measurable and earned. Objectively measurable means the amount can be determined accurately. For the state to earn revenue, it must have provided goods or services. For example, the state rents the World Congress Center to a private group at $35 per participant:

   - The revenue is earned when the group uses the center.
   - The revenue is measurable when the state knows how many participants attended.
   - After the above criteria are met, the state would record the transaction as revenue regardless of when the group pays the bill.

4. Expense Recognition - When using the accrual basis of accounting, DFCS recognizes expense in the period incurred, if measurable. To incur an expense, DFCS must receive and consume the item it purchased or the vendor must have performed the service for the state.

F. MODIFIED ACCRUAL BASIS OF ACCOUNTING

1. Governmental fund types and permanent trust funds use the modified accrual basis of accounting, which recognizes revenues in the accounting period in which they are measurable and available.

2. DFCS considers revenues objectively measurable when they can accurately determine the amount.

3. Generally, DFCS does not consider revenues as measurable until they receive the cash. The requirement that revenues must be available before DFCS can recognize them distinguishes the

modified accrual basis revenue recognition from that of the accrual basis. Available means that the DFCS office will collect the revenue soon enough after the end of year to pay liabilities of the current period.

4. Expenditure Recognition - Expenditures are recognized under the modified accrual basis:

- When they are measurable,
- Generally when they occur, and
- When they will liquidate this liability with current resources.

G. DFCS Accounting is carried out following generally accepted accounting principles (GAAP) and in conformity with the Official Code of Georgia Annotated (OCGA). Maintaining accounting records is a very important function in the daily operations and administration of a local Department of Family and Children (DFCS) office. Without adequate uniform records, administrators would be forced to base decisions from historical data based only on memory. Records, summarizing financial transactions of functional activities, provide administrators a historical basis, in which informed decisions can be formulated which will impact the present and future activities. Personnel who systematically record information about the various financial activities provide a basic and indispensable service.

H. Purpose of Accounting

1. The accounting discipline includes planning (budgeting), recording (bookkeeping) and disseminating (reporting).

2. The primary purpose of accounting is:
   - to safeguard assets of the department,
   - report on the stewardship responsibility for individual resources
   - provide financial information for decision-makers

3. Systematic and well maintained records also are invaluable to the persons responsible for maintaining them. Systematic records summarize and forge into an orderly arrangement the many and relatively unpredictable details of day to day operations. When recording information systematically, it is possible to trace information on an individual transaction back to the supporting documentation and to prepare reliable accurate and timely financial reports comparing multiple divisions of an Agency. Maintaining systematic recordkeeping usually results in improved audit results.

I. Financial accountability requires that accounting records be uniformly maintained. Generally Accepted Accounting Principles (GAAP) classifies the art of recording, classifying, summarizing, reporting, and interpreting the results of financial activities as the accounting process. GAAP for local and state governments are established by the Governmental Accounting Standards Board (GASB). GAAP are the accounting rules that the state and local governments should follow. GAAP provides a set of uniform minimum standards and guidelines for financial accounting and reporting that most accountants follow. Adherence to GAAP implies that financial reports of different DFCS units contain the same types of financial statements, for the same categories and types of accounting Funds.