

ACCOUNTING BASIS INTRODUCTION

Each basis of accounting has a different purpose and different advantages. 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 is more complicated for others (a farmer who needs to get equipment from field to field).

Budget basis = Budget-to-actual statements

Budget basis statements are the two lane road. This method has the basics - cash receipts and cash disbursements - and everyone is familiar with it. Appropriations are requested through the legislative process and spending is charged against the approved amounts.

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

Modified accrual basis = Fund financial statements

Modified accrual statements are the divided four lane highway. This method starts with the budget basis, then adds in certain items that have yet to be paid or received (hence the term 'accrual'), but not all (hence the term 'modified'). The state funds (Road, Highway, Aviation Trust, Railroad Expense Fund, etc.) are reported separately. Amounts that are 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 receivables 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 payables, such as principal and interest, claims and judgments, and accumulated leave balances, only to the extent they have matured and are due (i.e. there is no liability for future years' bond payments, etc.).

Full accrual basis = Government-wide financial statements

Full accrual statements are the interstate. This method adds more items (hence the term 'full'), such as the infrastructure asset values and all the bond debt. Yet it takes away some of the "access" that the modified basis delivered, such as individual fund information. Government-wide financial statements are produced to report the overall financial activities of the department. This is the basis that makes government financial statements look more like businesses and is 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 actually changes hands. The entire amount of debt related to bond principal, claims and judgments, pension and 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.