GOVERNMENTAL ACCOUNTING

All those involved in the oversight or management of government operations, and those whose livelihood and interest rely on the finances of local governments, need to have a clear understanding of governmental accounting, auditing, and financial reporting which are based on a sound set of principles and interrelated practices and procedures.

Accounting, financial reporting, and the financial statement audit provide the informational infrastructure of public finance.

**Accountability:** Term used by GASB to describe a government’s duty to justify the raising and spending of public resources. The GASB has identified accountability as the “paramount objective” of financial reporting “from which all other objectives must flow”.

Accounting and financial reporting (primarily the responsibility of management) are complementary rather than identical.

**Accounting:** The process of assembling, analyzing, classifying, and recording data relevant to a government’s finances.

**Financial reporting:** “Accounting” and “financial reporting” are similar but distinctly different terms that are often used together. The process of taking the information thus assembled, analyzed, classified, and recorded and providing it in usable form to those who need it. Financial reporting can take one of three forms: internal financial reporting (management reports), special purpose financial reporting (outside parties), and general purpose external financial reporting (GPEFR). The nationally recognized standards that govern GPEFR are known as generally accepted accounting principles (GAAP).
Display: The display method of communication provides that items are reported as dollar amounts on the face of the financial statements if they both 1) meet the definition of one of the seven financial statement elements and 2) can be reliably measured.

### Government Accounting 101

The most important concept in governmental accounting is the “fundamental equation.” It states that a government’s assets must equal its liabilities plus its net assets.

**Assets**

- Liabilities

**Net Assets**

An asset is anything the government owns that has value, such as cash, equipment or buildings. A liability is money the government owes someone else, such as unpaid invoices or pension liabilities. Net assets — or fund balance, in some circumstances — is the difference between assets and liabilities. Growth in net assets over time is a good indicator of financial health. Governments report this information in several different balance sheets.
Governmental Accounting Equation

Assets
+ Deferred Outflows of Resources
- Liabilities
- Deferred Inflows of Resources
= Net Position

7 ELEMENTS OF FINANCIAL STATEMENTS

Assets: resources with present service capacity that the government presently controls.
Deferred Outflow of Resources: consumption of net position by the government that is applicable to a future reporting period.
Liabilities: present obligations to sacrifice resources that the government has little or no discretion to avoid
Deferred Inflow of Resources: acquisition of net position by the government that is applicable to a future reporting period.
Net Position: the residual of all other elements presented in a statement of financial position.
The difference between assets + deferred outflows of resources, on one hand, and liabilities + deferred inflows or resources, on the other, constitutes the last of the financial statement elements presented in a statement of financial position, net position.
*Inflows of Resources: an acquisition of net position by the government that is applicable to the reporting period. Acquisition will result in either a net increase in assets or a net decrease in liabilities.
*Outflow of Resources: consumption of net position by the government that is applicable to a reporting period. Consumption will result in a net decrease in assets or a net increase in liabilities.

Characteristics of Information in Financial Reporting

Understandability
Reliability
Relevance
Timeliness
Consistency
Comparability
Governments use fund accounting to segregate certain resources for specific activities or objectives in accordance with special regulations, restrictions, or limitations to facilitate the assessment of stewardship and compliance.

**FUND ACCOUNTING**

Statute indicates resources which a municipality is permitted to receive and expressly and/or implicitly states the purposes for which those resources may be used. The accounting system used by a municipality should provide for legal compliance; that is, resources are received and spent according to law. For this reason, municipalities have evolved a means of indicating legal compliance by use of “fund accounting.”

The Governmental Accounting Standards Board has defined the term “Fund” as follows:

A **Fund** is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The diverse nature of a municipality’s operations and the necessity of determining legal compliance preclude a single set of accounts for recording and summarizing all the financial transactions. Instead, the required accounts are organized on the basis of funds, each of which is completely independent of any other. Each fund must be so accounted for that the identity of its resources, obligations, revenues, expenditures, and fund equities is continually maintained. These purposes are accomplished by providing a complete self-balancing set of accounts for each fund which shows its assets, liabilities, fund balances or net position, revenues, and expenditures/expenses.

An account is defined as a formal record of a particular type of transaction. A group of accounts comprises a ledger. Similarly, a group of accounts consisting of all accounts required to describe the financial condition and results of an entity operation comprise a general ledger.

In the private-sector, even complex businesses generally are presented in external financial reports as a single, unitary entity. For example, data from a parent company are merged with data from that company’s subsidiaries to create a single, consolidated entity for financial reporting purposes. State and Local governments, on the other hand, have prepared combined (rather than consolidated) financial statements that focus on groups of related funds (fund types and account groups), rather than on the government as a whole. Fund accounting for state and local governments has its historical roots in the desire of state and local governments to ensure and demonstrate legal compliance with internal (budgetary) and external limitations (grantors and creditors) placed upon the use of resources.
At the inception of fund accounting, individual funds most often corresponded to separate bank accounts. Today’s funds may exist only as data sets within the government’s information system (computerized accounting systems).

**CLASSIFICATION OF FUNDS AND SELF BALANCING ACCOUNTS**

Funds are classified according to the source of revenue and the type of activities which they finance. Funds of a similar nature are classified according to fund groups. The following classification contains the appropriate fund groups, types, and self-balancing accounts.

**Governmental Fund Types**

100 - **General Fund** - to account for all financial resources except those required to be accounted for in another fund.

200 - **Special Revenue Funds** - to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. When grants require a separate fund, a special revenue fund should be established for each grant.

300 - **Debt Service Funds** - to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

400 - **Permanent Funds** - To account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is for the benefit of the government or its citizenry.

500 - **Capital Projects Funds** - to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations or other governments.) Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.

**Proprietary Fund Types**

600 - **Enterprise Funds** - to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the
general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

650 - Internal Service Funds - to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types

Fiduciary Fund Types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include:

740 - Private Purpose Trust Funds - To account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. (This type of fund is used to report escheat property.)

750 - Agency Funds - To account for resources held by the reporting government in a purely custodial capacity (assets equal liabilities. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

770 - Pension (and other employee benefit) Trust Fund – To account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans.

780 - Investment Trust Funds – To account for the external portion of investment pools reported by the sponsoring government, as required by GASB Statement 31, paragraph 18.

SELF BALANCING ACCOUNTS

900 - General Capital Assets – capital assets of the government that are not specifically related to activities reported in proprietary or fiduciary funds. General capital assets are associated with and generally arise from governmental activities. Most often, they result from expenditures of governmental fund financial resources. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide financial statements.

1000 - General long-term liabilities – the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. General long-term debt is not limited to liabilities arising from debt issuances, but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds. General long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government wide statement of net position.
The chart of accounts provides a systematic means by which the municipality may code its financial transactions. Coding is the use of numerical designations, in lieu of words or names, for the identification of specific funds or accounts. Coding simplified the identification of transactions and may be used in either a manual or automated system. The chart of accounts is divided into four elements, which include: (a) the fund structure, (b) the general ledger account summary, (c) the revenue classifications, and (d) the expenditure classifications.

The fund structure is the classification which provides the basis for the fund accounting system. Coding transactions by fund allows the municipality to account for specific resources (tax levies) and their expenditure, which are required by law to be accounted for in a specific fund.

The general ledger account summary coding controls the asset, liability and equity accounts. These accounts provide the municipality with a picture of the financial position of a particular fund at a specific point in time. These accounts are the primary source of financial data to be used in the compilation of the financial statements.

The revenue classifications provide a means of coding the revenue received by the municipality from various sources. Revenues are defined as additions to assets which do not increase a liability, do not represent a recovery of a current expenditure, and do not represent resources received from within the municipality (e.g., from another fund). The resources received from another fund should be classified and coded as “other financing sources.” The coding of revenue sources facilitates the primary functions of revenue accounting which are as follows:

1. To provide a means of verifying receipt of all revenues which should have been received.
2. To furnish information for preparing financial statements.
3. To implement budgeting and planning for the future, by giving necessary information about sources of revenues which have been utilized, and the amount obtained from each source.

Coding by expenditure classification provides a means of controlling and identifying what the resources received were used for and which department or activity utilized them. The expenditure classifications listed in this section have been developed as a guide for collecting and recording the expenditure information in order to satisfy statutory requirements, provide prudent stewardship of funds, and meet management needs in regard to making decisions, preparing the budget and preparing financial statements.

Coding in general for revenue sources should be by fund and type of revenue. For example, the municipality receives the first cent of sales tax. The coding would be General Fund – General Sales and Use Taxes or 101-313. Expenditure coding is by fund, activity and object. The municipality purchases insurance for the street department. The coding would be General Fund – Highway and Streets – Insurance or 101-431-421. The coding are recorded on the source documents, journalized in the books of original entry, are summarized and are posted to each fund’s revenue budget record and expenditure budget record, respectively.
### TABLE 1

CLASSIFICATION OF FUNDS AND SELF BALANCING ACCOUNTS

**Governmental Fund Types**

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>General</td>
</tr>
<tr>
<td>101</td>
<td>General Fund</td>
</tr>
<tr>
<td>200</td>
<td>Special Revenue Funds (201 through 299)</td>
</tr>
<tr>
<td>201</td>
<td>Special Park Fund (SDCL 9-38-6)</td>
</tr>
<tr>
<td>202</td>
<td>Auditorium Building Fund (SDCL 6-4-1)</td>
</tr>
<tr>
<td>204</td>
<td>Parking Lot and Area Fund (SDCL 9-51-2)</td>
</tr>
<tr>
<td>205</td>
<td>Casualty Reserve Fund (SDCL 9-21-16.1)</td>
</tr>
<tr>
<td>206</td>
<td>Library Building Fund (SDCL 14-2-46)</td>
</tr>
<tr>
<td>208</td>
<td>Home Health Revolving Fund (SDCL 34-3A-1 and 2)</td>
</tr>
<tr>
<td>211</td>
<td>Liquor, Lodging and Dining Gross Receipts Tax Fund (SDCL 10-52A-2)</td>
</tr>
<tr>
<td>212</td>
<td>Additional Sales Tax Fund (SDCL 10-52-2)</td>
</tr>
<tr>
<td>213</td>
<td>Business Improvement District Fund (SDCL 9-55)</td>
</tr>
<tr>
<td>214</td>
<td>911 Emergency Fund (SDCL 34-45-4)</td>
</tr>
<tr>
<td>215</td>
<td>Historical Restoration and Preservation Fund (SDCL 42-7B-46)</td>
</tr>
<tr>
<td>216</td>
<td>Special Assessment Revolving Fund (SDCL 9-43-120/121)</td>
</tr>
<tr>
<td>217</td>
<td>Grant Revolving Loan Fund</td>
</tr>
<tr>
<td>218</td>
<td>Municipal Street Fund (SDCL 10-52-5.1)</td>
</tr>
<tr>
<td>220</td>
<td>Street Assessment Fund (SDCL 9-43-138)</td>
</tr>
<tr>
<td>221</td>
<td>Special Park Gift Fund (SDCL 9-38-112)</td>
</tr>
<tr>
<td>222</td>
<td>Special Recreation Gift Fund (SDCL 9-38-113)</td>
</tr>
<tr>
<td>223</td>
<td>First Cent Sales Tax Fund (to be used when city restricts use of the first cent of sales tax by way of an ordinance)</td>
</tr>
<tr>
<td>224</td>
<td>Storm Sewer Maintenance Fund (SDCL 9-48-21)</td>
</tr>
<tr>
<td>225</td>
<td>Drainage Assessment Fund (SDCL 46A-11-5)</td>
</tr>
<tr>
<td>226</td>
<td>Library Fines Fund (SDCL 14-2-42 and AGR 82-33)</td>
</tr>
<tr>
<td>227</td>
<td>Historical Preservation Fund (SDCL 1-19B-5)</td>
</tr>
<tr>
<td>228</td>
<td>Library Special Gifts Fund (SDCL 14-2-41)</td>
</tr>
<tr>
<td>230</td>
<td>Airport Fund (SDCL 50-6-14)</td>
</tr>
<tr>
<td>231</td>
<td>Storm Drainage Fund (SDCL 46A-10B-23)</td>
</tr>
<tr>
<td>272</td>
<td>Federal Grants Fund (Use a separate number for each Federal Fund)</td>
</tr>
<tr>
<td>290</td>
<td>Other Special Revenue Funds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>300</td>
<td>Debt Service Funds (301 through 399)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>400</td>
<td>Permanent Fund (401 through 499)</td>
</tr>
<tr>
<td>401</td>
<td>Cemetery Perpetual Care Fund</td>
</tr>
<tr>
<td>402</td>
<td>Endowment Fund</td>
</tr>
<tr>
<td>403</td>
<td>Library Special Gifts Fund</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>Capital Projects Funds (501 through 599)</td>
</tr>
</tbody>
</table>
Proprietary Fund Types

600 Enterprise Funds (601 through 649)
   601 Liquor Fund (SDCL 35-3-21)
   602 Water Fund (SDCL 9-47-1)
   603 Electric Fund (SDCL 9-39-1 and 9-39-26)
   604 Sewer Fund (SDCL 9-48-2 and 9-48-29)
   605 Hospital Fund (SDCL 34-9-1, 28-18-7)
   606 Airport Fund (SDCL 50-7-2)
   607 Cemetery Fund (SDCL 9-32-13)
   608 Nursing Homes Fund (SDCL 28-18-7)
   611 Telephone Fund (SDCL 9-41-1 and 8)
   612 Solid Waste Fund (SDCL 9-32-11 and 34A-6)
   613 Auditorium Fund (SDCL 9-52-1)
   614 Swimming Pool Fund (SDCL 9-38-60 and 69)
   615 Cable TV Fund (SDCL 9-35-18)
   616 Recycling Fund (SDCL 34A-16-12)
   617 Natural Gas (SDCL 9-39-1 and 9-39-26)

650 Internal Service Funds (651 through 699)
   651 Unemployment Insurance Compensation Fund (SDCL 61-1-16-1)
   652 Employee Health and Accident Insurance Fund (SDCL 9-4-30)
   653 Municipal Equipment Fund (SDCL 9-21-32)

Fiduciary Fund Types

740 Private Purpose Trust Funds (741 through 749)

750 Agency Funds (751 through 769)
   751 Special Assessments (GASB 6)
   753 Section 125 Escrows Fund (for medical and daycare spending accounts)

770 Pension (and Other Employee Benefits) Trust Funds (771 through 799)
   771 Firemen’s Pension Fund (SDCL 9-16-20)

780 Investment Trust Funds (781 through 789)

Self-Balancing Accounts

900 General Capital Assets

1000 General Long-Term Liabilities
GENERAL LEDGER ACCOUNTS

- ASSETS, DEFERRED OUTFLOWS OF RESOURCES, AND OTHER DEBITS:
  - See listing in Municipal Accounting Manual
  - Accounts 1XX

- LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION, FUND BALANCES AND OTHER CREDITS:
  - See listing in Municipal Accounting Manual
  - Accounts 2XX

REVENUE AND OTHER FINANCING SOURCE CODES

Major Source - Minor Source - Type

310 Taxes

311 General Property Taxes (Imposed Nonexchange Revenue)
G 311.01 Current Year

EXPENDITURE AND OTHER FINANCING USE CODES

Function - Subfunction - Activity

410 General Government

414 Financial Administration
414.2 Finance Officer

- EXPENDITURE AND OTHER FINANCING USE CODES, BY CHARACTER AND OBJECT

410 Personal Services

411 Salaries and Wages
ACCOUNTING PROCESS

1. Basic Accounting Terminology:
   - **Event**: A happening or consequence. An event generally is the source or cause of changes in assets, deferred outflows, liabilities, deferred inflows, and equity. Events may be external or internal.
   - **Transaction**: An external event involving a transfer or exchange between two or more entities.
   - **Account**: A systematic arrangement that shows the effect of transactions and other events on a specific asset or equity. A separate account is kept for each asset, deferred outflows, liability, deferred inflows, revenue, expense, and equity.
   - **Real and Nominal Accounts**: Real (permanent) accounts are asset, deferred outflows, liability, deferred inflows, and equity accounts; they appear on the balance sheet. Nominal (temporary) accounts are revenues and expense accounts (other financing sources/uses) they appear on the income statement. Nominal accounts are periodically closed; real accounts are not.
   - **Ledger**: The book (or computer printouts) containing the accounts. Each account usually has a separate page. A **general ledger** is a collection of all the asset, deferred outflows, liability, deferred inflows, revenue, expense, and equity accounts. A **subsidiary ledger** contains the details related to a given general ledger account.
   - **Journal**: The book of original entry where transactions and selected other events are initially recorded. Various amounts are transferred to the ledger from the book of original entry, the journal.
   - **Posting**: The process of transferring the essential facts and figures from the book of original entry to the ledger accounts.
   - **Trial Balance**: A list of all open accounts in the ledger and their balances. A trial balance taken immediately after all adjustments have been posted is called an **adjusted trial balance**. A trial balance taken immediately after closing entries have been posted is designated an **after-closing** or **post-closing trial balance**. A trial balance may be prepared at any time.
   - **Adjusting Entries**: Entries made at the end of an accounting period to bring all accounts up to date on an accrual accounting basis so that correct financial statements can be prepared.
   - **Financial Statements**: Statements that reflect the collection, tabulation, and final summarization.
   - **Closing Entries**: The formal process by which all nominal accounts are reduced to zero and the net income or net loss is determined and transferred to equity account, also known as closing the ledger, closing the books, or merely closing.

2. Double Entry Rules (Debits & Credits):
   
   The terms **debit** and **credit** mean left or right, respectively. They are commonly abbreviated as Dr. for debit and Cr. for credit. These terms do not mean increase or decrease. The terms debit and credit are used repeatedly in the recording process. For example, the act of entering an amount on the left side of an account is called **debiting** the account and making an entry on the right side is **crediting** the account. When the two sides are compared, an account will have a **debit balance** if the total of the debits
amounts exceeds the credits. Conversely, an account will have a **credit balance** if the credit amounts exceed the debits.

The procedure of having debits on the left and credits on the right is an accounting custom or rule. Accountants could function just as well if debits or credits were reversed. However, the custom of having debits on the left side of an account and credits on the right side (like the custom of driving on the right-hand side of the road) has been adopted in the United States. **This rule applies to all accounts.**

The equality of debits and credits provides the basic for the double-entry system of recording transactions (double-entry bookkeeping). Under the universally used double-entry accounting system, the dual (two-sided) effect of each transaction is recorded in appropriate accounts. This system provides a logical method of recording transactions. It also offers a means of proving the accuracy of the recorded amounts. If every transaction is recorded with equal debit and credits, then the sum of all the debits to the accounts must equal the sum of all the credits.

### Basic Guidelines for Double Entry (Debit and Credit) Accounting System

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Deferred Outflows of Resources</td>
<td>+ (increase)</td>
<td>- (decrease)</td>
</tr>
<tr>
<td>= LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Deferred Inflows of Resources</td>
<td>- (decrease)</td>
<td>+ (increase)</td>
</tr>
<tr>
<td>+ EQUITY (fund balance)</td>
<td>- (decrease)</td>
<td>+ (increase)</td>
</tr>
<tr>
<td>+ REVENUES</td>
<td>- (decrease)</td>
<td>+ (increase)</td>
</tr>
<tr>
<td>- EXPENDITURES</td>
<td>+ (increase)</td>
<td>- (decrease)</td>
</tr>
</tbody>
</table>
Every time a transaction occurs, the elements of the equation change, but the basic equality remains. To illustrate here are some example of transactions.

1. Government receives $100 in property taxes.

\[
\text{Assets} + \text{Deferred Outflows} = \text{Liabilities} + \text{Deferred Inflows} + \text{Equity} \\
+100 +100 (\text{revenue})
\]

2. Disburse $500 cash for custodial wages.

\[
\text{Assets} + \text{Deferred Outflows} = \text{Liabilities} + \text{Deferred Inflows} + \text{Equity} \\
-500 -500 (\text{expense})
\]

3. Purchase office equipment priced at $5,000, giving a promissory note in exchange.

\[
\text{Assets} + \text{Deferred Outflows} = \text{Liabilities} + \text{Deferred Inflows} + \text{Equity} \\
+5,000 +5,000
\]

4. Pay off a short term liability of $7,000.

\[
\text{Assets} + \text{Deferred Outflows} = \text{Liabilities} + \text{Deferred Inflows} + \text{Equity} \\
-7,000 -7,000
\]

5. Pay cash of $10,000 for a new pickup.

\[
\text{Assets} + \text{Deferred Outflows} = \text{Liabilities} + \text{Deferred Inflows} + \text{Equity} \\
-10,000 +10,000
\]

3. Steps in the Accounting Cycle:
   a. Identification and measurement of transactions and other events.
   b. Journalization
      i. General Journal Entry
         1. Accounts and amounts to be Dr.
         2. Accounts and amounts to be Cr.
         3. A date
         4. Explanation
      ii. Special Journals
         1. Cash receipts journal
         2. Cash payments journal (check register)
   c. Posting (T-Account Format)
   d. Unadjusted Trial Balance
   e. Adjustments
   f. Adjusted Trial Balance
   g. Statement Presentation
   h. Closing
4. **Record transactions in journals, post to ledger accounts, and prepare a trial balance.**
   The simplest journal form is a chronological listing of transactions and events expressed in terms of debits and credits to particular accounts. The items entered in a general journal must be transferred (posted) to the general ledger. An unadjusted trial balance should be prepared at the end of a given period after the entries have been recorded in the journal and posted to the ledger.

5. **Prepare Adjusting Entries.**
   Adjustments are necessary to achieve a proper matching of revenues and expenses so as to determine net income for the current period and to achieve an accurate statement of end of the period balance in assets, deferred outflows, liabilities, deferred inflows, and equity accounts. Examples would be for prepaid expense, unearned revenue, accrued liabilities (expenses), and accrued assets (revenues).

6. **Inventory accounts adjusted at year-end.**
   When the inventory records are maintained in a periodic inventory system, a Change in Inventory account is used; the Inventory account is unchanged during the period. The Inventory account represents the beginning inventory amount throughout the period. At the end of the accounting period the inventory account must be adjusted by closing out the beginning inventory and recording the ending inventory amount. Under a perpetual inventory system the balance in Inventory account should represent the ending inventory amount, and no adjusting entries are needed.

7. **Prepare Closing Entries.**
   In the closing process all of the revenues and expense account balances (income statement items) are transferred to a clearing account, which is used only at the end of the fiscal year. Revenues and expenses are matched in this account. The net result of this matching, which represents the net income or net loss for the period, is then transferred to equity account.

8. **Identify adjusting entries that may be reversed.**
   Reversing entries are most often used to reverse two types of adjusting entries; accrued revenues and accrued expenses.

9. **Prepare a 10-column work sheet.**
   Accountant’s informal device for accumulating and sorting information needed for the financial statements.

10. **Call DLA if you have any questions.**
    Rod Fortin
    Director of Local Government Assistance
    Department of Legislative Audit
    300 S. Sycamore Ave., Suite 102
    Sioux Falls, SD 57110-1323
    Email: rod.fortin@state.sd.us
    Phone (605) 367-5810