

TOPIC	ACCOUNTING PRINCIPLES	SUB-SECTION 02.10.30
SECTION	GAAP ACCOUNTING PRINCIPLES	ISSUANCE DATE NOVEMBER 24, 2008
SUB-SECTION	BASIS OF ACCOUNTING	REVISED - 2018

BASIS OF ACCOUNTING

The basis of accounting in the State's CAFR, prepared in accordance with **GAAP**, is the modified accrual basis for all governmental fund types, agency, and expendable trusts, and the full accrual basis for proprietary fund types, nonexpendable trusts, and pension trusts.

The basis of accounting, upon which financial transactions are recorded, determines the timing of revenue, expense, and transfer recognition. This, in turn, affects the recording of assets and liabilities and the reporting of financial statements.

The common basis of accounting is cash, modified accrual and full accrual. Each of these is modified by the encumbrance method as explained in this section.

CASH BASIS OF ACCOUNTING

Cash basis accounting which is used by the State for statutory budgeting purposes, provides for recording of revenues when received in cash and the recording of expenditures when paid in cash. Because the cash basis does not facilitate accurate reporting of financial position and is subject to distortion based on timing of transportation, it is considered inappropriate as a basis of financial reporting by the State.

MODIFIED ACCRUAL BASIS OF ACCOUNTING

The modified accrual basis of accounting for state government provides for recognition of revenues in the fiscal year in which they become both measurable and available to finance expenditures of the fiscal year. "Available" means collectible within the current fiscal year or soon enough thereafter, generally within the lapse period, to be used to pay liabilities of the current fiscal year. Revenue is "measurable" if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Application of the "measurable and available" criteria requires judgment, consideration of the materiality based on the practicality of measurement and consistency in application.

The word expenditure is used in the modified accrual basis of accounting while expenses are used when referring to accrual basis. Expenditures are recorded if an agency has received and accepted goods and services.

ACCRUAL BASIS OF ACCOUNTING

Accrual basis accounting recognizes revenue when it is earned and expenditures when the related benefit is received.

The government-wide financial statements and the financial statements of the proprietary funds and fiduciary funds (excluding agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus, but use the accrual basis of accounting.

The revenues and expenses of proprietary funds are classified as operating or non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's primary operations. All other revenues and expenses are reported as non-operating.

**STATE OF MISSISSIPPI
DEPARTMENT OF FINANCE AND ADMINISTRATION**

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ENCUMBRANCE METHOD

To assure that budgets are not overspent, most governmental units use an encumbrance system to keep account of outstanding purchase commitments that have not yet matured into liabilities. Encumbrances are commitments related to unperformed contracts for goods or services. For preparation of GAAP financial statements, these encumbrances must be separated into accounts payable and true encumbrances. Encumbrances represent neither expenditures nor liabilities. Encumbrances outstanding at the end of a period are carried forward as a reservation of fund balance. If the goods or services have been received or performed and have not been paid for, the amount is a liability (accounts payable) until paid by the state.