

# LECTURES IN GOVERNMENT ACCOUNTING

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American government accounting embodies two conflicting strands in Western practices: it retains the traditional European law-based regulations and emphasis on budgetary compliance, and yet it pioneered the move to professional standard setting and the focus on reporting to the public. The 100-year long process of debates and reforms therefore provides much food for thought for Chinese scholars and policy-makers, and is the subject of this lecture series designed for public finance students. While knowledge of business accounting is helpful, it is not required. Indeed, the applicability of business accounting to government will be examined.

Presented in English and/or Chinese, the lectures will take a “reverse engineering” approach. Lecture 1 will use a broad brush to paint American government accounting in a historical and international comparative perspective, and provide an organizing framework for accounting concepts and procedures. In this context, financial statements, the primary outputs of accounting systems, are presented in Lecture 2 as outputs of the “5P model” which specifies the preparer, purpose, products, policy, and process of government accounting. The latest financial statements of the U.S. Government and an American local government will be discussed to illustrate how accountants strive to portray the financial conditions of government. The accounting principles underlying the numbers in those financial statements are described in Lecture 3 and analyzed in Lecture 4. The objective of these two lectures is to convince the audience that accounting is more than number crunching and is equally concerned with appropriately applying concepts from economics and political science. The concluding Lecture 5 puts American government accounting in the center of the global debate of what is good government accounting, and speculates about the power and limitations of government accounting in making government work better.

The lecturer is James L. Chan (陈立齐), Professor Emeritus of Accounting at the University of Illinois at Chicago (UIC). Born and raised in China, Chan went to the University of Illinois as a freshman in 1968 and received PhD degree in 1976. The government financial crises in the 1970s launched his academic and professional career in public sector accounting. His teaching, research, and public service in the United States and internationally for the next 35 years earned him an Enduring Life-time Contribution Award from the American Accounting Association (AAA)

Government and Nonprofit Section, and a Lifetime Achievement Award from the China-America Association for Public Affairs (CAAPA) upon his retirement.

# LECTURES IN GOVERNMENT ACCOUNTING

## Lecture 1 **AMERICAN GOVERNMENT ACCOUNTING**

- Introduction
  - ✓ For whom are the lectures intended?
  - ✓ What will these lectures cover?
  - ✓ Why American government accounting is (still) worth studying?
  - ✓ What learning resources are available?
- American Government Accounting in Perspective
  - ✓ What were the goals of four waves of reforming American government accounting?
  - ✓ What are the major features of American government accounting?
  - ✓ In what ways is American government accounting representative (typical) of Western practices?
  - ✓ Why has business accounting become a benchmark for government accounting?
- A Framework for Organizing Accounting Standards
  - ✓ Why study government accounting standards (in relation to practice)?
  - ✓ What are the ten questions that frame government accounting standards?
  - ✓ What are the alternative answers for answering each question?
- Next lecture: What information is produced by American government accounting systems?
- Further Readings: written by J. Chan unless otherwise indicated.
  - ✓ “American Government Accounting Principles and Major Changes: A Brief Introduction,” *Accounting Research* (September, 1994), pp. 28-30 [in Chinese]
  - ✓ “Business Accounting and Government Accounting: Similarities and Differences,” *Budget Management and Accounting* (February 2010), pp. 28-30 [in Chinese; also available in English]
  - ✓ “The Structure of Government Accounting Standards,” *Budget Management and Accounting* (January 2010), pp. 37-40 [in Chinese; also available in English]
  - ✓ “The History of American Government Accounting Reform,” Chapter 3 in *American Government Accounting Standards* (2009) [in Chinese; also available in English]
- Additional Reference Materials:
  - ✓ Chinese/English glossary of essential government accounting terms
  - ✓ U.S. Government financial statements for Fiscal Year 2009 (selected pages)
  - ✓ American City, a sample of local government financial statements for Fiscal

Year 2009

## Lecture 2 AMERICAN GOVERNMENT FINANCIAL STATEMENTS

- “5P Model” of Government Accounting and Financial Reporting:
  - ✓ What are the 5 P’s? Purpose, preparer, product, policy, process
  - ✓ Purpose: demonstrating government accountability and facilitating user decision-making
  - ✓ Preparer: accounting department of government using
    - Generally accepted accounting principles (GAAP) set by Governmental Accounting Standards Board (GASB), Federal Accounting Standards Advisory Board (FASAB), and Financial Accounting Standards Board (FASB);
    - Requirements in laws and regulations of competent jurisdictions [not covered in these lectures]
  - ✓ Product: statements of financial position, performance, cash flows, and others
  - ✓ Policy: GAAP on
    - Identification of the financial consequences of transactions and events
    - Recognition of some resources as assets and some obligations as liabilities
    - Measurement of assets and liabilities, revenues and expenses
    - Disclosure of information in financial statements and financial reports
  - ✓ Process: system development, data collection and processing, preparation, auditing
- Form and Contents of U.S. Government consolidated financial statements (CFS)
- Form and Contents of local government financial statements
- Next lecture: What are the rules behind the financial statements?
- Further Readings:
  - ✓ “The Structure of Government Accounting Standards,” *Budget Management and Accounting* (January 2010), pp. 37-40 [in Chinese; also available in English]
  - ✓ “The Structure and Contents of American Local Government’s Government-wide Financial Statements”
  - ✓ “The Structure and Contents of U.S. Government’s Consolidated Financial Statements”

## Lecture 3 AMERICAN GOVERNMENT FINANCIAL ACCOUNTING PRINCIPLES

- The Financial Statements
  - ✓ Why are there three primary financial statements?
  - ✓ How are the financial statements related to each other?
  - ✓ What are the accounting steps that led to the numbers in the financial statements?
- What are the financial accounting policy alternatives under
  - ✓ Relationship between budgeting and accounting
  - ✓ Accounting and reporting entity
  - ✓ Accounting system architecture
  - ✓ Realization of financial consequences of transactions and events
  - ✓ Recognition of assets and liabilities (measurement focus of the balance sheet)
  - ✓ Measurement of revenues and expenses (basis of accounting)
- Reconciliation of Cash Deficit and Accrual Deficits
  - ✓ Why was federal accrual deficit higher than cash deficit in FY 2008?
  - ✓ How did the federal government's interventions in the 2008/09 financial crisis affect its own finances?
- Comparing Budgeted and Actual Financial Performance
  - ✓ What is "budgetary basis"? Why use budgetary basis in making budgetary comparisons?
  - ✓ How useful is budgetary comparison in year-end financial reporting?
  - ✓ Should budgets be prepared on an accrual basis?
- Conclusion
  - ✓ What have we learned about the relationship between
    - Fiscal policy and fiscal administration?
    - Budgeting and accounting?
  - ✓ What have we learned about the usefulness and limitations of financial accounting?
- Next lecture: A closer look at financial statements and financial reports
- Further Readings:
  - ✓ "The Structure of Government Accounting Standards," *Budget Management and Accounting* (January 2010), pp. 37-40 [in Chinese; also available in English]
  - ✓ Excerpts from "Basis of Accounting for Budgeting and Financial Reporting" (1998) in *Handbook of Government Budgeting*, edited by R.T. Meyers (Jossey-Bass, 1998), pp. 357-380.
  - ✓ GASB Concepts Statement No. 1 (1987) "Objectives of Financial Reporting", section on "Accountability and Interperiod Equity", pp. 20-22.

**Lecture 4 PREMIER ZHOU'S COMMAND:  
"RENDER NO FALSE ACCOUNTS"**

- Premier Zhou's Command
  - ✓ Why did Premier Zhou care about accounting?
  - ✓ What are "false accounts"? What is "fair presentation"?
  - ✓ Why did Anthony Downs (1957) say "all reporting is biased"?
  - ✓ What are two types of accounting "sins" (errors)?
- American Governments' Financial Communication Media
  - ✓ What financial information do American governments report? When? Why?
  - ✓ What are general purpose and special purpose financial statements/reports?
  - ✓ What information is provided by a Comprehensive Annual Financial Report (CAFR)?
  - ✓ How do financial statements differ from other forms of government financial communication?
- Issue 1: What's in, what's out - Financial Reporting Entity
  - ✓ Why does the GASB's financial reporting model require (1) discrete presentation of component units, and (2) separate columns for governmental activities and business-type activities?
  - ✓ Why does the GASB's financial reporting model require fund financial statements?
  - ✓ What information is "hidden" (not readily accessible) in the U.S. Government's consolidated financial statements?
- Issue 2: Out of Sight, Out of Mind – Off-balance sheet Items
  - ✓ What economic resources are kept off the federal government's balance sheet because of asset recognition criteria?
  - ✓ What obligations are kept off the federal government's balance sheet because of liability recognition criteria?
  - ✓ How are off-balance sheet resources and obligations disclosed?
- Issue 3: Bad Fiscal Policy; Good Accounting?
  - ✓ How good is American government accounting and financial reporting?
  - ✓ Why has the federal government's auditor been giving disclaimers on the consolidated financial statements for the past dozen years?
- Issue 4: Who Cares?
  - ✓ Why don't people read government financial reports?
  - ✓ What is being done to motivate people to read government's financial reports?
- Further Readings:
  - ✓ The GAO's audit report on the U.S. Government's consolidated financial statements for Fiscal Year 2009 (available on-line)
  - ✓ Anthony Down's Propositions about Information Costs and Rewards.
  - ✓ Read U.S. Government's financial statements on-line.
  - ✓ Watch the video about current federal finances at the website of the Peterson

Foundation.

**Optional**

**Lecture 5 YANG'S PRESCRIPTION:  
"BETTER ACCOUNTING FOR A BETTER WORLD!"**

- Yang's Law
  - ✓ What is "Yang's Law?"
  - ✓ Is good accounting a cause or effect of good governance?
  - ✓ What conditions are favorable to effective accounting?
  - ✓ Are conditions in China now favorable to government accounting reform?
- Global Government Accounting Reform
  - ✓ Who is leading the "global revolution" in government accounting?
  - ✓ What is the dominant theme of global government accounting reform?
  - ✓ What is right and what is wrong with IPSAS?
  - ✓ What is right and what is wrong with IPSASB?
- The U.S. and the Global Government Accounting Reform
  - ✓ Will the U.S. itself adopt IPSAS?
  - ✓ What role has the U.S. played in the global government accounting reform?
  - ✓ Why the U.S. has not been a leader in global government accounting reform?
- Chinese Government Accounting Reform
  - ✓ What are the main features of Chinese government budget accounting?
  - ✓ What are the advantages and disadvantages of the current system?
  - ✓ What role could – should – government accounting play in improving government performance in China?
  - ✓ What are – should be – the priorities of reforming government accounting in China?
  - ✓ What are the useful lessons from the American experience in reforming government accounting?
- Government Accounting Research
  - ✓ What is CIGAR? What are the purposes of CIGAR?
  - ✓ What has CIGAR accomplished, and what remains to be done better?
  - ✓ How could Chinese scholars turn from being consumers to producers of CIGAR?
- Further Readings:
  - ✓ "Yang's Law and Premier Zhou's Mandate: The Role of Accounting in Governing the Chinese State" (2010) [Working draft in English]
  - ✓ "The Relevance of American Government Accounting Standards to China," Chapter 7 in *American Government Accounting Standards and Their Relevance to China* (2009).
  - ✓ Yang Shizan (1997), "My Views on Establishing a System of Government Accountability in China," *Collected Works of Yang Shizan* (Beijing: Enterprise Managing Publishing House), pp. 281-293. [in Chinese]
  - ✓ "IPSAS and Government Accounting Reform in Developing Countries" in

Accounting in *the Public Sector: Mimicry, Fad or Necessity*, edited by Evelyne Lande and Jean-Claude Scheid (France: Expert Comptable Media, 2006), pp. 31-42. [in English]

- ✓ “Modeling Governmental Accounting Innovations: An Assessment and Future Research Directions,” *Research in Governmental and Nonprofit Accounting*, Vol. 9 (1996), pp. 147-174, with Rowan H. Jones and Klaus G. Lüder. [[ChanJonesLuder1996Modeling.pdf](#)]
- ✓ “CIGAR Methodological Issues and Strategies,” *Innovations in Government Accounting*, edited by Vicente Montesinos and Jose Manual Vela (Boston: Kluwer Academic Publishers, 2002), pp. 23-29. [[Chan2002CIGARMethod.pdf](#)]