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Thesis Advisor: Dr. Norvald Nytræ Monsen

International accounting in the governmental  
sector

“A case study of the financial Statements of San  
Luis Potosí’s municipality, Mexico”

by

Elizabeth Barrueta Enríquez

This thesis was written as a part of the master program at NHH. Neither the institution, the supervisor, nor the censor-s are - through the approval of this thesis - responsible for neither the theories and methods used, nor results and conclusions drawn in this work.

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# ABSTRACT

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The purpose of this thesis is to analyze the financial statements from the municipality of San Luis Potosí, Mexico. In order to assess how informative are the financial statements issued currently by this municipality. And how to improve them, based on the analysis of the three accounting frameworks presented namely: commercial accounting, fund accounting and cameralistics accounting, these three frameworks are presented accompanied by illustrative examples. Thereafter the financial statements of this municipality are analyzed in detail, through this case study, the author find out that the method used to develop the financial statements of this municipality, and will discuss whether or not the method used to develop the financial statements object of this study fulfill all the needs of this governmental organization, such as: money management, budgetary control, and payment control, in order to propose some suggestion of how to improve them and make them more informative in order to achieve accountability.

**Key words:** Governmental accounting, Fund accounting, Commercial accounting, Cameralistics accounting, accountability.

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# PREFACE

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The following study is focused on the field of Governmental accounting. According to Chan (2003), Governmental accounting and financial reporting aim to protect and manage public money and discharge accountability. This field has been attracting attention due to the greater demand of accountability in a democracy and market economy. Therefore an increasing demand of the public money control is required, and as citizens we should be more aware of the public money uses.

## **Importance of Governmental Accounting**

As discussed by Chan (2003), Democratic governance and market transactions require and foster the norm of reciprocity<sup>1</sup> upon which accountability is based. Accounting information can be used to monitor and enforce the terms of economic, social and political contracts. In order to discharge accountability the governments need an adequate tool such as accounting, but focused on the specific needs of the government. The nature of public goods and tax financing, give rise to differences with commercial accounting.

This is not yet reflected either in government accounting standards in English-speaking developed nations or in international public sector accounting standards. All of these are heavily influenced by private sector practices, which favor the accrual basis and consolidated reporting.

Moreover, as suggested by Monsen (2010), 'accrual accounting' is used as the main accounting framework. This is understandable when the focus is on organizations with a profit objective, like commercial enterprises. It is, however, questionable if profitability accounts should also be used as the accounting framework when the focus is on organizations without a profit objective and uses the principles of organizations with a profit objective, which does not make any sense as argued by the author.

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<sup>1</sup> The expectation of exchange of benefits of comparable value

Thus, this research aims to find out whether the information is generated according to the bookkeeping method that is more focused on accountability and that fulfills the needs of the governmental organizations. In order to achieve the transparency that is needed nowadays in the governmental sector where the information turns out to be not as available and understandable as when it is assessed, the concern is that the information should be as clear as possible and easy to understand for the reader of financial statements; the aim is to make them more informative and enhance their quality for the common good and achieve accountability for the tax payers.

Moreover, Chan (2003), suggests that the purpose of governmental accounting is to safeguard the public treasury by preventing and detecting corruption and graft. Rose-Ackerman (1978), supports this idea stating that corruption can occur even in democracy and propitiate misconducts from the government administrators.

Corruption is a root problem in developing countries and it is one of the major concerns in my country (Mexico). According to the study conducted by transparency International in 2011, the corruption perception index shows that public frustration is well founded.<sup>2</sup>No region or country in the world is immune to the damages of public-sector corruption.

Governments must act accordingly on their part; citizens need to continue demanding better performance from their leaders. So, I as a citizen who is interested in the progress of her country, have undertaken this field of research because it is a way to propose some ideas of how to improve the financial statements of the municipality of San Luis Potosí in Mexico, in order to achieve accountability and help somehow to diminish corruption in my country and at the same time will allow me to apply all the knowledge I have acquired during my master degree studies at NHH.

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<sup>2</sup> <http://cpi.transparency.org/cpi2011/results/#CountryResults>. Retrieved 2012, from Corruption perception Index 2011.

# 1. PROBLEM AND PURPOSE OF THE THESIS

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## 1.1 Motivation

My main motivation to undertake this study within the field of governmental accounting has first of all the interest to contribute somehow against the corruption problems that have been affecting my country in the governmental sector, this is a root problem that has to be tackled gradually in order to overcome the economic and social problems that the country is dealing with nowadays. This is one of the biggest concerns that I have as a citizen of my country, as of result of this I do not aim to become a person who complains about the system and do not propose any improvement by this means.

Therefore I, as a Mexican citizen aiming through this study to contribute with some insights that could help to have better practices in the arena of governmental accounting in my Mexico, and thus be a part of the change that my country needs in order to succeed against corruption. I wish with my entire hearth the progress of this land so we can become a better place for the upcoming generations.

Therefore, it is my concern as a citizen of Mexico to know how the resources that the government obtains from tax payers have been applied, and to know what has been the result through the financial statements information. My objective is to find the way to propose simplified statements, that by all means are informative and understandable for people that are not involved in the world of governmental accounting, but nevertheless they need to be informed about public money uses.

Then, the outcome from the financial statements will eventually reflect how public money has been used for the benefit of the community, and the objective is to make them understandable, accountable, clear and eager for transparency.



## 1.2 The purpose of the thesis

The purpose of this thesis is to analyze the financial statements of the Mexican municipality of San Luis Potosí for the third quarter of the year 2011, and compare these financial statements with three different accounting models: commercial accrual accounting, fund accounting and cameral accounting. Based on this analysis the author will present some insights as to how to improve the financial statements of this municipality.

Hence, through this dissertation the author aims to fulfill three basic objectives. First, to give a general overview of governmental accounting; second, to explain the frameworks of governmental accounting by illustrating three different models, named commercial accounting, fund accounting and cameral accounting. The third objective aims that this study will be used by the government in Mexico to enhance the quality of governmental accounting in Mexico. Thus, an introduction to the country that is the subject of this study is given, before the author conducts her research.

## 1.3 Mexico

Mexico is a federal constitutional republic in North America, bordered by the United States on the north and by Belize and Guatemala on the south-east. The south and west is flanked by the Pacific Ocean and the Gulf of Mexico on the east. Mexico has an estimated population of 111 million, and its economy is the 13th largest in nominal GDP terms (\$1.143 trillion -2009) and the 11th largest by Purchasing Power Parity (PPP, \$1.563 trillion – 2009).



Figure 1 : Mexico Location

## **Economic Overview**

Mexico has a free market economy in the trillion dollar class. It contains a mixture of modern and outmoded industry and agriculture, increasingly dominated by the private sector. Recent administrations have expanded competition in seaports, railroads, telecommunications, electricity generation, natural gas distribution, and airports. Per capita income is roughly one-third of that of the US; income distribution remains highly unequal. Since the implementation of the North American Free Trade Agreement (NAFTA) in 1994, Mexico's share of US imports has increased from 7% to 12%, and its share of Canadian imports has doubled to 5%. Mexico has free trade agreements with over 50 countries including Guatemala, Honduras, El Salvador, the European Free Trade Area, and Japan - putting more than 90% of its trade under free trade agreements. Mexico's GDP plunged 6.2% in 2009 as world demand for exports dropped, asset prices tumbled, and remittances and investment declined. GDP posted positive growth of 5.4% in 2010 and 3.8% in 2011, with exports - particularly to the United States - leading the way. The administration continues to face many economic challenges, including improving the public education system, upgrading infrastructure, modernizing labor laws, and fostering private investment in the energy sector.<sup>3</sup> National or regional currency: New Mexican Peso, MXN.

Exchange rate: USD 13.97 as December 31<sup>st</sup> 2011.<sup>4</sup>

## **Mexican Economy 2010**

For the year 2010, the growth figures pertaining to the Mexican economy indicate signs of a recovery. The Mexican Finance Ministry has increased the growth figures from 3% to 3.9%. This upswing was the result of significant improvement in Mexico's exports, automobile production, manufacturing and increased imports of consumer goods. Employment is also on the rise alongside an increase in foreign and domestic demand, despite a deep divide in economic distribution, where 32% of the top earners take in 55% of the country's total income.

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<sup>3</sup> [http://www.economywatch.com/world\\_economy/mexico/](http://www.economywatch.com/world_economy/mexico/)

<sup>4</sup> [http://www.sat.gob.mx/sitio\\_internet/asistencia\\_contribuyente/informacion\\_frecuente/tipo\\_cambio/42\\_19677.html](http://www.sat.gob.mx/sitio_internet/asistencia_contribuyente/informacion_frecuente/tipo_cambio/42_19677.html)

## Key Statistic facts of Mexico

In the following figures the key economic facts of Mexico are listed.

| Economic Indicator Listing for Mexico                           | Indicator Value Year 2011             |
|---|---------------------------------------|
| GDP Growth (Constant Prices, National Currency)                 | 4.64%                                 |
| GDP (Current Prices, National Currency)                         | MXN 14,309.80 Billion.                |
| GDP (Current Prices, US Dollars)                                | US\$ 1,167.12 Billion                 |
| GDP Deflator (Index, Base Year as per country's accounts = 100) | 154.409                               |
| GDP Per Capita (Constant Prices, National Currency)             | MXN 84,469.88 .                       |
| GDP Per Capita (Current Prices, National Currency)              | MXN 130,429.13 .                      |
| GDP Per Capita (Current Prices, US Dollars)                     | US\$ 10,637.95                        |
| GDP (PPP),US Dollars  | US\$ 1,658.20 Billion                 |
| GDP Per Capita (PPP), US Dollars                                | US\$ 15,113.93                        |
| GDP Share of World Total (PPP)                                  | 2.09%                                 |
| Implied PPP Conversion Rate                                     | 8.63                                  |
| Investment (% of GDP)   | 26.49%                                |
| Gross National Savings (% of GDP)                               | 25.59%                                |
| Inflation, Average Consumer Prices (Indexed to Year 2000)       | 101.271 (Index, Base Year 2000 = 100) |
| Inflation (Average Consumer Price Change %)                     | 3.63%                                 |
| Inflation, End of Year (Indexed to Year 2000)                   | 103.241 (Index, Base Year 2000 = 100) |
| Inflation (End of Year Change %)                                | 3.51%                                 |
| Import Volume of All Items Including Goods and Services         | (Percent Change) 15.501 %             |
| Import Volumes of Goods Only                                    | (Percent Change) 4.559 %              |
| Export Volume of All Items Including Goods and Services         | (Percent Change) 9.915 %              |
| Export Volumes of Goods Only                                    | (Percent Change) 10.633 %             |
| Value of Oil Imports  | US\$ 42.793 Billions                  |
| Value of Oil Exports  | US\$ 52.857 Billions                  |
| Unemployment Rate (% of Labor Force)                            | 4.50%                                 |
| Population  | 109.713 Million                       |
| General government revenue (National Currency) MXN              | 3,294.62 Billions.                    |
| General government revenue (% of GDP )                          | 23.02%                                |
| General government total expenditure (National Currency)MXN     | 3,551.13 Billions.                    |
| General government total expenditure (% of GDP)                 | 24.82%                                |
| Total Government Net Lending/ Borrowing (National Currency)MXN  | -256.51 Billions.                     |
| Total Government Net Lending/ Borrowing (% of GDP)              | -1.79%                                |
| Total Government Net Debt (National Currency) MXN               | 5,262.19 Billion.                     |
| Total Government Net Debt (% of GDP)                            | 36.77%                                |
| Total Government Gross Debt (National Currency) MXN             | 6,054.37 Billion.                     |
| Fiscal Year Gross Domestic Product, Current Prices MXN          | 14,309.80 Billions.                   |
| Current Account Balance (US Dollars)                            | US\$ -10.473 Billion                  |

**Table 1:** Key statistics facts of Mexico<sup>5</sup>

<sup>5</sup> Source: <http://www.economywatch.com/economic-statistics/country/Mexico/>

## Oil Exports Drive Mexico's Economy

Mexico is the world's sixth largest producer of oil, exporting more than 2 million barrels per day. Since the oil companies are government owned, about half of the government's income is dependent on oil. Privatizing the oil industry would require the government to either increase the tax rate or expand the tax base to include many large non-taxed businesses.<sup>6</sup>

## Political Organization

The United Mexican States is a federal republic formed by 31 federal entities and 1 federal district. According to the constitution of 1917, the states of the federation are free and sovereign. Each state has its own congress, constitution and a judiciary system, and its citizens elect by direct voting a president for a six-year term and representatives to their respective state congress for three-year term.

The Federal district is a special political division that belongs to the federation as a whole and not to a particular state, and as such, has more limited local rule than the nation's states therefore (Mexico) has only a limited autonomy with a local congress and government. The territory of the Federal district commonly known as Mexico City serves as the national capital<sup>7</sup>.

All Mexican states are divided into municipalities. Each municipality is administratively autonomous; citizens elect a "municipal president" who heads an "**Ayuntamiento**" or municipal council, responsible for providing all the public services for its constituents. Municipalities are responsible for public services and are the second-level administrative division in Mexico. There are 2,456<sup>8</sup> municipalities in Mexico. The internal political organization and their responsibilities are outlined in the 115<sup>th</sup> article of the 1917 constitution. Municipal governments have taxing authority but rely very heavily on financial support from state and federal sources.

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<sup>6</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html>.

<sup>7</sup> [http://www.scjn.gob.mx/SiteCollectionDocuments/PortalSCJN/RecJur/BibliotecaDigitalSCJN/PublicacionesSupremaCorte/Political\\_constitucion\\_of\\_the\\_united\\_Mexican\\_states\\_2008.pdf](http://www.scjn.gob.mx/SiteCollectionDocuments/PortalSCJN/RecJur/BibliotecaDigitalSCJN/PublicacionesSupremaCorte/Political_constitucion_of_the_united_Mexican_states_2008.pdf).

<sup>8</sup> <http://www.inegi.org.mx/>.

## **Legislative**

The legislative branch of the Mexican government consists of a bicameral congress divided into an upper chamber, or Senate and a lower chamber, or Chamber of Deputies. As in the United States, both chambers are responsible for the discussion and approval of legislation and the ratification of high-level presidential appointments. In theory, the power of introducing bills is shared with the executive, although in practice the executive initiates about 90 percent of all legislation.

## **State Government**

Mexico is divided into thirty-one states and a Federal District that encompasses Mexico City and its immediate environs. Each state has its own constitution, modeled on the national charter, with the right to legislate and levy taxes other than interstate customs duties. Following the federal organization at the national level, state (and local) governments also have executive, legislative, and judicial branches. Despite its federal structure, Mexico's political system is highly centralized. State governments depend on Mexico City for much of their revenue, which they, in turn, funnel to municipal governments in a client list fashion.

The state executive branch is headed by a governor, who is directly elected by simple majority vote for a six-year term, and, like the president, may not be reelected. State legislatures are unicameral, consisting of a single Chamber of Deputies that meets in two ordinary sessions per year, with extended periods and extraordinary sessions when needed. Deputies serve three-year terms and may not be immediately reelected. Legislative bills may be introduced by the deputies, the state governor, the state Superior Court of Justice, or by a municipality within a given state.

The Federal District, which encompasses Mexico City and its southern suburbs, has traditionally fallen under the supervision of the president. In addition to performing his municipal duties, the mayor also holds cabinet rank as head of the Department of the Federal District.

## **Local Government**

The basic unit of Mexican government is the municipality, which accounts 2,456 up to 2011. Municipal governments are responsible for a variety of public services, including water and sewerage; street lighting; cleaning and maintenance; public safety and traffic; supervision of slaughterhouses; and the maintenance of parks, gardens, and cemeteries. Municipalities are also free to assist state and federal governments in the provision of elementary education, emergency fire and medical services, environmental protection, and the maintenance of historical landmarks.

Municipal governments, headed by a mayor or municipal president and a municipal council, are popularly elected for three-year terms. Article 115 of the 1917 constitution proclaims the autonomy of local governments according to the principle of the free municipality. Although they are authorized to collect property taxes and user fees, municipalities have historically lacked the means to do so, relying mainly on transfers from higher levels of government for approximately 80 percent of their revenues.<sup>9</sup>

### **1.4 Governmental accounting overview in Mexico**

Mexico is currently in process of migrating this to IPSAS, so the author considers that this is a great moment to propose her findings to the public administration and they will decide whether or not these are useful, indeed this research will be useful for further studies and aims to encourage some other researchers for ongoing discussions.

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<sup>9</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html>.

# 2. METODOLOGY

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## 2.1 Research strategy

Within this chapter the author will show what method will be used for this research. According to Neuman (1997), there are two basic categories of data collection methods: Quantitative and qualitative. Therefore in order to gather information for this study the author will use the qualitative method with the specific approach of case study due to the features of the field of study, and the thesis statement. The aim of this research is to analyze the financial statements of the municipality of San Luis Potosí, and this could be achieved by gathering information through this qualitative method is the one that fits best for such a case.

Moreover, the author will not conduct any interview to government officers since that is not the main focus of this study. The focus is to analyze the financial statements of the municipality chosen, therefore there is no need to interview the public officers, and indeed they do not provide any information, unless it has been published through the internet web site and being officially published, furthermore the process to get information through interviews has to be authorized previously and such a permit takes a long time, due to the extensively bureaucratic paperwork that is required from government offices; this would mean a big constraint for the researcher, so in order to optimize time and resources I will limit the study to the focus on the information analysis gathered in the case study. According to previous studies conducted in the field of research methods:

*...the case study... does not represent a “sample”, and the investigator’s role is to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization).* Yin (1984).

According to Monsen (2010), this means that the analysis of the accounting development of the particular nonprofit organization studied cannot be statistically generalized, therefore in this case study the author does not aim to enumerate frequencies i.e. “statistic generalization” thus, it will not be used, and as is stressed by Yin (1984), the case study does not represent a “sample” this case represents the

basics to find out the insights needed to improve current practices in the governmental sector related to governmental accounting .

The basic information presented in this case study will be the financial statements of the third quarterly report of 2011 for the municipality of San Luis Potosí, as well as the accounting frameworks of governmental accounting namely: accrual accounting, fund accounting and cameral accounting.

Hence, due to the rapid growth experienced by the manufacturing industry, in the municipality of San Luis Potosí, it is focused on staying ahead in terms of innovation in the arena of public administration, in order to create a solid image of the municipality nationally and internationally, and as a consequence attract more local and foreign investments to the same. Therefore, it is important for the township to know the outcome of this research in order to share the results with the other municipalities.

In line with the arguments given by, Brunsson (1985), states that “the main purpose should be to generate theories formulated for and based on specific social situations, which have been studied empirically. These theories form ‘languages’ that provide means for understanding the situation studied. Such theories can then be used by people involved in similar situations, when they are trying to improve their understanding of their own reality.” By attempting to provide means for understanding of the financial statements of the municipality studied, the author aims to conduct the research empirically in order to improve the understanding of the real case, which may benefit the accountability, transparency and understandability of the financial statements for the tax payers, and the people or organizations interested in such information.

The reason for choosing the “municipality” and in this case of San Luis Potosí is because according to the political and governmental organization of Mexico, it is the most basic unit form of the Mexican government. For the author, it represents going from a particular point of reference to the general, so in order to understand it better I would like to study the basic form of the governmental entity in Mexico called municipality. Thus, the author will proceed to elaborate the thesis statement.



## 2.2 Thesis statement:

Governmental accounting in Mexico focused on the analysis of the financial statements in the third quarterly report 2011 of the municipality of San Luis Potosí.

## 2.3 Research Questions:

According to Yin (2003), "the distinctive need for case studies arises out of the desire to understand complex social phenomena" because "the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events," such as organizational and managerial processes. As argued by Yin the case study approach will allow the retention of the holistic meaningful characteristic of the information. By this means, the author will compare the governmental accounting frameworks with the financial statements that are currently used in the municipality of San Luis Potosí; this is a real life event that will allow the researcher to propose some improvement ideas by conducting the study.

In fact, case studies seem to be the preferred strategy when "how or "why" questions are being posed. The focus is on a contemporary phenomenon within some real-life context Yin (1981). As a matter of fact, this case study aims to address the "How" questions as follows:

**Question 1:** How informative are the financial statements of the municipality of San Luis Potosí, Mexico?

**Question 2:** How can the quality of the financial statements of the municipality of San Luis Potosí be improved by analyzing them towards the theoretical frameworks of governmental accounting?

In conclusion of this chapter the author will use the qualitative method in order to conduct the research, and the strategy is to use a case study analysis as a "single holistic case as stated" by collecting the basic data concerning to this study " The third quarterly financial statements of the municipality of San Luis Potosí".

# 3. ACCOUNTING FRAMEWORK

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Within this chapter the author will present the theoretical accounting framework, based on three models: commercial accounting, fund accounting and cameral accounting ACAM (Administrative cameralistics) and ECAM (Enterprise cameralistics), in order to establish a platform for the analysis of the financial statements of the municipality that is object of this study.

An overview of the business and non business organizations will be presented as well as the main concepts in accounting, thereafter the models described above will be presented in detail accompanied by examples in order to illustrate empirically the concepts and their implications.

## 3.1 Business and nonbusiness organizations

An organization is a social unit of people, systematically structured and managed to meet a need or to pursue collective goals on a continuing basis. All organizations have a management structure that determines the relationship between functions and positions, and authority to carry out defined tasks. Organizations are open systems in that they affect and are affected by the environment beyond the boundaries. (Business Dictionary).

Organizations are categorized commonly in two main groups: business organizations and nonbusiness organizations. Organizations involved in the market (business) transaction are the so called “business organizations”. Therefore, organizations that do not issue equity securities and do not have a profit objective are referred to as “nonbusiness organizations”, these are divided in two groups as well: governmental organizations and nonprofit organizations (i.e. colleges, universities, voluntary, health and welfare organizations, libraries, museums, churches,etc), and are similar to government in that they exist to render services to constituents with no expectation of earning net income from that service, have no owners and seek financial resources from people who do not expect either repayment of economic benefits proportionate to the resources provided.

It is not so obvious to distinguish among governmental, not-for-profit organizations and profit organizations. The core details lay on the way an entity is governed, organized and financed. In nonbusiness organizations we generally find that there are many one-way money transactions.

Nonprofit organizations have three main characteristics that distinguish them from business enterprises.

- 1) Non profit entities receive contributions and significant amount of resources from tax payers
- 2) Operate for purposes other than providing goods and services at a profit
- 3) Lack of ownership interest like those of a business enterprise

According to Monsen (2008), this means that there are important differences between business organizations and nonbusiness organizations, which will have an influence on the specific accounting models used by these organizations. In spite of these differences all types of organizations, both business and nonbusiness organizations, incur revenues and expenditures; although the relationships between the revenues and expenditures differ.

### **3.2 Revenues and expenditures**

Revenues and expenditures represent the main concepts within financial accounting, according to Mulhaupt (1987), (see Figure 2), revenues are claims on cash inflows no matter when it could be immediate or later and expenditures represent obligations for cash outflows this could also be immediate or later, but at the end both of them have a financial i.e. (money) effect for all type of organizations. It does not matter whether it is immediately or later, money effect prevails for both type of organizations (business organizations and nonbusiness organizations).

The revenues and expenditures have an immediate effect on the cash account when they occur at the same time as the cash inflows and cash outflows occur. In this case we deal with cash transactions (immediate cash inflows and immediate cash outflows; as opposed to later cash inflows and outflows ;(see the upper part of Figure

2). The latter transaction will result in cash transactions in a later period, and are referred to as credit transactions.

The revenues and expenditures do not, however, only have an effect on the cash account (see the upper part of Figure 2). It is also possible to classify the revenues and expenditures in the two different groups, depending on whether they have an influence on the performance (profit/loss) result (see the lower part of figure 2):

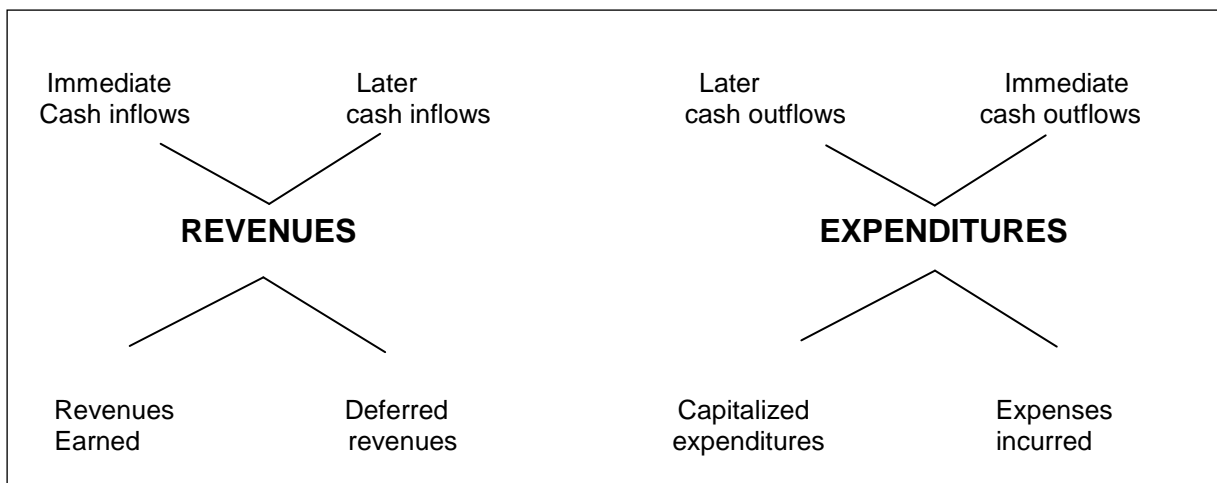


Figure 2: Revenues and expenditures (source Mulhaupt (1987) translated by Norvald Monsen)

Moreover, the revenues and expenditures will also have a performance (profit/loss) result effect for both organizations, business organizations focus on the performance result; specially the ones involved in market transactions, in the sense that there is a causal link between outgoing and incoming products/services and money (i.e., money are exchanged with products/services). Therefore we have two main types of accounts, *namely financial (money) accounts and performance (profit/loss) accounts.*

As stated by Mulhaupt (1987), “The revenues and expenditures have a performance result effect when they influence the performance result of the accounting period in the form of expenses incurred or revenues earned. They do not have a performance result effect when they do not influence the performance result of the accounting period, but on the other hand influence the equity and/or its financing.” Therefore revenues and expenditures have a performance result when they affect the result accounts i.e. when they affect the income statement in a certain accounting period when they were incurred. Thus, when the revenues and expenditures do not affect the performance is because they stay at the balance sheet accounts namely liabilities or equity.

### 3.3 Commercial Accounting Historical Development

Historically the development of the merchant's bookkeeping has had changes through the time, as it is illustrated in figure 3, from Single- entry bookkeeping has become as what we actually know "The merchant's double-entry bookkeeping method", that refers to the well know term of "commercial accounting" .

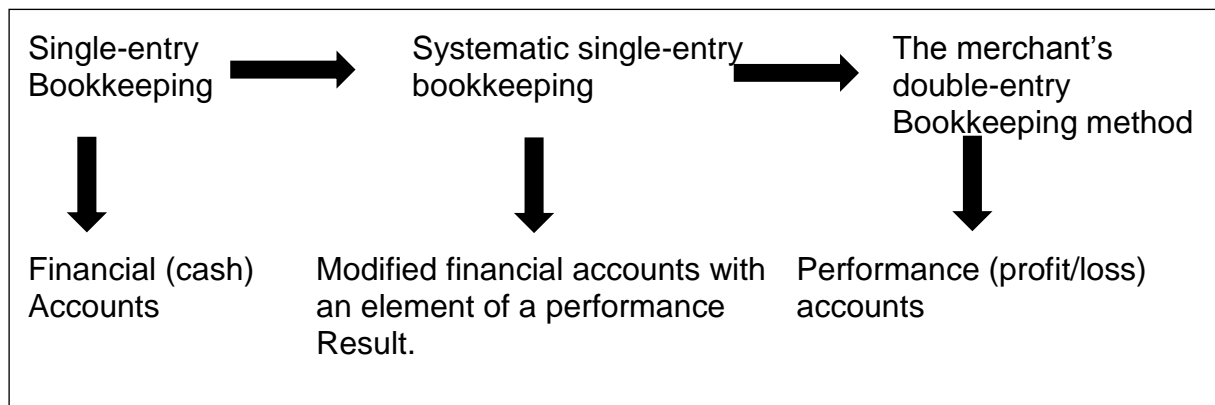


Figure 3 : The merchant's bookkeeping (Monsen, 2008)

Therefore, the development of the commercial accounting had three phases that will be described briefly:

a) **The merchant's single-entry bookkeeping method:** According to Winjum (1972) cash flow accounting is the oldest form of monetary accounting. Then, originally the focus was on cash inflows and cash outflows, by using the merchant's single-entry bookkeeping method; this method refers to a system where every transaction is registered only once on one account.

b) **The merchant's systematic single-entry bookkeeping method:** Refers to the procedure of systematically entering the single-entries in the accounting system, implying that performance result effective cash transactions are entered only one time, while non-performance result effective cash transactions (e.g., cash inflow of new equity) are entered twice (two single-entries), thus allows for the reporting of the performance result only via the payment side (balance account) Kiosol (1967). Monsen (2008), in the figure 3 refers to systematic single –entry bookkeeping as a bookkeeping method forming the basis of modified financial accounts with an element of a performance result.

**c) The merchant's double-entry bookkeeping method:** Also referred to as commercial accrual accounting, it is a developed version of systematic single-entry bookkeeping. The principle of double-entry bookkeeping is used, every transaction is entered twice (debit=credit), and two different accounts are used. The balance accounts (balance sheet), representing the payment side of the transactions, and which are the accounts used within systematic single-entry bookkeeping, are supplemented with profit and loss accounts (income accounts/income statement), representing via the activity side of the transactions, represented in both sides payment side and the activity side. Walb (1926). According to Monsen (2008), double–entry bookkeeping is characterized by the following four points:

1. Two entries with the same amount are always carried out (debit=credit)
2. Two different accounts are always used (debit on one account and credit on another account)
3. The accounts are classified in two groups: payment accounts (balance accounts) and activity accounts (performance result accounts)
4. The performance result (period result) appears dually, namely both via the payment accounts (net change on the balance account; cp. single-entry bookkeeping, where the performance result appears via the payment side/balance account) and via the activity side (performance result account).

Therefore, the equity change in the balance account is explained by the difference between the revenues earned and the expenditures incurred within the period (profit and loss account). It is important to bear in mind that the difference is not explained when there is new equity or repayment of equity, because this is only reported in the balance account. Thus, payment side transactions are illustrated by the performance effect of the revenues and expenditures.

Hence, this method allows having in addition to the dual reporting via the activity side and the payment side and integrated balance sheet provides you with a detail of the accounts classified according to the “congruence principle” showing the total assets, liabilities and equity is also provided. Then this report as a balance sheet, allows having a summary of the result in a certain period of time. Thus, allows to investors, owners or any person interested in the situation of the entity to have a picture of the

performance in both the activity side and the performance side, in the entities that have a profit objective they use this tool to evaluate the performance of the business.

On the other hand, apparently commercial accounting is strongly influencing nonprofit organizations and governmental organizations, although their objective is different to the one in business enterprises. Therefore it is fundamental to understand this method in order to assess what fits best for the governmental sector, and find out if this method helps to accomplish the objectives of the governmental accounting; the knowledge of this method will allow the author later in this research to find out whether or not this method is suitable for governmental organizations with no profit focus, but aiming to inform the situation of the entity to know the results of the performance and to find out whether they have enough resources to accomplish the purpose for which they were created, and to assess their performance .

As stated by Mülhaupt, (1987), it should be obvious that accounting problems are only possible to illustrate by using examples in order to have a better understanding of accounting methods. Meanwhile, for the commercial accounting method an example is provided these examples have been taken from Monsen (2008), and will be developed by using T- accounts.

| <i>Bookkeeping transactions:</i>                                    | NOK    |
|---|--------|
| Beginning of the period:  |        |
| Cash account  | 2.000  |
| Long-term debt  | 1.600  |
| Equity  | 400    |
| During the year:  |        |
| (1) Various operating revenues                                      | 12.000 |
| (1a) of which immediate cash inflow                                 | 10.500 |
| (1b) of which later cash inflow                                     | 1.500  |
| (2) Various operating expenditures                                  | 11.000 |
| (2a) of which immediate cash inflow                                 | 9.900  |
| (2b) of which later cash outflow                                    | 1.100  |
| (3) Interest revenues (immediate cash inflow)                       | 50     |
| (4) Interest expenditures (immediate cash outflow)                  | 100    |
| (5) Loan installment (immediate cash outflow)                       | 300    |
| (6) New loan (immediate cash inflow)                                | 2.000  |
| (7) Investment expenditure for fixed asset (immediate cash outflow) | 3.000  |
| On the first day of the period                                      | 3.000  |

## OPENING BALANCE

|              |       |                |       |
|--------------|-------|----------------|-------|
| Cash account | 2.000 | Long-term debt | 1.600 |
|              |       | Equity         | 400   |
|              | 2.000 |                | 2.000 |

|     |        |     |        |
|-----|--------|-----|--------|
| OB  | 2.000  | 2a) | 9.900  |
| 1a) | 10.500 | 4)  | 100    |
| 3)  | 50     | 5)  | 300    |
| 6)  | 2.000  | 7)  | 3.000  |
|     |        | EB  | 1.250  |
|     | 14.550 |     | 14.550 |

|     |        |     |        |
|-----|--------|-----|--------|
| 2a) | 9.900  | 1a) | 10.500 |
| 2b) | 1.100  | 1b) | 1.500  |
| 4)  | 100    | 3)  | 50     |
| 8)  | 15     |     |        |
| 9)  | 935    |     |        |
|     | 12.050 |     | 12.050 |

|     |       |    |       |
|-----|-------|----|-------|
| OB  | 0     | EB | 1.500 |
| 1b) | 1.500 |    | 1.500 |
|     | 1.500 |    | 1.500 |

|    |       |     |       |
|----|-------|-----|-------|
|    |       | OB  | 0     |
| EB | 1.100 | 2b) | 1.100 |
|    | 1.100 |     | 1.100 |

|     |       |    |       |
|-----|-------|----|-------|
| OB) | 0     | 8) | 15    |
| 7)  | 3.000 | EB | 2.985 |
|     | 3.000 |    | 3.000 |

|    |       |    |       |
|----|-------|----|-------|
| 5) | 300   | OB | 1.600 |
| EB | 3.300 | 6) | 2.000 |
|    | 3.600 |    | 3.300 |

|     |       |    |       |
|-----|-------|----|-------|
| OB) | 0     | 8) | 15    |
| 7)  | 3.000 | EB | 2.985 |
|     | 3.000 |    | 3.000 |

|     |       |    |       |
|-----|-------|----|-------|
|     |       | OB | 400   |
| EB) | 1.330 | 9) | 935   |
|     | 1.335 |    | 1.335 |



In this example there is first the opening balance. These type of balances are carried forward from one period to another, the ending balance of the previous period will be carried forward as opening balance for the next period, therefore in this case we have the following OB (opening balances): Cash account: 2.000 , long-term debt 1.600 and Equity 400. Thereafter we have the various operating revenues that are divided in 1a) immediate cash inflows 10.500, as described above one of the characteristics of this method is that two entries with the same account are always carried out (debit = credit) then in the first entry we credit cash for 10.500 and we also affect the performance result effect as debit. Then the second point is applying two different accounts that have been used through this entry. On the other hand we have affected the performance result account via the activity side and payment side. With the subsequent entry 1b) despite the fact that there is no money or it has not been received in cash. We debited the account to accounts receivables, i.e. (we have more receivables) for future periods on which we are expecting future payments, and at the same time according to the principle of accounting period represent revenues earned in the performance result account. Therefore where reported via the payment side as an earning the entry has also both effects and it is reflected at the balance level as an asset in accounts receivable.

Furthermore, we have various operating expenditures 11.000, divided in two 2a) which immediate cash outflow 9.900 then we will debit the cash account and credit the performance result account in order to affect the payment and activity sides respectively, for the entry 2b) 1.100 expenditures occurred during the period that has not been paid in cash, therefore we have a credit in accounts payable, showed as a short-term debt (activity side), and we have a debit at the performance result account (via the payment side). 3) Interest revenues (cash interest revenues of 50 have been received) then we debit the performance result account and we credit the cash account affecting both the payment side and activity side. 4) Interest expenditures, we have paid interest for a loan of 100, then the cash account is credited (cash effect and performance result via the payment side) and debited on the performance result account via the activity side. 5) Loan installment has been paid for 300, then the cash account is credited (cash effect and performance result via de payment side) and we debited on the long- term debt (to cancel the performance result effect, but not the cash effect on the credit entry). 6) We have received a new loan of 2.000; we

debited the cash account and the long-term debt then we have affected both sides. 7) Investment expenditure on the first day of the period thus 3.000 have been paid in cash, so crediting the cash account and debiting the fixed assets account with the same amount hence, a cash effect without a performance result. When the asset is depreciated at the end of the month (8) with 15 that comes from  $(3.000 \cdot 0,05)$ , 05% of depreciation so we register the performance result effect by crediting the account, and we debit the account of fixed assets with the same amount, so the effect is reported on the payment side at the performance result account.

According to the principle of congruence there is a link between the balance sheet and the performance result account (profit and loss account/income statement). Therefore the performance result at the end of the period amounts 935, appears with number 9) dually both the payment side (on the debit of the performance result account) and on the activity side through by crediting the equity (affecting the activity side). Furthermore the equity change in the balance account can be explained by the performance result account.

At the end, a report is prepared in order to show the new balances at the end of the period as shown in the ending balance summary as it is in the ending balance below where all the ending balances are carried to this final balance. On the right side we have the assets, and on the left side we have the liabilities and the equity, therefore the equitation is:  $\text{Assets} = \text{Liabilities} + \text{Equity}$ .

| ENDING BALANCE      |       |                  |       |
|---------------------|-------|------------------|-------|
| Cash account        | 1.250 | Short-term debt  | 1.100 |
| Accounts receivable | 1.500 | Long-term debt   | 3.300 |
| Fixed assets        | 2.985 | Equity (400+935) | 1.335 |
|                     | 5.735 |                  | 5.735 |

According to Monsen (2008), commercial accounting, using the merchant's double-entry bookkeeping method is the dominating bookkeeping method used around the world. It has an increasingly stronger influence on both governmental sector and nonbusiness accounting, even though these types of organizations do not have a profit objective.

### 3.4 Fund Accounting

Originally fund accounting was developed by Vatter (1947), for use by business enterprises, as an alternative to commercial accounting. Like commercial accrual accounting, using the merchant's double-entry bookkeeping method, fund accounting is also based on use of the principle of double-entry bookkeeping.

The theory of Vatter arises by his dissatisfaction of the existing theories namely:

- a) **Proprietor theory:** established on the reasoning that the fund of assets belongs to the proprietor, after his indebtedness to outsiders has been taken into consideration. The basic equation is thus "Assets less debts equals net worth (proprietorship)" (**Assets-Liabilities= Proprietorship**).
  
- b) **Entity theory:** The entity theorist state that "assets equal claims to assets (**Assets= Equities**), and some would go so far as to postulate a duality of every assets.

Hence, Vatter was unsatisfied with both of these theories and their valuation methods, among other things, he argues that due to the fact that different persons will value fixed assets differently, something which does not contribute to increasing the objectivity of the accounting data Vatter (1947).

Regarding the view of equities, Vatter (1947, p.19), points out that the entity theorist's view is that these are "claims against the assets", while the proprietary theorist would insist that they are "obligations of the proprietor (liabilities) and the ownership rights of the proprietor (net worth)". Against these theories Vatter based on the double-entry mechanism he proposes, from the fund point of view, "assets equal restrictions upon assets"; it arises from the concept of residual equity (or fund equity) as a fact of business and social organization. Consequently, the balance sheet equation within the fund theory can be formulated as follows:

$$\text{Assets} = \text{Restrictions on assets}$$

## Fund accounting in the governmental sector

Although the funding theory was developed by Vatter (1947), to be used by business companies i.e. the ones which aim to generate profit, the theory was not very successful in commercial enterprises. However, in Anglo- Saxon countries (US & England) this theory is used, but not in the business sector. It is used in the governmental sector where there has had a greater use.

The governmental sector does not seek for profit; therefore there was a need for another focus, other than the focus on revenues and expenses, because the difference between the revenues and expenses precisely constitutes the net income (profit or loss) of the period. The research conducted by Henke (1983), points out those accountants has therefore turned to the concept of **dollar accountability** in defining the financial reports for governmental organizations.

Dollar accountability refers to the use of a balance sheet that shows the resources available to the organization, and a complementary statement of revenues and expenditures shows the flows of spendable resources into and out of the organization. This perspective of dollar accountability allows analyzing whether the financial resources have been acquired and spent in line with the decisions made through the budget, which is the core link between budget and accounting, because of the implications of the budget that represents restrictions on the use of the financial resources available.

As stated by Monsen (2008), this means that the fund theory, with the balance equation “Assets= Restrictions on assets”, is more applicable in the governmental sector, than the proprietary and entity theories, because the latter ones aim to evaluate the results seeking for a profit focus, contrary to what is sought within the governmental sector where the main focus is to acquire and spent the resources according with the budget restrictions in the form of money and money control and with a service focus.

In conclusion, the fund theory has been developed also to incorporate budgetary data. And a budgetary decision represents the authority to use and receive money, something which implies that the focus on “flow of funds” within the fund theory is especially appropriate for governmental organizations.

## Budgetary accounting

Studies from Jones (2000), reveal that budgetary accounting allows the comparison of the plan (the budget) with the actual result (the accounts), in order to analyze in one hand the result against the budget, so by combing these tools (the budget and the accounts) it is possible attempting to adjust an unfortunate development.

In his research Jones (2000), underlines that the fund must be structured in such a way that it is possible to identify which assets and liabilities are represented by individual fund balances. Furthermore, a fund must be operated within explicit regulations. So by identifying which asset and liability belongs to a certain fund it is more feasible to assess the use of the fund and to know if it was used accordingly with the budget restrictions i.e. in line with the regulatory framework.

In summary, we can conclude that fund accounting answers the needs to reflect dollar accountability. The statement of revenues and expenditures is generally the primary operating statement used to reflect these inflows and outflows of resources Henke (1983, p. 13). Given the fact that a special version of double-entry bookkeeping is used within fund accounting; Monsen (2008), refers to it as *the double-entry bookkeeping method of fund accounting* (see Figure 4).

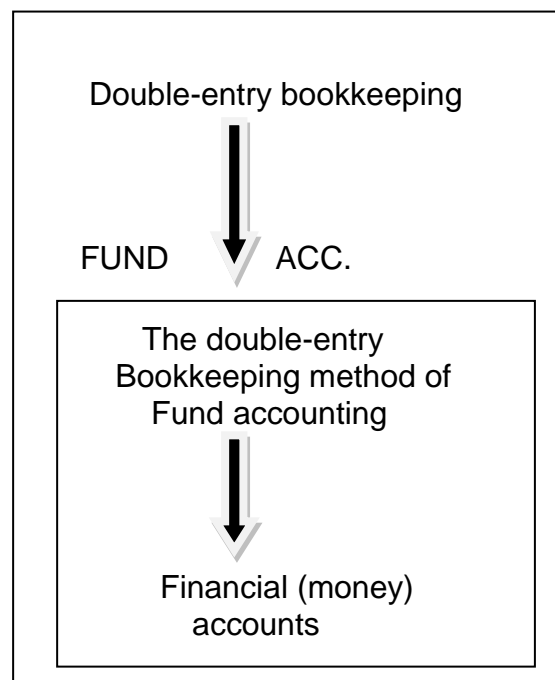


Figure 4: Bookkeeping within fund accounting Monsen, (2008p.39)

In the following, a numerical example illustrating the bookkeeping within fund accounting (general fund resources) is illustrated, and it shows, among other things, how budgetary data (budgetary figures) are incorporated ,based on use of the principle of double-entry bookkeeping (the example is a version of an example presented by Monsen (2008 p.68-74)

The following information pertains to the general fund of *X County*, which is responsible for the operations of a jail and a court. The general fund of *X County* at January 1, 19XX showed the following information:

|                         |            |
|-------------------------|------------|
| Cash account            | \$ 112,350 |
| Inventory               | 3,070      |
| Accounts receivable     | 3,550      |
| Unreserved fund balance | 118,970    |

The budget for the year 19XX, as adopted by the county commissioners, provided for the following items of revenues and expenditures:

|   |           |
|---|-----------|
| (1) Income taxes                                | \$ 30,000 |
| (2) Operating jail expenditures                 | 13,000    |
| (3) Jail equipment                              | 20,000    |
| (4) Operating court expenditures                | 7,500     |
| (5) Court equipment                             | 14,000    |
| (6) Business taxes                              | 28,000    |
| (7) Board of prisoners (revenue from the state) | 5,000     |
| (8) Wage expenditures                           | 8,000     |
| (9) Interest revenues                           | 1,000     |
| (10) Miscellaneous expenditures                 | 1,000     |

At December 31, 19XX, the inventory of jail supplies amounted to \$5,120, and \$1,325 of prisoners' board bill (accounts receivable) were unpaid. The following transactions occurred during 19XX:

|   |           |
|---|-----------|
| (1) Income taxes amounted exactly to the budgetary amount (cash)    |           |
| (2) Operating jail cash expenditures                                | \$ 12,730 |
| (3) Jail equipment  | 18,000    |
| (4) Operating court cash expenditures                               | 7,110     |
| (5) The court equipment was delayed and will be delivered next year |           |
| (6) Business taxes (cash)   | 28,070    |
| (7) Board of prisoners (revenues from the state)                    | 4,550     |
| (8) Wage expenditures (cash)  | 6,670     |
| (9) Interest revenues (cash)  | 1,050     |
| (10) Miscellaneous expenditures (cash)                              | 2,310     |

A contract for purchasing jail equipment (3) for 20,000 has been signed during 19XX and another contract for purchasing court equipment (5) for 14,000 has also been signed during 19XX.

**Example of fund accounting using the double-entry bookkeeping method.**

General Fund Balance Sheet at January 1, 19XX

|                     |         |                         |         |
|---------------------|---------|-------------------------|---------|
| Cash                | 112,350 |                         |         |
| Inventory           | 3,070   | Unreserved fund balance | 118,970 |
| Accounts receivable | 3,550   |                         |         |
|                     | 118,970 |                         | 118,970 |

Estimated Revenues

|                |        |      |        |
|----------------|--------|------|--------|
| (0)            | 64,000 | (C1) | 64,000 |
|                | 64,000 |      | 64,000 |
| Appropriations |        |      |        |
| (C1)           | 63,500 | (0)  | 63,500 |
|                | 63,500 |      | 63,500 |
| Revenues       |        |      |        |
|                |        | (1)  | 30,000 |
|                |        | (6)  | 28,070 |
|                |        | (7)  | 4,550  |
| (C2)           | 63,670 | (9)  | 1,050  |
|                | 63,670 |      | 63,670 |

Expenditures

|      |        |      |        |
|------|--------|------|--------|
| (2)  | 12,730 |      |        |
| (3b) | 18,000 |      |        |
| (4)  | 7,110  |      |        |
| (8)  | 6,670  |      |        |
| (10) | 2,310  | (C2) | 46,820 |
|      | 46,820 |      | 46,820 |

Cash

|      |         |      |         |
|------|---------|------|---------|
| (OB) | 112,350 | (2)  | 12,730  |
| (1)  | 30,000  | (4)  | 7,110   |
| (6)  | 28,070  | (8)  | 6,670   |
| (9)  | 1,050   | (10) | 2,310   |
| (11) | 6,775   | (12) | 2,050   |
|      |         | (EB) | 147,375 |
|      | 178,245 |      | 178,245 |

Inventory

|      |       |      |       |
|------|-------|------|-------|
| (OB) | 3,070 |      |       |
| (12) | 2,050 |      |       |
|      |       | (EB) | 5,120 |
|      | 5,120 |      | 5,120 |

Reserve for Encumbrances

|      |        |      |        |
|------|--------|------|--------|
| (3c) | 20,000 | (3a) | 20,000 |
| (C3) | 14,000 | (5a) | 14,000 |
|      | 34,000 |      | 34,000 |

Encumbrances

|      |        |      |        |
|------|--------|------|--------|
| (3a) | 20,000 | (3c) | 20,000 |
| (5a) | 14,000 | (C3) | 14,000 |
|      | 34,000 |      | 34,000 |



| Accounts receivables |       |       |       |
|----------------------|-------|-------|-------|
| (OB)                 | 3,550 | (11)  | 6,775 |
| (7)                  | 4,550 | (EB)  | 1,325 |
| <hr/>                |       | <hr/> |       |
|                      | 8,100 |       | 8,100 |

| Short-term Debt |        |       |        |
|-----------------|--------|-------|--------|
|                 |        | (OB)  | 0      |
| (EB)            | 18,000 | (3b)  | 18,000 |
| <hr/>           |        | <hr/> |        |
|                 | 18,000 |       | 18,000 |

| Budgetary Fund Balance |     |       |     |
|------------------------|-----|-------|-----|
| (C1)                   | 500 | (OB)  | 0   |
| <hr/>                  |     | <hr/> |     |
|                        | 500 |       | 500 |

| Unreserved Fund Balance |         |       |         |
|-------------------------|---------|-------|---------|
| (C4)                    | 14,000  | (OB)  | 118,970 |
| (EB)                    | 121,820 | (C2)  | 16,850  |
| <hr/>                   |         | <hr/> |         |
|                         | 135,820 |       | 135,820 |

| Fund Balance Reserved for encumbrances |        |       |        |
|--|--------|-------|--------|
|  |        | (OB)  | 0      |
| (EB)                                   | 14,000 | (C4)  | 14,000 |
| <hr/>                                  |        | <hr/> |        |
|  | 14,000 |       | 14,000 |

General Fund Balance Sheet at December 31, 19XX

|                     |         |                           |         |
|---------------------|---------|---------------------------|---------|
| Cash                | 147,375 | Short-term debt           | 18,000  |
| Inventory           | 5,120   | Fund balance reserved for |         |
| Accounts receivable | 1,325   | Encumbrances              | 14,000  |
|                     |         | Unreserved fund balance   | 121,820 |
|                     | 153,820 |                           | 153,820 |

The next step is the calculation of the budgetary data:

Budget for 19XX

*Revenues:*

|     |                          |               |
|-----|--------------------------|---------------|
| (1) | Income taxes             | 30,000        |
| (6) | Business taxes           | 28,000        |
| (7) | Board of prisoners       | 5,000         |
| (9) | Interest revenues        | <u>1,000</u>  |
|     | Total budgetary revenues | <u>64,000</u> |

*Expenditures:*

|      |                              |               |
|------|------------------------------|---------------|
| (2)  | Operating jail expenditures  | 13,000        |
| (3)  | Jail equipment               | 20,000        |
| (4)  | Operating court expenditures | 7,500         |
| (5)  | Court equipment              | 14,000        |
| (8)  | Wage expenditures            | 8,000         |
| (10) | Miscellaneous expenditures   | <u>1,000</u>  |
|      | Total budgetary expenditures | <u>63,500</u> |

We start (0) by entering the budgetary data on the account, by debiting the account Estimated revenues with 64,000 (total budgetary revenues), crediting the account Appropriations with 63,500 (total budgetary expenditures), and crediting the account Budgetary fund balance with the difference (500; cp. 64,000-63,500). After having entered these budgetary figures on the accounts in the beginning of the year, we continue by entering the accounting figures during the year.

Based on the bookkeeping, the following financial statements are prepared:

**General Fund:  
Statement of Revenues, Expenditures, and Changes in Fund Balances for  
19XX**

|  | Budget         | Actual         | Variances<br>Favorable/<br>(Unfavorable) |
|--|----------------|----------------|--|
| <b>Revenues</b>  |                |                |  |
| Income taxes   | 30,000         | 30,000         | 0  |
| Business taxes   | 28,000         | 28,000         | 70                                       |
| Board of prisoners   | 5,000          | 4,550          | (450)                                    |
| Interest revenues  | <u>1,000</u>   | <u>1,050</u>   | <u>50</u>                                |
| Total revenues   | <u>64,000</u>  | <u>63,670</u>  | <u>330</u>                               |
| <b>Expenditures</b>  |                |                |  |
| Operating jail expenditures  | 13,000         | 12,730         | 270                                      |
| Jail equipment   | 20,000         | 18,000         | 2,000                                    |
| Operating court expenditures                                       | 7,500          | 7,110          | 390                                      |
| Court equipment  | 14,000         | 0              | 14,000                                   |
| Wage expenditures  | 8,000          | 6,670          | 1,330                                    |
| Miscellaneous expenditures   | <u>1,000</u>   | <u>2,310</u>   | <u>(1,310)</u>                           |
| Total expenditures   | <u>63,500</u>  | <u>46,820</u>  | <u>16,680</u>                            |
| Excess (deficiency of revenues over<br>Expenditures)               | <u>500</u>     | <u>16,850</u>  | <u>16,850</u>                            |
| Transfers  | <u>0</u>       | <u>0</u>       | <u>0</u>                                 |
| Total transfers  | <u>0</u>       | <u>0</u>       | <u>0</u>                                 |
| Excess (deficiency of revenues over<br>Expenditures and transfers) | 500            | 16,850         | 16,350                                   |
| Fund balance at beginning of period                                | <u>118,970</u> | <u>118,970</u> | <u>0</u>                                 |
| Fund balance at end of period                                      | <u>119,470</u> | <u>135,820</u> | <u>16,350</u>                            |
| Fund balance reserved for encumbrances                             |                | 14,000         |  |
| Unreserved fund balance  |                | <u>121,820</u> |  |
| Total fund balance   |                | <u>135,820</u> |  |

**General Fund: Balance Sheet**

|  | Opening balance | Ending balance |
|--|-----------------|----------------|
| <b>Assets</b>                          |                 |                |
| Cash account                           | 112,350         | 147,375        |
| Inventory                              | 3,070           | 5,120          |
| Accounts receivable                    | <u>3,550</u>    | <u>1,325</u>   |
|  | <u>118,970</u>  | <u>145,820</u> |
| <b>Liability and fund balances</b>     |                 |                |
| Short-term debt                        | 0               | 18,000         |
| Fund balance reserved for encumbrances | 0               | 14,000         |
| Unreserved fund balance                | <u>118,970</u>  | <u>121,820</u> |
|  | <u>118,970</u>  | <u>153,820</u> |

This example illustrates how fund accounting uses the principle of double-entry bookkeeping to prepare financial accounts, which have the focus on the revenues and expenditures, for every debit corresponds one credit or vice versa for the same amount. In order to achieve the duality that characterizes the double-entry bookkeeping, what makes the difference between the commercial accounting is the link with the budgetary focus, which is entered in order to compare the data from the accounting figures versus the budgetary figures. However, at the end of the period the budgetary data is removed from the bookkeeping (transaction C1), and as a consequence of this entry at the end, only the accounting data remains.

Another feature of fund accounting is when a contract for acquiring a specific asset is signed; the contract amount is debited on the account 'Encumbrances', followed by a crediting of the account 'Reserve for encumbrances' (cp. the principle double-entry bookkeeping). As the example illustrates, the contract amount on the encumbrance accounts (20,000) must be removed, since the actual expenditures (18,000) now have been entered on the expenditure account. Since the actual expenditure does not occur during the accounting year in question; the contract amount must be transferred to the following year, until the actual expenditure occurs.

There is one particularity about fund accounting at the end of the year, the following closing bookkeeping entries: First, the budgetary date from the accounts has to be removed by crediting the account estimated revenue with 64,000, debiting the account Appropriations with 63,500 and debiting the account Budgetary fund balance with 500 (C1). Second, the accounts Revenues and Expenditures have to be closed against the account Unreserved fund balance: debit Revenues (63,670), credit Expenditures (46,820) and credit Unreserved fund balance (16,850) (C2). Third, the encumbrance accounts are closed, by crediting the account Encumbrances with 14,000 and debiting the account Reserve for encumbrances with 14,000 (C3). Finally, the same amount (14,000) is carried forward to the following year, by debiting the account Unreserved fund balance and by crediting the account Fund balance reserved for encumbrances (C4). Monsen (2008).

In order to compare the data, a financial statement is prepared at the end of the period. On this statement called in the example “statement of revenues and expenditures and changes in fund balances”, this report shows several separate columns. One for the budgetary data and the accounting data, and then allows the comparisons of these data by showing in the third column the variances favorable or unfavorable of the revenues and expenditures, this allows to have budgetary control and at the same time it is a way to find out whether or not the financial resources are available when the expenditures must be paid. Governmental organizations, report actual revenues and expenditures and compare them with those budgeted. Anticipated expenditures are based on purchase orders, whose total is recognized as an encumbrance or obligation against the budget.

These are the main features of fund accounting as the ones illustrated in the example above; this method uses the principles of double-entry bookkeeping, but indeed has another approach by adding the budgetary focus in the accounts. As the example shows, the capital account is not used; instead, we have the account named unreserved fund balance. Furthermore, the combination of budgetary data with accounting data and variances allow ensuring that the financial resources are available when the expenditures come due; encumbrance entries are undertaken when a contract for the acquisition of equipment is signed. The latest feature allows focusing more on the needs of governmental accounting by combining both methods.

Fund accounting provides control over the total amount available and the assets to be used for the particular purpose, and also provides a second level of control within this framework by restricting the use of particular resources.

### **3.5 Cameral Accounting**

Cameral accounting in the form of administrative cameralistics has been developed for use in governmental organizations, as an alternative to using commercial accounting. Furthermore, administrative cameralistics has been developed to enterprise cameralistics for providing accrual accounting information in governmental enterprises, as a supplement to using administrative cameralistics for providing accounting and budgeting information for financial (money) management in the core part of a governmental organization (like the treasury in a local government).

#### **Administrative cameralistics (ACAM)**

Administrative cameralistics constitutes the original and main version of cameral accounting. Administrative cameralistics aims to control that public (tax) revenues are managed (money management) within the boundaries of a politically adopted budget (budgetary control). Furthermore, there is a general rule in the governmental sector saying that no cash can be received or paid by an organizational unit without receiving a previous or simultaneous payment instruction from another organizational unit having this competence (payment control), Monsen (2008).

#### **Enterprise cameralistics (ECAM)**

According to Monsen (2008), over time an increasing number of governmental organizations established their own enterprises (e.g., electricity companies), which were more similar to business enterprises (being market financed) than to the core governmental organization (being budget financed). As a result, a developed version of cameral accounting was worked out, with the objective of providing the same type of information for the governmental enterprises as what was prepared when using the merchant's double-entry bookkeeping method, namely accrual accounting information. *Enterprise cameralistics* is the term used when referring to this particular version of cameral accounting.

Enterprise cameralistics use a developed version of systematic single-entry bookkeeping, which can be referred to as *the systematic single-entry bookkeeping method of enterprise cameralistics*, the use of this method of enterprise cameralistics allows the preparation of the performance result via both the payment side (as a part of an integrated balance sheet) and the activity side (profit and loss account). Hence, the performance (profit/loss) result is reported in precisely the same two informative ways as it is reported when using the merchant's double-entry bookkeeping method. The systematic single-entry bookkeeping method of enterprise cameralistics thus forms the basis of *modified financial (money) accounts/performance (profit/loss) accounts* (see Figure 5).

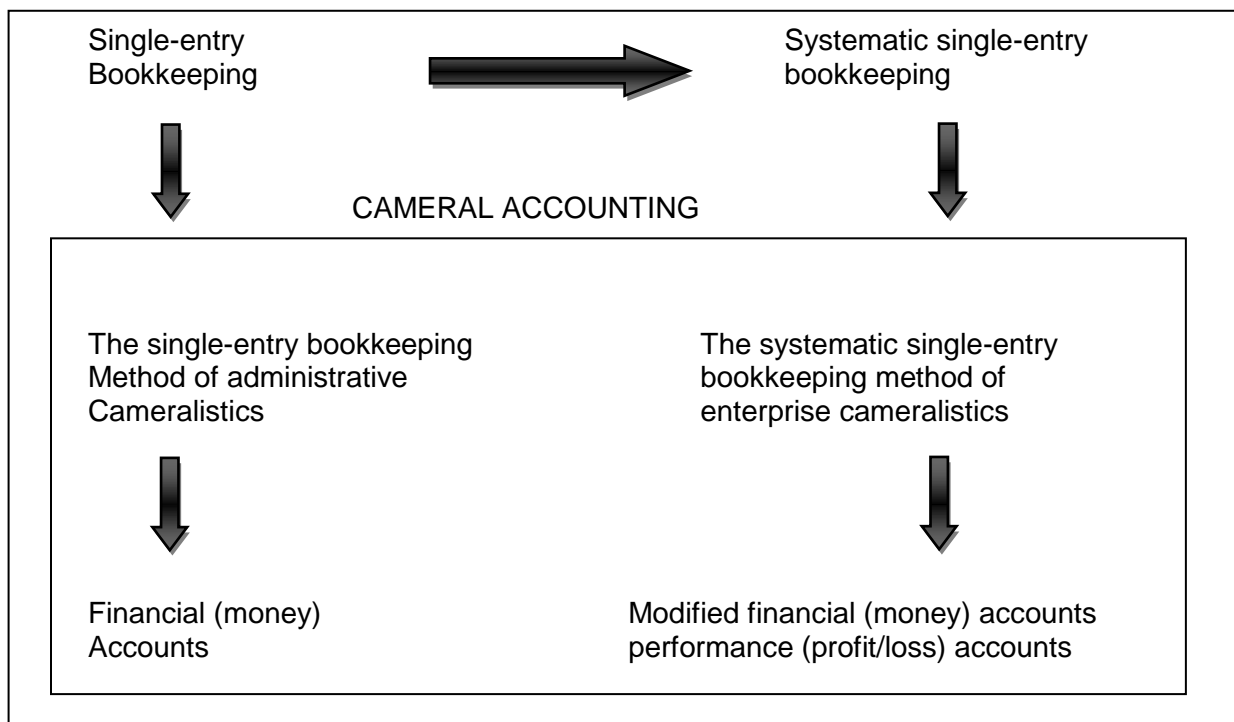


Figure 5: The Cameralist's bookkeeping Monsen (2008)

## The cameral account

The cameral account has been specifically designed to help carry out this important form of control. Administrative cameralistics uses a developed version of single-entry bookkeeping, which can be referred to as *the single-entry bookkeeping method of administrative cameralistics*. Monsen (2008).

Cameral accounting has developed a special account, which is used both in administrative cameralistics and enterprise cameralistics (see Table 2):

|                          | Revenues                                     |                             |                    |   | Expenditures                                 |                             |                    |  |
|--------------------------|--|-----------------------------|--------------------|---|--|-----------------------------|--------------------|--|
| Bookke-<br>ping<br>place | Rests or<br>residual<br>dues b/f<br><br>(RD) | Current<br>dues<br><br>(CD) | Actuals<br><br>(A) | Rests or<br>residual<br>dues c/f<br><br>(R) | Rests or<br>residual<br>dues b/f<br><br>(RD) | Current<br>dues<br><br>(CD) | Actuals<br><br>(A) | Rest or<br>residual<br>dues c/f<br><br>(R) |
|                          |  |                             |                    |   |  |                             |                    |  |

Table 2: The cameral account Monsen (2008)

The concepts presented in Table 2 are previous English language translations of the German cameral accounting concepts see Oettle (1990) and Monsen, (2001, 2002). The corresponding English language concepts of commercial accounting are given in brackets in the following text.

The column *Rests or residual dues brought forward* (RD) shows the amounts brought forward from previous periods. The RD-column constitutes an opening balance sheet account. The column *Current dues* (CD) show the new claims on the revenue side (cp. revenues) and the new obligations on the expenditure side (cp. expenditures). This column constitutes the activity side of the transactions and forms the basis for the preparation of an income statement, focusing on a financial result (revenues minus expenditures) within administrative cameralistics and a performance result (revenues earned minus expenses incurred) within enterprise cameralistics.

The column *Actuals* (A) has a double task. First, it is a settlement account for the rests brought forward (RD) and/or current dues (CD), by showing how much of the rests/current dues that have been realized. The A-column could also contain some non-cash transactions. Hence, the net difference between A-revenues and A-expenditures reports the net change of cash. The column *Rests or residual dues carried forward* (R) shows how much of the dues (i.e., RD+CD) which have not been realized (A). Hence, this column constitutes an ending balance sheet account, where the amounts in this column (cp. accounts receivable and liabilities) are carried



forward to the RD-column for the following period. The two columns *Actuals* (A) and *Rests or residual dues carried forward* (R) constitute the payment side of the transactions.

Rests or residual dues carried forward = Rests or residual dues brought forward +  
Current dues – Actuals

$$R = RD + CD - A$$

### **Example**

Departing from the numerical example, the *cameral bookkeeping, will be carried out* that is, do the bookkeeping on the cameral account. (These examples have been taken from Monsen (2008, p.55-61).

### **The single-entry bookkeeping method of administrative cameralistics.**

Monsen (2008), explains that within administrative cameralistics, the focus is on the financial (money) effect of the revenues and expenditures .The bookkeeping is carried out on the cameral account and the two basic bookkeeping rules of cameral accounting must always be followed:

- 1) No A-entry without an earlier or simultaneous CD-entry
- 2)  $R = RD + CD - A$

These two rules apply separately to the revenue and expenditure sides.

Hence, payment control can easily be undertaken when applying the cameralistics single-entry bookkeeping method, by simply comparing the payment instructed amounts in the CD-columns with the actual payments in the A-columns.

| ADMINISTRATIVE CAMERALISTICS      | Revenues                        |                   |             |                                | Expenditures                    |                   |             |                                |
|-----------------------------------|---------------------------------|-------------------|-------------|--------------------------------|---------------------------------|-------------------|-------------|--------------------------------|
|                                   | Rests or residual dues b/f (RD) | Current dues (CD) | Actuals (A) | Rests or residual dues c/f (R) | Rests or residual dues b/f (RD) | Current dues (CD) | Actuals (A) | Rests or residual dues c/f (R) |
| Bookkeeping place                 |                                 |                   |             |                                |                                 |                   |             |                                |
| 1) Various operating revenues     |                                 | 12.000            | 10.500      | 1.500                          |                                 |                   |             |                                |
| 2) Various operating expenditures |                                 |                   |             |                                |                                 | 11.000            | 9.900       | 1.100                          |
| 3) Interest revenues              |                                 | 50                | 50          | 0                              |                                 |                   |             |                                |
| 4) Interest expenditures          |                                 |                   |             |                                |                                 | 100               | 100         | 0                              |
| 5) Loan installment               |                                 |                   |             |                                |                                 | 300               | 300         | 0                              |
| 6) New loan                       |                                 | 2.000             | 2.000       | 0                              |                                 |                   |             |                                |
| 7) Investment expenditures        |                                 |                   |             |                                |                                 | 3.000             | 3.000       | 0                              |
|                                   | 0                               | 14.050            | 12.550      | 1.500                          | 0                               | 14.400            | 13.300      | 1.100                          |

Table 3: ACAM (Administrative Cameralistics example) Monsen (2008)

From Table 3 the following two financial results appear:

|  |                |
|--|----------------|
| <i>Revenues-CD (revenues)</i>          | 14.050         |
| <i>-Expenditures-CD (expenditures)</i> | <u>-14.400</u> |
| <i>Net revenue</i>                     | <u>-350</u>    |
| <br>                                   |                |
| <i>Revenues-A (cash inflows)</i>       | 12.550         |
| <i>-Expenditures-A (cash outflows)</i> | <u>-13.300</u> |
| <i>Net cash change</i>                 | <u>-750</u>    |

The merchant's single-entry bookkeeping is based on cash inflows and outflows, and a financial result (net cash change) of -750 appears. We will see that cash inflows and outflows, along with net cash change, also is reported when using the single-entry bookkeeping method of administrative cameralistics.

Here it must be underlined that only accounts receivable and debt, for which payment instructions have been given (CD-columns), but which have not yet been paid (A-columns) will be registered on the accounts.

### **The systematic single-entry bookkeeping method of enterprise cameralistics.**

According to Monsen (2008), this development occurred by extending the interpretation of the rest columns as follows:

- (1) All revenues and expenditures were entered in the rest columns, and not only those revenues and expenditures, for which payment instructions had been given.
- (2) Assets/liabilities, which were not entered on the accounts within administrative cameralistics (e.g., buildings), as a result of the fact that only non-comprehensive balance accounts were prepared, were also entered in the rest columns.

| Column description   | Revenues                        |                   |                       |                                | Expenditures                    |                   |                       |                                |
|----------------------|---------------------------------|-------------------|-----------------------|--------------------------------|---------------------------------|-------------------|-----------------------|--------------------------------|
|                      | Rests or residual dues b/f (RD) | Current dues (CD) | Actuals (A)           | Rests or residual dues c/f (R) | Rests or residual dues b/f (RD) | Current dues (CD) | Actuals (A)           | Rests or residual dues c/f (R) |
| Balance account      | Initial balances                | Increase          | Decrease              | Final balances                 | Initial balances                | Increase          | Decrease              | Final balances                 |
| Income account       | ----                            | Revenue earned    | ---                   | ----                           | ----                            | Expense incurred  | ---                   | ---                            |
| Cash account         |                                 |                   | Cash inflows          |                                |                                 |                   | Cash outflows         |                                |
| Non-cash transaction |                                 | Non-cash revenues | Non-cash transactions |                                |                                 | Non-cash expenses | Non-cash transactions |                                |

Table 4: The basic form of the cameral account within (ECAM- Enterprise Cameralistics) Monsen,(2008)

Moreover, the two basic bookkeeping rules of cameral accounting must also always be followed within enterprise cameralistics:

- 1) **No A-entry without an earlier or simultaneous CD-entry**
- 2)  **$R = RD + CD - A$**

These two rules apply separately to the revenue and expenditure sides.

It is common to group the accounts into four different accounting sections (AS) when closing the ledger within enterprise cameralistics:

|                                |   |
|--------------------------------|---|
| <i>Accounting section I:</i>   | <i>Performance result accounts (profit and loss account)<br/>This section contains the performance result accounts.</i>   |
| <i>Accounting section II:</i>  | <i>Assets.<br/>This section contains the accounts for the intermediate or permanent non-performance result transactions.</i>  |
| <i>Accounting section III:</i> | <i>Money and capital accounts.<br/>This section contains the accounts for the non-performance result Effective loan and capital transactions as well as accounts receivable and debt.</i> |
| <i>Accounting section IV:</i>  | <i>Closing.<br/>This account contain contains the closing entries, first of all the bookkeeping of the performance result and the cash account.</i>                                       |

Bookkeeping of the transactions in the numerical example by use of the single-entry bookkeeping method of enterprise cameralistics, is illustrated in tables ECAM 1 and ECAM 2 (ECAM = Enterprise cameralistics).

| ENTERPRISE CAMERALISTICS                                       | Revenues                        |                   |            |                                | Expenditures                    |                   |            |                                |
|--|---------------------------------|-------------------|------------|--------------------------------|---------------------------------|-------------------|------------|--------------------------------|
|  | Rests or residual dues b/f (RD) | Current dues (CD) | Actual (A) | Rests or residual dues c/f (R) | Rests or residual dues b/f (RD) | Current dues (CD) | Actual (A) | Rests or residual dues c/f (R) |
| <i>Accounting section I Result effective transactions</i>      |                                 |                   |            |                                |                                 |                   |            |                                |
| <i>Expenses incurred</i>                                       |                                 |                   |            |                                |                                 |                   |            |                                |
| Operating expenses (cash) (2a)                                 |                                 |                   |            |                                |                                 | 9.900             | 9.000      |                                |
| Operating expenditures (Transfer to Section II) (2b)           |                                 |                   |            |                                |                                 | 1.100             | 1.100      |                                |
| Interest expenses (cash) (4)                                   |                                 |                   |            |                                |                                 | 100               | 100        |                                |
| Depreciation (8)   |                                 |                   |            |                                |                                 | 15                |            |                                |
| Opposing entry to Section III (non-cash) (8)                   |                                 |                   |            |                                |                                 |                   | 15         |                                |
| <i>Revenues earned</i>   |                                 |                   |            |                                |                                 |                   |            |                                |
| Operating revenues (cash) (1a)                                 |                                 | 10.500            | 10.500     |                                |                                 |                   |            |                                |
| Operating revenues (non-cash) (Transfer from Section III) (1b) |                                 | 1.500             | 1.500      |                                |                                 |                   |            |                                |
| Interest revenues (cash) (3)                                   |                                 | 50                | 50         |                                |                                 |                   |            |                                |
| Total Accounting section I                                     | 0                               | 12.050            | 12.050     | 0                              | 0                               | 11.115            | 11.115     | 0                              |
| <i>Accounting section II: Assets</i>                           |                                 |                   |            |                                |                                 |                   |            |                                |
| <i>Fixed assets: Opening balance</i>                           |                                 |                   |            |                                |                                 |                   |            |                                |
| Increase: Expenditures (cash) (7)                              | 0                               |                   |            |                                |                                 | 3.000             | 3.000      |                                |
| Revenue entry (7)  |                                 | 3.000             |            |                                |                                 |                   |            |                                |
| Decrease: Opposing entry to Section I (non-cash) (8)           |                                 |                   | 15         |                                |                                 |                   |            |                                |
| Ending balance   |                                 |                   |            | 2.985                          |                                 |                   |            |                                |
| Total accounting section II                                    | 0                               | 3.000             | 15         | 2.985                          | 0                               | 3.000             | 3.000      | 0                              |

Table 5: ECAM 1 Monsen (2008)

| ENTERPRISE CAMERALISTICS (continued)   | Revenues                        |                   |            |                                | Expenditures                    |                   |            |                                |
|--|---------------------------------|-------------------|------------|--------------------------------|---------------------------------|-------------------|------------|--------------------------------|
|  | Rests or residual dues b/f (RD) | Current dues (CD) | Actual (A) | Rests or residual dues c/f (R) | Rests or residual dues b/f (RD) | Current dues (CD) | Actual (A) | Rests or residual dues c/f (R) |
| <i>Accounting section III: Accounts receivable, liabilities and equity</i>       |                                 |                   |            |                                |                                 |                   |            |                                |
| <i>Accounts receivable: Opening balance</i>                                      | 0                               |                   |            |                                |                                 |                   |            |                                |
| Increase: Operating expenditures (non-cash) (1b)<br>Transfer to Section I (1b)   |                                 | 1.500             |            |                                |                                 | 1.500             | 1.500      |                                |
| Decrease: Cash inflow  |                                 |                   | 0          |                                |                                 |                   |            |                                |
| Ending balance   |                                 |                   |            | 1.500                          |                                 |                   |            |                                |
| <i>Short-term debt: Opening balance</i>  |                                 |                   |            |                                | 0                               |                   |            |                                |
| Increase: Operating expenditures (non-cash) (2b)<br>Transfer from Section I (2b) |                                 | 1.100             | 1.100      |                                |                                 | 1.100             |            |                                |
| Decrease : Cash outflow  |                                 |                   |            |                                |                                 |                   | 0          |                                |
| Ending balance   |                                 |                   |            |                                |                                 |                   |            | 1.100                          |
| <i>Long-term debt: Opening balance</i>   |                                 |                   |            | 0                              | 1.600                           |                   |            |                                |
| Increase: New loan received (6)<br>Reverse entry to (6)                          |                                 | 2.000             | 2.000      |                                |                                 | 2.000             |            |                                |
| Decrease: Installment (5)  |                                 |                   |            |                                |                                 |                   | 300        |                                |
| Ending balance   |                                 |                   |            |                                |                                 |                   |            | 3.300                          |
| <i>Equity: Opening balance</i>   |                                 |                   |            |                                | 400                             |                   |            |                                |
| Increase: New equity received (cash) (a)<br>Reverse entry to (a)                 |                                 | 0                 | 0          |                                |                                 | 0                 |            |                                |
| Ending balance   |                                 |                   |            |                                |                                 |                   |            | 400                            |
| Total Accounting section III   | 0                               | 4.600             | 3.100      | 1.500                          | 2.000                           | 4.600             | 1.800      | 4.800                          |
| <i>Accounting section IV: Closing</i>  |                                 |                   |            |                                |                                 |                   |            |                                |
| Total Accounting sections I-III  | 0                               | 19.650            | 15.165     | 4.485                          | 2.000                           | 18.715            | 15.915     | 4.800                          |
| <i>Cash account: Opening balance</i>   | 2.000                           |                   |            |                                |                                 |                   |            |                                |
| Net cash change (decrease)   |                                 |                   |            |                                |                                 |                   |            |                                |
| Ending balance   |                                 |                   |            |                                |                                 |                   |            |                                |
| Performance result (profit)  |                                 |                   |            |                                |                                 | 935               |            | 935                            |
| Total accounting section I-IV  | 2.000                           | 19.650            | 15.915     | 5.735                          | 2.000                           | 19.650            | 15.915     | 5.735                          |

Table 6: ECAM 2 Monsen (2008)

Starting at the RD-columns we can prepare the balance accounts (balance sheet) at the beginning of the period, and starting at the R-columns we can prepare the balance accounts (balance sheet) at the end of the period.

First, the balance accounts are shown by using the grouping into accounting sections. Second, the individual items in the balance accounts are shown.

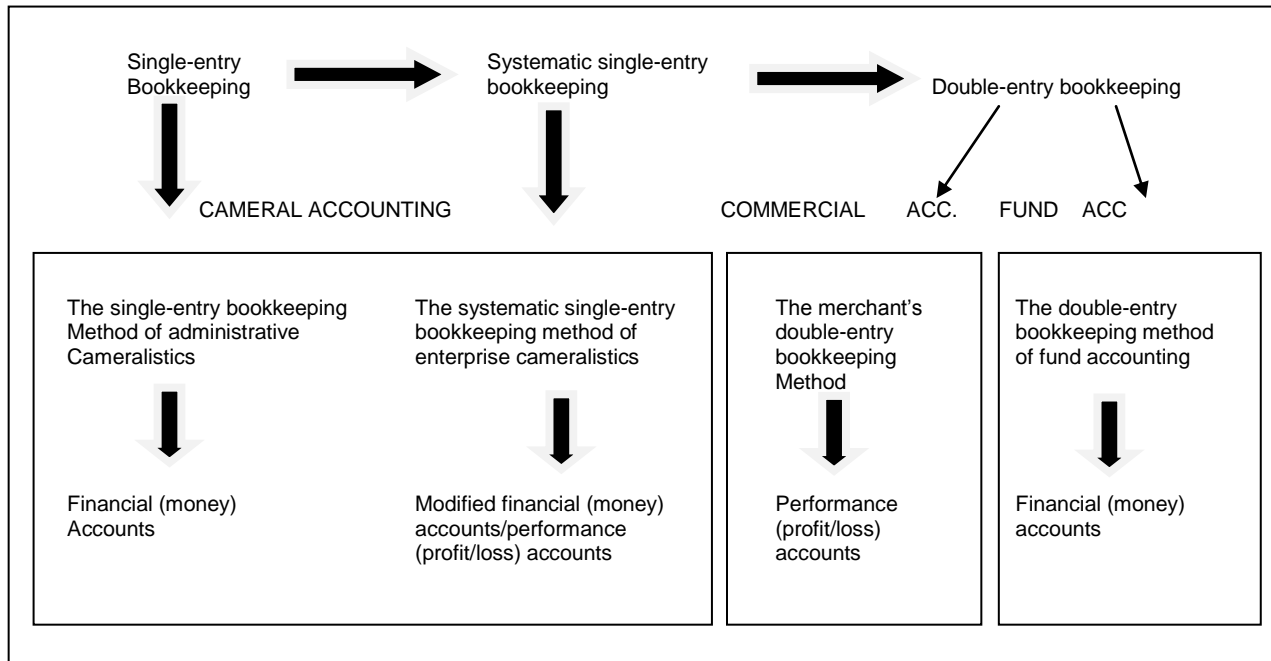
| <b>Balance account</b>      |           | <b>Opening balance<br/>(RD)</b> |                 | <b>Final Balance<br/>(R)</b> |
|-----------------------------|-----------|---------------------------------|-----------------|------------------------------|
| <i>Assets</i>               |           |                                 |                 |                              |
| ASII-III                    | (0+0)     | 0                               | (2.985+1.500)   | 4.485                        |
| Cash account                |           | <u>2.000</u>                    | (2.000-750)     | <u>1.250</u>                 |
|                             |           | <u>2.000</u>                    |                 | <u>5.735</u>                 |
| <i>Liability and equity</i> |           |                                 |                 |                              |
| ASII-III                    | (0+2.000) | 2.000                           | (0+4.800)       | 4.800                        |
| Performance result profit   |           | <u>0</u>                        | (19.650-18.715) | <u>935</u>                   |
|                             |           | <u>2.000</u>                    |                 | <u>5.735</u>                 |

| <b>Balance account</b>      |  | <b>Opening balance<br/>(RD)</b> |                   | <b>Final balance<br/>(R)</b> |
|-----------------------------|--|---------------------------------|-------------------|------------------------------|
| <i>Assets</i>               |  |                                 |                   |                              |
| Cash account                |  | 2.000                           | (2.000-750)       | 1.250                        |
| Accounts receivable         |  | 0                               | (0+1.500-0)       | 1.500                        |
| Fixed assets                |  | <u>0</u>                        | (0+3.000-15)      | <u>2.985</u>                 |
|                             |  | <u>2.000</u>                    |                   | <u>5.735</u>                 |
| <i>Liability and equity</i> |  |                                 |                   |                              |
| Short-term debt             |  | 0                               | (0+1.100-0)       | 1.100                        |
| Long-term debt              |  | 1.600                           | (1.600+2.000-300) | 3.300                        |
| Equity                      |  | 400                             | (400+0-0)         | 400                          |
| Performance result (profit) |  | <u>0</u>                        | (19.650-18.715)   | <u>935</u>                   |
|                             |  | <u>2.000</u>                    |                   | <u>5.735</u>                 |

As illustrated in the example above, the method of cameralistics offers another means to accomplish the goals of the governmental sector through: budgetary control, payment control, and money management by offering in a simplified way the results of the period and making it simpler by using the single-entry bookkeeping method which is the root of the accounting methods that exist nowadays.

## Summary

In summary, figure 6 gives an overview of these three accounting models. In particular, the figure below summarizes which bookkeeping method(s) is (are) used in the three accounting models.



**Figure 6: Different accounting models with their bookkeeping methods.**  
 Source: Monsen, (2008) p.108

In figure 6 Monsen depicts the method of administrative cameralistics which uses the single-entry bookkeeping considering the financial (money focus) approach, whereas the method of enterprises cameralistics uses the single-entry bookkeeping method with a modified version of the financial money / performance (profit/ loss) accounts, aiming to fulfill the needs of both entities using a different approach depending on their focus. On the right side of figure 6, we have the other two methods mentioned earlier, both of them are based on double-entry bookkeeping with the difference that fund accounting combines the budgetary figures in order to fulfill the needs of the governmental organizations. Despite their differences; it is commercial accounting which is the dominating accounting model today used in governmental organizations. Perhaps due to the fact that most of the literature is written in English therefore it increasingly influences the development of the accounts prepared by nonbusiness organizations. Although the cameralistics methods are focused on the specific needs of the each entity and the statements developed through its phases aim to simplify the reports and make them more informative and easy to understand for the users of the information.



# 4. EMPIRICISM

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This empirical study case is developed in Mexico; *According to Brunsson (1985), "the main purpose should be to generate theories formulated for and based on specific social situations, which have been studied empirically. These theories form 'languages' that provide means for understanding the situation studied. Such theories can then be used by people involved in similar situations, when they are trying to improve their understanding of their own reality."* Therefore in line with the author this study will conduct empiricism by analyzing the financial statements that will be studied belong to the municipality of San Luis Potosí. Thus, a general overview of the municipality will be described briefly. In order to understand the situation studied and based on this social situation, we will propose some improvement ideas on how to improve the presentation of the financial statements and that could be used by this municipality in order to become more informative.

Thus, as a starting point to conduct this empiricism, we present an overview of the main financial reports of the third quarter of 2011 for this municipality and thereafter the detailed description of the financial statements will be presented.

## 4.1 Municipality of San Luis Potosí

San Luis Potosí, commonly called SLP or simply San Luis, is the capital of and most populated city in the Mexican state of the same name. It has an estimated population of 735,886 inhabitants in the city itself, and a population of approximately 1,021,688 including its metropolitan area. The city of San Luis Potosí is located in the west-central part of the state of San Luis Potosí, at 22.16°N, 100.98°W. The municipality has an area of 1,443.14 km<sup>2</sup> (557.2 sq mi). Nowadays the city is one of the main industrial centers in central Mexico with a prolific manufacturing industry. A number of foreign industries have chosen to invest in San Luis Potosí in the last decades thanks to its strategic location for trade, as the city is located halfway between Mexico City and the United States border.<sup>10</sup>

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<sup>10</sup> <http://www.sanluisPotosí.gob.mx/>.

## 4.2 The main financial Statements overview

The financial report presented within this study is the most recent one that could be obtained by the author, due to the upcoming elections in Mexico that will be held in July this year (2012); it is not possible to obtain the latest information, according to the information that was given by the municipality. Therefore the period studied includes the third quarter of the year 2011.

The structure of the financial statements of this municipality consists of a report that contains 57 pages, divided in two sections. The first section is related to the “Financial statements” and the second one is called “revenue sources of law”, this study will be focused only on the analysis of the first part of this report, which contains 28 pages including the notes to the financial statements. The financial report has nine sections that are divided according to the following table. The nine sections are detailed, in the order they are presented in the report of the financial statements for Q3-2011 of the municipality of San Luis Potosí. (See table 7).

| Sections | Financial Statements                        | Page |
|----------|---|------|
| 1        | Balance sheet                               | 1    |
| 2        | Income Statement                            | 4    |
| 3        | Statement of changes in the public finances | 6    |
| 4        | Analytical report of the public debt        | 7    |
| 5        | Analytical report of the assets             | 9    |
| 6        | Budget of revenues statement                | 15   |
| 7        | Statement of budget execution               | 17   |
| 8        | Budgetary accounting reconciliation         | 21   |
| 9        | Notes to the financial statements           | 22   |

Table 7: Structure of the financial report of the municipality of SLP Q3-2011 (See appendix for further details)

## 4.3 Structure Chart of Accounts

In order to analyze the structure of the financial statements and the accounts that are part of them, an overview of their main characteristics is described briefly. Therefore, according to the (SCG) for its acronym in Spanish “Governmental accounting system”, the structure of the chart of account includes the first two additions to which must be aligned the list of accounts which will provide the public entities with the

record of all the transactions of a financial asset that occur in them. The accounts have two levels of aggregation, the first level consists of type group and category, and the second level consists of the account itself. The accounts can be disaggregated into sub-accounts of the first order, sub-second order etc. They reach in total four levels as illustrated in table 8, first we have the assets, as type, and the sub-account is the type of asset, thereafter has the account related to the asset and its sub-account, becoming 4 accounts for one gender. Thus, the 4 different levels of disaggregation consist of:

- ✓ **Type:** Considers the universe of the classification.
- ✓ **Group:** Determines the scope of the universe in areas compatible with this type in a stratified manner, allowing to aggregate levels to meet its composition.
- ✓ **Entry:** Allows the particular classification of operations within the entity.
- ✓ **Account:** Sets the recorded level operation for bookkeeping purposes.

In the table below there is an example of the account chart that is used by this municipality. In the main financial Statements we will find just the main account type and the sub accounts, but for further details the detailed amounts are in accompanied reports (see appendix).

|  |  |
|--|--|
| <b>1 ASSETS</b>                                    | <b>4 INCOME</b>                                    |
| <b>1.1 Current Assets</b>                          | <b>4.1 Revenue Management</b>                      |
| <b>1.1.2 Rights to receive cash or equivalents</b> | <b>4.1.6 Contributions</b>                         |
| 1.1.2.1 Short-term investment                      | 4.1.6.1 Incentives derived from Fiscal Cooperation |
| 1.1.2.2 Short-term Accounts receivable             | 4.1.6.2 Fines                                      |
| 1.1.2.3 Short-term Other debtors                   | 4.1.6.3 Allowances                                 |
| <b>2 LIABILITIES</b>                               | <b>5 EXPENSES</b>                                  |
| <b>2.1 Current Liabilities</b>                     | <b>5.1 Operating Cost</b>                          |
| <b>2.1.1 Accounts Payable Short-term</b>           | <b>5.1.1 Personal Services</b>                     |
| 2.1.1.1 Short-term personal services payables      | 5.1.1.1 Remuneration of permanent staff            |
| 2.1.1.2 Short-term payables                        | 5.1.1.2 Remuneration of temporary staff            |
| 2.1.1.3 Subsidies payables short-term              | 5.1.1.3 Additional compensation                    |

Table 8: Account Chart example

Source: <http://www.slpsalud.gob.mx/armonizacion-contable/file/50-postulados-bsicos-de-contabilidad-gubernamental.html>

## 4.4 Financial Statements features

### Balance Sheet

As per the structure of the report in first instance we have the balance sheet which contains three pages within this report where all the assets balances are reported, as well as the liabilities and the public finances are illustrated, the report contains all the details for each of the concepts that belong to this financial statement, in summary, but indeed for the concept of assets there is a detailed list of all of the items that integrate the amount according to their given classification (see appendix 1) for further details.

Furthermore, the Balance Sheet statement itself has two comparison columns between Quarter 2 and Quarter 3 of the report for the year 2011. Additionally the assets are classified by their convertibility into money; first, we have current assets: cash and the convertibles, thereafter the assets are presented in tangible and intangible assets.

Moreover, another concept of the balance sheet is related to the liabilities. The presentation within the balance sheet is as follows: the ones that are payable earlier are presented first i.e. the so called current liabilities i.e. the short-term liabilities, such as: suppliers, contractors for public works, participation and grants, transfer granted as well as withholdings and contributions.

Thereafter the long-term liabilities such as: Notes payable, external public debts, and other liabilities in the long-term, are presented in parallel with the assets on the right hand side of the report; the summary of the amounts is presented showing the amounts recorded within the period summing up the short-term debt and the long term debt.

The line public finance shows the contributions derived from the encumbrances, grants of capital, as well as the wealth generated by the public finance, this concept is presented at the bottom part of the report right after of the total liabilities. In order to balance the equation:

$$\text{Assets} = \text{Liabilities} + \text{Public finance}$$

At the end of the report on the right hand side we have the total of the assets in the amount of \$8,190,567 K MXN, and on the other side is the sum of the liabilities plus the sum of the recorded public finance account in order to balance the equation.

## **Income Statement**

The income statement contains three pages (see appendix 2), the statement presents the income and expenses arising from the period, on the first page all the income concepts are divided into four accounts: revenue management, participations and contributions, transfer subsidies and other aids and other income; every account has its detail.

Thereafter all the expenses are listed on the second page, the expense concepts are divided in five accounts: expenses and other loses, transfers, subsidies and other aids, participations and contributions, interest, commissions and other expenses of the public debt see figure 2 where performance accounts are presented.

On the bottom line of the Income Statement there is the net income of the period that comes from the following equation:

$$\text{Income} - \text{Expenses} = \text{Net income/ Surplus or deficit}$$

A municipality's statement of revenues, expenditures, and encumbrances reports operating encumbrances. This feature enables the management of the municipality to track the resource uses.

## **Statement of the changes in public finance**

This financial statement shows the fund equity from the previous period, the statement has the accounts that affect the public finances such as actualizations and capital granted updates of the public finances, changes in public finances in order to find which the net balance is in the public finance at the end of the period. This financial statement is similar to the one used in commercial accounting called "Statement of changes in the stockholders equity" the account names are different but the structure remains the same. (See appendix 3)

## **Analytical report of public debt**

Analytical report of public debt aims to provide the detail of public debt in the short-term and long-term, divided into two accounts: interior public debt and exterior public debt, the report list, credit institutions, securities and financial leasing. In the subsequent columns, we report the recorded balance owed at the end of the period as well as the payments done within the period. (See appendix 4). The report shows that there are debts to three different bank institutions, and are classified as public interior debt.

## **Analytical report of the assets**

The analytical report of assets contains six pages that show the detail of the assets i.e. the ledger for the assets that were reported within the balance sheet, classified according to their convertibility in cash. This report consists of six columns: on the first one the account is described, and then the opening balance, the debit columns and credit column as well as the ending balance, on the sixth column the flow period is reported. (See appendix 5).

## **Budget of revenues statement**

The budget income statement contains two pages: the report has six columns where the source of income is detailed on the first column, on the second one the estimated revenue law is recorded, besides the column of modified income shows the same amount as the estimated revenue law, this indicates that there were no changes between the estimated revenue law and the budgeted revenue, the fourth and fifth column have the same balances. One is called accrual and the other collected, and on the last column the percentage of the collection is calculated. Thereafter the income is classified according to its origin, which is called "Analytical state of revenues according to the source of contribution such as taxes, rights, products. (See appendix 6) by summing them up the statement comes up with the total of the budgeted revenues for the period.

## **Statement of the budget execution**

This budgetary statement shows the authorized budget, as well as the amendments to the budget, the committed budget, the committed budget available and the recorded budget. The budget used and the payments that were released during the period at the end. The last column shows the balance of the recorded budget minus the payments. The main purpose of this statement is to inform you how expenses have been distributed among the chapters used by this municipality and to know whether or not the administration of the budget is in line with the budget constraints by showing the expenses of the period in a budgetary basis. (See appendix 7)

## **Budgetary accounting reconciliation**

This budgetary accounting reconciliation is in simple words the income statement of the budget where the budgetary figures report the income to the public account, i.e. coordinated municipal revenues, income from decentralized organizations. On the other hand, the expenses of the public account such as expenses for the amortization of public debt, and investments, both shown at the end of the balance of income and expenses, without any profitability account. (See appendix 8)

## **Notes to the financial statements**

The notes to the financial aim to provide additional information to what it is provided within the financial statements. These notes help to explain specific items on the financial statement. These explanations will provide a more comprehensive assessment of the organization. The municipality of San Luis Potosí has eight notes to the financial statements covering the following items:

- ✓ Note 1: Legal Framework
- ✓ Note 2: Basis of preparation for financial statements
- ✓ Note 3: Cash and equivalents
- ✓ Note 4: Rights to receive cash or equivalents
- ✓ Note 5: Current assets
- ✓ Note 6: Non-current assets
- ✓ Note 7: Current liabilities
- ✓ Note 8: Long term public debt

All the details of the notes are on the appendix; the notes are presented within the framework of the commercial enterprises with some remarkable differences such as the legal framework, and the long term public debt, and these notes are at the end of the financial statements report. (See appendix 9).

## **Overall overview of the financial statements of the municipality**

This municipality, in its first instance presents the typical commercial financial statements, namely balance sheet and Income statement. With the difference that there is no equity on the balance sheet, which shows the public finances instead of the equity account.

At first glance, the income statement is the same as the one used in commercial accounting, thereafter the report includes a financial statements with the budgetary figures. Within the budgetary figures the reports aim to make the comparison of the budgeted events (in accordance to the law of revenues and expenditures 2011) versus the actual events. The results of the analysis of the financial statements that combine the budgetary figures serve as a measure of the uses of the resources within the period.

Sherman (1980), argues that government organizations incorporate budgets into their financial statements because their purpose is to execute the budget created by the legislative branch in line with the regulations. In this case of study we could make reference to the law of Income and expenditure budget for fiscal year 2011, and that what the municipality seeks is to accomplish goals with the budgetary constraints.

Within this chapter we have analyzed all the financial statements contained in the financial report for this municipality, the main financial reports will be used as a basis for the comparison towards the accounting frameworks.



# 5. DISCUSSION

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Within this chapter we will analyze which is the accounting method used to develop the financial statements of the municipality of San Luis Potosí, according to the frameworks presented previously in chapter 3. Therefore, in order to find out which framework is used when preparing the financial statements of the municipality, the author will compare among the three frameworks namely: Commercial accounting, fund accounting and governmental accounting against the financial statement basis of preparation. Before conducting the comparison among the frameworks presented in chapter 3, the basis of preparation of these financial statements will be discussed.

## 5.1 Basis of preparation

According to the notes of financial statements within note two, the basis of the preparation is described as follows: “The presented financial statements were prepared in accordance to Governmental Accounting rules, authorized by the Ministry of Finance through the national council for accounting harmonization in accordance to Government accounting law, their basic principles, frameworks, the guidelines published by the “ CONAC”, the law of budget, accounting and expenditure in San Luis Potosí, and its regulations. These include the law of Income and expenditure budget for fiscal year 2011, which is consistent with the financial reporting standards except that these rules do not require the recognition of the effects of inflation on the financial information”.

Therefore, the basis of the preparation of the financial Statements for this municipality lies on the Basic postulates for governmental accounting established by the (SCG), there are eleven basic postulates:

1. Economic Substance
2. Public Entities
3. Permanent existence
4. Sufficient disclosure
5. Relative importance
6. Budgetary registration and integration

7. Consolidation of financial information
8. Accrual accounting
9. Valuation
10. Economic duality
11. Consistency

All these postulates are published in the MCG for its acronym in Spanish (Governmental accounting manual) by the CONAC (National council of accounting harmonization).CONAC (2010).

As for the postulates mentioned above, there are many of them that belong to the commercial accounting basis of preparation but at the same time in point 4 we could find that there is a combination in the presentation of financial statements together with the budgetary figures but in order to analyze the implications of the basis of the preparation an analysis of the three main financial statements will be presented aiming to find out whether or not they have elements that belong to some of the frameworks presented earlier in chapter 3.

## **Balance Sheet**

The Balance Sheet at glance presents the view of a typical balance sheet developed in the economic enterprises (those that sought to have a profit), but if we go further there are some specifics that differentiate this report that aims to report the activity side of the company. One relevant feature to be underlined is the one concerning the assets. On balance sheets it is important to underline, in the block of the assets, the fact that these are not depreciated, and there is no line regarding to accumulated depreciation, when comparing both periods Q2 versus Q3. In some lines, the value remains the same among both periods or even increases due to new acquisitions, then the value remains the same (see appendix 1), which means that the basis of the preparation does not belong to the one used in commercial accounting.

For governmental organizations this point is understandable since the municipality does not aim to replace the equipment to get some profit or economical benefit from the assets, and because governments do not own assets from an owner point of view, therefore they account for the use of them in order to produce a good or service in order to pursuit some economic results, the main focus of governmental

organizations is to provide services for the common good by using the resources granted by the government or collected from taxation.

There are some other facts that were observed for instance in the line of asset inventories of goods record zero as a balance. In my opinion this concept should not be at the balance sheet of nonprofit organizations, because governmental organizations do not aim to make any profit or sale from any service, so there is no reason to have raw material and inventory of work in progress for such an entity.

Regarding equity in government organizations, there are no equity owners. Therefore, instead of equity the balance sheet shows an account named public finances as a special feature of this statement if compared to a commercial accounting balance sheet. Therefore, this is a further reason to argue that this municipality does not use commercial accounting purely because the balance sheet shows certain differences against the commercial accounting framework.

## **Income Statement**

This statement illustrates the uses i.e. expenses which represent the resources used in an accounting period and the other side the revenues represent the inflows of sources (see figure 2). According to the basis of preparation there is nothing related to depreciation as analyzed in the balance sheet, therefore no depreciation outflows (which represent a virtual outflow) but in this case it is not part of the financial statement due to the fact that it is a governmental organization, and this is clearly a sign that these financial statements have not been developed with a commercial accounting framework. .

According Anthony (1980), municipalities count payments as revenues as soon as they receive the funds. They disregard the fact that a liability has been created. Therefore this is one of the features that set a difference between the accounting method, used in commercial accounting and fund accounting. In fund accounting revenues are recognized as soon as they are received whereas in commercial accounting the revenue counts the payment when the product has been sold or the service performed.

In the case of municipalities, administration acts as an intermediary. As mentioned by Monsen (2002), there is no characteristic of governmental organizations of so-called non-exchange transaction. Where there is no causal relationship between certain received amount i.e. all the inhabitants pay for the services that they receive from the government through taxation but there is no way to measure the cost-benefit relationship among the taxes paid and the services received, therefore the government is not concerned with the profit measurement approach. This is one of the reasons why the income statement for a governmental organization does not reflect the measurement of the profitability for the case of the organization object of this study, just shows how the resources collected were spent.

Thus, the development of the presented Income statement does not aim to provide the profitability analysis used in business enterprises. This is another reason to refuse the use of commercial accounting; furthermore there is a lack of elements or signs that shows the presence of any element to evaluate the presence of the single-entry bookkeeping method used in the administrative cameralistics framework.

## **Budgetary Statements**

This municipality combines its financial accounting with its budgetary systems. It reports actual revenues and expenditures and compare them with those budgeted. In order to establish the payment control sought by the municipality and in order to find out if they are in line with the budget established by law.

Nevertheless, the recognition of encumbrances provides very useful information about the resources available. When coupled with recognition of budgeted resource inflows, encumbrance accounting permits a continuous measure of the unencumbered resources that can be freely used to accomplish fund's objectives. Sherman (1980), aiming for budgetary control by combining commercial accounting basis with the budgetary figures, as presented in the financial statements (see appendix for further details).

## 5.2 Accounting method used for the preparation of the financial Statements

In the table below a summary of the three methods and their main features are illustrated, this table serves as a basis of comparison among the three frameworks.

| Features/ Bookkeeping Method     | Commercial Accounting  | Fund Accounting  | Administrative Cameralistics  |
|----------------------------------|--|--|---|
| <b>Concept</b>                   | Revenues minus expenses.   | Based on "flow funds" approach incorporating budgetary data.       | Money management Reporting on Money development   |
| <b>Objective</b>                 | Recording economic revenues and expenditures aiming at reporting the financial position through P&L (Profitability analysis) | Budgetary spent and acquisitions according to budget restrictions. | Follow-up of the authorized budget.   |
| <b>Accounting Method</b>         | Double-entry bookkeeping   | Double-entry bookkeeping   | Single-entry bookkeeping  |
| <b>Reporting</b>                 | Aims at disclosing <b>performance measurement</b> in terms of economic and financial results.                                | <b>Dollar accountability.</b>                                      | Aims at service providing, compliance with regulations, balance of budgets and <b>accountability.</b> |
| <b>Main Financial Statements</b> | Balance Sheet<br>Income Statement  | Balance Sheet<br>Income Statement<br>Budgetary figures             | Cash Flow statement   |

Table 9: Comparison among accounting frameworks Source: Concepts in chapter 3

According to the analysis developed earlier and taking table 9 as a point of departure for comparing the basis of preparation of the financial reporting of the municipality of San Luis Potosí, first we have the fact that financial statements report the activity

side and payment side, and these financial statements combine the budgetary figures, as table 9 shows. The commercial accounting method does not aim to use any budgetary figures, because the focus is on reporting revenues and expenditures and the financial position of the entity through the profit and loss account, then it is not the method used to develop the financial statements of the municipality.

Furthermore, fund account aims to report dollar accountability by combining budgetary figures, and using planning and control in parallel (Budget restrictions) and focuses on the budgetary spent and acquisitions, making sure that the resources have been spent according to the budget restriction, this framework uses the double-entry bookkeeping method, according to the features stated in table 9 the financial Statements of San Luis Potosí have been developed using the approach of fund accounting, perhaps in Mexico there is a strong influence of the accounting principles used in the United States in the commercial practices, as well as the ones used in the governmental sector.

Regarding Administrative cameralistics there are just the budgetary figures that use the municipality to develop the financial statements by using the method of fund accounting but there are no more characteristics that point out the use of cameralistics.

## **5.3 Findings**

### **Advantages and disadvantages of the accounting frameworks**

In order to assess whether or not the method used is the most suitable for the development of the Financial statements of this municipality, the advantages and disadvantages of the methods presented earlier in chapter 3 will be discussed in order to find some insights that could help to improve the presentation, understandability and accountability of the financial statements for the municipality of San Luis Potosí.

The table below shows and summarizes the advantages and disadvantages of the three frameworks:

| <b>Accounting Method/<br/>Features</b> | <b>Advantages</b>   | <b>Disadvantages</b>   |
|--|---|--|
| <b>Commercial Accounting</b>           | Reports the performance through the P& L. Dually ( Activity side and Payment Side)    | Designed for business enterprises that seek for profitability.                   |
| <b>Fund Accounting</b>                 | Planning-control-accountability   | Bookkeeping becomes complicated, and statements become complicated to understand |
| <b>Administrative Cameralistics</b>    | Money management<br>Budgetary Control, Payment Control , Current Dues/ Actual Control | Lack of knowledge and familiarity with the single-entry bookkeeping method       |

Table 10: Advantages and disadvantages of the accounting frameworks. Source: compilation from chapter 3

According to table 10, commercial accounting is an interesting tool but it is more suitable for business enterprises. For those companies that sought for profit and aim, the advantage of the method is that it is well-known worldwide and there is sufficient literature to get information about it.

On the other hand, this method has been developed for business enterprises therefore there is not such compatibility in the objective of the municipality that aims to provide a service for the common good not to obtain profit, because it does not measure the results of the government. Therefore, I consider that this method is inappropriate for governmental activities.

Fund accounting offers the basis of the double-entry bookkeeping method as well as the commercial accounting with the difference that it combines the budgetary figures in order to pursuit: plan-control-accountability approach, which is actually good since

the method was developed initially for business enterprises as mentioned in chapter three but it was on the governmental sector where it was developed and used.

Financial statements generated through this method are quite similar to the ones in commercial accounting as we can see from the appendix. This framework has a disadvantage because the financial statements are so many that they fail to achieve the informative approach because they become very confusing and long.

Another concern when using double-entry bookkeeping is the accountability of information. As it is well known, there have been several financial scandals at business enterprises because somehow the method allows them to do some so-called “window dressing”. The objective of doing so is to show better results than the company really has, and this kind of issue within the governmental sector may encourage cases of corruption, or maybe they already exist especially in developing countries such as Mexico, and this is the concern of most citizens: the claim for transparency and simplicity.

So the use of this method, although it combines the budgetary figures which are good in terms of control, on the other hand has the weakness of how reliable the financial statements of the municipality are when its main objectives are not fully covered when using this framework within governmental organizations. It seems to be just an adaptation from the well-known commercial accounting by combining budgetary figures attempting to fulfill the needs of this kind of organizations.

Then last but not least, the framework analyzed is the cameral accounting (administrative cameralistics) according to Monsen (2008), the method was particularly designed to contribute to increased control of public money, implying that the cameral account structure is specifically designed to deal with cash transactions.

The author says that cameralistics covers more than just one concept; he argues that it is a particular type of administrative practice, i.e. a formal bookkeeping method and a material budgeting and bookkeeping system. Monsen (2002), but unfortunately the method has been underestimated and not spread all over, because first of all there is not so much literature available in English, which is the most used language all over the world and moreover there is not so much familiarity with the



single-entry bookkeeping, which is the method used to record the transactions because of its cash basis approach.

According to Winjum (1972), cash flow accounting is the oldest form of monetary accounting, although this method is the root of all the accounting methods, (see figure 3) that was the first method used in the accounting world, albeit these disadvantages, this framework offers so many advantages when it is used in the governmental sector because it was designed and developed to become a suitable tool for governmental organizations and fit their needs.

In cameralistics accounting one is interested in fulfilling the three main objectives of the method: money management, budgetary control and actual control. Hence, the focus is on a financial result as opposed to a performance result. One of the strengths of the method is that cameral accounting (administrative cameralistics has been specifically designed to deal with cash flow transactions), which is a characteristic feature of the core governmental administration Walb (1926).

So the objective is on the money focus of administrative cameralistics, but at the same time the method allows also for the presentation of a performance result and balance sheet information according to the congruence principle. So while it focuses on the cash flow approach at the same time it allows to present an informative financial statement, by combining these two approaches one of the needs of the governmental sector is fulfilled with money management.

Hence, within administrative cameralistics, only monetary claims and obligations for which payment instructions have been given, but are not yet paid, are reported on the balance sheet, implying that only a non-comprehensive balance sheet is prepared Monsen (2008).

Its main strength is that it is a tool that accurately controls the spending of the budget. Therefore, governments should not be assessed in terms of profitability; they should be evaluated in terms of accountability and transparency. And this method is strongly recommended for use in governmental organizations.

# 6. CONCLUSION

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## 6.1 Summary

According to the basis of preparation of financial Statements the method used to develop financial statements of the municipality of San Luis Potosí is the framework of fund accounting, towards to the analysis performed, it is not the most suitable method for a governmental organization, but due to the greater familiarity with the double-entry bookkeeping method that it is used in commercial accounting, it has been much easier for governmental organizations to adopt it , and then just combine it with the budget figures, although it is not the most informative mean of achieving accountability and transparency, it is frequently used in governmental organizations specially in the Anglo-Saxon countries where it was developed, and there is extensive literature available.

Besides, that method was not designed specifically to fulfill the needs of governmental offices. It was primarily developed for use in business enterprises, but with the variance of the combination of budgeting figures, which was actually not attracted by the business world, but adopted by governmental organizations in aims to control the money resources from encumbrances, and other revenues, but still with the profitability approach, that is not the objective of governmental organizations and for tax payers, who would like to know where money goes and how it is spent. Because, as it was mentioned previously in this chapter, the administration of governmental organizations acts just as an intermediary. Their role is not as an owner or proprietor aiming to make a profit. Their main objective should be to provide population with the services that they are responsible to provide to the public.

On the other hand, citizens nowadays due to globalization, more and more people are concerned about the use of the resources provided to the government through tax payments and the clear accountability to the population, because the growth of countries and their citizens is based on honesty and transparency.

Furthermore, as mentioned within the preface there is one thing to consider in order to improve the quality of the financial statements, although that Mexico has currently a project in progress that consist in migrate from fund accounting to (IPSASs) approach, they should assess this change carefully before to do it, because what is worrying about this change, it is the fact that the commercial accounting approach has been adopted by this international organization (IPSASB) International Public sector accounting standards, so their principles are based on the International Financial reporting standards (IFRSs) that were developed specifically for commercial enterprises with profitability focus, and applied to governmental and nonprofit organizations despite the fact that is not the main objective of the governmental entities.

## **6.2 Suggestions for further practice**

Once the financial statements of the municipality of San Luis Potosí for the third quarter of 2011 have been analyzed, the following suggestions are offered by the author. Thus, in order to address the research question regarding of how can the quality of the financial statements of the municipality of San Luis Potosí be improved by analyzing them towards the theoretical frameworks of governmental accounting?

First of all regarding the quality improvement of the financial statements, the municipality should consider using the framework of cameralistics as an alternative system because the framework used to develop the financial statements of this municipality (fund accounting), has been adapted from the basis of commercial accounting. It does not mean that it is not useful at all, but it has its weaknesses when compared to cameralistics accounting that was designed especially for governmental organizations (see chapter 5).

Furthermore the cameralistics accounting framework offers the possibility to obtain more informative financial statements by using the cash account approach, and the presentation of the financial statements is simpler at glance; easier to understand and it combines all the elements needed in few reports and therefore more informative, whilst from the fund accounting framework several financial statements

are generated aiming to show the results but with the profitability approach, as it is used in commercial accounting, and at the end just become so confusing, because there is information segregated in several reports, with so much detail and information.

Perhaps financial notes could help to clarify some items but it is always complicated to deal with such a long financial statement and even more when there is an alternative to make it simpler, and most importantly, more informative due to the way of reporting when using administrative cameralistics, there is just a single report that aims for simplicity and accountability, and for the readers of the information may be much easier to understand than the several reports issued when using fund accounting.

Furthermore, answering the research question regarding to how informative are the financial statements of the municipality of San Luis Potosí, Mexico? We could say that the financial statements of this municipality are informative, in the way that a commercial enterprise is aiming for showing the profitability of the entity, but it is not the case for this municipality, here the aim is to show how the resources were applied and if the use of resources accomplish with the money management approach, as well as the budgetary control.

Hence, the recommendation to improve the quality of the financial statements, the government should try to make an effort to implement the administrative cameralistics framework, first in small municipalities as a pilot scheme, where the volume of the budgetary movements is not so large, that could allow the use of this method, and understand its implications, at the same time notice its benefits. Once users of this information have been trained and have become familiar with the method, they could train other users, and then spread all over the other municipalities the knowledge and use of this method. Of course it will not be easy, there is always resistance to the unknown, but when benefits are discovered the effort will be worth it. Furthermore, it will benefit the accountability of information at the governmental level, and perhaps in the future at federal level.

### **6.3 Suggestions for further research**

This analysis could serve as a basis for other master students to be used as a starting point to analyze similar financial statements and compare them with other municipalities in Mexico.

Another suggestion is to compare the financial statements of this municipality with another municipality in another country, in order to assess the difference among the studied municipalities, as well as finding some insights in order to find out more ideas on how to prepare more informative financial statements, from an international comparison, and perhaps compile the best practices within the governmental sector in an international environment in order to gather all of them and develop a functional accounting system for governmental organizations by fulfilling the objectives of this kind of organizations. This is possible because the accounting terminology developed in this thesis can be analytically generalized, in the sense that it can be applied when preparing and/or studying for municipalities in Mexico or even in another country as suggested.

Regarding the frameworks used in order to analyze the financial municipalities mentioned, it could be interesting to use the International Public Sector Accounting Standards (IPSAS), which are based on the International Accounting Standards (IAS), the IPSAS standards are developed with the framework of commercial (accrual) accounting, due to this feature it will be interesting to analyze why the IPSAS are based on commercial accrual accounting, when the focus of a business enterprise is different from the governmental accounting sector, and what is even more interesting is why so many countries have adopted such principles, when those do not even fulfill the needs of the government entities; what is the argument behind the adoption of such a framework?

Perhaps, lack of knowledge of some other alternatives, or regardless of the objective of governmental organizations international organisms aim to force the use of commercial accrual accounting, maybe because it is much easier than developing or using and training people with the use of the method of cameralistics, in order to get them to become qualified to develop the use of this method, and generate more informative financial statements and at the same time fulfill the real needs of the governmental organization getting common good as a result.

# APPENDIX



*SRIA-FIN*

DESPACHO DEL SECRETARIO.  
San Luis Potosí, S.L.P.  
13 de Octubre del 2011.  
OFICIO SF/DT/250/2011.



**ACUSE**

C. DIPUTADO JAVIER AZUARA ZUÑIGA.  
PRESIDENTE DE LA DIRECTIVA  
DEL H. CONGRESO DEL ESTADO.  
PRESENTE.



En atención a las instrucciones del Ejecutivo, y en cumplimiento a lo dispuesto en la fracción VI del Artículo 80 de la Constitución Política del Estado, por su conducto hacemos llegar a esa Honorable Representación Informe Financiero del Estado correspondiente al Tercer Trimestre del ejercicio 2011.

Reiteramos a usted las seguridades de nuestro invariable respeto y especial consideración.

ATENTAMENTE  
SUFRAGIO EFECTIVO. NO REELECCION.



LIC. MARCO ANTONIO ARANDA MARTINEZ.  
SECRETARIO GENERAL DE GOBIERNO.

C.P.C. JESUS CONDE MEJIA.  
SECRETARIO DE FINANZAS.

"2011, Año del Bicentenario del Natalicio de Ponciano Arriaga Leija"

SECRETARÍA DE FINANZAS

Madero No. 100, Z. Centro, San Luis Potosí, S.L.P. C.P. 78000 Tels. (444) 144 04 09, 144 04 00 Fax 812 57 11

[www.slp.gob.mx](http://www.slp.gob.mx)

Third Quarter 2011

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2. Income Statement
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4. Analytical report of the public debt
5. Analytical report of the assets
6. Budget of revenues statement
7. Statement of the budget execution
8. Budgetary accounting reconciliation
9. Notes to the financial statements





**Municipality of San Luis Potosí**  
**Balance Sheet at September 30<sup>th</sup> 2011 (in K Mexican pesos)**

| ASSETS   | LIABILITIES        |           |         |         |
|--|--------------------|-----------|---------|---------|
|  | Q2-2011            | Q3--2011  | Q2-2011 | Q3-2011 |
| <b>ASSETS</b>                                  | <b>LIABILITIES</b> |           |         |         |
| Cash and cash equivalents (Note 3)             | 1,252,901          | 1,089,708 | 500,293 | 706,473 |
| Cash   |                    |           | 21,307  | 6,325   |
| Bank balances                                  | 156,534            | 198,547   | 26,699  | 104,140 |
| Other Bank dependencies                        |                    |           | 13,056  | 8,712   |
| Temporal Investments                           | 1,096,367          | 891,161   | 228,024 | 233,582 |
| Funds with specific involvement                |                    |           | 211,207 | 343,714 |
| Deposit of funds to third                      |                    |           |         |         |
| Rights to receive cash or equivalents (Note 4) | 547,969            | 558,162   | 278,411 | 353,420 |
| Financial Invest                               |                    |           | 687,167 | 498,177 |
| Accounts receivable                            | 4,299              | 3,921     |         |         |
| Other debtors                                  | 348,987            | 344,335   | 65,495  | 66,104  |
| Income to recover                              |                    |           |         |         |
| Advances receivables                           | 5,930              | 6,625     |         |         |
| Loans granted                                  | 188,753            | 203,281   | 0       | 0       |
| Right to receive services                      | 0                  | 0         |         |         |
| Short-term advances                            |                    |           |         |         |
| Inventory                                      | 0                  | 0         |         |         |
| Inventory for sales                            |                    |           |         |         |
| Inventory of finish goods                      |                    |           |         |         |
| Work in process inventory                      |                    |           |         |         |
| Raw material inventory                         |                    |           |         |         |
| Goods in transit                               |                    |           |         |         |
| Warehouse                                      | 0                  | 0         |         |         |
| Warehouse of consumption                       |                    |           |         |         |
|  |                    |           | 0       | 0       |
|  |                    |           | 0       | 0       |

**Appendix 1: Balance Sheet**

**Municipality of San Luis Potosí**  
**Balance Sheet at September 30<sup>th</sup> 2011**  
**(in K Mexican Pesos)**

| ASSETS                            |                  | LIABILITIES                      |                  |
|-----------------------------------|------------------|----------------------------------|------------------|
|                                   |                  | Short- term provisions           | 0                |
|                                   |                  | 0                                | 0                |
| Other Assets                      | 0                | Other Short -term liabilities    | 0                |
| <b>Total Current Assets</b>       | <b>1,800,870</b> | <b>Total current liabilities</b> | <b>1,531,366</b> |
|                                   |                  | 1,624,174                        |                  |
| ASSETS                            |                  | LIABILITIES                      |                  |
| Cash to be received short- term   |                  | Long- term liabilities           | 0                |
|                                   |                  | Vendors                          | 0                |
| Financial Invest                  |                  | Public contractors               |                  |
| Notes receivable                  |                  |                                  |                  |
| Other receivables                 |                  | Long term liabilities            | 0                |
| Revenues to recover               |                  | Commercial documents             | 0                |
| Loans granted                     |                  | Public works accounts payable    | 278,411          |
|                                   |                  |                                  | 353,420          |
| <b>Real State Assets (Note 6)</b> | <b>4,797,700</b> | <b>Public debt Long term</b>     | <b>4,218,059</b> |
| Lands                             | 211,990          | Internal public debt             |                  |
|                                   | 211,990          | External public debt (Note 8)    | 4,218,059        |
| Building                          | 4,060,881        | Financial Leasing                |                  |
| Infrastructure                    | 447,077          |                                  | 4,193,720        |
|                                   | 447,077          |                                  |                  |
| Construccion in progress (Note 5) | 77,752           | Deferred liabilities             | 0                |
|                                   | 77,752           |                                  | 0                |
| <b>Real State (Note 6)</b>        | <b>1,209,848</b> | <b>Long term Provisions</b>      |                  |
| Furniture                         | 125,942          |                                  |                  |
| Office Equipment                  | 720,816          |                                  |                  |
|                                   | 720,816          |                                  |                  |
| Medical Equipment                 |                  | Other liabilities                | 0                |
|                                   |                  |                                  | 0                |
| Transport equipment               | 139,520          |                                  |                  |
| Security equipment                | 151,169          |                                  |                  |
| Machinery and tooling             | 223,570          | <b>Total of liabilities</b>      | <b>4,218,059</b> |
|                                   | 223,570          |                                  | <b>4,193,720</b> |
|                                   |                  | <b>TOTAL LIABILITIES</b>         | <b>5,749,425</b> |
|                                   |                  |                                  | <b>5,817,894</b> |

Municipality of San Luis Potosí  
Balance Sheet at 30 September 2011  
(in K Mexican Pesos)

| ASSETS                           |           | LIABILITIES |                               |
|----------------------------------|-----------|-------------|-------------------------------|
| Tangible Assets                  | 0         | 0           | PUBLIC FINANCE/EQUITY         |
| Software                         |           |             | Public Finance/Equity         |
| Patents, brands and legal rights |           |             | Contributions                 |
| Franchises                       |           |             | Capital grants                |
|                                  |           |             | Updates to the public finance |
| Licences                         |           |             | 27,663                        |
|                                  |           |             | 27,663                        |
| Deferred Assets                  | 0         | 0           | Public finance generated      |
| Studies and Project valuation    |           |             | -2,377,526                    |
|                                  |           |             | -2,584,960                    |
|                                  |           |             | Total                         |
|                                  |           |             | 928,188                       |
|                                  |           |             | 732,638                       |
|                                  |           |             | Retained earnings             |
|                                  |           |             | -3,305,714                    |
|                                  |           |             | -3,317,598                    |
|                                  |           |             | Reserves                      |
| Other assets                     | 382,149   | 382,149     |                               |
| Total Assets                     | 6,389,697 | 6,403,732   | Total Public finances         |
|                                  |           |             | 2,441,142                     |
|                                  |           |             | Total Liabilities             |
|                                  |           |             | 8,190,567                     |
|                                  |           |             | 8,051,602                     |
|                                  |           |             | Public finances               |
|                                  |           |             | 8,190,567                     |
|                                  |           |             | 8,051,602                     |

Municipality of San Luis Potosí  
Income Statement at 30th of September 2011  
( in K Mexican Pesos)

**INCOME AND OTHER BENEFITS**

|   |           |                   |
|---|-----------|-------------------|
| <b>Revenue management</b>   |           |                   |
| <b>INCOME FROM TAXES</b>  |           | <b>496,588</b>    |
| Income taxes  | 12,850    |                   |
| Property taxes  | 64,476    |                   |
| Taxes over production   |           |                   |
| Foreign trade taxes   |           |                   |
| Payroll taxes   | 407,167   |                   |
| Ecological tax  |           |                   |
| Taxes accessories   | 12,095    |                   |
| Other taxes   |           |                   |
| <b>Improvement contributions</b>                                      |           |                   |
| <b>Rights</b>   | 333,077   |                   |
| <b>Other contributions</b>  | 76,300    | <b>76,300</b>     |
| <b>Contributions from previous periods</b>                            | 754       | <b>754</b>        |
| <b>PARTICIPATIONS AND CONTRIBUTIONS</b>                               |           | <b>16,792,651</b> |
| Participations  | 6,007,624 |                   |
| Contributions   | 9,898,467 |                   |
| Agreements  | 886,560   |                   |
| <b>TRANSFERS SUBSIDIES AND OTHER AIDS</b>                             |           | <b>2,887,346</b>  |
| Internal transfers to the public sector ( Universities and Hospitals) | 1,732,821 |                   |
| Other transfers to the public service                                 |           |                   |
| Subsidies   | 1,154,525 |                   |
| Social aid  |           |                   |
| Pension and retirement  |           |                   |
| <b>OTHER INCOME AND OTHER BENEFITS</b>                                |           | <b>24,292</b>     |
| <b>Financial income</b>   |           | <b>24,292</b>     |
| Interest income from securities, bonds and others                     | 24,292    |                   |
| Other income  |           |                   |
| <b>Increase from inventory valuation</b>                              |           | <b>0</b>          |

Municipality of San Luis Potosí  
Income Statement at 30th of September 2011  
(in K Mexican Pesos)

|  |           |                   |
|--|-----------|-------------------|
| <b>INCOME AND OTHER BENEFITS</b>                                       |           |                   |
| Obsolescence   |           | 0                 |
| Other income   |           | 0                 |
| <b>TOTAL INCOME</b>  |           | <b>20,707,517</b> |
| <b>EXPENSES AND OTHER LOOSES</b>                                       |           |                   |
| Operational expenses   |           | 4,882,205         |
| Expenses   | 3,488,858 |                   |
| Material and supplies  | 115,918   |                   |
| General services   | 248,301   |                   |
| Public Invest  | 1,029,128 |                   |
| <b>OTHER SUBSIDIES</b>   |           | <b>11,164,471</b> |
| Internal Transfer and public assignments                               | 6,872,143 |                   |
| Transfers to the public  | 4,045,288 |                   |
| Subsides   | 157,535   |                   |
| Social assistance  | 0         |                   |
| Pensions   | 0         |                   |
| Transfer to the trust  | 89,505    |                   |
| External transfers   | 0         |                   |
| <b>APORTATIONS ADN PARTICIPATION</b>                                   |           | <b>3,749,296</b>  |
| Participations   | 1,640,956 |                   |
| Contributions  | 2,108,340 |                   |
| <b>PUBLIC DEBT</b>   | 178,907   | 178,907           |
| <b>OTHER EXPENSES AND EXTRAORDINARY LOSSES</b>                         | 0         | 0                 |
| Depreciations, obsolescence, estimations, amortizations and provisions | 0         | 0                 |
| <b>Other expenses</b>  | <b>0</b>  | <b>0</b>          |
|  | 0         |                   |
| <b>TOTAL OF EXPENSES AND OTHER LOSSES</b>                              |           | <b>19,974,879</b> |
| <b>SAVINGS/UNSAVINGS FROM THE PERIOD</b>                               |           | <b>732,638</b>    |

**Appendix 2: Income Statement**

Municipality of San Luis Potosí  
Statement of changes in the public finances  
at 30th of September 2011  
(in K Mexican Pesos)

| Concept  | Public Finance contributed | Public finance generated in previous exercises | Public finance generated within the exercise | Adjustments | TOTAL            |
|--|----------------------------|--|--|-------------|------------------|
| Public finances previous period  | 4,701,244                  | -3,195,656                                     | -109,816                                     |             | 1,395,772        |
| Adjustments to previous years  | 0                          | 0  | 0  | 0           | 0                |
| Changes in accounting policies and changes from mistakes in accounting |                            |  |  |             |                  |
| Net public finances at the beginning of the period                     | 0                          | 0  | 0  | 0           | 0                |
| Capital updates and donations  |                            |  |  |             |                  |
| Updates of the public finances   |                            |  |  |             |                  |
| Variations of the public finances                                      | 0                          | 0  | 0  | 0           | 0                |
| Profit/loss from revaluations  |                            |  |  |             |                  |
| Reservs  |                            |  |  |             |                  |
| Results from the period  |                            |  |  |             |                  |
| Other variations of the public finances                                |                            |  |  |             |                  |
| <b>Public Finances at the end of the period</b>                        | <b>4,701,244</b>           | <b>-3,195,656</b>                              | <b>-109,816</b>                              | <b>0</b>    | <b>1,395,772</b> |
| Changes in the public finances 2011                                    | 105,298                    | 0  | 0  | 0           | 105,200          |
| Capital updates and donations  | 27,663                     |  |  |             | 27,663           |
| Updates of the public finances   | 77,635                     |  |  |             | 77,635           |
| Variations of the public finances                                      | 0                          | 0  | 732,638                                      | 0           | 732,638          |
| Profit/loss from revaluations  |                            |  |  |             |                  |
| Reservs  |                            |  |  |             |                  |
| Results from the period  |                            |  | 732,638                                      | 0           | 732,6378         |
| Other variations of the public finances                                |                            |  |  |             | 0                |
| <b>Net Public Finances</b>   | <b>4,806,542</b>           | <b>-3,195,656</b>                              | <b>622,822</b>                               | <b>0</b>    | <b>2,233,708</b> |

**Appendix 3: Statement of changes in the public finances**

Municipality of San Luis Potosí  
Analytical report of the public debt at 30<sup>th</sup> September 2011  
(in K mexican pesos)

| DEBTS                           | CURRENCY | Creditor<br>Country or<br>institution | Opening<br>balance | Borrowing operations  |                                      | Depuration or<br>reconciliation | Variacion del<br>endeudamiento<br>del periodo | Ending<br>balance of the<br>period |           |
|---------------------------------|----------|---------------------------------------|--------------------|-----------------------|--------------------------------------|---------------------------------|---|------------------------------------|-----------|
|                                 |          |                                       |                    | Gross<br>amortization | Endeudamiento<br>Neto del<br>Periodo |                                 |   |                                    |           |
| <b>SHORT -TERM PUBLIC DEBT:</b> |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| <b>DOMESTIC PUBLIC DEBT</b>     |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Credit institutions:            |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Securities:                     |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Financial leasing               |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| <b>OUTSIDE PUBLIC DEBT</b>      |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Financial institutions          |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Internacionals:                 |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Bilateral debt:                 |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Securities                      |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Financial Leasing               |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Internacionals:                 |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| <b>SUBTOTAL SHORT-TERM</b>      |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| <b>LONG TERM</b>                |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| <b>DOMESTIC PUBLIC DEBT</b>     |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
|                                 |          | BANKS                                 | 4,218,060          | 24,340                | 0                                    | -24,340                         | 0   | -24,340                            | 4,193,720 |
|                                 |          | Credit Institutions:                  |                    |                       |                                      |                                 |   |                                    |           |
|                                 | PESOS    | BANORTE                               | 2,578,044          | 12,751                |                                      | -12,751                         |   | -12,751                            | 2,565,293 |
|                                 | PESOS    | SANTANDER                             | 1,479,781          | 1,451                 |                                      | -1,451                          |   | -1,451                             | 1,478,330 |
|                                 | PESOS    | BANOBRAS                              | 160,235            | 10,138                |                                      | -10,138                         |   | -10,138                            | 150,097   |
|                                 |          | Securities:                           |                    |                       |                                      |                                 |   |                                    |           |
|                                 |          | Financial leasing                     |                    |                       |                                      |                                 |   |                                    |           |
| <b>Outside public debt</b>      |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Financial institutions          |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Internacionals:                 |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Bilateral debt:                 |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Securities                      |          |                                       |                    |                       |                                      |                                 |   |                                    |           |
| Financial leasing               |          |                                       |                    |                       |                                      |                                 |   |                                    |           |

**Appendix 4: Analytical report of the public debt**

Municipality of San Luis Potosí  
Analytical report of the public debt at 30<sup>th</sup> September 2011  
(in K mexican pesos)

| DEBTS                                       | CURRENCY | Creditor<br>Country or<br>institution | Opening<br>balance | Borrowing operations  |  | Net debt for the<br>period | Depuration or<br>reconciliation | Variations of<br>the borrowing<br>period | Ending<br>balance of the<br>period |
|---|----------|---------------------------------------|--------------------|-----------------------|--|----------------------------|---------------------------------|--|------------------------------------|
|   |          |                                       |                    | Gross<br>amortization |  |                            |                                 |  |                                    |
| <b>Internacional:</b>                       |          |                                       |                    |                       |  |                            |                                 |  |                                    |
| SUBTOTAL LONG TERM                          |          |                                       | 4,218,060          | 24,340                |  | -24340                     | 0                               | -24,340                                  | 4,193,720                          |
| <b>OTHER LIABILITIES</b>                    |          |                                       |                    |                       |  |                            |                                 |  |                                    |
| <b>TOTAL DEBT AND OTHER<br/>LIABILITIES</b> |          |                                       | 4,218,060          | 24,340                |  | -24,340                    | 0                               | -24,340                                  | 4,193,720                          |



Municipality of San Luis Potosí  
Analytical report of assets at 30th of September 2011  
(in K Mexican Pesos)

| Account    |   | Opening balance (OB) | Debits             | Credits            | Ending balance (EB) | Recorded within the Period (OB-EB) |
|------------|---|----------------------|--------------------|--------------------|---------------------|------------------------------------|
| <b>1.1</b> | <b>CURRENT ASSETS</b>   | <b>1,800,870</b>     | <b>134,454,429</b> | <b>134,607,429</b> | <b>1,647,870</b>    | <b>153,000</b>                     |
| 1.1.1      | <i>Cash and equivalents</i>                                   |                      |                    |                    |                     |                                    |
| 1.1.1.1    | Cash  |                      |                    |                    |                     |                                    |
| 1.1.1.2    | Banks and treasury  | 156,534              | 76,430,131         | 76,388,118         | 198,547             | -42,013                            |
| 1.1.1.3    | Banks and others  |                      |                    |                    |                     |                                    |
| 1.1.1.4    | Temporary Investments (up to 3 months)                        | 1,096,367            | 57,359,575         | 57,564,781         | 891,161             | 205,206                            |
| 1.1.1.5    | Funds with specific involvement                               |                      |                    |                    |                     |                                    |
| 1.1.1.6    | Third – party deposits in guarantee                           |                      |                    |                    |                     |                                    |
| 1.1.1.9    | Other cash  |                      |                    |                    |                     |                                    |
| 1.1.2      | Rights to receive cash and equivalents                        |                      |                    |                    |                     |                                    |
| 1.1.2.1    | Short-term accounts receivable                                |                      |                    |                    |                     |                                    |
| 1.1.2.2    | Short-term accounts receivable                                | 4,299                | 300                | 678                | 3,921               | 378                                |
| 1.1.2.3    | Short-term receivables of Several debtors                     | 348,987              | 641,507            | 646,159            | 344,335             | 4,652                              |
| 1.1.2.4    | Short-term recoverable income                                 |                      |                    |                    |                     |                                    |
| 1.1.2.5    | Short-term receivables from advances                          | 5,930                | 3,003              | 2,308              | 6,625               | -695                               |
| 1.1.2.6    | Short-term loans granted                                      | 188,753              | 19,913             | 5,385              | 203,281             | -14,528                            |
| 1.1.2.9    | Other rights to receive cash or equivalents in the short-term |                      |                    |                    |                     |                                    |
| 1.1.3      | Rights to receive goods or services                           |                      |                    |                    |                     |                                    |
| 1.1.3.1    | Cash in advance to vendors                                    |                      |                    |                    |                     |                                    |
| 1.1.3.2    | Cash in advance to vendors for tangible assets                |                      |                    |                    |                     |                                    |
| 1.1.3.3    | Cash in advance for intangible assets                         |                      |                    |                    |                     |                                    |
| 1.1.3.4    | Advances to contractors for public works                      |                      |                    |                    |                     |                                    |
| 1.1.3.9    | Other rights to receive a good or service                     |                      |                    |                    |                     |                                    |
| 1.1.4      | Inventory   |                      |                    |                    |                     |                                    |
| 1.1.4.1    | Inventory of goods for sale                                   |                      |                    |                    |                     |                                    |

**Appendix 5: Analytical Report of assets**

Municipality of San Luis Potosí  
Analytical report of assets at 30th of September 2011  
(in K Mexican Pesos)

| Account      |   | Opening balance<br>(OB) | Debits        | Credits    | Ending balance<br>(EB) | Recorded within the<br>Period (OB-EB) |
|--------------|---|-------------------------|---------------|------------|------------------------|---------------------------------------|
| 1.1.4.2      | Finished goods inventory                                      |                         |               |            |                        |                                       |
| 1.1.4.3      | Work in process inventory                                     |                         |               |            |                        |                                       |
| 1.1.4.4      | Raw material and components inventory                         |                         |               |            |                        |                                       |
| 1.1.4.5      | Inventory on transit  |                         |               |            |                        |                                       |
| 1.1.5        | Warehouse   |                         |               |            |                        |                                       |
| 1.1.5.1      | Warehouse for raw material and consumables                    |                         |               |            |                        |                                       |
| 1.1.6        | Estimation for deterioration of tangible assets               |                         |               |            |                        |                                       |
| 1.1.6.1      | Estimation for doubtful accounts                              |                         |               |            |                        |                                       |
| 1.1.6.2      | Estimation for impairment of inventories                      |                         |               |            |                        |                                       |
| 1.1.9        | Other current assets  |                         |               |            |                        |                                       |
| 1.1.9.1      | Guaranteed securities   |                         |               |            |                        |                                       |
| 1.1.9.2      | Warranties  |                         |               |            |                        |                                       |
| 1.1.9.3      | Properties derived from Liens                                 |                         |               |            |                        |                                       |
| <b>1.2</b>   | <b>NON - CURRENT ASSETS</b>                                   | <b>6,389,697</b>        | <b>14,838</b> | <b>803</b> | <b>6,403,732</b>       | <b>-14,035</b>                        |
| <b>1.2.1</b> | <b>Long-term financial Statements</b>                         | <b>0</b>                |               |            | <b>0</b>               |                                       |
| 1.2.1.1      | Long-term financial investments                               |                         |               |            |                        |                                       |
| 1.2.1.2      | Long-term securities and titles                               |                         |               |            |                        |                                       |
| 1.2.1.3      | Contracts   |                         |               |            |                        |                                       |
| 1.2.1.4      | Capital share and contributions                               |                         |               |            |                        |                                       |
| <b>1.2.2</b> | <b>Rights to receive cash or equivalents in the long-term</b> | <b>0</b>                |               |            | <b>0</b>               |                                       |
| 1.2.2.1      | Long-term Notes receivable                                    |                         |               |            |                        |                                       |
| 1.2.2.2      | Varios long-term receivables                                  |                         |               |            |                        |                                       |
| 1.2.2.3      | Long-term recovery income                                     |                         |               |            |                        |                                       |
| 1.2.2.4      | Long-term loans granted                                       |                         |               |            |                        |                                       |
| 1.2.2.9      | Other rights to receive cash or equivalents in the long-term  |                         |               |            |                        |                                       |

Municipality of San Luis Potosí  
Analytical report of assets at 30th of September 2011  
(in K Mexican Pesos)

| Account      |   | Opening balance (OB) | Debits        | Credits    | Ending balance (EB) | Recorded within the Period (OB-EB) |
|--------------|---|----------------------|---------------|------------|---------------------|------------------------------------|
| <b>1.2.3</b> | <b>Buildings and infrastructure in process</b>  | <b>4,797,700</b>     |               |            | <b>4,797,700</b>    | <b>0</b>                           |
| 1.2.3.1      | Lands   | 211,990              |               |            | 211,990             | 0                                  |
| 1.2.3.2      | Housing   |                      |               |            |                     |                                    |
| 1.2.3.3      | Non residencial buildings                       | 4,060,881            |               |            | 4,060,881           | 0                                  |
| 1.2.3.4      | Infraestructure                                 | 447,077              |               |            | 447,077             | 0                                  |
| 1.2.3.5      | Building in process                             |                      |               |            |                     |                                    |
| 1.2.3.6      | Real equity in progress                         | 77,752               |               |            | 77,752              | 0                                  |
| 1.2.3.9      | Other Real State                                |                      |               |            |                     |                                    |
| <b>1.2.4</b> | <b>Real State</b>                               | <b>1,209,848</b>     | <b>14,838</b> | <b>803</b> | <b>1,223,883</b>    | <b>-14,035</b>                     |
| 1.2.4.1      | Office equipment                                | 125,942              | 508           |            | 126,510             | -568                               |
| 1.2.4.2      | Furnishing and educational equipment            | 720,816              |               |            | 720,816             | 0                                  |
| 1.2.4.3      | Medical equipment and laboratories              |                      |               |            |                     |                                    |
| 1.2.4.4      | Transportation equipment                        | 139,520              | 12,012        | 363        | 151,169             | -11,649                            |
| 1.2.4.5      | Defese and security equipment                   |                      |               |            |                     |                                    |
| 1.2.4.6      | Machinery, tooling and other equipments         | 223,570              | 2,258         | 440        | 225,388             | -1,818                             |
| 1.2.4.7      | Works of art and other valuables                |                      |               |            |                     |                                    |
| 1.2.4.8      | Biological Assets                               |                      |               |            |                     |                                    |
| <b>1.2.5</b> | <b>Intangible Assets</b>                        | <b>0</b>             |               |            | <b>0</b>            |                                    |
| 1.2.5.1      | Software  |                      |               |            |                     |                                    |
| 1.2.5.2      | Trademarks, patents and rights                  |                      |               |            |                     |                                    |
| 1.2.5.3      | Franchises                                      |                      |               |            |                     |                                    |
| 1.2.5.4      | Licenses  |                      |               |            |                     |                                    |
| 1.2.5.9      | Other intangible assets                         |                      |               |            |                     |                                    |
| <b>1.2.6</b> | <b>Depreciation of the assets</b>               | <b>0</b>             |               |            | <b>0</b>            |                                    |
| 1.2.6.1      | Cumulated depreciation of the Building          |                      |               |            |                     |                                    |
| 1.2.6.2      | Cumulated depreciation of the Equipment         |                      |               |            |                     |                                    |
| 1.2.6.3      | Cumulated depreciation of the Real State        |                      |               |            |                     |                                    |
| 1.2.6.4      | Accumulated impairment of the biological assets |                      |               |            |                     |                                    |

Municipality of San Luis Potosí  
Analytical report of assets at 30th of September 2011  
(in K Mexican Pesos)

| Account      |   | Opening balance<br>(OB) | Debits   | Credits | Ending balance<br>(EB) | Recorded within the<br>Period (OB-EB) |
|--------------|---|-------------------------|----------|---------|------------------------|---------------------------------------|
| 1.2.6.5      | Cumulated amortization of tangible assets                       |                         |          |         |                        |                                       |
| <b>1.2.7</b> | <b>Deferred assets</b>  | <b>382,149</b>          | <b>0</b> |         | <b>382,149</b>         | <b>0</b>                              |
| 1.2.7.1      | Research and development and valuation of the intangible rights |                         |          |         |                        |                                       |
| 1.2.7.2      | Rights on leased asset Leasing                                  |                         |          |         |                        |                                       |
| 1.2.7.3      | Prepaid expenses Long-term                                      |                         |          |         |                        |                                       |
| 1.2.7.4      | Long –term advances   |                         |          |         |                        |                                       |
| 1.2.7.5      | Employees retirement benefits paid in advance                   |                         |          |         |                        |                                       |
| 1.2.7.9      | Other deferred assets   | 382,149                 | 0        |         | 382,149                | 0                                     |
| <b>1.2.8</b> | <b>Estimations of the deterioration in the stock</b>            | <b>0</b>                |          |         | <b>0</b>               |                                       |
| 1.2.8.1      | Loss estimation for doubtful assets                             |                         |          |         |                        |                                       |
| 1.2.8.2      | Estimations for doubtful accounts receivable                    |                         |          |         |                        |                                       |
| 1.2.8.3      | Estimations for doubtful Other income                           |                         |          |         |                        |                                       |
| 1.2.8.4      | Estimations for doubtful Other income                           |                         |          |         |                        |                                       |
| 1.2.8.9      | Estimations for doubtful for loans granted in long-term         |                         |          |         |                        |                                       |
| <b>1.2.9</b> | <b>Other non current assets</b>                                 | <b>0</b>                |          |         | <b>0</b>               |                                       |
| 1.2.9.1      | Assets under concession   |                         |          |         |                        |                                       |
| 1.2.9.2      | Leased Assets   |                         |          |         |                        |                                       |
| 1.2.9.3      | Goods on loan   |                         |          |         |                        |                                       |
| 1.2.9.2      | Leased assets   |                         |          |         |                        |                                       |
| 1.2.9.3      | Goods on loan   |                         |          |         |                        |                                       |

Municipality of San Luis Potosí  
Budget of revenues Statement at 30th of September 2011  
(in K Mexican Pesos)

| Source of Income                                      | Estimated revenue act | Modified          | Accrued           | Collected         | Fund raising estimation |
|---|-----------------------|-------------------|-------------------|-------------------|-------------------------|
| I Taxes   | 650.049               | 650.049           | 496.588           | 496.588           | 76.39%                  |
| II Cotribution for improvements                       | 102.705               | 102.705           | 754               | 754               | 0.73%                   |
| III Rights  | 768.821               | 768.821           | 861.735           | 861.735           | 112.09%                 |
| IV Taxes not included caused in previous fiscal years |                       |                   |                   |                   | 0.00%                   |
| V Products  | 421.237               | 421.237           | 100.592           | 100.592           | 22.33%                  |
| VI Uses   | 6.044                 | 6.044             | 96.509            | 96.509            | 1596.77%                |
| VIII Contributions                                    | 22.217.520            | 22.217.520        | 16.730.586        | 16.730.586        | 75.30%                  |
| IX Transfer allowances and other aids                 | 2.762.412             | 2.762.412         | 2.951.707         | 2.951.707         | 106.85%                 |
| X Net income from financing                           |                       |                   |                   |                   | 0.00%                   |
| <b>TOTAL</b>  | <b>26.928.788</b>     | <b>26.928.788</b> | <b>21.238.471</b> | <b>21.238.471</b> |                         |

**STATE OF ANALYTICAL CONTRIBUTION BY SOURCE OF INCOME**

| TAX                       | Annual estimation | Modified       | Accrued        | Collected      | Fund raising % |
|---------------------------|-------------------|----------------|----------------|----------------|----------------|
| <b>TAXES</b>              |                   |                |                |                |                |
| Taxes on Income           | 16.786            | 16.786         | 12.850         | 12.850         | 76.55%         |
| Taxes on capital          | 85.474            | 85.474         | 64.476         | 64.476         | 75.43%         |
| Taxes on production       |                   |                |                |                |                |
| Taxes of foreign trade    |                   |                |                |                |                |
| Payroll taxes and similar | 547.789           | 547.789        | 406.652        | 406.652        | 74.24%         |
| Ecological tax            |                   |                |                |                |                |
| Actualizations on taxes   |                   |                | 13.365         | 13.365         | 100.00%        |
| Other taxes               |                   |                |                |                |                |
| <b>TAX SUBTOTAL</b>       | <b>650.049</b>    | <b>650.049</b> | <b>497.343</b> | <b>497.343</b> |                |

Municipality of San Luis Potosí  
State of Budget revenues at 30th of September 2011  
(in K Mexican Pesos)

| Source of Income   | Estimated revenue act | Modified         | Accrued          | Collected        | Fund raising estimation |
|--|-----------------------|------------------|------------------|------------------|-------------------------|
| <b>RIGHTS</b>  | <b>768.821</b>        | <b>768.821</b>   | <b>861.735</b>   | <b>861.735</b>   |                         |
| Rights   | 372.328               | 372.328          | 528.658          | 528.658          | 141.99%                 |
| Rights to oil  |                       |                  |                  |                  |                         |
| Services provided  | 389.759               | 389.759          | 294.781          | 294.781          | 75.63%                  |
| Other rights   | 6.734                 | 6.734            | 14.580           | 14.580           | 216.51%                 |
| Accessories  |                       |                  | 23.716           | 23.716           | 100.00%                 |
| Rights of payments from the previous fiscal year outstanding |                       |                  |                  |                  |                         |
| <b>PRODUCTS</b>  | <b>421.237</b>        | <b>421.237</b>   | <b>100.592</b>   | <b>100.592</b>   |                         |
| Current type products  | 375.513               | 375.513          | 76.300           | 76.300           | 20.32%                  |
| Capital Products   | 45.724                | 45.724           | 24.292           | 24.292           | 53.13%                  |
| Products of the previous fiscal year outstanding             |                       |                  |                  |                  |                         |
| <b>UTILIZATIONS</b>  | <b>6.044</b>          | <b>6.044</b>     | <b>96.509</b>    | <b>96.509</b>    |                         |
| Other products that generate income                          | 6.044                 | 6.044            | 96.509           | 96.509           | 1596.77%                |
| <b>SUBTOTAL NON TAXES</b>                                    | <b>1.196.102</b>      | <b>1.196.102</b> | <b>1.058.836</b> | <b>1.058.836</b> | <b>0</b>                |
| <b>GRAND TOTAL</b>   | <b>1.846.151</b>      | <b>1.846.151</b> | <b>1.556.179</b> | <b>1.556.179</b> | <b>0</b>                |

Municipality of San Luis Potosí  
Statement of the budget execution at 30th of September 2011  
(in K Mexican Pesos)

| Budget used     |   | Revenue Budted approved | Expantion / Reduction | Budget Modified   | Budget Committed  | Budget Available to commit | Accrued           | Committed no accrued | Budget without accruing | Exercised         | Paid              | Accounts payable/ Debt |
|-----------------|---|-------------------------|-----------------------|-------------------|-------------------|----------------------------|-------------------|----------------------|-------------------------|-------------------|-------------------|------------------------|
| <b>Expenses</b> |   | <b>1</b>                | <b>2</b>              | <b>3=1+-2</b>     | <b>4</b>          | <b>5=(3-4)</b>             | <b>6</b>          | <b>7=(4-6)</b>       | <b>8=(5+7)</b>          | <b>9</b>          | <b>10</b>         | <b>11=(6-10)</b>       |
| 10<br>00        | Payroll   | 5.086.532               | 21.792                | 5.064.740         | 3.644.819         | 1.419.921                  | 3.488.997         | 155.822              | 1.575.743               | 3.488.997         | 3.314.589         | 174.408                |
| 20<br>00        | Materials and supplies                            | 246.432                 | 73.296                | 173.136           | 138.564           | 34.572                     | 115.983           | 22.581               | 57.153                  | 115.983           | 105.238           | 10.745                 |
| 30<br>00        | Overheads   | 445.788                 | 43.348                | 489.136           | 306.846           | 182.290                    | 248.305           | 58.541               | 240.831                 | 248.305           | 212.369           | 35.936                 |
| 40<br>00        | Transfer subsidies, and other aids                | 14.706.821              | 658.046               | 15.364.867        | 10.976.053        | 4.388.814                  | 10.940.091        | 35.962               | 4.424.776               | 10.940.091        | 10.485.849        | 454.242                |
| 50<br>00        | Real Estate assets<br>Intangible assets           |                         | 53.584                | 53.584            | 61.908            | 8.324                      | 53.477            | 8.431                | 107                     | 53.477            | 53.341            | 136                    |
| 60<br>00        | Public investment and other Financial Investments | 355.241                 | 1.083.487             | 1.438.728         | 1.104.246         | 334.482                    | 1.040.449         | 63.797               | 398.279                 | 1.040.449         | 996.844           | 43.605                 |
| 70<br>00        | Provisions  | 1.000                   |                       | 1.000             |                   | 1.000                      |                   |                      | 1.000                   |                   |                   |                        |
| 80<br>00        | Contributions                                     | 5.690.183               | 89.245                | 5.779.428         | 4.502.856         | 1.276.572                  | 4.502.856         |                      | 1.276.572               | 4.502.856         | 4.235.584         | 267.272                |
| 90<br>00        | Public Debt                                       | 396.792                 | 55.236                | 341.556           | 242.283           | 99.273                     | 246.661           | 4.378                | 94.895                  | 246.661           | 182.826           | 63.835                 |
| <b>TOTAL</b>    |   | <b>26.928.789</b>       | <b>1.777.386</b>      | <b>28.706.175</b> | <b>20.977.575</b> | <b>7.728.600</b>           | <b>20.636.819</b> | <b>340.756</b>       | <b>8.069.356</b>        | <b>20.636.819</b> | <b>19.686.640</b> | <b>1.050.179</b>       |

**Appendix 7: Statement of the budget execution**

Third Quarter 2011

**MUNICIPALITY OF SAN LUIS POTOSÍ**  
**BUDGETARY- ACCOUNTING RECONCILIATION**  
**AT 30TH SEPTEMBER 2011**

**INCOME 20.707.517.206.98**

|                        |              |                |
|------------------------|--------------|----------------|
| Federal Income         |              |                |
| Other income           | 961.141.00   |                |
| Municipal Income       | 1.333.694.27 | 2.294.835.27   |
| Decentralized agencies |              | 528.658.962.83 |
| Financing              |              |                |

**PUBLIC ACCOUNT INCOME 21.238.471.005.08**

**EXPENDITURES 19.974.879.415.38**

|                        |                |                |
|------------------------|----------------|----------------|
| Decentralized agencies | 528.658.962.83 |                |
| Investment (5702)      | 65.526.402.76  |                |
| Debt Amortization      | 67.753.951.36  | 661.939.334.95 |

**PUBLIC ACCOUNT EXPENDITURES 20.636.818.750.33**

Appendix 8: Budgetary- Accounting reconciliation



Third Quarter 2011

**MUNICIPALITY OF SAN LUIS POTOSÍ  
NOTES TO THE FINANCIAL STATEMENTS  
AT 30TH SEPTEMBER 2011**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 30TH SEPTEMBER 2011**

**NOTE No.1 LEGAL FRAMEWORK:**

Pursuant to the provisions of Section VI of Article 80 of the Political Constitution of the State, the Executive is required to submit for consideration of H. State Congress, Account Public Finance Quarterly State, likewise, is an obligation to present financial information about the exercise of the authorized budget in that period.

The Organic Law of Public Administration State establishes that the Ministry of Finance will be responsible for the preventive gloss Income and Expenses of the State, the preparation of financial reports and care relating to the State Supreme Audit to comply with the provisions of Section VI of Article 80 of the State Constitution and Article 33 XXV Fraction of the Organic Law of Public Administration State.

**Appendix 9: Notes to the financial Statements**

Third Quarter 2011

MUNICIPALITY OF SAN LUIS POTOSÍ  
NOTES TO THE FINANCIAL STATEMENTS  
AT 30TH SEPTEMBER 2011

**NOTE # 2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS:**

The accompanying financial statements were prepared in accordance with Government Accounting rules authorized by the Ministry of Finance through the National Council for Accounting Harmonization by the Government Accounting Law, its Basic Principles, their Frameworks , the guidelines published by the CONAC, The Law of Budget, Accounting and Public Expenditure in San Luis Potosí and its Regulations. The Law on Income and Expenditure Budget for Fiscal Year 2011, to coincide with International Financial Reporting except that such rules do not require the recognition of the effects of inflation on financial information.

Below are the most important Accounting Policies:

**a) Cash Equivalents:**

Investments in securities are valued according to amount of purchase are added for interest accrued and collected.

**b) Non-current assets:**

The real and personal property are recorded at acquisition cost and / or construction including in the latter, the concepts of labor, material and direct and indirect costs.

**MUNICIPALITY OF SAN LUIS POTOSÍ  
NOTES TO THE FINANCIAL STATEMENTS  
AT 30TH SEPTEMBER 2011**

**c) Other noncurrent assets (escrow services):**

Guarantee deposits correspond to the need to ensure the use and enjoyments of property leased and / or ensure compliance in the payment of financial claims that are required by bank creditors.

**d) Long-Term Debt:**

Public Debt represented in the financial statements corresponding to the unpaid principal balance in debt contracts we have with the following banks: Banorte, Santander and Banobras.

**e) Public Finance:**

The Public Finance is made up as follows:

- Contributions and / or owned Heritage (The property, rights and obligations, recognition of the acquisitions of movable and immovable property made during the year).
- Updates of Public Finance.
- The results obtained from previous years.
- Profit for the year saving

Third Quarter 2011

**MUNICIPALITY OF SAN LUIS POTOSÍ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT 30TH SEPTEMBER 2011**

**NOTE No.3 CASH AND CASH EQUIVALENTS:**

The integration of this item is shown under the account of Banks / Cash and Temporary Investments and is comprised as follows:

**AT 30TH SEPTEMBER 2011**  
(K MXN Pesos)

|                      | Main<br>Administration | Total       |
|----------------------|------------------------|-------------|
| Banks                | \$198,547              | \$198,547   |
| Temporary Investment | 891,161                | 891,161     |
| Total                | \$1,089,708            | \$1,089,708 |

Resources are invested in productive accounts, which generate returns that are applied to the operation of the State Government in its various programs under the regulations applied to them, and recorded in the account of Capital Income in the field Other Income. To date these resources are committed and / or labeling schemes under the Acquisition, Construction, Remodeling, Service, Operation, etc.

Third Quarter 2011

**MUNICIPALITY OF SAN LUIS POTOSÍ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT 30TH SEPTEMBER 2011**

**NOTE No.4 RIGHTS TO RECEIVE CASH EQUIVALENTS:**

This item is composed as follows:

**AT 30TH SEPTEMBER 2011**  
(K MXN Pesos)

|                         | Main Administration     | Total                   |
|-------------------------|-------------------------|-------------------------|
| Accounts receivable     | \$ 3.921                | \$ 3.921                |
| Other debtors           | 344.335                 | 344.335                 |
| Cash in advance debtors | 6.625                   | 6.625                   |
| Loans granted           | <u>203.281</u>          | <u>203.281</u>          |
| <b>Total</b>            | <b><u>\$558.162</u></b> | <b><u>\$558.162</u></b> |

Represents the sum of amounts for the Public Entity for liabilities, expenses to be checked, for the amount of the debts of individuals and corporations income derived from contributions, products and uses that received by the State, the amount of advances funds from the Treasury.

Third Quarter 2011

**MUNICIPALITY OF SAN LUIS POTOSÍ  
 NOTES TO THE FINANCIAL STATEMENTS  
 AT 30TH SEPTEMBER 2011**

**NOTE CURRENT ASSETS No.5 REAL ESTATE (CONSTRUCTION IN PROGRESS):**

This item is composed as follows:

**AT 30TH SEPTEMBER 2011**  
 (K MXN Pesos)

|   | <b>Main Administration</b> | <b>Total</b>    |
|---|----------------------------|-----------------|
| Construction/ Work in progress Building | \$77.752                   | \$77.752        |
| <b>Total</b>                            | <b>\$77.752</b>            | <b>\$77.752</b> |

These amounts represent the amount of construction in progress of real estate owned by the public body, as well as construction in progress on public property if it exists in the period, established by legislation, including spending on research pre-investment and project preparation.

Third Quarter 2011

**MUNICIPALITY OF SAN LUIS POTOSÍ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT 30TH SEPTEMBER 2011**

**NOTE No.6 NON-CURRENT ASSETS (MOVABLE AND INMMOVABLE):**

This item is composed as follows:

**AT 30TH SEPTEMBER 2011**  
(K MXN Pesos)

|                    | <b>Main Administration</b> | <b>Total</b>       |
|--------------------|----------------------------|--------------------|
| Real Estate assets | \$1.223.883                | \$1.223.883        |
| Intangible Assets  | <u>\$4.797.700</u>         | <u>\$4.797.700</u> |
| <b>Total</b>       | <b>\$6.021.583</b>         | <b>\$6.021.583</b> |

In these areas it represents the amount of purchases of all types of real estate, infrastructure and buildings, as well as the costs arising from acts of acquisition, expropriation and compensation and those generated by pre-investment studies, as well as all purchases of all personal property acquired for the provision of public services in its different segments.

Third Quarter 2011

MUNICIPALITY OF SAN LUIS POTOSÍ  
NOTES TO THE FINANCIAL STATEMENTS  
AT 30TH SEPTEMBER 2011

**NOTE # 7 CURRENT LIABILITIES (RETURN OF THE LAW OF INCOME):**

With respect to the amount reflected in the Statement of Financial Position of the Central Administration in the amount of \$ 1.624 million 174 thousand pesos of the total current liabilities, we note that must be considered within this amount of respect to the Returns of Law for Income Shares advances from the Federal Treasury (TESOFE) “acronym in Spanish “ ,in the amount of \$ 498 million 177 thousand pesos to be compensated in subsequent months as it handled the process of settlement of taxes Federation determines and reports to the federal states of the final calculation, for that is deemed in the nature of the relevant receipts and making applications for the liabilities .



Third Quarter 2011

**MUNICIPALITY OF SAN LUIS POTOSÍ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT 30TH SEPTEMBER 2011**

**NOTE No.8 LONG-TERM DEBT.**

The public debt is composed as follows:

**AT 30TH SEPTEMBER 2011**  
(K MXN Pesos)

|                              | <b>Main Administration</b> | <b>Total</b>        |
|------------------------------|----------------------------|---------------------|
| Contract debt bank Banorte   | \$ 2.565.292               | \$ 2.565.292        |
| Contract debt bank Santander | 1.478.331                  | 1.478.331           |
| Contract debt bank Banobras  | <u>150.097</u>             | <u>150.097</u>      |
| <b>Total</b>                 | <b>\$ 4.193.720</b>        | <b>\$ 4.193.720</b> |

These balances are unpaid capital due under the scheme are contracted with Banorte Bank of the original credit of \$ 2.678.8 billion pesos at the rate of TIIE + 0.45% hired with Santander bank credit the original \$ 1.482.9 million pesos at the rate of TIIE + 0.90% contracted and credit bank Banobras original \$ 175.4 million at the rate of a fixed rate of 7.48%.

**\*\*Note:** all the financial statements have been translated from Spanish to English language by the author.

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