



Accounting Fundamentals – Day 2

Instructor Led Training



Agenda

In this course, we will cover the following lessons:

Day 1

- Lesson 1: Accounting Basics
- Lesson 2: Overview of Accounting Standards and Regulations
- Lesson 3: Overview of Governmental and Fund Accounting
- Lesson 4: Accounting is Transaction Driven

Day 2

- Lesson 5: Mechanics of Double-Entry Accounting
- Lesson 6: Chart of Accounts (COA)
- Lesson 7: Period Close and Overview of Common Financial Statements



Lesson 5

Mechanics of Double-Entry Accounting



Lesson 5: Objectives

Upon completion of this lesson, you will be able to:

- Explain double-entry accounting
- Create T-Accounts for accounting transactions
- Create double-entry accounting transactions



Lesson 5: Mechanics of Double-Entry Accounting

In this lesson, you will learn about the following:

- Topic 1: Mechanics of Double-Entry Accounting
- Topic 2: Creating a Double-Entry Accounting Transaction



Topic 1: Mechanics of Double-Entry Accounting

What is Double-Entry Accounting?

It is a system that uses debits and credits for recording and summarizing transactions to produce financial statements:

- Debit: an amount that is entered on the left side of the account ledger
- Credit: an amount that is entered on the right side of the account ledger

Double-entry accounting requires that:

- accounting records always be “in balance” i.e., debits equal credits
- every transaction is recorded in two or more accounts

Transactions are recorded in this manner because equal debits and credits offer a means of proving that both sides of an entry agree with each other.

If every transaction is recorded with equal debits and credits, then the sum of the debits in the ledger must equal the sum of the credits in the ledger.



Topic 1: Mechanics of Double-Entry Accounting

An Account is Also:

- A detailed classification of financial activity
- Used to specify the balance sheet account or operating account (e.g., expenditure, revenue codes) on financial transactions
- Stores an account type identifier, which indicates whether the value entered is an asset, liability, fund equity, expenditure, or revenue type of account

What is the Normal Balance for an Account?

- The side (e.g., debit or credit) where an increase in the account is recorded.

The normal balance also is referred to as the typical balance for an account.

For example, an expenditure has a normal debit balance. To increase an expenditure you would debit the account. To decrease an expenditure you would credit the account.

The opposite is true of a revenue account which has a normal credit balance. To increase revenue you would credit the account. To decrease revenue you would debit the account



Topic 1: Mechanics of Double-Entry Accounting (continued)

Debits and Credits in Accounting Transactions:

To complete a double-entry accounting transaction, a minimum of two accounts will be debited or credited depending on the Account Types and whether they are increasing or decreasing:

Account Type	Increased with a:	Decreased with a:	Normal Balance
Asset	Debit	Credit	Debit
Liability	Credit	Debit	Credit
Revenue	Credit	Debit	Credit
Expenditure	Debit	Credit	Debit
Fund Balance	Credit	Debit	Credit





Topic 1: Mechanics of Double-Entry Accounting (continued)

The Accounting Equation:

$$\text{Assets} = \text{Liabilities} + \text{Fund Balance}$$



The Expanded Accounting Equation:

$$\text{Assets} = \text{Liabilities} + \text{Opening Fund Balance} + (\text{Current Year Revenues} - \text{Current Year Expenditures})$$

Fund Balance:

- Increases when revenues exceed expenditures
- Decreases when expenditures exceed revenues



Topic 1: Mechanics of Double-Entry Accounting (continued)

Examples to Illustrate The Accounting Equation:

#	Transaction	Assets	=	Liabilities	+	Fund Balance	+	(Revenues	-	Expenditures)
1	Funds received from license fees during the month	\$10,000 ↑	=	\$0	+	\$0	+	(\$10,000 ↑	-	\$0)
2	Received office supplies with payment due in 60 days	\$0	=	\$5,000 ↑	+	\$0	+	(\$0	-	\$5,000 ↑)
3	Paid retailer for office supplies received in transaction #2	(\$5,000) ↓	=	(\$5,000) ↓	+	\$0	+	(\$0	-	\$0)



Topic 1: Mechanics of Double-Entry Accounting (continued)

Examples Reformatted to Illustrate How Debits = Credits:

#	Transaction	Debits	=	Credits
1	Funds received from license fees during the month	\$10,000 ↑ Assets	=	\$10,000 ↑ Revenues
2	Received office supplies with payment due in 60 days.	\$5,000 ↑ Expenditures	=	\$5,000 ↑ Liabilities
3	Paid retailer for office supplies received in transaction #2	(\$5,000) ↓ Liabilities	=	(\$5,000) ↓ Assets





Topic 2: Creating a Double-Entry Accounting Transaction

What is Double-Entry Journalization?

The double-entry refers to the fact that whenever accounting records are posted, at least two entries must be made – one on the left-hand side (debit) and one on the right-hand side (credit).

What is the Purpose of Using Double-Entry Accounting?

It is to assist in the preparation of financial statements since you can identify potential errors in how a transaction was recorded. There is no guarantee that the financial statements are error free since the incorrect account may have been used or the entries were setup improperly.

All accounting systems use the double-entry method of accounting. Modern Enterprise Resource Planning (ERP) systems generally require the user to understand and use the double entry method. Cardinal will require that entries are balanced, i.e., debits equal credits.

Steps To Perform When Creating a Double-Entry Accounting Transaction:

1. Confirm which account should be used for each debit and credit
2. Determine whether the account should be increased or decreased
3. Verify for each line whether the account should be debited or credited



Topic 2: Creating a Double-Entry Accounting Transaction (continued)

Examples of Double Entry Journals:

Journal #	Account	Debit	Credit
1	Cash (Asset)	\$10,000	
	License Fees (Revenue)		\$10,000
	Received funds from vehicle fees		
2	Office Supplies (Expenditure)	\$5,000	
	Accounts Payable (Liability)		\$5,000
	Purchased office supplies		
3	Accounts Payable (Liability)	\$5,000	
	Cash (Asset)		\$5,000
	Paid retailer for office supplies		

#	Transaction
1	Funds received from license fees during the month of \$10,000
2	Received office supplies with payment due in 60 days for \$5,000
3	Paid retailer \$5,000 for office supplies received in transaction #2



Exercise 4: Create Double-Entry Worksheet for Accounting Transactions

You are now about to complete an exercise on: Creating Double-Entry Worksheet for Accounting Transactions





Topic 2: Creating a Double-Entry Accounting Transaction (continued)

What is a T-Account?

- A visual aid used to depict an account listing both debits and credits
- A method of displaying a double-entry accounting transaction

What is the Purpose of Using T-Accounts?

- Provides a method to determine the total debits (left-side column) and credits (right-side column)
- Provides a way to visually see that both debits and credits are in balance
- Useful when preparing adjusting or correcting journal entries

T-Account Format:

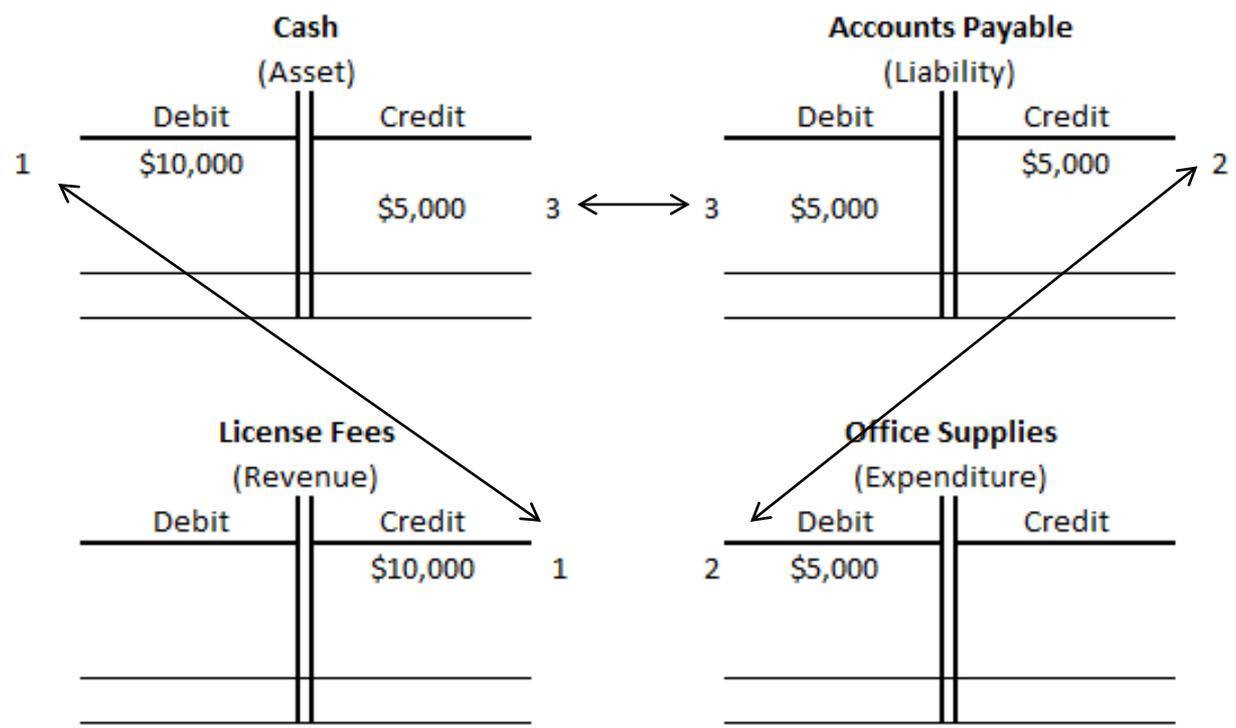
Assets		Liabilities		Fund Balance	
Debit	Credit	Debit	Credit	Debit	Credit
Debit for <i>Increases</i>	Credit for <i>Decreases</i>	Debit for <i>Decreases</i>	Credit for <i>Increases</i>	Debit for <i>Decreases</i>	Credit for <i>Increases</i>
\$XXX.xx			\$XXX.xx		\$XXX.xx

Expenditure		Revenue	
Debit	Credit	Debit	Credit
Debit for <i>Increases</i>	Credit for <i>Decreases</i>	Debit for <i>Decreases</i>	Credit for <i>Increases</i>
\$XXX.xx			\$XXX.xx



Topic 2: Creating a Double-Entry Accounting Transaction (continued)

Examples of T-Account Transactions:



#	Transaction
1	Funds received from license fees during the month of \$10,000
2	Received office supplies with payment due in 60 days for \$5,000
3	Paid retailer \$5,000 for office supplies received in transaction #2



Exercise 5: Complete T-Account Worksheet for Accounting Transactions

You are now about to complete an exercise on: Completing T-Account Worksheet for Accounting Transactions





Lesson 5: Checkpoint



Now is your opportunity to check your understanding of the course material.

Read the questions for this lesson and write your answer in the blank lines provided.

We will review the questions in class after you've had time to answer them.

Questions:

Q1. How would you define double-entry accounting and why it's used?

Q2. What are the "normal balances" for each Account Type?

Q3. Why do debits need to equal credits?

Q4. What is the accounting equation?



Lesson 5: Summary

In this lesson, you learned how to:

- Explain double-entry accounting
- Create T-Accounts for accounting transactions
- Create double-entry accounting transactions



Lesson 6

Chart of Accounts (COA)



Lesson 6: Chart of Accounts (COA)

In this lesson, you will learn about the following:

- Topic 1: Chart of Accounts and Accounting Transactions
- Topic 2: Overview of Cardinal Chart of Accounts
- Topic 3: Accounting for Transactions Using Cardinal Chart of Accounts



Lesson 6: Objectives

Upon completion of this lesson, you will be able to:

- Recognize the Chart of Accounts
- Create a transaction using the Cardinal Chart of Accounts



Topic 1: Chart of Accounts and Accounting Transactions

What is the Chart of Accounts?

It is the accounting structure that sets hierarchies and rollups for financial data

The Chart of Accounts (COA) structure and values are maintained in the General Ledger and aids in the recording and reporting of accounting information.

What is a ChartField?

It is an element within the Chart of Accounts. It represents one category of data (e.g., Business Unit, Department, Account), with various values that further define a transaction.

A combination of ChartFields defines an accounting distribution on a transaction.

Why is the Chart of Accounts Important?

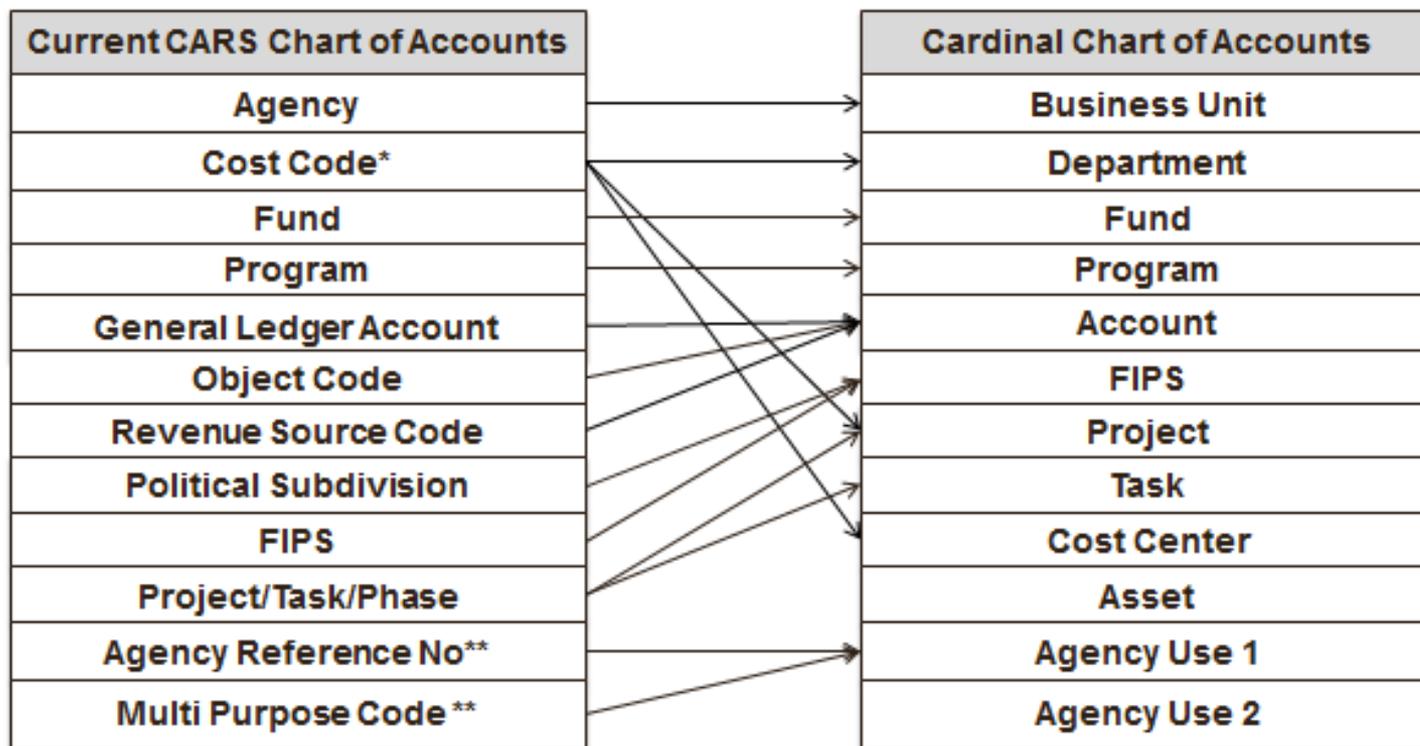
- Provides a way to group transactions to facilitate review and analysis in a consistent manner
- Provides flexibility to create more detailed grouping of transactions depending on needs of users of financial information
- Facilitates the accumulation of detailed transactions for each account into summary accounts that are displayed on financial statements
- Simplifies reporting using multi-dimensional elements (e.g., funds, programs, and agencies)



Topic 2: Overview of Cardinal Chart of Accounts

Chart of Accounts (COA) Mapping: CARS and Cardinal

This diagram crosswalks the CARS and Cardinal Chart of Accounts elements (ChartFields).



*Agencies use Cost Code for multiple purposes; therefore, it may map to several agency maintained COA elements in Cardinal. This diagram does not include all possible mapping combinations.

**These fields are not true CARS COA elements; they are not summarized to the ledger. An agency will have Agency Use 1 or any of the other new COA elements to map to where necessary.



Topic 2: Overview of Cardinal Chart of Accounts (continued)

ChartField Label	Technical Name	Maximum Length	Values*	Required?	Maintained
GL Business Unit	BUSINESS_UNIT_GL	5	N	All Transactions	Centrally
Fund	FUND_CODE	5	N	All Transactions	Centrally
Account	ACCOUNT	10	N	All Transactions	Centrally
Program	CHARTFIELD2	10	N	All Expenditures	Centrally
Department	DEPT_ID	10	N	All Transactions	Agency
FIPS	CLASS_CD	5	N	No	Centrally
Project	PROJECT_ID	10	N	No	Agency**
Task	PRODUCT	6	N	No	Agency
Cost Center	CHARTFIELD1	10	N	No	Agency
Asset	OPERATING_UNIT	8	N	No	Agency
Agency Use 1	CHARTFIELD3	10	A/N	No	Agency
Agency Use 2	BUDGET_REF	8	A/N	No	Agency

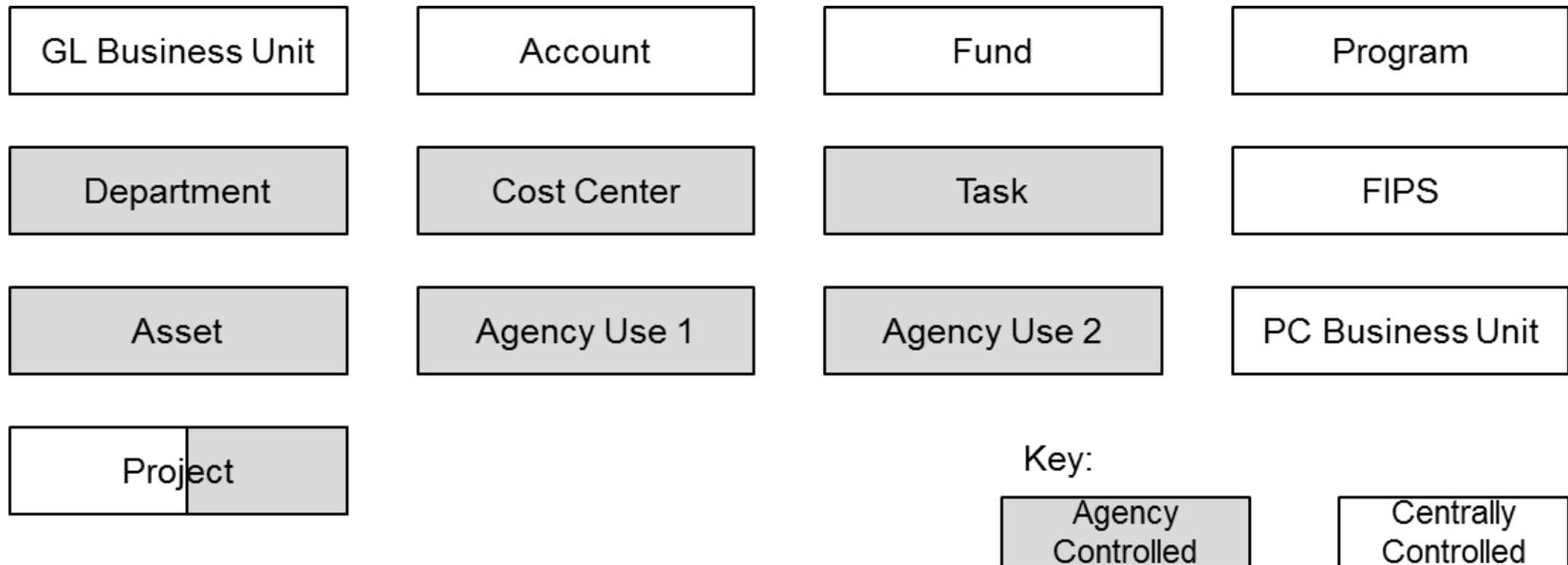
* N=Numeric, A/N = Alpha-Numeric

**Except for Capital Outlay and Commonwealth-wide Initiatives



Topic 2: Overview of Cardinal Chart of Accounts (continued)

- The Cardinal Chart of Accounts structure and values are maintained in the General Ledger. Many of the COA elements are controlled at the agency level, but some are controlled by the central agencies (Department of Accounts, Department of Planning and Budget).

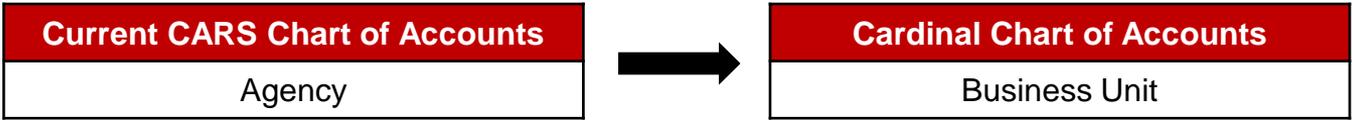


- The Project ChartField is agency controlled except for capital outlay and Commonwealth-wide initiatives.
- The PC Business Unit ChartField is only used by agencies using Project Costing in Cardinal.



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – GL Business Unit:



- Represents an organization at an appropriation level and is used to define a financial reporting entity for General Ledger reporting purposes
- The GL Business Unit is the field that defines the transaction as belonging to a particular agency
- For Cardinal, the business unit is the CARS agency number with two zeroes added at the end
- Required on all transactions
- Maintained centrally

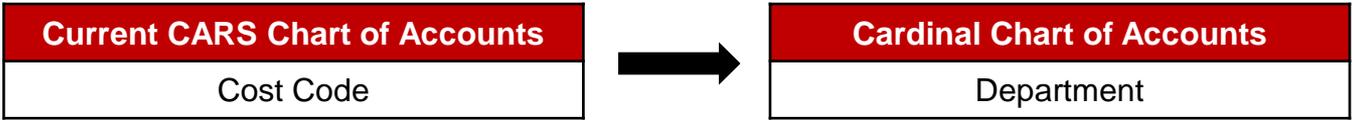
Examples:

Business Unit	CARS	Cardinal
DOA	151	15100
VDOT	501	50100



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Department:



- Identifies a specific organization unit
- The organization element represents responsibilities and duties assigned to individuals and depicts reporting relationships that exist within an agency
- Agency size and complexity, as well as other variables, determine the organizational structure most appropriate for an individual agency
- Departments generally have people; otherwise, it might be a cost center to capture costs
- Required on all transactions
- Maintained by agency

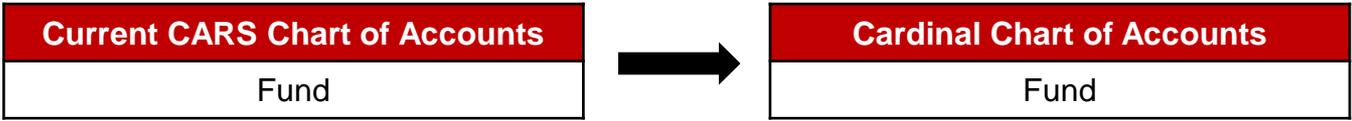
Examples:

Department	CARS	Cardinal
Admin Services & Public Records	921	92100
General Accounting	954	95400
Systems Analysis & Programming	983	98300



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Fund:



- Defines a self-balancing set of accounts
- Are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations (e.g., restricted fund)
- Required on all transactions
- Maintained centrally

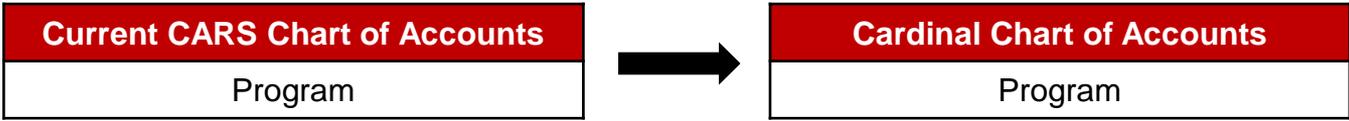
Examples:

Fund	CARS	Cardinal
General Fund	0100	01000
Parking	0270	02700
Commonwealth Health Research	0936	09362



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Program:



- Accumulates financial information related to activities or sets of activities
- Captures the cost of programs across funds
- Provides the basis for program budget formulation and control
- Required on all expenditure transactions
- Maintained centrally

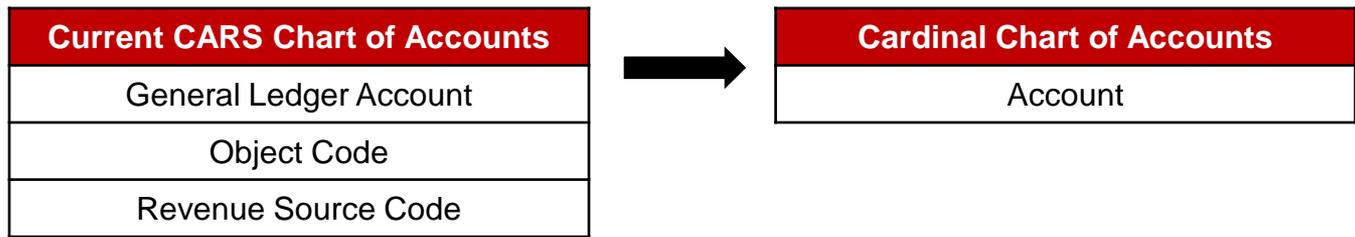
Examples:

Program	CARS	Cardinal
Computer Services	72404	724004
General Management & Direction	79901	799001
Payroll Service Bureau	82601	826001



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Account:



- Is a detailed classification of financial activity
- Used to specify the balance sheet account or operating account (e.g., expenditure, revenue codes) on financial transactions
- Stores an account type identifier, which indicates whether the value entered in the Account ChartField is an asset, liability, fund equity, expenditure, revenue or transfer type of account
- Required on all transactions
- Maintained centrally

Examples:

Account	CARS GLA	CARS Revenue Source or Object Code	Cardinal
Cash with Fiscal Agent	109	----	101090
Accounts Payable	502	----	205020
Natural Gas Consumption Tax	961	01008	4001008
Oil	901	1324	5013240
Oil, Heating Fuel	901	1324	50132401



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Account ChartField Comparison:

The Account ChartField incorporates a lot of important information into a single field. For example, it specifies whether the account is a balance sheet or operating account (account class). It also classifies the particular general ledger account, and categorizes the particular type of expenditure or revenue.

Cardinal Account ChartField Structure	Account Type	CARS GLA Range
1XXXXXX	ASSET	100-499
2XXXXXX	LIABILITY	500-799
3XXXXXX	FUND BALANCE (EQUITY)	800
4XXXXXX	REVENUE (OPERATING)	801-999
5XXXXXX	EXPENDITURE (OPERATING)	
6XXXXXX	TRANSFER (OPERATING)	

Cardinal to CARS Crosswalk Examples			
Cardinal Account	Cardinal Account Description	CARS GLA	CARS Revenue Source or Object Code
101010	Cash With The Treasurer of VA	101	N/A
220556	Payrl Susp-Deferred Comp	556	N/A
308000	Fund Balance	800	N/A
4009060	Miscellaneous Revenues	961	09060
5011230	Salaries, Classified	901	1123
609840	Cash Transfer In - GF/Non-GF	984	N/A

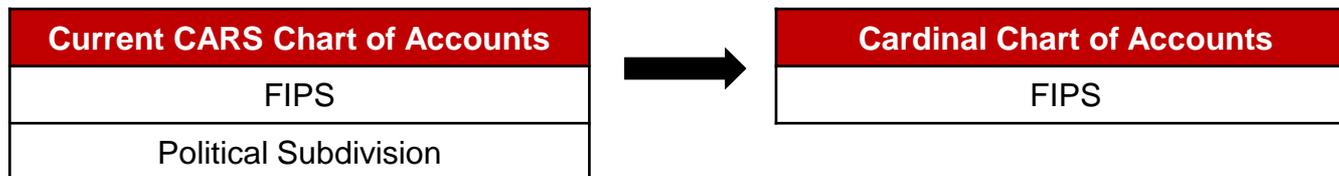
Notice something different?

The Operating account type is used in Cardinal to refer to account types that will appear on an operating statement – such as the Statement of Revenues, Expenditures, and Changes in Fund Balance.



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Federal Information Processing Standards (FIPS):



- Identifies cities, counties and towns of the Commonwealth of Virginia that are listed as Federal Information Processing Standards (FIPS) codes
- Utilized to track costs associated with these geographic designations
- Not required on all transactions
- Maintained centrally

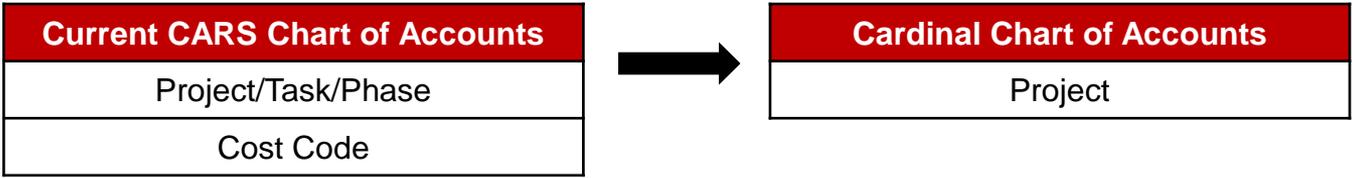
Examples:

FIPS	CARS	Cardinal
Amelia	007	007
Bedford County	019	019
Charlottesville	540	540



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Project:



- Used to capture a planned undertaking of something to be accomplished or produced, having a finite beginning and a finite ending, for which expenditures/costs and revenues are to be tracked
- Designed to track project and grant financial activity, which can cross budget years, funds, and department
- Not required on all transactions
- Maintained by agency

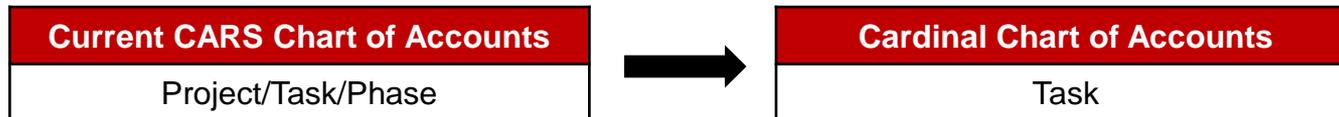
Examples:

Project	CARS	Cardinal
Summer School 2015	90015	SDB90015
Forest Fire Management 2014	148	DOF14814



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Task:



- Identifies the work or services performed and can be associated with a project
- Not required on all transactions
- Maintained by agency

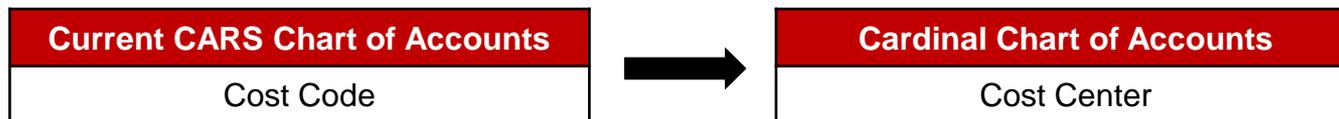
Examples:

Task	CARS (Project/Task/Phase)	Cardinal (Task)
E-Pollbooks	40-10	401000



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Cost Center:



- Used to capture administrative or operational related financial costs (e.g., Administration and Support, Training, Employee Programs, Research and Development)
- Is not used to capture costs directly related to a project
- Not required on all transactions
- Maintained by agency

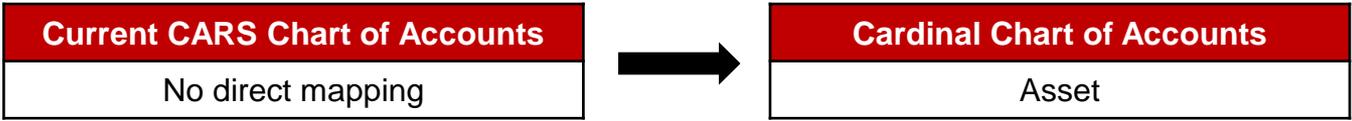
Examples:

Cost Center	CARS (Agency / Cost Code)	Cardinal (Cost Center)
SWRF Red Drum Adult Pop Study	402-871	402-871



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Asset:



- Used to capture financial transactions associated with various assets of an agency such as: buildings, lots, structures, facilities, or equipment
- Used in this context for the purpose of tracking expenditures, not for the purpose of tracking the value of the asset
- Not required on all transactions
- Maintained by agency

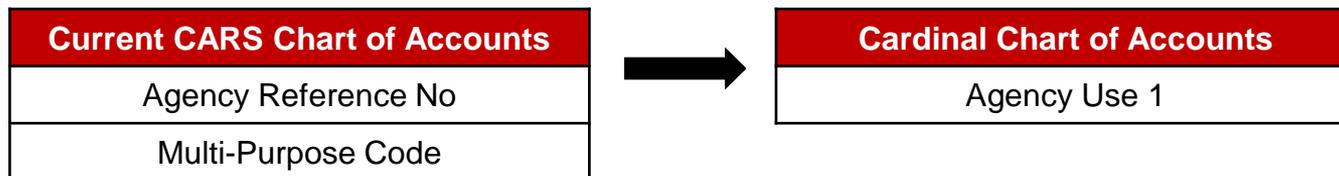
Examples:

Asset	CARS	Cardinal
Plane	No direct mapping	402-PLANE



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Agency Use 1:



- Is a flexible field reserved for tracking either agency reporting fields or agency specific use
- Not required on all transactions
- Maintained by agency

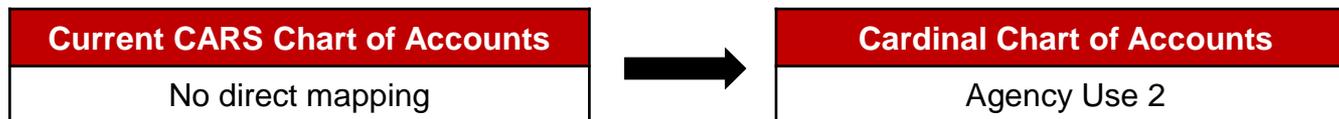
Examples:

Agency Use 1	CARS	Cardinal
Kits – Alcohol	165	TK2203



Topic 2: Overview of Cardinal Chart of Accounts (continued)

Cardinal ChartFields – Agency Use 2:



- Is another flexible field reserved for tracking either agency reporting fields or agency specific use
- Not required on all transactions
- Maintained by agency

Examples:

Agency Use 2	CARS	Cardinal
Court Service Unit 31 - Manassas	No direct mapping	CSU31



Topic 2: Overview of Cardinal Chart of Accounts (continued)

What is the General Ledger?

The section of the accounting system used for collecting accounting data to create the financial statements.

The General Ledger is used to:

- Create budgets
- Accumulate the results of transaction processing
- Provide source financial data for reports
- Generate financial statements



Topic 3: Accounting for Transactions Using Cardinal Chart of Accounts

Example: Journal Transaction

Create an adjusting journal for DOA to correct an accounting transaction incorrectly recorded to Apparel Supplies instead of Office Supplies for \$157.00. The department is Internal Audit, the program is Disbursements Review, and this affected the General Fund.

In this example we want to:

- Increase (debit) the expenditure account #5013120: Office Supplies
- Decrease (credit) the expenditure account #5013110: Apparel Supplies

Business						
Line	Unit	Account	Fund	Program	Department	Amount
1	15100	5013120	01000	737002	94100	157.00
2	15100	5013110	01000	737002	94100	-157.00

ChartField	Detail	Description
Business Unit	15100	DOA
Account	5013120	Office Supplies
Account	5013110	Apparel Supplies
Fund	01000	General Fund
Program	737002	Disbursements Review
Department	94100	Internal Audit



Topic 3: Accounting for Transactions Using Cardinal Chart of Accounts (continued)

Example: Accounts Payable Voucher Transaction

Create an accounts payable voucher to record an expenditure of \$300 for field supplies for DOA . The department is General Accounting, the program is General Accounting, and this affected the General Fund.

This example is performing the following:

- Increase (debit) the expenditure account #5013430: Field Supplies
- Increase (credit) the liability account #205020: Accounts Payable

Business						
Line	Unit	Account	Fund	Program	Department	Amount
1	15100	5013430	01000	737001	95400	300.00
2	15100	205020	01000	737001	95400	-300.00

Line 2 is created when the accounting entries are posted to accounts payable. When the journal generator runs, it will pick up all posted, but ungenerated accounts payable entries and create a journal that is then posted to the general ledger.

ChartField	Detail	Description
Business Unit	15100	DOA
Account	5013430	Field Supplies
Account	205020	Accounts Payable
Fund	01000	General Fund
Program	737001	General Accounting
Department	95400	General Accounting



Topic 3: Accounting for Transactions Using Cardinal Chart of Accounts (continued)

Example: Accounts Receivable Funds Receipt

Create an accounts receivable funds receipt to record \$100 cash received for DOA. The department is General Accounting, the program is General Accounting, and this affected the General Fund.

This example is performing the following:

- Increase (debit) the cash account #101010: Cash Treasury
- Increase (credit) the revenue account #4009060: Miscellaneous Revenues

Business						
Line	Unit	Account	Fund	Program	Department	Amount
1	15100	101010	01000	737001	95400	100.00
2	15100	4009060	01000	737001	95400	-100.00

Line 1 is created when the accounting entries are posted to accounts receivable. When the journal generator runs, it will pick up all posted, but ungenerated accounts receivable entries and create a journal that is then posted to the general ledger. The cash account # is selected when you begin the funds receipts process.

ChartField	Detail	Description
Business Unit	15100	DOA
Account	4009060	Miscellaneous Revenues
Account	101010	Cash - Treasury
Fund	01000	General Fund
Program	737001	General Accounting
Department	95400	General Accounting



Exercise 6: Create Journal Entries Using Cardinal Chart of Accounts

You are now about to complete an exercise on: Creating Journal Entries Using Cardinal Chart of Accounts





Lesson 6: Checkpoint



Now is your opportunity to check your understanding of the course material.

Read the questions for this lesson and write your answer in the blank lines provided.

We will review the questions in class after you've had time to answer them.

Questions:

Q1. What is the Chart of Accounts?

Q2. What is the purpose of the Cardinal ChartField 'Account' listed on a transaction?

Q3. Which Cardinal ChartFields are required on all transactions?



Lesson 6: Summary

In this lesson, you learned how to:

- Recognize what is the Chart of Accounts
- Create a transaction using the Cardinal Chart of Accounts



Lesson 7

Period Close and Overview of Common Financial Statements



Lesson 7: Objectives

Upon completion of this lesson, you will be able to:

- Explain how accounting transactions are summarized to determine account balances
- Recognize how a transaction amount gets updated on the financial statements
- Explain how actual amounts are compared to budget
- Explain how the main financial statements are being used
- Identify basic information listed on the financial statements



Lesson 7: Period Close and Overview of Common Financial Statements

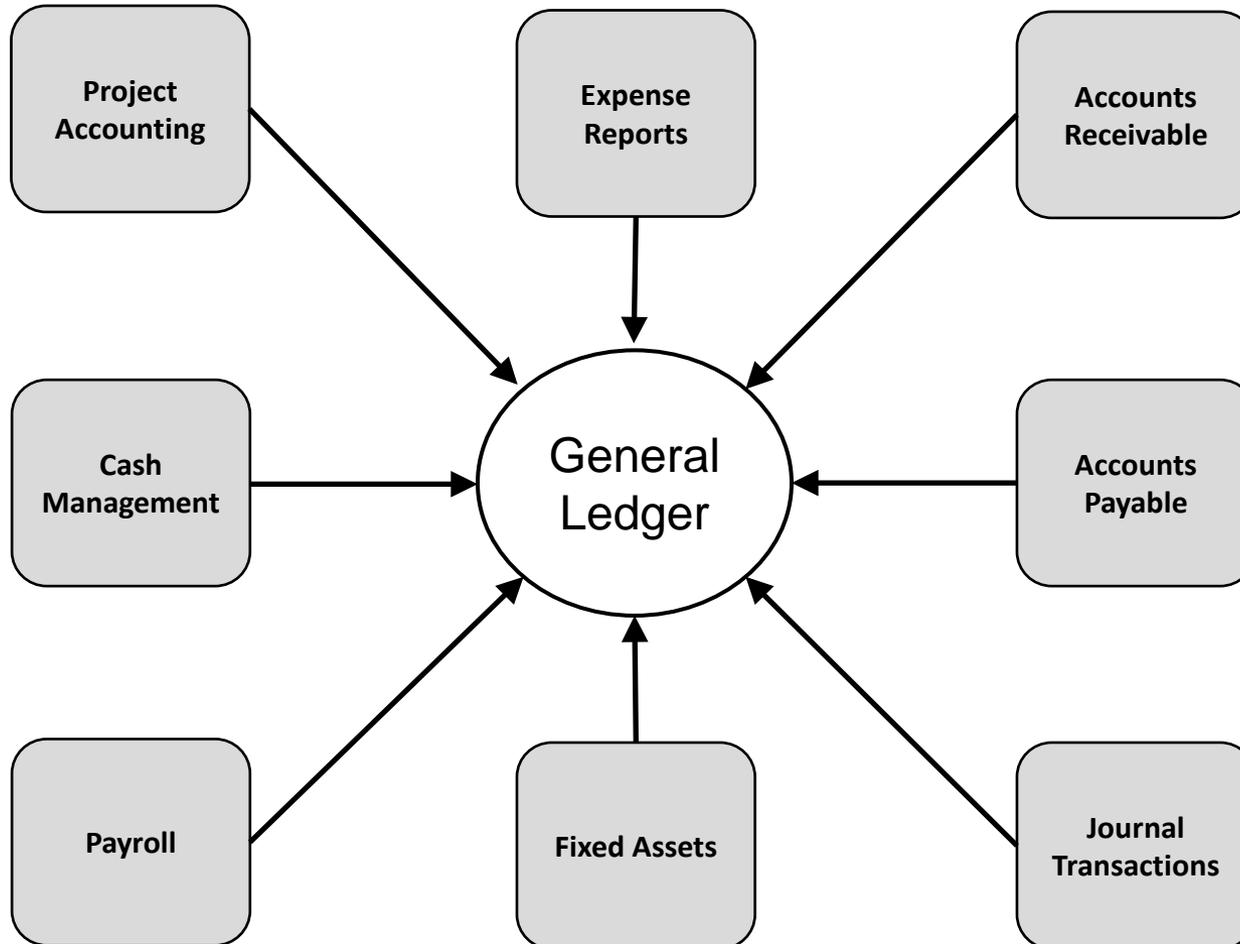
In this lesson, you will learn about the following:

- Topic 1: Summarizing Accounting Transactions
- Topic 2: Period-End Adjustment and Review Process
- Topic 3: A Deeper Look at the Main Financial Statements



Topic 1: Summarizing Accounting Transactions

Transactions may begin in different modules or applications, but all transactions end up in the General Ledger





Topic 1: Summarizing Accounting Transactions (continued)

What Happens at the End of the Year for Each Account Type?

The fiscal year for the Commonwealth ends on June 30th of each year.

Permanent Accounts:

Asset, liability and fund balance accounts listed on the Balance Sheet are considered permanent since they stay open as long as the entity is operating.

Examples of Permanent Accounts:

- Cash
- Accounts Receivable
- Accounts Payable
- Loans Payable
- Fund Balance



Topic 1: Summarizing Accounting Transactions (continued)

Temporary Accounts:

Revenue and expenditure accounts listed in the Statement of Revenues, Expenditures and Changes in Fund Balance are considered temporary since they are closed to \$0 at the end of each fiscal year. They begin each fiscal year on July 1st with a balance of \$0.

The difference between revenues and expenditures is called the change in fund balance – which is then added to or subtracted from the fund balance account at the end of each fiscal year.

The reason these accounts balances aren't carried over to the new fiscal year is that you need to measure the financial performance of the entity for the current year excluding any prior year transactions. Including prior year revenues and expenditures would create confusion on which transactions happened in which year.

Examples of Temporary Accounts:

- **Tax Revenue**
- **License & Permits Revenue**
- **Office Supplies Expense**
- **Salaries Expense**



Topic 1: Summarizing Accounting Transactions (continued)

For each Account Type, the account balances at the end of the year are either:

- Rolled-forward (permanent accounts) – where the ending account balance is the same as the next fiscal year opening balance
- Not rolled-forward (temporary accounts) – where the ending account balance is closed to \$0 for the next fiscal year opening balance

Account Type	Temporary / Permanent	What is July 1 st Balance?
Assets	Permanent	Prior-Year Ending Balance
Liabilities	Permanent	Prior-Year Ending Balance
Fund Balances	Permanent	Beginning Balance of Prior Year + (Prior Year Revenues – Expenditures)
Revenues	Temporary	\$0 – since temporary accounts were closed June 30th
Expenditures	Temporary	\$0 – since temporary accounts were closed June 30th



Topic 1: Summarizing Accounting Transactions (continued)

Example: Temporary Accounts (Office Supplies Expense)

Date	Transaction	Balance
June 1	Beginning Balance	\$700
June 15	Purchased supplies	\$300
June 30	Balance	\$1,000
June 30	Closed to Fund Balance	(\$1,000)
July 1	Roll-Forward Balance	\$0

Example: Permanent Accounts (Accounts Receivable - Other)

Date	Transaction	Balance
June 1	Beginning Balance	\$500
June 10	New Invoice Recorded in A/R	\$400
June 30	Balance	\$900
July 1	Roll-Forward Balance	\$900



Topic 1: Summarizing Accounting Transactions (continued)

Example of an expenditure account balance for journal transactions in a period:

Journal #	Journal Date	Line	Business Unit	Account	Fund	Program	Department	Amount
Beg. Balance	7/1/2014							0.00
1	7/5/2014	1	15100	5013120	01000	737002	94100	100.00
1	7/5/2014	2	15100	5013120	01000	737002	94100	-100.00
2	7/9/2014	1	15100	5013120	01000	737002	94100	200.00
3	7/11/2014	1	15100	5013120	01000	737002	94100	300.00
4	7/15/2014	1	15100	5013120	01000	737002	94100	400.00
5	7/22/2014	1	15100	5013120	01000	737002	94100	500.00
Account Balance as of 7/31/2014								1,400.00

Heading	Detail	Description
Business Unit	15100	DOA
Account	5013120	Office Supplies
Fund	01000	General Fund
Program	737002	Disbursements Review
Department	94100	Internal Audit



Topic 1: Summarizing Accounting Transactions (continued)

Example of asset account balance for journal transactions in a period:

Journal		Business						
Journal #	Date	Line	Unit	Account	Fund	Program	Department	Amount
Beg. Balance	7/1/2014							1,200.00
1	7/2/2014	1	15100	112054	01000	737001	95400	400.00
2	7/13/2014	1	15100	112054	01000	737001	95400	100.00
3	7/19/2014	1	15100	112054	01000	737001	95400	-700.00
4	7/23/2014	1	15100	112054	01000	737001	95400	800.00
5	7/29/2014	1	15100	112054	01000	737001	95400	300.00
							Account Balance as of 7/31/2014	2,100.00

Heading	Detail	Description
Business Unit	15100	DOA
Account	112054	A/R - Other
Fund	01000	General Fund
Program	737001	General Accounting
Department	95400	General Accounting



Topic 1: Summarizing Accounting Transactions (continued)

What is a Reporting Tree Structure:

A method to grouping similar accounts in a hierarchy structure to provide flexibility for reporting purposes.

General Fund Reporting Tree

- 101 Cash and Cash Equivalents
 - 101001 - Cash Not With Treasurer
 - 101420 - Amt Held By Trustee-Treasury
 - 101430 - Amt Held By Outside Trustee
 - 101470 - Funds Held In Escrow
 - 101060 - Cash Advances - Courts
 - 101070 - Cash Of Lottery Revolving Acct
- 112 Accounts Receivable
 - 112001 - Accounts Receivable - General
 - 112054 - Accounts Receivable - Other
 - 112546 - Due from Other Agencies
- 150 Long-Term Assets
 - 150010 - Equipment
 - 150020 - Land
 - 150050 - Long Term Investments

General Fund Trial Balance As of June 30, 2013

Account	Account Balance
101001 - Cash Not With Treasurer	700
101420 - Amt Held By Trustee-Treasury	200
101430 - Amt Held By Outside Trustee	300
101470 - Funds Held In Escrow	40
101060 - Cash Advances - Courts	30
101070 - Cash Of Lottery Revolving Acct	40
112001 - Accounts Receivable - General	500
112054 - Accounts Receivable - Other	60
112546 - Due from Other Agencies	70
150010 - Equipment	800
150020 - Land	900
150050 - Long Term Investments	100

General Fund Balance Sheet June 30, 2013

Assets:	
Cash and Cash Equivalents	\$ 1,310
Accounts Receivable	630
Long-Term Assets	1,800
Total Assets	<u>\$ 3,740</u>





Topic 1: Summarizing Accounting Transactions (continued)

How is the Budget Used At Period End?

At the end of each period, run reports to analyze the balances for each financial statement line item in detail and in summary to determine the period and year-to-date amounts as follows:

- Actuals – all the actual transactions recorded in the general ledger
- Budget – the budget amount approved and appropriated
- Variance – the difference between the actual and budget amounts

**General Fund
Revenues and Expenditures
7/31/2013
(Dollars in Thousands)**

	<u>Current Period</u>			<u>Year-to-Date</u>		
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenues:						
Tax Revenue	1,100	1,800	(700)	2,500	3,600	(1,100)
Licenses and Permits	1,300	1,500	(200)	2,600	3,000	(400)
Fees for Admin Services	800	300	500	1,400	600	800
	<u>3,200</u>	<u>3,600</u>	<u>(400)</u>	<u>6,500</u>	<u>7,200</u>	<u>(700)</u>
Expenditures:						
Employee Related Expense:	1,300	1,600	300	2,300	3,200	900
Administrative Expenses	1,400	800	(600)	1,900	1,600	(300)
	<u>2,700</u>	<u>2,400</u>	<u>(300)</u>	<u>4,200</u>	<u>4,800</u>	<u>600</u>



Topic 1: Summarizing Accounting Transactions (continued)

The variance explanations could include the following reasons:

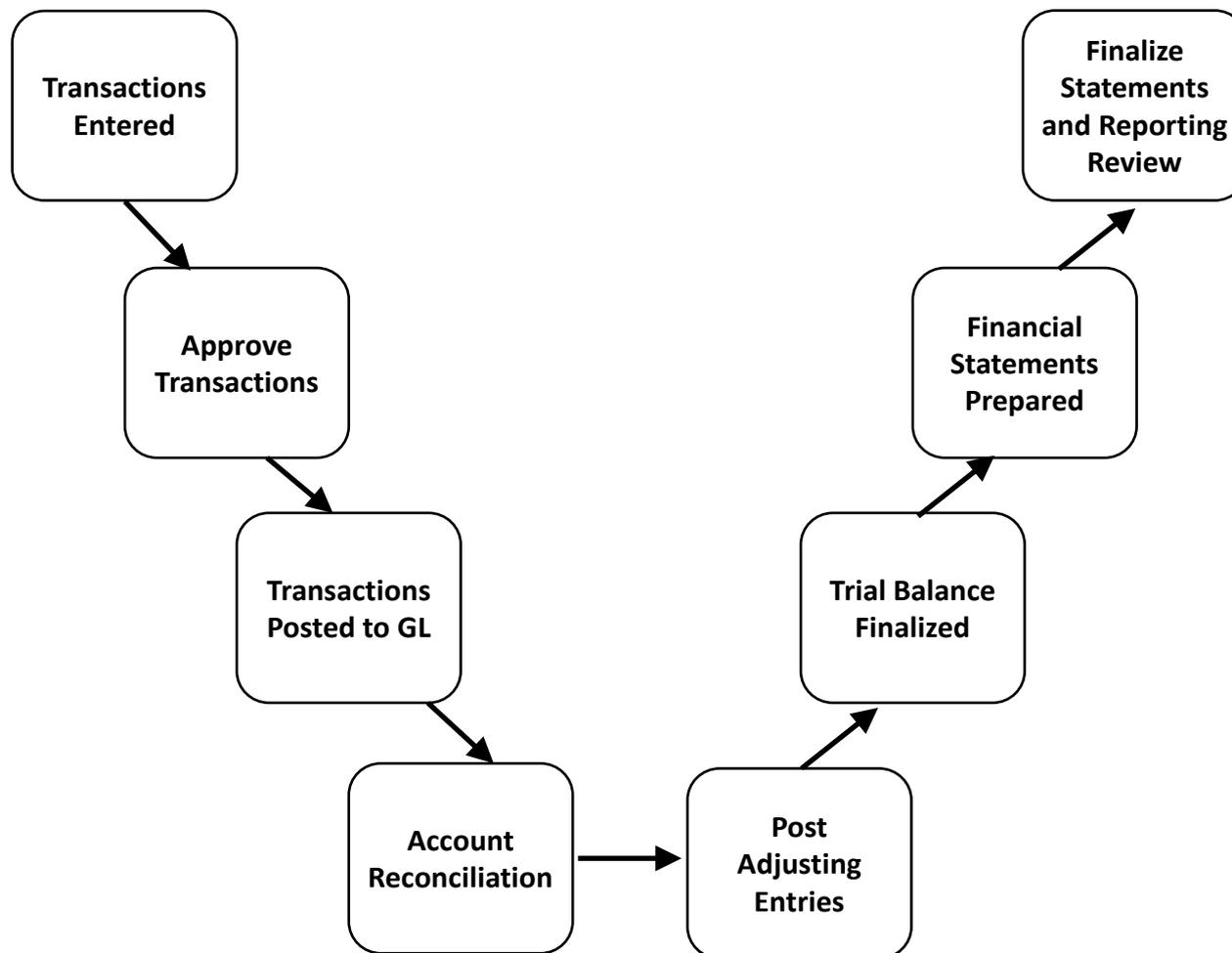
- Amount exceeds budget for period – an expense may have exceeded the current period budget, but is below year-to-date budget
- Amount less than budget – transactions may not have occurred yet or occurred for a lesser amount than planned as of current date.
- Transactions were recorded incorrectly which caused the variance in the account to be larger than expected.

By law, expenses cannot exceed the budget amounts listed year-to-date for government appropriations.



Topic 2: Period-End Adjustment and Review Process

Steps in the Period-End Adjustment and Review Process:





Topic 2: Period-End Adjustment and Review Process (continued)

Period-End Tasks:

During the period-end close, there are some important tasks that need to be performed to verify that all transactions for the period have been entered properly. These items include:

- Adjustment Journals: entries that are the result of unique circumstances or transactions that need to be corrected.
Example: fixed asset purchase transaction included installation costs incorrectly.
- Recurring Journals: entries that occur every accounting period
Example: recording monthly depreciation expense
- Accrual Journals: transactions that occurred in the accounting period that haven't been recorded in accounting system before period-end cutoff date
Example: expensing this month's prepaid rent
- Reconcile Accounts: compare the account balances in your balance sheet, revenue and expense accounts to source documents or systems to identify missing or incorrect transactions
- Review Changes in Account Balances: monitor how the account balances have changed from period-to-period to highlight unusual changes that should be analyzed



Topic 2: Period-End Adjustment and Review Process (continued)

What is the Purpose of the Trial Balance?

To assist in the analysis of the transactions that occurred to confirm that they were entered correctly with total debits equaling total credits.

How Is the Trial Balance Used?

1. Provides indicators if potential errors occurred such as:
 - The salary expense increased to \$200,000 in the period when the average is \$90,000. You would review the Payroll Register to understand the cause of the increase.
 - The asset account for vehicles decreased from \$500,000 to \$400,000 in the period. You would review the Fixed Asset Register to determine if assets were disposed in the period.
 - The accounts payable balance increased from \$100,000 to \$800,000 in the period. You would review the Accounts Payable Ledger to determine if the large expenditures were accurate and if the payments were scheduled for the correct period.
2. Verifies account balances in subsidiary ledgers are reconciled with the trial balance such as:
 - The accounts payable balance in the general ledger reconciles with the Accounts Payable Ledger in detail.
 - The accounts receivable balance in the general ledger reconciles with the amounts in the Accounts Receivable Ledger.



Topic 2: Period-End Adjustment and Review Process (continued)

A Closer Look at the Trial Balance:

Below is an example of the Department of Account's Trial Balance for several different Account and Fund combinations as of June 30, 2013. The Trial Balance lists the closing balances of all ledger accounts as of a specified date. It is the basis for reviewing the financial activities during the month prior to preparing the financial statements.

Trial Balance
Department of Accounts
 As of June 30, 2013

Account	Fund	Transaction Debit	Transaction Credit
101010 - Cash with the Treasury of VA	01000 - General Fund	550	
	02011 - DOA Statewide Accounting Services	250	
	06080 - Payroll Service Bureau Service	2,500	
131030 - Petty Cash Advances	01000 - General Fund	200	
205025 - Accounts Payable - AP/EX Accruals	01000 - General Fund		400
	02011 - DOA Statewide Accounting Services		225
	06080 - Payroll Service Bureau Service		1,800
206210 - Line of Credit Payable	06080 - Payroll Service Bureau Service		600
308000 - Fund Balance	01000 - General Fund		350
	02011 - DOA Statewide Accounting Services		25
	06080 - Payroll Service Bureau Service		100
4002700 - Fees for Admin Services	01000 - General Fund		800
	06080 - Payroll Service Bureau Service		1,200
	02011 - DOA Statewide Accounting Services		600
5011110 - Employer Retire Contrib-Def Ben	01000 - General Fund	800	
	02011 - DOA Statewide Accounting Services	600	
	06080 - Payroll Service Bureau Service	1,200	
		6,100	6,100



Topic 2: Period-End Adjustment and Review Process (continued)

Trial Balance – Displayed By Account:

Trial Balance (By Account)
Department of Accounts
 As of June 30, 2013

<u>Account</u>	<u>Transaction Debit</u>	<u>Transaction Credit</u>
101010 - Cash with the Treasury of VA	3,300	
131030 - Petty Cash Advances	200	
205025 - Accounts Payable - AP/EX Accruals		2,425
206210 - Line of Credit Payable		600
308000 - Fund Balance		475
4002700 - Fees for Admin Services		2,600
5011110 - Employer Retire Contrib-Def Ben	2,600	
	6,100	6,100

Trial Balance – Displayed By Fund:

Trial Balance (By Fund)
Department of Accounts
 As of June 30, 2013

<u>Fund</u>	<u>Transaction Debit</u>	<u>Transaction Credit</u>
01000 - General Fund	1,550	1,550
02011 - DOA Statewide Accounting Services	850	850
06080 - Payroll Service Bureau Service	3,700	3,700
	6,100	6,100



Topic 2: Period-End Adjustment and Review Process (continued)

Limitations of the Trial Balance:

It is not a guarantee that all errors will be found when reviewing the trial balance.

A transaction may have been entered to the incorrect accounts or using inaccurate amounts, but the debits and credits may still balance.

Therefore, it is recommended that additional procedures are implemented as part of the month-end close process to review and reconcile the balances in the major accounts to confirm that the transactions and balances are accurate.

Examples of source documents used to verify amounts listed on Trial Balance:

- Payroll Register
- Bank Statements
- Asset Registers
- Depreciation Expense Schedule
- Accounts Payable Register
- Accounts Receivable Register
- Recurring Journal Transaction List
- Prepaid Transaction Schedule



Topic 3: A Deeper Look at the Main Financial Statements (continued)

What is the Statement of Revenues, Expenditures and Changes in Fund Balance?

Describes the flow of resources in (revenue) and out (expenses). Explains how an entity operated over a specific period of time (e.g., one year).

How Does the Trial Balance Relate to the Statement of Revenues, Expenditures and Changes in Fund Balance?

The trial balance lists all the temporary and permanent accounts, which are also displayed in a summarized amount by line item.

All the account balances for the temporary accounts (revenues and expenses) are listed on the Statement of Revenues, Expenditures and Changes in Fund Balance before being closed to \$0 as one of the last steps of the period close process.



Topic 3: A Deeper Look at the Main Financial Statements (continued)

A Closer Look at the Statement of Revenues, Expenditures and Changes in Fund Balance:

Below is an example of the General Fund Statement of Revenues, Expenditures and Changes in Fund Balances as of June 30, 2013.

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

Revenues:	
Taxes	\$17,164,170
Rights and Privileges	78,033
Institutional Revenue	37,257
Interest, Dividends, and Other Income	27,097
Other	<u>577,115</u>
Total Revenues	<u>17,883,672</u>
Expenditures:	
General Government	2,166,722
Education	7,593,568
Resources and Economic Development	394,071
Individual and Family Services	5,351,483
Administration of Justice	2,447,374
Other	<u>7,242</u>
Total Expenditures	<u>17,960,460</u>
Revenues Over (Under) Expenditures	<u>(76,788)</u>
Other Financing Sources (Uses):	
Transfers In	711,045
Transfers Out	(510,531)
Other	<u>1,859</u>
Total Other Financing Sources (Uses)	<u>202,373</u>
Net Change in Fund Balances	125,585
Fund Balance, July 1 2012	<u>512,359</u>
Fund Balance, June 30, 2013	<u>\$637,944</u>



Topic 3: A Deeper Look at the Main Financial Statements (continued)

What is the Balance Sheet?

Lists the assets, liabilities and fund balance at a specified point in time

How Does the Trial Balance Relate to the Balance Sheet?

The trial balance lists all the temporary and permanent accounts, while the balance sheet does not display temporary accounts.

All the account balances for the temporary accounts (revenues and expenditures) are included to determine the change in the fund balance for the period. The revenues less expenses is the basis for determining the amount that is the change in fund balance for the period.

The total fund balance at the end of the fiscal year is what is listed on the balance sheet.



Topic 3: A Deeper Look at the Main Financial Statements (continued)

A Closer Look at the Balance Sheet:

Below is an example of the General Fund Balance Sheet as of June 30, 2013. The Balance Sheet lists the assets, liabilities and fund balance at a specified point in time.

**General Fund
Balance Sheet**
June 30, 2013
(Dollars in Thousands)

Assets:		Liabilities and Fund Balance:	
		Liabilities:	
Cash	\$251,489	Accounts payable	\$253,020
Investments	1,849,775	Amounts due to others	462,085
Receivables	1,761,966	Deferred revenue	888,015
Inventory	43,730	Deferred taxes	486,009
Prepaid items	76,654	Other liabilities	<u>1,257,509</u>
Other assets	968	Total Liabilities	<u>\$3,346,638</u>
Total assets	<u>\$3,984,582</u>	Fund Balances:	
		Nonspendable	\$120,384
		Restricted	961,829
		Committed	502,650
		Unassigned	<u>-946,919</u>
			<u>\$637,944</u>
		Total Liabilities and Fund Balance	<u>\$3,984,582</u>



Topic 3: A Deeper Look at the Main Financial Statements (continued)

An Example of How a Trial Balance Flows Into the Statement of Revenue, Expenditures and Changes in Fund Balances

**General Fund
Trial Balance
As of June 30, 2013**

Account	Transaction Debit	Transaction Credit
101010 - Cash with the Treasury of VA	1,000	
103001 - Investments Not W/Treasurer	200	
112050 - Accounts Receivable	400	
182650 - Land	900	
183660 - Buildings	700	
205020 - Accounts Payable		800
205025 - Accounts Payable - AP/EX Accruals		700
213051 - Due to Other/Fed Government		300
213081 - Due To Other Fund/Agency		300
308000 - Fund Balance		600
4001000 - Taxes		1,100
4002100 - Licenses and Permits		1,300
4002700 - Fees for Admin Services		800
5011110 - Employer Retire Contrib-Def Ben	800	
5011230 - Salaries, Classified	500	
5011410 - Wages, General	1,400	
	5,900	5,900

**General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)**

Revenues:	
Tax Revenue	\$1,100
Licenses and Permits	1,300
Fees for Admin Services	800
Total Revenues	<u>\$3,200</u>
Expenditures:	
Employee Related Expenses	1,300
Administrative Expenses	1,400
Total Expenditures	<u>\$2,700</u>
Revenues over (under) Expenditures	<u>\$500</u>
Fund Balance 7/1/2012	600
Fund Balance 6/30/2013	<u>\$1,100</u>





Topic 3: A Deeper Look at the Main Financial Statements (continued)

An Example of How a Trial Balance Flows Into the Balance Sheet

**General Fund
Trial Balance**
As of June 30, 2013

**General Fund
Balance Sheet**
June 30, 2013
(Dollars in Thousands)

Account	Transaction Debit	Transaction Credit			
101010 - Cash with the Treasury of VA	1,000			Assets:	
103001 - Investments Not W/Treasurer	200			Cash and Investments	\$ 1,200
112050 - Accounts Receivable	400			Accounts Receivable	400
182650 - Land	900			Long-Term Assets	<u>1,600</u>
183660 - Buildings	700			Total Assets	<u>\$ 3,200</u>
205020 - Accounts Payable		800		Liabilities:	
205025 - Accounts Payable - AP/EX Accruals		700		Accounts Payable	\$ 1,500
213051 - Due to Other/Fed Government		300		Due to Other Agencies/Govts	<u>600</u>
213081 - Due To Other Fund/Agency		300		Total Liabilities	<u>\$ 2,100</u>
308000 - Fund Balance		600		Fund Balance	<u>\$ 1,100</u>
4001000 - Taxes		1,100		Total Liabilities and Fund Balance	<u>\$ 3,200</u>
4002100 - Licenses and Permits		1,300			
4002700 - Fees for Admin Services		800			
5011110 - Employer Retire Contrib-Def Ben	800				
5011230 - Salaries, Classified	500				
5011410 - Wages, General	1,400				
	<u>5,900</u>	<u>5,900</u>			



Exercise 7: Questions About Financial Statements

You are now about to complete an exercise on: Answering Questions Related to Specific Line Items on Financial Statements





Exercise 8: Complete Worksheet of Accounting Transactions

You are now about to complete an exercise on: Completing a Worksheet of Accounting Transactions Through Preparation of Financial Statements





Lesson 7: Summary

In this lesson, you learned how to:

- Explain how accounting transactions are summarized to determine account balances
- Recognize how a transaction amount gets updated on the financial statements
- Explain how actual amounts are compared to budget
- Explain how the main financial statements are being used
- Identify basic information listed on the financial statements



Lesson 7: Checkpoint



Now is your opportunity to check your understanding of the course material.

Read the questions for this lesson and write your answer in the blank lines provided.

We will review the questions in class after you've had time to answer them.

Questions:

Q1. What are the steps in the period-end adjustment and review process?

Q2. How does the Trial Balance relate to the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance?



Course Summary

In this course, you learned how to:

- Explain the fundamentals of accounting and why they are important to the Commonwealth
- List key terms and concepts used in accounting
- Identify the process flow in the accounting cycle
- Demonstrate double-entry accounting and the T-Account process
- List the main financial statements used by the Commonwealth
- Identify how fund accounting is utilized by the Commonwealth
- Explain the Cardinal Chart of Accounts
- Create double-entry accounting transactions using the Cardinal Chart of Accounts
- Identify basic information presented on the Commonwealth of Virginia financial statements



Course Evaluation

Congratulations! You have successfully completed the **Accounting Fundamentals** course.

Please use the feedback user survey to assess this course.