

PRINCIPLES OF ACCOUNTING I

**Basic Accounting/Bookkeeping
for Local School Personnel**

Dr. Keren H. Deal, CPA, CGFM

Professor of Accounting
Auburn University Montgomery
School of Business

Course Outline

Chapter 1 - Accounting and Bookkeeping

Chapter 2 - The Accounting Equation

Chapter 3 - The Income Statement /
Operating Statement

Chapter 4 - Recording Financial Transactions

Chapter 5 - LEA Financial Statements

Course Objectives

To provide participants with a working knowledge and the ability to:

- perform double entry accounting.
- work with the elements of the general ledger.
- prepare basic financial reports.
- understand accounting terminology.
- understand generally accepted accounting principles.

Course Disclaimer

- The purpose of this course is to help **you** learn more about the accounting cycle.
- We will be applying the methods and principles we discuss by completing problems that will build upon each other.
- The accounts we will be utilizing **MAY NOT** match the accounts you use on a daily basis.
- **DO NOT GO BACK TO YOUR LEA AND CHANGE YOUR JOURNAL ENTRIES TO BE IN ACCORDANCE WITH MY ANSWERS!**

HOW TO SUCCEED IN THIS COURSE

- Accounting is **NOT** a spectator sport, therefore, **you** must be willing to participate in this course and put your pencil/pen to paper when we are doing problems.
- Open book/Open neighbor rules apply.
- Be willing to make mistakes and laugh at yourself. **There are no tests at the end.**
- Be willing to **laugh at me** when I make a mistake.....I am a human just like you. ☺

So.....why are you here?

- **You** play an **important role** in the success and accountability of **your** school system.



Objectives Of Financial Reporting and Bookkeeping for LEA

- To provide a complete record of all financial transactions of the school system.
- To summarize, with reasonable promptness, financial transactions of the school system in financial reports required for proper, effective, and efficient administration.
- To provide financial information that would be helpful for budget preparation, adoption, and execution.
- To provide financial controls or safeguards for the school system's assets.

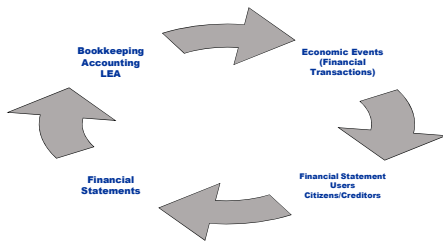
Objectives Of Financial Reporting and Bookkeeping for LEA

- To provide a basis whereby a governing board can place administrative responsibility and minimize the possibility of waste, carelessness, inefficiency and possible fraud.
- To provide clear and concise financial reports to the public as a basis for judging past, present, and future financial operations of the school system.
- To provide a historical record which, over a period of years, can be studied and analyzed critically and constructively for the purpose of aiding citizens, the governing board and the school system's administrative officers.

Chapter One

Accounting and Bookkeeping

Accounting as a Communication System



Accounting / Bookkeeping

- **Accounting** is defined as the (art) process of identifying, analyzing, classifying, recording, summarizing, financial transactions of a governmental entity and then (presenting) communicating that data. The definition also includes interpreting financial data.
- **Bookkeeping** is the process of recording financial data. The processor/bookkeeper may, to varying degrees, identify, analyze and classify this financial information.

Economic Events

- An economic event is an inflow or outflow of assets (economic or financial resources). This financial event is recorded, some say booked – i.e. “bookkeeping”.
- The product of an economic event is the financial data that takes place within and changes an organization.

FINANCIAL STATEMENTS

- The Balance Sheet
- The Income Statement

Financial Statement Users

- Citizens
- Legislatures
- Board and Commission Members
- Creditors
- Other Governments
- LEA Superintendents and Principals
- Stakeholders'

Alabama Code

■ 1901 Constitution, Article XIV, Section 256

The Legislature shall establish, organize, and maintain a liberal system of public schools throughout the state for the benefit of the children thereof between the ages of seven and 21 years.

- ❖ 139 local school systems under local boards (LEA)
 - 67 - county boards of education
 - 71 - city boards of education
 - 1 - fine arts school
- ❖ 1463 public schools in Alabama
- ❖ 739,716 students Pre-K - 12th grade
- ❖ FY17 LEA Revenues - \$8.6 billion +

State Department of Education

■ Administrative Code, 290-2-5-.02(a)1

- ❖ Each school and district management leader must report, explain and justify their use of these funds.
- ❖ They must “maintain an accounting system in accordance with generally accepted accounting principles and governmental accounting standards”

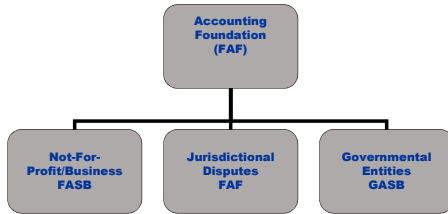
Generally Accepted Accounting Principles (GAAP)

- The common set of accounting principles, standards and procedures that entities use to record economic events and prepare their financial statements.
- Combination of authoritative standards (set by policy boards and authoritative bodies like the SDE).
- Goal is minimum level of consistency when financial statement users are looking at similar entities

Who cares whether GAAP is followed by LEAs?

- State Department of Education
- Federal Education Agencies
- Banks
- Creditors
- Bond Raters
- Grantor Agencies

AUTHORITATIVE STANDARD SETTING BODIES



GAAP Hierarchy for LEAs

Category	Sources	Due Process
A	GASB Statements	Formally approved by GASB Board for the purpose of creating, amending, superseding, or interpreting standards AND exposed for a period of public comment
B	GASB Technical Bulletins and Implementation Guides; AICPA Literature specifically cleared by GASB	Cleared by GASB Board, specifically made applicable to state and local government entities AND exposed for a period of public comment

WHAT IF NOT SPECIFIED IN HIERARCHY?

- If the accounting treatment is not specified within one of the authoritative sources, the government should consider whether the transaction is sufficiently similar to ones covered by one of the authoritative sources that a similar accounting treatment can be applied.
- **If not, the government may use non-authoritative sources** for guidance, including **(with a lot of disclosure)**:
 - GASB Concept Statements,
 - FASB, FASAB, or International Standards Board pronouncements,
 - AICPA literature not specifically cleared by the GASB,
 - Other sources provided by professional organizations, regulatory agencies, textbooks, and published articles, or
 - Prevalent practices that evolved among governments without specific authoritative action

Time for Exercise

Answer the questions on pages
9 – 11 in your manual

Mark in your book! We will go
over in class. You can work
with your neighbor(s).

Chapter Two

The Accounting Equation

The Balance Sheet Equation

$$A = L + E$$

Assets Liabilities Equity

How it works..... or how it should work

- The balance sheet changes with **EACH ECONOMIC EVENT**
- Therefore, the accounting equation changes with **EACH ECONOMIC EVENT**
- The accounting equation should be affected positively or negatively with **EACH ECONOMIC EVENT** but should **ALWAYS REMAIN EQUAL!!!**
- Economic events = accounting transactions

Hope High School Transaction Worksheet (p. 14 in workbook)

Transaction	A	=	L	+	E
1. Central office sent \$6200 to school for instructional purposes to the school.	+		ne		+
2. Bought 40 boxes of wipe-off board Markers and 20 erasers for new year. Principal signed PO for \$240. Cut check.	-		ne		-
3. Bought cookies and cokes for orientation for parents and students. School secretary paid Publix \$300.	-		ne		-
4. Parents gave funds to school for classroom supplies. \$800 was received by teachers and submitted to the office.	+		ne		+

Financial Transactions Impact on the Accounting Equation

- Work Exercise 2-1 on page 15 in your manual
- You may discuss/work with your neighbors
- You may not phone, text, email, or send smoke signals to a friend
 - *This includes your CSFO, your CPA or your relative who is an accountant...just saying. ☺*

CLASSIFICATION OF ELEMENTS

- **ASSETS:**
 - Current
 - Investments and Funds
 - Property, Plant, & Equipment
 - Intangibles

- **LIABILITIES:**
 - Current
 - Long Term

- **EQUITY:**
 - Fund or Contributed Equity
 - Retained Earnings (found in for-profit orgs)

Chapter 2 Exercises

Time to work accounting problems....you may work with your neighbor who is not a CSFO or your boss or me...

- Exercise 2-2 (page 17) –total down each column after you have analyzed all economic events to the accounting equation – make sure you balance - *check figure for Total Assets = \$8,160*
- Exercise 2-3 (page 18) – using info from E2-2
- Exercise 2-4 (page 19)
- Exercise 2-5 (page 20)
- Exercise 2-6 (page 21)
- Exercise 2-7 (pages 22-23) – *check figure for Total Assets = \$51,170*

BREAK TIME

- **Take a break and.....**
 - DO **NOT** talk about accounting
 - DO NOT leave and go shopping
 - DO **NOT** talk about me
 - DO **NOT** find out if a wi-fi connection is available for you to google, facebook, tweet.....
 - DO **NOT** bribe a UA employee to get the solutions early
 - DO come back in **20 minutes** ☺

Chapter Three

The Income Statement or Operating Statement

Operating Statement Objectives

- To assist users in evaluating operating results for the period
- Provide information about **changes** in economic resource resulting from operating activities
- Should account for:
 - **Revenues** by source and type
 - **Expenses/expenditures** by function and purpose
 - Extent to which **revenues met expenses**
 - **Material non-recurring financial transactions**

Example of Income Statement

QUARTZ CORPORATION		
Income Statement		
For the Year Ending December 31, 20X9		
Revenues		
Services to customers	\$750,000	
Interest revenue	<u>15,000</u>	
Total revenues		\$765,000
Expenses		
Salaries	\$235,000	
Rent	115,000	
Other operating expenses	<u>300,000</u>	
Total expenses		<u>650,000</u>
Net income		<u>\$115,000</u>

Operating Statement Elements

- **GAINS –**
 - increases in equity (net assets) from peripheral activity
- **LOSSES –**
 - decreases in equity (net assets) from peripheral activity

Cash Accounting Basis

- **REVENUE RECOGNITION**
 - When cash is received
- **EXPENSE RECOGNITION**
 - When cash is paid for supplies, equipment or services used to generate revenues has been incurred
- **Not allowed for GAAP financial reporting at the highest level of reporting within the entity**

Accrual Accounting Basis

- **REVENUE RECOGNITION**
 - Services have been performed
 - Value is measurable
 - No material uncertainties exist
- **EXPENSE RECOGNITION**
 - Cost of supplies or services used to generate revenues has been incurred
- **GAIN and LOSS RECOGNITION**
 - Event that caused the gain or loss has occurred
 - Amount is measurable and probable

Operating Statement Format

+ Revenues
- Expenses

= Operating Income (Loss)
+/- Other Revenues (Expenses)
[this is where interest expense/revenue goes]

= Net Income (Loss)

Net Income (Loss) is the change to Equity/Retained Earnings

Chapter 3 Exercises Pages 29 – 32 in manual

- Exercise 3-1 to 3-3 (pages 29 – 30)
- Exercise 3-4 – (page 31)
 - Check Figure = \$13,900
- Exercise 3-5 (page 32)

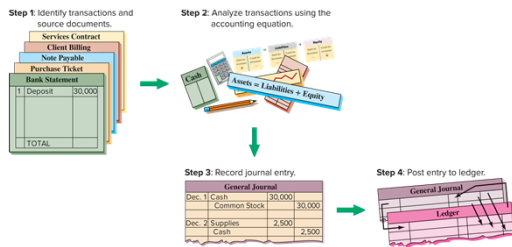
Chapter Four

Recording Financial Transactions

The Accounting Cycle

1. Analyze the financial transactions (economic events)
2. Enter transaction into the accounting system (journal entries posted to ledger)
3. Prepare the Trial Balance
4. Prepare and enter (journalize and post) adjusting entries
5. Prepare adjusted trial balance
6. Prepare financial statements
7. Journalize and post year end closing entries
8. Prepare post-closing trial balance

Steps 1 and 2 of Accounting Cycle

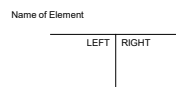


The Account

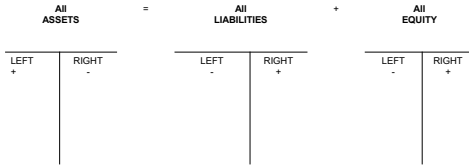
A Standard Account form looks like:

NAME OF ELEMENT		ACCOUNT NO. _____			
Date	Explanation	Ref.	Right IN or OUT +/-	Left OUT or IN -/+	Balance

T-Accounts are used for illustrative purposes; the above account is reduced to a "T".



The Account



ANALYZING TRANSACTIONS

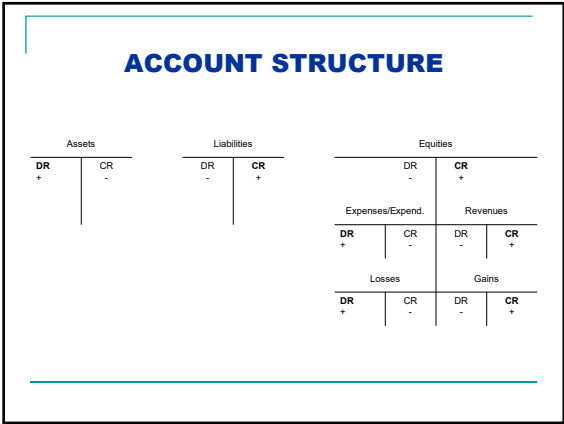
When a financial transaction occurs, an analysis is made of the event:

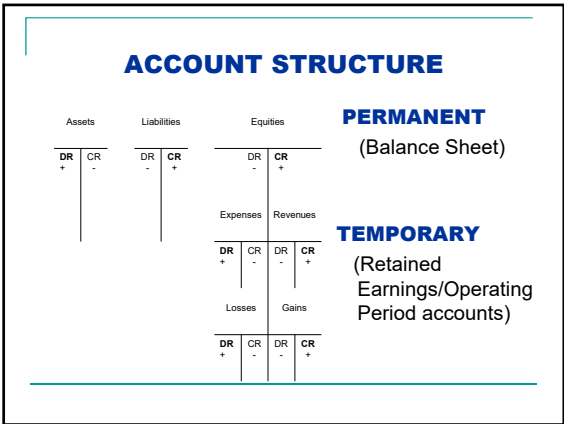
- STEP 1. Identify the financial statement elements that have been affected by the transaction.
- STEP 2. Indicate the change (increase/decrease) that occurred in each element.
- STEP 3. Locate (left or right) the element in the accounting equation.
- STEP 4. Apply the rules of debit and credit to the element.

Debit - Credit Rules

	<u>Increase</u>	<u>Decrease</u>
Assets	Debit (L)	Credit (R)
Liabilities	Credit (R)	Debit (L)
Equity	Credit (R)	Debit (L)

***Helpful Saying to Remember.....
After eating, let's read Fun Emma!!!***





Debit Credit Rules for Accounts

<u>Permanent Balance Sheet Accounts</u>	<u>Increase</u>	<u>Decrease</u>
Assets	debit	credit
Liabilities	credit	debit
Fund/Contributed Equity	credit	debit
Retained Earnings	credit	debit
<u>Temporary Equity Accounts</u>	<u>Increase</u>	<u>Decrease</u>
Revenues	credit	debit
Expenses/Expenditures	debit	credit
Gains	credit	debit
Losses	debit	credit

Continuation of Exercise 2-2 on page 39 of Manual

Record the financial transactions for Hope High School for August in the T-accounts rather than use the transaction worksheet.

You may use page 38 for your reference as well.

TRIAL BALANCE

- A list of the accounts and their current balance at a specific point in time is called a trial balance.
- Checks to determine whether or not equality of the accounting equation has been maintained.
 - Debits = Credits
- A trial balance that is "in balance", however, **does not** necessarily assure correct balances.

Example of Trial Balance

XAO CORPORATION Trial Balance January 31, 20X3		
	Debits	Credits
Cash	\$26,300	
Accounts receivable	3,200	
Land	15,000	
Accounts payable		\$ 500
Notes payable		10,000
Capital stock		25,000
Service revenues		12,000
Advertising expense	2,000	
Utilities expense	1,000	
	<u>\$47,500</u>	<u>\$47,500</u>

**EXERCISE 4-1 on
page 41 in the manual**

- Using the T-accounts from page 39, complete the trial balance for Hope High School on page 41.
- List your accounts in the following order:
 - Assets – listed in order of liquidity
 - Liabilities
 - Equity accounts
 - Revenues
 - Expenses/Expenditures
- *Check Figure for Debits = \$11,125*

Common Accounting Forms

- Journal
 - book of original entry, chronological, complete
- Ledgers (post)
 - General ledger and subsidiary ledgers
- Trial Balance
 - Check of equality (debits = credits) and normalcy

Sample Journal Page

Date	General Journal		page		
	Account	Post. Ref.	Debit	Credit	

EXAMPLE OF TRANSACTION ANALYSIS

- Hope High School collected \$1,000 from food sales at concessions. **Analysis:**
 1. Cash and Concessions Revenues affected
 2. Cash increased by \$1,000 and Concessions Revenue increased by \$1,000
 3. Cash is an asset so the left side of the equation was affected positively; Concessions Revenue is an increase to retained earnings so the right side of the equation was affected positively
 4. Cash will be debited and Concessions Revenue will be credited in journal and posted to accounts

Work Exercise 4-2 found on page 43 in manual – journals on pgs. 45-47

- The best way to apply what you have learned thus far is to do this with a “**clean slate**” – do not go back and look at the work we have done to this point.
- Ignore the posting reference column **for now**
- Take some time and apply the rules we have learned about account increases/decreases and analyze each economic event.
- Chart of Accounts on page 44 – **not all** accounts will be used for this problem

Posting to the Ledgers

General ledger contains the summarized totals for each account which are the individual elements of the financial statements.

Example – Accounts Receivable

Balance	<u>\$10,000</u>
---------	-----------------

Subsidiary ledgers contain the detailed breakdown of a control account in the general ledger.

Example - Subsidiary Ledger: Accounts Receivable

Due From Principal's Office	\$ 4,000
Due From Boosters Club	\$ 5,500
Due From ABC Company	<u>\$ 500</u>
Balance	<u>\$10,000</u>

T-Account/Ledger Format

GENERAL LEDGER		SUBSIDIARY LEDGER : ACCOUNTS RECEIVABLE				
Control Account		Details for Control Account				
Accounts Receivable	=	Due From Principal's Office	+	Due From Boosters Club	+	Due From ABC Co.
10,000		4,000		5,500		500

Adjustments to Accounts

- **Accrued Revenue** – revenue that is **earned but not recorded**
- **Accrued Expense** – expense that has been **incurred but not recorded**
- **Prepaid Revenue** – revenue that is **not earned but has been collected and recorded**
- **Prepaid Expense** – expense that has been **paid but has not been used**
- **Valuation Type** – **changes made to carrying values** of assets and liabilities that may affect the operating statement

Accrued Revenue

Journal Entry Adjustment Example:

	DR	CR
A/R – Driver's Ed Fees	\$250	
Driver's Ed Dues		\$250

Accrued Expense

■ **Journal Entry Adjustment Example:**

	DR	CR
Prepared Food	\$100	
A/P – Chick FilA		\$100

Prepaid Revenue

■ **Original Journal Entry**

	DR	CR
Cash	\$1,500	
Unearned Fees-Fieldtrip		\$1,500

■ **Adjustment Journal Entry**

Unearned Fees-Fieldtrip	\$1,500	
Fees Revenue-Fieldtrip		\$1,500

Prepaid Expense

■ **Original Journal Entry**

	DR	CR
Prepaid Insurance	\$ 480	
Cash		\$ 480

■ **Adjustment Journal Entry**

Insurance Expense	40	
Prepaid Insurance		40

Valuation Adjustment

■ Adjustment

	DR	CR
Depreciation Expense	\$ 1,000	
Accumulated Depreciation–Car		\$1,000

Correction of an Error

■ Adjustment

	DR	CR
Instructional Software	\$500	
Purchased Food		\$500

NOW THE FUN PART BEGINS.....

- Exercise 4-3 on page 52 is the **September** transactions for Hope High School.
- We are carrying forward the balances from August's economic events/trial balances which are already posted for you in the t-accounts on page 56.
- Journalize the events (pages 53-55); post to t-accounts (pages 56 - 57); and prepare a trial balance (page 58). Check figure for Trial Balance - \$16935.00.



- **STOP after you complete Trial Balance – we will go over before moving forward**

Exercise 4-3 (continued)....

- On pages 59 and 60, prepare the financial statements for Hope High School at the end of September 2017.
- Income Statement should be prepared FIRST
- Check Figures:
 - Total Revenues \$16,835.00
 - Total Assets \$11,745.00

Year End Closing

- Temporary accounts are the **ONLY** accounts affected in the closing process
 - Done at the end of the period/fiscal year
- To close an account means to bring the balance to zero (0) and transfer the original amount to fund equity
 - Revenues will increase fund equity
 - Expenses/Expenditures will decrease fund equity

Post-Closing Trial Balance

- After closing, a post-closing trial balance can be prepared.
 - Optional – many companies do not prepare
- No temporary accounts will be listed
- Only permanent accounts shown
- Debits must still equal credits

Post-Closing Trial Balance Example

ENGLAND TOURS COMPANY		
Trial Balance		
December 31, 20X3		
	Debits	Credits
Cash	\$15,500	
Accounts receivable	4,500	
Equipment	45,000	
Accumulated depreciation		\$ 5,000
Accounts payable		4,000
Salaries payable		2,000
Interest payable		1,200
Notes payable		20,000
Unearned revenue		1,200
Capital stock		30,000
Retained earnings		1,600
	\$65,000	\$65,000

Back to Exercise 4-3.....😊

- On page 62 in manual, prepare the closing entries for Hope High School for September 2017
- On page 63, prepare the Post-Closing Trial Balance for Hope High School for September 2017
- Check Figures:
 - Unreserved Fund Balance: \$11,645.00
- Answer Review Exercises on page 64
- Are we having fun yet? **I don't know about you but I AM!!!!**

Chapter Five

LEA Financial Statements

LEA ANNUAL FINANCIAL REPORT

- Management’s discussion and analysis
- Independent auditors’ report
- Basic financial statements
- Required supplemental information
- Other supplemental information

DISTRICT-WIDE FINANCIAL STATEMENTS

- Statement of Net Position (p. 68)
- Statement of Activities (p. 69)

FUND FINANCIAL STATEMENTS

- Balance Sheet (p. 71)
- Statement of Revenues, Expenditures, and Changes in Fund Balance (p. 72)

**BASIC FINANCIAL STATEMENTS
for BUSINESS and
STATE/LOCAL GOVERNMENTS**

Basic Financial Statements For Business

- (1) The Balance Sheet
- (2) The Income Statement
- (3) The Statement of Cash Flows

**BASIC FINANCIAL STATEMENTS
for BUSINESS and
STATE/LOCAL GOVERNMENTS**

**Basic Financial Statements for State And
Local Governments (Including School
Boards)**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

- (1) Statement of Net Position
- (2) Statement of Activities

**BASIC FINANCIAL STATEMENTS
for BUSINESS and
STATE/LOCAL GOVERNMENTS**

**Basic Financial Statements for State And Local
Governments (Including School Boards)**

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

- (3) Balance Sheet – Governmental Funds
- (4) Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental
Funds

**BASIC FINANCIAL STATEMENTS
for BUSINESS and
STATE/LOCAL GOVERNMENTS**

Basic Financial Statements for State And Local
Governments (Including School Boards)

FUND FINANCIAL STATEMENTS

Proprietary Fund Financial Statements

- (5) Statement of Net Position – Proprietary Funds
- (6) Statement of Revenues, Expenses, and
Changes in Net Position – Proprietary Funds
- (7) Statement of Cash Flows – Proprietary Funds

**BASIC FINANCIAL STATEMENTS
for BUSINESS and
STATE/LOCAL GOVERNMENTS**

Basic Financial Statements for State And Local
Governments (Including School Boards)

FUND FINANCIAL STATEMENTS

Fiduciary Fund Financial Statements

- (8) Statement of Fiduciary Net Position – Fiduciary
Funds
- (9) Statement of Changes in Fiduciary Net Position
– Fiduciary Funds

**BASIC FINANCIAL STATEMENTS
for BUSINESS and
STATE/LOCAL GOVERNMENTS**

Basic Financial Statements for State And Local
Governments (Including School Boards)

REQUIRED SUPPLEMENTARY INFORMATION

- (10) Budgetary Comparison Schedule or Statement
of Revenues, Expenditures and Changes in
Fund Balances, Budget to Actual

Congratulations!

- You have just completed Principles of Accounting I – part of AASBO's curriculum for Alabama local school personnel training.
- **THANK YOU FOR YOUR TIME AND EFFORTS TODAY!** 😊