
PRINCIPLES OF ACCOUNTING I

Basic Accounting/Bookkeeping for Local School Personnel

Christopher White, CPA

Assistant Vice Chancellor & Controller
Auburn University Montgomery

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 continuing case problems.
 - The accounts we will be utilizing **MAY NOT** match the accounts you use on a daily basis.
 - **Do not take what we do in this class and change your daily journal entries – we are covering examples to help you visualize the accounting cycle. 😊**
-

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.
- You will be given time to do the problems during the presentation.
- 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.
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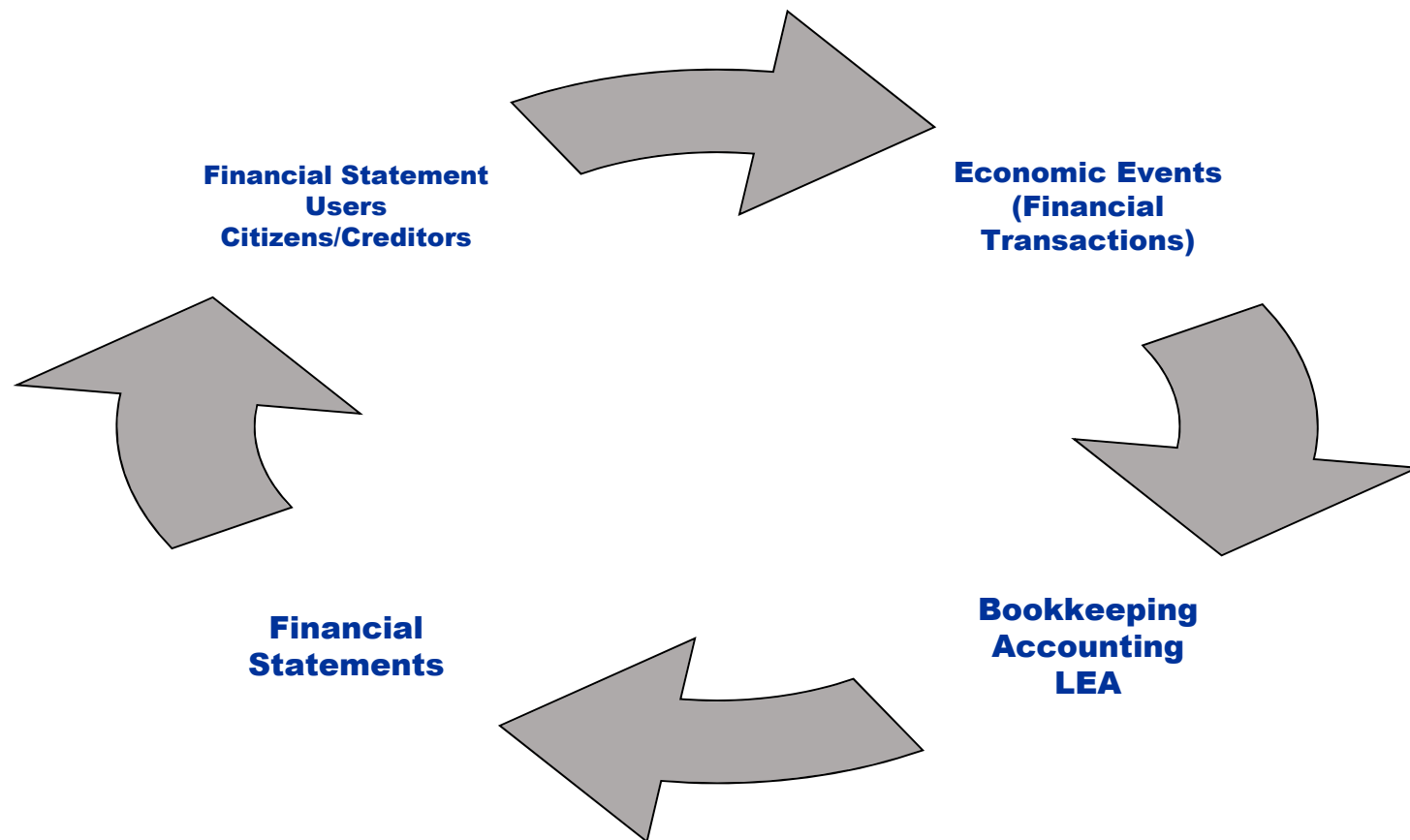
Objectives Of Financial Reporting and Bookkeeping for LEA

- 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.**
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FINANCIAL STATEMENTS

- **The Balance Sheet**
 - **The Income Statement**
-

Who Are The Financial Statement Users?

- Citizens
 - Legislatures
 - Board and Commission Members
 - Creditors
 - Other Governments
 - LEA Superintendents and Principals
 - Parents and Students
 - Employers
-

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
 - ✓ 1554 public schools in Alabama
 - ✓ Approximately 720,000 students in Pre-K – 12th grade
 - ✓ FY22 ETF Budget Appropriation to K12 - \$5.3 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**”
-

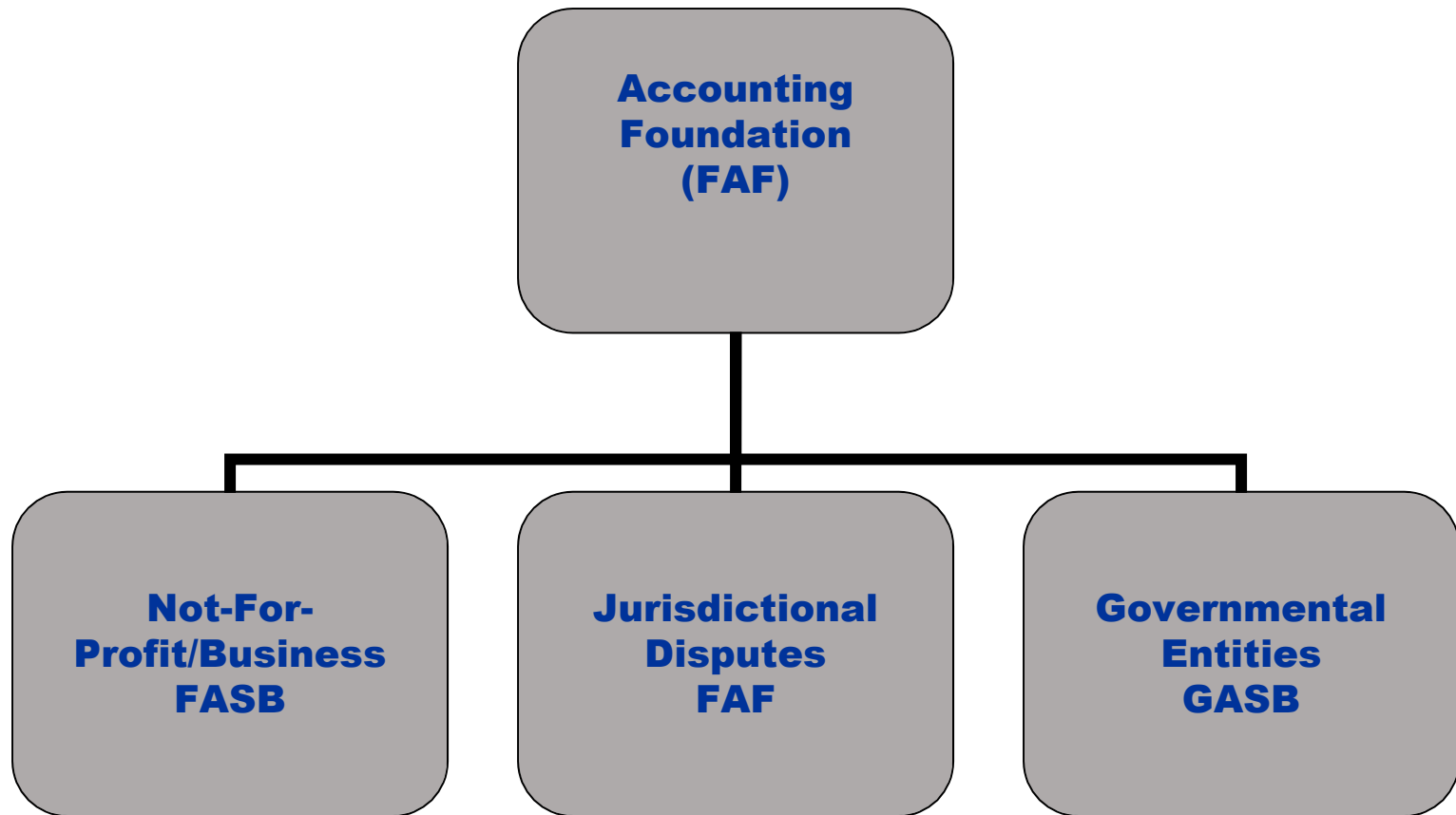
Generally Accepted Accounting Principles (GAAP)

- 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 To Work Exercises

- ✓ **Answer the questions on pages 9 – 11 in your manual**
 - ✓ **Mark in your book!**
 - ✓ **We will go over in next few slides. Only YOU can see your answers. 😊**
-

EXERCISE 1.1 (PAGE 9 IN MANUAL)

- **LEA – Local Education Agency**
- **AICPA – American Institute of Certified Public Accountants**
- **GASB – Government Accounting Standards Board**
- **FASB – Financial Accounting Standards Board**
- **GAAP – Generally Accepted Accounting Principles**
- **AASBO – Alabama Association of School Business Officials**

EXERCISE 1.2 (PAGE 9 IN MANUAL)

- List three users of an LEA's financial statements and give a reason for their use.
 1. **Citizens** – tax dollars fund the LEA and they want to make sure the LEA is using the funds for the purpose intended
 2. **Creditors** – who the LEA owes funds including employees care when they will be paid
 3. **Students and Parents** – want to know that the education received is funded

EXERCISE 1.3 – 1.8 (PAGE 10 IN MANUAL)

1.3 An Alabama LEA must follow GAAP in preparing its financial reports/statements as required by the laws of the State of Alabama. True

1.4 An Alabama LEA must follow GAAP in preparing its financial statements for bond rating purposes. True

1.5 Interest expenditures on bonds will be higher/increased when non-GAAP financial statements are used for their issuance. True

1.6 Alabama citizen demands for accountability have remain unchanged for the past ten years. False

1.7 GASB is the highest authority for governmental GAAP. True

1.8 FAF and FASB are both foundations governing GASB. False

EXERCISES 1.9 – 1.11 (PG 10 IN MANUAL)

1.11 GAAP is an acronym for: Generally Accepted Accounting Principles

1.9 Define accounting:

Identify, analyze, classify, record, summarize, communicate and interpret financial data following GAAP

1.10 Define bookkeeping:

Identify, analyze, classify, record financial data following GAAP

EXERCISES 1.12 – 1.14 (PG 11 IN MANUAL)

12. Which organization would be the most influential in establishing governmental GAAP?
- ☒ a. GASB – Governmental Accounting Standards Board
 - b. FASB – Financial Accounting Standards Board
 - c. AICPA – American Institute for Certified Public Accountants
 - d. NCGA – National Council on Governmental Accounting
13. Which organization would be the most influential in establishing business GAAP?
- a. GASB – Governmental Accounting Standards Board
 - ☒ b. FASB – Financial Accounting Standards Board
 - c. AICPA – American Institute for Certified Public Accountants
 - d. NCGA – National Council on Governmental Accounting
14. Which organization would be the most influential in establishing not for profit GAAP?
- a. GASB – Governmental Accounting Standards Board
 - ☒ b. FASB – Financial Accounting Standards Board
 - c. AICPA – American Institute for Certified Public Accountants
 - d. NCGA – National Council on Governmental Accounting
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Chapter Two

The Accounting Equation

The Balance Sheet Equation

$$A = L + E$$

Assets

Liabilities

Equity

The Balance Sheet

- **Assets** - are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.
 - **Liabilities** - are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.
 - **Equity** - is the residual interest in the assets of an entity that remains after deducting its liabilities.
-

Example of Classified Balance Sheet

CLASSY COMPANY					
Balance Sheet					
December 31, 20X3					
Assets			Liabilities		
Current assets			Current liabilities		
Cash	\$100,000		Accounts payable	\$ 80,000	
Short-term investments	50,000		Salaries payable	10,000	
Accounts receivable	75,000		Interest payable	15,000	
Inventories	200,000		Taxes payable	5,000	
Prepaid insurance	<u>25,000</u>	\$450,000	Current portion of note	<u>40,000</u>	\$150,000
Long-term investments			Long-term liabilities		
Stock investments	\$ 40,000		Notes payable	\$110,000	
Cash value of insurance	<u>10,000</u>	50,000	Bank Loan	35,000	
Property, plant & equip.			Mortgage obligation	75,000	
Land	\$ 25,000		Deferred income taxes	<u>80,000</u>	<u>300,000</u>
Buildings and equipment	\$150,000		Total liabilities		\$450,000
Less: Accum. depreciation	<u>(50,000)</u>	<u>100,000</u>			
		125,000	Stockholders' equity		
Intangible assets					
Goodwill		275,000	Capital stock	\$300,000	
Other assets			Retained earnings	<u>160,000</u>	
Receivable from employee		<u>10,000</u>	Total stockholders' equity		<u>460,000</u>
Total assets		<u>\$910,000</u>	Total liabilities and equity		<u>\$910,000</u>

Example of LEA Balance Sheet

		Governmental Activities
ASSETS		
Current assets		
Cash and cash equivalents		\$ 19,653,119
Accounts receivable, net		40,586
Property tax receivable		5,401,793
Due from other governments		817,714
Inventories		121,361
Total current assets		26,034,573
Capital Assets not being depreciated		
Land and improvements		8,859,215
Construction in progress		657,516
Total capital assets not being depreciated		9,516,731
Capital Assets		
Land improvements		3,598,969
Buildings and improvements		104,540,193
Furniture, equipment and vehicles		12,546,078
Less accumulated depreciation		(34,092,923)
Total depreciable capital assets, net of depreciation		86,592,317
Total assets		122,143,621
LIABILITIES		
Accounts payable		921,985
Deferred revenues		5,715,276
Salaries and benefits payable		3,746,414
Obligations under capital leases - due in less than 1 year		672,252
Obligations under capital leases - due after 1 year		1,294,377
Total liabilities		12,350,304
NET POSITION		
Invested in capital assets, net of related debt		94,142,419
Restricted for		
Capital projects		891,588
Other projects		1,891,565
Unrestricted		12,867,745
Total net position		\$ 109,793,317



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 Transactions (See pg. 14)

	Assets	=	Liab	+	Equity +Rev(Exp)
1. Central office sent \$6200 to school for instructional purposes to the school.	+				+
2. Bought 40 boxes of wipe-off board markers and 20 erasers for new year. Principal signed PO for \$240. Cut check when received.	-				-
3. Bought cookies and cokes for orientation for parents and students. A purchase order was prepared and signed by principal. Secretary paid Publix \$300 and used tax-exempt code.	-				-
4. Parents gave funds to school for classroom supplies. \$800 was received by teachers and submitted to the office.	+				+

Financial Transactions Impact on the Accounting Equation

- **Work Exercise 2-1 on page 15 in your manual**
 - **Think about how each economic event affects the accounting equation.**
 - **Use  for increases to the element**
 - **Use  for decreases to the element.**
 - **We will cover in next few slides, but you should make your best effort in working the problem. 😊**
-

EXERCISE 2.1 (PAGE 15 IN MANUAL)

	Assets	=	Liab	+	Equity +Rev(Exp)
5. Principal is asked by superintendent to attend state technology conference in August. Paid \$150 for registration for conference with check.	—				—
6. Assistant Principal purchased more supplies for classroom at Office Depot using school account. Receipt totaled \$1150. Funds will be due 10 th of September.			+		—
7. Students brought cash to pay for lockers and parking. Locker revenues were \$245 and parking revenues were \$400.	+				+
8. Instructional software was ordered from Microsoft for school lab for \$500. Order is expected by August 30 with payment due upon delivery.			+		—

EXERCISE 2.1 (PAGE 15 IN MANUAL)

	Assets	=	Liab	+	Equity +Rev(Exp)
9. Bought pre-game meal for football players and coaches – paid ChickFila \$400 with check.	—				—
10. Ticket sales from football game totaled \$2300. Received cash and deposited in bank immediately.	+				+
	—				—
11. Paid athletic referees \$225 for officiating Friday night football game.	—				—
12. Received instructional software. Cut check for purchase of \$500.					

CLASSIFICATION OF ELEMENTS

- **ASSETS:**

- Current
- Investments and Funds
- Property, Plant, & Equipment
- Intangibles

- **LIABILITIES:**

- Current
- Long Term

- **EQUITY:**

- Fund or Contributed Equity (called Net Position in governments)
 - Retained Earnings (found in for-profit organizations like Walmart or Publix)
-

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*
-

Chapter Three

The Income Statement (Also called the 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 **nonrecurring financial transactions**
-

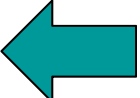
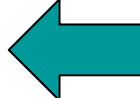
Example of Income Statement

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><u>\$115,000</u></u>

Example of Operating Statement At LEA Level



Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities					
Instruction	\$ 41,907,026	\$ 1,141,985	\$ 24,433,670	\$ 501,124	\$ (15,830,247)
Instructional support	12,273,077	422,223	5,729,013	113,887	(6,007,954)
Operation and maintenance	5,484,664	115,222	1,138,907	774,098	(3,456,437)
Auxiliary services					
Student transportation services	3,294,864	143,501	2,072,036	306,871	(772,456)
Food services	3,515,856	2,776,150	154,754	-	(584,952)
General administrative services	2,762,156	4,696	438,238	-	(2,319,222)
Other	1,047,261	749,679	296,402	-	(1,180)
Interest and fiscal charges	27,363	-	-	-	(27,363)
Total governmental activities	<u>\$ 70,312,267</u>	<u>\$ 5,353,456</u>	<u>\$ 34,263,020</u>	<u>\$ 1,695,980</u>	<u>(28,999,811)</u>
General revenues					
Taxes					
Property taxes for general purposes					
					11,349,945
Local sales taxes					
					5,361,188
Alcohol beverage tax					
					523,749
Other taxes					
					55,015
Grants and contributions not restricted					
					2,080
City Council appropriations/payments					
					9,550,759
Investment earnings					
					127,803
Miscellaneous					
					423,701
Total general revenues					<u>27,394,240</u>
Change in net position					(1,605,571)
Net position, beginning of year					<u>111,398,888</u>
Net position, end of year					<u>\$ 109,793,317</u>

Operating Statement Elements

- **REVENUES**
 - **inflows of assets**
 - **from delivering or producing goods, rendering services**
 - **that constitute ongoing major or central operations**
-

Operating Statement Elements

- **EXPENSES/EXPENDITURES**
 - outflows of assets or incurrence of liabilities
 - from delivering or producing goods, rendering services
 - that constitute ongoing major or central operations
-

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

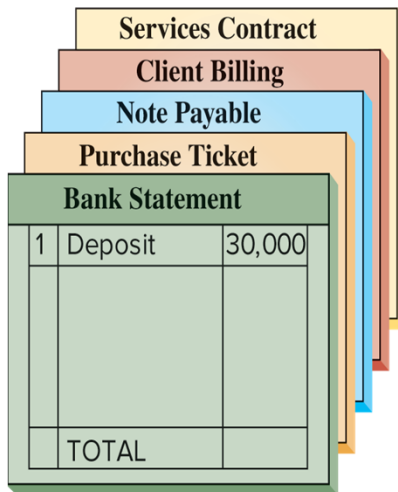
Recording Financial Transactions

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

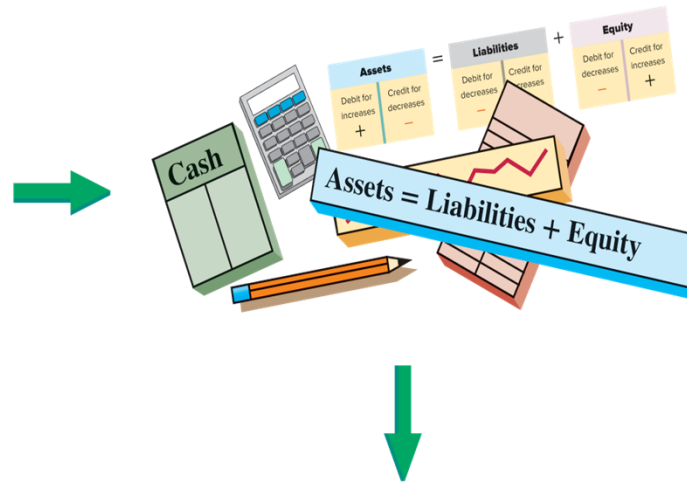
Step 1: Identify transactions and source documents.



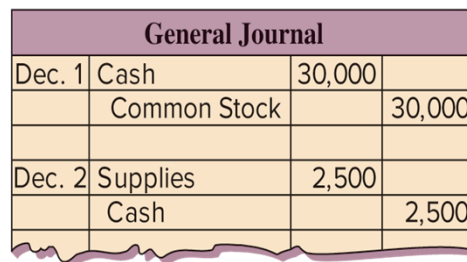
A stack of five source documents: Services Contract (yellow), Client Billing (orange), Note Payable (blue), Purchase Ticket (light orange), and Bank Statement (green). The Bank Statement is a table with the following data:

Bank Statement		
1	Deposit	30,000
	TOTAL	

Step 2: Analyze transactions using the accounting equation.



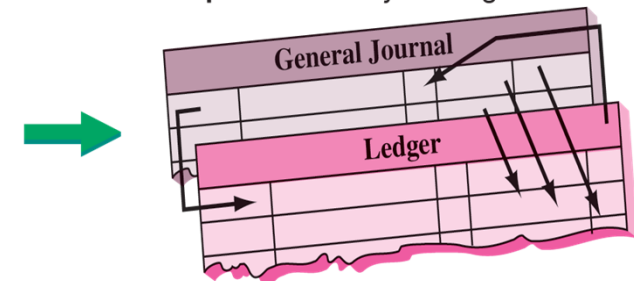
Step 3: Record journal entry.



A General Journal table with the following data:

General Journal			
Dec. 1	Cash	30,000	
	Common Stock		30,000
Dec. 2	Supplies	2,500	
	Cash		2,500

Step 4: Post entry to ledger.



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" .

Name of Element

LEFT	RIGHT

The Account

All
ASSETS

=

All
LIABILITIES

+

All
EQUITY

LEFT	RIGHT
+	-

LEFT	RIGHT
-	+

LEFT	RIGHT
-	+

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!!!

ACCOUNT STRUCTURE

Assets

DR	CR
+	-

Liabilities

DR	CR
-	+

Equities

DR		CR	
-		+	
Expenses/Expend.		Revenues	
DR	CR	DR	CR
+	-	-	+
Losses		Gains	
DR	CR	DR	CR
+	-	-	+

ACCOUNT STRUCTURE

Assets

Liabilities

Equities

PERMANENT

(Balance Sheet)

DR	CR
+	-

DR	CR
-	+

DR	CR
-	+
Expenses	Revenues

TEMPORARY

(Retained
Earnings/Operating
Period accounts)

DR	CR	DR	CR
+	-	-	+
Losses	Gains		
DR	CR	DR	CR
+	-	-	+

Debit Credit Rules for Accounts

Permanent Balance Sheet Accounts

	<u>Increase</u>	<u>Decrease</u>
Assets	debit	credit
Liabilities	credit	debit
Fund/Contributed Equity	credit	debit
Retained Earnings	credit	debit

Temporary Equity Accounts

	<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.
 - $\text{Debits} = \text{Credits}$
 - 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
 - Ledgers (post)
 - General ledger and subsidiary ledgers
 - Trial Balance
 - Check of equality (debits = credits) and normal account balances
-

Sample Journal Page

EXAMPLE OF TRANSACTION ANALYSIS

- Hope High School collected \$1,000 from food sales at concessions. **Analysis:**
 - Cash and Concessions Revenues affected
 - Cash increased by \$1,000 and Concessions Revenue increased by \$1,000
 - 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
 - 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

DR

CR

- **Original Journal Entry**

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

- **Adjustment Journal Entry When Occurs**

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

Prepaid Expense

DR

CR

■ Original Journal Entry

Prepaid Insurance	\$ 480
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Cash \$ 480

- **Adjustment Journal Entry each month**

Insurance Expense	40
-------------------	----

Prepaid Insurance	40
-------------------	----

Valuation Adjustment

- **Adjustment**

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

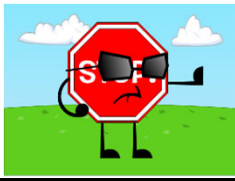
Correction of an Error

- **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
	<u>\$65,000</u>	<u>\$65,000</u>

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



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

Quotes for you to consider..

- *You can't go back and change the beginning, but you can start where you are and change the ending.*
 - C.S. Lewis
 - *Be the change you want to see in the world.*
 - Ghandi
-

Congratulations!

- You have just **completed** Principles of Accounting I – part of AASBO's curriculum for Alabama local school personnel training.
 - Contact information:
Christopher White
cwhite5@aum.edu
334-244-3255
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