

Accounting Fundamentals

Instructor Led Training



Welcome

This training provides Commonwealth of Virginia employees with the information necessary to have a basic understanding of accounting. This course is not intended to replace existing Commonwealth and/or agency policies.

In this course, we will present you with an introduction to accounting principles and provide interactive sessions on how to perform accounting transactions.

These training materials include diagrams and illustrations to assist in obtaining a basic understanding of accounting. Also included is an introduction to the Cardinal Chart of Accounts. Each lesson will also provide a list of key terms and concepts that will be explained in detail.



Introduction

This Accounting Fundamentals course will provide students with a basic knowledge of:

- Accounting terminology and concepts
- Accounting standards and regulations
- Governmental and fund accounting
- Creation of accounting transactions
- Financial statements



Course Objectives

After completing this course, you should be able 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 financial statements



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 1

Accounting Basics



Lesson 1: Objectives

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

- Explain what is accounting and why it is important to the Commonwealth
- Identify the legislative flow of funds within the Commonwealth
- Recognize what is governmental budgeting
- List the main financial statements used by all agencies
- List the main revenue sources and expenditures in the Commonwealth
- Explain the two types of accounting used by the Commonwealth



Lesson 1: Accounting Basics

In this lesson, you will learn about the following:

- Topic 1: Overview of Accounting and Why It's Important to the Commonwealth
- Topic 2: Commonwealth's Goals and Department of Accounts' Mission
- Topic 3: Overview of the Legislative Flow of Funds within the Commonwealth
- Topic 4: Overview of Budgeting
- Topic 5: Introduction to Financial Statements



Topic 1: Overview of Accounting and Why It's Important to the Commonwealth

What is Accounting?

The process of identifying, recording, measuring and communicating financial information that is:

- Consistent
- Accurate
- Timely

Who Uses It?

- Citizens – to determine if resources are being managed properly
- Employees – to verify if expenditures and other transactions are made in accordance with state policies and procedures
- Managers – to confirm that financial information is recorded properly and that operations are running efficiently
- Agency heads – to evaluate or review financial performance and make agency-wide policy decisions
- External authorities, governments and investors – to make financial decisions based on the Commonwealth's Comprehensive Annual Financial Report (CAFR)
- Lenders / Bond-Rating Agencies – to verify the financial stability of the Commonwealth before making an investment



Topic 1: Overview of Accounting and Why It's Important to the Commonwealth (continued)

Accounting Provides Information That is Used To:

- Explain financial activities in a manner that is consistent among similar entities
- Determine the amount of revenues necessary to meet budgetary requirements
- Aid managers / officials with oversight responsibilities
- Determine that spending is within budgetary constraints

There are Two Types of Accounting Used at the Commonwealth:

- Financial accounting
- Managerial accounting



Topic 1: Overview of Accounting and Why It's Important to the Commonwealth (continued)

What is Financial Accounting?

- Preparation of financial statements that describe past financial performance and budget reports that describe past and expected future financial activities
- Financial information that is subject to audit and filing standards established by independent authorities

Who Uses It?

- People with oversight responsibilities within each agency and in other areas (e.g., The General Assembly, the Commissioner)
- External users (e.g., regulatory agencies, investors, lenders, auditors)

How is it Used?

- Provides financial information for planning and performance oversight

What are Some Outcomes of Financial Accounting?

- Balance Sheet
- Statement of Revenue, Expenditures, and Changes in Fund Balances



Topic 1: Overview of Accounting and Why It's Important to the Commonwealth (continued)

What is Managerial Accounting?

- Preparation of management reports to provide details on how an entity is operating to assist in making decisions
- Information not subject to external audit and there are no rules or standards that must be followed unless required by external authorities

Who Uses It?

- Internal agency personnel

How is it Used?

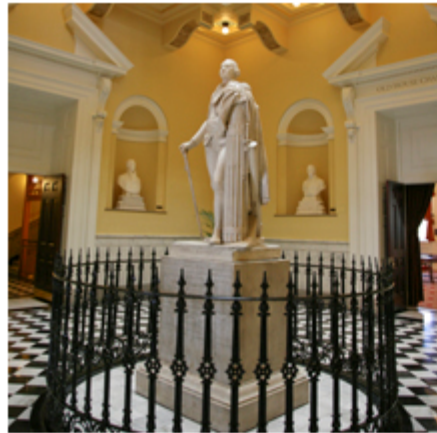
- Provides information to assist in making decisions on:
 - Timing and amount of needed resources
 - Allocating needed resources
 - Capturing cost information
 - Confirming payment amounts for purchased resources

What are Some Outcomes of Managerial Accounting?

- Status of Funds and Expenditures
- Project / Grant Monitoring Reports



Topic 2: Commonwealth's Goals and Department of Accounts' Mission



Virginia state government is comprised of elected and appointed officials, and state employees. They seek input from citizens and strive for transparency while working to carry out the goals established for the Commonwealth by the Council on Virginia's Future.

Commonwealth Goals:

- Be recognized as the best-managed state in the nation
- Be a national leader in the preservation and enhancement of our economy
- Elevate the levels of educational preparedness and attainment of our citizens
- Inspire and support Virginians toward healthy lives and strong and resilient families
- Protect, conserve and wisely develop our natural, historical and cultural resources
- Protect the public's safety and security, ensuring a fair and effective system of justice and providing a prepared response to emergencies and disasters of all kinds
- Ensure that Virginia has a transportation system that is safe, enables easy movement of people and goods, enhances the economy, and improves our quality of life



Topic 2: Commonwealth's Goals and Department of Accounts' Mission

Commonwealth Goals Related to Accounting:

Goal	How Goal Relates to Accounting
Best managed state in nation	Accurate accounting information is used to make wise decisions
National leader in enhancement of economy	Financial reporting is used to efficiently monitor where funds are being allocated to assist in growing the economy
Protect and develop natural, historical and cultural resources	Special funds and programs are set up and monitored for the protection and development of natural, historical, and cultural resources.
Elevate the levels of educational preparedness and attainment of our citizens	The efficient collection of funds through taxes and fees and the allocation of resources to fund education initiatives



Topic 2: Commonwealth's Goals and Department of Accounts' Mission (continued)

Mission Statement

To provide a uniform system of accounting, financial reporting, and internal control adequate to protect and account for the Commonwealth's financial resources, while supporting and enhancing the recognition of Virginia as the best managed state in the union.

Department of Accounts Mission Related to Accounting:

Mission Objective	How Mission Relates to Accounting
Provide uniform system of Accounting and Financial Reporting	Laws, regulations, and accounting procedures provide uniformity A common statewide financial system provides consistency of information among agencies
Provide adequate Internal Controls	Procedures, controls, and internal auditing improves the reliability of financial statements
Protect and account for the Commonwealth's Financial Resources	Budgeting helps to distribute limited resources to fund each agency and provides a mechanism for agencies to spend according to their approved budget
Best Managed State in the Union	Accurate accounting information is used to help make wise decisions



Topic 2: Commonwealth's Goals and Department of Accounts' Mission (continued)

What is Transparency?

The extent to which individuals have access to financial information about a governmental entity and audited financial reports

Why is It Important?

It provides a level of trust to the taxpayers of Virginia that their government and elected officials are accountable for the resources to which they have been entrusted.

What Other Terms are Associated with Transparency or Lack of It?

- Ethics
- Integrity
- Accountability
- Corruption
- Conflict of interest



Topic 2: Commonwealth's Goals and Department of Accounts' Mission (continued)

How Does The Commonwealth Promote Transparency?

- Presenting strategic plans and performance metrics listed for each agency on website
- Displaying spending history, distribution and top 20 vendors on website
- Reports and documents detailing purchase orders and commodities purchased

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Transparency

Virginia values transparency and provides online tools for citizens to keep up with what state government is doing and spending. Assess the state's progress toward long-term goals, view current state budget and spending information, receive alerts and comment on proposed changes to state regulations.

For more information about Transparency, visit:

- [Agency Planning and Performance](#)
- [Auditor of Public Accounts](#)
- [Council on Virginia's Future](#)
- [Virginia Performs](#)
- [Key Economic Indicators](#)



Topic 2: Commonwealth's Goals and Department of Accounts' Mission (continued)

What are Some Examples of Transparency or Lack of It?

Acceptable:

- Having an external and independent authority validate financial statements (e.g., Auditor of Public Accounts)
- Complying with freedom of information act (FOIA) requests
- Providing financial information on website
- Providing prompt disclosure of questionable items
- Having no conflict of interest
- Having policies that are based on legislative approval

Not Acceptable:

- Being secretive - little or no disclosure of information
- Having a conflict of interest when making financial decisions
- Creating a quid-pro-quo (e.g., you do something for me, and I'll return the favor)
- Making decisions with no public or legislative input



Topic 2: Department of Accounts' Mission Related to Accounting (continued)

What are Some of the Outcomes Related to Transparency?

Reward:

- Being recognized as one of the best managed states
- Maintaining AAA Bond Rating
- Attracting new businesses to the Commonwealth
- Increasing level of trust from the citizens of the Commonwealth

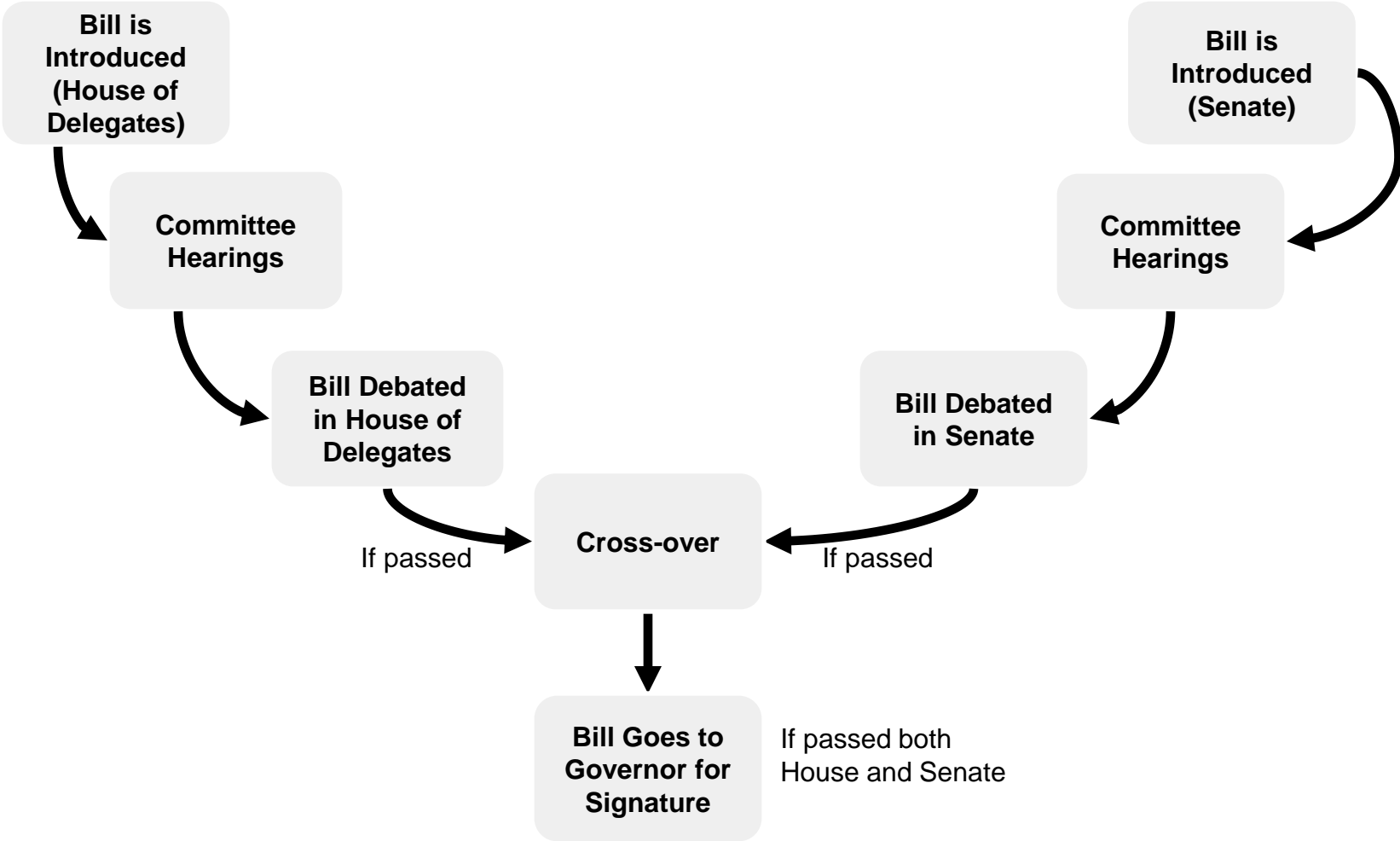
Consequences From a Lack of Transparency:

- Receive a low rank among states for government accountability
- Reduced level of confidence and trust among citizens
- Questioned authority of leaders if policies violated



Topic 3: Overview of the Legislative Flow of Funds within the Commonwealth

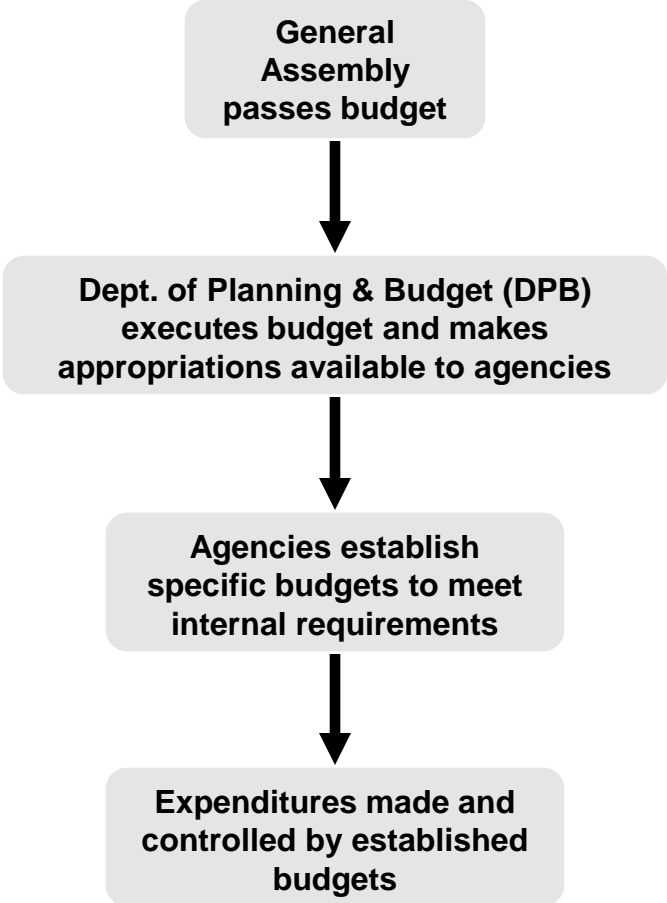
How a Bill Becomes a Law:





Topic 3: Overview of the Legislative Flow of Funds within the Commonwealth (continued)

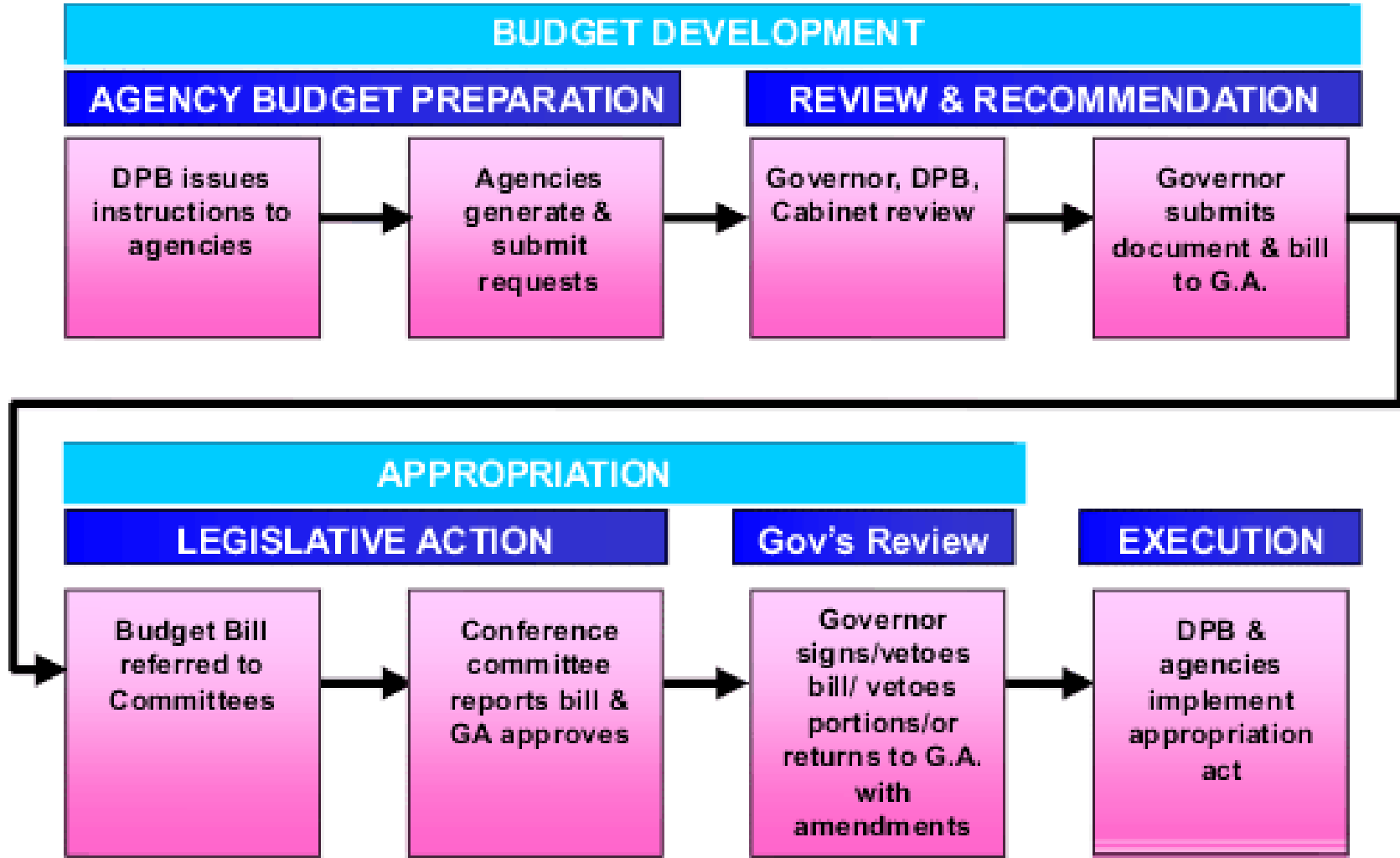
Process Flow for Source and Expenditure of Funds:





Topic 3: Overview of the Legislative Flow of Funds within the Commonwealth (continued)

The Budgeting Process:



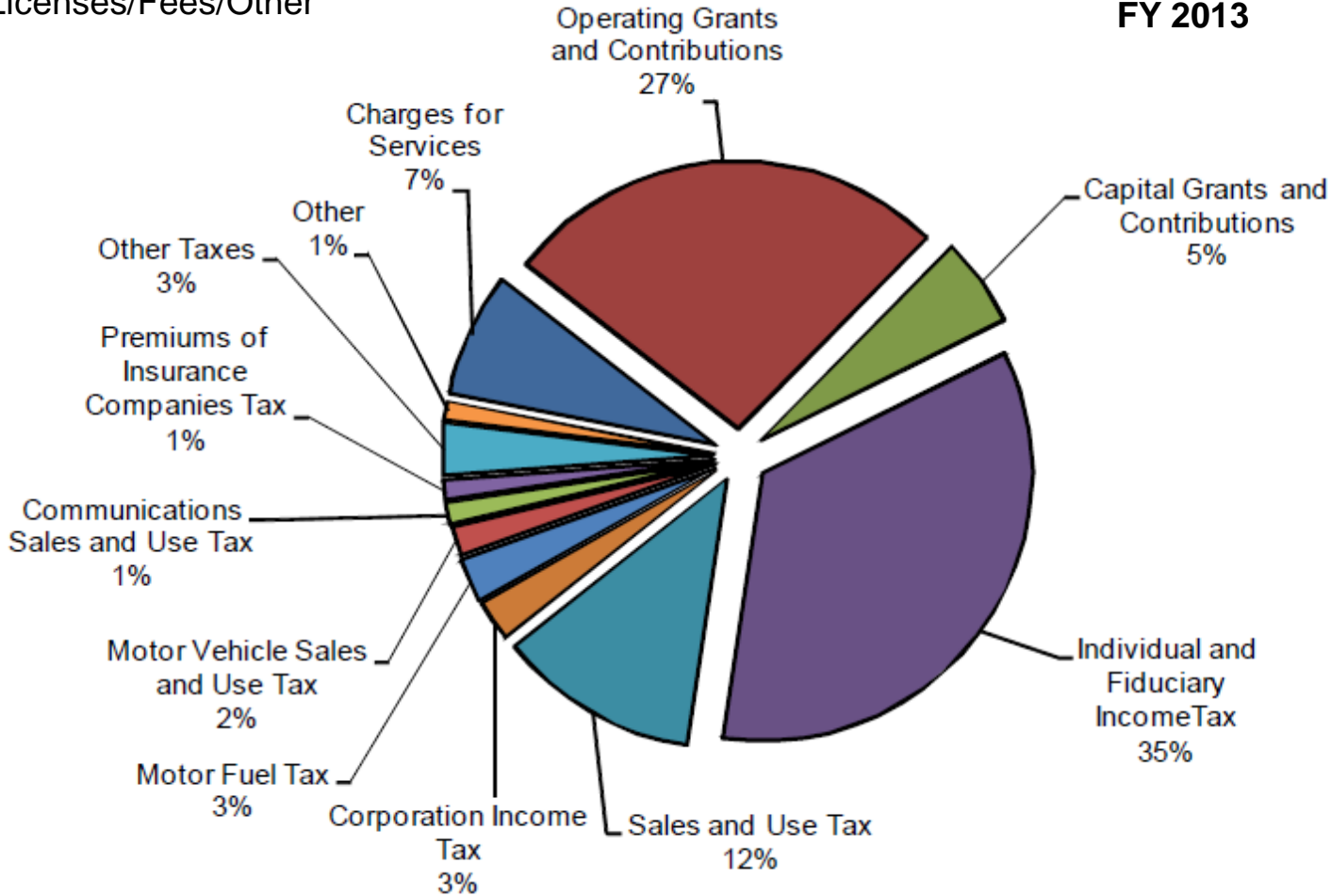


Topic 3: Overview of the Legislative Flow of Funds within the Commonwealth (continued)

Where Does the Commonwealth Get Its Revenue?

- Taxes
- Grants and Contributions
- Licenses/Fees/Other

**Revenues by Source –
Governmental Activities
FY 2013**



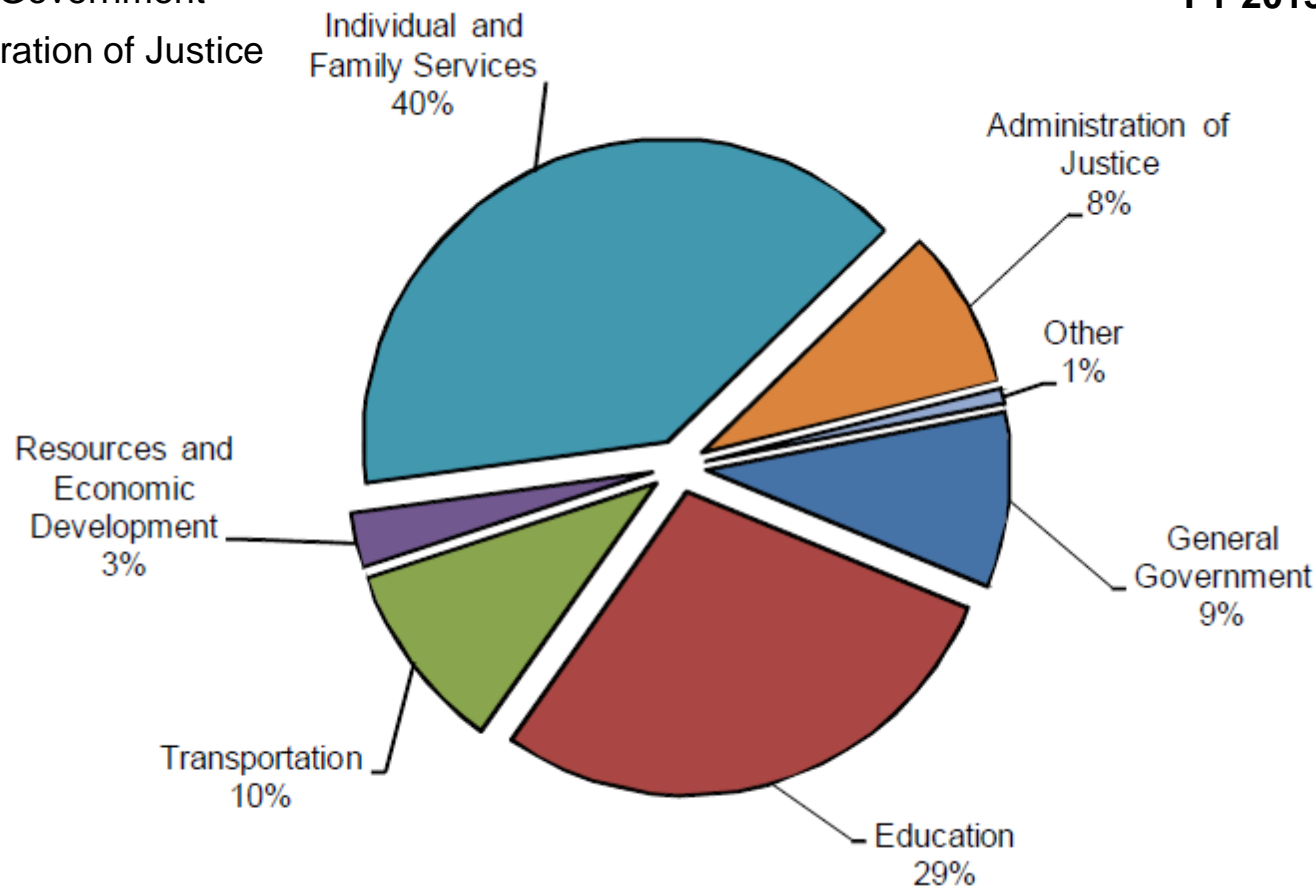


Topic 3: Overview of the Legislative Flow of Funds within the Commonwealth (continued)

How Does the Commonwealth Spend Funds?

- Individual and Family Services
- Education
- Transportation
- General Government
- Administration of Justice

**Expenses by Type –
Governmental Activities
FY 2013**





Topic 4: Overview of Budgeting

What is a Budget?

An estimate of revenue and expenditures for a future period of time

What is Budgeting?

The management process used to allocate and monitor the available resources

Why is Budgeting Important?

- It helps us make short and long-term projections
- Helps to avoid an unplanned financial crisis
- Creates opportunity to be efficient with funds available (e.g., more bang for the buck)
- Creates confidence



Topic 4: Overview of Budgeting (continued)

Types of Governmental Budgets:

- Annual – operating budget
- Biennial – two years where legislative branch convenes every other year (in VA, the General Assembly convenes each year and makes updates to the biennial budget as needed)
- Long-Term – typically 4-6 years in length

Methods of Budgeting:

- Line item – classifies expenditures by department / agency
- Program Budgets – classifies expenditures based on the purpose or services to be performed

Main Levels of Budget Control:

- Legislative – Includes appropriations – legal spending authorization
- Administrative – greater detail level of control



Topic 4: Overview of Budgeting (continued)

What is a Budget Mandate?

A directive or requirement included within the budget, imposing a spending requirement

What are the Statewide (Mandated) Budgets?

- Appropriation – appropriation amounts provided to each agency cannot be exceeded
- Allotment – allotments cannot exceed appropriations; allotments control the amounts of appropriation available for expenditure
- DPB Operating Plan – a lower level of expenditure budgeting required and executed by DPB
- Official Revenue Estimate – tracks specific revenue streams

What are the Optional Budgets?

These are budgets that each agency can choose to implement or not:

- Agency Lower Level Budget
- Agency Operating Budget
- Agency Project Budget
- Agency Revenue Estimate



Topic 4: Overview of Budgeting (continued)

Both governments and commercial businesses forecast their revenue and expenditures for a specific period of time.

Differences Between Governmental Budgeting and Commercial Budgeting:

Item	Governmental	Commercial
Legal Requirements	Yes	No
Can Overspend Budget	No	Yes
Budget Recorded in Accounting System	Yes	Optional

The Governmental Accounting Standards Board (GASB) requires that an annual budget be prepared whether or not required by law.

Legal requirements generally prescribe the governmental budget procedures for:

- Preparation
- Presentation
- Reporting



Topic 5: Introduction to Financial Statements

What is a Financial Statement?

The records that explain the financial activities of an entity.

What is the Purpose of Financial Statements?

- To present financial information clearly and concisely
- To provide accurate information for regulatory, financing or investing entities
- To present the overall financial condition of an entity

What are the Key Financial Reports / Statements Used by Agencies?

Financial Statement	Purpose
Trial Balance (e.g., ACTR0402)	Displays the balance of each account at a specified <u>point</u> in time (e.g., as of 6/30/2013) and is also used to verify that accounting transactions are balanced
Balance Sheet	Lists assets, liabilities and changes in fund balance at a specified <u>point</u> (e.g., as of 6/30/2013) in time
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 <u>period</u> of time (e.g., for the year ended June 30, 2013)



Lesson 1: 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 accounting?

Q2. What are the financial statements used in all agencies?

Q3. What are two types of accounting used by the Commonwealth?



Lesson 1: Summary

In this lesson, you learned how to:

- Explain what is accounting and why it is important to the Commonwealth
- Identify the legislative flow of funds within the Commonwealth
- Recognize what is governmental budgeting
- List the main financial statements used by all agencies
- List the main revenue sources and expenditures in the Commonwealth
- Explain the two types of accounting used by the Commonwealth



Lesson 2

Overview of Accounting Standards and Regulations



Lesson 2: Objectives

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

- List key accounting standards and regulations
- Explain how accounting standards and regulations impact how transactions are processed
- Recognize the significance of GAAP and GASB
- Explain what is an internal control



Lesson 2: Overview of Accounting Standards and Regulations

In this lesson, you will learn about the following:

- Topic 1: Overview of Accounting Standards
- Topic 2: Fundamental Accounting Concepts and Practices
- Topic 3: Accounting Concepts and Practices for Government and the Commonwealth
- Topic 4: Internal Controls at the Commonwealth



Topic 1: Overview of Accounting Standards

Who Created The Accounting Standards?

The original accounting standards were created by the American Institute of Certified Public Accountants (AICPA), which is the national professional organization for Certified Public Accountants.

Then, in 1972, a new independent private-sector organization was created, which was called the Financial Accounting Foundation (FAF). It had primary responsibility for:

- Establishing and improving financial accounting and reporting standards
- Educating constituents about those standards
- Selecting the members of the standard-setting Boards and Advisory Councils
- Protecting the independence and integrity of the standard-setting process
- Overseeing the standard setting boards that include:
 - Financial Accounting Standards Board (FASB)
 - Governmental Accounting Standards Board (GASB)

The mission of the Financial Accounting Foundation (FAF) is to:

- Establish and improve financial accounting and reporting standards
- Foster financial reporting that provides useful information to investors and other users



Topic 1: Overview of Accounting Standards (continued)

Financial Accounting Foundation Organizations:

- Financial Accounting Standards Board (FASB): establishes standards of financial accounting and reporting for private-sector entities including business and not-for-profit organizations.
- Governmental Accounting Standards Board (GASB): disseminates standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.

Who Uses The Accounting Standards?

- American Institute of Certified Public Accountants (AICPA)
- Securities and Exchange Commission (SEC)
- State and Local Governments
- Regulatory Agencies
- Lenders
- Investors
- Certified Public Accountants
- Businesses



Topic 1: Overview of Accounting Standards (continued)

What Are The Accounting Standards?

Generally Accepted Accounting Principles (GAAP):

- The common set of accounting principles, standards and procedures that organizations use to create their financial statements. GAAP is a combination of policy standards and commonly accepted ways of recording and reporting accounting information.

Why is GAAP important?

- Provides confidence that financial statements are relevant and reliable
- Provides guidance on how to record a transaction if you are unsure

Every entity, both governmental and commercial, is expected to follow GAAP



Topic 1: Overview of Accounting Standards (continued)

How Accounting Standards Are Applied to Government:

- **GASB Standards** – provides detailed guidance on how to record each transaction and to present it on the financial statements. In particular, GASB provides specific resources that are used by accounting groups within state and local governments to ensure that guidelines are being kept:
 - GASB Statement No. 34 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments
- **FASB Standards** – provides the most authoritative source of generally accepted accounting principles (GAAP) listed in the Federal Accounting Standards Advisory Board (FASAB) Handbook. The purpose is to provide users with an authoritative reference to:
 - Accounting concepts
 - Standards and interpretations
 - Technical bulletins and releases
- **Sarbanes-Oxley Act** – known as the ‘Public Company Accounting Reform and Investor Protection Act’ for public companies, which requires top management to certify the accuracy of financial information.



Topic 1: Overview of Accounting Standards (continued)

Why Do We Need Accounting Standards?

So that readers of financial statements can be reasonably assured that the financial information presented was prepared using legitimate and standardized methods and that can be trusted.

Accounting Information Needs to Be:

Relevant:

- Information needs to be helpful for decision making
- Information provided in past financial statements should be helpful in making future decisions

Reliable:

- Users can depend on the information to be:

Consistent -- the same accounting policies and procedures used for similar activities from period to period

Accurate – there are no material errors in how transactions were processed or reported

Timely – the transactions are processed promptly after they have occurred and financial statements are prepared each period for presentation in a reasonable amount of time



Topic 2: Generally Accepted Accounting Principles

Generally Accepted Accounting Principles (GAAP) include 12 Assumptions, Principles and Constraints:

1. Economic Entity Assumption: all business transactions are kept separate from other economic entities
 - Example: Literary Fund transactions are kept separate from the State Lottery Fund
2. Monetary Unit Assumption: all transactions are measured in U.S. dollars
3. Time Period Assumption: all entities report their financial transactions in a stated period of time
 - Example: for the year ended June 30, 2014; for the three months ended March 31, 2014
4. Cost Principle: the amount shown on financial statements is the amount originally paid, not what it's value would be if sold today
 - Example: land purchased for \$15,000 5 years ago now worth \$30,000 is valued on financial statements as an asset of \$15,000



Topic 2: Generally Accepted Accounting Principles (continued)

5. Full Disclosure Principle: any information that is important to a user of the financial statements should be disclosed within the statement or in the notes to the statement
 - Example: lawsuit pending, major cost overrun, change in accounting method

6. Going Concern Assumption: the assumption that the organization will continue to exist for the foreseeable future and will not be liquidated or terminated

7. Matching Principle: directs an entity to report an expense on its income statement in the same period as the related revenues.
 - Example: salary costs are expensed in the month they were earned as they helped to produce the revenue for that period (even though they may be paid in the following month)

8. Revenue Recognition Principle: revenues are recognized as soon as product is sold or service has been performed, regardless of when funds are actually received. In governmental entities, there may be the use of the modified method that revenues are recognized when measurable and available.
 - Example: An entity may have \$15,000 in sales in current month, while the funds will be received in 60 days. This would be considered revenue that is recorded in the current month.



Topic 2: Fundamental Accounting Concepts and Practices (continued)

9. Materiality Constraint: use professional judgment to determine if you need to adhere to an accounting principle if the amount is insignificant or immaterial
 - Example: An office chair was purchased for \$50. Rather than depreciate this chair as an asset over five years at \$10 per year, the materiality constraint allows you to expense the entire amount in the first year. Many entities have a policy that only assets over a certain dollar amount be capitalized.

10. Prudence Constraint: if there are two acceptable alternatives for reporting a transaction, the alternative that results in less profit or lesser asset amount should be chosen
 - Example: A purchase of liability insurance is estimated at the end of the fiscal year. The insurance carrier provided an estimate range of \$25,000 or \$35,000. The expense should be recorded at the higher amount of \$35,000.

11. Objectivity Constraint: all transactions in the accounting system must be supported by independent and verifiable evidence. Also, the auditor reviewing the financial statements must be independent of and unrelated to the preparation of the financial statements.
 - Example: The accountant sends the current mid-year balance sheet to a prospective lender, but this financial statement hasn't been audited. The lender may reject the lending request since no auditor review has been performed to verify the accuracy of the balance sheet.

12. Consistency Constraint: the same financial reporting methods are used each year with any variations disclosed in notes to financial statements



Topic 3: Accounting Concepts and Practices for Government and the Commonwealth

The Fiscal Year of the Commonwealth starts July 1 and ends June 30. The sequence of events to prepare and present financial statements includes the following:

- Accounting transactions are recorded in agency accounting systems and CARS (the Commonwealth Accounting and Reporting System) using accounting principles defined in GAAP and GASB Standards. If an agency has their own accounting system the accounting information is interfaced to CARS.
- Financial data is compiled in CARS and is reported to the Department of Accounts via Comptroller's Directives for preparation of the Commonwealth's Comprehensive Annual Financial Report (CAFR). Some agencies also prepare their own CAFRs.
- The Statewide Single Audit Report is prepared
- Audits are performed by Auditor of Public Accounts and opinions are issued
- Audited financial statements are presented

Section 2.2-813 of the **Code of Virginia** requires the Comptroller to:

- make a preliminary annual report to the Governor on or before August 15...(and)... a final report on or before December 15. The final report shall be prepared, insofar as practical, in conformance with generally accepted accounting principles.



Topic 3: Accounting Concepts and Practices for Government and the Commonwealth (continued)

Virginia Department of Accounts – Financial Reporting Subactivities:

Examples of activities performed:

- **Accounts Receivable Reporting** – Code of Virginia assigns DOA oversight responsibility used by agencies to collect accounts receivable
- **Audit monitoring** – Auditor of Public Accounts monitors agencies for compliance to policies and procedures. Agencies responsible for compliance and corrective action implementation.
- **Cash-Basis Reporting** – Virginia Constitution requires that accounts be maintained and reported on when cash is received and paid out
- **Financial Statement Directives** – guidance provided to state agencies on GAAP presentation of financial statements
- **Fixed Asset Accounting and Control (FAACS)** – guidance on how accounting should be done for land, building, equipment and capital leases



Topic 4: Internal Controls at the Commonwealth

What is an Internal Control?

Methods and procedures adopted by an organization to promote fiscal responsibility and the safeguard of resources

Examples of Internal Controls:

Records

- Accounting transactions are traceable to source documentation such as invoices or bank statements

Policies and Procedures

- Commonwealth Accounting Policies and Procedures Manual (CAPP)
- Agency Risk Management and Internal Control Standards (ARMICS)
- Single Audit Act

Separation of Duties

- Time sheets prepared by time keeper are verified by the supervisor
- Setup of new employee record is done by someone other than the person who certifies the payroll
- The same person is not allowed to enter an expenditure transaction and approve it



Topic 4: Internal Controls at the Commonwealth (continued)

Internal Control Element	Definition
Documentation	Thorough policies and procedures
Recording of Transactions	Transactions are recorded as executed and are properly classified
Execution of Transactions	Maintain evidence that authorizations are issued by persons acting within the scope and terms of their authority
Separation of Duties	Assign related tasks in a business process to different people to minimize the risk of fraud or loss with no one person controlling all phases of an activity or transaction
Supervision	Provide qualified supervision to confirm that approved procedures are followed
Access to Resources	Limits placed on who can access direct physical resources and indirect access through the preparation or processing of documents that authorize the use of resources
Competent Personnel	Take reasonable care to ensure that key personnel have high standards of integrity, which occurs through education, training and relevant experience
Reasonable Assurance	Internal controls are intended to provide reasonable, but not absolute assurance that the objectives will be accomplished
Records	Procedures are implemented to ensure that records, regardless of medium, are maintained securely to prevent unauthorized use



Topic 4: Internal Controls at the Commonwealth (continued)

Who is Responsible for Internal Controls Within Each Agency:

- Chief Executive Officer (agency head)
- Everyone in the agency

Each agency head is responsible for helping to design, implement, maintain, and champion an internal control program that includes all agency fiscal programs and related activities.

Objectives of Agency Risk Management and Internal Control Standards (ARMICS):

To provide reasonable assurance of the integrity of all fiscal processes related to:

- Submission of transactions to the Commonwealth's general ledger
- Submission of deliverables required by financial statement directives
- Compliance with laws and regulations
- Stewardship over and safeguarding the Commonwealth's assets



Exercise 1: Complete Worksheet Evaluating Internal Controls

You are now about to complete an exercise on: Evaluation of Internal Controls





Lesson 2: 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 key accounting standards and regulations that are in place?

Q2. What is GAAP and GASB?

Q3. What is an internal control and can you provide some examples from your agency?



Lesson 2: Summary

In this lesson, you learned how to:

- List key accounting standards and regulations
- Explain how accounting standards and regulations impact how transactions are processed
- Recognize the significance of GAAP and GASB
- Explain what is an internal control



Lesson 3

Overview of Governmental and Fund Accounting



Lesson 3: Objectives

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

- Explain the main governmental accounting policies
- List the different entities in the government accounting hierarchy
- Explain what is fund accounting
- List the different types of funds
- Explain the purpose for the different types of funds
- Explain the three basis of accounting methods



Lesson 3: Overview of Governmental and Fund Accounting

In this lesson, you will learn about the following:

- Topic 1: Governmental Accounting
- Topic 2: Fund Accounting
- Topic 3: Flow of Financial Resources in Fund Accounting
- Topic 4: Basis of Accounting Methods



Topic 1: Governmental Accounting

What is Governmental Accounting?

The process of performing accounting transactions for governments using standards established by the Governmental Accounting Standards Board (GASB)

Who Uses It?

- State governments
- Local governments

The federal government uses GAAP from the Federal Accounting Standards Advisory Board (FASAB)

How Is It Used?

To process transactions in a manner that complies with GASB standards where they are different than a private sector organization

GASB Statement No. 55 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Government incorporates the hierarchy order of interpreting GAAP while using GASB standards for a state or local government entity.



Topic 1: Governmental Accounting (continued)

Comparison: Governmental vs. Private Sector Accounting

Accounting Concept	State/Local Government Entity	Private Sector
Follow GAAP Policies and Procedures	Yes	Yes
Reasonable Level of Transparency	Yes	Yes
Adhere to Internal Controls	Yes	Yes
Double-Entry Accounting	Yes	Yes
Fiscal Accountability	Yes	Yes
Profit Motive	No	Yes
Matching Revenues with Expenses	Yes / No *	Yes
Legal Requirements for Budget Compliance	Yes	No
Shareholders	No	Yes / No
Follow GASB Standards	Yes	No

* In certain funds, the matching of revenues with expenses is done in a modified method



Topic 2: Fund Accounting

What is the GASB definition of a Fund?

A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

What is Fund Accounting?

Accounting processes performed in government entities that involve the segregation of activities and transactions into separate, fiscally independent funds.

Why is Fund Accounting Used?

- Required by Governmental Accounting Standards Board
- Demonstrates compliance from a legal and regulatory perspective
- Because funds are self-balancing, enables the ability to monitor the financial objectives of the fund



Topic 2: Fund Accounting (continued)

There are Three Fund Categories:

Governmental Funds

- Accounts for the operation of the government

Proprietary Funds

- Accounts for the operations that are financed in a manner similar to private business enterprises. It is the intent that the cost of providing such goods and services will be recovered through user charges

Fiduciary Funds

- Accounts for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations and/or other governmental units



Topic 2: Fund Accounting (continued)

Why are There Different Fund Types?

- Diverse nature of operations
- Legal requirements to segregate resources
- Requirement to account for restricted and unrestricted resources
- Project oriented activities
- Self-sustaining operations
- Requirement to account for each identifiable kind of government operation or resource



Topic 2: Fund Accounting (continued)

Governmental Fund Category:

Fund Type	Description	Examples
General Fund	Accounts for all governmental current operations not otherwise classified in other fund types	Primary Government operations, Salaries
Special Revenue Funds	Accounts for specific revenue sources that are restricted or committed to finance particular functions and activities	Commonwealth Transportation Fund
Debt Service Funds	Accounts for transactions related to resources retained and used for the payment of interest and principal on long-term obligations	Virginia Public Building Authority
Capital Projects Funds	Accounts for resources received and used for the acquisition, construction, or improvement of capital facilities	Primary Government, Highway Construction, Bridge Repairs
Permanent Funds	Accounts for resources that are restricted to the extent that only earnings, and not principal may be used	Commonwealth Health Research Fund



Topic 2: Fund Accounting (continued)

Proprietary Fund Category:

Fund Type	Description	Examples
Enterprise Funds	Accounts for goods and services sold to the general public	State Lottery, Virginia College Savings Plan, Unemployment Compensation Fund
Internal Service Funds	Accounts for operations serving other funds or departments within a government on a cost-reimbursement basis	Virginia Information Technologies Agency, Enterprise Application Fund, Fleet Management

Fiduciary Fund Category:

Fund Type	Description	Examples
Pension and Employee Benefit Trust Funds	Accounts for pensions and employee benefits	Virginia Retirement System, Pension Health Endowment
Investment Trust Fund	Accounts for investments that are held for the benefits of others	Local Government Investment Pool



Exercise 2: Identify Transactions by Fund

You are now about to complete an exercise on: Identify Transactions by Fund





Topic 3: Flow of Financial Resources in Fund Accounting

Flow of Financial Resources:

Based on the concept of Flow of Financial Resources which has been described by GASB as: The acquisition, use, and balances of the government's expendable financial resources and related current liabilities.

The concept of fund accounting is based on the principle that the nature of governmental financial activity is an:

- Inflow of revenue sources from taxes and fees for services
- Outflow of expenditures to provide these services

Examples of financial resources include:

- Cash
- Claims to cash (accounts and taxes receivable)
- Claims to goods or services (prepaid items or supplies inventory)
- Stocks and Bonds purchased



Topic 3: Flow of Financial Resources in Fund Accounting (continued)

Timing of Recording Financial Resources for Revenue: Government vs. Private Sector

Revenues and other financial resources are recognized in governmental funds as financial inflows when they are **measurable and available**

- **Measurable** – revenue is measurable if there is enough information to provide a reasonable (although not necessarily precise) estimate of the revenue to be received
- **Available** – revenue is available when it is collectible by the governmental entity within the current period or soon enough thereafter to pay current period liabilities

A revenue source that is measurable, but not available should be recorded as deferred revenue until it becomes available.

Resource	State/Local Government Entity	Private Sector
Revenues	When measurable and available	When Earned



Topic 3: Flow of Financial Resources in Fund Accounting (continued)

Timing of Recording Financial Resources for Expenditures: Government vs. Private Sector

In government, expenditures are recorded when the good or service is acquired except for the following:

- Prepayments: good or service was purchased, but the use or delivery hasn't occurred
Example: annual insurance premium paid at the beginning of the coverage is considered an asset until the coverage term commences and then the expenditure is recorded proportionately
- Inventory: the inventory items were not used at the time of purchase
- Debt Service on Long Term Debt: the interest and principal payment recorded when due

Resource	State/Local Government Entity	Private Sector
Expenditures	When acquired (see above for exceptions)	When Incurred



Topic 4: Basis of Accounting Methods

What is the Basis of Accounting?

The different accounting methods that could be used in a transaction. The basis may be different based on the type of fund used for the transaction.

What are the Three Different Methods of Accounting?

- Cash:
 - Records revenue when the cash is received, and expenses when they are paid in cash
 - Does not comply with GAAP, but some local or state statutes require certain funds be maintained on a cash basis
 - Financial statements would include a reconciliation to modified accrual basis



Topic 4: Basis of Accounting Methods (continued)

What are the Three Different Methods of Accounting? (continued)

- Accrual:
 - Requires recording revenues when earned and expenses when incurred
 - Accrual basis is required for proprietary funds and similar trust funds

- Modified Accrual:
 - Requires recognizing revenues when they are measurable and available
 - Expenditures are recognized when goods and services are acquired, except for inventories, prepayments, and debt service on long term debt
 - Modified accrual basis accounting is required by GASB for governmental funds and expendable trust funds

Why is This Necessary?

To conform with Generally Accepted Accounting Principles (GAAP), the appropriate basis of accounting needs to be used based on the type of fund.



Lesson 3: 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 governmental accounting?

Q2. Why are different funds types used in the Commonwealth?

Q3. How are accrual vs. modified accrual accounting different?



Lesson 3: Summary

In this lesson, you learned how to:

- Explain the main governmental accounting policies
- List the different entities in the government accounting hierarchy
- Explain what is fund accounting
- List the different types of funds
- Explain the purpose for the different types of funds
- Explain the three basis of accounting methods



Lesson 4

Accounting is Transaction Driven



Lesson 4: Objectives

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

- Explain various accounting transactions
- List the different account types
- Identify how accounting transactions are classified by account type
- Recognize how an account is used on a transaction
- List the steps in the accounting cycle



Lesson 4: Accounting is Transaction Driven

In this lesson, you will learn about the following:

- Topic 1: Accounting Transaction Flows
- Topic 2: Account Types and Accounts
- Topic 3: Steps In the Accounting Cycle



Topic 1: Accounting Transaction Flows

Accounting Transactions:

Transactions are the basic building blocks of accounting. They record, in financial terms, the financial activities and events for the Commonwealth.

Transactions are the beginning point of the accounting process while the end result is the Commonwealth financial statements and annual budget report.

Transactions are recorded in the accounting system once an event has occurred. Most events are supported by source documentation.

Bottom Line: Transactions drive the Commonwealth's accounting process

Cardinal is a Transactions-based System:

Cardinal is transaction driven and has separate modules and processes to indicate the type of transaction. Users will enter specific account distributions on transactions.

Cardinal transactions will replace CARS batch types and transaction codes.



Topic 1: Accounting Transaction Flows (continued)

Examples of Transactions and their Related Source Documents:

Transaction	Source Document
Supplier bill is paid	Invoice
Employee submits expenses for trip	Expense Report
Employee records hours worked in week	Timesheet
Funds deposited in bank	Bank Deposit Slip
Income tax bill is received	Tax Notice



Topic 1: Accounting Transaction Flows (continued)

Example: Accounts Payable Transaction

Procure-to-Pay Process

Order Good/Service
from Vendor

Vendor Delivers
Good/Service

Invoice
Received from Vendor

Payment for
Good/Service

Vendor Receives
Payment

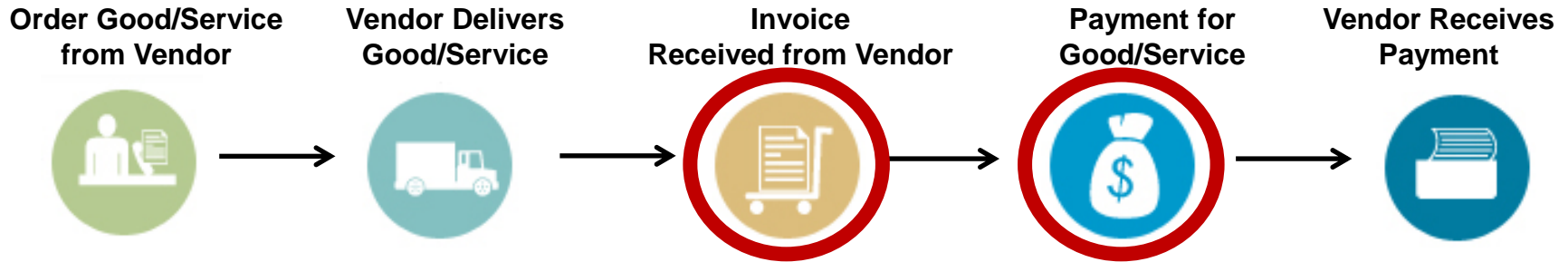




Topic 1: Accounting Transaction Flows (continued)

Example: Accounts Payable Transaction

Procure-to-Pay Process



Which Steps are Recorded in the Accounting System?

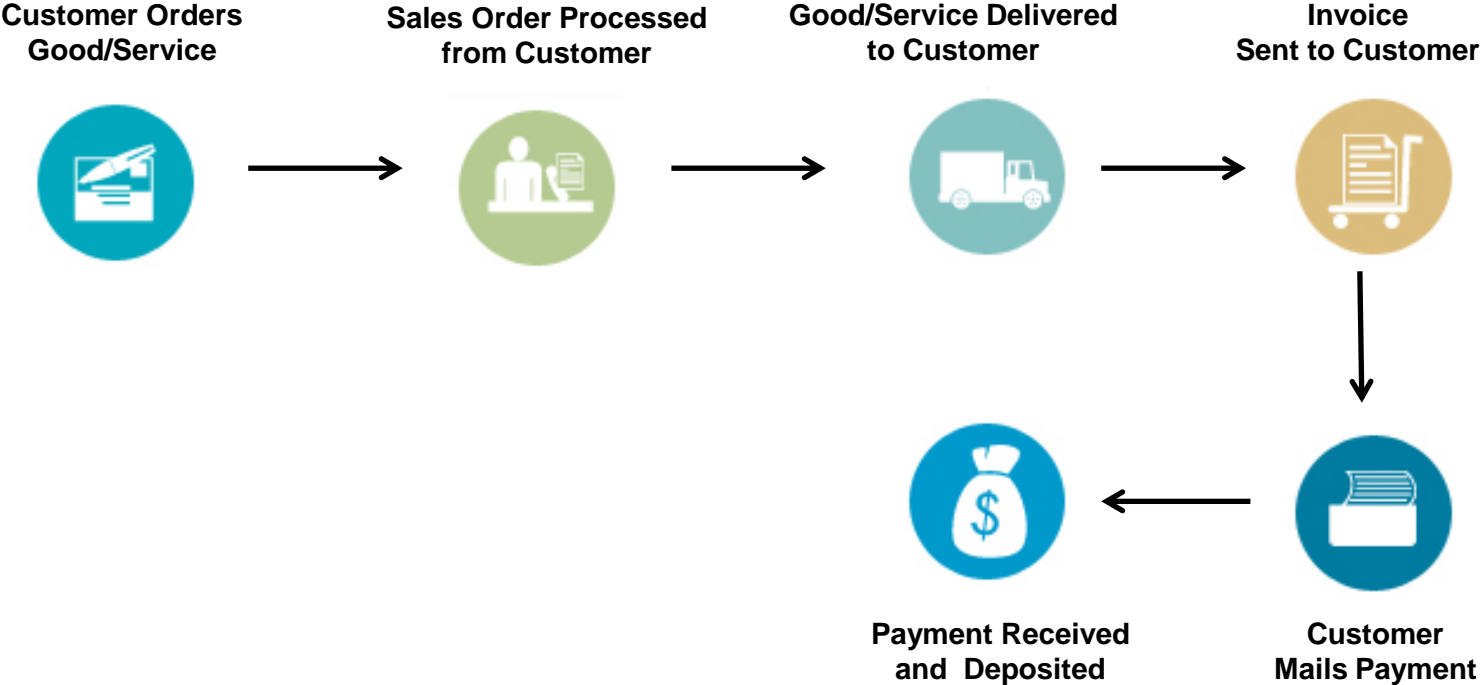
1. **Invoice Received from Vendor:** this is where the legal obligation to pay for goods delivered begins. Some organizations will record the transaction when the good / service has been received.
2. **Payment for Good / Service:** funds owed are sent to the vendor



Topic 1: Accounting Transaction Flows (continued)

Example: Accounts Receivable Transaction

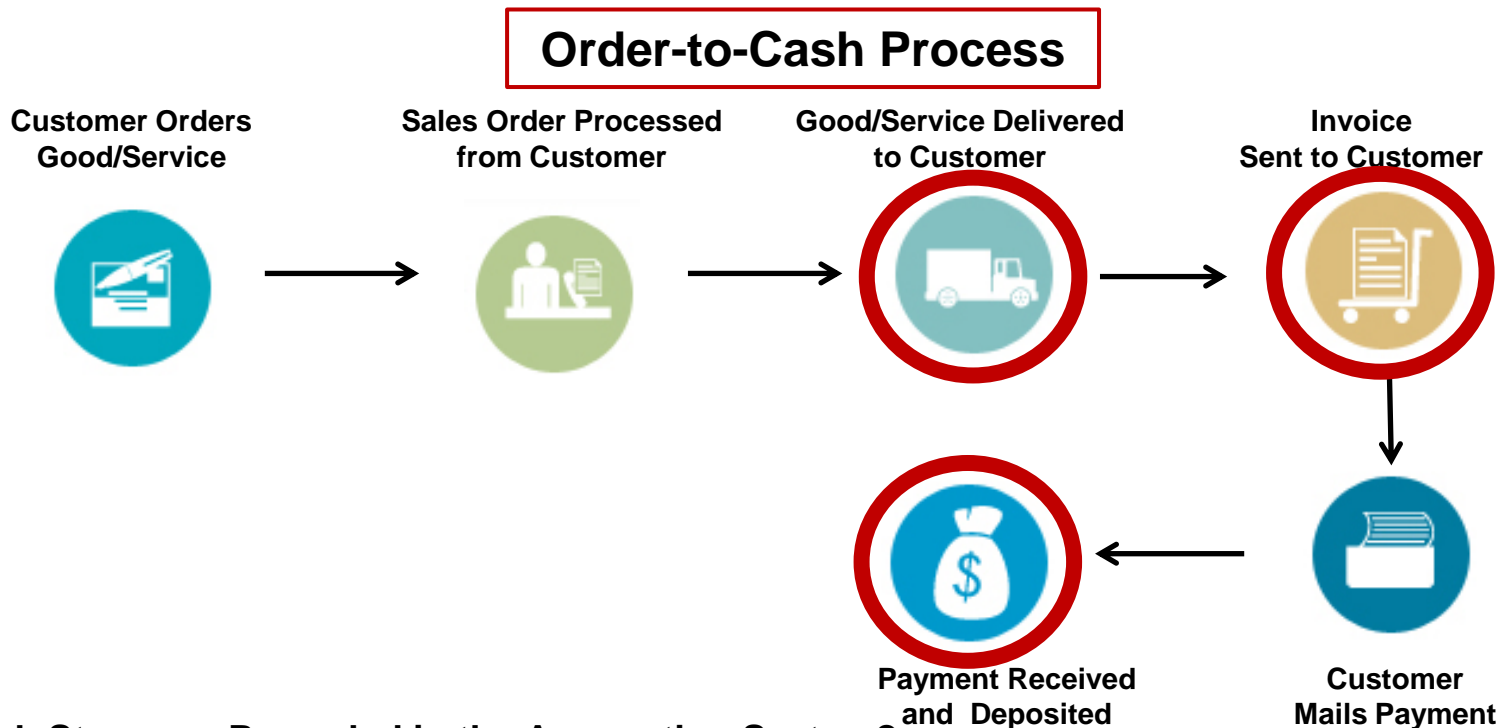
Order-to-Cash Process





Topic 1: Accounting Transaction Flows (continued)

Example: Accounts Receivable Transaction



Which Steps are Recorded in the Accounting System?

1. **Goods/Service Delivered to Customer:** this is when the legal right to receive payment happens. Many organizations will record the transaction when the invoice is sent to the customer.
2. **Payment Received for Good/Service:** funds received are recorded and deposited in the bank



Topic 2: Account Types and Accounts (continued)

Account Type	Definition	Examples
Asset	Current assets - owned resources that we expect to use within next 12 months	Cash, Accounts Receivable, Inventory, Short-term Investments
	Long-term assets - owned resources that we expect to use over several years	Equipment, Vehicles, Land, Buildings, Long-term Investments
Liability	Current liability - obligations for resources purchased or funds borrowed that we expect to repay within next 12 months	Accounts Payable, Short-term Loans
	Long-term liability - obligations for resources purchased or funds borrowed that we expect to repay over several years	Long-term Loans, Pension Obligations
Fund Balance	The difference between assets and liabilities	
Revenue	Funds we have received from taxation, fees, grants and earned through sales made	Taxes, Licenses, Fees, Grants, Security Sales, Mineral Rights
Expenditure	The costs incurred to acquire goods or services	Office Supplies, Electricity Utility Bills



Topic 2: Account Types and Accounts (continued)

Account Overview:

We have explained the Account Type in detail, but in order to further classify a transaction in detail, we need to use the term 'Account'. Within each Account Type there are many different accounts, which are included in the Chart of Accounts.

What is an Account?

An account categorizes the transaction as a specific asset, liability, fund balance, revenue, or expense.

How is the Account Used?

- Each transaction is recorded in the accounting system with two or more accounts
- All transactions in a period with the same account are summed together to determine the account balance
- These balances are then further summarized into main categories which are presented on the financial statements



Topic 2: Account Types and Accounts (continued)

Most transactions involve multiple account types. Some examples include:

1. Paid salary expenses for monthly payroll

Salary Expense Expenditure	Cash Asset
-------------------------------	---------------

2. Received invoice for shipment of office supplies

Office Supplies Expenditure	Accounts Payable Liability
--------------------------------	-------------------------------

3. Cash received for vehicle taxes assessed

Cash Asset	Taxes Assessed Revenue
---------------	---------------------------



Exercise 3: Identify Transactions by Account Type

You are now about to complete an exercise on: Identify Transactions by Account Type





Topic 2: Account Types and Accounts (continued)

Why Do We List the Fund For Accounting Transactions?

Each transaction for a government entered into the accounting system needs to be identified by the correct fund so that the financial statements properly reflect the revenues and expenditures that occurred during the period specific to that fund.

There are appropriations and allocations made through legislation that determines the expenditures that can occur for a specific fund.

How Do You Determine Which Fund Should Be Used For a Transaction?

1. Determine which Fund category is most related to the transaction. The categories are:
 - Governmental
 - Proprietary
 - Fiduciary

2. Determine the Fund type within each category that describes the type of expenditure or revenue that is occurring.

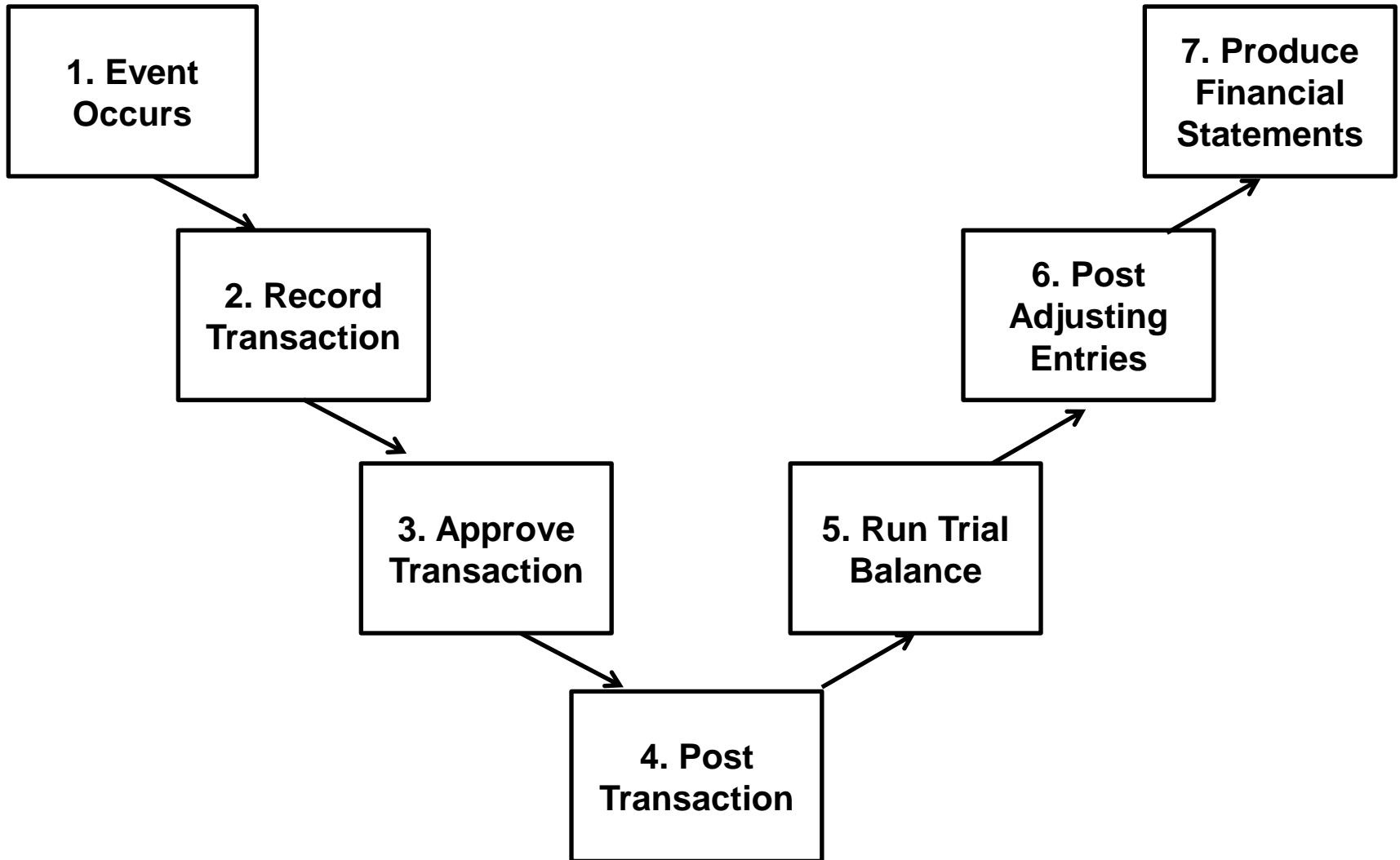
Example: General Fund, Special Revenue Fund, Debt Service Funds

3. Select the Fund that matches the revenue or expenditure transaction, which has been appropriated, allocated or designated by legislation or department authority.



Topic 3: Steps in the Accounting Cycle

The Steps In the Accounting Cycle:





Lesson 4: 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. List the different account types

Q2. Provide an example of a transaction that would be recordable in the accounting system

Q3. Provide an example of a transaction that would not be recordable in the accounting system



Lesson 4: Summary

In this lesson, you learned how to:

- Explain various accounting transactions
- List the different account types
- Identify how accounting transactions are classified by account type
- Recognize how an account is used on a transaction
- List the steps in the accounting cycle



Lesson 5

Mechanics of Double-Entry Accounting



Lesson 5: Objectives

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

- Explain what is 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		

#	<u>Transaction</u>
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:

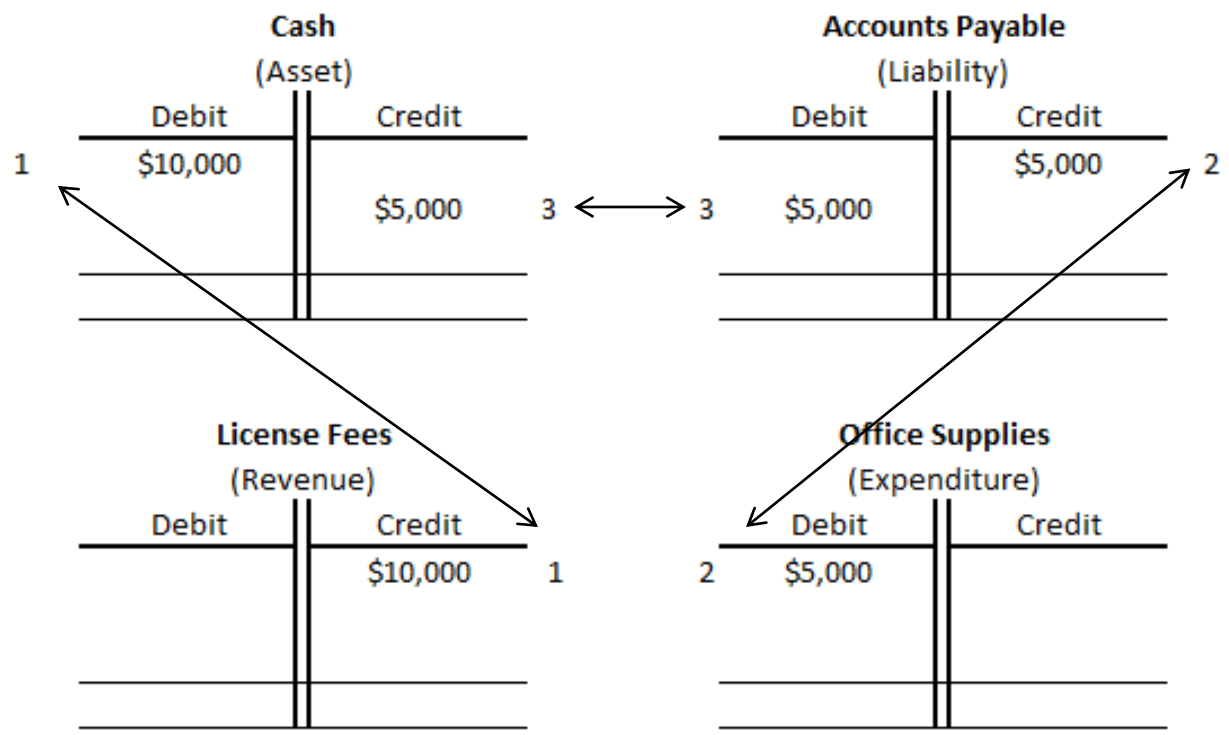
Assets		Liabilities		Fund Balance	
Debit	Credit	Debit	Credit	Debit	Credit
Debit for <i>Increases</i>	Credit for <i>Decreases</i>	Debit for <i>Decreases</i>	Credit for <i>Increases</i>	Debit for <i>Decreases</i>	Credit for <i>Increases</i>
\$XXX.xx			\$XXX.xx		\$XXX.xx

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 what is 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 what is 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?

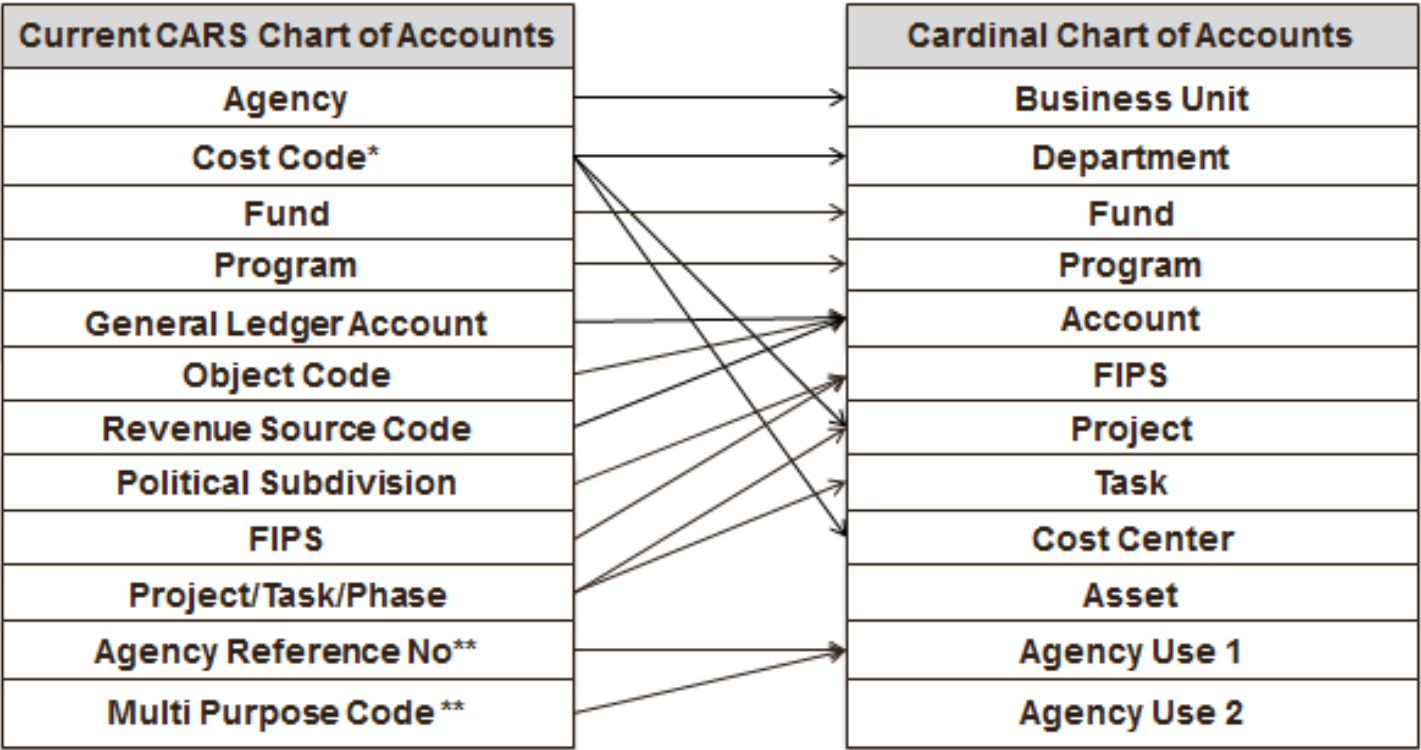
- Provides a way to group transactions to facilitate review and analysis in a consistent manner
- Provides flexibility to create more detailed grouping of transactions depending on needs of users of financial information
- Facilitates the accumulation of detailed transactions for each account into summary 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

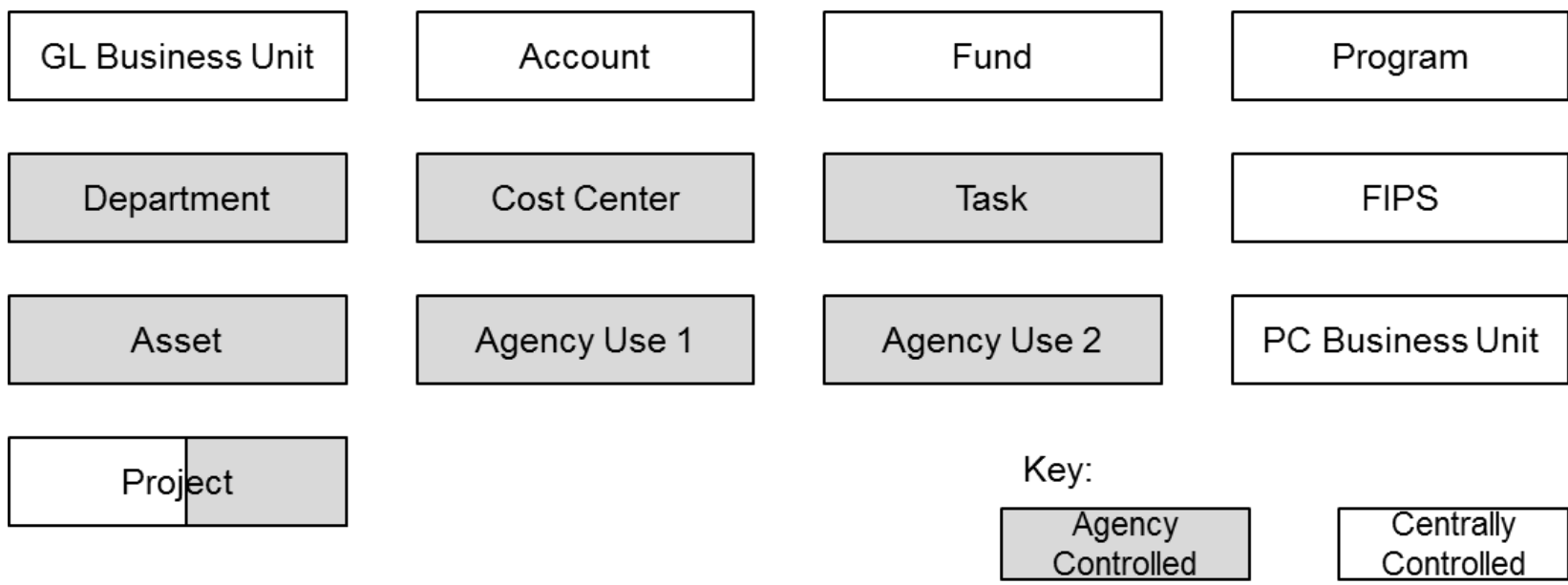
* N=Numeric, A/N = Alpha-Numeric

**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).

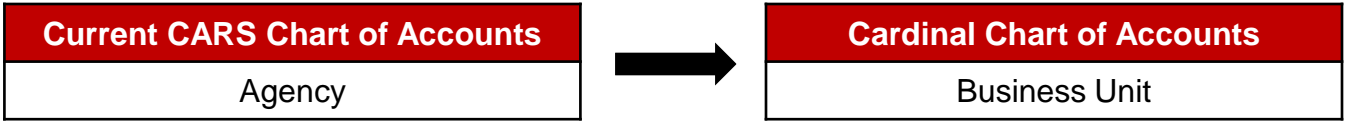


- The Project ChartField is agency controlled except for capital outlay and Commonwealth-wide initiatives.
- The PC Business Unit ChartField is only used by agencies using Project Costing in Cardinal.



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

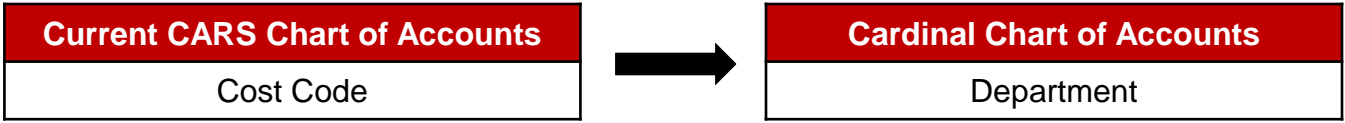
Examples:

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

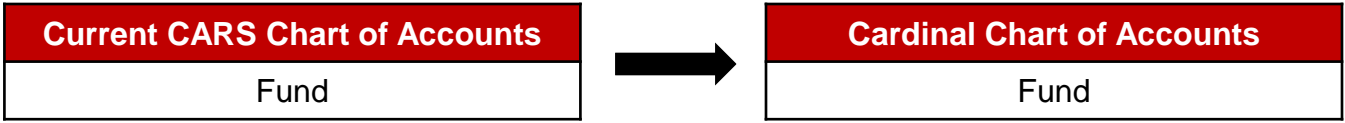
Examples:

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

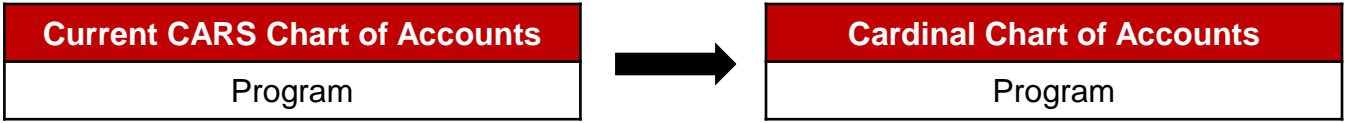
Examples:

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

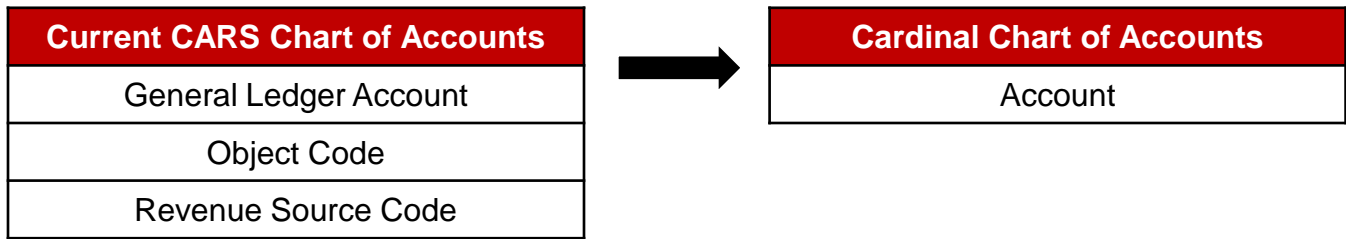
Examples:

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

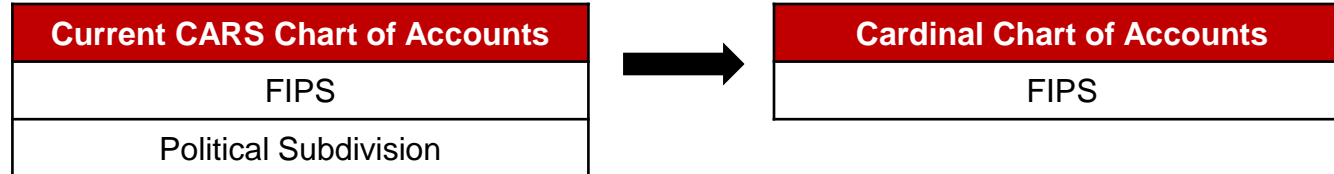
Notice something different?

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

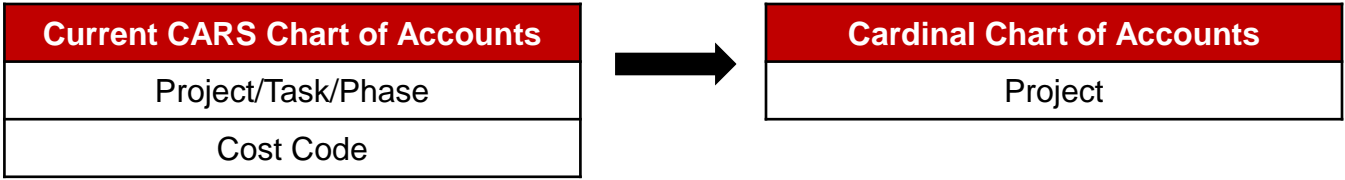
Examples:

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

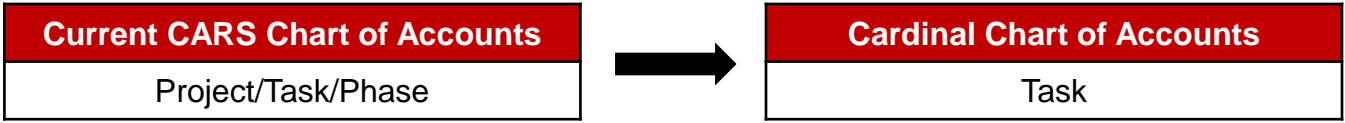
Examples:

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

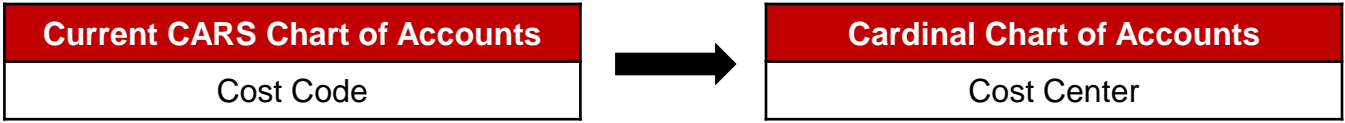
Examples:

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

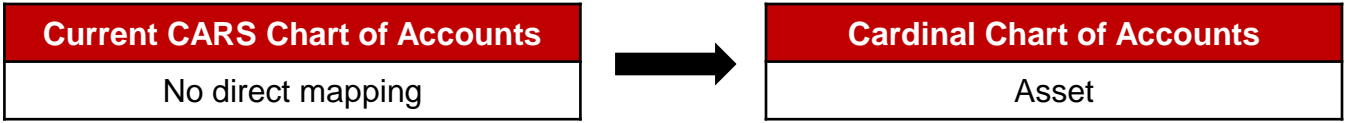
Examples:

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

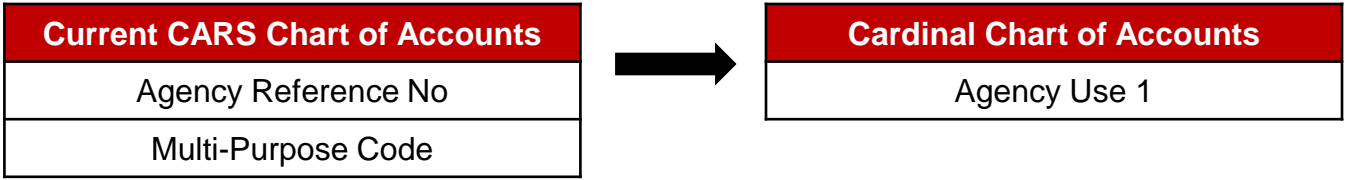
Examples:

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

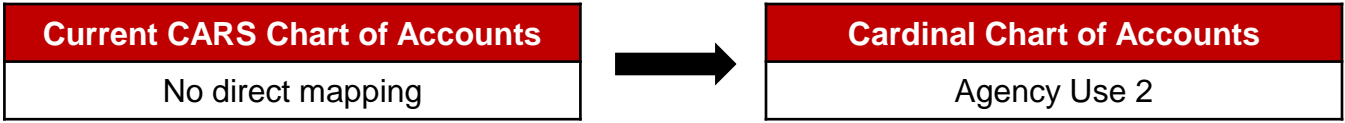
Examples:

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

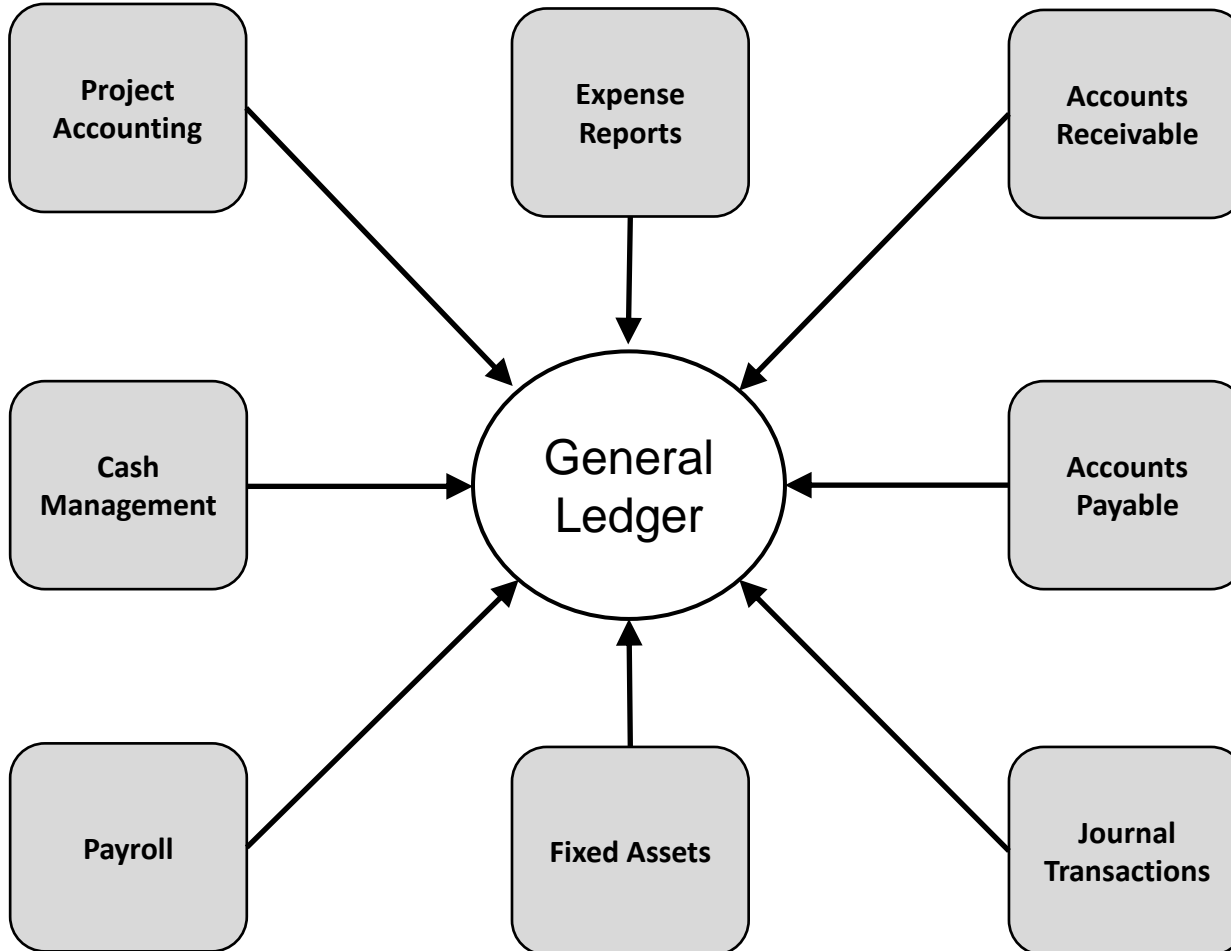
In this lesson, you will learn about the following:

- 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

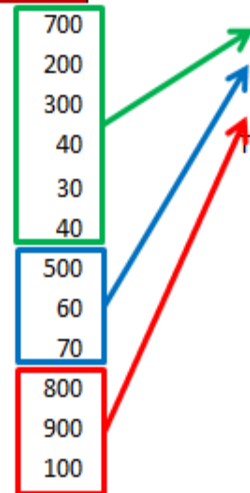
- 101 Cash and Cash Equivalents
 - 101001 - Cash Not With Treasurer
 - 101420 - Amt Held By Trustee-Treasury
 - 101430 - Amt Held By Outside Trustee
 - 101470 - Funds Held In Escrow
 - 101060 - Cash Advances - Courts
 - 101070 - Cash Of Lottery Revolving Acct
- 112 Accounts Receivable
 - 112001 - Accounts 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, reports will be run 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:

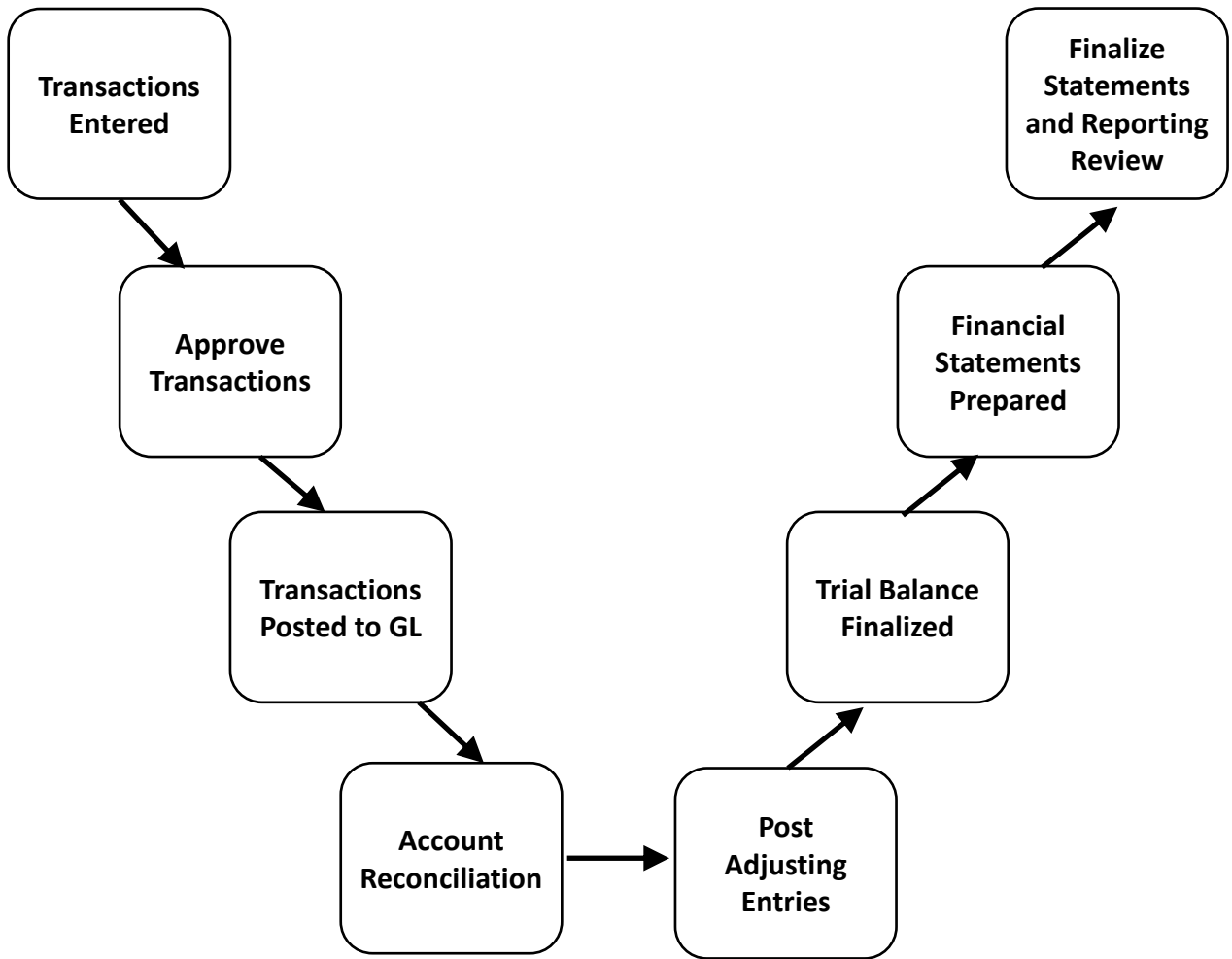
- Amount exceeds budget for period – an expense may have exceeded the current period budget, but is below year-to-date budget
- Amount less than budget – transactions may not have occurred yet or occurred for a lesser amount than planned as of current date.
- Transactions were recorded incorrectly which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

Account	Transaction Debit	Transaction Credit
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

Fund	Transaction Debit	Transaction Credit
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)

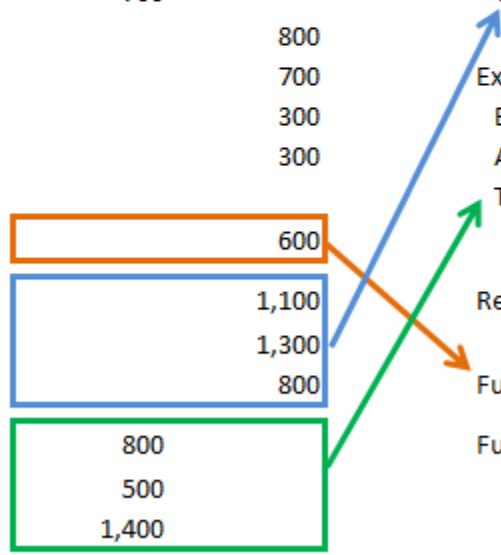
An Example of How a Trial Balance Flows Into the Statement of Revenue, Expenditures and Changes in Fund Balances

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

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

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	
	<u>5,900</u>	<u>5,900</u>

Revenues:	
Tax Revenue	\$1,100
Licenses and Permits	1,300
Fees for Admin Services	800
Total Revenues	<u><u>\$3,200</u></u>
Expenditures:	
Employee Related Expenses	1,300
Administrative Expenses	1,400
Total Expenditures	<u><u>\$2,700</u></u>
Revenues over (under) Expenditures	<u><u>\$500</u></u>
Fund Balance 7/1/2012	600
Fund Balance 6/30/2013	<u><u>\$1,100</u></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	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	1,600	
183660 - Buildings	700			Total Assets	\$ 3,200	
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	600	
213081 - Due To Other Fund/Agency		300		Total Liabilities	\$ 2,100	
308000 - Fund Balance		600		Fund Balance	\$ 1,100	
4001000 - Taxes		1,100			Total Liabilities and Fund Balance	\$ 3,200
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				



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.