Introduction to Accounting

Christi Schaefbauer, CPA, SFO
Instructor
About the Instructor...

- Certified Public Accountant for 16 years
- 6 years in public accounting (auditing, financial reporting & taxes)
- 11 years in governmental accounting
- In charge of various state government and local government audits with an emphasis on School Districts
- Served as a school business manager for over 5 years
- Certified Administrator of School Finance and Operations
Basic Governmental Accounting/Bookkeeping

NCES – National Center for Education Statistics

Provides and interprets comprehensive statistics about the condition of education
Basic Governmental Accounting/Bookkeeping


1) Provide a structure to permit Local School Agencies (LEAs) to demonstrate prudent use of funds.

2) Supply the means for collecting the financial data necessary to examine comparability of educational outcomes at the local level.

3) Meet the many demands of the education community for accountability in terms of educational programs.

4) Be consistent with generally accepted accounting principles (GAAP) advocated by the National Council on Governmental Accounting.
“the Superintendent of Public Instruction shall implement a uniform system for accounting, budgeting, and reporting of data for all school districts in the state”
Fund Accounting & GAAP

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FUND

A fund is its own entity that requires its own set of books and has special requirements specific to that fund.
Fund Accounting

Three fund classifications

Governmental
Proprietary (Enterprise & Internal Service)
Fiduciary (Trust & Agency)
Fund Accounting

Seven “fund types”

**Governmental**
1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Debt Service Funds

**Proprietary (Enterprise & Internal Service)**
5. Food Service Fund
6. Student Activity Funds

**Fiduciary**
7. Trust & Agency Funds
Fund Accounting

01 General Fund
02 Special Revenue Funds
03 Capital Projects Funds
04 Debt Service Funds
05 Food Service Funds
06 Student Activity Funds
07 Trust and Agency Funds
08 General Long-Term Debt Account Group
09 General Fixed Assets Account Group
GAAP – Twelve Principles

“Generally Accepted Accounting Principles”

1. Accounting Reporting Capabilities
2. Fund Accounting System
3. Types of Funds
4. Number of Funds
5. Accounting for fixed assets and long-term liabilities
6. Valuation of fixed assets
GAAP – Twelve Principles

“Generally Accepted Accounting Principles”

7. Depreciation of fixed assets
8. Accrual basis in governmental accounting
9. Budgeting, budgetary control and budgetary reporting
10. Revenue, expenditure, transfer, and expense account classifications
11. Common terminology and classifications
12. Interim and annual financial reports
Basic Accounting Cycle Overview

The Accounting Cycle

1. Transactions
2. Journal Entries
3. Posting
4. Trial Balance
5. Worksheet
6. Adjusting Journal Entries
7. Financial Statements
8. Closing the Books
Basis of Accounting

**Cash Basis**

- Transactions are recorded when cash actually changes hands
- Cash-basis accounting does a good job of tracking cash flow, but it does a poor job of matching revenues earned with money laid out for expenses.

**Accrual Basis**

- With *accrual accounting*, you record all transactions in the books when they occur, even if no cash changes hands.
- Accrual basis accounting provides a comprehensive measurement of a school's financial position.
Modified Accrual Basis of Accounting

- An accounting method commonly used by government agencies that combines accrual-basis accounting with cash-basis accounting. Modified accrual basis of accounting recognizes revenues when they become available and measurable and, with a few exceptions, recognizes expenditures when liabilities are incurred.
Basic Systems for recording accounting entries

Single Entry
• Similar to a checkbook register

Double Entry
• Debits and Credits
Double Entry Accounting
T-Account

“Our books are balanced. 50% of our numbers are real and 50% are made up.”
The Fundamental Accounting Equation

Assets = Liabilities + Equity
Debit Credit Cheat Sheet

Asset accounts have **debit** balances.
- Debits **increase** Asset accounts.
- Credits **decrease** Asset accounts.

Liability accounts have **credit** balances.
- Credits **increase** Liability Accounts.
- Debits **decrease** Liability Accounts.

Equity (fund balance) accounts have **credit** balances.
- Credits **increase** Equity Accounts.
- Debits **decrease** Equity Accounts.

Revenue accounts have **credit** balances.
- Credits **increase** Revenue Accounts.
- Debits **decrease** Revenue Accounts.

Expenditure accounts have **debit** balances.
- Debits **increase** Expenditure accounts.
- Credits **decrease** Expenditure accounts.
Trial Balance

A statement that can be prepared to prove the equality of debits and credits. The trial balance is a list of the balances of the accounts in a ledger kept by double entry.

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$7,000</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Office Supplies</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Bank Loan</td>
<td></td>
<td>$5,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Common Stock</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Consulting Revenue</td>
<td></td>
<td>7,000</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Supplies Used</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$23,000</strong></td>
<td><strong>$23,000</strong></td>
</tr>
</tbody>
</table>
General Ledger
The “book” or digital record that contains all the summarized financial transactions of all accounts.
Chart of Accounts

A listing of all the accounts contained in the General Ledger

NDSFARM maintains the chart of accounts for ND School Districts
Expenditures

Type III Accounts

- Fund
- Project
- Program
- Function
- Object
Revenues

Type II Accounts

1000 – Revenue from Local Sources
2000 – Revenue from County Sources
3000 – Revenue from State Sources
4000 – Revenue from Federal Sources
5000 – Other Sources
General Ledger Accounts
Assets

NDSFARM lists the following current asset accounts:

101 Cash
103 Petty Cash
111 Investments
114 Interest Receivable on Investments
121 Taxes Receivable
131 Interfund Loans Receivable
141 Intergovernmental Accounts Receivable
153 Accounts Receivable
171 Inventory
181 Prepaid Expense
199 Other Current Assets
General Ledger Accounts

Assets

NDSFARM lists the following fixed asset accounts:

- 211 Sites
- 221 Site Improvements
- 222 Accumulated Depreciation on Site Improvements
- 231 Buildings and Improvements
- 232 Accumulated Depreciation on Buildings and Improvements
- 241 Machinery and Equipment
- 242 Accumulated Depreciation on Machinery and Equipment
General Ledger Accounts
Current Assets – Taxes Receivable

Full Accrual Basis of Accounting Entry Example:

<table>
<thead>
<tr>
<th>Description</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes receivable</td>
<td>$100,000</td>
<td></td>
</tr>
<tr>
<td>Ad valorem taxes</td>
<td></td>
<td>100,000</td>
</tr>
</tbody>
</table>

$100,000 is reported as revenue since the taxes have been levied and these taxes may be used within the current fiscal year.
General Ledger Accounts
Current Assets – Taxes Receivable

Full Accrual Basis of Accounting Entry Example:

<table>
<thead>
<tr>
<th>Description</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in Bank</td>
<td>$100,000</td>
<td></td>
</tr>
<tr>
<td>Taxes Receivable</td>
<td></td>
<td>100,000</td>
</tr>
</tbody>
</table>

Note that this transaction does not affect the revenue control account since the first entry above recorded the revenue.
General Ledger Accounts
Current Assets – Taxes Receivable

Modified Accrual Basis of Accounting Entry Example:

<table>
<thead>
<tr>
<th>Description</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes Receivable</td>
<td>$100,000</td>
<td></td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>100,000</td>
<td></td>
</tr>
</tbody>
</table>

The District defers the revenue since it does not consider it available to finance expenditures of the current period.
General Ledger Accounts

Current Assets – Taxes Receivable

Modified Accrual Basis of Accounting Entry Example:

<table>
<thead>
<tr>
<th>Description</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in Bank</td>
<td>$100,000</td>
<td></td>
</tr>
<tr>
<td>Taxes Receivable</td>
<td></td>
<td>100,000</td>
</tr>
</tbody>
</table>

To record the collection of the taxes receivable.

Deferred Revenue $100,000
Ad valorem Taxes 100,000

The District reports $100,000 as revenue since it considers the July and August distributions from the State of North Dakota to be available in this reporting year.
NDSFARM lists the following current liability accounts:

- 401 Interfund Loans Payable
- 411 Intergovernmental Accounts Payable
- 421 Accounts Payable (Vendor)
- 431 Contracts Payable
- 441 Matured Bonds Payable
- 442 Bonds Payable (current)
- 451 Loans Payable (current)
- 452 Certificates of Indebtedness Payable
- 455 Interest Payable
- 461 Accrued Salaries and Benefits
- 471 Payroll Withholdings and Matching Benefits
- 481 Deferred Revenues
- 499 Other Current Liabilities
General Ledger Accounts
Liabilities

NDSFARM lists the following long term liability accounts:
501 School Construction Loans Payable
511 Bonds Payable (long-term)
521 Loans Payable (long-term)
**General Ledger Accounts**

**Current Liabilities – Payables**

Entry Example:

<table>
<thead>
<tr>
<th>Description</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various Expenditure Accounts</td>
<td>$100,000</td>
<td></td>
</tr>
<tr>
<td>Accrued Salaries Payable</td>
<td></td>
<td>100,000</td>
</tr>
</tbody>
</table>

To record the salaries expense in the prior fiscal year.

Accrued Salaries Payable $100,000
Cash in Bank 100,000

Entry in new fiscal year which clears out the payable account and reflects the cash disbursement.
Procurement to Accounts Payable Relationship

- Purchase Order
  - Receive Goods and Services
  - Record Accounts Payable
  - Disburse Cash
  - Reverse Accounts Payable

Encumbrance = liability at time of purchase order
General Ledger Accounts
Fund Balance

NDSFARM lists the following fund balance accounts:
- 710 Nonspendable Fund Balance
- 720 Restricted Fund Balance
- 730 Committed Fund Balance
- 740 Assigned Fund Balance
- 750 Unassigned Fund Balance
- 760 Capital Assets, Net of Related Debt (used with proprietary funds only)
- 770 Restricted Net Assets (used with proprietary funds only)
- 780 Unrestricted Net Assets (used with proprietary funds only)
## Minimum Chart of Accounts

<table>
<thead>
<tr>
<th>Required Descriptor</th>
<th>Minimum Number of Digits</th>
<th>Page</th>
<th>Type I Accounts Balance Sheet</th>
<th>Type II Accounts Revenue</th>
<th>Type III Accounts Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund</td>
<td>2</td>
<td>11</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>General Ledger Account</td>
<td>3</td>
<td>13-14</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Revenue Classification</td>
<td>4</td>
<td>15-20</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Program</td>
<td>3</td>
<td>23-24</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Function</td>
<td>4</td>
<td>25-28</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Object</td>
<td>3</td>
<td>29-31</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Project/reporting</td>
<td>3</td>
<td>21-22</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>
Supplies/Equipment & Fixed Assets

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Reasons for Distinguishing between Supplies & Equipment

- Assists in deciding how to keep track of items
- Assists with insurance decisions
- Importance in identifying funds to use for purchases
- Can affect calculations of per pupil cost
Distinguishing between Supplies & Equipment

Equipment Items
An equipment item is any instrument, machine, apparatus, or set of articles which meets all of the following criteria:

1) It retains its original shape, appearance, and/or character with use.
2) It does not lose its identity through fabrication or incorporation into a different or more complex unit or substance.
3) It is nonexpendable; that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to repair the item than to replace it with an entirely new unit.
4) Under normal conditions of use, including reasonable care and maintenance, it can be expected to serve its principal purpose for at least one year.
Distinguishing between Supplies & Equipment

Supply Items

An item should be classified as a supply if it does not meet all the equipment criteria above.

If all else fails, apply good judgment!
Fixed Assets

Accounted for in General Fixed Asset Account Group

Record depreciation in GFAAG for governmental funds

Board should determine a capitalization threshold
Financial Reporting

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Instructor
“Nobody wants to read a boring financial statement. Can you add some sex and violence?”
Users of Financial Reports

- Internal
  - School Administrators
  - School Board
  - Other Staff

- External
  - State Legislature
  - Creditors
  - Taxpayers
Balance Sheet

The Financial Position of the Entity

Should also contain:
- The name of the school district
- The name of the fund
- The name of the financial statement (balance sheet)
- The date
- All asset, liability and fund balance accounts that have a non-zero balance
Operating Statement

Shows the result of Operations.

The Statement of Revenues, Expenditures and Fund Balances is the operating statement used by School Districts.
North Dakota School District
Financial Report

Due August 1 to DPI

State Aid withheld if not submitted by November

Instructions for Completing the North Dakota School District Financial Report=
School Board Reports

NDCC requires financial reports to Board at least quarterly

However, NDCC 15.1-07-10 requires monthly activity fund reports to the Board
Audit Reports

Elements

- Fund Financials
- Government Wide Financials
- Notes to the Financial Statements
- MD & A
- Budgetary Comparisons
- Auditor’s Opinions and Findings
Audit Reports

Four Types of Auditor Opinions

1. Unqualified
2. Qualified
3. Adverse
4. Disclaimer
Closing the Books

All accounts in the statement of revenues, expenditures, and changes in fund balance are zeroed out as well as budgetary accounts and any open encumbrances.

This is likely performed in the background by your accounting software.
Thank you!

Resources:

NDSFARM  [www.dpi.state.nd.us/resource/ndsfarm.pdf](http://www.dpi.state.nd.us/resource/ndsfarm.pdf)

*Financial Accounting for School Administrators, Tools for Schools, Third Edition*
Ronald E. Everett, Donald R. Johnson, and Bernard W. Madden

Instructions for Completing the North Dakota School District Financial Report

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