A presentation by

Queen's University Financial Services

Alternative formats for this presentation can be found on the Financial Services website.

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ACCOUNTING 101

Financial Services

Welcome to Accounting 101

This tutorial will introduce you to some of the basic concepts and standards used in the accounting world. It will demonstrate how the day-to-day tasks you perform tie into the more complex Queen's accounting world and accounting cycle.

Welcome to Accounting 101

Since every organization is different; each must establish its own set of procedures for making payments and collections and recording them; for keeping track of customer balances and the amounts due to suppliers; for recording cash balances and so on.

Welcome to Accounting 101

The particular set of procedures that an organization develops to do these things is called the organization's accounting system.

It is important to note that departments at Queen's operate on a **cash basis** rather than an accrual basis of accounting.

Topics

- Types of Accounts
- Debits & Credits
- Journal Entries
- Budget & Transfer Accounts
- Accruals & Deferrals
- Commitments
- Surpluses & Deficits
- Reconciling & Reporting

Part 1

Financial Services

Types of Accounts

Types of Accounts

Account Type	Account ID Range
▪ Asset	100000 – 199999
▪ Liability	200000 – 299999
▪ Equity	300000 – 399999
▪ Revenue	400000 – 499999
▪ Expense	500000 – 699999

Assets: Account IDs 1XXXXX

Assets are economic resources owned by the university which benefit its future operations and are convertible to cash.

Assets: Account IDs 1XXXXX

Examples:

- **Cash:** Includes physical money such as bank notes and coins as well as amounts deposited in the bank for current use.
- **Accounts Receivable:** Includes money owed to the university by external customers and businesses. Accounts receivable arise from sales or services provided on credit.
- **Buildings:** Buildings owned by the university such as Office Buildings, Residences, Parking Garages, etc.

Liabilities: Account IDs 2XXXXX

Liabilities represent debts or obligations of the university that result from past transactions, which will be paid with assets or services.

Liabilities: Account IDs 2XXXXX

Examples:

- **Accounts Payable:** The amount that the university owes to external suppliers (those outside of Queen's) which is unpaid yet.
- **Bank Loans:** Loans received from the bank that the university must pay back at defined intervals.

Equity/Net Assets: Account IDs 3XXXXX

Equity or Net Assets represent cumulative surpluses and deficits over time. It is the residual amounts left in Queen's accounts as a result of reserves and carry-forward amounts.

The Accounting Equation states:

TOTAL ASSETS = TOTAL LIABILITIES + Equity (Net Assets)

Every transaction affects at least two accounts. It is critical to correctly identify the accounts affected and the direction of the affect (increase or decrease). The accounting equation must always remain in balance after each transaction.

Revenue: Account IDs 4XXXXX

Revenues are income generating activities resulting from sales or services to internal or external parties/sources.

The Accounting Rule for Revenue:

Revenues are recorded when they have been **earned** (the revenue principle). Revenues are earned when services have been provided to a customer (the work is completed), or when goods are delivered and the legal title to the goods transfers to the customer (happens at the point of sale when the customer takes physical possession of the goods). It does not matter whether the customer has made payment or not.

Revenue

Examples of Queen's University incurring revenue:

- The Sale of Conference Space to an External Party
- Student Fees/Tuition
- Government Operating Grants
- Income Earned on Investments
- Research Award Funding

Expenses: Account IDs 5XXXXX – 6XXXXX

Expenses are goods and services that are used in the current period. They are recorded in the period in which they are incurred.

Assets are the resources that the university owns and uses to carry out its operations. An asset benefits the university at the present time and will continue to provide benefits in the future. Therefore, when payments are made for things that provide future benefits to the business, the accountant records an increase in **assets**. Payments for things that do not provide future benefits are recorded as **expenses**.

Expenses

Examples of expenses incurred by Queen's University:

- Salaries and Benefits
- Supplies and Services
- Utilities
- Student Assistance
- Renovations and Alterations

Part 2

Financial Services

Introduction to Debits & Credits and Journal Entries

Debits & Credits

Asset and Expense accounts normally have debit balances. To increase an asset or expense account balance, you debit **(DR)** the asset account. To decrease an asset or expense account balance, you credit **(CR)** the account.

Liability and Revenue accounts normally have credit balances. To increase a liability or revenue account balance, you credit **(CR)** the liability or the equity account. To decrease a liability or equity account balance, you debit **(DR)** the account.

When creating a journal entry, always ensure that **DR = CR.**

Journal Entries

Transactions are events that change the balance in your assets, liabilities, revenue, and expense accounts. Since accountants must keep track of assets, liabilities, revenues, and expenses, every transaction must be recorded in some way. At Queen's, these changes are recorded as journal entries.

A journal entry provides a summary of a transaction and its effects on various accounts.

The journal entry will include the date of the transaction, the account titles (debited accounts on top, credited accounts on the bottom) and the amounts (debited amounts on the left and credited amounts on the right).

Journal Entries

Every financial transaction that is posted to the university's General Ledger (GL) involves a journal entry.

The transaction type determines if the entry is **system generated** or one that is entered by an administrator using the **online journal entry system.**

All departmental administrators should use the online journal entry functionality. It's easy to use, allows journals to be entered into the system on a real-time basis, and allows departments to control the journal description entered into the system.

Journal Entries

Examples of system (configured) generated entries:

- Invoice/reimbursement payments by a Cheque Requisition
- Deposits from external sources
- Payroll and/or award payments to individuals

Examples of online entries generated by administrators:

- Allocating costs to accounts
- Correcting coding errors
- Transferring monies from one area to another area
- Year End accruals/deferrals adjustments

Journal Entry Sample of a System Generated Entry

If you purchase toner cartridges at a net cost of $200 from an outside vendor on account, the journal entry (invoice) would be:

March 21, 2014	**DR Expenses (+ E)**	**$200**	
	CR Accounts Payable (+ L)		**$200**

When the vendor is paid via Cheque Requisition, the system generates the following journal entry (netting the AP account to 0).

March 21, 2014	**DR Accounts Payable (-L)**	**$200**	
	CR Cash (- A)		**$200**

Journal Entry Sample of How to Correct an Entry

If the amount of the invoice was posted to the wrong expense account, the required correcting entry would be as follows:

April 15, 2014 DR Correct Expense Account 6XXXXX $200
CR Incorrect Expense Account 6XXXXX $200

The entry is processed by the departmental administrator using the online journal entry system. More information about this system can be found on the Financial Services Training page.

Template List Change Values Inter/IntraUnit

Lines Personalize | Find |

Select	Line	*Unit	*Ledger	Fund	Dept	Account	Program	Class	Project	Fund Affil	Amount	Open Item Key	Journal Line Description
	1	QUNIV	ACTUAL	10000	12345	600001					200.00		Mar ABC Toner 640001
	2	QUNIV	ACTUAL	10000	12345	640001					-200.00		Mar ABC Toner 600001

Part 3

Financial Services

Budget & Transfer Accounts

Budget

The Queen's Budget Model is designed to ensure resources and funding allocations are aligned with academic goals, encourage and provide incentives for planning and innovation, and provide transparency to decision-making. The budget model for Queen's is based on activity-based budgeting.

Budget

Activity-based budgeting (commonly referred to as responsibility-centered budgeting) is a method of budgeting in which the costs of activities in every functional area, or shared service, (e.g., Library, IT Services, Student Affairs, etc.) are attributed to, or charged against, the revenue that results from Faculty and School activity.

Budget

For example, revenue from student enrolment is attributed to the Faculty or School who generated the enrolment (registered and/or teaching Faculty) and the costs associated with supporting student enrolment (e.g., School of Graduate Studies, Student Affairs) is charged out on the basis of enrolment.

Budget

The budget model decentralizes authority and accountability for resource planning in the university environment, empowering and increasing the self-reliance of Faculties and Schools, ensuring a greater link between resource allocation and academic goals.

In its simplest form, all revenue flows directly to Faculties and Schools, and similarly, all expenses/costs are attributed to Faculties and Schools.

The budget model is designed to encourage revenue growth and cost containment, and to enhance financial opportunities within the university.

Transfer Accounts

Revenue transfers are transactions that reallocate funds from one department or unit within Queen’s to another department or unit within Queen’s. Similar to internal revenues or internal cost recoveries, there is no net impact on the cash flows or income of the university.

For example, when a Faculty provides research start-up funds to a department in support of an identified program or project.

Part 4

Financial Services

Accruals & Deferrals

Accruals and Deferrals

- **Accrual:** To report a revenue or expense that has occurred, but has not yet been entered in the accounting records as of the end of the accounting period.
- **Deferral:** Refers to the delay in recognition of an accounting transaction (either a revenue or expense transaction).

Revenues: Accrued and Deferred

Accrued Revenues are revenues that were earned but not recorded because cash was received after the services were performed or goods were delivered. They need to be recorded to reflect the amount earned and its related receivable account.

Revenues: Accrued and Deferred

Deferred Revenues are previously recorded liabilities that were created when cash was received in advance and that must be adjusted to reflect the amount of revenue actually earned during the period.

Just a reminder, Queen's departments operate, for the most part, on a cash basis.

Expenses: Accrued and Deferred

Accrued Expenses are expenses that were incurred but were not recorded because cash was paid after the goods or services were used (i.e. interest payable).

Expenses: Accrued and Deferred

Deferred Expenses are previously recorded assets that were created when cash was paid in advance and that must be adjusted for the amount of the expense actually incurred during the period through use of the asset (i.e. prepaid expenses).

Account ID

The Account ID identifies the nature of a transaction and is used consistently across all departments to record revenues and expenses.

Accounts that begin with 4, 5 & 6 are Income Statement accounts, those reflected on your monthly Statement of Operations Report.

Accounts that begin with 1, 2 & 3 are Balance Sheet accounts.

Account Types	Account ID Range
Income Statement	
Revenue	**400000 - 499999**
Expenses:	
Salary	**500000 - 599999**
Non-Salary	**600000 - 699999**
Balance Sheet	
Assets	**100000 - 199999**
Liabilities	**200000 - 299999**
Net Assets (Equity)	**300000 - 399999**

Part 5

Financial Services

Commitments

Commitments

Commitments represent known future expenses which have not yet been incurred.

At Queen's, commitments posted to the general ledger can be in the form of salaries and benefits, purchase orders for goods and services, and the overhead component of externally funded research contracts.

Commitments

Accounting for commitments involves earmarking or setting aside funds in response to these planned obligations. These funds remain committed (encumbered) until the purchased good or service is paid for after its receipt, thereby converting the encumbrance into an expenditure.

For example, when you order goods/services via the online Purchase Requisition system or you process a salary contract via the online HR Payroll system, a system generated journal entry commits (sets aside) the funds to pay for the expenses that will occur in the future.

Part 6

Financial Services

Surpluses & Deficits

Surpluses & Deficits

A Surplus exists when revenues exceed expenses.

A Deficit exists when expenses exceed revenue.

At year end, the revenue and expense accounts are closed out. The cumulative surpluses/deficits are closed to net assets and this surplus or deficit then represents the opening carry-forward into the next fiscal year.

Statement of Operations

Sample Closing Balance on April 30th

Acct	Description	Apr-2012 Actuals	YTD Actuals	Commitments	YTD Total Activity	Annual Adjusted Budget	YTD Variance	Variance % Fav/Unfav
640000	BUD-Travel	0.00	0.00	0.00	0.00	5,000.00	5,000.00	
640001	Travel	0.00	2,434.43	0.00	2,434.43	0.00	-2,434.43	
640005	Rental Cars - Travel	0.00	0.00	0.00	0.00	0.00	0.00	
640015	Parking	21.00	21.00	0.00	21.00	0.00	-21.00	
640017	Rental Bus & Vans - Travel	0.00	723.87	0.00	723.87	0.00	-723.87	
640018	Fuel - Travel	0.00	0.00	0.00	0.00	0.00	0.00	
	Subtotal	**21.00**	**3,179.30**	**0.00**	**3,179.30**	**5,000.00**	**1,820.70**	**36.4% F**
Video Supplies								
601001	Audio Video	0.00	67.56	0.00	67.56	0.00	-67.56	
601002	Batteries	0.00	141.46	0.00	141.46	0.00	-141.46	
	Subtotal	**0.00**	**209.02**	**0.00**	**209.02**	**0.00**	**-209.02**	**0% U**
	Total Non-Salary Expenses	**10,012.58**	**144,545.19**	**0.00**	**144,545.19**	**247,860.00**	**103,314.81**	**41.7% F**
	Total All Expenses	**459,287.30**	**5,382,555.11**	**0.00**	**5,382,555.11**	**5,574,839.00**	**192,283.89**	**3.4% F**
	Total Year To Date	**-498,196.61**	**185,462.58**	**0.00**	**185,462.58**	**-76,396.00**	**261,858.58**	**342.8% F**
	Closing Balance Excluding & Including Commitments		**450,031.78**		**450,031.78**			

Sample Opening Surplus on May 1st

Acct	Description	May-2012 Actuals	YTD Actuals	Commitments	YTD Total Activity	Annual Adjusted Budget	YTD Variance	Variance % Fav/Unfav
	Opening Surplus/(Deficit) + Adjustments		**450,031.78**		**450,031.78**			

Part 7

Financial Services

Reconciling & Reporting

Reconciling & Reporting

To ensure all financial activity is accounted for, it is important that departmental administrators reconcile revenues and expenses (transactional data) against the Statement of Operations (surplus/deficit).

To learn more about reconciling, visit the

Financial Services Training page

Reconciling & Reporting

Information about assets, liabilities, revenues and expenses is summarized at the end of the accounting period and then reported to the users of the information in standardized financial statements.

At Queen's University, the fiscal year runs from May 1 to April 30. The university's financial reports are released after the end of the fiscal year (after April 30).

To view examples of Queen's annual reports, visit the

Financial Services Publications page

How may we help you today?

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