

TABLE OF CONTENTS
POLICIES MANUAL LEDGERS AND JOURNALS POLICY

	<u>Page</u>
SYNOPSIS.....	1
REPORTING OBJECTIVES.....	3
DOUBLE ENTRY ACCOUNTING.....	4
THE ACCOUNTING RECORDS.....	4
SOURCE DOCUMENTS	5
BOOKS OF ORIGINAL ENTRY	6
BOOKS OF FINAL ENTRY.....	7
DATA PROCESSING CONSIDERATIONS.....	8
APPENDIX A	
SAMPLE JOURNAL VOUCHER	9

Synopsis

1. The accounting system records and processes, in an organized manner, data derived from financial transactions.
2. The accounting system should be designed to achieve certain financial reporting objectives. According to GASB Concepts Statement No. 1, financial reporting has the following objectives:
 - a. It should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.
 - b. It should assist users in evaluating the operating results of the governmental entity for the year.
 - c. It should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.
3. The double entry method of accounting provides the basic framework for the accounting system.
4. All transactions affecting a unit's financial resources should be recorded in the accounting records and substantiated with evidence.
5. The accounting records consist of source documents, the books of original entry, and the books of final entry.
6. Source documents contain all the supporting details of a transaction and may be generated internally or externally. After a transaction is recorded, the source documents should be filed and used to verify or substantiate the other accounting records.
7. The books of original entry consist of special journals, which record accounting transactions with similar characteristics, and the general journal.
8. The general journal usually includes revenue and expenditure accruals that are not recorded in the special journals.
9. If a local unit uses journal vouchers, the general journal would consist of the collection of journal vouchers.

DEPARTMENT OF STATE TREASURER POLICIES MANUAL
LEDGERS AND JOURNALS POLICY
SECTION 60 PAGE - 2

10. Periodically, the finance officer and/or the manager/administrator should review the books of original entry for accuracy and completeness.
11. Once a month, the accounting information from the books of original entry should be posted to the book of final entry, which is the general ledger.
12. The control accounts in the general ledger should be supported by subsidiary ledgers.
13. Daily, any applicable accounting information should be posted to the appropriate subsidiary ledger(s).
14. Monthly, the finance officer should reconcile the totals of the subsidiary ledgers to the general ledger control accounts, and the cash account balances to the bank statements. In addition, each month the finance officer and/or the manager/administrator should perform an analytical review of the general ledger and should investigate any unreasonable account balances. The governing board may perform some or all of these tasks in units with a small number of accounting staff members.
15. For many local units, computers offer the most productive and least costly method of operating an accounting system.
16. If a local unit operates a manual accounting system, it should consider converting to a microcomputer system after analyzing both the costs and the benefits of each system.

Reporting Objectives

The accounting system records and processes, in an organized manner, the data derived from financial transactions. It is used to provide management and external users with relevant information about the governmental unit. The accounting system should be designed to meet certain financial reporting objectives. According to GASB Concepts Statement No. 1, local unit financial reporting has the following objectives.

1. Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.
 - a. It should provide information to determine whether current-year revenues were sufficient to pay for current-year services.
 - b. It should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it also should demonstrate compliance with other finance-related legal or contractual requirements.
 - c. It should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.
2. Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.
 - a. It should provide information about sources and uses of financial resources.
 - b. It should provide information about how the governmental entity financed its activities and met its cash requirements.
 - c. It should provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.
3. Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.
 - a. It should provide information about the financial position and condition of a governmental entity.

- b. It should provide information about a governmental entity's physical and other nonfinancial resources having useful lives that can be used to assess the service potential of those resources.
- c. It should disclose legal or contractual restrictions on resources and risks of potential loss of resources.

Also, according to North Carolina law, the financial reporting objectives are defined in G.S. 159-26(a), as follows:

Each local government or public authority shall establish and maintain an accounting system designed to show in detail its assets, liabilities, equities, revenues and expenditures. The system shall also be designed to show appropriations and estimated revenues as established in the budget ordinance and each project ordinance as originally adopted and subsequently amended.

Double Entry Accounting

The double entry method of recording transactions provides the basic framework for the accounting system. It can be summarized by the following accounting equations:

Total Debits = Total Credits

Assets = Liabilities + Fund Equity

Fund Equity (Proprietary Funds) = Contributed Capital + Retained Earnings

Retained Earnings (Proprietary Funds) = Beginning Retained Earnings + Amortization of Contributed Capital + (-) Residual Equity Transfers + Net Income

The accounting equations must be in balance at all times because each side represents a different picture of the same information. The left side summarizes the financial resources while the right side summarizes the sources of and claims to the financial resources. These equations provide an automatic check on the completeness of data in an accounting transaction and reduce the likelihood of an error.

The Accounting Records

All transactions affecting a unit's financial resources should be recorded in the accounting records and

substantiated with evidence. The accounting records, which comprise the accounting system, generally consist of the following:

1. **Source documents** - evidences of the original transactions that are used in the accounting system as the initial data in the recording process.
2. **Books of original entry** - registers or journals in which the input information is initially recorded and isolated from the other details of the transaction.
3. **Books of final entry** - primarily the general ledger which is used to prepare the financial statements (supported by subsidiary ledgers as needed.)

In the accounting system, the recording of transactions involves the following procedures:

- a. identifying the financial transactions.
- b. gathering the source documents related to these transactions.
- c. analyzing the documents to determine what information needs to be recorded.
- d. recording the transactions (first, into the books of original entry).
- e. storing the information for future retrieval and use.

Source Documents

The source documents contain the details supporting the accounting transactions and may be generated internally or externally. For example, the purchase of supplies inventory may create the following source documents:

Internal

Purchase requisition
Purchase order
Receiving report
Check/warrant

External

Vendor packing slips
Shipping documents
Vendor invoices

Source documents provide all the details of the transaction. Generally, they include information about the dollar amount to be recorded, the parties involved, the terms of the transaction, and other relevant information. Other examples of source documents include the following:

cash receipt	tax bills
deposit slips	utility bills
broker confirmations	

After a transaction is recorded, the source documents should be filed and used to verify or substantiate the other accounting records.

Books of Original Entry

The relevant accounting information is extracted from the source documents and recorded in the books of original entry. These books consist of special journals, which record accounting transactions with similar characteristics, and the general journal. The major books of original entry and their uses are as follows:

Daily Collection Report - used to record all cash receipts on a given day by the governmental unit.

Cash Receipts Journal - used to summarize information from the Daily Collection Reports.

Cash Disbursements Journal - used to record all cash payments by the governmental unit, except for payroll.

Payroll Journal - used to record all cash payments for payroll by the governmental unit.

Utility Journal - used to record all sales of utilities on account (e.g., water/sewer, electric, gas, etc.).

Purchases Journal - used to record all purchases of supplies or inventory on account. It also includes information about the corresponding purchase orders.

General Journal - used to record all journal entries authorized by management. If a local unit uses pre-numbered journal vouchers, the general journal would consist of the collection of journal vouchers, maintained in numerical sequence.

Throughout the year, certain transactions occur that would not be recorded in the special journals. These transactions, which typically include revenue and expenditure accruals, should be recorded in the general journal. The general journal can either be a separate ledger book or a collection of journal vouchers. If a local unit uses journal vouchers, they should be

1. pre-numbered (for control purposes), and
2. approved by an authorized official other than the preparer, and
3. supported by adequate documentation.

The journal vouchers can either reference the supporting documentation (e.g., monthly posting from cash receipts journal) or can include attached copies of the supporting documentation. In addition, many journal vouchers are for transactions that are repeated each month. For these recurring transactions, the finance officer should prepare standard journal vouchers.

At the end of each month, the finance officer should total and balance the special journals. During the same period, the finance officer should post the summary totals of the special journals and the journal entries of the general journal to the general ledger, which is the book of final entry. Finally, the finance officer and/or the manager/ administrator should review periodically the books of original entry for accuracy and completeness.

Books of Final Entry

Once a month, the accounting information from the books of original entry are posted to the general ledger, the books of final entry. In addition, at the beginning of the fiscal year, information from the approved budget document should be incorporated into the general ledger. After the general ledger has been posted and balanced, it is used to prepare the monthly financial statements.

Many of the general ledger accounts are referred to as control accounts because they consist of summary postings. The supporting details for the control accounts are maintained in subsidiary ledgers. The finance officer should post to the subsidiary ledgers daily. By posting daily, the unit will have more up-to-date information, which is very important with regards to customer balances and vendor payables. Examples of subsidiary ledgers include the following:

Property Taxes Receivable - Current Year

Property Taxes Receivable - Prior Years

Water and Sewer Receivables

Miscellaneous Receivables

General Fixed Assets

Enterprise Fixed Assets

General Long-Term Debt

Accounts Payable

Customer Deposits

For example, an accounts payable subsidiary ledger would list the individual vendors of a government and the balances owed. The total of this subsidiary ledger should agree with the credit total of the accounts payable control account in the general ledger. Monthly, the finance officer should reconcile the totals of the subsidiary ledgers to the general ledger control accounts. In addition, the finance officer should reconcile the general ledger cash account balances to the bank statements. Finally, each month the finance officer and/or the manager/administrator should perform an analytical review of the general ledger, and should investigate any unreasonable account balances. The governing board in units with a small number of accounting staff members may perform some or all of these tasks.

Data Processing Considerations

For many local units, computers offer the most productive and least costly method of operating an accounting system. Local units can purchase microcomputer hardware and the related application software at a relatively low cost. In addition, most of the accounting application software for microcomputers is easy to learn, has excellent documentation and technical support, and is widely available. Complete application software packages are available with modules for tax billing and collection, utility accounting, accounts payable, payroll, inventory, fixed assets, general ledger, and other applications. In most systems, the modules are fully-integrated (e.g., additions recorded in the fixed assets module are immediately updated in the general ledger module).

A local unit should periodically review its accounting system with its independent auditor. If a local unit operates a manual system, it should consider converting to a microcomputer system. The conversion decision should be made only after analyzing both the costs and the benefits of each system.

Appendix A

Sample Journal Voucher

Journal Voucher

J.V. No. XXXXX

DEBITS			CREDITS		
A/C #	A/C NAME	AMOUNT	A/C #	A/C NAME	AMOUNT
TOTAL DEBITS			TOTAL CREDITS		

EXPLANATION

PREPARED BY _____ DATE _____ APPROVED BY _____ DATE _____

POSTED TO GENERAL LEDGER _____ INITIALS _____ DATE _____