

Slide 1 - Title



Cornell University

Cornell University *Cornell Accounting 101: Day One* Tutorial



Version Updated: 4/9/13

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Cornell Accounting 101: Day One
Tutorial

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Slide 2 - Change Screen Resolution

This tutorial is best viewed by setting your screen resolution to 1280 by 1024 (anything larger will work; however, depending on your monitor size, you may need to scroll to view items on the screen). If you want to continue as is, click the **I'm Ready, Let's Go!** button (*below*).

If you would like to change your screen resolution:

- 1) Press the play/pause button at the bottom of the screen;
- 2) Go to the desktop and change your setting to **1280 by 1024** or smaller;
- 3) Return here and click "I'm Ready" button to continue.

I'm Ready, Let's Go!



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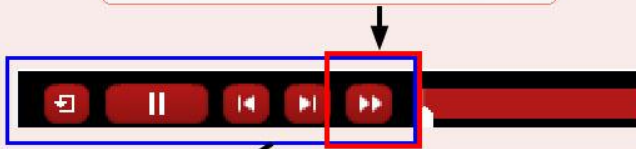
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Slide 3

During this tutorial, use the buttons at the bottom of the screen to pause, advance, go back, or adjust the timing.

This button will make the tutorial play faster:
one click for twice as fast;
two clicks for four times as fast;
and three clicks to return to the original timing.

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Agenda: Day 1 (Tutorial)

- What is Accounting?
- Uses of Accounting
- Ethics
- Compliance and Methods
- The Accounting Equation
- Basic Accounting Terms
- Types of Adjusting Entries
- What's in the General Ledger

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Slide 5 - What is Accounting?

What is Accounting?

- Accounting is the bookkeeping methodology involved in creating a financial record of business transactions and in preparing statements concerning the assets, liabilities and operating results of a business.
- Accounting requires the recording and summarizing of business and financial transactions. The information then needs to be analyzed and verified and the results reported through financial statements.

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- In general; Accounting is the process of recording, summarizing, reporting, and analyzing financial transactions to permit informed judgments and decisions by the user of the information.

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Uses of Accounting



To manage resources & operations of the University.

- To report and meet sponsor requirements.
- Decision Making:
 - Analysis of business trends
 - Guide future planning such as capital projects, investment strategy and budgets (including pay raises).
- Comply with governing standards.






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Understanding Compliance & Ethics

- Compliance means to perform in accordance with the requirements of applicable regulations, laws or contract provisions. 
- Accurate and complete accounting records are essential for regulatory compliance. 
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- Compliance is determined by a review of the organization's activities related to a specific contract, program or period of time. 

(NOTE: FIN 104: Financial Stewardship will go into greater detail in these areas)

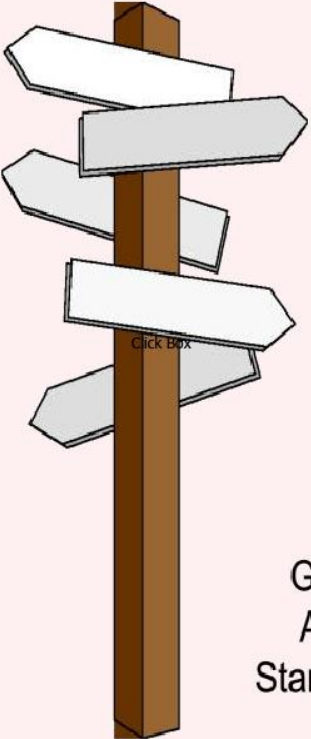
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Primary Compliance Standards & Accounting Principles

GAAP- Generally Accepted Accounting Principles

FASB - Financial Accounting Standards Board (Primary Standard Setting)



AICPA Audit Guide

OMB A-21 & A-110 Federal Office of Management and Budget

FAR - Federal Acquisition Regulations

GASB - Government Accounting Standards Board

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Ethics

“People won’t gamble in a Casino if it’s rigged and they won’t buy stock if they think the prices are rigged.” Since we don’t sell stock at Cornell (because we are non-profit), we don’t have to explain our books...or do we?

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Standards of Ethical Conduct are defined by one’s actions as being right or wrong, honest or dishonest, fair or unfair.



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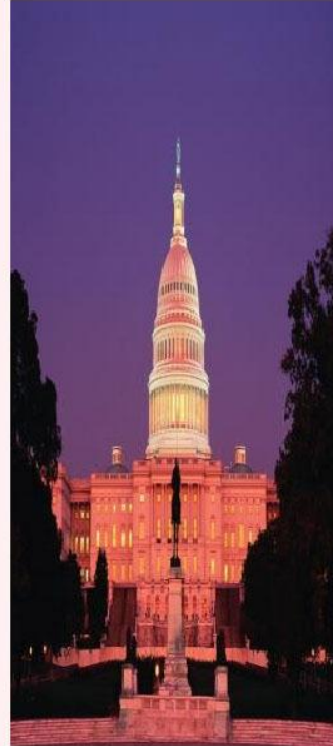
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Ethics (cont.)

The Sarbanes-Oxley Act (SOX)

In 2002 (after the financial collapse of Enron, WorldCom, AIG and others), Congress passed the SOX act with the intent to reduce unethical corporate behavior and future corporate scandals.

- Now, top management **MUST** certify the accuracy of the corporate or institutions books.
Click Box
- Penalties for fraudulent activities are much more severe than in the past.
- Here at Cornell; we are not bound by SOX, however, we do it because it's common practice and is required by our Board of Trustees.
 - Deans and VP's sign off annually stating that accounts have been reconciled and there is no known fraud.



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The Fundamental Accounting Equation

The balance can be expressed in an equation:

$$\underline{\text{ASSETS} = \text{LIABILITIES} + \text{FUND BALANCE (Net Assets)*}}$$



Any change to one side of this equation has an equal change on the other side. It is always in balance.

Click Box

For Cornell....



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Accounting Terms

“Accounting is like Karate, you must always have balance!”

- Mr. Miyagi (The Karate Kid)



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Identifying Accounting Information



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Accounting Terms

Assets:

Economic resources, anything of value that can be converted into cash. Assets can be owned by a business or individual. "What the business owns"

Cornell:

Cash & Investments

Accounts Receivables
(travel advance)

Inventory

Prepaid/Deferred Charges

Capitalized Assets

Personal:

Cash

Car

Home

Retirement Funds

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Accounting Terms (cont.)

Liabilities:

Debts or obligations, arising from past transactions. "What the business owes"

Cornell:

Accounts Payable

Deposits (refundable)

Deferred Revenue

(\$ that has come in but we have not performed our service yet to earn it)

Loans/Bonds Payable

Personal:

Car Loan

Mortgage

Credit Cards

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Accounting Terms (cont.)

Net Assets (for Cornell it is **Fund Balance (FB)**)

The capital or net worth of a business after liabilities are deducted from the assets or the residual interest of the owners or shareholders in the business. **“What’s left over”**

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Fund Balance = Beginning Fund Balance (accumulation of prior year surplus or deficits) plus current year revenue less current year expenses.

Cornell Terminology: FB is also called Operating Balance



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Accounting Terms (cont.)

Revenues: Gross inflows to the business as a result of delivering or producing goods or rendering services to customers. Revenue increases the Fund Balance.

Cornell:

Tuition

Room & Board

Campus Store Sales

Income from Endowments

Gifts

Personal:

Salary

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Investment Income

Gifts

Garage Sale

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Accounting Terms (cont.)

Expenses: Outlays during a period that support the company's business operations. The costs that relate to the earning of revenue. Expenses decrease the Fund Balance.

Cornell:

Salaries & Wages

Communications

Travel

Fees, Insurance, Licenses &

Taxes

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Repairs & Maintenance

Supplies & Materials

Personal:

Utilities

Click Box Insurance

Rent

Repairs & Maintenance

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Accounting Terms (cont.)

DEBITS (Left Side)

Debit entries result in either an increase in assets or a decrease in liabilities on a company's balance sheet.

A debit on an accounting entry will have opposite effects on the balance depending on whether it is done to assets or liabilities, with a debit to assets indicating an increase and vice versa for liabilities.

CREDITS (Right Side)

Credit entries will increase the credit balances that are typical for liability and revenue accounts.

Credit entries will also decrease the debit balances usually found in asset and expense accounts.

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The Natural Balance of Debits and Credits

Assets		Liabilities	
Debits	Credits	Debits	Credits
Increase	Decrease	Decrease	Increase
Natural Balance			Natural Balance

Click Box

Expenses		Revenue/Income	
Debits	Credits	Debits	Credits
Increase	Decrease	Decrease	Increase
Natural Balance			Natural Balance

•For DI e-doc:

- The “TO’s” **INCREASE** the Natural Balance.
- The “FROM’s” **DECREASE** the Natural Balance.
- This is based on the **object code** used **NOT** the account.

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Slide 21 - The Double Entry System...

The Double Entry System...

- Is based on the principles of duality, which means that all events of economic importance have two aspects that offset each other:

The full value of each transaction is recorded on the debit side of one or more accounts and also on the credit side of one or more accounts. Therefore, the combined debit balance of all accounts always equals the combined credit balance of all accounts.

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Thus, the Debits (DR) and Credits (CR) are always in...



We can reason that any transaction affecting only assets and/or liabilities will not affect the Fund Balance.

- Revenues **Increase** the Fund Balance
- Expenses **Decrease** the Fund Balance

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Slide 22 - How Accounting Information Is Put Together...

How Accounting Information Is Put Together...

- Chart of Accounts: A listing of the accounts and account attributes which include: Sub Fund, Higher Ed Function Code, Restriction Classification and Account Roles.
- Financial Transactions: An entry recorded in the General Ledger (GL) that identifies a financial transaction where debits and credits are in balance. In KFS this is accomplished using various financial processing e-docs.
- General Ledger (GL): Is a repository of financial transactions arranged by Chart, Account, Object Code and Amount. This information is used to produce Department, College and University Financial Reports.

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Slide 23 - How Accounting Information Is Put Together... (cont.)

How Accounting Information Is Put Together... (cont.)

- **Subsidiary Ledger:** A ledger containing more back-up or more details than the general ledger which houses all of the detail for each transaction.
(Payroll: has all the personal information: taxes, garnishments, benefit rates but only transfers to Accounting the “bulk” amount charged.)
- **Adjusting Entries:** Entries made in the unit during the accounting period that record adjustments or corrections to accounts and/or object codes. These entries are typically made to properly record the value of items such as supplies, prepaid expenses , deferred revenue and salary/wage expenses after reconciling the object code of an account. These transactions are internal only. (We will look at these in greater detail on the next few slides.)
- **Closing Entries:** System generated entries made at the end of the year. These entries update the fund balance to reflect the results of the prior years operations (Prior Year Fund Balance + Revenue – Expenses=Next Years Beginning Year Fund Balance). This occurs in mid July during the Year End process (closes to June 30th).
- **Year-End Financial Statement Entries:** These are entries made by DFA to be in compliance for year end audit requirements.

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Types of Adjusting Entries

Adjusting entries allow us to record revenue in the period in which it was earned and expenses in the period in which they were incurred. This helps to keep the accounting information “up to date” and match revenue and related expenses in the same period.

Adjusting entries can be classified as either deferrals or accruals.

Deferrals: Adjusting entries for either prepaid expenses or unearned revenues.

Accruals: Adjusting entries for either accrued revenues or accrued expenses.



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Types of Adjusting Entries (cont.)

Adjusting entries allow us to record revenue in the period in which it was earned and expenses in the period in which they were incurred. This helps to keep the accounting information “up to date”.

There are four types of adjusting entries; **Accrued Revenues**, **Accrued Expenses**, **Deferred Revenues**, and **Prepaid Expenses**.

Accrued Revenues: (not common at Cornell) are revenues that have been earned but not yet recorded. Examples of unrecorded revenues may involve interest revenue and completed services or delivered goods that, for any number of reasons, have not been billed to customers.

Accrued Expenses: are unrecorded expenses that apply to a given accounting period. These expenses may include wages for work performed in the current accounting period but not paid until the following accounting period and also the accumulation of interest on notes payable and other debts.

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Types of Adjusting Entries (cont.)

Four types of adjusting entries; Accrued Revenues, Accrued Expenses, Deferred Revenues and Prepaid Expenses (cont.)

Deferred Revenues: Payments for future services to be performed or goods to be delivered. (Ex: summer classes paid for prior to 6/30 but don't occur until July).

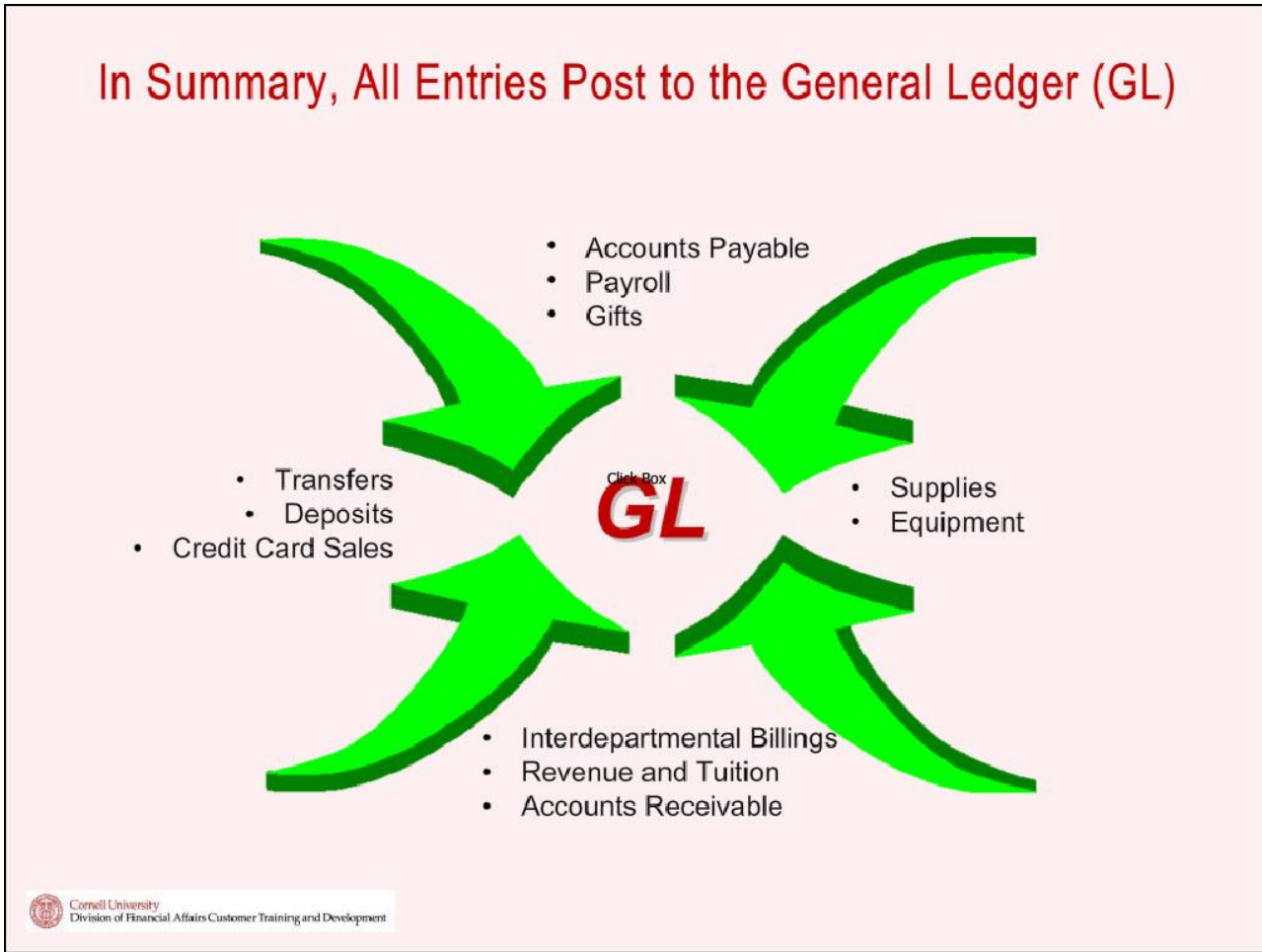
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Prepaid Expenses: An expense paid today that is not received until a future date. For example, a warranty expense for a computer that runs from 12/31 through 12/31. Since this crosses fiscal years, you would debit 6 months of expenses and 6 months as a prepaid expense. In July of the following fiscal year, you would credit the prepaid expense and debit expenses.

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Slide 27 - In Summary, All Entries Post to the General Ledger (GL)



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