

# FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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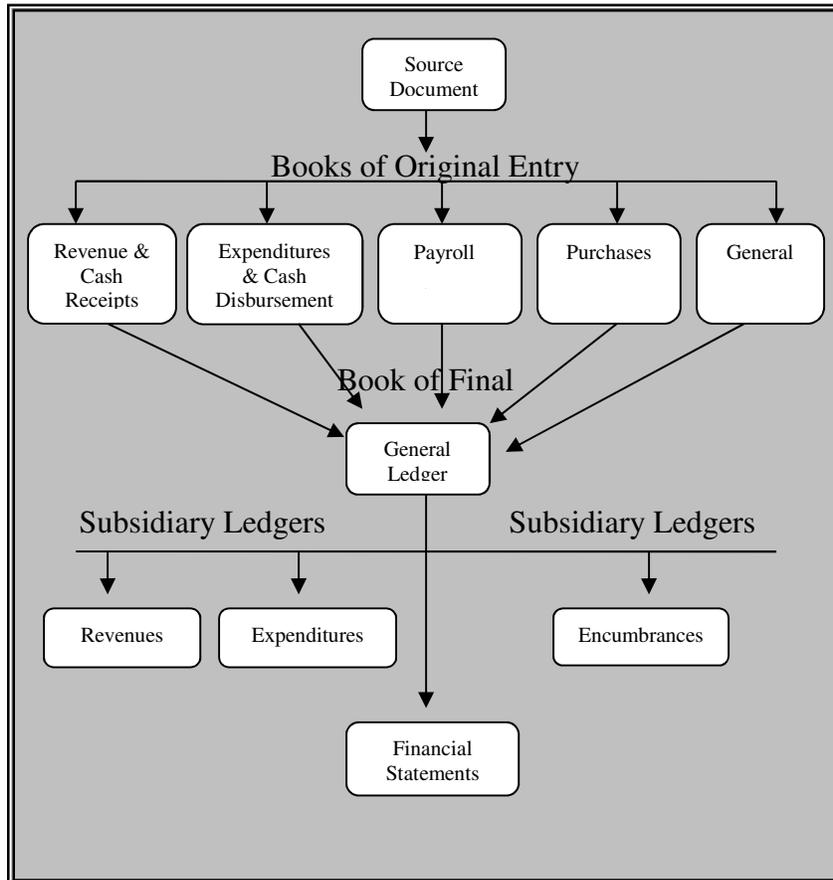
## INTRODUCTION

Organized methods are necessary for a local unit of administration (LUA) to utilize the accounting process properly. These methods depend on the type of accounting records a LUA uses. Journals and ledgers are the two primary classifications of accounting records. With the sophistication of computer-based accounting systems, often specific journals and ledgers aren't visible in the same way they are in a manual accounting system. In order to gain a thorough understanding of accounting records, this chapter illustrates sample journals and ledgers which may be used in a manual accounting system. However, a discussion on how computers use similar accounting records is also included.

## ACCOUNTING SYSTEMS

Every financial transaction is recorded in some form in the accounting records in order to maintain management control and provide the basis for financial reporting. The flow of data through an accounting system is illustrated in Exhibit I-4-1.

**EXHIBIT I-4-1  
ACCOUNTING SYSTEMS**



Source documents provide evidence of original transactions. Either internally or externally generated documents should include sufficient details of the financial transaction to facilitate recording the transaction in the books of original entry (i.e., journals). Internally generated documents might include a purchase order, a cash receipt, or a check. Third parties prepare external documents as evidence of goods provided, services rendered, or fees paid. These documents might include shipping slips, vendor invoices, and state and federal checks.

In an accounting system, generally there are two types of financial records, journals and ledgers, which are discussed below.

## **JOURNALS**

A journal is an accounting record commonly referred to as "a book of original entry." It is like a log book or a diary, and transactions are entered in the sequence in which they occur (i.e., chronological order). As transactions occur, they are recorded first in a journal. This recording is classified as a journal entry and contains a summary of the transaction as follows:

- the date on which the transaction occurred
- the accounts affected (i.e., balance sheet, revenue or expenditures)
- how they are affected (i.e., whether debited or credited)
- the amount of the transaction
- a brief description of the nature of the transaction

A journal is classified either as a general journal or a special journal.

### **General Journal**

All financial transactions may be recorded in a general journal. However in practice, most LUAs utilize special journals (see discussion presented later in this chapter). Exhibit I-4-2 illustrates a general journal that includes columns for:

- the transaction date
- the account titles affected and an explanation of the transaction
- the account numbers affected
- a posting reference (i.e., to indicate that the transaction has been posted)
- the debit and credit amounts

**EXHIBIT I-4-2  
SAMPLE MANUAL GENERAL JOURNAL**

GENERAL JOURNAL					Page No. _____
<b>DATE</b>	<b>ACCOUNT TITLE AND EXPLANATION</b>	<b>ACCT. NO.</b>	<b>✓</b>	<b>DEBITS</b>	<b>CREDITS</b>

As an example of a general journal entry, assume that on July 28 an LUA purchases U.S. Treasury bills with a face value of \$10,000 as an investment for cash at a cost of \$9,542.

**EXHIBIT I-4-3  
SAMPLE COMPLETED MANUAL GENERAL JOURNAL**

GENERAL JOURNAL					Page No. 1
<b>DATE</b>	<b>ACCOUNT TITLE AND EXPLANATION</b>	<b>ACCT. NO.</b>	<b>✓</b>	<b>DEBITS</b>	<b>CREDITS</b>
July 28	Investments	102			
	Cash in Bank	101		9	5
	(To record the purchase of U.S. Treasury bills)			4	2

Note that the account debited is listed first and the account credited is listed second and indented—this is the accepted format in a manual accounting system. A brief explanation of the transaction follows the recording of the account titles.

With most computer-based accounting systems, the general journal is used primarily to make corrections to previous entries or to adjust accruals at year-end. A specific form will be displayed on the screen and the applicable transactions will be entered. Typically a transaction report can be printed as documentation of the entry.

The general journal format is used in Excel when preparing the general ledger for financial statement presentation, as discussed in Chapter II - 3.

### **Special Journals**

Special journals are used to record transactions of a like nature. Special journals include:

- A cash receipts or cash disbursements journal
- A revenue and cash receipts journal
- An expenditure and cash disbursements journal
- A payroll journal
- A purchases journal

Specific special journals are illustrated in subsequent chapters.

With computer-based accounting systems, there really are no specific journals. Rather, when a transaction is to be entered into the accounting system, a specific program will be accessed on the computer screen to enter this transaction. For example, when the payroll is to be generated, the payroll program will be opened and payroll information will be entered into the system. Upon completion of the payroll, a computer printout will be produced which is the equivalent of a special journal (i.e., a payroll journal).

### **LEDGERS**

A ledger is an accounting record that may be used to summarize the financial activity in each account (e.g., accounts payable) of an LUA. Ledgers sometimes are called books of final entry. Ledgers are used as the primary source for the preparation of financial statements. In a manual accounting system a separate page usually is maintained for each ledger account. Ledgers are classified as either general or subsidiary.

#### **General Ledgers**

The general ledger contains the basic accounts of an LUA and serves as the source of data for preparing financial statements (e.g., the balance sheet). A general ledger might include the traditional "T" account (as illustrated in Chapter I - 3) but usually is modified to include columns to maintain a running balance (i.e., the current debit or credit balance) for each account. The balance in the account will be a debit or credit amount depending upon the totals of the entries in the debit and credit columns. The format of a general ledger is illustrated below:

**EXHIBIT I-4-4  
SAMPLE GENERAL LEDGER FORMAT**

<b><u>GENERAL LEDGER</u></b>						
Account Description: CASH Account Number: 100/ 0101						Page No.
Date	Transaction	PR	Debit	Credit	Dr Balance	Cr Balance

In a computer-based accounting system, the general ledger for each account might include a beginning balance, month-to-date totals for all transactions (or a presentation of all individual transactions for the fiscal period reported) which have occurred during the fiscal period reported (e.g., a month) and an ending balance at the end of the fiscal period. Computer systems that allow direct access to review any account balance through the use of monitors usually can provide the current month's data as well as year-to-date data. Reviewing accounts electronically is just like opening a manual general ledger and looking at the details of a specific account.

Accounts normally included in the general ledger are:

- Individual asset accounts (e.g., cash in bank)
- Individual deferred outflow of resources accounts (e.g. pension contributions)
- Individual liability accounts (e.g., accounts payable)
- Individual deferred inflow of resources accounts (e.g. property tax revenue earned but not received within measurement period)
- Individual equity accounts (e.g., fund balance)
- Budgetary control accounts (e.g., appropriations)
- Revenue control account (e.g., revenues)
- Expenditure control account (e.g., expenditures)

**Subsidiary Ledgers**

Subsidiary ledgers provide detailed subdivisions of selected general ledger accounts. The most common subsidiary ledgers are for the budgetary, the revenue and the expenditure control accounts. For example, the general ledger might utilize a single account (e.g., the expenditure control account) to record the total year-to-date expenditures for a specific fund. Then the subsidiary ledger supporting the expenditure control account would include separate accounts for each individual expenditure account (e.g., grades 1-3 teacher's

salaries). The total of the expenditure subsidiary ledgers equals the control account in the general ledger. Therefore the use of control and subsidiary accounts provides a system of "checks and balances."

**RELATIONSHIP OF THE GENERAL LEDGER AND SUBSIDIARY LEDGERS**

Exhibits I-4-5 and I-4-6 illustrate the relationship of the general ledger and subsidiary ledgers.

**EXHIBIT I-4-5  
RELATIONSHIP OF GENERAL LEDGER AND  
REVENUE SUBSIDIARY LEDGER  
GENERAL LEDGER**

<u>ACCOUNT TITLE</u>	<u>DR</u>	<u>CR</u>
Asset Accounts	\$ XXXX	
Deferred Outflow of Resources Accounts	XXXX	
Liability Accounts		\$ XXXX
Deferred Inflow of Resources Accounts		XXXX
Equity Accounts		XXXX
Estimated Revenue Control (301)	XXXX	
Revenue Control (302)		XXXX
Appropriation Control (601)		XXXX
Expenditure Control (602)	XXXX	
Encumbrance Control (603)	<u>XXXX</u>	
Total	<u>\$XXXX</u>	<u>\$XXXX</u>

**REVENUE SUBSIDIARY LEDGER**

<u>ESTIMATED SOURCE</u>	<u>ACTUAL REVENUE</u>	<u>REVENUE</u>
Property taxes	\$ XXXX	\$ XXXX
Tuition	XXXX	XXXX
QBE	<u>XXXX</u>	<u>XXXX</u>
Total	<u>\$ XXXX</u>	<u>\$ XXXX</u>

**EXHIBIT I-4-6  
RELATIONSHIP OF GENERAL LEDGER AND  
EXPENDITURE AND ENCUMBRANCE SUBSIDIARY LEDGERS  
GENERAL LEDGER**

<u>ACCOUNT TITLE</u>	<u>DR</u>	<u>CR</u>
Asset Accounts	\$ XXXX	
Deferred Outflow of Resources Accounts	XXXX	
Liability Accounts		\$ XXXX
Deferred Inflow of Resources Accounts		XXXX
Equity Accounts		XXXX
Estimated Revenue Control (301)	XXXX	
Revenue Control (302)		XXXX
Appropriation Control (601)		XXXX
Expenditure Control (602)	XXXX	
Encumbrance Control (603)	<u>XXXX</u>	
Total	<u>\$ XXXX</u>	<u>\$ XXXX</u>

**EXPENDITURE AND ENCUMBRANCE SUBSIDIARY LEDGER**

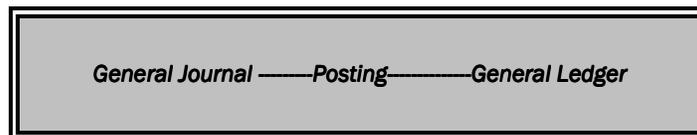
<u>SAMPLE PROGRAM</u>	<u>APPROPRIATION</u>	<u>ENCUMBRANCES</u>	<u>EXPENDITURES</u>
Grades 1 - 3	\$ XXXX	\$ XXXX	\$ XXXX
Grades 6 - 8	XXXX	XXXX	XXXX
Grades 9 - 12	XXXX	XXXX	XXXX
Undistributed	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>
Total	<u>\$ XXXX</u>	<u>\$ XXXX</u>	<u>\$ XXXX</u>

**POSTING TRANSACTIONS**

Posting is the process of taking information from journals and recording this data in the various ledgers as follows:

**EXHIBIT I-4-7  
ILLUSTRATION OF POSTING LEDGERS**

In other words, transactions are recorded originally in a journal and then recorded in a summarized form in ledgers. This process is classified as posting.



In a computerized accounting system, the process of journalizing and posting may occur simultaneously. Since a single transaction is recorded in both the journal and ledger with a single entry into the computer, the chance that the amount being posted (i.e., recorded) in error is reduced or eliminated.

As an example, the previous entry recorded in the general journal was to debit "Investments" and to credit "Cash in bank." The general ledger accounts now are posted from this journal entry in a manual system as follows:

**EXHIBIT I-4-8  
SAMPLE POSTED GENERAL LEDGER ACCOUNTS**

<u>GENERAL LEDGER</u>						Page No.
Account Description: CASH						
Account Number: 100/ 0101						
Date	Transaction	PR	Debit	Credit	Dr Balance	Cr Balance
1-Jul	N/A	✓			323,500	
5 Jul	N/A	CR4	10,000		333,500	
10-Jul	N/A	CD3		2,000	331,500	
17-Jul	N/A	CR5	5,000		336,500	
21-Jul	N/A	CD4		1,500	335,000	
28-Jul	N/A	CD5		9,542	325,458	

The posting reference column in the general ledger indicates the source of the posting (e.g., which journal and page number of journal). The checkmark indicates a balance carried forward from the prior year's general ledger. The balance columns in the general ledger allow the accountant to maintain a running balance (i.e., current balance) in the account. Usually, each time the general ledger is posted, the accounts are totaled and the balance is entered in the appropriate column as a debit or credit balance.

In a computerized accounting system, posting references usually don't relate to separate journals. However, when a transaction is entered into the system, a transaction reference number may be affixed to each transaction. The reference would indicate which subsidiary module in which the transaction originated (for example, account payable module).

**THE TRIAL BALANCE**

If the accounts have been posted correctly, the total of all the debits posted to the general ledger should equal the total of all the credits posted. This is true because for every debit entry(ies), there has been a credit entry(ies) of an equal amount(s).

At the end of the reporting period (e.g., a month), one of the accountant's tasks is to prepare a trial balance. The trial balance is simply a listing of all the accounts and account balances in the general ledger. The trial balance confirms that the general ledger is in balance. For example, Exhibit I-4-9 a trial balance for a manual accounting system follows:

**EXHIBIT I-4-9**

**NAME OF LUA  
TRIAL BALANCE  
GENERAL FUND  
JULY 31, 20X3**

<b>General Ledger Account Number</b>	<b>Account Title</b>	<b>Account Balance</b>	
		<b>Debit</b>	<b>Credit</b>
0101	Cash in bank	\$71,548.90	
0111	Investments	9,542.00	
0141	Intergovernmental receivables	11,000.00	
0171	Inventory for consumption	3,500.00	
0421	Accounts payable		\$ 8,500.00
0499	Other current liabilities		1,431.20
0799	Unassigned fund balance		84,371.98
0302	Revenues and other financing sources control		17,509.44
0602	Expenditures/expenses control	<u>16,221.72</u>	
		<u>\$111,812.62</u>	<u>\$111,812.62</u>

As indicated above, the total of the debit amounts should equal the total of the credit amounts in a trial balance. If they do not agree, either a posting error has occurred (i.e., the wrong amount was posted from a journal to an account in the ledger) or either the journal does not foot (numbers in a column do not add up correctly) or crossfoot (numbers in a row do not add up correctly) or the general ledger does not foot or crossfoot.

In most computerized accounting systems, the journal entries must balance or the computer will reject these entries. Therefore, the general ledger and the trial balance usually are in balance. When one transaction is recorded in the transaction report (i.e., the journal) and in the general and subsidiary ledgers simultaneously, the chance of the trial balance not balancing is minimal. However, if a posting is made in the correct amount, but to the wrong account, the general ledger will balance but certain accounts will be misrepresented. This type of error is often difficult to locate.

A trial balance prepared from a computer-based accounting system, in addition to the period ending balances, may include the beginning trial balance and a summary of the period's (e.g., month's) transactions.

## SUMMARY

1. In an accounting system, the financial transaction generates a journal entry which flows from the journal to a ledger.
2. A journal is an accounting record where transactions entries originally are recorded.
3. A ledger is an accounting record that summarizes financial transactions by the type of account.
4. The process of taking financial information from a journal and recording this data in a ledger is defined as posting.
5. A general ledger contains the basic accounts of an LUA.
6. A subsidiary ledger contains details of a specific general ledger account (e.g., expenditure control).
7. A computerized accounting system contains the same data that is included in journals and ledgers even though it might not be readily accessible.
8. A trial balance is a listing of all the accounts and account balances.
9. The purpose of preparing a trial balance is to determine whether the debits and the credits in the general ledger balance, and to summarize the activity for a defined period.