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ACCOUNTING GUIDE
FOR
COMMUNITY-BASED RESIDENTIAL CENTRES
IN
CANADA

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I INTRODUCTION

This accounting guide is designed for use by community-based residential centres in Canada. While many of the concepts are applicable to all enterprises, both profit-oriented and not-for-profit, emphasis and examples are based on circumstances typical to not-for-profit residential centres. The guide has been designed to assist individuals who have had little or no previous bookkeeping experience.

The guide covers the following matters:

- an overview of the accounting process,
- a description of typical accounting records, including how day-to-day transactions are recorded therein,
- instructions for reconciling bank accounts,
- a review of cash budgeting techniques,
- an outline of how periodic and annual financial statements are prepared,
- guidance on the keeping of memorandum records of accounts receivable and payable, and
- a summary of services that might be expected from auditors.

The guide does not make detailed reference to the preparation of tax returns. Not-for-profit organizations are not required to pay taxes, but if incorporated, they are expected to file a tax return with federal, and in some cases, with provincial authorities. Preparation varies from province to province and the local office of the Department of National Revenue should be contacted for assistance on these matters. Reference is made, however, to the calculation of taxes and other deductions required to be withheld from employee remuneration.

The guide is available free of charge to those individuals involved with residential centres and other groups involved in the correctional field.

Requests for copies and any comments on the guide should be

sent to:

Community Resources Development Division,
Canadian Penitentiary Service/National
Parole Service,
Ministry of the Solicitor General,
340 Laurier Avenue West,
Ottawa, Ontario.
K1A 0P8

II THE ACCOUNTING PROCESS

This section of the guide seeks to provide an overview of the accounting process as a means of placing various bookkeeping records and practices in proper perspective. It explains the relationship between budgets and accounts, the uses of accounting, the significance of cash and accrual accounting, the distinction between recording accounting transactions in detail in journals and classifying them in summary form in ledgers, the value of double-entry bookkeeping and the need for adequate filing and control processes as integral parts of accounting systems.

Accounting and Budgeting

Good financial administration starts with a budget, or financial plan. Budgeting is to forecast expected financial transactions, whereas accounting is to record, classify and summarize transactions after the fact. The use of both enables a residential centre to plan its future activities as well as to compare actual with forecast performance. This accounting guide is primarily concerned with accounting matters but reference is also made to budgeting to show how the two relate.

Accounting and Its Uses

Accounting is a means whereby individual financial transactions of an enterprise are recorded in such a way as to facilitate the summarization of financial information and its presentation in financial statements. As most organizations are profit-oriented, the basic purpose of financial statements is to reveal periodically to what extent a profit has been made, or a loss has been incurred. In the case of not-for-profit enterprises the purpose is similar - namely to disclose the excess or deficiency of revenue over expenditures. However, there are many other uses of financial statements. These include:

- 1) disclosing the nature and the extent of costs,
- 2) revealing the sources of financing, and
- 3) complying with the legal requirements of appropriate jurisdictions.

Cash versus Accrual Accounting

There are two bases of recording financial transactions. The accrual basis records revenues as they are earned, and expenditures as they are incurred in earning related revenue. The cash basis records revenues and expenditures only at the time they are received or paid.

Over an extended period of time both the cash and the accrual basis of accounting will record all transactions and produce the same results. The difference is one of timing. Accrual statements show financial results which are representative of the period covered, whereas cash statements may include receipts and disbursements that belong to another period.

As the financial transactions of residential homes are not too complex, day-to-day transactions may be recorded on the cash basis of accounting. However, as financial statements for a period of time should be representative of the period covered, records kept on the cash basis should be adjusted at the year end (or as desired) to prepare financial statements on an accrual basis.

Recording of Transactions in Books of Original Entry

The first step in bookkeeping is to record transactions in books of original entry. In a system kept on a cash basis, at least two books of original entry or journals are required - one to record all disbursements

and the other to record all receipts. A third book, commonly called a general journal, is required for purposes of recording non-cash transactions.

The Cash Disbursements Journal, also often called the cheque register, is used to record each cheque that is written. In the journal, the date, payee and cheque number are commonly recorded, with the amount of each transaction being recorded twice - first in the bank or cash column, and second in columns classifying transactions under appropriate expense or other headings.

The Cash Receipts Journal is quite similar. In it, the date, payor and receipt number (if applicable) are identified and the amount of each transaction is recorded twice - first in the bank or cash column, and second in columns classifying the transactions under appropriate revenue or other headings.

The General Journal is normally used much less often. It can be used to make cash entries additional to those recorded in the cash receipts and disbursements journals, but these are preferably recorded directly in these journals so as to facilitate bank reconciliations and reduce the number of totals that have to be posted to the General Ledger. More common uses are to record the period-end adjustments, such as accounts receivable, accounts payable and inventories, that are necessary to show financial results for the period on an accrual basis. Another common use is to correct the classification of a transaction when an error is detected after the other journals have been closed and posted to the General Ledger.

A modification of the Cash Disbursements Journal, which may be used where the volume of transactions warrants it, is a Payroll Journal. It is used to record the payroll cheques by which employees are paid. Like the Cash Disbursements Journal, it shows the date, payee and cheque number and the net amount of each transaction is entered in a bank column.

The reason for the separate journal is that the other side of the transaction is entered in a number of columns which are standard for all payroll transactions but which are different from those most often used in the Cash Disbursements Journal. For example, accounts are used solely to record gross payroll and the various types of deductions that are required to be withheld from employees for payment to governments or to other organizations administering employee benefit plans.

All of these records will be described more fully in later sections of this guide.

Posting of Transactions to Ledgers

The purpose of ledgers is to summarize the data on individual transactions recorded in the journals. Instead of recording each transaction in the General Ledger, only the total of each column is posted, or recorded, in the General Ledger. Where the transactions are not numerous enough to warrant a separate column, they are recorded in a sundry column. In this case, transactions are either posted individually or they are summarized for posting.

The main ledger used in most accounting systems is called a General Ledger. It has an account for each type of information which needs to be known. Financial statements are normally produced from the accounts in the General Ledger.

There are other types of ledgers that might be kept in an accounting system kept on an accrual basis, such as accounts receivable and accounts payable ledgers. These function similarly to a General Ledger in that transactions recorded in the books of original entry are posted to them. The difference is that, whereas only totals are posted to the General Ledger, each transaction is posted to these ledgers. These ledgers are commonly called subsidiary ledgers because a total of the amounts in these ledgers will agree with the total in the single account in the General Ledger. Their purpose is to provide details of amounts owing to creditors, or amounts owing by debtors. In this guide, since

it is designed for accounts kept on a cash basis, accounts receivable and accounts payable ledgers are not proposed although it is suggested how they might be used on a memorandum basis.

Double-entry Bookkeeping

The types of records described in this guide are based on what is known as the double-entry system of bookkeeping because the amount of each transaction is recorded twice - first as a debit and second as a credit. This means that the accuracy of any journal or ledger can be tested by totalling all debits and totalling all credits and comparing the two to see that they agree. Ledger cards are generally ruled with both debit and credit columns. It is necessary to know which amounts in the journals are debit amounts and which are credit amounts so that they are correctly posted to the ledgers.

Simply described, all accounts can be classified by four categories - assets, liabilities (including equity accounts), revenues and expenditures.

- Any increase in an asset or expenditure account is a debit and any decrease is a credit.
- Conversely, any increase in a liability or revenue account is a credit, and any decrease is a debit.

Turning to the Cash Receipts Journal, since the receipt of cash increases an asset of a business, entries in the bank column are recorded as a debit, and the entries in most other columns are recorded as credits since they reflect either the receipt of revenue or the establishment of a liability. Since the disbursement of cash decreases an asset of the business, namely cash, all entries in the bank column of a Cash Disbursements Journal are credits, and most entries in other columns are debits since they record either an expense of the business or else something that will be of future value and therefore an asset.

The reason it cannot be stated that all entries in the non-bank columns are credits or debits in the Cash Receipts and Cash Disbursements Journals respectively, is that sometimes cash transactions are the net of one or more items. For example, in the Payroll Journal the net pay is a combination of the gross pay which is a debit because it is an expense, and payroll deductions which are credits because they are liabilities owing to a government or other organizations administering employee benefit plans.

Filing Systems

In order to retain further details on financial transactions than those provided in accounting records, accounting information should be properly filed. For most residences, the following should be systematically filed:

1. Documents supporting transactions with the bank, including statements, cancelled cheques and deposit slips.
2. Documents involving receipts including cheque vouchers, correspondence and other material sent by the payor.
3. Documents supporting expenses including supplier vouchers, statements and shipping documents.

Two files should be kept of documents supporting expenses. One should be for bills that are not yet paid, the second for paid bills. One way of keeping files of paid bills is to file them in alphabetical order by payee. Another is to file them by cheque number. In the former case, the number of the cheque used to pay the bill should be recorded on the invoice before it is filed. As a result, if there is ever a dispute over the payment of the bill, the invoice and the cheque (proof of payment) may be quickly located.

The second file should be for unpaid accounts. These should be filed either alphabetically or by date of payment due. When payment is made, documents are transferred to the paid file. The main purpose of maintaining this "open file" is so that outstanding payables can be readily determined.

Financial Controls

While this guide is primarily concerned with bookkeeping there should also be adequate control over the assets of a residence to ensure that they are properly used, safeguarded from theft and that there is no waste. This is achieved through a proper division of duties and supervisory checks where this is not possible.

Perhaps the most important asset of a residence is cash, and control should be maintained over both the receipt and disbursement of funds. By having no single individual responsible for all the cash functions, the possibility of defalcation of funds and errors is reduced.

When money is received in cash, pre-numbered receipts should be issued. Larger amounts will be received by cheque, often through the mails. Mail should be opened by a responsible person not involved in accounting. The amounts should be listed and the cheques endorsed for deposit to the credit of the residence. The cheques should then be given to the bookkeeper who will record the cheques in the Cash Receipts Journal, prepare a deposit slip and deposit the cheques in the bank. Money and cheques should be promptly deposited in the bank; they should not be kept on the premises.

Although residences may have no alternative but to accept cash from residents, all expenses should be paid by cheque. If this is done, all disbursements will be recorded on the bank statement, and independent verification will be possible. Invoices should be approved by a responsible officer before cheques are prepared. The bookkeeper, who prepares cheques, should not have cheque signing authority. The executive director and one other individual not involved in accounting should sign cheques with perhaps one other individual who may sign in the absence of one of them. The Board of Directors should approve the names of individuals authorized to sign cheques.

Monthly bank reconciliations should be prepared by the bookkeeper and reviewed by the executive director. The preparation of a bank reconciliation is discussed later in the guide. The purpose of the approval is to ensure that the reconciliation is properly done, and second, that there are no fictitious items on them that might be concealing a defalcation.

III ACCOUNTING RECORDS

This section of the Guide describes accounting records: first the general ledger in which accounting transactions are classified in summary form and then the various types of journals used for original entry of accounting transactions.

The General Ledger

The General Ledger has a separate page, or card, for each account. An account is maintained for each type of revenue, expenditure, asset, and liability for which information is required. Accounts are grouped according to each type of classification and each is numbered.

The following is a suggested code of accounts:

	<u>Account No.</u>
<u>Assets</u>	
<u>Current</u>	
Cash in bank	100
Petty cash	101
Accounts receivable	102
Inventories	103
Prepaid expenses	104
<u>Fixed</u>	
Furniture and furnishings	201
Equipment	202
Home	203
Land	204
Furniture and furnishings - accumulated depreciation	205
Equipment - accumulated depreciation	206
Home - accumulated depreciation	207

	<u>Account No.</u>
<u>Liabilities</u>	
<u>Current</u>	
Accounts payable	301
Short-term loans	302
Income tax withheld, U.I.C. deductions	303
Other employee withholdings (as many as required)	304
<u>Long-term</u>	
Mortgage payable	401
<u>Revenue</u>	
Receipts from Government of Canada	501
Receipts from Provincial Government	502
Donations from charitable organizations and others	503
Donations from residents	504
<u>Expenditures</u>	
Salaries and wages	601
Employee benefits	602
Transportation	603
Telephone	604
Office stationery and supplies	605
Rental (or interest expense if a mortgage were involved)	606
Contracted services (cleaning, etc.)	607
Heating, electricity and insurance	608
Publications (newspaper, magazine, etc.)	609
Food supplies	610
Bank charges	611
Miscellaneous	612
<u>Equity</u>	
Surplus (deficit)	701

Other accounts can be added or deleted, as may be required. For example, accounts 203, 204, 207 and 401 would not be needed if the premises were rented.

Each account in the General Ledger provides space for recording the date, the source of the entry, whether the entry is a debit or a credit, and the accumulated balance in the account. In the case of a community residence, the source for most entries will be the Cash Receipts and Disbursements Journals, the Payroll Journal, and the General Journal.

Exhibit 1 shows how a General Ledger account for cash might be maintained.

Under the reference column, the source of the entry is indicated - C.R. represents the Cash Receipts Journal, C.D. represents the Cash Disbursements Journal, P.R. represents the Payroll Journal, and G.J. represents the General Journal. Discussion of these journals and the basis of making the entries follow.

Cash Receipts Journal

Monies received by the residence are recorded in the Cash Receipts Journal, as they are received. The amounts are classified under columns identifying the name of the account in the General Ledger and the account number. For convenience, the column can be identified as a debit or credit column.

The Cash Receipts Journal is illustrated in Exhibit 2. Note that in the Cash Receipts Journal each transaction is recorded in the cash column as a debit and in the other columns usually as a credit and that the total of all credit and debit columns must always agree. If details regarding revenues are required, the Cash Receipts Journal may be referred to.

CASH RECEIPTS JOURNAL

For the month of December

COMMUNITY HOUSE

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Date	Details	CASH	GOVT. OF CANADA	PROVINCIAL GOVERNMENT	ORGANIZATIONS	RESIDENTS
1976		100 DR	501 CR	502 CR	503 CR	504 CR
Dec 7	Federal Government	5000 ⁰⁰	5000 ⁰⁰			
Dec 16	Residents Lietka # 6.00					
	Khan # 14.00					
	Metcalf # 5.00					
	Masson 3.00	28 ⁰⁰				28 ⁰⁰
Dec 27	Provincial Government	2000 ⁰⁰		2000 ⁰⁰		
	Federal Government	1000 ⁰⁰	1000 ⁰⁰			
	Red Feather	240 ⁰⁰			240 ⁰⁰	
31	Residents Masson # 14.00					
	Metcalf 6.00	20 ⁰⁰				20 ⁰⁰
31	United Appeal	672 ³⁸			672 ³⁸	
		✓ 8960 ³⁸	✓ 6000 ⁰⁰	✓ 2000 ⁰⁰	✓ 912 ³⁸	✓ 48 ⁰⁰

Exhibit 2
Illustration of Cash
Receipts Journal

When new accounts are needed, additional columns of the journal should be used with a sundry column being used for transactions that rarely occur. Periodically, the journal should be added and cross-added, in pencil, to see if it balances - that is, all the debits equal all the credits.

At the end of the month the journal should be balanced and the total of the transactions in each column (or individual items in the sundry column) should be posted to the General Ledger. When items are posted to the General Ledger, the page of the journal is also recorded opposite the entry in the General Ledger, to facilitate location if required. In this case, \$8,960.38 would be "posted" as a debit to cash (the asset has increased). The amounts in the other columns would be posted as credits to the accounts to which they pertain. A posting mark should be used, when each transaction is posted, to make sure none is missed.

Cash Disbursements Journal

The Cash Disbursements Journal records all cheques written on the bank account. Each cheque is recorded as a credit in the cash column (the asset has decreased), and usually as debits to the accounts to which they pertain.

Exhibit 3 shows how the Cash Disbursements Journal of Community House lists various expenditures for the month. Note that all cheques are recorded, even if they are not used. For example, cheque no. 200 was voided, but it is still recorded. Similarly cheques no. 189 and 190 were used to pay the employees and are recorded in the Payroll Journal. As a result, by looking at the Cash Disbursements Journal, it is possible to account for the numerical sequence of the cheques.

CASH DISBURSEMENTS JOURNAL

COMMUNITY HOUSE

For the month of December

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Date	Payee	Cheque #	Bank	Transportation	Telephone	Heat, Electricity	Food	Miscellaneous	Furniture	Equipment	Sundry
1976			100 CR	603 DR	604 DR	608 DR	610 DR	612 DR	201 DR	202 DR	
Dec 1	Day Furniture	180	887 ⁷⁰						887 ⁷⁰		
1	Okmar Furniture	181	5 ³⁰					5 ³⁰			
7	Martyn Heating	182	2198 ³⁰							2198 ³⁰	
8	Martyn Heating	183	596 ¹⁷			596 ¹⁷					
8	Modern Appliances	184	2592 ⁸¹						2592 ⁸¹		
8	Safeway's Limited	185	306 ¹²				306 ¹²				
8	Ed's Esso	186	87 ⁹⁵	87 ⁹⁵							
16	Bell Telephone	187	12 ¹⁰		12 ¹⁰						
16	The Hardware Company	188	12 ⁰⁶					12 ⁰⁶			
16	See page of payroll journal	189									
16	See page of payroll journal	190									
16	The Print Shop	191	21 ⁵³								✓ 21 ⁵³ Stationery 605 DR.
16	Al's B.P. Station	192	18 ⁹⁷	18 ⁹⁷							
16	Receiver General for Canada	193	147 ³⁶								✓ 122 ¹⁶ { Income Tax Withheld, 25 ²⁰ { LIC 303 DR. Employee Benefits 602 DR.
16	Dominion Stores	194	22 ⁷⁴				22 ⁷⁴				
16	Martyn Heating	195	1495 ⁴⁰							1495 ⁴⁰	
16	Dominion Stores	196	190 ⁰⁰				190 ⁰⁰				
22	Home Clean Co.	197	26 ⁹¹								✓ 26 ⁹¹ Contracted Services 607 DR.
22	Bell and Marshall	198	125 ⁷⁵					125 ⁷⁵			
31	Bookkeeper in Trust	199	92 ²²	12 ⁰⁰			67 ⁴⁰	12 ⁸²			
31	void	200									
	- Interest and service charges - Dec.		4 ³⁶								✓ 4 ³⁶ Bank charges 611 DR.
	- To adjust cheque #186, recorded as \$87.95, should be \$78.95		(9 ⁰⁰)	(9 ⁰⁰)							
			✓ 8834 ⁷⁵	✓ 1109 ⁹²	✓ 12 ¹⁰	✓ 596 ¹⁷	✓ 586 ²⁶	✓ 155 ⁹³	✓ 3480 ⁵¹	✓ 3693 ⁷⁰	200 ¹⁶

As with the Cash Receipts Journal, the monthly total for each of the accounts is entered (posted) in the General Ledger. The total cash disbursements for the period - \$8,834.75 may be traced to the General Ledger account illustrated in Exhibit 1.

Note also that there are two entries in the Cash Disbursements Journal which have no cheque reference. These are adjustments which are required as a result of the bank reconciliation and are discussed in detail under the section on bank reconciliations.

Payroll Journal

The Payroll Journal records details of the pay of each employee, as well as the statutory and other deductions that are required. The statutory deductions include income tax, unemployment insurance and Canada Pension Plan contributions. Some provinces (for example Quebec) have their own pension plan, so other or alternative deductions may be required. Even part-time employees must make contributions towards the above-mentioned plans although exemptions are allowed if a person earns below a prescribed minimum.

Statutory deductions (required by law), and the amounts are based on the period the payment covers. The amount to be deducted for each employee may be determined from tables which are available from the local office of the Department of National Revenue.

Within two months of the end of the calendar year, employers are required to submit a T4 slip to each employee, as well as a copy to the tax department. A T4 slip shows an individual's gross earnings, his contributions to unemployment insurance, Canada Pension Plan and the income tax that has been deducted from his earnings. Their preparation is facilitated if each entry in the Payroll Journal is also recorded on a separate page for each employee. This simplifies totalling the information pertaining to each employee. Otherwise, it is necessary to go through the journal at the year end and accumulate totals for each employee.

Exhibit 4 illustrates a page of the Payroll journal for Community House for the month of December and shows the amounts paid to and deducted from each employee, for the mid-month pay, as employees are paid twice a month. The Payroll Journal differs from the other two books of original entry that have been described previously in that part of the entry (the liability for income taxes, and other statutory deductions) is recorded in a liability account prior to payment.

By law, an employer also has to pay part of the cost of some public programs for which statutory deductions are made from employees - this includes unemployment insurance, and the Canada or Quebec Pension Plans. These payments are not considered as taxable benefits to employees, and therefore should not be included in amounts considered as taxable benefits on T4 slips of employees.

All the statutory deductions are paid to the Receiver General and were paid by cheque no. 193 which may be traced to the Cash Disbursements Journal on Exhibit 3. This cheque for \$147.36 includes the income tax and employee's portion of the statutory deductions of \$122.16 recorded in the Payroll Journal in Exhibit 4, as well as the employer's contribution towards statutory deductions. Notice that at the time of payment, the entry to record the cheque is split between two accounts.

Many employers make deductions from employees for medical health insurance or life insurance. Some pay part of the cost. If so, these may be taxable benefits to employees. Where this is true, a record of this type of payment must be maintained in order to prepare T4 slips.

The General Journal

The General Journal serves as the source document for all items which are not recorded in the Cash Receipts, Cash Disbursements or Payroll journals. In some respects it is a "catch all" and will include such things as correction of errors, adjusting entries and accruals at the year end.

Just as cash receipts entries are supported by bank deposit slips and cash disbursements are supported by invoices from third parties, the General Journal entries should be supported by adequate explanations and documentation. Exhibit 5 shows the typical form of a General Journal.

By referring to the next section on bank reconciliations, it will be seen that a \$60.00 cheque was returned from the bank as there were not sufficient funds in the donor's bank account. Unless an adjustment is made to the General Ledger account, cash and donations will be overstated. Because the cash journals have been closed off and posted before this was determined, it cannot be recorded in them and the entry must be made in the General Journal.

Exhibit 5
Illustration of
General Journal

COMMUNITY HOUSE							
GENERAL JOURNAL							
page 5							
Date	Details				Debit	Credit	
December 31	Donations - organizations - 503				60.00		✓
	Cash - 100					60.00	✓
	To record the return of an N.S.F. cheque for a donation from _____ See December, 1976 bank statement						
December 31	Transportation - 603				12.00		✓
	Food - 610					12.00	✓
	To adjust for charges posted to wrong account. (See cheque #170)						

- Outstanding cheques: These are cheques which have been recorded in the Cash Disbursements Journal which may not have reached the bank in time to be included by the bank in the same month.
- Unrecorded deposits: These are deposits made on the last few days of the month and recorded in the Cash Receipts Journal, but not processed by the bank in time to be included on the bank statement.
- Bank charges: Bank charges, service charges or handling charges are deducted directly from the account by the bank. Interest charges are deducted directly if in an overdraft position. Bank charges can only be recorded in the accounting records after the bank statement has been received.
- Errors: Regardless of care, competence or automation, mistakes happen. Errors are perhaps the most difficult reconciliation items to isolate. Common errors are:
 - Reversing numbers (for example recorded \$525.00 when in fact it should have been \$552.00).
 - Addition errors (mis-adding a column of figures, or when using an adding machine, failing to clear the machine).

As there are numerous reasons for these differences, a systematic approach must be taken to reconciling the bank account.

Bank Reconciliation Procedures

Exhibit 7 provides an illustration of a completed bank reconciliation. The reconciliation should be retained as it provides a permanent record that a reconciliation has been made. The steps in preparing the bank reconciliation are listed below in the order in which they should be performed.

- Compare all cancelled cheques and debit memos to the bank statement.
- Enter bank service charges in the Cash Disbursements Journal.
- Enter bank balance per bank statement on bank reconciliation,

Exhibit 7
Illustration of Completed
Bank Reconciliation

COMMUNITY HOUSE
BANK RECONCILIATION
FOR THE MONTH OF December, 1976

Balance per bank statement			\$ 3,144.87
	<u>Date</u>	<u>Amount</u>	
Add: Outstanding deposits	<u>Dec 31</u>	<u>692.38</u>	
			<u>692.38</u>
			Sub total <u>3,836.75</u>
	<u>No.</u>	<u>Amount</u>	
Deduct: Outstanding cheques	<u>185</u>	<u>306.12</u>	
	<u>194</u>	<u>22.74</u>	
	<u>197</u>	<u>26.91</u>	
	<u>198</u>	<u>125.75</u>	
	<u>199</u>	<u>92.22</u>	
			<u>578.74</u>
			Sub total <u>3,263.01</u>
Adjustment - fw N.S.F. Cheque			<u>60.00</u>
Balance per General Ledger, after adjustments for bank charges, etc.			<u><u>\$3,323.01</u></u>

Prepared by Brenda Marshall

Approved by John D. Nelson

- compare all amounts in the deposit column of the bank statement to the bank column of the Cash Receipts Journal. If there are differences in the amounts of individual deposits make the appropriate adjustments. Clear all open items on bank statement and list outstanding deposits in the Cash Receipts Journal on the bank reconciliation. Post the Cash Receipts Journal to the General Ledger.
- put the cancelled cheques in numerical sequence, the order in which they should be listed in the Cash Disbursements Journal, and check them off to the current month's journal, comparing amounts in the process. Where cheques are from a prior period, check them off against both the prior period journal and the prior month's bank reconciliation. Carry forward to the reconciliation all cheques from the prior reconciliation that are still outstanding and list any cheques from the current month's journal that have not been returned. If any errors are made in recording the cheques, make appropriate adjustments in the Cash Disbursements Journal.
- calculate the total of the Cash Disbursements Journal and post the accounts to the General Ledger.
- enter the balance according to the General Ledger.
- if the two are in agreement, no further work need be done.
- if the totals do not agree, re-perform work, checking all additions, carefully clearing all items on the bank statement and in the journals, and checking all items and all computations on the bank reconciliation. Since the Cash Journals have been posted, any errors in the amounts in the journals will have to be corrected by using the General Journal.

After the bank reconciliation is complete and the balances equal each other, certain items may have to be followed up. Any mistakes made by the bank must be communicated to the bank. Make sure that they are corrected on the next statement. If not, they must again be listed on the bank reconciliation.

V PETTY CASH

Expenses should be paid, wherever possible, by cheque. Certain expenditures, however, may have to be paid in cash. For this purpose, a petty cash fund should be created by issuing a cheque payable to the person who is to be custodian in a round sum amount of say \$100. This cheque, when recorded in the Cash Disbursements Journal, will be charged to the separate ledger account provided. Normally, unless the size of the petty cash fund is changed, this will be the only posting to this account.

It follows therefore that the fund should be operated on an imprest basis. The money should be kept in a locked box and at any point in time the cash or vouchers supporting amounts paid out should always equal \$100. When the cash balance is low, the custodian should request a reimbursing cheque in the amount of the vouchers on hand.

If Community House had a petty cash fund with an imprest balance of \$100 and the cash in the box was down to \$7.78, a cheque for \$92.22, would be required to restore the fund to its original balance. This would be done by drawing a cheque in this amount and distributing it to appropriate expense accounts. When the reimbursement cheque is cashed, the cash is put back in the petty cash box restoring it to its original amount. The distribution of the charges (see cheque no. 199) is found in the Cash Disbursements Journal (Exhibit 3). The vouchers are filed with other vouchers in support of cash disbursements.

VI PREPARATION OF CASH BUDGETS

Most residential centres have to manage their cash resources carefully to ensure that they will be able to discharge their debts when they come due. A cash budget prepared on a monthly basis is helpful in this regard.

Budgeting for Revenues

In budgeting for revenue, it will be necessary to estimate not only the amount of revenue that is likely to be received but also when it will be received. The former will involve estimating the occupancy of the residence; the latter, the time lag to bill the appropriate organizations and for them to pay. This may involve discussions with such organizations to determine when such amounts are likely to be remitted.

Budgeting for Expenses

The timing of expenditures is more within the control of a residence although it will depend upon the willingness of suppliers to extend credit. Where funds are periodically not adequate to meet the legitimate requirements of suppliers, it may be necessary to arrange temporary bank loans. For this purpose, a properly prepared cash budget is invaluable.

In budgeting for expenses, a distinction should be made between those that are non-discretionary (food, heat, light and water) and those that are discretionary (office supplies, publications, repairs). Both types of expenditures may involve either regular or irregular payments; the distinction is not one of timing but whether the expenditure may be delayed or eliminated if funds are not adequate.

The headings used on the cash budget should be the same as those used on the Cash Receipts and Cash Disbursements Journals. This will facilitate comparing planned and actual receipts and disbursements on a monthly cash statement for use of management.

The budget must provide for cash needs to acquire any capital assets. These are segregated because of their special nature.

An illustration of the form of a monthly cash budget is provided in Exhibit 8.

Preparation and Use of the Budget

If a budget is properly prepared it may be used as a plan for management. Budgets should be prepared for the entire year, as well as on a monthly basis. The monthly budgets will not simply be a pro-rated portion of the total revenue or expenditure. To do so, may be misleading as revenues are not received on a regular basis, and expenditures vary depending on the time of the year and the number of residents. Note that in the case of Community House, no revenues from the federal government are budgeted in February, and yet the level of expenditures remains constant.

By budgeting revenues and expenditures and comparing the anticipated results and cash needs with the bank balance in the General Ledger, management will be able to identify the cash needs of the residence, thus identifying problems (i.e. a cash shortage) before they occur. In addition, comparing budgeted and historical results also aids in planning future operations.

Exhibit 8
Illustration of Monthly
Cash Budget

COMMUNITY HOUSE

MONTHLY CASH BUDGET FOR 1976

	January \$	February \$	March \$	December \$	Total \$
RECEIPTS					
Federal government	4,000	-	3,000	4,500	27,000
Provincial government	1,600	400	1,200	1,000	18,000
Donations	100	150	-	600	1,800
Contributions by residents	20	20	50	10	250
Total	<u>5,720</u>	<u>570</u>	<u>4,250</u>	<u>6,110</u>	<u>47,050</u>
DISBURSEMENTS					
Salaries	1,900	1,900	1,200	1,200	20,200
Employee benefits	250	250	200	220	2,500
Transportation	120	90	100	100	1,000
Telephone	75	75	75	60	750
Office stationery	10	10	15	10	150
Rental of home	700	700	700	700	8,400
Contracted services	20	20	80	20	240
Heating and electricity	350	350	300	400	2,200
Publications	10	-	10	10	100
Food supplies	650	750	800	900	8,500
Interest and bank charges	5	5	5	5	60
Miscellaneous	100	100	100	100	1,200
	<u>4,190</u>	<u>4,250</u>	<u>3,585</u>	<u>3,725</u>	<u>45,300</u>
EXCESS RECEIPTS (DISBURSEMENTS)	<u>1,530</u>	<u>(3,680)</u>	<u>665</u>	<u>2,385</u>	<u>1,750</u>
CAPITAL ASSETS					
Equipment	-	-	-	-	-
Furniture	-	-	-	-	-
CASH - BEGINNING OF PERIOD	<u>2,067</u>	<u>3,597</u>	<u>(83)</u>	<u>1,050</u>	<u>2,067</u>
CASH - END OF PERIOD	<u>3,597</u>	<u>(83)</u>	<u>582</u>	<u>3,435</u>	<u>3,817</u>

VII PREPARATION OF FINANCIAL STATEMENTS ON A CASH BASIS

The next section explains the preparation of financial statements for year end purposes on an accrual basis. The Board of Directors may wish to have financial statements prepared more frequently than once a year. Statements prepared on the accrual basis take more extensive time to prepare. While statements on the accrual basis are necessary for year end purposes, the cash basis may be adequate during the year.

A statement of cash receipts and disbursements informs management of the current operations of the residence, and when compared to the budget helps to identify any cash problems that may be developing. An appropriate form of reporting is illustrated in Exhibit 9. The current month's figures are the amounts entered in the various columns of the cash journals for the month. If no entries have been made in these accounts for the month a "nil" balance will be reported. The "year to date" figure is the sum of the previous months plus that for the current month. The budget figure is the forecast revenue or expenditure taken from the budget for the year to date. This statement thus shows the actual cash transactions for the month and compares the total for the year to date to the budget for the same period. Because it is a cash statement, disbursements to acquire capital assets are included in this statement.

The statement also shows the opening cash balance, which after adjusting for the net amount of receipts and disbursements for the period arrives at the closing cash balance. Any journal entries affecting cash will have to be recorded in the current month's figures if this statement is to agree with the balance in the General Ledger at the end of the year.

It is also desirable to note, at the bottom, any unpaid accounts at the date of the statement. This gives management an up-to-date picture of the position of the residence on a cash basis, after deducting unpaid accounts.

Exhibit 9

Illustration of Statement
of Cash Receipts and
Disbursements

COMMUNITY HOUSE
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE MONTH OF DECEMBER 1976

	Actual		Budget
	Current month \$	Year to date \$	year to date \$
RECEIPTS			
Federal government	6,000.00	35,200.00	27,000.00
Provincial government	2,000.00	20,777.00	18,000.00
Donations - organizations	852.38	1,581.84	1,800.00
Donations from residents	48.00	470.40	250.00
Total receipts	<u>8,900.38</u>	<u>58,029.24</u>	<u>47,050.00</u>
DISBURSEMENTS			
Salaries and wages	720.16	21,068.32	20,200.00
Employee benefits	25.20	3,362.08	2,500.00
Transportation	109.92	933.08	1,000.00
Telephone	12.10	647.82	750.00
Office stationery	21.53	197.63	150.00
Rental of home	-	8,400.00	8,400.00
Contracted services	26.91	196.42	240.00
Heating and electricity	596.17	1,750.01	2,200.00
Publications	-	87.00	100.00
Food supplies	586.26	11,737.63	8,500.00
Interest and bank charges	4.36	52.19	60.00
Miscellaneous	155.93	1,127.06	1,200.00
Current expenditures	<u>2,258.54</u>	<u>49,559.24</u>	<u>45,300.00</u>
CAPITAL ASSETS ACQUIRED	<u>7,174.21</u>	<u>7,174.21</u>	<u>-</u>
	<u>9,432.75</u>	<u>56,733.45</u>	<u>45,300.00</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	(532.37)	1,295.79	1,750.00
CASH - BEGINNING OF PERIOD	<u>3,895.38</u>	<u>2,067.22</u>	<u>2,067.00</u>
CASH - END OF PERIOD	<u>3,363.01</u>	<u>3,363.01</u>	<u>3,817.00</u>
ACCOUNTS PAYABLE	<u>1,465.26</u>		

VIII PREPARATION OF FINANCIAL STATEMENTS ON AN ACCRUAL BASIS

Financial statements summarize the information contained in the General Ledger in a useful manner that shows the financial position at the end of the period and the results of the operations for the period. These may be produced monthly, quarterly, or annually, depending on the requirements of those responsible for the residence.

The preparation of financial statements is not difficult; it involves the following steps:

- Taking a trial balance of the General Ledger;
- converting the records from a cash basis to an accrual basis by adjusting journal entries;
- preparing closing entries;
- preparing financial statements from the trial balance; and
- preparing reversing entries.

For convenience in preparing financial statements, a worksheet in the form illustrated in Exhibit 10 is used. Before explaining this worksheet, an explanation of the types of accounting adjustments that are necessary for purposes of converting from the cash to the accrual basis is given.

Conversion of Cash Records to the Accrual Basis

As has been previously explained, the cash basis of accounting is a more simple method and is adequate for most of the needs of residential centres. However, at the end of a fiscal period, or more frequently, it may be desirable to prepare financial statements on an accrual basis to reflect more accurately the costs of operations for a period of time.

This guide is written as an instruction for accounting records to be maintained on a cash basis. Without altering accounting routines, adjustments may be made by means of journal entries to produce financial statements on an accrual basis at the end of any period. On the cash

Exhibit 10
Illustration of Trial
Balance and Worksheet

COMMUNITY HOUSE

ILLUSTRATION OF TRIAL BALANCE AND WORK SHEET

ACCOUNT #	DESCRIPTION	TRIAL BALANCE		ADJUSTING ENTRIES		T/E	ADJUSTED BALANCE		CLOSING ENTRIES		CLOSING BALANCE	
		DR	CR	DR	CR		DR	CR	DR	CR	DR	CR
ASSETS												
100	Cash in bank	3263 ⁰¹					3263 ⁰¹				3263 ⁰¹	
101	Petty cash	100 ⁰⁰					100 ⁰⁰				100 ⁰⁰	
102	Accounts receivable	-		14 ⁰⁰		6	14 ⁰⁰				14 ⁰⁰	
103	Inventory	-		403 ⁰⁰		5	403 ⁰⁰				403 ⁰⁰	
104	Prepaid Expenses	-										
201	Furniture and furnishings	14257 ⁰²					14257 ⁰²				14257 ⁰²	
202	Equipment	6482 ⁰⁹					6482 ⁰⁹				6482 ⁰⁹	
204	Furniture-Accumulated Depn.		1027 ⁴²		1067 ²⁵	4		2094 ⁶⁷				2094 ⁶⁷
205	Equipment-Accumulated Depn.		627 ⁸¹		482 ²³	4		1110 ⁰⁴				1110 ⁰⁴
LIABILITIES												
301	Accounts payable				483 ²⁰	3		1267 ²⁹				1267 ²⁹
302	Short term loans				784 ⁰⁹	2		-				
303	U.I.C. Income Tax Payable				197 ⁷⁷	1		197 ⁷⁷				197 ⁷⁷
304	Unearned donations				2000 ⁰⁰	1		2000 ⁰⁰				2000 ⁰⁰
REVENUES												
501	Government of Canada		31800 ⁰⁰	2000 ⁰⁰		1	29800 ⁰⁰	29800 ⁰⁰				
502	Provincial government		20777 ⁰⁰				20777 ⁰⁰	20777 ⁰⁰				
503	Charitable organizations		1581 ⁸⁴				1581 ⁸⁴	1581 ⁸⁴				
504	Residents		402 ⁰⁰		14 ⁰⁰	6	416 ⁰⁰	416 ⁰⁰				
EXPENDITURES												
601	Salaries and wages	21068 ³²		982 ⁰⁶		2	22050 ³⁸		22050 ³⁸			
602	Employee benefits	3362 ⁰⁸					3362 ⁰⁸		3362 ⁰⁸			
603	Transportation	933 ⁰⁸					933 ⁰⁸		933 ⁰⁸			
604	Telephone	647 ⁸²		46 ²⁸		3	694 ¹⁰		694 ¹⁰			
605	Office stationery, supplies	197 ⁶³					197 ⁶³		197 ⁶³			
606	Rental of home	8400 ⁰⁰					8400 ⁰⁰		8400 ⁰⁰			
607	Contracted services	196 ⁴²					196 ⁴²		196 ⁴²			
608	Heating and electricity	1750 ⁰¹		436 ⁹²		3	2186 ⁹³		2186 ⁹³			
609	Publications	87 ⁰⁰					87 ⁰⁰		87 ⁰⁰			
610	Food supplies	9602 ⁴¹			403 ⁰⁰	5	9199 ⁴¹		9199 ⁴¹			
611	Interest and bank charges	52 ¹⁹					52 ¹⁹		52 ¹⁹			
612	Miscellaneous	1127 ⁰⁶					1127 ⁰⁶		1127 ⁰⁶			
613	Depreciation - furniture	-		1067 ²⁵		4	1067 ²⁵		1067 ²⁵			
614	Depreciation - equipment	-		482 ²³		4	482 ²³		482 ²³			
EQUITY												
701	Excess of revenues over expenditures		15310 ⁰⁷				15310 ⁰⁷		2539 ⁰⁸			17849 ¹⁵
		<u>71526¹⁴</u>	<u>71526¹⁴</u>	<u>5431⁷⁴</u>	<u>5431⁷⁴</u>		<u>74554⁸⁸</u>	<u>74554⁸⁸</u>	<u>52574⁸⁴</u>	<u>52574⁸⁴</u>	<u>24519¹²</u>	<u>24519¹²</u>

basis of accounting, items are recorded only as cash is received or paid. Therefore, the purpose of these adjustments is to record assets and liabilities that have become legally due or payable at the end of the accounting period, but which have not been settled in cash at the time, and to defer any expenses or revenue that may have been received or paid in cash before the end of the accounting period, but which benefit or pertain to the succeeding accounting period.

Adjusting accounting records from a cash to accrual basis is not difficult, but it requires systematic consideration of all types of financial transactions. The more common types of adjustments are as follows:

Recording of Accounts Receivable - Governments may contribute to the costs of a residence in a manner related to services provided, i.e., so much per day for each resident. When this is true, the contribution should be set up as an account receivable in order to match revenues with costs since some time may elapse before the contribution is received.

Recording of Accounts Payable - The normal practice of businesses offering credit is to allow thirty days credit from the time they provide a monthly statement. Residences should use this form of financing. Therefore, there will normally be one month's transactions not recorded on the cash basis. An accounting entry to record all accounts payable at the end of the accounting period is therefore required.

Deferring of Revenue - Some governments may make contributions in advance to cover a twelve month period. This period will rarely coincide with the accounting period of the residence. A portion of this annual grant, therefore, may apply to the subsequent accounting period. An accounting entry is required to reduce the current year's revenue and to record the deferred revenue as a liability at the end of the accounting period.

Prepaid expenses - A similar type of entry is required on the expenditure side. Certain goods may be acquired and paid for, but not used at the end of the accounting period. Similarly some services may be billed annually, such as municipal taxes, or billed in advance. In these cases, an accounting entry is required to record these items as inventories or prepaid expenses, and to reduce the current period's expenses accordingly.

Recording of depreciation - This is a special type of accrual entry.

Where residences own rather than rent the building in which they operate, it is necessary to apportion the cost of the residence over its estimated useful life. The method is usually fairly arbitrary, and it should be determined and approved by the Board of Directors of the residence. The adjusting entry involves recording depreciation expense for the period and crediting it to an offsetting account called accumulated depreciation.

Illustrations of these types of accounting adjustments are provided in the following explanations of how financial statements are prepared.

Trial Balance of the General Ledger

A trial balance is a record of each account balance in the General Ledger. It is prepared by taking each account balance, listing it as either a debit or credit, and ensuring that the sum of the debits equals the sum of the credits. If it does not, there is an error in one or more of the accounts which must be located. The first two columns on Exhibit 11 illustrate a trial balance.

Adjusting Entries

The adjusting entries for Community House are listed on Exhibit 11. There are 6. The adjusting entries are entered on the trial balance and adjusted balances are computed for each account. These are then extended into columns described as "closing entries" if they are revenue or expenditure accounts, and into columns described as "closing balances" if they are asset or liability accounts.

An amount equal to the difference between revenues and expenditures is entered in the columns headed "closing entries" in order to balance them. This is entered opposite the account described as "Excess of Revenues over Expenditures" which is then extended into the columns headed "closing balances".

COMMUNITY HOUSE						
GENERAL JOURNAL						
DATE	J/E			DEBIT	CREDIT	
December 31 1976	1	Donations - Govt. of Canada - 501		2000 ⁰⁰		✓
		Unearned revenue - 304			2000 ⁰⁰	✓
		To allocate revenue in December to period Dec 1 to Jan 15				
December 31 1976	2	Salaries - 601		982 ⁰⁶		✓
		Accounts payable 301			784 ⁰⁹	✓
		Accounts payable - U.I.C., Income Tax 503			197 ⁹⁷	
		To record accrued salaries at December 31				
December 31 1976	3	Telephone 604		46 ²⁸		✓
		Heat and electricity 608		436 ⁹²		✓
		Accounts payable 301			483 ²⁰	✓
		To record bills from telephone company (46 ²⁸) provincial hydro (72 ²⁰) and Mannin Heating (364 ⁷²). Bills received in January, relate to December and prior				
December 31 1976	4)	Depreciation - Furniture - 613		1067 ²⁵		✓
		Depreciation - Equipment - 614		482 ²³		✓
		Furniture - accumulated depn. - 204			1067 ²⁵	✓
		Equipment - accumulated depn. 205			482 ²³	✓
		To record depreciation expense. Furniture depreciated on an even basis over 15 years, equipment on an even basis over 10 years.				
December 31 1976	5.	Inventory - Food - 103		403 ⁰⁰		✓
		Food supplies - 610			403 ⁰⁰	✓
		To record inventory of food at year end.				
December 31 1976	6)	Accounts receivable - 102		14 ⁰⁰		✓
		Revenue from residents 504			14 ⁰⁰	✓
		To record year end accounts receivable from residents				

When this is done the debit and credit columns under the closing balances heading should balance. If they do not, an error has occurred and the postings and extensions on the worksheet should be re-checked and the columns re-added.

The adjusting entries should then be entered in the General Journal and posted to the General Ledger.

Preparation of Statements

Financial statements can be prepared directly from the trial balance worksheet. Examples of financial statements are provided in Exhibits 12 and 13. Since the adjusting entries have been posted to the General Ledger, the statements will also agree with the accounting records of the residence. Financial statements are usually prepared on a comparative basis, so the results of the current year's operations may be compared to those of the previous year.

Closing Entries

The closing entries for the year are what their name implies. All the revenue and expense accounts are closed out so that these accounts for the next year will begin with no balances. Only the revenue and expenditure accounts are closed out, and the difference between the total of revenues and expenditures is closed to the equity account showing the accumulated excess of revenues over expenditures. These entries are entered in the General Journal and posted to the General Ledger so that the General Ledger will only contain balances which are properly carried forward to the new year.

Reversing Entries

There is another set of entries that will have to be made at the beginning of the year which is not shown on the trial balance page, because they affect only the new year. Just as the adjusting entries at the year end changed the statements from a cash basis to an accrual basis, at the

Exhibit 12
Illustration of
Balance Sheet

COMMUNITY HOUSE		
BALANCE SHEET AS AT DECEMBER 31, 1976		
	1976 \$	1975 \$
A S S E T S		
CURRENT ASSETS		
Cash		
Accounts receivable	3,363.01	2,067.22
Inventory	14.00	5,068.40
	<u>403.00</u>	<u>209.00</u>
	3,780.01	7,344.62
FIXED ASSETS		
Furniture and equipment	20,739.11	13,564.90
Less: Accumulated depreciation	<u>3,204.71</u>	<u>1,655.23</u>
	17,534.40	11,909.67
	<u>21,314.41</u>	<u>19,254.29</u>
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable	1,465.26	2,344.22
Unearned revenue	<u>2,000.00</u>	<u>1,600.00</u>
	3,465.26	3,944.22
EQUITY	<u>17,849.15</u>	<u>15,310.07</u>
	<u>21,314.41</u>	<u>19,254.29</u>

Exhibit 13

Illustration of Statement
of Revenue and
Expenditure and Equity

COMMUNITY HOUSE

STATEMENT OF REVENUE AND EXPENDITURES AND EQUITY

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976 \$	1975 \$
REVENUE		
Government of Canada - operating grants	29,800.00	23,400.00
Provincial government	20,777.00	16,750.00
Donations from charitable organizations	1,581.84	1,785.00
Donations from residents	416.00	469.21
	<u>52,574.84</u>	<u>42,404.21</u>
EXPENDITURES		
Salaries and wages	22,050.38	18,901.92
Employee benefits	3,362.08	2,622.03
Transportation	933.08	1,076.24
Telephone	694.10	487.63
Office stationery, supplies	197.63	327.62
Rental of home	8,400.00	7,200.00
Contracted services	196.42	687.63
Heating and electricity	2,186.93	1,864.21
Publications	87.00	125.00
Food supplies	9,199.41	6,427.18
Interest and bank charges	52.19	110.92
Miscellaneous	1,127.06	987.63
Depreciation - furniture and equipment	1,549.48	1,428.10
	<u>50,035.76</u>	<u>42,245.11</u>
NET REVENUE FOR THE YEAR	2,539.08	159.10
EQUITY - BEGINNING OF YEAR	<u>15,310.07</u>	<u>15,150.97</u>
EQUITY - END OF YEAR	<u>17,849.15</u>	<u>15,310.07</u>

beginning of the new year it is necessary to change the records back to a cash basis. This is done by "reversing" certain of the adjusting entries. Entries 1, 2, 3, 5 and 6 on Exhibit 11 were required to adjust the records to an accrual basis. By reversing the entries, the records are converted back to a cash basis. Entries correcting errors need not be reversed. Similarly, the depreciation entry is permanent.

Reversing entries are illustrated on Exhibit 14.

Exhibit 14
Illustration of
Reversing Entries

COMMUNITY HOUSE							
GENERAL JOURNAL							
					Page 7		
DATE				DEBIT	CREDIT		
1977	i)	Unearned revenue - 504		2000 ⁰⁰		✓	
January 1		Donations - Federal government - 501			2000 ⁰⁰	✓	
January 1	2)	Accounts payable - 301		784 ⁰⁹		✓	
		Accounts payable - U.C. Income Tax - 303		191 ⁹⁷		✓	
		Salaries - 607			982 ⁰⁶	✓	
January 1	3)	Accounts payable - 301		483 ²⁰			
		Telephone - 604			416 ²⁸		
		Heat and Electricity - 608			436 ⁹²		
January 1	4)	Food supplies - 610		403 ⁰⁰			
		Inventory - food - 103			403 ⁰⁰		
January 1	5)	Revenue from residents - 504		14 ⁰⁰			
		Accounts receivable - 102			14 ⁰⁰		
		To reverse 1976 adjusting year end entries.					

IX MEMORANDUM ACCOUNTS RECEIVABLE AND PAYABLE

This guide has been prepared on the cash basis of accounting on the assumption that most residences will wish to keep their accounting records as simple as possible. Therefore, it is suggested that records of amounts receivable or payable be kept on a memorandum basis, with accounting entries being made in the records of the residence only at the end of the fiscal period when financial statements on an accrual basis are prepared. Memorandum records provide the information necessary for accrual entries at the end of the accounting period.

Accounts Receivable

Most residences operate on the basis that where residents are employed they should make some contribution to the upkeep of the centre. Usually, a nominal amount - say one or two dollars a day - is charged, but it may not be collected until a later date when residents have received their wages.

Thus, there are two types of information that are necessary - first a record of amounts due and second a record of amounts unpaid. One way of doing the former is to keep a record showing for each resident the days for which a contribution is owing. Total amounts due may then be computed for each accounting period and cash receipts can be compared by reference to the duplicate receipts given to each resident. Amounts unpaid at the end of the period can then be readily determined by reference to these monthly records. At the end of the accounting period unpaid amounts should be reviewed and a decision made as to whether collection should be pursued.

When statements on an accrual basis are prepared, accounts receivable should be set up for only those amounts where there is reasonable certainty of collection.

Accounts Payable

There should be no need for a formal accounting record for accounts payable. If unpaid accounts are filed separately, determining amounts unpaid simply involves taking a listing of such invoices, and allocating each bill to the appropriate expense account.

X AUDITS

Residences that are incorporated are required by law to have their financial statements examined by an independent auditor once a year. An independent auditor is an individual who is not an employee of the residence, and therefore not subject to management's direction. He should be qualified under provincial legislation to express an opinion on financial statements. There are also other independent persons who are able to provide accounting assistance, but these cannot act as auditors and express an opinion on financial statements.

The function of an auditor is to do such work as is necessary to express an opinion on the financial statements of a residence. The auditor will examine the accounting system, and based on this examination conduct such investigations as are necessary to establish that financial statements present fairly the financial position and results of operations of the residence.

The auditor is also qualified to provide such accounting assistance and advice as are required to keep a proper set of books, and should be consulted on any matters that are not clear after reference to this guide.

END