

Global Accounting Concepts for Bookkeepers

Cash Basis versus Accrual Basis Accounting.

Cash Basis Method:

Cash Basis is an accounting method where transactions are recorded only when there is a change in cash.

Revenues are recorded when cash is received.
Expenses are recorded when cash is disbursed.

Revenues are recorded as of the date of the receipt of funds, no matter when the sale was made. Expenses are recorded at the date payments are made, regardless of when the cost was incurred.

This method does not recognize any promises to pay (Account Payables) or expectations to receive money or service (Account Receivable) in the future.

Buildings, Land, Vehicles, Equipment or Inventory are also not recorded.

In conclusion, important accounting information does not appear in the books and is missing for a complete and accurate financial picture of the entity.

The Cash Basis Method was used by ADOM entities until the switch to Logos.

Accrual Basis Method:

Accrual Basis is an accounting method where transactions are recorded only when they occur. It is not related to change in cash.

Revenues are recorded when they are earned.
Expenses are recorded when they are incurred.

Revenues are recorded in the period in which they are earned and expenses in the period in which they are incurred. Cash can be received or disbursed at a different date.

After revenues and expenses have been recorded, receivables and payables are set up if cash has not been received or paid. Therefore, this method allows the tracking of payables and receivables.

Revenues and Expenses are shown on the **Income Statement**
Receivables and Payables are shown on the **Balance Sheet**

The Accrual Basis method records also Buildings, Land, Vehicles, Equipment or Inventory.

In conclusion, Accrual Basis accounting provides a fairly complete and accurate financial picture of the entity.

The Accrual Basis Method is currently used on LOGOS by ADOM entities.

Income/Expenses examples on Accrual Basis

Offertory Collection Revenue.

St Paul Parish receives a \$1,000 donation on March 15th 2013.
Check is deposited at the bank the same day.

The Journal Entry dated 03/15/2013 will be:

Debit Cash by \$1,000
Credit Gifts and Donations Income by \$1,000

School Tuitions Revenue.

St John Elementary School receives \$20,000 tuitions for the next school year on May 20th 2013.
Funds are deposited at the bank the same day.

The Journal Entry dated 03/15/2013 will be:

Debit Cash by \$20,000
Prepaid Tuitions by \$20,000

No revenue is recorded on May 20th 2013 because this amount represents tuitions for the next school year beginning on August 20th 2013.
Cash has been received as a prepayment for future revenue.
This amount is due to the parents until 08/20/2013.

The Journal Entry dated 08/20/2013 will be:

Debit Prepaid Tuitions by \$20,000
Credit Tuitions Revenue by \$20,000

Revenue is recognized on 08/20/2013 which is the beginning of the school year.

Property & Liability Insurance Expense.

ADOM bills entity XYZ \$1,000 on April 1st 2013.
Entity XYZ is going to record the Property & Liability expense on April 1st 2013.
Two cases are possible.

1. Entity XYZ pays \$1,000 upon receipt. The Journal Entry dated 04/01/2013 will be:

Credit Cash by \$1,000
Debit P&L Expense by \$1,000

2. Entity XYZ doesn't make any payment. The Journal Entry dated 04/01/2013 will be:

Credit P&L Liability by \$1,000
Debit P&L Expense by \$1,000

In both cases, P&L expense is recognized on April 1st 2013.
In case number 2, entity XYZ records a \$1,000 debt to ADOM.

Related to case 2: On May 15th 2013, entity XYZ pays the April 1st 2013 P&L bill.

The Journal Entry dated 05/15/2013 will be:

Debit P&L Liability by \$1,000
Credit Cash by \$1,000

Entity XYZ has no more P&L debt with ADOM.

Electricity Expense.

FPL bills entity XYZ \$1,500 on February 10th 2013.
Entity XYZ is going to record the FPL expense on February 10th 2013.
Two cases are possible.

1. Entity XYZ pays \$1,000 upon receipt. The Journal Entry dated 02/10/2013 will be:

Credit Cash by \$1,500
Debit FPL Expense by \$1,500

2. Entity XYZ doesn't make any payment. The Journal Entry dated 02/10/2013 will be:

Credit FPL Liability by \$1,500
Debit FPL Expense by \$1,500

In both cases, FPL expense is recognized on February 10th 2013.
In case number 2, entity XYZ records a \$1,000 debt to FPL.

Related to case 2: On March 15th 2013, entity XYZ pays the February 10th 2013 FPL bill.

The Journal Entry dated 03/15/2013 will be:

Debit FPL Liability by \$1,500
Credit Cash by \$1,500

Entity XYZ has no more debt with FPL.

The Financial Statements

On the Accrual Basis System, accounting information is allocated to various Financial Statements: the Balance Sheet and the Income Statement.

The Income Statement or Profit and Loss Statement

This report shows only Revenues and Expenses.

The Net Income (Total Revenues – Total Expenses) is computed at the bottom of this schedule.

Here is a summarized Income Statement for a church:

Income:

- Offertory
- Fund Raising
- Gifts and Donation
- Ministries
- Financial Income
- Subsidies (ADOM, Parish to School, School to Parish)
- Tuition and Fees (Schools)

Expenses:

- Salaries
- Supplies
- Repairs and Maintenance
- Debt Service
- Assessment, P&L, Pension

Net Income (Income minus Expenses)

The Balance Sheet

This report shows only Assets, Liabilities and Fund Balance.

Data will be organized according to the following equality known also as the Accounting Equation:

$$\text{Assets} = \text{Liabilities} + \text{Funds Balance}$$

Here is a summarized Balance Sheet for either church or school:

Assets:

- Cash & Cash Equivalent
 - Cash Accounts (Checking, Petty Cash)
 - Savings Accounts
- Marketable Securities (Endowment Funds including CCF and Corpus)
- Receivables
- Prepaid Expenses
- Fixed Assets
 - Land
 - Buildings
 - Equipment

Liabilities:

- Accounts Payables
- Bank Loans
- ADOM Advances
- ADOM Liabilities (Assessment, P&L, Health, Pension)
- Deferred Revenues (Prepaid Tuitions)
- Trust Accounts (Student Clubs)

- Non Parochial Collections (ABCD, others)
- Mass Intentions

Fund Balance or Net Assets:

- Unrestricted Net Assets
- Temporarily Restricted Net Assets
- Permanently Restricted Net Assets