# Cash vs. Accrual

Record the following transactions that occurred in January 2012 using both accrual and cash methods of accounting. Compare the results.

|  |  |  |
| --- | --- | --- |
|  | **Cash** | **Accrual** |
| Income: |  |  |
|  |  |  |
| 1. Invoiced the city for 100 education sessions held in December, charging $500 for each session.
 | \_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |
| 1. Received a donation from an individual supporter for $5,000 in January 2012.
 | \_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |
| 1. Received $3,000 in pledges during January 2012 that will be paid in March.
 | \_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |
| 1. Received a payment of $25,000 on a $50,000 foundation grant that was awarded in October 2011.
 | \_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |
| **Total income** | **\_\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_\_** |
|  |  |  |
|  | **Cash** | **Accrual** |
| Expenses: |  |  |
|  |  |  |
| 1. Paid December salaries for a total of $35,000 on January 5, 2012.
 | \_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |
| 1. Incurred $35,000 in salary expense in January to be paid on February 5, 2012.
 | \_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |
| 1. Received office supply bill for $500 on for orders placed in January.
 | \_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |
| 1. Paid $2,000 to a local hotel to cover the remaining balance due on a fundraising event held in December.
 | \_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |
| **Total expenses** | **\_\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_\_** |
|  |  |  |
| **Income – expenses** |  |  |

# Recording Income – When & How?

Indicate when and how the following grants and contributions would be recorded on an accrual basis:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **When?** |  | **How?** |
|  | **Unconditional** | **Conditional** |  | **Unrestricted** | **Temporarily****Restricted** | **Permanently****Restricted** |
|  |  |  |  |  |  |  |
| 1. A foundation promises to give $25,000 for current operations.
 | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
|  |  |  |  |  |  |  |
| 1. A foundation awards a 3-year grant for $150,000 to support the meal delivery program.
 | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
|  |  |  |  |  |  |  |
| 1. Individuals pledge to contribute $65,000 to the organization’s endowment.
 | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |  | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
|  |  |  |  |  |  |  |
| 1. A foundation awards a 3-year $30,000 grant to support nutrition education programs contingent upon the organization raising another $60,000 in matching funds.
 | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |

**The Accounting Equation**

**Transaction 1:** The organization receives a grant for $3,000.

The $3,000 is recorded as both an Asset (Checking Account) and Revenue (Foundation Grants). Thus, both Assets and Net Assets are increased by $3,000 and the accounting equation remains balanced.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Net Assets |
|  |  |  |  | Revenue (increases Net Assets) | Expense(decreases Net Assets) |
| ⇑ $3,000 Checking Account |  |  |  | ⇑ $3,000 Foundation Grants |  |

**Transaction 2:** The organization writes a check for $100 for its phone bill.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Net Assets |
|  |  |  |  | Revenue  | Expense |
|  |  |  |  |  |  |

**Transaction 3:** The organization receives a $50 donation.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Net Assets |
|  |  |  |  | Revenue  | Expense |
|  |  |  |  |  |  |

**Transaction 4:** The organization purchases $200 in supplies and pays with a credit card.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Net Assets |
|  |  |  |  | Revenue | Expense |
|  |  |  |  |  |  |

**Transaction 5:** The organization enters a bill for a $500 computer, payable within 30 days.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | = | Liabilities | + | Net Assets |
|  |  |  |  | Revenue  | Expense |
|  |  |  |  |  |  |

**Debits & Credits**

Record each of the sample transactions as the proper Debits and Credits.

**Transaction 1:** The organization receives a grant for $3,000.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**Transaction 2:** The organization writes a check for $100 for its phone bill.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**Transaction 3:** The organization receives a $50 donation.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**Transaction 4:** The organization purchases $200 in supplies and pays with a credit card.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**Transaction 5:** The organization enters a bill for a $500 computer, payable within 30 days.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**Posting Depreciation**

Record the sample transaction as the proper Debits and Credits.

An organization purchases a piece of equipment for $2,400 and plans to depreciate it over 3 years,
per the organizations capitalization policy. How do you record this transaction at the time of purchase? Assume that $1,000 is paid in cash and $1,400 is on credit.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

What transaction will you record at the end of each year for the next 3 years (assuming you only post depreciation on an annual basis)?

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

# Financial Statements

**Preparing a Trial Balance**

An organization’s financial records must be balanced before financial statements can be prepared. A proof that the books are balanced is the testing to make sure that the debits equal the credits in the general ledger. In a manual system all the debit balances in each of the general ledger accounts are listed in one column, and all the credit balances in each of the general ledger accounts are listed in the other column. If the total of all debits equals all credits, then the books are balanced and the bookkeeper can proceed to create financial statements. A computerized accounting system automatically checks to see that debits equal credits; a trial balance report can be generated to confirm the amounts in each account.

Using our transactions from above, the following trial balance can be prepared:

|  |  |  |
| --- | --- | --- |
| *Sample:* |  |  |
| Trial Balance |  |
| Account Name | Debits | Credits |
| Checking | 1,950 |  |
| Capital Purchases | 2,400 |  |
| Acc. Depreciation |  | 800 |
| A/P |  | 500 |
| Credit Card |  | 1,600 |
| Contributions |  | 50 |
| Foundation Grants |  | 3,000 |
| Supplies | 200 |  |
| Telephone | 100 |  |
| Computers | 500 |  |
| Depreciation | 800 |  |
| TOTAL | 5,950 | 5,950 |

# Financial statements (continued)

The two primary monthly financial statements are the Statement of Financial Position and Statement of Income and Expenses. The Statement of Financial Position gives a financial picture of the organization at a given point in time. The Statement of I&E summarizes total income and expenses, as well as changes in net assets (excess/deficiency of income over the expenses for the accounting period) and net assets at end of the period.

|  |
| --- |
| *Sample:***Statement of Financial Position** |
| Assets |  |
| Checking | 1,950 |
| Capital Purchases | 2,400 |
| Accumulated Depreciation | (800) |
| Total Assets | 3,550 |
|  |  |
| Liabilities & Net Assets |  |
| A/P | 500 |
| Credit Card | 1,600 |
| Net Assets | 1,450 |
| Total Liabilities & Net Assets | 3,550 |

|  |
| --- |
| *Sample:***Statement of Income & Expenses** |
|  |  |
| Revenue & Support |  |
| Contributions | 50 |
| Grants | 3,000 |
| Total Revenue & Support | 3,050 |
|  |  |
| Expenses |  |
| Supplies | 200 |
| Telephone | 100 |
| Computers | 500 |
| Depreciation | 800 |
| Total Expenses | 1,600 |
|  |  |
| Changes in Net Assets | 1,450 |
| Net Assets at Beginning of Year | 0 |
| Net Asset at End of Year | 1,450 |

# Financial statements (continued)

Food.org had the following activity during their first year in operation (Jan-Dec 2012). They opened a checking account and the bank provided them with a line of credit for which they do not charge interest. The organization has just set up accounting software and needs to enter their 2012 financial activity by journal entry. Record each of the following transactions as the proper Debits and Credits.

The We Care Foundation gave us a check for $30,000 in general operating support.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

We paid $7,500 in rent

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

We spent $10,000 on food, paying cash for $5,000 and putting the rest on the organization’s credit card.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

We bought $2,500 in supplies from a supply store in December that will be paid for in January.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

We acquired a $1,000 insurance policy for 2013 on December 28.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

# Financial statements (continued)

We bought kitchen equipment for $3,000 on December 30, which is over the organization’s capitalization threshold.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

Finally, the organization spent $2,000 in educational materials using our line of credit.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Account Name** | **DR** | **CR** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**Trial Balance (optional)**

|  |  |  |
| --- | --- | --- |
| **Account Name** | **DR** | **CR** |
| Checking |  |  |
| Prepaid Expenses |  |  |
| Capital Purchases |  |  |
| Accounts Payable |  |  |
| Credit Card |  |  |
| Line of Credit |  |  |
| Foundation Grants |  |  |
| Supplies |  |  |
| Educational Materials |  |  |
| Rent |  |  |
| Food |  |  |
| Insurance |  |  |
| **TOTAL** |  |  |

**Financial statements (continued)**

Prepare accrual basis financial statements from the information below.

*Hint: Although the Statement of Financial Position is normally presented first, it is often easier
 to calculate the Statement of Activities first.*

Food.org

**Statement of Financial Position**

As of December 31, 2012

|  |  |
| --- | --- |
| Assets |  |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| **Total assets** | **===========** |
|  |  |
| Liabilities and net assets |  |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| Total liabilities | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| Net assets | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| **Total liabilities and net assets** | **===========** |

# Financial statements (continued)

Food.org

**Statement of Activities**

For the period ended December 31, 2012

|  |  |
| --- | --- |
| Income |  |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| **Total income** | **\_\_\_\_\_\_\_\_\_\_\_\_** |
|  |  |
| Expenses |  |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| **Total expenses** | **\_\_\_\_\_\_\_\_\_\_\_\_** |
|  |  |
| Beginning net assets | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| Change in net assets | \_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |
| Net assets – ending | =========== |