

# ACCOUNTING 101 - INTRODUCTION TO UNIVERSITY ACCOUNTING

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## ACCOUNTING CONCEPTS

### Accounting Standards

Why have them? They offer reliability and comparability

What are they? They come from several sources:

- GAAP – Generally accepted accounting principals
- GASB – Governmental Accounting Standards Board
- FASB – Financial Accounting Standards Board
- NACUBO – National Association of Colleges & University Business Officers

### Balance Sheet

A balance sheet is a statement of financial condition at a given date. It is the statement of your net assets, or your “fund balance.”

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

**Assets** are items you own, with a probable future economic benefit. Examples include: buildings and capital improvements; inventory; cash; and accounts receivable. An asset normally shows as a *debit* balance.

**Liabilities** are probable future sacrifices of economic benefit arising from present obligations. Stated simply, they are what you owe. A liability is normally shown as a credit balance. Examples at the university include salaries, deferred income and accounts payable.

A **Fund Balance** reflects what you are worth. In private industry it’s known as retained earnings.

$$\text{Beginning Balance} + \text{Income} - \text{Expense} = \text{Ending Balance}$$

### Income Statement

The income statement is a picture of how you did each year, and is closed at year end. It includes all of your revenues, expenses and changes in net assets for the year.

$$\text{Revenues} - \text{Expenses} = \text{Net Income}$$

$$\text{Net Income} +/- \text{Other Fund Balance Changes} = \text{Total Change in Net Assets}$$

**Revenues** are external income to the university. Examples include state appropriations; student fees sales and service to outside entities; and extramural funds. Revenues normally show as *credit* entries.

**Expenses** (aka, expenditures) are generally goods and services purchased to meet the mission of the university. Other expenses include those related to running the university, such as salaries and employee benefits. An expense normally shows as a *debit* entry.

**Recharges** are charges to departments for goods and services provided internally. They are treated like income by the department providing the good or service. However, recharges are strictly not for profit. The internal rates equal the recovery of costs incurred in providing the good or service.

$$\text{Original cost of item(s)} + \text{expense to provide good/service} = \text{recharge rate}$$

When recharges and expenses are totaled across UC, the net effect is the original cost. This avoids double recording of cost: once when purchased and again when sold internally.

**Expense Reimbursements** are external payment for specific costs incurred by the university. For example, reimbursement by an employee for personal telephone calls. This is not a revenue, but rather a reduction of expense.

**Encumbrances** (aka, liens) are a firm commitment placed against funds for goods or services not yet received. These do not show up in the financial statements, as they are not yet expenses.

## Double Entry Accounting System

First seen in 14<sup>th</sup> century Italy. Every transaction has two entries – a debit and a credit. Therefore, debits must *always* equal credits.

**Debits** are generally shown as a positive (+) number. As seen earlier, debit entries are your assets and your expenses.

**Credits** are generally shown as negative (-) number. As shown earlier, credit entries are your liabilities and revenues.

## For Profit vs. Not For Profit

Attribute	For-Profit Business	Public University
<b>Purpose</b>	Profit for owners/shareholders	Service to beneficiaries at cost, below cost or at no cost. <b>No Profit!</b>
<b>Operations</b>	Production and sale of products and/or services at a price to exceed cost to make and sell	<ul style="list-style-type: none"> <li>• Providing services</li> <li>• Fund raising</li> </ul>
<b>Measures of success</b>	Amount of profit, return on investment, financial condition	Percent of receipts expended for stated purpose. Amount of funds obtained.
<b>Interest and relationships</b>	Customer satisfaction is essential; management subject to investor control	Contributors/tax-payers are essential; management subject to political control
<b>Accounting standards</b>	Financial Accounting Standards Board (FASB)	Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB)

## Restricted vs. Unrestricted Funds

**Restricted Resources** are unique to non-profit, or public, entities. Limitations on use of funds are external only; they cannot be restricted internally. Examples of sources of these funds, and their restrictions, include donors, contracts and government agencies.

**Unrestricted Resources** have no external conditions placed on their use. Examples include state appropriations or unconditional gifts.

**Designated Resources** are not restricted by the fund source, but may have conditions placed by the UC Regents, Office of the President or the Chancellor. Examples include faculty research grants and opportunity funds.

## FUND ACCOUNTING OVERVIEW

Fund Accounting tracks the receipt and use of resources by the source of the funds. It is used by all Higher Education institutions. The following are the fund groups used:

- Current funds
- Loans
- Endowments
- Annuity and Life income
- Plant funds
- Agency funds

### Current Fund Classifications

Current Funds is the category of funding most commonly used for the operations of the university. Reference: UC Accounting Manual A-115-1, page 11

### Current Unrestricted Funds

Current Unrestricted Funds can be used for any institutional purpose designated by The Regents. Following are the funds under this subgroup:

#### General Funds

Most General Funds are provided by the State and are spent within the overall constraints of the approved State budget. Additional sources of General Funds are student fees, such as admissions fees and nonresident tuition, and other miscellaneous revenues.

#### Student Fees

Student fees represent funds which are used to provide services (student health services, counseling, etc.) to regularly enrolled students, or, in the case of University Extension and Summer Sessions, to support the entire instructional program.

#### Sales and Services of Educational Activities

These funds are used to operate organized activities, i.e., income-producing activities operated by departments in connection with the training of students. Examples of such activities are the operations of medical and dental school clinics. These funds are also used for the activities of educational departments.

#### Sales and Services of Auxiliary Enterprises

These funds are used in the operation of auxiliary enterprises, which are operated primarily for service to students and staff, such as residences and dining halls; student unions, when not operated independently by the students; and intercollegiate athletics, when not operated as a part of the physical education program. Income is derived from charges to users.

#### Sales and Services of Teaching Hospitals

These funds are used to operate teaching hospitals related to the medical schools.

## Other Sources

Other Sources include income sources which do not fall naturally into any of the other classifications. Examples of Other Sources are royalties on patents, some sales of surplus equipment, dental work performed at student health centers, and sales of University Press publications. The funds are used for purposes related to the income source.

## Reserves

Reserves represent fund balances set aside for future use. They are appropriated to expenditure accounts or transferred to other funds as they are needed. One example is the self-insurance reserve which is derived from insurance charges to departments. Other examples are the numerous reserves for maintenance and replacement of equipment derived from the earnings of auxiliary and service enterprises, organized activities, and other income-producing activities.

## Current Restricted Funds

Current Restricted Funds are subject to special restrictions established by various outside sources in accordance with the purpose established by the source of the given fund. Following are the funds under this subgroup:

### State of California

State of California funds are funds appropriated by the Legislature for special research projects or received under contracts with State agencies. State funds for general operating purposes are classified under Current Unrestricted Funds.

### United States of America

United States of America funds are funds to be used in Federal projects and programs. A major portion of these funds is used for research under contracts and grants. Also, a large amount is used for Federal student aid programs.

### Local Governments

Local Governments funds are funds to be used under contract with local governments or tax districts (cities, counties, school districts, etc.).

### Endowment Income

Use of Endowment Income is restricted to the enrichment of educational and research programs beyond the level that the State is able to provide. NOTE: Some of these funds are classified as Unrestricted Funds, according to donor designation.

### Private Gifts, Grants, and Contracts

This subgroup, like Endowment Income, is also used for the enrichment of University programs. However, income consists of current gifts, grants, and contracts, rather than return on the investment of principal. **Note:** Some gift funds are classified as Unrestricted Funds, according to donor designation.

Gifts are funds donated irrevocably for individuals or organizations. Gift do not involve contractual consideration--such as tangible specified services--provided to the donors by the University.

Grants and Contracts are written agreements with external sponsors (generally not individuals) in training, public service, or non-standardized testing/other services. An agreement which contains one or more of the following provisions is generally a contract or grant: (1) a research protocol or other statement of work, (2) a designated period of performance, (3) a budget, (4) an obligation to account for costs incurred and to return unspent funds, and (5) disposition of intellectual property rights. The following are examples

of grants and contracts which should not be classified as sales and services: agreements to test a company's drug or device; agricultural marketing board orders; sales of survey services (data collection and/or analysis); and service to industry agreements.

## **OP Accounts: Higher Education Function Codes**

Expenditure accounts are classified according to program, which corresponds to the purpose for which costs are incurred. Reference: UC Accounting Manual A-115-1, page 11

The higher education function classifications are as follows:

### **Instruction**

All current expenditures of instructional departments, including expenditures for research done as a part of regular instructional programs are included under this function. Expenditures for Summer Sessions and University Extension programs are also under this function. These expenditures may be for salaries, staff benefits, office expenses and equipment, laboratory expenses and equipment, or other departmental expenses. Museums may be included if they are intended primarily for instruction.

### **Research**

This function records the expenditures of all separately organized research units, including research institutes, centers, bureaus, laboratories, and stations. Museums are included when their collections are primarily employed by those engaged in research.

Research also includes expenditures for specially budgeted research such as investigations performed under contracts and grants, even in cases in which the research is administered by an instructional department.

### **Public Service**

This category is used for expenditures for activities intended to serve the general public. Examples of Public Service activities include holding campus cultural events, operating museums intended primarily for the public, and providing Cooperative Extension.

### **Academic Support**

This function records the gross expenditures of all activities which are organized and operated in connection with educational departments and which are conducted primarily as necessary components of professional training programs. These activities include running optometry and dental clinics, home economics cafeterias and nurseries, demonstration schools, and inter-collegiate athletics programs (when such programs are operated as part of the physical education department). Income-producing activities not related to instructional programs are classified under other functions, as appropriate. The Academic Support function also includes the total expenditures of all central and branch libraries administered by the campus general libraries. Such expenditures include salaries and wages, other operating expenses, books, and binding costs. Expenditures of libraries administered by instructional departments or organized research units are charged to the appropriate departmental budgets.

### **Maintenance and Operation of Plant**

This heading includes all expenditures for salaries and wages, supplies and expense, and equipment required to maintain and operate the physical plant used by the University, including janitorial service, grounds maintenance, utilities, and major repairs. Many expenditures are recharged and reported under other functions, such as expenditures for services performed for auxiliary enterprises and for special repairs and maintenance work ordered by specific departments.

**Student Services**

This function includes expenditures for services to the student body as a whole. Examples are expenditures for student health services, counseling programs, placement centers, and graduation ceremonies, and expenditures of the offices of the registrar, dean of students, and director of admissions.

**Institutional Support**

This function includes expenditures of the general administrative offices serving the University as a whole, including all costs of the offices of The Regents, President, vice-presidents, chancellors, business officers, accounting officers, personnel managers, etc.

This category also includes various current expenditures of the University as a whole that are of a general character and not related to any specific division, exclusive of the libraries and plant operations. Examples of departments whose expenditures are included in this function are the alumni office, public information office, and University Press.

The expenses of service departments are also in this function; these expenses are partly or fully recharged to accounts in other functions. Examples of service departments are the central garage, storehouse, publications office, mail and messenger service, and telephone and telegraph service.

**Student Aid**

Under this function are all expenditures for scholarships, fellowships, and prizes. Salaries paid to students under special aid programs requiring service from the student, such as the Work-Study Program, are reported not under Student Aid but under the function where services were performed. Scholarship payments of tuition and fees are recorded as Student Aid expenditures and Student Tuition and Fees income.

**Teaching Hospitals**

Expenditures for Teaching Hospitals are recorded under this classification.

**Auxiliary Enterprises**

This function, intended to be self-supporting, records the gross expenditures of enterprises which are operated primarily for service to students and staff, such as residences and dining halls; student unions, when not operated independently by the students; and intercollegiate athletics, when not operated as a part of the physical education program.

**Other Fund Groups****Loan Funds**

These are resources used for loans to students, faculty and staff. The principal must be repaid, and interest is usually charged.

**Endowments, and Similar Funds**

Generally the principal is used to earn interest, and the earnings are then moved to current funds to spend. Term endowment funds and quasi-endowment funds also fall in this category.

## Plant Funds

Plant funds fall into the following subgroups:

- Unexpended
- Renewals and Replacements
- Retirement of indebtedness
- Investment in plant

## Agency Funds

These are funds that belong to someone else, but are being held by the university. For example, student organizations will have agency accounts for their functions. This money does not belong to the university, and is listed on financial reports as a liability.

### OP Fund Numbers

The OP fund number is a 5 digit code that identifies the source of the revenue, and whether it is restricted or unrestricted funding. The OP fund number is tied to the accounts used in DaFIS, and is just one of the pieces that indicates the purpose of the account.

## CHART OF ACCOUNTS

The chart of accounts is the blueprint for the accounting system. It sorts and classifies financial transactions. It also allows for identification of:

- Restricted vs. Unrestricted funding
- Ownership vs. Agency accounts

The Chart of Accounts is “the keys to the kingdom.” In DaFIS, the Chart of Accounts is manifested in the Full Accounting Unit (FAU).

### Elements of the Full Accounting Unit

- White boxes are always required
- Gray boxes are optional fields
- Length indicated in ( )



Details on all elements of the FAU can be found at <http://dafis.ucdavis.edu/help/whatisit/fau.cfm>. For our purposes, we will look specifically at the Account and Object elements and their associated attributes.

## DaFIS Account Attributes

### Organization

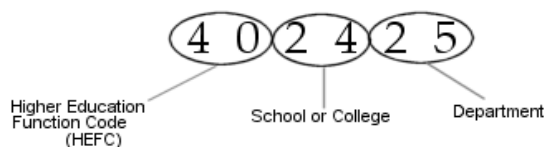
Every DaFIS account is tied to a DaFIS Organization, represented by a 4 character code determined by the department. The organization is normally the unit incurring the transactions; however, DaFIS Organizations are not a one-to-one relationship with university business units. One unit, or department, may have several organizations and subordinate organizations in DaFIS.

### OP Fund

Every account has an OP fund, represented by a 5 character code, which identifies the fund source of the DaFIS account. This code is assigned by any of the following: award document, OP, Extramural Accounting or General Accounting. OP funds are further grouped into sub-funds, which are a general classification of the fund source.

### OP Account

The OP account number directly links your expenditures to the type of expense (Instruction, Research, Student Services, Student Financial Aid, etc.) being reported. It also identifies your school or college and your specific department. This information is contained in the six digits of the OP account, as follows:



Each OP account is “owned” by an organization. Expenditures associated with an OP account are reported under the school or college the OP account references. It is important to check your OP account organizations to make sure they are reporting correctly to your school or college. Use the **Annual Report Codes by Organization (226)** query in Decision Support to do this.

A complete description of the OP account number, along with examples, can be found in Appendix A, or at <http://accounting.ucdavis.edu/GA/opinfo.cfm>.

## DaFIS Object Attributes

Every transaction must have an object code. The object code, and its attributes, describe the activity and type of financial transaction. It allows the activity to be summarized and reported on the Financial Report.

### Object Consolidation

Consolidations, represented by a 4 character code, are a summarization of objects for budgeting purposes. For example, SUB3 is the consolidation for supply and expense transactions, while SUB4 is the consolidation for inventorial equipment expenses. Every object rolls up to a consolidation, and consolidations themselves are object codes.

### Object Type

Every object also has an object type. This 2 character code is used to categorize transactions for financial reporting statements. Examples of object types include: AS (assets), LI (liability), IN (income) and EX (expense).

### Other Object Attributes

Other attributes associated with each object include the Object Level and Object SubType. These attributes are mostly used for ad hoc reporting purposes.

### **Object Codes - Specific Types**

**Balance Sheet** objects are always used in balance sheet accounts. Examples include 0470 (inventories) and 0000 (unexpended balances). At year end these objects can be used against expense accounts, when balances are moved to balance sheet accounts then reversed in the new year. An example for this case would be 0299 (accounts receivable).

**Revenue** objects can be used in revenue accounts (IN) or expense accounts (EX). Examples of these are 0060 (Income) and 0078 (Cashier's adjustment).

**Expense** objects are the most numerous group – with more than 5,000 available. These are generally run in series, for example: 7xxx are services, 8xxx are supplies and 9xxx are equipment expenses.

Appendix B contains a list of commonly used objects, along with their descriptions and consolidations.

## **FINANCIAL REPORTING**

There are two major reports used in financial reporting: the Annual Report and the Annual Financial Schedules.

### **Annual Report**

This report shows the financial condition of the university. It is used for management discussion and analysis. Donors and creditors look at this report to determine the value of a potential investment. It is also used as a comparison with other public universities.

### **Annual Financial Schedules**

There are four schedules prepared annually:

- Schedule A – Revenues by Fund Source
- Schedule B – Expenses by Uniform Accounting Structure and Academic Discipline
- Schedule C – Expenses by School/College, Higher Education Function and Annual Report Code
- Schedule D – Expenses by Fund Source

These schedules are used for overhead distribution (Schedule C), to determine research expenditures, and for comparability of revenues/expenses to other UC campuses and other universities.

## GLOSSARY

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<b>Asset</b>	Items owned.
<b>Balance Sheet</b>	A statement of financial condition at a given date.
<b>Depreciation</b>	Allows assets to be capitalized over time rather than as a one time expense. Applies to items that have a long term benefit, but a one time cost.
<b>Equity</b>	The money value of a property or of an interest in a property in excess of claims or liens against it.
<b>Indirect Costs</b>	The costs of conducting business that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with particular projects (such as individual grants or contracts) or with a specific activity (such as instruction, research, public service).
<b>Indirect Cost Recovery (ICR)</b>	<p>The process of calculating the rate at which these costs can be recovered from associated activities. There are two different types of cost rates:</p> <ol style="list-style-type: none"> <li>1. The Off-Campus Facilities and Administrative Cost Rate is applied to sponsored projects conducted at facilities not owned or leased by the university.</li> <li>2. The On-Campus Facilities and Administrative Cost Rate is applied to sponsored projects when project is conducted on-campus.</li> </ol> <p>Indirect cost rates are available at <a href="http://www.ucop.edu/costingpolicy/rates.html">http://www.ucop.edu/costingpolicy/rates.html</a>.</p>
<b>Liabilities</b>	Money or services owed to someone who has provided a good or service.
<b>Plant</b>	Operations and maintenance of facilities and grounds.

## RESOURCES

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### ANNUAL FINANCIAL REPORTS -

Financial Schedules and Reports: <http://accounting.ucdavis.edu/Reports/>

### DAFIS ACCOUNTS

Account Document Online Reference: <http://dafis.ucdavis.edu/olrm/index.cfm?doc=ACCT>

How Do I ... Create an Account: <http://dafis.ucdavis.edu/help/howdoi/account/>

How Do I ... Expire an Account: <http://dafis.ucdavis.edu/help/howdoi/xaccount/>

Classes: Account Manager 101 (<http://dafis.ucdavis.edu/training/fullclasslist.cfm>)

### FULL ACCOUNTING UNIT -

What is it ...? The Full Accounting Unit: <http://dafis.ucdavis.edu/help/whatisit/fau.cfm>

### EXTRAMURAL FUNDS -

Extramural Funds Accounting web site: <http://accounting.ucdavis.edu/EX/>

Office of Research web site: <http://ovcr.ucdavis.edu/vc/VC.html>

Classes: Extramural Accounting: Post Award Administration  
(<http://sdps.ucdavis.edu/browse/ba/ba0155.htm>)

### OP ACCOUNTS -

OP Location/Account/Fund Information: <http://accounting.ucdavis.edu/GA/opinfo.cfm>

