

# General Accounting Review

A brief review of several accounting concepts and theories will greatly enhance one's understanding of the accounting process. Specifically, this review will enable a more thorough grasp of *General Journal* entries, as well as a more complete understanding of the other input forms.

If a single review of this material does not produce a full understanding, do not be concerned. The concepts and theories presented here are somewhat difficult and several reviews may be necessary. Time spent here, however, will be well invested because of the time saved each month during the completion of monthly reports.



***Covered in this review are two (2) main areas:***

1. The five (5) categories of accounts which comprise the financial statements.
2. Effects of debits and credits on each of the five (5) categories.

## **ACCOUNT CLASSIFICATIONS**

Five (5) categories of accounts are used for both bookkeeping and reporting purposes, and therefore, make up the financial statements. Each category is comprised of many individual accounts. Every financial transaction will affect one or more of these five categories. The five (5) types of categories are:



## 1. Assets: Account Number Range—1000s

An asset is any resource which has a monetary value. This includes any checking or savings account, certificates of deposit (*even if controlled by a parish society*), petty cash, accounts receivable, prepaid expenses and land held by the parish. An asset account **NEVER** has a cost center associated with it.



## 2. Liabilities: Account Number Range—2000s

A liability is any amount owed by the parish to another party. This includes notes or mortgages payable, accounts payable, payroll and payroll taxes deducted from employees' checks. A liability account **NEVER** has a cost center associated with it.

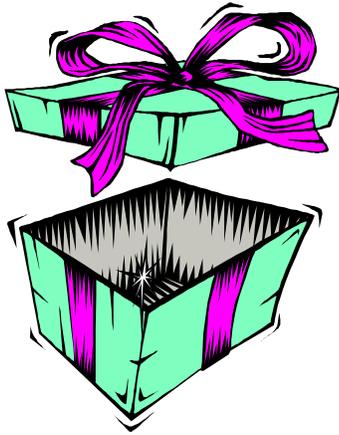


## 3. Fund Balance: Account Number—3000 & 3001

The fund balance simply reflects the "net worth" of a parish. It is the difference left when total liabilities are subtracted from total assets. When an entry is to be made to the fund balance, the finance department will make the adjustment. Prior year adjustments are made to account 3001.



#### 4. Revenues: Account Number Range—4000s



Revenue is defined as money, or equivalent, earned or accrued during an accounting period which increases the total of previously existing net assets (arising from sales or rentals of any type of goods or services, interest, gifts, and recoveries from damage.) A revenue account **ALWAYS** has a cost center associated with it.



#### 5. Expenses: Account Number Range—5000s & 6000s

Expense is defined as any expenditure or operating cost of a present or past period. Included are utilities, building or grounds maintenance, wages, employer's portion of payroll taxes and employee benefits. An expense account **ALWAYS** has a cost center associated with it.



# DEBITS & CREDITS

Effects of debits and credits on each of the five (5) categories is displayed below by the use of "T" accounts. Debits are always on the left while credits are always on the right. Notice in the examples below how debits and credits affect the various categories differently.



## ASSETS

Debit Increase (+)	Credit Decrease (-)
<b>Normal Balance</b>	

## LIABILITIES

Debit Decrease (-)	Credit Increase (+)
	<b>Normal Balance</b>

## FUND BALANCE



Debit Decrease (-)	Credit Increase (+)
	<b>Normal Balance</b>



## REVENUES

Debit Decrease (-)	Credit Increase (+)
	<b>Normal Balance</b>

## EXPENSES

Debit Increase (+)	Credit Decrease (-)
<b>Normal Balance</b>	