**ACCOUNTING**

**101**

**DRAFT**

**Accounting: 101**

Accounting is the classification, validation, and documentation of Financial Data of a business.

It has methods, rules, nomenclature, and procedures that are used to insure consistency. This consistency must be adhered to as it is the Language of Business Communications.

Accounting is a responsibility. Information is communicated and archived for internal and external business participants. The persons entering or reporting on its information are accountable for how they utilize it.

For Accounting Information to be useful, it must be consistent in form, inputted in a timely and routine basis, verifiable and supported with independent documentation, and also unambiguous.

Many, many user rely on this information for diverse purposes. If the rules and the classifications are followed, it can be used to make decisions and be an efficient method for communication and planning across areas.

It can answer: How much is available?

 What has been purchased?

 Who has been paid?

 Who has charged me?

Accounting is the method of recording. An Accounting Information System is a tool to accomplish this. If a financial activity is not recorded in the Information System, it is not recognized as a part of the Operations of the Organization. This adherence to proper recording of the activity is part of the Planning and Control process. Data is accumulated so that reports can be prepared, distributed, and reviewed.

The Accounting System at the University of Maryland, Baltimore County is PeopleSoft Finance. Its uses are to record, report, and inform the Financial Information of the University.

FINANCIAL INFORMATION

BUDGETS: Used to record an amount of money within the Financial System for Future uses. Budgets are compared with actual activities to establish variances. The responsibility of the management of the budgeted funds resides in the local unit. Budgeted funds can allow discussions on:

 Allocating resources.

 Implementing a project plan.

 Identifying financial needs.

 Displaying the financial actions required to fulfill a goal.

CHART OF FINANCIAL ACCOUNTS: Used to record activity within the Financial System that is directly related to the support of the Unit that manages the Budget. The activity recorded should adhere to:

Allocable: A direct relationship can be establish between the activity and to the purpose of the Unit / Project / Account to where it is recorded.

 Allowable: There exists no rules or reasons why the activity is illegal or not allowed.

Reasonable: The activity is not excessive in quantity or cost as that the Manager of the funds acts with good stewardship of the funds.

Consistency: All activity of similar nature is recorded in a similar manner whenever possible.

REVENUES: Activities that increase funds within an account or a Unit. These Revenue Activities are accumulated in Revenue Accounts. Revenue activities can be, but are not limited to: payment for sales of goods or services, interest on balances, collected fees, and rental income.

EXPENSES: Activities that decrease funds within an account or a Unit. These Expense Activities are accumulated in Expense Accounts. Expense activities can be, but are not limited to: salaries to employees, purchased supplies or equipment, depreciation, and administrative costs.

TRANSFERS: Activities that shift or share a revenue or an expense between accounts or Units. Transfers should always occur between two Revenue Accounts or between two Expense Accounts. This represents the matching principal of Accounting where similar activities are treated in a similar manner.

In the Chart of Financial Accounts, there are Special Intra-Campus Accounts that should only be used by Central Administrative Units. The activity within these accounts represent unbudgeted Central Administrative financial support for other units.

For UMBC’s Chart of Accounts, please view this webpage: <https://financialservices.umbc.edu/chart-of-accounts/>

Accounting Transaction Centers

Areas of the University that contribute heavily to the transactions in the General Ledger

Accounts Payable

The area that processes payments to outside entities in the form of vouchers. The payments appear in the

PeopleSoft General Ledger as expenses. Payments for supplies and equipment should be recorded in the accounts and units for where the benefit of the purchase is being derived.

Budget Management

The area that establishes Budgets for the Units within PeopleSoft providing for the overall financial framework of the University and the State of Maryland. Budgets represent the expected annual activity of a unit. If expectation change within the year, the budget should be changed as well.

General Accounting

The area that processes journal entries within PeopleSoft to facilitate the transfer activity of the units. This area is also responsible for the proper recognition of all revenue activity within PeopleSoft. Periodic Financial Statements are produced for external review by the University System, the State of Maryland, and other auditors.

Payroll

The area that process payments to Employees in the form of Salary and Fringe Benefit expenses. A direct and proportional relationship must be maintained between where the employee is working and from where the expense is being recorded.

Purchasing

The area that processes requests to outside entities for goods and services. This area negotiates on behalf of all units of the University for fair and standard treatment by Vendors. Purchasing activity is not an expense until, when, Accounts Payable completes the financial agreement by processing an authorized voucher. Negotiated contracts and purchase orders establish Encumbrances within PeopleSoft Finance. If the negotiated agreement is never fulfilled, no financial commitment is established.

Service Units

Areas in the University that function as Functional Specialist and provide their expertise on a ‘for hire basis’. Their services are billed out as Invoices and appear as expenses in PeopleSoft Finance for the requestors. The offset appears as revenues in PeopleSoft Finance for the service providers. This is not a violation of the matching principal as that one unit is providing a service for which the other unit has requested. Service Units are reviewed by the Cost Accountant. (Tammy is updating this link as of 1.31.19) <https://financialservices.umbc.edu/cost-accounting-analysis/>

Student Business Services

The area that bills and collects tuition and fees from enrolled students. The activity appears in PeopleSoft General Ledger as revenues.

Accounting: from A to Z

Assets

Something that is owned, that has value. Examples: Cash, Accounts Receivable, Inventory

Budget

An amount of funds that is established for a specific purpose for a specific period of time. Actual expenses for the period are compared to the budgeted amount in order to determine what remains to be spent. That amount is referred to “Budget Balance Available”.

Credits

The right side of the accounting equation. Liabilities are credit accounts. Credits make them bigger. (Debits make them smaller)

Debits

The left side of the accounting equation. Assets are debit accounts. Debits make them bigger. (Credits make them smaller)

Equation

The Accounting Equation dictates that the total amount of debits must equal the total amount of credits.

Fiscal Year

From July 1 through June 30. An Operating Budget is established for this period of time for University Units.

General Ledger

The complete record of all of the financial transactions which have been authorized and processed on behalf of the University. The General Ledger is considered the official record.

Invoice

A business’ request for payment due to providing goods or services.

Journal Entry

The financial mechanism to transfer recorded activity either between or within units.

Liabilities

Claims against your assets, something that has to be repaid to someone else. Examples: Accounts Payable, Debt, Deferred Revenues.

Material

Material is the concept of financial importance. An activity is considered material, if it has a financial impact on a unit. The opposite term is Immaterial.

Net

The result of business activity – In other words, the total revenues of a financial unit minus the total expenses of a financial unit.

Overhead

Expenses charged to Projects based upon their on campus presence. Overhead is charged as a percent of budgeted funds rather than as a calculation of actual usage. Overhead typically includes utilities, maintenance and administration.

Project

An endeavor that has a specific budget for a specific budget for a specific period of time that may be carried over through multiple fiscal years. Frequently, the budgeted funds are provided by a sponsor outside of the University.

Rates

An amount that is charged by a Service Unit for each unit of its expertise. These rates are based upon a regularly reviewed methodology by the Cost Accountant. <https://financialservices.umbc.edu/cost-accounting-analysis/> (Tammy is updating this link as of 1.31.19)

Statement

An audited financial record that is produced at regular intervals to be used for both current and comparison analysis. Management relies on these for information gathering and planning purposes.

Trial balance

A financial presentation of the General Ledger, summarized by Account, for a specifically designated period of time. Trial Balances, at the end of a fiscal year, are used for the preparation of the Audited Financial Statements of the University.

Unit

A subset of the University that has Management responsibility over their Budgeted accounts. For example, a department, a school, or a division.