

DE303 Outline



Statement of Account & Reconciliation

For Accounting Questions

Phone: 552-2706

Class Information

For more information on classes,
please call Personnel at 552-2747

TABLE OF CONTENTS

| | | |
|------|---|----|
| I. | Purpose..... | 1 |
| II. | Statement of Account..... | 1 |
| | A. What is it?..... | 1 |
| | B. Where does it come from? | 1 |
| | C. What does it consist of?..... | 1 |
| | 1. <u>Account Number, Account Title, and Address</u> | 1 |
| | 2. <u>Name or Description</u> | 1 |
| | 3. <u>Dept No.</u> | 1 |
| | 4. <u>P.O. No.</u> | 2 |
| | 5. <u>Voucher No.</u> | 2 |
| | 6. <u>Date</u> | 2 |
| | 7. <u>Obj Class</u> | 2 |
| | 8. <u>Balance Fwd</u> | 3 |
| | 9. <u>Trans & Adj</u> | 3 |
| | 10. <u>Orig Budget</u> | 3 |
| | 11. <u>Exp/Inc</u> | 3 |
| | 12. <u>Enc/Inv</u> | 3 |
| | 13. <u>Free Balance</u> | 3 |
| | 14. <u>Object Code Analysis</u> | 3 |
| III. | Department Record Keeping..... | 3 |
| IV. | Reconciliation | 4 |
| | A. What is it?..... | 4 |
| | B. Why should it be done? | 4 |
| | C. How is it done? | 5 |
| IV. | Encumbrances vs. Expenditures..... | 5 |
| | A. What is an encumbrance? | 5 |
| | B. How does it differ from an expenditure?..... | 5 |
| | C. What does this mean?..... | 5 |
| | D. An encumbrance example | 6 |
| | E. What types of transactions are not encumbered?..... | 6 |
| | F. What does this mean?..... | 7 |
| | G. What should you do if you discover an encumbrance problem? | 7 |
| VI. | Miscellaneous | 7 |
| | A. Requesting Statements Electronically Using the IF5 Command | 7 |
| | B. Information Particular to Salary/Fringe Statement of Accounts | 8 |
| | C. Updating Ledger Sheet Mailing Addresses | 8 |
| | D. Does a department have to maintain books in *DEFINE in order to utilize *DEFINE? | 10 |

I. Purpose

To discuss the Office of Accounting statement of account format and function. To discuss concepts and procedures of reconciliation.

II. Statement of Account

A. What is it?

An official listing of all accounting transactions which have been posted to an account.

B. Where does it come from?

Statements are generated on a monthly basis by the Office of Accounting. Around the 15th of every month, the previous month's statement is mailed out by the Office of Accounting (2706). Important: Statements are only generated when there has been accounting activity on an account. If no transactions were processed during a month, no statement will be mailed out.

Statements can be requested electronically by the department using the IF5 command in *DEFINE. Statements requested this way are sent to the department's shelf in Data Processing. Departments are urged to use this feature, if possible, for requesting duplicate statements. See Chapter VI for details.

C. What does it consist of?

1. Account Number, Account Title, and Address

This is basic but crucial information. The account number and title indicate the type of account. It is the first thing used in reconciling department records with Accounting records. The mailing address is crucial in order to ensure timely receipt of accounting information. Should the address need to be modified:

- a) Update the ledger sheet contact name using the GG5 command. This is the easiest and quickest method. The GG5 command can be updated by the unit head, the office manager, and delegates. OR
- b) Send a memo signed by the unit head requesting the change to Office of Accounting, Mesa 490, Attn: Signature Desk.

2. Name or Description

This describes the transaction.

3. Dept No.

Commonly referred to as DTN (departmental transaction number). This is an optional number departments assign to transactions for departmental purposes. If a transaction has been assigned a DTN, it will be displayed in this column.

4. P.O. No.

Every purchasing requisition is assigned a P.O. number. This number is displayed in this column. Numbers other than a P.O. number may appear in this column. Example: Payroll transactions which have a payroll voucher number in addition to the official Accounting voucher number.

5. Voucher No.

Vouchers are accounting documents which create accounting transactions. Each document must have backup documentation substantiating what the transaction is for and who approved it. This information is filed in the Office of Accounting file room in voucher number order by voucher type.

Each document is assigned a unique voucher number consisting of 7 digits: one alpha character followed by six numeric characters. The alpha character indicates the type of voucher:

| | |
|---------------|--|
| <u>Type L</u> | Indicates a check was cut for payment |
| <u>Type S</u> | Indicates a warrant was issued for payment |
| <u>Type C</u> | Indicates cash received |
| <u>Type B</u> | Indicates a balance forward entry |
| <u>Type R</u> | Indicates a year-end adjusting entry |
| <u>Type O</u> | Indicates a material encumbrance |
| <u>Type T</u> | Indicates an inter-departmental transfer (IDT) |

Type J A transaction that does not fall into one of the above categories

6. Date

This is the date the Accounting recorded the transaction. It's commonly referred to as "record date".

7. Obj Class

A 4-digit number used by the Office of Accounting for categorizing accounting transactions.

8. Balance Fwd

Balance forward entries show in this column.

9. Trans & Adj

Transfer and adjusting entries show in this column.

10. Orig Budget

Budget entries show in this column.

11. Exp/Inc

Depending on the type of account, expenditure or income entries show in this column.

12. Enc/Inv

Depending on the type of account, encumbrance or investment entries show in this column.

13. Free Balance

The balance remaining in the account after each transaction is processed. It's determined by subtracting/adding the current transaction from the previous free balance.

14. Object Code Analysis

The last page of each statement provides a summary of all the account activity. Monthly and year-to-date balances are shown by object code.

III. Department Record Keeping

In order to reconcile with the Office of Accounting statement of account, accounting records must be maintained within the department. Record keeping systems vary widely from department to department. The actual record keeping system is up to the department. Although electronic record keeping is available through *DEFINE, many departments still utilize some type of manual system. We will discuss record keeping in general and discuss concepts applicable to manual and electronic bookkeeping.

A. Transactions generally should be entered in the books as they occur. An individual log for each budget category within a budget group should be kept. This facilitates reconciliation with the statement of account. The transaction register should consist of at least nine columns, possibly more, depending on what information needs to be recorded.

1) Date: The day the transaction is entered into the register.

2) Name or Description: The name or description of the transaction.

- 3) DTN: An internal document number set up by the department called a departmental transaction number.
- 4) Voucher Number: The Office of Accounting's voucher number obtained from the statement of account and entered when reconciling.
- 5) Date: The record date of the transaction. Corresponds to the Office of Accounting's record date and entered when reconciling.
- 6) Source of Funds: If the account is budgeted, enter the amount here. If the account is a revolving account, income should be entered in this column.
- 7) Expenditures: Record expenditures in this column.
- 8) Encumbrances: Record encumbrances and disencumbrances in this column. (For discussion on the differences between expenditures and encumbrances, see Chapter V.)
- 9) Free Balance: The balance remaining in the account after each transaction. The free balance should be recomputed after each entry is made. The free balance can be determined by subtracting/adding the current transaction from the previous free balance. Periodic verification using columnar totals should also be made to ensure detection of errors.

Note: On accounts where purchase orders are involved, a column for P.O. number may be appropriate. A department should maintain information which is useful for its needs. Remember, however, that in order to communicate effectively with the Office of Accounting, Purchasing, etc., knowing certain numbers is crucial. Recording these numbers in your accounting files is an effective way to keep them accessible.

- B. Recording transactions in a format similar to the above facilitates reconciling because transactions are listed in a manner similar to the statement of account.
- C. The important thing for departmental records is that they be meaningful to the people using them. Remembering that account number, voucher number and DTN are important in researching errors can expedite the reconciliation process.

IV. Reconciliation

A. What is it?

A comparison of departmental accounting records with the Office of Accounting records.

B. Why should it be done?

Accounting records and departmental records need to be compared to ensure they are both correct. Differences revealed by the reconciling process must be verified for accuracy. Errors made by the department can be corrected in their books to get an accurate balance. Additionally, any errors made by the Office of Accounting can be reported and corrected.

C. How is it done?

Departments that maintain their books on the *DEFINE system can reconcile their records with the official accounting records electronically. This is probably the most efficient method. However, if a department is small or only handles a few small accounts, a manual system may work as well.

The emphasis here will be on concepts.

- 1) Every month a statement of account will be generated on accounts that have accounting activity for that month. (If you do not receive a statement for a particular account for a particular month, chances are that there was no accounting activity on that account.) Once the statement is received reconciliation can be done.
- 2) Reconciliation is similar to balancing a personal checkbook. Compare the transactions on the statement of account to those entered in your records. The voucher number from the statement should be entered for the corresponding record in your books. All transactions should be accounted for. Differences are usually due to timing differences. However, there may be transactions which were not posted to your books because you didn't have a record of them. Examples: postage charges, some journal vouchers, some IDTs. Entries of this type should be entered to your books after you have verified they are correct.
- 3) Should a discrepancy be due to something other than a timing difference, more investigation will be necessary. Information about a transaction becomes vital in tracking it down: voucher number, record date, P.O. number, etc. Items not cleared up after three months time should be addressed. Do not leave items unreconciled indefinitely.

IV. Encumbrances vs. Expenditures

A. What is an encumbrance?

An encumbrance is a means of reserving funds for future expenditures. Purchase orders and other documents are recorded on the books, committing such amounts for future payment. The remaining free balance represents the estimated available budget for future expenditures.

B. How does it differ from an expenditure?

An encumbrance is simply a documented commitment of funds. The expenditure takes place at a later date. Example: The expenditure for a purchase order takes place after the goods and invoice are received. The encumbrance needs to be reversed when the expenditure transpires. The reversal of the encumbrance is called a disencumbrance.

C. What does this mean?

It is important to reconcile encumbrances as well as expenditures. An encumbrance must be reversed when the corresponding expenditure is made. Encumbrances that are not reversed will adversely affect your free balance.

D. An encumbrance example

Department X needs a computer. They contacted several suppliers and the purchase order was awarded to ABC Computer Company. ABC Computer Company is to deliver the computer within 60 days for a price of \$5,000. The equipment is being purchased on account 19-9999-9980. The account beginning balance is \$10,000. The encumbrance transaction looks like this:

| <u>Date</u> | <u>Description</u> | <u>Obj Code</u> | <u>Expense</u> | <u>Encumbrance</u> | <u>Free Balance</u> |
|--------------------|--------------------|-----------------|----------------|--------------------|---------------------|
| <i>Beg Balance</i> | | | | | \$10,000 |
| 10/1 | ABC Computer Co. | 0200 | | \$ 5,000- | 5,000 |

The encumbrance is a debit to the account. That is, it reduces the free balance by the amount of the encumbrance. In this way the money is set aside for future use. It has been taken out of the free balance so that Dept. X will have enough funds to cover the expenditure 60 days from now. The transaction is recorded with an encumbrance object code (one that starts with "0").

Department X will pay for the equipment after it is received. The following transactions show how this is done:

| <u>Date</u> | <u>Description</u> | <u>Obj Code</u> | <u>Expense</u> | <u>Encumbrance</u> | <u>Free Balance</u> |
|--------------------|--------------------|-----------------|----------------|--------------------|---------------------|
| <i>Beg Balance</i> | | | | | \$10,000 |
| 10/1 | ABC Computer Co. | 0200 | | \$ 5,000- | 5,000 |
| 12/15 | ABC Computer Co. | 0200 | | 5,000 | 10,000 |
| 12/15 | ABC Computer Co. | 1836 | \$ 5,000- | | 5,000 |

The \$5,000 is disencumbered before the expenditure is processed. The disencumbrance is a credit to the account; it is the reversal of the encumbrance. The encumbrance was only used as a planning tool to ensure that funds were set aside for this purchase. Now that Department X is actually paying for the equipment the funds need to be returned to the free balance. After the disencumbrance takes place, the next step is to expend the funds. The expenditure is a debit to the account with an expenditure object code (one that starts with "1").

Notice that the overall effect on the free balance was zero. However, the transactions are reflected in different columns on the statement of account. No check is actually issued until the expenditure takes place. If for some reason the purchase order was canceled or the encumbrance was no longer valid, the \$5,000 would be disencumbered and would be available for Department X to spend another way. Once an expenditure actually takes place, however, those funds are gone; they have been spent and are no longer available to the department. This is the crucial difference between an encumbrance and an expenditure.

E. What types of transactions are not encumbered?

Typical encumbrances include purchase orders and salaries. Not all commitments, however, are encumbered. Examples: telephone charges and personnel paid hourly and weekly.

F. What does this mean?

When planning for future expenditures, you must allow for unencumbered commitments. Being unaware of commitments which are not encumbered can cause trouble for a department. It is possible that funds needed for these commitments may not be available because of overspending. To avoid this problem, some departments set up "dummy" encumbrances. These encumbrances show only on the department records and are solely a budgeting tool.

G. What should you do if you discover an encumbrance problem?

Not all encumbrances are initiated by the Office of Accounting. Contact the department or person that initiated the encumbrance. The object code describes the type of encumbrance. If you're not sure who to contact, look at the object code description to get a clue who to call. Examples:

| Obj. Code | Description | Contact |
|--------------|--|-----------------------|
| 0100 | Salary Encumbrances | Payroll (2749) |
| 0200 | Material Encumbrances | Purchasing 2790) |
| 0300 | Scholarship Encumbrances | Accounting(2706) |
| 0401 | Computer Encumbrances-Comp Ctr..... | n/a at UTPB |
| 0403 | Computer Encumbrances-CHPC | n/a at UTPB |
| 0500 | Travel Advance Encumbrances..... | Accounting (2706) |
| 0601 | Physical Plant Encumbrances..... | Physical Plant (2760) |
| 0602 | Microcenter Encumbrances | n/a at UTPB) |
| 0603 | Graduate Business School Encumbrances..... | n/a at UTPB |

VI. Miscellaneous**A. Requesting Statements Electronically Using the IF5 Command**

Each department has the capability of requesting copies of the statement of account electronically through *DEFINE using the IF5 command. Statements requested this way are automatically sent to the department's shelf in Data Processing. The office must be authorized for the view or unit selected. Processing departments can only choose a range of accounts.

Use the IF5 command to request statements electronically. Press PF6 from within IF5 for instructions on how to use the command.

```

*DEFINE          PRINT MONTHLY STATEMENT OF ACCOUNT - IF5          Year 93 94
Command: IF5     Account: _____ Misc: _____          Month: JUL
=====
                        Statement of Account Print Job

                        View: _____ (Administrative: _ OR Inquiry: _ )
                        (current view: 5100EAT )

                        Unit Code: _____

                        Fund/Budget/Account Group Range
                        Begin: _____
                        End: _____

                        Accting Copy: _
                        Dept Copy: X

Report will be submitted for      Month: 06_ Year: 93 94

-- 0 UT Austin  ----- Pfl=Options ----- PF8=Exit ----- 7/01/94 10:17 AM --

```

B. Information Particular to Salary/Fringe Statement of Accounts

On any salary and fringe statement of account the following information will appear:

"This statement of account should be verified, signed by the unit head, and retained by the department. Such action provides assurance that salary transactions listed on the statement were properly chargeable to the University. Problems discovered as a result of verifying this statement must be brought to the attention of the Payroll Division immediately.

"I (or my authorized representative) have examined the salary transactions on this statement to verify that salary encumbrances and payments represent proper charges to The University of Texas.

"Signature of Unit Head _____ Date: _____ "

The unit head is responsible for certifying the salary information. An "authorized representative" would be someone who has signature authority on the account. This required certification was implemented to meet the State Auditor's recommendation to provide better accountability by having unit heads verify salary payments made during each pay period. Reports may be spot checked periodically by the Office of Internal Audits.

C. Updating Ledger Sheet Mailing Addresses

Departments have the capability of updating ledger sheet contacts electronically through *DEFINE using the GG5 command. The unit head, office manager, and office delegates have update status in this command.

Ledger sheet contacts can be updated at the unit level or at the budget group level.

```

>> Please press enter for the next page. <<
*DEFINE          UNIT CODES - UNIT CODE ORDER - GG5          Year 93 94
Command: GG5     Account: _____ Misc: 5100000          Month: JUL
=====
Unit            Title            Administrator
-----
_ 5100 000      OFFICE OF ACCOUNTING  MILLER, KATHERINE W  999999999
_ 5100 001      STUDENT ACCOUNTING    MILLER, KATHERINE W  999999999

--Mark with a B to display Budget Groups, anything else to show Unit Contacts--
--- 0 UT Austin ----- PF1 = Options----- PF8 = Exit----- 7/01/94 10:21 AM ---

```

Marking the unit code with "X" and pressing ENTER pulls up information for all accounts within a unit. Contact information entered here will apply to ALL accounts within the unit.

```

>> Please press enter for the next page. <<
*DEFINE
Command: G      -- UPDATE UNIT CODES --
=====
Unit            Unit: 5100 Sub: 000 Org Level: 5 Reports to Official: 5050
Administrator: MILLER, KATHERINE W 999999999
Short Title: OFFICE OF ACCOUNTING   Abbr: OA
-----
x 5100 000      <= Long Title: OFFICE OF ACCOUNTING
_ 5100 001      Routing:
_ 5103 000      Contacts:      Name            SSN            Phone
_ 5103 001      ACCOUNTING     BEDRICH, JAMES E 999999999 471-2799
_ 5103 002      BUDGET         BEDRICH, JAMES E 999999999 471-2799
_ 5115 000      INVENTORY      WELL, THOMAS G   999999999 471-3723
_ 5115 001      LEDGER SHEET  WELL, THOMAS G   999999999 471-3723
_ 5115 002      PAYROLL        BEDRICH, JAMES E 999999999 471-2799
_ 5115 003      PERSONNEL      BEDRICH, JAMES E 999999999 471-2799
_ 5115 004      PURCHASING     BEDRICH, JAMES E 999999999 471-2799
_ 5115 005      TRAVEL         BEDRICH, JAMES E 999999999 471-2799
_ 5120 CRD
_ 5120 PUR      Authorized signers:      Date:      From      To
_ 5120 000      999999999 BEDRICH, JAMES E 09011990 08311994
_ 5120 001      999999999 WELL, THOMAS G 08011991 08311994
          999999999 CARTER, BOBBY R 04131992 08311994
--Mark with      -- Press PF-3 for Mail Codes; PF-2 for List of All Signers -
--- 0 UT Au

```

Marking the unit code with "B" and pressing ENTER pulls up a listing of all the accounts within a unit.

```

*DEFINE
Command: G      Unit: 5100 Sub: 000 Org Level: 5 Reports to Official: 5050
=====
Unit            Administrator: 999999999 Name: MILLER, KATHERINE W
Short Title: OFFICE OF ACCOUNTING   Abbr: OA
-----
Long Title: OFFICE OF ACCOUNTING
-----
B 5100 000      <=
_ 5100 001      Start List: _____
_ 5103 000      Budget Group      Budget Group Title
_ 5103 001      _ 14-0220-00      OA -OFFICE OF ACCOUNTING
_ 5103 002      _ 14-0220-10      OA -OFF OF ACCOUNTING-USAS ALLOCATION
_ 5115 000      _ 14-0220-20      OA -OFC OF ACCOUNTING-SPECIAL CHARGES
_ 5115 001      _ 14-0220-30      OA -OFC OF ACCNTING-PROGRAMMER TRAINEES
_ 5115 002      _ 14-0220-40      OA -OFFICE OF ACCOUNTING - HUB
_ 5115 003      _ 14-0221-00      OA -OFFICE OF ACCOUNTING-REGIS
_ 5115 004      _ 18-0003-60      OA -COMPONET SUPPORT - ACCOUNTING
_ 5115 005      _ 19-0220-01      OA -OFFICE OF ACCOUNTING REVOLVING FUND
_ 5120 CRD      _ 19-0220-03      OA -INSTALLMENT PAYMENT PROGRAM
_ 5120 PUR      _ 19-0220-04      OA -DUPLICATE FEE RECEIPT
_ 5120 000      _ 19-0220-05      OA -LATE REGISTRATION FEES
_ 5120 001      _ 19-0220-06      OA -SALES TAX DISCOUNT
          _ 19-0220-10      OA -ALL FOR MON CERTS&OTH REPS 550&634
          _ 19-0220-11      OA -HAND THE ISS OF VETS BKS,SUPPS,&EQP
--Mark with
--- 0 UT Au

```

```

*DEFINE
Command: G      Unit: 5100 Sub: 000 Org Level: 5 Reports to Official: 5050
=====
              Administrator: 999999999 Name: MILLER, KATHERINE W
              Short Title: OFFICE OF ACCOUNTING           Abbr: OA
              Long Title: OFFICE OF ACCOUNTING
-----
B 5100 000    <=
_ 5100 001      Start List: _____
_ 5103 000      Budget Group      Budget Group Title
_ 5103 001      - 14-0220-00    OA  -OFFICE OF ACCOUNTING
_ 5103 002      - 14-0220-10    OA  -OFF OF ACCOUNTING-USAS ALLOCATION
_ 5115 000      - 14-0220-20    OA  -OFC OF ACCOUNTING-SPECIAL CHARGES
_ 5115 001      - 14-0220-30    OA  -OFC OF ACCNTING-PROGRAMMER TRAINEES
_ 5115 002      - 14-0220-40    OA  -OFFICE OF ACCOUNTING - HUB
_ 5115 003      - 14-0221-00    OA  -OFFICE OF ACCOUNTING-REGIS
_ 5115 004      - 18-0003-60    OA  -COMPONET SUPPORT - ACCOUNTING
_ 5115 005      X 19-0220-01  OA -OFFICE OF ACCOUNTING REVOLVING FUND |
_ 5120 CRD      - 19-0220-03    OA  -INSTALLMENT PAYMENT PROGRAM
_ 5120 PUR      - 19-0220-04    OA  -DUPLICATE FEE RECEIPT
_ 5120 000      - 19-0220-05    OA  -LATE REGISTRATION FEES
_ 5120 001      - 19-0220-06    OA  -SALES TAX DISCOUNT
_              - 19-0220-10    OA  -ALL FOR MON CERTS&OTH REPS 550&634
--Mark with    - 19-0220-11    OA  -HAND THE ISS OF VETS BKS,SUPPS,&EQ
--- 0 UT Au

```

```

*DEFINE
Command: G      >> 19-0220-01 OA  -OFFICE OF ACCOUNTING REVOLVING FUND <<
=====
              Unit: 5100 Sub: 000 Org Level: 5 Reports to Official: 5050
              Administrator: MILLER, KATHERINE W           999999999
              Short Title: OFFICE OF ACCOUNTING           Abbr: OA
              Long Title: OFFICE OF ACCOUNTING
-----
b 5100 000    <=
_ 5100 001      Routing:
_ 5103 000      Contacts:          Name          SSN          Phone
_ 5103 001      ACCOUNTING
_ 5103 002      BUDGET
_ 5115 000      INVENTORY
_ 5115 001      LEDGER SHEET GOSS, M JANE R          999999999 471-3723 |
_ 5115 002      PAYROLL
_ 5115 003      PERSONNEL
_ 5115 004      PURCHASING
_ 5115 005      TRAVEL
_ 5120 CRD
_ 5120 PUR      Authorized signers:          Date:          From          To
_ 5120 000      _____
_ 5120 001      _____
--Mark with    -- PF-3 for Mail Codes; PF-2 for List of All Signers--
--- 0 UT Au

```

Marking the budget group with "X" and pressing ENTER pulls up information for that budget group. Contact information entered on this screen will override the contact information at the unit level. In this example, the ledger sheets for 19-0220-01 will be mailed to Jane Goss instead of Tom Well.

D. Does a department have to maintain books in *DEFINE in order to utilize *DEFINE?

Even if a department does not keep records electronically, *DEFINE has many additional uses that can increase a department's efficiency. Departments can:

- Create electronic documents;
- Request statements of account;
- Obtain additional information about particular accounting transactions.