

Accounting Basic Terms and Concepts

There are a few things you need to understand in order to make sense of the OMNI General Ledger and the accounting reports.

What is a General Ledger?

A listing of the accounts for your department or project (or the entire University) and their balances as of a specified date (actual financial transactions—not budgetary).

Debits and Credits

These are the backbone of any accounting system. Understand how debits and credits work and you'll understand the whole system. Every accounting entry in the general ledger contains both a debit and a credit. Further, all debits must equal all credits. If they don't, the entry is out of balance. That's not good. Therefore, OMNI has a mechanism to ensure that all entries balance--it won't allow an out-of-balance entry.

Depending on what type of account you are dealing with, a debit (+) or credit (-) will either increase or decrease the account balance. (This can be the most confusing part of accounting for most non-accountants.) The information below illustrates the entries that increase or decrease each type of account.

Debits and Credits vs. Account Types

<u>Account</u>	<u>Type Debit</u>	<u>Credit</u>
Assets (1 or 2xxxxx)	Increases	Decreases
Liabilities (3 or 4xxxxx)	Decreases	Increases
Income (Revenue) (6xxxxx)	Decreases	Increases
Expenses (7xxxxx)	Increases	Decreases

	INCREASE	DECREASE
DEBIT	ASSET	LIABILITY
CREDIT	LIABILITY	ASSET

	INCREASE	DECREASE
DEBIT	EXPENSE	REVENUE
CREDIT	REVENUE	EXPENSE

Notice that for every increase in one account, there is an opposite (and equal) decrease in another. That's what keeps the entry in balance. Also notice that debits go on the left and credits on the right.

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Example

Let's take a look at two sample entries and try out these debits and credits. In the first stage of the example we'll record a credit purchase:

Accounts Payable (311000)	- \$1,000
Expense (7xxxxx)	+\$1,000

If you looked at the general ledger right now, you would see that payables had a balance of -\$1,000 and expense had a balance of \$1,000.

Now we'll record the payment of the purchase:

Cash (112000)	- \$1,000
Accounts Payable (311000)	+\$1,000

Notice how both parts of each entry balance? See how in the end, the payables balance is back to zero? That's as it should be once the balance is paid. The net result is the same as if we conducted the whole transaction in cash:

Cash (112000)	- \$1,000
Expense (7xxxxx)	+\$1,000

That's it. Accounting doesn't really get much harder. Everything else is just a variation on the same theme. Make sure you understand debits and credits and how they increase and decrease each type of account.

Account Types

Assets and Liabilities

A quick reminder: Increase assets with a debit and decrease them with a credit. Increase liabilities with a credit and decrease them with a debit.

Identifying Assets

Simply stated, assets are those things of value that your department/project owns. Cash in the bank, as well as petty cash on hand, is an asset. So is the equipment you use. Accounts Receivable (money owed to you. i.e., a future collection of money) is an asset.

Identifying Liabilities

Think of liabilities as the opposite of assets. These are the obligations owed to another. Accounts payable are liabilities, since they represent the future duty to pay a vendor.

We segregate liabilities into short-term (accounts beginning with 3's) and long-term categories (accounts beginning with 4's) on the University level. This division is nothing more than separating those liabilities scheduled for payment within the next fiscal year from those not to be paid until later--most departments/projects will only see current liabilities on their GL reports.

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Equity (Fund Balance)

After the liability section in the chart of accounts comes equity (accounts beginning with 5's). This represents the difference between assets and liabilities. It is the net difference between revenues and expenses from prior years.

Remember, equity is increased and decreased just like a liability:

- Debits decrease
- Credits increase

At the end of one accounting year, all the income and expense accounts are netted against one another, and a single number is moved into the equity account. The income and expense accounts go to zero. That's how we're able to begin the new year with a clean slate against which to track income and expense. (Projects need to track "Life-to-Date" income and expenses since most projects cross fiscal years.)

Assets and Liabilities on the other hand, do not get zeroed out at year-end. The balance in each asset, liability, and equity account rolls into the next year. So the ending balance of one year becomes the beginning balance of the next.

Income and Expenses

Further down in the chart of accounts (after the equity section) come the income (revenue) accounts (beginning with 6's) and expense accounts (beginning with 7's).

These accounts are used to keep track of where the income comes from and where it goes. For income (revenue) accounts, credits increase them and debits decrease them; for expense accounts, debits increase them and credits decrease them.

Depending on where your department/project gets its funding, typical revenue accounts could include:

- Student Activity Fees (if you are a 610 fund)
- Aux Sales (if you are an Auxiliary (3XX Fund)
- Game Ticket Sales (if you are an Athletics Fund--630)
- Federal, State, or Private grants (if you are a Sponsored Program)
- Donations (e.g., from the FSU Foundation or Research Foundation)

Reminder, if your department is E&G, you do not receive revenue, but allocated budget from State Appropriations.

Typical expense accounts include the following categories:

- Salaries and wages (71xxxx accounts)
- OPS Costs (72xxxx accounts)
- Special Expenses such as Library Books (73xxxx accounts)
- General Expenses such as Utilities, Repairs and Maintenance, and Supplies (74xxxx accounts)
- OCO, i.e., Equipment Purchases (76xxxx accounts)
- Other Expenses such as Construction and Depreciation (78 & 79xxxx accounts)

Sources:

- BusinessTown.com
- [*Accounting for the New Business: The Strategies and Practices You Need to Account for Your Success*](#)