

The Balance Sheet

A practical example &
explanation

Financial Services Division



**Published by the
Communications Division
for Financial Services Division
Department of Education and Training**
Melbourne
December 2016

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Balance Sheet Example

General Ledger Balance Sheet Specific Period (GL21161S)

Current		
Accumulated Equity:		
Accumulated funds	279,277.30	↔
Total Funds	279,277.30	
Represented by:		
Non-current Assets		
Computers/IT Equipment >\$5,000	10,000.00	
Musical Equipment > \$5,000	6,000.00	
Other Assets > \$5,000	7,506.36	
	23,506.36	↔
Current Assets		
High Yield Investment Account	108,000.00	↔
Official Account	98,000.00	
Accounts Receivable Control	24,000.00	
Sundry Debtors	50,000.00	↔
GST Purchases Reclaimable	-1,243.10	↔
Provision for Non Recoverable Family Charges	-8,000.00	↔
	273,243.10	
Total Assets	296,749.46	
Current Liabilities		
Payroll Clearing Account	-4,289.18	↔
Group Tax Clearing Account	-1,126.97	
With-Holding Clearing Account	425.00	
Revenue in advance	-5,233.00	↔
Accounts Payable Control	-5,312.00	↔
GST on Sales	-1,086.00	
	-17,472.16	
Non-Current Liabilities		
Total Liabilities	-17,472.16	
Net Assets	279,277.30	↔

Accumulated funds represent opening balances, movements in revenue/ expenses, plus/less results of surplus/deficit from Operating Statement in previous years. PAGE 6

Historical cost of assets > \$5,000. PAGE 6

Closing bank balances including unrepresented cheques/deposits. PAGE 7

Outstanding family charges & outstanding debtors eg hall hire PAGE 7.

Accumulated balance of GST paid. PAGE 8

Journal entry reflecting estimated non collection of Essential Student Learning Items and Optional Items PAGE 8

Holding accounts for the collection of current period's obligations. PAGE 9

Revenue recorded that relates to future years. PAGE 10

Amount owing to creditors. PAGE 9

Total of assets less liabilities and should always equal accumulated funds

Introduction

The Balance Sheet is an important document for schools using CASES21 Finance (C21F). This document outlines the major accounts listed in the Balance Sheet and the effect of transactions on each account. The document aims to provide a better understanding of the purpose and the makeup of accounts presented in a school's Balance Sheet.

Negative figures on the report represent credit balances and positive figures represent debit balances.

The "Last Year" figures do not change. They are the figures reported in C21 as at 31/12/20xx.

1. Accumulated Funds

This figure consists of:

- opening balances for assets and liabilities brought forward from the previous year (31/12/20xx)
- movements during the month or year of assets and liabilities through processing of accounting transactions
- result of surplus/deficit (calculated as Revenue less Expenses) and represented in the Operating Statement. A surplus increases Accumulated Funds, and a deficit decreases Accumulated Funds.

2. Non-Current Assets

The asset accounts (the 2XXXX series of accounts in the Chart of Accounts) shown here are those accounts that relate to items that appear on a school's Asset Register (all Assets >\$5,000). The amounts represent the historical cost of the asset (purchase price). *Note: As depreciation is not calculated as part of C21F.*

Non-Current Asset amounts in the Balance Sheet will reflect the original purchase price of an asset until the point in time when the asset is disposed. This will result in an inflated value in a school's Non-Current Assets and Accumulated Funds.

Once the purchase of an asset is recorded on the C21F system, at its historical cost, the relevant asset account is debited by the amount of the asset as seen in the following example where a piece of furniture is purchased for \$5,500. Accounts Payable is also credited (Refer 4.2).

	Debit (Dr)	Credit (Cr)
Furniture and Fittings > \$5,000 (Asset)	5,500	
Accounts Payable Control (Liability)		5,500

3. Current Assets

3.1 Bank accounts

In the Balance Sheet, bank account balances reflect the closing balances for each bank account resulting from YTD cash transactions entered in C21F.

These balances are more useful figures than the bank account balances contained in bank statements because they include the impact of all unpresented cheques and all outstanding bank deposits receipted. The preparation of a Bank Reconciliation Statement is the mechanism to bring agreement between the school's and the bank's balance. For cash flow monitoring and decision making purposes, the various bank account balances displayed in the Balance Sheet, provide a more accurate and complete cash position compared to what appears on bank statements.

3.2 Accounts Receivable Control

This is the total of all outstanding invoices issued to families.

Accounts Receivable **increases** when a school enters family invoices on to C21F.

Links to other reports

When Accounts Receivable **increases**, a revenue code on the Operating Statement also increases. This is because there are always two effects of entering a family invoice (hence the term "double-entry accounting"). If the invoice was for a camp, then the camps and excursions revenue code will increase by the same amount as Accounts Receivable.

Accounts Receivable **decreases** when a family pays money to the school that is relevant to a family invoice. The accounting effect of entering this receipt into C21F is a decrease in Accounts Receivable as it reflects that the family no longer owes the money to the school for the relevant invoice.

Links to other reports

When Accounts Receivable decreases following a receipt of money, the school's bank account (Official Account) will increase (again this is because there are always two effects of a transaction in double entry accounting). However the revenue from the original family invoice stays the same on the Operating Statement.

If a school wishes to reverse the original family invoice a **credit note** can be entered. This will decrease Accounts Receivable and also decrease the revenue on the Operating Statement. The amount of the decrease will be the amount of the family invoice that is being reversed.

It is important that a school reverses anticipated non recoverable invoices as soon as it is determined that the amount will not be paid. This process ensures that a school's Accounts Receivable amount more accurately reflects the amount of funds the school expects to collect from families. This also ensures that revenue on the school's Operating Statement is not inflated.

3.3 Sundry Debtors

This is the total of all outstanding invoices issued to non-families for items such as Hall Hire.

Sundry Debtors operates in the same manner as Accounts Receivable.

3.4 GST purchases (Reclaimable)

This account is the accumulated reclaimable GST paid by the school. The account acts as a tax credit account. This account will increase when purchases are made throughout the period. Each time a purchase (including GST) is made by the school a GST amount is paid. That GST amount can be claimed back from the ATO. The account collects the GST portion of the payment.

For example: a typical purchase of a smartboard would create the following entries

	Debit (Dr)	Credit (Cr)
Smartboard (Non-Current Asset)	6,000	
GST – Purchases (Reclaimable) (Negative Asset)	600	
Accounts Payable Control (Liability)		6,600

The account is an asset account and along with GST on Sales, and other tax items, is used to calculate the Business Activity Statement (BAS) refund or payment. The GST – Purchases (Reclaimable) account is automatically calculated and cleared when processing end of period BAS.

3.5 GST Clearing Account

This is an automated calculation of all GST related amounts. The figure is used to calculate this period's BAS. This account is used to clear the GST Purchases and GST Sales accounts and contains the net effect of both accounts (GST Purchases and GST Sales).

3.6 Provision for Non Recoverable Family Charges

This figure is an estimate of the amount of parent payments for essential student learning items and optional items that a school expects not to have collected by the end of the year. This figure appears as a negative figure in the Current Assets of the school as it is an 'offset' account for Accounts Receivable. This account is used to accurately portray the true expected receivables to be reported.

To recognise the expected uncollectable essential student learning items a journal must be processed. The journal reduces the revenue for Essential Student Learning Items and the Optional Items (a decrease in Revenue) and increase a Provision for Non-Recoverable Family Charges (an increase in a negative Asset).

	Debit (Dr)	Credit (Cr)
Essential Student Learning Items (Revenue)	500	
Optional Items (Revenue)	300	
Provision for non-recoverable Family Charges (Negative Asset)		800

4. Current Liabilities

4.1 Group Tax Clearing Account

The Group Tax Clearing account is a holding account for PAYG tax to be paid on school level payroll. This account will automatically increase during the period when the payroll is processed and then be eliminated when a school's BAS is processed.

4.2 Accounts Payable Control

This is the total amount of outstanding creditor invoices – invoices awaiting payment. Accounts Payable **increases** when a creditor invoice is entered in C21F.

It is important to enter invoices when they are received as the commitment to pay that amount is correctly reflected on the Balance Sheet and the GST can be claimed in a timely manner.

Links to other reports

When Accounts Payable increases, an expense code on the Operating Statement or a non current asset code on the Balance Sheet also increases. This is because there are always two effects of entering an invoice (hence the term double-entry accounting). If the creditor invoice was for 'Bob's Plumbing', then the Repairs and Maintenance expense code will increase by the same amount as the Accounts Payable.

	Debit (Dr)	Credit (Cr)
Repairs and Maintenance (Expenditure)	200	
Accounts Payable Control (Liability)		200

Accounts Payable **decreases** when a creditor is actually paid. The accounting effect of entering the payment in C21F is a decrease in Accounts Payable as it reflects that the creditor is no longer owed any money (The liability has been reduced).

Links to other reports

When Accounts Payable decreases, the school's bank account (Official Account) will also decrease (again this is because there are always two effects of a transaction in double entry accounting). However the expense from the original invoice stays the same on the Operating Statement.

	Debit (Dr)	Credit (Cr)
Accounts Payable Control (Liability)	200	
Official Account (Asset)		200

4.2 Accounts Payable Control (*continued*)

If a school wishes to reverse the original creditor invoice entered in C21F a **credit note** can be entered. This will decrease Accounts Payable and also decrease the expenditure on the Operating Statement. The amount of the decrease will be the amount of the credit note being entered. Using the Bob's Plumbing example from earlier, if a credit note was processed the following adjustments will occur:

	Debit (Dr)	Credit (Cr)
Accounts Payable Control (Liability)	200	
Repairs and Maintenance (Expenditure)		200

It is important that a school reverses creditor invoices as soon as it is determined that they will not be paid. This process ensures that the Accounts Payable figure more accurately reflects the amount of creditor invoices that are awaiting payment. This also ensures that expenditure on the School's Operating Statement is not inflated.

4.3 Revenue in Advance

When invoices are processed for parent payments for Essential Student Learning Items and/or Optional Items that relate to the next school year, this account is used to separate next year's revenue from this year's revenue so as not to over/under state revenue in the two affected periods (this is the essence of accrual accounting, being the need to record transactions within the period they occur). This process is commonly referred to as a "balance day adjustment".

Firstly, a journal entry is processed at the end of the school year to reverse the original parent payments for Essential Student Learning Items and Optional Items revenue entered in the system. This has the effect of decreasing Revenue in Advance liability account in the Balance Sheet. The Revenue in Advance account is treated as a liability, as it is revenue that the school has recognised without providing any services. The school has an obligation to perform the services in the next school year.

31 December	Debit (Dr)	Credit (Cr)
Essential Student Learning Items (Revenue)	3,000	
Optional Items (Revenue)	2,000	
Revenue in Advance (Liability)		5,000

Secondly, a reversal of this journal entry occurs at the beginning of the next school year. This ensures that revenue is recognised in the correct school year. The reversal has the effect of reinstating the original revenue amount in the Operating Statement and eliminating the Revenue in Advance liability.

1 January	Debit (Dr)	Credit (Cr)
Revenue in Advance (Liability)	5,000	
Essential Student Learning Items (Revenue)		3,000
Optional Items (Revenue)		2,000

4.4 GST on Sales

This account is calculated automatically and represents the GST collected on Sales (Liability Account) during the current period. Each time an item is sold the purchase price will incur GST which must be paid to the ATO. This account calculates the running total of the GST collected.

For example, students are invoiced a total of \$880 (GST inclusive) for the food component of a camp.

	Debit (Dr)	Credit (Cr)
Accounts Receivable (Asset)	880	
Camps and Excursions (Revenue)		800
GST on Sales (Liability)		80

This value is used in the BAS calculation for the period.

5. Non-Current Liabilities

Non-Current Liabilities are those liabilities that are not specifically related to the current period, that is, they are debts that the school has to pay that span a timeframe greater than the current accounting period. A Cooperative Loan account is the best example of a Non Current Liability.

6. Report Certification

The parameters for the Balance Sheet include the option to print a certification page. This should be printed for the final Balance Sheet at the end of period, signed and filed for audit purposes.



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CASES21 Finance

<http://www.education.vic.gov.au/school/principals/finance/Pages/cases21.aspx>