

Basic Municipal Accounting

The Right Approach

First Edition

Prepared By . . .



**MUNICIPAL TRAINING AND DEVELOPMENT
CORPORATION**

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Foreword

Section 85. of the *Municipalities Act, 1999* states”

“A council shall ensure that complete books of account are kept of the financial dealings of the council.”

This manual is designed to provide administrators with an introduction to manual bookkeeping and the fundamentals of municipal accounting. Understanding and being able to applying these fundamentals is a major responsibility of administrators whether you use manual or computer systems.

Acknowledgments

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A special thanks to Keith Warren, Director, Programs Division , Municipal and Provincial Affairs for his careful review and helpful suggestions.

Comments and Suggestions

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Introduction

Goal

To ensure that all Municipal Administrators are provided the information and training to complete required bookkeeping and accounting duties, including the preparation of financial reports for presentation to Council.

Course Description

This workshop is designed to provide the participants with an introduction to bookkeeping and the fundamentals of municipal accounting. Manual accounting systems are used to provide this introduction, however the various procedures presented and performed manually will enable the participants to operate a basic municipal accounting system and will prepare them to operate a computerized accounting package in their municipality.

Generally accepted accounting principles and procedures will be discussed and the basic accounting equation will be used to provide the basis for the recording of business transactions. The double entry method, using debits and credits, will be introduced using a manual recording system. Transactions for a sample municipality will be used to record business transactions and prepare a trial balance. Financial statements which could be provided from the accounting records will be illustrated. Internal reports, needed by council to support decision making, such as petty cash summaries, bank reconciliations and aged tax receivable schedules will be prepared and discussed.

Topics, which are specifically applicable to Municipal Administration, including tax levies, goods and services tax rebates, capital expenditures provided by current funds and retirement of long-term debt will be discussed and the accounting treatment explained. Procedures which should be followed when preparing the Municipal Budget will be provided.

Learning Objectives

Participants will learn to:

- record transactions in the appropriate journals.
- post to the General and Subsidiary Ledgers.
- prepare adjusting entries.
- prepare adjusted Trial Balance at December 31.
- prepare schedule of Property Tax, Business Tax and Water Tax at December 31.
- prepare monthly financial information for presentation to Council.
- prepare closing entries at the end of a fiscal year, and prepare the general ledger accounts to accept the following year's data.

Methodology

Lectures and lesson notes will be used to introduce participants to accounting principals and procedures, the basic accounting equation and the double entry system of recording business transactions. A considerable portion of the seminar will be used in the recording of municipal transactions and preparation of municipal reports. Although flip charts will be used, the major portion of explanations and illustrations will be provided on overheads and computer slides using the PowerPoint presentation package..

Duration

Three (3) days from 8:30 a.m. to 4:30 p.m., with one (1) hour for lunch. There will nutrition breaks. Participants are on their own for lunch.

Generally Accepted Accounting Principles and Procedures

Cash and Accrual Basis of Accounting

Terminology

Accountants use several terms when explaining the preparation of financial statements. These terms represent assumptions, concepts, or principles. They are the basic ideas that underline the preparation of financial statements. They also help the reader or user to understand the basis on which financial statements are prepared, and to better analyze these statements. They have been developed over several hundred years.

A brief description of some of these terms, applicable to this seminar/workshop, are listed below:

- ◆ **Time Period** - the life of a municipality is broken down into time periods. The normal time period or fiscal (financial) period for municipalities is January 1 to December 31.
- ◆ **Historical Cost** - transactions and asset values are recorded at historical costs, which represents the fair market value at the time of the transaction.

Example: If a resident donated an item to Council, the item would be recorded on the books as an asset. The value recorded, would be determined by the original cost to purchase or at the cost to replace at today's price.

- ◆ **Conservatism** - the accountant should be conservative in his/her estimates and opinions and in his/her selection of procedures, choosing those that neither unduly understate nor overstate the situation.

Example: The amount of taxes receivable should be reduced by the estimated allowance for uncollectable taxes. The taxes receivable should be shown on the Balance Sheet at the net realizable value. The bad debt expense should be considered in the determination of the net income for the period. Thus, the assets and the net income of the period are not overstated.

- ◆ **Realization** - revenue is recognized in the period it is earned.

Example: An invoice is forwarded to a resident and recorded. This amount is recorded as revenue when the invoice is prepared, NOT when the payment is received.

- ◆ **Matching Principle** - expenses are recorded in the same period as the related revenue.
- ◆ **Consistency** - in order to maintain consistency in accounting practices, accountants should apply the same principles and procedures when recording similar transactions each fiscal year.
- ◆ **Full Disclosure** - all facts that may influence the judgement of an informed reader of financial statements should be disclosed either on the statements or in footnotes to the financial statements. For example, contingent liabilities, such as a lawsuit, need to be identified and disclosed.
- ◆ **Objectively** - when recording transactions, each entry must be verifiable using data such as, sales invoices, cash receipts/tapes, or suppliers invoice.
- ◆ **Materiality** - applying some of the accounting principles and concepts could be time consuming. If an item is not considered to influence the interpretation of the results of the municipality, then adherence to these principles is not required.

Example: The purchase of a \$20.00 stapler would be considered as a capital asset because it will last for a number of years and will not be consumed in the current year. However, since the cost is only \$20.00, it is more appropriate to treated it as an expense for the period in which it was purchased, and not to record it as a capital asset.

Comparison of Cash Basis of Accounting and Accrual Basis of Accounting.

Cash Basis of Accounting

Revenue is recognized when cash is received and expenses are recognized when payment is made. Using this method, revenue earned that has not been collected at the end of a period or expenses incurred that have not been paid are not considered as revenue and expenses of the period.

Accrual Basis of Accounting

Revenue is recognized in the period realized and expenses are recognized when incurred. At the end of an accounting period, such as a fiscal year, adjustments are required to adjust the accounts to ensure that the revenues are recorded in the period they are earned and the expenses incurred to earn these revenues, is recorded in the same period.

Example 1: If at the end of the fiscal year, December 31, a municipality receives a payment of taxes for the next year, then it must be treated as unearned at the end of that period. It will be shown as revenue in the next year, as it is part of that year's levy. Should it be recorded in the current year, the net income for the current year will be overstated and the revenues and net income for the next year will be understated.

Example 2: When a portion of the first pay-check in January applies to time worked in December of the previous year, the amount applicable to the time worked in December would be included in the fiscal period ending December 31. It would be recorded as a debit to Salaries Expenses and a credit to Salaries Payable.

Adjusting entries at the end of a fiscal year are required to ensure that revenues and expenses are recognized in the correct period, thus eliminating overstatement/ understatement in account balances.

Double Entry Accounting

Accounting Equation

The basic accounting equation is as follows:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Assets, which are future economic benefits owned by a business enterprise are provided by two sources. They could be financed by creditors or by the owner from capital invested or through the net earning which are retained in the business. The funds obtained from creditors represent a debt of the company and are called *liabilities*. The difference between the total assets and total liabilities represent the owner's equity in the business. The liabilities plus the owner's *equity* equals the total assets.

Accounts Commonly Used

Asset Accounts

Some common Asset Accounts include: Cash . . . Accounts Receivable . . . Prepaid Insurance . . . Office Supplies . . . Prepaid Expenses . . . Equipment . . . Buildings . . . Land.

Liability Accounts

The following are common Liability Accounts: Notes Payable . . . Accounts Payable . . . Short Term Payables (eg. salaries, interest, taxes).

Equity Accounts

Equity Accounts include: Investment in Capital Assets . . . Revenue and Expense Accounts. . . Surplus/Deficit Accounts

Double-Entry Accounting

The double-entry accounting system is used to record the transaction of a business enterprise whether it is a company or a municipality. Every transaction affects the accounting equation. However, because two or more accounts are involved, the equation should remain balanced after every transaction.

For Example . . . If a municipality purchases office equipment on credit, the assets are increased and the liabilities are increases by the same amount. If cash was paid, the asset "Office Equipment" is increased and the asset "Cash" is decreased. The accounting equation remains in balance.

Recording Transactions

Transactions are the raw material of the accounting process, a process which consists of identifying transactions, recording them and summarizing their effects on periodic reports for the use of management and/or the council. There are several ways to record financial transactions that help to illustrate the effect of those transactions on the Accounting Equation. The following two are the most simple to understand when learning the basics. They are:

- The Transaction Worksheet
- The "T" Account

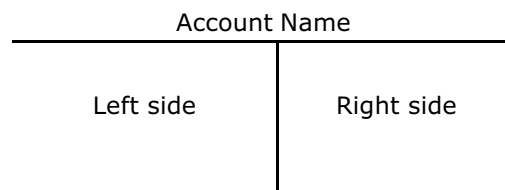
The Transaction Worksheet

A transaction worksheet is used to record the transactions and to show the effects on the accounting equation after every transaction. Using a simple process of adding pluses (+) or minuses (-) one can demonstrate the effect of different transactions on the equation.

The worksheet method is, however, impractical, when a large volume of transactions have to be recorded. Consequently practically all business organizations, including municipal governments, use an account to record the information.

The T-Account

The account in its simplest form represents the letter "T", and is called a T-account.



The accounting equation would remain in balance after every transaction, as an increase in one asset would result in a decrease in another asset or an increase in a liability or equity account.

Assets		=	Liabilities		+	Equity	
<i>Records Increases</i>	<i>Records Decreases</i>		<i>Records Decreases</i>	<i>Records Increases</i>		<i>Records Decreases</i>	<i>Records Increases</i>

Again, with large numbers of transactions to be recorded, using T-Accounts is also impractical. They are used for teaching purposes only.

The following example demonstrates the use of the Worksheet and T-Accounts in recording transactions AND their effect on the accounting equation.

Example: Transactions of John Deerling, Realtor

- a) John Deerling commenced business on May 1, 2003 by depositing \$3,500 in a company bank account.

During the month of May, the following transactions occurred:

- 1 b) May 1 . . . Paid rent for three months, \$2,400.00
- 2 c) May 2 . . . Purchased office supplies for cash, \$169.00
- 3 d) May 3 . . . Purchased office equipment for \$9,780.00 by signing a promissory note for the complete amount
- 4 e) May 4 . . . Paid the company receptionist, \$260.00
- 5 f) May 5 . . . Purchased office supplied on account with Dick’s and Co. \$195.00
- 6 g) May 6 . . . Earned and received selling commissions of \$840.00
- 7 h) May 7 . . . Earned selling commissions of \$1275.00 (George Dell)
- 8 i) May 8 . . . Paid vehicle expenses, \$275.00
- 9 j) May 9 . . . Purchased insurance policy, \$770.00
- 10 k) May 30 . . . Paid \$50.00 to Dick’s and Co. on account
- 11 l) May 31 . . . Received \$600.00 from George Dell on account

Example 1

Transaction Worksheet - John Deering (Realtor)

Accounting Equation

Assets					=	Liabilities		+	Owner's Equity					
Cash	+	Accounts Receivable	+	Office Supplies	+	Prepaid Expenses	+	Office Equipment	=	Accounts Payable	+	Notes Payable	+	Owner's Equity
+ 3,500													+ 3,500.00	Capital
- 2,400						+ 2,400								
- 169				+ 169										
								+ 9,780				+ 9,780		
- 260													-260	Salaries
				+ 195						+ 195				
+ 840													+ 840	Commission
		+ 1275											+ 1,275	Commission
- 275													-275	Vehicle
- 770						+ 770								
- 50										- 50				
+ 600		- 600												
1,016		675		364		3,170		9,780		145		9,780	5080	

Total \$15,005

Total \$15,005

Example 2

The Accounting Equation Using T-Accounts

Assets	=	Liabilities	+	Owner's Equity
---------------	----------	--------------------	----------	-----------------------

Cash

a) 3500 f) 840 l) 600 1016	b) 2400 c) 169 e) 260 i) 275 j) 770 k) 50
--	--

Accounts Receivable

h) 1275 675	l) 600
-----------------------	--------

Accounts Payable

k) 50	f) 195 145
-------	----------------------

Notes Payable

	d) 9780
--	---------

Capital

	a) 3500
--	---------

Office Supplies

c) 169 f) 195 364	
--------------------------------	--

Prepaid Expenses

b) 2400 j) 770 3170	
----------------------------------	--

Commissions Earned

	g) 840 h) 1275 2115
--	----------------------------------

Office Equipment

d) 9780	
---------	--

Salaries Expense

e) 260	
--------	--

Vehicle Expense

i) 275	
--------	--

Preparing a Trial Balance

After all entries have been recorded, a listing of all the account balances is prepared. The total of the debit balances must equal the total of the credit balances. The equality of the accounting equation is maintained after all entries are recorded. This listing is called a trial balance.

Prepare the trial balance by:

1. Determining the balance of each account
2. Listing the accounts that have balances, with the left side balances in one column and the right side balances in the other
3. Adding the left side balances
4. Adding the right side balances
5. Comparing the sum of the debit balances and the credit balances

**John Deerling, Realtor
Trial Balance
December 31, 2003**

Account	Debit	Credit
Cash	\$ 1,016.00	
Accounts Receivable	675.00	
Office Supplies	364.00	
Prepaid Expenses	3,170.00	
Office Equipment	9,780.00	
Accounts Payable		\$ 145.00
Notes Payable		9,780.00
Capital - John Deerling		3,500.00
Commissions Earned		2,115.00
Salaries Expense	260.00	
Vehicle Expense	275.00	
Totals	\$ 15,540.00	\$ 15,540.00

Rules of Debits and Credits

Debit and Credit are the two terms used in accounting to describe the sides of the "T" account. The left side is called the "debit" side, abbreviated "Dr." and the right side is called the "credit" side, abbreviated "Cr."

Back to the T-Account

Account Name	
Debit (Dr.)	Credit (Cr.)
Left side	Right side

As stated previously, increases in assets are recorded on the left side and decreases in assets are recorded on the right side. Increases in equities and liabilities are recorded on the right side and decreases on the left side.

The Rules for Recording Transactions Using Debits and Credits

Rules can now be developed which will facilitate the recording process using a double entry accounting system. These rules are as follows:

1. Increases in assets are entered on the left side of the account and are recorded as debits. Decreases in assets accounts are recorded on the right side of the account, and are recorded as credits. The normal balance in an asset account would be a debit balance.
2. Increases in liabilities are entered on the right side of the account and are recorded as credits. Decreases in liabilities are entered on the left side of the liability account and are recorded as debits. The normal balance in a liability account would be a credit balance.
3. Increases in owner's equity accounts are entered on the right side of the account and are recorded as credits. Decreases in owner's equity accounts are entered on the left side of the account and are recorded as debits. The normal balance in the owner's equity account would be a credit balance.
4. Revenues increase the owner's equity account. Increases in revenues are recorded as credits and decreases in revenues are recorded as debits. The normal balance in a revenue account at any time throughout the year would be a credit balance.
5. Expenses decrease the owner's equity account. Increases in expenses are recorded as debits and decreases in expenses are recorded as credits. The normal balance in an expense account at any time throughout the year would be a debit balance.

Assets		=	Liabilities		+	Equity	
Debit for <i>Increases</i>	Credit for <i>Decreases</i>		Debit for <i>Decreases</i>	Credit for <i>Increases</i>		Debit for <i>Decreases</i>	Credit for <i>Increases</i>

An example of the impact of a number of transactions on the equation:

- The Town of Anytown has just received the first installment of their Municipal Operating Grant for the year. The amount is \$50,000.

Cash (Asset Account)		MOG-Revenue (Equity Account)	
Dr. 50,000	Cr.	Dr.	Cr. 50,000

- The town hall is under renovation and the Council is renting office space from a local businesswoman. The administrator pays two months rent in advance of \$600.

Cash (Asset Account)		Prepaid Rent (Asset Account)	
Dr. 50,000	Cr. 600	Dr. 600	Cr.

- The administrator purchases a new fax machine for cash, \$200

Cash (Asset Account)		Office Equipment (Asset Account)	
Dr. 50,000	Cr. 600 200	Dr. 200	Cr.

- Council has authorized the purchase of a new photocopier on credit, \$1,000

Office Equipment (Asset Account)		Accounts Payable (Liability Account)	
Dr. 200 1,000	Cr.	Dr.	Cr. 1,000

5. The administrator set up an Tax Receivable account for Mrs. Murphy. Her yearly property tax is \$500.

Tax Receivable-Murphy (Asset Account)		Tax Revenue (Equity Account)	
Dr.	Cr.	Dr.	Cr.
500			500

6. Mrs. Murphy pays her Property tax bill in full, \$500.

Cash (Asset Account)		Tax Receivable-Murphy (Asset Account)	
Dr.	Cr.	Dr.	Cr.
50,000	600	500	500
500	200		

7. The administrator pays the hydro bill, \$400.

Cash (Asset Account)		Hydro Expense (Equity Account)	
Dr.	Cr.	Dr.	Cr.
50,000	600	400	
500	200		
	400		

8. Council negotiates a bank loan of \$5,000 to pay for emergency water main repairs.

Cash (Asset Account)		Bank Loan Payable (Liability Account)	
Dr.	Cr.	Dr.	Cr.
50,000	600		5,000
500	200		
5,000	400		

Summary of Transactions

Assets	=	Liabilities	+	Equity
Cash		Accounts Payable		Surplus/Deficit
50,000	600		1,000	
500	200			50,000
5,000	400			
Prepaid Rent		Bank Loan Payable		Tax Revenue
600		5,000		500
Office Equipment				Hydro Expenses
200				400
1,000				
Tax Receivable				
500	500			

**Town of Anytown
Trial Balance, January 7, 2004**

Cash	\$54,300	
Prepaid Rent	600	
Office Equipment	1,200	
Property Tax Receivable	0	
Accounts Payable		1,000
Bank Loan Payable		5,000
Surplus/Deficit		50,000
Tax Revenue		500
Hydro Expenses	400	
	\$56,500	\$56,500

Accounting Records - Journals and Ledgers

Recall that it was impractical to use worksheets and T-Accounts to record a large volume of transactions. It is also time-consuming and difficult to balance the trial balance. It is a universal practice in manual bookkeeping to record all transactions in a journal and then copy the debit and credit information from the journal to the appropriate ledger accounts. The debit and credit record of each transaction in a journal is important when errors are made. Using the journal makes it possible to trace the debits and credits into the accounts and to see if they are equal and properly recorded. This will also facilitate the balancing of the general ledger by making it easier to locate errors. When large numbers of entries are required, many business organizations use specialized journals to record the same type of transactions.

Types of Journals and Ledgers

- ◆ Journals
 - General Journal
 - Cash Receipts Journal
 - Cash Disbursements Journal (Cheque Register)
 - Sales Journal
 - Tax Register
 - Purchase Journal

- ◆ Subsidiary Ledgers
 - Accounts Receivable
 - Accounts Payable

- ◆ General Ledger

Specialized Journals

In most organizations, when business records are maintained manually, the volume of business activity necessitates the need for specialized journals to record transactions. Similar transactions are recorded in the appropriate specialized journal.

For example, sales on account would be recorded in a sales journal, cash receipts in a cash receipts journal, cash disbursements in a cash disbursements journal or cheque register and purchase invoices in a purchase journal. This would eliminate the repetitious recording of these transactions in the general journal, reduce substantially the number of postings to the general ledger and would enable the staff to sub-divide duties. The savings in time and reduction of costs will be significant.

The columns in these journal would represent those accounts that are most often affected by the transactions. The cash receipts book for a municipality would include columns for cash, property tax receivable, business tax receivable, water and sewer rates receivable and an "Other" column to record all other transactions. The postings to the various subsidiary ledgers would be made at regular intervals during a month.

At the end of the month, the cash receipts book and all other specialized journals are added and balanced and the totals of each column are posted to the general ledger. The individual amounts in the "other" column are posted, but the total of this column is not posted. The records of the sample municipality include a cash receipts journal and a cheque register.

Subsidiary Ledgers

The revenues of all municipalities consist mainly of property taxes, business taxes, and water and sewer rates. Individual accounts must be maintained for all individual taxpayers for each tax category. It is practically impossible to record these types of transactions individually in a general ledger. Each taxpayers account is contained in a different ledger called a subsidiary ledger

For example, the property taxes for each taxpayer, as determined in the tax register, are posted to the taxpayers account and payments by the taxpayer are recorded initially in the cash receipts journal and then posted to the credit of the taxpayers account in the property tax subsidiary ledger. The total of the tax register which represents the total property taxes for all citizens are recorded in the general journal and posted to the appropriate general ledger accounts. This entry is recorded as follows:

Debit: Property Tax Receivable
Credit: Property Tax Revenue

The total of the property tax receivable column in the cash receipt book is posted to the credit of the property tax receivable account in the general ledger.

At the end of each month the individual outstanding property tax balances as contained in the property tax receivable ledger are listed and totaled. This total should agree with the balance of the property tax control account in the general ledger. The accounts of the Town of Pleasant Acres include the various taxes receivable subsidiary ledgers.

The General Journal

The simplest and most flexible method of recording transactions is the *General Journal*. For each transaction, it provides a place for recording:

1. the transaction date
2. the names of the accounts involved
3. an explanation of the transaction
4. the transaction's effect on the accounts involved
5. Posting reference

To facilitate posting from the specialized journals to the general ledger it is necessary to maintain a Chart of Accounts. This is a listing of all general ledger accounts with account numbers assigned to each account. For example. The chart of accounts for John Deerling -Realter is as follows:

Assets

101	Cash
104	Accounts Receivable
106	Office Supplies
110	Prepaid Rent
115	Prepaid Insurance
120	Office Equipment

Liabilities

201	Accounts Payable
204	Notes Payable - Long-Term

Owner's Equity

301	Capital - John Deerling
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Revenues

401	Commissions Earned
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Expenses

501	Salaries Expense
508	Vehicle Expense

To illustrate the recording of transactions in a General Journal and then posting to the General Ledger, we will use the example of John Deering, Realtor, again.

Included, is a posting reference column (PR) in both records to indicate the account number and journal page number. Posting references assist in the balancing of the General Ledger and reduces the time required to locate errors.

Here are the transactions for John Deering, again:

- a) John Deering commenced business on May 1, 2003 by depositing \$3,500 in a company bank account.

During the month of May, the following transactions occurred:

- b) May 1 . . . Paid rent for three months, \$2,400.00
- c) May 2 . . . Purchased office supplies for cash, \$169.00
- d) May 3 . . . Purchased office equipment for \$9,780.00 by signing a promissory note for the complete amount
- e) May 4 . . . Paid the company receptionist, \$260.00
- f) May 5 . . . Purchased office supplied on account with Dick's and Co. \$195
- g) May 6 . . . Earned and received selling commissions of \$840.00
- h) May 7 . . . Earned selling commissions of \$1275.00 (George Dell)
- i) May 8 . . . Paid vehicle expenses, \$275.00
- j) May 9 . . . Purchased insurance policy, \$770.00
- k) May 30 . . . Paid \$50.00 to Dick's and Co. on account
- l) May 31 . . . Received \$600.00 from George Dell on account

General Journal

Date 20 ____		Account Titles and Explanation	PR	Debit	Credit
May	1	Cash	101	3,500	
		Capital - J. Deerling	301		3,500
		To record investment by owner			
May	1	Prepaid Rent	110	2,400	
		Cash	101		2,400
		To record payment of three month's rent			
May	2	Office Supplies	106	169	
		Cash	101		169
		Purchase of office supplies			
May	3	Office Equipment	120	9,780	
		Notes Payable	204		9,780
		Purchase of office equipment			
May	4	Salaries Expense	501	260	
		Cash	101		260
		Payment, receptionist salary			
May	5	Office Supplies	106	195	
		Accounts Payable - Dick's & Co.	101		195
		Purchase office supplies			
May	6	Cash	101	840	
		Commissions Earned	401		840
		To record sales commissions			

General Ledger

Page 2

Date 20 ____		Account Titles and Explanation	PR	Debit	Credit
May	7	Accounts Receivable	104	1,275	
		Commissions Earned	401		1,275
		To record sales commissions on account-George Dell			
May	8	Vehicle Expense	508	275	
		Cash	101		275
		Payment of vehicle expenses			
May	9	Prepaid Insurance	115	770	
		Cash	101		770
		Purchase of Fire Insurance - Equipment			
May	30	Accounts Payable	201	50	
		Cash	101		50
		To record payment on account-Dick's & Co.			
May	31	Cash	101	600	
		Accounts Receivable	104		600
		To record cash received from George Dell			

General Ledger

ACCOUNT		Cash				NO. 101	
DATE	20 03	PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	1		GJ-1	3,500		DR	3,500
"	1		GJ-1		2,400	DR	1,100
"	2		GJ-1		169	DR	931
"	4		GJ-1		260	DR	671
"	6		GJ-1	840		DR	1,511
"	8		GJ-2		275	DR	1,236
"	9		GJ-2		770	DR	466
"	3		GJ-2		50	DR	416
"	3		GJ-2	600		DR	1,016

ACCOUNT		Accounts Receivable				NO. 104	
DATE	20 03	PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	7		GJ-2	1,275		DR	1,275
"	3		GJ-2		600	DR	675

ACCOUNT		Office Supplies				NO. 106	
DATE	20 03	PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	2		GJ-1	169		DR	169
"	5		GJ-2	195		DR	364

ACCOUNT		Prepaid Rent				NO. 110	
DATE	20 03	PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	1		GJ-1	2,400.00		DR	2,400.00

General Ledger

ACCOUNT		Prepaid Insurance				NO. 115	
DATE 20 03		PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	9		GJ-2	770		DR	770

ACCOUNT		Office Equipment				NO. 120	
DATE 20 03		PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	3		GJ-1	9,780		DR	9,780

ACCOUNT		Accounts Payable				NO. 201	
DATE 20 03		PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	5		GJ-1		195	CR	195
	3		GJ-2	50		CR	145

ACCOUNT		Notes Payable-Long Term				NO. 204	
DATE 20 03		PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	3		GJ-1		9,780	CR	9,780

ACCOUNT		Capital - John Deering				NO. 301	
DATE 20 03		PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	1		GJ-1		3,500	CR	3,500

ACCOUNT		Commissions Earned				NO. 401	
DATE 20 03		PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	6		GJ-1		840	CR	840
	7		GJ-2		1,275	CR	2,115

ACCOUNT		Salaries Expense				NO. 501	
DATE 20 03		PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	4		GJ-1	260		DR	260

ACCOUNT		Vehicle Expense				NO. 508	
DATE 20 03		PARTICULARS	PR	DEBIT	CREDIT	DR CR	BALANCE
May	8		GJ-2	275		DR	275

**John Deerling, Realtor
Trial Balance
December 31, 2003**

Accnt. #	Account	Debit	Credit
101	Cash	1,016	
104	Accounts Receivable	675	
106	Office Supplies	364	
110	Prepaid Rent	2,400	
115	Prepaid Insurance	770	
120	Office Equipment	9,780	
201	Accounts Payable		145
204	Notes Payable		9,780
301	Capital - John Deerling		3,500
401	Commissions Earned		2,115
501	Salaries Expense	260	
508	Vehicle Expense	275	
	Totals	15,540	15,540

The Town of Rushing Falls Exercise

The Town of Rushing Falls was incorporated on January 2, 2003. Its property tax levy was \$86,950 and the Business Tax levy was \$66,700. The following transactions were conducted in January, 2003:

- a) **Jan 2 . . .** Obtained a short-term bank loan for **\$5,000.00**.
- b) **Jan 2 . . .** Recorded the 2003 Property Tax Levy **\$86,950.00** and Business Tax levy **\$66,700.00**
- c) **Jan 9 . . .** Received **\$8,340.00** on property taxes and **\$6,910.00** on business taxes.
- d) **Jan 7 . . .** Paid rent for six months, **\$3,000**
- e) **Jan 7 . . .** Purchased office supplies for cash, **\$260.90**
- f) **Jan 7 . . .** Purchased office equipment at a cost of **\$6,280.40** from Dick's & Co. paying **\$1,800.00** down payment and balance due in sixty days.
- (g) **Jan 30 . . .** Received **\$4,200.00** on property taxes and **\$10,080.00** on business tax.
- h) **Jan 30 . . .** Paid salary of Town Clerk, **\$1,500**.

Instructions

1. Record above transactions using Transaction Worksheet.
2. Record above transactions using T-Accounts.
3. Record above transactions using the general journal and post to general ledger accounts.
4. Prepare trial balance at January 31, 2003.

**Town of Rushing Falls
Accounting Equation
Transaction Worksheet**

Assets					=	Liabilities		+	Town Equity						
Cash	+	Property Tax Receivable	+	Business Tax Receivable	+	Prepaid Expenses	+	Office Equipment	=	Notes Payable	+	Accounts Payable	+	Surplus/Deficit	
+5,000.00										+5,000.00					
		+86,950.00												+86,950.00	Property Tax
				+66,700.00										+66,700.00	Business Tax
+15,250.00		-8,340.00		-6,910.00											
-3,000.00						+3,000.00									
-260.90														(260.90)	Supplies
-1,800.00												+4,480.40		(6,280.40)	CE out of R
+14,280.00		-4,200.00		-10,080.00											
-1,500.00														(1,500.00)	Salary Expense
27,969.10		74,410.00		49,710.00		3,000.00				5,000.00		4,480.40		145,608.70	
								6,280.40						6,280.40	Investment in Capital Assets
27,969.10		74,410.00		49,710.00		3,000.00		6,280.40		5,000.00		4,480.40		151,889.10	

Total \$161,369.50

Total \$161,369.50

Town of Rushing Falls
Accounting Equation - "T" Accounts

Assets		=	Liabilities +		Town Equity
Cash	Property Tax Receivable		Business Tax Receivable	Notes Payable	Surplus/Deficit
a) 5,000.00 c) 15,250.00 g) 14,280.00 <u>27,969.10</u>	d) 3,000.00 e) 260.90 f) 1,800.00 h) 1,500.00 <u>74,410.00</u>		b) 66,700.00 <u>49,710.00</u>	a) 5,000.00 <u>5,000.00</u>	145,608.70 <u>145,608.70</u>
Prepaid Rent	Office Equipment			Accounts Payable	Investment in Capital Assets
d) 3,000.00 <u>3,000.00</u>	i) 6,280.40 <u>6,280.40</u>			f) 4,480.40 <u>4,480.00</u>	f) 6,280.40 <u>6,280.40</u>
				Office Supplies Expense	Property Tax Revenue
				e) 260.90 <u>0</u>	j) 260.90 <u>0</u>
				Salaries Expense	Business Tax Revenue
				h) 1,500 <u>0</u>	j) 1,500 <u>0</u>
					Capital Exp out of Revenue
					j) 6,280.40 <u>0</u>

General Journal

Date 2003		Account Titles and Explanation	PR	Debit	Credit
January	2	Cash	102	5,000.00	
		Notes Payable	201		5,000.00
		To record short-term demand loan from local bank.			
"	2	Property Tax Receivable	110	86,950.00	
		Property Tax Revenue	402		86,950.00
		To record Property Tax levy for 2003.			
"	2	Business Tax Receivable	115	66,700.00	
		Business Tax Revenue	406		66,700.00
		To record Business Tax Levy for 2003.			
"	7	Prepaid Rent	130	3,000.00	
		Cash (Bank)	102		3,000.00
		To record rental of building for two years			
"	7	Office Supplies Expense	510	260.90	
		Cash (Bank)	102		260.90
		To record purchase of office supplies			
"	7	Capital Expenditure out of Revenue	525	6,280.40	
		Accounts Payable	206		4,480.40
		Cash (Bank)	102		1,800.00
		To record purchase of office equipment, including computer, from Dick's & Co., paying \$800.00 down payment and the balance within sixty days.			
January	9	Cash (Bank)	102	15,250.00	
		Property Tax Receivable	110		8,340.00
		Business Tax Receivable	115		6,910.00
		To record collections of property taxes and business taxes.			

General Journal

Date 2003		Account Titles and Explanation	PR	Debit	Credit
"	30	Salaries Expense	510	1,500.00	
		Cash (Bank)	102		1,500.00
		To record payment of town clerk's salary.			
"	30	Cash (Bank)	102	14,280.00	
		Property Tax Receivable	110		4,200.00
		Business Tax Receivable	115		10,080.00
		To record tax collections.			
"	31	Office Equipment	160	6,280.40	
		Investment in Capital Assets	309		6,280.40
		To record Office Equipment as a Capital Asset and to record the Town's Equity.			
Jan	31	Property Tax Revenue	402	86,950.00	
		Business Tax Revenue	406	66,700.00	
		Salaries Expense	510		1,500.00
		Capital Expenditure out of Revenue	525		6,280.40
		Office Supplies Expense	530		260.90
		Surplus	505		145,608.70
		To close revenue and expense account to Surplus account.			

Year-End Adjustments and Closing Entries

One of the concepts adhered to by the accounting profession is the “time-period” concept. It is assumed that any business organization will continue indefinitely. However it is necessary for all businesses and municipalities to provide regular periodic financial reports. For reporting purposes the life of these organizations have to be divided into time periods such as one month, one quarter or one year. Annual reporting is required by government departments, such as Canada Revenue Agency, Statistics Canada and the Department of Municipal and Provincial Affairs. A regular time period of one year is called a fiscal year.

The matching principal requires the recording of revenues in the period in which they are earned and expenses incurred in the earning of these revenues to be recorded in the same period. Consequently, adjusting entries are required at the end of each period to meet the requirements of the match principal. The following independent situation are used to illustrate the various types of adjustments.

Accrued Expenses.

Expenses that have been incurred by a municipality or firm before the year-end, but have not been recorded because they are not due and payable until the following year.

Example: The weekly pay period salaries amounted to \$2,500. The pay period ended on December 29. The employees wages for December 30 and 31 are not paid until January 5 of the following year. The fiscal year-end is December 31. And an adjusting entry is required on December 31.

Debit: Salaries expense	1,000.	
Credit: Salaries payable		1,000.
To record salary expense incurred but not paid until January 5.		

If this adjusting entry were not made the expense for the current year would be understated by \$1,000, and the expenses for the succeeding year would be overstated by \$1,000.

Accrued Revenues.

Revenues earned but not recorded in the period earned. Example. A municipality has invested \$500,000 in a savings account to provide for the construction of a new municipal park, which will commence in the new year. Interest is paid on this account at the end of each month. The interest earned and deposited in the saving account on January 15 of the new year

was \$2,500. However \$1,250 of this amount was earned in the current year. The adjusting entry is as follows:

Debit: Interest receivable	1,250	
Credit: Interest revenue		1,250

To record interest earned for the period December 15 to January 15.

If this entry is not made revenues of the current period will be understated by \$1,250 and the revenues of the next fiscal period will be overstated by \$1,250.

Prepaid Expenses

Expenses which have been paid for but have not been recorded at year-end.

Example. A municipality purchases a one-year insurance policy on November 1 for \$12,000. This policy will provided coverage on all the town's assets for the next twelve months. The original entry to record this premium is as follows:

Debit Prepaid insurance	12,000	
Credit: Bank		12,000

To record purchase of insurance which will provide coverage for one year.

Two months coverage November and December relate to the current year. An adjusting entry to record two months expense in the current year is as follows.

Debit: Insurance expense	2,000	
Credit: Prepaid insurance		2,000

To record portion of insurance premium as an expense of current year.

If the above adjusting entry were not made the expenses for the current year would be understated and the expense for the succeeding year would be overstated.

Unearned Revenues

Cash received for goods and services which have not been provided or for taxes or other types of revenues which relate to the succeeding year.

Example: A municipality received an amount of \$7,500.00 on December 30 in payment for work to be performed with the town's backhoe. The clerk recorded this transaction as follows:

Debit: Cash	7,500
Credit: Other revenues	7,500

To record receipt of cash for work to be performed with the town's backhoe.

If this entry were not adjusted the revenues for the current year would be overstated and the revenues for the next year would be understated.

To correct this situation, the following adjusting entry would be prepared:

Debit: Other revenue	7,500
Credit: Unearned revenue	7,500

To adjust entry recording cash received for work to be performed with the town's backhoe in the next year.

Amortization Expenses.

Many commercial organizations record the cost of capital acquisitions such as buildings, equipment and vehicles directly as an asset. This cost must be allocated to each year that revenues are received from the use of this asset. An appropriate amount based on accepted depreciation methods is recorded as an expense of each period. However the treatment of capital assets acquired by municipalities is different as explained in the section on capital expenditures.

Closing Entries

When all entries have been recorded for a fiscal year and financial statements have been prepared, the final steps in the accounting cycle are the preparation of closing entries and the preparation of a post-closing trial balance. Closing entries involves the transfer of the balances in the revenue and expense accounts to the surplus account. After these entries are posted all revenue and expense accounts will have "zero" balance and the surplus account balance will reflect the net income or net loss for the fiscal year.

A post-closing trial balance of the general ledger is prepared, consisting of the asset, liability and surplus accounts. This indicates that all the entries have been recorded, that the balances in the general ledger agree with the amounts on the financial statements and that the general ledger is ready to accept information for the succeeding accounting period.

Internal Controls

A definition of internal control would be a system implemented in a municipality to:

- ◆ encourage adherence to prescribed managerial and council policies and promote operational efficiencies
- ◆ to ensure accurate and reliable accounting data
- ◆ to ensure that generally accepted accounting principles and procedures are followed, and
- ◆ to protect council assets from loss due to waste, fraud and inefficiencies.

Internal control procedures vary from municipality to municipality, depending on the type and size of the town. Although internal control, procedures may vary the basic principals remain unchanged.

Recommendations on any internal control system will depend on the cost incurred and the benefits to be received. For example, an important principal is the division of duties whereby the recording of cash and the physical custody of cash should be divided between two office employees. However, many councils may only employ one office person and therefore cannot meet this requirement, as the cost of hiring an additional employee could be prohibitive. In this situation, the town manager or the mayor could check to ensure that the necessary cash handling procedures are being followed. For an internal control system to be effective in meeting the above objectives, it must be designed after considering the size and staff complement of each town.

Principles of Internal Control

- ◆ **Division of duties** - the recording of cash transactions should be performed by an employee who does not have physical custody of cash. The work of one employee can create an automatic check on the work of another employee.

For example, the person responsible for the handling and depositing of cash should not have access to the taxes receivable ledgers.
- ◆ **Fixed responsibilities** - employees should be made aware of their responsibilities at all times. Councils should provide policy and procedures manuals, job descriptions, and position classification manuals. Employees will be aware the extent of their responsibilities and of council's expectations.

- ◆ **Established routine procedures** - policies and procedures should be established for each phase of operations.

For example, effective and efficient cash control procedures should require the following:

- Daily balancing of cash
- Regular deposits. If it is not practical to make daily deposits, employees should deposit when cash on hand exceeds a predetermined amount.
- All payments are to be made by cheque and supported by properly approved documents.

If routine procedures are established, then staff and auditors can concentrate on irregular events.

- ◆ **Involvement of third parties** - third parties such as Municipal and Provincial Affairs, banks, insurance companies, suppliers and customers (taxpayers) can provide an independent check on municipal records, protect a municipality's physical assets and serve as a deterrent. Bank reconciliations, suppliers statements, insurance policies and customer confirmations can be obtained and completed to ensure that the company records are current and accurate and that the assets are fully protected from loss.
- ◆ **Physical safeguards** - mechanical devices such as cash registers, cheque protectors, time clocks, and electronic aids should be used to the extent possible. This reduces the possibility of errors and manipulation of assets. assists employees and increases efficiency.
- ◆ **Rotation of employees** - employees should be rotated among positions to the extent possible. All employees should be required to take annual vacations.
- ◆ **Establishment of standards** - predetermined objectives should be used for comparison of actual results and for control purposes. Annual operating budgets, is an example whereby council can compare actual with budget to ensure that costs do not exceed annual revenues.
- ◆ **Internal auditors** - internal auditors are usually employed by large organizations to ensure that the prescribed policies and procedures are being followed and to make recommendations to management for improvements.
- ◆ **External auditors** - external auditors examine the system of internal control and perform the necessary tests of the accounting records. They would then provide an independent opinion relating to the financial statements of the business organization.

As many as possible of the above internal control requirements should be implemented by municipalities. As stated previously, the number and extent of the measures utilized will depend on the size and complexity of a town's operations.

Other Financial Controls and Safeguards

One of the features of a good internal control system is the requirement that all funds collected are deposited on a regular basis and that all payments are made by cheque. In recent times organizations, can avail of the services provided by large financial institutions and make payments by telephone, through the use of credit cards. Also, payments to suppliers can also be made over the internet. While these new payment methods greatly facilitate the payment of invoices, it is important that the necessary controls are in place to ensure that the asset cash is protected and that the transactions are recorded correctly in the accounts.

Whether a council uses cheques or avails of the services of the large credit card institutions to collect from taxpayers or to pay its invoices, it is important to ensure that there is very little cash on hand at all times. As stated above cash should be deposited daily, or as soon as conveniently possible. For example if a bank is not located in or near a municipality, it may be more convenient to deposit on a regular weekly basis.

Establishment and Operation of a Petty Fund

On many occasions, council employees have to make small payments such as a taxi fare or the purchase of postage stamps. The regular cash collected should not be used to make such payments. Instead a petty cash fund should be established provide the employee with the available cash to make these small payments. The establishment and operation of a petty cash fund is illustrated as follows:

- Step 1 . . .** Determine the size of the fund and appoint an employee as petty cashier. Ensure that the is fully aware of the responsibilities and the necessary procedures.
- Step 2. . .** Prepare a cheque for the amount of the fund made payable to the petty cashier, who will cash the cheque in the necessary denominations and coins and placed in a locked container. The petty cashier should be the only person with access to this key.
- Step 3. . .** When a payment such as a taxi fare is made from the fund the amount of the fare is taken and replaced by the actual receipt from the taxi driver.

Step 4. . . The above procedure is repeated for all cash payments from the petty cash container. At all times the cash remaining plus the paid invoices should equal the established petty cash float.

Step 5. . . When the petty cash available is low a replenishment cheque is prepared. The petty cashier will prepare a petty cash summary of all the vouchers (paid invoices) in the petty cash container, allocating each voucher amount to the appropriate account.

Step 6 . . . The replenishment cheque is recorded in the accounts and the amounts as listed in the petty cash summary are recorded in the appropriate account.

This procedure is continuously repeated. Proper operation of this fund, or any other float, will ensure that the monies are adequately controlled and properly recorded.

Bank Account Reconciliation.

Effective control of cash requires that all council bank accounts are reconciled monthly. The balance of the bank account in the general ledger is compared with the balance as shown on the bank statement. At most times they do not agree. This does not necessarily mean that either of these balances are incorrect. However, a reconciliation must be completed to determine the reason for the differences.

The causes of the difference could be any of the following:

- Deposits made at the end of each month, that are recorded in the Town's records but are not recorded by the bank until the next month. (deposits in transit).
- Cheques issued by the Town and recorded in the Town's records but have not been received at the bank before the month-end or before the closing bank date. (outstanding cheques).
- Bank charges recorded by the bank that have not been recorded in the Town's accounts.
- Credit memos recorded by the bank, that have not been recorded in the town's bank account.
- Errors or omissions by the town's staff relating to the recording of a deposit or cheque.
- Errors or omissions by the bank staff.

The entries in the general ledger bank account of the Town are compared with the entries on the bank statement and any differences are noted. The necessary entries are recorded and a bank reconciliation is prepared. A bank reconciliation will be shown at month-end for the sample municipality.

Payroll Procedures

One of the more important functions of every municipality is the employment of municipal staff. The recruitment and selection procedures followed by every council should ensure that "the right person is hired in the right position." There should be a probationary period during which council can observe and assess each new employee's performance and decide if that employee should be appointed on a permanent basis.

Each new employee is required to complete the necessary documentation, such as a TD-1 for income tax deductions and insurance forms for enrollment in any insurance and health plans. When the documentation process has been completed the employee is included in the town's payroll. This information is used in computing the employee's net pay for the next period. The net pay is calculated as follows:

- **Calculate the pay period amount.** The gross salary is provided by the agreement between council and the individual. For unionized employees the salary is determined by the collective agreement. Letters of appointment could be used to calculate the gross pay or time reports could be used for outside workers and also for temporary employees.
- **Calculate the periodic deductions.** Following the determination of the gross pay for the pay period the next step is to calculate the periodic deductions. These deductions may be statutory and non-statutory. Statutory deductions are those deductions required by statute such as income tax deductions, employee's Canada pension premiums and employee's employment insurance premiums. Non-statutory deductions are deductions for health insurance premiums, registered retirement savings plan, registered pension plan and union dues.

Calculation of Statutory Deductions

Income Tax

Income tax deductions are based on the TD1 provided by the employee at the date of commencement of employment or at the beginning of each calendar year. The town clerk will determine the appropriate income tax code based on the information provided on the TD1. Income tax tables are available from Canada Revenue Agency with the various codes matched with a salary range. The pay period gross salary less allowable deductions is matched with the related tax deduction code to determine the amount of tax for the pay period for each employee.

Canada Pension Premiums

Canada pension premiums for employees are based on information and rates provided by Canada Revenue Agency. In the calendar year ending December 31, 2003, the employee rate was 4.95%, maximum pensionable earnings were \$39,900 and the basic yearly exemption was \$3,500. The maximum accumulated payroll deduction for 2003 was \$1,801.80.

For example, an employee with an annual salary of \$30,000. would earn \$2,500.00 each month. The CPP contributory earnings would be determined by deducting the basic monthly exemption from the gross salary. The basic yearly exemption divided by 12 amounts to \$291.67, which is deducted from the gross monthly salary of \$2,500.00. The amount of \$2,208.33 is multiplied by the employee's rate of 4.95% to determine the monthly premium of \$109.31. This amount is matched by the employer.

Employment Insurance Premiums

Employment insurance premiums for employees are also provided by Canada Revenue Agency. In 2003, the E.I. rate was 2.1% of gross salary. The maximum insurable earnings were \$39,000, and the maximum yearly contributions for each employee was \$819.00. Referring to the above employee earning \$30,000 annually, the E. I. premium would be \$52.50. This amount is multiplied by 1.4 to obtain the necessary premium for the employer

It is not necessary to calculate the appropriate statutory deductions for each employee as the tax tables which are provided by Canada Revenue Agency contains the required premium. Canada Revenue Agency publications T4032, *Payroll Deductions Tables* and T4008, *Payroll Deductions Supplementary Tables* provide information you need.

Also if a municipality has access to a computer, it can avail of the tax calculations available from Canada Revenue Agency called **Tables on Disk (TOD)**. Calculations can also be made with computer accounting packages or towns can use the an appropriate spreadsheeting program to ensure that correct amounts based on the information available will deducted.

More About Tables on Disk (TOD)

Canada Revenue Agency offers TOD in two formats:

- On-line - downloadable
<http://www.cra-adrc.gc.ca/tax/business/tod/menu-e.html>
- On disk - contact Canada Revenue Agency

This is an excerpt from the Canada Revenue Agency website . . .

"Tables On Diskette (TOD) is a stand-alone computer program that calculates Canada Pension Plan (CPP); Employment Insurance (EI); and federal, provincial (except Quebec) and territorial tax deductions for all pay periods. TOD is usually updated, as tax changes occur, for January 1 and for July 1.

In the publications T4032, Payroll Deductions Tables and T4008, *Payroll Deductions Supplementary Tables* and in TOD, we use the mid-point of a salary range to determine the tax deductions.

TOD is produced to help reduce the paper burden for small businesses. The printed calculations created by the TOD application are not intended to be a statement of earnings and therefore should not be used as such. Please contact your employment standards representative to make sure that you meet the legislative requirements of your province or territory regarding the information that must appear in the statement of earnings.

If you use TOD to verify payroll deductions formulas, you must use the mid-point of a salary range. If you are an employee who is using TOD to check your deductions, the amounts determined by your employer may differ slightly from TOD's results.

For PC users:

System requirements:

- Pentium 166 or higher processor;
- Microsoft Windows 95 or later operating system; and
- 48 MB RAM with 50 MB of free hard disk space.

How to download the "install" file to install TOD:

The file that you download is compressed. You will need at least 45 megabytes of free space on your hard drive (13 megabytes to download the executable file and an additional 32 megabytes to install TOD.)

1. Create a new folder on your "C" drive and name it "TOD".
2. Save the download file "Install.exe" to the TOD folder.
3. Close all applications except Windows.

4. Double click on the "Install" icon or "Install.exe" file to initiate the extraction of the "InstallAnywhere" application.
5. Choose your language preference from the drop-down list menu, and click "OK".
6. After you have read the instructions on the "Introduction" page, click "Next".
7. On the "Choose Install Folder" page, click "Next".
8. On the "Choose Shortcut Folder" page, select "In a new Program Group: TOD" (if not already selected), then click "Install".
9. On the "Install Complete" page, click "Done".
10. You can choose to delete the TOD folder created in step 1 to free up 13 megabytes of disc space on your hard drive.

Troubleshooting guide:

- **Error message: "The magic number does not match. Please get another copy of the installer and try again."**

The reason for this error message is because the downloaded file is incomplete. Your system has either timed you out or you do not have access to high speed Internet. You should try again later or request a CD containing the "install" file be sent to you.

- **Unable to install TOD on to your PC.**

The reason you are unable to install TOD on to your PC could be due to the fact that your computer does not meet the minimum system requirements as outlined above. To ensure your operating system contains the latest updates and patches which could affect your ability to download and use TOD, visit <http://www.microsoft.com> and click on the link called "Protect your PC in 3 steps".

As an alternative, you may want to consider using our Payroll Deductions Tables (T4032) which can be accessed from our [Payroll](#) page.

Request for the CD (form or publication reference number "T4143") can be made on-line by filling out the [on-line order form](#) or by calling 1-800-959-2221.

Contact us

If you continue to experience difficulty, please email us at TOD@ccra-adrc.gc.ca and provide us with the following information:

- i) Name
- ii) Telephone number (including area code) where we can reach you during the day
- iii) PC or Macintosh user
- iv) Operating system
- v) Error message (if applicable)
- vi) Description of difficulty or problem

Macintosh users:

System requirements:

OS X operating system.

How to download the "install" file to install TOD:

The file that you download is compressed. You will need at least 9 megabytes of free space on your hard drive (4 megabytes to download the compressed file and an additional 5 megabytes to install TOD.)

- i) Download the "[Install.zip](#)" file to the desktop.
- ii) On the desktop, double click on the "Install.zip" icon to reveal the "Install" icon.
- iii) Double click on the "Install" icon to initiate the installation process.
- iv) After the installation process has been completed, you can choose to delete the "Install.zip" file created in step 1 to free up 4 megabytes of disc space on your hard drive.

Troubleshooting guide:

If you received a TOD CD that did not contain installation instructions, please contact Canada Revenue Agency

If you continue to experience difficulty, please email us at TOD@ccra-adrc.gc.ca and provide us with the same information that we requested in the above chart for PC users.

Capital Expenditures

The funding for capital expenditures for municipalities is obtained from two main sources. For large capital projects the funds may be obtained from a long-term bank loan or a loan from the Municipal Finance Corporation. Council will agree to make equal payments to the lender over an agreed period of time at a certain rate of interest. These payment are using blended between principal and interest.

The other source of funding for capital expenditures is the current year's taxes. If the councils has sufficient funds from its current projected revenues, it can include in its annual operating budget a amount to meet a certain capital expenditure.

For example, if a certain town needed a small truck for its operations, it can obtain an estimate and include this amount in its current operating budget. If the estimated amount is \$15,000, and the vehicle is purchased the following accounting entries are made:

Date 20 __	Account Titles and Explanation	PR	Debit	Credit
	Capital Expenditure out of Revenue - Vehicles		14940	
	GST Receivable		60	
	Accounts Payable			15000
	To record purchase of vehicle as per tender.			
	Vehicles		14940	
	Investment in Capital Assets			14940
	To record town's equity in new truck			

Debt Charges

When payments are made on long term debt, the payment is apportioned between principal and interest in accordance with a loan amortization schedule.

For example, a town made a payment of \$4,000.00 to a bank representing its annual payment on its long-term debt. The interest portion was \$800.00. The accounting entries are as follows:

Date 20__	Account Titles and Explanation	PR	Debit	Credit
	Debt Charges - Principal		\$3,200	
	Debt Charges - Interest		800	
	Bank			4000
	To record annual payment on long-term loan			
	Notes Payable		\$3,200	
	Investment in Capital Assets			3200
	To record increase in Town's Equity resulting from principal reduction in long-term debt.			

Glossary

Chart of Accounts

The Chart of Accounts lists all accounts used by a Municipality. There are six categories of accounts: assets, liabilities, equity, revenue, expenses.

Accounting Period

The life of a business is divided into segments called accounting periods. The twelve month period, ending on the company's selected year end is called the fiscal period. Annual financial statements are prepared at the end of this fiscal year. In the case of Newfoundland municipalities, this period ends on December 31st. of every year.

Accounting Equation

$$\mathbf{Assets = Liabilities + Equity}$$

This basic equation is the foundation for double-entry accounting and reflects the balance between a municipality's assets and the sources of funding that is invested in its assets, which fall into two basic groups - liabilities and equity.

Equity

Represents the towns investment in the assets of the municipality. The two accounts representing the equity of a town are Accumulated Surplus/Deficit account and Investment in Capital Assets account. Differences between revenues and expenditures are placed in a Surplus/Deficit account, closed out and posted to the Accumulated Surplus/Deficit account

Profit earned by the town but not distributed to the residents. At the end of the fiscal year, this equity is placed in an account called "Retained Earnings".

Accounting Cycle

The accounting steps that recur each accounting period in the life of the Municipality and which begin with the recording of transactions and proceed through posting the recorded amounts, preparing a trial balance, preparing a work sheet, preparing the financial statements, preparing and posting adjusting and closing entries, and preparing a post-closing trial balance.

Fiscal Year

A period of any 12 consecutive months used as an accounting period.

Annual Budget

An itemized listing of the amount of all estimated revenue sources which the Municipality anticipates receiving, along with a listing of the amount of all estimated expenses that will be incurred. The budget is for a specific period, normally one year.

Double-Entry Accounting

An accounting system in which each transaction affects and is recorded in two or more accounts. Each accounting entry must have equal debits and credits.

Assets

Economic resources which will be used by an organization in the future.

Liabilities

Monies owed to lenders or suppliers.

Accounts Payable

The amount owed to vendors or suppliers for purchase of products, various supplies, and services that were bought on credit.

Accounts Receivable

Monies owed to the municipality for services rendered or for taxes.

Expense

Goods or services consumed in operating a Municipality.

Revenue

An inflow of assets, not necessarily cash, in exchange for goods and services sold. The tax levies by municipalities are treated as revenues at the town.

Accrued Expense

An expense which has been incurred during an accounting period but which has not been paid and recorded because payment is not due.

Accrued Revenue

A revenue that has been earned during an accounting period but has not been received and recorded because payment is not due.

General Ledger

A ledger containing the financial statement accounts of a Municipality.

Subsidiary Ledger

A group of accounts other than general ledger accounts which show the details underlying the balance of a controlling account in the General Ledger.

General Journal

A book of original entry in which any type of transaction can be recorded.

Posting

Transcribing the debit and credit amounts from a journal to the general ledger accounts.

Balance Sheet

A financial report showing the assets, liabilities and equity, of the Municipality, on a specific date.

Income Statement

A financial report showing revenues earned by the Municipality, the expenses incurred in earning the revenues, and the resulting surplus or deficit.

Trial Balance

A list of accounts having balances in the General Ledger. Each account will have a debit or credit balance. The total of the debit balances and the total of the credit balances must be equal at all times.

Cash Flow Statement

A financial statement that accounts for the increase or decrease in a municipality's cash during a period by showing the sources at the municipality's got cash and the uses it made of the cash.

Bank Reconciliation

It is a verification of the general ledger bank account at the municipality through comparing entries to those on the bank statement. Included in the bank reconciliation is a list of outstanding deposits and outstanding cheques.

Adjusting Entries

Journal entries that are made to adjust revenues, expenditures and other transactions to the period to which they apply so that each accounting period reflects the proper allocations for that period.

Closing Entries

Entries made to close and clear the revenue and expense accounts and to transfer the amount of the net income to the municipality's Surplus/Deficit account.

Gross Pay

The amount of an employee's pay before any deductions.

Net Pay

The amount of an employee's pay after all deductions.

Internal Controls

Accounting forms, procedures and precautions that are established primarily to prevent and minimize errors and fraud. Common internal control procedures include requiring the signature of two individuals to approve transactions over a certain amount, restricting entry and exit routes of employees, using surveillance cameras, enforcing employees to take their vacations away from the office, and conducting surprise review of all records.