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Accounting Procedure for State Universities

BY WILLIAM B. CASTENHOLZ, A. M., C. P. A.

II

THE ASSET ACCOUNTS

The assets of a state university are composed of its buildings and their equipment, lands for campus or experimental uses, libraries, supplies for office use and for maintenance and repairs of buildings and grounds, some notes covering student loans, the cash balances and, very rarely, investments in securities. In privately endowed schools, the investments are generally, next to plant assets, the largest item on the balance sheet; in fact, they may even exceed the amounts put into the plant.

It is probably true that very few state universities have current statements of assets and liabilities. In most cases a balance sheet is prepared only once at the end of each fiscal year. Even at that time the relation of the balance sheet to the operating accounts is not apparent.

The land to be purchased and the buildings to be erected are provided for in the annual budget. Funds for these purposes are generally available through the state legislative appropriations. As these additions are paid for the proper land or building account is charged and the state fund credited. In this way the land, building and equipment asset accounts can be currently maintained.

The acquisition of other property cannot be dealt with as easily. All other equipment must be purchased out of departmental allotments and must, therefore, be primarily charged not to an asset account, but to the departmental appropriation account. By providing a proper classification of these charges, the permanent acquisition under each departmental allotment is secured. We have already indicated that under each appropriation account a detailed classification of disbursements obtains. This classification takes care of additions to equipment as well as of items purely of expense.

At the end of each month an analysis is made of all expenditures charged against the appropriation accounts. This analysis

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gives, of course, the values of all permanent additions to departmental equipment. These values are all summed up and the following journal entry is made:

	Debit	Credit
Departmental equipment	x x x	
To surplus invested in fixed assets		x x x
Expenditures made by departments during month of for permanent additions to departmental equipment.		

The appropriation accounts are in no way altered by this entry, but the general ledger will always reflect that portion of departmental expenditures invested in permanent additions.

The purchase of books by the library department is treated in the same manner, the library appropriation analysis showing a close division between expense and new acquisitions.

The monthly additions made by the departments out of their own appropriations are further evidenced at Illinois by a perpetual inventory system. As additions are made the department or the business office (depending upon the availability of clerical assistance) prepares inventory cards in duplicate, on which are listed the various acquisitions. These inventory cards indicate the classification of the addition, the business office voucher number, the department, the name of the article, the date purchased, the cost, the depreciation rate and spaces in which to carry the depreciated values from year to year. Provision is made also in case the article or equipment is disposed of by sale or junked, with the date of such disposal indicated. After all entries are typed on these duplicate form cards one copy is retained by the business office and the other by the department. The sum of the values indicated on these cards must equal each month the amount charged to departmental equipment account. This will at once show that all additions charged against the departmental appropriation have been properly inventoried. The general ledger account is thereby the controlling account for the card inventory file.

The university of Illinois also maintains an inventory record of all its buildings. One sheet is devoted to each building. On this sheet provision is made for depreciation and for additions

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so that current values are always extant. The sum of all these values agrees with the general ledger controlling account, which assembles in one amount the entire investment in buildings. All land is inventoried and controlled in a similar manner.

It is not feasible to maintain perpetual inventories of all expendable supplies because the larger portion of these supplies is purchased directly for departmental use. The departments are instructional units and should not be burdened with bookkeeping. All supplies in the departments are kept under lock and key and only issued as needed. An inventory is taken at the end of each fiscal year and then included in the general balance sheet as a portion of surplus invested in available assets. At the opening of the next fiscal year this asset is immediately written off by charging the surplus account and crediting the asset account. The departmental expense accounts and the departmental appropriation accounts are not affected.

Perpetual inventories, however, are maintained for the store-rooms directly under the supervision of the business office. Such inventories cover the office supplies, physical plant stores and postage supplies. These accounts are charged in the general ledger as purchases are made and they are credited on the basis of the departmental requisitions when issued. The subsidiary books or stores records are controlled by the general ledger. The stores records are classified by commodities and by location.

Universities, as a rule, have various funds which are advanced to students to assist them through school. These loans are evidenced by endorsed or guaranteed notes given by the students. An ordinary notes receivable register is maintained for these notes and the outstanding amounts controlled by the general ledger.

The accounts receivable of a state university are quite numerous and must be well controlled. Yet most of these accounts are paid promptly and rarely run over thirty days. These accounts are created chiefly through the departmental sales. Wherever colleges of agriculture form part of state universities there are heavy sales of milk, butter, cheese, eggs, poultry, live stock and farm produce. At Illinois the departments making these sales prepare the bills, which, however, in turn request that payment must be made to the university and at the general

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business office. The departments are not permitted to receive cash for any sales except those made "across the counter" in the dairy manufacturing department; here butter, milk, cheese, ice-cream, etc., are sold at retail. All charge accounts even in this department, however, are collected by the general business office. The departments, in order to safeguard themselves, keep complete records of their sales, which serve as a check on the reports submitted monthly to the departments by the business office. The departmental sales records are in turn checked by the business office on the basis of production records.

Since most of the accounts receivable are settled very promptly, the business office of the university of Illinois does not maintain accounts receivable ledgers, but, in their stead operates an accounts receivable register wherein all the charges are listed individually and credited to the proper income account. The total charges for the month are posted in one total to the general ledger accounts receivable controlling account. As the accounts are paid, the cash received is credited in the accounts receivable column on the cash book and the monthly total of this column is credited to the general ledger controlling account. The individual receipts are then applied in a "date paid" column of the accounts receivable register. At the end of any month, a list is prepared of those accounts not checked off in the "date paid" column, and this list must agree with the balance shown by the general ledger controlling account. The list of unpaid accounts in this way serves as an accounts receivable ledger, as well as a collection tickler.

Interest receivable for interest accrued on student loans is given effect in the balance sheet at the end of the year only when an inventory of interest accrued on notes receivable is prepared.

LIABILITIES

The liabilities of a state university viewed from a commercial standpoint are of negligible quantity. On the basis of the theory that an account payable is not an actual liability until approved by the proper parties or, if you please, certified for payment, any unpaid bills can hardly be considered liabilities, and effect need only be given to these at the end of the year if the commodities or articles billed have been included in the inventory.

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Outstanding or unfilled purchase orders are in no sense a liability, although they must be considered currently as encumbrances against the departmental appropriation accounts, in order that the departmental free balance can be truly stated. At the end of any fiscal year these departmental encumbrances are ignored for statement purposes and only the actual departmental cash balance is shown. These cash or unused balances may or may not be reappropriated for the next fiscal year; it appears to be good policy to make reappropriations if the encumbrances exceed or are equal to the departmental balance at the end of any fiscal year. This would be especially true if the encumbrances represented outstanding purchase orders for supplies, material or equipment actually needed during the year when placed but unavoidably delayed through circumstances beyond the university's control. Departments might actually be crippled by non-delivery of orders; in such cases they should certainly not be further penalized by refusal to reappropriate previous year balances that were already properly encumbered.

It is decidedly inadvisable and impracticable to attempt, under the conditions outlined, to operate a current accounts payable ledger or a voucher register of the style used in the majority of well organized industries. The purchase order register, while constructed on a basis of estimated cost of goods ordered, is the only approach to the ordinary commercial voucher register. This register is operated, however, not in order to show the university's liabilities, but to keep constantly a record of the encumbrances against the departmental appropriations. The payments made for purchases properly received and certified for payment do not in any way affect the purchase order register as far as values stated therein are concerned, because the values in the purchase order register are estimated; the payments made are merely checked in a "date paid" column opposite the entry of the order, and the unchecked items at any time represent the encumbrances against the departments.

At the end of the year the liability for equipment lent by the United States government and all accruals are stated. There is as a rule some interest accrued, payable to beneficiaries under bequests to the university.

SURPLUS

The university's surplus account does not resemble in any way the surplus account of an industrial corporation, which is composed entirely of accumulated or residual net profits. The surplus account of the university is composed: (1) of its investments in fixed assets, (2) of its available assets such as cash and accounts receivable, (3) of assets to be used for specific purposes only, namely trust funds, and (4) of its investment in expendable supplies. The surplus account is merely a reflection of the university's net worth as invested in these variously enumerated forms both liquid and fixed.

JOB ORDER SYSTEM

The job order system at the university of Illinois is a feature which most closely approaches industrial accounting. The job order system is strictly a cost accounting proposition. Job orders grow out of requisitions by departments for construction work or for odd jobs of any kind. These jobs involve both the use of material and the employment of labor. The materials used are issued on the basis of a material requisition, bearing the job order number and signed by the foreman in charge of the work. These requisitions are all used as a basis, first, to credit the material account and, second, to charge the proper job order number. The job order numbers are given out by the supervising architect on the basis of the departmental requisition for a job to be done.

All labor utilized on a job is charged to the appropriate job number. Finally, therefore, all material used and all labor employed in the job system is charged against a proper job order number. The same is true of any freight, express or other miscellaneous expense incurred on account of a job.

The business office maintains controlling accounts for the job order numbers only, the detailed labor records and their analysis, the detailed materials used records, being kept in the office of the supervising architect, who is enabled thereby to get the costs of every job in detail, to watch labor efficiency and to form intelligent estimates on future jobs. It is to be remembered that the department is charged with the estimated cost of a job as soon as a requisition is made. This estimate should, therefore,

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be accurate so that the departmental appropriation be not encumbered with the wrong amount.

While the supervising architect's office watches the quantities and kinds of material used on a job, the efficiency of labor and spoilage, the business office keeps all the stores records from which materials are withdrawn.

The business office and the supervising architect are in close relationship in all phases of the job order system. When a job is requisitioned for, the supervising architect furnishes the business office with a bill of material, on the basis of which an order is placed if no stores are on hand, or a report made to the supervising architect that the proper materials are available. The stores records are always kept up-to-date with minimum and maximum limits to be carried. Moreover, the stores records are in close physical proximity to the purchasing department, thereby insuring prompt replenishment of any stores completely or partly exhausted.

GENERAL LEDGER CONTROL

All the important phases of university accounting at Illinois are under close general ledger control. The cash account, which is the most important, is thoroughly controlled through the various fund accounts and through the departmental appropriation accounts. All property accounts can be verified through the general ledger; all trusts are controlled and all inventories must agree with the general ledger totals. Accounts receivable and notes receivable are susceptible to similar proof.

The inclusion of the estimated income from student fees as an anticipated asset at the beginning of each fiscal year is to a large degree a preventive against defalcation. The estimated income from this source is stated on the basis of several years' experience and upon normal rate of increase. The estimate is not far wrong. Under this condition, the cashier's receipts can be readily checked during registration and fee paying days, and certainly no large defalcation could occur without almost immediate detection. The daily report of the registrar, giving the number of registrations, is a further means of checking, at least fairly accurately, the receipts that were anticipated.

ORGANIZATION OF THE ACCOUNTING DEPARTMENT

The comptroller, in addition to serving as general business manager, at Illinois is the responsible head of the accounting department. All changes in accounting procedure, all changes in the personnel of the accounting staff and all distribution of activities and powers in the accounting office are functions of the comptroller. All statements must be prepared according to his directions and all submitted to him for inspection and signature. The comptroller as business manager supervises all finances, all buying, signs all contracts, carries out the wishes of the board of trustees and president of the university with reference to the budget and all business matters, and last, but not least, serves as the connecting link between the departments of the university as business units and the university as a corporate body in its relationship to the state and state authorities.

Directly under the comptroller is the auditor. The auditor is responsible for the details of office organization, the distribution of work, the correctness of all the accounts and keeps the general ledger. He must, subject to the final approval of the comptroller, approve all requisitions in so far as they affect appropriation accounts. He must see that a daily account of cash be rendered and that all cash be daily deposited. He must prepare the necessary monthly statements and submit them to the comptroller for final inspection.

All other members of the business office, including the cashier and the purchasing agent, are under the control of the auditor in so far as they are accounting units and their organization is concerned. The purchasing agent, as the purchasing medium for the university, is directly responsible to the comptroller, who supervises all purchasing activity by giving attention to all requisitions received in the business office.

The accounting activity falls naturally into two groups: (1) that associated with cash receipts and (2) that connected with the cash disbursements. The cashier is responsible for all receipts and is heavily bonded. He makes no disbursements, except out of a petty cash fund; these disbursements are first approved by the auditor or the comptroller, depending upon the circumstances surrounding the individual cases. The cashier keeps all the necessary records for listing his receipts and properly analyzing

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them. He prepares a daily cash receipts voucher (heretofore described) which must agree with his deposits and which is audited by the auditor. The cashier at the end of each month is required to furnish those departments that make sales with a detailed statement of receipts on account of such sales. This gives the selling department a check on the cashier; the cashier also furnishes the department a list of accounts outstanding—this list must agree with the departmental records. The cashier, of course, has whatever assistance is necessary and he has full control over it. The entire personnel associated with disbursements is under the direct supervision of the auditor, who employs the necessary warrant clerks, voucher clerks, bookkeepers and stenographers. At Illinois many of our bookkeeping records are type-written.

The purchasing agent is directly responsible to the comptroller, who is the head of the purchasing department and whose advice is necessary for all purchases of unusual size or importance. The purchasing agent supervises the taking and keeping of all inventories of stores and departmental equipment; but all these detailed inventory records are controlled by the general ledger and frequently audited by the auditor. The purchasing agent also has supervision over whatever printing is done by the university's multigraphing equipment.

The organization of the business office at the university of Illinois is highly centralized, with complete responsibility for all forms of activity vested in the comptroller. The responsibility and supervision are real, because of actual control, through the auditor, of all accounting activity and office organization, because of daily contact with all correspondence, both incoming and outgoing, and because of daily contact with the requirements throughout the institution as expressed through the action and wishes of the president of the university, the board of trustees and the instructional departments.