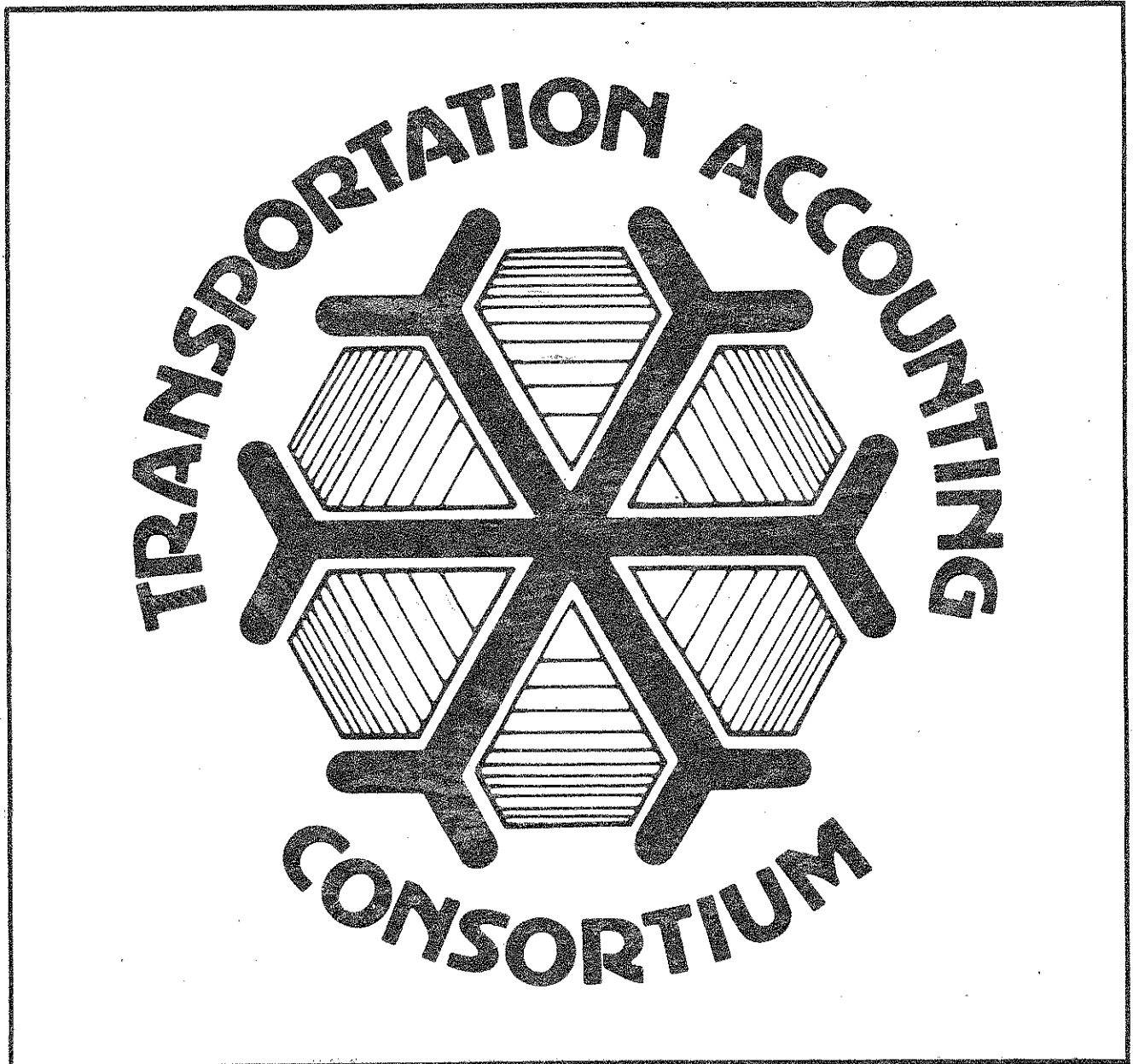


# RURAL TRANSPORTATION ACCOUNTING

October 1986



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# **Rural Transportation Accounting**

## **A Model Uniform Accounting System for Rural and Specialized Transportation Providers**

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Final Report  
October 1986

Prepared by  
The Transportation Accounting Consortium  
Michigan Department of Social Services,  
Secretariat  
P.O. Box 30037  
300 South Capitol Avenue  
Lansing, Michigan 48909

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**A MODEL UNIFORM ACCOUNTING SYSTEM  
FOR RURAL AND SPECIALIZED  
TRANSPORTATION PROVIDERS**

Prepared for the  
Transportation Accounting Consortium



## FOREWORD

This manual was developed and written to promote good accounting practices for rural and specialized transportation providers. Our major concern is to provide an aid to developing a system that provides economic and financial information for managers in this new industry. The first four chapters deal with accounting in an applied fashion.

The chart of accounts material is based on the uniform system (Section 15) developed by the Urban Mass Transportation Administration but modified by the eight states in the Consortium. Characteristically, the modifications have grown from experiences based on state Department of Transportation reporting for revenues and expenditures. The modifications have been tempered by the operating experiences and practices of providers as well as the financial reporting needs of human service agencies purchasing rides. Modifications to Section 15 include:

- 1) New balance sheet accounts with detail for rural and specialized operations,
- 2) Farebox and contract revenue detail by source,
- 3) Local, state and federal funding detail by source,
- 4) Expanded detail for contributed services (in kind income, volunteer effort and expense equivalents),
- 5) Provides for converting cash basis accounting to the accrual basis for management and reporting purposes,
- 6) Significant detail for client groups' geographic areas and contracting arrangements.

Further, each of the Consortium States is exploring the use of micro computers to facilitate processing of the management and reporting information. The last two chapters of this manual deal with these subjects in a summary fashion.

We invite the managers of rural and specialized transit systems to use the model based on their operating requirements. The value of periodic and annual internal operating comparisons will assist in the management decisions faced. If further assistance is needed, or comparative measures between systems desired, the staff and members of the Consortium would be happy to share their experiences with both providers and state officials.

Our thanks to Gordon Schreur, Project Accountant, who wrote this manual applying sound accounting principles to a newly developing transportation industry. Thanks also to the Consortium Members, who contributed to the development of this manual and the providers who helped with the review of drafts. Special thanks to:

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Mr. Donald Thorne, Transportation in Public Service, Inc.,  
Springfield, Virginia

Mr. Bill Osborne, Southeast Missouri Transportation Authority,  
Fredricktown, Missouri

Mr. Peter Youngbaer, Central Vermont Transportation Authority,  
Barre, Vermont

Mr. Matthew Peterson, Suburban Paratransit,  
Edina, Minnesota

Ms. Judy Byman, Arrowhead Transit,  
Virginia, Minnesota

Ms. Marj Walsh, Poudre-Thompson Transportation Corporation,  
Fort Collins, Colorado

Ms. Sue Rieboldt, Southern Iowa Economic Development Association,  
Ottumwa, Iowa

Mr. Craig Sonksen, East Central Iowa Council of Governments

Mr. Don Thorp, Community Action Rural Transportation,  
Idaho Falls, Idaho

Mr. Ken Haskell, Clare County Transportation Corporation,  
Harrison, Michigan

Mr. Ted Waters, Big Bend Transit,  
Tallahassee, Florida

Ms. Ruth Stone, Older American Transportation System (OATS),  
Columbia, Missouri

Mr. William Fortune, Special Transportation,  
Billings, Montana

Mr. Dale Marsiko, Brazos Valley Community Action Agency,  
Bryan, Texas

Mr. Wayne Owens, Transportation Council for Community Services,  
Chattanooga, Tennessee

Our thanks is also extended to those providers in South Carolina and Arkansas who assisted our TAC members in these states with the review.

## TRANSPORTATION ACCOUNTING CONSORTIUM

### Arkansas

Mr. John Haynie  
Public Transportation Unit  
Arkansas Highway and Trans. Dept.  
P.O. Box 2261  
Little Rock, Arkansas 72203

### Colorado

Ms. Tara Bartee  
T.A.C. Vice Chairperson  
Colorado Department of Highways  
Div. of Transportation Planning  
4201 East Arkansas Avenue, Room 225  
Denver, Colorado 80222

Mr. Bill Wills  
Div. for Developmental Disability  
Department of Institutions  
3550 West Osford Avenue  
Denver, Colorado 80236

### Florida

Mr. Jim Wheeler  
HRS Accounting Services  
1317 Winewood Boulevard  
Tallahassee, Florida 32399-0700

Ms. Lani Deauville  
H. R. S. Operations  
1317 Winewood Boulevard  
Operations  
Tallahassee, Florida 32399-0700

JoAnn Hutchinson/Jim Murphy  
Transportation Disadvantage  
Coordinator  
Florida Department of Transportation  
Tallahassee, Florida 32399-8064

### Iowa

Mr. Ronald Beane, T.A.C. Chairperson  
Department of Elderly Affairs  
236 Jewett Building  
Des Moines, Iowa 50309

Nancy Richardson/Peter Hallock  
Department of Transportation  
Public Transit Division  
5268 N.W. 2nd Avenue  
Des Moines, Iowa 50313

### Massachusetts

Ms. Martha Solish, Director  
Policy Planning and Compliance  
Medicaid Division - Room 740  
Department of Public Welfare  
600 Washington Street  
Boston, Massachusetts 02111

Mr. Russell Thatcher  
16(b) 2 Program Director  
Executive Office of Transportation  
and Construction  
10 Park Plaza  
Boston, Massachusetts 02110

### Michigan

Mr. Michael Peterson  
Transportation Manager  
Department of Transportation  
425 West Ottawa, UPTRAN  
Lansing, Michigan 48909

### North Carolina

Mr. Jesse Goodman  
Transportation Planner  
Office of Intergovernmental Relations  
325 North Salisbury Street  
Raleigh, North Carolina 27611

Mr. Pat Simmons  
Transportation Planner  
Department of Transportation  
P.O. Box 25201  
Raleigh, North Carolina 27611

### South Carolina

Mr. Donald Tudor, Director  
Division of Transportation  
Office of the Governor  
Edgar Brown Building  
1205 Pendleton Street  
Columbia, South Carolina 29201

Mr. Roy Payton, Assistant Commissioner  
Department of Social Services  
P.O. Box 1520  
Columbia, South Carolina 29202

Project Management Staff

Kenneth W. Malkowski  
Project Manager

Gordon Schreur, M.B.A.  
Accounting Staff

Transportation Accounting Consortium  
P.O. Box 30037  
300 South Capitol Avenue  
Lansing, Michigan 48909  
(517) 373-8059

**CHAPTER I**  
**INTRODOCTION**





## PURPOSE TO READER

This manual is written for managers and bookkeepers of rural and specialized transportation systems. The success of these systems is both measured by, and facilitated by, its accounting system. The accounting system facilitates the success by providing necessary information for four major functions: billing, bidding and rate setting, financial management, and securing funds.

### Billing

An accounting system should provide all the information that is necessary for the provider to properly bill all funding sources on a timely basis. Both the financial data (costs of providing the service and the revenues generated) and the nonfinancial data (amount and type of service provided) should be recorded and summarized. Once this information is available, the proper amount to bill each funding source can be calculated. The accounting system should also allow the provider to determine the cost of actually providing the service if it is different than the amount billed.

### Bidding and Rate-Setting on Contracts

An accounting system also should provide relevant data to allow providers to estimate the future cost of a contract bid. The amount of service used by the contracting agency will need to be estimated, but the current cost per vehicle mile, vehicle hour, trip, or zone should be available through the accounting system. The provider should still negotiate for the best price, but the accounting data will provide a floor below which the provider should not accept the contract. Once a unit of service measurement (trip, passenger mile, zone, etc) and a rate for that unit is determined, the accounting system should allow the provider to monitor costs and make sure the contracted rate at least covers the costs of providing the service. In the event that the contracted rate is below the cost of providing the service, the provider should be able to determine both the amount and the reason(s) for the difference. Determining these reasons is a major part of financial management. With the increase in private sector competition, this analytical skill should become increasingly helpful. If a difference is noted that produces a contractual loss to the provider, the provider should immediately initiate actions to reduce operating costs or request renegotiation of the contract.

### Financial Management

Financial management is the art of using accounting data to improve the efficiency and effectiveness of the business. Three shortcomings of inadequate information in this area are:

- (1) inability to establish rational policies by decision makers due to a lack of information,

- (2) difficulty in monitoring progress of various operations, and
- (3) inability to compare data internally or between similar transit operations with confidence.

Financial management aids in the detection and pinpointing of problems on a timely basis. The manager then has time for correction. As such, it is an important tool, provided the accounting system contains the necessary information.

#### Securing Funds

Another important area where good accounting information is crucial is securing funds from various sources. Recently, federal support has been threatened and further reductions seem on the horizon. In this type of environment, providers not only need to operate as efficiently as possible, but also need solid reliable data to backup requests for local aid and/or state aid. The first step in obtaining this aid is to know your costs of providing service. Chances are slim that any state or local agency will provide funding without knowing the potential benefits of each dollar spent. The second step is to know your profit or loss. You should make a thorough review of the entire transit operation using financial management tools to make sure current funds are used to the fullest. Providers should first make sure that current funds are being used as efficiently and effectively as possible before requesting additional funds.

#### RECOMMENDATIONS OF THE TRANSPORTATION ACCOUNTING CONSORTIUM (TAC)

The Transportation Accounting Consortium (TAC) is a voluntary alliance of eight states (Arkansas, Colorado, Florida, Iowa, Massachusetts, Michigan, North Carolina, and South Carolina) working on financial management concerns for rural and specialized transportation systems. TAC has been funded by the U.S. Department of Health and Human Services and the U.S. Department of Transportation, both of whom provide substantial funding to providers. The standardized accounting approaches developed by the States are the basis of the model that is presented here. Each state's work is based on the uniform reporting requirements developed by the U.S. Department of Transportation for urban transit systems (Section 15). The experiences of these states can more specifically be reviewed by contacting their representatives or reviewing their documentation. For example, South Carolina and Michigan both have provider manuals that provide a detailed example of the State's approach.

Based on state findings, TAC is making three recommendations to rural and specialized providers. They are:

1. Providers should adopt a uniform approach to accounting.
2. Providers should urge their state to provide leadership in support of uniformity of accounting and reporting practices.
3. Providers should urge a reduction in paperwork requirement.

#### **UNIFORM APPROACH TO ACCOUNTING**

These recommendations are based on the experiences of the TAC States and on conversations with providers.

The first recommendation is that the accounting of transit systems should be uniform. This recommendation is based on three of the most common shortcomings that the Consortium has recognized in its survey of transit operators and their accounting systems:

1. variations in account titles
2. variations in account definitions
3. variations in accounting practices

#### **Advantages of a Standard Chart of Accounts**

A standard chart of accounts, such as the one presented in this manual, would help alleviate these shortcomings by providing standard account titles and definitions. Standard accounting and billing practices and standard performance measures are also encouraged by TAC and are included in this manual. Adoption of standard account titles and definitions will allow providers to share problems, solutions, and experiences with much more benefit. It will allow industry averages to be calculated so that providers can compare their operation to their historical records or to a norm for the industry in order to determine internal strengths and weaknesses.

Standardizing the accounts should also eventually simplify the reporting burden. If all providers are using the same accounts, then the various funding sources can design their reports to conform to the accounts being used. Completion of reports would entail little more than transferring account balances to the account titles on such reports.

Using the standard chart of accounts presented in this manual provides an additional benefit for those providers receiving funds from the Department of Transportation under both Section 18 rural and Section 9 urban sources. The accounts in this manual are adapted from the Urban Mass Transportation Administration (UMTA) reporting requirements, so they will correspond closely with the Section 9 urban reports.

### Flexibility and Modification

A uniform chart of accounts needs to be flexible enough to fit the needs of rural and specialized providers. It should include all relevant accounts. It also should be simple enough to be used by any size operation while meeting their informational needs. The chart of accounts presented in this manual attempts to meet these requirements. Each provider will probably need to eliminate those accounts that do not apply to that provider's specific operation. The provider should recognize the danger associated with modifying the account titles. Modifications may be made, but at the cost of losing the ability to compare data with peers.

While a standard chart of accounts and definitions is a major step in obtaining uniform accounting results, standard accounting practices must also be used. This means that an identical transaction should be recorded the same way each time the transaction occurs and the same way by every transit system. Accounting for rural and specialized transportation providers will be uniform when a uniform chart of accounts with uniform definitions and uniform accounting practices are used.

### **PROVIDER INITIATIVE AND STATE MECHANISMS**

The second recommendation of TAC is that the providers should urge their state to provide leadership in implementing the uniform chart of accounts, definitions, and accounting practices. An individual provider may believe that a uniform chart of accounts is a great idea, but unless other providers use it as well, many of the benefits of using standard accounts will not be realized. States have a variety of methods to implement the use of uniform accounts. If individual providers and/or provider associations desire uniform accounts, they should develop a working relationship with state officials to encourage action on this issue.

Colorado is a real-life example of how this can work. Around February of 1983, the Specialized Transportation Association of Colorado (STAC), a provider association, began work on developing a uniform chart of accounts. After about a year of work, STAC convened with the Colorado Department of Highways and human service departments. Together they worked out the expense side of the chart of accounts. State budget and report forms are now being implemented that use the expense accounts from this standard chart of accounts. Work is now under way to arrive at the revenue side of the standard

chart of accounts. It seems that both the providers and the state officials are happy with the arrangements, and the uniform chart of accounts seems to be accepted by both. Significantly, this was a "grassroots movement"; it started with the providers and moved to the state agency. It should be noted that the process has taken some time (over 3 years at the time of writing), but it seems to be working well.

#### Required Reports

The Colorado example shows how providers who want a uniform chart of accounts can influence the state to provide leadership in this area. States can provide leadership by requiring reports, passing legislation, or providing technical assistance. Colorado provided leadership by requiring reports that use the standard chart of accounts. This method is especially effective when the state also provides funding. For example, in order for a provider in Michigan to receive funding from the state, reports must be completed that virtually require use of the standard chart of accounts developed by the state. This type of state action is particularly effective if all departments that fund providers act together and require the same accounts and use the same account definitions.

#### State Legislation

Florida is an example of a state that has provided leadership through enacting legislation. Florida's legislation requires that each county has one designated provider who the state will contract with, and this provider is required, by law, to use a standard report.

#### Technical Assistance and Manuals

South Carolina leadership is being accomplished through technical assistance. A consultant firm designed and assisted regional providers in implementing the standard chart of accounts. In Michigan, three transportation staff members render accounting assistance. Other examples of state technical assistance are the four states that have manuals available for use by providers. The four states are Arkansas, Michigan, Ohio, and South Carolina.

#### **MINIMIZE PAPERWORK**

The third recommendation of TAC is that the amount of paperwork providers are required to fill out should be kept to a minimum. This recommendation has two specific components; first, it should not be the burden of the provider to determine if a client is eligible and the associated paperwork for carrying out this function should be eliminated; and, second, funding sources who want extra data (such as detailed client lists) should be charged for the extra work involved. One provider who follows this recommendation is JAUNT, mainly a human service agency provider located in the Charlottesville, Virginia area.

Since this recommendation was adopted, every agency purchasing services from JAUNT has decided that extra data is not worth the extra cost. The stance that a larger fee is required for extra reporting is logically justifiable. Gathering, storing, and reporting this added information costs money, so these costs should be passed on to the agency that wants the information. The provider should evaluate data requirements on the basis of reasonableness and application.

### STARTING ASSUMPTIONS

In order to write a manual such as this one, certain assumptions must be made based on the reader's level of bookkeeping knowledge. This manual is written to be understood by managers and/or bookkeepers. However, a very limited knowledge of bookkeeping is helpful. The "how-to" part of bookkeeping is emphasized and examples are used extensively. Readers without any bookkeeping background may need to obtain help (from textbooks, other bookkeepers, or a state agency) to understand the rudiments of bookkeeping (e.g. debits and credits).

There are two purposes of this manual. The first is to provide guidance on setting-up an accounting system using a uniform chart of accounts and uniform definitions. Uniform accounting practices are outlined and illustrated. The second purpose shows ways to use the accounting system to improve the operations of the provider.

The accounting structure that is presented in this manual is based on private sector accounting rather than on governmental fund accounting. Funding sources for public transit include both private and many governmental sources. However, transit systems that are a part of a government can still use the accounting structure presented. In order to run a transit system effectively, a manager will normally need more detailed accounting information than what is usually provided by governmental fund accounting. The transit system's bookkeeper, can use the accounting structure presented in this manual. In particular the revenues and expenses categories apply to government fund accounting.

### RUDIMENTS OF ACCOUNTING

This section is a brief review of the foundations of accounting. If the information is unclear to you, then you should do a bit of research on your own. You might want to study a basic accounting textbook, talk with somebody who knows accounting, or even take a bookkeeping or accounting course.

The review presented here is adapted from Chapter 2 of the "Financial Management for Transit Handbook", Institute for Urban Transportation, Center for Transit Research and Management Development, Bloomington, Indiana. (Washington: Urban Mass Transportation Administration, University Research and Training Programs), April 1985.

An accounting system is intended to record the financial transactions of an organization. A transaction represents an exchange (or some other change) pertaining to the financial activities of an organization. These transactions are initially recorded in a journal. A journal is a chronological record of the business transactions of an organization. Any event that affects an account must be recorded in a journal. As each event occurs, it is recorded in the journal. As such, the journal can be thought of as the financial diary of a business; it contains the day-to-day financial occurrences of the operation. In order to provide useful information the journal entries need to be classified and summarized. Transactions of a similar nature are grouped into an account. For example, there may be one account for cash, another for gas which has been purchased, etc. The number and type of accounts depend upon the information requirements of the transit system. All of an organization's accounts are collectively called the general ledger. Data from the various accounts are summarized and presented in financial statements. These financial statements are the focus of financial planning.

### **THE ACCOUNTING EQUATION**

The accounting equation which is the basis of all accounting practice is:

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

#### Assets

Assets are economic resources that can provide potential future benefits to an organization. Assets are broadly divided into current assets, property, plant, and equipment. Current assets represent such resources as cash, receivables and supplies; these are items which are expected to be consumed or converted to cash within one year. The property, plant, and equipment category refers to relatively long-lived assets which are used in the production of a good or the performance of a service, such as the transit vehicles owned by a transit system.

#### Liabilities

Liabilities are financial obligations of the organization that will result in the probable future payment of cash. Liabilities can also be classified as either current or long term. Current liabilities are obligations which will come due (require payment) within one year. Example of current liabilities include accounts payable (for monies owed to suppliers) and accrued wages (for monies owed to employees). Long-term liabilities are those obligations which are due at some latter point in time, such as general obligation bonds which must be retired in five years.



Capital

Capital accounts represent the other claims on an organization's assets once the claims by creditors (in the form of liabilities) have been met.

**THE DOUBLE ENTRY SYSTEM**

Financial transactions are recorded in the accounting records using a double entry system in which each transaction affects at least two accounts. At least one account is debited and at least one other account is credited in every transaction.

A debit is used to record:

<u>Increases In</u>	<u>Decreases In</u>
Asset accounts	Liability accounts
Expense accounts	Capital accounts
	Revenue accounts

A credit is used to record:

<u>Increases In</u>	<u>Decreases In</u>
Liability accounts	Asset accounts
Capital accounts	Expense accounts
Revenue accounts	

Regardless of the number of accounts involved in any transaction, the total dollar amount of the debits must always equal the total dollar amount of the credits. Normally asset and expense accounts will have debit balances. Credit balances are the normal status for liability, equity, and revenue accounts. Another important equation for all accounting practice is:

$$\text{Debits (Dr.)} = \text{Credits (Cr.)}$$

**FINANCIAL STATEMENTS AND REPORTS**

The accounting process permits the collection and classification of data pertaining to the financial transactions of the organization. The various financial statements and reports are produced from this data.

There are two main types of financial statements: those which reveal the financial status of an organization at a particular point in time, and those which summarize the organization's financial activities over some period of time. The financial statement which shows the status is the balance sheet. The financial statement which shows activity is an income statement.

#### The Balance Sheet

As stated previously the balance sheet provides the financial status of the organization at a particular point in time. The main categories of items on the balance sheet are assets, liabilities, and capital. (Recall the accounting equation:  $Assets = Liabilities + Capital$ .)

#### The Income Statement

The Income Statement summarizes the financial activity of an organization over some period of time (e.g., one month, one quarter, or one year). This financial statement is concerned with revenues and expenses. Revenues are inflows to the organization received in exchange for the services it renders. Passenger fares are an example of revenue. Expenses represent the outflow or costs incurred to provide the services. Examples of expenses include employee pay checks and purchases of fuel. The financial assistance from governmental units that is received by a transit property is also shown in this financial statement.



**CHAPTER II**

**SETTING UP YOUR ACCOUNTING SYSTEM**



This chapter illustrates the rudiments of setting up an entire accounting system from scratch using a standard chart of accounts. Most of the readers of this manual will already have an accounting system in use, so a section on converting from a current system to one utilizing the standard chart of accounts is included.

When setting up a new accounting system, the assistance of a Certified Public Accountant (CPA) or other professional accountant may be helpful in planning, structuring and implementing the system. The transit system's manager and bookkeeper could sit down and, with the aid of this manual, set up their accounting system. However, the new system will be both easier and more useful if a CPA assists in its development.

### SELECTING YOUR CHART OF ACCOUNTS

Whether a brand new system is being designed or an existing one modified, the first step in utilizing a uniform chart of accounts is to select the accounts that your system requires. Each transit system may have significantly different features than others and, therefore, require different accounts. One transit system may collect passenger fares and need an account to keep track of these fares. Another system may receive local funding for the handicapped and need an account to keep track of these funds. The chart of accounts presented in this manual was designed to be comprehensive in order to handle any situation and, as a result, a typical transit system will not need all the accounts presented. Those accounts that are not needed by a system should be eliminated, and those accounts that are needed will comprise the particular transit system's chart of accounts.

The easiest method of selecting those accounts that apply to a transit system is through a two-step process:

1. Select the appropriate general object classes.
2. Select the appropriate detailed accounts within each general object class selected in step 1.

This two-step process should be followed for each of the five accounting classifications: revenues, expenses, assets, liabilities, and capital. For expense accounts, there is an additional third step of selecting expense codes.

**SELECTING GENERAL OBJECT CLASSES**

The general object classes for each accounting classification are presented in Exhibits 1-5. The term "general object classes" may also be referred to as "general ledger codes." Revenues and expenses are listed first because they are the most important classifications. Funding is based on these two classes of accounts and the transit manager has more discretion in affecting the accounts in these classes. The general format for the account numbers is the standard format used in accounting:

<b>CLASSIFICATIONS</b>	<b>ACCOUNT NUMBERS</b>
Revenues	400-499
Expenses	500-599
Assets	100-199
Liabilities	200-299
Capital	300-399

The system manager should at this time sit down and select the general object classes for the system as presented in Exhibits 1 through 5.

- 401 PASSENGER FARES FOR TRANSIT SERVICES .**  
These categories cover revenue earned from carrying passengers along regularly scheduled routes and demand-response generated revenues. Each revenue object class is to include the base fare, zone premiums, express service premiums, extra cost transfers, and quantity purchase discounts applicable to the passenger's ride. Also included is a category which covers park-and-ride revenue.
- 402 SPECIAL TRANSIT FARES**  
These categories cover revenues earned for rides given in regular transit service, but paid for by some organization than by the rider and for rides given along special routes for which revenue may be guaranteed by a beneficiary of the service.
- 403 SCHOOL BUS SERVICE REVENUES**  
This category covers revenue earned from operating vehicles under school bus contracts.
- 404 FREIGHT TARIFFS**  
This category covers revenues earned from carrying freight on runs whose primary purpose is passenger operations.
- 405 CHARTER SERVICE REVENUES**  
This category covers revenues earned from operating vehicles under charter contracts. This category includes all closed door service revenues except school bus.
- 406 AUXILIARY TRANSPORTATION REVENUES**  
These categories cover revenues earned from operations closely associated with the transportation operations.
- 407 NON-TRANSPORTATION REVENUES**  
These categories cover revenues earned from activities not associated with the provision of the transit system's transit service.
- 408 TAXES LEVIED DIRECTLY BY TRANSIT SYSTEM**  
These categories cover tax revenues to transit systems that are organized as independent political subdivisions with their own taxation authority. Revenues to transit systems that come from local, state, and federal government and has been raised through the taxing authority of grantor governmental unit, (which is not synonymous with the transit system), are covered in categories 409 through 412).
- 409 LOCAL CASH GRANTS AND REIMBURSEMENTS**  
These categories cover funds obtained from local governmental units to assist in paying the cost of operating transit services. (The local governmental units are those not synonymous with the transit system; revenues for these units are covered in category 408.) The breakdown of local governmental grants and reimbursements to the subcategories is to be based on the factor that determines the amount of the grant or reimbursement. Amounts originating from federal revenue sharing funds are included in these categories.
- 410 LOCAL SPECIAL FARE ASSISTANCE**  
These categories cover funds obtained from local governmental units to help cover the difference between full adult fares and special reduced fares. Amounts originating from federal revenue sharing funds are included in this category. Funds obtained from local government to assist in paying the cost of operating transit services are included in object class 409.
- 411 STATE CASH GRANTS AND REIMBURSEMENTS**  
These categories cover funds obtained from state government(s) to assist in paying the cost of operating transit services. The breakdown of the state government grants and reimbursements to the subcategories is to be based on the factor that determines the amount of the grant or reimbursement. Amounts originating from federal revenue sharing funds are included in this category.
- 412 STATE SPECIAL FARE ASSISTANCE**  
These categories cover funds obtained from state government(s) to help cover the difference between full adult fares and special reduced fares. Amounts originating from federal revenue sharing funds are included in this category. Funds obtained from state government(s) to assist in paying the cost of operating transit services are included in object class 411.
- 413 FEDERAL CASH GRANTS AND REIMBURSEMENTS**  
These categories cover funds obtained from the federal government to assist in paying the cost of operating transit services. The breakdown of federal government grants and reimbursements to the subcategories is to be based on the factor that determines the amount of the grant or reimbursement.
- 414 INTEREST INCOME**  
This category covers the receipt of interest earned on savings deposits, bonds, etc. (This does not include interest earned on funds acquired through special capital grants. The interest earned on capital grant funds are to be credited to the specific capital project.)
- 430 CONTRIBUTED SERVICES**  
This category covers the receipt of service (not cash) from another entity where such services benefit transit operations and the transit operator is under no obligation to pay for the services.
- 431 CONTRIBUTED CASH**  
This category covers the receipt of cash from another entity where the transit system has not provided any service to the donor.
- 440 SUBSIDY FROM OTHER SECTORS OF OPERATIONS**  
This category covers funds obtained from other sectors of a transit company's operations to help cover the cost of providing transit service.



EXPENSE OBJECT CLASSES

- 501 **LABOR**  
"Labor" is the pay and allowances due employees in exchange for the labor services they render in behalf of the transit system. It is necessary to distinguish the "Labor" allowances from the "Fringe Benefit" allowances. The "Labor" allowances include payments direct to the employee arising from the performance of a piece of work, such as shift differentials, overtime premiums, minimum guarantees, etc. "Labor" also includes payroll withholding taxes. The "Fringe Benefit" allowances include payments direct to the employee, but not arising from the performance of a piece of work. The latter allowances include paid absence for illness, holidays, vacations, jury duty, etc.
- 502 **FRINGE BENEFITS**  
"Fringe Benefits" are payments or accruals to others (insurance companies, governments, etc.) on behalf of an employee and payments or accruals direct to an employee arising from something other than the performance of a piece of work. These payments are transit system costs over and above "Labor" costs, but still arising from the employment relationship.
- 503 **SERVICES**  
"Service" is labor and other work provided by outside organizations for fees and related expenses. In most instances, service from an outside organization is procured as a substitute for in-house employee labor, except in the case of independent audits which could not be performed by employees in the first place. The substitution is usually made because the skills offered by the outside organization are needed for only a short period of time or are better than internally available skills. The charge for these services is usually based on the labor hours invested in performing the service.
- 504 **MATERIALS AND SUPPLIES CONSUMED**  
Materials and Supplies are tangible products obtained from outside suppliers or manufactured internally. Freight-in, purchase discounts, cash discounts, sales taxes, and excise taxes are to be included in the cost of the material or supply. Charges to these expenses accounts will be for the materials and supplies issued from inventory for use and for the materials and supplies purchased for immediate use, i.e., without going through inventory.
- 505 **UTILITIES**  
"Utilities" are payments made to various utilities for utilization of their resources (e.g., electric, gas, water, sewer, etc.).
- 506 **CASUALTY AND LIABILITY COSTS**  
"Casualty and Liability Costs" includes cost elements covering:  
  - . protection of the transit system from loss through insurance programs,
  - . compensation of others for their losses due to acts for which the transit system is liable, and
  - . recognition of the cost of a miscellaneous category of corporate losses.

The costs of repairing damaged property are recorded in labor, fringe benefit, material, and services object classes. The costs of writing off property damaged beyond repair are recorded in an object class for depreciation. The costs of transit system employees engaged in insuring and processing claims for and against the transit system are recorded in labor and fringe benefit object classes.
- 507 **TAXES**  
"Taxes" are those taxes levied against the transit system by federal, state, and local governments. Sales and excise taxes on materials and services purchased other than fuel and lubricants are not included in this category, but are to be accounted for as part of the base price of the material or service. This does not include payroll withholding taxes.
- 508 **PURCHASED TRANSPORTATION SERVICE**  
"Purchased Transportation Service" is the payment or accrual to other transit systems for providing transportation service.
- 509 **MISCELLANEOUS EXPENSE**  
"Miscellaneous Expenses" are those expenses which cannot be attributed to any of the other major expense categories (i.e., 501-508 and 510-513).
- 511 **INTEREST EXPENSE**  
"Interest Expense" are charges for the use of borrowed capital incurred by the transit system.
- 512 **LEASE AND RENTALS**  
"Leases and Rentals" are payments for the use of capital assets not owned by the transit system.  

Rent expense is an actual cost to the agency whether supported by direct billings or by a cost allocation plan.
- 513 **DEPRECIATION AND AMORTIZATION**  
"Depreciation and Amortization" are charges that reflect the loss in service value of the transit system's assets.
- 530 **CONTRIBUTED SERVICES - ALLOWABLE EXPENSE**  
The category covers the receipt of services (not cash) from another entity where such services benefit transit operations and the transit operator is under no obligation to pay for the services. The amount debited to this account should be equal to the amount credited to detailed account number 430.01.
- 550 **INELIGIBLE EXPENSES**  
Those expenses that are not eligible for funding purposes should be recorded in this account. The specific expenses that are ineligible will vary by state.

EXHIBIT 3

ASSET OBJECT CLASSES

- 101 **CASH AND CASH ITEMS**  
These categories cover cash on hand and in banks available for the liquidation of transit system liabilities, including special deposits for which a current liability exists.
- 102 **RECEIVABLES**  
These categories cover amounts owed to the transit system by other parties.
- 103 **MATERIALS AND SUPPLIES INVENTORY**  
This category covers the cost of all unapplied materials and supplies including tools, repair parts, fuel, etc. The cost shall include all specifically assignable transportation charges incurred in obtaining the delivery of such materials and supplies upon the premises of the carrier, including loading and unloading. The cost shall also include sales and excise taxes, except for such taxes on fuel and lubricants, on the materials and supplies included in the account (see Section 2.3). If the "inventory method" of accounting for repairable items (see Section 2.4) is used, this category will also include the value at which the repaired items are to be held and eventually reissued for use.
- 104 **OTHER CURRENT ASSETS**  
This category covers the amount of all assets of a current nature not includable in any of the foregoing current asset accounts, 101 through 103. The nature of current assets is such that they are convertible to cash within one year of the balance sheet date.
- 105 **WORK IN PROCESS**  
These categories cover labor, material, and overhead amounts applied to projects not yet completed or placed in service.
- 111 **TANGIBLE TRANSIT OPERATING PROPERTY**  
These categories cover transit operating property owned by the transit system and having an expected life in service of more than one year at the time of its installation and a unit cost greater than the transit system's capitalization cutoff. Transit operating property is that property used in providing urban mass transit services. It includes the rolling stock, maintenance facilities, general administration buildings and equipment, etc., that are used to support the provision of transit service.
- NOTE: Under the Section 15 reporting system, the gross historical cost of tangible transit operating property is to be reported in this object class.
- 111.03 **ACCUMULATED DEPRECIATION - OPERATING**  
The cumulative depreciation charges since time of acquisition for all of the tangible transit operating property items owned by the transit system.
- 112 **TANGIBLE PROPERTY OTHER THAN FOR TRANSIT OPERATIONS**  
These categories cover tangible property owned by the transit system but not used in transit operations. This property has an expected life in service of more than one year at the time of installation and a unit cost greater than the transit system's capitalization cutoff. It includes property being used in some operation other than transit service and property not being used in any operations.
- NOTE: Under the Section 15 reporting system, the gross historical cost of tangible property other than for transit operations is to be reported in this object class.
- 112.02 **ACCUMULATED DEPRECIATION - NON OPERATING**  
The cumulative depreciation charges since time of acquisition for all of the tangible property items owned by the transit system but not used in transit operations.
- 121 **INTANGIBLE ASSETS**  
These categories cover the intangible rights and benefits accruing to the transit system with a value enduring through a period of time longer than one year.
- 131 **INVESTMENTS**  
These categories cover investments of transit system funds in the operation of other entities for purposes other than the temporary investment of surplus cash.
- 141 **SPECIAL FUNDS**  
These categories cover cash and near cash items whose use is restricted to satisfying a specific class of transit system long-term obligations.
- 151 **OTHER ASSETS**  
These categories cover the assets not properly includable in major categories 101 through 141 above.

LIABILITY OBJECT CLASSES

- 201 **TRADE PAYABLES**  
These categories cover obligations to pay for purchases of goods and services.
- 202 **ACCRUED PAYROLL LIABILITIES**  
This category covers obligations to pay for the labor services rendered by employees of the transit system, including deductions from employees' wages for Social Security, income taxes, and other similar items.
- 203 **ACCRUED TAX LIABILITIES**  
This category covers obligations to pay taxes (income, property, payroll, etc.) which have accrued during the accounting period.
- 204 **SHORT-TERM DEBT**  
These categories cover obligations to repay borrowings for periods of less than one year and current maturities of longer-term financing transactions.
- 205 **OTHER CURRENT LIABILITIES**  
These categories cover miscellaneous obligations of the transit system due within one year of the current period ending date and not properly includable in categories 201 through 204.
- 211 **ADVANCES PAYABLE**  
These categories cover longer term obligations of the transit system evidenced by open accounts and notes etc.
- 221 **LONG-TERM DEBT**  
These categories cover obligations of the transit system due after one year from the current period ending date and evidenced by formal long-term debt instruments such as equipment obligations, bonds, etc.
- 231 **ESTIMATED LIABILITIES**  
These categories cover amounts which have been established and segregated as estimates of future liabilities.
- 241 **DEFERRED CREDITS**  
This category covers credit balances in suspense accounts that cannot be entirely cleared and disposed of until additional information is received, and other items of a deferred nature.

EXHIBIT 5

CAPITAL OBJECT CLASSES

- 301 **PUBLIC (GOVERNMENTAL) ENTITY OWNERSHIP**  
This category covers the ownership of the transit system if it is organized as a public entity, such as a transit department of a municipal government, an independent regional transit authority or district, a transit operating entity of a state government, etc.
- 302 **PRIVATE CORPORATION OWNERSHIP**  
These categories cover the ownership of the transit system if it is organized as a private corporation.
- 303 **PRIVATE NON-CORPORATE OWNERSHIP**  
These categories cover the ownership of the transit system if it is organized as a private, noncorporate entity, i.e., a sole proprietorship or partnership.
- 304 **GRANTS, DONATIONS, AND OTHER PAID-IN-CAPITAL**  
These categories cover capital funds or property supplied to the transit system for which an evidence of ownership obligation to repay was not given by the transit system.
- 305 **ACCUMULATED EARNINGS (LOSSES)**  
These categories reflect, in the aggregate, the net cumulative results of operations accruing to the ownership.

Example:

To aid in illustrating the concepts in this manual, a non-comprehensive example will be started now and continued throughout. Non-comprehensive is used to mean that the accounts used would not be sufficient for a real system, but will illustrate the ideas presented in a manageable fashion. The fictitious name of the transit system used as an illustration will be WE-MOVE-U. Pertinent data include:

Company Name:	WE-MOVE-U
System Manager:	Lynn DeBoss
Bookkeeper:	Nit Picker

Lynn and Nit sat down, reviewed their operation in relation to Exhibits 1 through 5 and decided that the following general object classes were necessary for their accounting system.

**REVENUES**

401	PASSENGER FARES FOR TRANSIT SERVICE
410	LOCAL SPECIAL FARE ASSISTANCE
411	STATE CASH GRANTS AND REIMBURSEMENTS

**EXPENSES**

501	LABOR
502	FRINGE BENEFITS
503	SERVICES
504	MATERIALS AND SUPPLIES CONSUMED
507	TAXES
513	DEPRECIATION AND AMORTIZATION

**ASSETS**

101	CASH AND CASH ITEMS
102	RECEIVABLES
111	TANGIBLE TRANSIT OPERATING PROPERTY
111.03	ACCUMULATED DEPRECIATION - OPERATING

**LIABILITIES**

201	TRADE PAYABLES
202	ACCRUED PAYROLL LIABILITIES
203	ACCRUED TAX LIABILITIES

**CAPITAL**

304	GRANTS, DONATIONS, AND OTHER PAID-IN-CAPITAL
305	ACCUMULATED EARNINGS (LOSSES)

**SELECTING DETAILED ACCOUNTS**

After choosing the appropriate general object classes, the next step is to select the appropriate detailed accounts for each general object class. An extensive listing of detailed accounts are included in Appendix A. Review the detailed accounts and their definition for each general object class you selected earlier and choose the detailed accounts that you need. After selecting detailed accounts for each general object class, you now have your chart of accounts for your transit system.

**Example:**

Returning to the example of WE-MOVE-0, Lynn and Nit selected the following detailed accounts to form their chart of accounts. Note that REVENUES can be further coded as to source.

**WE-MOVE-0 CHART OF ACCOUNTS**

<b>REVENUES:</b>		<b>EXPENSES:</b>	
401.	PASSENGER FARES FOR TRANSIT SERVICE	501.	LABOR
401.01	FULL ADULT FARES	501.01	OPERATORS SALARIES AND WAGES
410.02	LOCAL SENIOR CITI- ZEN FARE ASSISTANCE	501.04	ADMINISTRATIVE SALARIES AND WAGES
411.01	STATE GENERAL OPERATING ASSISTANCE	502.01	FRINGE BENEFITS - FICA
		502.07	FRINGE BENEFITS - UN- EMPLOYMENT INSURANCE
		503.05	CONTRACT MAINTENANCE SER- VICES
		504.01	FUELS & LUBRICANTS CON- SUMED
		507.03	PROPERTY TAXES
		513.05	DEPRECIATION - SERVICE VEHICLES

**ASSETS:**

101.01 CASH  
102.07 RECEIVABLES FOR OPER-  
ATING ASSISTANCE  
111.01 TANGIBLE TRANSIT  
OPERATING PROPERTY  
- PROPERTY COST  
111.02 TANGIBLE TRANSIT  
OPERATING PROPERTY  
- ACCUM. DEPR.

**LIABILITIES:**

201.01 ACCOUNTS PAYABLE  
202.01 FICA PAYROLL DEDUCTION  
WITHHELD  
202.02 FEDERAL INCOME TAXES  
WITHHELD  
202.03 STATE INCOME TAXES WITHHELD  
203.04 ACCRUED PROPERTY TAX PAY-  
ABLE  
203.05 ACCRUED FICA TAX PAYABLE  
203.06 ACCRUED FEDERAL UNEMPLOY-  
MENT INSURANCE PAYABLE  
203.07 ACCRUED STATE UNEMPLOYMENT  
INSURANCE PAYABLE

**CAPITAL:**

304.01 FEDERAL GOV'T CAPITAL GRANT  
305.01 ACCUMULATED EARNINGS

Once again, it should be emphasized that this example is not comprehensive. An operating transit system will need more accounts than are shown above. The example is meant only to illustrate the process of setting up and using an accounting system.

Using the account numbers given in the manual is preferable, but not essential. You may have noticed that in WE-MOVE-U's chart of accounts, the account number for Tangible Transit Operating Property - Accumulated Depreciation is 111.02, whereas the account number in the appendix is 111.03. Lynn and Nit thought using 111.02 would be better in their situation, so they made this minor revision.

**SELECTING EXPENSE CODES**

Coding is the process of dividing the expense account into categories which represent the reasons the expense was incurred. Possible categories that may be used are:

<u>Types of Categories</u>	<u>Category Examples</u>
1. functional areas	operations, administration, etc.
2. mode	bus, vans, etc.
3. service type	demand response, charter, etc.
4. location	county, town, etc.

However, before the details of coding are presented, the exact nature of the term "coding" in transportation and its effects and uses needs to be discussed.

The account numbers representing your chart of accounts are codes; however, the term coding as it is used in transportation is more specific. Each of the five accounting classifications should be broken down to the level of detail necessary. For management purposes, control and coding of revenues and expenses is of utmost importance. The standard chart of accounts presented in this manual divides revenues by source of revenue. This level of detail should be appropriate for management purposes. However, the manager may want the expense accounts to be in more detail. Each transit manager will want different levels of detail for different areas and some managers may not want any detail, so it is impractical for the uniform chart of accounts to be set-up to the greatest degree of detail necessary. Coding can be used by each transit manager to provide the specific level of detail of the specific items desired.

We use the term expense coding because a code of numbers can be used in addition to account numbers to represent the categories of detail. For example, the functional code 010 typically refers to an operating expense; the service type code 01 might refer to an expense of a fixed route service. The more codes developed the greater the cost. The benefits of the information developed should exceed the costs. Typically, only information on the four categories mentioned above is coded, but any information can be coded. The four categories and some of the typical areas coded for each category are listed below:

<b>Functions</b>	<b>Mode</b>
- operations	- bus
- maintenance	- van
	- car
- administration	



Service Type	Location
- fixed route	- county #1
- demand response	- county #2
- subscription	
- flexible routes	
- charter	

Specific categories, areas, and code numbers should be developed as needed. South Carolina, for example, codes all expenses by service type using the five categories listed above and numbering them 01 through 05, respectively.

**Example:**

These code numbers are then linked to the expense accounts by integrating the code into the actual account number. To illustrate this procedure, the example of WE-MOVE-U will be continued. Lynn DeBoss has decided to code expenses by functional areas. She will use a "1" to represent the functional area of operations; a "2" to represent maintenance; and a "3" to represent general administration. WE-MOVE-U's first expense account is 501.01 - Operators Salaries and Wages. This expense will always fall in the functional category of vehicle operations, code number 1. Lynn could add the code number to the end of the account number and get a new account number of 501.011. However, it is probably easier to interpret if Lynn first removes the decimal point from all account numbers to make a five digit account number (i.e. account 501.01 becomes account 50101). The function code is then tacked on as a decimal so the account number becomes 50101.1 and is interpreted as follows:

General Object Class	Detailed Account	Function
501	01	1

For WE-MOVE-U, account 50101 only has one functional area, however, account 50201 (Fringe Benefits - FICA) has two functional areas: operations and general administration (both operations and administrative personnel receive FICA benefits). As a result, account 50201 is broken down into two accounts: 50201.1 and 50201.3. The revised chart of expense accounts follows:

**EXPENSES:**

501	LABOR
50101.1	OPERATORS SALARIES AND WAGES
50104.3	ADMINISTRATIVE SALARIES AND WAGES
50201.1	FRINGE BENEFITS - FICA

50201.3	FRINGE BENEFITS - FICA
50207.1	FRINGE BENEFITS - UNEMP. INSURANCE
50207.3	FRINGE BENEFITS - UNEMP. INSURANCE
50305.2	CONTRACT MAINTENANCE SERVICES
50401.1	FUELS & LUBRICANTS CONSUMED
50703.3	PROPERTY TAXES
51305.3	DEPRECIATION - SERVICE VEHICLES

More than one area may be coded in the same account number. For example if Lynn also wanted to code for mode, she could use the second decimal place for this purpose. Operator's salaries for van drivers might be account number 50101.11, and operator's salaries for bus drivers might be 50101.12. However, we are assuming that WE-MOVE-U operates only vans, so coding for the mode is unnecessary. Service type, Location or any other code type could be identified in the third, fourth and or fifth decimal place, respectively.

#### **BENEFITS OF CODING**

At this point, you may be thinking that coding is nothing more than extra work for the bookkeeper. However, coding has two important functions: (1) it can help in preparing reports, and (2) it is useful for locating problem areas that need attention. Revenues can be coded as to source. Expenses usually are not. Both Revenues and Expenses are major reporting elements for state requirements. Both are management focal points. Certain reports may require that expenses be divided into categories. For example, Michigan's Department of Transportation's funding reports divide all expenses into the three functional areas listed earlier. In order to complete these reports to receive funding, system managers in Michigan must know the amount of each expense that is attributable to each functional area. The easiest and most efficient method of collecting and reporting this data is to code the data by function as Lynn has done for WE-MOVE-U.

The second important function of coding is to help locate problem areas. Assume that functions are coded and an analysis of performance measures (discussed in Chapter IV) indicates that overall expenses have increased dramatically during the current year. Totalling the expenses by functional category and comparing these totals to the functional category totals from last year will show which functional areas caused the increase in overall expenses. The manager may find that vehicle operations expenses have increased 80%, while all the other functional categories remained the same. The manager now knows where to focus. If the mode is also coded, the manager could compare vehicle operations expenses by mode to last year's figures. This analysis may show that vehicle operations expenses by vans have increased 120%. Further analysis of each account whose code represents a functional category of vehicle operations and a mode category of van might pinpoint the problem

to fuel consumption by vans. If location is coded, then the fuel consumption in each County can be compared. If the increase in fuel consumption was mainly in County #1, then the manager now has a clear cut question to answer: "Why has fuel consumption by vans in County #1 increased so dramatically?" The answer might be an error in recording the expense, a significant increase in the number of miles vans are driven, or a theft of gas.

#### **AUTOMATION INCREASES THE BENEFITS OF CODING**

The benefits of coding are increased substantially if the accounting system is automated. The numbering system selected facilitates automation. The computer, if programmed, can tabulate the expenses by individual code and by a combination of codes. As part of a monthly report, expenses by code can be compared to a budget by code, to last month's expense by code, and to the same month last year's expense by code. The computer can perform this task quickly and error-free, and, once the program is installed, perform it every month at little additional cost. Coding can provide valuable insight into the company's operations, but added clerical work ("number-crunching") is necessary. The computer performs this "number-crunching" quickly, accurately, and without complaint, and the results are available whenever the manager needs to see them. This allows a problem to be corrected before it becomes major.

#### **Example:**

As a summary of what has been done up to this point, Exhibit 6 shows the account, titles and coded account numbers selected for WE-MOVE-U by Lynn DeBoss and Nit Picker.

**ACCOUNT TITLES**

400           **REVENUES:**

    40101       FULL ADULT FARES

    41002       LOCAL SENIOR CITIZEN FARE ASSISTANCE

    41101       STATE GENERAL OPERATING ASSISTANCE

500           **EXPENSES:**

    50101.1     OPERATORS SALARIES AND WAGES

    50104.3     ADMIN. SALARIES AND WAGES

    50201.1     FRINGE BENEFITS - FICA (OPERATORS)

    50201.3     FRINGE BENEFITS - FICA (ADMIN.)

    50207.1     FRINGE BENEFITS - UNEMP. INSURANCE (OPER.)

    50207.3     FRINGE BENEFITS - UNEMP. INSURANCE (ADMIN.)

    50305.2     CONTRACT MAINTENANCE SERVICES

    50401.1     FUELS & LUBRICANTS CONSUMED

    50703.2     PROPERTY TAXES

    51305.3     DEPRECIATION - SERVICE VEHICLES

100           **ASSETS:**

    10101       CASH

    10207       RECEIVABLES FOR OPERATING ASSISTANCE

    11101       TANGIBLE TRANSIT OPERATING PROPERTY - PROPERTY COST

    11102       TANGIBLE TRANSIT OPERATING PROPERTY - ACCUM. DEPR.

200           **LIABILITIES:**

    20101       ACCOUNTS PAYABLE

    20201       FICA PAYROLL DEDUCTION WITHHELD

    20202       FEDERAL INCOME TAXES WITHHELD

    20203       STATE INCOME TAXES WITHHELD

    20304       ACCRUED PROPERTY TAX PAYABLE

    20305       ACCRUED FICA TAX PAYABLE

    20306       ACCRUED FED UNEMP INSURANCE PAYABLE

    20307       ACCRUED STATE UNEMP INSURANCE PAYABLE

300           **CAPITAL:**

    30401       FEDERAL GOV'T CAPITAL GRANT

    30501       ACCUMULATED EARNINGS

### JOURNALS AND LEDGERS

Once the chart of accounts has been selected, the next step is to set-up the journals and ledgers that will be used. Journals and ledgers are both methods of storing information. In a journal, information is stored in chronological order; in a ledger, the same information is stored by account title. Only financial information is recorded in the journals and ledgers. Non-financial data (e.g. vehicle miles or customer satisfaction) are not recorded in the journals and ledgers, but are necessary for sound management of the transit operation. Therefore, non-financial data is discussed in Chapter IV.

### JOURNALS

Any event that affects the value of an account must be recorded in a journal. Events that affect the value of an account are called "transactions". When a transaction is recorded in a journal, it is called an entry. Transit operations typically need to use three types of journals: a general journal, a cash receipts journal, and a cash disbursements journal.

A general journal is set-up to handle any type of entry. Therefore, an accounting system can operate using only a general journal. However, as will be shown, the other two journals increase the efficiency for the accounting system. A general journal is composed of 5 columns one each for the date, account titles and an explanation, account numbers, debit amounts, and credit amounts. The column for account numbers is typically labeled "P.R.", which stands for posting reference and will be explained later. An example of a general journal follows.

General Journal

Date	Explanation	PR	1 2	
			Debit	Credit
1				
2				
3				
4				
5				
6				
7				
8				





If you are starting a new accounting system, these three journals should be prepared. If you already have an existing accounting system, the adequacy of the existing journals should be determined, and new journals prepared if necessary. Accounting paper with columns designed for preparing journals is available at most office supply stores.

**EMPLOYEE COMPENSATION RECORDS & PAYROLL REGISTER**

Labor and related fringe benefits typically comprise over 50% of a transit operation's expenses. This fact, alone, should make the system manager want to keep accurate and detailed records of payroll. There are three other reasons for good record keeping of payroll. First, employee morale can be damaged by late or incorrect checks. Second, taxing authorities demand good records to support the taxes the transit operation is withholding. Third, funding sources want good records to support payroll expenses because these expenses are such a major part of the costs being funded. To satisfy the need for good payroll records, the transit operation needs to use employee compensation records and a payroll register. Both provide the documentation supporting the actual journal entry, but neither contain the actual journal entry. In Chapter III it will be explained that both are types of source documents.

An employee compensation record book contains a separate page for each employee. On this page, all relevant payroll information (e.g. hours worked, deductions, gross and net pay) for the employee is stored. A page for one employee for the month of January is shown below.

**EMPLOYEE COMPENSATION RECORD**

**NAME:** SMITH, WILLIAM      **SOC. SEC. # :** 000-000-000  
**ADDRESS:** 13 FIRST AVE.      **DATE OF BIRTH:** 11-26-64  
**PHONE:** 555-1234      **PAY RATE:** 4.05      **EXEMPTIONS:** 1

PAY PERIOD ENDING	HOURS								DEDUCTIONS					NET PAY			
	Su	M	T	W	Th	F	S	TOT	REG	OT	GROSS PAY	FICA	FED TAX		STATE TAX	INSUR.	D.S. BOND
1-15-86	8	8	8	8	10			42	40	2	174.15	12.45	10.95	8.71	3.00	7.50	131.54
<b>COMOLATIVE</b>								42	40	2	174.15	12.45	10.95	8.71	3.00	7.50	131.54
1-29-86	8	8	8	8	8			40	40	0	162.00	11.58	10.30	8.10	3.00	7.50	121.52
<b>COMOLATIVE</b>								82	80	2	336.15	24.03	21.25	16.81	6.00	15.00	253.06



A payroll register summarizes the weekly, monthly, or designated measurement for payroll information for all employees. The payroll information should be summarized by function (i.e. summarize all operations payroll information separately from maintenance and administrative payroll information). An example of a payroll register for an operation with only two employees is shown below.

**PAYROLL REGISTER**

DATE	NAME	CK #	GROSS PAY	FICA	FED TAX	STATE TAX	INSUR	U.S. BOND	NET PAY
1-15	SMITH, WILLIAM	300	174.15	12.45	10.95	8.71	3.00	7.50	131.54
	WEGMAN, DAN	301	201.30	14.39	11.22	10.07	3.00		162.62
	TOTAL		<u>375.45</u>	<u>26.84</u>	<u>22.17</u>	<u>18.77</u>	<u>6.00</u>	<u>7.50</u>	<u>294.16</u>

**LEDGERS**

The last step in setting-up an accounting system is to prepare general and subsidiary ledgers. A general ledger contains the same information that is contained in the journals, but the information is organized by account title instead of being in chronological order. Subsidiary ledgers are used to provide additional detail when the information in the general ledger does not meet your needs. For example, you will need a subsidiary ledger for accounts payable because the general ledger only shows the total amount of money your operation owes to all creditors. Additional information on the amount owed to each creditor is necessary and is provided by an accounts payable subsidiary ledger.

General Ledger

The general ledger is a book or binder containing a separate record for each account title. The entries that are made in a journal are then recorded in the appropriate account's record in the general ledger. This process of transferring the information from the journal to the ledger is called "posting".

Examples of two ledger accounts are shown in Exhibit 7. The ledger accounts shown are for account numbers 10101 (Cash) and 10207 (Receivable for Operating Assistance). A separate ledger account would be set up for each account in your chart of accounts.

GENERAL LEDGER

CASH

ACCT #: 10101

<u>DATE</u>	<u>EXPLANATION</u>	<u>P. R.</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>BALANCE</u>

RECEIVABLE FOR OPERATING ASSISTANCE

ACCT #: 10207

<u>DATE</u>	<u>EXPLANATION</u>	<u>P. R.</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>BALANCE</u>

### Subsidiary Ledgers

A subsidiary ledger divides a general ledger account into more detail. Transit systems will typically need three subsidiary ledgers: an accounts payable subsidiary ledger, an accounts receivable subsidiary ledger, and an asset register. As mentioned earlier, an accounts payable subsidiary ledger shows the amount each vendor is owed so that payments can be made for the correct amount to the correct company or person. Because the accounts payable subsidiary ledger is merely dividing the accounts payable general ledger balance into more detail, the sum of all the accounts payable subsidiary ledger accounts will equal the amount of the accounts payable general ledger balance. This concept and subsidiary ledger accounts for accounts payable are illustrated in Exhibit 8A.

An accounts receivable subsidiary ledger shows the amount owed to the transit system by its clients. This subsidiary ledger allows the transit manager to know who the system needs to collect money from, the age of the receivable, and to verify that payments received are for the correct amount. At all times, the sum of the accounts receivable subsidiary ledger accounts will equal the accounts receivable general ledger balance. This concept and subsidiary ledger accounts for accounts receivable are illustrated in Exhibit 8B.

GENERAL LEDGER

TRADE PAYABLES

ACCT #: 20101

BALANCE

DATE	EXPLANATION	P.R.	DEBIT	CREDIT	DEBIT	CREDIT
7/12				200		200
7/12				50		250
7/12				100		350
7/12				150		500

ACCOUNTS PAYABLE SUBSIDIARY LEDGER:

TOM'S GAS

BALANCE

DATE	EXPLANATION	P.R.	DEBIT	CREDIT	DEBIT	CREDIT
7/12				200		200

RICH'S SUPPLY

BALANCE

DATE	EXPLANATION	P.R.	DEBIT	CREDIT	DEBIT	CREDIT
7/12				50		50

CAROL'S TIRES

BALANCE

DATE	EXPLANATION	P.R.	DEBIT	CREDIT	DEBIT	CREDIT
7/12				100		100

CHRIS'S SERVICE STATION

BALANCE

7/12				150		150
------	--	--	--	-----	--	-----

GENERAL LEDGER

TRADE RECEIVABLES

ACCT #: 10201

BALANCE

<u>DATE</u>	<u>EXPLANATION</u>	<u>P.R.</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>DEBIT</u>	<u>CREDIT</u>
7/12				180	180	
7/12				300	480	

ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER:

BIG-TIME FACTORY

BALANCE

<u>DATE</u>	<u>EXPLANATION</u>	<u>P.R.</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>DEBIT</u>	<u>CREDIT</u>
7/12			180		180	

STATE D.O.T.

BALANCE

<u>DATE</u>	<u>EXPLANATION</u>	<u>P.R.</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>DEBIT</u>	<u>CREDIT</u>
7/12			300		300	

An asset register lists the permanent equipment owned by the transit system. While vehicles will be the major assets, office equipment, tools, and radio equipment are also included. A separate page should be established for each asset, except assets of the same type with the same useful life can be recorded on the same page. For example, a bus radio and a typewriter that are both expected to last 10 years should be recorded on separate pages, but 2 bus radios that are both expected to last 10 years can both be recorded on the same page.

The information needed to comply with Circular A-102 "Uniform Administrative Requirements for Grants-In-Aid to State and Local Governments" and the additional information you define to meet your own needs should be recorded in the asset register.

An example of a page of an asset register is shown below.

<u>DATE</u>	<u>DESCRIPTION</u>	<u>USEFUL LIFE</u>	<u>COST</u>	<u>DEPR. EXP.</u>	<u>BOOK VALUE</u>	<u>ACCUM. DEPR.</u>	<u>PROPERTY NUMBER</u>
8/1	1981 DODGE VAN	60 MOS	30000		30000		03
12/31				2500	27500	2500	

#### CHANGING AN EXISTING SYSTEM

Most of the users of this manual will already have an accounting system in place. When this is the case, special care must be used to make sure all the previous account values are recorded in one of the new accounts (the ones just selected), and that the total of each object class (e.g. assets) remains the same before and after the changeover. This section will show a step-by-step method using a worksheet. The method was designed to reduce the risk of any error in transferring the existing values to the new accounts. Each object class is done separately. The worksheet for the asset class and the resulting journal entries are shown in Exhibit 9. Five column workpaper should be used and the following eight steps followed.

1. Prepare a new general ledger for the new chart of accounts you have selected.
2. List all the old accounts for the object class in Column 1. List all the new accounts below the list of old accounts. See Exhibit 9.
3. Record the value of each old account in Column 2 recording credit balances as a negative number.
4. Repeat the following steps for each of the old accounts.
  - a. if the old account has a debit balance
    - 1) credit (in column 4) the amount of the debit balance
    - 2) decide how the old account's value should be split among the new accounts.
    - 3) debit (in Column 3) the new account(s) for the amount decided on in step 4 (a) (2) above.
    - 4) cross-reference all values recorded in eliminating an old account.
    - 5) check that debits equal credits (Column 3 = Column 4).
  - b. if the old account has a credit balance
    - 1) repeat steps 4 (a) (1-4) changing all debits to credits and vice versa.
5. Fill in Column 5 by adding Columns 2 and 3 and subtracting Column 4. Column 5 should be \$0 for all old accounts. If not, an error was made in step 4.
6. Total Column 2 and Column 5. If they are not equal, then an error has been made.
7. Prepare a journal entry for each cross-reference letter used.
8. Post the journal entries to the ledgers.
  - a. When this step is completed, all the accounts in the old general ledger will have a \$0 balance, the new general ledger will be ready to use, and the total of each account classification will be the same as before the changeover.

WORKSHEET TO PLACE OLD ACCOUNTING VALUES INTO NEW ACCOUNTS

ASSETS

OLD ACCOUNTS	VALUE	REF	DEBIT	REF	CREDIT	NEW VALUES
CASH	\$500			a	\$500	\$0
ACC. REC	\$200			b	\$200	\$0
BUSES	\$80,000			c	\$80,000	\$0
VANS	\$64,000			d	\$64,000	\$0
ACC. DEPR.	(\$40,000)	e	\$40,000			\$0

NEW ACCOUNTS

CASH		a	\$450			\$450
CASH - PETTY CASH		a	\$50			\$50
REC. FOR OPER. ASSIST.		b	\$200			\$200
TRANSIT OPER. PROPERTY		c	\$80,000			\$144,000
		d	\$64,000			
TRAN. OP. PROP.-A/D				e	\$40,000	(\$40,000)
<b>TOTAL ASSETS</b>	<u>\$104,700</u>					<u>\$104,700</u>

ENTRIES

	Debit	Credit
CASH (new)	\$450	
CASH - PETTY CASH	\$50	
CASH (old)		\$500
To transfer to new account titles		
REC. FOR OPER. ASSIST.	\$200	
ACC. REC.		\$200
To transfer to new account titles		
TRANSIT OPER. PROPERTY	\$144,000	
BUSES		\$80,000
VANS		\$64,000
To transfer to new account titles		
ACC. DEPR.	\$40,000	
TRANSIT OPER. PROP. A/D		\$40,000
To transfer to new account titles		



The new general ledger prepared in Step 1 will be the ledger that will be used hereafter. The purpose of the changeover worksheet is to transfer all balances from the old ledger to the new ledger.

The next two steps are self-explanatory. The old and new account titles were listed, followed by the current amount of the old accounts. The next step requires judgement. The first old account, Cash, was credited for \$500. The new accounts were then analyzed and it was determined that the \$500 belonged in two of the new accounts, Cash and Petty Cash. The respective values of \$450 and \$50 were entered as debits to these accounts. All three of these accounts, Cash-old, Cash-new, and Petty Cash were then given the reference (REF) letter "a" to show that this is all one entry. The debits of \$450 and \$50 equal the credit of \$500 so the old account, Cash, has been properly eliminated and step 4 can now be repeated for the next old account. Accounts Receivable is credited for \$200 and, since the entire amount is a receivable for operating assistance, the new account bearing this title is debited for \$200. Reference letter "b" is used and debits equal credits so Acc. Rec. has been properly eliminated. This procedure is followed to eliminate the rest of the old accounts. Another note of interest regarding step 4 is that Transit Operating Property is debited when eliminating both the old accounts "Buses" and the old account "Vans". This occurs because both buses and vans are included in the account Transit Operating Property. In this case, an Asset Register needs to be maintained to keep the data of each asset separate.

Returning to the task at hand, illustrating the steps listed, steps 5 and 6 are mainly mechanical in nature and should not be a problem if step 4 was performed correctly. Steps 7 and 8 enter the adjustments prepared on the worksheet into the accounting system. When these steps are finished, the old general ledger is eliminated and has been replaced with the new accounts. The illustration used was very simple, but the worksheet approach will provide the framework to accurately determine the necessary entries needed to switch to the new accounts from an existing system.

The best time to changeover to the new accounts is at your fiscal year-end. At this time, all the revenue and expense accounts are closed (\$0 balance), so no changeover of amounts for these two classes of accounts is necessary. Trying to changeover during the year may be very difficult (especially if your existing revenue and expense accounts are vastly different than the ones chosen from this manual) and could lead to arbitrary assignments from the old accounts to the new accounts which will distort your records.

If your transit operation is housed in a governmental unit, for example a county or a Community Action Agency with a mission broader than transportation, the new accounts can be included in place of the old accounts without any major accounting difficulties. The only additional

problem would be obtaining the organizational approvals based on the reasons for the change.

Example:

Nit Picker, WE-MOVE-U's bookkeeper, has made the changeover to the new accounts and the results are shown in Exhibit 10. All revenue and expense accounts have \$0 balances because the changeover was made at WE-MOVE-U's fiscal year-end. The values of the assets, liabilities, and capital accounts cannot be tied into any other exhibits presented. If WE-MOVE-U was a real transit operation, then the amounts would have been arrived at by using the worksheet approach shown earlier.

The Tangible Transit Operating Property consists of two small buses costing \$80,000 financed by a federal capital grant and a service vehicle bought out of company funds costing \$20,000. WE-MOVE-U uses an asset register to keep these assets separate.

<u>ACCOUNT TITLES</u>	<u>ACCOUNT BALANCE</u>
<b>REVENUES:</b>	
40101 FULL ADULT FARES	\$0
41002 LOCAL SENIOR CITIZEN FARE ASSISTANCE	\$0
41101 STATE GENERAL OPERATING ASSISTANCE	\$0
<b>EXPENSES:</b>	
50101.1 OPERATORS SALARIES AND WAGES	\$0
50104.3 ADMIN. SALARIES AND WAGES	\$0
50201.1 FRINGE BENEFITS - FICA (operators)	\$0
50201.3 FRINGE BENEFITS - FICA (admin.)	\$0
50207.1 FRINGE BENEFITS - UNEMP. INSURANCE (oper.)	\$0
50207.3 FRINGE BENEFITS - UNEMP. INSURANCE (admin.)	\$0
50305.2 CONTRACT MAINTENANCE SERVICES	\$0
50401.1 FUELS & LUBRICANTS CONSUMED	\$0
50703.2 PROPERTY TAXES	\$0
51305.3 DEPRECIATION - SERVICE VEHICLES	\$0
<b>ASSETS:</b>	
10101 CASH	\$875
10207 RECEIVABLES FOR OPERATING ASSISTANCE	\$0
11101 TANGIBLE TRANSIT OPERATING PROPERTY - PROPERTY COST	\$100,000
11102 TANGIBLE TRANSIT OPERATING PROPERTY - ACCUM. DEPR.	(\$18,000)
<b>LIABILITIES:</b>	
20101 ACCOUNTS PAYABLE	\$350
20201 FICA PAYROLL DEDUCTION WITHHELD	\$0
20202 FEDERAL INCOME TAXES WITHHELD	\$0
20203 STATE INCOME TAXES WITHHELD	\$0
20304 ACCRUED PROPERTY TAX PAYABLE	\$400
20305 ACCRUED FICA TAX PAYABLE	\$0
20306 ACCRUED FED UNEMP INSURANCE PAYABLE	\$0
20307 ACCRUED STATE UNEMP INSURANCE PAYABLE	\$0
<b>CAPITAL:</b>	
30401 FEDERAL GOV'T CAPITAL GRANT	\$80,000
30501 ACCUMULATED EARNINGS	\$2,125

**APPENDIX A**

**Detailed Accounts and Definitions**

401-440	Revenues
501-550	Expenses
101-151	Assets
201-241	Liabilities
301-305	Capital



**REVENUES**

**401 PASSENGER FARES FOR TRANSIT SERVICE**

**401.01 Full Adult Fares**

The revenue earned from carrying passengers who pay the full adult fare.

**401.02 Senior Citizens Fares**

The revenue earned from carrying passengers who pay a special reduced fare because they are older than a prescribed age limit.

**401.03 Student Fares**

The revenue earned from carrying passengers who pay a special reduced fare because they are enrolled in an educational institution.

**401.04 Child Fares**

The revenue earned from carrying passengers who pay a special reduced fare because they are younger than a prescribed age limit.

**401.05 Handicapper Rider Fares**

The revenue earned from carrying passengers who pay a special reduced fare because they are handicapped.

**401.06 Parking Lot Fares**

The revenue earned from parking fees paid by passengers who drive to park-and-ride parking lots operated by the transit company in order to utilize transit service. Revenue earned from the operation of parking lots which are not normally park-and-ride locations is collected in object class 407.05.

**401.99 Other Primary Rider Fares**

The revenue earned from carrying passengers who pay a special reduced fare for some reason other than those specified in items 401.02 through 401.06.

**402. SPECIAL TRANSIT FARES**

**402.01 Contract Fares for Postman**

The revenue earned by providing rides for postmen with periodic contractual payments (rather than farebox collections) being made directly from the U.S. Postal Service to the transit system.

**402.02 Contract Fares for Policemen**

The revenue earned by providing rides for policemen with periodic contractual payments (rather the farebox collections) being made directly from the police authority to the transit system.

**402.03 Special Route Guarantees**

The amounts paid by industrial firms, shopping centers, public and private universities, etc., to guarantee a minimum revenue on a line operated especially for the benefit of the payer.

**402.04 Other Special Contract Transit Fares - State and Local Government**

The revenue earned under contractual arrangements with state and local governments for transit fares other than those arrangements specified in categories 402.01 through 402.03 above.

**402.05 Other Special Contract Transit Fares - Other Sources**

The revenue earned under contractual arrangements with nongovernment entities for transit fares other than those arrangements specified in categories 402.01 through 402.3 above.

**402.06 Noncontract Special Services Fares**

The revenue earned by providing special service rides for sporting events, sightseeing, etc., where fares are not guaranteed on a contractual basis.

**403. SCHOOL BUS SERVICE REVENUES**

**404. FREIGHT TARIFFS**

**405. CHARTER SERVICE REVENUES**

**406. AUXILIARY TRANSPORTATION REVENUES**

**406.01 Station Concessions Revenue**

The revenue earned from granting rights to concessionaires to operate news stands, candy counters, etc., in transit system stations.

**406.02 Vehicle Concessions Revenue**

The revenue earned from granting rights to concessionaires to operate food and beverage services, etc., on transit system vehicles.

**406.03 Advertising Revenue**

The revenue earned from displaying advertising materials on transit system vehicles and property.

**406.04 Vehicle Ferriage Revenue**

The revenue earned from transporting vehicles in ferryboat transit service.

**406.99 Other Auxiliary Transportation Revenues**

The revenue earned from auxiliary operations other than those specified in categories 406.01 through 406.04 above.

**407. NONTRANSPORTATION REVENUES**

**407.01 Sales of Maintenance Services**

The revenue earned from performing maintenance services on property not owned or used by the transit system.

**407.02 Rental of Revenue Vehicles**

The revenue earned from leasing transit system revenue vehicles to other organizations.

**407.03 Rental of Buildings and other Property**

The revenue earned from leasing transit system building and property (other than revenue vehicles) to other organizations.



**407.05 Parking Lot Revenue**

The revenue earned from parking fees generated from parking lots not normally used as "park-and-ride" locations. Revenue earned from operating "park-and-ride" lots is reported in object class 401.06.

**407.99 Other Nontransportation Revenues**

The revenue earned from nontransportation activities other than those listed in categories 407.01 through 407.05.

**408. TAXES LEVIED DIRECTLY BY TRANSIT SYSTEM**

**408.01 Property Tax Revenue**

The revenue earned by taxing the property within the political subdivision constituting the transit system.

**408.02 Sales Tax Revenue**

The revenue earned by taxing sales of goods and/or services that occur within the political subdivision constituting the transit system.

**408.03 Income Tax Revenue**

The revenue earned by taxing the income of persons and/or organizations located within the political subdivision constituting the transit system.

**408.04 Payroll Tax Revenue**

The revenue earned by taxing the payrolls of employers for all work performed within the political subdivision constituting the transit system.

**408.05 Utility Tax Revenue**

The revenue earned by taxing the consumption of utilities (e.g., water and sewer, gas, electric, telephone, etc.) within the political subdivision constituting the transit system.

**408.99 Other Taxes Levied by Transit System**

The revenue earned by taxation on some basis other than those specified in categories 408.01 through 408.05 when the taxing authority is the transit system.

**409. LOCAL CASH GRANTS AND REIMBURSEMENTS**

**409.01 Local General Operating Assistance**

The receipt or accrual of local government payments to help cover the operating costs of providing transit services. This category covers general operating assistance, not that based on special fares or certain expense items as described in the following categories. It includes "purchase of service" payments from local government units.

**409.02 Local Special Demonstration Project Assistance - Local Projects**

The receipt or accrual of local government payments to help cover the operating costs for special demonstration projects which are fully funded at the local level.

**409.03 Local Special Demonstration Project Assistance - Local Share for State Projects**

The receipt or accrual of local government payments to help cover the operating costs for special demonstration projects which are partially funded at the state level.

**409.04 Local Special Demonstration Project Assistance - Local Share for UMTA Projects**

The receipt or accrual of local government payments to help cover the operating costs for special demonstration projects which are partially funded by UMTA.

**409.05 Local Reimbursement of Taxes Paid**

The receipt or accrual of local government payments to help cover the cost of taxes incurred by the transit system.

**409.06 Local Reimbursement of Interest Paid**

The receipt or accrual of local government payments to help cover the cost of interest on funds borrowed by the transit system.

**409.07 Local Reimbursement of Transit System Maintenance Costs**

The receipt or accrual of local government payments to help cover the cost of maintaining transit system rolling stock, building, grounds, and equipment.

**409.08 Local Reimbursement of Snow Removal Costs.**

The receipt or accrual of local government payments to help cover their cost of removing snow from transit system property and/or transit right-of-way.

**409.09 Local Reimbursement of Security Costs**

The receipt or accrual of local government payments to help cover the cost of providing security forces on transit system property and on operating revenue vehicles.

**409.99 Other Local Financial Assistance**

The receipt or accrual of local government payments to help cover the cost of operating transit service not included in categories 409.01 through 409.09.

**410 LOCAL SPECIAL FARE ASSISTANCE**

**410.01 Local Handicapper Citizen Fare Assistance**

The receipt or accrual of local government payments to help cover the difference between full adult fares and handicapper rider fares.

**410.02 Local Senior Citizen Fare Assistance**

The receipt or accrual of local government payments to help cover the difference between full adult fares and special senior citizen fares.

**410.03 Local Student Fare Assistance**

The receipt or accrual of local government payments to help cover the difference between full adult fares and special student fares.

**410.99 Other Local Special Fare Assistance**

The receipt or accrual of local government payments to help cover the difference between full adult and special reduced fares other than for handicapper riders, senior citizens, and students.

**411. STATE CASH GRANTS AND REIMBURSEMENTS**

**411.01 State General Operating Assistance**

The receipt or accrual of state government payments to help cover the operating costs of providing transit services. This category covers general operating assistance, not that based on special fares or certain expense items as described in the following categories. It includes "purchase of service" payments from state governmental units.

**411.03 State Special Demonstration Project Assistance - State Projects**

The receipt or accrual of state government payments to help cover the operating costs for special demonstration projects which are fully funded at the state or state and local level.

**411.04 State Special Demonstration Project Assistance - State Share for UMTA Project**

The receipt or accrual of state government payments to help cover the operating costs for special demonstration projects which are partially funded by UMTA.

**411.05 State Reimbursement of Taxes Paid**

The receipt or accrual of state government payments to help cover the costs of taxes incurred by the transit system.

**411.06 State Reimbursement of Interest Paid**

The receipt or accrual of state government payments to help cover the costs of interest on funds borrowed by the transit system.

**411.07 State Reimbursement of Transit System Maintenance Costs**

The receipt or accrual of state government payments to help cover the costs of maintaining transit system rolling stock, building, grounds, and equipment.

**411.09 State Reimbursement of Security Costs**

The receipt or accrual of state government payments to help cover the costs of providing security forces on transit system property and on operating revenue vehicles.

**411.99 Other State Financial Assistance**

The receipt or accrual of state government payments to help cover the costs of operating transit service not included in categories 411.01 through 411.09.

**412 STATE SPECIAL FARE ASSISTANCE**

**412.01 State Handicapper Citizen Fare Assistance**

The receipt or accrual of state government payments to help cover the difference between full adult fares and handicapper rider fares.

**412.02 State Senior Citizens Fare Assistance**

The receipt or accrual of state government payments to help cover the difference between full adult fares and special senior citizen fares.

**412.03 State Student Fare Assistance**

The receipt or accrual of state government payments to help cover the difference between full adult fares and special student fares.

**412.99 Other State Special Fare Assistance**

The receipt or accrual of state government payments to help cover the difference between full adult fares and special reduced fares other than for handicapper riders, senior citizens, and students.

**413. FEDERAL CASH GRANTS AND REIMBURSEMENTS**

**413.01 Federal General Operating Assistance**

The receipt or accrual of federal government payments to help cover the operating costs of providing transit services, including Sections 9, and 18 funds. This category covers general operating assistance, not that based on special fares or specific expense items as described in the following categories. It includes "purchase of service" payments from federal governmental units.

**413.02 Federal Special Demonstration Project Assistance**

The receipt or accrual of federal government payments to help cover their operating costs for special demonstration projects.

**413.99 Other Federal Financial Assistance**

The receipt or accrual of federal government payments to help cover the operating transit service not included in categories 413.01 and 413.04.

**414. INTEREST INCOME**

**430. CONTRIBUTED SERVICES**

**430.01 Contributed Services - Allowable Sources**

The value of services provided at no cost to the transit operator where the value of the service can be claimed as an allowable source of revenue. The amount credited to this account should be equal to the amount debited to object class 530.

**430.03 Contributed Services - Unallowable Source**

The value of services provided at no cost to the transit operator where the value of the service cannot be claimed as an allowable source of revenue. The amount credited to this account should be equal to the amount debited to account 430.04.

**430.04 Contributed Services - Contra Account for Unallowable Source**

The amount debited to this account should be equal to the amount credited to account 430.03.

**431. CONTRIBUTED CASH**

**431.01 Direct Donation**

Contributions received from merchants.

**431.02 Fund Raising**

Efforts such as bingo events, direct mail, product sales. (Note that these categories are particularly useful for those receiving United Way Funds and reporting on them.)

**440. SUBSIDY FROM OTHER SECTORS OF OPERATIONS**

**440.01 Subsidy from Utility Rates**

The receipt or accrual of funds to help cover the cost of transit operations provided by revenues from another operation of a utility company that operates the transit service.

**440.02 Subsidy from Bridge and Tunnel Tolls**

The receipt or accrual of funds to help cover the cost of transit operations provided by revenues from tolls collected on bridges and/or tunnels owned and operated by the same entity that operates the transit system.

**440.99 Other Subsidies**

The receipt or accrual of funds to help cover the cost of transit operations from sources other than those described in 440.01 and 440.02 provided by the same entity that operates the transit system.

**EXPENSES**

**501. LABOR**

**501.01 Operators' Salaries and Wages**

The labor of employees of the transit system who are classified as revenue vehicle operators or crew workers.

**501.02 Training Salaries and Wages**

The labor of employees of the transit system who are being trained.

**501.03 Dispatchers' Salaries and Wages**

The labor of employees of the transit system who are classified as vehicle dispatchers.

**501.04 Administrative Salaries and Wages**

The labor of employees of the transit system who are classified as administrative (e.g. managers, bookkeeper).

**501.99 Other Salaries and Wages**

**502. FRINGE BENEFITS**

**502.01 Fringe Benefits - FICA or Railroad Retirement**

Payments or accruals to the federal social security or railroad retirement fund required to be made by the employer on behalf of the employee

**502.02 Fringe Benefits - Pension Plans (including long-term disability insurance)**

Payments or accruals to pension funds required to be made by the employer on behalf of the employee under the terms of pension plans.

**502.03 Fringe Benefits - Hospital, Medical, and Surgical Plans**

Payments or accruals to insurance companies required to be made by the employer on behalf of the employee under the terms of group health insurance plans.



- 502.04 Fringe Benefits - Dental Plans**  
Payments or accruals to insurance companies required to be made by the employer on behalf of the employee under the terms of group dental insurance plans.
- 502.05 Fringe Benefits - Life Insurance Plans**  
Payments or accruals to insurance companies required to be made by the employer on behalf of the employee under terms of group or individual life insurance policies wherein the employee is the beneficiary.
- 502.06 Fringe Benefits - Short-Term Disability Insurance Plans**  
Payments or accruals to insurance companies required to be made by the employer on behalf of the employee under terms of group short-term disability insurance plans.
- 502.07 Fringe Benefits - Unemployment Insurance**  
Payments or accruals to state and federal agencies required to be made by the employer on behalf of the employee to provide continued compensation for the employee for a period of time in the event the employee is laid off.
- 502.08 Fringe Benefits - Worker's Compensation Insurance of Federal Employee's Liability Act Contribution**  
Payments or accruals to insurance companies to indemnify the transit system against statutory damages arising from injuries or death to employees while in the employ of the transit system.  
Payments or accruals to or for employees for uninsured losses for statutory damages arising from injuries or death to employees while in the employ of the transit system.
- 502.09 Fringe Benefits - Sick Leave**  
Payments or accruals to employees for periods of time when absent from work due to personal or family illness.
- 502.10 Fringe Benefits - Holiday**  
Payments or accruals to employees for periods of time when absent from work due to recognized holidays.

**502.11 Fringe Benefits - Vacation**

Payments or accruals to employees for periods of time when absent from work due to vacation earned and taken.

Payments or accruals to employees for vacation time earned, but paid off rather than taken.

**502.12 Fringe Benefits - Other Paid Absence**

Payments or accruals to employees for periods of time when absent from work due to military duty, jury duty, death in the family, etc.

**502.13 Fringe Benefits - Uniform and Work Clothing Allowances**

Payments or accruals to employees to offset the cost of uniforms or work clothing the employee must wear when engaged in his/her occupation.

The cost of uniforms and work clothing provided to employees for their wear while engaged in their occupation.

**502.99 Fringe Benefits - Other**

Other payments or accruals to or on behalf of an employee arising from employment, but not from the performance of a piece of work and not fitting any of the other fringe benefits categories, items 502.01 through 502.13.

**503. SERVICES**

**503.01 Management Services Fees**

The labor and services provided by a management service company (MSC) engaged to provide operating management to the transit system. This category covers both the continuing labor and services of MSC personnel devoted full time to the transit system and the occasional consulting and special purpose studies provided by MSC.

**503.02 Advertising Services Fees**

The labor and materials provided by an advertising agency in the development and production of advertising campaigns. Advertising media fees, regardless of whether they are paid to the advertising agency or direct to the media, are included in object class 509.08.

**503.03 Professional and Technical Services**

The labor and services provided by attorneys, accountants and auditors, investment bankers, computer service companies, engineering firms, management consultants, transit industry consultants, etc. These services generally require specialized technical knowledge and are usually performed under the supervision of the outside organization, rather than transit system personnel.

**503.04 Temporary Service Help**

The labor of persons who are not employees of the transit system, but who work for a temporary period in the capacity of a transit system employee under the supervision of transit system personnel. These people are normally obtained to perform general clerical duties (employment services, etc.).

**503.05 Contract Maintenance Services**

The maintenance of the plant and equipment, under contract or on a single job basis with an outside organization. This category is differentiated from "Professional and Technical Services," 503.03, in that the services offered are basically of a repair or maintenance nature. It is also differentiated from "Custodial Services," 503.06, which deals exclusively with janitorial labor.

**503.06 Custodial Services**

The performance of janitorial services, under contract or on a single job basis with an outside organization.

**503.07 Security Services**

The patrolling of vehicles, stations, yards, and buildings to detect and prevent criminal activity, fires, unsafe conditions, etc., such patrolling being performed by an outside security agency rather than by transit system employees.

**503.99 Other Services**

For purposes of the standard reporting form, include in "Other Services" all costs for services except for advertising fees.

**504 MATERIALS AND SUPPLIES CONSUMED**

**504.01 Fuel and Lubricants Consumed**

Costs of gasoline, diesel fuel, propane, lubricating oil, transmission fluid, grease, etc., for use in vehicles.

**504.02 Tires and Tubes Consumed**

Lease payments for tires and tubes rented on a time period or mileage basis.

Cost of tires and tubes for replacement of tires and tubes on vehicles.

**504.03 Inventory Purchases**

Items purchased for immediate consumption such as vehicle maintenance parts - cleaning supplies and office forms.

**504.99 Other Materials and Supplies Consumed**

Cost of materials and supplies not specifically identified in object classes 504.01 and 504.03 purchased for immediate consumption, or to establish bench stock e.g., vehicle maintenance parts, cleaning supplies, office forms, etc.

**505. UTILITIES**

**505.01 Utilities - Propulsion Power**

The electrical power purchased from an outside utility company and used for propelling electrically driven vehicles.

**505.02 Utilities - Telephone**

Telephone service purchased from the telephone company, including long distance and leased lines. Does not include yellow pages advertising.

**505.99 Utilities - Other**

The electrical power purchased from an outside utility company and used for all purposes, except telephone and propelling electrically driven vehicles.

**506. CASUALTY AND LIABILITY COSTS**

**506.01 Premiums for Physical Damage Insurance**

Premiums applicable to an accounting period to insure the transit system from losses through damage to its own property caused by collision, fire, theft, flood, earthquake, etc.

**506.03 Premiums for Public Liability and Property Damage Insurance**

Premiums applicable to an accounting period to insure the transit system against loss from liability for its acts which cause damage to the person or property of others.

**506.04 Payouts for Uninsured Public Liability and Property Damage Settlements**

Payments or accruals of actual liability to others arising from culpable acts of the transit system and which are not covered by public liability insurance.

**506.05 Provisions for Uninsured Public Liability and Property Damage Settlements**

Periodic estimates of liability to others arising from culpable acts of the transit system that relate to the current or a prior reporting period and which are not covered by public liability insurance. This object class also includes lump sum payments not covered by public liability insurance.

**506.06 Recoveries of Public Liability and Property Damage Settlements**

Payments or accruals of actual liability to others arising from culpable acts of the transit system and which are covered by public liability insurance.

**506.08 Premiums for Other Corporate Insurances**

Premiums applicable to an accounting period to insure the transit system from losses other than through damage to its property or liability for its culpable acts, e.g., fidelity bonds, business records insurance, etc.

**506.99 Other Insurance**

All costs for insurance not properly classified in categories 506.01 through 506.08.

507 TAXES

507.01 Federal Income Tax

The tax levied by the federal government against the transit system based on the net income of the transit system.

507.02 State Income Tax

The tax levied by the state government against the transit system based on the net income of the transit system.

507.03 Property Tax

The tax levied by the state and/or local government against the transit system based on a valuation of the property owned by the transit system.

507.04 Vehicle Licensing and Registration Fees

The fees assessed by federal, state, and local governments for granting authority to operate a motor vehicle.

507.05 Fuel and Lubricant Taxes

Sales and excise taxes incurred on purchase of fuel and lubricants.

507.06 Electric Power Taxes

Utility taxes incurred on purchases of electric power used for propelling electrically driven vehicles.

507.99 Other Taxes

Taxes levied by federal, state, and local governments against the transit system and not properly classifiable in categories 507.01 through 507.06.

508 PURCHASED TRANSPORTATION SERVICE

509 MISCELLANEOUS EXPENSES

509.01 Dues and Subscriptions

Fees for membership in industry organizations and subscriptions to periodical publications.

509.02 **Travel and Meetings**

Fares and allowances for transportation of transit system employees and related officials of airplanes, trains, etc.

- . expenses for food and lodging
- . charges for participation in industry conferences
- . other related business meeting expenses

509.03 **Bridge, Tunnel, and Highway Tolls**

Payments made to authorities and other organizations for the use of bridges, tunnels, highways, and other similar facilities.

509.04 **Entertainment Expense**

Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodging, transportation, and gratuities.

509.05 **Charitable Donations**

Contributions to charitable organizations made by the transit system.

509.06 **Fines and Penalties**

Payments made to cover the cost of fines and penalties incurred by the transit system.

509.07 **Bad Debt Expense**

Amounts owed to the transit system which have been determined to be uncollectible.

509.08 **Advertising/Promotion Media**

Advertising media fees and expenses, regardless of whether they are paid to an advertising agency or direct to the media. The labor and materials provided by an advertising agency in the development and production of advertising campaigns is included in object class 503.02.

**511 INTEREST EXPENSE**

**511.01 Interest on Long-Term Debt Obligations**

Charges for the use of borrowed capital on a long-term basis (the liability for which is usually represented by debt instruments) employed in the operation of the transit system. Interest charges pertaining to construction debt which are capitalized will not be reflected as interest expense. This is an obligation that lasts longer than one year.

**511.02 Interest on Short-Term Debt Obligations - Allowable**

Charges for the use of borrowed capital on a short-term basis used in the operation of the transit system. This is an obligation that is for less than one year and is federally allowable.

**511.03 Interest on Short-Term Debt Obligations - Unallowable.**

**512 LEASES AND RENTALS**

**512.01 Leases and Rentals - Transit Way and Transit Way Structures and Equipment**

Leases and rentals of the physical facilities of the types listed below that are located along the routes where transit services are offered:

- . land
- . roadway structures, i.e., tunnels, bridges, elevated structures, etc.
- . guideways, i.e., track and roadbed

**512.02 Leases and Rentals - Passenger Stations**

Leases and rentals of the physical facilities of the types listed below that are used for passenger stations and terminals:

- . land
- . building and structures
- . office equipment, such as cash registers



- . other equipment
- . furnishings, equipment other than office equipment
- . passenger shelters without attendants

**512.03 Leases and Rentals - Passenger Parking Facilities**

Leases and rentals of the physical facilities of the types listed below that are used to provide parking space for the automobiles of transit patrons:

- . land
- . building and structures, including paved surfaces
- . office equipment, such as cash registers
- . other equipment, such as automatic entry and exit control gates
- . furnishings, such as those for a parking fee collection booth.

**512.04 Lease and Rentals - Passenger Revenue Vehicles**

Leases and rentals of rolling stock used exclusively or predominately for providing passenger transit services.

**512.05 Leases and Rentals - Service Vehicles**

Leases and rentals of rolling stock used for purposes other than providing passenger transit services.

**512.06 Leases and Rentals - Operating Yards or Stations**

Leases and rentals of the physical facilities of the below listed types that are used for storing revenue vehicles and for dispatching trains/runs for revenue service:

- . land
- . buildings and structures
- . office equipment
- . equipment other than office equipment

. furnishings

**512.07 Leases and Rentals - Engine Houses, Car Shops, and Garages**

Leases and rentals of the physical facilities of the below listed types that are used as maintenance facilities for revenue vehicles.

- . land
- . buildings and structures
- . office equipment
- . equipment other than office equipment
- . furnishings

**512.08 Leases and Rentals - Power Generation and Distribution Facilities**

Leases and rentals of the physical facilities of the types listed below that are used in the generation and distribution of power:

- . land, if used only for power generation and distribution
- . buildings, if used only for power generation and distribution
- . office equipment
- . power generation and distribution equipment
- . furnishings

**512.09 Leases and Rentals - Revenue Vehicle Movement Control Facilities**

Leases and rentals of the physical facilities of the types listed below that are used to control the movement of revenue vehicles:

- . land, if a building devoted exclusively to revenue vehicle movement control is situated thereon
- . buildings, if devoted exclusively to revenue vehicle movement control

- . office equipment
- . other equipment, such as communication equipment, traffic control computers, etc.
- . furnishings

**512.10 Leases and Rentals - Data Processing Facilities**

Leases and rentals of the physical facilities of the types listed below that are used for performing data processing services:

- . land, if a building devoted exclusively to data processing services is situated thereon
- . buildings, if devoted exclusively to data processing services office equipment
- . office equipment
- . other equipment, particularly main frame and auxiliary computer equipment
- . furnishings

**512.11 Leases and Rentals - Revenue Collection and Processing Facilities**

Leases and rentals of the physical facilities of the types listed below that are used for collecting, counting, storing, and transporting revenue collections:

- . land, if a building devoted exclusively to revenue collections and processing is situated thereon
- . building, if devoted exclusively to revenue collection and processing
- . office equipment
- . other equipment, including fareboxes, vaults, money counting and wrapping machines, etc.
- . furnishings

**512.12 Leases and Rentals - Other General Administration Facilities**

Leases and rentals of the physical facilities of the types listed below that are used for performing the general administrative functions of the transit system:

- . land
- . building
- . office equipment
- . equipment other than office equipment
- . furnishings

**513 DEPRECIATION AND AMORTIZATION**

**513.01 Depreciation - Transit Way and Transit Way Structures and Equipment**

Depreciation of the physical facilities of the types listed below that are located along the routes where transit services are offered.

- . roadway structures, i.e., tunnels, bridges, elevated structures, etc.
- . guideways, i.e., track and roadbed

**513.02 Depreciation - Passenger Stations**

Depreciation of the physical facilities of the types listed below that are used for passenger stations and terminals:

- . buildings and structures
- . office equipment
- . equipment other than office equipment
- . furnishings
- . passenger shelters without attendants

**513.03 Depreciation - Passenger Parking Facilities**

Depreciation of the physical facilities of the types listed below that are used to provide parking space for the automobiles of transit patrons:

- . buildings and structures, including paved surfaces
- . office equipment, such as cash registers
- . other equipment, such as automatic entry and exit control gates
- . furnishings, such as those for a parking fee collection booth

**513.04 Depreciation - Passenger Revenue Vehicles**

Depreciation of rolling stock used exclusively or predominantly for providing passenger transit services.

**513.05 Depreciation - Service Vehicles**

Depreciation of rolling stock used for purposes other than providing passenger transit services.

**513.06 Depreciation - Operating Yards or Stations**

Depreciation of the physical facilities of the types listed below that are used for storing revenue vehicles and for dispatching trains/runs for revenue service:

- . buildings and structures
- . office equipment
- . equipment other than office equipment
- . furnishings

**513.07 Depreciation - Engine Houses, Car Shops, and Garages**

Depreciation of the physical facilities of the types listed below that are used as maintenance facilities for revenue vehicles:

- . buildings and structures

- . office equipment
- . equipment other than office equipment
- . furnishings

**513.08 Depreciation - Power Generation and Distribution Facilities**

Depreciation of the physical facilities of the types listed below that are used in the generation and distributions of power:

- . buildings and structures
- . office equipment
- . equipment other than office equipment
- . furnishings

**513.09 Depreciation - Revenue Vehicle Movement Control Facilities**

Depreciation of the physical facilities of the types listed below that are used to control the movement of revenue vehicles:

- . buildings, if devoted exclusively to revenue vehicle movement control
- . office equipment
- . other equipment, such as communication equipment, traffic control computers, etc.

**513.10 Depreciation - Data Processing Facilities**

Depreciation of the physical facilities of the types listed below that are used for performing data processing services:

- . buildings, if devoted exclusively to data processing services
- . office equipment
- . other equipment, particularly main frame and auxiliary computer equipment
- . furnishings

**513.11 Depreciation - Revenue Collection and Processing Facilities**

Depreciation of the physical facilities of the types listed below that are used for collecting, counting, storing, and transporting revenue collections:

- . buildings, if devoted exclusively to revenue collection and processing
- . office equipment
- . other equipment, including fareboxes, vaults, money counting and wrapping machines, etc.
- . furnishings

**513.12 Depreciation - Other General Administration Facilities**

Depreciation of the physical facilities of the types listed below that are used for performing the general administrative functions of the transit system:

- . buildings
- . office equipment
- . equipment other than office equipment
- . furnishings

**513.13 Amortization of Intangibles**

Amortization of the following types of intangible costs of the transit system:

- . organization costs
- . franchises
- . patents
- . goodwill
- . other intangible assets

**530. CONTRIBUTED SERVICES - ALLOWABLE EXPENSES**

**550. INELIGIBLE EXPENSES**

**ASSETS**

**101. CASH AND CASH ITEMS**

**101.01 Cash**

The amount of current funds available for use on demand. They may be in the hands of financial officers or on deposit in banks and trust companies.

**101.02 Working (Imprest) Funds**

The amounts advanced to officers, agents, employees, masters, pursers, and others as petty cash or working funds from which certain expenditures are to be made and accounted for.

**101.03 Special Deposits, Interest**

The monies and bank credits specially deposited in the hands of fiscal agents or others for the payment of interest on behalf of the transit system. When interest is paid from such deposits, this account shall be credited and the appropriate accrued or matured interest liability account shall be debited.

**101.04 Special Deposits, Dividends**

The monies and bank credits in the hands of fiscal agents or others for the payment of dividends on behalf of the transit system. When dividends are paid from such deposits, this account shall be credited and the appropriate dividend account shall be debited.

**101.05 Special Deposits, Other**

The monies and bank credits in the hands of fiscal agents or others for special purposes other than the payment of interest or dividends. This includes cash or securities deposited with federal, state, or municipal authorities, public utilities or others as a guarantee for the fulfillment of obligations. When the purposes for which the deposit exists have been satisfied, this account shall be credited with the amount of the deposit disbursed or released.

**101.06 Temporary Cash Investments**

The book cost of investments' as time drafts receivable and time loans, bankers' acceptances, United States Treasury





Loans, notes, and drafts for which associated companies are liable.

**102.05 Receivable Subscriptions to Capital Stock**

The balance due from subscribers upon legally enforceable subscriptions to capital stock.

**102.06 Receivables for Capital Grants**

Grant amounts receivable from federal, state, and local governments or other parties, for capital projects and acquisitions.

**102.07 Receivables for Operating Assistance**

Amounts receivable from federal, state, and local governments or other parties, for general operating assistance, special fare subsidies, demonstration project assistance, an purchase-of-service payments.

**102.08 Other Receivables**

Amounts receivable from solvent debtors based on debtor-creditor relationships other than those specified in categories 102.01 through 102.07.

**102.09 Reserve for Uncollectible Accounts**

Amounts reserved for receivables which may become uncollectible.

**103. MATERIALS AND SUPPLIES INVENTORY**

**104 OTHER CURRENT ASSETS**

**105 WORK IN PROCESS**

**105.01 Work in Process - Unbilled Work for Others**

Labor, materials, and overhead costs applied to work for others and for which the system will be reimbursed.

**105.02 Work in Process - Capital Projects**

Labor, material, and overhead costs applied to capital projects not yet completed or placed in service.

**111. TANGIBLE TRANSIT OPERATING PROPERTY**

**111.01 Tangible Transit Operating Property - Property Cost**

The cost to the transit system of acquiring the tangible property it owns and uses in its own transit operations. The cost includes the transportation charges, sales and excise taxes, installation costs, etc., necessary to place the property in an operating condition.

**111.02 Tangible Transit Operating Property - Leased-Out Property Cost**

The cost to the transit system of acquiring tangible transit operating property which it owns but leases to another party for the latter's transit operations.

**111.03 Tangible Transit Operating Property - Accumulated Depreciation**

The cumulative depreciation charges since time of acquisition for all of the tangible transit operating property items owned by the transit system.

**111.04 Sale of Asset - Operations**

The revenue from vehicles being sold after useful life, for example the 16 b2 vehicles being retired from the fleet.

**111.05 Sale of Asset - Non Operating**

**112. TANGIBLE PROPERTY OTHER THAN FOR TRANSIT OPERATIONS**

**112.01 Tangible Property Other Than for Transit Operations - Property Cost**

The cost to the transit system of acquiring the tangible property it owns but does not use in transit operations. The cost included the transportation charges, sales and excise taxes, installation costs, etc., pertaining to the property units covered.

**112.02 Tangible Property Other Than for Transit Operations - Accumulated Depreciation**

The cumulative depreciation charges since time of acquisition for all of the tangible property items covered in category 112.01.

**121. INTANGIBLE ASSETS**

**121.01 Organization Costs**

The fees paid to a state or other governmental authority for the privilege of incorporation and expenditures incident to organizing the transit system and putting it into readiness to do business.

**121.02 Franchises**

The amounts paid to a state, a political subdivision thereof or to some other governmental authority in consideration of franchises, permits, consents, or certificates running in perpetuity or for a specified term of more than one year, together with the necessary reasonable expenses incident to procuring such franchises, consents, or certificates of convenience and necessity.

**121.03 Patents**

The cost of patents, rights, licenses, and privileges necessary or valuable to the economical conduct of transit operations.

**121.04 Goodwill**

At acquisition, the difference between the total value of the transit system and the aggregate value of its separable resources and property rights, less liabilities.

**121.99 Other Intangible Assets**

The cost of any intangible assets not includable in categories 121.01 through 121.04.

**131. INVESTMENTS**

**131.01 Investments and Advances, Associated Companies**

The book cost of the transit system's investments in securities issued or assumed by associated companies.

The notes of associated companies maturing more than one year from date of issue.

The amount of advances to associated companies not subject to current settlement including accrued interest on such advances when not subject to current settlement.

**131.02 Other Investments and Advances**

The book cost of the transit system's investments in securities issued or assumed by nonassociated companies.

The notes of nonassociated companies and persons maturing more than one year from date of issue.

The cash surrender values of insurance policies carried on the lives of officers and employees when the transit system is beneficiary of such policies.

The amount of advances to nonassociated companies and individuals not subject to current settlement including accrued interest on such advances when not subject to current settlement.

**131.03 Reserve for Reevaluation of Investments**

Reserves to reflect the decline or loss in book value of securities or like assets held for investment where there appears to be a permanent impairment in value.

**141. SPECIAL FUNDS**

**141.01 Sinking Funds**

The cash, cost of securities of other companies, and cost of other assets placed on deposit or in the hands of trustees or segregated from the transit system's other assets as a sinking fund to meet obligations maturing in the future or to carry out such operations as the retirement of preferred stock or the procurement of serial bonds.

**141.02 Capital Asset Funds**

The cash, cost of securities of other companies, and cost of other assets which have been specifically set aside for the purpose of providing a fund for the acquisition of units of depreciable property.

**141.03 Insurance Reserve Funds**

The cash, cost of securities of other companies, and cost of other assets placed on deposit or in the hands of trustees to guarantee the satisfaction of obligations for losses that related to the current or a prior accounting period in instances where the transit system is a "self-insurer" in whole or in part.

**141.04 Pension Funds**

The cash, cost of securities of other companies, and cost of other assets which have been specifically set aside, placed on deposit or in the hands of trustees to provide for employee's pensions, relief, savings, and hospital benefits accruing to employees for performance of their labor services.

**141.99 Other Special Funds**

The cash, cost of securities of other companies, and cost of other assets which have been specifically set aside for special purposes not provided for in categories 141.01 through 141.04.

**151. OTHER ASSETS**

**151.01 Prepayments**

The payments for items whose benefit is to be realized subsequent to the time of the payment, e.g., prepaid rent, prepaid insurance, etc. As the benefit is realized, the prepayment will be reduced and the appropriate expense category charged.

**151.99 Other Miscellaneous Other Assets**

The cost of all assets not provided for in any other asset object class.

**LIABILITIES**

**201. TRADE PAYABLES**

**201.01 Accounts Payable**

The amounts payable to others (except associated companies) for materials and services received, including use of property, other matured rents, amounts due to public authorities, amounts of payable judgements, current accounts with officers and employees, personal injury and property damage claims and other similar items.

**201.02 Payables to Associated Companies**

The amounts payable to associated companies which are subject to current settlement, such as credit balances in open accounts for services rendered, materials furnished, claims, rents for use of property, and similar items.

**202 ACCRUED PAYROLL LIABILITIES**

**202.01 FICA Payroll Deduction Withheld**

Accrual of FICA deduction withheld from employees.

**202.02 Federal Income Taxes Withheld**

Accrual of federal income taxes withheld from employees.

**202.03 State Income Taxes Withheld**

Accrual of state income taxes withheld from employees.

**202.04 Other Payroll Deductions Withheld**

Accrual of other payroll deductions withheld from employees.

**203 ACCRUED TAX LIABILITIES**

**203.01 Accrued Federal Income Tax Payable**

Accrual of the federal income tax the transit system will have to pay. Transit systems that do not pay federal income taxes will not need to use this account.

**203.02      Accrued State Income Tax Payable**

Accrual of the state income tax the transit system will have to pay. Transit systems that do not pay state income taxes will not need to use this account.

**203.03      Accrued Local Income Tax Payable**

Accrual of the local income tax the transit system will have to pay. Transit systems that do not pay local income taxes will not need to use this account.

**203.04      Accrued Property Tax Payable**

Accrual of the property tax the transit system will have to pay. Transit systems that do not pay property taxes will not need to use this account.

**203.05      Accrued FICA Tax Payable**

Accrual of the employer's share of the FICA payroll tax.

**203.06      Accrued Federal Unemployment Insurance Payable**

Accrual of payments to be made by the employer to federal agencies to provide continued compensation for the employee for a period of time in the event the employee is laid off.

**203.07      Accrued State Unemployment Insurance Payable**

Accrual of payments to be made by the employer to state agencies to provide continued compensation for the employee for a period of time in the event the employee is laid off.

**204      SHORT-TERM DEBT**

**204.01      Short-Term Notes Payable**

The face value of outstanding obligations in the form of notes, drafts, acceptances, and other similar evidences of indebtedness which, by their terms, do not run for a period in excess of one year, including the face value of notes receivable discounted or sold without releasing the transit system from liability as endorser thereon.



**204.02 Matured Equipment and Matured Long-Term Obligations**

The amount (including obligations for premiums) of equipment obligations, long-term obligations, and receiver's certificates which have matured, but are unpaid, without any specific agreements for extension of maturity. This category includes unrepresented bonds called for redemption.

**204.03 Current Portion of Unmatured Equipment and Long-Term Obligations**

The amount of bonds, equipment obligations, and other long-term debt obligations, including obligations maturing serially or payable in installments, which are due and payable within one year from the current period ending date, for which arrangements for refunding have not been made and for which no sinking funds have been provided.

**204.04 Matured Interest Payable**

The amount of matured (i.e., past due) and unpaid interest on obligations of the transit system, whether the cause of the failure to pay the interest is on the part of the creditor or for other reasons, except where such interest is added to the principal of the obligation.

**204.05 Accrued Interest Payable**

The amount of interest accrued to the date of the balance sheet, but not payable until after that date, on all indebtedness of the transit system, except interest which is added to the principal.

**204.06 Current Pension Liabilities**

The amount to be paid within one year of the current period ending date to retired employees, their beneficiaries, or a trustee or manager of a pension fund for the pension, savings, relief or hospital benefits accruing to employees for their labor services.

**205. OTHER CURRENT LIABILITIES**

**205.01 Unredeemed Fares**

The amount of the obligation to provide transit service upon the redemption of tickets or tokens in the possession of patrons.

**205.02 CODs Unremitted**

The net amount of CODs collected from consignees, but not remitted to shippers.

**205.03 Dividends Declared and Payable**

The amount of dividends declared, but not paid, on any issue of capital stock of the transit system.

**205.04 Short-Term Construction Liabilities**

The amount of construction retentions scheduled as due within one year of the current period ending date.

**205.99 Miscellaneous Other Current Liabilities**

The amount of obligations due within one year of the current period ending date and not properly includable in categories 205.01 through 205.04.

**211. ADVANCES PAYABLE**

**211.01 Advances Payable to Associated Companies**

The amount of advances from associated companies, whether evidenced by notes or open accounts, which are not subject to current settlement, including interest accrued thereon when such interest is not subject to current settlement.

**211.99 Other Advances Payable**

The amount of advances from individuals and companies other than associated companies, whether evidenced by notes or open accounts, which are not subject to current settlement, including interest accrued thereon when such interest is not subject to current settlement.

**221. LONG-TERM DEBT**

**221.01 Long-Term Equipment Obligations**

The face value of equipment obligations issued by the transit system which will mature more than one year from the current period ending date or, if payable in installments, the face amount of such installments not due within one year from that date. This includes equipment bonds, equipment notes, chattel mortgages and other obligations for which equipment is pledged

as security or held under a conditional sales agreement. It also includes the face value of equipment obligations issued by others, the payment of which has been assumed by the transit system, and equipment obligations so issued or assumed the maturity of which has been extended by specific agreement.

**221.02 Long-Term Bonds**

The face value of bonds, other than equipment obligations, issued by the transit system which will mature more than one year from the reporting date. Unsecured debentures and general revenue bonds are to be included in this category. This category also includes the face value of such bonds issued by others, the payments of which has been assumed by the transit system.

**221.03 Long-Term Receiver's and Trustees' Securities**

The par value of evidences of indebtedness issued or assumed by receivers or trustees acting under the orders of a court.

**221.04 Long-Term Construction Liabilities**

The amount of construction retentions scheduled as due after one year from the current period ending date.

**221.05 Other Long-Term Obligations**

The amount of long-term obligations not provided for in categories 221.01 through 22.104 and maturing more than one year from the current period ending date. This covers such items, executed or assumed, as real estate mortgages assessments for public improvements, receipts outstanding for long-term obligations and other obligations maturing more than one year from the reporting date.

**221.06 Unamortized Long-Term Debt Discount**

The amount of unamortized discount incurred in connection with the issuance of the transit system's outstanding long-term debt instruments.

**221.07 Unamortized Premium on Long-Term Debt**

The amount of unamortized premium incurred in connection with the issuance of the transit system's outstanding long-term debt instruments.

**221.08 Reacquired and Nominally Issued Long-Term Obligations**

The par value of long-term debt of the transit system nominally issued or reacquired by the transit system and held uncanceled by it, except debt held in sinking or other special funds.

**221.99 Long Term Liabilities**

**231 ESTIMATED LIABILITIES**

**231.01 Estimated Long-Term Pension Liabilities**

The estimated obligations of the transit system, due more than one year from the current period ending date, to make payments to employees, their beneficiaries or trustees or managers of pension funds for pension, savings, relief, and hospital benefits accruing to employees for the performance of their labor services.

**231.02 Estimated Uninsured Public Liability and Property Damage Losses**

The estimated amounts required from which to pay settlements for injuries and damages to the person or property of others which are not covered by outside insurance.

**231.99 Other Estimated Liabilities**

Estimated obligations other than those for pensions and satisfaction of uninsured public liability settlements.

**241. DEFERRED CREDITS**

**CAPITAL**

**301. PUBLIC (GOVERNMENTAL) ENTITY OWNERSHIP**

**301.01 Public Entity Ownership - Investment in Transit System**

The capital invested to acquire the ownership of the transit system as a public entity.

**302. PRIVATE CORPORATION OWNERSHIP**

**302.01 Preferred Capital Stock**

The par or stated value of nominally and actually issued share of preferred stock of the transit system.

**302.02 Common Capital Stock**

The par value of par value issues, the stated value of nonpar value issues having a stated value or the cash value of the consideration received for nonpar value issued without stated value for nominally and actually issued share of common stock of the transit system.

**302.03 Premiums and Assessments on Capital Stock**

The excess of the actual cash value of the consideration received upon sale of capital stock over the par or stated value of par or stated value issues.

The assessments against stockholders subsequent to original sale of capital stock. For par or stated value issues, this category covers only those assessments or parts of an assessment that represent aggregate payment for the issue in excess of the par or stated value.

**302.04 Discount on Capital Stock**

The excess of par value or stated value over the actual cash value of the consideration received upon sale of par value or stated value issues. Assessments subsequent to original sale on issues initially sold at a discount will be credited to this account until the total discount on the issue has been exhausted; further assessments will be credited to category 302.03.

**302.05 Commission and Expense on Capital Stock**

The expenses incurred in connection with the issuance and sale of capital stock.

**302.06 Capital Stock Subscribed**

The amount of legally enforceable subscriptions to capital stock of the transit system. The amount to be recorded herein is the subscription price. The debit for the entry is to asset object class 102.05 - Receivable Subscriptions to Capital Stock. The recognition of premium or discount will be recorded when the stock is actually issued.

**302.07 Reacquired Securities**

The par or stated value for par or stated value issues and the pro rata proportion of the carrying value of nonpar issues without stated value for shares actually issued and subsequently reacquired, but neither retired nor included in sinking or other funds. The difference between the reacquisition price, and the net of the amount recorded in this category plus any premium or less any discount pertaining to the reacquired stock, is to be debited or credited as appropriate to category 305.01 - Accumulated Earnings (Losses).

**302.08 Nominally Issued Securities**

The par value or stated value of capital stock that has been nominally, but not actually, issued by the transit system. This is a debit balance account to offset categories 302.01 and 301.02 in order to report the net amount of capital stock actually issued.

**303. PRIVATE NONCORPORATE OWNERSHIP**

**303.01 Sole Proprietorship Capital**

The investment in an unincorporated, single-owner transit system. This category shall reflect the owner's permanent investment in the transit system. The net cumulative results of operations accruing to the ownership are to be shown in category 305 - Accumulated Earnings (Losses).

**303.02 Partnership Capital**

The investment in an unincorporated, multiple-owner transit system. This category shall reflect the owner's permanent investment in the transit system. The net cumulative results of operations accruing to the ownership are to be shown in category 305 - Accumulated Earnings (Losses).

**304. GRANTS, DONATIONS, AND OTHER PAID-IN-CAPITAL**

**304.01 Federal Government Capital Grants**

The amount received from agencies of the Federal government to assist the procurement of capital assets, i.e., generally the items includable in - Tangible Transit Operating Property.

**304.02 State Government Capital Grants**

The amount received from agencies of state governments that are independent of the transit system to assist the procurement of capital assets, i.e., generally the items includable in - Tangible Transit Operating Property. Amounts originating from Federal revenue sharing funds are included in this category.

**304.03 Local Government Capital Grants**

The amount received from agencies of county, municipal, or other political subdivision governments that are independent of the transit system to assist the procurement of capital assets, i.e., generally the items includable in - Tangible Transit Operating Property. Amounts originating from Federal revenue sharing funds are included in this category.

**304.04 Nongovernmental Donations and Other Paid In Capital**

The amount received as gifts, bequests, donations, etc., from nongovernmental parties to assist the procurement of capital assets, i.e., generally the items includable in category III - Tangible Transit Operating Property.

**305 ACCUMULATED EARNINGS (LOSSES)**

**305.01 Accumulated Earnings (Losses)**

The cumulative income or deficit transferred from the income statement to the balance sheet at the close of each accounting period. The difference between reacquisition price and

carrying value for reacquisitions of the transit system's own capital stock is also to be debited or credited, as appropriate, to this category.

**305.02 Dividend Appropriations**

The amount of dividends declared on capital stock actually outstanding. This is a debit balance account to be netted with category 305.01 to obtain the net accumulated earnings (losses). The offsetting credit to entries in this account is to 205.03 - Dividends Declared and Payable.

**305.03 Restricted Accumulated Earnings**

The amount of accumulated earnings that has been restricted for specific purposes such as various contingency reserves, etc.





**CHAPTER III**  
**RECORDING TRANSACTIONS**



### THE TRANSACTION CYCLE

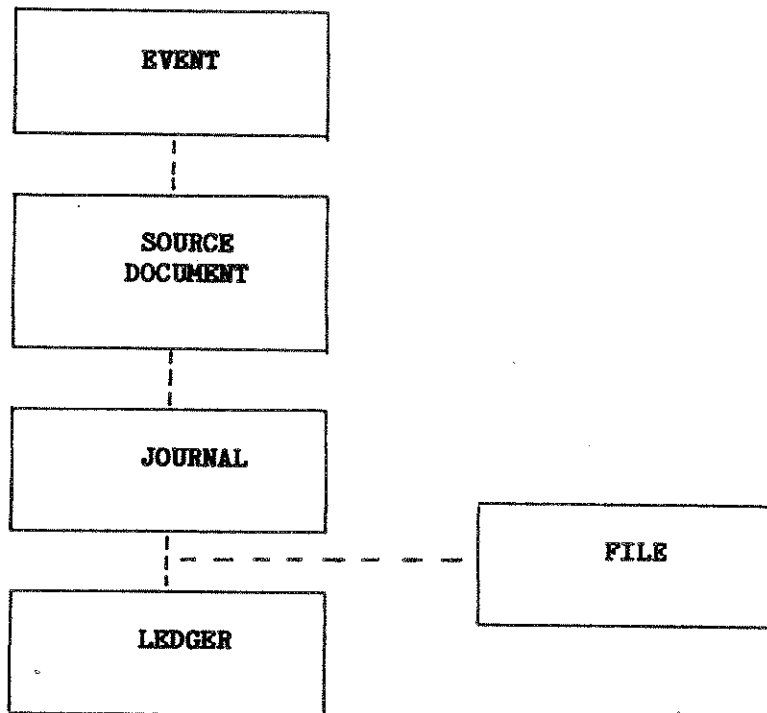
This chapter will show the flow of information through the transaction cycle. There are five main parts to the transaction cycle: (1) the event (2) preparing source documents, (3) recording journal entries (4) filing the source documents, and (5) posting. Throughout the remainder of this manual, it is assumed that you have in place the chart of accounts, journals, and ledgers explained in Chapter 2.

### BASIS OF ACCOUNTING

Before the transaction cycle can be discussed, the three possible methods of accounting (cash, modified-cash, and accrual) need to be explained. When the **cash basis** of accounting is used, revenues and expenses are not recorded until cash is received or paid out. The **accrual basis** of accounting means that revenues and expenses are recorded when earned or incurred. The **modified-cash basis** is a hybrid method between cash and accrual. Revenues and expenses are recorded when cash is received or paid, except expenditures on items with an economic life of greater than one year are accrued. Of these three bases, cash is the easiest, accrual is generally accepted as the most accurate, and modified-cash is in the middle. One alternative that allows the ease of cash basis while producing results on an accrual basis is to keep the records on a cash basis and, periodically, make the necessary entries to accrue all the revenue and expense accounts that need to be accrued. If the bookkeeper has trouble with the accruals, then the transit system's auditor may be needed to help in this area. Either this alternative of adjusting cash records to an accrual basis or the accrual basis should be used. In the continuing example of WE-MOVE-U, cash records will be kept and adjusted at year-end to an accrual basis (hereafter called **"Cash-to-accrual" basis**).

### TRANSACTION CYCLE IN GENERAL

The transaction cycle can be pictured as follows:



#### EVENT OR TRANSACTION

The first step in the transaction cycle is the occurrence of an event. An event that has a direct impact on the transit system's financial position and can be expressed in monetary terms is called a transaction. Examples of transactions are payment of bills, receipt of funds from a contract, and wear and tear on vehicles.

#### SOURCE DOCUMENT

Once an event has occurred, the financial impact of the event must be analyzed and if a source document does not already exist, one must be prepared. A source document is a permanent record of the transaction showing all relevant details. The source document can come from outside the transit system (e.g. a vendor invoice) or from within the transit system (e.g. time sheets), but a

source document should be prepared for every transaction. If a problem with the transaction develops, the source document will be your record of the transaction. However, if the information on the source document is incorrect, then this erroneous data will be entered into the accounting system and will make the accounting records incorrect. As such, source documents should be well-prepared, complete, accurate, and filed in a safe place.

### JOURNALS

The third step in the transaction cycle is to enter the transaction into a journal. If cash is received, the entry is recorded in the cash receipts journal; if cash is paid out, the entry is recorded in the cash disbursements journal; and if cash is not affected, the entry is recorded in the general journal. The source of information for the entry is the source document. As soon as possible after a transaction occurs, the source document should be prepared. The journal entry should then be made immediately after the source document is prepared. The source document should then be filed. Performing all three steps as soon as possible reduces the chances of a transaction not being entered in a journal, being entered twice, or being entered incorrectly.

### FILES

The filing of source documents is important, so a logical method of filing should be developed. Unpaid vendor invoices should be filed by due date so that they may be paid on time. Each morning, the system manager or bookkeeper need only check the first few invoices to find which, if any, invoices need to be paid during the day. Vendor invoices that have been paid should be marked **PAID** and filed in alphabetical order by vendor name or any other logical method so that they can be easily located in case the invoice is needed later. The filing of all other source documents should be done in a manner that allows them to be easily located and easily used. The most important point to remember is that a filing system should be developed in a logical fashion to meet specific goals (e.g. easy access).

Source documents and a filing system are especially important for audit purposes. In order to check your accounting records, the auditor will need to be able to find evidence that supports the journal entry (i.e. shows that the entry is correct). The evidence he will look for is the source document and to be able to find it, it must be filed in a **logical** manner. Keeping good source documents filed correctly will reduce the amount of time the audit takes and, consequently, will reduce the audit fee and minimize the organizational disruption of the audit.

### **Common errors caused by a delay in performing the accounting cycle**

Specifically, the transaction may fail to get entered if a source document is never prepared, or if the source document is lost before the journal entry is made. The transaction may be mistakenly entered twice if, after a journal entry has been made, the source document is left laying out instead of being filed. The bookkeeper may pick up the source document a week later and may enter the transaction again without remembering that the transaction has already been entered once. The transaction will be entered correctly if the source document is prepared correctly. Errors may occur if the source document is not prepared shortly after the transaction occurred, and pertinent data is forgotten between the occurrence of the transaction and the preparation of the source document. Another reason that the transaction may be entered incorrectly is that the bookkeeper misinterpreted the information on the source document. This will typically only occur when there is a time delay between preparing or receiving the source document and entering the transaction in the journal.

Most of the possible errors in the above paragraph will be eliminated if the source document is prepared, a journal entry made, and the source document filed as soon as a transaction is completed. In the event that the source document is received from an outsider (e.g. a vendor's invoice), the journal entry and the filing should be done as soon as the document is received.

### **LEDGERS**

Posting journal entries to the ledger is the last step in the transaction cycle. Posting can be done anytime, but it is typically done weekly, biweekly, or monthly. All posting entails is transferring the date of the transaction, the debit and credit amounts, and the page number of the journal to the appropriate account in the general ledger. Journal and ledger entries are best learned through illustration. We are providing examples of six transaction cycles typical of transit operations.

### **SIX COMMON TRANSIT TRANSACTION CYCLES**

Transactions can be grouped into a number of categories. We have constructed six groups that reflect the major activities of a rural and specialized system. The six groups are: (1) Asset Acquisition, (2) Payment of Accruals, (3) Revenues, (4) Expenses, (5) Payroll, and (6) Contributions. Using the example of WE-MOVE-U, typical transactions and the related source documents, journal entries, and filing systems will be illustrated for each group of transactions. Later on, the journal entries will be posted to the ledger. Both the cash receipts journal and the cash disbursements journal used in the illustrations will have fewer columns than normal to simplify the example. Exhibit 10 at the end of Chapter 2 shows the current accounts and balances for WE-MOVE-U.

**ASSET ACQUISITION - CYCLE 1 TRANSACTIONS**

Transaction: A new small bus costing \$20,000 was acquired on April 1. The small bus was paid for through a federal grant.

Source Document: The source documents would consist of as many of the following as possible.

- a copy of the vehicle title
- a copy of the purchase agreement
- a copy of the approved grant
- any other papers concerning the transaction
- if no documents show the purchase price, date of purchase, description of vehicle, vehicle number, and place of purchase, then this information should be recorded and included as a source document.

Journal Entry: Using the information from the source documents, a journal entry is prepared. The asset account "Tangible Transit Operating Property -Property Cost" will be debited (a debit increases an asset balance) and the capital account "Federal Government Capital Grant" will be credited (a credit increases a capital balance). Because cash was not affected by the transaction, the entry is made in the general journal and is shown below.

General Journal

Date	Account Title or Explanation	PR	DEBIT	CREDIT
April 1	Tangible Transit Operating Property-Property Cost		\$ 70,000	
	Federal Government Capital Grant			\$ 70,000
	Acquired a new bus through a federal capital grant			

Filing: After the journal entry is made, the source documents need to be filed. A number of the documents for this transaction are important legal papers which need to be kept as long as the van is owned. Therefore, all the source documents should be put in an envelope or file which is clearly marked "Papers for Vehicle Acquired 4/1/86" and then put in a filing cabinet under the letter "V" for "Vehicle".





**Filing:** As stated earlier, the check is mailed out and the bill from the tax assessor is filed. A manila or similar type of file should be used to file tax bills and payments. The taxbill should be marked "PAID". Then it is put in the front of the manila folder and filed in the filing cabinet under "T" for "Taxes". Proper handling of the cancelled check when the bank returns it is discussed in Chapter V.

**Posting:** To be done on the 15th of April.

**Transaction 2:** Paid the accounts payable of \$350 for repairs at Bill's Garage (see Exhibit 10).

**Source Document:** The check and the vendor's invoice.

**Journal Entry:** Cash is being paid out, so this transaction is recorded in the cash disbursements journal. Since no special account is provided for Accounts Payable, the sundry account must again be debited and the account title and name of vendor written in the explanation column. A diagonal line is then drawn through the post reference (PR) column. The entry is illustrated on line 2 of the journal shown below.

CASH DISBURSEMENTS JOURNAL

Date	Account Title	CK #	DEBIT (DR.)		DR.		CR.	
			PR	OPER. WAGES (50101.1)	ADMIN WAGES (50104.3)	FUEL & LUBE (50401.1)	SUNDRY	CASH (10101)
April 2	Acc. Property Tax Pay.	261					400	400
April 5	Acct. Pay./Bill's Garage	262	/				350	350

**Filing:** Two files should be set-up for vendor invoices: one for unpaid invoices and another for paid invoices. The unpaid invoices folder should be organized by due date, with the invoice due soonest on top. Each time an invoice is received, the due date should be circled and the invoice

filed in its appropriate place (normally towards the back of the folder). Penalty or bonus payment arrangements can be taken into account in this filing scheme. Using this method, only the due date of the invoice on top needs to be checked in order to determine if any invoices need to be paid during the day.

The paid invoices folder should be organized alphabetically by vendor name. After an invoice is paid, it should be marked "PAID," annotated with the check number, and filed according to the vendor's name.

Posting:

To be done on the 15th of April.

Special Note:

These entries will be made only if the liability has been accrued. This will occur when the accrual basis of accounting is being used or when the cash-to-accrual basis is used and opening entries are not made. This will be further explained in the next chapter. The accounting entries made at all other times will be illustrated in the expense group of transactions.

### REVENUES - CYCLE 3 TRANSACTIONS

Transaction 1:

Received a check for \$470 from the local city government as funding for the reduced fare WE-MOVE-U charges senior citizens.

Source Documents:

- 1) A copy of the request for funding that WE-MOVE-U sent to the city government.
- 2) The check stub, if included.
- 3) Any documents the city sent with the check stating the amount, purpose, and time period of the payment.

Journal Entry:

First, the amount requested and the amount of the check should be compared and any differences reconciled immediately. Then, the entry should be made in the cash receipts journal since cash has been received. The special column for Cash is debited (a debit increases an asset account) for the amount of the check. The corresponding credit goes in the special column Local Senior Citizen Fare Assistance (a credit will increase this revenue account). A brief explanation may be included if desired. Finally, a checkmark (✓) is placed in the posting reference (PR) column anytime the sundry account is not used. Only the total of each special column is posted to the ledger, so neither of the individual debit or credit amounts in this entry will be posted. The entry is shown below.

CASH RECEIPTS JOURNAL

Date	Account Title	PR	DR.	CREDIT (CR.)	CR.	CR.	CR.
			CASH (10101)	FULL ADULT FARES (40101)	LOC SR CITIZEN FARE ASSIS(41002)	FED. OPER. ASSIS (41301)	SUNDRY
April 6		✓	470		470		

Filing:

A separate folder should be maintained for each revenue account. After the journal entry is made, all the source documents should be stapled together and the period covered (e.g. Jan. 1 - March 31, 1986) clearly marked on the top copy. This bundle of source documents should then be placed in the front of the folder and the folder filed in the filing cabinet. All the folders for revenue accounts should be filed together under "R" for "Revenue". The folders should be arranged by account number.

Posting:

To be done on the 15th of April.

Transaction 2:

Received a check for \$1,510 from the federal government for general operating assistance.

Source Document:

Same as for Transaction 1.

Journal Entry: The entry in the cash receipts journal would be:

CASH RECEIPTS JOURNAL

Date	Account Title	PR	DR. CASH (10101)	CREDIT (CR.) FULL ADULT FARES (40101)	CR. LOC SR CITIZEN FARE ASSIS(41002)	CR. FED. OPER. ASSIS (41301)	CR. SUNDRY
April 6		✓	470		470		
6		✓	1,510			1,510	

Filing: Same as for Transaction 1.

Posting: To be done on the 15th of April.

Transaction 3: Collected \$500 in full adult fares.

Source Document: Driver logs.

Journal Entry:

CASH RECEIPTS JOURNAL

Date	Account Title	PR	DR. CASH (10101)	CREDIT (CR.) FULL ADULT FARES (40101)	CR. LOC SR CITIZEN FARE ASSIS(41002)	CR. FED. OPER. ASSIS (41301)	CR. SUNDRY
April 6		✓	470		470		
6		✓	1,510			1,510	
8		✓	500	500			

Filing: A separate file should be kept for all driver logs.

Posting: To be done on the 15th of April.

**EXPENSES - CYCLE 4 TRANSACTIONS**

Transaction 1: Paid gasoline credit card bill of \$130 on April 9th using check #263.

Source Document: 1) the check  
2) the invoice from each stop at the gas station  
3) the bill from the credit card company

Journal Entry: Since cash is being paid out, the entry goes in the cash disbursements journal. The special column Fuels & Lubes is debited (a debit increases an expense account) and Cash is credited (a credit reduces an asset account) for the amount of the bill (\$130). Again, a checkmark is placed in the PR column because the Sundry account was not used. The entry is shown below.

CASH DISBURSEMENTS JOURNAL

Date	Account Title	CX #	PR	DEBIT (DR.)		DR. FUEL & LUBE (50401.1)	DR. SUNDRY	CR. CASH (10101)
				OPER. MAGES (50101.1)	ADMIN MAGES (50104.3)			
April 7	Acc. Property Tax Pay.	261					400	400
5	Acct. Pay./Bill's Garage	262					350	350
9		263	✓			130		130

Filing:

When the bill was first received in March, the charges on the bill should have been matched with the invoices from the gas station, any discrepancies resolved, and the invoices stapled to the back of the bill. Then, the due date of April 12 circled and the bill and invoices filed in the unpaid invoices folder. On April 9th, this bill was at the top of the folder. Nit Picker decided to pay it on this date because payment takes about three days to reach the gas company. State and federal gas tax breaks should be noted and recorded.

After the journal entry is made, the check and remittance advice are mailed to the gas company. The rest of the bill, with the invoices stapled to it, is marked "PAID", annotated with the check number and filed in the paid invoice folder.

Posting:

To be done on the 15th of April.

Transaction 2: WE-MOVE-U has an agreement with the garage across the street whereby the garage performs all necessary, routine maintenance on WE-MOVE-U's vehicles, building, and equipment for a monthly fee of \$450.

Source Document: The check, a copy of the check for filing, and a written contract signed by representatives of both WE-MOVE-U and the garage. The month that the payment is for should be clearly written on the memo line of the check.

Journal Entry: The \$450 payment is for a contract to perform maintenance services. Therefore, Contract Maintenance Services will be debited and the column for Cash will be credited.

CASH DISBURSEMENTS JOURNAL

Date	Account Title	CK #	PR	[DEBIT (DR.)]		DR.			CR. CASH (10101)
				OPER. WAGES (50101.1)	ADMIN WAGES (50104.3)	FUEL & LUBE (50401.1)	SUNDRY		
April 2	Acc. Property Tax Pay.	261					400	400	
5	Acct. Pay./Bill's Garage	262					350	350	
9		263				130		130	
11	Contract Maint. Services	264					450	450	

Filing: A separate folder should be kept for this contract and filed under the name of the garage. The contract should be kept inside the folder along with the returned check, with the most recent check on top.

Posting: To be done on the 15th of April.

**PAYROLL - CYCLE 5 TRANSACTIONS**

Transaction: On April 15th, Lynn DeBoss, Nit Picker, and the two drivers were paid for the week.

Source Documents: Driver logs for the two drivers and time reports for Lynn and Nit.

Also, Employee Compensation Records and the Payroll Register.

**Employee Compensation Records:**

Only the record for Lynn DeBoss will be illustrated.





Two journal entries have to be made for the payroll cycle. One is the entry to record gross pay, deductions, and net pay. The other entry is to record employer's payroll taxes (e.g. FICA, unemployment). These two entries are shown below. The general journal is used because it more clearly illustrates the entries. The first entry would normally be made in the cash disbursement journal.

General Journal

Date	Account Title or Explanation	PR	DEBIT	CREDIT
April 1	Tangible Transit Operating Property-Property Cost		\$ 70,000	
	Federal Government Capital Grant - Acquired a new van through a federal capital grant			\$ 70,000
April 15	Operators wages		330	
	Administrative Wages		470	
	FICA Payroll Deductions Withheld			55
	Federal Income Taxes Withheld			35
	State Income Taxes Withheld			40
	Cash			670
	To record payroll expense.			
April 15	Fringe Benefits - FICA (oper.)		21	
	Fringe Benefits - FICA (admin.)		34	
	Fringe Benefits - Unemp. Insurance (oper.)		6	
	Fringe Benefits - Unemp. Insurance (admin.)		8	
	Accrued FICA Tax Payable			55
	Accrued Federal Unemp. Insur. Payable			3
	Accrued State Unemp. Insur. Payable			9
	To record employer's payroll taxes.			

The first entry can be traced back to the payroll register shown above. The debit of \$330 represents the gross pay of the two operators (William Smith and Dan Wegman). The other debit of \$470 represents the gross pay of Lynn and Nit. The three credits to Accrued Payroll Liabilities represent the three deductions: FICA, Federal Income Taxes, and State Income Taxes. The credit to Cash for \$670 represents the net pay of all four employees.

In the second entry, the debit to Fringe Benefits - FICA and credit to FICA Payroll Deductions Withheld for \$55.00 represents the employer's share of FICA and is the same as the FICA deduction in the payroll register. The debit to Fringe Benefits - Unemployment Insurance is the total amount of money that the employer is required to submit for federal and state unemployment compensation. The accrued payroll taxes liability for unemployment taxes must be broken into its federal and state components since each is sent to a different authority.

Each week the balances in the accrued payroll liability accounts get larger. When one of the quarterly remittances is due, the amount that needs to be paid is the balance in the appropriate accrued payroll account. For example, if on July 1st the amount withheld from employee's paychecks for state income tax during April, May, and June has to be mailed in to the state government, then the amount to be paid is the balance in the State Income Tax Withheld account as of July 1st. Assuming that the balance in this account is \$3600, the entry to record the cash remittance would be:

CASH DISBURSEMENTS JOURNAL

Date	Account Title	DEBIT (DR.)		DR.			CR. CASH - (10101)	
		CK	PR	OPER. WAGES (50101.1)	ADMIN WAGES (50104.3)	FUEL & LUBE (50401.1)		SUNDRY
July 1	State Income Taxes Withheld	409					3,600	3,600

Filing:

The Employee Compensation Records and the Payroll Register are used each week for the payroll, so they should be kept together in a safe, but accessible place. One possibility is to have a separate folder for each and file them under "P" for "Payroll".

Posting:

To be done on the 15th of April.

### CONTRIBUTIONS - CYCLE 6 TRANSACTIONS

Proper accounting for contributions can be a complicated, complex, and controversial subject. Many questions can be raised about the accounting and funding implications when individuals or governments contribute money, other assets, or services to a transit system. This manual will not discuss the funding implications because they vary by state; however, a standard accounting treatment is possible.

For accounting purposes, contributions can be broken into three mutually exclusive categories, each of which will be accounted for differently. The three categories are:

1. Services are donated.
2. A capital asset (e.g. van, radio) is donated or cash is donated for the specific purpose of acquiring a capital asset.
3. Cash is donated for any purpose except to acquire a capital asset.

The accounting treatment for each category also depends upon who the donor is (e.g. government, private enterprise). The accounting treatment for each category is illustrated below:

#### Contributed Services

The accounting for contributed or donated services will depend on whether or not the service is an allowable expense for reporting purposes. Your reporting representative will help you determine whether the cost is allowable. If the donation is allowable (e.g., donated services by a local government), then the value of the donated service is recorded as a debit to the expense account "Contributed Services - Allowable Expense" (account number 530) and as a credit to the revenue account "Contributed Services - Allowable Source" (account number 430.01). Because no cash was involved in this transaction, it is recorded in the general journal. If services worth \$100 are donated by a local government, the general journal entry would look like:

	Debit	Credit
Contributed Services - Allowable Expense	100	
Contributed Services - Allowable Source		100

On the other hand, if the donation was not an allowable expense (e.g., donated services by a private enterprise), then the information is not needed for funding or accounting purposes. However, management may still want a record of donated services, even though they are unallowable, as an indication of public support of the transit system. Therefore, accounts 430.03 and 430.04 are provided to keep track of this information without affecting any financial statements or reports. The value of the donated service is recorded as a debit to the contra-revenue (this term is explained later) account "Contributed Services - Contra Account for Unallowable Source" (account number 430.04) and as a credit to the revenue account "Contributed Services - Unallowable Source" (account number 430.03). For example, if services worth \$200 are donated by a volunteer mechanic, then the general journal entry would look like:

	Debit	Credit
Contributed Services - Contra Account for Unallowable Source	200	
Contributed Services - Unallowable Source		200

As stated before, the debit half of this entry is to a contra-revenue account. A revenue account will normally have a credit balance, however, a contra-revenue account has a debit balance. Therefore, when these two accounts are added together as they are in financial statements and most reports, the result is zero (i.e., the two accounts offset each other and, therefore, have no effect on reports). However, the value of services donated can be found by looking at the balance of either account since both accounts will always have the same balance.

One of the problems encountered in accounting for contributed services is determining the appropriate value to record for the service donated. The value recorded should be the amount it would have cost the transit system to pay a similarly trained person to perform the task. For example, if a mechanic who normally gets paid \$20 per hour donated two hours of his time to repair a vehicle, then the value of his service is \$40. However, if the same mechanic donated two hours of his time to drive a van, and the mechanic is untrained as a driver, then the value of his service is only \$6.70 (2 hours times the minimum wage of \$3.35 per hour). So, the value assigned to a donation of a service depends on the donor's level of training and proficiency at the task performed.

#### Donations for Capital Assets

If a capital asset (e.g., a van) is donated, then the debit half of the entry is to the asset account "Tangible Transit Operating Property - Property Cost" (account number 111.01). The new asset is also recorded in the asset register. On the other hand, if cash is donated for the specific purpose of acquiring a capital asset, then the debit half of the entry is to the

asset account "Capital Asset Funds" (account number 141.02). The cash received should also be kept in a bank account separate from the rest of the transit system's cash.

The credit half of the entry is to the capital account "Grants, Donations, and Other Paid-In-Capital" (account number 304.).

To illustrate the accounting for capital asset donations, two examples are provided. First, assume that a small bus costing \$40,000 is donated by the local government. The entry would be:

	Debit	Credit
Tangible Transit Operating Property-Property Cost	40,000	
Local Government Capital Grants		40,000

For the second example, assume that the local barber donated \$500 to the transit system's BUY-A-BUS fund drive. In this case, the entry would be:

	Debit	Credit
Capital Asset Fund	500	
Non-Governmental Donations		500

Unrestricted Cash Donations

Any time the transit system receives cash which is not restricted for a specific use, the Cash account (account number 101.01) is debited. The credit half of the entry is to the revenue account "Contributed Cash" (account number 431).

For example, assume that a local merchant donates \$200 for the transit to use for any purpose. Since the use of the cash by the transit system is not restricted by the donor, the donation is an unrestricted cash donation and the entry to record it would look like:

	Debit	Credit
Cash	200	
Contributed Cash		200

### POSTING

As noted earlier, Nit Picker has decided to post from the journals to the ledgers on the 15th and 31st of every month. Assuming this is the 15th of April, the journal entries that have been made now need to be posted. The steps to be followed are:

- 1) Foot (total each column) the special journals (i.e., cash receipts and cash disbursements journals)
- 2) Post each journal separately in the following order:
  - a) cash receipts journal
  - b) cash disbursements journal
  - c) general journal
- 3) For each journal:
  - a) post the footed totals of each special column (e.g., Cash)
  - b) post the entries not in a special column
- 4) Remember that some entries need to be posted to both a subsidiary ledger and the general ledger

There are four steps to the actual process of posting. The four steps in sequence are:

1. In the ledger, write the date of the transaction (use the date of posting when a footed total is posted).
2. In the ledger, write the amount of the transaction or footed total and record the new balance of the account.
3. Write the abbreviation for the journal and the page number of the journal in the Post Reference (PR) column of the ledger. For example:
  - a. page 3 of the General Journal would be abbreviated "G3"
  - b. page 26 of the Cash Receipts journal would be "CR26"
  - c. page 7 of the Cash Disbursements journal would be "CD7"
4. Record the ledger account number in the PR column of the journal. If an accounts receivable or accounts payable subsidiary ledger is used, then when an entry is made that affects the accounts receivable or payable account a diagonal line is drawn through the PR column of the journal to divide it in half (see the journal entry for Transaction 2 of the Payment of Accruals cycle). The account number is placed above

the diagonal line when the entry is posted to the general ledger, and a checkmark is placed below the diagonal line when the entry is posted to the specific account in the subsidiary ledger.

The journals that WE-MOVE-U has been using have been footed and are all presented in Exhibit 11 for easy reference. The checkmark below the footed total of the Sundry column in the cash disbursements journal indicates that the total of this column is not posted; each entry in the Sundry column is posted individually. For all the other special columns, the account number will be written below the footed total when the total is posted.



CASH RECEIPTS JOURNAL

Date	Account Title	PR	DR. CASH (10101)	CREDIT (CR.) FULL ADULT FARES (40101)	CR. LOC SR CITIZEN FARE ASSIS(41002)	CR. FED. OPER. ASSIS (61301)	CR. SUNDRY
April 5		✓	470		470		
6		✓	1,510			1,510	
8		✓	500	500			
			2,480	500	470	1,150	

CASH DISBURSEMENTS JOURNAL

(✓)

Date	Account Title	EX #	PR	DEBIT (DR.) OPER. WAGES (50101.1)	DR. ADMIN WAGES (50104.3)	DR. FUEL & LUBE (50401.1)	DR. SUNDRY	CR. CASH (10101)
April 2	Acc. Property Tax Pay.	261					400	400
5	Acct. Pay./Bill's Garage	262					350	350
9		263	✓			130		130
11	Contract Maint. Services	264					450	450
						130	1,200	1,330

(✓)

General Journal

Date	Account Title or Explanation	PR	DEBIT	CREDIT
April 1	Tangible Transit Operating Property-Property Cost Federal Government Capital		\$ 70,000	
	Grant - Acquired a new v through a federal capital grant			\$ 70,000
April 15	Operators wages		330	
	Administrative Wages		470	
	FICA Payroll Deductions Withheld			55
	Federal Income Taxes Withheld			35
	State Income Taxes Withheld			40
	Cash			670
	To record payroll expense.			
April 15	Fringe Benefits - FICA (oper.)		21	
	Fringe Benefits - FICA (admin.)		34	
	Fringe Benefits - Unemp. Insurance (oper.)		6	
	Fringe Benefits - Unemp. Insurance (admin.)		8	
	Accrued FICA Tax Payable			55
	Accrued Federal Unemp. Insur. Payable			3
	Accrued State Unemp. Insur. Payable			9
	To record employer's payroll taxes.			

Posting Footed Totals

As stated earlier, the first journal to be posted is the cash receipts journal, and the first footed total to be posted is for Cash. The general ledger account for Cash is shown below. The first line of the ledger is the balance in the account following the changeover (see Exhibit 10). The second line is the posting entry. The first step, the date of the posting (4/15) is recorded. In the second step the debit of \$2480 is recorded and the new balance of \$3355 is calculated. The third step is that the post reference of CR1 (Cash Receipts journal, page 1) is recorded. The last step is that the account number (10101) is written in the journal under the footed total (see Exhibit 12 to follow).

		<u>CASH</u>		<u>ACCT #: 10101</u>		BALANCE	
<u>DATE</u>	<u>EXPLANATION</u>	<u>PR</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>DEBIT</u>	<u>CREDIT</u>	
4/1	CHANGEOVER BALANCE		875			875	
4/15		CR1	2480			3355	

The next footed total to be posted is for Full Adult Fares. The steps are the same as above, and the ledger account looks like:

		<u>FULL ADULT FARES</u>		<u>ACCT #: 40101</u>		BALANCE	
<u>DATE</u>	<u>EXPLANATION</u>	<u>PR</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>DEBIT</u>	<u>CREDIT</u>	
4/15		CR1		500		500	

The posting of the remaining two special columns in the Cash Receipts Journal would proceed the same and, therefore, will not be illustrated. Since there were no entries in the Sundry account, the posting is finished for the Cash Receipts journal.

The next journal to be posted is the Cash Disbursements Journal. The posting of the footed totals will be the same as shown earlier, so only the posting of the Cash account will be illustrated. Following the posting, the general ledger account for Cash would look like:

<u>CASH</u>		<u>ACCT #: 10101</u>		<u>BALANCE</u>		
<u>DATE</u>	<u>EXPLANATION</u>	<u>PR</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>DEBIT</u>	<u>CREDIT</u>
4/1	CHANGEVER BALANCE		875		875	
4/15		CR1	2480		3355	
4/15		CD1		1330	2025	

Posting Entries in the Sundry Accounts

The Cash Disbursements Journal also contains six entries in the Sundry account. Only the posting of the first two of them will be explained. The first entry is a \$400 debit to Accrued Property Tax Liability. The general ledger account is shown below. The first step performed is to record the date of the transaction (4/2). The next step is to record the \$400 debit and calculate the new balance. The third step is to record the post reference of CD1 in the PR column. The last step is to record the account number (20304) in the post reference column of the Cash Disbursements Journal (see Exhibit 12 to follow).

<u>ACCRUED PROPERTY TAX PAYABLE</u>		<u>ACCT #: 20304</u>		<u>BALANCE</u>		
<u>DATE</u>	<u>EXPLANATION</u>	<u>PR</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>DEBIT</u>	<u>CREDIT</u>
4/1	CHANGEVER BALANCE			400	400	
4/2		CD1	400		0	

For the next entry, it is assumed that an accounts payable subsidiary ledger is being used. When this is the case, the entry is posted to both the general ledger and the subsidiary ledger. The ledger entries will look the same as those shown earlier. The post reference column of the journal entry will have the account number recorded above the diagonal line to show that posting was done to the general ledger and will also have a checkmark recorded below the diagonal line to show that posting was done to the subsidiary ledger (see Exhibit 12).

Posting Entries from the General Journal

Posting entries from the general journal is the same as posting entries from a sundry account. Each individual debit or credit is posted to the general ledger. The posting of the debit part of the entry in the general journal will be illustrated.

TANGIBLE TRANSIT OPERATING PROPERTY  
- PROPERTY COST

ACCT #: 11101

DATE	EXPLANATION	PR	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
4/1	CHANGEVER BALANCE		100,000		100,000	
4/2		G1	70,000		170,000	

Journals and account balances after posting

Exhibit 12 shows what the journals will look like subsequent to posting. Notice that the PR column has one of three marks in every row. The marks are:

- | Mark              | Meaning   |
|-------------------|---|
| 1. account number | The entry was posted.   |
| 2. checkmark      | The entry did not need to be posted or the entry was posted in a subsidiary ledger. |
| 3. dash (-)       | No entry on this line.  |

Exhibit 13 shows the current balances of WE-MOVE-U's accounts after the posting process for April 15th is completed.

CASH RECEIPTS JOURNAL

Date	Account Title	PR	DE. CASH (1010)	CREDIT (CR.)		CR. SUMMARY
				FUEL ADVALY FARE (4010)	LOC OR CITY/STED FARE ADVALY (1002) ADVALY (4100)	
April 6			470		470	
6			1,510			1,510
8			500	500		
			2,480	500	470	1,510
			(10,101)	(40,101)	(41,002)	(41,301) (✓)

CASH DISBURSEMENTS JOURNAL

Date	Account Title	CC	PR	DEBIT (DR.)		DE. SUMMARY	CR. SUMMARY
				OPER. WAGES (5010.1)	ADMIN WAGES (5010.3)		
April 2	Acc. Property Tax Pay.	264	20304			400	400
5	Acct. Pay./Bill's Garage	262	20401			350	350
9		263				130	130
11	Contract Maint. Services	26450	25.2			450	450
						130	1,200
						(50401.0)	(10101) (✓)

General Journal

Date	Account Title or Explanation	PR	DEBIT	CREDIT
April 1	Tangible Transit Operating Property-Property cost - Federal Government Capital Grant	41124	70,000	70,000
	Acquired a new vehicle through a federal capital grant			
April 15	Operators Wages	50101.1	330	
	Administrative Wages	50104.3	470	
	FICA Payroll Deductions Withheld	20201		55
	Federal Income Taxes Withheld	20202		35
	State Income Taxes Withheld	20203		40
	Cash	50101.0	670	
	To record payroll expense.			
April 15	Fringe Benefits - FICA (oper.)	50201.1	21	
	Fringe Benefits - FICA (admin.)	50201.3	34	
	Fringe Benefits - Unemp. Insurance (oper.)	50227.1	6	
	Fringe Benefits - Unemp. Insurance (admin.)	50227.3	8	
	Accrued FICA Tax Payable	20305		55
	Accrued Federal Unempl. Insur. Payable	20306		5
	Accrued State Unempl. Insur. Payable	20307		9
	To record employer's payroll taxes.			

<u>ACCOUNT TITLES</u>	<u>TRAIL BALANCE</u>
<b>REVENUES:</b>	
40101 FULL ADULT FARES	\$500
41002 LOCAL SENIOR CITIZEN FARE ASSISTANCE	\$470
41301 FEDERAL GENERAL OPERATING ASSISTANCE	\$1510
<b>EXPENSES:</b>	
50101.1 OPERATORS SALARIES AND WAGES	\$330
50104.3 ADMIN. SALARIES AND WAGES	\$470
50201.1 FRINGE BENEFITS - FICA (operators)	\$21
50201.3 FRINGE BENEFITS - FICA (admin.)	\$34
50207.1 FRINGE BENEFITS - UNEMP. INSURANCE (oper.)	\$6
50207.3 FRINGE BENEFITS - UNEMP. INSURANCE (admin.)	\$8
50305.2 CONTRACT MAINTENANCE SERVICES	\$450
50401.1 FUELS & LUBRICANTS CONSUMED	\$130
50703.2 PROPERTY TAXES	\$0
51305.3 DEPRECIATION - SERVICE VEHICLES	\$0
<b>ASSETS:</b>	
10101 CASH	\$1355
10207 RECEIVABLES FOR OPERATING ASSISTANCE	\$0
11101 TANGIBLE TRANSIT OPERATING PROPERTY - PROPERTY COST	\$170000
11102 TANGIBLE TRANSIT OPERATING PROPERTY - ACCUM. DEPR.	(\$18000)
<b>LIABILITIES:</b>	
20101 ACCOUNTS PAYABLE	\$0
20201 FICA PAYROLL DEDUCTION WITHHELD	\$55
20202 FEDERAL INCOME TAXES WITHHELD	\$35
20203 STATE INCOME TAXES WITHHELD	\$40
20304 ACCRUED PROPERTY TAX PAYABLE	\$0
20305 ACCRUED FICA TAX PAYABLE	\$55
20306 ACCRUED FED UNEMP INSURANCE PAYABLE	\$5
20307 ACCRUED STATE UNEMP INSURANCE PAYABLE	\$9
<b>CAPITAL:</b>	
30401 FEDERAL GOV'T CAPITAL GRANT	\$150000
30501 ACCUMULATED EARNINGS	\$2125



**CHAPTER IV**

**END OF FISCAL YEAR PROCESS**





## WORKSHEET

Bookkeepers become especially busy at the end of the fiscal year. Worksheets, financial statements, and other reports must be prepared and adjusting and closing entries recorded. This section will illustrate the use of a worksheet to facilitate the process. The example of WE-MOVE-U will be continued. Assume that the journal entries made and posted earlier are the only entries made during the year.

A worksheet is a tool used to record necessary adjustments and to furnish the account balances for preparing the income statement and balance sheet. The worksheet will be used to bring the accounts up to a full-accrual basis from the cash basis that was used for daily entries. A worksheet can be prepared monthly, quarterly, or yearly, depending on how often the transit manager wants full-accrual records. However the adjusting and closing entries will only be made in the journal at the end of the fiscal year. Use of a ten column worksheet will be illustrated. This worksheet has two amount columns (one for debits and one for credits) for each of the worksheet's five major sections (trial balance, adjustments, adjusted trial balance, income statement, and balance sheet). Thus it is called a ten column worksheet. An example of a blank ten column worksheet appears in Exhibit 14. The worksheet is completed section-by-section from left to right. The first step in preparing the worksheet is to list all the names in the column labeled "account names". Then, each section is completed. To illustrate the process, Exhibits 15-19 will show the worksheet for WE-MOVE-U after each section is completed.

### TRIAL BALANCE

The trial balance section is the easiest section of the worksheet to complete. However, error correction can be arduous. The year-end balance of each account is merely recorded in the appropriate debit or credit column. The debit and credit columns are then added up and should equal one another. If they are not equal, then there is a mistake somewhere in your accounting records that needs to be found and corrected. Possible causes of mistakes are:

1. Recording only half an entry, such as a debit without a corresponding credit, or vice versa.
2. Recording both halves of the entry on the same side, such as two debits, rather than a debit and a credit.
3. Recording an amount incorrectly.
4. Making errors in arithmetic, such as errors in adding the trial balance columns or calculating ledger balances.
5. Making errors during the posting process:
  - a. Not posting an amount in a journal
  - b. posting the debit half of a journal entry to the credit side of a ledger account, or vice-versa.



- c. posting an amount incorrectly.

To aid in finding the error(s), a definite procedure should be used. The following steps provide one time-saving approach.

1. Re-add the trial balance columns (if both columns' totals are equal, you are finished with the trial balance).
2. If the totals of the two trial balance columns still are not equal, then two "search figures" should be calculated:
  - a. subtract the total of one column of the trial balance from the total of the other column (e.g., if the total of the debit side of a trial balance is \$72,540 and the total of the credit side is \$72,000, then the first "search figure" is \$540).
  - b. divide the first "search figure" by 2 (e.g., if the first "search figure" is \$540, then the second "search figure" is \$270).
3. Divide the first "search figure" by 9. If the result is an integer (i.e., no fraction), then a transposition error (e.g., 81 written as 18) could have occurred.
4. Look at each ledger account and:
  - a. check that the balance of the ledger account was correctly transferred to the trial balance,
  - b. verify the adding and subtracting of the ledger balance,
  - c. look to see if either of the two "search figures" appear in the debit or credit entry columns (not the balance columns), and
  - d. check for transposition errors if step 3 above showed that such an error was possible.
5. If the balance of the ledger account was not correctly transferred to the trial balance, then erase the incorrect number in the trial balance, record the correct amount, and return to Step 1. The trial balance may now agree (the column totals are equal). If not, new "search figures" need to be calculated.
6. Double check your addition and subtraction of the entries in the ledger account since the date the last trial balance was prepared. Make sure that debit entries are increasing debit balances and decreasing credit balances; whereas credit entries are decreasing debit balances and increasing credit balances. If an arithmetic error is found, the ledger balance should be corrected and recorded in place of the incorrect ledger balance in the balance.

7. If one of the two search figures "appears in the ledger, then you have probably found the mistake. The method of correcting the mistake depends on which "search figure" was found.

a. First "search figure" (\$540 in the example above). When this "search figure" is found, the error that probably occurred was that only half an entry was recorded or posted. To correct the error, you have to search back to the original journal entry. This task would be arduous were it not for the P.R. column of the ledger. This column lets you know which journal and page number the entry is recorded in. When you find the entry, first check that the dollar amount of debits equals the dollar amount of credits. If they don't equal, get the source document(s) for the transaction and complete the entry (until debits = credits) and post the added part(s) of the entry. The new, revised ledger balances should be recorded in the trial balance in place of the old, incorrect ledger balances and you should return to Step 1. However, if debits do equal credits in the original entry, then you should check that every amount in the entry was posted. If an amount was not posted, it should be posted, the ledger balance transferred to the trial balance, and the error correction process should be restarted at Step 1. If all amounts were posted, then the occurrence of the "search figure" in the ledger account was just a coincidence and you still need to locate the error.

b. Second "search figure" (\$270 in the example above). When this "search figure" is found, one of three errors probably occurred:

- 1) the journal entry contained two debits without a corresponding credit, or vice versa.
- 2) during posting, a debit was posted as a credit, or vice versa.
- 3) the amount was added to the ledger balance when it should have been subtracted, or vice versa

Each one of the possible errors should be investigated and the error, if found, corrected. If no error is found, then the occurrence of the "search figure" in the ledger account was a coincidence and you need to continue looking at ledger accounts.

8. If a transposition error is located, then the error should be corrected and the trial balance re-added to see if the correction of this error has corrected the problem with the trial balance. If the two columns of the trial balance are still not the same, then the error correction process should be restarted at Step 1.

ACCOUNT NAMES	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	\$1,355									
Receivable for Oper. Assistance										
Tangible Intang. Dper. Property										
- Cost	\$170,000									
- Accumulated Depreciation		\$18,000								
Accounts Payable										
FICA Payroll Deduction Withheld		\$55								
Federal Income Taxes Withheld		\$35								
State Income Taxes Withheld		\$40								
Accrued Property Tax Payable										
Accrued FICA Tax Payable		\$55								
Accrued Federal Unempl. Insur. Pay.		\$5								
Accrued State Unempl. Insur. Pay.		\$9								
Federal Government Capital Grant		\$150,000								
Accumulated Earnings		\$2,125								
Full Adult Fees		\$500								
Local Tr. Citizen Fare Assistance		\$470								
Federal General Oper. Assistance										
Operators Salaries & Wages	\$330									
Administrative Salaries & Wages	\$470									
Fringe Benefits										
- FICA (oper.)		\$27								
- FICA (admin.)		\$34								
- Unempl. Insur. (oper.)		\$6								
- Unempl. Insur. (admin.)		\$8								
Contract Maintenance Services		\$450								
Fuels & Lubricants Consumed										
Property Taxes		\$130								
Depreciation - Service Vehicles										
		\$172,804		\$172,804						

EXHIBIT 15

Example

Using the information for WE-MOVE-U contained in Exhibit 13, Nit Picker completed the trial balance section of his worksheet, and it is shown in Exhibit 15. Note that the total debits of \$172,804 equal the total credits.

**ADJUSTMENTS**

The adjustments section of the worksheet is by far the most difficult section. Unless you have previous experience with adjustments, you will almost certainly need the assistance of a CPA to understand and prepare adjustments. This manual will provide a few examples and brief explanations.

The account balances are adjusted from the cash basis that was used during the year to the full accrual basis that should be used for reporting purposes. There are three types of adjustments:

1. invoices incurred but not yet received or paid
2. prepaid assets
  - a. assets to be depreciated
  - b. insurance
3. funds earned but not yet received

The first two types of adjustments are expenses that have been incurred but not yet recorded on the books. The last type is revenue that has been earned but not yet recorded on the books. Each one of the three types will now be discussed further and the adjustment illustrated in Exhibit 16.

Bills Received But Not Yet Paid

All the bills that are in the unpaid invoices file at year-end should be recorded as expenses. In addition, any invoices that have been incurred but for which the bill has not been received also should be recorded as expenses. To do this, adjusting entries are first made in the worksheet and, after the entire worksheet is finished, the adjusting entries are recorded in the general journal and then posted to the ledger. To illustrate making adjustments in the worksheet, assume that at year-end there is a \$101 invoice from the gasoline credit card company in the unpaid invoices file. The expense account "Fuels and Lubricants Consumed" must be debited (increased) and the credit goes to the liability account "accounts payable" The credit to accounts payable represents the fact that the transit system owes \$101 to the credit card company. Now, refer to Exhibit 16. Go down the "Account Title" column until you reach the account "Materials and Supplies Consumed." Go across this row until you reach the "Debit" column under "Adjustments". This is where the \$101 debit to "Materials and Supplies Consumed" is reported. A letter "A" in the Exhibit is then written to the left of the \$101. The (A) is a reference mark to show which credit the \$101 debit is related to.

ACCOUNT NAMES	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	\$1,355									
Receivable for Oper. Assistance			(C) 500							
Tangible Transit Oper. Property										
- Cost	\$170,000									
- Accumulated Depreciation		\$18,000		(B) 8000						
Accounts Payable				(C) 9101						
FICA Payroll Deduction Withheld		\$55								
Federal Income Taxes Withheld		\$35								
State Income Taxes Withheld		\$40								
Accrued Property Tax Payable		\$55								
Accrued FICA Tax Payable		\$5								
Accrued Federal Unempl. Insur. Pay.		\$9								
Accrued State Unempl. Insur. Pay.		\$150,000								
Federal Government Capital Grant		\$2,125								
Accumulated Earnings		\$500								
Full Adult fares		\$470								
Local Sr. Citizen Fare Assistance		\$1,510		(C) 5500						
Federal General Oper. Assistance										
Operators Salaries & Wages	\$330									
Administrative Salaries & Wages	\$470									
Fringe Benefits										
- FICA (oper.)	\$21									
- FICA (admin.)	\$34									
- Unempl. Insur. (oper.)	\$6									
- Unempl. Insur. (admin.)	\$8									
Contract Maintenance Services	\$450									
Fuels & Lubricants Consumed	\$130		(A) 9101							
Property Taxes										
Depreciation - Service Vehicles			(B) 8000							
	\$172,806	\$172,806	\$1,401	\$1,401						

EXHIBIT 16



Recording the credit half of the adjustment works the same way. First, the account to be credited, "Accounts Payable", is located. Then, the amount of the adjustment (\$101) is recorded in the "Credit" column under "Adjustments". The same letter (A) is written to the left of the \$101 to show that this credit is the other half of the debit recorded earlier.

A similar entry would be needed for all bills in the unpaid invoices file.

#### Prepaid Assets

The cost of certain assets must be allocated over the useful life of the asset. One example is insurance. Unless an insurance policy expires on the last day of the transit system's fiscal year, an adjustment must be made for insurance. If the transit system has paid the premium on an insurance policy that extends into the next fiscal year, then the pro-rata share of the policy that relates to the next fiscal year should be recorded as an asset. An example will help to clarify this point. Assume that on July 1, a six-month insurance premium of \$18,000 was paid by the transit system. If the transit system's fiscal year ends on August 31, then four months (4/6) of the premium relates to the next fiscal year. Thus, the adjustment at August 31 would record (debit) an asset of \$12,000 ( $4/6 \times 18,000$ ) and would reduce (credit) the insurance expense account for \$12,000. This entry is not illustrated in Exhibit 16.

Another example where the cost of an asset needs to be allocated over the useful life of the asset is the depreciation of property (e.g. vehicles, radio equipment). For accounting purposes, all assets, whether paid for by the transit system or from a governmental grant should be depreciated. For funding reporting purposes, however, depreciation may not always be allowed as an expense.

The easiest and probably most useful method of depreciation to use is straight-line. There are other methods available (e.g., sum-of-the-years digits, double-declining balance, unit of service). These methods are adequately explained in any basic accounting textbook, so any manager or bookkeeper who wishes to use a different method can look up the necessary details in a textbook. Only the straight-line method will be explained and illustrated in this manual.

To record depreciation, an adjustment is made debiting the specific depreciation account for the asset (e.g., "Depreciation-Passenger Revenue Vehicles") and crediting either "Tangible Transit Operating Property-Accumulated Depreciation" or "Tangible Property other than for Transit Operations-Accumulated Depreciation". The amount of the depreciation adjustment is determined by subtracting the salvage value of the asset (i.e., the amount of money that the asset is expected to be worth when the transit system disposes of it) from the original cost of the asset. The result is called the depreciable base and is then divided by the expected useful life of

the asset to give the yearly amount of depreciation. If the asset was acquired or sold during the year, then the yearly amount of depreciation must be multiplied by the fraction of the year that the asset was used (e.g., if a van is bought six months into the fiscal year, then 6/12 or 1/2 of the yearly depreciation would be recorded as depreciation expense for the first year).

To illustrate these calculations, the depreciation adjustment (B) in Exhibit 16 will be explained. Assume that the service vehicle was purchased on the first day of the fiscal year for \$20,000 and is expected to be used for 20 years and be worth \$4,000 after the 20 years of use. The \$800 debit to "Depreciation-Service Vehicles" was calculated as follows:

1. Depreciable base = cost - salvage value = 20,000 - 4,000 = \$16,000.
2. Yearly depreciation = Depr. base/expected life = 16,000/20 = \$800.

Since the service vehicle is tangible transit operating property, the credit half of the adjustment, also for \$800, would be to "Tangible Transit Operating Property - Accumulated Depreciation."

#### Funds Earned But Not Yet Received

All the funds that the transit system has earned during the year should be included in the system's revenue accounts. This includes funds that have been earned but not received as of the end of the transit system's fiscal year. For example, if a transit system's fiscal year ends on October 31, then the Department of Transportations funding for October should be included as revenue for October, even though it will not be received until November or later. Assume that the transit manager fills out the Section 18 funding reports and determines that he will receive \$500. The adjusting entry would be a debit to "Receivables for Operating Assistance" (account number 102.07) for \$500 and a credit to "Federal General Operating Assistance" (account number 413.01) for \$500. This adjustment is labeled as "(C)" in the Adjustments section of the worksheet in Exhibit 16.

#### **ADJUSTED TRIAL BALANCE**

To complete the Adjusted Trial Balance section, the amounts in the Adjustments section are added to the amounts in the Trial Balance section. Remember that a debit adjustment will increase a debit balance in the trial balance and decrease a credit balance; whereas a credit adjustment will decrease a debit balance and increase a credit balance. The total of all the debit balances in the adjusted trial balance should equal the total of all credit balances. If not, a mathematical error has been made. Exhibit 17 shows the worksheet for WE-MOVE-U with the Trial Balance, Adjustments, and Adjusted Trial Balance sections completed.

ACCOUNT NAMES	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	\$1,355		(C) 8500		\$1,355					
Receivable for Oper. Assistance										
Tangible Transit Oper. Property										
- Cost	\$170,000				\$170,000					
- Accumulated Depreciation		\$18,000		(B) 8000		\$18,000				
Accounts Payable				(A) 8101						
FICA Payroll Deduction Withheld		\$55				\$55				
Federal Income Taxes Withheld		\$35				\$35				
State Income Taxes Withheld		\$40				\$40				
Accrued Property Tax Payable		\$55				\$55				
Accrued FICA Tax Payable		\$5				\$5				
Accrued Federal Unempl. Insur. Pay.		\$9				\$9				
Accrued State Unempl. Insur. Pay.		\$9				\$9				
Federal Government Capital Grant		\$150,000				\$150,000				
Accumulated Earnings		\$2,125				\$2,125				
Full Adult Fares		\$500				\$500				
Local Sr. Citizen Fare Assistance		\$470				\$470				
Federal General Oper. Assistance		\$1,510		(C) 8500						
Operations Salaries & Wages	\$330				\$330					
Administrative Salaries & Wages	\$470				\$470					
Fringe Benefits										
- FICA (oper.)	\$21				\$21					
- FICA (admin.)	\$34				\$34					
- Unempl. Insur. (oper.)	\$6				\$6					
- Unempl. Insur. (admin.)	\$8				\$8					
Contract Maintenance Services	\$450				\$450					
Fuels & Lubricants Consumed	\$130		(A) 8101							
Property Taxes				(B) 8000						
Depreciation - Service Vehicles					\$800					
	\$172,806	\$172,806	\$1,401	\$1,401	\$174,205	\$174,205				

**INCOME STATEMENT**

To complete the Income Statement section of the worksheet, the balances of all the revenue and expense accounts in the Adjusted Trial Balance section are transferred to the Income Statement section. The debit balances are added together and the credit balances are added together. The difference between these two totals is net income if the credit total is larger or net loss if the debit total is larger. Exhibit 18 shows the worksheet for WE-MOVE-U with the Income Statement section completed.

**BALANCE SHEET**

To complete the Balance Sheet section, the balances of all asset, liability, and capital accounts in the Adjusted Trial Balance section are transferred to the Balance Sheet section. The debit balances are added together and the credit balances are added together. The difference between these two totals is net income if the debit total is larger or net loss if the credit total is larger. If the net income or loss calculated in the Income Statement section is not equal to the net income or loss calculated in the balance Sheet section, then a mathematical error has been made. Exhibit 19 shows the completed worksheet for WE-MOVE-U.

**ADJUSTING ENTRIES**

The next step in the fiscal year-end accounting process is to record adjusting entries in the general journal and then post these entries. The information for the adjusting entries comes from the Adjustments section of the worksheet. Each letter used in the previous illustrations (e.g. Exhibit 19) of the Adjustments section represents a separate adjusting entry. Based on these illustrations, the three adjusting entries would be:

	Debit	Credit
(A) Fuels & lubricants consumed	101	
Accounts Payable		101
(B) Depreciation - service vehicles		800
Tangible Transit Operating		
Property - Accum. Depreciation		800
(C) Receivable for operating assistance	500	
Federal General Operating Assistance		500

These entries would then be posted to the ledger.

ACCOUNT NAMES	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	\$1,355				\$1,355					
Receivable for Oper. Assistance										
Tangible Transit Oper. Property										
Cost	\$170,000		\$500		\$170,000					
Accumulated Depreciation		\$18,000		\$200		\$18,000				
Accounts Payable				\$101		\$101				
FICA Payroll Deduction Withheld		\$55				\$55				
Federal Income Taxes Withheld		\$35				\$35				
State Income Taxes Withheld		\$40				\$40				
Accrued Property Tax Payable		\$55				\$55				
Accrued FICA Tax Payable		\$5				\$5				
Accrued Federal Unempl. Insur. Pay.		\$9				\$9				
Accrued State Unempl. Insur. Pay.		\$9				\$9				
Federal Government Capital Grant		\$150,000				\$150,000				
Accumulated Earnings		\$2,125				\$2,125				
Full Adult Fare		\$500				\$500				
Local Sr. Citizen Fare Assistance		\$470				\$470				
Federal General Oper. Assistance		\$1,510		\$500		\$1,510				
Operators Salaries & Wages	\$330				\$330		\$330			
Administrative Salaries & Wages	\$470				\$470		\$470			
Fringe Benefits										
- FICA (oper.)	\$21				\$21		\$21			
- FICA (admin.)	\$34				\$34		\$34			
- Unempl. Insur. (oper.)	\$6				\$6		\$6			
- Unempl. Insur. (admin.)	\$8				\$8		\$8			
Contract Maintenance Services	\$450				\$450		\$450			
Fuels & Lubricants Consumed	\$130			\$101	\$231		\$231			
Property Taxes										
Depreciation - Service Vehicles			\$200		\$200		\$200			
	\$172,806	\$172,804	\$1,401	\$1,401	\$176,205	\$174,205	\$2,350	\$2,980		
									\$430	
									\$2,980	\$2,980

ACCOUNT NAMES	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	\$1,355				\$1,355				\$1,355	
Receivable for Oper. Assistance										
Tangible Transit Oper. Property					\$500				\$500	
- Cost										
- Accumulated Depreciation		\$18,000		\$800	\$170,000	\$18,800			\$170,000	\$18,800
Accounts Payable				\$101		\$101				\$101
FICA Payroll Deduction Withheld		\$55				\$55				\$55
Federal Income Taxes Withheld		\$35				\$35				\$35
State Income Taxes Withheld		\$40				\$40				\$40
Accrued Property Tax Payable										\$0
Accrued FICA Tax Payable		\$55				\$55				\$55
Accrued Federal Unempl. Insur. Pay.		\$5				\$5				\$5
Accrued State Unempl. Insur. Pay.		\$9				\$9				\$9
Federal Government Capital Grant	\$150,000					\$150,000			\$150,000	
Accumulated Earnings		\$2,125				\$2,125				\$2,125
Full Audit Fees		\$500				\$500				
Local Sr. Citizen Fare Assistance		\$470				\$470				
Federal General Oper. Assistance		\$1,510		\$500		\$2,010				
Operators Salaries & Wages	\$330				\$330		\$330			
Administrative Salaries & Wages	\$470				\$470		\$470			
Fringe Benefits										
- FICA (oper.)		\$21				\$21				\$21
- FICA (admin.)		\$34				\$34				\$34
- Unempl. Insur. (oper.)		\$6				\$6				\$6
- Unempl. Insur. (admin.)		\$8				\$8				\$8
Contract Maintenance Services	\$450				\$450		\$450			
Fuels & Lubricants Consumed	\$130			\$101		\$231				\$231
Property Taxes										\$800
Depreciation - Service Vehicles										\$630
	\$172,806	\$172,806	\$1,401	\$1,401	\$174,205	\$174,205	\$2,350	\$2,980	\$171,855	\$171,225
									\$630	\$630
									\$2,980	\$2,980
									\$171,855	\$171,855

EXHIBIT 19

Example

Assuming that the entries just illustrated were posted to the general ledger for WE-MOVE-U, their current account balances would be as shown in Exhibit 20.

**FINANCIAL STATEMENTS**

Four financial statements should be prepared at the end of every fiscal year (or more often): the income statement, the statement of changes in retained earnings, the balance sheet, and the statement of changes in financial position. These statements can be prepared at two levels of detail. Either all the detailed accounts can be used or else only the general object classes can be used. If general object classes are to be used, all the detailed accounts with the same general object code are added together and reported under the title of the general object class. For example, if account 501.01, "Operators Wages", has a fiscal year-end balance of \$629 and account 501.04, "Administrative Wages", has a balance of \$570, then general object class 501, "Labor", would be reported as having a balance of \$1199 (629 + 570).

**INCOME STATEMENT**

The first financial statement to be prepared is the income statement. This statement shows the results of the transit system's activities during the year. All the revenue accounts are listed and added together. The result is the total revenue for the transit system for the fiscal year. Then, all the expense accounts are listed, added together, and the result is the total expense of the transit system for the fiscal year. The total expense is subtracted from total revenue giving the net income or loss for the fiscal year.

<u>ACCOUNT TITLES</u>	<u>TRAIL BALANCE</u>
<b>REVENUES:</b>	
40101 FULL ADULT FARES	\$500
41002 LOCAL SENIOR CITIZEN FARE ASSISTANCE	\$470
41301 FEDERAL GENERAL OPERATING ASSISTANCE	\$2040
<b>EXPENSES:</b>	
50101.1 OPERATORS SALARIES AND WAGES	\$330
50104.3 ADMIN. SALARIES AND WAGES	\$470
50201.1 FRINGE BENEFITS - FICA (operators)	\$21
50201.3 FRINGE BENEFITS - FICA (admin.)	\$34
50207.1 FRINGE BENEFITS - UNEMP. INSURANCE (oper.)	\$6
50207.3 FRINGE BENEFITS - UNEMP. INSURANCE (admin.)	\$8
50305.2 CONTRACT MAINTENANCE SERVICES	\$450
50401.1 FUELS & LUBRICANTS CONSUMED	\$231
50703.2 PROPERTY TAXES	\$0
51305.3 DEPRECIATION - SERVICE VEHICLES	\$800
<b>ASSETS:</b>	
10101 CASH	\$1355
10207 RECEIVABLES FOR OPERATING ASSISTANCE	\$500
11101 TANGIBLE TRANSIT OPERATING PROPERTY - PROPERTY COST	\$170000
11102 TANGIBLE TRANSIT OPERATING PROPERTY - ACCUM. DEPR.	(\$18,800)
<b>LIABILITIES:</b>	
20101 ACCOUNTS PAYABLE	\$101
20201 FICA PAYROLL DEDUCTION WITHHELD	\$55
20202 FEDERAL INCOME TAXES WITHHELD	\$35
20203 STATE INCOME TAXES WITHHELD	\$40
20304 ACCRUED PROPERTY TAX PAYABLE	\$0
20305 ACCRUED FICA TAX PAYABLE	\$55
20306 ACCRUED FED UNEMP INSURANCE PAYABLE	\$5
20307 ACCRUED STATE UNEMP INSURANCE PAYABLE	\$9
<b>CAPITAL:</b>	
30401 FEDERAL GOV'T CAPITAL GRANT	\$150000
30501 ACCUMULATED EARNINGS	\$2125



Example

The income statement for WE-MOVE-U using the detailed accounts would look like:

**WE-MOVE-U  
INCOME STATEMENT  
FOR THE YEAR ENDED OCT. 31, 1986**

**REVENUES**

full adult fares	\$500
local sr citizen fare assistance	470
fed general oper. assistance	2010
	<hr/>

**TOTAL REVENUES**

\$2980

**EXPENSES**

operators wages	\$330
admin. wages	470
fringe benefits	
-FICA (oper.)	21
-FICA (admin.)	34
-unemp insur (oper.)	6
-unemp insur (admin)	8
contract maintenance services	450
fuels & lubes consumed	231
depreciation - service vehicles	800
	<hr/>

**TOTAL EXPENSES:**

---

\$2350

**NET INCOME OR (LOSS)**

---

\$630

**STATEMENT OF CHANGES IN RETAINED EARNINGS**

The second financial statement to be prepared is the statement of changes in retained earnings. This statement shows the changes that have occurred in the transit system's retained earnings account during the year. The format used is:

Beginning Retained Earnings  
Add:  
    Net Income  
Subtract:  
    Net Loss  
    Dividends Declared  
Ending Retained Earnings

Example

The statement of changes in retained earnings for WE-MOVE-U is shown below. Notice that the net income figure is taken from the income statement.

WE-MOVE-U  
STATEMENT OF CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED OCT. 31, 1986

BEGINNING RETAINED EARNINGS	2125
ADD:	
NET INCOME	<u>630</u>
ENDING RETAINED EARNINGS	<u><u>2755</u></u>

**BALANCE SHEET**

The third financial statement to be prepared is the balance sheet (also known as the statement of financial position). This statement shows the financial position of the transit system as represented by its assets, liabilities, plus capital. Remember from Chapter I that  $\text{assets} = \text{liabilities} + \text{capital}$ .

Example

The balance sheet for WE-MOVE-U is shown in Exhibit 21. Notice that the retained earnings figure is taken from the ending retained earnings figure of the statement of changes in retained earnings. Also notice that total assets equal total liabilities plus capital.

Interrelationships

The interrelationships among these three financial statements can be pictured as in Exhibit 22.

**WE-MOVE-U  
BALANCE SHEET  
OCTOBER 31, 1986**

**ASSETS:**

Cash	1355
Receivable for Operating Assistance	500
Tangible Transit Oper. Property	170000
Tangible Transit Oper. Property -A/D	<u>-18800</u>

**TOTAL ASSETS**

153055

**LIABILITIES:**

Accounts Payable	101
FICA Payroll Deduction Withheld	55
Federal Income Taxes Withheld	35
State Income Taxes Withheld	40
Accrued FICA Tax Payable	55
Accrued Federal Unemp. Insur. Payable	5
Accrued State Unemp. Insur. Payable	<u>9</u>

**TOTAL LIABILITIES**

300

**CAPITAL:**

Federal Gov't Capital Grant	150000
Accumulated Earnings	<u>2755</u>

**TOTAL CAPITAL**

152755

**TOTAL LIABILITIES & CAPITAL**

153055

**INCOME STATEMENT:**

Revenues  
- Expenses

---

Net Income or (Loss)

**STATEMENT OF CHANGES IN RETAINED EARNINGS**

Beginning Retained Earnings  
+(-) Net Income (Loss)  
- Dividends Declared

---

Ending Retained Earnings

**BALANCE SHEET**

Assets  
equals  
Liabilities  
+ Capital (includes ending retained earnings)

### STATEMENT OF CHANGES IN FINANCIAL POSITION

The fourth and final financial statement to be prepared is the statement of changes in financial position. This statement shows the sources and uses of cash. However, it is a very difficult statement to prepare. It is beyond the scope of this manual to explain how to prepare one. If this financial statement is desired, a CPA will probably be needed to prepare it.

### CLOSING ENTRIES

The next step in the fiscal year-end process is to prepare closing entries. Since the revenue and expense accounts contain only information on the current year, they need to be closed out, i.e., brought to a zero balance, at the end of the fiscal year. This is accomplished by three closing entries that are made in the general journal.

#### CLOSING ENTRY #1

First, all the expense accounts are closed out. Since the expense accounts have debit balances, each expense account is credited for the amount of its debit balance. For example, if "Operators Wages" has a debit balance of \$329, then the closing entry would credit the account for \$329. A credit entry reduces a debit balance, so the result is a \$0 balance in the "Operators Wages" account. All the expense accounts will be closed out by credits in one entry, and the offsetting debit will be to a temporary account called "Revenue and Expense Summary." This account does not appear in the Appendix and does not need to be listed in your chart of accounts because it is only used for closing entries and will always have a \$0 balance both before and after the three closing entries are made.

#### Example

The first closing entry for WE-MOVE-U is shown below. The amounts can be found in both Exhibit 20, and in the income statement illustrated earlier.

<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
Revenue and Expense Summary	2350	
Operators Wages		330
Admin. Wages		470
Fringe Benefits - FICA (oper.)		21
Fringe Benefits - FICA (admin.)		34
Fringe Benefits - Unemp. Insurance (oper.)		6
Fringe Benefits - Unemp. Insurance (admin.)		8
Contract Maintenance Services		450
Fuels and Lubricants Consumed		231
Depreciation - Service Vehicles		800

**CLOSING ENTRY #2**

In the second closing entry, all the revenue accounts are closed out. The process is very similar to closing out expense accounts, except the revenue accounts are debited and the "Revenue and Expense Summary" is credited.

Example

The second closing entry for WE-MOVE-U is shown below. Once again, the amounts can be found in both Exhibit 20 and in the income statement illustrated earlier.

<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
Full Adult Fares	500	
Local Senior Citizen Fare Assistance	470	
Federal General Operating Assistance	2010	
Revenue and Expense Summary		2980

**CLOSING ENTRY #3**

In the third closing entry, the "Revenue and Expense Summary" account is closed out. Subtract the amount debited to "Revenue and Expense Summary" in closing entry #1 from the amount credited to "Revenue and Expense Summary" in closing entry #2. If the result is a positive number, then this represents the net income of the transit system and should be the same as the net income on the income statement (if it's not the same, then an error has been made and needs to be found and corrected). The third closing entry in this case would be a debit to "Revenue and Expense Summary" and a credit for the same amount to "Accumulated Earnings" (account number 305.01).

On the other hand, if the result is a negative number, then this represents the net loss to the transit system and should be the same as the net loss on the income statement. The third closing entry in this case would be a debit to "Accumulated Earnings" and a credit for the same amount to "Revenue and Expense Summary."

Example

The third closing entry for WE-MOVE-U is shown below. The debit of \$2350 to "Revenue and Expense Summary" in the first closing entry is subtracted from the credit of \$2980 in the second closing entry. Since the result of \$630 (2980-2350) is a positive number, this figure represents the transit system's net income and is the same as the net income reported on the income statement. The third closing entry would look like:

<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
Revenue and Expense Summary	630	
Accumulated Earnings		630

**ALTERNATIVE METHOD**

An alternative to these three closing entries is to only make the first two closing entries, but use the "Accumulated Earnings" account instead of the "Revenue and Expense Summary" account. This alternative method will provide the same result as the method illustrated. However, using the "Revenue and Expense Summary" account provides a way of checking that errors have not occurred. This check is in the form of comparing the third closing entry to the income statement. Using the "Accumulated Earnings" account does not provide this check.

**OPENING ENTRIES**

The last step in the fiscal year-end process is to prepare opening entries (also called reversing entries). Technically, this is the first step in the new fiscal year since it is done on the first day of the new fiscal year. However, since the opening entries are a direct result of other entries made during the fiscal year-end process, they fit logically as the last step in this process. This step is often difficult to understand and the assistance of a CPA may be needed.

To explain the reason for opening entries, the third adjusting entry (for revenue earned but not yet received) will be used. After this adjustment is made, there will be a \$500 balance in the asset account "Receivables for Operating Assistance." Therefore, when the check for this assistance is

received, the asset account would be credited (reducing the account balance to \$0). This requires the bookkeeper to remember whether or not an adjustment was made.

As a solution to this problem, opening entries can be made to reverse the effect of certain adjustments. This allows the bookkeeper to always make the same entry instead of having to make a different entry depending on whether or not an adjustment had been made. This step is optional but highly recommended.

If opening entries are made, then, referring back to the discussion on the adjustments section of the worksheet, the first and third type of adjustments are reversed (i.e., bills received but not yet paid, and funds earned but not yet received). To make the opening entry, the account debited in the adjusting entry is credited in the opening entry, and the account credited in the adjusting entry is debited in the opening entry.

Example

The opening entry for the \$101 gasoline bill adjustment would be:

<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable	101	
Fuels & Lubricants consumed		101

**SIMULATING THE YEAR-END PROCESS**

One of the benefits of using a worksheet is that the transit system can simulate the year-end process for purposes such as preparing reports at the end of a funding source's fiscal year end, preparing monthly or quarterly reports, or updating the accounts to a full-accrual basis for management purposes.

To simulate the year-end process, a worksheet is prepared as usual, and the account balances in the adjusted trial balance section of the worksheet are used to prepare all reports. The adjustments in the worksheet are not recorded in the general journal as adjusting entries. Closing and opening entries are **not** prepared. This allows the transit manager to have information as if the entire fiscal year-end process was performed, without affecting any account balances.





**CHAPTER V**  
**FINANCIAL MANAGEMENT**



### RIDERSHIP and PERFORMANCE DATA (non-financial)

In order to effectively run a transit system, the manager needs more than just accounting data. Non-financial or ridership data, such as miles traveled, is also needed. Before this ridership data is collected, three questions need to be answered:

1. What data needs to be collected?
2. How will the data be collected?
3. How will the data collected be summarized?

After these three questions are answered, collecting the data becomes nothing more than implementing your answers.

#### WHAT DATA TO COLLECT

Before you can decide what data you would like to collect, you first have to know how you will be using the data. The next three sections of this chapter explain how the data can be used. As a result, you may need to read the remainder of this chapter before you can answer the question of what ridership data you need to have collected.

Two broad categories and some examples of each category that ridership data will fall into are:

#### Quantity of Service Provided

Passenger miles  
Vehicle miles  
Deadhead miles  
Passenger hours  
Vehicle hours  
Passenger trips  
Passenger zones

#### Quality of Service Provided

Complaints  
Accidents  
Missed trips (no shows)  
Late stops

The transit manager should write down all the ridership data he would like to have, and then rank each item as either "essential" or "nice to have". The data items considered "essential" should be collected. These are items you want to compare over a period of time. The data items considered "nice to have" should be collected only if the benefit of the information outweighs the cost to collect and summarize it. This cost/benefit decision is very subjective, but a subjective decision is better than no decision.

### HOW TO COLLECT THE DATA

Once it is decided what data needs to be collected, the next question to be answered is "What is the most efficient method of collecting the data?" This question needs to be answered for each data item as the answer will depend on the nature of the data item. The only recommendation we can give is to try, whenever possible, to limit the amount of data the driver has to record when a passenger is picked up. The more information the driver has to record, the longer it will take to pick up a passenger. At its worst, this could become a bottleneck that causes delays, complaints, and lengthier rides. You may have to employ more drivers and vehicles than are actually necessary. Some providers actually require their contractors to provide client ride lists with the data needed.

### HOW TO SUMMARIZE THE DATA

Once the data is collected, it needs to be summarized. Once again, the specifics of how the data should be summarized will depend on the particular data item.

### COST PER UNIT OF SERVICE

The accounting data and the ridership data are combined to arrive at the transit system's cost per unit of service. To calculate this figure the cost of providing the service and the number of units of service provided must be known. The equation is very straightforward:

$$\frac{\text{Cost}}{\text{Units of Service}}$$

The difficulty lies in determining what costs should be included in the numerator and what unit of service should be used as the denominator. There is no definitive answer to either question; the answer depends on the purpose for which the cost per unit of service figure will be used. The rest of this section will provide guidelines on which costs to include and possible denominators for the units of service.

### COSTS TO INCLUDE

For the most part, the costs to include will be all the expenses from the accounting data. The one expense that has caused controversy in the area is depreciation.

### Depreciation

Depreciation can be handled in one of three ways: (1) no depreciation can be included, (2) depreciation on only those assets paid for with local funds, or (3) depreciation on all assets can be included.

Not including depreciation as a cost will represent the transit system's cost of providing service without taking into account the wear and tear on the vehicles.

Including depreciation on only those assets paid for by the transit system will represent the cost to the transit system of providing the service. The wear and tear on assets paid for by the transit system is a cost to the transit system and is included as a cost.

Including depreciation on all assets will represent the total cost of providing the service. This total cost is the cost to the transit system and the wear and tear on assets the transit system did not pay for.

### Rate Setting for Contracts

When the transit manager negotiates a contract to provide transportation, a price to be paid for the transportation must be agreed upon. The transit manager should attempt to negotiate as consistent a price as possible. Some states advise providers to never accept a contract for less than the cost per unit of service without including depreciation. Providers should try to always attain a price at least equal to the cost per unit of service including depreciation on those assets paid for by the transit system.

For a more intensive discussion of rate setting, including discussions of fixed vs. variable costs and future vs. past costs, see the section on rate setting in Chapter VI.

### **UNITS OF SERVICE**

Once you have decided which costs to include, the next decision is what unit of service to use. The three units of service typically used are passenger trips, passenger hours, and passenger miles. A fourth unit of service, zones, is currently used and being evaluated in South Carolina. The area serviced by the transit system is divided into a number of zones, and the passenger's fare depends on the number of zones traveled. Regardless of the unit of service agreed to with a purchasing contractor, the transit provider will want to keep in mind that one of the units is a chosen analytical tool.

A provider could be forced into using various units to report service rendered to the contractor. As compared to the reporting, operating management decisions will be improved if all the contract measures can be converted to a management one. The latter one being a common denominator.

## BILLING RATE STRUCTURES

An example of how the cost per unit of service figures can be used is billing rate structures. Transit managers often base the fee they charge customers on their cost-per-unit of service. This section shows how these billing rate structures can be calculated. However, a preferred method of rate setting is presented in Chapter VI. If this method is used, then the cost-per-unit of service can be compared to the rates set to make sure the rates are in line.

### Trip Rate Structure

The trip rate structure is determined by dividing annual costs by the total number of trips, yielding an average annual cost per trip. By charging this average cost for each trip provided, the transportation operator will collect enough revenue to exactly equal system expenses.

In simple terms, the average cost per trip equals:

$$\text{COST PER TRIP} = \frac{\text{ANNUAL OPERATING EXPENSES}}{\text{ANNUAL TRIPS}} =$$

$$\frac{\text{ANNUAL OPERATING EXPENSES}}{\text{ANNUAL VEHICLE HOURS} \times \text{PRODUCTIVITY}}$$

Examples 1 and 2 illustrate the calculation of the average trip cost and its sensitivity to changes in productivity.

EXAMPLES OF BILLING RATE CALCULATIONS

EXAMPLE #1

Using the cost data presented for the hypothetical transportation provider, assume that the system carries 200,000 one-way trips annually with 60,000 annual vehicle hours. Find the productivity, cost per trip, and cost per vehicle hour.

<u>SOLUTION</u>	
1. PRODUCTIVITY	= $\frac{\text{TRIPS}}{\text{VEHICLE HOURS}}$
	= $\frac{200,000}{60,000} = 3.33 \text{ trips/vehicle hour}$
2. COST PER TRIP	= $\frac{\text{ANNUAL OPERATING EXPENSE}}{\text{ANNUAL TRIPS}}$
	= $\frac{\$840,000}{200,000} = 4.20/\text{trip}$
3. COST PER VEHICLE HOUR	= $\frac{\text{ANNUAL OPERATING EXPENSE}}{\text{VEHICLE HOURS}}$
	= $\frac{\$840,000}{60,000} = 14.00/\text{vehicle hour}$

EXAMPLE #2

Now assume that the productivity has increased to 4.0 trips per vehicle hour without increasing the annual operating expenses and vehicle hours. Find the annual trips and cost per trip.

<u>SOLUTION</u>	
1. ANNUAL TRIPS	= ANNUAL VEHICLE HOURS x PRODUCTIVITY
	= 60,000 vehicle hours x 4.0 = 240,000 trips
2. COST/TRIP	= $\frac{\text{ANNUAL OPERATING EXPENSE}}{\text{ANNUAL TRIPS}}$
	= $\frac{\$840,000}{240,000} = \$3.50/\text{trip}$

Thus, the increase in productivity from 3.33 to 4.0 trips per vehicle hour increased the yearly trips from 200,000 to 240,000 and decreased the cost per trip from \$4.20 to \$3.50.

Excerpted from : "Massachusetts' Demonstration To Simplify Transportation Accounting Requirements Technical Memo 4; Development of Uniform Cost Determination and Cost Allocation Procedures For Transportation Billing Rate Negotiations"; Ketrion Inc.; August 1982



A single uniform cost per trip accurately represents the true trip cost only when all trips are approximately equal in length and time. Under the trip rate structure, however, longer and more expensive trips are billed at the same rate as short ones. For providers whose service consists of trips of widely varying lengths, several different trip rates based on geographic zones can be created in order to more equitably distribute the true costs associated with various trip lengths (e.g., the zone rate structure).

#### Hourly Rate Structure

The hourly rate is calculated by dividing the annual operating expense by the total annual service hours multiplied by the utilization ratio as follows:

$$\text{HOURLY RATE} = \frac{\text{ANNUAL OPERATING EXPENSE}}{\text{ANNUAL VEHICLE HOURS} \times \text{UTILIZATION RATIO}}$$

The utilization ration is the percentage of time that the vehicle is actually providing service. This equation accounts for the fact that all available vehicle hours are not passenger service hours unless the utilization ratio equals 1. The cost of the unutilized vehicle hours, therefore, is distributed equally over all passenger service hours. Example 3 illustrates the calculation of the hourly rate, and Example 4 illustrates the effect of not including the utilization ratio in the calculation.

EXAMPLE #3

Assume that a system operates 60,000 vehicle hours per year with an annual operating expense of \$840,000. The utilization ratio is 0.7. Find the hourly billing rate.

SOLUTION

$$\begin{aligned} 1. \text{ HOURLY RATE} &= \frac{\text{ANNUAL OPERATING EXPENSE}}{\text{ANNUAL VEHICLE HOURS} \times \text{UTILIZATION RATIO}} \\ &= \frac{\$840,000}{60,000 \times 0.7} = \frac{\$840,000}{42,000} = \$20.00/\text{hour} \end{aligned}$$

EXAMPLE #4

Assume that the provider operates under the same conditions as above, but does not employ the utilization ratio when calculating the hourly rates. How much yearly deficit will be required to compensate for this oversight?

SOLUTION

1. ANNUAL OPERATING EXPENSE: \$840,000
2. ANNUAL VEHICLE HOURS: 60,000
3. UTILIZATION RATIO: 0.7
4. COST PER VEHICLE HOUR: \$14.00

With a utilization ratio of 0.7 the provider can only bill for 42,000 hours which is the total hours of service provided to purchaser agencies. Thus,

$$5. \text{ REVENUE} = \$14.00/\text{hour} \times 42,000 \text{ VEHICLE HOURS} = \$588,000$$

The revenue shortfall or deficit is then \$840,000 - \$588,000 = \$252,000 per year.

Excerpted from : "Massachusetts' Demonstration To Simplify Transportation Accounting Requirements Technical Memo 4; Development of Uniform Cost Determination and Cost Allocation Procedures For Transportation Billing Rate Negotiations"; Ketrion Inc.; August 1982

Determining whether to bill an agency using an hourly rate depends upon the distribution of vehicle use. If only one agency is using a vehicle, the total hourly cost will be charged to that agency. On the other hand, if more than one agency is using the vehicle at the same time, then the hourly cost must be prorated between each agency. This proration is a complicated calculation. Rather than laboriously calculating the exact time each client is on the vehicle, the trip rate billing structure is more administratively efficient when clients funded under various sources are using the same vehicle. The hourly billing structure is more efficient when one agency has exclusive use of the vehicle for a period of time.

### Mileage Rate Structure

The mileage rate structure determines the cost for each vehicle service mile as follows:

$$\text{MILEAGE RATE} = \frac{\text{ANNUAL OPERATING EXPENSE}}{\text{VEHICLE SERVICE MILES}}$$

Vehicle service miles are those vehicle miles operated during the passenger service hours. To keep track of passenger service miles, odometer readings are taken at each client's origin and destination, and at the beginning and end of each period of exclusive use of the vehicle. Examples 5 and 6 illustrate the calculation of the mileage rate and compare it with the other rates. If different agencies' clients are sharing the vehicle, the assignment of the vehicle miles to a specific passenger is difficult. The mileage rate structure, therefore, offers no special advantages over the other two rate structures.

EXAMPLE #5

Determine the mileage billing rate under the following assumptions:

ANNUAL OPERATING EXPENSE:	\$840,000
ANNUAL VEHICLE HOURS:	60,000
PASSENGER SERVICE MILES:	540,000
<u>SOLUTION</u>	
1. MILEAGE RATE =	$\frac{\text{ANNUAL OPERATING EXPENSE}}{\text{PASSENGER SERVICE MILES}}$
	$= \frac{\$840,000}{540,000} = \$1.56/\text{mile}$

EXAMPLE #6

Now assume that the broker has determined the mileage billing rate at \$1.56/mile--for 60,000 vehicle hours with a utilization ratio of 0.7 and an annual operating expense of \$840,000. The provider operates at an average productivity of 4.0. The estimated passenger service miles are 540,000. Find the annual one-way trips and calculate the cost per trip by using the mileage rate and check this with the trip rate method.

<u>SOLUTION</u>	
1. ANNUAL TRIPS =	ANNUAL VEHICLE HOURS x PRODUCTIVITY
	= 60,000 VEHICLE HOURS x 4.0
	PASS. TRIPS/HR. = 240,000 TRIPS
2. COST PER TRIP USING MILEAGE RATE:	
A. MILEAGE PER TRIP =	$\frac{\text{ANNUAL PASSENGER SERVICE MILES}}{\text{ANNUAL TRIPS}}$
	$= \frac{540,000}{240,000} = 2.25 \text{ MILES/TRIP}$
B. COST PER TRIP =	MILEAGE RATE x MILEAGE PER TRIP
	$= \$1.56/\text{MILE} \times 2.25 = \$3.50/\text{TRIP}$
3. CHECK COST PER TRIP USING TRIP RATE METHOD	
COST PER TRIP =	$\frac{\text{ANNUAL OPERATING EXPENSE}}{\text{ANNUAL TRIPS}}$
	$= \frac{\$840,000}{240,000 \text{ TRIPS}} = \$3.50/\text{TRIP}$

The solutions to parts 2 and 3 check; therefore, the broker has accurately calculated the mileage rate and was successful in transforming the mileage rate into a trip rate.

Excerpted from : "Massachusetts' Demonstration To Simplify Transportation Accounting Requirements Technical Memo 4; Development of Uniform Cost Determination and Cost Allocation Procedures For Transportation Billing Rate Negotiations"; Ketrion Inc.; August 1982

### PERFORMANCE MEASURES

By combining the accounting data, ridership data, and cost per unit of service data, the transit manager can calculate a large number of performance measures to use in analyzing the transit system's performance. Most often, these performance measures will be compared to the transit system's performance measures in previous years. However, they can also be compared to other transit systems or to industry averages if available.

This manual will provide a few of the more general performance measures available. For a more complete listing and discussion of performance measures see the Rural Public Transportation Performance Evaluation Guide (Prepared in November, 1982 by Carter-Goble Associates for the Bureau of Public Transit and Goods Movement Systems, Pennsylvania Department of Transportation and distributed by the Technology Sharing Program, Office of the Secretary of Transportation, Washington, D.C. 20590).

The performance measures will be broken down into two major categories: financial performance and non-financial performance. Each category will be further subdivided as follows:

#### FINANCIAL PERFORMANCE

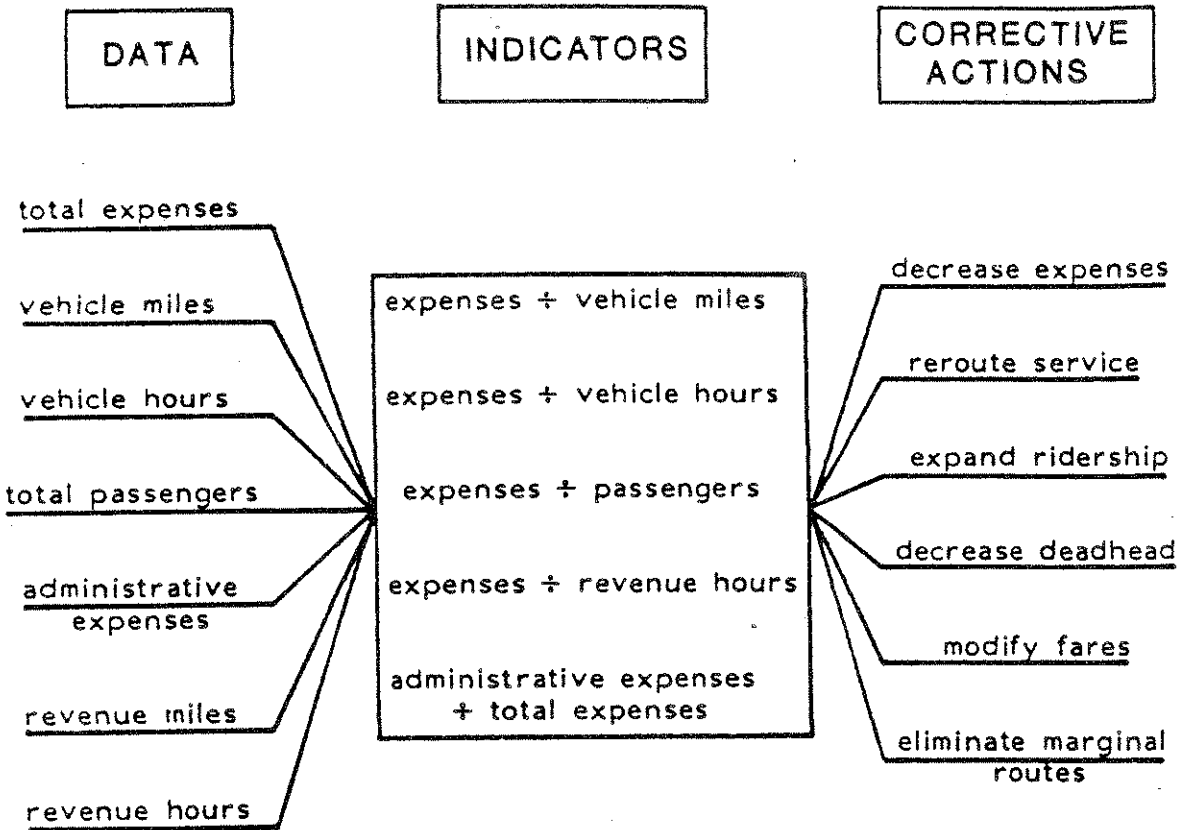
- Expense
- Revenue
- Subsidy

#### NON-FINANCIAL PERFORMANCE

- Ridership
- Service Quality
- Level of Service
- Safety

The next seven pages list the data needed, the performance measures (indicators), and some corrective actions for each subcategory. The corrective action should only be taken if the performance measures indicate that a problem exists. Often one problem affects several cost categories and performance measures.

# EXPENSE



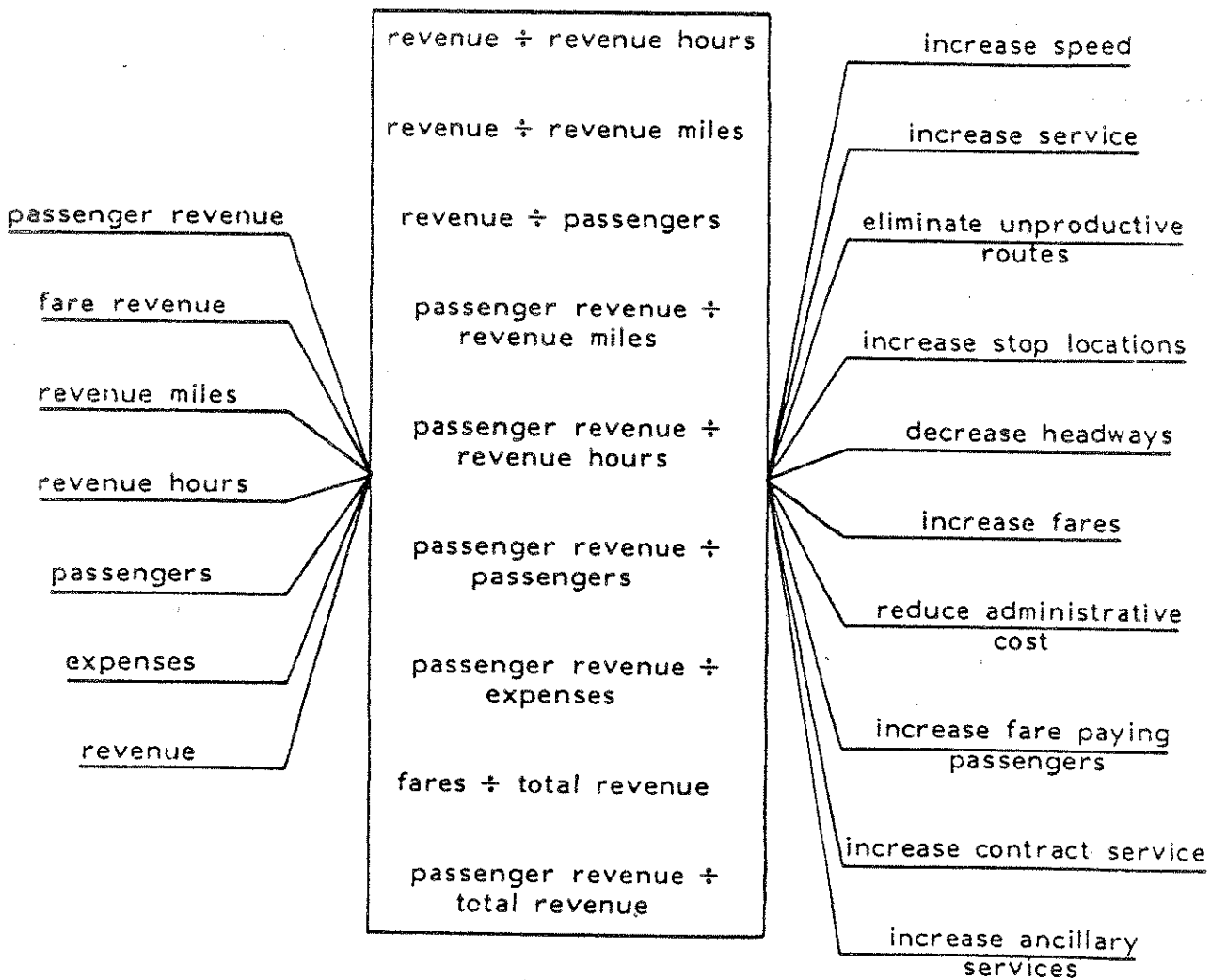
Excerpted from: "Rural Public Transportation Performance Evaluation Guide;" prepared for the Pennsylvania Department of Transportation, Carter-Goble Associates, Nov. 1982; DOT-I-83-31.

# REVENUE

DATA

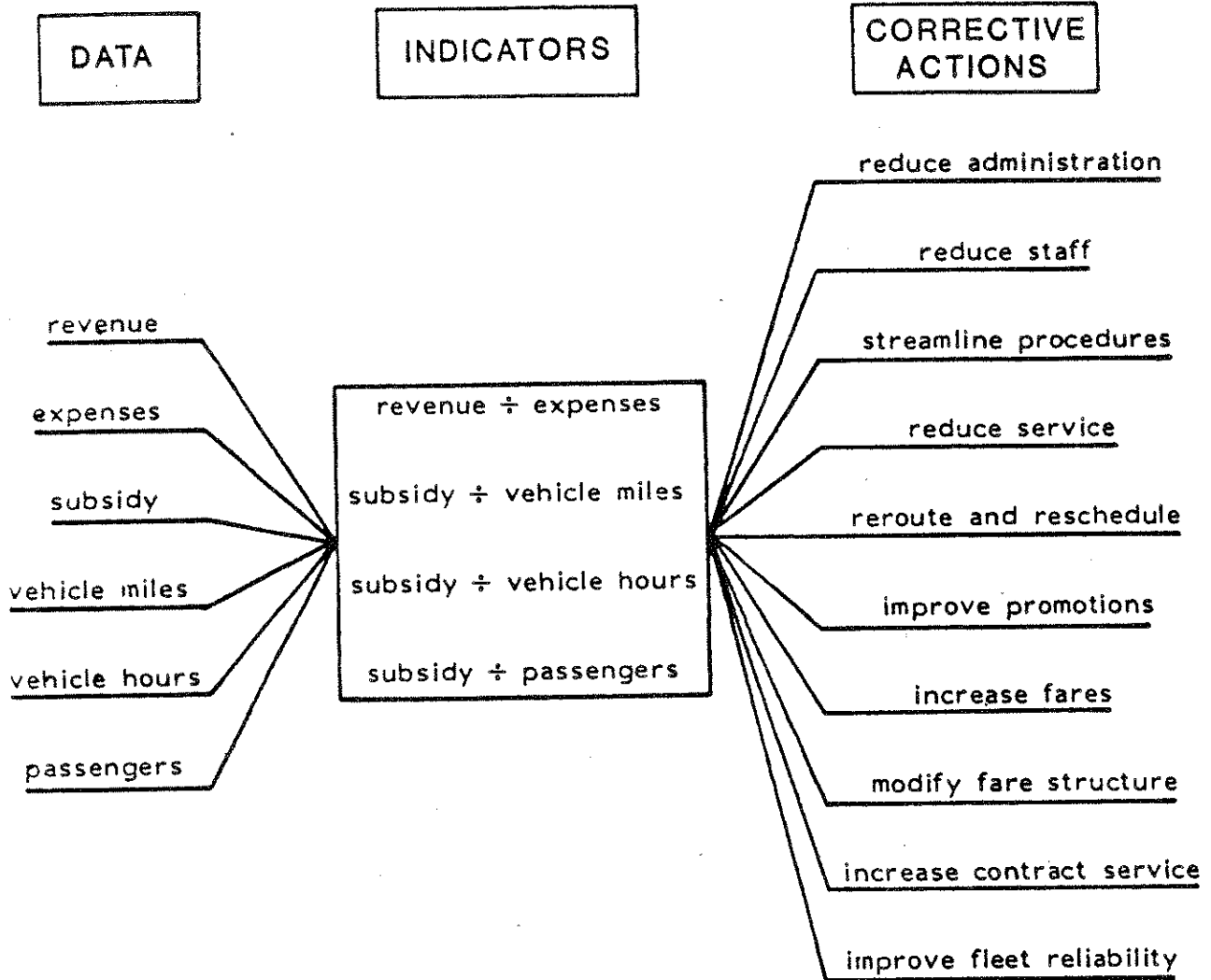
INDICATORS

CORRECTIVE  
ACTIONS



Excerpted from: "Rural Public Transportation Performance Evaluation Guide"; prepared for the Pennsylvania Department of Transportation, Carter-Goble Associates, Nov. 1982; DOT-I-83-31.

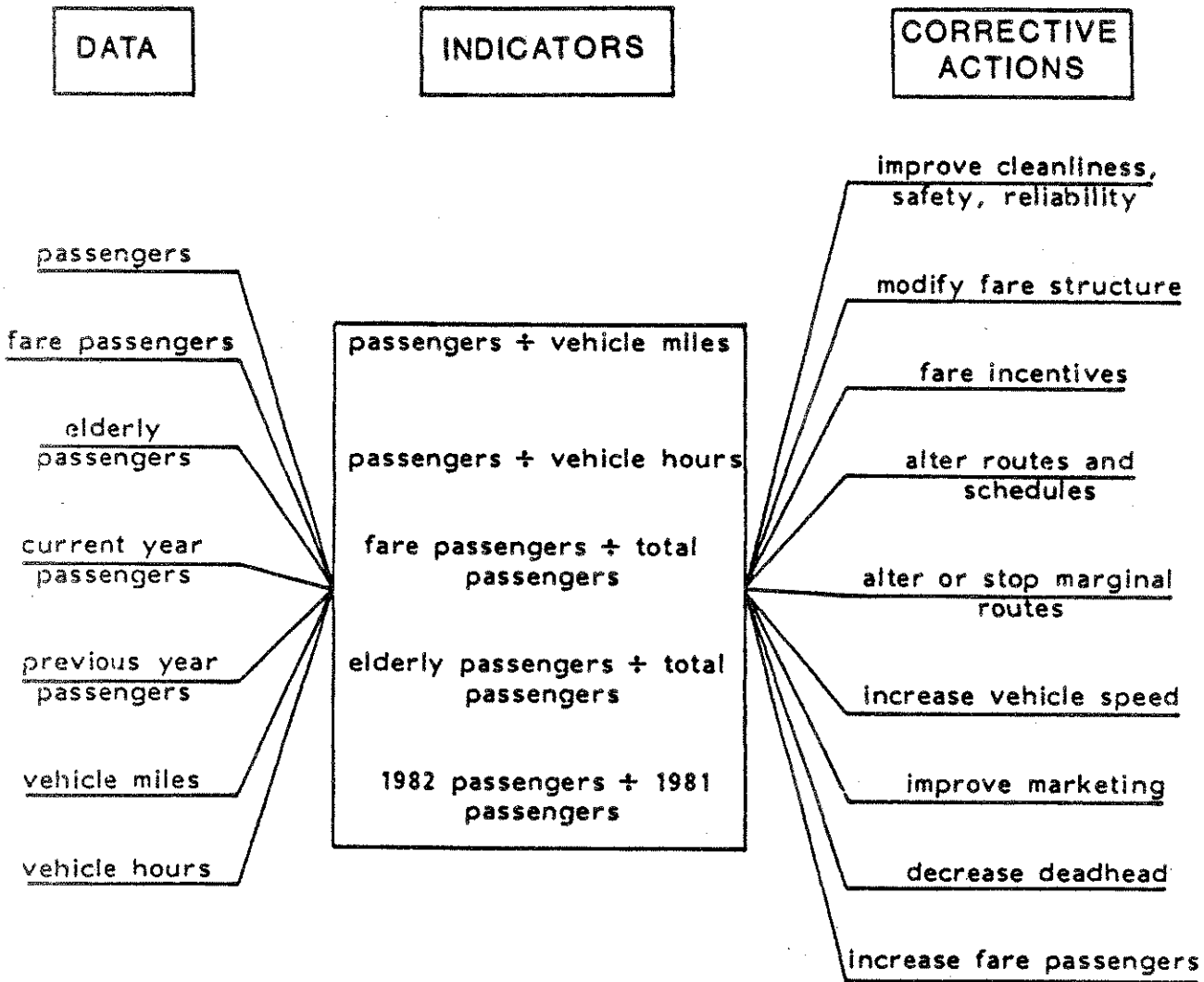
# SUBSIDY



Excerpted from: "Rural Public Transportation Performance Evaluation Guide;" prepared for the Pennsylvania Department of Transportation, Carter-Goble Associates, Nov. 1982; DOT-I-83-31.



# RIDERSHIP



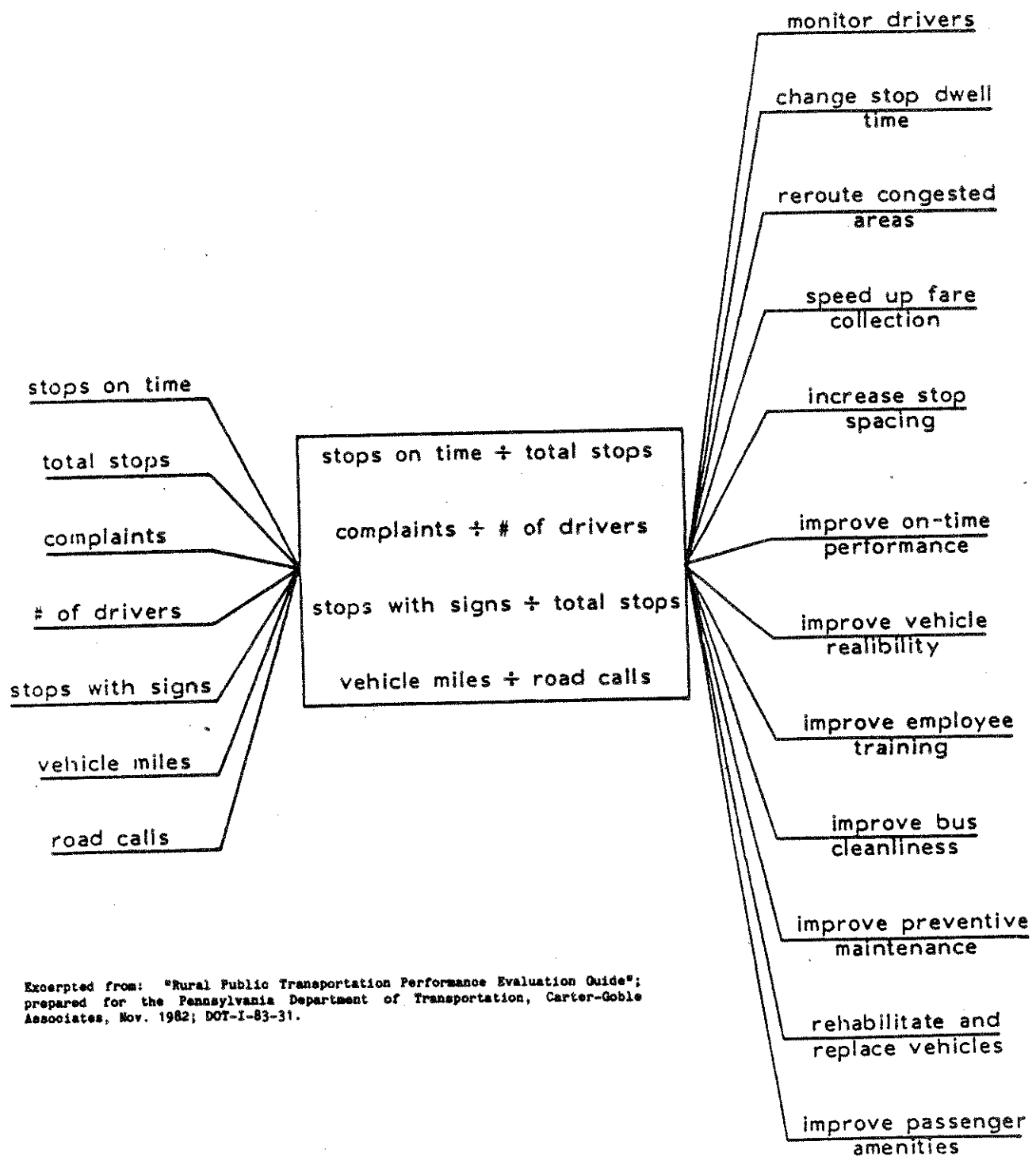
Excerpted from: "Rural Public Transportation Performance Evaluation Guide;" prepared for the Pennsylvania Department of Transportation, Carter-Goble Associates, Nov. 1982; DOT-I-83-31.

# SERVICE QUALITY

DATA

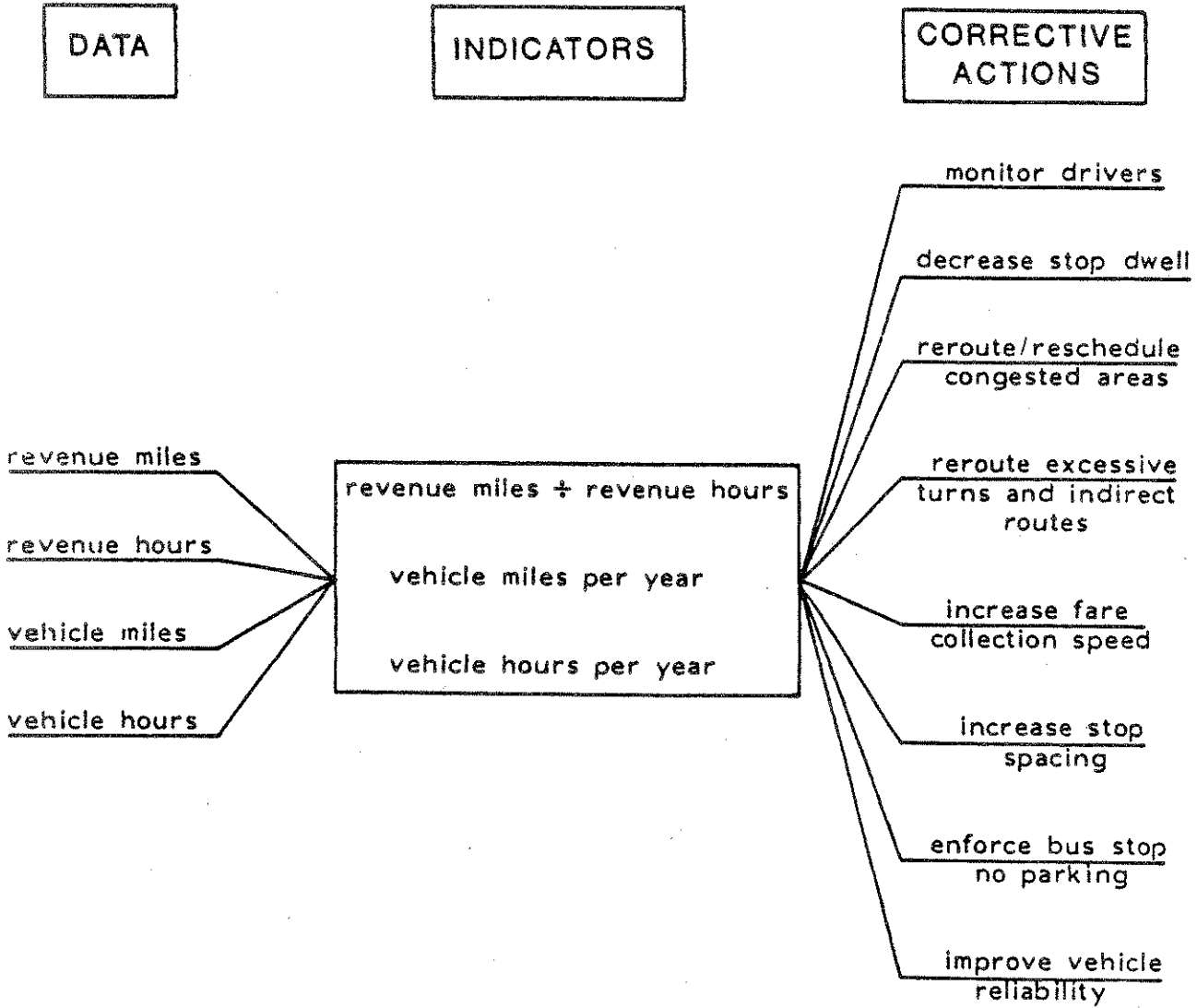
INDICATORS

CORRECTIVE ACTIONS



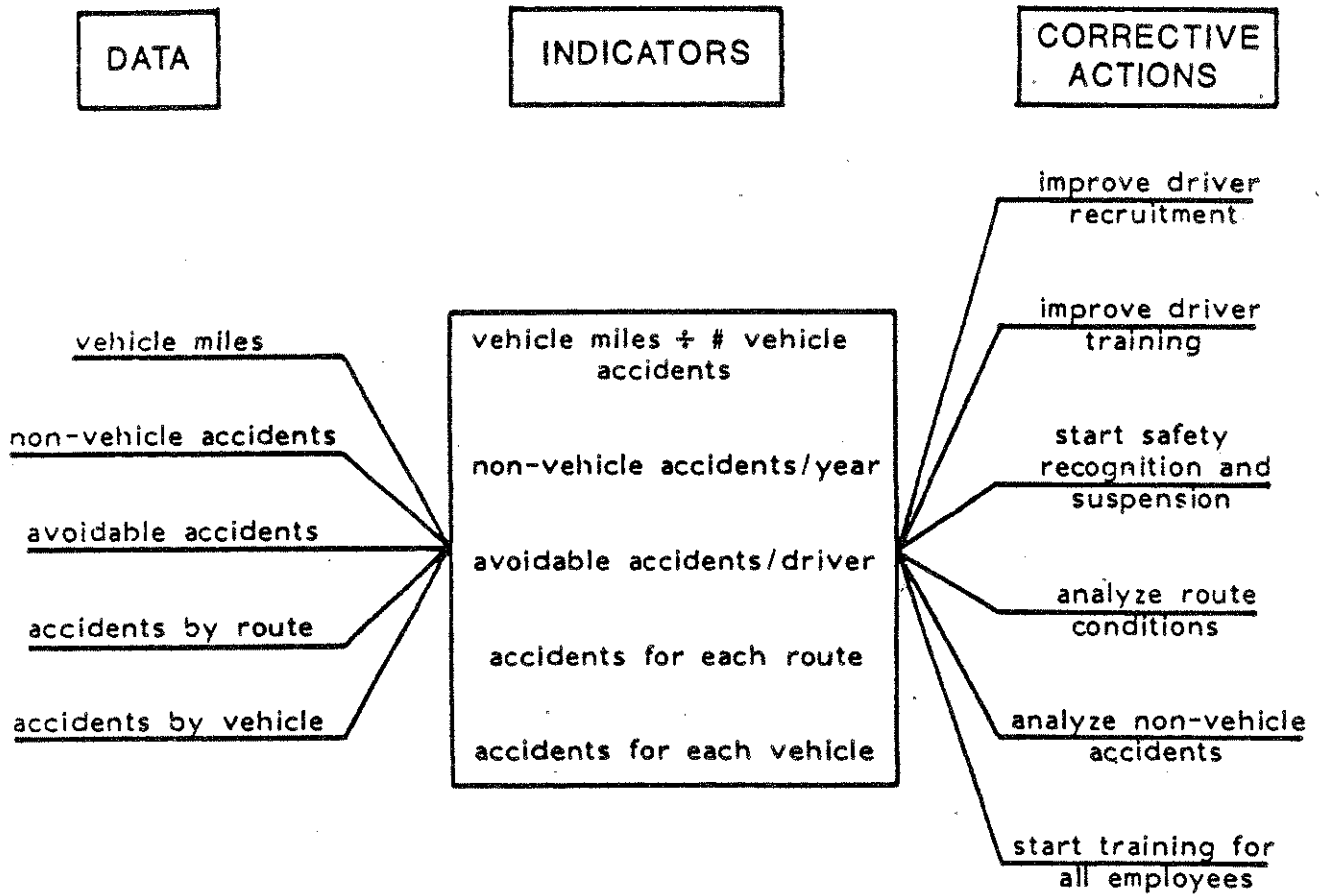
Excerpted from: "Rural Public Transportation Performance Evaluation Guide"; prepared for the Pennsylvania Department of Transportation, Carter-Goble Associates, Nov. 1982; DOT-I-83-31.

# LEVEL OF SERVICE



Excerpted from: "Rural Public Transportation Performance Evaluation Guide"; prepared for the Pennsylvania Department of Transportation, Carter-Goble Associates, Nov. 1982; DOT-I-83-31.

# SAFETY



Excerpted from: "Rural Public Transportation Performance Evaluation Guide"; prepared for the Pennsylvania Department of Transportation, Carter-Goble Associates, Nov. 1982: DOT-I-83-31.



**CHAPTER VI**

**BUDGETS, AUTOMATION, INTERNAL CONTROL,  
AND RATE SETTING**



## BUDGETS

There are at least two types of budgets that a transit system manager should prepare: an operating budget and a cash budget. An operating budget is used for both control and planning purposes, whereas a cash budget is used mainly for planning purposes.

### OPERATING BUDGET

Sound financial administration of any organization depends upon regular monitoring financial activities. This is accomplished by preparing an annual operating budget which is approved by the organization's directors. This financial plan is the document measuring financial performance for the budget period.

Information from the accounting system provides actual financial results which is compared to the budget for financial monitoring purposes. Regular monthly financial reports are essential for financial management purposes. These reports should contain different levels of detail depending upon the responsibility levels of the various managers.

To prepare an operating budget, the transit manager (or bookkeeper) estimates the revenues and expenses for the transit system for a specified time period (usually monthly). The operating budget can then be used as a control mechanism by comparing actual revenues and expenses to the budgeted revenues and expenses and investigating any variances.

The operating budget can also be used for planning purposes in two ways. First, it will give the transit manager a rough idea as to the amount of local match that will need to be generated. The transit manager then has to be able to acquire this local support or else reduce the transit system's operating deficit. Second, the operating budget is a necessary first step before preparing a cash budget.

### CASH BUDGET

A cash budget is an extremely useful planning aid for any business, government entity, or person, but it is almost essential for a transit system. Two main factors contribute to a transit system's cash problem. First, the Department of Transportation only reimburses the transit system for its allowable expenses; the transit system must have the cash available to pay the expense beforehand. Second, insurance, which is getting increasingly expensive must be paid before the coverage goes into effect. Again, the transit system needs cash available to pay the insurance.



Preparing a cash budget allows the manager and/or bookkeeper to see what the transit system's cash position will be if events occur as planned. If the cash budget shows that the transit system will have a cash shortage, then the transit system will either need to increase its cash inflows (e.g., a loan or increased revenue) or to decrease its cash outflows (e.g., forego maintenance). A cash budget only alerts the manager to a potential problem, it does not indicate what action should be taken. That decision is up to the manager.

The cash budget is nothing more than a projection of the amount of cash the transit system will receive and the amount of cash the transit system will pay out in a given time period. The time periods most often used are weekly or monthly.

#### Preparing the Cash Budget

One of the major causes of rural and specialized transportation operations going out of business relates to cash flow problems. A cash budget can help you manage and avoid such problems.

The first step in preparing the cash budget is to project the cash inflows for each time period. The revenue section of the operating budget will contain most of the information for this step. However, the manager needs to realize that all the revenue listed for a certain month may not be received in that month. Revenue should be recorded in the cash budget in the month it is expected to be received.

Once all the transit system's revenue is listed in the correct month, any other sources of cash inflows should be listed. For example, if an old typewriter is to be sold in June for an expected price of \$50, then the cash inflows (commonly called the "sources of cash") section of June's cash budget should include the \$50 as a source of cash.

The second step in preparing the cash budget is to project the cash outflows (commonly called the "uses of cash") for each time period. Once again, the operating budget will provide much of the information needed to complete this step. However, other uses of cash (e.g., a purchase of a new desk) also need to be listed as a cash outflow. You may want to separately identify those expenditure items that are allowable only under certain programs. You also may find it advantageous to separately identify those items with matching provisions.

The last step is to perform the calculations needed to determine the ending cash balance for each time period. A computer spreadsheet will make this step much easier but is not essential. The calculation is:

<u>Time Period 1</u>	<u>Time Period 2</u>
Beginning Cash	Beginning Cash
+ Sources of Cash	+ Sources of Cash
<u>- Uses of Cash</u>	<u>- Uses of Cash</u>
Ending Cash	Ending Cash

These three steps will allow a cash budget to be constructed. The cash budget can then be used to make future plans and to change existing plans.

#### AUTOMATION

As microcomputers become cheaper and more powerful, they will be used by an increasing number of transit systems. To obtain the full range of benefits, a computer with at least adequate memory should be chosen. Compatibility is also a factor. The provider may want to check with his state DOT grant manager for technical assistance on the compatibility of software and the preferred products. We encourage providers to spend time and document their user requirements.

A microcomputer can be used for a number of purposes. Software is most often purchased for word processing, preparing spreadsheets, and accounting. Spreadsheets can be used for financial analyses, maintenance schedules, budgets, and many other purposes. The numbering and coding of accounts is also ideally suited for computers. Performance measures, once programmed, can be calculated with the touch of a few keys.

Some states are even considering having all the transit systems in the state use microcomputers for their accounting. Some envision a system that would be compatible with state reporting requirements. Then, a floppy disk can be mailed in each month instead of having to prepare monthly reports.

#### INTERNAL CONTROL

Internal control comprises the methods and measures adopted within a transit system to:

1. safeguard its assets,
2. check the accuracy and reliability of its accounting data,
3. promote operational efficiency, and
4. encourage adherence to prescribed managerial policies.

The four most important areas of internal control for a transit system are cash payments, cash receipts, payroll, and inventory.

### **CASH PAYMENTS**

Tight control needs to be kept over cash to protect it from being lost or stolen. Two cornerstones of good cash control over payments are a petty cash fund and a checkbook.

#### Petty Cash Fund

A petty cash fund is used to pay for the purchase of very low-priced items (e.g., paper, soap). All other purchases should be paid for by check. To start a petty cash fund, a check for a reasonable amount (usually \$50 or \$100) is made payable to "Petty Cash." This check is then cashed and put in the petty cash box (often a cigar or shoe box is used, but a box or bag that can be locked is better). One person is then appointed as the petty cash trustee, and that person is the only one who should ever handle the petty cash. When a low-priced item is needed, any employee can go and buy it with his/her own money. The employee then takes the receipt to the petty cash trustee, who reimburses the employee out of the petty cash fund and puts the receipt in the petty cash box. At all times, the cash plus all the receipts in the box, should equal the amount of cash originally put into the petty cash fund.

When the amount of cash in the petty cash fund begins to run low, the fund should be replenished. All the receipts should be added up and then filed. A check payable to "petty cash" should be made for the total amount of the receipts. The check should be cashed by the petty cash trustee and the money put in the petty cash fund.

#### Checkbook

All items that are not low-priced enough to be paid out of petty cash should be paid by check. Checks provide a record of payments and also allow "stop payment orders" to be issued in the unlikely event that a problem occurs. The checking account should be reconciled whenever a bank statement is received.

### **CASH RECEIPTS**

Keeping control of cash receipts is difficult because the money can come from so many different sources and be handled by a number of different people. Some general rules to follow are:

1. try to minimize the number of people who handle the money,
2. any time money is passed from one employee to another (e.g., from bus driver to manager), both employees should count the money and write the amount down,

3. if possible, the person who records the cash receipts (i.e., the bookkeeper) should not have access to the cash, and
4. the same person should not count the cash, deposit it, or do the bank reconciliation.

Some suggestions on handling certain items are included below.

#### Farebox Revenue

A farebox performs three main purposes. It receives the passenger fare, displays it for inspection by the operator, and holds the cash securely as the vehicle completes its run. Also, some fareboxes keep a running count of fares paid. Because of these features, fareboxes are nice to have. Whether or not a farebox is used, the operator should count the cash he/she collected during the day and record the amount on the driver log. The person in charge of making cash deposits should then count the money with the operator and verify that the amount on the driver logs is correct. The driver log is then turned in to the bookkeeper, who adds up the amount collected on all the driver logs. This amount should equal the amount deposited from fares for the day.

#### Tokens/Tickets

Handle tokens and tickets just as you would cash. Keep a log and an inventory of tokens and tickets issued to each driver. Reconcile tickets received in the farebox against tickets issued.

#### Daily Deposits of Cash

At the end of each day of operation, the cash collected during the day should be deposited in the bank (or placed in the bank's night deposit box if the bank has closed). Cash and checks can be easily lost, misplaced, or stolen if they are left laying around. Depositing cash and checks daily is an easy way to minimize the chance of a problem occurring.

#### **PAYROLL**

Time sheets should be used to record employees' work hours. To authorize payments, the sheet should be signed by both the supervisor and the employee. In addition, operators' time sheets should be compared to driver logs.

## INVENTORY

### Physical Access

One of the easiest ways to protect valuable assets is to limit access to them. Only those people who need access, should have access. Usually, a way can be found to restrict access time to an asset if the manager would make an effort to accomplish this. For example, gas pumps could be purchased with a lock or shut-off switch that can only be used by authorized personnel.

### Accountability

When possible, one person should be placed in charge of a valuable asset. A perpetual inventory should be kept of the asset to show, at all times, how much of the asset should be on hand. Occasionally, the actual amount on hand should be compared to the perpetual inventory and any major differences discussed with the person in charge of the asset.

For less expensive, high turnover assets, the cost of placing one person in charge of the asset and keeping a perpetual inventory is usually greater than the benefit derived from the accountability. When this is the case, a monthly periodic inventory system should be used for the asset. Each month, a physical inventory is taken and the number of items on hand recorded. Performed regularly, this kind of inventory will give you an idea of supplies needed and show changes in the use of a particular asset.

## RATE SETTING THEORY

As shown in the section on "Rate Setting" in Chapter V, one way to set prices (we will use the word "price" to refer to both fares and rates for contracts) is to use the accounting cost data and ridership data to develop a cost per unit of service. The price is then based on this cost per unit of service. There are two problems with this method: (1) the effect of price on ridership and costs is ignored, and (2) the price is based on data from the past instead of on expectations of the future. However, for a small transit system, unit of service pricing is adequate. Growth may require a more sophisticated approach based on prices, demand and costs.

### EFFECT OF PRICE ON RIDERSHIP

Economic theory tells us that as price decreases, demand (ridership to a transit system) increases; and as price increases, demand (ridership) decreases. This relationship is known as the elasticity of demand. The change in price also has an effect on costs.

## EFFECT OF PRICE ON COSTS

As stated above, the price that is set will have an effect on ridership. Ridership, then, will have an effect on costs. The more passengers and routes served, the more driver hours, gas, and other costs will be incurred, and vice versa. This relationship is known as the variability of cost.

## PRICING THEORY

By combining these two relationships, the elasticity of demand and the variability of cost, the price that maximizes the transit system's economic well-being (net income) can be chosen. A price reduction increases ridership and increases costs. If the increase in ridership is more than enough to offset the lower price and the higher costs, then, from a purely economic standpoint, the transit system should cut its price. On the other hand, a price increase would be economically beneficial if the higher price and lower costs offset the loss of ridership. This theory is very simple; the difficulty lies in determining the elasticity of demand and the variability of cost.

### Determining the Elasticity of Demand

The most effective way to determine the elasticity of demand is to hire a market research firm to do it. However, this method is also costly. A less effective but less costly method is to ask present customers if they would still ride your transit system if prices went up 10¢ per ride or 5¢ per mile, etc.; and ask non-customers if they would become customers if the price were 5¢ or 10¢ lower. Based on the results, some feel for the elasticity of demand can be gained.

### Determining the Variability of Cost

Some costs will vary directly with ridership, while other costs will not. For example, if each vehicle buys gas directly from a gas station, then gas expense would be a variable cost. If no vehicles were used, then gas expense would be \$0, and the more the vehicles were used, then the greater the gas expense would be. On the other hand, if the transit system had a contract with a gas station that allowed the transit system to use all the gas it needed for a monthly fee of \$1,000, then gas expense would be \$1,000 and this amount would not change as the vehicles were used more. The variability of cost, then, is the amount that costs will vary as ridership varies. Some providers consider door to door service, attendance and absenteeism, and full day service as factors influencing their pricing strategy.







