

**Diocese of La Crosse Unified Catholic School Systems**  
**Accounting Policies and Procedures Manual**

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***Chapter Thirteen: General Ledger***

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**A. Journal Entries**

Month End File

In preparation for the month end process, a month end file is maintained throughout the month. This file contains all the supporting documentation for the current month's financial statements. Throughout the month, reminders of adjusting journal entries to make, statements received that must be reconciled to the balance sheet, etc. are placed in this file until ready to process at month end.

Standard Journal Entries

"Standard journal entries" (SJE's) are entries that are made on a recurring basis, generally every month. Some SJE's, like the amortization of Prepaid expenses, do not change in amount from month to month, however, some do change in amount from month to month. Because the accounts affected do not change, set up "memorized" journal voucher entries in Abila MIP. Each month change the amounts as needed. School specific SJE's are covered in **Section H - School Specific Procedures**.

- Prepaid Expense amortization
- Bank interest, service charges
- Scrip
- Accruals (see below)
- Payroll entries
- Investment interest
- Reversing entries (see below)
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**Prepaid Expense Amortization**

As discussed in **Chapter 6 – Cash Disbursements – Coding of Special Payments**, some expenses are paid ahead and cover a quarter or even a full year. These are called "Prepaid Assets". A common example of this type of item is business insurance payments. When paid, these invoices are coded to "Prepaid Insurance", or "Prepaid Expense" if the payment is not for insurance. To recognize the expense,

1. Make a standard journal entry to expense a portion of the prepaid amount. The amount of the entry is calculated by dividing the total payment by the number of months covered. The entry is:

<b>Insurance Expense</b>	<b>xxx</b>	
<b>Prepaid Insurance</b>		<b>xxx</b>
OR		
<b>Various expense accounts</b>	<b>xxx</b>	
<b>Prepaid Other</b>		<b>xxx</b>

Accrual Entries

"Accrual journal entries" ("accruals") are necessary because generally accepted accounting principles require that "expenses are recognized in the period they are incurred" and should be matched with the Revenue that was generated as a result of the Expense.

**Accounts Payable**

Accrual entries are made for goods or services received, but not paid for at the end of the month. Vendor invoices entered into the accounting system, but not yet paid, are accrued automatically by the accounting system. They appear on the financial statements (Balance Sheet) as "Accounts Payable". The journal entry for reviewed and approved invoices entered into MIP is:

<b>Various expense accounts</b>	<b>xxx</b>	
<b>Accounts Payable</b>		<b>xxx</b>

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When these expenses are paid the journal entry is:

<b>Accounts Payable</b>	<b>xxx</b>	
<b>Cash</b>		<b>xxx</b>

Common accrual entries that should be made monthly are:

**Workers' Compensation, Unemployment Compensation, Retirement Expense (Defined Benefit Plan)**

These payments are billed by St. Ambrose Financial Services, Inc. in the month of March for the current fiscal year. Because the expense for Worker's Comp Insurance and Unemployment Insurance is not material it is at the discretion of the system to expense in the month of the invoice or "spread out" the expense throughout the year. To "spread out" the Retirement expense throughout the year, an annual amount is estimated at the beginning of the fiscal year for these expenses, based on projections provided by St. Ambrose Financial Services, Inc. Each month from June through March, an accrual entry is made for one-twelfth of the annual amount with this journal entry:

<b>5045 Worker's Comp Insurance</b>	<b>xxx</b>	
<b>2230 Accrued Worker's Comp</b>	<b>xxx</b>	<b>optional entry</b>
<b>5040 Unemployment Insurance</b>	<b>XXX</b>	
<b>2215 Accrued Insurance</b>	<b>XXX</b>	<b>optional entry</b>
<b>5025 Retirement</b>	<b>XXX</b>	
<b>2225 Accrued Diocesan Retirement</b>	<b>XXX</b>	<b>optional entry</b>

As discussed in **Chapter 6 – Cash Disbursements – Coding of Payments**, when payment is made to St. Ambrose Financial Service, Inc., 9/12 (July – March ) of the payment for the Retirement portion of the invoice is coded to "Accrued Diocesan Retirement", rather than an expense account. This entry "zero's out" the Accrued Diocesan Retirement account. The remaining 3/12 (April, May, and June) payment for the Retirement portion of the invoice, is coded to "Prepaid Other" rather than an expense account. Each month from April through June, an entry is made for one-twelfth of the annual amount with this entry:

<b>5025 Retirement</b>	<b>XXX</b>	
<b>1515 Pre-paid Other</b>		<b>XXX optional entry</b>

Making this entry in the months of April, May and June will zero out the Retirement portion of the balance in Prepaid Other.

If possible, it is recommended that the school system set aside cash in an account other than the operating bank account from which to pay this amount in March. This practice will even out the cash flow for these expenses that are all billed in the month.

**Full-Year Contracts**

Teachers are paid over twelve months, September through the following August, rather than the fiscal year. For these contracts, it is necessary to accrue the payments that do not fall within the school year (July and August of the next fiscal year). The theory behind this is that the school is incurring the expense when they are teaching. Therefore that is when the expense must be recognized.

The entry to accrue these additional payments is calculated at the beginning of the school year, and is determined by the payroll schedule.

1. Add the total of all additional payments for these contracts. As an example, if a full-year contract teacher receives four extra pay checks (7/15, 7/30 8/15 and 8/30), total these four paycheck amounts.

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2. Divide this total by the number of months school is in session (i.e. 10 months Sept. through June).
3. Starting with the September month end, the accrual entry to record this amount is:

<b>Salaries &amp; Wages Expense</b>	<b>xxx</b>	
<b>Accrued Salaries &amp; Wages</b>		<b>xxx</b>

This accrual entry must be “reversed” at the beginning of the next fiscal year (July and Aug). Reversing an entry simply means the debits and credits are reversed, or:

<b>Accrued Salaries &amp; Wages</b>	<b>xxx</b>	
<b>Salaries &amp; Wages Expense</b>		<b>xxx</b>

Make this reversing entry in the months of July and August for one half the amount accrued throughout the school year for teacher contracts. After the reversing entries the Accrued Salaries & Wages account balance should be zero.

**Section H – School Specific Procedures** for schools that pay monthly and for schools that use an annual payroll schedule other than September through August.

### Adjusting Journal Entries

“Adjusting journal entries” are non-recurring entries that may be needed each month. Common reasons to make adjusting entries are correction of an error, adjusting an estimated accrual to the actual amount, transfers of balances to other cost centers, year-end closing entries, etc. Adjusting entries should be made in the current month, even if it is a correction of an error made in a prior month.

In rare instances, “back-post” entries (entries made to a prior month) can be made if the accounting system will allow it. Back-post entries should be made only if it is a large error or omission that drastically changes the financial results. If a back-post entry is necessary, all financial statements from the back-post month on forward must be re-run and filed. **A “back-post” entry may never be made to a prior fiscal year after the completion of a year end audit.**

Any adjusting entries made should be fully supported with documentation in the Month End File.

## ***B. Reconciliations***

### Balance Sheet Reconciliation – Monthly

All reconciliations must be reviewed by someone other than the person preparing the reconciliation.

#### **Cash and Investments**

1. Obtain all bank and investment statements.
2. Prepare a reconciliation for each account. (See **Chapter 3 – Banking and Investments – Reconciliations** for detailed procedures on preparing a reconciliation.)

#### **Accounts Receivable**

3. Print Accounts Receivable subsidiary ledgers for Tuition and Parish Support as of the end of the month.
4. Compare to the general ledger balances. These should agree directly, as described in **Chapter 5 – Cash Receipts – Accounts Receivable Procedures**.
5. Print or prepare a supporting schedule for Accounts Receivable – Other.
6. Compare to the general ledger balances. Make adjusting entries as necessary.

#### **\$crip Inventory**

See **Chapter 12 - \$crip Accounting** for complete \$crip procedures.

#### **Accounts Payable**

7. Print a subsidiary ledger for Accounts Payable -Trade as of the end of the month.

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8. Compare to the general ledger balance. These should agree directly.

### **Prepaid Tuition**

9. Print (or prepare) a subsidiary ledger for Prepaid Tuition as of the end of the month.
10. Compare to the general ledger balances. Make adjusting entries as necessary.

### ***C. Month End Procedures***

These general procedures should be followed when preparing the monthly financial statements:

#### **Prior to month end**

1. Enter and post deposits for the month into the accounting system.
2. Enter and post vendor invoices into the accounting system.
3. Write up all standard, adjusting, and accrual journal entries required. Each journal entry should be numbered consecutively and supporting documentation cross referenced with that number.
4. Enter journal entries into accounting system. Journal entries and their supporting documentation must be reviewed by someone other than the person preparing the entry.

#### **After month end**

1. Run a preliminary detail general ledger from the accounting system. This report lists for each account the beginning balance, the transactions posted throughout the month, and the ending balance.
2. Run a preliminary statement of financial position. Reconcile each balance sheet account to detail listing (see **Section B – Reconciliations** for additional information). Make adjusting entries as needed.
3. Run a preliminary statement of activities. Review each revenue and expense account activity on the Income Statement, comparing performance to prior year and budget. Make adjusting entries as needed.
4. Run adjusted financial statements, as outlined in **Chapter 14 – Reporting – Internal**.
5. Analyze the financial statements, making comments about variances as necessary.
6. Distribute the financial statements to the President, Dean, Finance Committee, and others as outlined in **Chapter 14 – Reporting – Internal**.

### ***D. Filing - Monthly***

For each month end, file:

- Journal entries and support
- Accounts Receivable subsidiary ledgers
- Accounts Payable subsidiary ledger
- Supporting detail listings for other balance sheet accounts (i.e. Scrip inventory listing, prepaid insurance, prepaid tuition)
- Account and bank reconciliations (i.e. bank)
- Financial statements
- Financial statement analysis

### ***E. Year End Accounting***

If balance sheet reconciliations are completed every month according to procedure, the year end close is a simple process. The balance sheet account balances must still be supported (supporting schedules are

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reviewed by outside parties for the year-end audit) and financial statements are still run (although there may be a greater volume of them and the distribution list may change slightly). In addition to the on-going monthly procedures involved in a month end, there are other entries that must be made:

### **Bad Debts**

Uncollectible accounts are handled by setting up an “allowance” account equal to a percentage of the outstanding receivables balance. The percent used depends on historical write-offs of the system. The allowance estimate should be evaluated annually, and adjusted each year after that, depending on experience and the level of receivables at year-end. The allowance account is set up (or adjusted) with the following entry:

<b>4015 Less Uncollectable Accounts</b>	<b>xxx</b>	
<b>Allowance for Doubtful Accounts</b>		<b>xxx</b>

Actual write-offs are then written off against the allowance account, rather than directly to Bad Debt Expense as follows:

<b>Allowance for Doubtful Accounts</b>	<b>xxx</b>	
<b>Accounts Receivable</b>		<b>xxx</b>

Write-offs must be presented and approved by the Finance Committee.

### **Salaries & Wages Accrual**

At the end of the year, it may be the case where a payroll period “overlaps” the fiscal year end for non-contract employees. In this case, it is necessary to accrue the salaries and wages for administrative staff that have been earned, but not paid. This is done by calculating the number of days from the beginning of the pay period to the end of the year, and applying this percentage of days to the first payroll of the new fiscal year. An example follows:

*If the bi-weekly pay period starts June 26, ends July 7, and is paid on July 14, five days, or one-half, of the July 14 payroll must be accrued. This accrual covers the salaries earned from June 26 through June 30, but not paid by the end of the year.*

An accruing entry is made as part of the year end journal entries:

<b>Salaries &amp; Wages Expense</b>	<b>xxx</b>	
<b>Accrued Salaries &amp; Wages</b>		<b>xxx</b>

This entry must be “reversed” at the beginning of the next month (or as part of the next month’s closing process). Reversing an entry simply means the debits and credits are reversed, or:

<b>Accrued Salaries &amp; Wages</b>	<b>xxx</b>	
<b>Salaries &amp; Wages Expense</b>		<b>xxx</b>

### **Prepaid Expenses**

At the end of the year, it may be the case where purchases are made for the next fiscal year. In this case, it is necessary to pay the invoice in the current fiscal year. The invoice should be coded to 1515 Prepaid Other.

An entry to recognize the expense must be made at the beginning of the new fiscal year. The entry is:

<b>Expense Account</b>	<b>xxx</b>	
<b>1515 Prepaid Other</b>		<b>xxx</b>

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## **Office for Temporalities**

At the end of the year send the following completed form to the Office for Temporalities.:

1. Endowment Trust Annual Report

## ***F. 1099 Preparation***

### **What's New – 2020**

#### **Form 1099-NEC (Instructions for Forms 1099-MISC and 1099-NEC (2020)).**

**The PATH Act, P.L. 114-113, Div. Q, sec. 201, accelerated the due date for filing Form 1099 that includes nonemployee compensation (NEC) from February 28 to January 31 and eliminated the automatic 30-day extension for forms that include NEC. Beginning with tax year 2020, use Form 1099-NEC to report nonemployee compensation.**

**Due to the creation of Form 1099-NEC, we have revised Form 1099-MISC and rearranged box numbers for reporting certain income.**

At the end of each calendar year, the federal government requires that an organization notify certain vendors of the amount of payments they have received from the organization including drawings and prize winnings with no wagers. This notification is done through the preparation of 1099-NEC (non-employee compensation) and 1099-MISC forms. 1099-MISC's must be prepared for every vendor that:

- Has been paid for services in the course of your trade or business, prizes and awards, other income payments, and medical and health care payments
- Has been paid, in aggregate, \$600 or more for the calendar year and includes visiting priests who are not employees
- Is not incorporated (i.e. individual or partnership) or an employee
- The exemption from reporting payments made to corporations does not apply to payments for legal services. Therefore, you must report attorney's fees (in box 1 of Form 1099-NEC, under section 6041A(a)(1))

1099-MISC forms are not required for payments for merchandise. Preparing 1099-MISC forms requires the organization to know the vendor's tax identification number. This can be obtained by sending the vendor a W-9 Form (Request for Tax Identification Number). The vendor is required by law to give this information to an organization that has paid him/her for services rendered.

1. In November, order W-9 and 1099-NEC and 1099-MISC forms.
2. Mail out W-9 forms in early December, if one is not already on file for the vendor.
3. Annually, the first week of January, compile a list of 1099 vendors and amounts paid for the previous calendar year.
4. Prepare 1099-NEC and 1099-MISC forms and mail to companies and individuals.
5. Prior to the end of February, prepare Form 1096 transmittal form and mail original 1099-MISC forms to the IRS.
6. File copies in an annual tax file.
7. Forward a copy of Form 1096 and 1099-MISC to the Coordinator of System Finance, Office of Catholic Schools.

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**G. W-2G Preparation**

At the end of each calendar year, the federal government requires that an organization notify certain winners of wagered gambling such as raffles, of the amount of payment or prize they have received from the organization. This notification is done through the preparation of W-2G forms for:

- The winnings (not reduced by the wager) are \$1,200 or more from a bingo game or slot machine.
  - The winnings (except winnings from bingo, slot machines, keno, and poker tournaments) reduced, at the option of the wager are:
    - a. \$600 or more, and
    - b. At least 300 times the amount of the wager, or
  - Any other gambling winnings subject to federal income tax withholding.
1. In November, order W-2G forms.
  2. Furnish Copies B and C of form W-2G to the winner by January 31.
  3. File Copy A of form W-2G with the IRS by February 28. If you file electronically, the due date is March 31.
  4. File copies in an annual tax file.
  5. Forward a copy of Form W-2G to the Coordinator of System Finance, Office of Catholic Schools.

**H. 1094-C and 1095-C Preparation**

At the end of each calendar year, the federal government requires that an organization with 50 or more full-time employees (including full-time equivalent employees) in the previous year use Forms 1094-C and 1095-C to report information about offers of health coverage and enrollment in health coverage for their employees. Form 1094-C must be used to report to the IRS summary information for each Applicable Large Employer Member and to transmit Forms 1095-C to the IRS. Form 1095-C is used to report information about each employee to the IRS and to the employee. Currently most Unified Catholic School System contracts Hawkins Ash CPAs to complete these forms. Prior to December 31 of each year the firm sends out a proposal letter to each system and it is at the discretion of each system whether they use this service.

**I. School Specific Procedures**

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***J. Month End Checklists***

(See next page.)



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Month End Processing Checklist

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- \_\_\_\_\_ Post final cash receipts
- \_\_\_\_\_ Post final cash disbursements
- \_\_\_\_\_ Post payrolls (or payroll journal entries)
- \_\_\_\_\_ Reconcile bank statements
- \_\_\_\_\_ Reconcile investment statements
- \_\_\_\_\_ Reconcile accounts receivable accounts
- \_\_\_\_\_ Write and enter standard journal entries (school specific)
  - \_\_\_\_\_     ▪
  - \_\_\_\_\_     ▪
  - \_\_\_\_\_     ▪
  - \_\_\_\_\_     ▪
  - \_\_\_\_\_     ▪
  - \_\_\_\_\_     ▪
- \_\_\_\_\_ Write and enter accrual journal entries
- \_\_\_\_\_ Write and enter adjusting journal entries
- \_\_\_\_\_ Run preliminary Trial Balance
- \_\_\_\_\_ Verify balance sheet accounts
- \_\_\_\_\_ Verify income statement accounts
- \_\_\_\_\_ President reviews verified balance sheet and income statement accounts with Controller prior to printing final Trial Balance, Balance Sheet and Income Statements
- \_\_\_\_\_ Run final Trial Balance
- \_\_\_\_\_ Print Balance Sheet
- \_\_\_\_\_ Print Income Statements
- \_\_\_\_\_     Summary
- \_\_\_\_\_     Detail
- \_\_\_\_\_ Print final detailed general ledger
- \_\_\_\_\_ Print management reports
- \_\_\_\_\_ Close month

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**Month End Review Checklist**

Initials	Review Step	Responsible Person
_____	Balance sheet is balanced	Controller
_____	Net increase/decrease in assets agrees with Income Statement	Controller
_____	Investigate and explain significant variances	Controller
_____	Review and approve reconciliations and subsidiary schedules	Controller (if not preparer) President (if Controller is preparer)
	<ul style="list-style-type: none"> <li>▪ Bank reconciliations</li> <li>▪ Receivables-Tuition</li> <li>▪ Receivables-Parish</li> <li>▪ Accounts Payable</li> <li>▪ Accruals</li> </ul>	
_____	Tuition Revenue plus Deferred Tuition is approximately annual budget	Controller
_____	Parish Support plus Deferred Parish Support is approximately annual budget	Controller
_____	Accounts Receivable Tuition and Accounts Receivable Parish are reasonable	President
_____	Variances from budget and prior year are explained	President
_____	Review of monthly financial statements	Finance Committee
_____	Review Aged Receivables and consider whether the allowance estimates are sufficient and whether write-offs are necessary	Finance Committee
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