



An Accounting Primer for Project Managers

PMI Charleston & SC.GMIS Annual PM Workshop

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Presented by

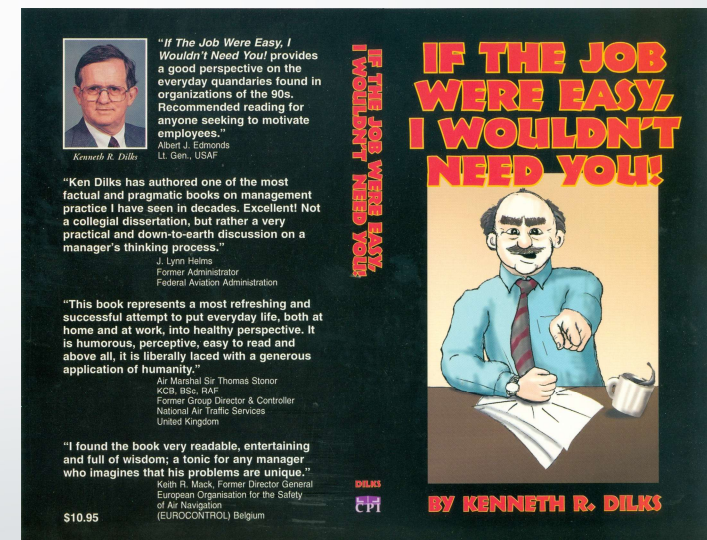
Kenneth R. Dilks

Vice President/Chief Scientist/PMP

Dilks – Simone, Inc.

If The Job Were Easy, I Wouldn't Need You

- In 1995, I wrote a book titled "IF THE JOB WERE EASY, I WOULDN'T NEED YOU"
- I will give a copy of this book to all that can answer at least 20 of the 23 US war dates questions correctly.



US War Dates Questions

(US Involvement Only)

- Beginning and ending years of the Revolutionary War
- Beginning and ending years of the War of 1812
- Beginning and ending years of the Mexican-American War
- Beginning and ending years of the Civil War
- Beginning and years of the Spanish-American War
- Beginning and ending years of World War I
- Beginning and ending years of World War II
- Beginning and ending years of the Korean War
- Beginning and ending years of the Vietnam War
- Beginning and ending years of the Gulf War
- Beginning year of the Afghanistan War
- Beginning and ending years of the Iraqi War

Accounting Guidelines

- **Generally Accepted Accounting Principles (GAAP)**
- **International Financial Reporting Standards (IFRS)**

**Accounting Golden Rule:
Thou shall not mislead**

Understanding Common Terms

- Cash vs. Accrual Accounting
- Single vs. Double Entry Accounting
- Cashflow vs. Financial Statements

- A *debit* is an accounting entry that either increases an asset or expense account, or decreases a liability or equity account. It is positioned to the left in an accounting entry.
- A *credit* is an accounting entry that either increases a liability or equity account, or decreases an asset or expense account. It is positioned to the right in an accounting entry.

Cash Accounting

- Cash Accounting requires entries into the accounting system only when there are cash debits or credits
- Cash Accounting does not give a true representation of financial status of the organization, e.g.,
 - An unpaid invoice to a customer is not reflected in the Assets
 - An unpaid invoice to a customer is not reflected in the profit and lost statement
 - An unpaid invoice from a vendor is not reflected in the liabilities
 - An unpaid invoice from a vendor is not reflected in the profit and lost statement

Accrual Accounting

- Accrual Accounting requires entries into the accounting system when the original transaction is made, e.g., an invoice is sent to a customer
- Accrual Accounting gives a true representation of financial status of the organization, e.g.,
 - An unpaid invoice to a customer is reflected in the Assets
 - An unpaid invoice to a customer is reflected in the profit and lost statement
 - An unpaid invoice from a vendor is reflected in the liabilities
 - An unpaid invoice from a vendor is reflected in the profit and lost statement

Single Entry Accounting

- Single entry accounting requires only a single entry for each transaction, e.g., income, expense
- Single entry accounting is normally for unsophisticated users using such accounting software systems as Quicken
- Single entry accounting is not rigorous enough for business accounting

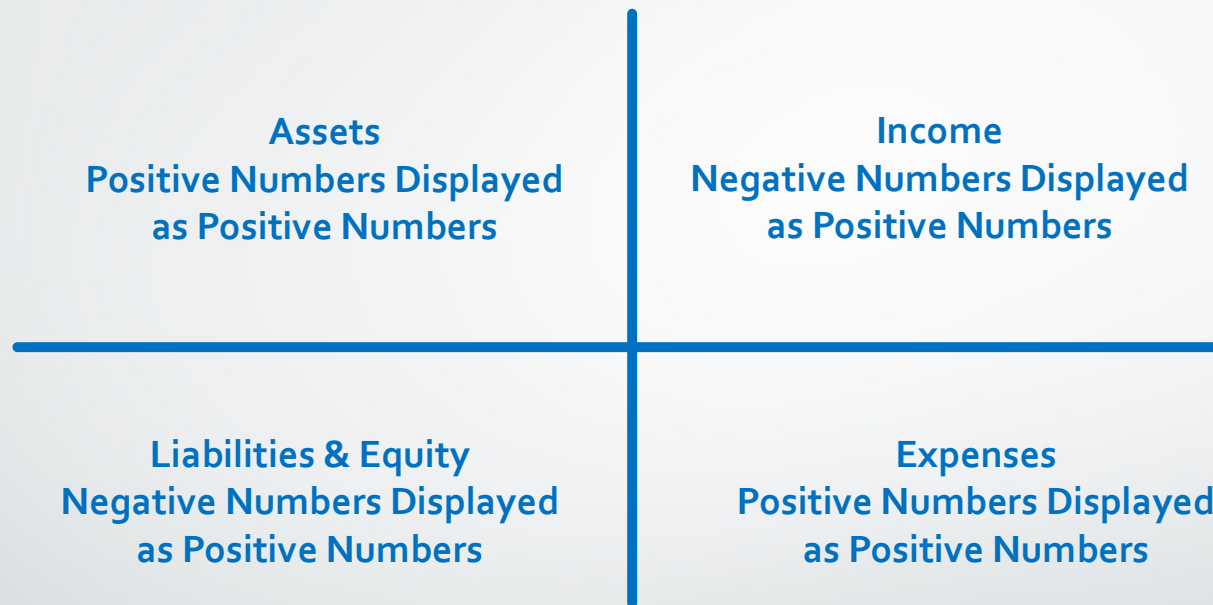
Double Entry Accounting

- First codified by the Italian Franciscan friar, Luca Pacioli, in the 15th century
- Incorporates several checks to ensure the accurate entry of data
- Has become the standard for almost all business accounting systems

Leave it to the Franciscans



Understanding Double Entry Accounting



Plus one calculated number:
 $\text{Income} - \text{Expenses} = \text{Profit (Loss)}$

Double Entry Characteristics

- All entries consist of a double entry, one being a positive number and one being a negative number, when added algebraically, always equals zero, e.g., an invoice to a customer of \$1,000 is a positive number to Accounts Receivable and to Contract Income as a negative number of \$1,000
- The positive and negative numbers may consist of multiple numbers, e.g., a payment to a vendor of \$1,000 for five separate charges of \$200 each is a single negative number to the bank account and five individual positive numbers of \$200 to each of the five Accounts Payable entries
- The algebraically sum of all double entries is always zero

Double Entry Integrity Checks

Transactions

$$\textit{First Entry} + \textit{Second Entry} = 0$$

$$\sum \textit{First Entries} + \sum \textit{Second Entries} = 0$$

Total Entries

$$\sum \textit{Assets} + \sum \textit{Liabilities} + \sum \textit{Equity} + \sum \textit{Income} + \sum \textit{Expenses} = 0$$

Profit (Loss)

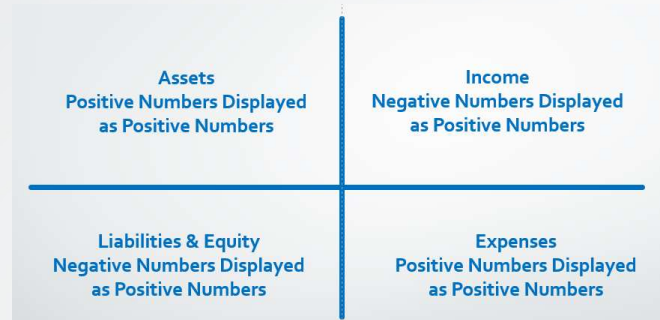
$$\textit{Profit} = |\sum \textit{Income}| - \sum \textit{Expenses}$$

Balance Sheet

$$\sum \textit{Assets} - |\sum \textit{Liabilities}| - |\sum \textit{Equity}| - \textit{Profit} = 0$$

Zero is the magic number.

Double Entry Reports



- The absolute value of the **Assets** must equal the absolute value of the sum of the **Liabilities & Equity** plus the calculated **Profit (Loss)**
- This is called the **Balance Sheet** for for-profit businesses and **Statement of Financial Position** for non-profit businesses
- The right side of the quadrant is called the **Profit and Loss Statement** for for-profit businesses and **Statement of Activity** for non-profit businesses

Chart of Accounts (COA)

- The Chart of Accounts has many masters, e.g.,
 - GAAP and IFRS
 - IRS
 - State Departments of Revenue
 - Stock Holders and other Stakeholders
 - Board of Directors
 - Executives
 - Project Managers
 - Customers
 - Human Resources
 - Quality Control
- The COA defines the Assets, Liabilities, Equity, Income, and Expenses

Never let a CPA finalize your Chart of Accounts

Chart of Accounts (COA) cont.

<p>Assets Positive Numbers Displayed as Positive Numbers COA numbers begin with 1</p>	<p>Income Negative Numbers Displayed as Positive Numbers COA numbers begin with 4</p>
<p>Liabilities & Equity Negative Numbers Displayed as Positive Numbers Liabilities begin with COA 2 Equity begins with COA 3</p>	<p>Expenses Positive Numbers Displayed as Positive Numbers COA numbers begin with 5 - 9</p>

While many accounting software systems allow a COA without numbers, it is highly recommended to use numbers

Typical Assets COA

- 101 Bank Accounts
 - 101.1 First Bank
 - 101.2 Second Bank
- 110 Credit Card Receipts
- 120 Accounts Receivable
- 130 Property
 - 130.1 First Property
 - 130.2 Second Property
- 140 Inventory
 - 140.1 First Item
 - 140.2 Second Item
- 150 Investments
 - 150.1 First Investment
 - 150.2 Second Investment
- 160 Treasury Stock
- 170 Accumulated Depreciation & Amortization

Typical Liabilities COA

- 200 Liabilities
 - 201 Account Payables
 - 210 Payroll Payables
 - 210.1 Federal Taxes & FICA
 - 210.2 State Taxes
 - 210.3 Unemployment Taxes
 - 210.4 Workers' Comp
 - 210.5 Medical Benefits
 - 210.6 401(k)
 - 220 Accrued Expenses
 - 220.1 Rent
 - 220.2 Interest
 - 220.3 Property Taxes
 - 230 Short Term Debt
 - 230.1 First Short Term Debt
 - 230.2 Second Short Term Debt
 - 240 Long Term Debt
 - 240.1 First Long Term Debt
 - 240.2 Second Long Term Debt

Typical Equity COA

- 300 Equity
 - 310 Common Stock
 - 320 Preferred Stock
 - 330 Paid in Capital
 - 340 Property
 - 350 Investments
 - 360 Retained Earnings
 - 390 Profit (Loss) - (Calculated)

Typical Income COA (For-Profit Business)

- 400 Contractual Income
 - 401 Government Contracts
 - 401.1 First Government Agency
 - 401.11 First Contract
 - 401.111 Direct Labor (Loaded)
 - 401.112 Subcontracts (Loaded)
 - 401.113 ODC (Loaded)
 - 401.12 Second Contract
 - 401.2 Second Government Agency
 - 401.21 First Contract
 - 401.22 Second Contract
- 410 Commercial Contracts
 - 410.1 First Commercial Company
 - 410.11 First Contract
 - 410.111 Direct Labor (Loaded)
 - 410.112 Subcontracts (Loaded)
 - 410.113 ODC (Loaded)
 - 410.12 Second Contract
 - 410.2 Second Commercial Company
 - 410.21 First Contract
 - 410.22 Second Contract

Typical Expense COA (For-Profit Business) (500)

- 500 Contractual Direct Expenses
 - 501 Government Contracts
 - 501.1 First Government Agency
 - 501.11 First Contract
 - 501.111 Direct Labor
 - 501.112 Subcontracts
 - 501.113 ODC
 - 501.12 Second Contract
 - 501.2 Second Government Agency
 - 501.21 First Contract
 - 501.22 Second Contract
 - 510 Commercial Contracts
 - 510.1 First Commercial Company
 - 510.11 First Contract
 - 510.111 Direct Labor
 - 510.112 Subcontracts
 - 510.113 ODC
 - 510.12 Second Contract
 - 510.2 Second Commercial Company
 - 510.21 First Contract
 - 510.22 Second Contract

Typical Expense COA (For-Profit Business) (600)

- **600 Fringe Benefits**
 - **601 Fringe Labor**
 - 601.1 Holidays
 - 601.2 Vacation
 - 601.3 Sick Leave
 - **610 Payroll Expenses**
 - 610.1 FICA
 - 610.2 FUTA
 - 610.3 SUTA
 - 610.4 Workers' Comp
- **620 Employee Benefits**
 - 620.1 HSA Contribution
 - 620.2 Life Insurance
 - 620.3 Excess Life Insurance
 - 620.4 Long Term Care Insurance
 - 620.5 401(k) Matching Contribution
- **630 Continuing Education**

Typical Expense COA (For-Profit Business) (700)

- **700 Overhead**
 - **710 Customer Site**
 - 710.1 Computer Expenses
 - 710.11 Hardware
 - 710.12 Software
 - 710.13 Support
 - **720 Contract Site**
 - 720.1 Office Lease
 - 720.2 Office Expense
 - 720.3 Office Furniture
 - 720.4 Office Equipment
- **730 Communications**
 - 730. 1 Equipment
 - 730. 2 Internet
 - 730. 3 Websites
 - 730. 4 Wired
 - 730. 5 Wireless

Typical Expense COA (For-Profit Business) (800)

- **800 General & Administrative**
 - 801 Automobile Expense
 - 802 Bank Service Charges
 - 803 Credit Card Fees
 - 804 Business Licenses and Permits
 - 805 Conference Expense
 - 806 Dues
 - 810 Marketing & B&P
 - 810.1 Proposal 1
 - 810.2 Proposal 2
- **820 Indirect Payroll Expenses**
 - 820.1 Labor
 - 820.2 Federal
 - 820.3 State
 - 820.4 Fringe
- **830 Office Expenses**
 - 830.1 Postage and Delivery
 - 830.2 Professional Fees
 - 830.3 Subscriptions
 - 830.4 Office Lease
- **840 Business Taxes**

Typical Expense COA (For-Profit Business) (900)

- **900 Unallowable DCAA Costs**
 - **901 Alcohol**
 - **902 Bad Debts**
 - **903 Contingencies**
 - **904 Donations/Contributions**
 - **905 Excess Travel Costs**
 - **906 Fines and Penalties**
 - **907 First Class Air Fare**

Typical Income COA (Non-Profit Business)

- 400 Giving
 - 401 Members Giving
 - 401.1 Pledge Giving
 - 401.11 Current Giving
 - 401.12 Prepaid Giving
 - 401.2 Non-Pledge Giving
 - 410 Non-Member Giving
 - 420 Cash
 - 430 Gifts and Memorials
 - 440 Self-Sustaining Giving
 - 440.1 Flower Guild
 - 440.2 Wedding Income
 - 440.3 Youth Ministries
 - 450 Designated Funds
 - 450.1 Building and Grounds
 - 450.2 Music
 - 450.3 Mission
 - 460 Restricted Funds
 - 470 Events

Typical Expense COA (Non-Profit Business) (500)

- **500 Staff Expense**

- **510 Rector**

- 510.1 Rector's Stipend
- 510.2 Federal – Employer
- 510.3 Pension
- 510.4 Hospital/Life Insurance

- **520 Music Director**

- 520.1 Gross Pay
- 520.2 Federal - Employer

- **530 Parish Administrator**

- 530.1 Gross Pay
- 530.2 Federal – Employer
- 530.3 Health Insurance – Employer
- 530.4 Lay Pension – Employer

- **540 Nursery Assistant**

- 540.1 Gross Pay
- 540.2 Federal – Employer

- **541 Substitute Nursery Assistant**

Typical Expense COA (Non-Profit Business) (600)

- **600 Worship/Ministry/Christian Education**
 - 601 Christian Education
 - 610 Altar Expenses
 - 620 Music Supplies
 - 630 Contract Musicians
 - 640 Hymnals/Prayer Books
- 650 Visiting Clergy
- 660 Diocesan Church Pledge
- 670 Diocesan/National Convention
- 680 Rector's Discretionary Account
- 690 Parish Life

Typical Expense COA (Non-Profit Business) (700)

- **700 Administrative**
 - **701 Office Expense**
 - 701.1 Advertising
 - 701.2 Bank Charges
 - 701.3 PayPal Fees
 - 701.4 Copier Lease
 - 701.5 Postage
 - 701.6 Office Supplies
 - 701.7 Copy & Printing Supplies
 - 701.8 Telephone
 - 701.9 Miscellaneous Office Expense
 - 701.10 Realm
 - **702 External Services**
 - 702.1 Accounting Services
 - 702.2 Vestry Expense
 - 702.3 Liability Insurance

Typical Expense COA (Non-Profit Business) (800)

- 800 Property Expense
- 801 Routine Repairs & Maintenance
- 802 Building & Grounds Projects
 - 802.1 Church Projects
 - 802.2 Rectory Projects
- 803 Utilities
 - 803.1 Church Utilities
 - 803.2 Rectory Utilities
- 804 Alarm System
- 805 Cleaning Services

Typical Expense COA (Non-Profit Business) (900)

- **900 Self-Sustaining Expenses**
 - 901 Flower Guild
 - 902 Kneelers
 - 903 Wedding Expenses
 - 904 Youth Ministries
- **910 Event Expenses**
 - 910.1 Event #1
 - 910.2 Event #2
- **920 Discretionary Fund Expenses**
- **930 Restricted Expenses**

Income Examples

- Invoice
 - Positive to Accounts Receivable
 - Negative to Income
- Payment of Invoice
 - Positive to Bank Account
 - Negative to Accounts Receivable

Expense Examples

- Receipt of Invoice from Vendor
 - Negative to Accounts Payable
 - Positive to Expenses
- Payment of Invoice
 - Negative to Bank Account
 - Positive to Accounts Payable

Credit Card Examples

- **Credit Card Purchase**
 - **Negative to Credit Card Account Payable**
 - **Positive to Expenses**
- **Payment of Credit Card Purchases**
 - **Negative to Bank Account**
 - **Positive to Credit Card Account Payable**

Journal Entry Examples

- **Journal Entries**
 - **Debit as a positive number**
 - **Credit as a negative number**

Payroll Example

Item	Employee	Employer	COA
Gross Pay		√	+Expense
Federal Tax	√		-Federal Tax Liability
State Tax	√		-State Tax Liability
Social Security	√	√	-Federal Tax Liability, +Employer's Portion
Medicare	√	√	-Federal Tax Liability, +Employer's Portion
Medical Insurance	√	√	-Medical Insurance Liability, +Employer's Portion
Life Insurance	√	√	-Life Insurance Liability, +Employer's Portion
HSA	√	√	-HSA Liability, +Employer's Portion
401(k)	√	√	-401(k) Liability, +Employer's Portion
Net Pay	√		-Bank Account
FUTA		√	-FUTA Liability, +FUTA Expense
SUTA		√	-SUTA Liability, +SUTA Expense
Workers' Comp		√	-Workers' Comp, +Workers' Comp
Total		√	

US War Dates Questions with Answers

(US Involvement Only)

- Beginning and ending years of the Revolutionary War – 1775 - 1883
- Beginning and ending years of the War of 1812 – 1812 - 1815
- Beginning and ending years of the Mexican-American War – 1846 - 1848
- Beginning and ending years of the Civil War – 1861 - 1865
- Beginning and ending years of the Spanish-American War – 1898 - 1898
- Beginning and ending years of World War I – 1917 - 1918
- Beginning and ending years of World War II – 1941 - 1945
- Beginning and ending years of the Korean War – 1950 - 1953
- Beginning and ending years of the Vietnam War – 1960 - 1975
- Beginning and ending years of the Gulf War – 1990 - 1991
- Beginning year of the Afghanistan War - 2001
- Beginning and ending years of the Iraqi War – 2003 - 2011



Questions