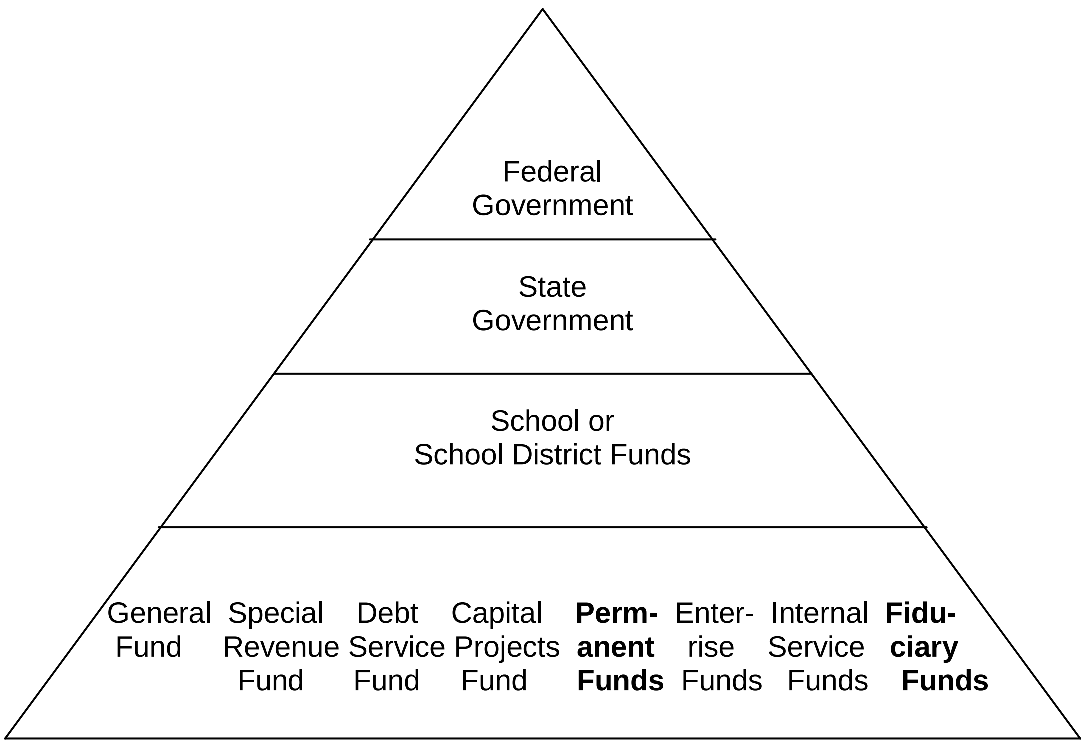
SECTION VII--FOOD SERVICE ACCOUNTING

INTRODUCTION

Generally accepted accounting principals apply to all enterprises, whether large corporations or small enterprises, such as school cafeterias. No matter what their size, cafeterias own assets, owe debts, earn revenue and incur costs. They are required to report these transactions, not only to internal management, but also to a wide range of external parties, including local, state and federal government agencies, school boards and elected legislative bodies, the public (i.e., taxpayers), and the various private enterprises which may extend credit to a food service fund.

Although a school food service fund, and enterprise fund, is a self-contained entity, it is also a system within many other systems. It must be responsive to the parent school district and the state and federal governments and, therefore, is somewhat constrained by its relative position within these systems. This "business" or fund is shown diagrammatically in Illustration 1.

ILLUSTRATION 1



Given the natural constraints imposed by this hierarchy, school food service operations must have effective management and financial reporting. As a minimum, an accounting system for a school food service fund should perform the following functions:

1. Maintain accurate records of all financial transactions.
2. Allow food service management and school district administrators to effectively maintain a non profit school food service.
3. Enable food service management to submit reports on financial operations to local, state and federal agencies.
4. Ensure that costs are properly applied to the school fund service resources.
5. Ensure that resources are used only for their designated purposes.

SECTION VII--FOOD SERVICE ACCOUNTING

This section describes a school food service accounting system which fulfills those needs.

Food Service Books of Account:

The books of account for the school food service fund can be grouped into two categories:

> Books of original entry - the journals which are used to record individual transactions as they occur; and
>
> Books of final entry - the ledgers which are used to summarize the transactions recorded in the journals.

Structure of Food Service Accounts:

To operate a food service fund accounting system in a manner that will fulfill the functions mentioned above, it is necessary to use a chart of accounts that will enable the food service accountant to report a true and accurate picture of the financial position and results of operations at various reporting points during the year. This can best be accomplished through the use of a general ledger in conjunction with the chart of accounts. The general ledger summarizes the transactions that have occurred and facilitates financial reporting. See Section III for an explanation and example.

General Ledger Accounts:

The chart of accounts should not only enable the accountant to report results of operations, but also segregate transactions into operating and nonoperating areas. Revenues which are earned through the actual operation of the enterprise are operating revenues (e.g., sale of food). Resources which come from the external sources in the form of interest, grants, shared revenues or nonoperating revenues.

Resources received by a food service operation from within the school district should be reported as transfers or interfund loans. An example of this type of transaction might be a transfer of General Fund resources to the Food Service Fund.

See Section II for a complete chart of accounts.

Program Accounts:

Program accounts are used to subdivide the revenue and expense accounts. The primary program categories identify the type of meal served, thus assisting in determining reimbursements and expense for each separate food service as required in 7 CFR 210.14 (a-2).

Each time a transaction affects a revenue account, a program account must be used. The subsidiary revenue ledger will accumulate each revenue account separately and will accumulate revenues generated by each program within each revenue account. If used, the special functions program account should be subdivided to identify all special functions separately. Since some revenues are not assignable to any particular meal type, a special miscellaneous revenue program account has been included for use only when it is impossible to assign revenues to other accounts.

SECTION VII--FOOD SERVICE ACCOUNTING

The program accounts are used to subdivide the expense accounts through an allocation process discussed later. A definition of each program account follows in the succeeding paragraphs.

Definitions of Program Accounts:

1. National School Lunch, School Breakfast (Regular), and Special Milk:

   This account is used to record all sales, reimbursements and expenses assignable to Type A and A la Carte lunches regular and A la Carte breakfasts and milk served to students and adult school personnel in programs as defined in 7 CFR 210, 220, and 215.

2. Severe Need Breakfast:

   This account is used to record all sales, reimbursements and expenses assignable to the Severe Need Breakfast Program as defined in 7 CFR 220.

3. Special Programs:

   This account is used to record all sales, reimbursements, and expenses assignable to any other programs operated by the School Food Authority including, but not limited to, the Child Care Program, and a congregate Nutrition Program for the Elderly as defined in 7 CFR 226 and 45 CFR 1321.

4. Miscellaneous:

   This account is used to record revenue which cannot be assigned to any other program account. An example would be a lump sum payment received for services rendered.

Inventory Management:

An inventory is the supply on hand of particular type of goods or materials at a given time. While many different food and supply items are stored and should be identified by items for reordering purposes, it is convenient to group those items into broad categories by type for accounting and reporting purposes. The following inventory groupings are recommended:

Food--Purchased
Food--Donated
Supplies--Lunchroom, custodial and office may be inventoried if they are expensed from the central inventory at the time they are received or large quantities are kept on hand.

In reporting a financial position of a school food service fund, two considerations are important in establishing a value for inventories. The first consideration in essentially a question of determining what is physically in the inventory; t the second is determining the worth of each item in the inventory . The two different methods for resolving the first consideration are perpetual inventory and periodic physical inventory.

When a physical inventory shows that the actual level of inventory differs from that shown on the inventory record, adjusting entries to the perpetual inventory are required to reconcile the differences. These entries are handled in one of two ways:

The difference is recorded to increase or decrease the cost accounts directly, as if they represented normal withdrawals from or additions to inventory.

The difference is recorded a s in increase or a decrease to a special inventory variance cost account. This method is used only when several locations (each responsible for its own costs) used the same inventory and when locations are not to be charged with costs resulting from inventory waste and spoilage.

Since a record of disbursements of USDA donated foods is required, a perpetual inventory is recommended for all food service operations (7 CFR 210 and 250).

Physical Inventory:

The level of inventory is determined by a physical count at the end of each accounting period when using this method. Each addition to an inventory is recorded in a "received " account, but each withdrawal is not recorded. The amount of material used during the accounting period is calculated by subtracting the amount on hand at the end of the period from the amount available during the period (i.e., the beginning inventory plus total purchases).

If this method of inventory control is chosen, a separate disbursement record, such as the food production record, must be maintained and reconciled to the physical inventory periodically.

Inventory Valuation:

The second problem in valuing inventory is determining the worth of each individual item in the inventory. For most items, the actual cost is used . However, this basis cannot be used for donated food. In this case, the value on the order blank from which the food is ordered is used. This value is a moving, weighted average of USDA price lists.

Capital Assets:

A **capital asset** is an asset which generally possesses three attributes:

(a) tangible in nature
(b) a life longer than the current fiscal year
(c) a significant value

Once an asset has been identified as a **capital** asset, it should be recorded in the accounting system. The record format for recording **capital** assets may vary depending on whether a manual or an automated system is used. Several options are available in determining the type of **capital** asset record to be maintained (e.g., computer listing, book ledger, manual listing or card ledger). However, the information contained in the record should provide for (1) class code, (2) description, (3) cost basis, (4) date of acquisition, (5) voucher number, (6) vendor, (7) fund and account, (8) method of acquisition, (9) location, (10) custody, (11) disposition and date, and (12) identification number. The **capital** asset accounting record should also provide a means of perpetually updating the asset listing to account for new acquisitions, deletions, transfers and capitalizable additions or improvements.

Capital assets should be recorded at original cost, or if the original cost cannot be ascertained, then estimated original cost should be used. Donated **capital** assets should be recorded at their estimated fair value at the time received.

Physical assets should be identifiable in such a manner that when an asset is destroyed or disposed of it may be removed from the listing, thus adjusting the dollar amounts to properly reflect the amount invested in **capital** assets. The identification system will also allow a verification of the recorded assets with a periodic physical inventory.

Depreciation of Capital Assets:

Capital assets recorded in the Food Service Fund are required to be depreciated. As a result, the **capital** asset records should also identify (a) estimated useful life, (b) salvage value, (c) depreciation rate, (d) current year's depreciation, (e) accumulated depreciation, and (f) book value, for each recorded **capital** asset.

Food Service Source Documents:

Effective fiscal control in school cafeteria accounting systems depend upon the use of properly executed and approved source documents to initiate financial transaction. Source documents record the details behind individual transactions, thus providing information necessary for current financial decision making, as well as for historical traceability. Source documents permit a means for determining responsibility for individual transactions and also permit a system of checks and balances among food service employees. Although it is important that source documents be complete, they should not be cumbersome; moreover, only "need to know" information should be collected on these document; i.e., information which is necessary for state and federal reimbursement or for management decisions.

The source documents required for a basic food service financial management system are listed and described below.

Employee Time and Attendance Sheet:

The employee time and attendance sheet is used to record labor hours and labor costs. The document is used by each employee to record the amount of time worked on each activity during a pay period. Each employee should record the number of hours worked in each program or type of meal (e.g., type A lunch).

Purchase Order:

The use of purchase orders is important in maintaining budgetary control over a school district's food expenditures and in maintaining visibility for future financial requirements. Purchase orders record items or services being requested, their cost, the name of the vendor being used, and the date of delivery or performance. In addition, the purchase order may indicate the reason for the order and the appropriate expense account. The order should be signed by the person initiating it. **Purchase orders are illustrated in Section III of this manual.**

A duplicate copy of the purchase order or a stub at the bottom of the purchase order form (receiving stub)may be used by the purchaser to record either partial or final receipt of goods or services which had been ordered. The receiving stub is transmitted to the accounting department to verify the receipt of goods or services before paying the vendor.

Payment Voucher:

Payment vouchers are internally prepared source documents which are used for authorizing payments. School claim vouchers are illustrated in Section III of this manual.

SECTION VII--FOOD SERVICE ACCOUNTING

Cash Receipt:

The cash receipt records all cash received in the Food Service Fund. Each cash receipt indicates the purpose of the receipt, the source of the revenue, and the form of the revenue (i.e., check, cash, or money order). Daily cash receipts are summarized on the cash receipt summary form, or other food service report form, which services as the basis for making entries into the cash receipt journal and for preparing bank deposit slips for the business manager's account. **Cash receipts are illustrated in Section III of this manual.**

Daily Participation Report:

The participation report is used by employees in the food service line (usually cashiers) to account for the number and type of meals served. These figures are posted daily and totaled at the end of each accounting period (usually at the end of a calendar month) to prepare a participation report. Figures are accumulated on the number of pupil and adult meals served and on the number of full price, free and reduced price mails (breakfasts and type A lunches special milk servings (in terms of half-pints) and a la carte meals.

State Claims for Reimbursement:

This report is a consolidation of individual participation work sheets at the district level to report meal statistics to the state or federal government. These report forms are furnished by the Child and Adult Nutrition Section of the Division of Education.

Elements of the Accounting Cycle Summarized:

Journalizing, posting and financial statement concepts have been discussed. These subjects are all major elements of the cycle of accounting activities. Put into the proper sequence, these and the remaining stages of the cycle are as follows:

1. Source Documents: Transaction data is recorded on source documents by operations personnel. These forms range from payroll attendance sheets to reimbursement claim forms.

2. Journalizing: Journalizing involves entering transactions into one of the journals described in **section III of this manual**.

3. Posting: Posting involves entering journalized transactions into the general ledger and subsidiary ledgers.

4. Trial Balance: A trial balance is prepared to test bookkeeping accuracy and to aid in the preparation of financial statements.

5. Work Sheet: A work sheet may be prepared at the end of a particular accounting period as a document to assist the accountant in preparing the financial statements.

6. Adjusting Entries: Entries are made to correct previous accounting errors and affect accrual amounts, bad debts or depreciation. These entries are journalized and posted in the same manner as transactions.

7. Closing Entries: The closing entries bring the balances of the revenue and expense accounts to zero to allow the accumulation of similar information in the next period. The net result is entered into net position. (This step is usually accomplished at the end of the year.)

8. Financial Statements: After all accounts are adjusted and up to date, the financial statements (e.g., statement of net position and operating statement) are prepared.