Part 4 Journals

Journals, Virements and Reprofiling

Journals are required where elements of expenditure or income have been miscoded, and without recoding them there will either be difficulty in reconciling management information, or a material misstatement of the financial end of year accounts.

Virements and Re-profiling

A virement is a movement in the balanced budget: the council works to a fixed budget each financial year which is fully allocated at the start of the year. Therefore no additional expenditure can be approved without a planned cutback / retrenchment elsewhere. And, this has to be within the overall **revenue** budget, or within the council's **usable savings**: there can be no cross-fertilisation between revenue and capital, or revenue and earmarked savings. This is different to the private sector where budgets are frequently flexed each quarter, and this may be upward or downward with no matching change in other expenditure or income budgets.

The aim of virement is:
- To show how you intend to react to budget pressures
- To show the financial impact of any service changes you might make
- To reset the targets for yourself

DO NOT:
- Vire every month *just* to hide problems

A reprofiling is a shift in the expected timing of the budget, the total of which will not change. The budget should not be re-profiled unless:
- There is a change in policy
- There is a large amount of expenditure that has been profiled incorrectly

Virement and reprofiling should be a financial expression of the management actions undertaken, not an end in themselves.

Journals

In general, in an integrated system like the eBusiness Suite, it is a **bad** idea to do journals in the general ledger if they relate to items that have originated in sub-ledgers (i.e. Payroll, Purchasing, Accounts Payable or Accounts Receivable).

The reasons for this are:
- Loss of audit trail: the entry in the sub-ledger has been approved on a certain code if this code is then changed the approval could be said to be removed, consistent recoding therefore questions the value of approvals;
- The value of reports from the sub-ledgers, which is why we enter such detail into them, is reduced, thus negating the point of having them;
- The sub ledgers and general ledger become irreconcilable. This can lead to a loss of overall financial control;
- Journals take time (a valuable resource): clearly therefore you need to make sure that the journal is adding value;
- Adjusting journals which are done as actuals, when the item they seek to adjust is a commitment, leads to problems reconciling the cashbook and key control accounts.

Journals for items originating in the Payroll, Projects or Property modules **must always** be actioned in these modules. This will ensure that these modules remain accurate and ensure that financial control can be maintained.

By far the best solution is to always get things right at the start of the process:

- If things are set-up wrong, i.e. a particular expenditure type is not available to pick on a projects order, or there isn't a purchasing category to select the right subjective code for in purchasing, then this can be solved by raising the issue with the appropriate helpdesk.
- There is never an excuse to get certification slip invoices wrongly coded as the certification slip occurs at the same time as payment: if you don't know where something will be funded from by the time the invoice arrives, then this brings into question general financial control in the team.

However amendments can be actioned, but how the correction is undertaken will depend on where the item is in the system, for example:

- Purchase order commitments are shown in the general ledger: if a commitment is on the wrong code, ask the Procure to Pay team to recode the item. It will then have to be re-approved, but this is entirely appropriate.
- If a miscode hasn't been spotted by the time a GRN goes against the order, then it can be a longwinded process to get it right (reversing GRN, changing order, re-approving order, re-entering GRN). Sometimes in these circumstances a general ledger journal may be the best approach.
- Payroll errors must be reported back to your HR adviser for correction and to your financial adviser for information– **never** journal payroll costs yourself. HR will backdate the change to the correct point in time which will automatically create a journal in GL the next time the payroll is run. The information required (by the 6th of the month) is:
    - Group no. ie 999
    - Employee no. ie 876333
    - Job No. ie 2
    - % code split – ie 50% H666000 01200 000, 50% H667000 01200 000.

The purpose of a subjective code is to describe **what** is being bought, at a reasonable level of detail sufficient to deliver internal management information and external reporting requirements. Subjective codes are not intended to describe **why** expenditure is being made: that is the role of the objective. If subjective codes, as they stand, do not allow you to adequately manage your budgets, talk to your financial adviser about using additional cost centres / the objective code as a means of making your financial reports more relevant without the use of journals.

Remember that Cambridgeshire set-up the eBusiness Suite coding, so almost every link between something you pick from a list and an account code that it generates can be changed. This doesn't mean to say it's quick or easy however.

Journal Naming Protocol

When entering a journal or interpreting one that someone else has entered, it is important to understand and apply the protocol as follows:

Example: AK322 130404 CodeCor 9

a   b   c   d

a) User ID of person entering journal.

To look up the name, in Outlook;
- o Go to Inbox
- o Select NEW
- o Key in the user id in the 'To' field
- o Press tab
- o The user name will appear. You can then either call the user or email to get the required details about the journal posted.

b) Date in format DDMMYY

c) Reason Code:

IntInv = internal invoice   **ResCr** = Reserved Creditor   **Misc** = miscellaneous

CodeCor = code   **ResDr** = Reserved Debtor   **Pay** = payroll

              correction

IntRech = internal   **ErrJT** = error on journal   **FundAll** = funding

              recharge   transfer   allocation

d) Consecutive journal number that day

<u>Line Description</u>

Example: Internal Invoice 52534, 1st Aid course, held 23-26 Mar 04.
                          Contact Jane Smith ext 7379, Health & Safety.

This should include any relevant reference information, the date / period, and a contact number of a person who can immediately explain the reason and basis of the charge (i.e. not just the person entering the journal).
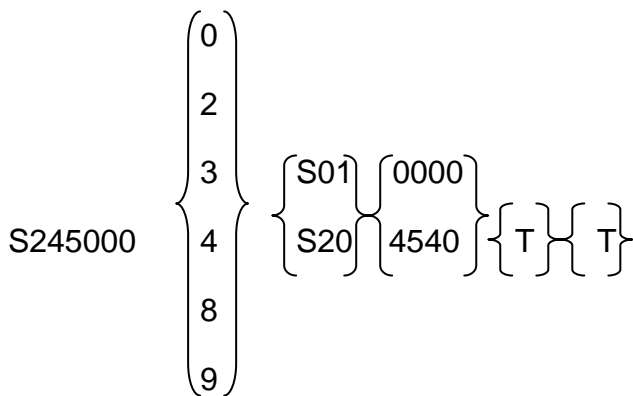
A note on summary accounts and detailed accounts:

One summary account template is set up in Cambridgeshire: Cost Centre Total. This summarises, for each combination of cost centre, objective and project group code, the expenditure and income into 10 categories. Example:

Cost Centres used	Subjectives used	Objectives	Project Group
S245000	{01200, 21300, 30000, 30100, }	{S01, S20}	{4540}
	{40050, 43000, 81000, 90220}		

Summary Accounts that would be seen:

$$S245000 \begin{Bmatrix} 0 \\ 2 \\ 3 \\ 4 \\ 8 \\ 9 \end{Bmatrix} \begin{Bmatrix} S01 \\ S20 \end{Bmatrix} \begin{Bmatrix} 0000 \\ 4540 \end{Bmatrix} \{T\} \{T\}$$

i.e. S245000-0-S01-0000-T-T,   S245000-8-S20-0000-T-T,

   S245000-8-S01-4540-T-T

Selecting the account:

When you tab / use the mouse to select the first line in the "Accounts" area of the screen, a pop-up appears:
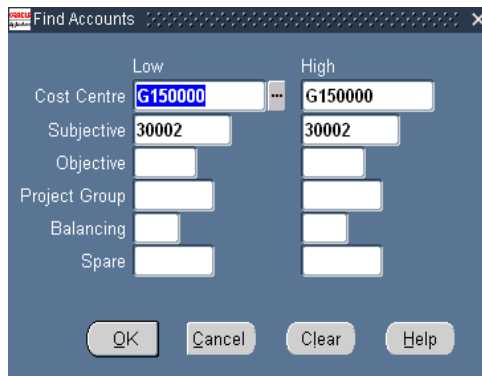
You can either enter the data here if you know it (this speeds things up) or select from the drop-down menu (the three dots). *If you leave a field blank, everything will be brought back, so if you want to see everything on your cost centre, simply type that into the cost centre field and select OK.*

Before entering a journal

Checklist:

- Provide a spreadsheet, give it a [working paper](#) reference, print the working paper and ensure that this is kept in a cross-referenced file for audit review

- Ensure you follow the journal naming protocol

- In case of complex calculations, get someone else to check your working papers before continuing

- Where journals are required outside your range of codes, create a [spreadsheet working paper](#) and send this to your financial adviser for their action.

Suggested working paper layout:

Although it is not a formal requirement to keep journal working papers, nor to get journals approved before / after they are actioned, it is best practice to do so, and the following layout ensures:
- Easy cross-reference to information used to create the journal
- Something for the budget holder to review, so they can see where errors are occurring and at what rate

JOURNAL WORKING PAPER								Cause of error		
								1	Original order coded wrong	
								2	Code not available at time of expend / income	
Financial Year								3	Change of code between financial years	
Month								4	Recode to maximise grant income	
								5	Internal charge made to wrong code	
Purpose of journal										
Journal done by										
Journal name										
			ORIGINAL JOURNAL REF			SUBLEDGER DETAILS				
Item (journal line)	Original accounting code	Amount	GL journal batch	GL line number	Date	Order / AR / AP	Supplier / Debtor / Internal ref	New Accounting Code	Cause of error	
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										
11										
12										
13										
14										
15										
16										
17										
18										
19										
20										
	Where the journal > £1000, Budgetholder should sign either before or immediately after journal is done									

Actual Journals on-line

From the Main Menu, choose **Actual Journal:**
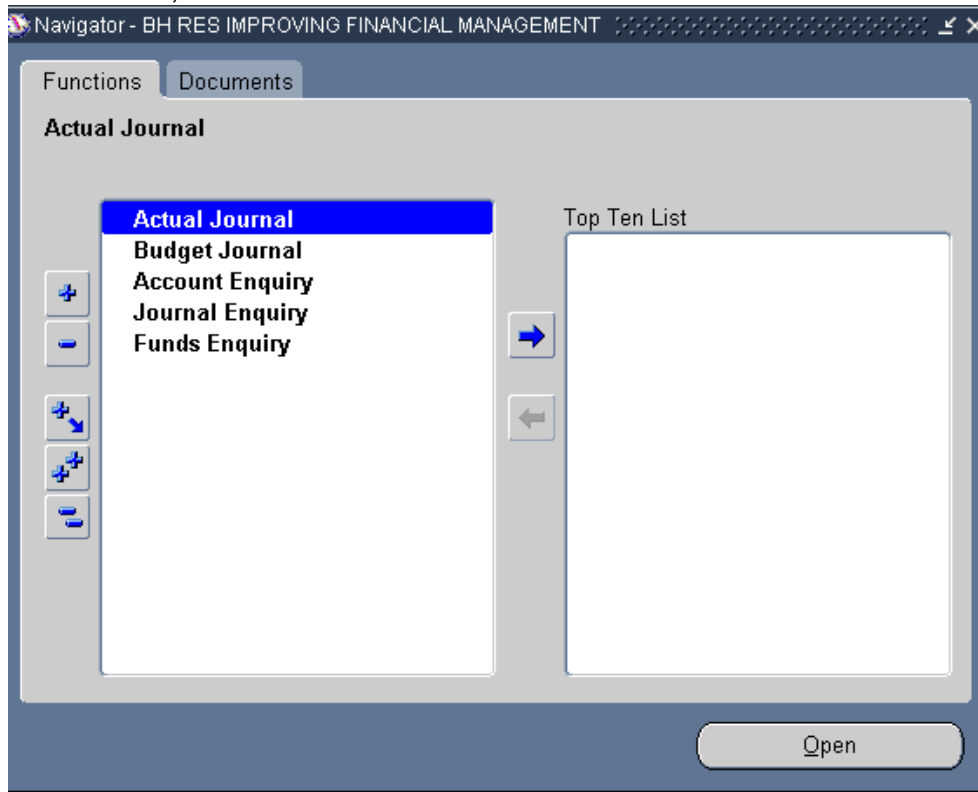
Every journal has to be assigned to a batch, so the first step is to enter a **New Batch.** Although the following screen is headed "Find Journals", it can also be used to enter new journals and batches, so select New Batch:
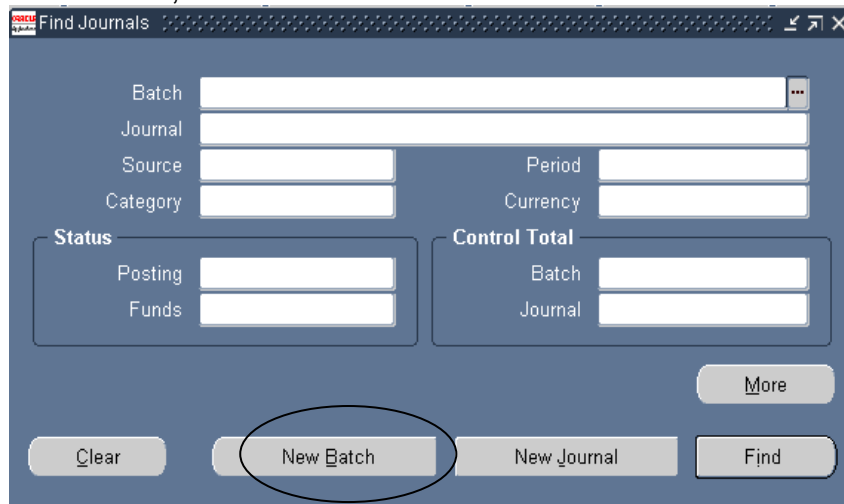
NB if you have no reason to want to enter a specific Batch Name and Description, or are only entering one journal, then just select New Journal at this point.

The following screen is displayed:

Check the month: you can only enter journals to current or future months

DOUBLE-CHECK YOU ARE USING THE RIGHT BALANCE TYPE, IE ACTUAL

Accept defaults

Enter an optional **Batch name** and **Description** to identify the batch on general ledger and journal entry reports. You cannot have duplicate batch names in the same accounting period, but you can reuse Description

> If you do not enter a batch name, General Ledger will create a default name from the source, combined with a unique batch ID and the system date. Description would be blank.

Enter an optional **Control Total** if you want to verify the total debits for your journal batch against the batch control total. You can also enter a control total at the journal entry level.

Choose **Journals** to start adding a **New Journal** to the batch

NB If you entered a period at the batch level, you must use the same period for each journal entry in the batch.

Completing the Journal screen:

The initial screen:

The yellow and white fields are the ones to complete:

| Journal (ie journal name)	Complete as per the journal naming protocol
Category	Choose one from Adjustment (adjusting journal entry), Internal Charge (for internal trading), and Miscellaneous. Do not use categories freely as some are retained for specific use, and using them wrongly can create central reconciliation problems.
Description	Be as complete in this field as possible, in order to reduce further queries. Use working paper cross-references. If referring to an individual, give their full phone number. See the journal naming protocol for more.
Control Total	Leave blank

Line:
Line number   Type a 1 into the first line, then all other lines will be numbered for you
Cost Code   Use the popup box (below) to select cost codes.

You can **only** use codes that relate to **your** responsibility and budget organisation
If using a new or unfamiliar combination also use the Combinations button to check it is active before you proceed: enter a cost centre or subjective segment value then click combinations. The form will go blue, then click OK, select any line to use the whole code combination.
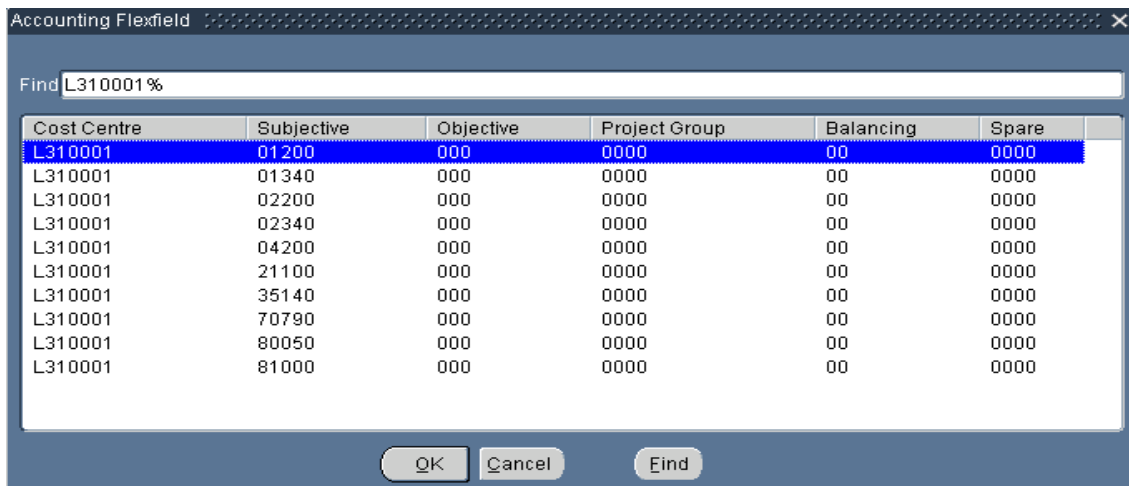
Debits and Credits:
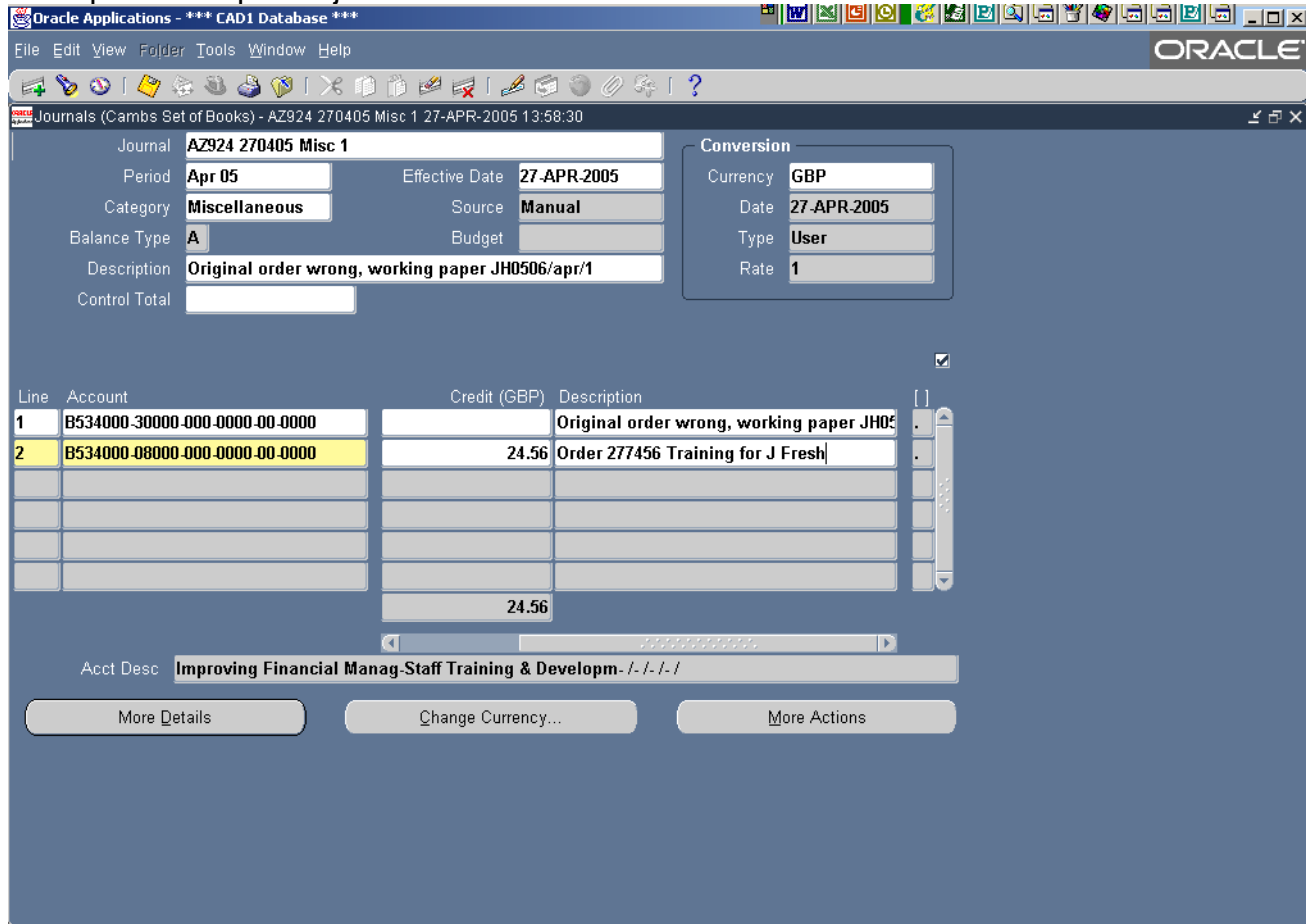All numbers must be positive – do not use negatives in the credit column

Entering descriptions at line level:
The journal will automatically copy the description you entered before but you can change each line if you want to.

Do not use:
- More details
- Change currency
- More actions

Example of completed journal screen:

Note that here the 2nd line of the journal has a different line description to the journal description: this is because when reviewing the information under the 08000 (training) code, it will be more useful for an accurate description to appear than a simple "recoding" message.

 After you have finished entering your journal and it balances, click the **Save** icon.

Until you see the following message – which will appear in the bottom left of your screen, with the right number of lines - the journal has not been finished and would remain incomplete and not be posted.

FRM-40400: Transaction complete: 3 records applied and saved.

NB a journal of two lines is 3 records because it is two journal lines + the header information. All journals should have records of (number of lines + 1).

Exit using the X at the top right.