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### INTRODUCTION

1. In order to produce accurate and meaningful financial statements and to maintain adequate internal controls, there are certain actions that must be performed by the NAM/RAM or their delegate. Unless otherwise indicated, the actions are applicable to all entities and are required at every month end.
2. The accounting principles below also apply to organizations that are not serviced by NPP accounting services through Canadian Forces Morale and Welfare Services (CFMWS).

### ACCRUALS

3. Accrual accounting recognizes the effect of transactions in the period in which they occur, and ensures a reasonable matching of the expense incurred in the process of generating revenue. The following accruals must be actioned at each month-end, unless otherwise specified:
  - a. Payroll. When pay periods do not end on the same day as the fiscal month-end, payroll expenses must be accrued;
  - b. Purchases Received But Not Invoiced (PNI). As per Chapter 21 (Purchases and CANEX Central Billing) PNI accounts must be updated each month to reflect only purchases that has been received but not invoiced;
  - c. Concession Revenue. Concession revenue is accrued based on the monthly payment terms of the Concession agreement. The offsetting debit is to Accounts Receivable;
  - d. Video Rentals (CANEX only). Payments to video suppliers are normally based on a fixed percentage of sales and should be accrued based on actual video rental revenue for that period. The offsetting credit is to an accrued liability;
  - e. Stocktaking Costs. Any costs incurred for stocktakings should be charged to the period in which the stocktaking took place;
  - f. Bank Accrual (Year-end only). Accounting registers created before year-end but cheques not printed and distributed until after year-end should be accrued back to the bank. The offsetting credit will be to a temporary SU account. This entry is to be reversed at the start of the new fiscal year;
  - g. Credit/Debit Card Charges. The card fees charged for acceptance of credit card and debit cards should be accrued at the time the related sales are recognized. The offsetting entry is a credit to the appropriate accounts receivable (Visa, MasterCard, etc.);
  - h. Severance Accrual (Year-end Only). In consultation with management, an accrual should be made for severance pay related to employees on layoff lists when there is certainty that severance will be paid. The offsetting credit will be to an accrued liability;
  - i. Supplier Rebates (Year-end Only). Volume and other supplier rebates should be accrued for if not received before year-end; and
  - j. Other Revenue and Expense Accruals. Any revenue or expense item that is considered material should be accrued when source documents have not been

received at the end of an accounting period. Possible accruals include such things as utilities expense.

## RECONCILIATION OF SUBLEDGERS TO THE GENERAL LEDGER ACCOUNTS

4. All sub-ledgers are to be reconciled to the related general ledgers at the end of each accounting period. In addition, all balance sheet accounts must be reconciled to ensure that they correctly represent asset and liabilities. For example, prepaid expense and accrued liabilities such as payroll.

## ACCOUNTS PAYABLE - SUPPLIER STATEMENT RECONCILIATIONS/SUBLEDGER REVIEW

5. Supplier statement reconciliations must be completed on a monthly basis by the National Accounts Payable Office (NAPO). Supplier statements that have outstanding issues are retained, investigated and applicable corrective action initiated. Any contact with the supplier in regards to discrepancies should be documented and retained on file.
6. NAPO shall review the accounts payable sub-ledger each month for large recurring debit balances and review the accounts payable GL balance to ensure it is a reasonable amount compared to previous history. Anomalies shall be investigated, documented, and applicable corrective action initiated.

## ACCOUNTS RECEIVABLE/ DEPOSIT REPORTS

7. An Accounts Receivable Report (including Debit Suppliers/Outstanding Supplier Credits) and Deposit Reports should be produced monthly by the NPPAM and forwarded to Outlet Managers for hastening action.
8. NARO shall review the accounts receivable sub-ledgers each month and take necessary action to collect outstanding debts.

## LOCAL BANK RECONCILIATION

9. NARO will reconcile local bank accounts monthly to ensure all deposits/transfers have been actioned. All outstanding issues will be brought to the attention of the applicable RAM for corrective action. More information in regards to the local bank reconciliation can be found in Chapter 9 (Consolidated Banking System).

## CAPITALIZATION AND RENOVATIONS OF BUILDINGS

10. As per Chapter 28 (Fixed Assets), capitalization of buildings and renovations for all entities shall be enacted the earlier of, when the asset is put into use or upon 80% project completion. Therefore, even though construction/renovations may not be completed, capitalization and amortization will be enacted as soon as the activity starts generating revenues (i.e. when the facility opens) or upon 80% completion based on the approved CER amount. Therefore, a monthly review of Work In Progress shall be conducted and, the National Fixed Asset and Treasury Office (NFATO) informed when a project is over 80% completed or the asset is put into use, (whichever event takes place first). For CANEX projects, management shall inform the NFATO directly and for non-CANEX Base controlled projects, management shall inform the local NPP accounting office who will in turn inform the NFATO.

## BASIC REVIEW OF STATEMENTS

11. The National Financial Reporting Office (NFRO) should conduct a basic review of the financial statements at every month-end prior to distribution. The following items represent minimum requirements:
  - a. DAR totals equal what is reported on the income statements;
  - b. the closing inventory at cost figures on the CIW are the same as the closing inventory at cost figures on the schedule to the balance sheet;
  - c. the operating income/loss shown on the income statements carry forward to the general revenue and expense statement;
  - d. the net income/loss after royalties and distribution to units on the general revenue and expense statement carries forward to the balance sheet;
  - e. review gross profits (for each department of an outlet) for significant variances which may indicate problems that should be resolved;
  - f. review expenses for significant variances which may indicate problems that should be resolved;
  - g. ensure that the total figures on all schedules agree with the amounts reported on the financial statements;
  - h. ensure that the figures for Canadian Forces Central Fund (CFCF) Levies, Contribution to HQ, and Royalties have been calculated using the correct percentages, and that the YTD amounts are correct;
  - i. YTD user fees (accounting, HR, and CIP where applicable) should be reviewed ;
  - j. loans should be reviewed at year-end to ensure applicable adjustments are made to the current and non-current portions by the National Fixed Assets and Treasury Office (NFATO); and
  - k. the CFCF buys all Accounts receivable and Accounts Payable (with the exception of Public Accounts Receivable). Accordingly, the Balance Sheet FINREG should be structured so that the applicable Accounts Receivable and all Accounts Payables including NPP transfers accounts (receivable and payable) are netted with the bank (with the exception of Public Accounts Receivables which are reported separately).

**Note:** During the review process by the NFRO, the NPPAM shall also review the financial statements and shall provide assistance to NFRO in analyzing material variances and/or anomalies. The RAM (if required) shall also provide assistance in analyzing material variances and/or anomalies.

## MONTHGEN

12. For each month end, once the MONTHGEN has been completed, amendments to the general ledger should only occur with authority of the CFO. Once the month/year data has been entered and posted into the accounting system, the month/year must be locked so that no further data is entered into the period.