Lesson Blueprint

Computerized Accounting with QuickBooks® 2019

# Chapter 4: Period-End Procedures

## Introduction

* QuickBooks allows you to record journal entries in general journal format.
* As seen in Chapters 2 and 3, QuickBooks records daily activities in windows such as
	+ Enter Bills
	+ Pay Bills
	+ Write Checks
	+ Create Invoices
	+ Receive Payments
	+ Enter Sales Receipts
	+ Make Deposits
* Behind the scenes, QuickBooks also records the activities in general journal format using debits and credits.
* Accounts used to record the activities come from the Chart of Accounts List (Lists/Centers).
* At times, some account balances (Activities) will need to be adjusted based on information that does not appear in the daily activities so that the financial statements can be properly prepared in accordance with generally accepted accounting principles (GAAP).
* These adjustments to the accounts are called adjusting journal entries and are recorded in the Make General Journal Entries window.
* As you record the daily activities and adjusting journal entries, QuickBooks simultaneously updates the accounting records and financial statements (Reports).
* In this chapter, the sample company Kristin Raina Interior Designs is used to make the necessary adjusting journal entries for February, the end of the first month of operations.

## QuickBooks versus Manual Accounting: General Journal Entries

* In a manual accounting system, the general journal is the document in which transactions are initially recorded.
* For each transaction, the dollar value of at least one account must be recorded as a debit amount and the dollar value of at least one account must be recorded as a credit amount.
	+ The total dollar value of debits must equal the total dollar value of credits.
* Companies have the option of recording all transactions exclusively in the general journal or, alternatively, for frequent similar transactions, in special journals.
* In either case, at month-end the transactions from all journals are posted to the general ledger.
* Periodically, certain adjustments that are not daily business activities must be made to the accounts to update the balances.
* These adjustments, called *adjusting journal entries*, are always recorded in the general journal.
	+ They are then posted to the general ledger to update the balances in the accounts.
	+ The adjusted balances are used to prepare the financial statements.
* These adjusting journal entries must always be made on the date the financial statements are prepared, but they can be recorded more often.
* Most large companies typically prepare the adjusting journal entries on a monthly basis.
* QuickBooks does not follow the format of the special journals for daily transactions.
	+ Instead, all activities are recorded in the different windows depending on the nature of the activity.
* Behind the scenes, QuickBooks records the activities in general journal format as seen in the *Journal* report.
* For adjusting journal entries, QuickBooks uses the Make General Journal Entries window in a manner similar to that of a manual accounting system.
* As information entered in each of the windows, including the Make General Journal Entries window, is saved, the general ledger balances, the trial balance, the Chart of Accounts List balances, and the financial statements are simultaneously updated.
* Because of the ease of updating balances in a computerized accounting system, even small companies can now record adjusting journal entries on a monthly basis.
* Below is a comparison of a manual accounting ledger and journals with QuickBooks functions:

|  |  |
| --- | --- |
| **Manual Accounting System** | **QuickBooks**  |
| Chart of Accounts | Chart of Accounts List |
| General Ledger | *General Ledger* report |
| General Journal | Make General Journal Entries window |

## Chapter Problem

* In this chapter you will record the adjusting journal entries for the end of the first month of business, February 28, 2021, for Kristin Raina Interior Designs.
* The February 1, 2021, beginning balances, along with all vendor and customer activity for the month of February illustrated in Chapters 2 and 3, are contained in the company file CH4 Kristin Raina Interior Designs.
* Using steps similar to those used in Chapters 1 through 3,
	+ open the company file CH4 Kristin Raina Interior Designs.QBW
	+ make a backup copy of the file using the file name EX4 [*Your Name*] Kristin Raina Interior Designs
	+ restore the backup copy
	+ change the company name in the file to EX4 [*Your Name*] Kristin Raina Interior Designs

## Lists/Centers: The Chart of Accounts List

* Recall from Chapter 1 that the second level of operation in QuickBooks is recording background information in Lists/Centers.
* Lists/Centers need to be revised periodically when
	+ new accounts need to be added
	+ accounts not used in the business need to be deleted
	+ modifications need to be made to an account
* When you make these revisions to the accounts, you are updating the Chart of Accounts List.
* The Chart of Accounts List is the list of accounts a company uses as it conducts its business.
* In a manual accounting system, all of the individual accounts are placed together in a book called the general ledger.
	+ Each account in the general ledger shows all the increases and decreases in the account, reflected as debits and credits, and the balance in each account.
* In computerized accounting systems, a general ledger is also maintained, showing the increases, decreases, and the balance for each account.
* In addition, the Chart of Accounts List displays the balance next to each account name.
	+ Because of this, the Chart of Accounts List has become synonymous with the general ledger in computerized systems.
	+ It indicates only the balances for the assets, liabilities, and equity accounts.
	+ It does not display all of the detail activity.
* In QuickBooks, the Chart of Accounts List consists of
	+ **account number:** the account numbers are optional but are used in this text
	+ **name:** the name you assign an account is the name that appears in the windows and reports
	+ **type:** the software uses account types to determine where to place the account name and balance on the financial statements and to establish the system default accounts
	+ **balance:** the balance is determined by the original amount entered (if any) when the account is first created, and then subsequently adjusted by activities entered in the windows
* Account types consist of

|  |  |
| --- | --- |
| **Assets:** | BankAccounts ReceivableOther Current Asset Fixed AssetOther Asset |
| **Liabilities:** | Accounts PayableCredit CardOther Current LiabilityLong-Term Liability |
| **Equity:** | Equity |
| **Income and Expenses:** | IncomeCost of Goods SoldExpenseOther IncomeOther Expense |

* As shown in Chapters 2 and 3, QuickBooks identifies certain accounts as system default accounts and uses them to identify the transactions recorded in the windows; for example:
	+ The Accounts Payable account type is used to identify the Accounts Payable liability account when transactions are recorded in the Enter Bills window.
	+ The Accounts Receivable type is used to identify the Accounts Receivable asset account when transactions are recorded in the Create Invoices window.
* When QuickBooks looks for an account, it looks for the account type, not the account name.
* Kristin Raina previously entered information to establish the Chart of Accounts List that was then used for the February activities recorded in Chapters 2 and 3.
* See text for steps to review the Chart of Accounts List.
* In QuickBooks, the account balances that flow into the financial statements are based on the account type.
* If you want to subtotal two or more accounts, you can identify an account as a subaccount.
* Subaccounts show a subtotal amount on the financial statements in addition to the regular account balances.
* A parent account is an account that has a subaccount.
* In Kristin Raina’s Chart of Accounts List, the asset cost and accumulated depreciation accounts were marked as subaccounts of the related asset account.
	+ This was done in order to see the accumulated depreciation account as a deduction from the cost of an asset and display the net amount on the financial statements.
* In the Account Listing window, when parent and subaccounts are used, subaccount names by default display the parent account name left aligned and the subaccount name to the right of the parent account name all on one line.
* Review the Account Listing and notice the parent and subaccounts for furniture and fixtures.
* See text for steps to view the Edit Account window.
* An account contains the following parts:

|  |  |
| --- | --- |
| **Account Type** | use the drop-down list to display and choose the account type |
| QuickBooks uses the account type for system default accounts in windows and for placement on financial statements. |
| **Number** | An account number is optional. |
| Account numbers will be used in this text and have been established in the company files. |
| **Account Name** | fill in an account name of your choice |
| The software uses the account type for necessary identification (default accounts and placement on financial statements), not the account name. |
| The name typed in this field appears in the windows and on reports. |
| **Subaccount of** | Accounts can be identified as subaccounts of another account. |
| To activate this field, click to place a check mark in the box. |
| Once this box is activated, use the drop-down list to determine of which account this will become a subaccount. |
| **Description** | This field is optional. |
| A description entered here appears on certain reports |
| **Bank Acct. No. and Routing Number** | This field is optional. |
| listed as reference for the user |

### Adding an Account

* + In preparation for recording month-end adjusting journal entries, Kristin Raina has determined that she needs to add an Advertising Expense account to the Chart of Accounts List.
	+ See text for steps for adding an account.
	+ Notice that most of the account names are left-aligned.
	+ In the Chart of Accounts List window, when parent and subaccounts are used, by default the parent account name is left-aligned and the subaccounts are indented under the parent accounts.
	+ For example, account 1700 is the parent account, and subaccounts 1725 and 1750 are indented under account 1700.
	+ Presentation of parent accounts and subaccounts in the Chart of Accounts List window is different from the presentation of parent and subaccounts on the *Account Listing* report.
	+ Recall in the *Account Listing* report in Figure 4–A that for each subaccount listed, both the parent account and subaccount are listed on one line, with the parent account name left aligned and the subaccount name listed to the right of the parent account name.
	+ Chart of Accounts List is displayed in a List window.
	+ List windows have drop-down menu buttons at the bottom of the window.
	+ The first menu button in all List windows represents the name of the List, in this case the first menu button is the Account menu button.
	+ In almost all List windows there is a Reports menu button.
	+ remaining buttons vary according to the List
	+ In the Chart of Accounts List window:
	+ the first button is Account
	+ the second menu button is Activities
	+ the third menu button is Reports
	+ the fourth menu button is Attach
	+ Activities and Reports menu buttons are shortcuts you can use instead of using the main menu bar drop-down menus to access commands.
	+ The Attach button can be used to attach documents using the QuickBooks Doc Center feature.
	+ The Attach button may or may not be an active button

### Deleting an Account

* + Kristin Raina has decided the Promotion Expense account is not necessary and it should be deleted.
	+ See text for steps for deleting an account.
	+ If you delete the wrong account, click Edit and then *Undo Delete Account* immediately after deleting the account.
	+ If you do not do this immediately, you will not be able to undo the deletion.
	+ An account with a balance or that has been used in a transaction cannot be deleted.
	+ It can be marked inactive and will no longer appear in reports.

### Editing an Account

* + Kristin Raina decides to change the account name Furniture and Fixtures to simply Furniture.
	+ See text for steps for editing an account.
* See text for practice exercise.

## Reports: The Trial Balance

* In a manual accounting system, errors can occur when journal entries are recorded and posted to the general ledger or when doing arithmetic computations.
* The trial balance is used to verify that the total debits equal the total credits, which means that the general ledger is in balance.
* In a computerized system, on the other hand, there is less chance of the accounts being out of balance because the postings to the general ledger and arithmetic computations occur automatically.
* A trial balance is useful.
	+ It allows you to view the accounts and their debit or credit balances without having to look at all the detail in the general ledger.
	+ It is often useful to review the trial balance prior to making adjusting journal entries.
* See text for steps to view and print the trial balance.
	+ Print the trial balance at this time.
	+ Once you record adjusting journal entries, you will no longer be able to view and print a preadjusted trial balance.

## Activities: The Make General Journal Entries Window

* You usually need to enter adjusting journal entries before preparing financial statements in order to adjust account balances based on accounting rules.
* In QuickBooks, adjusting journal entries are recorded in the Make General Journal Entries window.
* This window is set up similarly to that of a manual accounting system.
* The window lists the account and amount of the debit entry, the account and amount of the credit entry, and an explanation.
* See text for the Make General Journal Entries window.
* The Make General Journal Entries window contains the following parts:

|  |  |
| --- | --- |
| ***ADJUSTING ENTRY*** | A check mark in this box identifies the journal entry as an adjusting journal entry. |
| Adjusting journal entries appear on the *Adjusted Trial Balance* (worksheet) report and the *Adjusting Journal Entries* report. |
| In the *Journal* report, any adjusting entries will be noted with a check mark. |
| ***ACCOUNT*** | Indicates the general ledger account to be adjusted. |
| ***DEBIT*** | Indicates the amount to debit to the account. |
| ***CREDIT*** | Indicates the amount to credit to the account. |
| ***MEMO*** | This field is optional. |
| Any memo entry recorded here will appear in reports. |
| ***List of Selected General Journal Entries*** | Displays a list of journal entries recorded in the Make General Journal Entries window. |
| If the journal entry was checked off as an adjusting entry, it will have a check mark in this list. |
| **Hide List Button** | Click this button to hide the List of Selected General Journal Entries. |
| When you hide the List of Selected General Journal Entries, the button changes to Show List. |

* Recall from Chapter 1 that the third level of operation in QuickBooks is Activities.
* Activities identified as adjustments to account balances are entered in the Make General Journal Entries window.
* There are no default accounts in this window because each adjusting journal entry is different.
* The account to debit and the account to credit must be indicated.
* Adjusting journal entries are usually dated the last day of the month.
* See text for steps to record an adjusting journal entry.
* In the event a new account needs to be added while in the Make General Journal Entries window, click *<Add New>* from the Account button drop-down menu.
	+ This opens the New Account window and allows you to add the new account to the list without exiting the Make General Journal Entries window.
* As in the other windows, the Find arrows (Previous and Next) can be used to view previous and subsequent journal entries.
	+ choosing one of the arrows saves the entry
* The Save & New button can be used when entering more than one journal entry.
* In all journal entries, the total dollar value of debits must equal the total dollar value of credits.
	+ In the Make General Journal Entries window, if you attempt to save an entry that is not in balance, a warning window appears that gives you the opportunity to correct the journal entry.
	+ If the journal entry is not corrected, you will not be able to save it.
* See text for practice exercise.

## Reports: Period-End Accounting Reports and Financial Statements

* Reports, the fourth level of operation in QuickBooks, reflect the Activities and adjustments recorded in the windows and the information compiled in the Lists/Centers.
* When you complete the adjusting journal entries, you should display and print the period-end accounting reports and the financial statements.

### Accounting Reports

* + Period-end accounting reports consist of the *Journal*, the *General Ledger*, and the *Adjusted Trial Balance* reports.
	+ These reports should be printed at the end of each month.

**Journal report**

* In previous chapters, the *Journal* report was printed for the entire month.
* It is not necessary to reprint all the journal entries when you wish to view only the adjusting journal entries.
* The Customize Report button–Filter tab can be used to indicate fields of information to be displayed in the report.
* See text for steps for viewing and printing the *Journal* report using the Filter feature.
* The following chart summarizes the general journal transactions types.

|  |  |
| --- | --- |
| **Type** | **Activity Window** |
| General Journal | Make General Journal Entries |

* The QuickBooks Premier Accountant Edition of the software provides an *Adjusting Journal Entries* report which contains journal entries recorded in the Make General Journal Entries window that were marked as adjusting entries.
* See text for steps for viewing the *Adjusting Journal Entries* report.

**General Ledger report**

* All transactions recorded in any of the windows are posted to the general ledger.
* The *General Ledger* report displays all activity to each account and lists the balance after each activity.
* See text for steps for viewing and printing the *General Ledger* report.

**Adjusted Trial Balance report**

* The trial balance of February 28, 2021, is reviewed prior to preparing the adjusting journal entries.
* Typically, the trial balance is printed again after the adjusting journal entries have been recorded.
* The second trial balance is referred to as the *Adjusted Trial Balance* report.
* To distinguish between the two printed trial balances, change the name in the heading of the second trial balance to *Adjusted Trial Balance* using the Customize Report button–Header/Footer tab.
* Once you record the adjusting journal entries, you can no longer create a pre-adjusted trial balance.
* See text for steps to
	+ view the *Trial Balance* report
	+ change the title of the report to *Adjusted Trial Balance* using the Customize Report button–Header/Footer tab
	+ print the report
* You should compare the effect of the adjusting journal entries on the account balances by comparing the Trial Balance to the Adjusted Trial Balance.
* The QuickBooks Premier Accountant Edition of the software provides an *Adjusted Trial Balance (worksheet)* report which is similar to the accountant’s worksheet.
	+ It contains the original trial balance, the adjusting journal entries, and the adjusted trial balance.
	+ See text for steps to
		- view the *Adjusted Trial Balance* report
		- make a correction to an adjusting journal entry in this report
		- view and print the report

### Financial Statements

* Financial statements include the income statement and the balance sheet.
* Companies must prepare financial statements at least once a year, but they can be prepared more frequently, such as quarterly or monthly.

**Profit & Loss Standard report (Income Statement)**

* The income statement, known as the *Profit & Loss* report in QuickBooks, which displays revenue and expenses for a specified period of time, can be displayed in a standard and comparative format.
* In addition, a detailed *Profit & Loss* report can be produced that lists all transactions affecting a particular item on the report.
* See text for the steps to view and print a year-to-date *Profit & Loss Standard* report.

**Balance Sheet Standard report**

* In QuickBooks, the *Balance Sheet* report, which shows the assets, liabilities, and equity balances as of a certain date, may be displayed in a standard, summary, or comparative format.
* In addition, a detailed report, showing all transactions affecting balance sheet accounts, can be produced.
* See text for the steps to view and print a *Balance Sheet Standard* report.
* Look at the Fixed Assets section of the printed *Balance Sheet* report.
* Recall that in the Chart of Accounts List, parent and subaccounts were used for the fixed assets.
* When parent and subaccounts flow into the financial statements, the parent account name becomes a ‘heading’ and a ‘total’ for the related accounts subaccounts.
* Under the parent account name heading, the subaccounts names are indented on the financial statements.
* Account balances for the subaccounts are displayed, subtotaled, and then shown as the total for the parent account; note the following.
	+ The parent account 1700 Furniture is a heading.
	+ The subaccounts 1725 Furniture, Cost and 1750 Accum. Dep., Furniture are indented and displayed under the parent account.
	+ The parent account 1700 Furniture is again displayed this time as the total for the subaccounts.
	+ In the printout of the report, the balances of the subaccounts (12,000 and -100) are displayed to the left of the dollar-value column and the subtotal of these subaccounts (11,900) is displayed in the dollar-value column and labeled as the total for the parent account.
* This is displayed on the printed *Balance Sheet Standard* report only.
* On the *Balance Sheet Standard* report on the screen, the Fixed Assets section amounts—parent and subaccounts—are all displayed in one column.

## Registers

* Because QuickBooks is designed for the non-accountant, it includes an alternative method for reviewing daily activity by using registers.
* Registers are available for any balance sheet account, that is, any asset, liability, or equity account.
* Registers are not available for income and expense accounts.
* Register format is similar to that of a personal checkbook, but the information displayed in the registers is similar to the information displayed in the general ledger.
* See text for steps to view a register.
* An alternate method of displaying the register is to select the asset, liability, or equity account in the Chart of Accounts List window, click the Activities menu button, then click *Use Register*.
* Transactions entered in any of the other windows that affected the asset, liability, or equity account are also displayed in the register.
* Scroll through the transactions and compare them to the same account in the general ledger.
* You can use the register to correct any activity already recorded by drilling down to the source of the activity.
* See text for steps to drill-down to an activity window using the register.
	+ An alternative method of drilling down from the register to the activity window is to select the transaction in the register and click Edit Transaction in the register.
* Registers are available only for balance sheet accounts.
* For income statement accounts, that is, income and expenses, a register is not available but an *Account QuickReport* is available that displays all of the activity to the account, similar to the general ledger information.
* See text for steps to view an income *Account QuickReport*.

# Chapter 4 Accounting Terms

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| **adjusting journal entries** | Adjustments made to accounts at certain periods of time, such as the end of the month or the end of the fiscal year, to bring the balances up to date. |
|  |  |
| **Chart of Accounts List** | The list of accounts a company uses as it conducts its business. |
|  |  |
| **credit** | Dollar amount recorded in the right column of an account. Depending on the account, it either increases or decreases the balance in the account. |
|  |  |
| **debit** | Dollar amount recorded in the left column of an account. Depending on the account, it either increases or decreases the balance in the account. |
|  |  |
| **general ledger** | The document where transactions are summarized by account. |
|  |  |
| **generally accepted accounting principles (GAAP)** | Principles used to prepare a company’s financial statements, which consist of both formal accounting regulations and procedures mandated by regulatory agencies and traditionally used accounting procedures. |
|  |  |
| **trial balance** | A report containing all the general ledger account names, their debit or credit balances, and the total debits and credits. |