

Accounting 252
QuickBooks Instructor Notes
Chapter 8—General Accounting and End-of-Period Procedures and Budgets—
Merchandising Business (10/13/16)

1. Problem areas in Chart of Accounts

A. Making account inactive vs deleting

- (1) Same comments that applied in Chapter 5

Make sure the sub-account relationships are correct, according to the Balance Sheet.

B. Closing Entry for Net Income

You should have a Debit balance in Retained Earnings, which represents the amount of Credit to it that will be cancelled out after the period is actually ended. Your Name Capital controlling account should reflect: + Net Income <Drawings> for the period.

NOTE: Your Name, Capital account is a Controlling* type of account (has sub-accounts).

Theoretically it is not supposed to directly receive any entries, and entries should instead be made only to sub-accounts.

**In more rigid accounting systems, Controlling type of accounts cannot have entries made directly to them. QuickBooks permits it, however.*

2. Other issues in this chapter

A. Textbook author is very lax about making changes to prior periods

- (1) The implicit attitude is that it is fine – no problem.

Every one of the entries to Beginning Balance Equity or Uncategorized Income and Uncategorized Expense entered after the start date of the current fiscal period is a potential nightmare to the accountant reviewing the company's books.

B. Entering a correction to a closed period

- (1) When any correction to prior closed periods is entered, this changes the balances of at least 2 accounts on the current period's beginning trial balance.

If one of these accounts is an Income Statement account (revenue, expense, gain, or loss), then Retained Earnings will be one of the incorrect accounts on the beginning trial balance.

If this period's beginning Retained Earnings is different than last year's reported ending Retained Earnings, then a "Prior Period Adjustment" must be made.

If not, the financial statements for the CURRENT period will not balance.

- (2) "Prior Period Adjustment" is an adjustment (+/-) to the beginning Retained Earnings of a corporation or LLC, or beginning Capital of a proprietorship or partnership. Shown in:
- Statement of Owner's (or Partners') Equity for a proprietorship or partnership, or;
 - Statement of Retained Earnings for a corporation or LLC.

C. It is your responsibility to keep correct books and records

- (1) If corrections to prior closed periods have been entered, careful records of all changes must be kept.

The beginning trial balance will no longer agree, in at least two accounts.

Any tax returns filed for a previous year will include income accounts, and if any changes to them were made, the taxable income will no longer be correct.

At least one balance sheet account is typically affected by adjustments to a prior period (unless the adjustment was just an expense-to-expense reclassification). If a form 1120 C (regular corporation) income tax return was filed, Schedule L (comparative balance sheets) will no longer agree.

3. Problem areas in reconciliations

A. Recording "Reconcile Adjustment" to a reconciliation

- (1) This is not an acceptable permanent solution.
It is like sweeping your mistakes under the carpet, only you can still see a big lump in the carpet!
- (2) Use it only to highlight errors that need to be followed up on – then be sure to follow up on them.

Always clear balances of the Reconciliation Discrepancies account. This is not a real account. Does not belong on financial statements.

B. As an accounting paraprofessional, it should be embarrassing for you to let such a Reconciliation Discrepancy persist.

- (1) The error must be tracked down and fixed. Follow the procedures for an "Off-cycle reconciliation" (should be Method 1, where the ending balance is known) and get the balance fixed, ASAP.

<https://community.intuit.com/articles/1020555-reconcile-previously-deleted-and-re-entered-checking-or-credit-card-transactions>

4. End-of-Period procedures - Adjusting Journal Entries (AJEs)

A. Notes payable

- (1) Fully amortized loans have a fixed payment amount.

Interest is charged on the outstanding loan balance, and the remainder of the fixed payment reduces principal. Over time, as the outstanding loan balance declines, the amount paid on principal increases.

- a. Click on this link: <http://www.amortization-calc.com/>
b. Click the Calculate button, and then click on the resulting Amortization Schedule tab.

- (2) Loan interest and principal split.

The loan payment is an automatic payment entered with a "Split" between interest and Loan liability accounts. Textbook shows how to edit loan payment transactions each month to make the split accurate for each period.

- a. This loan principal/interest adjustment can instead be done via Make General Journal Entries (introduced in Chapter 4).

This is a much more efficient way to do it when adjustments are only being done at year end. It saves the task of making 12 months of transaction edits! Lots more time saved if you have multiple loans.

- (3) Two different approaches to the AJE.

- a. Assuming all loan payments were debited to the Office Equipment Loan liability account.

Then the Loan account is understated and the Loan Interest (expense) account is understated:

Generic Account titles	Debit	Credit
Interest Expense (+)	Interest amount paid for the period	
Note Payable (+)		Interest amount paid for the period

- b. Assuming all loan payments were debited to the Loan Interest account.

Then the Loan Interest (expense) account is overstated, and the Loan account is overstated:

Generic Account titles	Debit	Credit
Note Payable (-)	Principal amount paid for the period	
Interest Expense (-)		Principal amount paid for the period

B. Bank statement amounts

- (1) Bank charges and interest earnings

Most of these will need to be entered during the reconciliation process. It is best to find them first on the statement, enter them, and then have them ready to check during the reconciliation process.

C. Inventory Adjustments

- (1) Adjust Quantities vs Adjust Starting Value

If the previous period has been closed and reported, Adjust Starting Value just messes up beginning balances. Your CPA may wish to report a Prior Period Adjustment, or they may not.

It is best to keep good records of adjustments to Opening Balance Equity, in any case.

Adjust Quantities affects the income of the current period, not beginning balances.

- a. Adjust Quantities is intended to be for downward adjustments

Impacts the current period Net Income and Inventory

Account titles	Debit	Credit
Inventory Shrinkage	Expense on Income Statement	
Inventory Asset		Decrease in asset on Balance Sheet

- a. Adjust Starting Value seems to be mostly intended for upward adjustments

Impacts the balance sheet only – no Net Income effect.

Entries of this type should be maintained in a log outside the QBO system, for use by outside CPAs or tax preparers.

Account titles	Debit	Credit
Inventory Asset	Increase in asset on Balance Sheet	
Opening Balance Equity		Increase in Equity on Balance Sheet

5. Budgeting

A. It is estimated that less than 15% of small businesses use budgets

(1) QuickBooks Online budgeting function is likely to be unused

For those small businesses that DO budget, they are much more likely to export the actual data from their accounting system into a spreadsheet where they then do budget to actual comparisons.