<u>Full-Charge Bookkeeping</u>

STUDY OUTLINE
FOR THE APPENDICES

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Preface

Prior to year 2015, the FCB Certification program did not exist. Truth be known, credit a teacher and an adult continuing education school in northern California, for the idea. At any rate, after significant deliberation, I (author NJD) consider it necessary for Certified Full Charge Bookkeepers (CFCB's) to know most of the material in Appendix D - Accounting 'Basics'. Inventory and Cost of Goods Sold is about the only topic in Appendix D that I provide more coverage in the book than will be tested - in the CFCB exam. Don't misunderstand. There will be material tested there, but I will cover what you need to know in this Study Outline - for the Appendices. Finally, there is some material in the other Appendices to cover, as well. The only form, that presents material to cover is the FUTA/SUTA spreadsheet design form. The other forms, for obvious reasons, do not present material that needs to be covered.//

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Note: there really is not quite enough material in the Appendices to issue separate practice Questions, in addition to the Certification Exam questions.

Appendix A - Master Calendar

- A Master Calendar (Schedule) is a complete listing of all full charge bookkeeping tasks (including payroll tax reports, etc.).

- It includes your state's specific requirements.

- It will help you never miss a deadline.

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Appendix B - Chart of Accounts: is covered in the >Tasks >General Ledger chapter.

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Appendix C - Financial Statements

- Balance Sheet:
  - Current Assets & Liabilities
    - "Current" is referring to anything that is less than one year.
    - For example: a payroll tax liability that's accrued, and then paid at the end of the quarter.
  - Long-Term Assets & Liabilities:
    - "Long Term" is referring to anything greater than one year.
    - Long-Term Assets are generally referred to as "Fixed Assets" (Property & Equipment).
    - An example of a Long Term Liability would be a Note Payable - due in five years.

- Income Statement:
  Note: in addition to what is covered in the >Tasks >Financial Statements or Monthly Reports chapter, a Certified Full Charge Bookkeeper should be familiar with the following Income Statement terms:
  - Net Sales = Sales - Returns - Discounts.
  - Gross Profit = Net Sales - COGS.
  - Cost of Goods Sold (COGS): the goods your company sold customers, what did they cost your company (to either make or buy).
    - Costs to make a product typically include:
      - Raw materials,
      - Direct labor (like factory workers) &
      - Some "overhead" (for example the factory lights, etc.).
  - Service Industry: COGS is different for a service business and can include the direct labor of workers performing the service. And, instead - it's referred to as Cost of Sales!

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Appendix D - Accounting Basics

Introduction: students who become certified in full charge bookkeeping will be held to a higher standard on the job, and in the workplace. Hence, to become "Certified", your knowledge level will need to reflect that. So, the material covered in the Appendices (particularly Appendix D) becomes essential within the certification process.

1) Accounting Equations:
- Assets - Liabilities = Owner's Equity.
- Revenues - Expenses = Net Income.

2) Accounting Methods:
- Cash Method: revenues and expenses are only recognized when cash is received or paid.
- Accrual Method: revenues and expenses are posted when bills are sent or received (incurred), regardless of when they are actually paid.
- Note: the Accrual Method is more widely used & accepted. In fact, there's a term: Generally Accepted Accounting Principles (or GAAP). Accrual Method is GAAP.

3) Closing A Year:
- The Balance Sheet is a "snap shot" in time of the balances in those accounts, as of the last day in the year (or month).
    - The Balance Sheet year ending (or month ending) balances, by definition equal the next year's (or next month's) beginning balances. Makes sense, right?
- The Income Statement reflects what happened in the business over a period of time (for the entire year or that month).
    - Since the Income Statement reflects what happened over a certain period of time, it stands to reason, that you would have to start from zero, at the beginning of the next period.
    - So, all Revenues and Expenses get "closed" to Net Income - for the period.
    - Net Income gets closed to the Balance Sheet account entitled "Retained Earnings".

4) Depreciation:
- Depreciation Expense is the expense associated with using-up an asset, during its "useful life".
- Useful Life is how long an asset can be expected to produce, or be able to be used.
    - The IRS determines the "useful lives" of assets, depending on the type of asset (like vehicle or office equipment).
        - Your company's CPA can be a source, to determine the useful lives, or
        - You can also reference IRS Instructions to Form 4562 ("Depreciation.."), >"Classification of Property".
- To keep track of how much depreciation has been accumulated over time, the account entitled, "Accumulated Depreciation" is used.
- So, the Journal Entry to post depreciation is as follows:

DB: Depreciation Expense	$$$	
CR: Accumulated Depreciation		$$$

4) Depreciation (cont.):
- Accumulated Depreciation is known as a "contra-asset" account. Which means it subtracts from the asset amount to give you something called "book value" of the asset.
  - Book Value of the Asset = Asset (Original Cost) - Accumulated Depreciation.
  - When the Accumulated Depreciation $$'s = the Original Cost $$'s, the asset is deemed to be "Fully Written Off".

5) Draws Taken By Owner:
- A draw is a removal of cash from the business, beyond the owner's salary (~a dividend).
- "Owner - Draw" is an equity, actually contra-equity account (decreases equity).
- Journal Entry:

DB: Draw - Owner	$$	
CR: Cash		$$

6) Inventory:
- For inventory, we're just going to cover the basic journal entries for buying inventory and then selling it.
- Journal Entry - When Buying Inventory:

DB: Inventory	$$	
CR: Cash or A/P		$$

- Journal Entry - When Selling Product (Inventory):

DB: Cash or A/R	$$		[for the amount it sold for]
CR: Sales		$$	"
DB: COGS	$$		[for the cost of the inventory]
CR: Inventory		$$	"

  Note: yes, two entries when selling it. Cost of Goods Sold (COGS) is an Income Statement account, that reduces revenue.
- Notes:
  - 1) At year-end, companies typically take a physical inventory count and adjust the inventory on the books to match the actual count.
  - 2) This will involve writing up or most likely writing down those Inventory account/s with an off-set to a Gain or Loss account.

DB: Other Expense / Loss	$$		(increasing expense)
CR: Inventory		$$	(decreasing inventory)

  - Some companies use an account entitled, "Inventory Shrinkage".

7) Office Supplies (Expense?):
- Although some may want to consider office supplies to be an asset - used up over time, in practice, it's not practical to, depreciate a $20 waste paper basket.
- Instead, things like that can be expensed.
- Note: companies typically have a "capitalization policy", listing the amount below which something is "expensed" versus treated as an asset and depreciated.

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8) Relationship between Financial Statements and the Chart of Accounts:

- Generally speaking there are more accounts in the Chart of Accounts than line items in the Financial Statements.
- For example, all of the separate bank accounts (General, Payroll, Savings) would aggregate to give one line item = "Cash", on the balance sheet.

9) Retained Earnings (RE):

- The equation that describes how RE works is:
    - Beginning RE
    - + Net Income
    - - Dividends
    - = Ending RE

10) "Writing Off" A Receivable:

- "Writing off" a receivable means taking it off the books.
- The typical entry is:

DB: Bad Debt Expense	$$		(increasing expense)
CR: A/R - Joe Default Company		$$	(decreasing asset)

- If you subsequently collect:
    - First reverse the above entry (adding Joe Default Company - back to A/R)
    - Then, show the collection of it:

DB: Cash	$$	
CR: A/R - JDC		$$

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Appendix E - Forms: FUTA - SUTA Spreadsheet Design

- The main point I'd like to make here is: be sure to do any State Unemployment Taxes first, because Federal Unemployment Taxes are generally reduced by the amount of state taxes paid.
- Reference: IRS, Publication 15, >Federal Unemployment (FUTA) Tax.

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