Lesson 7 Comments
Chapter 7 reviews the Accounting Cycle. See page 7.3 of your QuickBooks text for a review of the steps completed during the fiscal period. The last step in the fiscal period is to close the temporary accounts. This step will be covered in Chapter 9.

At the end of the fiscal period, a trial balance is prepared. The Trial Balance is a listing of all of a company’s accounts with their current balances. Recall from Principles of Accounting that some accounts require updating before the financial statements are prepared. This is done through adjusting entries. Adjustments are required for any accounts that have changed during the fiscal period but the changes have not been reflected in the accounting records. Some common situations requiring adjusting entries follow:

- Unearned revenue now earned but not yet recorded
- Prepaid expenses used but not yet recorded
- Depreciation of plant assets
- Expenses incurred but not yet recorded
- Revenues earned by not yet recorded

You will use the Journal in QuickBooks to record the adjustments. The process will be exactly like that used in a manual system. You will determine the amount of the adjustment then select the accounts to debit and credit, entering the appropriate amount. Complete the Adj Entry Review found in Lesson 7 to refresh your memory on processing adjustments.

After all adjusting entries are posted, you will prepare another Trial Balance. This trial balance will indicate the adjusted balances of all accounts. In QuickBooks you can prepare an adjusted trial balance showing the unadjusted balance, the amount of each adjustment, and the adjusted balance. QuickBooks will automatically label this report as an “Adjusted Trial Balance”.

If you only want the adjusted balance column in your report, run a regular trial balance after posting the adjusting entries. QuickBooks will head this report “Trial Balance”. You will need to change the report heading to “Adjusted Trial Balance” so that you can distinguish between the original trial balance and the one prepared after the adjustments.
Lesson 7 Comments (continued)

To change a report heading follow these instructions:

- Display the report
- Click the Modify Report button
- Click the Header/Footer tab
- In the Report Title text box, enter the desired title

Financial Statements
After posting the adjustments so that all account information is current and accurate, the next step is to prepare the financial statements.

Recall that the Income Statement (profit and loss) includes revenue and expense accounts and indicates whether or not a company is making a profit over a period of time. The Balance Sheet includes assets, liabilities, and owner’s equity and reflects a company’s financial position as of a particular date. The Statement of Cash Flows summarizes cash inflows and outflows over a period of time.

In addition to generating standard financial statements, QuickBooks can also prepare the Income Statement and Balance Sheet with horizontal and vertical analysis (covered in Principals of Accounting II). These formats provide management with additional analytical tools for making operating decisions. Finally, in this lesson, you will prepare some other end-of-period reports that will provide management with more information to make business decisions and also help to prepare tax reports.

The steps in the accounting cycle will be executed again in Chapter 9.

Lesson 7 Processing Notes

Tutorial
- **Page 7.11** – I think it is easier to type in the account numbers given when entering transactions in the journal rather than using the drop-down list. This is the main reason we have account numbers.
- **Page 7.12** – If necessary, click the Refresh button to update the journal after changing the dates.
- **Page 7.13, Step 5** – Click the drop-down list under the Account heading and select All bank accounts.
- **Page 7.14, Step 6** – The Advanced button is in the lower right corner of the Display tab window. When you click the Advanced button, a small dialog box will appear on your screen. It may appear anywhere on your screen. See the bottom of page 7.14 for a picture of the screen you’re looking for.
- **Page 7.15, Step 2** – Click the Dates drop-down list to set the date to This Fiscal Quarter.
ACCOUNTING SYSTEM APPLICATIONS
QUICKBOOKS
CHAPTER 7 REVIEW QUESTIONS

The following questions are for your benefit only. They are not submitted for a grade but will be helpful in preparing for exams.

1. Describe the steps involved in the accounting cycle. (7.3) [Remember that the last step in this process is Closing, however, this topic will be covered later.]

2. The three financial statements used most often by external users are (7.4)
   a. ______________________________________
   b. ______________________________________
   c. ______________________________________

3. What is the purpose of management reports? (7.4)

4. What is the purpose of the Trial Balance? (7.6)
5. Describe adjusting entries and give some examples of items requiring adjustments. (7.8-7.9)

6. What information is found in the General Ledger? (7.13)

7. Define the following: (7.15)
   a. cash basis accounting-
   b. accrual basis accounting-

8. Cash flows are divided into three categories. List them. (7.18)
   a. ______________________________
   b. ______________________________
   c. ______________________________

9. Describe how QuickBooks helps you with the preparation of tax reports. (7.18-7.21)