Period Pieces

18

The Accounting Cycle

Chapter 1 introduced the concept of **accounting periods** — breaking down the financial year into monthly or four weekly intervals to provide a regular, interim assessment of your business' performance.

In Bottom Line, the first requirement in completing each cycle is to ensure that all transactions for the current accounting period are posted. Having entered this information, you can print a set of financial reports — the Balance Sheet and Profit & Loss Account which show how well (or badly) your business has performed over that period and why.

Before completing each accounting period, you should back up your accounts as described in Chapter 3 or in your Macintosh User's Guide. The current period can then be drawn to a close and the next one set in motion by choosing the End of Period command. Period end can be carried out for each ledger, one at a time or for all three ledgers together. At the end of each period Bottom Line draws a line in the sand and carries out the following actions…

- Shuts down the current accounting period so that subsequent transactions are allocated to the new period.

- Clears all **allocated** transactions from the Sales and Purchase Ledgers (examples of allocated transactions are purchase invoices and their matching payments or sales invoices for which payments have been received).

  This periodic removal of historic information from the customer and supplier accounts allows you to focus more clearly on those transactions which are still outstanding. However, to ensure that you retain a permanent record of the completed transactions, Bottom Line insists that you print your Sales Audit reports and Purchase Audit reports before clearing this information.

- The General Ledger records the achieved results for each Revenue and Expenditure account for the current period and records the actual cumulative values for Balance Sheet accounts.

- Sales and purchase analysis results are recorded for the current period.

Late arrivals...

To produce an accurate Profit & Loss Account, it is important that the revenue earned for a given period is compared with all costs incurred in generating it.
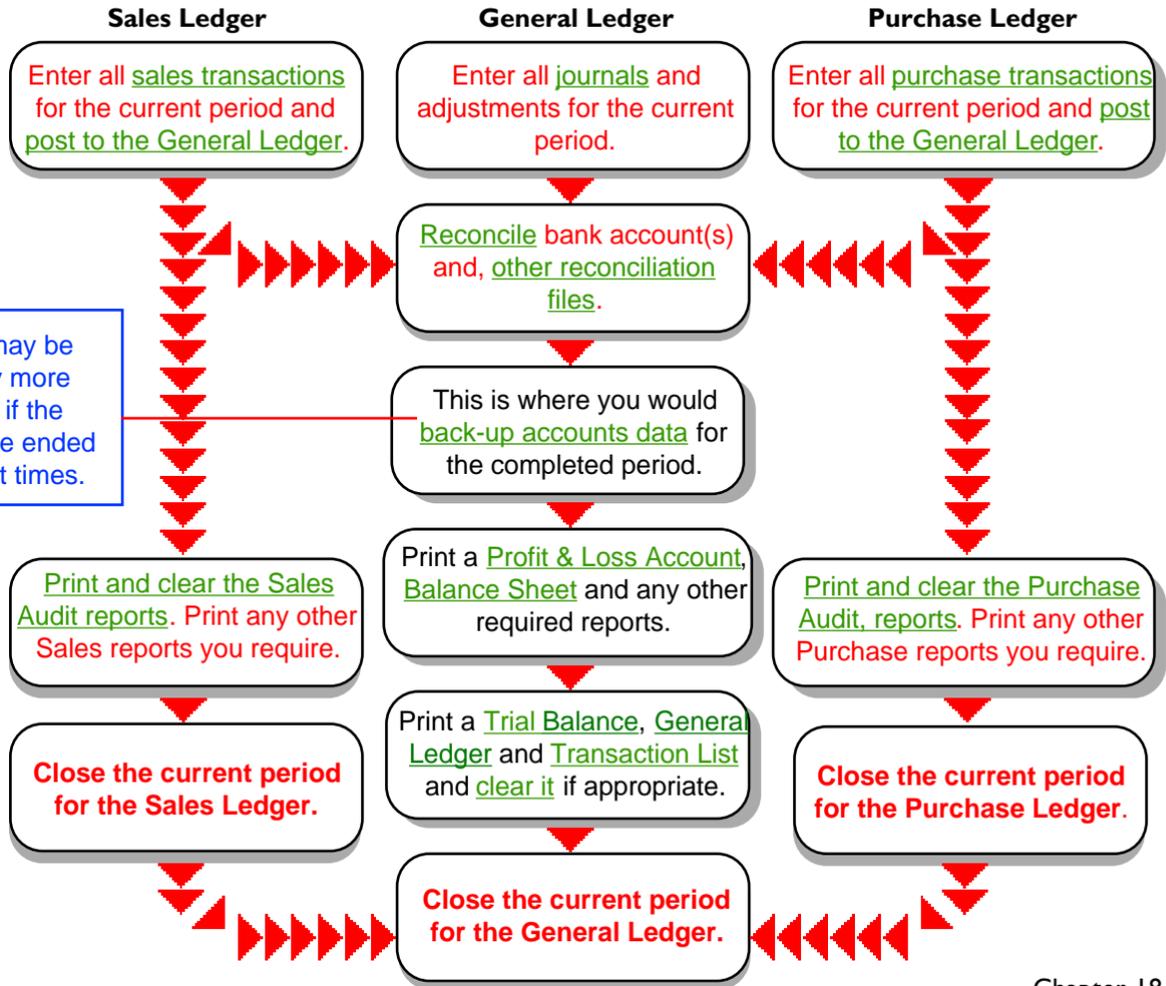
For this reason, even though your calendar may say that you have reached the end of an accounting period, you may want to wait a few more days to ensure that you have received all relevant invoices or other paperwork before invoking an End of Period.

As you are likely to prepare sales invoices promptly, you are more likely to be left waiting for purchase invoices or transactions which would be entered as journals. For this reason you can close your Sales Ledger before the other two ledgers allowing you to prepare invoices for the new period without delay.

If the end of period coincides with the end of the financial year, Bottom Line automatically performs the Year End routine described later in this chapter.

The following illustration outlines a typical sequence when carrying out an end of period. Notice that you end up closing all three ledgers…

'Period Ending'
the ledgers

Sales Ledger

General Ledger

Purchase Ledger

Enter all sales transactions for the current period and post to the General Ledger.

Enter all journals and adjustments for the current period.

Enter all purchase transactions for the current period and post to the General Ledger.

Reconcile bank account(s) and, other reconciliation files.

Back-up may be necessary more than once if the ledgers are ended at different times.

This is where you would back-up accounts data for the completed period.

Print and clear the Sales Audit reports. Print any other Sales reports you require.

Print a Profit & Loss Account, Balance Sheet and any other required reports.

Print and clear the Purchase Audit, reports. Print any other Purchase reports you require.

Red = essential
Black = optional

Print a Trial Balance, General Ledger and Transaction List and clear it if appropriate.

Close the current period for the Sales Ledger.

Close the current period for the Purchase Ledger.

Close the current period for the General Ledger.

End of Period

To close the current accounting period for one or more ledgers, do this…

Choose End of Period from the Special menu to display this dialogue...

Special
End of Period...

Company Details...
VAT Details...
VAT Amounts...
Clear VAT Amounts...
Clear VAT EC List...

If available, click here to select an End of Period for the Sales and/or Purchase Ledger.

If available click here to select an End of Period for the General Ledger.

End Of Period

	Current Period
☐ General Ledger Cannot end period before Sales and Purchase	5
☒ Sales Ledger	5
☒ Purchase Ledger	5

Cancel   OK

End Of Period

	Current Period
☒ General Ledger	5
☒ Sales Ledger	5
☒ Purchase Ledger	5

Cancel   OK

Click OK to close the current accounting period for the selected ledger(s).

Closing Sequence

There is a strict sequence in which period ends can be carried out for each ledger.

Firstly, the program will not allow Sales or Purchase ledgers to been closed until their audit reports have been printed and cleared.

Once you have complied with these requirements, Bottom Line allows you to close the Sales or Purchase Ledgers one period ahead of the General Ledger. This means that you do not have to wait until all General Ledger transactions have been completed for the current period before you can begin entering customer or supplier transactions in the next…

…However! To ensure that all transactions entered via the Sales and Purchase Ledgers are always posted to the correct period in the General Ledger…

• The General Ledger cannot be closed before the Sales and Purchase Ledgers.

• The program steadfastly refuses to post sales or purchase transactions to the General Ledger until the General Ledger enters the same accounting period as the Sales and Purchase Ledgers.

The program disallows closure of a period for a ledger when these rules are in force. Explanatory messages give reasons when closure of a ledger is barred.

With these rules etched on your mind, you can now select the ledger(s) that you want to close. For example…

When you choose an End of Period for the first time, all three ledgers will be in the initial start up period — as shown in our illustration.

Provided that you have printed the relevant audit reports, you will have the option to close the Sales Ledger and/or Purchase Ledger. Do this by clicking the relevant check box(es).

If you decide to close both the Sales Ledger and Purchase Ledger, the option to close the General Ledger becomes available — thus, if you are ready, you can close all three ledgers at once.

If you are not ready to close any of the ledgers, leave the relevant check box(es) deselected. You can return to this panel at a later date when you are ready to move the remaining ledger(s) into the next period.

Printing audit reports...

If you have not yet printed the relevant audit reports the End of Period dialogue reminds you that you must do this before the option to close each ledger becomes available.

For the initial setting up period only, Bottom Line insists that you print a Trial Balance to ensure that the accounts do, in fact, balance before allowing you to proceed with the End of Period.

End Of Period	Current Period
☐ General Ledger Cannot end period before Sales and Purchase	5
☐ Sales Ledger First print the Audit reports	5
☐ Purchase Ledger First print the Audit reports	5

Year End

If you close an accounting period which coincides with the last period in the financial year then, in addition to running a normal End of Period, Bottom Line performs the following tasks…

• Posts the Profit or Loss for the current year to the Retained Profits account in the Balance Sheet.

• Resets the current balance for each Revenue or Expenditure account to zero.

• For each General Ledger account, the current balance is brought forward, the actual balances for this year replace last year's balances and the new year's historic figures are zeroed.

• For each customer and supplier account, the current balance is brought forward and the turnover for the current year replaces last year's turnover.

Before this sequence gets under way, you should ensure that you have…

• Posted all items for the current year. If you are still waiting for the relevant paperwork, you should delay running the End of Period command until this information has been received.

• Posted all year end adjustments - such as accruals, provisions and prepayments as described in the Don't Panic section towards the end of this manual.

• Completed all reconciliations.

• Copied your accounts data onto a backup disk. This security copy can then be kept in a safe place for archive purposes.

• Printed all the end of year reports that you (and your auditor) will require and cleared the Transaction List.

The diagram over the page illustrates the procedure.

Having carried out all these steps, simply choose the End of Period command to close the final accounting period of the year.

Late adjustments…

Having closed the final period in the accounting year any further adjustments — for example, corrections arising from an external audit — can be entered using the Prior Period Journal described in Chapter 15.

**'Year Ending'
the Ledgers**

Sales Ledger

General Ledger

Purchase Ledger

Enter all sales transactions for the current period and post to the General Ledger.

Enter all journals and adjustments for the current period.

Enter all purchase transactions for the current period and post to the General Ledger.

Enter all year end adjustments, e.g. prepayments, accruals or provisions

Back-up before Year Ending any of the ledgers. You may wish to back-up more than once.

Reconcile bank account(s) and, other reconciliation files.

Print and clear the Sales Audit reports. Print any other Sales reports you require.

Print a Profit & Loss Account, Balance Sheet and any other required reports.

Print and clear the Purchase Audit, reports. Print any other Purchase reports you require.

Red =essential
Black=optional

Print a Trial Balance and General Ledger then print and clear the Transaction List

Close the current period for the Sales Ledger.

Close the current period for the Purchase Ledger.

Close the current period for the General Ledger.

VAT Periods and Returns

If you are VAT registered then, depending on the size and nature of your business, you are required to generate the following information on a monthly, quarterly or annual basis...

- A VAT Return (usually quarterly).
- A VAT Account report to which the VAT Return relates (for audit purposes).
- An EC Sales list (if you are supplying goods to other member states of the European Community).

Accounting periods vs. VAT periods

Your accounting periods may have been chosen by you to suit your business. However these periods may not coincide with the VAT Return periods. For example you may have chosen 13 accounting periods commencing 15th April each year whereas your VAT returns may be required quarterly at the end of February, May, August and November.

For this reason Bottom Line collates VAT information on a calendar month basis and you are able to choose which months to use for reports…

…or which months to clear.

Before looking at the procedures for preparing these documents, you need to be aware of where Bottom Line stores the information and how to find that information.

The three VAT reports, **VAT Account (and Detailed VAT Account), VAT Return** and **EC Sales List** are accessed from the General Ledger Reports window. Turn to Chapter 16 to see how these reports are produced.

VAT information is normally maintained by the Sales and Purchase ledgers. If for some reason, VAT information has been modified directly in the General Ledger — for example through a journal transaction then you may have to amend the stored VAT values to correct the VAT reports. There is a section in Chapter 14 which describes how to locate and maintain VAT information but the following is to remind you how to get at the VAT figures…

Amending the VAT Amounts Panel

Special

End of Period...

Business Details...
VAT Details...
VAT Amounts...
Clear VAT Amounts...
Clear VAT EC Sales...

Choose the VAT Amounts option from the Special menu to display the following panel…

Display ✓**Purchase**
　　　　　Sales

Click here to switch the display between Purchase (input) VAT amounts and Sales (output) VAT amounts

Choose the relevant month from the pop-up menu

Choose the relevant year (this year or last year) from the pop-up menu.

VAT Amounts

Display [Purchase ▼] **For Month** [May ▼] **Year** [1997 ▼]

	Purchases	VAT Amount	EC Purchases	VAT Amount
Zero	762.19	0.00	0.00	0.00
Standard	3,473.24	607.82	1,947.28	340.77
Fuel	241.93	19.35	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
Exempt	0.00	0.00	0.00	0.00

Check and, if necessary, amend the calculated VAT figures then click OK to accept the changes

[Cancel] [OK]

End of a VAT Period

Whenever you reach the end of a VAT period, carry out the steps outlined below to…

- Ensure that all VAT transactions relating to the current tax period have been entered into the Sales and Purchase Ledgers then posted to the General Ledger. These postings update the VAT amounts from which the VAT Return and VAT Account reports are derived.

- Print (or preview) the VAT Return and VAT Account (and Detailed VAT Account) as described in Chapter 16. You should also print the EC Sales List if required.

- Check the VAT Return and VAT Account figures with the VAT account balances.

- If there are discrepancies - for example, a VAT transaction has been entered directly into the General Ledger instead of being posted via the Sales or Purchase Ledger — make the necessary adjustments to the VAT Amounts panel as described in the previous section and re-print your VAT reports.

The diagram on the next page illustrates the closure of a VAT period…

Cash Accounting

If you are operating the Cash Accounting scheme it is important that you pay VAT on all invoices for which you have been paid — this includes part payments. Bottom Line is only able to identify VAT on invoices which have been fully paid and allocated. This means that you should take care to adjust your VAT figures to include any part payments which have not been allocated.

Don't rush it

You will find that you have a couple of weeks grace from the end of a VAT quarter to the date when payment is due. During this period you may receive additional Purchase Invoices with Tax Points dated during the VAT months that you are about to close.

As a result, don't feel obliged to finalise your VAT Returns until a week or two after the end of the relevant period. Even when the date for the end of the VAT period has passed Bottom Line still allocates late amounts into the relevant month…

…until that month is cleared.

Sales Ledger

Ensure that all sales transactions for the current VAT period have been entered and posted to the General Ledger

General Ledger

Ensure that all journals and adjustments for the current VAT period have been entered.

Print the VAT Account , Detailed VAT Account and, if necessary, EC Sales List.

Purchase Ledger

Ensure that all purchase transactions for the current VAT period have been entered and posted to the General Ledger

Check the VAT Account figures against the General Ledger VAT Account(s).

OK?   **NO**

Identify the problem(s) then adjust the values in the VAT Amounts panel.

YES

Back-up the accounts then re-print the VAT Return and EC Sales List if necessary

Clear the VAT Amounts and the EC Sales List

Complete and mail the official VAT Return (and EC Sales List) with any payment to Customs & Excise

Enter the VAT payment as a Cash Book Journal
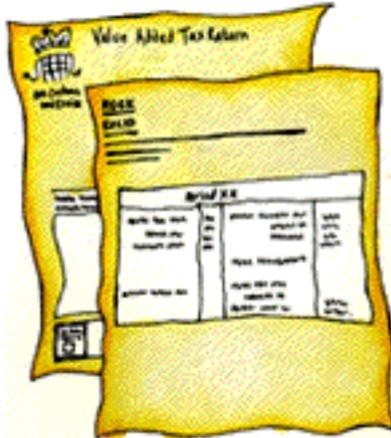
Paying your VAT dues

Once you are satisfied that your VAT reports are correct, complete your official VAT Return form and send it together with the required payment (and, if necessary, the EC Sales List) to Customs and Excise.

Finally use the Cash Book facility (as described in Chapter 15) to debit the VAT account and credit your bank account with the VAT amount paid — as shown in this example...
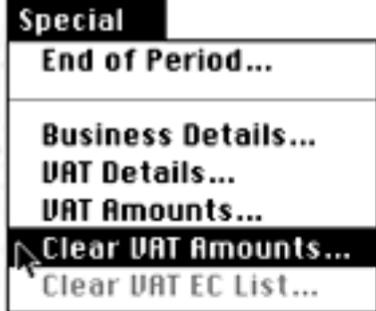

Journal

Enter Journals
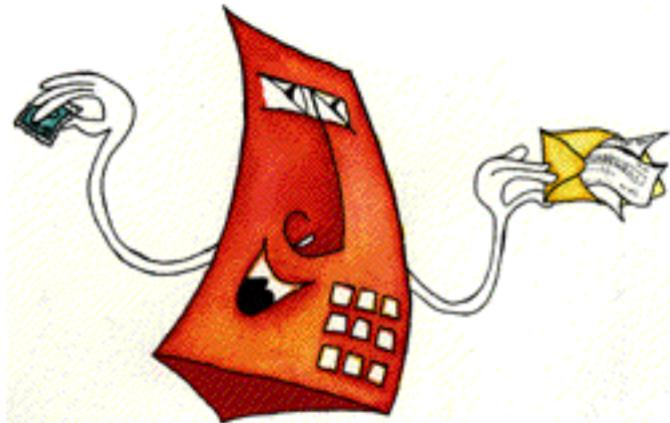
Journal No:	326	
Date:	19-Aug-1997	
Subject:	VAT - 2nd quarter	

| A/c No.	Debit	Credit	Comment
Totals:	12756.81	12756.81	
20800 VAT Account	12756.81		Pay 2nd quarter VAT
16100 Current Account		12756.81	Pay 2nd quarter VAT

Preview | Batch | Print | Ignore

Clearing a VAT Period

Having reconciled and printed your VAT figures for the relevant quarter (or month) you must immediately clear the VAT figures for that period like this…

Special
End of Period…

Business Details…
UAT Details…
UAT Amounts…
Clear UAT Amounts…
Clear UAT EC List…

Having printed the VAT Return and VAT Account reports, choose Clear VAT Amounts from the Special menu to display the following panel…

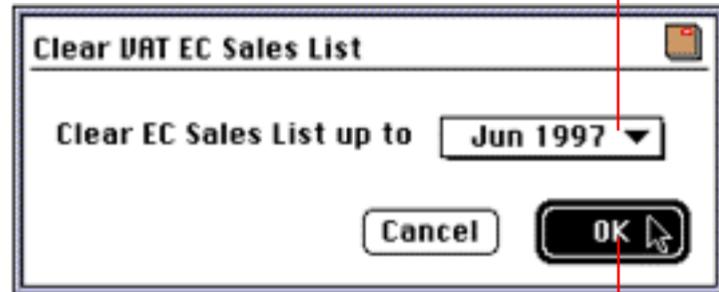Use the pop-up menu to select the last month in the current tax period.

Clear UAT Amounts

Clear UAT amounts up to   Jun 1997 ▼

Cancel   OK
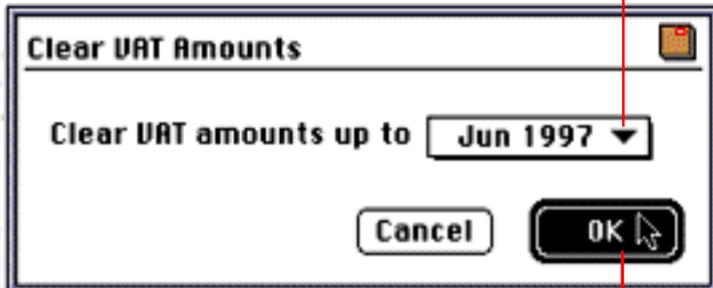
Click OK to clear the VAT amounts up to the end of the selected month.

Clearing the EC Sales List for the Completed Period

Having printed the VAT Amounts for the relevant VAT period, choose Clear VAT EC Sales List from the Special menu to display the following panel…

Special
End of Period…

Business Details…
UAT Details…
UAT Amounts…
Clear UAT Amounts…
Clear UAT EC List…

Use the pop-up menu to select the last month in the current EC Sales period

Clear UAT EC Sales List

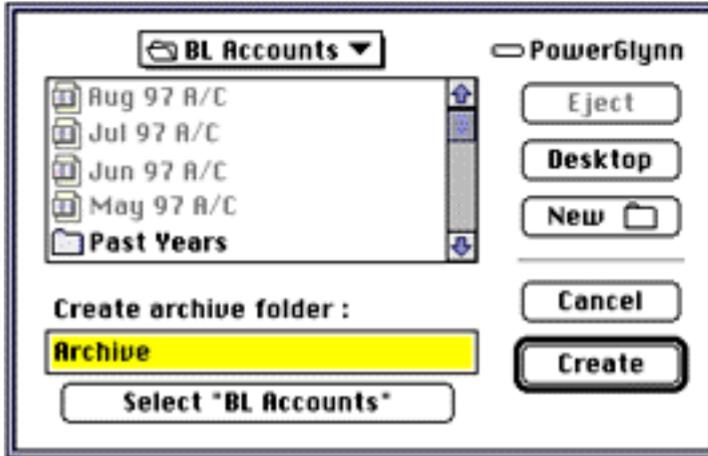Clear EC Sales List up to   Jun 1997 ▼

Cancel   OK

Click OK to clear the EC Sales figures up to the end of the selected month.

VAT Archive Files

Whenever you end a VAT quarter Bottom Line squirrels away a file of the VAT transactions in case they are needed for a VAT audit.

The File is placed on the hard disk of your computer. The first time around you will be asked for the name and location of a folder in which the archive files should be stored.

You should back-up these archives onto storage disks so that they are available in the future— Customs and Excise require you to keep information for 6 years!

BL Accounts ▼	▢ PowerGlynn
▣ Aug 97 A/C	Eject
▣ Jul 97 A/C	Desktop
▣ Jun 97 A/C	New ▢
▣ May 97 A/C	
▢ Past Years	
Create archive folder :	Cancel
Archive	Create
Select "BL Accounts"	

Click Create to accept the preset folder name

…or choose a new name and location of your choice.