

# **Closing the Books**

---

3rd Edition

Steven M. Bragg

# Table of Contents

---

<b>Chapter 1 – The General Ledger and Other Ledgers .....</b>	<b>1</b>
Learning Objectives .....	1
Introduction.....	1
The Ledger Concept.....	1
General Ledger Overview .....	2
The Accounts Receivable Ledger.....	3
The Purchase Ledger .....	4
Chapter Summary.....	5
Review Questions.....	6
Review Answers .....	7
 <b>Chapter 2 – The Trial Balance.....</b>	 <b>8</b>
Learning Objectives .....	8
Introduction.....	8
Overview of the Trial Balance .....	8
The Trial Balance Format.....	8
The Extended Trial Balance.....	9
Trial Balance Error Correction.....	10
The Post-Closing Trial Balance.....	11
Evaluation of the Trial Balance.....	11
Chapter Summary.....	12
Review Questions.....	13
Review Answers .....	14
 <b>Chapter 3 – Journal Entries .....</b>	 <b>15</b>
Learning Objectives .....	15
Introduction.....	15
The Accruals Concept.....	15
Adjusting Entries.....	15
Reversing Entries .....	16
Common Adjusting Entries.....	17
Depreciation .....	17
Allowance for Doubtful Accounts.....	18
Accrued Revenue .....	18
Accrued Expenses .....	18
Prepaid Assets.....	19
Closing Entries .....	19
Correcting Entries .....	20
Journal Entry Efficiencies.....	21
Immaterial Journal Entries.....	21
Reversing Entries .....	21
Journal Entry Templates .....	21
Recurring Journal Entries.....	22
Standard Journal Entry Checklist .....	22
Journal Entry Responsibility .....	23
Avoid Journal Entries Entirely.....	24
Standardize Accounts .....	24
Chapter Summary.....	25
Review Questions.....	26
Review Answers .....	27
 <b>Chapter 4 – The Closing Process .....</b>	 <b>28</b>
Learning Objectives .....	28
Introduction.....	28

## Table of Contents

Prior Steps: Update Reserves.....	28
Core Steps: Issue Customer Invoices .....	29
Core Steps: Value Inventory .....	29
Core Steps: Calculate Depreciation .....	30
Core Steps: Accrue Expenses .....	30
Core Steps: Consolidate Division Results .....	30
Core Steps: Eliminate Intercompany Transactions .....	30
Core Steps: Review Journal Entries.....	31
Core Steps: Reconcile Accounts.....	31
Core Steps: Close Subsidiary Ledgers.....	33
Core Steps: Create Financial Statements.....	33
Core Steps: Review Financial Statements.....	33
Core Steps: Accrue Tax Liabilities.....	34
Core Steps: Close the Month.....	34
Core Steps: Calculate Earnings per Share .....	34
Core Steps: Add Disclosures .....	34
Core Steps: Write Cover Letter .....	35
Core Steps: Issue Financial Statements.....	36
Delayed Steps: Issue Customer Invoices .....	36
Delayed Steps: Closing Metrics .....	36
Delayed Steps: Document Future Closing Changes .....	37
Delayed Steps: Update Closing Procedures.....	37
Case Study.....	38
Closing Checklist .....	44
Customer Billings.....	44
Accounts Payable .....	44
Fixed Assets .....	45
Inventory.....	45
Journal Entries.....	45
Balance Sheet Reconciliations.....	45
Consolidate Results .....	46
Error Checking.....	46
Preparation of the Financial Statements – Private Company .....	46
Preparation of the Financial Statements – Public Company.....	47
Final Tasks – Month-End .....	47
Final Tasks – Year-End.....	47
Chapter Summary.....	48
Review Questions.....	49
Review Answers .....	50
 <b>Chapter 5 – Fine-Tune the Closing Process.....</b>	 51
Learning Objectives .....	51
Introduction.....	51
Task Interdependency Analysis .....	51
Correct Errors Early .....	53
Reconcile Accounts Early .....	53
Adjust Reserves Early.....	53
Alter Overhead Allocations Early.....	53
Review the Shipping Log Early .....	54
Review Billable Hours Early .....	54
Accrue Early .....	54
Accelerate Depreciation Calculations .....	55
Examine Commissions Early.....	55
Standardize the Accounting System.....	56
Centralize the Accounting System.....	56
Standardize Exception Handling .....	57
Centralize Travel Bookings .....	58

## Table of Contents

Process Centering .....	58
Mitigate Information Dependencies .....	59
Standardize the Report Layout.....	59
Reduce the Financial Statements.....	59
Collect Report Information Early.....	60
Electronic Delivery.....	61
Defer Activities.....	61
Automation Solutions.....	61
Intercompany Transactions .....	61
Consolidation Software .....	62
Enterprise Resources Planning Systems.....	62
Workflow Management Systems .....	62
Incremental Automation .....	63
Automation Summary .....	63
Ongoing Process Improvements .....	63
Chapter Summary.....	64
Review Questions.....	66
Review Answers .....	67
<b>Chapter 6 – Closing Cash .....</b>	<b>68</b>
Learning Objectives .....	68
Introduction.....	68
Overview of the Bank Reconciliation.....	68
The Bank Reconciliation Procedure .....	68
Bank Reconciliation Problems.....	69
The Bank Reconciliation Statement .....	70
The Timing of the Bank Reconciliation .....	70
Negative Cash on the Balance Sheet.....	71
Closing Petty Cash .....	71
Chapter Summary.....	72
Review Questions.....	73
Review Answers .....	74
<b>Chapter 7 – Closing Accounts Receivable.....</b>	<b>75</b>
Learning Objectives .....	75
Introduction.....	75
The Shipping Log Interface .....	75
Revenue Accruals.....	75
Revenue Recognition Rules.....	76
Treatment of Deferred Revenue.....	77
Issues with Subcontractors .....	77
Recurring Invoices .....	78
Rebillable Expenses .....	78
Reconciling Accounts Receivable .....	79
Non-Trade Receivables .....	80
The Allowance for Doubtful Accounts .....	80
Recording Contra Revenue.....	81
Chapter Summary.....	81
Review Questions.....	83
Review Answers .....	84
<b>Chapter 8 – Closing Inventory .....</b>	<b>85</b>
Learning Objectives .....	85
Introduction.....	85
Valuation Step 1: The Quantity of Inventory on Hand .....	85
The Periodic Inventory System .....	85
The Perpetual Inventory System .....	86

## Table of Contents

The Gross Profit Method.....	87
Valuation Step 2: Inventory Costing .....	88
The First In, First Out Method .....	88
The Last In, First Out Method.....	89
The Weighted Average Method.....	90
Standard Costing.....	91
The Retail Inventory Method .....	92
Valuation Step 3: Overhead Allocation.....	93
Valuation Step 4: Inventory Valuation.....	95
The Lower of Cost or Market Rule.....	95
Obsolete Inventory Accounting .....	97
Chapter Summary.....	99
Review Questions.....	100
Review Answers .....	101
<b>Chapter 9 – Closing Fixed Assets.....</b>	<b>102</b>
Learning Objectives .....	102
Introduction.....	102
Initial Asset Recognition.....	102
The Depreciation Entry .....	103
Interest Capitalization .....	104
Asset Impairment.....	105
Reconciling Fixed Assets .....	107
Chapter Summary.....	107
Review Questions.....	108
Review Answers .....	109
<b>Chapter 10 – Closing Accounts Payable.....</b>	<b>110</b>
Learning Objectives .....	110
Introduction.....	110
Accounts Payable Accruals.....	110
Invoice Approval Delays .....	111
Expense Reports .....	112
Issues with the Credit Card Close .....	113
Accounts Payable Suspense Items .....	113
Reconciling Accounts Payable.....	114
Chapter Summary.....	115
Review Questions.....	116
Review Answers .....	117
<b>Chapter 11 – Closing Payroll .....</b>	<b>118</b>
Learning Objectives .....	118
Introduction.....	118
The Wage Accrual .....	118
The Commission Accrual .....	120
The Bonus Accrual .....	121
The Payroll Tax Accrual .....	121
The Benefits Accrual.....	122
The Vacation Accrual.....	122
Reconciling Compensation Accruals .....	123
Chapter Summary.....	123
Review Questions.....	124
Review Answers .....	125
<b>Chapter 12 – The Income Statement.....</b>	<b>126</b>
Learning Objectives .....	126
Introduction.....	126

## Table of Contents

Income Statement Overview .....	126
The Single-Step Income Statement.....	128
The Multi-Step Income Statement.....	129
The Condensed Income Statement.....	129
The Contribution Margin Income Statement .....	130
The Multi-Period Income Statement .....	130
The Statement of Activities .....	131
How to Construct the Income Statement.....	133
Other Income Statement Topics.....	134
What is a Cash Basis Income Statement?.....	134
What is a Partial Income Statement?.....	135
What are Headline Earnings?.....	135
Chapter Summary.....	136
Review Questions.....	137
Review Answers .....	138
<b>Chapter 13 – The Balance Sheet.....</b>	<b>139</b>
Learning Objectives .....	139
Introduction.....	139
Overview of the Balance Sheet .....	139
The Common Size Balance Sheet .....	141
The Comparative Balance Sheet.....	142
The Nonprofit Balance Sheet.....	143
Unrestricted Net Assets .....	144
Temporarily Restricted Net Assets .....	144
Permanently Restricted Net Assets .....	144
How to Construct the Balance Sheet.....	145
Other Balance Sheet Topics .....	146
Does an Expense Appear on the Balance Sheet?.....	146
Where do Accruals Appear on the Balance Sheet? .....	146
What is Order of Liquidity?.....	146
Chapter Summary.....	147
Review Questions.....	148
Review Answers .....	149
<b>Chapter 14 – The Statement of Cash Flows .....</b>	<b>150</b>
Learning Objectives .....	150
Introduction.....	150
Overview of the Statement of Cash Flows .....	150
The Direct Method .....	151
The Indirect Method.....	152
How to Prepare the Statement of Cash Flows .....	153
Chapter Summary.....	154
Review Questions.....	155
Review Answers .....	156
<b>Chapter 15 – The Statement of Retained Earnings .....</b>	<b>157</b>
Learning Objectives .....	157
Introduction.....	157
Overview of the Statement of Retained Earnings .....	157
How to Prepare the Statement of Retained Earnings.....	158
Chapter Summary.....	158
Review Questions.....	159
Review Answers .....	160
<b>Chapter 16 – Financial Statement Disclosures .....</b>	<b>161</b>
Learning Objectives .....	161

## Table of Contents

Introduction.....	161
Accounting Disclosures.....	161
Chapter Summary.....	167
Review Questions.....	168
Review Answers .....	169
<b>Chapter 17 – Segment Reporting.....</b>	<b>170</b>
Learning Objectives .....	170
Introduction.....	170
Overview of Segment Reporting.....	170
Segment Disclosure.....	172
Segment Disclosure .....	172
Products, Services, and Customer Disclosure .....	174
Geographic Area Disclosure .....	174
Chapter Summary.....	175
Review Questions.....	176
Review Answers .....	177
<b>Chapter 18 – Interim Reporting.....</b>	<b>178</b>
Learning Objectives .....	178
Introduction.....	178
Overview of Interim Reporting.....	178
General Interim Reporting Rule.....	178
Variations from the Interim Reporting Rule .....	179
Changes in Accounting Principle in Interim Periods.....	180
Changes in Accounting Estimate in Interim Periods.....	180
Error Correction in Interim Periods .....	181
Adjustments to Prior Interim Periods .....	181
The Integral View.....	181
The Discrete View.....	182
Comparison of the Integral and Discrete Views .....	182
Disclosures for Interim Reporting .....	183
Chapter Summary.....	183
Review Questions.....	185
Review Answers .....	186
<b>Chapter 19 – Earnings per Share.....</b>	<b>187</b>
Learning Objectives .....	187
Introduction.....	187
Basic Earnings per Share .....	187
Diluted Earnings per Share .....	188
Presentation of Earnings per Share .....	191
Chapter Summary.....	192
Review Questions.....	193
Review Answers .....	194
<b>Chapter 20 – The Public Company Close.....</b>	<b>195</b>
Learning Objectives .....	195
Introduction.....	195
The Public Company Closing Process .....	195
The Form 10-Q .....	197
The Form 10-K .....	198
Chapter Summary.....	199
Review Questions.....	200
Review Answers .....	201

## Table of Contents

<b>Chapter 21 – Controls for Closing the Books .....</b>	<b>202</b>
Learning Objectives .....	202
Introduction.....	202
Preventive and Detective Controls .....	202
Basic Controls .....	202
Additional Controls for Public Companies.....	205
Balancing Controls against Speed .....	205
Chapter Summary.....	206
Review Questions.....	207
Review Answers .....	208
<b>Chapter 22 – Record Keeping .....</b>	<b>209</b>
Learning Objectives .....	209
Introduction.....	209
Month-End Record Keeping.....	209
Year-End Record Keeping .....	209
Public Company Record Keeping.....	210
Chapter Summary.....	211
Review Questions.....	212
Review Answers .....	213
<b>Chapter 23 – Soft Close and Virtual Close .....</b>	<b>214</b>
Learning Objectives .....	214
Introduction.....	214
The Soft Close.....	214
The Virtual Close .....	215
The Reporting Package .....	216
Chapter Summary.....	217
Review Questions.....	218
Review Answers .....	219
<b>Glossary.....</b>	<b>221</b>
<b>Index .....</b>	<b>227</b>