



51A Middle Street Newburyport MA 01950

Phone: 800-588-7039 Fax: 877-902-4284

[contact@bhfe.com](mailto:contact@bhfe.com)

[www.beaconhillcpe.com](http://www.beaconhillcpe.com)

## Course Information

---

**Course Title:** Closing the Books #3614

Number of continuing education credit hours recommended for this course:

CPA: 13 (All states)

In accordance with the standards of the National Registry of CPE Sponsors, CPE credits have been granted based on a 50-minute hour.

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration

Florida Division of Certified Public Accountancy: 4761 (Ethics #11467)

Hawaii Board of Accountancy: 14003

New York State Board of Accountancy: 002146

Ohio State Board of Accountancy: M0021

Texas State Board of Accountancy: 009349

**Program Delivery Method:** QAS Self-Study (interactive)

**Subject Codes/Field of Study:** Accounting

### Course Description:

Level: Overview

Prerequisites: Basic familiarity with accounting

Advance Preparation: None

*Closing the Books: An Accountant's Guide* demonstrates how the accounting systems summarize information into financial statements, how to close the books efficiently, how to construct financial statements, and the controls and record keeping systems needed to close the books.

### Course Content

Publication/Revision date: 8/13/2014.

Course book: *Closing the Books* by Steven M. Bragg, CPA.

Final exam format: Sixty-five questions (multiple-choice).

Instructions for taking this course

In order to receive CPE credit for this course, you must complete the course within one year of the date of purchase. This includes achieving a passing grade of at least 70% on the final exam. The exam may be retaken if not passed on first attempt (no charge).

Complete the course by following the learning assignments and objectives listed below and studying the review questions at the end of each chapter. Once you have completed each learning assignment and you are confident that the learning objectives have been met, answer the final exam questions.

⇒bgfñ Vñcbg`Zcf`HU\_]b[ `h\Y: ]bU`9I Ua `Cb`bY. ``  
.....; `@[ ]b`hc`mci f`UW`i bh`cb`bY`Uh`k`k`k`"V\ZY"Vta ""  
.....; `c`hc`f`A`m5W`i bh`U`bX`j`]Yk`mci f`V`i fgYg""  
.....; `GY`Yw`f`HU`\_`Y`9I`Ua`f`Zcf`h`jg`V`i fgY`UbX`Z`ck`]bgfñ Vñcbg".....  
<Uj`Y`U`ei`Ygh`cb3`7U`i`g`Uh,`\$!`),`!+\$`-`cf`Ya`U`]`i`g`Uh`V`bhUW4`V\ZY"Vta ""

## Learning Assignment & Objectives

---

- Identify the types of subsidiary ledgers.
- Note the applications of the different types of trial balances.
- Cite the types of journal entries used to modify account balances and record transactions.
- Recognize the core and delayed steps used to close the books.
- State the methods used to fine-tune the closing process, and which activities do not improve the process.
- Identify bank reconciliation terminology, as well as the applicability of petty cash reconciliations.
- Cite the situations in which revenue can be recorded, as well as how to rebill expenses.
- Identify the methods used to assign costs to inventory and increase the accuracy of inventory records.
- Note the rules related to fixed asset recordation and impairment, along with associated terms.
- State how accounts payable are handled and the associated expenses recorded.
- Identify the recordation decisions associated with payroll transactions.
- State the formats in which the income statement can be presented, and note the source of income statement information.
- Recognize the proper classification of line items on the balance sheet, and note how the balance sheet is constructed.
- Identify the contents of the statement of cash flows.
- Identify the contents of the statement of retained earnings.
- Cite the types and contents of disclosures that can accompany the financial statements.
- State the criteria used to identify a reporting segment, as well as the required segment reporting.
- Identify the decision points associated with the integral and discrete views of interim reporting.
- Cite the methods used to calculate the various types of earnings per share.
- State the additional steps involved in closing the books of a public company, including the additional types of required approvals.

- Recognize the controls that should be imposed on the closing process.
- Identify the types of records associated with closing the books that should be stored.
- Cite the situations under which a soft close can produce errors, and the benefits of using a virtual close.

## About the Author

---

**Steven Bragg, CPA**, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been a two-time president of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written the following books:

Accountants' Guidebook	Credit & Collection Guidebook
Accounting Controls Guidebook	Financial Analysis
Accounting for Inventory	Fixed Asset Accounting
Accounting for Managers	GAAP Guidebook
Accounting Procedures Guidebook	Human Resources Guidebook
Budgeting	IFRS Guidebook
Business Ratios	Inventory Management
CFO Guidebook	Investor Relations Guidebook
Closing the Books	Lean Accounting Guidebook
Corporate Cash Management	Mergers & Acquisitions
Cost Accounting Fundamentals	New Controller Guidebook
Cost Management Guidebook	Payroll Management

Published by AccountingTools LLC, Centennial, Colorado.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to Steven M. Bragg, 6727 E. Fremont Place, Centennial, CO 80112.

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

# Table of Contents

---

<b>Chapter 1 - The General Ledger and Other Ledgers .....</b>	<b>1</b>
<i>The Ledger Concept .....</i>	<i>1</i>
<i>General Ledger Overview .....</i>	<i>2</i>
<i>The Accounts Receivable Ledger .....</i>	<i>3</i>
<i>The Purchase Ledger .....</i>	<i>4</i>
<b>Chapter 2 - The Trial Balance .....</b>	<b>7</b>
<i>Overview of the Trial Balance .....</i>	<i>7</i>
<i>The Trial Balance Format .....</i>	<i>7</i>
<i>The Extended Trial Balance .....</i>	<i>8</i>
<i>Trial Balance Error Correction .....</i>	<i>9</i>
<i>The Post-Closing Trial Balance .....</i>	<i>10</i>
<i>Evaluation of the Trial Balance .....</i>	<i>10</i>
<b>Chapter 3 - Journal Entries .....</b>	<b>13</b>
<i>The Accruals Concept .....</i>	<i>13</i>
<i>Adjusting Entries .....</i>	<i>13</i>
<i>Reversing Entries .....</i>	<i>14</i>
<i>Common Adjusting Entries .....</i>	<i>15</i>
<i>Closing Entries .....</i>	<i>17</i>
<i>Correcting Entries .....</i>	<i>19</i>
<i>Journal Entry Efficiencies .....</i>	<i>19</i>
<i>Standardize Accounts .....</i>	<i>22</i>
<b>Chapter 4 - The Closing Process .....</b>	<b>25</b>
<i>Prior Steps: Update Reserves .....</i>	<i>25</i>
<i>Core Steps: Issue Customer Invoices .....</i>	<i>26</i>
<i>Core Steps: Value Inventory .....</i>	<i>26</i>
<i>Core Steps: Calculate Depreciation .....</i>	<i>27</i>
<i>Core Steps: Accrue Expenses .....</i>	<i>27</i>
<i>Core Steps: Consolidate Division Results .....</i>	<i>27</i>
<i>Core Steps: Eliminate Intercompany Transactions .....</i>	<i>27</i>
<i>Core Steps: Review Journal Entries .....</i>	<i>28</i>
<i>Core Steps: Reconcile Accounts .....</i>	<i>28</i>
<i>Core Steps: Close Subsidiary Ledgers .....</i>	<i>30</i>
<i>Core Steps: Create Financial Statements .....</i>	<i>30</i>
<i>Core Steps: Review Financial Statements .....</i>	<i>30</i>

<i>Core Steps: Accrue Tax Liabilities</i> .....	31
<i>Core Steps: Close the Month</i> .....	31
<i>Core Steps: Calculate Earnings per Share</i> .....	31
<i>Core Steps: Add Disclosures</i> .....	32
<i>Core Steps: Write Cover Letter</i> .....	32
<i>Core Steps: Issue Financial Statements</i> .....	33
<i>Delayed Steps: Issue Customer Invoices</i> .....	33
<i>Delayed Steps: Closing Metrics</i> .....	34
<i>Delayed Steps: Document Future Closing Changes</i> .....	34
<i>Delayed Steps: Update Closing Procedures</i> .....	34
<i>Case Study</i> .....	35
<i>Closing Checklist</i> .....	42
<b>Chapter 5 - Fine-Tune the Closing Process</b> .....	<b>48</b>
<i>Task Interdependency Analysis</i> .....	48
<i>Correct Errors Early</i> .....	50
<i>Reconcile Accounts Early</i> .....	50
<i>Adjust Reserves Early</i> .....	50
<i>Alter Overhead Allocations Early</i> .....	50
<i>Review the Shipping Log Early</i> .....	51
<i>Review Billable Hours Early</i> .....	51
<i>Accrue Early</i> .....	51
<i>Accelerate Depreciation Calculations</i> .....	52
<i>Examine Commissions Early</i> .....	52
<i>Standardize the Accounting System</i> .....	53
<i>Centralize the Accounting System</i> .....	54
<i>Standardize Exception Handling</i> .....	55
<i>Centralize Travel Bookings</i> .....	55
<i>Process Centering</i> .....	55
<i>Mitigate Information Dependencies</i> .....	56
<i>Standardize the Report Layout</i> .....	57
<i>Reduce the Financial Statements</i> .....	57
<i>Collect Report Information Early</i> .....	58
<i>Electronic Delivery</i> .....	58
<i>Defer Activities</i> .....	58
<i>Automation Solutions</i> .....	59
<i>Ongoing Process Improvements</i> .....	61

<b>Chapter 6 - Closing Cash .....</b>	<b>64</b>
<i>Overview of the Bank Reconciliation .....</i>	64
<i>The Bank Reconciliation Procedure.....</i>	64
<i>Bank Reconciliation Problems .....</i>	65
<i>The Bank Reconciliation Statement.....</i>	66
<i>The Timing of the Bank Reconciliation .....</i>	66
<i>Negative Cash on the Balance Sheet.....</i>	67
<i>Closing Petty Cash.....</i>	67
<b>Chapter 7 - Closing Accounts Receivable .....</b>	<b>71</b>
<i>The Shipping Log Interface .....</i>	71
<i>Revenue Accruals.....</i>	71
<i>Revenue Recognition Rules .....</i>	72
<i>Treatment of Deferred Revenue .....</i>	73
<i>Issues with Subcontractors.....</i>	73
<i>Recurring Invoices .....</i>	74
<i>Rebillable Expenses.....</i>	74
<i>Reconciling Accounts Receivable.....</i>	76
<i>Non-Trade Receivables .....</i>	76
<i>The Allowance for Doubtful Accounts.....</i>	76
<i>Recording Contra Revenue .....</i>	77
<b>Chapter 8 - Closing Inventory .....</b>	<b>80</b>
<i>Valuation Step 1: The Quantity of Inventory on Hand.....</i>	80
<i>The Periodic Inventory System.....</i>	80
<i>The Perpetual Inventory System.....</i>	81
<i>The Gross Profit Method.....</i>	82
<i>Valuation Step 2: Inventory Costing .....</i>	83
<i>The First In, First Out Method.....</i>	83
<i>The Last In, First Out Method.....</i>	84
<i>The Weighted Average Method .....</i>	86
<i>Standard Costing.....</i>	87
<i>The Retail Inventory Method.....</i>	88
<i>Valuation Step 3: Overhead Allocation.....</i>	88
<i>Valuation Step 4: Inventory Valuation.....</i>	91
<i>The Lower of Cost or Market Rule.....</i>	91
<i>Obsolete Inventory Accounting .....</i>	93
<b>Chapter 9 - Closing Fixed Assets.....</b>	<b>96</b>

<i>Initial Asset Recognition</i> .....	96
<i>The Depreciation Entry</i> .....	97
<i>Interest Capitalization</i> .....	98
<i>Asset Impairment</i> .....	100
<i>Reconciling Fixed Assets</i> .....	101
<b>Chapter 10 - Closing Accounts Payable</b> .....	<b>103</b>
<i>Accounts Payable Accruals</i> .....	103
<i>Invoice Approval Delays</i> .....	104
<i>Expense Reports</i> .....	105
<i>Issues with the Credit Card Close</i> .....	106
<i>Accounts Payable Suspense Items</i> .....	107
<i>Reconciling Accounts Payable</i> .....	108
<b>Chapter 11 - Closing Payroll</b> .....	<b>110</b>
<i>The Wage Accrual</i> .....	110
<i>The Commission Accrual</i> .....	112
<i>The Bonus Accrual</i> .....	113
<i>The Payroll Tax Accrual</i> .....	113
<i>The Benefits Accrual</i> .....	114
<i>The Vacation Accrual</i> .....	115
<i>Reconciling Compensation Accruals</i> .....	116
<b>Chapter 12 - The Income Statement</b> .....	<b>118</b>
<i>Income Statement Overview</i> .....	118
<i>The Single-Step Income Statement</i> .....	120
<i>The Multi-Step Income Statement</i> .....	121
<i>The Condensed Income Statement</i> .....	122
<i>The Contribution Margin Income Statement</i> .....	122
<i>The Multi-Period Income Statement</i> .....	123
<i>The Statement of Activities</i> .....	124
<i>How to Construct the Income Statement</i> .....	125
<i>Other Income Statement Topics</i> .....	126
What is a Cash Basis Income Statement? .....	127
What is a Partial Income Statement? .....	127
What are Headline Earnings?.....	128
<b>Chapter 13 - The Balance Sheet</b> .....	<b>131</b>
<i>Overview of the Balance Sheet</i> .....	131
<i>The Common Size Balance Sheet</i> .....	133
<i>The Comparative Balance Sheet</i> .....	134

<i>The Nonprofit Balance Sheet</i> .....	135
<b>Unrestricted Net Assets</b> .....	136
<b>Temporarily Restricted Net Assets</b> .....	136
<b>Permanently Restricted Net Assets</b> .....	137
<i>How to Construct the Balance Sheet</i> .....	137
<i>Other Balance Sheet Topics</i> .....	138
Does an Expense Appear on the Balance Sheet? .....	138
Where do Accruals Appear on the Balance Sheet?.....	139
What is Order of Liquidity? .....	139
<b>Chapter 14 - The Statement of Cash Flows</b> .....	<b>142</b>
<i>Overview of the Statement of Cash Flows</i> .....	142
<i>The Direct Method</i> .....	143
<i>The Indirect Method</i> .....	144
<i>How to Prepare the Statement of Cash Flows</i> .....	145
<b>Chapter 15 - The Statement of Retained Earnings</b> .....	<b>148</b>
<i>Overview of the Statement of Retained Earnings</i> .....	148
<i>How to Prepare the Statement of Retained Earnings</i> .....	149
<b>Chapter 16 - Financial Statement Disclosures</b> .....	<b>151</b>
<i>Accounting Disclosures</i> .....	151
<b>Chapter 17 - Segment Reporting</b> .....	<b>160</b>
<i>Overview of Segment Reporting</i> .....	160
<i>Segment Disclosure</i> .....	162
Segment Disclosure .....	162
Products, Services, and Customer Disclosure.....	164
Geographic Area Disclosure .....	165
<b>Chapter 18 - Interim Reporting</b> .....	<b>167</b>
<i>Overview of Interim Reporting</i> .....	167
General Interim Reporting Rule.....	167
Variations from the Interim Reporting Rule .....	168
Changes in Accounting Principle in Interim Periods .....	169
Changes in Accounting Estimate in Interim Periods .....	169
Error Correction in Interim Periods .....	170
Adjustments to Prior Interim Periods.....	170
<i>The Integral View</i> .....	170
<i>The Discrete View</i> .....	171
<i>Comparison of the Integral and Discrete Views</i> .....	172
<i>Disclosures for Interim Reporting</i> .....	172
<b>Chapter 19 - Earnings per Share</b> .....	<b>175</b>
<i>Basic Earnings per Share</i> .....	175
<i>Diluted Earnings per Share</i> .....	176



<i>Presentation of Earnings per Share</i> .....	180
<b>Chapter 20 - The Public Company Close</b> .....	<b>183</b>
<i>The Public Company Closing Process</i> .....	183
<i>The Form 10-Q</i> .....	185
<i>The Form 10-K</i> .....	186
<b>Chapter 21 - Controls for Closing the Books</b> .....	<b>190</b>
<i>Preventive and Detective Controls</i> .....	190
<i>Basic Controls</i> .....	190
<i>Additional Controls for Public Companies</i> .....	193
<i>Balancing Controls against Speed</i> .....	193
<b>Chapter 22 - Record Keeping</b> .....	<b>196</b>
<i>Month-End Record Keeping</i> .....	196
<i>Year-End Record Keeping</i> .....	196
<i>Public Company Record Keeping</i> .....	197
<b>Chapter 23 – Soft Close and Virtual Close</b> .....	<b>200</b>
<i>Soft Close</i> .....	200
<i>Virtual Close</i> .....	201
<i>The Reporting Package</i> .....	202
<b>Answers to Chapter Questions</b> .....	<b>205</b>
<b>Glossary</b> .....	<b>220</b>
<b>Index</b> .....	<b>226</b>

# Preface

---

One of the most difficult tasks for the practicing accountant is to close the books at the end of each month and produce a quality set of financial statements in a timely manner. From the perspective of the rest of the company, it may be considered the most important accounting function of all. *Closing the Books: An Accountant's Guide* walks you through every aspect of closing the books, including specific closing activities, how to construct the financial statement package, and how to fine-tune the process.

In Chapters 1-3, we address the system within which the closing process is accomplished, including the general ledger and subsidiary ledgers, the trial balance, and different types of journal entries. In Chapters 4 and 5, we delve into the specific steps needed to close the books, as well as how to accelerate the production of financial statements. Next, in Chapters 6-11, we cover the closing activities associated with specific accounting areas, including cash, accounts receivable, inventory, fixed assets, and accounts payable. In Chapter 12-19, we address all aspects of the financial statements that are the end result of closing the books – the income statement, balance sheet, statement of cash flows, disclosures, earnings per share, interim reporting, and more. Finally, we complete the discussion of closing the books in Chapters 20-23 by covering how to close the books of a public company, implement closing controls, set up a record keeping system, and use a soft close or virtual close.

You can find the answers to many questions about closing the books in the following chapters, including:

- Can I create financial statements from an extended trial balance?
- When should I use reversing entries?
- Which closing steps can be completed before month-end?
- How can task interdependency analysis improve the closing process?
- Should I use more automation to close the books?
- How do I handle negative cash on the balance sheet?
- How should I record deferred revenue?
- How do I handle delays in the approval of supplier invoices?
- When should I accrue for bonuses?
- What financial statement formats should I use?

*Closing the Books* is designed for both professional accountants and students. Professionals can use it as a reference tool for improving their existing closing procedures, while it provides students with an overview of the entire process. Given its complete coverage of the closing topic, *Closing the Books* may earn a permanent place on your book shelf.

Centennial, Colorado  
May 2014