

# Month End Close Workflow Training

Presented by:



# Accounting 101

The two accounting rules to live by:

- 1)  $\text{Assets} = \text{Liabilities} + \text{Equity}$
- 2)  $\text{Net Income on the Balance Sheet} = \text{Net Income on the Income Statement}$

# Glossary of Terms

**Accounts Receivable** - Accounts receivable (AR) is the balance of money owed to you for goods received or services delivered but not yet paid by customers.

**Accounts Payable** - Accounts payable are amounts due to vendors or suppliers for goods or services received that you have not yet paid for.

**Assets** - An asset is anything of value that can be converted into cash.

**Fixed Asset** - A fixed asset is a long-term tangible piece of property or equipment that a firm owns and uses in its operations to generate income. Fixed assets are not expected to be consumed or converted into cash within a year.

**Liabilities** – Your company debt. What you owe.

**Equity** - The net worth of a company. This is the difference between what you owe (liabilities) and what you own (assets).

**Balance Sheet** - A financial statement of assets, liabilities, and capital; the report details the balance of income and expenditure over a specified period of time.

**Profit & Loss** - A financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a fiscal quarter or year.

**Statement of Cash Flow** - A financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources.

**Cash Flow Projection** - A cash flow projection shows the amount of money expected to come into a business minus money expected to go out over a determined amount of time.

**Cash flow** - Cash flow is the net amount of cash and cash-equivalents being transferred into and out of a business.

# Glossary of Terms

**Cost Analysis** – The goal of Cost Analysis is to determine the true cost of the products or services you offer.

**Expenses** – A resource or service you spend money on in order to generate revenue (wages, computers, etc.).

**Direct Cost** – A cost that can be directly tied to the production of specific goods or services.

**Indirect Cost** – A cost that is not directly related to a cost object (such as a specific project, facility, function or product).

**Overhead** - Ongoing business expenses not directly attributed to creating a product or service.

**Breakeven** - The level of production at which the costs of production equal the revenues for a product or service.

**Variable Costs** - A variable cost is an expense that changes in proportion with production output.

**Fixed Costs** – A cost that does not change with an increase or decrease in the amount of goods or services produced or sold.

**Inventory** – Products you purchase and currently stock to resell or products in stock you produce from raw goods to sell.

# Glossary of Terms

**Revenue, Sales, Income** - **Revenue** is the income a company generates before any expenses are subtracted from the calculation. **Sales** are the proceeds a company generates from selling goods or services to its customers. **Income** is a company's total earnings or profit.

**Cost of Goods Sold** - An account for costs directly related to producing a service or product for sale.

**Chart of Accounts** - An organizational tool that provides a digestible breakdown of all the financial transactions that a company conducted during a specific accounting period, broken down into subcategories.

**Gross Payroll vs Net Payroll** - **Gross payroll** refers to the total amount of money the company pays out for its employees during a pay period. **Net payroll** refers to the money that employees receive from the company after it deducts the required withholdings.

**Gross Profit Margin** - Gross profit margin is the proportion of money left over from revenues after accounting for the cost of goods sold (COGS).

**Net Profit Margin** - Net profit margin is the percentage of profit generated from revenue after accounting for all expenses, costs, and cash flow items.

**Contribution Margin** – Determines how much revenue can be used to contribute to fixed costs and profit.

**Cash vs Accrual Basis** – **Cash basis** accounts for the costs and sales where payments have already changed hands. **Accrual** includes AP, and AR where services and goods have been provided, but have not yet been paid for.

# What are CPA's looking for at year end?

Detailed report support for each Balance Sheet Account:

- Cash – Bank Reconciliation
- Receivables – Detailed Aging Report
- Under Billings (Receivable)/Over Billings (Payable) – Bonding report which also may contain columns to reconcile to YTD revenue and YTD costs. Does the contract amount for each job equal the contract documents plus approved change orders? Have estimates been updated for estimated cost to complete the job?
- WIP – detailed report showing each job total and further detail if requested by job

# What are CPA's looking for at year end?

Detailed report support for each Balance Sheet Account:

- Assets & Accumulated Depreciation – Depreciation Schedule – List of any additions/disposals for the year
- Payables – Detailed aging schedules
- Payroll tax payables – detailed reports from payroll
- Sales tax payable – detailed report for filing sales tax
- Accrued Payables – detail for each balance
- Owners Equity and Retained earnings generally only changes once at year end. Have these changed during the year? If so, why.

# Month End Closing Steps

Month-End Closing Process Checklist (start with the balance sheet line items):

- Record all Incoming Cash (Cash is King)
- Are all AR invoice and AP bills entered
- Reconcile Cash, Petty Cash, and Credit Card Accounts
- Review Fixed Assets
- Perform an inventory count
- Analyze and provide support for all liabilities
- Print and review:
  - Balance Sheet
  - Income Statement
  - WIP Over/Under Report

# Support Reports

Cash – Bank Reconciliation

AR – Accounts Receivable Aging

Fixed Assets & Depreciation – Depreciation Schedule

AP – Accounts Payable Aging

Credit Cards – Credit Card statement

Note Payable - Statement from lending source

Sales/Use Tax Payable – Sales/Use Tax Returns

Payroll Tax Liabilities – Report showing taxes due at month end

# Month End Closing Steps

Use of Month End Close Checklist:

[https://youtu.be/m\\_Sflf8PKpg](https://youtu.be/m_Sflf8PKpg)

Free close checklist: <https://thefincontroller.com/p/the-fin-controller-get-close-checklist>

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