

Entering Your Starting Balances

In this chapter:

- What is an opening trial balance?
- Ten steps to creating an opening trial balance

If you've created your company file, your lists, and completed all the other setup-related activities covered in the first six chapters of this book, then you've built about 80 percent of your new QuickBooks file. If these key tasks have not yet been completed, you should return to this chapter when they are.

The last 20 percent of the setup of your file involves entering your beginning balances and any outstanding transactions. This information is needed to ensure that your data file accurately reflects your business's financial position on the day you start using your QuickBooks software. Entering accurate beginning balances and the detail behind these balances is perhaps the most important part of the setup process. Why? Because if you start with inaccurate or incomplete starting balances, you'll compromise your ability to rely on the key reports that QuickBooks gives you to manage your business. In addition, you'll likely spend more time and money (mostly payable to your accountant) fixing these balances at year end. So it's definitely worth your time and effort to get the numbers right from the start.

What Is an Opening Trial Balance?

Your opening trial balance is simply a detailed listing of the value of your company's assets, liabilities, and equity. If your QuickBooks start date is the beginning of the year (which is the most common start date), your opening trial balance for the first day of the year has no income or expenses to report. It will, however, contain the balances that have accumulated in your Asset, Liability, and Equity accounts since you've been in business. With the help of your accountant, you should prepare what I call a pre-QuickBooks opening trial balance.

Your accountant knows that much of the information needed for the pre-QuickBooks trial balance will come directly from the balance sheet they prepared for you the previous year end. The pre-QuickBooks opening trial balance doesn't have to be fancy—it can be created in Excel or on a piece of paper—but, of course, it must be accurate. A typical pre-QuickBooks opening trial balance for a business with a QuickBooks start date of January 1, 2014 might look something like this:

Account Type	Account	Debit	Credit
Assets	Bank	\$25,000	
Asset	Accounts Receivable	\$15,000	
Asset	Inventory	\$30,000	
	Fixed Assets	\$15,000	
	Accumulated Depreciation		\$2,500
Liabilities	Loan from Bank		\$20,000
Liabilities	Accounts Payable		\$7,500
Equity	Equity (Capital, Prior Retained Earnings, and so on)		\$55,000

Your mission is to get these beginning balances into your QuickBooks file. You might want to bookmark this page, as I'll be referring to the numbers in the preceding table throughout the rest of the chapter.

Ten Steps to Creating an Accurate Opening Trial Balance

While there's certainly more than one way to get your beginning balances into your new QuickBooks data file, I have found that the majority of my clients (and their accountants) have had the most success—and the least stress—when they follow the ten simple steps outlined here.

1. Gather All the Information You Need

In Chapter 1, a detailed list of the information and “other useful bits of paper” that you should have at your fingertips prior to entering your beginning balances was provided. If you haven't already organized these essential records and numbers, or if you don't remember exactly what you need to compile, return to Chapter 1 to refresh your memory.

2. Enter Beginning Balances for Simple Balance Sheet Accounts

For this second step, you'll use a journal entry to enter the beginning balances for accounts *except* bank accounts, accounts receivable, accounts payable, inventory, and sales tax payable. Those balances will be created later when you enter outstanding individual transactions and other adjustments. So what accounts are left to enter? Your fixed assets (including any accumulated depreciation) such as vehicles, furniture, and equipment, as well as any loans payable. You'll want to check in with your accountant for other balances that should also be entered as part of this step, such as prepaid expenses, unpaid payroll taxes, or employee advances. Your journal entry should be dated as of the closing date of the prior fiscal year. In this example, the fiscal and calendar year are the same.

From the Company menu, select Make General Journal Entries to open the Make General Journal Entries window. Using the trial balance figures in the table shown earlier in this chapter, your journal entry should look like the one shown in Figure 7-1.

You'll see that after the balances for Fixed Assets (in this case Furniture and Fixtures), Accumulated Depreciation, and the Loan from Bank have been entered, there's a debit balance of \$7,500.00 that needs to be assigned to an account in order for the entry to be in balance. QuickBooks has a special account that's reserved just for that purpose called Opening Balance Equity. Using this account to balance the entry will require you (or your accountant) to zero this balance out (and any other

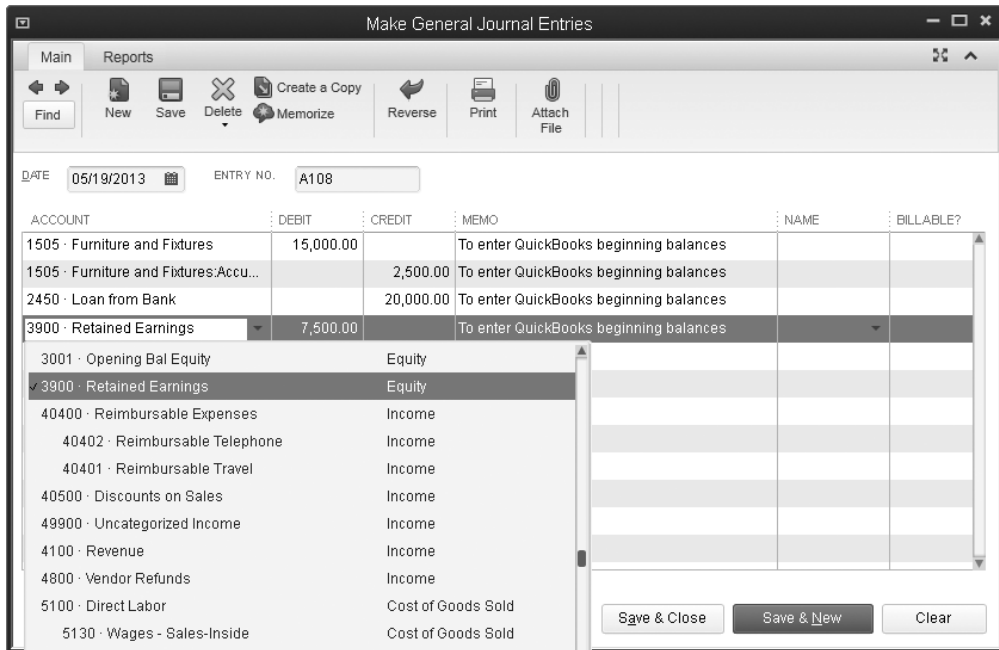
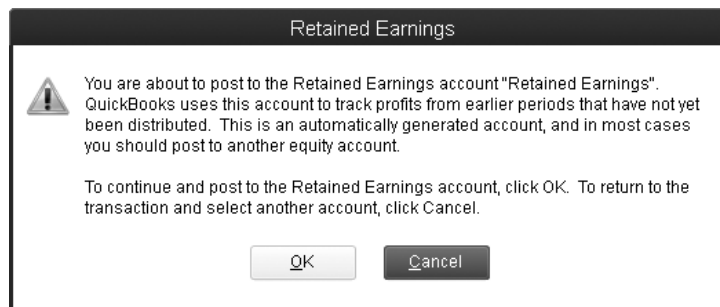


FIGURE 7-1 Use a journal entry to establish some of your beginning balances.

balances posted to this account during the setup) to a retained earnings account in order to complete the setup. That adds another, often overlooked, journal entry requirement in the setup process. Alternatively, you can post this offsetting balance directly to a retained earnings or owner's equity account (as shown in Figure 7-1). Check with your accountant on the method that works best in your situation.

If you choose this alternate method, QuickBooks warns you that you're posting to an account that's intended to track profits from earlier periods. Clicking OK allows you to continue with the posting. Select **Save & Close** to save this entry.



3. Enter Bank Account Balances

The next step is to establish the bank balance. Use the bank register to do this. Select Banking | Use Register to open the register for your bank account. Enter the ending balance as it appears on the bank statement from the last month of the previous year in the Deposit side of the register. Be sure to put a note in the memo field (as shown in Figure 7-2) that will help remind you what this entry was for later on. Again, you can choose to post the offsetting balance to the Opening Balance Equity Account or directly to a retained earnings account (see Figure 7-2). Click the Record button to save your entry.

4. Enter Outstanding Checks and Deposits

With your register still open, enter all outstanding transactions—checks and deposits—that occurred prior to the QuickBooks start date (see Figure 7-3). This step ensures that these items will appear in the first bank reconciliation you perform in QuickBooks. In the example, there are two checks outstanding from November 2013. Be sure to use the *original* transaction date to post these outstanding transactions.

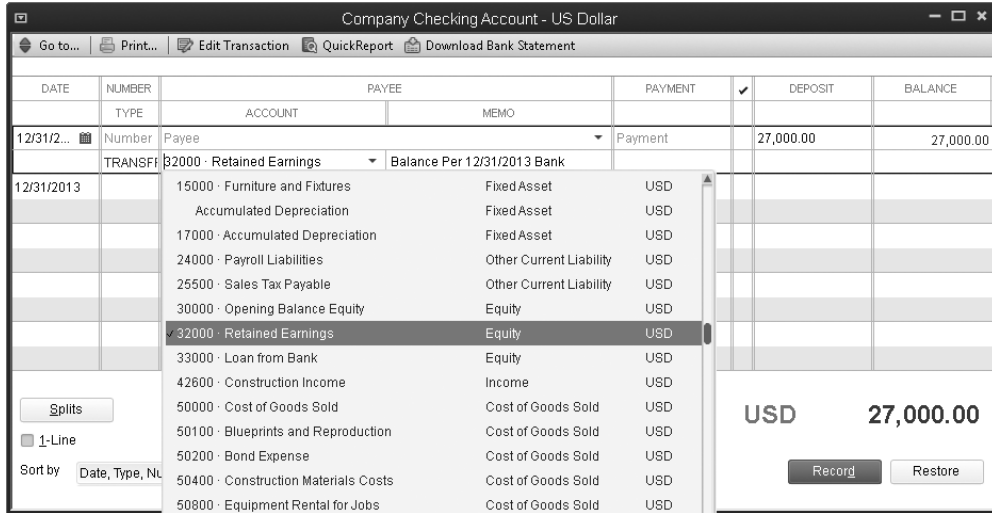


FIGURE 7-2 Post the offsetting balance to a Balance Equity Account or a retained earnings account.

DATE	NUMBER	PAYEE	PAYMENT	DEPOSIT	BALANCE
11/24/2013	2368	Accounting Firm	1,000.00		-1,000.00
	CHK	66700 · Professional Fees			
		MEMO: Check Outstanding as of 12/31/2012			
11/30/2013	2370	My Health Insurance Co.	1,000.00		-2,000.00
	CHK	63300 · Insurance Expense			
12/31/2013				27,000.00	25,000.00
	TRANSF	32000 · Retained Earnings			
		MEMO: Balance Per 12/31/2013 Bank			
1/30/2013	Number	Payee	Payment	Deposit	
		Account			
		Memo			

ENDING BALANCE USD 25,000.00

Buttons: Splits, 1-Line, Sort by (Date, Type, Number/Ref), Record, Restore

FIGURE 7-3 Use the bank register to enter outstanding checks and deposits.

5. Enter Unpaid Accounts Receivable and Accounts Payable Transactions

To establish your accounts receivable balance, create an invoice for each customer invoice that was still open as of the end of the previous fiscal year using the original transaction date and all other invoice details (customer name, item(s) purchased, terms, etc.). Don't forget to enter any unused customer credits as well. In the example, there are two outstanding customer invoices that total \$15,000.00. For more information on how to create an invoice, refer to Chapter 9.

Likewise, to establish your accounts payable balance, create a bill for each unpaid vendor bill as well as any unused vendor credits. Use the original transaction data and all other bill details. In my example, I entered two unpaid bills totaling \$7,500.00. For more information on how to enter vendor bills and credits, refer to Chapter 11.

6. Enter Nonposting Transactions

You should record all open purchase orders and estimates, again with their original dates and details. While this step is optional because these “nonposting” transactions have no effect on your opening balances, you'll then be able to, in the case of a PO, for example, receive these items through QuickBooks or, in the

case of an estimate, generate an invoice when you're awarded the job. Estimates are covered in Chapter 9 and purchase orders in Chapter 15.

7. Enter Mid-year Income and Expenses (if Applicable)

If your QuickBooks start date is a mid-year date, enter a journal entry that summarizes the year-to-date balances in all income and expense accounts as of the QuickBooks start date. You may also want to enter monthly totals rather than one lump sum to give yourself the ability to run monthly Profit and Loss Statements for your entire fiscal year. Post the difference in debits and credits either to the Opening Balance Equity Account or directly to a retained earnings/equity account.

8. Adjust Sales Tax Payable

If you collect sales tax, you may need to adjust the Sales Tax Payable account to be sure that it is in sync with the amount (if any) listed on your pre-QuickBooks opening trial balance. This adjustment should be made after all open invoices are entered, since recording open invoices can affect the Sales Tax Payable account in QuickBooks. Use the Sales Tax Adjustment window to do this: select Vendors | Sales Tax | Adjust Sales Tax Due. For more information on how to use the Sales Tax Adjustment window, refer to Chapter 11.

9. Establish Inventory Balances

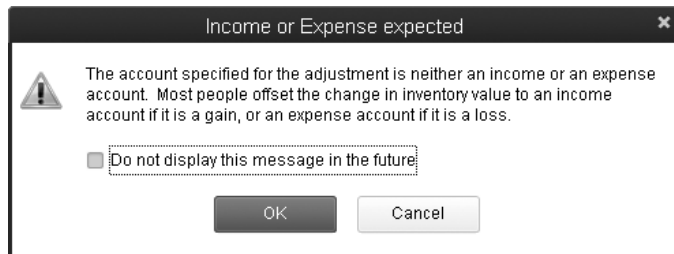
If your business carries inventory, you have to tell QuickBooks about the on-hand quantities of each of your inventory items as of your QuickBooks start date. This step assumes that you've already entered your Item List (minus any on-hand quantity information) and that each item has a cost associated with it. If this is not the case, you'll want to update your inventory list with that information prior to completing this step. Chapter 15 covers the details of how to set up an inventory item.

On-hand quantities are added using the Adjust Quantity/Value On Hand window. Select Vendors | Inventory Activities | Adjust Quantity/Value On Hand. Be sure that Quantity appears in the Adjustment Type drop-down menu field. In my simple example, this business carries only a single inventory item that has a cost of \$300.00. As of November 30, 2013, I had 100 units in inventory (see Figure 7-4), so I added that quantity in the New Quantity column. The Qty Difference column populates automatically.

Note that QuickBooks requires you to select an offsetting Adjustment Account in order to add the on-hand quantities to inventory. Like the other beginning balance entries, you can choose to post the offsetting balance that the software requires to

FIGURE 7-4 Use the Adjust Quantity/Value On Hand window to establish your opening inventory balance.

either Opening Balance Equity or directly to a retained earnings/equity account. You'll see a message telling you that QuickBooks is expecting you to use an expense account as the adjustment account.



This statement is true for most of your future adjustments—when you'll be using the Adjust Quantity/Value On Hand window to record obsolescence and shrinkage, for example. But in this instance, go ahead and post to one of your equity accounts.

Caution Using the Adjust Quantity/Value On Hand (aka Inventory Adjustment) window to establish beginning on-hand inventory quantities is an acceptable method for an existing business with an existing inventory as of their QuickBooks start date. For all other situations, you should “receive” items as normal into your inventory using the steps outlined in Chapter 11.

10. Zero Out the Opening Balance Equity Account

If you’ve elected to use the Opening Balance Equity account to establish your opening balances, you’ll need to zero out this account in order to complete your setup.

Use a journal entry dated with the QuickBooks start date and an offsetting entry to a retained earnings account (or another account of your accountant’s choosing).

Run Your QuickBooks Trial Balance Report as of Your Start Date

You’ll want to run your QuickBooks Opening trial balance to be sure that it’s in sync with your pre-QuickBooks opening trial balance. Figure 7-5 shows my Trial Balance report in QuickBooks of January 1, 2014, my QuickBooks start date (note that you

Winchester Distributors	
Trial Balance	
As of January 1, 2014	
	Jan 1, 14
	◊ Debit ◊ Credit ◊
Company Checking Account	25,000.00
11000 · Accounts Receivable	15,000.00
12100 · Inventory Asset	30,000.00
15000 · Furniture and Fixtures	15,000.00
15000 · Furniture and Fixtures:Accumulated Depreciation	2,500.00
20000 · Accounts Payable	7,500.00
32000 · Retained Earnings	55,000.00
33000 · Loan from Bank	20,000.00
TOTAL	85,000.00 85,000.00

FIGURE 7-5 Drum roll please...the Trial Balance report as of January 1, 2014

can run this report as of 12/31/13). Also note that it exactly matches the figures and totals shown in the table at the beginning of this chapter.

If you follow the steps outlined in this chapter and work closely with your accountant, establishing accurate opening balances can be a surprisingly straightforward and angst-free process.

Good luck!