

## STUDIO DESIGNER

### Accounting 4 – Participant

Thank you for enrolling in Accounting 4 for Studio Designer and Studio Showroom. Please feel free to ask questions as they arise. If we start running short on time, we may hold off on some of them and have a 5-10 minute session available after the class to answer any questions.

We ask you to be considerate of others, so please do NOT use a speaker phone at any time during the class. Although it sounds fine to those using the speaker, the static is multiplied many times to all other participants. You can have as many people as you like call into the conference number to listen in. Also, please mute your phones whenever possible to cut down on background noise.

This is Accounting 4

This class will cover:

- Journal entries created as you work within the program
- How the general ledger journals are organized and how to use them to your advantage
- How to view the journals
- How to make standard and re-occurring journal entries
- When and how to use the current date function
- Where and how to setup annual company budgets
- Understanding financial statements and sub-ledgers
- When and how to close the year.

**Journal Entries Created as You Work Within the Program**

- All entries to all journals can be viewed from the GL tab. With an accrual basis, Income and Expenses are only recognized after invoices are created (except commission income which is recognized at the time the order is created).
- Office/Non PO Checks are all CASH BASIS. Most clients who report on an accrual basis make a journal entry at the end of their accounting period to record the liability/expenses and reverse it at the beginning of the next period.
- Accrual Basis *Italics indicates Showroom Only/Designer Only*

Proposal/Quote – no general ledger entries are generated when a proposal/quote is created.

Client Deposit on a Proposal/Quote/Order (Anything not invoiced) - Receipts Journal in General Ledger

- o Debit Cash
- o Credit Client Deposits
  - Mfg Bill (Showroom)*
    - *Debit Cash*
    - *Credit Deposit Exchange*

Purchase order – Purchases Journal In General Ledger

- o Debit Work in Progress
- o Credit Accounts Payable
- o *Debit A/R Commissions (Showroom)*
- o *Credit Commission Income (Showroom)*

Invoice – Purchases Journal in General Ledger

- o Debit Cost of Sales
- o Credit Work In Progress (Substitute Inventory if sale is from Inventory)

Invoice – Sales Journal in General Ledger

- o Debit Accounts Receivable
- o Debit Client Deposits
- o Credit Sales
- o Credit Sales Tax Payable

## STUDIO DESIGNER

Client Payment on an Invoice – Receipts Journal in General Ledger

- Debit Cash
- Credit Accounts Receivable

Order Checks – Payment to vendor on PO – Disbursements Journal in General Ledger

- Debit Accounts Payable
- Credit Cash

Client Retainer Receipt (*Designer*)

- Debit Cash
- Credit Client Retainer

Apply Retainer (*Designer*)

- Debit Retainer
- Credit Accounts Receivable

Vendor Commission Receipt (*Showroom*)

- Debit Cash
- Credit Accounts Receivable Commission

### **Cash Basis – DESIGNER ONLY**

Proposal - generate No General Ledger Entries

Purchase Order - generates No General Ledger Entries

Cash Receipt from the Client (Applied to an item)

- Debit Cash
- Credit Sales

Cash Receipt from the Client (Entered to Unapplied Deposits)

- Debit Cash
- Credit Client Deposits (Balance Sheet)

Cash Receipt from the Client (Entered to Retainers)

- Debit Cash
- Credit Retainers (Balance Sheet)

Order Check

- Debit Cost of Sales
- Credit Cash

Invoice – Generates No General Ledger Entries

### General Ledger Journals

- The entries outlined above under Accrual Basis show the general ledger journal where the entries can be found.
  
- The default journal numbers are as follows:
  - o 00 Beginning Balance
  - o 01 Cash Receipts
  - o 02 Cash Disbursements
  - o 03 Sales
  - o 04 Purchases
  - o 06 Adjustments
  
- Additional Journals can be set up according to how you would like to sort manual journal entries. Add additional journals from Files/Chart of Accounts/Journals.
  - o Create additional journals to group transactions. For example, you might use Journal 07 when recording Payroll journal entries. This way you can print a journal report for all entries for Journal 07.
  
- It is important to try to assign Reference (check#s) to all entries, which allow you to select specific entries by using the criteria fields.

### **Reoccurring Journal Entries**

- Journal Entries can be entered as reoccurring so that you do not need to enter all the information every month. An example of a use for this option would be monthly depreciation. Once you enter the amount and information for the monthly depreciation and designate the entry as reoccurring, you only need to go in and post the entry. After it is posted for the current month, the date is automatically updated to the following month for the next posting. You must have the filter at the top of the form set to reoccurring to be able to see and post the entries.

### Current Date

- You can change the Current Date under Files/Current Date
- Changing the current date can be used when you need to make entries to a previous period or year, or simply to use a different date than today.
- It's not necessary to change the Current Date when recording Receipts, Disbursements or Journal Entries because the date you enter, is the date that is used.
- Once you are finished with the entries that are to be included in the previous period, you **MUST BLANK OUT THE DATE for the program to return to using the system date.** If you use the current date, that date will be used for all entries until another date is inserted or the date is deleted.

### Company Budgets

- You can enter monthly budget numbers by going to Files/Budgets. Enter the year 2007 (or the current year) and filter for Department 01. Click Copy to Year and the budget will build. You can choose the accounts that you would like to include in your budgets and enter monthly budget amounts. You must enter income as a negative number and expenses as a positive number.
- Enter amounts for Budget 1 for Sales Furniture and Cost of Sales Furniture and then view the Income Statement Budget report.
- Historical numbers are accumulated automatically by Studio when a year is closed.
- Generally, budgets are entered for Income Statement accounts, not Balance Sheet accounts, but they can be a good idea if you are trying to reduce debt and want to set a goal for the next year.
- These company budgets are about Income and Expenses, NOT client projects.

### Financial Statements and Sub Ledgers

- Studio Designer has a standard Balance Sheet and Income Statement that can be printed from the Reports Section of the program.
- The **Balance Sheet** includes Assets, Liabilities and Owners Equity. How much you OWN and how much you OWE. In simple terms it shows how much your company is worth. Negative numbers should be questioned (accumulated depreciation/amortization excepted). **A healthy business should have more Assets than Liabilities.**
- An **Income Statement** includes Income and Expenses and is the same thing as a Profit and Loss Statement. It shows how much money you have brought in (cash basis) or invoiced (accrual basis) and how much you have paid out (cash basis) or accrued in expenses (accrual).
- **Sub ledgers** are directly related to the Balance Sheet. They are lists that make up balances. For instance, Accounts Receivable shows on the Balance Sheet as \$50,000.00 and the Accounts Receivable Sub ledger lists the clients and invoices that make up the \$50,000 as listed on the Balance Sheet. The sub ledger and the related balance on the Balance Sheet should ALWAYS match.
- Review comparisons by Income type. For example, look at Income Furniture and Cost of Sales Furniture. If my standard mark up is 35%, then for every \$100.00 of Sales, I should see no more than \$35.00 of Expense. I always look for instances where the expense is more than the income for related accounts. Freight is a common culprit.

## Reporting Recommendations

These reports should be printed and reviewed monthly.

### Financial Statements

- o **Balance Sheet**-This report shows all Assets, Liabilities, and Owners Equity. The Sub-ledgers listed below correspond directly to the amounts listed for them on this report. For example, The Report Total from the Accounts Receivable Sub-ledger should be equal to the Accounts Receivable amount listed in the Asset area of the Balance Sheet. Note that the total Assets & Liabilities combined, should match the total of the Equity section of this report.
- o **Income Statement**-This report shows all Income and Expenses for the period requested (PTD), as well as Year to Date (YTD, meaning from the beginning of the year through the period requested). Details for each of these accounts can be found on the General Ledger report as detailed below. The Net Income (bottom line) on this report corresponds with the Net Income amount listed in the Equity section of the Balance Sheet.
- o **General Ledger - Detail (first choice when printing)**-This report shows all activity for the period requested, for the accounts listed. The totals in these accounts correspond to amounts shown on the Balance Sheet and Income Statement. We suggest that you review this entire report each month for all Income and Expense accounts. For example, for March enter: From Period: 3 To Period: 3. Leave the account number fields blank. This way it prints the report for ALL accounts. Review the entries on this report looking for obvious errors. For example, you shouldn't see an entry for a check written to your telephone vendor in the Rent expense account.

### Sub-Ledgers

- o **Accounts Receivable**-Amounts your clients owe to you for items that you have invoiced, but they have not paid. These amounts HAVE been included in Income (accrual basis).
- o **Accounts Payable**-Amounts that you owe to your vendors for purchase orders that have not been paid in full. These amounts may or may not be included in Expenses depending on if the item has been invoiced to the client.
- o **Client Deposits**-Amounts that your clients have given you for items that you have not yet invoiced. This may also include amounts that clients have given you that you have not applied to any items. This balance should NEVER be negative. These amounts have NOT been included in Income.

- o **Client Retainers**-Amounts that your clients have given you as a retainer. The amounts on this report have NOT been included in Income.
- o **Work in Progress**-This report lists all items that have purchase orders, but have not been invoiced to the client. Once these items are invoiced to the client, they are automatically removed from this report. The amount in the Total WIP column is represented in the Assets area of the Balance Sheet. These amounts have NOT been included in Expenses.
- o **Inventory (If Applicable)**-This report lists all inventory on hand, on order, and committed. If an item has no quantity on hand, there should be no inventory cost for that item and vice versa.

**Check that all sub-ledgers match your Balance Sheet.**

\*The above is simply a recommendation. Please feel free to call at any time with questions.

\*Cash basis designers must print Accounts Receivable from the Invoice reports and Accounts Payable from the Order reports.

### Closing the Year

- Studio Designer and Studio Showroom do not require that you close the year immediately at the end of the year. It does however require you to “Start a New Year”. This should be done either at the end of the last working day of the current year, or at the start of the first business day of the new year.
- At any given point, you can have two years open at one time. You should close your prior year only after you have verified that you have finalized all adjusting year end entries, the financial statements are accurate and your income tax returns have been filed (this must be done **before** the start of the next fiscal year). (You CANNOT make journal entries to years that have been “closed”.)

### CLOSING THE YEAR

1. Make a backup.
2. Confirm that all entries have been made to your prior year.
3. Print a Balance Sheet for period 12 of the open year immediately before closing the year.
4. Click Files | Close the Year | Close the Year.
5. Print a Balance Sheet for period 0 and confirm that Assets, Liabilities and Equity are the same as the Balance Sheet printed before closing the year. The only difference should be that Net Profit or Loss should be combined with Retained Earnings on the period 0 Balance Sheet.
6. If you have a proposal prefix at the beginning of your proposal numbers, Click Files | System Master and update Proposal Prefix.

If the prior year is closed, click Start a New Year.

If the prior year is not closed, you must first Close the Year.

By Starting a New Year, and leaving a year open you can switch between years by using the Current Date function until you are sure that you have entered all information for the prior year. (Reconcile bank accounts, enter bank charges, journal entries, etc.)