Utah State University EXTENSION

Introduction to Farm and Ranch Accounting Using Quicken

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Preface

This publication has been written to help the Quicken user understand the difference between tractional accounting procedures and the way Quicken does things to accomplish the same result. It is not meant to be an introduction to Quicken. Probably the majority of those who use Quicken use it only as a convenient way to record the checks they write and to assign a category to each check so they have some idea where their money is going.

Those who have had some exposure to Quicken will be able to concentrate more on the process than the procedure, and will be able to master the concepts more quickly. Moreover, those who have been exposed to double-entry accounting will find this a good refresher course in accounting basics. If you have not had a class in accounting, or have never used Quicken, it will take a little longer to get to the point where you can set up your own set of books and start making entries. However, by following the steps in the ***Hints on Doing the Exercises***, found at the end of this publication, you should be able to learn rather quickly.

Larry K. Bond

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INTRODUCTION TO FARM AND RANCH ACCOUNTING

Accounting is the process of recording, summarizing, analyzing, and controlling financial activities, permitting users of the information to make informed judgments and decisions. Until recent years, even computerized accounting required a knowledge of double-entry accounting procedures. However, several software companies have developed record keeping programs that are quite easy to learn and use. Many were originally designed for home and small businesses that wanted nothing more than a computerized check book or the keeping of simple income and expense records, yet had other features such as budgeting and cash flow. With each new version, features and flexibility were added until some are capable of keeping what might be considered a double-entry set of books.

The software program "Quicken" is the most popular software program in the world because of its ease of use. It uses new concepts and technology to eliminate several steps in the conventional accounting cycle, although it does have limitations. While Quicken was not designed as a double-entry accounting system, it does have that capability. This paper illustrates how it can be done.

ACCOUNTING BASICS

The double-entry accounting system is based on three elements: assets, liabilities and owner's equity. The relationship among the three elements is expressed in a simple mathematical form known as the **fundamental accounting equation**:

ASSETS = LIABILITIES + EQUITY

Assets are things owned that have exchange value, such as a bank account, land, machinery, etc. Liabilities are obligations or things owed to another. Equity represents what the owner has actually invested as of a particular point in time. Accounting procedures, when properly followed, ensure that the accounting equation (e.g. the books) always stays in balance as new transactions occur.

Equity is made up of several elements:

EQUITY = INVESTED CAPITAL + RETAINED EARNINGS + CURRENT PERIOD NET INCOME

A **Balance Sheet** is a listing of a business's assets, liabilities and equity at a specific point in time.

An **Income Statement** (also called a **Profit and Loss Statement**) is a summary of business revenues and expenses for a specific accounting period. An accounting period can be a month, quarter or year. Only revenues and expenses are placed on the income statement.

A **Statement of Cash Flows** shows the impact on cash flow of the operating, investing, and financing activities of a business during the accounting period. It reconciles the beginning and ending cash balances. The Statement of Cash Flows may be prepared in two ways. The **indirect method** adjusts net income 1) to eliminate non-cash items such as depreciation and accrual adjustments and 2) to include changes which involved cash transactions but did not affect net income, such as the purchase or sale of assets, acquisition or retirement of debt, and contribution or withdrawal of equity by owners. Under the **direct method**, cash inflows and cash outflows are listed by type of receipt and payment, such as collections from customers, payments to suppliers and employees, collections and payments of interest, payment of income taxes, purchases and sale of assets, and the receipts/disbursements associated with debt and equity financing.

The beginning and ending Balance Sheet, along with the accounting period's Income Statement and Statement of Cash Flows, provide information about the business. The Balance Sheet shows the assets, liabilities and equity at a point in time. The Income Statement, less owner's withdrawals, links the beginning and ending retained earnings for the period. The Cash Flow Statement links the beginning and ending cash balances and the other asset and liability accounts on the Balance Sheet.

All transactions affect the Balance Sheet. Some transactions affect the Income Statement and Balance Sheet (e.g., a credit sale). Some transactions affect the Cash Flow Statement and Balance Sheet (e.g., collection of cash from earlier credit sale). Some transactions affect all three statements (e.g., a cash sale).

QUICKEN ACCOUNT TYPES

A Quicken **file** is a collection of accounts and other information used in the record keeping process. Quicken accounts are the same as a general ledger's permanent accounts for assets and liabilities. These permanent ledger accounts are called **balance sheet accounts.** Each Quicken account contains a register where the essential facts and figures of each transaction are recorded. In traditional accounting, this is analogous to recording transactions directly in a ledger account.

At the time of writing, Quicken has six types of accounts, namely: (1) a bank account for checking, money market, and savings transactions; (2) a cash account for cash transactions; (3) a credit card account for charge transactions; (4) an asset account for asset transactions; (5) a liability account for changes in your debts and obligations; (6) an investment account for tracking of investments that fluctuate in price, such as stocks, bonds, and mutual funds. It is possible to use the investment account type as an inventory account, but this will not be addressed in this document.

Quicken does not have a specific account type for equity. Other liability accounts can be used for transactions affecting equity. Example names for a liability account used as equity account are *Owner's Equity, Capital Contributions, Retained Earnings, Common Stock, Treasury Stock, Donated Capital, etc.*

Traditional accounting methods assign revenue and expense transactions to temporary ledger accounts. Revenue and expenses are temporary accounts whose ending balances appear on the **Income Statement.** They are used to show changes in the equity account during a single accounting period. At the end of the accounting period, the temporary accounts (revenue and expense) are closed out (their balances reduced to zero). The resulting net income (loss) for the current period is used to update the balance of the equity account.

The Quicken financial record keeping program does not use the traditional temporary accounts for revenue and expenses. Instead, Quicken has adopted another term called **category** that is used to classify transactions. There are two category types—income and expenses. When entering transactions in the register, both categories and accounts can be popped up on the screen in a single Category and Transfer list. Income categories appear first, expense categories second, and accounts last. Quicken automatically places brackets around account names. Quicken's category type determines how a transaction changes equity. It is important to note that Quicken uses the term "income" instead of "revenue." Quicken's accounting equation is:

Bank + Cash + Assets + Investments - Credit Cards - Liabilities = EQUITY.

EQUITY is not an account within Quicken's structure. EQUITY is determined by subtracting the total value of the liability accounts from the total value of the asset accounts. The change in EQUITY for an accounting period is equal to the income categories less expense categories (assuming there are no capital contributions or withdrawals by the owners). EQUITY is adjusted the moment an income or expense transaction is recorded. One can use a liability account to record owner's equity in the form of contributed capital and retained earnings, in which case EQUITY is not changed.

To illustrate, a deposit recorded in a bank account register and assigned an income category will increase EQUITY. On the Profit and Loss Statement, total income and net income increase. On the Balance Sheet, the bank account balance and EQUITY increase. The Cash Flow Report will show increased inflow by the amount of the deposit. If *transferred* to *Darwin's Equity* account EQUITY would not change.

When a payment is recorded into a bank checking account and assigned an expense category, EQUITY will decrease. The Balance Sheet will show a decreased bank account balance and decreased EQUITY. The Income Statement will show increased expenses and decreased net income. The Cash Flow Report will show increased outflow by the amount of the payment.

All transactions are entered as either an "increase" or a "decrease" to an account balance. Quicken labels increases in bank accounts as "deposit" and decreases as "payment." Cash accounts label increases as "receive" and decreases as "spend."

Quicken does not permit the use of income and expense categories when funds are transferred between accounts. For example, when cash is used to purchase a capital asset such as a tractor, and the user classifies the transaction as a transfer using an account name, net income and EQUITY do not change. The value is merely transferred from one asset account to another. That is, the account named for the capital asset increases by the same amount the bank asset account decreases. However, net income and EQUITY will change if the user misclassifies an asset purchase using an expense category name, rather than an account name. The user <u>must determine</u> if the transaction affects EQUITY (using income and expense categories) or whether the transaction is merely a transfer (a change in form) between asset and liability accounts. Examples of a change in form are: converting a cash asset into a machinery asset, using cash to decrease the principal balance of a loan, and moving funds from checking to savings. In none of these transactions is equity changed.

Quicken automatically equalizes debits and credits and updates account balances as transactions are recorded. However, Quicken forces the transaction to balance by treating uncategorized amounts as changes to EQUITY (and net income). How EQUITY changes depends upon which column (increase or decrease) and account type (asset or liability) in which the uncategorized amount occurs.

Quicken's Cash Flow Report is a summary of the cash inflows and cash outflows for a specific period of time. The Cash Flow Report summarizes the money received from each income category, the money spent for each expense category and transfers made to and from each asset, liability and investment account. The Cash Flow Report uses only transactions recorded in bank, cash and credit card accounts. Non-cash transactions recorded in other assets and other cash liability accounts do not appear on Quicken Cash Flow Reports.

Quicken has a number of memorized reports, such as Balance Sheet, Income Statement, and Cash Flow. These are similar enough to standard formats to meet most needs. If not, they can be printed to a disk file and edited with a word processor.

SAMPLE TRANSACTIONS USING QUICKEN

To illustrate the concepts, you are going to keep the financial records of a young farmer named Darwin. Using the software program Quicken, you will maintain the records in a way that the following reports can be prepared: beginning and ending balance sheet, accrual-adjusted income statement, and a cash flow.

To keep Darwin's financial records separated from others, you create a new file inside the Quicken program. You need one file for Darwin's farm business. You need a separate file for each and every "set of books."

After entering Quicken, the first step is set up a new Quicken file. Next, you name the new file "Darwin," set the location for the new file (i.e., what drive/directory), and then select "neither the home or business" categories. You will set up your own categories later.

Next, set up the following accounts as of December 31 of last year. This is equivalent to writing down in the general ledger book the names of the permanent balance sheet accounts and temporary revenue and expense accounts. Darwin's **Chart of Accounts** includes the names of the accounts and income and expense categories he plans to use.

Name	Type	Balance
Checking	Bank	00.0
GP Credit Card	Credit Card	00.0
Equipment	Other Asset	00.0
Unsold Wheat	Other Asset	00.0
Unused Supplies	Other Asset	00.0
Account Payable	Other Liability	00.0
Note Payable	Other Liability	00.0
Darwin's Equity	Other Liability	00.0

Next set up the following **categories** and indicate that they are tax related:

Name	Type	Description
Sales	Income	
Sales Adjust	Income	Sales Adjustment
Depreciation	Expense	
Fuel	Expense	
Labor Input	Expense	
Repairs	Expense	
Repairs Adjust	Expense	Repairs Adjustment
Supplies	Expense	
Supplies Adjust	Expense	Supplies Adjustment

As a note in passing, the order in which accounts and categories are listed in reports is generally in alphabetical order. This can be changed by using numbers in conjunction with account names. If current assets are given lower numbers, fixed assets high numbers, and intermediate assets numbers in between, the balance sheet will list them in that order, which is in keeping with the common format of balance sheets. It also allows income and expense categories to be grouped in a more logical manner than might be the case if they were strictly alphabetical.

Open a Bank Account with $10,000 of Initial Equity (1)

To start his new business, Darwin opens a checking account with $10,000. Darwin's investment of $10,000 represents a contribution of assets to the business, which now owes him $10,000. To keep the books in balance, *Darwin's Equity* account is increased by the same amount as the *Checking* account.

This transaction illustrates the increase in an asset (money in the bank) accompanied by an increase in a liability (Darwin's Equity). A cash inflow of $10,000 results from Darwin's equity financing of this new business.

Quicken - Record the transaction in the bank account (an asset) named *Checking* by making a $10,000 deposit. In the category field, assign the name of the liability account named "Darwin's Equity" using brackets around the name.

Date	Num	Payee · Memo · Category	Payment	C	Deposit	Balance
12/31 1992	1 Memo: Cat:	Open Account [Darwin's Equity]			10,000 00	10,000 00

Account: Checking

When the transaction is recorded, Quicken automatically creates (transfers) the following transaction which increases the liability account *"Darwin's Equity"*:

Date	Num	Payee · Memo · Category	Increase	C	Decrease	Balance
12/31 1992	Memo: Cat:	Open Account [Checking]	10,000 00			10,000 00

Account: Darwin's Equity

Observe that in a liability account, the field that increases the account balance appears first.

Traditional -

	Debit	Credit
Checking Account (Asset)............................	10,000	
Darwin's Equity (Liability)...........................		10,000

Checking Account (Asset)	
Debit	Credit
(Increase)	(Decrease)
(1) 10,000	

Darwin's Equity (Liab.)	
Debit	Credit
(Decrease)	(Increase)
	10,000 (1)

Impact on Financial Statements of Transaction #1:

Chart 1 illustrates the effect of the first transaction on the balance sheet and cash flow. Shown on Chart 1 are printed copies of two Quicken business reports. Darwin's Balance Sheet Report is as of January 1st. The Cash Flow Report is for the period January 1 to January 1. (Only one day has elapsed.)

Line (1) on Chart 1 points to the effect of this transaction. On the Balance Sheet Report in the column labeled 1/1/93 balance, the bank account named *Checking* shows a $10,000 balance. The other liability account named *Darwin's Equity* shows the $10,000 that the business owes to Darwin. Quicken computes EQUITY to be zero (0.00). Line (1) also refers you to the Cash Flow Report which shows an INFLOW from *Darwin's Equity* during the period.

CHART 1

BALANCE SHEET
As of 1/ 1/93
Darwin-All Accounts Page 1
5/11/93

Acct	1/ 1/93 Balance	
ASSETS		
Cash and Bank Accounts		(1)
Checking	10,000.00	
Total Cash and Bank Accounts	10,000.00	
Assets		
Equipment	0.00	
Unsold Wheat	0.00	
Unused Supplies	0.00	
Total Assets	0.00	
TOTAL ASSETS	10,000.00	
LIABILITIES & EQUITY		
LIABILITIES		
Credit Cards		
GP Credit Card	0.00	
Total Credit Cards	0.00	
Liabilities		
Account Payable	0.00	
Note Payable	0.00	(1)
Darwin's Equity	10,000.00	
Total Liabilities	10,000.00	
TOTAL LIABILITIES	10,000.00	
EQUITY	0.00	
TOTAL LIABILITIES & EQUITY	10,000.00	

CASH FLOW REPORT
1/ 1/93 Through 1/ 1/93
Darwin-Selected Accounts Page 1
5/11/93

	Category Description	1/ 1/93- 1/ 1/93
(1)	INFLOWS	
	FROM Darwin's Equity	10,000.00
	TOTAL INFLOWS	10,000.00

Purchase Equipment Using Money in Checking Account (2)

To acquire equipment for his new business, Darwin writes a check for $4,000 to the equipment dealer.

The purchase of equipment and paying cash for the full amount illustrates the conversion of one asset (money in the bank) into an asset (equipment). One asset is increased while the other one decreases, a mere change in form. EQUITY does not change. There is a cash outflow for this investment in new equipment.

Quicken - Record the transaction in the register of the bank account (an asset) named *Checking* by making a $4,000 payment. In the category field, assign the name of the other asset account *Equipment* using brackets around the name.

Date	Num	Payee · Memo · Category	Payment		C	Deposit		Balance	
2/01 1993	2 Memo: Cat:	Fair Dealer Equipment Company [Equipment]	4,000	00				6,000	00
Account: Checking									

When the transaction is recorded, Quicken creates (transfers) the following transaction which increases the other asset account *Equipment*.

Date	Num	Payee · Memo · Category	Decrease		C	Increase		Balance	
2/01 1993	Memo: Cat:	Fair Dealer Equipment Company [Checking]				4,000	00	4,000	00
Account: Equipment									

Observe that in an asset account, the field that increases or decreases the account balance appears in the same order as a bank account.

Traditional accounting-

	Debit	Credit
Equipment (Asset)..	4,000	
Checking (Asset)..		4,000

Checking Account (Asset)	
Debit	Credit
(Increase)	(Decrease)
	(2) 4,000

Equipment (Asset)	
Debit	Credit
(Increase)	(Decrease)
(2) 4,000	

CHART 2

BALANCE SHEET

As of 2/28/93

Darwin-All Accounts
5/31/93

Page 1

Acct	1/ 1/93 Balance	2/28/93 Balance	
ASSETS			
Cash and Bank Accounts			
Checking	10,000.00	6,000.00	(2)
Total Cash and Bank Accounts	10,000.00	6,000.00	
Assets			
Equipment	0.00	7,200.00	(3) (2)
Unsold Wheat	0.00	0.00	
Unused Supplies	0.00	0.00	
Total Assets	0.00	7,200.00	
TOTAL ASSETS	10,000.00	13,200.00	
LIABILITIES & EQUITY			
LIABILITIES			
Credit Cards			
GP Credit Card	0.00	0.00	
Total Credit Cards	0.00	0.00	
Liabilities			
Account Payable	0.00	0.00	(3)
Note Payable	0.00	3,200.00	
Darwin's Equity	10,000.00	10,000.00	
Total Liabilities	10,000.00	13,200.00	
TOTAL LIABILITIES	10,000.00	13,200.00	
EQUITY	0.00	0.00	
TOTAL LIABILITIES & EQUITY	10,000.00	13,200.00	

(2)

CASH FLOW REPORT

1/ 1/93 Through 2/28/93
Darwin-Bank,Cash,CC Accounts
5/31/93

Category Description	1/ 1/93- 2/28/93
INFLOWS	
FROM Darwin's Equity	10,000.00
TOTAL INFLOWS	10,000.00
OUTFLOWS	
TO Equipment	4,000.00
TOTAL OUTFLOWS	4,000.00
OVERALL TOTAL	6,000.00

Purchase Equipment with a Note Payable (3)

Darwin decides he needs additional equipment for his new business. He talks the Fair Dealer Equipment Company into selling him $3,200 of equipment on credit.

This transaction illustrates the purchase of assets without using cash money. Two accounts are changed. The increase in the other asset account *Equipment* is offset by the increase in the other liability account *Note Payable*. EQUITY does not change. Since this financing activity does not use any cash, it does not appear on the Cash Flow Report.

Quicken - This non-cash transaction does not change the checking account balance because no money changed hands. Record the transaction as a $3,200 increase in the other asset account named *Equipment*. On the category line type the other liability account *Note Payable* with brackets around the name.

Date	Num	Payee · Memo · Category	Decrease	C	Increase	Balance
2/01 1993	3 Memo: Cat:	Fair Dealer Equipment Co. [Note Payable]			3,200 00	7,200 00

Account: Equipment

Quicken creates (transfers) the following transaction which increases the other liability account *Note Payable*:

Date	Num	Payee · Memo · Category	Increase	C	Decrease	Balance
2/01 1993	Memo: Cat:	Fair Dealer Equipment Co. [Equipment]	3,200 00			3,200 00

Account: Note Payable

You could have recorded the transaction in *Note Payable* and allowed Quicken to create (transfer) the transaction in *Equipment*.

Traditional -

	Debit	Credit
Equipment (Asset)...	3,200	
Note Payable (Liability).................................		3,200

Equipment (Asset)	
Debit (Increase)	Credit (Decrease)
4,000	
(3) 3,200	

Note Payable (Liab.)	
Debit (Decrease)	Credit (Increase)
	(3) 3,200

Impact on Financial Statements of Transactions #2 and #3:

Line (2) on Chart 2 points to the OUTFLOW of $4,000 to *Equipment* on the Cash Flow Report. The Balance Sheet as of 2/28/93 shows a decrease in the balance of the *Checking* (Bank) account since 1/1/93 of $4,000. Line (2) also points to an increase of $7,200 in the other asset *Equipment* account of which $4,000 is the purchase of equipment with cash. The balance of $3,200 is covered by transaction #3 discussed next.

Line (3) on Chart 2 points to the other liability *Note Payable* account on the Balance Sheet increasing to $3,200. Line (3) also points to the other asset account *Equipment* which includes this $3,200 ($4,000 from cash purchases and $3,200 credit purchase). The Cash Flow Report is not affected by this transaction.

Purchase Labor Input Using Money in Checking Account (4)

To produce wheat, Darwin requires some additional help. Labor is a service which cannot be stored for later use. Service inputs represent an expense (an outflow of resources) as soon as they are acquired. Darwin has an outflow of cash when he uses money in the checking account to purchase $1,000 worth of *Labor Input*.

In the previous transactions, two accounts have been changed. In Quicken, a transaction assigned an income or expense category affects only the balance of the account where it is recorded and the computed value of EQUITY. Quicken calculates EQUITY by subtracting the total value of the liability accounts from the total value of asset accounts. Each time a transaction is recorded using an income or expense category, EQUITY is recalculated.

Transactions assigned an expense category and recorded as a decrease to an asset account decrease EQUITY.

Transactions assigned an income category and recorded as an increase to an asset account increase EQUITY.

The various combinations of income and expense categories, the type of account where the transaction is recorded, the change in EQUITY, and where reported are shown in the Appendix.

Quicken - Record the transaction as a payment in the bank account (an asset) named *Checking*. Assign the expense category named *Labor Input* in the category field.

Date	Num	Payee · Memo · Category	Payment	Deposit	Balance
3/01 1993	4 Memo: Cat:	Your Friendly Labor Supply Co. Labor Input	1,000 00		5,000 00

Account: Checking

Traditional -

	Debit	Credit
EQUITY-Labor Input (Expense Category)......	1,000	
Checking (Asset)..		1,000

Checking (Asset)	
Debit	Credit
(Increase)	(Decrease)
10,000	4,000
	1,000 (4)

EQUITY (Net Income)	
Debit	Credit
(Decrease)	(Increase)
(4) 1,000	

Purchase Operating Inputs Using Money in Checking Account (5)

Darwin uses some physical inputs in the production process which can be used when purchased or stored for later use. If placed in storage upon purchase, they become assets. When stored assets are removed from inventory to be used in the production process, they become an expense. If the resources are used upon purchase and never stored, they are an expense at purchase.

Darwin purchased some *Supplies* with a check for $500. Although these *Supplies* are storable, Darwin expects them to be used in the production process almost immediately upon purchase. He decides to treat all purchases of supplies as an expense when purchased, which reduces EQUITY.

Quicken - Record this cash transaction as a payment in the bank account (an asset) named *Checking*. Assign the expense category named *Supplies* in the category field.

Date	Num	Payee · Memo · Category	Payment		C	Deposit		Balance	
3/01 1993	5 Memo:	Physical Input Supply Co.	500	00				4,500	00
-----	Cat:	Supplies	-------	--	-	-------	--	-------	--

Account: Checking

Traditional -

	Debit	Credit
EQUITY-Supplies (Expense Category)	500	
Checking (Asset)..		500

Checking (Asset)	
Debit	Credit
(Increase)	(Decrease)
10,000	4,000
	1,000
	500 (5)

EQUITY (Net Income)	
Debit	Credit
(Decrease)	(Increase)
1,000	
(5) 500	

Impact on Financial Statements of Transactions #4 and #5:

The Profit and Loss Statement (also called an Income Statement) is a summary of a business's income (revenue) and expense categories for a specific accounting period. The Profit and Loss Statement includes all transactions assigned either an income or expense category. Uncategorized transactions are also included.

Lines (4) and (5) on Chart 3 refer to changes on the Profit and Loss Statement, to changes in the *Checking* account on the Balance Sheet, and to changes in OUTFLOW on the Cash Flow Report. Observe the $1,000 increase in *Labor Input* expense and the $500 increase in *Supplies* expense on the Profit and Loss Statement. Notice the $1,500 decrease (of the $5,500 total decrease) in the balance of the *Checking* account on the Balance Sheet. Notice the $1,000 and $500 cash outflow on the Cash Flow Report.

TOTAL INCOME/EXPENSE is Quicken's term for Net Income. A loss of $1,500 on the Profit and Loss Statement reflects a decrease in assets resulting from Darwin carrying on the activities of the business. The $1,500 loss is reflected in the negative value of EQUITY on the Balance Sheet Report as of 3/31/1993.

CHART 3

BALANCE SHEET
As of 3/31/93

Darwin-All Accounts 5/31/93 Page 1

Acct	1/ 1/93 Balance	3/31/93 Balance
ASSETS		
Cash and Bank Accounts		
Checking	10,000.00	4,500.00
Total Cash and Bank Accounts	10,000.00	4,500.00
Assets		
Equipment		7,200.00
Unsold Wheat	0.00	0.00
Unused Supplies	0.00	0.00
Total Assets	0.00	7,200.00
TOTAL ASSETS	10,000.00	11,700.00
LIABILITIES & EQUITY		
LIABILITIES		
Credit Cards		
GP Credit Card	0.00	0.00
Total Credit Cards	0.00	0.00
Liabilities		
Account Payable	0.00	0.00
Note Payable	0.00	3,200.00
Darwin's Equity	10,000.00	10,000.00
Total Liabilities	10,000.00	13,200.00
TOTAL LIABILITIES	10,000.00	13,200.00
EQUITY	0.00	-1,500.00
TOTAL LIABILITIES & EQUITY	10,000.00	11,700.00

PROFIT & LOSS STATEMENT
1/ 1/93 Through 3/31/93

Darwin-All Accounts 5/31/93 Page 1

	Category Description	1/ 1/93- 3/31/93
	INCOME/EXPENSE	
(4)	EXPENSES	
(4)(5)	Labor Input	1,000.00
	Supplies	500.00
(5)	TOTAL EXPENSES	1,500.00
(4)(5)	TOTAL INCOME/EXPENSE	-1,500.00

CASH FLOW REPORT
1/ 1/93 Through 3/31/93

Darwin-Bank,Cash,CC Accounts 5/31/93 Page 1

	Category Description	1/ 1/93- 3/31/93
	INFLOWS	
	FROM Darwin's Equity	10,000.00
	TOTAL INFLOWS	10,000.00
(4)	OUTFLOWS	
	Labor Input	1,000.00
	Supplies	500.00
(5)	TO Equipment	4,000.00
	TOTAL OUTFLOWS	5,500.00
	OVERALL TOTAL	4,500.00

Purchases Repairs on Open Account (6)

Darwin's equipment needs $700 of repairs not covered by the warranties. Darwin makes the necessary arrangements to purchase these *Repairs* on accounts (on credit). No money is exchanged.

Darwin's friend, a financial accountant, says that the repairs are an expense when they are purchased. Darwin's other friend, an income tax accountant, says that since Darwin is a cash basis taxpayer, the cost of the repairs are not deductible until they are actually paid. Darwin doesn't know what to do, so he seeks the advice of his friend, a successful businessman.

The successful businessman says that both are correct. He suggests a compromise of waiting to record the purchase as an expense until it is actually paid. However, if not paid by the end of the accounting period, record the expense using a non-cash accrual adjustment. This compromise keeps the financial accountant happy by correctly showing the repairs as this accounting period's expense for management purposes. The tax accountant is happy because it is not a deductible expense for a cash basis taxpayer. During the accounting period, no transaction is recorded.

Purchases Fuel using Credit Card (7)

This transaction is almost identical to the one above, except that Darwin purchases $800 of fuel using his Gold Plated (GP) credit card. His tax accountant tells him that credit card charges are tax deductible in the accounting period they occur, whether paid or not. The tax accountant tells him to record the transaction in the month it was incurred.

Quicken - Record the transaction in the credit card account (a liability) named *GP Credit Card* by making an $800 charge. The charge increases the credit card account balance. In the category field, assign the name of the expense category *Fuel*.

Date	Num	Payee · Memo · Category	Charge	C	Payment	Balance
4/01 1993	7 Memo: Cat:	Pushwater Fuel Co. Fuel	800 00			800 00

Account: GP Credit Card

Traditional -

	Debit	Credit
EQUITY-Fuel (Expense Category)	800	
GP Credit Card Payable (Liability)		800

EQUITY (Net Income)

Debit	Credit
(Decrease)	(Increase)
1,000	
500	
(7) 800	

GP Credit Card (Liab.)

Debit	Credit
(Decrease)	(Increase)
	800 (7)

Deposit Money from Wheat Sales into Checking Account (8)

Darwin produces wheat, selling 2,000 bushels for $6,000. A deposit of sales receipts increases the balance of the bank account. EQUITY and cash inflow are both increased.

This transaction represents increasing an asset and increasing EQUITY by increasing an income category.

Quicken - Record this transaction as a deposit in the bank account (an asset) named *Checking*. Assign the income category named *Sales*.

Date	Num	Payee · Memo · Category	Payment	C	Deposit	Balance
4/01 1993	8 Memo: Cat:	M.Y. Grainbuyer Sales			6,000 00	10,500 00

Account: Checking

Traditional -

	Debit	Credit
Checking Account (Asset)	6,000	
EQUITY-Sales (Income Category)		6,000

Checking (Asset)

Debit	Credit
(Increase)	(Decrease)
10,000	4,000
(8) 6,000	1,000
	500

EQUITY (Net Income)

Debit	Credit
(Decrease)	(Increase)
1,000	6,000 (8)
500	
800	

Impacts on Financial Statements of Transactions #7 and #8:

Line (7) on Chart 4 refers to $800 increase in *Fuel* expenses and change in TOTAL INCOME/EXPENSES on the Profit and Loss Statement. On the Balance Sheet, Line (7) points to the $800 increase in the *GP Credit Card* account and the change in EQUITY. The OUTFLOW of $800 of *Fuel* on the Cash Flow Report is pointed to by Line (7).

Line (8) on Chart 4 refers you to the $6,000 increase in *Sales* on the Profit and Loss Statement and the Cash Flow Report and to the increased *Checking* account on the Balance Sheet. TOTAL INCOME/EXPENSES on the Profit and Loss Report is the same as the change in EQUITY on the Balance Sheet.

CHART 4

BALANCE SHEET
As of 4/30/93

Darwin-All Accounts Page 1
5/31/93

Acct	1/ 1/93 Balance	4/30/93 Balance	
ASSETS			
Cash and Bank Accounts			
Checking	10,000.00	10,500.00	(8)
Total Cash and Bank Accounts	10,000.00	10,500.00	
Assets			
Equipment	0.00	7,200.00	
Unsold Wheat	0.00	0.00	
Unused Supplies	0.00	0.00	
Total Assets	0.00	7,200.00	
TOTAL ASSETS	10,000.00	17,700.00	
LIABILITIES & EQUITY			
LIABILITIES			
Credit Cards			
GP Credit Card	0.00	800.00	(7)
Total Credit Cards	0.00	800.00	
Liabilities			
Account Payable	0.00	0.00	
Note Payable	0.00	3,200.00	
Darwin's Equity	10,000.00	10,000.00	
Total Liabilities	10,000.00	13,200.00	
TOTAL LIABILITIES	10,000.00	14,000.00	
EQUITY	0.00	3,700.00	(7) (8)
TOTAL LIABILITIES & EQUITY	10,000.00	17,700.00	

PROFIT & LOSS STATEMENT
1/ 1/93 Through 4/30/93

Darwin-All Accounts Page 1
5/31/93

	Category Description	1/ 1/93- 4/30/93
	INCOME/EXPENSE	
	INCOME	
(8)	Sales	6,000.00
	TOTAL INCOME	6,000.00
	EXPENSES	
(7)	Fuel	800.00
	Labor Input	1,000.00
	Supplies	500.00
	TOTAL EXPENSES	2,300.00
(7) (8)	TOTAL INCOME/EXPENSE	3,700.00

CASH FLOW REPORT
1/ 1/93 Through 4/30/93

Darwin-Bank,Cash,CC Accounts Page 1
5/31/93

	Category Description	1/ 1/93- 4/30/93
	INFLOWS	
(8)	Sales	6,000.00
	FROM Darwin's Equity	10,000.00
	TOTAL INFLOWS	16,000.00
	OUTFLOWS	
(7)	Fuel	800.00
	Labor Input	1,000.00
	Supplies	500.00
	TO Equipment	4,000.00
	TOTAL OUTFLOWS	6,300.00
	OVERALL TOTAL	9,700.00

End-of-Accounting Period Accrual Adjustments

At the end of the accounting period (May 31), Darwin wants a good measure of his financial progress. Darwin knows what his cash flow has been but he does not know if he has made a profit. To measure net income, Darwin's financial accountant says accrual adjustments are required.

Wheat in Inventory Awaiting Sale (9)

Darwin produced $1,000 worth of wheat which he has not sold. Darwin wonders if the adjustment for unsold wheat should be made to income (revenue) or expenses. His financial accountant says the adjustment should be to expenses. His friend, the successful businessman, says the industry standard is to adjust income (revenues). Darwin decides to follow the businessman's advice.

Darwin needs to record a transaction indicating that the wheat is in inventory awaiting sale. At the same time, he needs to recognize the potential revenues as this accounting period's income.

This end-of-accounting period adjustment illustrates increasing an asset (inventory of unsold wheat) account accompanied by an increase in revenues. This is a non-cash transaction.

Quicken - Record the transaction as an increase to the other asset account named *Unsold Wheat*. Assign the income category named *Sales Adjust*.

Date	Num	Payee · Memo · Category	Decrease	C	Increase	Balance
5/31 1993	9 Memo: Cat:	Balance Adjustment Sales Adjust			1,000 00	1,000 00

Account: Unsold Wheat

Traditional -

	Debit	Credit
Unsold Wheat Inventory (Asset)	1,000	
EQUITY-Sales Adjustment (Income Cat).......		1,000

Unsold Wheat (Asset)	
Debit	Credit
(Increase)	(Decrease)
(9) 1,000	

EQUITY (Net Income)	
Debit	Credit
(Decrease)	(Increase)
1,000	6,000
500	1,000 (9)
800	

Impact on Financial Statements of Transaction #9:

Line (9) on Chart 5 points to the $1,000 increase in *Sales Adjustment* income category and EQUITY on the Profit and Loss Statement and the increase in *Unsold Wheat* and EQUITY on the Balance Sheet. Transactions which do not change the cash accounts (bank, cash, and credit card accounts) do not appear on the Cash Flow Reports.

CHART 5

BALANCE SHEET
As of 5/31/93

Darwin-All Accounts
5/31/93 Page 1

Acct	1/ 1/93 Balance	5/31/93 Balance	
ASSETS			
Cash and Bank Accounts			
Checking	10,000.00	10,500.00	
Total Cash and Bank Accounts	10,000.00	10,500.00	
Assets			
Equipment	0.00	6,400.00	
Unsold Wheat	0.00	1,000.00	
Unused Supplies	0.00	100.00	
Total Assets	0.00	7,500.00	
TOTAL ASSETS	10,000.00	18,000.00	
LIABILITIES & EQUITY			
LIABILITIES			
Credit Cards			
GP Credit Card	0.00	800.00	
Total Credit Cards	0.00	800.00	
Liabilities			
Account Payable	0.00	700.00	(11)
Note Payable	0.00	3,200.00	
Darwin's Equity	10,000.00	10,000.00	
Total Liabilities	10,000.00	13,900.00	
TOTAL LIABILITIES	10,000.00	14,700.00	
EQUITY	0.00	3,300.00	(9,10,11,12)
TOTAL LIABILITIES & EQUITY	10,000.00	18,000.00	

PROFIT & LOSS STATEMENT
1/ 1/93 Through 5/31/93

Darwin-All Accounts Page 1
5/31/93

	Category Description	1/ 1/93-5/31/93
	INCOME/EXPENSE	
	INCOME	
(9)	Sales	6,000.00
	Sales Adjustment	1,000.00
	TOTAL INCOME	7,000.00
(12)	EXPENSES	
	Depreciation	800.00
	Fuel	800.00
(11)	Labor Input	1,000.00
	Repairs Adjustment	700.00
(10)	Supplies	500.00
	Supplies Adjustment	-100.00
	TOTAL EXPENSES	3,700.00
	TOTAL INCOME/EXPENSE	3,300.00

CASH FLOW REPORT
1/ 1/93 Through 5/31/93

Darwin-Bank,Cash,CC Accounts Page 1
5/31/93

Category Description	1/ 1/93-5/31/93
INFLOWS	
Sales	6,000.00
FROM Darwin's Equity	10,000.00
TOTAL INFLOWS	16,000.00
OUTFLOWS	
Fuel	800.00
Labor Input	1,000.00
Supplies	500.00
TO Equipment	4,000.00
TOTAL OUTFLOWS	6,300.00
OVERALL TOTAL	9,700.00

Unused Supplies in Inventory (10)

Of the supplies purchased earlier, some valued at $100 are unused at the end of the accounting period. The actual supplies expense is $400, not $500, according to the financial accountant.

This end-of-accounting period adjustment illustrates increasing an asset (inventory of unused supplies) account accompanied by a decrease in expense.

Quicken - Record the transaction as an increase to the other asset account named *Unused Supplies*. Assign the expense category named *Supplies Adjust*.

Date	Num	Payee · Memo · Category	Decrease	C	Increase	Balance
5/31 1993	10 Memo: Cat:	Balance Adjustment Supplies Adjust			100 00	100 00

Account: Unused Supplies

Traditional -

	Debit	Credit
Unsold Supplies Inventory (Asset)	100	
EQUITY-Supplies Adjust (Expense Cat)		100

Unused Supplies (Asset)	
Debit	Credit
(Increase)	(Decrease)
(10) 100	

EQUITY (Net Income)	
Debit	Credit
(Decrease)	(Increase)
1,000	6000
500	1000
800	100 (10)

Impact on Financial Statements of Transaction #10 :

Line (10) on Chart 5 points to the $100 decrease in *Supplies Adjustment* expense category on the Profit and Loss Statement, an increase in *Unused Supplies*, and increased EQUITY on the Balance Sheet. This non-cash transaction does not appear to the Cash Flow Report.

Record Expenses Associated with Accounts Payable (11)

The open account on which the repairs (transaction 6) were charged has not been paid. Total expenses for the accounting period are understated by the amount of these unpaid repairs.

This end-of-accounting period adjustment illustrates increasing a non-cash liability (accounts payable) account accompanied by an increase in an expense. This is a non-cash transaction.

Quicken - Record this transaction as an increase to the other liability account named *Accounts Payable*. Assign the expense category named *Repairs Adjust*.

Date	Num	Payee · Memo · Category	Increase	C	Decrease	Balance
5/31 1993	11 Memo: Cat:	Balance Adjustment Repairs Adjust	700 00			700 00

Account: Accounts Payable

Traditional -

	Debit	Credit
EQUITY-Repair Adjustment (Expense Category)	700	
Account Payable (Liability)................................		700

Accounts Payable (Liab.)

Debit	Credit
(Decrease)	(Increase)
	700 (11)

EQUITY (Net Income)

Debit	Credit
(Decrease)	(Increase)
1,000	6,000
500	1,000
800	100
(11) 700	

Impact on Financial Statements of Transaction #11:

Line (11) on Chart 5 points to the $700 increase in *Repairs Adjustment* expense category and decreased EQUITY on the Profit and Loss Statement and the increase in *Account Payable* and decreased EQUITY on the Balance Sheet. This non-cash transaction does not appear on the Cash Flow Report.

Record Expenses Associated with Depreciation (12)

Both accountants agree that the equipment has an expected life of 3 years (36 months). The depreciation expense for the period is $800 based on 4 months at $200 per month ($7,200/36). This end-of-period transaction illustrates decreasing an asset account named *Equipment* accompanied by an increase in expenses. This is a non-cash transaction.

Quicken - Record this transaction as a decrease to the other asset account named *Equipment*. Assign an expense category named *Depreciation*.

Date	Num	Payee · Memo · Category	Decrease		C	Increase		Balance	
5/31 1993	12 Memo: Cat:	Record Depreciation Depreciation	800	00				6,400	00

Account: Equipment

Traditional -

	Debit	Credit
EQUITY-Depreciation (Expense Category) ...	800	
Equipment (Asset)		800

Equipment (Asset)

Debit	Credit
(Increase)	(Decrease)
4,000	800 (12)
3,200	

EQUITY (Net Income)

Debit	Credit
(Decrease)	(Increase)
1,000	6,000
500	1,000
800	100
700	
(12) 800	

Impact on Financial Statements of Transaction #12:

Line (12) on Chart 5 points to the $800 increase in *Depreciation* expense category and decreased EQUITY on the Profit and Loss Statement and the decrease in *Equipment* and decreased EQUITY on the Balance Sheet. This non-cash transaction does not appear on the Cash Flow Report.

SUMMARY OF FINANCIAL POSITION AS OF 5/31/93

Darwin's **Profit & Loss Statement** (Chart 5) for the first five months of operation shows revenues of $7,000. His *Sales* were $6,000 as a result of the cash sale. The inventory of unsold wheat increase of $1,000 is reflected as non-cash *Sales Adjustment.*

On the expense side, Darwin had cash expenses of $1,000 for *Labor Input* and $500 for *Supplies*. Darwin used $800 of *Fuel* in his operation which he charged on his credit card. A decision was made to treat credit card charges as cash expenses when incurred.

At the end of the five month accounting period, Darwin allocated one-ninth (4 months of expected 36 month life) of the equipment cost as a non-cash *Depreciation* expense. He recorded a $700 non-cash *Repairs Adjustment* expense for the accounting period to reflected the unpaid bill for repairs. Darwin determined that $100 of supplies were unused. A non-cash accrual adjustment of -$100 was recorded as *Supplies Adjustment* expense.

Darwin's **Profit & Loss Statement** summarizes his revenues of $7,000 and expenses of $3,700 for the five month accounting period. Revenues minus expenses yield a net income of $3,300.

Darwin's **Cash Flow Report** (Chart 5) for the same period has cash inflows of $6,000 from cash sales and $10,000 from the initial equity contribution. The outflows were the cash payments for labor and supplies ($1,000 and $500), a credit charge for fuel ($800), and a cash payment for equipment ($4,000). Inflows exceed outflows by $9,700 on the **Cash Flow Report**. This amount reconciles with the **Balance Sheet** as of 5/31/93 that shows the total of the bank and credit card accounts to be $9,700 ($10,500 less $800).

The **Balance Sheet** as of 5/31/93 shows total assets of $18,000 (cash $10,500; equipment $6,400; unsold wheat $1,000; and unused supplies $100). Total Liabilities and EQUITY total $18,000. The claims against the assets by outside parties total $4,700 (credit card payable $800; accounts payable $700; and notes payable $3,200). Darwin's claim against the assets total $13,300 (initial equity contribution $10,000 and EQUITY earnings for the period $3,000). The $3,200 purchase of an equipment asset using a note payable liability does not appear on either the **Profit & Loss Statement** or the **Cash Flow Report**.

Summary of T-Accounts as of 5/31/93

Checking (Asset)

Debit (+)	Credit (-)
10,000	4,000
6,000	1,000
	500
5/31/93 10,500	

GP Credit Card (Liability)

Debit (-)	Credit (+)
	800

Equipment (Asset)

Debit (+)	Credit (-)
4,000	800
3,200	
5/31/93 6,400	

Account Payable (Liability)

Debit (-)	Credit (+)
	700

Unsold Wheat (Asset)

Debit (+)	Credit (-)
1,000	

Note Payable (Liability)

Debit (-)	Credit (+)
	3,200

Unsold Supplies (Asset)

Debit (+)	Credit (-)
100	

Darwin’s Equity (Liability)

Debit (-)	Credit (+)
	10,000

EQUITY (Net Income)

Debit (-)	Credit (+)
1,000	6,000
500	1,000
800	100
700	
800	

Next Accounting Period Transactions

Darwin continues to operate after May 31, 1993. His checkbook transactions for June are as follows:

Number

#13 Deposit $600 from sale of wheat to M.Y. Grainbuyer. The goods were from the 5/31/93 inventory of unsold wheat. Assign *Sales* as the category.

#14 Payment to Fair Dealer Equipment Company of $500 to reduce balance of charges made in April—see transaction #6. Assign *Repairs* as the category. Please note that when the repairs were charged, they were not recorded as either an expense or a liability.

#15 Payment to GP Credit Card Company of $400 to reduce the balance of the charges made in April—see transaction #7. Assign the name of the credit card account *GP Credit Card* as the category. Quicken will place brackets around the account name and treat the transaction as a transfer from *Checking* account to *GP Credit Card* account. Remember, when the fuel was charged, it was recorded as an expense.

#16 Payment to Darwin of $150 to cover his living expenses. Assign the name of the other liability which holds the initial equity contribution *Darwin's Equity*. Quicken will treat the transaction as a transfer from *Checking* account to *Darwin's Equity account*. Please note: this is not an expense.

End-of-Accounting Period Accrual Adjustments

Darwin decides a set of accrual adjusted financial statements are needed as of June 30, 1993. To obtain the information needed to prepare the end-of-accounting period accrual adjustments, he takes an inventory of his assets and liabilities as of 6/30/93. He finds that:

#17 His inventory of unsold wheat is $400.

#18 His inventory of unused supplies is $75.

#19 His accounts payable balance is $200.

#20 Equipment depreciation for one month is $200.

The balances of the remaining accounts are correct as of 6/30/93.

Record the above end-of-accounting period accrual adjustments, as of June 30, 1993, using the Update Account Balance feature under the Activities menu. (You will not find the Update feature when working with a bank account). If you have questions about how to record the non-cash transactions, refer back to following transactions:

#9 for unsold wheat inventory,

#10 for unused supplies,

#11 for accounts payable, and

#12 for depreciation.

Summary of Financial Position as of 6/30/93

Darwin's **Profit & Loss Statement** for June shows revenue of $0 (Chart 6). The $600 of cash *Sales* income were wheat produced in the prior accounting period. The -$600 of *Sales Adjustment* income is a non-cash accrual adjustment which reflects the decrease in unsold wheat inventory. The sales of wheat produced and sold in June were zero.

On the expense side, equipment asset value decreased by $200 as a result of being in business during June. Darwin categorized the reduction in asset value as a non-cash *Depreciation* expense.

When Darwin paid $500 from *Checking* toward decreasing his accounts payable balance, he classified the payment as *Repairs* expense. The -$500 recorded as an end-of-accounting period accrual adjustment in the accounts payable register was categorized as *Repairs Adjustment* expense. No actual repair expenses were incurred in June.

The unused supplies inventory decreased from $100 to $75. The decrease indicates that Darwin used $25 of supplies during June. A non-cash *Supplies Adjustment* expense was recorded.

Darwin's actual expenses for June were the $200 decrease in equipment asset value and $25 decrease in unused supplies inventory. The **Profit & Loss Statement** (Chart 6) shows a net loss for June of $225. The **Balance Sheet** as of June 1 and June 30 indicates that EQUITY decreased by $225 from $3,300 to $3,075.

The 6/30/93 **Balance Sheet** (Chart 6) compared to 6/1/93 reflects that *Darwin's Equity* decreased by $150 the amount of Darwin's withdrawal for living expenses. The *GP Credit Card* and *Accounts Payable* accounts decreases by the cash payments. The *Unused Supplies* and *Unsold Wheat* inventories also decreased.

The **Cash Flow Report** (Chart 6) shows a net cash outflow of $50. Inflows of $600 were from cash sales. Outflows were $500 to the repair bill and $150 for Darwin's living expenses. The use of money from the *Checking* to pay *GP Credit Card* does not appear on the report. The reason is that the Quicken report layout option to include all transactions was not turned on. The balance of the bank and credit card accounts decrease from $9,700 ($10,500 less $800) to $9,650 ($10,050 less $400), a decrease of $50.

CHART 6

BALANCE SHEET
As of 6/30/93

Darwin-All Accounts — Page 1
6/11/93

Acct	6/ 1/93 Balance	6/30/93 Balance
ASSETS		
Cash and Bank Accounts		
Checking	10,500.00	10,050.00
Total Cash and Bank Accounts	10,500.00	10,050.00
Assets		
Equipment	6,400.00	6,200.00
Unsold Wheat	1,000.00	400.00
Unused Supplies	100.00	75.00
Total Assets	7,500.00	6,675.00
TOTAL ASSETS	18,000.00	16,725.00
LIABILITIES & EQUITY		
LIABILITIES		
Credit Cards		
GP Credit Card	800.00	400.00
Total Credit Cards	800.00	400.00
Liabilities		
Account Payable	700.00	200.00
Note Payable	3,200.00	3,200.00
Darwin's Equity	10,000.00	9,850.00
Total Liabilities	13,900.00	13,250.00
TOTAL LIABILITIES	14,700.00	13,650.00
EQUITY	3,300.00	3,075.00
TOTAL LIABILITIES & EQUITY	18,000.00	16,725.00

PROFIT & LOSS STATEMENT
6/ 1/93 Through 6/30/93

Darwin-All Accounts — Page 1
6/11/93

Category Description	6/ 1/93-6/30/93
INCOME/EXPENSE	
INCOME	
Sales	600.00
Sales Adjustment	-600.00
TOTAL INCOME	0.00
EXPENSES	
Depreciation	200.00
Repairs	500.00
Repairs Adjustment	-500.00
Supplies Adjustment	25.00
TOTAL EXPENSES	225.00
TOTAL INCOME/EXPENSE	-225.00

CASH FLOW REPORT
6/ 1/93 Through 6/30/93

Darwin-Selected Accounts — Page 1
6/11/93

Category Description	6/ 1/93-6/30/93
INFLOWS	
Sales	600.00
TOTAL INFLOWS	600.00
OUTFLOWS	
Repairs	500.00
TO Darwin's Equity	150.00
TOTAL OUTFLOWS	650.00
OVERALL TOTAL	-50.00

FINAL COMMENTS

You've seen how Quicken could be used as a double-entry accounting program to produce accrual adjusted financial statements. You must now make the management decision as to how you will use Quicken. Many people may choose to keep only checkbook records, which involves only recording payments and deposits in a bank account register. Others may take the next step of tracking loan balances and payroll tax payables using other liability accounts. A few of you may choose to produce quality financial statements. The beauty of Quicken is—the choice is yours.

APPENDIX

Category	Type of Account where Recorded	Change in Account Balance	Change in EQUITY	Cash Flow P & L	Examples
Expense	Bank & Cash	Decrease	Decrease	CF & P&L	Pay production expenses.
Expense	Asset	Decrease	Decrease	P&L	Record depreciation & end-of-year input inventory decrease.
Expense	Credit Card	Increase	Decrease	CF& P&L	Change production expenses.
Expense	Liability	Increase	Decrease	P&L	Record an increase in accrued expenses.
Expense	Bank & Cash	Increase	Increase	CF & P&L	Deposit check for returned input items.
Expense	Asset	Increase	Increase	P&L	Record an end-of-year input inventory increase.
Expense	Credit Card	Decrease	Increase	CF& P&L	Receive credit for returned input items.
Expense	Liability	Decrease	Increase	P&L	Record a decrease in accrued expenses.
Income	Bank & Cash	Increase	Increase	CF & P&L	Deposit sales receipts.
Income	Asset	Increase	Increase	P&L	Record an end-of-year output inventory increase.
Income	Liability	Decrease	Increase	P&L	Record decrease in unearned income.
Income	Bank & Cash	Decrease	Decrease	CF & P&L	Return overpayment of sales receipts.
Income	Asset	Decrease	Decrease	P&L	Record an end-of-year output inventory decrease.
Income	Liability	Increase	Decrease	P&L	Record increase in unearned income.

*Investment accounts are not considered in this analysis.

GLOSSARY

Assets are items of value owned by a business entity measured in dollars. While important, good health, outstanding management ability and highly productive employees are not accounting assets.

Liabilities are debts and obligations owed by a business entity. Liabilities are claims against the assets of the business by outside parties, such as lenders and the IRS.

Equity is the difference between the assets owned by the business and the liabilities owed by the business. Equity is the owner's claim against the excess of assets over liabilities. Equity is also called *capital* and *net worth*. Equity may be as a liability that is owed to the owner of the business.**Invested Capital** is the original and any additional investments that the owners has made to the business.

Retained earnings are net income from prior periods which have been left in the business.

Current period net income is revenues less expenses for the current period.

Revenues are the net inflow of resources (increases in assets or decreases in liabilities) resulting from carrying out the activities of the business.

Expenses are the net outflow of resources (decreases in assets or increases in liabilities) resulting from carrying out the activities of the business.

Revenue and expense accounts are temporary equity accounts which are closed out (their balance transferred) at the end of the accounting period to retained earnings.

HINTS ON DOING THE EXERCISES

The publication, ***Introduction to Farm Accounting Using Quicken***, ERI 95-03, is meant to be a study guide to teach some basics of accounting. It goes beyond the mere recording of checkbook transactions which most Quicken users do, by having the student go through the process of setting up and using several types of accounts and categories to produce several reports necessary to monitor a farm business. Do not be concerned if the values and categories are not that realistic. In same cases *account* and *category* names were chosen that described the action or result. This makes it easier to understand the accounting process and interpret the reports.

If you study the transactions in the publication carefully, you will learn infinitely more than if you just look for and enter the transactions as they appear in the book. After you complete everything in the book, and all your reports match those on the Charts, you should be able to set up a set of books for a farm or business. However, you will probably have to refer back to the publication from time to time even after you set up your accounting system. It is not always apparent how and why entries are made. Understanding will come over a period of time as you keep your books.

You may find the following instructions helpful as you work through the exercises in the book:

1. After starting quicken, Create a new file named "**Darwin**," as instructed on page 4.

2. Create the ***accounts*** and ***categories*** listed on pages 4-5.

3. Make entries into the books, starting with #1 on page 5. The number in brackets at the end of each subheading represents the transaction number. You may wish to put this number in the Reference column where you normally put the check number. It will help point you to the corresponding lines in the reports.

4. <u>Be sure</u> you are in the **correct register**, <u>and</u> **have set the date** before making an entry. You are making entries for **the year prior to the current year**. Press **Ctrl-A** as a shortcut to select a different account.

5. After making one or more entries, call up the three reports mentioned in the publication. These are all Business reports, and are found by first selecting Business from the Report Menu.

6. If you don't get the same values on your reports, as shown on the Charts in the publication, it could be for one of the following reasons:

    a. The entry date was incorrect. This is easy to do because as you move from one *account* to another, the date is reset to today's date. This is probably the most common error.

b. The beginning and ending transaction dates in the memorized report are not correct.

c. You recorded a transaction in an incorrect *Account* register.

d. You assigned the incorrect *Category* or *transfer Account*.

I. Probably the most difficult entries are the adjusting entries #13-20. It's not that the entries are difficult, it's that you are constantly switching to a different *Account*, which resets the date. If you don't have the dates of these entries between June 1 and June 30, they will not be picked up by the report, which should specify transactions only during this time period.

Should you discover a misspelled *account* or *category* after you have used it, do not delete it and set up another. Rather, **Edit** the one you have. Quicken will automatically update all transactions, preserving all the data.

REFERENCES

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