ACCOUNTING 101
FOR MAC USERS

International Edition

BROUGHT TO YOU BY
The makers of AccountEdge

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ACCLIVITY

This document was written with the best intentions of describing the daily accounting functions that most small business owners grapple with. The accounting processes, terminology and theory described here relates to our own experiences here in the USA, and may not translate exactly to your own local, regional, or national customs, laws, or practices.

Our goal is present a basic overview, so any discrepancies for localization are purely accidental.

Like all small business owners, you went into business with a dream: to sell your unique product or services and make a living for you, your family, and your employees. And, you wanted to use a Mac. As your business grows 'beyond the chequebook,' your record keeping, reporting, and compliance needs will also increase. You have customers to track, suppliers to pay, sales to record, and a full set of accounts to maintain. You probably also have an accountant who is preparing your taxes for you and your growing business.

But now you find yourself spending more time keeping your books than keeping your customers happy. You understand the importance of having accurate books, but you have a lot of demands on your time, so accounting and record keeping never seem to get the time they require. Further, you willingly skipped all those university accounting courses. Well, surprise! Not only are you an accountant, you are a lawyer, a customer service rep and more – all in the pursuit of your dream.

So what can you do to make this work? The first step is to understand what all those accounting terms mean and how they all fit together. At the end of this booklet is a glossary of all the relevant accounting terms that will help you understand the art of accounting. Much like computers, understanding the terminology will help you understand their context and their relevance to you and, more importantly, help you analyze and run your small business.

Before we go any further, keep this in mind: **You don't have to be an accountant to use AccountEdge**. All too often small business owners use this line to shun doing any type of record keeping (and therefore, business management), to their own detriment. The reality is, I'm not a mechanic, but I can drive my car. I'm also not a plumber, but I can fix a running toilet and I'm certainly not a doctor, but I can put a band-aid on my kids' bumps and bruises. All it takes is the will to succeed and the desire to run a successful operation. And that's the bottom line. Will it be easy? I wish I could say yes. Will it be frustrating? I wish I could say no. Will it be invaluable to your business and your long-term success? You bet! While our goal here is to help you understand the basic concepts of accounting, one of the great things about AccountEdge is that it does all the debits and credits for you. OK, so I mentioned debits and credits, don't freak out yet, read on…

■ Your Daily Life

First, let's start with an overview of how accounting fits into your daily life. Quite simply, every transaction you make results in an entry into your "books." Whether it is a receipt of cash, a sale, a cheque you've written or a deposit from a customer – every transaction gets recorded in your books at some point. The timeliness and accuracy of when and how you record your transaction directly affects your ability to manage your business and your cash flow and produce meaningful financial reports.

If you think your business is "chequebook-centric," remember that there are plenty of transactions that do not involve cash that should be recorded in your books. Anything that affects the things you own (assets) like repairs or purchases, all require a transaction. Anything that affects what you owe (liabilities) like taxes or loans requires a transaction to be recorded. Anything that affects sales (revenue), like an invoice or a product return needs to be recorded. And, as you no doubt already know, all your supplier bills (expenses) are recorded when paid. Just because cash is not exchanged does not mean there are no entries to record. For example, you might sell items or services on credit. In this example, you record the sales when your invoice is issued, and then subsequently record the cash receipt when your customer pays you.

■ Why Do Accounting?

Aside from the obvious compliance issues like payroll or taxes, we 'do' accounting to allow us to see how our business is doing. It helps you record your transactions and measure their impact using standard reports designed to help manage your operations.

■ Cash vs. Accrual Accounting

Simply put, cash-based accounting recognizes revenue and expenses when cash is received or paid. In other words, transactions are only recorded when cash changes hands so there are no receivables or payables because they don't affect cash. Your personal chequebook is a perfect example of this type of record keeping.

Accounts receivable lets you to record a sale while not getting paid right away and still allows you to track the "open receivable" as an Asset on your books. Same concept for accounts payable, which is how you record a purchase and pay for it at another time. In these examples, you accrue these amounts. No cash has been exchanged but knowing what's going to happen in the future is much better way to manage your finances, especially for a business. This is the essence of accrual-based accounting.

In our simple cash-based example above, your revenue would be recognized when you receive payment from your customer – not when you invoice them. Conversely, expenses would be recognized when cash is disbursed – not when the bill is received. Businesses that start out using a chequebook-centric method of recording cash are basically using a cash-based system. For some small businesses, a hybrid system works best and can be explained something like this: Revenue is recorded when invoiced so you have the ability to track receivables. Expenses are recorded when bills are paid. In effect, you are using accrual-based accounting for revenue recognition (because you need to track sales and customers accounts) and you use cash-based accounting for recognizing expenses (simply writing a cheque).

In the end, your accountant will make the necessary adjustments in order to prepare and lodge your tax returns. They will take your hybrid system and adjust it to reflect cash-based or accrual-based numbers. What that means is that they adjust your 'accrued' balances back to zero as if the transactions never happened. If you have an accounts receivable balance reflecting $2,500 in sales you've not been paid for, your accountant will make an adjustment to reduce accounts receivable by $2,500 and reduce sales by the same amount, as if it never happened. In the world of cash-based accounting, technically, those sales aren't recorded until cash changes hands. The same idea applies to accounts payable (by adjusting the amounts posted to each asset or expense, for example).

For companies that use accrual accounting, their system can be explained something like this: An invoice is generated for goods and services, increasing sales and creating an accounts receivable transaction. When the customer pays you in full another transaction is recorded increasing your cash balance and reducing their receivable to zero. The same idea works when recording expenses: an invoice is received and recorded by tracking what expense was incurred and creating a purchase, or an accounts payable transaction. When you pay your supplier another transaction is recorded, a cheque, which reduces cash and reduces your accounts payable.

Using AccountEdge, the scenario above can be explained something like this: A Sales transaction is created for goods and/or services, crediting sales and debiting accounts receivable. When the customer pays a Receive Payment transaction is recorded increasing your cash balance and reducing their receivable. The same idea works when recording expenses: A bill is received and recorded by tracking what expense was incurred and creating an accounts payable record. When you pay your supplier bills, a cheque is created which reduces cash and reduces your payable.

The Golden Rules of Accounting

Lets discuss the Golden Rules of Accounting. They are:
1.) Debits ALWAYS EQUAL Credits
2.) Increases DO NOT NECESSARILY EQUAL Decreases
3.) Assets - Liabilities = Owner’s Equity (The accounting equation!)

Don’t let the words debits and credits scare you. They simply refer to the left side and right side of a ‘T Account’, a graphical representation of the amounts recorded into an account (see the examples below). Every transaction recorded into AccountEdge is posted to your accounts as a combination of debits and credits; and we do all the work for you. For an individual transaction, total debits always equal total credits. A cheque written to pay rent is an increase to Rent Expense (a debit) and a decrease to Cash (a credit).

Chart of Accounts

The chart of accounts, or Accounts List, is a list of categories into which all your accounting transactions will be recorded. In AccountEdge they are defined by a five-digit number, and account name and type: A one-digit prefix designates what type of account it is (and where it will be displayed on your financial statements), followed by a four-digit main account number. With AccountEdge, you have complete control over your account numbering, names and types.

Here is a table that will help you understand what this means and how it applies to your business. Notice that Assets, Liabilities and Equity are used to create your Balance Sheet and that Income, Cost of Sales and Expenses are used to create your Profit and Loss – your two most critical financial statements.

<table>
<tr><th></th><th>ACCOUNT NUMBER</th><th>ACCOUNT TYPE</th><th>INCREASE</th><th>DECREASE</th></tr>
<tr><td rowspan="3">Balance Sheet
(As of a ‘point of time’)</td><td>1-xxxx</td><td>Assets</td><td>DEBIT</td><td>CREDIT</td></tr>
<tr><td>2-xxxx</td><td>Liabilities</td><td>CREDIT</td><td>DEBIT</td></tr>
<tr><td>3-xxxx</td><td>Owner’s Equity</td><td>CREDIT</td><td>DEBIT</td></tr>
<tr><td rowspan="5">Profit and Loss
(For a ‘period of time’)</td><td>4-xxxx</td><td>Income</td><td>CREDIT</td><td>DEBIT</td></tr>
<tr><td>5-xxxx</td><td>Cost of Sales</td><td>DEBIT</td><td>CREDIT</td></tr>
<tr><td>6-xxxx</td><td>Expenses</td><td>DEBIT</td><td>CREDIT</td></tr>
<tr><td>8-xxxx</td><td>Other Income</td><td>CREDIT</td><td>DEBIT</td></tr>
<tr><td>9-xxxx</td><td>Other Expenses</td><td>DEBIT</td><td>CREDIT</td></tr>
</table>

There are some exceptions, but these are dealt with in the full user documents you received with your software.

Here's how each account type actually relates to *your* business.

■ Assets
An asset is anything you own in your business. They are the things in your office, your computers, your vehicles, your receivables owed by customers and your cash on hand. Everything you own is considered an asset of the business. Assets are used to generate revenue and purchase other assets. For example, when you buy a new computer, you use one asset (cash) in exchange for another asset (equipment).

■ Liabilities
Your liabilities are the things you owe, like taxes received from sales but not yet paid to the government, or loans payable to your bank. Another example is your credit cards – unless you pay your balance off every month, the money you owe to your credit card company is considered a liability on your books. Liabilities represent claims against your assets.

■ Owner's Equity
The difference between the value of your assets and the total of your liabilities is the value of your company. As the Accounting Equation states: Assets - Liabilities = Owner's Equity. Depending on the type of taxable entity you created when you first formed your business, the Owner's Equity section of your Chart of Accounts and Balance Sheet may have another name.

■ Income
The revenue of your business is the total amount of proceeds generated for providing goods and services to your customers. This is typically the total amount of the sales invoices that you generated for your customers, plus any other miscellaneous revenue.

■ Cost of Sales
Cost of Sales (or Purchases) refers to the total value of the goods and services that were sold to your customers. Typically, this refers to items-based businesses that buy inventory for resale, or a manufacturer who builds items for resale. Total income less cost of sales equals your gross profit.

■ Expenses
Expenses are the costs you incur to run your business, whether they are fixed costs (independent of how much business activity you have, like rent) or variable costs (directly related to how much business activity you have, like shipping).

■ T Accounts and Double-Entry Accounting
T accounts are a graphical representation of debits (left side) and credits (right side) in a specific General Ledger account. Double-entry accounting means that every transaction has at least one debit and one corresponding credit. The total debits always equal the total credits.

Account Name (x-xxxx)

debits	credits
debits	credits
debits	credits
debits	credits

> ***NOTE:*** *When your bank says that they are* ***crediting*** *your account, they are referring to an entry on* ***THEIR*** *books.*
>
> *Your money in the bank is a liability to the bank; therefore, when they* ***credit*** *your account, they are increasing their liability to you on their books.*

Below are a series of typical accounting transactions and their effect on the appropriate General Ledger accounts. The next page shows the financial statements resulting from these entries. This example assumes cash-based accounting is being used.

■ Examples (Part 1):

There is an initial $5,000 cash investment by the owner.
1.) You buy a desk at the office supply store and pay $250 cash
2.) You buy a new computer for $1,000 with your company credit card*****
3.) You buy 10 Widgets for inventory at $150 each and pay on COD
4.) You sell 4 Widgets from inventory for $250 each on Net 30 terms
5.) You pay your monthly rent of $800
6.) You pay your credit card company for your new computer
7.) Your customer pays for the Widgets they purchased
8.) You sell 3 Widgets for $300 each for cash
9.) You buy 10 Widgets for inventory at $150 each and pay on COD
10.) You sell 3 widgets for $350 each and take a $500 deposit

***** No transaction is recorded until the bill is paid based on the cash based method of accounting. With AccountEdge a purchase would be recorded showing a $1,000 liability in Accounts Payable using the accrual basis of accounting.

Cash (1-xxxx)

Initial Investment	$5,000	1.)	$250
7.)	$1,000	3.)	$1,500
8.)	$900	5.)	$800
10.)	$500	6.)	$1,000
		9.)	$1,500

Accounts Receivable (1-xxx)

4.)	$1,000	7.)	$1,000
10.)	$550		

Inventory (1-xxxx)

3.)	$1,500	4.)	$600
9.)	$1,500	8.)	$450
		10.)	$450

Owner's Equity (3-xxxx)

		Initial Investment	$5,000

Sales (4-xxxx)

		4.)	$1,000
		8.)	$900
		10.)	$1,050

COGS (5-xxxx)

4.)	$600		
8.)	$450		
10.)	$450		

Office Expense (6-xxxx)

1.)	$250		
6.)	$1,000		

Rent (6-xxxx)

5.)	$800		

Financial Statements

The primary financial statements of any business include the Balance Sheet and the Profit and Loss. Together, they represent the total financial picture of your business. They must be reviewed as a set because collectively they tell you about your business, both in the short term and the long term.

The Balance Sheet

The Balance Sheet, one of the primary financial statements, is a reflection of your total assets, less total liabilities and the difference, or owner's equity. The balance sheet reflects a 'point in time' in the life of the business; for example, you could produce a Balance Sheet as of December 31, 20XX that would reflect all the account balances "as of" that date - a point in time. For example, you would see the balance of your assets, liabilities and owner's equity accounts on December 31st.

The Profit and Loss Statement (or Income Statement)

The Profit and Loss, also one of the primary financial statements, is a reflection of your total revenue generated, less the cost of items sold (which equals your Gross Profit), less your operating expenses (which equals your Net Income or Loss). The profit and loss reflects results for a 'period of time': the net income or loss for a specific period of time, for example, January 1, 20XX to June 30, 20XX.

ABC Pty. Ltd.
Balance Sheet
June 30, 20xx

Assets	
Cash	$2,350
Accounts Receivable	$550
Inventory	$1,500
Total Assets	$4,400
Liabilities	$ 0
Equity	
Owners Investment	$5,000
Current Year Earnings	($600)
Total Equity	$4,400
Total Liabilities and Equity	$4,400

ABC Pty. Ltd.
Profit and Loss Statement
January 1, 20XX to June 30, 20XX

Revenue	
Sales	$2,950
COGS	($1,500)
Gross Profit	$1,450
Expenses	
Office Expense	$1,250
Rent	$800
Total Expenses	$2,050
Net Income/(Loss)	($600)

The Equity section of your Balance Sheet includes an account called “Current Year Earnings” which represents the year to date net income or loss of your business. The life to date history of profit and losses for your business is recorded into the Retained Earnings account. At the close of every year, the Current Year Earnings accounting is rolled into (closed into) the Retained Earnings account. In our example above, our business is brand new, so the loss for the year is presented on the Balance Sheet as a reduction of Equity in the Current Year Earnings account.

If the next financial year produces a $2000 profit, the Retained Earnings account will reflect the balance of $1,400 (a $600 loss plus a $2,000 profit), the cumulative balance. Each year, your Profit and Loss balances are closed into your Retained Earnings account, which is how the Balance Sheet and the Profit and Loss report are tied together. This happens during the Start a New Fiscal process.

It is important to remember, that a Balance Sheet represents a point in time (as of June 30th) and is continually updated for the life of your business, while a Profit and Loss represents a period of time (January 1st to June 30th) and starts over every year.

Now let's add some additional entries to the mix that include more 'advanced' issues, like accounts receivable and payable, depreciation, inventory and sales tax. With accrual-based accounting you'll notice that we record sales and purchases when they happen.

■ Examples (Part 2):

Remember, there is a $5,000 initial investment by the owner.
11.) You buy office furniture and receive Net 30 Day terms for $1,900
12.) You buy a new server and 3 workstations, receive Net 60 Day terms, total investment - $7,500
13.) You record your first month's depreciation on your new hardware*
14.) You buy 1000 Widgets for inventory at $150 each and receive 2% 10, Net 30 terms
15.) You ship an order for 400 Widgets at $300 each and get a 50% deposit, plus you collect 5% =tax
16.) You pay your monthly rent of $800
17.) You pay your employee a salary of $1,000, less; $75 in Federal Tax, $48 in State/Provincial Tax, $43 in Pension and $17 in Employment Insurance (net pay is $817)
18.) You sell 500 widgets for $325 on COD (tax exempt)
19.) You pay for the 1,000 Widgets and take the 2% discount

* Just for the purpose of this example, we are going to depreciate our new hardware over 3 years, using straight-line depreciation (divided evenly over 36 months).

If depreciation scares you, just ask your accountant how it should appear on your monthly financial statements and what monthly General Journal Entries you should be recording. Then, set them up as Recurring Journal Entry's in your Accounts Command Centre in AccountEdge.

Cash (1-xxxx)

Initial Investment	$5,000	1.)	$250
7.)	$1,000	3.)	$1,500
8.)	$900	5.)	$800
10.)	$500	6.)	$1,000
15.)	$68,400	9.)	$1,500
19.)	$162,500	16.)	$800
		17.)	$817
		19.)	$147,000

Accts Receivable (1-xxxx)

4.)	$1,000	7.)	$1,000
10.)	$550		
15.)	$60,000		

Inventory (1-xxxx)

3.)	$1,500	4.)	$600
9.)	$1,500	8.)	$450
14.)	$150,000	10.)	$450
		15.)	$60,000
		18.)	$75,000

Office Furniture (1-xxxx)

11.)	$1,900		

Office Equipment (1-xxxx)

12.)	$7,500		

Accumulated Depreciation - Office Furn & Equip (1-xxxx)

		13.)	$208

Accts Payable (2-xxxx)

19.)	$150,000	11.)	$1,900
		12.)	$7,500
		14.)	$150,000

Taxes Payable (2-xxxx)

		15.)	$8,400

Payroll Taxes Payable (2-xxxx)

		17.)	$75
		17.)	$48
		17.)	$43
		17.)	$17

Owner's Equity (3-xxxx)

		Initial Investment	$5,000

Sales (4-xxxx)

	4.) $1,000
	8.) $900
	10.) $1,050
	15.) $120,000
	18.) $162,500

COGS (5-xxxx)

4.) $600	
8.) $450	
10.) $450	
15.) $60,000	
19.) $75,000	

Purchase Discounts (5-xxxx)

	20.) $3,000

Salary (6-xxxx)

17.) $1,000	

Office Exp (6-xxxx)

1.) $250	
6.) $1,000	

Rent Exp (6-xxxx)

5.) $800	
16.) $800	

Depreciation Exp (6-xxxx)

13.) $208	

ABC Pty. Ltd.
Balance Sheet
June 30, 20XX

Assets	
Cash	$82,233
Accounts Receivable	$60,550
Inventory	$16,500
Office Furniture	$1,900
Office Equipment	$7,500
Accum. Depr – Off Equip	($208)
Total Assets	$168,475
Liabilities	
Accounts Payable	$9,400
Taxes Payable	$6,000
Payroll Taxes Payable	$183
Total Liabilities	$15,583
Equity	
Owners Investment	$5,000
Current Year Earnings	$147,892
Total Equity	$152,892
Total Liabilities and Equity	$168,475

ABC Pty. Ltd.
Profit and Loss Statement
January 1, 20XX to June 30, 20XX

Revenue		
Sales		$285,450
COGS	$136,500	
Less: Purch Disc	$3,000	($133,500)
Gross Profit		$151,950
Expenses		
Salary		$1,000
Office Expense		$1,250
Rent		$1,600
Depreciation Expense		$208
Total Expenses		$4,058
Net Income/(Loss)		$147,892

■ Perform an "AccountEdge Self-Check"

A list of 5 things you can do to perform a "self check"

1. Check AR and AP vs. the details – Run an Accounts Receivable (and Accounts Payable) Reconciliation Report, which will compare your outstanding accounts receivable and accounts payable, detailed by customer and supplier, to the balance in your accounts receivable account (1-xxxx) and your accounts payable account (2-xxxx).

2. Is cash reconciled? AccountEdge makes reconciling your cash and bank accounts really easy and you should be doing this monthly. If not, take the time to organize this with the help of your bookkeeper, accountant or an AccountEdge Certified Consultant (see below).

3. Is your Balance Sheet complete and accurate? Print a Balance Sheet as of right now. Look at each account and ask yourself three simple questions:
   a) Do I have all my assets listed here?
   b) Do I have backup for each of these accounts?
   c) Is the ownership section of the report correct?

4. Have you closed your books? Have you gone through the process to Start a New Financial Year? AccountEdge allows you to have 26 open periods, by the end of the 26th period, you'll have to close a year, by selecting Start a New Year under the File menu in AccountEdge.

5. Are your records up to date and backed up? This is the single most valuable piece of advice in this entire document. It is imperative that you keep your records up to date by entering all the relevant transactions when they happen, not at the end of the month or quarter. Learn to make doing your books part of your everyday work, not something you dread doing periodically. And, of course, you want to backup daily, weekly, monthly, quarterly, annually and after critical tasks, such as closing the payroll year.

■ Other Sources of Information

- Speak to your Accountant
  Ask them what they need from you in order to complete work on your accounts on a quarterly and annual basis - from financial reports to your tax return. Ask them specifically what reports they want, what backup data they want, in what format, and how often.

- Work with an AccountEdge Certified Consultant
  If you need on-site assistance with all issues related to AccountEdge consider working with an AccountEdge Certified Consultant. These are small business experts that can provide services and support beyond what we can offer over the phone or online. Select the link under the Help menu in AccountEdge or visit the Community Locator on our web site.

- Get information from the web
  The web has excellent content on numerous topics of importance to you and your small business. Your country's revenue agency website is a good place to start.

- Access our AccountEdge Support tools
  There are numerous Support Options for all AccountEdge clients including telephone, email, web support, training classes, webinars as well as AccountEdge Support and Payroll Tax Services options that include tax updates, product updates and upgrades – simply put – it is the best investment you can make in your business.

- What Software Support can and can't help you with
  There will be issues that our Software Support reps won't be able to help you with. They include tax issues, networking issues and accounting help. While we will do our best to help you get the most out of AccountEdge products and services, these topics are better handled by your outside advisors who specialize in these specific areas.

■ Terminology

Accounts List: A list of categories or accounts where transactions are recorded. Also known as the Chart of Accounts.

Accounts Payable: Money or other obligations owed to creditors for services and materials, a Liability on the Balance Sheet.

Accounts Receivable: Money or other obligations due for services rendered or items sold on terms, an Asset on the Balance Sheet.

Accrual Based Accounting: Represents a method of recording accounting transactions when they occur, whether or not cash has changed hands.

Accrued Liabilities: Represents expenses that are incurred prior to being paid. For example, salaries earned by your employees and paid in a subsequent month are accrued as a liability until they are paid.

Accrued Revenue: Represents revenue that is earned and recorded but not yet received in the form of cash.

Asset: The things a company owns, seen on the Balance Sheet and represented as 1-xxxx accounts in your Chart of Accounts.

Balance Sheet: The primary financial statement that shows detailed assets, liabilities and equity at a point in time.

Cash Based Accounting: Represents a method of recording accounting transactions most easily described as accounting for cash transactions. Entries do not affect your financial statements until cash changes hands. In this environment, you do not track receivables and payables. Cash received is recorded as income when received and expenses are recorded when paid.

Cost of Goods Sold (COGS): Represents the cost of items or services sold to customers. These costs are kept in the Inventory asset account (1-xxxx) until they are sold. Then they are passed over to the COGS (5-xxxx) account. Seen on the Profit and Loss and represented as 3-xxxx accounts in your Chart of Accounts.

Credit: A credit is the right hand side of an account, represented in T-Account format on the previous page.

Current Year Earnings: This account represents year to date earnings, not yet recorded into the Retained Earnings account.

Debit: A debit is the left hand side of an account, represented in T-Account format on the previous page.

Deferred Revenue: Represents income received, but not yet earned. This is typically a liability account.

Double Entry Accounting: AccountEdge follows the convention of Double Entry Accounting. Every accounting transaction is comprised of debits that equal credits.

Equity (Capital): The owner’s interest in the business, which is the total assets minus the total liabilities of a company, seen on the balance sheet and represented as 3-xxxx accounts in your Chart of Accounts.

Expenses: Costs incurred in the business used to generate revenue, seen on the Profit and Loss report and represented in your Chart of Accounts as 6-xxxx accounts.

General Ledger: An accounting record where all of your accounts are maintained. In AccountEdge, when you enter any transaction, the General Ledger accounts are automatically updated.

Gross Profit: Represents your revenue from sales of inventory or services, less Cost of Goods Sold, before overhead expenses.

Journals: Account ledgers where entries are recorded. AccountEdge has General, Disbursements, Receipts, Sales, Purchases, and Purchases journals. Every transaction creates a corresponding set of debit and credit entries in a specific journal.

Liability: The things a company owes in cash or other resources, represented as 2-xxxx in your Chart of Accounts. These are claims against assets.

Net Profit/Loss: Total Income minus Total Expenses. The bottom line!

Operating Profit: Profit before Other Income is added and Other Expenses are subtracted.

Overhead Expenses: Represents the expenses of a business independent of how much revenue is generated. Can also be considered Fixed Costs, things like rent, salaries, and utilities.

Profit and Loss Statement (or **Income Statement):** The primary financial statement that shows detailed revenues and expenses for a period of time.

Prepaid Expenses: Represents expenses that are paid in advance of incurring them. For example, you might pay a year's worth of insurance and accrue 1/12 of it each month. This is typically an asset account.

Retained Earnings: Represents the cumulative net income or loss of a business since its beginning. When you Start a New Year in AccountEdge the program automatically transfers your year-end income or (Current Year's Earnings) loss to this account. This is called the closing entry.

Start a New Year: The process in AccountEdge that closes a financial year, transfers your Current Year Earnings to Retained Earnings and prepares the accounts for a new financial year. All Income and Expense accounts are 'zeroed out' to start the New Financial Year.

Subsidiary Ledgers: Customer and supplier balances that equal the amount of the Accounts Receivable and Accounts Payable General Ledger accounts.

Trial Balance: A list of all your General Ledger accounts and their current balances.