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## YEAR-END CLOSE / QUICKBOOKS ACCOUNTING POLICY & PROCEDURES

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**Policy:** Accurate Internal Control of access to prior year data and the reconciliation of final ledgers to the annual audited report will be maintained at all times.

**Purpose:** To establish the procedures to be followed for fiscal year-end closing.

**Scope:** This procedure applies to the accounting operations as managed by the CTEC Administrator.

**Background:** Under contract, the Administrator manages the accounting records of the California Tax Education Council (CTEC). The financial records are maintained using the commercial software package known throughout the accounting industry as QuickBooks (QB).

QB does not require year-end closing, but it is management's choice to close the financial records at year end.

**Advantages to closing the financial records:**

- **Restricted Access:** You can set a password to restrict access to data from the prior accounting period, including the details of every transaction. Transactions cannot be changed without management knowledge. To modify or delete a transaction in a closed period, a user must know the closing date password and have appropriate permission.
- **Reporting:** Any changes made after the closing date to transactions dated on or before the closing date will appear in the closing date exception report.

**Advantages to not closing the financial records:**

- **Detail:** You always have easy access to last year's data, including the details of every transaction.
- **Reporting:** You can create comparative reports between this year and last year.

**Procedure:**

**1.0 At Year-End**

Enter all transactions for the current year to include auto entries as made by QB (payments, checks, receipts, invoices) and manual journal entries (accruals).

**2.0 Application**

**2.1 Print the following reports:**

- a) Adjusted Trial Balance
- b) Adjusted Journal Entries
- c) Profit & Loss/standard
- d) Balance Sheet/standard
- e) Statement of Cash Flows
- f) General Ledger
- g) Transaction Detail by Account
- h) Audit Trail



- 2.2 The Administrator will deliver the reports as listed in 2.1 to the CTEC Audit Oversight Committee chair.
- 2.3 The Audit Oversight Committee will review the reports and prepare any additional journal entries prior to year-end close.
- 3.0 **Year-End Audit Request**
- 3.1 As requested, the Administrator will provide reports and additional information to the contracted independent auditors.
- 4.0 **Adjusting Journal Entries**
- 4.1 After review by the Audit Oversight Committee, the Administrator will record all year-end adjusting journal entries as provided by the independent auditors.
- 4.2 The Administrator will provide the chair of the Audit Oversight Committee with a final trial balance, balance sheet/statement of financial position and profit & loss statement of activities and change in net assets.
- 4.3 Final adjusting entries, if any, will be made so the internal ledgers will be in agreement with the published annual report
- 5.0 **Final Close QuickBooks**
- 5.1 In the main menu > go to edit > preference > accounting > company preferences and set a closing date password. The closing date should always be 6/30/xxxx.
- 6.0 **Password**
- 6.1 The password should be set by the Administrator in conjunction with the Audit Oversight Chair.
- 6.2 The password will be tested randomly without prior notice by the Audit Oversight Committee.
- 7.0 **Attachment**

Approved May 18, 2012  
CTEC Board of Directors

**Responsibility: Board of Directors**



**ATTACHMENT**  
**---METHODS OF ACCOUNTING---**  
**(Prepared in Summary Format)**

Essentially the procedures under which the timing of Income and Expense reporting are determined.

The method elected must give a clear reflection of net Income, that is, Income less the cost of earning that Income.

While this usually means the entity will utilize the cash or accrual method of accounting, some variations are possible.

### **Cash method of Accounting**

Individual taxpayers in most cases find the use of the cash method of reporting income and expenses most advantageous. (However, if the entity is engaged in a trade or business where inventories are a material, income-producing item the accrual method must be used even though the cash method is utilized for other transactions).

Under the cash method of accounting, income is recognized in the year received. Expenses of earning that income, and other allowable deductions, must be claimed in the year of payment. Prepaid income, such as rent or interest received in advance of the due date, and even though not actually earned, is generally included in gross income in the year of receipt. However, deductions are generally not allowable until the expenses are incurred even though the amounts are paid in advance.

### **Doctrine of Constructive Receipt**

Under the cash method, income that is not actually received during the reporting period but which is available upon demand, such as interest on bank deposits, is nonetheless taxable under the constructive receipt. Income, to be recognized under the provisions of this concept, must generally be subject to the unqualified demand of the entity. In short, actual physical possession is not necessarily needed so long as the taxpayer has a legally exercisable power over the income. Thus, a check which is mailed and deposited in the taxpayer's mailbox on December 31 is includable in income in that year even though the check is not actually negotiated until the following year upon return of the taxpayer from and out-of-town trip.

### **Accrual Method of Accounting**

Under the accrual method of accounting, income is recognized when earned, that is, when the entity has the unconditional right to receive it. By the same token, expenses are deductible when the taxpayer has the unconditional obligation to pay.

Where an accrual basis entity receives payment in advance, the income is generally recognized in the year of receipt even though not earned until the following year. There are, however, a few exceptions under which deferral or income, even though received in advance, is possible: (1) certain dues and subscriptions; (2) amounts received for rendering services that must be rendered by the end of the year following the year of receipt; and (3) receipts on account of sales of property to be sold in the future.

**The Internal Revenue Service (IRS) requires that certain business entities use the accrual method for tax reporting purposes. However, in filing IRS form 990 – Return of Organizations Exempt from Income Tax, Schedule A Part IV-A requires reporting entities to use the cash method of accounting even though the entity uses the accrual basis.**



## **Change of Accounting Method**

What is a change in accounting method? This occurs when an accounting principle is used that is different from the principle used previously for reporting purposes. The term “accounting principle” including not only accounting principles and practices, but also the methods of applying them. For example, a change in inventory valuation from LIFO to FIFO is changed in method.

**It should be noted that the correction of an error in previously issued financial statements (computational errors, oversights, misapplication of an accounting principle) is not an accounting change or change in methods.**

A change in accounting method can be required either by IRS or initiated by the taxpayer. If the former, the change must conform to the method required by the law. If the latter, the taxpayer, with a few exceptions, must obtain IRS approval, irrespective of whether the change conforms to GAAP, or the tax law.

### **Changes requiring IRS approval:**

- A change from cash to the accrual method for gross income and expenses.
- A change in depreciation method.
- A change in the basis for inventory valuation method
- Change in the reporting entity; e.g., a change in the subsidiary-parent organization because the statements are considered to be those of a different entity.
- Changes in the method for a material item. (A material item is defined in the Code to be “any item that involves the proper time for inclusion of an item in income or the taking of a deduction”).

### **Changes in method do not include:**

- Correction of arithmetic errors.
- Correction of improper postings.
- Adjustments to the depreciation schedule.
- Changes made necessary by changes in the circumstances and facts governing the current method.

Most accounting software allows the selection of the accounting method.

**For example, QuickBooks allows you to select Cash or Accrual based summary reporting. Therefore you can view most reports on a cash or accrual basis anytime by customizing the report when you create it. However, QuickBooks is set up to do reports on the accrual basis.**

Most Accountants feel that the accrual method gives you a truer picture of the business’s finances.

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