

The Ripple Effect: How Balance Sheet Errors Distort Your P&L

1. Fixed Assets – Monica’s Trick

For budgeting purposes, many of our clients want to reflect fixed asset purchases on their P&L as well as the Fixed Asset portion of the Balance Sheet. How to expense your fixed assets and capitalize them too:

- Charge the fixed asset to an expense account.
- On the same transaction, also charge the fixed asset account.
- On the same transaction, enter a credit to an Equity account called Fixed Asset Equity.
- Enter a complete description of quantity, brand and model number

ANK ACCOUNT 1000 - Checking - Chase ENDING BALANCE 560.40

NO. 1086
DATE 09/12/2020

PAY TO THE ORDER OF Sweetwater Sound \$ 2,407.20

Two thousand four hundred seven and 20/100*****DOLLARS

ADDRESS
Sweetwater Sound

MEMO

Expenses \$2,407.20 Items \$0.00

ACCOUNT	AMOUNT	MEMO
1530 - Equipment - net:1531 - Equipment - cost	1,899.00	Pair of JBL Model 123 Speakers
9900 - Sound Equipment	1,899.00	Pair of JBL Model 123 Speakers
3100 - Fixed Asset Equity	-1,899.00	Pair of JBL Model 123 Speakers
6170 - Equipment less than \$250	508.20	Drum Cymbals, cables, SM58 mic

2. Payroll Liabilities

Example: 403(b) retirement withholding

- Amount withheld from paycheck is recorded to a liability account called “403(b) Payable”
- The amount remitted to investment provider is paid from the same liability account.
- The account balance should be zero after the payment is made.
- Watch amounts billed to the organization by the provider to make sure it agrees to the amount being withheld, and make adjusts to withholding as needed

3. Mortgage Principal Payments – Monica’s Trick

Many of our clients want the P&L to reflect the entire loan payment for budgeting purposes. How to expense loan principal payments and record them properly to the liability account:

BANK ACCOUNT **1000 - Checking - Chase** ENDING BALANCE **-1,539.60**

NO. **1087**
DATE **09/12/2020**
\$ **2,100.00**

PAY TO THE ORDER OF **Chase Bank**

Two thousand one hundred and 00/100*** DOLLARS**

ADDRESS
Chase Bank

MEMO

Expenses \$2,100.00 Items \$0.00

ACCOUNT	AMOUNT	MEMO
2900 - Mortgage Payable	700.00	principal portion of loan payment
9200 - Mortgage principal expense	700.00	principal portion of loan payment
3150 - Mortgage Principal Equity	-700.00	principal portion of loan payment
6200 - Interest Expense	1,400.00	mortgage interest

4. Monthly Tasks to Stay on Track

- a. Reconcile all bank and credit card accounts
 - i. Investigate and correct any errant uncleared transactions prior to finishing the reconciliation
- b. Review Accounts Receivable
 - i. Run Open Invoices report (or equivalent in your software) and investigate any dated invoices that have been paid or are uncollectable and correct or write off as needed
- c. Review Accounts Payable
 - i. Run Unpaid bills report (or equivalent in your software) and investigate any dated bills have been paid or are still overdue
- d. Review Loan Balances
 - i. Does the amount on the Balance Sheet agree to the loan statement
- e. Review and Update Restricted Funds
 - i. Are the balances Accurate?
- f. Review all accounts on the Balance Sheet for accuracy
 - i. Investigate obviously wrong balances and negative amounts
- g. Review all accounts on the Profit & Loss Statement
 - i. Investigate obviously wrong balances and negative amounts