



Accounting Education Seminar

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Edited Transcript

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Welcome to our, it seems like, annual bookkeeping accounting update. My name is Marta Klakov, and I'm a senior manager at Welch LLP, and I work as an accountant for LiRN.

As Jackie mentioned, we received a few questions before this webinar, and so I tried to build this session around these questions, and I took under consideration questions received during the year. Some topics you might find are refreshers from last year, maybe I expanded a little bit more on some topics. It seems like just most questions are related to what we're going to talk about today.

If there are very specific questions about your library, about your association, it's better to send it to me, to us, to accounting@lirn.ca, then I can get some background, but if you've got general questions about what we're going to talk about today you can ask or you can send it to the chat.

We're going to start with cash versus accrual basis accounting. We talked about it last year, but I think this is very important. The trial balances that you are sending to LiRN are assumed to be on an accrual basis. So before you send it, you should make sure that everything that you budgeted for in the year, that any bills that you have not received yet are still accounted for and are included in the trial balance.

And we're going to talk about how to do it. How can I make sure that everything is captured in the trial balance that I'm sending to LiRN? So basically, the key difference between the two approaches is timing. Your cash basis accounting depends on your cash flow.

So basically, you're reporting your earnings when they are deposited in your bank account. You're reporting on your expenses when you pay them. It does not matter.

You do not match these two, revenue to expenses, expenses to revenue. You're basically looking only at your cash inflows and outflows. But as I said, we would like to see accrual basis accounting.

And **accrual basis accounting** accounts for your earnings the moment that they are owed to you and accounts for your expenses the moment you owe them. So this system makes use of accounts payable, accounts receivable, and accrual liabilities. So it is very important when you receive the bill, you're going to post it with your bill date.

You're not going to post it in the day when you receive it. Maybe the bill is posted three weeks before that. And this is very, very important, especially for the year-end.

For your quarter-end, it's also important because you're sending these trial balances, but it's crucial for the year-end. So you would post your bill with your bill date, not when you

received it, and definitely not when you think you're going to pay it. And it's the same with accounts receivable.

I'm not sure if you're issuing any invoices, but for example, you're receiving the grant. And if something's going to happen and the grant is not in your bank account, but you know the amount that you're going to receive, you should accrue as well for that. So you should post your accounts receivable.

You know that it's coming and it belongs to this particular quarter, not next quarter. So that's why this is when we're using this accrual basis accounting. You would use your accrued liabilities in the scenario that you ordered something, you've got it already, but the bill is not coming.

And you don't know when it's going to come, and you have to send these reports to LiRN, or you have to send it to your accountant, or you have to present the reports. So then what are you going to do? You know the estimated value. You know the estimated expense that needs to be paid, that it's coming.

And so you're going to use this **accrued liability GL account**, posting it to credit. And the debit, you're going to post to the appropriate expense account, unless this is an asset. So then you're going to post it to the current asset account.

It is always better to estimate and post then estimate and accrue for it, than not to post it at all. And this is especially very important that you should not, once you close the year, when you close the period, going back and posting something. Everything should be posted then in the current period if you're working with a closed-already year.

So that's why this is very important to understand and how to use **accounts payable, accounts receivable, and accrued liabilities accounts**. And also, you know, when you're using accrued basis accounting, this shows you a better understanding of your organization of the business, compared to the cash basis accounting. And that's why the accountants and for your tax purposes, accrual accounting is needed.

Debits and credits. And very often when I reply to your emails, and we would like to adjust something, I would tell you, please post debit and credit, and I will tell you on which site to post.

So what actually debits and credits -- accountants have used this term forever. And they're using credits and debits to basically describe where numbers are placed in the books. And there are two methods of recording transactions, which is single-entry and double-entry accounting.

Single-entry bookkeeping is used to write down ins and outs from your bank. You will have your bank balance, and then you're going to write down this is what I paid. It's out of the bank.

And then if I deposit something, this is my into into the bank. You would only probably use it right now in the Excel spreadsheet. As a backup for your bookkeeper or for your accountant.

Accountants and all **the accounting systems that we work with are using double-entry accounting**. The single entry is not being used. As I said, it's mostly just for the backup or something that you need, like a summary for something, but this is not real bookkeeping and accounting.

Bookkeeping is using the double-entry system. And under this system, everything, all your books are organized into chart of accounts. So this is when your chart of accounts comes into place.

And this is when everything is split into assets, liabilities, your equity section, your revenue, and your expenses. And every single entry is split between debit and credit. And this does not necessarily mean that you will have just one amount on the debit side and one amount on the credit side.

You can have multiple entries on one side, and one entry on the other side, but all these entries, when you're going to sum them up, have to equal. So if you're using the system, if you're using your accounting bookkeeping system, if there's going to be some mistake made in your entry, you will know that the system will not let you post it. You will have a warning that the entry is not in balance, please fix it.

Also **debit means that it's always on the left side and credit, it's always on the right side**. When you're using accounts payable or accounts receivable module, you're really using this double entry accounting. Everything is just done in the background for you.

So when you open your bill to post, that bill amount automatically is being posted to liabilities, to your accounts payable as a credit. And then on the debit side, this is where you would post to your expense accounts. You can post just one amount, you can post multiple. And then once you post it, you're posting this double entry.

Sometimes, you know, when you need to fix something or when I send some instructions, you can go back to this diagram and it's going to show you debits and credits for different chart of accounts groups. So for assets, if you're going to post the debit on the debit side, this is going to increase your asset value. When you're going to post to the credit, you're decreasing the value of the asset.

With liabilities, when you're going to post on a debit side, you're decreasing your liabilities. On the credit side, you're increasing them. Revenue is, if you want to post and decrease your revenue, you're going to post it on the credit side and posting it on the debit side, will decrease your revenue.

With expenses, posting to debit will increase your expenses and post it on the credit side will decrease your expenses. So as I said, if you have to ever post some entries, reverse the entry, then you can quickly have a look and you will see on which side for which group on your chart of accounts amount needs to be posted.

There are many questions about **depreciation** during the year as well. So depreciation represents the estimated reduction in value of your fixed asset within a fiscal year. And depreciation should be posted at least on an annual basis.

Again, if you're presenting some reports and you're closing your quarters and you want your statements to be the most accurate, you can post it also on a monthly or quarterly basis. And if you need to post it on a quarterly basis, let's say I would calculate the depreciation for the whole year and then just divide it by four. And this is going to be your estimate for the quarter.

But at the year end, you still should calculate depreciation for the whole year and then compare it to your entries and post any adjustments if adjustment is needed to be posted. Also, it's very important that you have an accumulated amortization GL account open. So if you've got, let's say, computer hardware, if you've got some furniture, you should also have account computer hardware accumulated amortization, furniture and fixture accumulated amortization.

And then your amortization is being posted through this account. You should never post directly to your asset account. Then right away when someone looks at your balance sheet, they can see if your asset is being depreciated.

There are two methods. **You can use two methods for depreciation calculation.** The first one is the **straight-line depreciation** method. It's usually three to five years depending on the assets. Three, five years of use for the life of your assets.

So for example, if it's going to be a computer, you can use three or maybe sometimes two years. So you would divide the value of your asset by number of the years. And this is going to be your depreciation for the year.

Another method is the **declining balance method**. This depreciation is calculated by multiplying the value of the asset by the CRA capital cost allowance rate. And these rates are prescribed and we can find them on the CRA website.

But it's very important to remember as well that **for both methods, you have to use the half-year rule**, which means that the first year, when you're using your asset for the first year, you can only depreciate 50% of the depreciation that you calculated for the year, but only for the new asset. So it's also very important that when you prepare you can distinguish when this asset is already three years on the books and whatever you've got new because, for this new asset, you have to calculate the depreciation separately. You cannot just sum up everything together and divide it by three because, for this new asset, you can only use 50% of the depreciation for the year.

Capital cost allowance rates. So your furniture, your office appliances, and office equipment, they belong to class eight and the rate depreciation rate, it's 20%. I put here vehicles, and cars as well, probably for this group, you don't have them on books, but this is pretty also pretty common.

So cars belong to class 10 and it's 30% depreciation rate. Small tools, it will be like utensils or some small office equipment tools the value is below \$500, but they're going to last more than one year, more than a few months. They belong to class 12 and the rate is 100%.

And you might wonder, okay, why if we depreciate 100%, why we should have it as a fixed asset if we're taking a 100% rate? But remember about this half-year rule, so we only allow

to depreciate 50% for the first year. So basically these small tools will be on our books on the balance sheet for two years because we only can depreciate 50% during the first year. And finally, computer hardware, it's class 50, 55%.

With the computer hardware, you will find that on the CRA website computers bought after 2004, but before 2008, and then before 2017, but after 2008. So it changes. It's usually it's between 45 and 55%. It's because technology is developing so quickly, that the CRA is kind of trying to address it very often regarding computer hardware. Right now it's 55%.

Correcting journal entries. If you posted something, a bill or entry within the current period, and there is a mistake, the easiest way is just to open that entry, open the bill and make all the edits, and then you can save it. If you have to edit and change something for the closed period, especially the closed year, you should not do anything within this year. You can only reverse that entry or the bill within the current period and then post it again, post the correct entry or correct bill again.

I would do it on the same date. So I'm reversing it on November 19, and then I'm posting it on November 19. So then it's easy. You will see why I have it or if I was correcting something.

Deleting entries. The best practice is not to delete anything because then you're losing your audit trail. But if you posted something in the current period, and it's, let's say, you posted your bill twice, and nothing is paid yet, nothing is closed yet, you can go and delete that bill. But you know what? If the period is closed, if you already sent trial balances, and especially, again, if the year is closed, your only option is to reverse that entry or reverse the bill in the current period. This is how you would remove it from your books. You should never go back to the closed year and delete something.

QUESTIONS

So capital purchases still showing on trial balance and accumulated surplus deficit won't represent the real value? I agree. They would not represent the real value because your accumulated surplus and deficit are being fed through P&L.

And if you've got fixed assets sitting on the balance sheet, that your accumulated surplus deficit, this amount does not even include this expenditure. Okay. So how to fix it? First, we have to open and see when that asset was posted, and how many years that asset is sitting on your books.

If, for example, let's say this is computer sitting there already for four years, it should be fully depreciated. So what you can do, you can basically post the whole value of the computer to amortization. So your entry will be credit computer hardware accumulated amortization and debit depreciation amortization, depending on how your GL account is called.

And then your surplus, your deficit will peak that amount from the P&L, and then it's going to be fed to the accumulated surplus deficit. So this is what needs to be done when this computer is sitting for a long time on the trial balance. Let's say that that computer is sitting there for a year or two years, and its use for life was estimated at three years.

So what do you need to do, you have to calculate your depreciation for the year. And then you have to remove these two years, but you've got the first year is half year rule. So basically year and a half worth of depreciation will be posted through your accumulated amortization and then depreciation. And again, this is going to feed your accumulated surplus deficit.

We received is HST input tax credit posted, but the library is exempted from filing HST. So it's showing incorrectly on the trial balance. Yes, it is showing incorrectly. And again, your accumulated surplus deficit does not show the real value. So what needs to be done? You should export the value, of every single entry from your HST input tax credit.

You should determine every single amount of your input tax credit where it should have been posted. So let's say you had a bill for office supplies and the total bill was \$113, and \$100 was posted to your office supplies, but \$13 was posted incorrectly to this HST input tax credit account.

But the whole \$113 should have been posted to your office supplies. So now you have to determine for every single account, for every single amount on your HST list, where in the first place that amount should have been posted. So then I would build a table in an Excel spreadsheet, and I would have columns like office supplies, computer hardware as well, or maybe some furniture.

You just have to determine where it should have been posted in the first place. And then once you've got this summary, you're going to remove this input tax credit, and you're going to post the adjusting entry. Now, if this is something done in the past, and I think this was done in the past, it's not what's happening in the current year.

But if it was done in the current year, I would still go and then you can just adjust these bills for this period, for this special year. But if it was done in previous years, this is what you need to do. You need to build that Excel spreadsheet, and then your entry will be credit, HST input tax credit, and debit, which you're going to post to the appropriate expense accounts.

And I remember, you know when I presented the diagram, I told you that for the liability, when you want to remove a liability, you have to post a debit. But now I'm telling you to post it to credit. I'm assuming I have not seen where it's sitting, but usually no one is using HST receivables, HST payables, it's just built into the HST liability account.

Because this was input tax credit it's posted on your debit side liability. So in order to remove it, it has to be posted to credit. So you're increasing it, but by increasing it, you're removing that debit that was posted before incorrectly to your HST income tax credit.

Again, once you have it posted to your expenses your surplus your deficit for the year is going to feed to your accumulated and you are going to show the correct value for your accumulated surplus or deficit.

Separation of Association and Library Books: We have talked about it many times and this was part of our last year's seminar. This is very important because of the grants that you are receiving from LiRN. These grants are restricted for library purposes and operations only.

That is why this is very important to show and to present on the trial balances that library operations are separated from association operations. When we are receiving the trial balances this is our assumption, that the trial balances received are only for library purposes.

If library and association accounts are on the same program how to separate them? I work mostly with QuickBooks. I'm assuming that these programs are pretty similar and probably have similar functions. But in QuickBooks there is a function and you can turn on. You can turn on "classes" in the QuickBooks, and what does it mean? It means that every entry you post, every bill you post, every invoice you post, you turn on the class function to show whether it is library or association. So you will have the extra column and then with the drop down window and you will just choose.

And also you can split. For example you've got one bill you've got library and association office supplies and you would like 30% goes to library, 70% goes to association. You can split one bill or, I don't know if this is the case, but maybe some salaries are being split. You can do it as well with every entry, again with every bill, and then you are able to produce the reports by class, so everything and your P&L and balance sheet, everything can be split by class. If you are posting it correctly and you're splitting every entry, then the system will produce these the statements by class for you.

If there are not that many transactions, you can use just GL accounts to split it. So for example, again we're going back to is office supplies. This is how I would post it instead of posting it like classes. So on your statements you will have office supplies and you will have two sub accounts. The only problem with this approach is that when you need to produce the statements you will need to spend more time and it's going to be more manual process because you will have to remove your association from the library, and I would assume that probably to work more work would be involved with sorting it out for the balance sheet as well.

That's it for me for today. I'm not sure if there are any questions like general accounting questions right now as I mentioned at the beginning, if there is any specific question, any help is needed, please reach out and we always reply within a week: accounting@lirn.ca.