About Closing the Year

When a firm completes its fiscal year, income and expense accounts need to be closed out to capital/equity. Use the End of Year feature to performed this task.

End of year is not performed immediately when the calendar year ends. Often year end adjusting entries prescribed by your accountant are required. Upon receiving these entries, backdate the adjustments to the last day of the prior fiscal year.

Before closing a year, the following conditions must be met:

- all bank accounts reconciled
- the accountant’s adjusting entries have been received and entered
- financial statements are printed and compared
- the last month of the fiscal year is closed.

PCLaw™ reports and financial statements can be printed to give the accountant so he can determine what adjusting entries are required. Once the entries are received and entered into PCLaw™, generate a final set of financial statements. Compare the statements against your PCLaw™ reports. When reconciled, the last month of the fiscal year can then be closed.
Adding Adjusting Entries from the Accountant

G/L > General Journal > G/L Adjustment

Enter adjusting entries provided by the accountant through the general journal.

The Create G/L Adjustment window

1. Type the Date of the last day of the fiscal year.
2. Type in the Explanation box, an extended explanation.
3. Type the adjustments as provided by your accountant. The total of all debits must equal the total of all credits.
4. For firms collecting GST: Check Show Journal Entry on GST Journal if GST Payable (2400) is added as one of the adjusting entries. The adjustment to GST Payable (2400) is written to the GST Journal.
5. If an adjustment is made to a general bank account: Check Show Journal Entry on Bank Journal to post the value of the entry to the associated general bank journal.

   Note: This option is only available for PCLaw™ version and higher.

6. Click OK to post the entry.

Tip: Some accounts in PCLaw™ are reserved, meaning they are associated to a specific journal in PCLaw™. If you include a reserved account in your G/L adjustment, a warning prompt appears when clicking OK.

- Click No to return the Create G/L Adjustment window.
- Click Yes to post the entry.

   Note: This prompt is not returned for general bank accounts, if Show Entry on Bank Journal is checked on the G/L Adjustment window.
If the G/L account is in balance with its associated journal, continuing with this entry will put it out of balance. It is recommended to do any adjustments required to reserved accounts through the features associated with that account.

<table>
<thead>
<tr>
<th>G/L Nickname</th>
<th>Reserved Account</th>
<th>Accounting Method</th>
<th>Recommended Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000 to 1098</td>
<td>General Bank</td>
<td>All</td>
<td>General Check or Firm Receipt</td>
</tr>
<tr>
<td>1100 to 1198</td>
<td>Trust Bank</td>
<td>All</td>
<td>Trust Check or Trust Receipt</td>
</tr>
<tr>
<td>1200</td>
<td>A/R</td>
<td>Accrual</td>
<td>Change/Write Off Bill</td>
</tr>
<tr>
<td>1210</td>
<td>Client Disb Recov</td>
<td>Accrual/Modified</td>
<td>Expense Recovery</td>
</tr>
<tr>
<td>2000</td>
<td>General Liabilities</td>
<td>Accrual</td>
<td>New or Open Payable</td>
</tr>
<tr>
<td>2100</td>
<td>Trust Funds Owed</td>
<td>All</td>
<td>Trust Check or Trust Receipt</td>
</tr>
<tr>
<td>2400</td>
<td>GST/VAT Payable</td>
<td>Canadian/UK/Australian</td>
<td>General Check w/ GST cat Y</td>
</tr>
<tr>
<td>2450</td>
<td>Sales Tax Payable</td>
<td>All</td>
<td>General Check w/GST cat P</td>
</tr>
<tr>
<td>5010</td>
<td>Client Disb Exp</td>
<td>Cash</td>
<td>Expense Recovery</td>
</tr>
</tbody>
</table>

**Producing Financial Statements**

**G/L > G/L Statements**

If there is a delay in receiving the adjusting entries from your accountant and you wish to reconcile the first month in the next fiscal year, G/L statements for the new month can still be produced. For example, if December is the last month in the fiscal year, you can produce financial statements for the month of January, if needed.

The Common Tab of the G/L Statements Selection window

1. Complete the **Current Report Period** section:
   - Type in the first date box, the date of the first day of the new fiscal year.
   - Type in the second date box, the end date for the first month of the new fiscal year.
2. Complete the remaining boxes as required.
3. Click OK to produce the financial statements.

**Performing End of Year**

**G/L > End of Year**

The End of Year feature closes the fiscal year according to the last month closed. It does not set the End of Year automatically at the end of the calendar year nor to the current or default entry date in PCLaw™.

For example: Today is January 15th, however the last month closed is November. If End of Year is performed under these conditions, PCLaw™ will set the year end as November 30th.

For your fiscal year in PCLaw™ to be on December 31st, the month of December must be the last month closed prior to performing End of Year.

![End of Year window](image)

The End of Year window confirming the last closed month prior to performing the End of Year procedure

1. Confirm in the Year Ending box, the last month of the fiscal year is displayed.
2. Check Purge Old Entries to purge transactions that are more than 24 months prior to the last month end, and have their values summarized. Transactions associated with active matters do not get summarized.
3. Click OK.
4. **If Purge Old Entries is checked:** PCLaw™ displays a confirmation prompt:

![Confirmation prompt](image)

Click Yes.

5. **If Purge Old Entries is checked:** PCLaw™ displays a backup confirmation prompt:

![Backup confirmation prompt](image)

Select one of the following:
- Click Yes to create a backup copy. Follow the backup prompts. When the backup is complete, the end of year process begins.
- Click No to forego the backup copy and begin the end of year process.

When the year is closed, PCLaw™ displays the End of Year Adjusting Entries report.
6. **If this is your first year in PCLaw™, or a year end was performed within the last 12 months:** You proceed to a warning prompt:

   ![Warning Prompt]

   Click **Yes** to proceed.

7. Click the **Printer** icon to print a hard copy of the End of Year Adjusting Entries report.

8. Click the **Stop the Report** icon to close the report.

9. Close and reopen PCLaw™ for the changes to take effect.

10. Confirm the year is closed by referring to the About PCLaw™ (Pro) window on the Help pull-down menu.

   ![About PCLaw™]

   The Start of Fiscal Year line should display the first day of your new fiscal year.

### Producing the End of Year Adjusting Entries Report

A firm in PCLaw™ can be categorized as a partnership or corporation. The two categories present different accounting terminologies that appear on G/L statements.

<table>
<thead>
<tr>
<th>Account Nickname</th>
<th>Account Type</th>
<th>Partnership</th>
<th>Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3000</td>
<td>Equity</td>
<td>Equity</td>
<td>Capital</td>
</tr>
<tr>
<td>3000-LN</td>
<td>Equity</td>
<td>Equity-Lawyer’s Name</td>
<td>account does not exist</td>
</tr>
<tr>
<td>3500</td>
<td>Retained</td>
<td>Income for Allocation</td>
<td>Retained Earnings</td>
</tr>
<tr>
<td>3500-LN</td>
<td>Retained</td>
<td>Retained Earnings- Lawyer’s Name</td>
<td>account does not exist</td>
</tr>
<tr>
<td>3501</td>
<td>Retained</td>
<td>Drawings</td>
<td>Drawings</td>
</tr>
</tbody>
</table>
At year end, all income and expense accounts are zeroed out, along with capital/equity accounts that are Retained type (see the table above). The End of Year feature automatically posts the closing entry as displayed in the End of Year Adjusting Entries report.

The End of Year Adjusting Entries report appears only when End of Year is performed and is not available as a selection from the Report pull-down menu. This report cannot be reprinted after it has been closed on the screen.

The End of Year Adjusting Entries report

To see how a fee account is affected during the End of Year procedure, we will follow one account, (4000), during the process. The set of books used is a partnership.

Running a detailed general ledger for the last day of the prior fiscal year (December 31st), no adjusting entries appear. The closing balance for income and expense accounts are not zeroes out, but appear as they did before End of Year was performed. However, for the first day of the new fiscal year (January 1st), the opening balance is zero.

A comparison of a fee account prior to and after year end

4000 does not appear on the Trial Balance or Income Statement for January 1st unless the Print Zero Balance Accounts option is selected.
On the Income Statement, The Year to Date column sums from this day forward. During the first month of the fiscal year, the Current Period and Year to Date Amounts are equal.

### Closing the Year

**PCLaw United States**

**Income Statement**

For the Period Ending: January 31, 2010

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Current Period</th>
<th>Year To Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees Earned</td>
<td>$62,229.00</td>
<td>$62,229.00</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$62,229.00</td>
<td>$62,229.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Current Period</th>
<th>Year To Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance</td>
<td>$44,100.00</td>
<td>$44,100.00</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$44,100.00</td>
<td>$44,100.00</td>
</tr>
</tbody>
</table>

**Net Income**

<table>
<thead>
<tr>
<th>Current Period</th>
<th>Year To Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>$18,129.00</td>
<td>$18,129.00</td>
</tr>
</tbody>
</table>

Income Statement for the first month of the new year

Asset and liabilities on the Balance Sheet are not affected by the change in fiscal year. However, Equity/Capital accounts are adjusted according to the balance in the associated Income for Allocation or Retained Earnings accounts according to the following formula:

\[
\text{New Equity Balance} = \text{Old Equity Balance} + \text{Retained Earnings} - \text{Drawings}
\]

The balance for the Income for Allocation and Retained Earnings accounts at the end of the year (December 31st) is transferred to the associated Equity/Capital accounts to start the new fiscal year. In our example, we do not have a drawings account.

### Allocating Income for Partnerships

Income can be allocated automatically for each lawyer in the Income Allocation Percent box. The Income Allocation Percent box is located on the Accounting tab of Options > Lists > Lawyers and Rates.
If income is not allocated under Lawyers and Rates, all net income is posted to Unallocated Income on the Year End Adjusting Entries report, and subsequently Income for Allocation on the Balance Sheet. Allocating to the Lawyer’s revenue accounts is performed manually, through adjusting entries.