Solutions Manual for Using Sage 50 Accounting 2018 CDN 1st Purbhoo

CHAPTER 4: Love It Again

Review Questions

1. *Why is it important to add non-postable accounts to your Chart of Accounts?*

Non-postable accounts help to organize accounts into groups of related items. They allow you to see subtotals for these groups because the program calculates them automatically. Sage 50 requires at least one Heading and Total for each of the five sections of the Balance Sheet and Income Statement.

2. *Why should you leave spaces between account numbers when you create the Chart of Accounts in Sage 50?*

Spaces between adjacent account numbers allow you to enter new accounts later without breaking the logical sequence of the account groups. Since account numbers cannot be changed once the account has been used for journal entries, this is an easy way to insert these new accounts later.

3. *What is the backup frequency setting? Why is it important? How do you change it?*

The backup frequency setting determines how frequently (relative to the session date) the program reminds you to back up your work. Change the backup frequency from the Home window, Setup menu, Settings option, (or click the Settings icon) and choose Company and Backup.

4. *What does it mean if a field, menu option or tool on your input screen is dimmed?*

Dimmed icons or menu options cannot be selected or accessed. Some additional features and options are not available when you are working in multi-user mode, so these options will also be dimmed.

5. *Describe two ways to access the General Ledger record for an account.*

From the Home window, click the Chart of Accounts icon and then double-click the icon or name of the account (or click the account to select it and then choose Edit from the Edit menu or click the Edit tool) to open the ledger record. From any ledger record, click the Select Account field and choose (click) the account you want from the list to open its ledger record.

6. *How are the Earliest Transaction date and session date different?*

The Earliest Transaction date is the start of the fiscal period or the date that the system was converted to Sage 50, and after the last date for historical information or opening balances. It will be the earliest date you can choose for journal transactions. The session date is the date that the accounting transactions are entered into the computer. In a regular business, the session date is usually the calendar date and is updated regularly by the user. The program updates the Earliest Transaction date automatically to the new fiscal start date when you start a new fiscal period. Before finishing the history, the session date is the Earliest Transaction date.

7. *What does the Open History*  *symbol on the Chart of Accounts icon indicate? How do you remove it?*

The open history (not-finished) symbol means that you can still add historical information and opening account balances. Journal transactions can also be entered at this stage.

To remove the symbol, i.e., finish the ledger history, you must have entered all accounts that have opening balances with their historical account balances, debits must equal credits in the Trial Balance and all accounts must be in logical order (no missing Headings, Subtotals, Totals, etc.). If you are not using other modules and these are not set up, you must hide them. Then choose Finish Entering History from the History menu in the Home window.

8. What is the difference between postable and non-postable accounts?

Postable accounts have balances and can be selected for entering journal transactions. Their balances are affected by journal entries. Group and Subgroup Accounts are postable accounts. Non-postable accounts (headings, totals and subtotals) have no account balances but are used to organize the accounts in the financial statements. The single Type X account, Current Earnings or Net Income, is a special non-postable account whose balance is updated directly by the program from any changes in equity and revenue account entries.

9. How are Subgroup accounts different from Group accounts? Why is it important to use Subgroup accounts?

Both Group and Subgroup accounts are positioned between Headings and Totals and both are postable accounts. Subgroup accounts must be followed by a Subgroup Total account. Their balances are added together to form this subtotal. On the financial statements, Subgroup account balances are printed in a separate column to the left of the Group account balances. Their subtotal is printed in the right-hand side column with Group account balances. The Group accounts are added together with the Subgroup Total accounts to calculate the Total for the section.

Including Subgroup accounts helps to give a more detailed breakdown of the financial reports by showing subtotals for related accounts.

10. What does it mean to finish the history in a Sage 50 data file?

Finishing the history means closing access to historical information and opening balances (from before the Earliest Transaction date) so that these cannot be changed.

11. What happens when you select a different industry or company type for a data file?

In the Premium version, selecting a different industry type will change the journal and ledger icon labels to the set appropriate for that industry. For example, the term for Vendors may change to Suppliers or Providers. Field names, journal titles and report names will also change to match these terms. In the Pro version, terms do not change.

12. Why is it important to make a backup copy of your data files before you finish the history for the General Ledger?

Making a backup before finishing the history allows you to change account balances to correct errors without re-entering all the setup information. Once the history is finished, you can edit account numbers and names but not balance amounts. Once journal transactions are entered, you cannot change account numbers.

13. What types of errors can prevent you from finishing the history? What kinds of errors might go undetected?

If the accounts are not in logical order, you will be unable to finish the history. A missing subtotal after a subgroup account, a missing subgroup account before a subtotal, a missing heading or a missing total will result in this type of error. If the other modules are not set up, you will be unable to finish the history if required information for these modules (linked accounts) is missing.

Missing accounts, incorrect account names, incorrect account numbers or incorrectly grouped accounts (as long as the sequence of account types still follow the logical order) are examples of errors that may remain undetected. Although Sage 50 forces the debit balances to equal the credit amounts, one or more account balances may be incorrect or there may be an amount missing.

14. What does it mean if the session date is July 10 and the Latest Transaction date is July 31?

There is at least one journal entry dated July 31, that is, there is one or more post-dated entries. Future dating of transactions has been allowed for the data file.

15. *Why is it helpful to create a separate "test balance" account? If you did not have this account, how could you determine whether your Trial Balance amounts were correct?*

The "test balance" account is the holding account we created for balancing the Trial Balance when opening account balances are entered but are not yet complete. At this stage the debit amounts entered might not equal the credit amounts entered. Sage 50 requires you to post the difference to an account as soon as you close a ledger record. By choosing the Test Balance account for these differences, you can look at one account balance to see whether you have entered your data correctly. If you have, the Test Account balance will be zero. Without this account, you must check all amounts against the manual Trial Balance. However, even when the test account balance is zero, it is important to check the other amounts before finishing the history because other errors may cancel each other out. If the Test Account balance is not zero, you know that there is at least one incorrect amount.

You can choose any postable account for this purpose.

An alternative method automatically enters balancing amounts in the linked Retained Earnings account when this option is selected on the General Linked Accounts screen. When all other opening balance amounts have been entered, the balance for Retained Earnings should match the amount in the Trial Balance. In this approach, the actual amounts should still be checked for accuracy.

16. *When might you use the feature of allowing future transactions? Can you foresee any problems with allowing future transactions? What controls might you want to place on the use of future transactions?*

Future dating of transactions might be used to enter a series of transactions that are repeated, such as post-dated cheques that are submitted at a single point in time and use the same information for each transaction, except for cheque numbers. By entering them all when you write the cheques, you will not forget to enter them when the dates occur, when you no longer have invoices to remind you.

Allowing future dating of transactions in general may increase the chances of posting to a wrong date. Sage 50 has the built-in control of not allowing dates in a later fiscal period. It also has settings that warn if the transaction is more than a certain number of days in the future and choosing a short future period will provide more control.

17. *Why are adjusting entries required before closing the books?*

Adjusting entries are required to adhere to the accrual basis of accounting and the matching and recognition principles. Expenses must be matched to the same time period for which they earned revenue, regardless of the timing of the payment. Assets may have been prepaid and partially used. The part that has been used or has expired must be recorded for the appropriate period. Similarly, unfinished work must be recorded as revenue for the period at year-end even though the payment for the work will be received in the next period.

18. *Why it is important to print all reports and make backups before advancing the session date to the new fiscal year?*

Printing/saving a copy of all reports ensures that you have complete financial records for income tax reporting, for reporting to lenders and shareholders and to establish a complete audit trail. If necessary, you can re-create the data set from scratch for the new fiscal period because you have complete historical records available. The backup provides a working data set for those cases when you need to add to the records for the prior period because entries were omitted (although Sage 50 does allow posting to prior fiscal periods) or if you want to export reports for further analysis. You cannot move the session date backwards to a previous fiscal period. The backup also allows you to safely clear data for the previous period. However, if you entered transactions after making the latest backup, you must re-enter them if you restore your backup.

19. *Why might you want to clear historical data from your files? Why might you choose not to clear the data?*

Clearing data speeds up processing of the data, especially when the program is generating reports, saving the data set or making backups. It can also simplify reports. For example, the aged detail reports will not include invoices for the past period if they are paid and cleared.

If you choose not to clear data, you will be able to generate reports with more details from a single data set. Cleared transactions cannot be adjusted or reversed automatically.

20. *If the fiscal end is June 30 and the session date is June 30, what date must you enter to advance the session date?*

To advance the session date, you must enter July 1 as the first next date. After that, you can enter any date up to the end of the next fiscal period.

21. *How do you close the books to end a fiscal period in Sage 50?*

Starting a new fiscal period automatically closes the books. You should enter all adjusting entries and make a backup before advancing the date to a new fiscal period because you cannot reverse this step. If necessary, you can make entries to the previous period if there are transactions for which you do not have the information before closing the books. Refer also to question 22.

22. *What changes are made to your accounting data when you advance the session date into a new fiscal period?*

When you begin a new fiscal period, all data is moved to the previous period category for purposes of report generation. All revenue and expense account balances are reduced to zero by closing these accounts to the Current Earnings (Net Income) linked account. The Current Earnings account is then set to zero by closing its balance to the Retained Earnings linked capital account.

23. *How is closing your accounting books manually different from closing them in Sage 50?*

Manually, you need to prepare and post each of these closing entries for all revenue and expense accounts as well as the closing entry for current earnings. This involves making the journal entries and updating the ledger balances.

24. *Why might you need to enter transactions for a previous fiscal period (after closing the books)? How would you do this?*

At the beginning of a new fiscal period, you may not have all the details you need for the previous period but you will still want to be able to enter current transactions. To do this, you must allow transactions dated before the fiscal start by unchecking the option Do Not Allow Transactions Dated Before. The program prevents you from entering a journal date later than the fiscal end, so you must start a new fiscal period to continue entering transactions. When you post transactions to a prior period, the program always requires you to confirm that you want to continue. This is another opportunity to check that your dates are correctly entered.

25. *What are the reasons for entering a date for the setting Do Not Allow Transactions Dated Before…?*

This is a control that helps you avoid altering historical data in error. If an earlier date is entered, the program does not allow the transaction to be posted unless the option is turned off. In this case, although you will see the warning about using the earlier date when you post the transaction, you will be allowed to complete the posting.

26. *How are user preference settings different from other company settings?*

User preferences can be set for individual users for the way they want to work with the program. Other company settings apply to the data file the same way for all users. When you set up different users who can access the data, each user can choose his/her own settings. When they access the data, they will see the settings they entered instead of the settings that other users may have selected.

27. *What is the default Home window? How can you change this default and when will you want to change it?*

The default home window is the one that appears when you open a data file. The entry "this is my default page" appears beside the module heading. When you open a different module window, the entry changes to "make this my default page." Clicking this entry changes the default to the one currently open. You can change the default window at any time.

You may want to change the default window to the one with icons you use most frequently. For example, when creating new company data files, the Company module is needed for entering most settings. However, later, when entering vendors or customers, you may prefer to use Payables or Receivables as the default.

28. *How is the Current Earnings account different from other General Ledger accounts in Sage 50?*

The Current Earnings account is the only type X account. You cannot change the account type for this account and you cannot post directly to it, or choose it as the account for a journal transaction. Sage 50 automatically tracks revenues and expenses in this account to generate the net income amount. The account does not appear on the Trial Balance but it is included on the Balance Sheet. On the Income Statement, it appears as Net Income – the difference between total revenue and total expenses.

29. *What should you do when you get the message "the accounts are not in logical order"? What effect will this situation have on your ability to work with the data file?*

If accounts are not in logical order, you will be unable to finish the history or view reports. Instead, when you try to do either of these, you will see the message that "accounts are not in logical order." You will also see the message when you check the validity of your accounts (from the Accounts window tool icon or from the Home window Maintenance menu). The message describes the error so you can make the correction. For example, you may be informed that there is a missing subtotal after account 1080. After correcting the first error, you may see the message again pointing to a later error that requires correction. You must correct all order errors before you can finish the history for the data set.

After finishing the history, you may see the error message again after creating a new account with an incorrect account type. The error will not prevent you from making journal entries using that account, provided that you have selected a postable account type (group or subgroup), but will show when you try to display reports. At that point, you must make the correction to display the report.

Good practice suggests that checking the validity of accounts should be routine when creating a new include later tax tables and company Chart of Accounts and after adding new accounts during transaction entries.

30. *What happens when you try to post a journal entry dated May 28, 2020, and your fiscal year is June 1, 2020, to May 31, 2021? How can you post this transaction?*

You will see a message that the date of the transactions must be between June 1, 2020 and May 31, 2019. If you want to allow the transaction in the previous fiscal year, you must first change the System Settings.

Go to SetUp/Settings/Company/System and using the Do not allow transaction dated before option insert the date May 28, 2020.

31. *If you enter 02-03-12 as the Fiscal Start date, what date will Sage 50 enter?*

The date will either be 02-03-2012 or 02/03/2012.

32. *What happens when you try to post a journal entry dated May 14 and your session date is May 7?*

You will see an error message saying that the transaction date exceeds the session date.

33. *Describe the difference in your data file, if any, between choosing Use Accounting Terms versus choosing Use Non-Accounting Terms.*

If you use non-accounting term, the Payables Ledger will be named Vendors and Purchase in menus and so on.

34. Why is viewing modules a user preference rather than a system setting?

Companies require flexibility in their use of SAGE50 for their accounting needs. Viewing modules allows for that flexibility.

35. Describe the different ways to back up a data file. When would you use each of these methods?

You can choose to save a working copy of the file you are working on under a different file name.

Choose the file menu and click Save A Copy to continue working with the original or Save As to open a new working copy of the file.

The second method is to create a BACKUP which creates a compressed file that must be restored before you can use it to enter transactions. The file extension will have .CAB added to its name.

36. What account ledger setting can you enter and modify in the Setup Guide window? Which ones can you not enter or modify in the Setup Guide window?

From the Setup Guide window you can set up Customers, Vendors, Employees and Accounts.

You cannot set up the Company, Job Sites, Budgets and Tax rates.

37. What happens when you choose Automatic Backups as one of your settlings?

Sage 50 will back up your file whenever you close the file you are working on without prompting.

Review Cases

Case One

A friend who has extensive experience using Sage 50 advised the treasurer for Love It Again to number the accounts with gaps between successive accounts (1000, 1020, 1040, 1060, etc.).

a. Explain why this system may be helpful.

b. How is this system different from a manual accounting system?

The main reason for leaving spaces between account numbers is to allow for the insertion of accounts at a later time, while maintaining the original logical sequence. In a manual system, account numbers are less important, so new accounts can be changed and inserted more easily. Any number of digits may be used, including hyphenated numbers. Order is not important although it can still improve the ability to organize and interpret the information, and transfer it to other computer programs.

In the Premium version, you can create more room for new accounts by increasing the number of digits for account numbers (Settings, General (Accounts), Numbering screen). The change in numbering will not be reversible if you have created new accounts with 5 digits. For example, if you create an account with the number 10355, this account cannot be reduced to 4 digits, but 10350 can be reduced to 1035.

Case Two

Some time after the accounts were created and journal transactions were entered, two new accounts were needed to represent the list of expenses more accurately. Unfortunately, to maintain the correct sequence of accounts and to have the correct subgroup total, the new accounts had to be placed between the accounts that were currently numbered 5050 and 5051. Discuss different ways that you could resolve this problem. Does it make a difference which version of Sage 50 you are using?

(NOTE: For this case, students should experiment with a separate data file to discover the limits of the changes that can be made.)

You cannot change account numbers for accounts with journal entries to them. If there are no entries, renumber the accounts as required. Numbers for subgroup total accounts can be changed any time, so some flexibility may be provided in this way.

Before making other changes, print all reports related to the fiscal period so that you have a complete audit trail of your actions. Make a backup copy of the data file.

Before changing account numbers you must advance the fiscal period twice, without making any journal entries to the accounts you want to renumber. You can advance it by one day at a time two times to move to the third period. Change the Fiscal End date in the Company Information screen to the same date as the Fiscal Start and then begin a new year. Repeat this step for the second year. At this point, your fiscal date has been advanced by two days for the two periods and you can change account numbers. It is important to make a backup copy of the data files. Always document any action taken.

Removing accounts also requires advancing the fiscal period twice as described above if the account has been used in journal entries. The account must also have a zero balance before you can remove it so you must first transfer the account balance to a new account. Create a new account (or accounts) in the same section (e.g. Asset, Liability) to hold the account balance (or balances) for the account(s) you need to delete. You may need to create a set of temporary accounts to handle the transition. Complete a General Journal entry to transfer the account balance from the account to be removed to the new account. You must make these entries before advancing the fiscal date. You can now remove the account with a zero balance. Create the necessary new accounts, leaving adequate room for additional insertions this time. Complete additional General Journal entries to transfer back the account balances to the appropriate accounts if necessary. Print the journal entries to document your changes. You can remove the temporary accounts after another two fiscal periods have passed. Be sure to add a full explanation of all changes so that statements with the different account numbering sequences may be compared.

In the Premium version, you can enter the related historical accounts details to link the accounts (Chapter 19) or change the account numbering to add an extra digit. Using five-digit account numbers instead of four-digit numbers provides the gaps for extra numbers.

You can see that a little foresight in numbering accounts is preferable to making adjustments later.

Case Three

At the end of August when the books were closed, $9,400 of the Donations Receivable amount was still outstanding. By the end of September, $9,000 of this amount was received and the remaining ($400) was written off at the time.
Manually prepare the entries required for these transactions and the write-off.
Would it make a difference if the $9,000 were received at the end of December? Why or why not?

08-31-20	Adjust Revenue: Donations		
	1155 Donations Receivable	9400	
	4100Revenue: Donations		9400
09-30-20	4100 Revenue : Donations	9000	
	5015 Uncollectible donations	400	
	1155 Donations Receivable		9400

It would not make a difference if the company yearend is December 31, 2020. The adjusting entry would have been processed in the current fiscal year. However, the year end is August 31 so the Income Statement for the previous fiscal year was over reported by $400.

Case Four

Data Used Binh's Bins

Reorganize the accounts for Binh's Bins, so that summary information about suppliers and customer will be more available in reports. (Hint: Consider how you can use Subgroup accounts.)

Assets				Liabilities & Equity			
1000	CURRENT ASSETS			2000	CURRENT LIABILITIES		
1080	Chequing		64360	2180	A/P – Red Deer Promotions		2940
1200	A/R online Contracting	2730		2650	GST Charged on Services	5150	
1240	A/R Red Bird Brothers	5880		2670	GST Paid on Purchases	2120	
1250	A/R - Total		8610	2675	GST owing/refund		3030
1320	Prepaid Insurance	7000					
1325	Prepaid Rent	3600		3005	EQUITY		
1330	Prepaid - Total		10600	3100	Binh's Bins, Capital	488300	
1360	Supplies		580	3110	Binh's Bins, Drawings	6500	
1365	Current Assets - Total		11180	3120	Binh's Bins, Current Capital		481800
1500	FIXED ASSETS						
1520	Computer and Software	4200					
1540	Tools	890					
1560	Dumpster	53180					
1580	Trucks	418320					
1585	Fixed Assets - Total		476590				
	ASSETS - TOTAL		487770	TOTAL LIABILITIES & EQUITY			487770

Case Five

Data Used Love It Again (Session Date Oct. 1, 2020, and October 15, 2020)

When the charity submits its GST/HST return, the liability for GST and HST charged on sales is recorded at 60 percent of the actual amount received (debit entries). This liability is reduced (credit entries) by the total GST/HST Paid on Purchases amount actually paid for operating expenses (ITCs). In addition, charities are eligible for a PSB rebate for other or non-ITC expenses: 50 percent of the GST and 82 percent of the Ontario PST portion of amounts paid. Tax returns are prepared by debiting GST and HST Charged on Sales and crediting GST and HST Paid on Purchases. Refunds are entered as an Accounts Receivable debit entry that can be cleared when the rebate is received.

After remitting the GST/HST return and calculating the net refund, the tax accounts have remaining balances that must be cleared at the end of the year. These amounts are included as income for the charity.

Amounts reported on the Tax Report were based on the following information:

Eligible GST and PST were paid on inventory purchases. The GST portion of HST is 5% and PST portion is 8%.

The input tax credit claim amount of $4,954.30 was based on total operating expenses ($38,110) from the final Income Statement minus the following line items that did not have HST applied:

Bank charges
Interest Expense
Wages

Employee Gifts

The net amount of $38 110, is multiplied by the HST rate of 13%.

When the books were closed, the HST report had not been submitted. As a charitable organization, Love It Again is owed a rebate for some of the taxes paid. All amounts should be included in the previous year's Income Statement. Refer to page 106.

Prepare the journal entries for the following three memos:

Memo#12 ***Dated September 30/20***

From Fischer: Submitted GST/HST return with the following amounts:

Remitted (debit entry) 60% of HST charged	*$4 218.24*
Remitted (debit entry) 60% of GST charged	*1 581.00*
Claimed (credit entry) 100% of HST paid input tax credit	*4 954.30*
Claimed PSB Rebate (credit entry) 50% of eligible GST paid	*367.25*
Claimed PSB Rebate (credit entry) 82% of eligible PST paid	*668.46*
Net Refund amount (debit amount)	*190.77*

Create new account for the refund amount: 1285 GST/HST Rebate Receivable

09-30-20

2560	HST Charged on Sales	4218.24	
2550	GST Charged on Sales	1581.00	
2570	HST Paid on Purchases		4954.30
2550	GST Rebate		454.62
2560	PSB Rebate		668.46
1285	GST/HST Rebate Receivable	278.14	

Memo#13 ***Dated September 30/20***

Clear all tax amounts. Print the Trial Balance and use the Trial Balance amounts to clear the remainders of the GST and HST account balances to a new revenue account 4150 Other Revenue.

To clear the tax accounts GST and HST Charged accounts will be debited (reduced) and income will be credited or increased by these amounts. GST and HST Paid accounts will be credited and income will be debited or reduced by these amounts.

09-30-20

2560	HST Charged on Sales	2812.16	
2550	GST Charged on Sales	1054.00	
2550	GST Paid on Purchases		367.25
4150	Other Revenue		3498.91

Memo#14 ***Dated October 15/20***

Deposit cheque #488129 for $278.14 from the Receiver General for HST rebate to bank account.

10-15-20

1100	Cash	278.14	
1285	GST/HST Rebate Receivable		278.14