

CHAPTER 10: YEAR END CLOSING PROCESSES

Objectives

The objectives are:

- Close the accounting periods for the fiscal year.
- Explain and run the Close Income Statement batch job process.
- Complete the closing process by posting the General Journal.

Introduction

Completing the year end closing process in Microsoft Dynamics NAV 2009® involves three steps:

1. Closing the fiscal year using the Close Year function on the **Accounting Periods** window.
2. Generating a year-end closing entry using the Close Income Statement batch job.
3. Posting the year-end closing entry together with the offsetting equity account entries.

Closing a year is not required by Microsoft Dynamics NAV 2009. However, completing the closing process ensures that balances are displayed only for open year(s); for example, in the **Chart of Accounts** window.

Closing a Fiscal Year

The first step in the year end closing process is to close the fiscal year. This process manages the periods and dates for fiscal years.

NOTE: A fiscal year cannot be closed before a new one is created.

Close the Fiscal Year

To close the accounting periods, follow these steps:

1. On the Navigation Pane, click the **Departments** button, click **Financial Management**, click **Periodic Activities**, click **Fiscal Year**, and then select **Accounting Periods**.

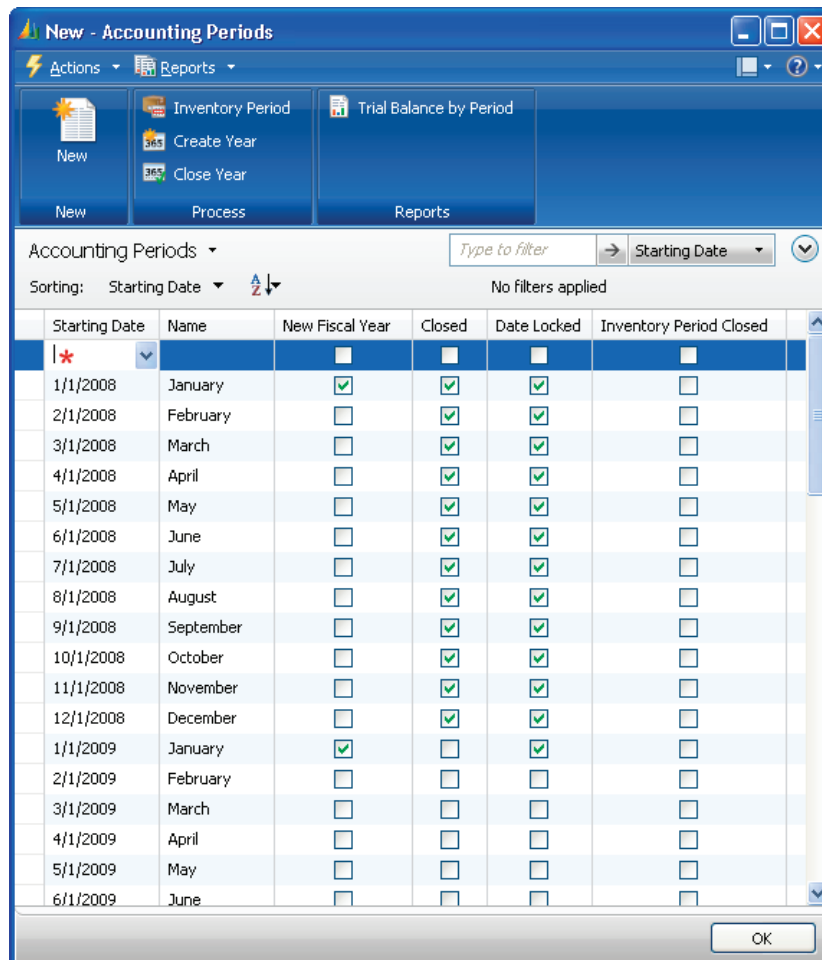


FIGURE 10.1 ACCOUNTING PERIODS

2. Click **Close Year**. A message appears about the year to be closed. This year is suggested based on the earliest open year, and the corresponding check marks in the **New Fiscal Year** field.
3. Click **Yes** to close the year.

NOTE: To close a non-standard year, add a check mark in the **New Fiscal Year** check box of the last period to be included in the year to be closed.

After running the fiscal year closing process:

- The **Closed** and **Date Locked** fields of all periods in that fiscal year are updated with a check mark that cannot be removed.
- The period lengths of the closed periods cannot be changed.

After a fiscal year is closed, G/L entries can still be posted to the closed year. When you post in a closed year, entries are marked as prior-year entries.

When subsequent entries are posted to a closed fiscal year:

1. Run the Close Income Statement batch job to transfer the balances to the retained earnings (equity) account.
2. Post the transferred entries.

NOTE: To prevent users from posting entries in a specific period, set a date range in the **Allow Posting From** and **Allow Posting To** fields in the **General Ledger Setup** window.

Demonstration: Prior-Year Entry Confirmation

Scenario: After closing the 2009 fiscal year, Phyllis, the accounting manager at CRONUS International Ltd., realizes that she has to post a December 2009 cleaning expense for 80.00.

After posting the expense, she reviews the entry to verify that the **Prior-Year Entry** check box contains a check mark to indicate that it is a closing entry.

NOTE: To complete this demonstration, ensure that the 2009 fiscal is closed. If a different year is closed, post into that year in step 5 of this demonstration.

Steps: Prior-Year Entry Confirmation

To post the 2009 cleaning expense and review the posted entry, follow these steps:

1. On the Navigation Pane, click the **Departments** button, click **Financial Management**, click **General Ledger**, and then select **General Journals**.

2. In the **Batch Name** field, click the drop-down list and select the Default Journal Batch.
3. Click **OK**.
4. Delete any existing journal lines in the batch.
5. In the **Posting Date** field, enter 12/31/09.
6. Ensure that the **Account Type** field is set to G/L Account.
7. In the **Account No.** field, enter 8110.
8. In the **Amount** field, enter 80.00.
9. Ensure that the **Bal. Account Type** field is set to G/L Account.
10. In the **Bal. Account No.** field, enter 2910.
11. Click **Post**.
12. Click **Yes** to post the journal lines.
13. Click **OK** and close the **General Journal** window.
14. In the **General Ledger** folder, under History, click **G/L Registers**.
15. Press **CTRL+END** to move to the last entry.
16. Click **General Ledger** to review the posted entries.
17. Click **Actions** and point to **Zoom** to zoom in on the line.
18. Locate the **Prior-Year Entry** field and verify that the value is set to Yes. This means that this entry is considered a closing entry and will be included when the Close Income Statement batch job is run.
19. Close the open windows.

Test Your Knowledge: Close Year Process

What occurs after the Close Year process is run? (Select all that apply)

- Subsequent entries posted in the closed year are marked as prior-year entries.
- The Closed and Date Locked check boxes in the Accounting Periods window contain check marks that cannot be changed.
- A new fiscal year is created.
- Period lengths of closed periods cannot be changed.

Test Your Knowledge: Posting in a Closed Year

What steps must be performed after an entry is posted into a closed fiscal year?

Transferring Income Statement Account Balances

The Close Income Statement batch job:

- Transfers the income statement account balances to an account in the balance sheet and closes the income statement accounts.
- Creates lines in a journal that are posted manually.

Use the Close Income Statement batch job multiple times to transfer the income statement account balances. This may be necessary, for example, when subsequent entries are posted into a closed year.

Close Income Statement Batch Job

Access the Close Income Statement batch job on the Navigation Pane by click the **Departments** button, click **Financial Management**, click **Periodic Activities**, click **Fiscal Year**, and then select **Close Income Statement**.

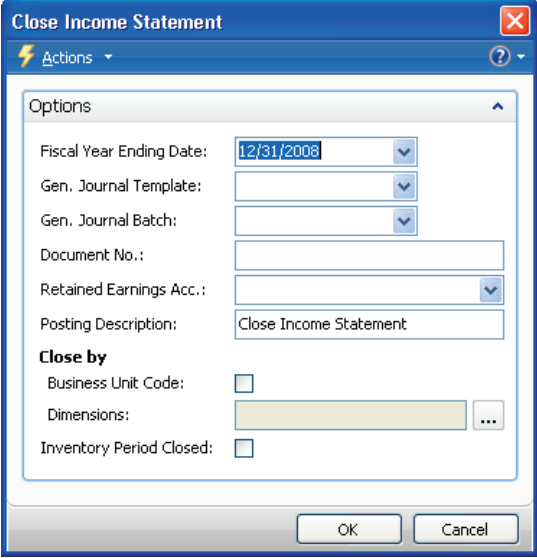


FIGURE 10.2 CLOSE INCOME STATEMENT

The following fields appear on the batch job:

- **Fiscal Year Ending Date** - automatically populated with the last date in the latest closed fiscal year. This date is used to determine the Posting Date for the journal.

***NOTE:** The closing entries are posted with a fictitious (Cmm/dd/yy) date. Do not change this date in the journal batch.*

- **Gen. Journal Template** - identifies the name of the general journal template that the entries are added in.
- **Gen. Journal Batch** - identifies the name of the general journal batch that the entries will be added in.
- **Document No.** - automatically populated with the next available number from the number series for the selected Gen. Journal Batch.
- **Retained Earnings Acc.** - identifies the account that the retained earnings entries are added in.
- **Posting Description** - specifies the text to accompany the entries. The default text is Close Income Statement.

- **Close by** - determines how many entries are created by the batch job. The options are:
 - **Business Unit Code**: If this field is selected, and the company is a consolidated company, separate entries are created for each business unit.
 - **Dimensions**: For any dimensions selected, one entry is posted for each dimension value combination used in a G/L account. If neither option is used, a single entry is created for each account.
- **Inventory Period Close** - indicates that the inventory period(s) with ending dates equal to or greater than the last date of the accounting period is closed.

***CAUTION:** Do not use the fictitious date format (Cmm/dd/yy) when entering posting dates in Microsoft Dynamics NAV 2009. This format is used by the program to distinguish system-generated closing entries from user entries.*

Demonstration: Run the Close Income Statement Batch Job

Scenario: After closing the 2009 fiscal year, Phyllis the Account Manager has to run the Close Income Statement batch job to transfer the income statement accounts to account 3120, the retained earnings account, as part of the fiscal year processing.

The default general journal is used and the posting description includes the fiscal year number.

It is necessary to retain Area, Business Group, and Customer Group dimension information posted on the income account entries.

Steps: Run the Close Income Statement Batch Job

To run the Close Income Statement batch job, follow these steps:

1. On the Navigation Pane, click the **Departments** button, click **Financial Management**, click **Periodic Activities**, click **Fiscal Year**, and then select **Close Income Statement**.
2. Ensure that the **Fiscal Year Ending Date** is 12/31/09.
3. In the **Gen. Journal Template** field, click the drop-down list and select GENERAL.
4. Click **OK**.
5. In the **Gen. Journal Batch** field, click the drop-down list and select DEFAULT.
6. Click **OK**.
7. In the **Retained Earnings Acc.** field, enter 3120.

8. In the **Posting Description** field, add 2009 to the end of the text.
9. In the **Dimensions** field, click the AssistButton.
10. Click the **Selected** field for Area to insert a check mark.
11. Click the **Selected** field for Business Group to insert a check mark.
12. Click the **Selected** field for Customer Group to insert a check mark.
13. Click **OK** to close the **Dimension Selection** window.
14. Click **OK** to run the batch job.
15. Click **OK** to the message that the journal lines have been created.

Test Your Knowledge: Close Income Statement Process

1. Which of the following statements are true of the Close Income Statement batch job? (Select all that apply)

- Reconciles all G/L entries.
- Transfers the income statement account balances to an account in the balance sheet.
- Creates lines in a journal.
- Closes the income statement accounts.

2. What type of account are closing entries transferred to?

- Accrued Earnings
- Retained Earnings
- Accrual Entries
- Retained Accruals

Posting the Journal

The Close Income Statement batch job transfers the closing entries to the specified journal batch. The batch job does not post the entries automatically.

If an account was not specified in the **Retained Earnings Acc.** field in the Close Income Statement batch job, one or more lines must be inserted into the journal with:

- The retained earnings account.
- The amount to be posted to the account.

When the journal is posted:

- An entry is posted to each income statement account so that its balance becomes zero.
- The retained earnings accounts are updated for the gain or loss.

***NOTE:** When an additional reporting currency is set up in the **General Ledger Setup** window, Microsoft Dynamics NAV 2009 posts the journal automatically. This guarantees the correct posting of rounding differences.*

Demonstration: Review Entries and Post the General Journal

In this demonstration, a G/L account that has 2009 entries is reviewed before and after posting the journal for comparison. The steps of reviewing these entries are not part of the closing process.

Scenario: To complete the year-end closing process, Phyllis posts the entries transferred to the Default General Journal.

Because a retained earnings account was specified in the Close Income Statement batch job, a separate balancing line is not required.

Steps: Review Entries and Post the General Journal

To review a G/L account that has 2009 entries, follow these steps:

1. On the Navigation Pane, click the **Departments** button, click **Financial Management**, click **General Ledger**, and then select **Chart of Accounts**.
2. Locate and select account 9110.
3. Notice the amount in the **Net Change** field and then click the drop-down list.
4. Review the posted entries.
5. Close the **General Ledger Entries** and **Chart of Accounts** windows.

To post the general journal, follow these steps:

1. Click **General Ledger**, click **General Journals**.
2. Ensure that the DEFAULT batch is selected.
3. Do not change the Posting Date.
4. Scroll down to the last entry for account 3120, the Retained Earnings account. Notice the amount.
5. Notice that the **Total Balance** field at the bottom of the window contains a zero balance. Therefore, the journal can be posted.
6. Click **Post**.
7. Click **Yes** to post the journal.
8. Click **OK**.
9. Close the **General Journal**.

As soon as they are posted, an entry is posted to each income statement account so that its balance becomes zero and the year's result is transferred to the Retained Earnings account in the balance sheet.

To review the posted G/L accounts, follow these steps:

1. On the Navigation Pane, click **General Ledger**, and then click **Chart of Accounts**.
2. Locate and select account 9110.
3. Notice that the **Net Change** field contains a zero balance.
4. Click the field .
5. Notice that an offsetting line appears for the amount noted when you reviewed the account before posting the journal.
6. Close the **General Ledger Entries** window.
7. Locate and select account 3120.
8. In the **Net Change** field, click the field.
9. Notice that the amount for the Close Income Statement 2009 line matches the amount for this account from the general journal.
10. Close the **General Ledger Entries** window.

Test Your Knowledge: Posting the Journal

1. What occurs when you post a journal that contains the closing entries? (Select all that apply)

- An entry is posted to each balance sheet account so that its balance becomes zero.
- An entry is posted to each income statement account so that its balance becomes zero.
- The income statement accounts are updated for the gain or loss.
- The retained earnings accounts are updated for the gain or loss.

2. In the closing process, what occurs when an additional reporting currency is set up in the General Ledger Setup window?

- This setup does not affect the closing process.
- Additional currencies are added to the journal.
- Two journals are created when the Close Income Statement batch job is run.
- The journal is automatically posted when the Close Income Statement batch job is run.

Lab 10.1 - Post an Entry into a Closed Fiscal Year

Scenario

In this lesson, the 2009 fiscal year was closed using the three step process. It is now audit time and the auditors have found an additional vacation compensation expense in the amount of 7,844.74 that must be posted in 2009.

As the accounting manager, it is your responsibility to post the accrual. The debit is to the Vacation Compensation expense (account 8740), and the credit is to the Vacation Compensation Payable account (5840). Use 12/31/09 as the posting date for the entry.

After the entry is made, transfer and post the expense to include it in the closing process. Use the following criteria to complete the closing process:

- Use the Default General Journal as the transfer to journal.
- Post to the retained earnings account, 3120.
- Add 2009 Audit to the end of the posting description.
- Do not close by dimensions because none were used to post this expense.

You do not have to review any entries.

Challenge Yourself

1. Post the accrual as specified in the scenario.
2. Run the Close Income Statement batch job as specified in the scenario.
3. Post the general journal.

Need a Little Help?

1. Open the Close Income Statement batch job.
2. Complete the fields based on the criteria in the scenario.
3. Run the batch job.
4. Open the General Journal.
5. Review the journal but do not post.

Step by Step

1. On the Navigation Pane, click the **Departments** button, click **Financial Management**, click **General Ledger**, and then select **General Journals**.
2. In the **Batch Name** field, click the drop-down list and select the Default Journal Batch.
3. Click **OK**.
4. Delete any existing journal lines in the batch.

5. In the **Posting Date** field, enter 12/31/09.
6. Ensure that the **Account Type** field is set to G/L Account.
7. In the **Account No.** field, enter 8740.
8. In the **Amount** field, enter 7844.74.
9. Ensure that the **Bal. Account Type** field is set to G/L Account.
10. In the **Bal. Account No.** field, enter 5840.
11. Click **Post**.
12. Click **Yes** to post the journal lines.
13. Click **OK** and close the **General Journal** window.
14. In the **Financial Management** folder, click **Periodic Activities**, click **Fiscal Year**, and then select **Close Income Statement**.
15. Ensure that the **Fiscal Year Ending Date** is 12/31/09.
16. In the **Gen. Journal Template** field, click the drop-down list and select GENERAL.
17. Click **OK**.
18. In the **Gen. Journal Batch** field, click the drop-down list and select DEFAULT.
19. Click **OK**.
20. In the **Retained Earnings Acc.** field, enter 3120.
21. In the **Posting Description** field, add 2009 Audit to the end of the text.
22. In the **Dimensions** field, if dimensions are indicated:
 - Click the **AssistButton**.
 - Click the **Selected** field for Area to remove the check mark.
 - Click the **Selected** field for Business Group to remove the check mark.
 - Click the **Selected** field for Customer Group to remove the check mark.
 - Click **OK** to close the **Dimension Selection** window.
23. Click **OK** to run the batch job.
24. Click **OK** the message that the journal lines have been created.
25. In the General Ledger folder, click **General Journals**.
26. Ensure that the DEFAULT batch is selected.
27. Click **Post**.
28. Click **Yes** to post the journal.
29. Click **OK**.
30. Close the **General Journal**.

Summary

The yearend closing processes in Microsoft Dynamics NAV 2009 is the final step in the fiscal year. A company must close all the income and expense accounts to get and final statement and balance for the year.

The Year End Closing Processes close all entries in Microsoft Dynamics NAV 2009 and the Close Income Statement batch job transfer all G&L accounts to the balance so the company is ready for the next period.

Completing the year end closing processes facilitates data segregation and analysis, and simplifies review of posted entries in the Chart of Accounts because the balances only reflect current year activity.

Test Your Knowledge

1. What is used to transfer the income statement account balances to a balance sheet account?
 - Transfer Fiscal Year Balance batch job
 - Close Income Statement batch job
 - Transfer Income Balance batch job
 - Close Fiscal Year batch job

2. What are the three main steps of completing the year end closing process? (Select all that apply)
 - Post the general journal.
 - Open the new fiscal year.
 - Transfer the Income Statement account balances.
 - Close the fiscal year.

3. What must occur to prevent users from posting in a closed period?
 - Open a new fiscal year.
 - Run the Close Year process.
 - Set a date range in the General Ledger Setup window.
 - Close the Income Statement.

Quick Interaction: Lessons Learned

Take a moment and write down three key points you have learned from this chapter

1.

2.

3.

Solutions

Closing a Fiscal Year

Test Your Knowledge: Close Year Process

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Test Your Knowledge: Posting in a Closed Year

What steps must be performed after an entry is posted into a closed fiscal year?

MODEL ANSWER:

The Close Income Statement batch job must be run and then the transferred entries must be posted.

Transferring Income Statement Account Balances

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 - Run the Close Year process.
 - Set a date range in the General Ledger Setup window.
 - Close the Income Statement.