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HIGHLIGHTED HANDOUT

ACC101

QuickBooks

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ACC101 QuickBooks

Practical Accounting with QuickBooks — Study Handout

This handout covers ACC101 QuickBooks: the complete workflow of computerized accounting with QuickBooks, from creating a company file to producing financial statements. Each unit explains the concepts first and then the exact QuickBooks steps, so you can both answer exam questions and actually use the software.

How to use this handout: read the concept notes, memorize the key terms and the menu paths (File, Lists, Banking, Customers, Vendors, Employees, Reports), and practice the worked examples. Exam questions in this course are mostly practical and scenario-based.

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Unit 1: Introduction to Computerized Accounting

Lectures 1–3

Learning Objectives

- Explain the difference between manual and computerized accounting
- Describe what QuickBooks is and its editions
- List the advantages of accounting software for a small business
- Identify the main QuickBooks centers and their functions

Manual vs Computerized Accounting

In manual accounting, transactions are recorded in journals, posted to ledgers and balanced by hand. This is slow, error-prone, and makes corrections painful. In computerized accounting, a software program stores every transaction once and automatically posts it to all relevant ledgers, trial balance and financial statements. The accountant's job shifts from arithmetic to entering data correctly and analyzing the results.

- **Accuracy:** the software does the double-entry math; the user only classifies the transaction.
- **Speed:** reports such as Profit & Loss can be produced in seconds for any date range.
- **Audit trail:** every entry is time-stamped and linked to a user, which reduces fraud.
- **Backup:** the whole company file can be copied; a manual set of books cannot.

What is QuickBooks?

QuickBooks is an accounting software package developed by Intuit for small and medium businesses. It handles the complete accounting cycle: invoicing customers, tracking bills from vendors, reconciling bank accounts, managing inventory and payroll, and preparing tax reports.

QuickBooks Pro — the standard desktop edition for small businesses (up to 3 users).

QuickBooks Premier — adds industry-specific features and up to 5 users.

QuickBooks Enterprise — for larger companies, up to 30 users, advanced inventory.

QuickBooks Online — the cloud edition, accessed through a browser, multi-user by design.

QuickBooks Centers

The desktop Home page is organized into workflow centers:

- **Customers Center:** everything about sales — customers, jobs, estimates, invoices, sales receipts, payments.
- **Vendor Center:** purchases — vendors, purchase orders, bills, bill payments, item receipts.
- **Employee Center:** payroll — employees, paychecks, payroll liabilities and tax forms.
- **Banking:** bank, credit card and cash accounts; write checks, make deposits, reconcile.
- **Company:** chart of accounts, items list, budgets, company information.

Exam tip: Questions often ask 'which center would you use to record a customer payment?' —  Customers Center → Receive Payments.

Unit Summary

- Computerized accounting automates posting and reporting; the accountant focuses on correct data entry and analysis.
- QuickBooks editions: Pro, Premier, Enterprise, Online — chosen by company size and user count.
- Five main workflow areas: Customers, Vendors, Employees, Banking, Company.

Exam Pointers

- ★ Distinguish manual vs computerized accounting (4–5 points each).
- ★ Name the four QuickBooks editions and who each suits.
- ★ Map a transaction to its center: invoice → Customers; bill → Vendors; paycheck → Employees.

Unit 2: Setting Up a Company File

Lectures 4–6

Learning Objectives

- Create a new company file with the EasyStep Interview
- Enter company information, fiscal year and base currency
- Explain the role of the Chart of Accounts in setup
- Set up users, passwords and access permissions

Creating the Company File

Menu path: **File** → **New Company**. The EasyStep Interview walks you through setup in about 15 screens: company name and legal/tax information, industry (which loads a suggested chart of accounts), how the company is organized (sole proprietorship, partnership, corporation), the first month of the fiscal year, and the administrator password.

- **Company file extension:** .QBW (working file); backup .QBB; portable .QBM.
- **Fiscal year:** the 12-month accounting period; in Pakistan most companies use July–June, but QuickBooks defaults to January–December — set it correctly at setup because changing it later is disruptive.
- **Base currency:** set to PKR at setup; multi-currency can be enabled later under Preferences.

Company Preferences

Menu path: **Edit** → **Preferences**. Preferences control how QuickBooks behaves. The most exam-relevant: 

Accounting — company preferences — use account numbers (turn ON so the chart of accounts shows numbers).

Sales & Customers — payment terms, custom fields, whether to use estimates and progress invoicing.

Items & Inventory — enable inventory and purchase orders.

Payroll & Employees — turn on payroll features.

Time & Expenses — enable time tracking if the business bills by hours.

Users and Permissions

Menu path: **Company** → **Set Up Users and Passwords** → **Set Up Users**. The Admin has full rights. Additional users can be restricted by area (e.g., a cashier can create sales receipts but cannot see payroll or bank reconciliation). Good internal control: never share the Admin login, and give each employee only the access their job needs (principle of least privilege).

Worked example: A retail shop hires a cashier and an accountant. The cashier gets Sales and Customers access only (no banking, no payroll). The accountant gets everything except the ability to add/delete users. This segregation of duties reduces the risk of fraud.

Unit Summary

- File → New Company starts the EasyStep Interview; it sets identity, industry chart of accounts, fiscal year and admin password.
- Key preferences: account numbers, inventory, payroll, sales features.
- Restrict user permissions by job role — segregation of duties is an internal control.

Exam Pointers

- ★ List the steps/screens of the EasyStep Interview.
- ★ State the file extensions .QBW, .QBB, .QBM and what each is for.
- ★ Explain why the fiscal year must be set correctly at setup.

Unit 3: Chart of Accounts

Lectures 7–9

Learning Objectives

- Define the chart of accounts and account types
- Create, edit, merge and inactivate accounts
- Explain account numbering and subaccounts
- Classify accounts into the five accounting categories

What the Chart of Accounts Is

Menu path: **Lists** → **Chart of Accounts**. It is the complete list of every account the company uses — the backbone of the whole system. Every transaction in QuickBooks must touch at least one account from this list, which is how double-entry is enforced automatically.

The Five Account Types

Asset — what the business owns: bank accounts, accounts receivable, inventory, equipment.

Liability — what the business owes: accounts payable, loans, sales tax payable, payroll liabilities.

Equity — owners' stake: capital, drawings, retained earnings.

Income — revenue earned: sales, service income, interest income.

Expense — costs incurred: rent, salaries, utilities, cost of goods sold.

- QuickBooks also has special sub-types: **Bank** (a kind of asset with check-writing), **Accounts Receivable** and **Accounts Payable** (system accounts QuickBooks posts to automatically — you should normally have exactly one of each).

Numbering and Subaccounts

Turn on account numbers (Edit → Preferences → Accounting). A common scheme: 1000s = assets, 2000s = liabilities, 3000s = equity, 4000s = income, 5000s = expenses. Subaccounts roll up into parents: e.g., 5010 Rent, 5020 Utilities under 5000 Operating Expenses, giving summarized reports with drill-down detail.

- **Merge:** renaming one account to exactly another's name/number merges them (use to fix duplicates).
- **Make inactive:** right-click → Make Inactive hides an account from lists without deleting history (never delete an account that has transactions).

Worked example: A business buys a delivery van for Rs. 2,000,000 cash. Debit: 1500 Vehicles (Fixed Asset) Rs. 2,000,000. Credit: 1000 Cash/Bank Rs. 2,000,000. In QuickBooks you simply Write Check from the bank account and select the Vehicles account — the debit/credit happens automatically.

Unit Summary

- The chart of accounts is the master list behind every transaction; QuickBooks enforces double-entry through it.
- Five types: Asset, Liability, Equity, Income, Expense (+ Bank, A/R, A/P special types).
- Use numbering (1000s–5000s) and subaccounts; merge duplicates, inactivate (don't delete) old accounts.

Exam Pointers

- ★ Classify 8–10 given accounts into the five types.
- ★ Explain subaccounts with an example and their reporting benefit.
- ★ Why should you inactivate rather than delete an account with history?

Unit 4: Items: Products and Services

Lectures 10–12

Learning Objectives

- Explain what an Item is in QuickBooks
- Distinguish inventory, non-inventory, service and other item types
- Create and edit items with correct income/expense mapping
- Describe how items link transactions to accounts

The Item Concept

Menu path: **Lists** → **Item List**. An Item is anything the company buys or sells — a product, a service, a discount, sales tax. This is the most misunderstood QuickBooks concept: on invoices and bills you pick **items**, not accounts. The item then tells QuickBooks which income/expense and asset accounts to post to. One item, set up once, guarantees consistent accounting on every transaction.

Item Types

Inventory Part — a physical product the business stocks and tracks quantity of (posts to Inventory Asset on purchase, COGS on sale).

Non-inventory Part — a physical product bought and sold but not quantity-tracked.

Service — labor or services sold (posts to a service income account).

Other Charge — fees like delivery or setup charges.

Discount — reduces the sale total (set up as a percentage or fixed amount).

Sales Tax Item / Group — tax rates and combinations applied to taxable sales.

Group — a bundle of items sold together (e.g., 'Computer Package' = CPU + monitor + keyboard).

Item Setup Fields

Each item needs: name/number, description (prints on invoices), cost, sales price, income account (credited on sale), expense/COGS account (debited on purchase), and for inventory parts the asset account and reorder point.

Worked example: A stationery shop creates Inventory Part 'A4 Paper Rim': cost Rs. 900, price Rs. 1,100, income account 4000 Sales, COGS account 5000 Cost of Goods Sold, asset account 1200 Inventory. Every sale of a rim now posts: Dr A/R, Cr Sales; Dr COGS, Cr Inventory — automatically.

Unit Summary

- Items are what you put on invoices/bills; they map each sale/purchase to the right accounts automatically.
- Choose the type carefully: Inventory Part (tracked), Non-inventory Part, Service, Discount, Sales Tax, Group.

- Correct income/expense account mapping at setup prevents months of mis-posted transactions.

Exam Pointers

- ★ Why do you select items (not accounts) on an invoice? Explain the mapping.
- ★ Distinguish Inventory Part vs Non-inventory Part vs Service with one example each.
- ★ What postings does QuickBooks make when an inventory part is sold?

Unit 5: Customers: Sales Cycle

Lectures 13–16

Learning Objectives

- Record the full sales cycle: estimate → invoice → payment → deposit
- Create sales receipts for cash sales
- Apply customer payments and handle partial payments
- Issue credit memos and statements

The Sales Workflow

Customers Center → New Customer & Job. The typical credit-sale flow: **Estimate** (optional quote) → **Invoice** (the actual sale; creates A/R) → **Receive Payments** (customer pays; reduces A/R) → **Make Deposits** (moves money from Undeposited Funds to Bank). For immediate cash sales, skip all that: **Sales Receipt** records the sale and the bank deposit in one step.

- **Invoice (Ctrl+I):** choose customer, terms (e.g., Net 30), items, quantities. Posts Dr Accounts Receivable / Cr Income, and for inventory Dr COGS / Cr Inventory.
- **Receive Payments:** select customer, amount, payment method; apply to open invoices (oldest first by default). A short payment leaves a balance due or can be written off to a Bad Debt expense account.
- **Undeposited Funds:** payments sit here until you Make Deposits — this matches the bank statement grouping and keeps reconciliation clean.

Credit Memos, Statements, Finance Charges

Credit Memo (Ctrl+N in Customers menu) — reduces what a customer owes (returns, allowances). Apply it to an open invoice or leave as a credit.

Statements — periodic summary of invoices, payments and balance sent to the customer (Billing Statements).

Finance Charges — late-payment interest, set up under Preferences; assessed via Customers → Assess Finance Charges.

Worked example: Invoice #101 to Ahmed Traders for 10 rims @ Rs. 1,100 = Rs. 11,000, terms Net 15. On day 10 they pay Rs. 6,000. Receive Payments → Rs. 6,000 applied to Invoice #101; balance due Rs. 5,000 remains on the invoice and ages in the A/R Aging report.

Unit Summary

- Credit sales: Estimate → Invoice → Receive Payments → Make Deposits. Cash sales: Sales Receipt.
- Invoices create A/R; payments reduce it; Undeposited Funds bridges payments and bank deposits.
- Credit memos handle returns; statements summarize; finance charges penalize late payers.

Exam Pointers

- ★ Draw and explain the sales cycle with menu paths.
- ★ Difference between an Invoice and a Sales Receipt — when is each used?
- ★ A customer overpays by Rs. 500. What are the two ways to handle it?

Unit 6: Vendors: Purchase Cycle

Lectures 17–20

Learning Objectives

- Record purchase orders, bills and bill payments
- Use Item Receipts for goods received before the bill
- Enter vendor credits and track accounts payable
- Explain the A/P Aging report

The Purchase Workflow

Vendor Center → New Vendor. The credit-purchase flow mirrors sales: **Purchase Order** (optional order to vendor) → **Enter Bills** (the vendor's invoice; creates A/P) → **Pay Bills** (pays one or many bills by check or online). For immediate cash purchases: **Write Checks** or **Enter Credit Card Charges**.

- **Purchase Order:** non-posting — it commits nothing to the books, just tracks what was ordered vs received.
- **Enter Bills (Ctrl+B):** posting — Dr expense/asset (via items), Cr Accounts Payable. Terms like Net 30 set the due date.
- **Item Receipt:** used when goods arrive before the bill — records inventory increase without the vendor invoice yet.
- **Pay Bills:** select due bills, choose payment account and date; QuickBooks prints checks or records the transfer.

Vendor Credits and A/P Management

Vendor Credit — like a credit memo in reverse: the vendor owes you (returns, overbilling). Enter via Vendors → Enter Bills → Credit radio button; apply against future bills.

A/P Aging Summary — shows unpaid bills grouped by how overdue they are (Current, 1–30, 31–60, 61–90, 90+ days); the key report for managing cash outflow.

1099 / tax tracking — mark vendors as tax-tracked and assign tax IDs if the business must report contractor payments.

Worked example: PO #20 orders 50 rims from Paper Suppliers Ltd. Goods arrive; bill #PS-441 for Rs. 45,000, terms Net 30. Enter Bills posts Dr Inventory 45,000 / Cr A/P 45,000. On day 25, Pay Bills pays Rs. 45,000 from Bank: Dr A/P / Cr Bank. A/P Aging now shows zero for this vendor.

Unit Summary

- Credit purchases: Purchase Order → Enter Bills → Pay Bills. Cash purchases: Write Checks.
- Bills create A/P; Item Receipts handle goods-before-bill; Vendor Credits handle returns.
- A/P Aging Summary is the control report for payables and cash planning.

Exam Pointers

- ★ Is a Purchase Order a posting transaction? Explain.
- ★ Walk through Enter Bills → Pay Bills with the journal effect of each.
- ★ What is a Vendor Credit and how is it applied?

Unit 7: Banking: Checks, Deposits, Reconciliation

Lectures 21–24

Learning Objectives

- Write checks and record deposits correctly
- Explain and perform a bank reconciliation
- Handle uncleared transactions and bank charges
- Use the Transfer Funds and Enter Credit Card Charges features

Everyday Banking Transactions

- **Write Checks (Ctrl+W):** Banking → Write Checks. For expenses paid immediately by check — pick the bank account, payee, and the expense account (or Items tab for inventory). Prints or records the check.
- **Make Deposits (Ctrl+D):** Banking → Make Deposits. Select payments sitting in Undeposited Funds and/or add new cash lines; choose the bank account and date. Total must match the bank's deposit slip.
- **Transfer Funds:** Banking → Transfer Funds — moves money between bank accounts (Dr one bank, Cr the other); not an income or expense.
- **Enter Credit Card Charges:** Banking → Enter Credit Card Charges — records purchases on a credit card (a liability account), later paid via Pay Bills.

Bank Reconciliation

Menu path: **Banking** → **Reconcile**. Enter the statement date and ending balance from the bank statement, then tick off every transaction that appears on the statement. When the Difference is zero, click Reconcile Now. QuickBooks marks cleared items with a checkmark and locks the period against casual edits.

- **Uncleared items** (outstanding checks, deposits in transit) explain the difference between the book balance and the bank balance — this is exactly what exam questions test. 
- **Bank charges / interest:** during reconciliation, enter service charges and interest earned so the books match the statement.
- **Undo:** Banking → Reconcile → Locate Discrepancies → Undo Last Reconciliation (Admin only) if a mistake is found.

Worked example: Book balance Rs. 120,000; bank statement Rs. 132,000. Outstanding checks Rs. 15,000; deposit in transit Rs. 3,000; bank charges Rs. 500 not yet recorded; interest Rs. 200 not yet recorded. Adjusted book = $120,000 - 500 + 200 = 119,700$. Adjusted bank = $132,000 - 15,000 + 3,000 = 120,000$... wait — recompute: adjusted book must equal adjusted bank. Book: $120,000 - 500 + 200 = 119,700$. Bank: $132,000 - 15,000 + 3,000 = 120,000$. Not equal — so one more item is missing (a common exam twist: an unrecorded direct deposit of Rs. 300). Always solve for the difference.

Unit Summary

- Write Checks (immediate payments), Make Deposits (via Undeposited Funds), Transfer Funds (bank-to-bank).
- Reconcile monthly: tick statement items; difference must be zero; record bank charges/interest.
- Outstanding checks and deposits in transit reconcile book vs bank balances.

Exam Pointers

- ★ List the steps of Banking → Reconcile.
- ★ Book balance Rs. 50,000; outstanding checks Rs. 8,000; deposit in transit Rs. 5,000; unrecorded bank charges Rs. 200. Compute the adjusted balances.
- ★ Why should reconciliations be done monthly? (fraud, errors, cash control)

Unit 8: Employees and Payroll

Lectures 25–28

Learning Objectives

- Set up employees, payroll items and schedules
- Process paychecks and payroll liabilities
- Explain payroll tax forms and year-end reporting
- Distinguish payroll items from expense accounts

Payroll Setup

Employee Center → New Employee. Enter personal data, hire date, pay rate and frequency. Then **Lists** → **Payroll Item List**: payroll items are the building blocks — Salary, Hourly Wages, Overtime, Bonus (additions); Income Tax Withholding, EOBI, Provident Fund (deductions); Company Contributions (employer cost). Each payroll item maps to an expense account and a liability account.

- **Payroll Schedules**: Employees → Add Payroll Schedule — weekly, bi-weekly, monthly groups so Pay Scheduled Liabilities stays organized.

Running Payroll

Menu path: **Employees** → **Pay Employees**. Select the schedule, enter hours (for hourly staff), review deductions, and Create Paychecks. QuickBooks posts: Dr Salary Expense, Cr Bank (net pay), Cr Payroll Liabilities (taxes withheld). Then **Employees** → **Pay Scheduled Liabilities** pays the withheld taxes to the authorities: Dr Payroll Liabilities, Cr Bank.

- **Never** pay withheld tax with Write Checks to the tax agency directly — always use Pay Scheduled Liabilities so the liability account clears properly.

Year-End and Compliance

Payroll Summary / Employee Earnings Summary — totals per employee for the year.

Tax forms — annual salary certificates and withholding statements for employees and the tax authority (in Pakistan: salary tax deducted under section 149, reported via employer statements).

Adjustments — year-end bonus payrolls and corrections must be dated in the correct tax year.

Worked example: Employee monthly salary Rs. 80,000; income tax withheld Rs. 3,000; EOBI employee share Rs. 300. Paycheck posts: Dr Salary Expense 80,000; Cr Bank 76,700; Cr Payroll Liabilities 3,300. Paying liabilities: Dr Payroll Liabilities 3,300; Cr Bank 3,300.

Unit Summary

- Payroll items (additions, deductions, company contributions) map pay to expense and liability accounts.
- Pay Employees creates paychecks; Pay Scheduled Liabilities remits withheld taxes.

- Year-end: payroll summaries and tax certificates; date corrections in the right tax year.

Exam Pointers

- ★ What three categories of payroll items exist? Give two examples of each.
- ★ Journal effect of running payroll and then paying the liabilities.
- ★ Why must tax payments go through Pay Scheduled Liabilities?

Unit 9: Inventory Management

Lectures 29–32

Learning Objectives

- Explain perpetual inventory in QuickBooks
- Adjust inventory quantities and values
- Use Build Assemblies for manufactured items
- Interpret inventory reports and reorder points

Perpetual Inventory — Automatic by Design

QuickBooks uses **perpetual** inventory: every purchase of an Inventory Part increases quantity and value; every sale decreases them and posts COGS. No year-end count is needed to know stock levels — though a **physical count** (Vendors → Inventory Activities → Physical Inventory Worksheet) should still be done periodically, with differences posted via Adjust Quantity/Value on Hand.

- **Average cost:** QuickBooks values inventory at weighted-average cost; each purchase recalculates it.
- **Reorder point:** set on the item; the Inventory Stock Status reports flag items at or below it.

Adjustments and Assemblies

Adjust Quantity/Value on Hand — corrects for damage, theft, or count differences; needs an adjustment account (e.g., Inventory Adjustments expense).

Build Assemblies — for manufacturers: combine component inventory parts into a finished assembly item (Inventory Assembly type), consuming components and creating finished goods.

Transfer Inventory — move quantity between sites/locations (Enterprise/Advanced Inventory).

Key Inventory Reports

- **Inventory Valuation Summary:** quantity × average cost per item = total asset value (must agree with the Inventory Asset account).
- **Inventory Stock Status by Item:** on hand, on order, reorder point — the purchasing to-do list.
- **Sales by Item / Purchases by Item:** which products move and which gather dust.

Worked example: Item 'USB Cable': opening 100 units @ Rs. 200 = Rs. 20,000. Purchase 100 @ Rs. 220 → new average = $(20,000 + 22,000)/200$ = Rs. 210. Sale of 50 → COGS = 50×210 = Rs. 10,500; remaining 150 @ Rs. 210 = Rs. 31,500.

Unit Summary

- QuickBooks runs perpetual inventory with weighted-average costing — purchases and sales update quantity, value and COGS automatically.

- Physical counts correct the books via Adjust Quantity/Value on Hand.
- Build Assemblies manufactures finished goods from components; Valuation Summary ties to the balance sheet.

Exam Pointers

- ★ Compute average cost and COGS after a purchase and a sale (numbers given).
- ★ When and how is Adjust Quantity/Value on Hand used?
- ★ Name three inventory reports and what decision each supports.

Unit 10: Reports, Budgets and Year-End

Lectures 33–36

Learning Objectives

- Produce and customize the core financial statements
- Create budgets and compare budget vs actual
- Perform year-end closing procedures
- Back up and secure the company file

Core Financial Reports

Menu path: **Reports** → **Company & Financial**. The four statements every exam asks about: 

Profit & Loss Standard — income minus expenses for a period (performance).

Balance Sheet Standard — assets = liabilities + equity at a date (position).

Statement of Cash Flows — where cash came from and went (operations, investing, financing).

Trial Balance — every account's debit/credit balance; debits must equal credits.

- **Customizing:** Modify Report → Display tab (columns, dates), Filters tab (e.g., one customer), Header/Footer tab. Memorize a report (Memorize button) and schedule it (Reports → Scheduled Reports) for automatic emailing.
- **Drill-down:** double-click any number to see the transactions behind it — the fastest way to find errors.

Budgets

Menu path: **Company** → **Planning & Budgeting** → **Set Up Budgets**. Enter monthly/annual targets per account. Then **Reports** → **Budgets & Forecasts** → **Budget vs Actual** shows variances — the management control report. A negative expense variance (actual > budget) needs investigation.

Year-End Closing and File Safety

- **Close the books:** Edit → Preferences → Accounting → Set Closing Date and password. This warns/blocks edits to closed periods, protecting audited figures.
- **Year-end checklist:** reconcile all bank/credit accounts, review A/R and A/P agings, take a physical inventory count, review uncleared payroll liabilities, run final financial statements.
- **Backup:** File → Back Up Company → Create Local Backup (.QBB). Keep multiple generations, including one off-site/cloud. Verify the backup restores — an untested backup is not a backup.
- **Portable file (.QBM):** smaller, for sending to the accountant; Accountant's Copy (.QBX) lets the accountant adjust while you keep working.

Worked example: Budget vs Actual for 'Office Rent': budget Rs. 30,000/month, actual Rs. 30,000 for 11 months then Rs. 36,000 in month 12. Annual variance = 366,000 – 360,000 = Rs. 6,000 over

budget (1.7%). The report flags it; management asks why — the landlord raised the rent mid-year.

Unit Summary

- Four core statements: P&L, Balance Sheet, Cash Flows, Trial Balance — customizable, memorizable, drill-downable.
- Budgets set targets; Budget vs Actual exposes variances for control.
- Close the books with a closing date password; reconcile everything; back up (.QBB) regularly and off-site.

Exam Pointers

- ★ State what each of the four financial statements shows.
- ★ Explain closing date/password and why it matters after year-end.
- ★ Compare .QBW, .QBB, .QBM, .QBX file types.

Key Terms Glossary

All key terms from this handout in one place — use for quick revision.

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