

PARISH/SCHOOL RETAINED EARNINGS PROCESS (NET ASSETS)

If only one entity is established for a parish/school and separate balance sheets are desired, an entry will be required to properly record your retained earnings (net assets). If this entry is not prepared, the balance sheet will not balance. The reason it will be out of balance relates to retained earnings (net assets).

The formula for a balance sheet is $\text{Assets} = \text{Liabilities plus Retained Earnings (Net Assets)}$ where retained earnings is the initial equity plus/minus earnings/loss from all the years of operations. Each year, your earnings/loss is automatically cleared to account 0031000 Retained Earnings (QuickBooks Pro 2006). It can only be cleared to the one account and not to both 0031000 and 7031000 (schools retained earnings).

However, a journal entry can be prepared to transfer the schools portion of earnings. This transaction would be as follows (assume the school generated net income of \$20,000 for fiscal year 2006):

<i>Debit 0031000 Retained Earnings</i>	<i>\$20,000</i>
<i> Credit 7031000 Retained Earnings – School</i>	<i>\$20,000</i>

Please note that for a net loss, the debits and credits would be reversed

Parish and School balance sheets can then be generated by creating separate balance sheet reports for all 00 balance sheet accounts and all 70 balance sheet accounts. Whether breaking out the balance sheet or preparing a consolidated balance sheet, always verify that your $\text{Assets} = \text{Liabilities plus Retained Earnings}$, if not research and correct.

A good technique would be to reclass the YTD earnings each month along with a reversing entry in all months except for the first month. An example for the first three months would be as follows (assume the schools YTD earnings for months 1, 2, and 3 are \$10,000, \$15,000 and \$50,000, respectively):

Month 1

<i>Debit 0031000 Retained Earnings</i>	<i>\$10,000</i>
<i> Credit 7031000 Retained Earnings – School</i>	<i>\$10,000</i>

To record the YTD School earnings through July 31, 20xx

Month 2

<i>Debit 7031000 Retained Earnings – School</i>	<i>\$10,000</i>
<i> Credit 0031000 Retained Earnings</i>	<i>\$10,000</i>

To reverse YTD earnings through July 31, 20xx

<i>Debit 0031000 Retained Earnings</i>	<i>\$15,000</i>
<i> Credit 7031000 Retained Earnings – School</i>	<i>\$15,000</i>

To record the YTD School earnings through August 31, 20xx

Month 3

<i>Debit 7031000 Retained Earnings – School</i>	<i>\$15,000</i>
<i> Credit 0031000 Retained Earnings</i>	<i>\$15,000</i>

To reverse YTD earnings through August 31, 20xx

<i>Debit 0031000 Retained Earnings</i>	<i>\$50,000</i>
<i> Credit 7031000 Retained Earnings – School</i>	<i>\$50,000</i>

To record the YTD School earnings through September 30, 20xx