

Preparing Financial Statements: Manual vs. Computerized Systems

Financial statements are the "end products" of the bookkeeping process. They communicate the financial health of an entity to stakeholders like owners, investors, and creditors.

1. The Foundational Data: General Ledger and Trial Balance

Before financial statements can be prepared, the data must be organized and verified. This is where the General Ledger and the Trial Balance come into play.

The General Ledger (The "Book of Final Entry")

The **General Ledger** is a complete record of all financial transactions. In a manual system, it consists of individual "T-accounts" or pages for every account.

- **Manual Role:** Bookkeepers manually "post" entries from the journal to the ledger and calculate the "ending balance" for every account.
- **Computerized Role:** The ledger is updated in real-time. Saving a transaction automatically adjusts the balances of all affected accounts.

The Trial Balance (The Accuracy Check)

The **Trial Balance** is a worksheet listing all ending balances to ensure total debits equal total credits.

- **Manual Role:** It serves as the "raw material" for reports. If it doesn't balance, the bookkeeper must hunt for errors before proceeding.
- **Computerized Role:** Software performs this check constantly, pulling current balances directly into reports.

2. Sample Financial Statements (The Interconnected Flow)

Below is a simplified example of a service business, "Pixel Design," for the month ended December 31, 202X. Notice how the highlighted figures flow between reports.

I. Income Statement

Revenue/Expense	Amount
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Service Revenue	\$10,000
Less Expenses:	
Rent Expense	(\$2,000)
Utilities Expense	(\$500)
Net Income	\$7,500

II. Statement of Owner's Equity

Description	Amount
Beginning Capital (Dec 1)	\$20,000
Add: Net Income (from above)	\$7,500
Less: Owner Withdrawals	(\$1,000)
Ending Capital (Dec 31)	\$26,500

III. Balance Sheet

Assets	Amount	Liabilities & Equity	Amount
Cash	\$15,000	Accounts Payable	\$3,500
Accounts Receivable	\$5,000	Notes Payable	\$5,000
Equipment	\$15,000	Owner's Capital (from above)	\$26,500
Total Assets	\$35,000	Total Liabilities & Equity	\$35,000

IV. Statement of Cash Flows

Activity	Amount
Net Cash from Operating Activities	\$8,000
Net Cash from Investing Activities	(\$5,000)
Net Cash from Financing Activities	(\$1,000)
Net Increase in Cash	\$2,000
Cash at Beginning of Period	\$13,000
Cash at End of Period	\$15,000

3. Order of Preparation and Interrelationships

In a manual system, the order of preparation is strict because the statements are mathematically dependent on one another.

1. **Income Statement (The Starting Point):** Calculates **Net Income**.
2. **Statement of Owner's Equity (The Bridge):** Uses **Net Income** to calculate the new **Ending Capital**.
3. **Balance Sheet (The Destination):** Uses **Ending Capital** to balance the accounting equation.
4. **Statement of Cash Flows (The Reconciler):** Reconciles the net income and balance sheet changes to show the final **Cash** position (which must match the Cash amount on the Balance Sheet).

4. How Computerized Systems Simplify the Process

Feature	Manual Bookkeeping	Computerized Bookkeeping
Data Entry	Recorded by hand in journals and posted to ledgers.	Data is entered once; all ledgers update automatically.
Calculations	Done via calculator; high risk of math errors.	\$100\%\$ accurate based on inputs.
Interrelation	Information must be manually transferred	Information flows automatically between all

	between reports.	modules.
Trial Balance	Manually compiled to check for errors.	Generated instantly; system prevents many out-of-balance errors.
Reporting Speed	Can take days or weeks after the period ends.	Real-time; statements generated with one click.

5. The "Garbage In, Garbage Out" Rule

Despite the advantages of computers, both systems rely on the **Accuracy of Entry**. If a \$1,000 expense is accidentally recorded as a \$100 expense, both systems will produce incorrect reports. The computer simplifies the *flow* and *arithmetic*, but the bookkeeper ensures the *integrity* of the data.