discuss how to prepare financial statements using a manual bookkeeping system and a computerized bookkeeping system

Financial statements are prepared in both systems by recording, classifying, and summarizing transactions into reports like the income statement, balance sheet, and cash flow statement, but the specific steps and tools differ significantly between manual and computerized bookkeeping. In a manual system, each stage (journals, ledgers, trial balance, statements) is done by hand, while in a computerized system most of those steps are automated once transactions are entered.[1] [2]

Manual bookkeeping process

In a manual system, all records are kept on paper in books such as journals and ledgers, and calculations are done by hand or with a basic calculator. The information from these books is then summarized to prepare the financial statements at the end of the period.[2] [3] [4]

Key steps typically include:

- **Identifying** transactions using source documents such as invoices, receipts, and bank statements.[2]
- Recording entries in books of original entry (general journal and special journals like sales, purchases, cash receipts, and cash payments).[3] [2]
- Posting from journals to ledger accounts to classify transactions by account (cash, accounts receivable, revenue, etc.).[4] [2]
- Preparing a trial balance by listing all ledger balances and checking that total debits equal total credits.[1] [2]
- Making adjusting entries for items such as accruals, deferrals, depreciation, and corrections, and updating the ledger and trial balance.[1]
- Preparing the income statement by manually totaling revenue and expense accounts from the ledger and calculating net income or loss.[3] [1]
- Preparing the statement of changes in equity by starting with opening equity, adding net income, subtracting drawings/dividends, and getting closing equity.[1]
- Preparing the balance sheet by listing assets, liabilities, and equity at period-end, ensuring it balances (assets = liabilities + equity).[3] [1]
- Optionally preparing a cash flow statement by analyzing cash-related transactions and reconciling opening and closing cash balances.[3]

Computerized bookkeeping process

In a computerized system, transactions are entered into accounting software via input screens, and the system updates journals, ledgers, and account balances in a database automatically. Once the data is entered correctly, financial statements can be generated on demand without manually preparing a separate trial balance or posting routine. [5] [6] [2]

Typical steps are:

- **Setting up** the system: creating the chart of accounts, opening balances for asset, liability, and equity accounts, and basic company information. [7] [5]
- Entering transactions (sales, purchases, receipts, payments, payroll, etc.) into the system; each entry is posted to all relevant accounts in real time. [2] [1]
- Letting the system automatically classify, summarize, and update journals and ledgers, and maintain running balances for each account. [8] [2]
- Running built-in reports such as trial balance, income statement, balance sheet, and cash flow statement at any time (daily, monthly, or on demand). [5] [2] [1]
- Entering period-end adjustments (for depreciation, accruals, etc.) as journal entries so the software updates all related accounts and reports. [7] [1]
- Exporting or printing financial statements in standardized formats, sometimes with comparative periods and ratios. [8] [1]

Comparison of manual vs computerized preparation

Both approaches aim to produce the same basic reports, but they differ in speed, error risk, and timing of information. [6] [8] [2]

Aspect	Manual bookkeeping	Computerized bookkeeping
Recording method	Handwritten in journals and ledgers. [2] [4]	Entered into software screens and stored in a database. [2] [6]
Posting & classification	Posting from journals to ledgers done by hand. [2] [3]	System updates ledgers automatically with each entry. [2]
Trial balance	Prepared manually from ledger balances. [1] [2]	Generated instantly as a report. [1] [2]
Financial statements	Manually totaled and compiled each period. [1] [3]	Generated on demand; formatting pre-built. [1] [2]
Speed & timeliness	Slow and usually done monthly or less frequently. [2] [8]	Fast, supports real-time information. [2] [8]
Error risk	Higher due to repeated manual calculations and postings. [2] [8]	Lower for arithmetic; checks and balances are built in. [2] [8]

Practical tips for each system

For manual bookkeeping, a business benefits from using clearly structured journals and ledgers, reconciling bank statements monthly, and following a consistent closing routine to reduce errors. For computerized bookkeeping, it is especially important to set up the chart of accounts correctly, control user access, and regularly back up data while reviewing system-generated reports for reasonableness. [9] [5] [8] [7] [2] [3]

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1. https://thecfoclub.com/operational-finance/preparing-financial-statements/
2. https://www.dwmbeancounter.com/BCTutorials/ComputerAcctg/manual-vs-computer-system.html
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