

# Setting up auto-reversing journal entries

**Goal:** Set up and use auto-reversing journal entries to stay on top of your finances.

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Firms often use auto-reversing journal entries at the end and beginning of accounting periods, such as month-end or year-end, to get an accurate view of their monthly or yearly financial status.

Consequently, each auto-reversing journal entry in Ajera consists of two entries:

- The first entry is made in the current accounting period to ensure that accrued revenues and expenses are recorded correctly.
- The second entry is made with a future date that reverses the effects of the first entry, to prevent duplication when the actual revenues and expenses are entered.

The example in this quick lesson reflects a firm that runs payroll semimonthly, and pays the month-end payroll in the first week of the following month.

The firm wants financial statements to recognize the insurance benefits in the current month, when the labor was expensed.

## Step 1: Create an auto-reversing journal entry

1. Click **Manage > Journal Entries**.
2. In addition to the general information for the entry, enter the following information to set up an auto-reversing journal entry:

The screenshot shows the 'Manage Journal Entries' window with the following fields and values:

- Accounting date: 10/15/11
- Reverse entries on: 10/16/11
- Basis:  Both
- Reference: nsu1011\_1
- Description: Employee Insurance
- Notes: October insurance, first pay period

The table below shows the journal entry details:

Account	Department	Debit Amount	Credit Amount	Notes
7320 Health Care Insurance	Admin	300.00		
2432 Employee Group Insura...			300.00	
		300.00	300.00	

Buttons at the bottom: Close, Edit, Save, Cancel, Delete, Help.

Callout 1: The last day of the current accounting period is entered here. (Points to 10/15/11)

Callout 2: The first day of the next accounting period is entered here. (Points to 10/16/11)

Callout 3: Here, \$300 for employee insurance is debited to this expense account, to the Admin department. (Points to 7320 Health Care Insurance)

Callout 4: The \$300 is then credited to this liability account. No department is needed. (Points to 2432 Employee Group Insura...)

Callout 5: Save the entry now that it is in balance. (Points to Save button)

Callout 6: A dialog appears, asking if you want to create an auto-reversing journal entry. Click Yes. (Points to the bottom of the window)

3. In the table, enter the debit and credit transactions for the journal entry.

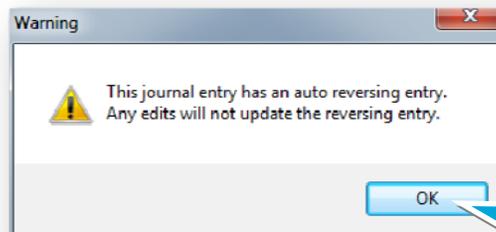
## Step 2: Change the auto-reversing journal entry

- Here is what the auto-reversing journal entry looks like on the Existing tab:

Accounting Date	Reference	Description	Account	Department	Debit Amount	Credit Amount	Basis	Notes	Detail Notes
10/15/11	pinsu1011_1	employee insurance	7320 Health Care Insurance	Admin	300.00		Both	October employee in...	
10/15/11	pinsu1011_1	employee insurance	2432 Employee Group Insurance			300.00	Both	October employee in...	
10/16/11	pinsu1011_1	employee insurance - Reversed	7320 Health Care Insurance	Admin		300.00	Both	October employee in...	
10/16/11	pinsu1011_1	employee insurance - Reversed	2432 Employee Group Insurance		300.00		Both	October employee in...	

Ajera creates both the original and the reversing entries, appending the word *Reversed* to the latter.

- To change an auto-reversing journal entry, open the transaction details by either double-clicking a row, or selecting a row and clicking the **Edit** button. This warning appears:

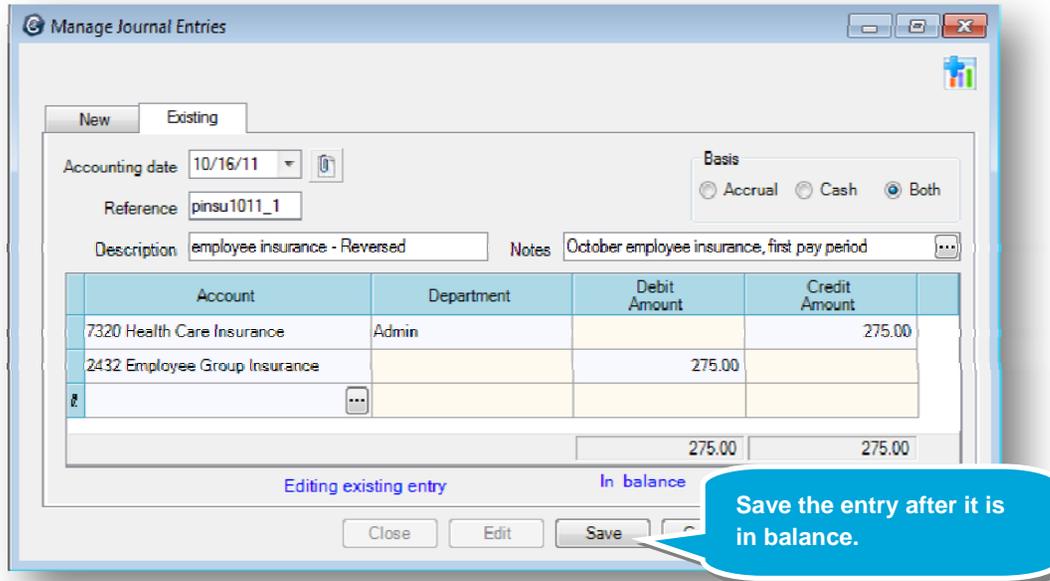


Because Ajera does not automatically update the other entry, you need to change the other entry manually.

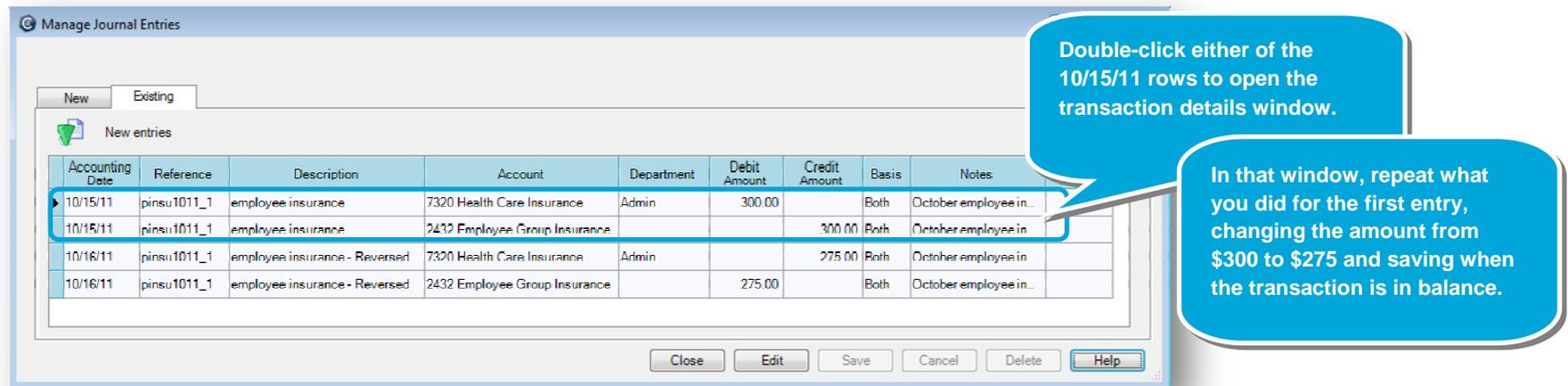
Click OK to proceed.

### Step 2: Change the auto-reversing journal entry (continued)

- You can now see the transaction details for the entry. Change the amount to \$275 in both rows.



- On the Manage Journal Entries window, the other entry needs to be changed to \$275.



## Step 3: View the effects on your financial reports

As an example, look at the Ledger report to see how the auto-reversing journal entry affects the general ledger.

1. Click **Reports > Financial > Ledger** and navigate to this expense account: 7320 Health Care Insurance.
2. Double-click that account to drill down. Select these dates in the Month field to see how the journal entry affects the report (be sure to click the Refresh button after each date to update the report):

October 14, the day before the first entry



October 15, the day of the first entry

Ledger		Accutera Architects	
Date Range from: 10/14/2011 to 10/14/2011		October 11, 2011 Page 1 of 1	
Account		Beginning	Ending
Department			Balance
7320 Health Care Insurance			-1,100.00
Total	-1,100.00		-1,100.00

The balance is **-\$1,100** before the journal entry.

Ledger		Accutera Architects	
Date Range from: 10/15/2011 to 10/15/2011		October 11, 2011 Page 1 of 1	
Account		Beginning	Ending
Department			Balance
7320 Health Care Insurance			
Architectural			
Interiors			
Landscape			
Admin			
10/15/2011 Journal Entry pinsu1011_1 employee insurance	575.00	300.00	
7320 Health Care Insurance Total	575.00	300.00	-825.00

The balance is **-\$825** after the journal entry of \$275.

The report provides details about the entry here.



October 16, the day of the reversing entry

Ledger		Accutera Architects	
Date Range from: 10/16/2011 to 10/16/2011		October 11, 2011 Page 1 of 1	
Account		Beginning	Ending
Department			Balance
7320 Health Care Insurance			
Architectural			
Interiors			
Landscape			
Admin			
10/16/2011 Journal Entry pinsu1011_1 employee insurance - Reversed	300.00	575.00	
7320 Health Care Insurance Total	-825.00	300.00	-1,100.00

The balance is back to **-\$1,100**.

The details about the entry indicate that this is a reversing journal entry.

3. This allows the expense of the insurance to appear in the correct accounting period on financial statements. The expense is reversed out on October 16 so that when you do run payroll for the accounting period, you don't produce a duplicate entry for that expense.

**Summary**  
 This lesson has shown you how auto-reversing journal entries can help provide a more accurate picture of your finances by closely matching income with the revenues and expenses that helped generate it. For general information about journal entries, view the *Managing journal entries* video lesson.