US ACCOUNTING PLAYBOOK

A Comprehensive Reference Guide for Financial Professionals

✓ Month-End Close Procedures
✓ GAAP Compliance Standards
✓ Modern Financial Reporting
✓ Internal Controls Framework
✓ Audit Readiness Checklist

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1. Introduction to US GAAP

Generally Accepted Accounting Principles (GAAP) represent the standard framework for financial accounting and reporting in the United States. Established and maintained by the Financial Accounting Standards Board (FASB), GAAP ensures consistency, transparency, and comparability across all organizations.

Core GAAP Principles

Principle	Definition	Application
Revenue Recognition	Revenue recorded when earned, not when cash received	Record sales upon delivery or service completion
Matching Principle	Expenses matched to revenue in same period	Accrue expenses in period incurred
Consistency	Same accounting methods used period to period	Disclose any accounting policy changes
Materiality	Record all significant transactions	Evaluate impact on financial statements
Conservatism	Choose lower net income when uncertain	Avoid overstating assets or income
Going Concern	Assume business continues indefinitely	Use accrual accounting methods

2. Month-End Close Framework

The month-end close process is a systematic series of accounting and reconciliation tasks performed at the conclusion of each accounting period. This framework ensures all transactions are accurately recorded, reconciled, and reported in accordance with GAAP standards.

Standard Close Timeline

Timeline	Key Activities	Owner	Deliverable
Days 1-5	Collect invoices and documents Post receipts and payments	Accounts Team	Document Log
Days 5-8	Bank reconciliation AR aging review	Treasury/AR	Recon Report
Days 8-12	Record accruals Review prepaid items	Controller	Accrual Schedule
Days 12-15	Depreciation calculation Subsidiary ledger reconciliation	Fixed Assets	FA Schedule
Days 15-18	Post all adjusting entries Generate trial balance	GL Accountant	Trial Balance
Days 18-20	Prepare financial statements Variance analysis	Reporting Team	FS Package
Days 20-22	Management review Final approvals	CFO/Controller	Signed FS

3. Account Reconciliation

Account reconciliation is the process of comparing internal General Ledger records with external statements and subsidiary ledgers. This critical control procedure verifies the accuracy of financial records and identifies discrepancies requiring investigation and resolution.

Reconciliation Process

1. **Obtain External Statement:** Collect bank statements, vendor statements, or custodian reports
2. **List GL Transactions:** Extract all GL account transactions for the period
3. **Match Transactions:** Compare GL entries with external statement items
4. **Identify Differences:** List all items appearing in one record but not the other
5. **Investigate Discrepancies:** Determine cause (timing, amounts, missing items, errors)
6. **Document Findings:** Prepare reconciliation schedule with explanations
7. **Record Adjustments:** Post correcting entries if errors identified
8. **Obtain Approval:** Secure supervisor sign-off on completed reconciliation

Common Reconciling Items

- **Timing Differences:** Items recorded in different accounting periods
- **Outstanding Checks:** Checks written but not cleared by bank
- **Deposits in Transit:** Deposits recorded but not yet posted by bank
- **Bank Fees & Interest:** Charges or income shown on statement only
- **NSF Checks:** Customer checks returned for insufficient funds
- **Data Entry Errors:** Transposition or amount entry mistakes

4. Journal Entry Standards

All journal entries must follow strict standards to create a reliable audit trail, ensure GAAP compliance, and facilitate financial statement verification. Every entry requires proper documentation and approval.

Required Components

Component	Requirement	Example
Date	Transaction or period end date	12/31/2024
GL Account & Number	Valid account from chart of accounts	5100 - Utilities Expense
Description	Clear explanation of transaction	Monthly utilities accrual
Debit/Credit Amounts	Balanced entries (Debits = Credits)	Debit: 2,500 / Credit: 2,500
Reference	Source document or supporting file	Invoice #UL-2024-1299
Approver Signature	Authorized approver name	Susan Martinez, Controller

5. Accruals & Prepayments

The matching principle requires that revenues and expenses be recorded in the period in which they are earned or incurred, regardless of when cash is received or paid. Accruals and prepayments bridge timing gaps between cash flows and economic events.

Month-End Accruals

- **Payroll Accrual:** Wages earned by employees through month-end
- **Utilities Accrual:** Services received, invoices not yet posted
- **Rent Accrual:** Monthly rent due but not yet paid
- **Professional Fees:** Services rendered by contractors/consultants
- **Interest Accrual:** Interest earned or owed on debt instruments
- **Bonus Accrual:** Estimated portion of annual bonuses
- **Warranty Accrual:** Estimated warranty claim costs
- **Vacation Accrual:** Accrual for earned but unused paid time off

Common Prepayments

- **Prepaid Insurance:** Coverage for future periods (annual/quarterly policies)
- **Prepaid Rent:** Rent paid in advance of occupancy
- **Prepaid Subscriptions:** Software, SaaS, or service subscriptions paid annually
- **Prepaid Maintenance:** Annual maintenance contracts paid upfront
- **Prepaid Licenses:** Professional licenses renewed annually

6. Fixed Assets & Depreciation

Fixed assets are long-lived tangible assets acquired for use in operations. They are capitalized on the balance sheet and systematically depreciated over their useful lives in accordance with GAAP standards.

Capitalization Policy

Capitalization Threshold: $2,500 minimum cost and estimated useful life exceeding one year

Eligible Costs: Purchase price, shipping, installation, setup, and other direct acquisition costs

Ineligible Costs: Ordinary maintenance, repairs, and minor replacements are expensed

Depreciation Schedule by Asset Type

Asset Category	Useful Life	Depreciation Method	Residual Value
Buildings & Structures	40 years	Straight-line	10-20%
Building Improvements	15-40 years	Straight-line	Variable
Furniture & Fixtures	7 years	Straight-line	5-10%
Computer Equipment	5 years	Straight-line	5%
Vehicles	5 years	Straight-line	10-15%
Production Equipment	7-10 years	Straight-line	5-10%

7. 7. Revenue Recognition (ASC 606)

ASC 606 establishes a five-step model for recognizing revenue when control of promised goods or services transfers to customers.

1. **Identify the Contract** - Written or implied agreement with enforceable rights
2. **Identify Performance Obligations -** Distinct goods/services promised
3. **Determine Transaction Price** - Consideration expected to be received
4. **Allocate Price** - Based on standalone selling prices
5. **Recognize Revenue -** When performance obligations satisfied

8. 8. Liability Management

Liabilities represent obligations to transfer assets or provide services. Proper classification ensures accurate financial reporting.

Current Liabilities: Due within 12 months (accounts payable, short-term debt, accrued expenses)
Long-term Liabilities: Due after 12 months (long-term debt, deferred revenue)
Contingent Liabilities: Possible obligations dependent on future events

9. 9. Payroll & Wage Accruals

Accrue all earned wages, taxes, and benefits at month-end, regardless of payment dates.

- Gross wages and salaries earned through period end
- Payroll taxes (FICA, federal, state income)
- Health insurance and benefits contributions
- 401(k) and retirement plan contributions
- Paid time off (vacation and sick leave)
- Bonuses and commission estimates

10. Financial Statement Preparation

The three primary financial statements provide a comprehensive view of financial position and performance. All statements must be prepared in accordance with GAAP and be internally consistent.

Income Statement Structure

Revenues - All income from operations and other sources
Less: Cost of Goods Sold - Direct costs to produce products/services
Gross Profit - Revenues minus COGS
Less: Operating Expenses - SG&A;, R&D;, depreciation
Operating Income - Gross profit minus operating expenses
Other Income/(Expense) - Interest, gains/losses, investment income
Income Before Taxes - Operating income plus other items
Income Tax Expense - Estimated tax liability
Net Income - Bottom line: profit or loss for the period

Balance Sheet Formula

ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY

Assets: Current assets (cash, AR, inventory) and Long-term assets (PP&E;, intangibles)
Liabilities: Current liabilities (AP, ST debt) and Long-term liabilities (LT debt)
Equity: Common stock, retained earnings, other comprehensive income

11. Internal Controls & Documentation

Effective internal controls over financial reporting prevent errors and fraud, ensure accuracy of financial statements, and maintain integrity of accounting records.

Key Control Activities

- **Authorization:** Only authorized personnel approve transactions
- **Segregation of Duties:** Separate roles for initiation, approval, and reconciliation
- **Documentation:** Retain all supporting documents for audit trail
- **Reconciliation:** Regular and timely account reconciliations
- **Review & Approval:** Management review and sign-off on all close procedures
- **Access Controls:** Limited access to GL and sensitive financial systems
- **Exception Handling:** Investigate and document all discrepancies

Documentation Retention

Retain all supporting documents for a minimum of 7 years, organized by month and category. This includes invoices, receipts, bank statements, reconciliations, journal entry support, payroll records, and audit workpapers.

12. Audit Readiness Checklist

Complete this checklist prior to audit fieldwork to ensure readiness and identify any gaps in documentation or accounting procedures.

Financial Reporting

■ Trial balance prepared and posted to GL ■ All entries balanced (DR = CR) ■ Accounts reconciled to supporting detail

Close Procedures

■ Month-end accruals recorded and documented ■ Prepaid items properly amortized ■ Fixed assets depreciated

Reconciliations

■ Bank reconciliations completed ■ AR aging reviewed and collectible ■ AP reviewed for accuracy

Documentation

■ Journal entries have supporting documentation ■ All policies documented and followed ■ Significant items have explanations

Compliance

■ All GAAP requirements met ■ Internal controls operating effectively ■ No material weaknesses identified

13. Common GAAP Issues & Solutions

Common Issue	GAAP Requirement	Solution
Revenue before delivery	Recognize when control transfers	Defer revenue to delivery period
Missing accruals	Match expenses to revenue period	Implement monthly accrual process
Incorrect fixed asset treatment	Capitalize assets >$2,500, life >1 year	Reclassify and set up depreciation
Prepaid items not amortized	Allocate over benefit period	Record monthly amortization
Inadequate documentation	Support all transactions	Retain invoices and reconciliations
Reconciliations not completed	Verify account balances monthly	Schedule monthly reconciliations

14. Accounting Glossary

Accrual - Revenue or expense recorded when earned/incurred, not when cash is received/paid

Chart of Accounts - Complete list of GL accounts with numbers and descriptions

Depreciation - Systematic allocation of fixed asset cost over its useful life

Deferred Revenue - Liability for cash received before goods/services are delivered

GAAP - Generally Accepted Accounting Principles established by FASB

General Ledger - Master record of all financial transactions organized by account

Internal Controls - Systems and procedures to prevent errors and fraud

Journal Entry - Record of a transaction with debits and credits

Materiality - Threshold for disclosing items in financial statements

Reconciliation - Comparing GL records to external statements

Trial Balance - List of all GL accounts with balances (Debits = Credits)

presents best practices in US financial accounting and reporting. For specific guidance, consult your organization's accounting policies or qualified accounti