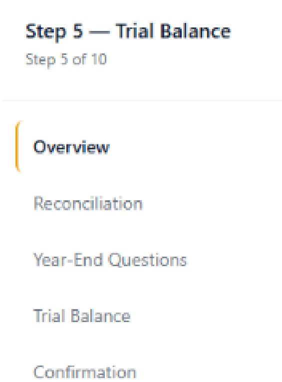
Detail User Guide for Step 5 – Trial Balance

This guide walks you through the entire process of preparing and finalizing a Trial Balance. This is a critical and final step for generating a set of financial statements which is at the core of your financial plan. In this step, you want to focus on any adjustments that will help reduce distortions in how the numbers are presented. Once you get past this step, the financial statements should be ready to be placed into the financial plan. This is the last and final input step in the entire process.

Navigation Bar – Let's start by going through the left side navigation:



Top part of navigation bar has five pages:

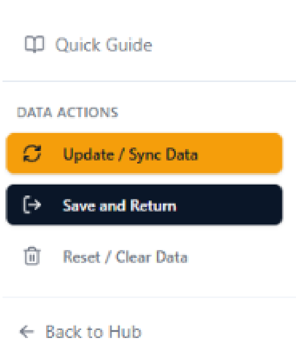
Overview – the main landing page where you start the process of creating your final trial balance

Reconciliation – A comparison of the financial transactions from the four input apps (Cost Estimate, Funding Plan, Revenue Model, Cost Model) against the Trial Balance per the Chart of Accounts. Items in agreement are checked off in green. Items with differences are flagged in red.

Year End Questions – A series of questions to capture some common adjustments that you should consider making to ensure your financial forecast has a good set of numbers with minimal distortion or misleading information.

Trial Balance – This page has three tabs, allowing you to see the Unadjusted Trial Balance, Your Adjustments, and the Adjusted Trial Balance which will produce the financial statements for your financial forecast.

Confirmation – Once you have completed the process in Step 5, then confirm the changes so the application can create the three financial statements for your financial plan. You will still have an opportunity to review the financial statements in the next three steps just to make sure you are good to go. So don't worry, this is an iterative process that allows you to move through the process with ease; just make sure you save changes in each step to push the data forward across the entire financial model.



Bottom part of navigation bar has five pages:

Quick Guide – An online quick start guide is available to help you get started

Update / Sync Data – Loads the data from the four input apps into the Unadjusted Trial Balance

Save and Return – Save your data if you log off from the session and want to consider changes to your financial plan.

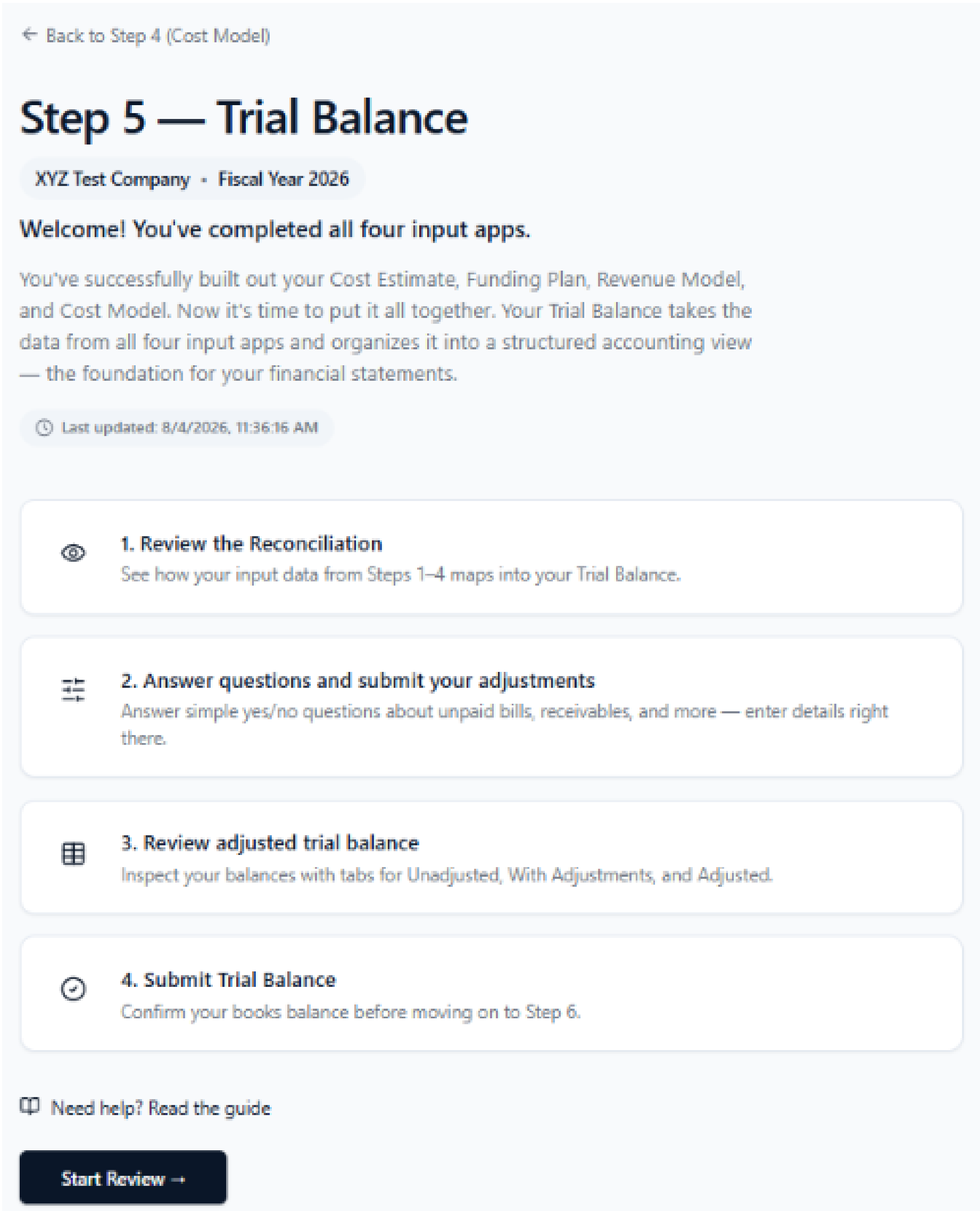
Reset / Clear Data – If you need to make major changes to the four input steps (Cost Estimate, Funding Plan, Revenue Model, Cost Model) and you think it would be better to start all over, then clear the data from the Unadjusted Trial Balance for a fresh re-start.

Back to Hub – Navigate back to the main landing page for the entire software application

<u>Overview (Main Landing Page)</u>

The landing page for Step 5 starts with a quick overview. You will navigate through a series of four steps to finalize the financials before we generate each statement. 1) Reconcile the inputs to the Trial Balance; 2) Answer some year end questions to flag any final adjustments, 3) load the trial balance and compare – Unadjusted vs. Adjusted; and 4)

Confirm (total debits must equal total credits) and submit the Trial Balance to create the three financial statements.



Reconciliation

The very first step is to compare what was entered and calculated in the four input apps with what has been posted against the Chart of Accounts which is what forms the Trial Balance. If the item is in agreement, the Status is marked green. If there is a difference, it is noted in red. In the example below, the budgeted inventory amount was $ 5,000 in Step 1 – Cost Estimate; but in Step 4 – the Cost Model calculated what the actual inventory would be. This is simply a budget comparison and App 4 governs the process since it computes the actual inventory the business will maintain. The budget was entered to ensure that the cost estimate took into account additional cash that would be needed for initial inventory.

Opening Trial Balance Reconciliation

Source inputs from Steps 1-4 compared to posted Trial Balance

Some line items differ — 21 of 22 line items match
Total Debits: **$185,848.62** Total Credits: **$185,848.62**

Step 1 — Startup Costs
Source: APP1

Line Item	Source Amount	Trial Balance Amount	Difference	Status
Furniture & Fixtures (asset cost) 1520 — Furniture & Fixtures	$10,000.00	$10,000.00	—	✓
Vehicles (asset cost) 1530 — Vehicles	$50,000.00	$50,000.00	—	✓
Initial inventory (reference only — App 4 authoritative) 1200 — Inventory *App 1 inventory is SUPPORT only; App 4 beginning inventory is posted*	$5,000.00	$4,412.00	($588.00)	⚠

This is how what you entered in Steps 2 (Funding Plan) and 3 (Revenue Model) gets posted to the Trial Balance:

Step 2 — Funding Plan

Source: APP2

Line Item	Source Amount	Trial Balance Amount	Difference	Status
Total Contributed Capital 3000 — Contributed Capital	$90,000.00	$90,000.00	—	
Other Income (crowdfunding, grants, etc.) 4100 — Other Income	$1,500.00	$1,500.00	—	
Total Loan Proceeds (gross) 2100 — Loan Payable	$50,500.00	$50,500.00	—	

Step 3 — Revenue Model

Source: APP3

Line Item	Source Amount	Trial Balance Amount	Difference	Status
Sales — Frozen Foods 4000 — Sales Revenues *All products post to account 4000*	$24,605.00	$0.00	—	
Sales — Dry Goods 4000 — Sales Revenues *All products post to account 4000*	$4,500.00	$0.00	—	
Sales — Cosmetics 4000 — Sales Revenues *All products post to account 4000*	$11,808.00	$0.00	—	
Total Sales Revenue (all products) 4000 — Sales Revenues	$40,913.00	$40,913.00	—	

And lastly, this is how three major expenses (Cost of Goods Sold, Operating Expenses and Non Operating Expenses) gets posted to the Trial Balance from Step 4 (App 4) – Cost Model:

Step 4 — Cost Model
Source: APP4

Line Item	Source Amount	Trial Balance Amount	Difference	Status
Cost of Goods Sold 5000 — COGS	$13,592.20	$13,592.20	—	✓
Payroll 6020 — Payroll	$33,350.00	$33,350.00	—	✓
Sub Contractors 6030 — Sub Contractors	$19,315.00	$19,315.00	—	✓
Office Supplies 6050 — Office Supplies	$699.00	$699.00	—	✓
Marketing 6060 — Marketing	$22,940.00	$22,940.00	—	✓
Legal 6080 — Legal	$350.00	$350.00	—	✓
HR 6090 — HR	$350.00	$350.00	—	✓
Accounting 6100 — Accounting	$895.00	$895.00	—	✓
Insurance 6130 — Insurance	$1,050.00	$1,050.00	—	✓
Total Operating Expenses — — All OPEX accounts	$78,949.00	$78,949.00	—	✓
Depreciation Expense 7000 — Depreciation Expense	$7,735.00	$7,735.00	—	✓
Interest Expense 7200 — Interest Expense	$2,262.00	$2,262.00	—	✓
Beginning Inventory (authoritative) 1200 — Inventory	$4,412.00	$4,412.00	—	✓

✓ No plug needed — Trial Balance is balanced

Continue to Trial Balance →

For minor differences that are not material, the application will plug the difference to a Miscellaneous Expense or Miscellaneous Revenue general ledger account. If there is a significant difference, then consider the following:

1. **Timing and Syncing Delays**

- **Unposted batches:** Transactions might sit in a pending or unposted queue.

- **Data sync lags:** Software application can take time to update general ledger balances.
- **Date filters:** The trial balance report date may exclude recent source transactions.

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2. **Data Entry Errors – Go back and double check your inputs (Steps 1 through 4)**

- **Transposition errors:** Reversing two digits (e.g., typing $89 instead of $98).
- **Slide errors:** Misplacing a decimal point (e.g., entering $1,000 as $100).
- **Omitted lines:** Entering a multi-line journal entry but failing to save one leg.

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3. **Software and Setup Mismatches – contact the Admin:** matt@startupfinancialplan.ai **Try and show screen shots with your submission**

- **Incorrect account mapping:** Source panel items route to unexpected ledger accounts. *The Admin needs to modify and adjust the existing input apps and / or Chart of Accounts*
- **Currency conversion:** The software is not setup for multi-currency transactions, it is setup strictly for U.S. Dollars only. *The Admin can capture this as a future requirement to build into the software application*.
- **Software glitches:** Interrupted saves during internet drops creating half-transactions. *The Admin needs to report this to the hosting platform and upgrade his plan to accommodate higher volumes of traffic*.

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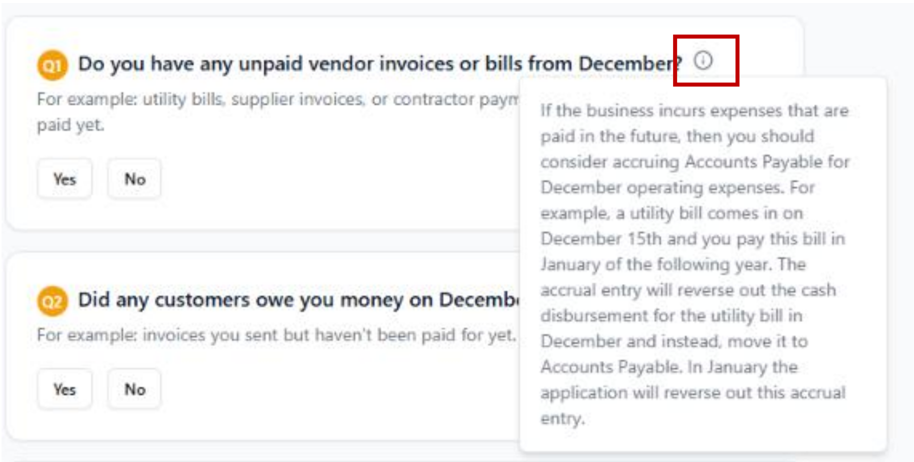
4. **How to Find the Error Fast**

1. **Calculate the exact difference:** Subtract total credits from total debits.
2. **Check for duplicate entries:** Search your source panel for that exact difference amount.
3. **Divide the difference by two:** If the result is a whole number, look for a debit posted as a credit.
4. **Divide the difference by nine:** If it divides evenly, you have a transposition or slide error.

<u>Year End Questions – Second Step in the Trial Balance Process</u>

Now make a decision if you want to make any adjustments. You are not required to make adjustments, but if the financial forecast has material distortions that could be misleading, then this is where you want to correct the issues. Remember that all transactions up to this point have been cash basis – whatever money is spent or collected is accounted for as a cash transaction. The only exception to this are assets expired – Inventory sold is expensed through Cost of Goods Sold and Fixed Assets expire through Depreciation Expense.

NOTE: Each question has a small information icon that you can click on to get some additional information about the question:



The two most common adjustments that you will make is to recognize Accounts Receivable and / or Accounts Payable. To help make this easier, the app will load and display your last month's Operating Expenses and Sales Revenue:

December Reference Data

These figures are for Questions 1 & 2 (unpaid bills and customer receivables) only. Other questions below have their own reference tables and information.

December Operating Expenses

Payroll - W2 Employees	$5,200.00
Labor - Sub Contractors 1099	$3,215.00
Office Supplies	$99.00
Marketing & Promotion	$3,890.00
Legal Fees	$50.00
HR Support	$50.00
Accounting & Tax Support	$295.00
Insurance	$150.00
Total	$12,949.00

These are your December operating expenses. Use these amounts as the basis for any unpaid vendor invoices (Accounts Payable accrual).

December Sales Revenue

$15,291.00

This is your December sales revenue. If customers haven't paid yet, this is the basis for Accounts Receivable.

Q4 Summary (Oct-Dec) — for Question 7 (Corporate Tax)

Q4 Revenue	$31,668.00
Q4 Total Expenses	$52,065.00

Figure 1 - Basis for Payables and Receivables and Corporate Tax Payable (C Corp)

Here are the questions you need to work through to complete the Trial Balance:

Question 1 – Accounts Payable: Review your Operating Expenses for December – do you expect to pay any of these expenses in the following month of January next year? If yes, then you may want to move this money from Cash disbursement to Accounts Payable since the money will not be paid out to the vendor until next month.

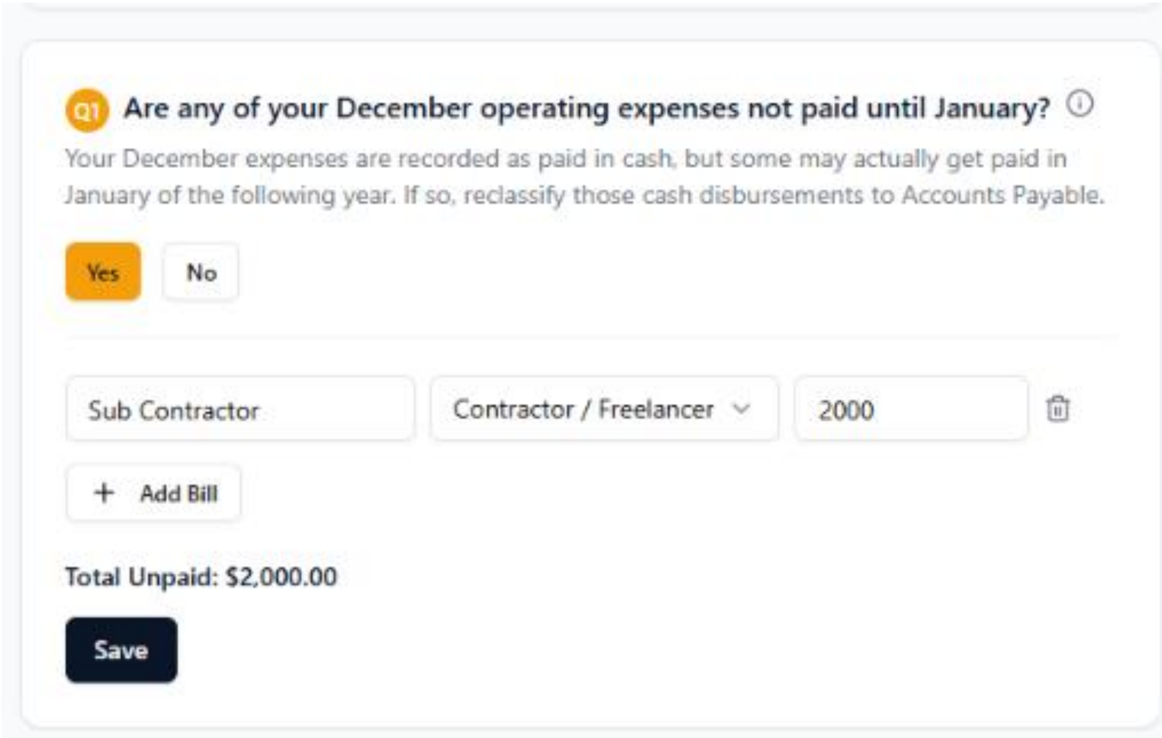
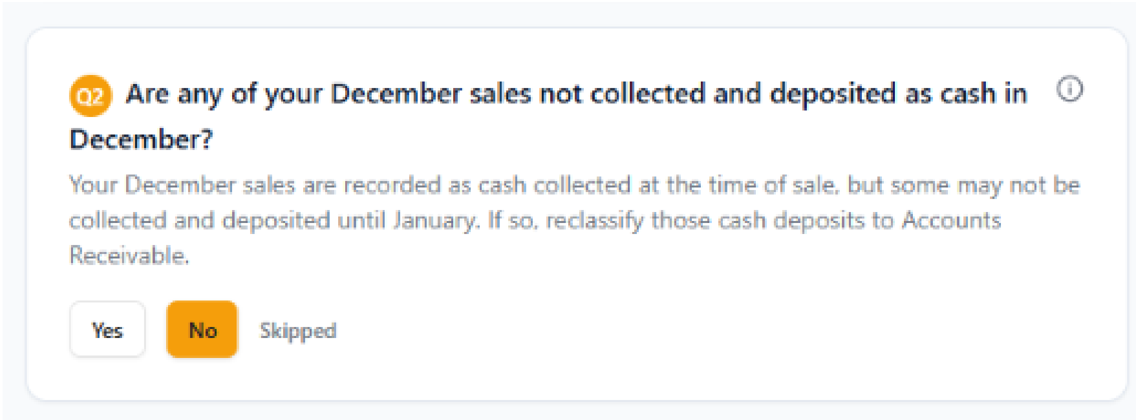


Figure 2 - Move Cash to Accounts Payable for Unpaid

In the example above, we answered Yes. Referring back to Figure 1 on Page 9, the business incurs $ 3,215 of Sub Contractor Expenses and most of this will get paid next month – January of next year. The business estimates about $ 2,000 will get paid next year and thus an adjustment is made; move Cash Disbursement of $ 2,000 to Accounts Payable (Figure 2 above). If the business is a C Corp, then compare your fourth quarter (Q4) Revenues and Expenses. Does the corporation show a profit? If yes, then consider accruing Corporate Tax Payable which will be paid next year – January; but this expense may be material and misleading to leave off in the Income Statement.

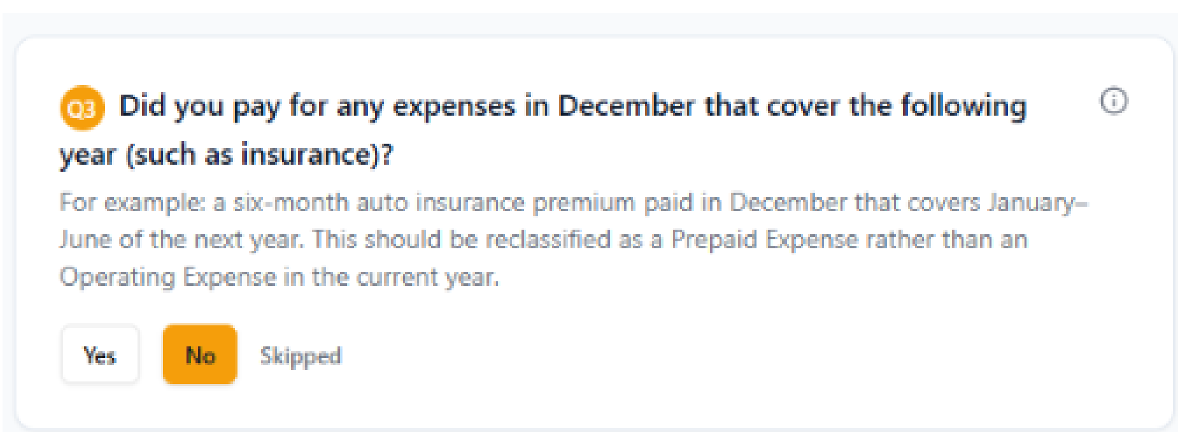
<u>Question 2 – Accounts Receivable</u>: Review your Sales Revenues for December – do you expect to collect the cash from these sales in the following month of January next year? If yes, then you may want to move this money from Cash deposited to Accounts Receivable since the money will not get collected and deposited until next month. In the example below, all of our product sales are POS – Point of Sale captured and collected with no receivables to recognize:



However, let's go back to Figure 1 and assume the business has Sales in December of $ 15,291 and it expects that about 30% of this will not be collected from customers until the following year. Move $ 4,487 out of Cash (not collected yet) and move this amount to Accounts Receivable.

Question 3 – Prepaid Expense: Do you have any expenses in December that relate to next year's financial statement such as annual insurance incurred and recognized in December, but it relates to next year. You may want to move this out of Insurance Expense and classify it as Prepaid Expense (current asset) and when this gets paid next year, the Prepaid Expense is reduced as the expense gets matched against the month in which it relates.

NOTE: If you want to add a new expense to December to cover Prepaid Expenses and show this in your financial plan, then go back to Input Step 4 – Cost Model and add the expense line item in your Cost Model and it feeds the Trial Balance what you want to report. In the example below, we kept it simple and want to spread our expenses out month to month as paid and incurred:



<u>Question 4 – Inventory on Hand</u>: For businesses that sell products, you may want to re-visit and make sure the number of days to hold inventory on hand appears appropriate. The goal is to hold a minimal level of inventory – enough to meet demand with some measure of safety stock. You do not want to hold excessive levels of inventory because this ties up cash which needs to be available to cover Operating Expenses through to breakeven. If you want to change this variable, then go back to Step 4 – Cost Model and change the number of days for the products that require revision – Step 4-1B.

Q4 **Does your inventory balance look correct?** ⓘ

Your inventory balance from Step 4 is shown below. If it looks right, click Yes. If it doesn't, click No for guidance on where to make changes.

^ Hide schedule

Inventory Calculation

Line	Detail	Value
Days-on-Hand Basis	From Step 4 — days-on-hand category	45 days
Average Monthly Unit Sales	From Step 3 sales forecast	1,000 units
Beginning Inventory Units	ROUND(avg monthly units × days/30, 0)	1,500 units
Beginning Inventory Value	@ unit cost from Step 1	$4,412.00
COGS (Year 1)	Total cost of goods sold	$13,592.20
Purchases (plug)	Inventory purchased to cover COGS shortfall	$9,180.20
Ending Inventory	**Beginning + Purchases − COGS**	**$4,412.00**

Yes No

<u>Question 5 – Depreciating Fixed Assets</u>: If you included fixed assets (such as computers, vehicles and equipment) in Step 1 – Cost Estimate, the default method for depreciation was straight line. This is a simple and clean approach to how assets are expensed over their useful life. It also minimizes the reduction to Profits which is very important for startup businesses. However, the downside to this approach is that is may not write off the asset in terms of how the asset loses its value. A good example of this would be vehicles – they lose a lot of value in the first year. For assets that lose value rapidly, you should consider a more accelerated method of depreciation such a double declining balance or something between straight line and double declining balance – sum of years digits. All three of these methods of depreciation are setup in Step 1 – Cost Estimate for Fixed Assets that have Amounts entered. If you want to change depreciation methods, you should do so now in year one since changing methods in later years impairs comparability of financials year to year.

Q5 **Does your depreciation expense look correct?**

Calculated from your fixed asset schedule in Step 1.

^ Hide schedule

Depreciation Schedule — from App 1 (Step 1: Estimate Startup Costs)

Asset	Cost	Useful Life (yrs)	Monthly Depreciation	Year-1 Total
Furniture & Fixtures	$10,000.00	7.0	$119.00	$1,071.00
Vehicles	$50,000.00	5.0	$833.00	$6,664.00
Total Depreciation (Year 1)				**$7,735.00**

Assets and costs are loaded from your Step 1 inputs (App 1); monthly amounts are taken from the posted Trial Balance (account 7000), so the total ties to your financials. To change an asset, update it in Step 1 then Sync.

Yes No

<u>Question 6 – Loan Payment Schedule</u>: If you have concerns about making loan payments, then you might consider a longer term loan to reduce the monthly payments. The downside to this change is that the total amount paid at the end of the loan will be higher. You can also investigate more favorable terms such interest rates from other lenders which can also lower your payments. If you want to make changes, then go back to Step 1 – Cost Estimate to change the Down Payment Amount or go to Step 2 – Funding Plan to revise the APR (interest rate) or term of loan in years.

Q6 **Review your loan payment schedule and balances below — do you want to make any revisions?**

Your loan balances are built automatically from your Step 1 down payment and your Step 2 funding plan (loan term and APR).

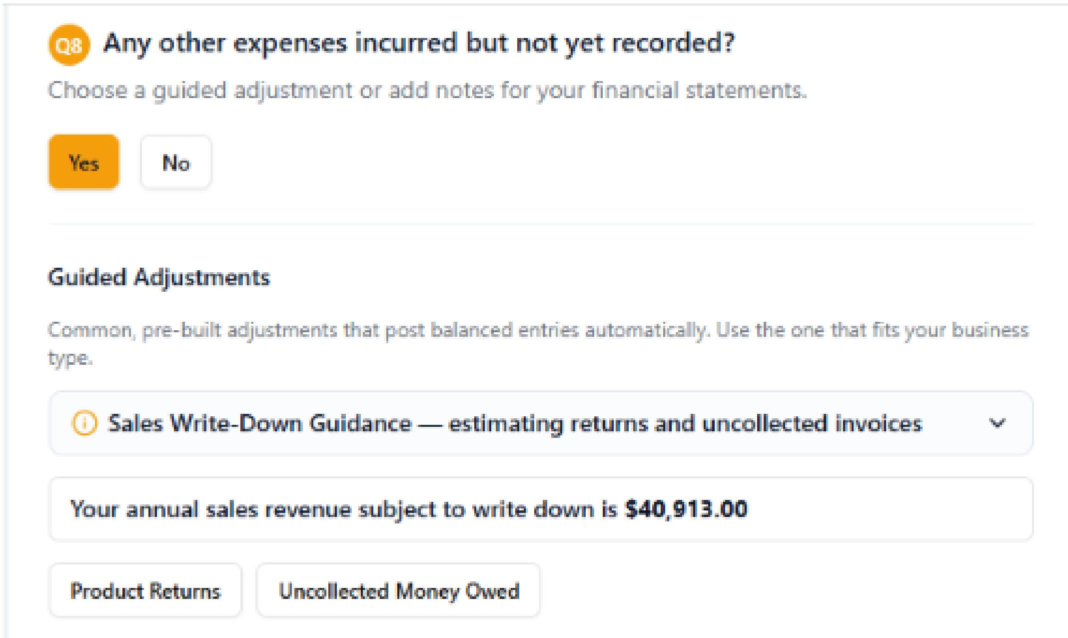
^ Hide schedule

Loan Funding — Funds Received (Opening Balances)		
Loan	Starts	Funds Received (Opening)
Loan 1	April	$6,500.00
Loan 2	May	$44,000.00
Total loan funds received		**$50,500.00**

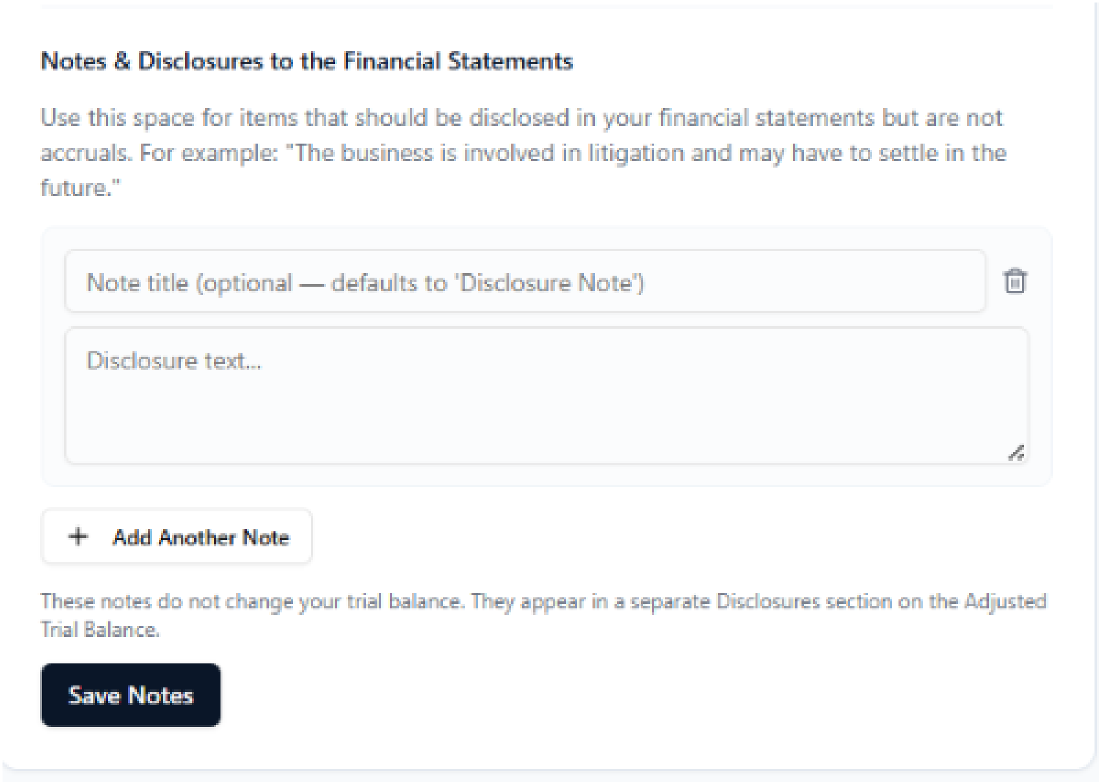
Applying Principal Payments → Year-End Balance	
Opening balance	$0.00
Loan funds received (Apr–May)	+ $50,500.00
Principal payments applied (Apr–Dec)	– $4,799.38
Year-end loan payable balance (Dec 31)	**$45,700.62**

Question 7 – Corporate Taxes: For businesses that have been registered as formal corporations (C Corp), you should consider accruing corporate taxes for the final quarter of the fiscal year if there is a profit. The taxes will most likely get paid in the following year. The application is programmed to capture the fourth quarter profits (October, November, December) and multiply this profit amount by your combined federal and state corporate tax rate. For businesses that are Limited Liability Companies, you are pass through entities which means the profits passes through to the personal tax return of the owner.

Question 8 – Any Other Adjustments: This is the final question and it simply allows you to post an adjustment that you think is necessary to fairly represent the financial statements in terms of Sales Revenues. Two common examples are products that are returned by customers and invoices issues to clients who may never pay you. Therefore, setting and reporting an Allowance for Uncollectable Sales helps ensure that we are not overstating the sales revenue. This step includes a guidance document to help you with making this adjustment.



This step also allows you to add footnotes to the financial statements when you think the numbers require additional explanation or there is an issue which could impact the financial forecast, but cannot be measured such as litigation or regulatory compliance expense. Example: Getting FDA approval of your product is required for a Go To Market strategy in your business plan. This is a clear risk and has major financial implications and should be noted in the financial forecast.



Trial Balance

Next step is to click on the updated / revised Trial Balance based on any adjustments you made per the previous eight (8) questions. The adjusted trial balance will show up. In our previous example, we did make one adjustment – move $ 2,000 from Cash to Accounts Payable. This results in an increase to the Cash balance and a new balance is posted for Accounts Payable. Total Debits and Credits increases by $ 2,000 per this adjusting entry.

Your Trial Balance

Unadjusted | Adjustments | **Adjusted**

☐ Show zero-balance accounts

ASSETS	DR $85,310.42
Cash (1000)	DR $20,898.42
Inventory (1200)	DR $4,412.00
Furniture & Fixtures (1520)	DR $10,000.00
Vehicles (1530)	DR $50,000.00

CONTRA-ASSET	CR $7,735.00
Accumulated Depreciation (1700)	CR $7,735.00

LIABILITIES	CR $47,700.62
Accounts Payable (2000)	CR $2,000.00
Current Portion of Loan Payable (2100)	CR $45,700.62

EQUITY	CR $90,000.00
Contributed Capital - Owner / Founder (3000)	CR $90,000.00

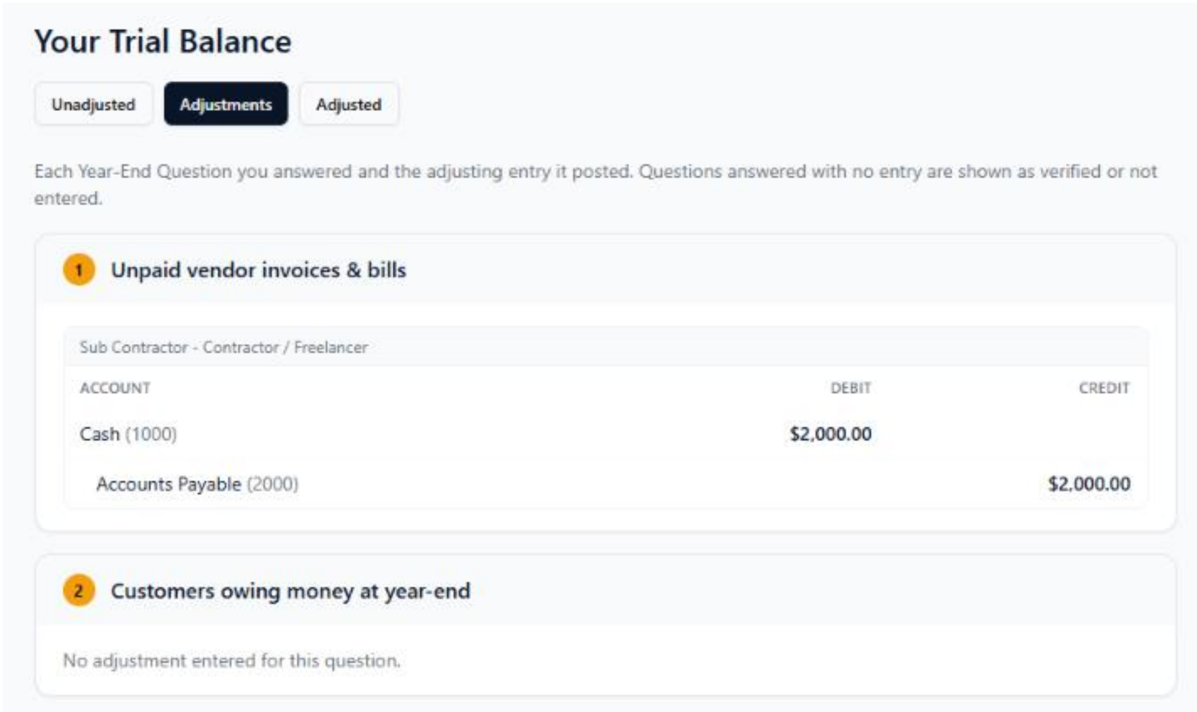
After displaying your Balance Sheet balances, the app will continue with the Income Statement balances:

REVENUE	CR $42,413.00
Sales Revenues (4000)	CR $40,913.00
Other Income (4100)	CR $1,500.00

EXPENSES	DR $92,541.20
Cost of Goods Sold (5000)	DR $13,592.20
Payroll - W2 Employees (6020)	DR $33,350.00
Labor - Sub Contractors 1099 (6030)	DR $19,315.00
Office Supplies (6050)	DR $699.00
Marketing & Promotion (6060)	DR $22,940.00
Legal Fees (6080)	DR $350.00
HR Support (6090)	DR $350.00
Accounting & Tax Support (6100)	DR $895.00
Insurance (6130)	DR $1,050.00

NON-OPERATING EXPENSES	DR $9,997.00
Depreciation Expense (7000)	DR $7,735.00
Interest Expense - Loan Payable (7200)	DR $2,262.00

You can click on the Adjustments tab to see your adjustments:



At the bottom of the page, move to the fourth and final step:

Notice that the Total Debits and Credits increased from $ 185,848.62 in the opening trial balance to $ 187,848.62 due to the one adjusting entry that was posted.

<u>Confirm</u>

That completes the Trial Balance process. At this point, you may want to save your changes and export the results – this is the source backup behind your base year financial forecast. It explains where the numbers come from behind the financial statements.

Balance Confirmation

Total Debits: $187,848.62

Total Credits: $187,848.62

Difference: $0.00

✓ Trial balance is in balance

Accounting Equation

Total Assets: **$77,575.42**

Total Liabilities: **$47,700.62**

Total Equity (incl. Net Income): **$29,874.80**

✓ $77,575.42 = $47,700.62 + $29,874.80

Ending Cash: **$20,898.42**

Your business is forecasting a net loss of $60,125.20 — this is normal for a startup in its first year.

You can now generate the financial statements in the next series of steps and produce a final PDF Report and / or Excel Workbook.

Export Trial Balance | Export Transaction Report

Save & Exit

Continue to Step 6 — Financial Statements →