

Equity

Equity, also known as capital or net worth, is the amount owners have invested in a business. In the equity section of your chart of accounts, you must do three things:

- show the initial investment (Paid-in Capital, Owner's Contributions)
- track withdrawals from this investment (Owner's Draw, Dividend Paid)
- show the combined profit or loss of the business since inception (Retained Earnings)

Equity can also be thought of as the owner's claims against the assets (versus the claims of others, which are liabilities). Equity will always equal what is owned (assets) minus what is owed (liabilities).

$$\text{EQUITY} = \text{ASSETS} - \text{LIABILITIES}$$

Types of Equity Accounts

In Peachtree, there are three types of equity:

- Equity - Retained Earnings
- Equity - doesn't close
- Equity - closes

Some equity accounts, like Common Stock, are carried forward from year to year. Thus, they are designated Equity/doesn't close. Other equity accounts, like Dividends Paid, are zeroed at year-end, with their amounts moved to the Retained Earnings account. These accounts are designated Equity/closes.

Retained Earnings is the key account. There can be only one Retained Earnings account, but you must have one to roll each year's profit or loss into. Thus, Retained Earnings, together with any Equity/doesn't close accounts, always shows the net worth of the company prior to the current year. All of the Equity/closes accounts track the change to net worth for the current year.

Business Types and Equity Accounts

This defines the type of business you run. When creating a new company in Peachtree, you are prompted for the form of business you operate (Business Type). Based on the choice you make, Peachtree creates certain [equity accounts](#) needed by each business type. If you are unsure as to what business type to select, check with your accountant.

- [Corporation](#)
- [S Corporation](#)
- [Partnership](#)
- [Sole Proprietorship](#)
- [Limited Liability Company \(LLC\)](#)

Note: You can change the type of business at any time. However, once your company is set up, changing a business type will not change the equity accounts in your chart of accounts. You must add the appropriate accounts manually.

Corporation

This is a business that is owned by a few persons or thousands of persons and is incorporated under the laws of one of the 50 states. It is a body formed and authorized to act as a single entity and is legally endowed with various rights and duties including the capacity of succession.

When you select the Corporation business type during New Company Setup, the following equity accounts are automatically set up:

- Common Stock (Equity – doesn't close)
- Paid In Capital (Equity doesn't close)
- Retained Earnings (Equity – Retained Earnings)
- Dividends Paid (Equity – gets closed)

In a corporation, you cannot touch equity except to pay dividends or sell stock. You may need to set up a Preferred Stock account if you differentiate between Common and Preferred. In addition, you may require a Paid-in Capital account for stocks sold at temporarily higher prices.

If there are not too many shareholders in your company, you may want to set up subaccounts per shareholder for the Dividends Paid account. Or you could use the department-masking feature for this same purpose.

- [Tracking dividends paid per shareholder](#)

S Corporation

This is a type of corporation that, for federal tax purposes (in most states), may be taxed as a partnership provided certain requirements are met. There are certain limitations that restrict this election typically to small businesses. These are limits on the number of shareholders, the types of shareholders, the classes of stock issued, and other restrictions. Consult your tax accountant if you're considering a switch to this form of business.

When you select the S Corporation business type during New Company Setup, the following equity accounts are automatically set up:

- Common Stock (Equity – doesn't close)
- Paid In Capital (Equity doesn't close)
- Retained Earnings (Equity – Retained Earnings)
- Dividends Paid (Equity – gets closed)

Note that there is no account that gets set up for contributions. You usually do not contribute to an S Corporation.

Partnership

This is a business owned by two or more persons associated as partners. The partners have joint control over operations and the right to share in profits.

When you select the Partnership business type during New Company Setup, the following equity accounts are automatically set up:

- Retained Earnings (Equity – Retained Earnings)
- Partner's Contribution (Equity – gets closed)
- Partner's Draw (Equity – gets closed)

Note that all equity gets rolled into Retained Earnings at year-end. Everything you add increases Partner's Contribution; withdrawals decrease Partner's Draw.

You could set up a separate account for Charitable Contributions.

While your tax software typically does the allocation of equity among partners, there are two ways to track this in Peachtree.

- [Tracking equity among partners](#)

Sole Proprietorship

This is a business owned by a single individual and often managed by that same individual. A person who does business for himself or herself is engaged in the operation of a sole proprietorship. Many small service businesses such as doctors, lawyers, barbers, electricians, and small retail establishments are sole proprietorships. This is the simplest form of business. The owner *is* the business.

When you select the Sole Proprietorship business type during New Company Setup, the following equity accounts are automatically set up:

- Retained Earnings (Equity – Retained Earnings)
- Owner's Contribution (Equity – gets closed)
- Owner's Draw (Equity – gets closed)

Note that all equity gets rolled into Retained Earnings at year-end. Everything you add increases Owners Contribution; withdrawals decrease Owners Draw.

You could set up a separate account for Charitable Contributions. You could even have an account for Personal Income Tax Deposits, which would help when figuring your taxes.

Below are other considerations for sole proprietors:

- Keep separate accounts for checking and savings accounts.
- Record all draws and contributions.
- Record your personal auto mileage.
- If you work at home, you're entitled to a home office deduction.

Limited Liability Company (LLC)

This is an unincorporated association of two or more persons (partners, corporations, and other business entities) whose members have limited personal liability for obligations or debts of the company. Similar to corporations, a limited liability company shields the assets of owners and investors from liability claims. It is classified as a partnership for federal tax purposes. If the company has more corporate characteristics, it may be taxed as a corporation. And, state taxation varies state by state.

When you select the Limited Liability Company business type during New Company Setup, the following equity accounts are automatically set up:

- Retained Earnings (Equity – Retained Earnings)
- Member's Contribution (Equity – gets closed)
- Member's Draw (Equity – gets closed)

Account Types

Account types define how the account will be grouped in reports and financial statements. They also control what happens during fiscal year-end.

General Ledger accounts are assigned types on the **General** tab of the Maintain Chart of Accounts window. Choose one of the following account types from the drop-down list:

Accounts Payable	Expenses
Accounts Receivable	Fixed Assets
Accumulated Depreciation	Income
Cash	Inventory
Cost of Sales	Long term liabilities
Equity - doesn't close (Corporation)	Other assets
Equity - gets closed (Proprietorship)	Other current assets
Equity - Retained Earnings	Other current liabilities

Accounts Payable

This represents balances owed to vendors for goods, supplies, and services purchased on an open account. Accounts payable balances are used in accrual-based accounting, are generally due in 30 or 60 days, and do not bear interest.

Select this account type if you are setting up open vendor accounts or credit card (purchase) accounts.

Accounts Receivable

This represents amounts owed by customers for items or services sold to them when cash is not received at the time of sale. Typically, accounts receivable balances are recorded on sales invoices that include terms of payment. Accounts receivable are used in accrual-based accounting.

Select this account type if you are setting up accrued income that customers owe.

Accumulated Depreciation

This is a contra asset account to depreciable (fixed) assets such as buildings, machinery, and equipment. Depreciable basis (expense) is the difference between an asset's cost and its estimated salvage value. Recording depreciation is a way to indicate that assets have declined in service potential. Accumulated depreciation represents total depreciation taken to date on the assets.

Select this account type if you are setting up depreciation accounts for known fixed assets.

Cash

This represents deposits in banks available for current operations, plus cash on hand consisting of currency, undeposited checks, drafts, and money orders.

Select this account type if you are setting up bank checking accounts, petty cash accounts, money market accounts, and certificates of deposit (CDs).

Cost of Sales

This represents the known cost to your business for items or services when sold to customers. Cost of sales (also known as cost of goods sold) for inventory items is computed based on inventory costing method ([FIFO](#), [LIFO](#), or [Average Cost](#)).

Select this account type if you are setting up cost-of-goods-sold accounts to be used when selling inventory items.

Equity - Doesn't Close (Corporation)

This represents equity that is carried forward from year to year (like common stock). Equity is the owner's claim against the assets or the owner's interest in the entity. These accounts are typically found in corporation-type businesses.

Select this account type if you are a corporation and want to record common stock or other equity intended as owner investment.

Equity - Gets Closed

This represents equity that is zeroed out at the end of the fiscal year, with their amounts moved to the retained earnings account. Equity, also known as capital or net worth, are owners' (partners' or stockholders') claims against assets they contributed to the business.

Select this account type if your business is a proprietorship and you want to record dividends paid to partners or if you are a corporation and want to record dividends paid to stockholders.

Equity - Retained Earnings

This represents the earned capital of the enterprise. Its balance is the cumulative, lifetime earnings of the company that have not been distributed to owners.

You can have only one retained earnings account in Peachtree.

Expenses

These represent the costs and liabilities incurred to produce revenues. The assets surrendered or consumed when serving customers indicate company expenses. If income exceeds expenses, *net income* results. If expenses exceed income, the business is said to be operating at a *net loss*.

Select this account type if you are setting up accounts such as operation expense, supplies expense, salary and wage expense, travel expense, or charity expense.

Fixed Assets

These represent property, plant, or equipment assets that are acquired for use in a business rather than for resale. They are called *fixed* assets because they are to be used for long periods of time.

Select this account type if you are setting up any of the following fixed assets:

- **Land:** property, storage space, or parking lots.
- **Buildings:** structures in which the business is carried out.
- **Machinery:** heavy equipment used to carry out business operations. For example, you may want to set up any of the following: store equipment or fixtures, factory equipment or fixtures, office equipment or fixtures (including computers and furniture), and delivery equipment (including autos, trucks, and vans used primarily in making deliveries to customers).

Income

Income (also known as revenue) represents the inflow of assets resulting from the sale of products and services to customers. If income exceeds expenses, *net income* results. If expenses exceed income, the business is said to be operating at a *net loss*.

Select this account type if you are setting up sales revenue accounts. It is common practice to create different income accounts for each category of revenue that you want to track (for example, retail income, service income, interest income, and so on).

Inventory

This represents the quantity (value) of goods on hand and available for sale at any given time. Inventory is considered to be an asset that is purchased, manufactured (or assembled), and sold to customers for revenue.

Select this account type if you are setting up assets that are intended for resale. It is common practice to create different accounts for each category of inventory that you want to track (for example, retail inventory, raw materials inventory, work in progress inventory, finished goods inventory, and so on).

Long Term Liabilities

This represents those debts that are not due for a relatively long period of time, usually more than one year. Portions of long-term loans due and notes payable with maturity dates at least one year or more beyond the current balance sheet date are considered to be long-term liabilities.

Select this account type if you are setting up long-term liabilities (for example, long-term loans and noncurrent notes payable).

Other Assets

This represents those assets that are considered nonworking capital and are not due for a relatively long period of time, usually more than one year. Notes receivable with maturity dates at least one year or more beyond the current balance sheet date are considered to be "noncurrent" assets.

Select this account type if you are setting up assets such as deposits, organization costs, amortization expense, noncurrent notes receivable, and so on.

Other Current Assets

This represents those assets that are considered nonworking capital and are due within a short period of time, usually less than a year. Prepaid expenses, employee advances, and notes receivable with maturity dates of less than one year of the current balance sheet date are considered to be "current" assets.

Select this account type if you are setting up assets such as prepaid expenses, employee advances, current notes receivable, and so on.

Other Current Liabilities

This represents those debts that are due within a short period of time, usually less than a year. The payment of these debts usually requires the use of current assets.

Select this account type if you are setting up accrued expenses from a vendor, extended lines of credit, short-term loans, sales tax payables, payroll tax payables, client escrow accounts, suspense (clearing) accounts, and so on.

Batch vs. Real-Time Posting (Getting Started)

You must decide whether to post using a batch or real-time method. In batch posting, the transactions you enter are saved to a temporary holding area, where you can review them before posting the batch to the General Ledger. In real-time posting, the transactions you enter are both posted and saved when you click the [Save](#)  button. In batch posting, transactions are just saved when you do so.

Check with your accountant to see which method you should use in your business.

You must make a choice between real-time and batch posting when you create a new company. Unlike the next decision, about cash or accrual, you can change this option at any time. When you change from batch to real-time, all unposted batches are posted before the switch is made.

We recommend real-time posting in a network environment for better performance.

Accounting Method

Accrual Accounting: Income is recorded as you invoice customers, and expenses are recorded when you receive bills from vendors, regardless of when cash is actually exchanged. This presents a truer picture of income and expenses. *Most companies use this method.*

Cash-Basis Accounting: Income is recorded when cash (checks, money orders, or currency) is received, and expenses are recorded when paid. However, unpaid credit sales and purchases do not show on ledgers, which can present a misleading picture of income and expenses.

If you use cash basis accounting, you may discover that the inventory valuation report does not agree with the general ledger account for inventory. This is because inventory uses the accrual method, while the general ledger is set up on a cash basis. This means that the inventory records will be updated to reflect unpaid purchases and sales, while the general ledger will not be updated until actual money changes hands.

CTRL + Letter Shortcuts

CTRL+X	Cut
CTRL+C	Copy
CTRL+V	Paste
CTRL+E	Delete Record
CTRL+F	Find
CTRL+D	Find Next
CTRL+N	New Company
CTRL+O	Open Company
CTRL+B	Back Up Company
CTRL+R	Restore Company
CTRL+P	Print Displayed Report, Invoices, Quotes, Payments, and so on.

Function Keys

F1	Displays online Help topic for the current window
SHIFT+F1	Changes mouse pointer to What's This Help selector
F5	Saves records and posts (or saves) transactions in certain windows
F10	Toggles between the open window and menu bar
CTRL+F4	Closes current document window
ALT+F4	Closes the application window
CTRL+F6	Moves to next window
SHIFT+CTRL+F6	Moves to the previous window