



## Bookkeeping 101: The Ceterus Way

Sometimes we have to use accounts to help facilitate the processing of certain types of transactions in our system. Transfers Clearing is one of those accounts. This account exists solely to facilitate the processing of a transaction that affects two business financial accounts. A quick walkthrough will help explain why this account must exist. Let's assume the business has an operating account and a credit card account. A payment is made on the credit card from the operating account totalling \$5,000. The flow of transactions looks like this:

Account	Debit	Credit	Explanation
Transfers Clearing	5,000		Processing payment from operating account to credit card account
Operating Account		5,000	Cash outflow
Credit Card Payable	5,000		Payment made on credit card, which reduces the outstanding balance on the card
Transfers Clearing		5,000	Processing payment from operating account to credit card account

As you can see, this account is a zero balance account. This means that we expect the balance in this account to be \$0 every day. Sometimes it takes one business day for both sides of the transaction to clear the financial institutions, but there are no other exceptions to the rule. If there is a carrying balance in this account further investigation is required.

Our bill.com (money out) clearing account operates in a similar way. When a payment is made on a bill, the account will be debited. Then, bill.com will automatically create an entry to apply those payments to reduce the specific vendor's accounts payable ledger and the clearing account will be credited. Let's walk through an example.

Let's assume we paid two bills in one day out of the checking account. The bills totaled \$10,000. The journal entry to record the payment would be as follows.

Account	Debit	Credit	Explanation
Bill.com Clearing	10,000		Recording the payment for all invoices paid for the day
Checking Account		10,000	Amount paid out of the checking to bill.com for bills paid for the day



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Now, let's see what the journal entry looks like to apply those payments to the specific vendors.

Account	Debit	Credit	Explanation
Bill.com Clearing		10,000	Clearing the total payment so it can get applied to the Accounts Payable for each vendor invoice.
Accounts Payable - Vendor 1	5,000		Vendor #1 invoice payment applied to Accounts Payable
Accounts Payable - Vendor 2	5,000		Vendor #2 invoice payment applied to Accounts Payable

In most cases, this account should be \$0 at all times during the month. There are times where there could be a day or two delay when a credit is received for voided checks. Ultimately, like the Transfers Clearing account, if there is a carrying balance in this account further investigation is required.