



QuickBooks Success Story

Complete Your Audit Early and Reduce Audit Costs

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1 The story – summary

- 1 The group uses QuickBooks Pro in a multi-user environment.
- 2 Some companies in the group maintain their records in US\$ and some in Cdn\$. Each company uses the QB multi-currency feature.
- 3 The group prepares error-free statements on the first of each month or shortly thereafter.
- 4 Last year the audit was completed two to three months after the year-end.
- 5 This year management wanted the audit completed much earlier. Prompt and accurate financial information is part of the group’s success formula, and this was the time to prove they had met that goal. The audit started on the third and the fieldwork was completed on the tenth of January, which equaled success for that part of their success formula.
- 6 This success story reveals some of the QuickBooks features that were used to facilitate the auditors’ tasks and to enable them to complete their work soon after the year-end, reducing unnecessary work and audit fees.

- 7 The story does not deal with the system the group uses to prepare error-free statements early each month.

2 The business

- 8 A technology company or a group of companies with a head office and a few sales offices.
- 9 Revenue is based mainly on usage. This means that the group has to bill at month-end to include usage to month-end.

3 Lead sheets

- 10 The group provided lead sheets (grouping schedules) in two formats.
- 11 One format was the typical comparison to last year with the amount of change and the percentage change. This format included pennies. The auditors requested this format and, of course, they requested reasons for changes between years, which is standard audit procedure.
- 12 The second format reported the monthly balance for each month. For the balance sheet, this was the month-end balance. For the statement of income, this was the monthly balance. This format excluded pennies.
- 13 The auditors found this format helpful in supporting the explanations for changes in balances between years. Sometimes they requested the lead sheet for the prior year to see trends in increasing or decreasing expenses or in other accounts.
- 14 The reports assisted the auditors in identifying unusual balances at a month end or for a month.
- 15 Some of the lead sheets were for special purposes. For example, the company has a number of departments. To determine the total payroll and benefits for the company, we created lead sheets only for payroll and benefits.
- 16 We also created lead sheets for rentals and leases. Lead sheets could have also been created for a number of other expenses.

4 General ledger analyses

- 17 When we set up the lead sheets for balance sheet accounts, we included the related expense account, if it was appropriate.
- 18 For example: for fixed assets, we could include the cost and accumulated depreciation by category and the depreciation expense.
- 19 The description of the expense account did not print as "depreciation" and so was a little confusing even though we manually corrected the expense account description.

- 20 We did prepare an analysis of the accumulated depreciation accounts and the depreciation expense account. This provided a clear trail between the two accounts.
- 21 The analyses for fixed assets also included repairs and supplies, more than a fixed amount, so that auditor could be certain that no fixed assets had been charged to expense.
- 22 General ledger analyses were used to provide a clear trail between many balance sheet accounts and the related income statement accounts.

5 Sales analyses

- 23 The sales analysis by account or by type was helpful.
- 24 The sales analysis by customer was extremely helpful. It enabled the auditors to compare revenue by month to reports of service provided by month.

6 Reports for the auditors – all were memorized

- 25 Each report provided to the auditors was memorized so it would not have to be recreated. Each had an account number in it header so that it could be kept in order until it was filed in a working paper file.
- 26 The reports were filed in report groups. Because there were a large number of reports, we set up separate groups for WP - assets, WP - liabilities, WP - revenue and WP – expenses.
- 27 None of the lead sheets or reports described in this story took long to create.

7 Indexing and cross-referencing

- 28 We did no indexing and cross-referencing so we would not muddy the auditors' indexing and cross-referencing system.
- 29 What we did do was start the heading of each working paper with the GL number of the account supported by the report. This was a form of indexing and enabled both the client and the auditors to know instantly, by looking at the heading, the section of the work that the working paper related to.
- 30 We identified the type of report by using codes in the heading (immediately after the account number): GL = general ledger analysis, LS = lead sheet, SR = summary report, TDR = transaction detail report.

8 Searching for large transactions

- 31 We prepared transaction detail reports for each type of transaction. We set a scope and printed reports listing only transactions within or over this scope.

9 Subsequent review

- 32 We printed one transaction report for all types of transactions above a scope set by the auditors, to facilitate their subsequent review work. Because the work was done so early in the year, there were not many transactions.

10 Multi-currency features – great for fixed assets and share capital

- 33 The Group issues consolidated statements in US\$ and in Cdn\$.
- 34 GAAP requires that fixed assets and share capital be reported at historical rates.
- 35 This is not a problem with the QuickBooks multi-currency feature – and a **special** phantom, multi-currency bank account. The purpose of this bank account is to force a transaction to be recorded in both currencies even if it is denominated in the home currency.
- 36 This is such a neat feature that it needs explaining: let's say that you bought a computer for Cdn\$3,000 for use by a company in Canada. There are no US\$ involved, but you want to track the US\$ historical cost. No problem.
- 37 Assume the exchange rate is Cdn\$1.549055 (or US\$.645555). Use the **special** bank account. Record the computer purchase using a journal entry. Start the journal entry with a debit and a credit to the special bank account. Use \$1 for the Dr and the Cr. This forces QuickBooks to record the transaction using the correct foreign currency amount. Record the purchase at US\$1,936.67. Make sure the exchange rate in the field is \$1.549055.
- 38 When you print the general ledger analysis for the computer fixed asset account, you will find that the Cdn\$ cost is recorded at \$3,000 and the US\$ cost at \$1,936.67. Many QuickBooks reports enable you to view or print multi-currency in your reports.
- 39 You don't need a spreadsheet or any special after-the-fact calculations to determine the cost of each asset in each currency. This saves a lot of time.
- 40 You can use the same technique to account for the historical issue price of share capital.
- 41 You may have to deal with situations where the transaction has already been recorded using accounts payable or accounts receivable where you do not have the opportunity to use the **special** bank account.
- 42 That is not a problem. Use a journal entry to reverse the first transaction to the fixed asset account (or share capital account). Use your suspense account for the contra side of the entry. Then re-record the transaction using the technique described above, and again use your suspense account for the contra side of the entry.

- 43 Your suspense account will end up with a zero balance in the home currency, which is what you want. In the suspense account, you don't care what the balance is in the foreign currency.
- 44 This is a little extra work, but you are still saving all the work of having to prepare a spreadsheet – and maybe more importantly – you don't have to waste time looking for the spreadsheet.

11 Classes and summary reports eliminate the need for spreadsheets to track prepaids or lease commitments

- 45 Not only do classes and summary reports eliminate the significant time required to prepare spreadsheets for prepaids and lease commitments, the balances in the general ledger are always correct and there are always reports available to support the accuracy of the balances. In addition, the reports are memorized. This neat technique needs further explanation.
- 46 When we recorded an account payable that involved a prepaid expense, we assigned a predetermined class to the prepaid. One of the keys to the success of this system and the significant timesaving involved is the description entered in the memo field. It must disclose the nature of the prepaid and the coverage date, either one future date (such as a deposit on a trade show) or a number of months (such as an insurance premium).
- 47 At the same time as we recorded the prepaid expense, we also recorded a memorized transaction amortizing the prepaid using the same class.
- 48 We created a summary report to the period end. For the audit, this was the year-end. During the year, it was for each month-end. The summary report listed the classes down the left and the vendors across the top. You could easily list the classes across the top and the vendors down the left as well.
- 49 To support the balance on this report, we created an analysis of the general ledger account for prepaids. We selected to total the account analysis by class.
- 50 To prove the arithmetical accuracy of the balances on the summary report, you can simply scan the general ledger analysis. You'll see the initial purchase with the memo field explaining the nature and period of the prepaid. Then you'll see the amortization for the appropriate dates and amount. If the date of the trade show has not yet arrived, the memorized transaction will not yet have fired. If the prepaid is for insurance, you will see an amortization entry for each month.
- 51 One last technique that we used to eliminate balances from the general ledger account analysis that have cleared was to use the bank reconciliation. You can use the bank reconciliation for almost all of the balance sheet accounts.
- 52 In your account analysis, you don't want to see the insurance premium and related amortization for the last 4 years. Use the bank reconciliation to clear the premium and the related amortization.
- 53 Do this only after the year-end and after the audit is complete, so that the transactions don't disappear from your account analysis. If they disappear,

you will lose your built-in audit trail. But the audit trail is still there; you just have to print a different report.

12 Other reports provided as regular reports - not as special reports that had to be created

- 54 Transactions with related parties – this was provided to the auditors as both a summary report and a transaction detail report.
- 55 Reports for specific purposes – during the year the group wanted to know the total cost incurred for specific purposes. To create a memorized report so that this information was always available, it was a simple matter of assigning a class to each transaction for each purpose. The auditors often required this information.