



## Success Story

### QuickBooks - Trust Accounting for an Estate

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#### Summary

- 1 This estate had considerable assets, mainly properties and securities.
- 2 It had existed for a few years before we started work on it. This meant that there were a considerable number of transactions to account for.
- 3 This made it a candidate and a challenge to setup, to process, and to report on in QuickBooks.
- 4 It was large enough and complex enough that it was worthwhile spending time to plan to make sure the reports to the beneficiaries were clear and meaningful. We have always been concerned that statements of receipts and disbursements were not adequate for beneficiaries and executors to properly account for the value of the estate from start to finish.
- 5 The result was a set of reports that enabled anyone reading them to determine the details of the disposition of each asset and the result of the disposition on the net value of the estate.

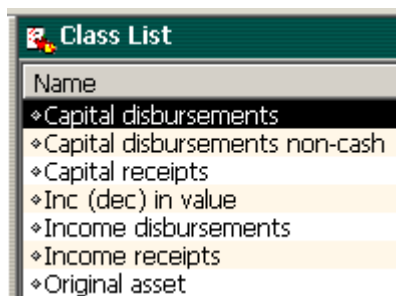
- 6 The change and the reason for the change for each asset and for the change in the net value were clear and could be tracked.

## Resolution of a concern about the order assets are listed in Probate and how that impacts on the chart of accounts

- 7 Most accountants, like us, are used to the order of assets as set out in financial statements. That is we start with cash, then continue with receivables, inventory, and fixed assets.
- 8 When the accounts of an estate are passed for Probate (the starting point of estate accounting), the order of the assets is much different.
- 9 The point is it does not matter what order the assets are listed. If the format and content of the accounts are clear and approved by the beneficiaries, the order does not matter. Accountants can use any order that is familiar to them and to their beneficiaries.
- 10 That meant we could use our standard chart of accounts and customize it for this estate.

## Principles of data entry for this estate

- 11 A number of transactions had to be recorded by journal entry. That is not unusual for either businesses or estates. Each line of each transaction had to have a Name. This sounds like a small matter but it eliminates the questions of why is there a blank space in a report and it adds integrity to the records.
- 12 We set up Classes so that each line of each transaction could be coded as a Capital receipt, a Capital disbursement, an Income receipt, or an Income disbursement.



- 13 We wanted to report more than just cash receipts and disbursements. We wanted to tell the beneficiaries and the executor exactly what happened to an asset and the impact the disposition had on the on the net value of the estate.
- 14 This meant we needed more Classes than receipts and disbursements. We set up Inc (dec) in value so that we could deal with the change in value from the date of death to the disposition. We could track change to the net value available to beneficiaries.
- 15 This meant the bookkeeper had to use a Class on each line of each entry so that the information reported would be complete.
- 16 This system will probably also work if you used Jobs instead of Classes.
- 17 There is one more factor in clear reporting, and that is a description of the transaction. The rule is that each entry must include a clear description of the

nature and purpose of the entry. This description was included in the reports we prepared. This provides comfort to the readers.

## Challenges – securities

- 18 The estate had a number of securities and had a number of security accounts, including RRSP and RRIF.
- 19 We considered using Quicken to account for the securities. The benefit of Quicken is its excellent built-in reports. We believe we could have accounted for the trail from probate to final net value using these reports.
- 20 Another possible solution would have required assigning a general ledger (GL) account to each security. This is not a problem. The accounts could have been numbered as follows: Trading account 1079, Security01 within this account 1079.01, etc. We did not use this solution although it might have worked.
- 21 Instead we decided to use a system for accounting for securities that we created years ago. This system requires that we setup each security as an inventory item.
- 22 Because we had a number of types of securities, we set up a control account to match each type (like raw materials, work-in-progress, and finished goods). The securities were sub-accounts.
- 23 The advantage of using this system was that we recorded a transaction only once and we had a great prebuilt "Sales by Item Summary" report that provided the gain on each security. We had to export the report to Excel to change the headings from reporting sales of inventory to disposals of securities. That took only a few minutes. It was a great report.

## Principles of naming reports to enable readers to find references

- 24 Each report name started with a code and was presented in code order. We did this so that the reader could find the report if it was referenced in another report.
- 25 The name had to be specific so that the readers could determine the nature and purpose of the report.
- 26 For this estate the names were: FS plus 3 digits for Financial Statements, FS plus 3 digits for Supporting Schedules, and FS plus 4 digits for account analyses. The 4 digits represented the general ledger account number.

## Table of contents of reports

- 27 Financial Statements
- 28 FS101 Reconciliation From Original Assets to Remaining Assets
- 29 FS102 Original Assets and Remaining Assets
- 30 FS103 Receipts and Disbursements
- 31 FS104 Tracking of Original Assets
  
- 32 Supporting Schedules
- 33 FS111 Capital Receipts

- 34 FS112 Capital Disbursements
  - 35 FS113 Income Receipts
  - 36 FS114 Income Disbursements
  - 37 FS115 Loss on Disposal of Securities
  - 38 FS116 Cash Accounts Transactions
- 
- 39 Analyses of Accounts
  - 40 FS1101 to FS 9781 - One for Each Account

## Features and benefits of the reports included in the accounts of the executor – financial statements

- 41 One of the key features of these reports was that each line item had a reference to a supporting schedule or an analysis. This meant the beneficiaries and the executor could track an asset from the start to the end and could determine the impact the disposal had on the net value of the estate.
- 42 To be able to enter the reference codes, we exported the reports to Excel and entered the codes.
- 43 We decided that the most important report was FS101 Reconciliation From Original Assets to Remaining Assets. Other accountants may prefer to start with the assets at the date of death. There is nothing wrong with that.
- 44 The total of the original assets, the start of the reconciliation, was referenced to the list of assets at date of death.
- 45 Each line item, either an increase or a decrease in net value of the estate, was referenced to one or more accounts that listed all the transactions in that account. The account may include the original asset, any capital (or income) receipts and disbursements, and the impact (gain or loss) on the net value of the estate.
- 46 By the time we did our work, all the assets had been converted to cash. The remaining assets represented cash. This remaining cash balance was supported by a report of receipts and disbursements that reconciled the opening cash balance to the closing cash balance.
- 47 FS104 Tracking of Original Assets summarized the trail from each original asset to each closing balance. The report includes columns for capital receipts, capital disbursements (both cash and non-cash), income receipts, income disbursements, gain or loss (impact on the net value of the estate).
- 48 Each line item is referenced to the appropriate account. There can be no question in the minds of the beneficiaries of how the executor accounted for each asset and how each asset impacted the net value of the estate.

## Features and benefits of the reports included in the accounts of the executor – supporting schedules

- 49 FS111 CTDR Capital Receipts listed all the capital receipts. They could have been listed in a number of orders: date, type of transaction, name (or source

name), and amount. We chose to list and total the transactions by date within each GL account. Each transaction was listed then we provided a total by each bank account. The benefit of this listing was that it tied into the statements and analyses.

- 50 FS113 to FS115 more cash receipts and disbursements the features and benefits of these schedules are the same as described in the preceding point.
- 51 FS115 3171 Gain (Loss) on Disposal of Securities this was a unique schedule that provided a clear trail of the cash received from the sale of each security held by each account. The report showed units sold, proceeds, average selling price, cost, and Gain (Loss) for each security. It reported the gain or loss for each account and the total. The report provided a clear trail of the cash receipts and the impact on the net assets of the estate.
- 52 FS116 Cash Accounts Transactions this reported the cash transactions in each bank account. Of course the beginning balances and the closing balances agreed to the first statement in this set of reports. The entries disclosed the date, number, name, description and amount. This report totaled by account. It displayed the source of each entry: original asset and capital and income receipts and disbursements.

## Features and benefits of the reports included in the accounts of the executor – analyses of accounts

- 53 The Cash Accounts Transactions described in the previous section tracked the beginning cash balances to the closing balances. The entries disclosed the date, number, name, description and amount. The Analyses also displayed the source of each entry: (1) original asset, (2) and capital and income receipts and disbursements, (3) transfers of assets to beneficiaries, and (4) increase or decrease in the net value of the estate.

## Reports – techniques for creating and use for this and other estates

- 54 Each report used in the accounting and reporting for this estate was memorized.
- 55 The benefit of memorizing reports is that they can be printed when required instead of having to be recreated. Another benefit is that they can be exported then imported to the file of another estate. This can save a lot of time and work.
- 56 To add the Reference, we had to export the report to Excel where we entered the Reference in a single column. Exporting to Excel is smooth. Entering the References took a little time but it turned out that the time was well spent.
- 57 Tips – there are some techniques in setting up reports. Some of the techniques are not applicable to the reports that were included in the reports listed above but they were probably used as part of the work done for this estate. We include the Tips on reports here instead of under the Tips section below because reporting is one of strongest features of QuickBooks.
  - .1 Set up a report group to include all reports for a similar purpose. For example the reports provided to the beneficiaries and the executor are all in the FS Financial Statements for Beneficiaries group.

- .2 This file includes a number of other groups. Other groups are for the reports on securities: SEC Securities. BR Bank Reconciliation (one group for each account), etc.
- .3 There are number of techniques in naming reports (headers). These are necessary because of the large number of reports you end up creating to manage the work and to report to others. Here are some of the techniques:
  - .1 Code – the first word or letters of the title match the code of the report group. This enables you to find the report group if you need to reprint it or revise it. It brings a great deal of order to your memorized reports.
  - .2 To create order so that each report will have a specific place, either: (1) expand the code, as we did in the reports prepared for the beneficiaries (FS101, FS102), or use the GL account number (GL 1009, GL 2105).
  - .3 Describe the form of report used to create the report. QuickBooks has many forms for reporting information. You will find it beneficial to include this form in your title, in case you have to recreate it.
  - .4 A clear description of the report. This will likely spell out the nature and purpose of the report.
  - .5 You can report on a number of periods. It is often beneficial to include the period in the title so that the reader can quickly select the report he or she wants to read. Some of the periods are:
    - Month = this month only. Actually it will be for the month just past.
    - Year = this will be for the Year-to-Date during the year. At yearend it will be for the complete year.
    - By Month = this reports one column for each month. In the first of the year, you may wish to include a number of months from the prior year. Later in the year, it may include only months of the current year. Some businesses always report the last 12 months.
    - Comp or Comparative = tells the reader that the report is comparative. There are a number of comparative formats. The most common one is comparative to the prior year.
    - CompF or ComparativeForecast = tells the reader that the report is comparative to a forecast or budget.
    - Summary or Sum, Detail or Dtl = tells the reader that the report is in summary format or in detail format. Summary format means that similar accounts are grouped into one line on the statement. For example all bank accounts will be included in one line item. All revenue will be included on one line item. The expenses for each department are included in one line item. One of the purposes of preparing summary statements is the number of pages that would print if the report was printed in detail. But mainly the purpose of summary reports is to enable the reader to focus. For example the first summary report may disclose considerable change from one year to the next of the expenses for one department. That enables management to focus only on considerable changes. The next step is to look at the report for that department. There may be only one

account that is substantially changed from the prior period. Drilling down, management can view or print a report listing the entries for the two years (maybe only for entries over a certain amount) of the account that should explain the differences for the two periods.

## Conclusion

- 58 The reports provided to the beneficiaries and the executor were superb and easily understandable.
- 59 It did not take any longer to process the transactions in QuickBooks using the principles of data entry described earlier than it would have done using a specialized accounting program for estate accounting or using another accounting program.
- 60 Entering References to enable financial statement readers to find an analysis that enabled them to track original assets from opening to closing and to see the impact on net value of the estate of the disposal of these assets was a considerable benefit.
- 61 The interface between QuickBooks and Excel is smooth and it was not a hassle to include References

## Tips - others

- 62 Bank accounts – if you determine that the reports have to include a report of receipts and disbursements, you will have to make sure you have bank accounts to record all receipts and disbursements. Often accounting for securities can pose a problem. Generally all security transactions are reported within a special program for accounting for securities, such as Quicken. The only entries are the revenue and expenses and capital gains and losses. This will not provide the information needed for a list of cash receipts and disbursements. This means that assets held by the broker must be split between cash and other investments. That means you will record in the books the same transactions that are recorded in the broker's account.
- 63 Securities – what if you don't want to treat securities as inventory items as we did in this Success Story? No problem. Let's assume you do want to report the gain and loss on each security to account for the increase or decrease in the estate's net value. You need a separate account for each security. Again not a problem. You can set up an account, say 1262 Securities at brokers. Your first sub account of this could be the bank account we mentioned above. It could be 1262.01. Each security could be assigned a sub-account starting at 1262.02. You will have no problem even if you did set up a large number of new securities. You are not restricted to 01 to 99, although you are restricted to two digits. You can continue with 0a, etc, a0 etc, and aa etc. That will enable you to setup a large number of new accounts
- 64 Reports – please read the points in a previous section.

## Criteria for future estate work

- 65 The chart of accounts must be complete. The benefit of a complete chart of accounts, and limited changes to the chart, means the reports that have already been created and memorized can be used in future estates with limited

customizing. The same Excel work sheets can be used with limited revisions to the References. This will eliminate unnecessary costs for the estate.

## Other success stories

66 QuickBooks – Reduce audit costs