



22 of the Best Tips for Trust and Estate Accounting

Problem:

Because Trust and Estate Accounting reports are prepared showing cash receipts and disbursements, a reader cannot track the initial assets and liabilities to the final balances, except for the cash accounts. Over the years we have often thought that there must be a better reporting method to use. We believe that QuickBooks and its Class feature (see the list of Classes below) provide the tools to prepare meaningful Trust and Estate Accounting reports.

Objectives of this paper:

- 1 To describe a system using QuickBooks and its Class features that will disclose to readers the changes in each asset and liability account since the start of the estate as well as normal revenues and expenses.
- 2 To ensure that the changes are tracked using cash receipts and disbursements; this is a requirement of trust and estate accounting (we believe).

Comment on requirement for cash receipts and disbursements:

- 3 I do not know where the requirement came from to account for trusts using cash receipts and disbursements or the support for this method, but it is what is accepted and this paper sets out the system we created and how to use it.

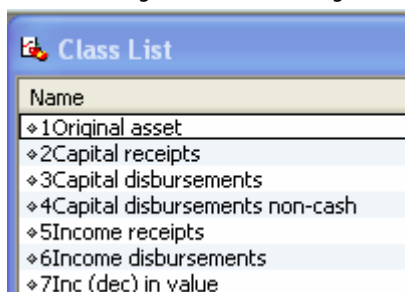
Tips for Trust and Estate Accounting

Chart of accounts

- 1 The Chart of Accounts maintains the standard classification that is set out in the Probate: Part I Real property, Part II Personal property, and Part III Debts and liabilities and distributions, with the related sub-accounts. One problem with this is that it differs from business accounting, which usually starts with Cash or Bank. But QuickBooks provides us a solution for this.

Class list

- 2 The Class List enables you to assign each transaction to a cash receipt or a cash disbursement. If you compare the Chart and the Class list, you will find that the chart of accounts enables you to classify transactions vertically and the Class list enables you to classify transactions horizontally. They complement each other.



- 3 The numbers preceding each class are required to force the columns into a logical order when printing.

Terms for recording transactions

- 4 When you are recording transactions, keep in mind that the reports will likely be read by unsophisticated beneficiaries and may also be read by a judge. That means you must clearly describe each transaction.
- 5 This also means you must clearly describe the date, the payee, and the purpose of the payment (receipt).
- 6 Because you must leave a clear trail of the disposition of each asset and liability, you must also assign each transaction to a Class (Original assets, Capital receipts, Capital disbursements, Capital disbursement non-cash, Income receipts, Income disbursements, and Increase [decrease] in value).

Increase (decrease) in value – an explanation

- 7 This will become clear when you prepare a report. For example if the home, an original asset, has a probate value of \$550,000, is sold for a capital receipt of \$560,000, less commissions of \$15,000 and legal fees of \$3,000, there will be an decrease of \$8,000. This Increase is required to completely account for each transaction and each asset.

The transaction would be recorded as:

Date: 02-25-2018 Entry No. Deposit Adjusting Entry

Account	Debit	Credit	Memo	Name	Billable?	Class
11850 · Estate chequi...	539,500.00		Net proceeds from sale of principal residence	Lawyer #1		2Capital receipts
11010 · Situated in Al...		560,000.00	Sale of principal residence	Purchaser		2Capital receipts
11010 · Situated in Al...	15,000.00		Commission on sale of principal residence	Realty Company		3Capital disbursements
11010 · Situated in Al...	3,000.00		Legal fees sale of principal residence	Lawyer #1		3Capital disbursements
40980 · Property taxes	2,500.00		Vendor's portion of 2018 property taxes	Purchaser	<input type="checkbox"/>	3Capital disbursements
11010 · Situated in Al...		8,000.00	Loss on disposal of principal residence	Lawyer #1		7Inc (dec) in value
31740 · Gain (loss) on...		560,000.00	Sale of principal residence	Purchaser		7Inc (dec) in value
31740 · Gain (loss) on...	15,000.00		Commission on sale of principal residence	Realty Company		7Inc (dec) in value
31740 · Gain (loss) on...	550,000.00		Cost of residence per probate	Original asset per pro...		7Inc (dec) in value
31740 · Gain (loss) on...	3,000.00		Legal fees sale of principal residence	Lawyer #1		7Inc (dec) in value

This will be reflected in the statements as:

12:28 PM QB Sample for Estate 22 Tips (May 1, 2017)
02-12-09 FS11010 CTDR Property Situated in Alberta Account Analysis
Accrual Basis All Transactions

Date	Num	Name	Memo	Debit	Credit	Balance
1Original asset						
05-01-2017	1	Original asset per probate	Principal residence in Calgary, Alberta	550,000.00		550,000.00
Total 1Original asset				550,000.00	0.00	550,000.00
2Capital receipts						
02-25-2018	Depo...	Purchaser	Sale of principal residence		560,000.00	-560,000.00
Total 2Capital receipts				0.00	560,000.00	-560,000.00
3Capital disbursements						
02-25-2018	Depo...	Realty Company	Commission on sale of principal residence	15,000.00		15,000.00
02-25-2018	Depo...	Lawyer #1	Legal fees sale of principal residence	3,000.00		18,000.00
Total 3Capital disbursements				18,000.00	0.00	18,000.00
7Inc (dec) in value						
02-25-2018	Depo...	Lawyer #1	Loss on disposal of principal residence		8,000.00	-8,000.00
Total 7Inc (dec) in value				0.00	8,000.00	-8,000.00
TOTAL				568,000.00	568,000.00	0.00

And this report will complete the reporting:

12:32 PM QB Sample for Estate 22 Tips (May 1, 2017)
02-12-09 FS31740 CTDR Gain on Principal Residence Analysis
Accrual Basis All Transactions

Date	Num	Name	Memo	Class	Debit	Credit	Balance
31740 · Gain (loss) on Alberta property							
02-25-2018	Depo...	Purchaser	Sale of principal residence	7Inc (dec) in value		560,000.00	560,000.00
02-25-2018	Depo...	Realty Company	Commission on sale of principal res...	7Inc (dec) in value	15,000.00		545,000.00
02-25-2018	Depo...	Original asset per prob...	Cost of residence per probate	7Inc (dec) in value	550,000.00		-5,000.00
02-25-2018	Depo...	Lawyer #1	Legal fees sale of principal residence	7Inc (dec) in value	3,000.00		-8,000.00
Total 31740 · Gain (loss) on Alberta property					568,000.00	560,000.00	-8,000.00

Accountants to Small Businesses and Individuals

Original assets

- 8 After the Probate has been completed, set up the books for the estate.
- 9 The Class for each asset and liability listed on the Probate forms will be 1Original asset.

Account	Debit	Credit	Memo	Name	Billa...	Class
11010 · Situated in Br...	300,000.00		1234 BC Lane estimated real value based on BC A...	Original asset per probate		1Original asset
11210 · Situated in St...	52,000.00		12345 California Dr estimated value \$32500 USD c...	Original asset per probate		1Original asset
11310 · Situated in St...	38,000.00		12345 Washington St estimated value \$25000 US...	Original asset per probate		1Original asset
11830 · N5 credit me...	6,028.12		Balance at credit number account	Original asset per probate		1Original asset
11840 · N5 A equity s...	25.58		A equity shares	Original asset per probate		1Original asset
11850 · N5 B equity s...	447.55		B equity shares	Original asset per probate		1Original asset
12220 · Old age secu...	433.52		Fm Dec00 to final	Original asset per probate		1Original asset
12230 · CPP retireme...	788.93		Fm Dec00 to final	Original asset per probate		1Original asset
12240 · CPP death be...	2,500.00		CPP death benefit to estate	Original asset per probate		1Original asset
12410 · Household co...	1,000.00		Household contents and personal effects unappr...	Original asset per probate		1Original asset
12420 · 1992 Toyota ...	1,500.00		Estimated value	Original asset per probate		1Original asset
12430 · Dodge Caravan	1,750.00		Estimated value	Original asset per probate		1Original asset
12440 · Coin collection	800.00		Estimated value	Original asset per probate		1Original asset
29720 · Net estate v...		405,273.70	Original asset including houses, cars, pensions, ba...	Original asset per probate		1Original asset

Write cheques

- 10 We assume that you set up a bank account in the chart of accounts. The problem with doing this is that the bank account will appear before the real property accounts. Fortunately QuickBooks is versatile and flexible. Set up another bank account in the position (as an other current asset or as an other assets) you want it to appear on your statements. Then enter the cheque as:

Bank Account	10070 · Bank01 acc#0000-0...	Ending Balance	0.00
Pay to the Order of <u>Edward Wear Inc., Chartered Accountants</u>		No. 1010	Date 01-07-2009
Address Edward Wear		\$ 0.00	
Memo Prepared T3 & obtained TX19 Clearance from CRA ew20090107			Dollars
Expenses	\$0.00	Items	\$0.00
Account	Amount	Memo	C.. B... Class
11830 · B1 credit ...	-1,050.00		3Capital disbursements
40720 · Accounting	1,050.00		3Capital disbursements

Note that the amount entered into the bank account is zero. That is the bank account listed before the Real Property assets. The amount entered into the bank account to be reported on the statements is correct. And the charge to expense is

correct. Note the memo description clearly explains the purpose of the payment. Note the Classes used.

Tip for construction accountants: QuickBooks enables you to do something similar for closing contracts carried on the balance sheet: set up another account, 10098 Bank memo closing jobs from BS (zero entries). When you write the cheque, you Dr gross profit on the balance sheet (so that the Job nets to zero) and Cr revenue and Dr cost on the, using the Items feature of the check. All the detail accounts for the job stay on the balance sheet; you transfer only total revenue and total cost.

- 11 One of the many features of QuickBooks is the ability to reconcile any balance sheet account. That means that you will be able to reconcile account 11830 even though it is not classified as a bank account.

Other transactions

- 12 You must record a transaction for each exchange of cash, or assets. And you must allocate the entries to one of the Classes. For example in the following entry, the estate deposited \$214,433.00 representing a GIC previously purchased for \$213,984.84 and interest earned of \$448.16 (total 214,433.00). Note the Classes used.

Item	Description	Qty	Rate	U.	Class	Amount
1240 RRIF Cdn short term notes:...	Redemption of GIC previously purchased	214,433	0.99...		2Capital receipts	213,984.84
1240 RRIF Cdn short term notes:RR...	RRIF 1240 interest earned		448.16		5Income receipts	448.16
Total						214,433.00

- 13 Each transaction must have a date, a name, an account number, a class, a memo or a description, and an amount. In this example to facilitate processing of investment transactions, we set up inventory items so that we could properly control each portion of the investment transaction.
- 14 I will give you a little peek at the Item list just to show you how easy it is. But we won't cover it anymore in this paper.

◆ 1240 RRIF Cdn short term notes		Inventory Part	33000 · CSales - term de..
◆ CDA TREAS BILL 10AP03		Inventory Part	33000 · CSales - term de..
◆ CDA TREAS BILL 14AG03		Inventory Part	33000 · CSales - term de..
◆ CDA TREAS BILL 16JA03		Inventory Part	33000 · CSales - term de..
◆ CDA TREAS BILL 22MY03		Inventory Part	33000 · CSales - term de..
◆ CDA TREAS BILL 24OC02		Inventory Part	33000 · CSales - term de..
◆ CDA TREAS BILL 25SP03		Inventory Part	33000 · CSales - term de..
◆ CDA TREAS BILL 27FB03		Inventory Part	33000 · CSales - term de..
◆ CDA TREAS BILL 3JL03		Inventory Part	33000 · CSales - term de..
◆ CDA TREAS BILL 5DC02		Inventory Part	33000 · CSales - term de..
◆ RRIF interest earned	RRIF 1240 interest earned	Inventory Part	12400 · TD RRIF Cdn sh...

I will show you one Item Detail to give you a little understanding of how it works:

Type	Inventory Part Use for goods you purchase, track as inventory, and resell.			
Item Name/Number	<input checked="" type="checkbox"/> Subitem of	Manufacturer's Part Number		
<input type="text" value="CDA TREAS BILL ..."/>	<input type="text" value="1240 RRIF Cdn short ter..."/>	<input type="text"/>		
COGS Account	<input type="text" value="33000 · CSales - ter..."/>			
Preferred Vendor	<input type="text"/>	Income Account	<input type="text" value="33000 · CSales - ter..."/>	
Asset Account	Reorder Point	On Hand	Avg. Cost	On P.O.
<input type="text" value="12400 · TD RRIF Cdn s..."/>	<input type="text"/>	0	0.99691	0

Reporting – the key report

- 15 The key report in our view is the Tracking of Original Assets. This report has the initial assets down the left and the final assets down the right. Between the left and right assets, there are 7 columns, one for each Class (see above)
- 16 Each column is cross-referenced to a report, which displays each transaction included in the column. Each row is cross-referenced to a report, which displays each transaction included in the row.
- 17 In our view this is the only way that an accountant or a reader can be certain that all transactions and balances are tied down and accounted for.
- 18 The reports supporting the columnar numbers are specific to the Class (all capital receipts are in one column, all capital disbursements are in one column, etc).
- 19 The reports supporting the rows show what happened to the initial balance and why we have a final balance or a nil balance. The report shows this information in the same groupings as the columnar reports (capital receipts, capital disbursements, etc).
- 20 After the assets and liabilities, there is a total for the change, usually a decrease. The total ties into another report. All the numbers tie into other reports.

Conclusion

- 21 Why do most estate reports show capital receipts and capital disbursements, etc but they do not all tie in to all assets and liabilities? The reason is that most cash receipts and disbursements reports only reconcile to the bank account. But these reports show only a part of the story. They do not show gains or losses on assets. They sometimes fail to report all income and expense.
- 22 Accountants, we suggest that you include a Tracking Schedule such as the example we have included with these tips (and the related reports supporting each column and each row) and readers, we suggest you look carefully at these reports to make sure they explain the changes.