AUDITING TIPS:
Keeping it all in Balance

BANK ACCOUNTS

1) I have reconciled the bank accounts to the statements as much as possible.
    a) Many transactions have been missed or mis-recorded making reconciliation hard to impossible.
    b) All transactions need to be recorded including: debit card spending, bank fees, inter-company transfers, etc…
    c) Accounts should be reconciled each month for errors and accuracy.
        i) I recommend that you obtain a current balance for each account from the bank and update your records accordingly before making any more transactions.

ACCOUNT LISTING

2) Print an account list for each company in which you are creating transactions
    a) Reports -> List -> Accounting List
        i) Modify Report -> click Balance (check will appear) -> click Bal Total (check will disappear) -> OK
    b) Print and keep for reference when entering data
        i) Compare your entries to the list
            (1) Print new report after your entries
        ii) Check for data in “new” categories and verify it should appear as such

CHOOSING THE PROPER CATEGORY

1) When entering a bill, check or other entry: think of what is ultimately being affected
    a) Example: NSF is not income it is a bank fee. Repayment of an NSF from a renter is not income it is a bank fee. The true item being affected is the *BANK FEE*.
2) Transferring money between two accounting within the same company is done by choosing the two accounts in the transaction.
    a) This allows automatic posting to both accounts by the system.

    b) This was referred to as TRANSFER by the bookkeeper in the past. I have classified it as Intra company transfers in the corrections. In the future it should be neither. Just simply a transaction referring the two bank accounts. Then write the check in the appropriate account referencing the proper category for the payment.

3) When transferring money out of a company; hence transfer of equity, choose INTERCOMPANY TRANSFER: company A to company B. Be sure to choose the proper path. The idea is for clear and concise documentation of all money movements in order to comply with GAAP (accounting standards) and IRS requirements.
    a) Be sure to show the sender and receiver. At this point the reason for the transfer is unimportant. The fact that the equity transfer is occurring and to where is what is being documented.
    b) Immediately go to the company receiving the funds and show it incoming through the INTERCOMPANY TRANSFER INBOUND listing.
        i) This will post the funds to the account as well as mark a trail for the transfer of the funds.
    c) Both are very important steps in the accounting and tax world.
    d) Should you need to add a path that is not created. It is simply done by choosing <add new> -> EQUITY -> typing in the new path in the top box -> check the small box next to Sub account of ___________ and choose INTERCOMPANY TRANSFER -> OK
        i) The new path is now created.
            (1) ***NOTE: the idea is to be very consistent of documentation and conspicuous of where the money has moved. Make sure to make the funds on both ends of the transaction with the names of the accounts in which the transfer was involved. Example: Wylie Properties received money from 1st McMurphy Fin Corp. In 1st MC FC choose INTERCOMPANY TRANSFER: 1st MC FC to Wylie Prop LLC. Name Wylie Prop LLC as the receiver (name on the check) and note that it is an equity transfer in memo if so desired. Then do to Wylie Properties LLC and open the checking accounting for which the transfer was desired. Enter your date, DEP, name 1st MC FC, choose INTERCOMPANY TRANSFER INBOUND, memo if desired can be receipt of equity from 1st MC FC, enter amount and RECORD. Using holding accounting, payroll, operating references is only confusing to those who may audit your books in the future. Try to avoid this by making the transaction as transparent and open as possible. Your goal is to create an easily traceable action in both accounts so that no questions are unanswered.***

CHECKING TRANSFER OF EQUITY

4) The only way to view the equity transfer transactions is through the TRIAL BALANCE.
   a) To access the TRIAL BALANCE go to: Reports -> Accounting and Taxes -> Trial Balance.
   b) Choose the timeframe you wish to view.
      i) There are the Intercompany Transfers which you can verify by double clicking on each category.
   c) Compare the information with the receiving company to be sure all transactions are recorded.
      i) Note: in the future you may wish to make the INBOUND divided into "pathways" as well for easier tracking.

PAYROLL

5) Payroll is now combined under the Wylie Properties LLC company.
   a) As discussed, there was no reason for a bank account to be classified as its own company.
6) I reconciled the Wylie Properties – Dallas account then summarized the spendings YTD by category.
   a) Those summaries were then moved to the Wylie Properties – Dallas BANK ACCOUNT under the Wylie Properties LLC company.
7) All new transactions for this bank account (e.g. Payroll) should be recorded in this account at this location.
8) The **old** Wylie Properties – Dallas Company <u>should **not** be used</u>.
   a) I would keep the records for archive purposes; as with all "old" companies until the IRS 7 year period has expired.
9) <u>Moving forward</u>:
   a) Record each pay check cut by reference of the person, amount, check number, etc… and list as Payroll: Employee Pay
   b) Payroll taxes paid each week are to recorded and listed as Payroll: Taxes.
      i) You may wish to further subdivide this in the future into 940, 941, etc… for simple reference
   c) The fees paid to the Payroll Company for their services are recorded as Payroll: Payroll Expenses (this is a tax line cost for services)
   d) Child Support payments should be recorded as Payroll: Child Support Payment (advance) for this is exactly what it is an advance to the employee by the company paying his/her Child Support obligation directly to the Attorney General.
   e) All employee advances or draws should be recorded as Payroll: Draw.
      i) NOTE: An owner's draw should be recorded under the appropriate Partner (e.g. No. 1, No. 2) and shown as Partner # Equity: Partner # Draw.

ii) This will allow you to track the amount of equity each partner holds in a company as well as a traceable listing of each sum drawn by that partner.
iii) It is vital that you place the Partner Equity Inbound / Outbound under the correct Partner Number so that equity is not confused in the future should this become an issue due to dissolution of one Partner's interests.

10) Remember Quarterly Filings for Payroll Taxes are necessary in order to avoid penalties.
11) HR NOTE: Texas also requires all new hires and terminations been reported within 20 days or less to the Attorney General's office for Child Support determination reasons.
    i) Set up payroll account for Cedar Ridge if it will have its own payroll.
    ii) Follow the example of Wylie Properties LLC payroll listings.
    iii) For transfers from Operating Account to Payroll Account within Cedar Ridge simply reference both in the transaction as explained above.

COMPANY DISTINCTIONS

12) Each company is unique as to its structure and spendings / income.
13) These can not be simply interchanged at will.
14) In order to achieve proper bookkeeping records and benefits from tax deductions: the company responsible for the expense has to pay the expense out of their respective accounts.
    a) Make the transfer of equity, record it properly and then pay the bill.
    b) Bills paid outside of their associated company are not tax deductions.
        i) Be sure to list the assets for each company such as furniture, land, buildings, computer equipment, etc... for an accurate reflections on your Quick Books accounting.
        ii) These would generally be classified as FIXED ASSETS for tax purposes.
        iii) Your mortgages are "loosely" listed in Wylie Properties LLC.
        iv) You should set up and track these mortgages for proper accounting and interest deductions.

TAXES

In regards to your LLCs. {Reference: http://www.irs.gov/faqs/faq-kw105.html (Retrieved 31 August 2007)}

> **For IRS purposes, how do I classify a limited liability company? Is it a sole proprietorship, partnership or a corporation?**
>
> A limited liability company (LLC) is an entity formed under state law by filing articles of organization as an LLC. Unlike a partnership, none of the members of an LLC are personally liable for its debts. An LLC may be classified for Federal income tax purposes as if it were a sole proprietorship (referred to as an entity to be disregarded as separate from its owner), a partnership or a corporation. If the LLC has only one owner, it will automatically be treated as if it were a sole proprietorship (referred to as an entity to be disregarded as separate

from its owner), unless an election is made to be treated as a corporation. If the LLC has two or more owners, it will automatically be considered to be a partnership unless an election is made to be treated as a corporation. If the LLC does not elect its classification, a default classification of partnership (multi-member LLC) or disregarded entity (taxed as if it were a sole proprietorship) will apply. The election referred to is made using the Form 8832 (PDF), *Entity Classification Election*. If a taxpayer does not file Form 8832 (PDF), a default classification will apply.

References:

- Publication 3402 (PDF) *Tax Issues For Limited Liability Companies*
- Publication 334, *Tax Guide for Small Business*
- Tax Topic 103, *Small Business Tax Education Program*
- Publication 542, *Corporations*
- Publication 541, *Partnerships*
- Form 8832 (PDF), *Entity Classification Election*

15) Was a Form 8832 filed?
    a) The Classification Election needs to match the way your company is identified in Quick Books.

16) Do you file Quarterly Taxes, Estimated Taxes and anything other than annual taxes?
    a) If so this needs to be recorded in each applicable company.
        i) There are tax lines in the account listings for such payments.
            (1) I recommend that you use them for each easy reference when needed.

17) Tax categories need to be adjusted if you decide that they COMPANY type is different than how it is currently set up. (I.E. Partnership to Corporation or to Sole Proprietorship)

18) Tax categories are set on account lists that are currently being use or anticipated on being used. If you find you need other categories; they can easily be set through the account list (see above for access) and choosing the proper category as it applies to your tax situation.
    a) Remember the tax situation for that company or for all of your companies are unique to you. Examine your business make up and set the fields accordingly.

19) Through the proper setting for your tax lines; Quick Books easily imports into Turbo Tax for simplified filing(s).

20) Some items are not tax affected such as transfer of equity. It is neither an expense nor an income. You can deduct the bank costs associated with the transfer (be sure to list separately in the transactions. Use SPLITS for this reference.)

21) Remember you do not want to claim INCOME on any items that are not DIRECTLY connected to INCOME. All INCOME claimed is TAXABLE and must be declared. Again, think of what is DIRECTLY being AFFECTED and record the transaction as such.

CONSCLUSION & CONTACT INFORMATION

22) Several print outs have been left with your company financials for your reference in the future.
23) Thank you for allowing me the opportunity to audit your books and better align your company settings.
24) I have enjoyed working with you and am available should you require or desire any further assistance.
25) In closing: should you have any questions or needs feel free to contact Accountemps or myself in the future.
    a) Direct contact info: Andrea Sitler, Phd
        i) http://beancounter.bravehost.com