

Toolbox Software Year End Reconciliation Processes

Are you getting ready to prepared for your year-end? A novel concept that seems like everyone should know how to do. Too often the internal accountant is not familiar with what needs to tie where. And too often, the CPA firm assumes the internal accountant has taken care of making sure the books are thoroughly done.

What is the “Tests of Balances” Concept?

Tests of Balances: This is a process that includes a CPA firm or the Company Accountant going thorough your balance sheet accounts, and substantiating the balances. Examples include:

- Producing a bank reconciliations that support the bank balances on the trial balance
- Verifying that your AR Aging ties to your trial balance.
- Verifying that your AP Aging ties to your trial balance.
- Verifying that your Retained Earnings ties to your Prior Year End Audited, Reviewed or Compiled Financial Statements.

In reality, a thorough test of balances process should include tests of balances for all balance sheet accounts at year-end. The company is going to pay taxes and/or report its financial position and performance to banks/bonding companies based on the thoroughness of the books. Therefore, a thorough process of making sure the books are accurate is necessary.

This write-up covers some of the more significant tests of balances concepts:

Bank Reconciliations support cash balances on your trial balance.
AR Aging ties to the trial balance as of year end.
AP Aging ties to the trial balance as of year end.
Retained Earnings tie to your prior year financial statements.
You have accrued wages through Toolbox (Utilities | Accrued Wages)
Job Costs Tie to the Income Statement

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Verify your General Ledger Balances. (If your computer locked up during a transaction update anytime in the last year, you could have an out of balance transaction.)

When your CPA firm pulls your trial balance, make sure you set your valid entry date range to begin at 1/1/2008. You can reset it to 12/31/07 to post the CPA's year-end journal entries.

Provide your CPA with the attached "Sample Year End Tie Out" work-papers to make sure he/she is familiar with what Toolbox is capable of providing.

The following is a narrative on the importance of each of the above concepts:

Retained Earning Tie Out to Prior Year End Financial Statements

The Retained Earnings account is used to capture the net income at the end of each year. If your Retained Earnings does not tie to your prior year end, it is likely that your current years net income is misstated. Thus, it is very important that the unadjusted Retained Earnings agrees to the prior year end Adjusted Retained Earnings.

Aging to GL Reconciliation Report

The following reports can help in your tie out process:

A/R | 5. Print A/R Aging | Aging to GL Reconciliation
A/P | 6. Print A/P Aging | Aging to GL Reconciliation

It is important that your Trial Balance ties to the AR Aging as well as the AP Aging as of the end of the year.

Equally important is that validity of each of the items on your AR Aging and AP Aging. If an item is inaccurate, it needs to be removed in a way that does not goof up your books.

Valid Entry Date Range Concepts

The “Valid Entry Date Range” can be adjusted under: Utilities | Preferences | G/L.

The books should be closed after a trial balance is provided to your CPA firm. You should reopen your books to enter the CPAs’ year-end Adjusting Journal Entries (AJEs), and promptly close the books after the AJEs are entered. This will ensure that you will tie to your prior year end financial statements.

Note: After posting your AJEs, verify that your Retained Earnings tie to the years end financial statements.

If the Retained Earnings does not tie out, you can run a Toolbox report to see what entries were adjusted or entered after the trial balance was pulled for your CPAs. The “Changed Report Audit” report lists transactions modified or entered with transaction dates up through your years end that have system date and time stamps dated on or after the system report date printed at the top of the trial balance you printed for your CPA firm.

If necessary: Print the Changed Report Audit report:
Utilities | Exceptions Results | 3. Print Changed Report Audit

Automated Accrued Wages Process

Why do you need to accrue wages utilizing Toolbox’s automated accrued wages process? The reason is because job cost reports are based on work dates, and the general ledger reports are based on transaction dates. For example, payroll check with a work date of 12/28/2007 that is paid on 1/3/2008 will reflect on job cost reports in December 2007 and on the general ledger in January 2008. By accruing wages on the General Ledger, the General Ledger will reflect the labor costs in December. Therefore, Job Cost can tie to the General Ledger.

Accruing wages can be complicated if you want to do it perfectly. The only way the Job cost will perfectly tie out to your General Ledger is for you to post your accrued wages perfectly. With all the different payroll taxes, deferred compensation plans, workman comp, etc, it becomes difficult to capture burdens perfectly when calculating accrued wages manually. Thus, Toolbox provides a utility that accrues wages bases on work dates up through your years end that were paid after the year end.

In addition, accrued wages are reversing type entries. Toolbox’s Automated Accrued Wages Process also posts your reversing entry as of the day after the accrual.

Accrue Wages as of 12/31/2007:

Utilities | Accrue Wages

Print the Accrued Payroll Report:

G/L | 7. Print Analysis Reports | Payroll Accrual

Tie Out between the Summary of Contracts and the Income Statement

If Toolbox's Job Cost does not tie to GL, it is likely that you either did not accrue wages as of the end of your prior fiscal year, or the end of your current fiscal year.

The only other way Job Cost can be off from the GL is by users posting to "Direct Non-Job" type GL accounts. These accounts should only be used by the Toolbox Payroll processes. Toolbox utilizes these accounts to reflect the burden placed on direct cost transactions. By carrying these type accounts, Toolbox can perfectly burden your direct costs without generating a massive number of entries for each timecard row.

Direct Non-Job Exceptions report:

Toolbox's direct-non-job type gl accounts (usually 5900 series accounts) are meant to only be used by Toolbox payroll processes. If a user uses one of these accounts for any other reason, job cost may be out of sync with the GL. To determine if the user has posted to these accounts in a way that the accounts were not designed to be used, run the following report:

Job Cost | 9. Summary of Contracts Reports | 4. Print Direct Non-Job Exceptions

Format for reconciling Job Cost to GL

	Gross Labor Total	PR Brdn	Pct Budn
GL to Job Cost difference			
Direct Non-Job Exceptions			
12/31/06 Accrued Wages			
Unexplained Diff			

Verify the Trial Balance Balances

If any of your computers locked up or while a transaction was being posted during the last fiscal year, you may have transactions only partially posted, and thus transactions out of balance.

If the Trial Balance does not balance, you can run the following report to identify any out of balance transactions:

Utilities | Exception Results | 4. Print Database Exceptions | 1. Database Transaction Exceptions.

Applying Over/Under Allocated indirect Costs

With any projected oriented accounting process, you will have two types of job related costs.

Direct Job Costs are costs that can be directly identified to specific jobs. Example are labor costs, material costs, subcontractor costs etc.

Indirect costs are costs that relate to jobs that are difficult or impracticable to apply. Examples are field vehicle expenses, health insurance, depreciation on field equipment and field vehicles etc.

Indirect costs are typically applied to jobs in some logical manner. Labor related indirect costs are predominantly applied based on direct labor. Other methods of applying labor are used in practice, but less common.

The most common way of applying labor related costs in Toolbox is by using the system wide labor burden capabilities found under:

Utilities | Preferences | Burden

To analysis your indirect costs:

G/L | 7. Print Analysis Reports | 2. GL Direct Costs and Burdens

Reallocating Indirect Costs After the Fact:

Users can reallocate these indirect costs by using the “Allocate Over/Under Allocated Indirect Costs” procedure explained at the end of the monthly procedures checklist (in the help menu).

Reports for the Accountant at Year End

Job Cost | 2. Job Cost Reports | 1. Direct Costs and Burdens | Summary
(choose a date range from the 1st day through then last day of your fiscal year)

Job Cost | 9. Summary of Contracts Reports | 2. Print SOC Worksheet.
Date the report as of the last day of your year end.
Download this report to Excel, and give it to your accountant. This will save your accountant the trouble of manually typing all or a portion of your year end job schedules that need to be included with your year end financial statements.

G/L | 7. Print Analysis Reports | 3. Payroll Accrual
Date this report as of the last day of your fiscal year. (12/31/2007)

G/L | 1. Print Trial Balance
Date this report as of the last day of your fiscal year. (12/31/2007)

A/R | 5. Print AR Aging | Aging to GL Reconciliation
Report Type: 'AR'
Set the first cut-off date as of the last day of your prior fiscal year end. (12/31/2006)
Second cut-off date as of the last day of your current fiscal year end. (12/31/2007)

A/R | 5. Print AR Aging | Aging - Customizable
Date this report as of the last day of your fiscal year. (12/31/2007)

A/R | 6. Print AP Aging | Aging to GL Reconciliation
Report Type: 'AR'
Set the first cut-off date as of the last day of your prior fiscal year end. (12/31/2006)
Second cut-off date as of the last day of your current fiscal year end. (12/31/2007)

A/P | 6. Print AR Aging | Aging - Customizable

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Date this report as of the last day of your fiscal year. (12/31/2007)

Note: if there are any unexplained differences in either of the Aging to GL Reconciliations, rebuild your GL and Customer/Vendor balances, and run the report again.

Obviously, you will generate more reports than what is listed. In addition to the basics, the list is meant to help you produce some of the reports that your accountant might not know to request.