Balance Sheet 101

Assessing Accuracy

Common documents to support Balance Sheet

Balance Sheet provides a snapshot of all business assets and liabilities at the end of a chosen day. As such it is relatively easy to verify accuracy of the amounts on the Balance Sheet.

Bank Accounts

Supporting Documentation

- Actual bank statements
- Utilize bank reconciliation module in your software

Common Errors

- Bank reconciliation was not performed
- Duplicated checks / deposits in your software
- Checks or deposits that never clear your bank
- Watch for old outstanding items (30+days) on the bank reconciliation report

Accounts Receivable

Supporting Documentation

- Aged Accounts Receivable report
- Customer Balance report

Common Errors

- Report does not tie to the Balance Sheet
- Negative amounts on the reports
- Old outstanding customer balances (60+ days)

Inventory

Supporting Documentation

- Take physical inventory
- Compare physical counts with inventory report from your software – resolve discrepancies
- Compare total inventory to Balance Sheet

Common Errors

- Inventory report does not tie to the Balance Sheet
- Inventory report item counts and items do not match real physical counts
- Inventory value (cost) is incorrect

Prepaid Expenses

Supporting Documentation

- Spreadsheets prepared outside of your accounting software

Common Errors

- No documentation at all
- Or documentation is not regularly updated

Fixed Assets (Equipment, Furniture, Real Property, Intangible Assets)

Supporting Documentation

- Depreciation schedule
- List of current year additions and disposals

Common Errors

- Review depreciation schedule for sold/scrapped/missing items.
- Current year depreciation is not recorded until year end
- Current year additions are recorded in expenses
- Current year disposals are incorrectly recorded

Balance Sheet 101

Accounts Payable

Supporting Documentation

- Aged Accounts Payable report
- Vender Balance report

Common Errors

- Report does not tie to the Balance Sheet
- Negative amounts on the reports
- Old outstanding vendor balances (60+ days)

Credit Cards

Supporting Documentation

- Actual credit card statements
- Utilize bank reconciliation module in your software

Common Errors

- Statement reconciliation was not performed
- Duplicated entries
- Interest or finance charges were not recorded
- Watch for old outstanding items (30+days) on the reconciliation report

Payroll and Sales Taxes Payable

Supporting Documentation

- Payroll and Sales Tax returns filed
- Compare month end balance to actual payments in subsequent month or quarter (Most liabilities are paid off in full in subsequent month/quarter)

Common Errors

- Payroll tax payments are posted to expense rather than against the liability account
- Payroll liabilities / payroll expenses are not correctly recorded
- Payroll is incorrectly configured in the software

Accrued Expense

Supporting Documentation

- Spreadsheets prepared outside of your accounting software

Common Errors

- No documentation at all
- Or documentation is not regularly updated

Loans

Supporting Documentation

- Bank loan statement
- Loan amortization schedule
- Call your bank/lender & confirm balance

Common Errors

- Interest expense is not recorded at all
- Loan payments are not correctly coded between principal payment and interest payment
- Full amount of loan payment is recorded as expense

Equity – Capital Contributions / Dividends / Distributions

Supporting Documentation

- Review detail general ledgers for each equity account – compare to records of actual capital contributions, dividends / distributions

Common Errors

- Capital contributions are recorded as income
- Dividends / Distribution or Draws are recorded as expense

Assessing Accuracy

Income Statement provides summary of income and expenses over selected period of time. The statement generally includes relatively large number of transactions. As such it is much more difficult to assess accuracy and completeness of the information.

Primary evaluation should focus on evaluation of reasonableness with detail follow up on any amounts outside of expected ranges.

Income Statement evaluation should only be performed after Balance Sheet is considered accurate.

Comparison to expectations

- Compare monthly income and expenses to amounts expected based on your knowledge of the business operations.
- Most business owners have a fair feel for the recurring amounts of many business expenses.
- An excellent tool to spot missing amounts and amounts with unusual swings is **12 month Income Statement with monthly columns**. Having 12 months side by side allows for easy visual inspection.

Comparison to prior month or prior year-to-date

- Review comparative Income Statement - with comparison to prior month or prior year-to-date data.

Comparison to budgets

- If company has budgets, review comparative Income Statement - with comparison to current month budget and year-to-date budget.