

# Applied Systems Client Network

SEMINAR HANDOUT

## ***Validating Your Financial Statements***

**ASChnet**  
*Applied Systems Client Network*

## Prepared for ASCnet

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**Objective:** This session is designed to review the various methods for validating your financial statements and how the entries are made.

**Assumptions:** This seminar is based on the following  
TAM Version 9.x  
Microsoft ® Word Version 2003

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## ***Supporting Detail to Financials***

There are two main supporting details to your financials – your Balance Sheet and your Income Statement.

### ***Balance Sheet***

#### **Asset – Accounts Receivable**

Your Accounts Receivable should balance to the detailed receivable report run during month end. The Report Mode should be set to “Balance to Month End” option. This will force future months into a special column titled “Pre-Billed”. On the final page of this report, the total amount less the pre-bill amount should equal the amount on the Balance Sheet for that same month.

#### **Asset – Cash**

Your cash accounts should balance to the detailed checkbook reconciliation report provided under the Reconciliation Menu in TAM. This report can be filtered for a specific given month end.

#### **Transfer Account**

Your transfer account should always have a zero balance. If your transfer account does not have a zero balance, follow the procedures below to determine why you are out of balance.

- Run a Status of Accounts report for the Transfer account only.
- Include Month-End journal entries and regenerate Month-End journal entries before running the report.
- If your account balance is zero, you are not out of balance and you can ignore the message.

If your account balance is not zero:

- Check to see that each item has a corresponding debit and credit. If not, make the necessary correction to the General Ledger and rerun this report to show that the correction was made.
- If the debits and credits for the current month match, and the net change is zero, look to see if the opening balance is zero. If not, it indicates that the error occurred in a prior month. Follow the above procedure for each prior month until the error is found.

## **Sweep Account**

Your sweep account should also have a zero balance. If you do not have a zero balance, follow the procedures below to determine why you are out of balance.

- Run a Status of Accounts report for the sweep account only.
- Include Month-End journal entries and regenerate Month-End journal entries before running the report.
- If your account balance is zero, you are not out of balance.

If your account balance is not zero:

- Check to see that each item has a corresponding debit and credit. If not, make the necessary correction to the General Ledger and rerun this report to show that the correction was made.
- If the debits and credits for the current month match, and the net change is zero, look to see if the opening balance is zero. If not, it indicates that the error occurred in a prior month. Follow the above procedure for each prior month until the error is found.

## **Liabilities – Company Payables**

The individual company payable accounts in your chart of accounts should be validated against a detailed Company Payables report. When running this report, your Report Mode should be “Balance to Month End”. If your agency is not using the reconciliation module in TAM this report will not be accurate. This report is only accurate if the reconciliation process is being completed in a timely fashion.

The Company Payables report also provides other useful information, complimentary to the balance sheet and income statement. For example, if you were to run the Company Payables report with the Report Mode set to “Net Advance”, you will be able to identify items that your agency has paid to the company, but have yet to receive payment from the client. This report also requires that you are using the reconciliation program.

This same report can also be used to identify future items that have been paid in the current month. This will help you to better pinpoint your cash position, particularly for pre-paid items. TAM does not post payable/receivable income until the effective month of a pre-billed policy. However, the payment will appear in the cash/receivable relationship.

## **Liabilities – Producer Payables**

The individual producer payables amounts can be verified for a given month posted against the Producer Report.

## **Equity – Undistributed Earnings**

The bottom line of a balance sheet shows the year to date profit/loss and should always equal the bottom line on the accompanying Income Statement. During TAM's year end process, the income and expense accounts are zeroed out and posted to the Retained Earnings account.

## ***Income Statement***

### **P&C Income – Agency Bill**

This is the required account defined in the system setup. Whenever an agency bill transaction is done, the income portion is posted to this account. At month end, the total income column amount from the account current report should be the same as the monthly income posted on the income statement.

### **Direct Bill Income**

If the agency is set up to “record commissions”, then the production totals for a given month should match the income posted on the income statement. If it does not, it could be a timing issue (i.e., the check was posted to the income account, but the entries were not keyed in yet).

### **Agency Fee Income**

This account can be validated for a single month or a range of months by running either a production report for fee transactions or a miscellaneous production report for the time frame that you are trying to validate.

### **Producer Expenses**

The producer expense account can be validated with the Producer report for a particular month's expenses. The exception to this would be that the journal entries are turned off for a particular producer.

## ***Red Flags?***

The following are items that should be considered a “red flag” and should be researched.

- Debit payable balances that remain for long periods of time.
- Payable balances in general ledger that remain after two or three months.
- Excessive or long-time credit balances on accounts receivable.
- Open agency bill transactions (if reconciling) that linger.

### ***Regular Reviews***

The following are items that should be reviewed regularly.

- Daily cash entry report (showing receipts, disbursements and voided checks).
- Person entering cash receipts should not be the same person that takes the deposit to the bank. The deposit ticket should match the cash receipt amount in TAM.
- Supporting schedules and month end system entries against detailed output.
- Unapplied Cash report should be reviewed daily, particularly in agencies that take in cash payments from clients.

### ***Other Features***

The items listed below are items that can help with efficiencies in your agency operations.

- Using Schedules to identify specific entry types (1099, breakdown of single accounts into more specific detail, etc.)
- Budget and prior year comparisons
- Departmental allocations

### ***Month-End Reports to Review***

The primary purpose of running Month-End reports is to provide backup detail or “supporting schedules” to the Month-End financial statements. The total pages of some of the detail reports should be checked against the system generated Month-End entries in TAM. The following are standard Month-End reports that should be included.

#### **Account Current Report**

This report reflects the agency billed amounts by carrier for a given month. The total page should be checked against the Month-End journal entry that shows a debit to receivable, credit to each company payable and credit to P&C income. This may vary for cancellation or return premium items.

#### **Producer Report**

This report is designed to show specifically the amount due to producers. This report refers to the agency setup parameters that indicate how producers are compensated for direct and agency bill items. Note that settings on the producer file to include or exclude Month-End entries will need to be considered. For those producers accepting Month-End entries, the totals will be reflected typically as a credit to the individual producer payable and a debit to producer expense.

Note: Even if a producer is on a draw or salary basis, it can still be useful to run the producer reports to identify where the producer is month to month on goals set forth. The producer report can be run for more than a one month time frame.

### **Broker Report**

This report is for “pure broker” transactions (agency bills another agency net of commission for a client of the other agency). The Broker report total page verifies the entry made that credits receivables and debits broker expense for the total broker commission portion.

### **Miscellaneous Production Report**

This report captures all of the “non premium” type transactions including agency fee entries, write offs and JNL transactions. The totals on this report should validate entries made against accounts receivables and the various general ledger accounts, such as agency fee income, bad debt expense, small balance write off, etc.

### **Aged Accounts Receivables**

Running this report with the report mode of Balance to Month End will allow you to validate your Accounts Receivable in your status of accounts. The totals of this report, less the pre-bill amount, should equal to the accounts receivable account.

### **Company Payables**

This report is designed to provide supporting data to the balances in the individual company payable liability accounts. To validate these balances, run this report after closing your month in TAM. The report mode for this report would be Balance to Last Month-End. Note: This report will only be accurate if your agency is reconciling company payables in detail.

Other ways to run this report:

- Net Advance – This can be helpful in identifying payments that have been made to the carriers, but have yet to be paid by the client. To some extent the “over 60” column on your receivables is an indicator of this as well, but the payables report is broken down by carrier and total net paid. You would select report mode of Net Advance.
- Prepaid By Client – Run a version of the company payables report to show items paid by the customer for future months, yet unpaid to the carrier. This helps gain a clearer picture of cash position as the future payable/receivable/income portion of these payments will not show on the current balance sheet.
- Paid to Company on Futures – This can be run to show future items, paid to the company. This can be helpful in balancing your payables to the general ledger.

### **Direct Bill Production**

Assuming that the agency is recording commissions or transacting and reconciling, it is possible to run a report that validates the commission totals for a given accounting period. This assumes that such reconciliation is done on a timely basis (in the same month the check is posted). If the agency is on “record only”, this will simply be a regular direct bill production. If the agency is on “transact and reconcile”, the report should be run for a COM transaction type to pull just the paid production items.

### **Year-to-Year Production Comparisons**

By running a year-to-year production comparisons, this will allow you to see how each client compares from the current year to the past year. You can use unique Extra Criteria to get true year to date and for best results, send the output to Excel for high-low variance analysis.

### **Binder Bills**

If your agency is utilizing the Binder Bill option, make sure that you are properly closing or using this feature effectively to keep billing timely.