ASH ACCOUNTING

Firm Overview

Ash Accounting is a large local accounting firm providing a diverse range of services to clients in New Jersey from its offices in Metropark. It is a young firm that has grown rapidly in recent years, recruiting significantly from among top accounting graduates in the state.

The firm was founded in 1996 by Robin Oak, Richard Ash, and Kenneth Ivy, all 1990 graduates from Rutgers, The State University of New Jersey. Richard has been elected to serve as Managing Partner for the firm; he is effectively CEO, responsible for development activities and external relations. Robin Oak is the Office Administration Partner, responsible for the back office; Kenneth Ivy acts as the Staff Partner. David Elm previously worked with Richard Ash in a Big-4 firm, and was recruited as Client Service Partner in 2000. Thomas Yew, originally hired in 1998, became the first employee promoted to partner from within the firm, and assumed the position of Technical Partner in 2009. His former roommate, Colin Sheldon, who graduated with a bachelor’s degree in Computer Science and decided to pursue an MBA degree at the Rutgers Business School, recently agreed to join the firm as a consultant in the capacity of Information Officer. He is planning to develop and install a new accounting information system to replace the existing manual procedures, to avoid redundant paperwork and to make the business processes operate more efficiently.

Ash Accounting is located in Metropark, New Jersey, in a building that Robin, Richard and Kenneth leased in 1996 when they started the firm. Weekly partners meetings are held over lunch on Fridays. At present, approximately 60 professional accountants are responsible for the provision of client services, along with the partners. In addition to the accounting professionals, the company has seven other employees with the following responsibilities:

- Sandy Beech: financial controller
- Nancy Spruce: billings; accounts receivable
- Ellen Larch: purchasing (purchase orders and accounts payable); bookkeeper
- Martin Maple: cash manager; cashier
- Sarah Holly: administration; secretary to the partners
- Alan Birch: payroll
- Amy Rowan: staff planning.

As a budgetary control mechanism, several different cash accounts are maintained and used for different purposes in the business, with Martin Maple being responsible for moving money between them as needed, subject to approval by the financial controller, Sandy Beech. For instance, fixed assets are not purchased out of the regular cash account used for other purchases, cash receipts are not directly paid into the accounts used for payments, and interest-bearing accounts are used whenever possible to hold cash reserves.
The organization chart below shows the various direct reporting relationships of the staff as of the beginning of the current year.

**Organization Chart**

![Organization Chart](image)

**Services**

Ash Accounting provides a range of accounting services including: new business formation, bookkeeping, and payroll; financial statement compilation, and review; auditing, and internal controls; tax preparation, and tax planning; business valuation; cash flow management; bank financing; strategic business planning; succession planning; personal financial planning; and estate planning.

**Clients**

The firm’s clients are small and medium-sized businesses, and individuals, almost all of them in New Jersey. The firm does not accept new clients from outside New Jersey, but continues to provide services as required to individual clients who move out of state. In practice, most clients are within reasonable driving distance of the office in Metropark.
Operating Procedures

Client Services, Billings and Cash Collections

Prospective new clients may come from existing partner contacts, may be introduced by staff or current clients, or may simply telephone or write to the office. After discussion at a partners meeting, the decision to accept prospective clients is taken by Richard Ash, who completes a New Client Form recording details, assigns an account code (often referred to as a client code), and designates a partner (possibly himself) as the Client Partner. Richard files these forms by client code. He sends a copy of each form to Sarah Holly, who opens a new client file; Sarah maintains a separate alphabetical sequence of these files on behalf of each partner. Client Partners are responsible for agreeing details of assignments for their clients, which are summarized in a Letter of Agreement sent to the client. Key details, including an initial time budget, are summarized on a New Assignment Form, which is signed by the Client Partner and approved and signed by David Elm, before being added to the client file along with a copy of the Letter of Agreement. A copy of the New Assignment Form is sent to Amy Rowan; Amy uses it to assign a manager and staff before filing the form by assignment deadline. For certain assignments (e.g., audits) Richard Ash also designates one of the partners as Review Partner.

Account codes are the central feature of time recording and accounting within the firm: they are used to track all time spent, on both client service and internal activities, by all members of staff, as well as all expenses incurred and fees received. The firm uses a series of eight digit codes formed as follows: the first four digits are unique client or activity identifiers; the next two digits identify the type of assignment (bookkeeping, financial statement compilation, auditing, tax preparation, etc.); the seventh digit is a “sequence code” used only in rare instances when the firm is carrying out multiple assignments of the same type for the same client – otherwise it is set at ‘1’; finally, since correct use of account codes is essential and errors need to be detected and corrected early on, the eighth digit is a mod-10 check digit (based on the Luhn algorithm also used for credit cards, etc.). As regards the first four digits: codes in the sequence 0000–0999 are not used; codes in the sequence 1000–7999 are reserved for client work; codes in the sequence 8000–8999 are used for training courses (with the activity identifier fixed at 88); and codes in the sequence 9000–9999 are for non-chargeable activities including office administration (with the activity identifier fixed at 99). For example, the very first client assignment, a bookkeeping job, was assigned the code 10000214; professional staff time up to 40 hours per week not spent on any client, training, office or other productive activity, or vacation, is charged to the code “Available” – 99999914.

Each assignment has a designated Assignment Partner (sometimes referred to informally as the “audit partner” or the “tax partner,” etc.); in general, this will be the designated Client Partner. However, when specialized skills are required, or there is a requirement for periodic rotation of partners, Richard may designate a different Assignment Partner though the Client Partner retains responsibility for the relationship with the client. For instance, David specializes in audit, Kenneth in personal and estate planning, Robin in bookkeeping and compilations, and Thomas in taxation; Richard himself specializes in business formation, valuation, and succession planning.

The firm’s accounting period is July–June. Each spring, David Elm and Richard Ash review the client portfolio, and after discussion with the Client Partners, determine any clients who will not be retained. Following this client retention review, Richard writes to any clients who are not to be retained; a copy of the letter is passed to Sarah Holly to be added to the client file, along with a Client Retention Review Form documenting the decision and the reasons for it, signed by David and Richard. David Elm and Kenneth Ivy then meet to assign managers and in-charge accountants for the forthcoming year to each client, taking account of prior experience, clients’ and partners’ wishes, etc. In-charge accountants are typically new each year (though they may have assisted on the assignment in previous years); more senior managers are less likely to be re-assigned. Kenneth sends a memorandum to managers and in-charge accountants to advise them of their assignments for the forthcoming year.
Each summer, the in-charge accountant and manager for each recurring assignment plan a budget, after discussions and possibly meetings with the client; details are confirmed with the client in a Budget Letter. A Budget Form is completed to document the staffing requirements; copies are passed to Sarah Holly for inclusion in the client file (along with a copy of the letter) and to Amy Rowan for staff planning purposes. Amy files her copy by assignment deadline. Each week, based on Budget Forms (and New Assignment Forms where appropriate), Amy allocates staff for the following week; associates call Amy each Friday to find out their upcoming assignments.

On Friday afternoons, all employees complete a three-part Time Sheet recording by account code the time spent that week on each assignment or other activity, in units of ten minutes, along with any expenses chargeable to the client, supported by receipts (which are attached to the Time Sheets). Along with their Time Sheets, in-charge accountants also submit a two-part Assignment Completion Form for each of their current assignments, showing for each planned activity on the assignment the budgeted time, the time charged to date, and the estimated time to completion. Both documents are submitted to Amy Rowan. Each Monday, Amy checks the previous week’s Time Sheets. Time Sheets that are unsigned, contain invalid account codes, or total less than 40 hours, are returned to the originating employee for correction and re-submission. Amy files a copy of accepted Time Sheets by employee number within date, passes the second copy along with the expense receipts to Alan Birch (who files them by date within employee number), and sends the third copy to Nancy Spruce. Amy files the Assignment Completion Forms by client name, and distributes the second copies to the managers to alert them to any possible time over-runs.

Nancy uses the Time Sheets to update the Work In Progress ledger, which shows for each client (or other account code activity) the time and expenses charged by each employee, the value at agreed billing rates, the total value charged, and any amounts already billed or written off. She files the Time Sheets by employee number within date, and prepares a Journal Voucher summarizing changes in Work In Progress which she sends to Ellen Larch to be posted to the General Ledger. Each month, Sarah Holly prepares Journal Vouchers for any internal expenses (e.g., telephone calls, Xeroxing, etc.) that are to be charged to client accounts, as requested by managers. She files one copy in the appropriate client file, sends the second copy to Ellen Larch to be posted to the General Ledger, and forwards a third copy to Nancy Spruce to update the Work In Progress ledger.

After the end of each month, Nancy extracts copies of the Work In Progress for each client and sends them to the appropriate manager. After discussion with the Assignment Partner, the manager indicates on the copy of the Work In Progress extract what is to be billed as an interim or (if the assignment is completed) final billing, in accordance with arrangements agreed with the client, and any time or expenses to be written off, and signs the copy. The copy is passed to the partner, who also signs it to indicate approval, and returns it to Nancy Spruce. From this copy, Nancy prepares an Interim or Final Invoice. A copy is mailed to the client together with another that serves as a Remittance Advice; a copy is passed to Sarah Holly for inclusion in the client file, and Nancy files a fourth copy (with the annotated Work In Progress extract attached) in numerical sequence, after updating the Work In Progress and Accounts Receivable Subsidiary ledgers. An updated extract of the Work In Progress ledger accounts for each client is sent to Sarah Holly for inclusion in the client file. Nancy also prepares a Journal Voucher summarizing billings and write offs, which she sends to Ellen Larch for posting to the General Ledger. Extracts of Work In Progress for non-chargeable account codes are sent monthly to Robin Oak, who reviews them, follows up with individuals by telephone whenever she has concerns, and files them numerically.

Following the completion of billing each month, Nancy prepares a Combined Percentage Report. This report shows for each client the budgeted and actual time and billable value, the dollar amounts billed and written off, total amounts collected, the percentage of the budgeted value worked, the percentages billed and written off, the percentage of billed amounts collected, and the combined recovery percentage. Copies of the complete reports are sent to all the partners; managers receive copies of the reports relating to their own clients. The partners review their
copies, follow up as appropriate, and pass their copies to Sarah Holly to be filed in the appropriate client files. Managers file their own copies alphabetically by client.

Robin Oak opens the mail each day, endorses any checks, and prepares a pre-list of all checks received. She passes copies to Sandy Beech, Ellen Larch, Nancy Spruce (with the Remittance Advices attached), and Martin Maple (with the checks). Nancy files her copies chronologically after using the Remittance Advices to update the Accounts Receivable Subsidiary Ledger.

Ellen Larch creates a Journal Voucher from the pre-list, attaches the pre-list, posts the General Ledger (debiting one of the firm’s cash accounts), and files the documents chronologically.

Martin Maple prepares a deposit slip from the pre-list, deposits the checks at the bank, files the pre-list in numerical sequence, and passes a copy of the deposit slip stamped by the bank to Sandy Beech. His other duties include correspondence with banks, physical control of unused checks and used check stubs, reviewing cash balances and making cash transfers, making recommendations to the partners regarding any additional finance that may be needed from time to time, and general administrative assistance to Sandy Beech. He also maintains a small Petty Cash fund for incidental expenses on an imprest system.

Each day, Sandy Beech compares the stamped deposit slips with the pre-list totals. Once a month, he reconciles movements on the cash accounts in the General Ledger with statements received from the bank, deposits slips, and check stubs. Martin Maple is responsible for arranging transfers between bank accounts with the bank as needed following his own review of cash balances, or as instructed by Sandy Beech (e.g., in the case of payroll). He prepares Journal Vouchers recording any such transfers, which are approved by Sandy Beech and then sent to be posted by Ellen Larch.

Nancy Spruce telephones clients if fees have not been received within 30 days of billing. After 60 days, she passes an extract from the Accounts Receivable Subsidiary Ledger to the Client Partner, who pursues the matter with the client; the Client Partner then returns the Accounts Receivable Subsidiary Ledger extract and, if necessary, completes a Fees Write Off Form, passes a copy to Sarah Holly to be filed, and forwards a copy to Nancy Spruce. Nancy posts the Accounts Receivable Subsidiary Ledger and prepares a Journal Voucher which she sends to Ellen Larch for posting to the General Ledger. She files the Fees Write Off Forms numerically by client.

**Human Resources Management**

Job interviews are conducted by Kenneth Ivy either on campus or in Ash Accounting’s office; candidate details and Kenneth’s notes are recorded on Interview Forms, which are filed alphabetically with the candidate’s resume attached. Kenneth’s decision to hire any new staff member is documented on an Employee Record Form showing personal details, date hired, initial salary, etc. Kenneth files this form alphabetically by employee name, and sends copies to Alan Birch and Amy Rowan. After updating payroll records as necessary, Alan files his copy chronologically. The same form is used to document subsequent changes in personal details. A similar Employee Termination Form is used when employees resign, retire, or are dismissed; it is filed attached to the Employee Record Form.

There is no formal in-house training program for office staff positions, although office staff members are sometimes sent on third-party training courses on an *ad hoc* basis, which are ordered and paid for in the same way as other services. However, periodic in-house training courses are regularly conducted for accounting professionals, usually taught by managers. These begin with an orientation course, which includes instruction on the firm, its structure and its basic procedures; all new accounting professionals start with this. Courses providing updates on accounting, auditing, taxation, and other professional skills are offered periodically, as required.

All employees receive a monthly salary. They are hired with no planned termination date, but employment terms provide for one month’s notice by either party (three months for assistant managers and above), or termination for cause. Salaries are determined each year by the partners.
based on Kenneth Ivy’s recommendations. Following approval by the partners, Kenneth prepares an internal memorandum notifying Alan Birch of the agreed rates and salaries. However, accounting professionals below the grade of assistant manager are paid for overtime in excess of 40 hours per week (a notional hourly rate is computed by dividing the annual salary by 261 working days of 8 hours; overtime is paid at 1½ times this rate).

Typical career progression for an accounting professional might be: four years as an associate, two years each as an assistant manager and as a manager, and three years or more as a senior manager, before possibly being invited to become a partner. Each year, the partners agree a separate pay scale for each of these years; typically, the scales are increased each year to reflect increases in the cost of living. Promotion within the years of a grade (e.g., from Associate – Year 1 to Associate – Year 2) is generally automatic; promotion to the next grade is not. Promotions are approved during a partners meeting, based on Kenneth Ivy’s recommendations. Kenneth’s salary recommendations for individuals then reflect the latest pay scales, together with performance evaluations from the previous year. In practice, Kenneth ensures that final increases do not fall below increases in the cost of living on an ongoing basis. Billing rates for most accounting professionals are set based on three times the median salary for their grade and year; for partners, however, they are individually recommended by Kenneth Ivy and approved by Richard Ash.

Salaries are paid on the last Friday of each month, up to the end of the calendar month; overtime for the last full week and final days of the month, where applicable, is paid the following month. Alan Birch determines payroll each month from salaries and hours worked as recorded on the weekly Time Sheets. The necessary deductions for all employees are also calculated, and a Payroll Register is produced showing, for each employee, the calculations of gross and net pay; reimbursements for expenses charged to clients via the Time Sheets are also included in the checks. One copy of the Payroll Register is filed chronologically, and another is passed to Kenneth Ivy for review. He signs this copy to show his approval and passes it to Sandy Beech. Alan Birch also produces a Journal Voucher for the total payroll, which is sent with the Payroll Register for approval by Kenneth, who then passes it on to Ellen Larch to journalize the General Ledger.

Checks are drawn on an imprest account (i.e., a bank account used only for payroll) by Alan Birch, and passed to Sandy Beech for signature. Sandy ensures that the checks are in accordance with the approved Payroll Register (which he then files chronologically), and authorizes Martin Maple to transfer the total amount for the payroll checks into the imprest account from one of the regular bank accounts and to send Ellen Larch a Journal Voucher recording this transfer. He returns the payroll checks to Alan Birch for distribution to employees. When all the payroll checks have cleared, of course, the balance of the imprest account will again be zero.

Performance evaluations are completed by Kenneth Ivy twice a year; they are intended to enhance employee commitment and motivation, to identify the need for additional training, to assist in future hiring decisions, and as a basis for determining raises. Kenneth records each evaluation on a Performance Evaluation Form; the signed original is given to the employee, and a copy is retained by Kenneth and filed as an attachment to the appropriate Employee Record Form. The partners review the Performance Evaluations together annually, as part of the procedure used in determining appropriate salary increases.

**Purchases**

Once a week, Sarah Holly determines requirements for office supplies and any other necessary purchases. Frequently used items are ordered when quantities on hand reach a minimum request level, while more uncommon items are ordered as and when needed. Sarah creates two copies of a Requisition; one is sent to Ellen Larch and the other is filed chronologically.

Supplies are purchased either directly from U.S. manufacturers, or from retail stores. They include pre-printed stationery; computer software, accessories and components; general office supplies; etc. Robin Oak maintains a list of approved vendors, which she updates with new vendors and
new products or services, based on price, quality of product, service, reliability and prompt delivery schedules.

Using the Requisitions, Ellen Larch checks vendor prices and availability from the approved vendor list, and prepares Purchase Orders, which are mailed to the vendors. A copy of each Purchase Order is sent to Sarah (who files it alphabetically by vendor until the supplies are received), and a third copy is filed numerically with the relevant Requisition attached, in a file of outstanding orders. All items are ordered within the week that they are requisitioned, in order to minimize delays due to shortages of supplies. Currently, Ash Accounting has no EDI or e-procurement capability. As part of her vendor approval process, Robin has negotiated preferred customer discounts with many vendors, which are accounted for in agreed prices; therefore, Ash Accounting does not receive further volume purchase discounts.

Ash Accounting expects vendors to ship supplies immediately and not to combine different orders. When materials are received, Sarah inspects and counts them, annotates her copy of the Purchase Order with details of any faulty goods, or short or part deliveries, and counter-signs it. A Xerox copy of the counter-signed Purchase Order is made and sent to Ellen Larch. Sarah uses her copy to update the Inventory Subsidiary Ledger, and to generate a Journal Voucher summarizing the inventory received that day, which she sends to Ellen Larch for posting to the General Ledger. She then files the annotated Purchase Order with the appropriate Requisition. When faulty goods are received, or short or part deliveries, Sarah negotiates directly with vendors to rectify such problems; faulty goods are returned for credit. A Faulty Goods Returned report is generated by Sarah and sent to Ellen Larch. Sarah retains a copy, filed numerically. Payment is withheld until a credit note is received from the vendor and attached to the appropriate vendor invoice together with the Faulty Goods Returned report. Supplies that have been inspected are stored in convenient bins within the appropriate locations in the supplies room in the basement. Ellen Larch attaches her copies of the counter-signed Purchase Orders, and any Faulty Goods Returned Reports, to her copies of the Purchase Orders and Requisitions.

Robin Oak opens the incoming mail each day. Any invoices and credit notes received from vendors are passed to Ellen Larch, who matches them with her two different copies of the Purchase Order, confirms that the details are correct, posts details of amounts due to the Accounts Payable Subsidiary Ledger, and files the complete document set chronologically by due date. At the end of each day, she prepares a Journal Voucher summarizing all invoices received that day, which she retains for subsequent posting to the General Ledger. All the vendors approved by Robin invoice each shipment separately.

Services (e.g., insurance, advertising, etc.) are typically ordered informally by Sarah Holly, often by telephone, though sometimes by letter or contract negotiation. Agreed service details are subsequently communicated to Ellen Larch and Sandy Beech on a Service Order Form; Sarah files a copy alphabetically by service and provider, while Ellen and Sandy file their copies numerically. When the service involves a long-term contract (e.g., for electricity, water), a Service Order Form is generated when the service begins and when any change is made to the contract, but no separate order is recorded for individual service periods. The formal system then continues with the receipt of invoices for services, which are processed for payment in the same way as invoices for supplies. Sandy Beech is responsible for confirming prior to payment that services have been satisfactorily completed and received.

Each Friday, Ellen Larch prepares checks for all vendor invoices due to be paid the following week, which are sent to Sandy Beech together with all the supporting documentation. One combined check is sent when several invoices from the same vendor are due in the same week. However, Ash Accounting has adopted a policy of not making part payments. Any invoices that are subject to dispute (perhaps because of faulty or short deliveries) are held back until outstanding issues are resolved. Sandy determines that the checks are correctly made out and that the goods have been received, are in usable condition, and correspond to items ordered for the purposes of the
business. He then signs the checks, stamps the vendor invoices using a “PAID” stamp (to avoid duplicate payment), and mails the checks to the vendors. When he has finished with the supporting documents, he returns them to Ellen Larch, who files them in chronological sequence of completed orders, after updating the Accounts Payable Subsidiary Ledger. Ellen prepares a Journal Voucher summarizing the payments made and uses it to post the General Ledger.

**Fixed Assets**

The firm operates at a single office location in Metropark that has been used since the firm was founded. From time to time, it is necessary to acquire additional office equipment items such as motor vehicles, Xerox machines, office furniture, computers, etc. All fixed asset purchases are first discussed, approved and minuted at the weekly partners meeting. Robin Oak then prepares a Fixed Asset Authorization Form, which is signed by her and counter-signed by Richard Ash. This form is passed to Ellen Larch, who orders the items; however, Robin Oak also signs the Purchase Order, to indicate approval. When Fixed Asset items are received, they are processed for payment in the same way as supplies, except that Robin Oak carries out the inspections and also signs the annotated purchase orders used to advise Ellen Larch of receipt; she also signs the payment checks personally, instead of Sandy. Sandy Beech computes the acquisition cost of each Fixed Asset manually from the vendor’s invoice as necessary. Fixed assets are depreciated monthly, except in the month of disposal, based on the recorded depreciation method, expected life and salvage value for each asset. When Fixed Assets are no longer useful, or the partners have decided to replace them, Sarah Holly arranges disposal to one of a number of local dealers, as authorized by Robin Oak. Any proceeds from disposal are subsequently received as checks and banked by Martin Maple in the same manner as client remittances. Sandy Beech maintains a Fixed Asset Register in which he records acquisitions, depreciation, disposals and their proceeds. Each month he prepares a Journal Voucher recording depreciation, as well as Journal Vouchers in respect of disposals and disposal proceeds, which he passes to Ellen Larch for posting to the General Ledger.

**Finance**

Ash Accounting is financed mainly by loans from partners. Partners each invest $300,000 on admission. Each month they receive interest-only payments on their initial equity investment. When additional finance is needed, as determined by the partners following recommendations from Martin Maple, Ash Accounting receives occasional supplementary loans from partners. Each such loan is negotiated with a current (fixed) interest rate and a final due date. Funds received via such loans are recorded as loans received instead of cash receipts on Robin’s pre-list of checks received; they are deposited into one of the cash accounts in the normal way by Martin Maple, and recorded as loans received in the General Ledger by means of the Journal Voucher prepared, posted and filed by Ellen. Separate monthly checks for each loan are disbursed to the partners, covering interest payments and, where appropriate, principal reduction. These checks are prepared by Sandy Beech. Richard Ash signs checks paid to the partners, except that Robin signs checks paid to Richard. Sandy prepares a Journal Voucher summarizing the month’s loan and interest payments, which is then passed to Ellen Larch. Ash Accounting also has substantial overdraft arrangements with several of its banks; this is particularly important at busy times of year when Work In Progress can reach significantly high levels prior to final billings and cash collections.

**General Ledger**

All Journal Vouchers received by Ellen Larch are stamped “POSTED” and filed in a single chronological sequence after the appropriate General Ledger Accounts have been posted. Ellen prepares a trial balance at the end of each period, which she passes to Sandy Beech. Sandy prepares draft Financial Statements for submission to the partners.

Copies of any documents whose disposition is not specified above may be assumed to be filed chronologically by the person last having possession of them.