THE NEW APPROACH to Financial Accounting, Auditing, and Reporting
Business Listing of Features – Detailed Analysis

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Revised 9/10/2019

Overview

This discussion is aimed primarily at business owners. We want to show you in some detail how **The New Approach** to Financial Accounting, Auditing, and Reporting can help you with your business in ways that, quite simply, are not possible any other way. We cannot emphasize strongly enough that this is NOT a "The New Approach to …" marketing gimmick.

The New Approach is **new**, different, unique, and so advanced in technology that you, as a business owner, will be pleasantly surprised, if not excited, about how it can help you because you have been led to believe, "The New Approach" is not possible. But you are not alone. Accountants, auditors, academia, and software developers worldwide have also been led to believe, "The New Approach" is not possible. Trust us, The New Approach does indeed make it possible.

What are your (present) financial accounting and reporting options?

Financial accounting systems are commonly put into one of two categories – 1) single entry accounting, and 2) double entry accounting.

- **Single Entry Accounting** is simple to administer, but the financial reporting output is equally simple. It is not generally recommended except for a very small business with limited financial transactions to account for. As a Business Owner you must carefully consider the basic accounting functions you need, such as payroll, billing and accounts receivable, and accounts payable.

  Of course, you will be required to document for tax reporting purposes what you report for taxable income and deductible expenses. IF you have even one employee, or IF you operate more than one type of business, your financial accounting and reporting needs can get very complicated very quickly.

- **Double Entry Accounting** is touted as the gold standard of financial accounting because the technology has stood the test of time, over five centuries. Virtually all computerized accounting systems are double entry accounting systems. All are designed with a single financial reporting objective – financial statements prepared in accordance with generally accepted accounting principles (GAAP). These statements are commonly called GAAP financial statements, or more specifically, Accrual Basis Balance Sheet and Income Statement. Double entry accounting and GAAP financial statements go hand in hand.

  Despite gold standard status, **double entry accounting is not without significant problems** to the Business Owner:

  - ✓ **Double Entry Accounting Is Complicated.** To some, double entry accounting is simple in concept because it is a simple conceptual accounting framework. Double entry accounting is complicated, however, to administer. So much so, it requires a trained and experienced accountant to maintain, even on a day to day basis.

- ✓ **Financial Statement Model Reporting Capability Limited.** Double entry accounting has **several significant** financial statement model reporting **limitations**.

  First, double entry accounting is designed to accommodate only one type of financial statement model – GAAP accrual basis balance sheet and income statement. While it can also accommodate Tax accrual basis financial statement model, it cannot accommodate both GAAP accrual basis and Tax accrual basis simultaneously, at least in a practical way.

  Second, double entry accounting is designed to accommodate only financial statements for the "entity as a whole." It does not support Business Segment level financial statement model reporting. This limitation can potentially be a disaster for tax reporting purposes.

  Third, double entry accounting is not even designed to accommodate the most common Tax financial statement model showing taxable income and deductible expenses on a modified cash basis for Schedule C reporting.

- ✓ **Cost Issues.** The complexity of double entry accounting alone raises significant cost issues with any Business Owner. But:

  If you want, need, or require both GAAP **and** Tax accrual basis financial statements, accounting costs will be high.

  If you want, need, or require business segment reporting, accounting costs begin to skyrocket.

  If you want, need, or require modified cash basis financial statements, such as for tax reporting purposes, double entry accounting is probably not even the best solution due to cost issues.

- **Where does this leave you, the Business Owner?** Currently you, the Business Owner, have two "accounting" options – 1) single entry accounting, and 2) double entry accounting. Double entry accounting is touted as the gold standard of accounting, but it has problematic issues. For example, what if you do not want, need, or require GAAP financial statements? Why would you want to even use a double entry accounting system, given that it would provide you with no discernable benefit? For that matter, why would you want to use a single entry accounting system? This is truly a problem for perhaps most Business Owners – there is no accounting system that fits their needs.

  - ✓ **Keep this in mind:**

    The New Approach **is NOT** a "Single Entry Accounting" system.

    The New Approach **is NOT** a "Double Entry Accounting" system.

    The New Approach **is without definition** in the financial accounting and reporting lexicon. Hence, we refer to it as "The New Approach."

  - ✓ **To state the obvious**, Business Owners should not be, and probably most are not, satisfied with their accounting systems, particularly regarding cost.

- ✓ **The New Approach has the answer** (i.e., solution) to virtually all of the financial accounting and reporting problems confronting the Business Owner day to day, week to week, month to month, and year to year.

1) It is **simple to administer**. So simple it can be maintained by a non-accountant with ease.

   Day to day transactional entry – Simple.
   Month to month reconciliations to verify accuracy – Simple.
   Year-end closing and new-year startup – Simple.

2) You have the **option to prepare any type of financial statements** you want or need. This includes the standard business GAAP balance sheet and income statement, and virtually any type of tax financial statements, such as modified cash basis financial statements commonly used for Schedule C reporting, or tax accrual basis statements.

3) **Financial reporting is un-matched**! First, and most important, you will get reports that provide you with critical and valuable information, some of which is not available (i.e., not possible) in any other accounting system. The reports are simple to prepare, understandable, verifiably accurate and reliable, and REPRODUCIBLE at any point in time.

4) **Month-End closing procedures** are employed to verify that the overall system is functioning properly. They are designed to detect data integrity problems, such as data entry errors, and thereby provide assurance regarding the accuracy and reliability of the financial statements and reports.

   The primary purpose of month-end closing procedures is to identify possible problems in the administration of the system, but in a timely manner. We do not like surprises at year-end any more than you do. Our technical support group has never found a problem we cannot fix, but we obviously rely on you to contact us if you even suspect there is a problem.

   The procedures are deliberately designed to detect both intentional (fraudulent) and unintentional transactional entries into the system. These procedures are not possible in any other system AND can be entirely conducted by a non-accountant. In this way, we **can provide a high degree of protection against fraudulent financial reporting** that invariably accompanies employee embezzlements.

5) **Year-End closing and New-Year startup** procedures are well documented and can be performed by a non-accountant. The procedures include 1) rigorous auditing procedures to provide assurance regarding accuracy and reliability of source data used to prepare year-end financial statements and reports, 2) preparation for an independent financial statement audit, 3) preparation for a tax audit with the IRS, and 4) concurrent processing to allow an unimpeded new-year startup during the year-end closing process.

6) The **cost savings** can be shockingly enormous, not to mention the benefits accruing to the Business Owner. Year-round maintenance and preparation of virtually all financial statements can be performed by a non-accountant with minimal help from

our technical support group. You will see cost savings with the preparation of tax financial statements, as well as preparation for a financial statement audit, or an IRS tax audit if necessary.

✓ **Again, to state the obvious:**

1) You, the Business Owner, cannot win with either of the present day financial accounting options.

2) You, the Business Owner, cannot lose with The New Approach.

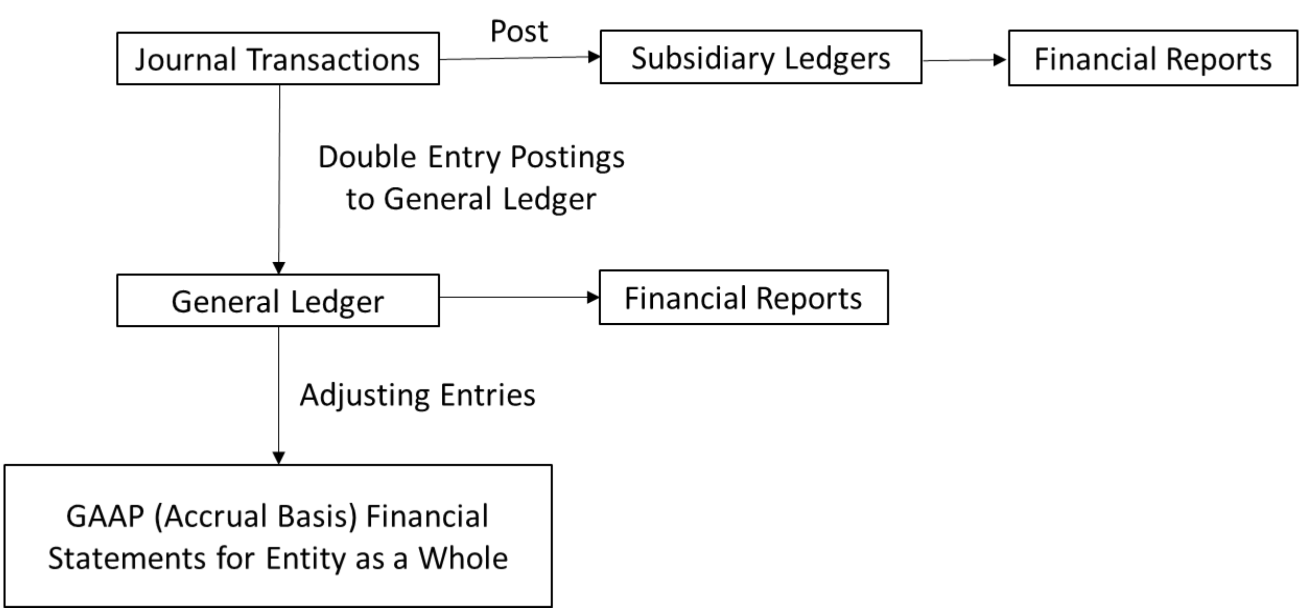
Visual Representations - The NEW Approach vs. Double Entry Accounting

There is a lot to see in the following visuals. We want to show you the huge differences between OLD technology (Double Entry Accounting) and NEW technology (The New Approach). While the visuals and related explanations are somewhat technical, we hope you will start asking yourself questions like: Can this be true? Is this possible? Am I dreaming?

To this day, the financial accounting and reporting world, 500 years later, still believes Double Entry Accounting is the gold standard. Look at the enormous advantages of The New Approach and you might see a new gold standard.

Visual 1: Double Entry Accounting – Financial Accounting and Reporting

For purposes of comparing to The New Approach, this visual shows about everything you, the Business Owner, need to know about Double Entry Accounting.

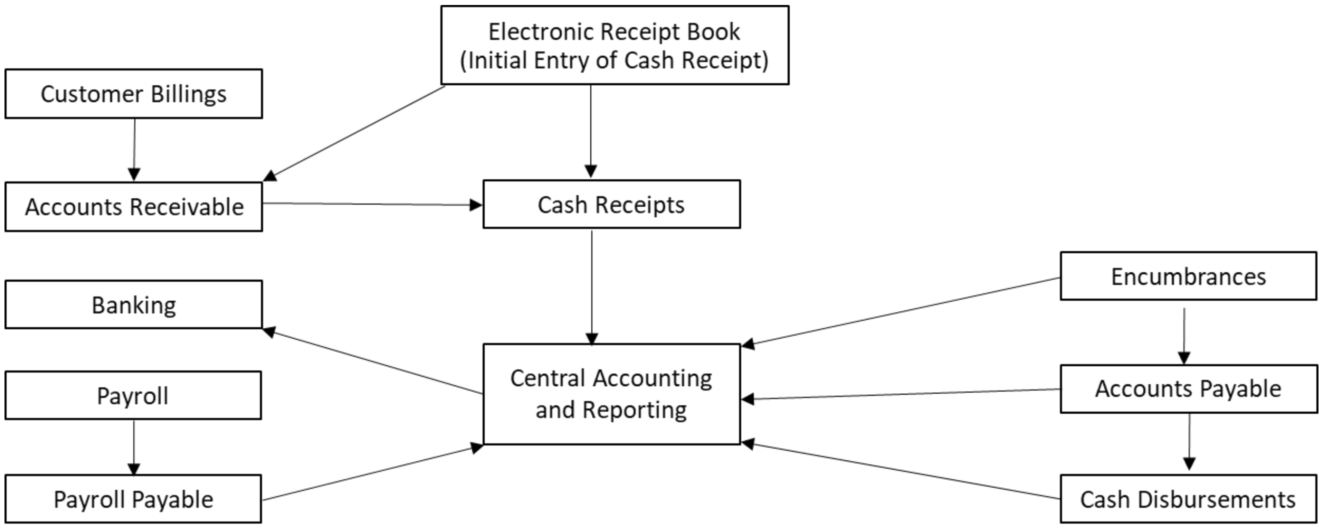


To Summarize Double Entry Accounting:

- Simple in concept, but very complicated to administer.
- Extreme limitation in financial statement model reporting capability.
- Very expensive, cost-benefit ratio is through the roof.

Visual 2: The New Approach – Accounting

The New Approach to Financial Accounting, Auditing, and Reporting is a sophisticated, decentralized, tightly integrated network of accounting sub-systems, each with its own special financial accounting and reporting function(s).



The New Approach, at least visually, appears to be complicated. But in truth, The New Approach is simple to learn, simple to maintain, simple to understand. So much so, the entire system can be maintained by a non-accountant day to day, month to month, and year to year. The same non-accountant can prepare all financial statements and reports with minimal help from our technical support group.

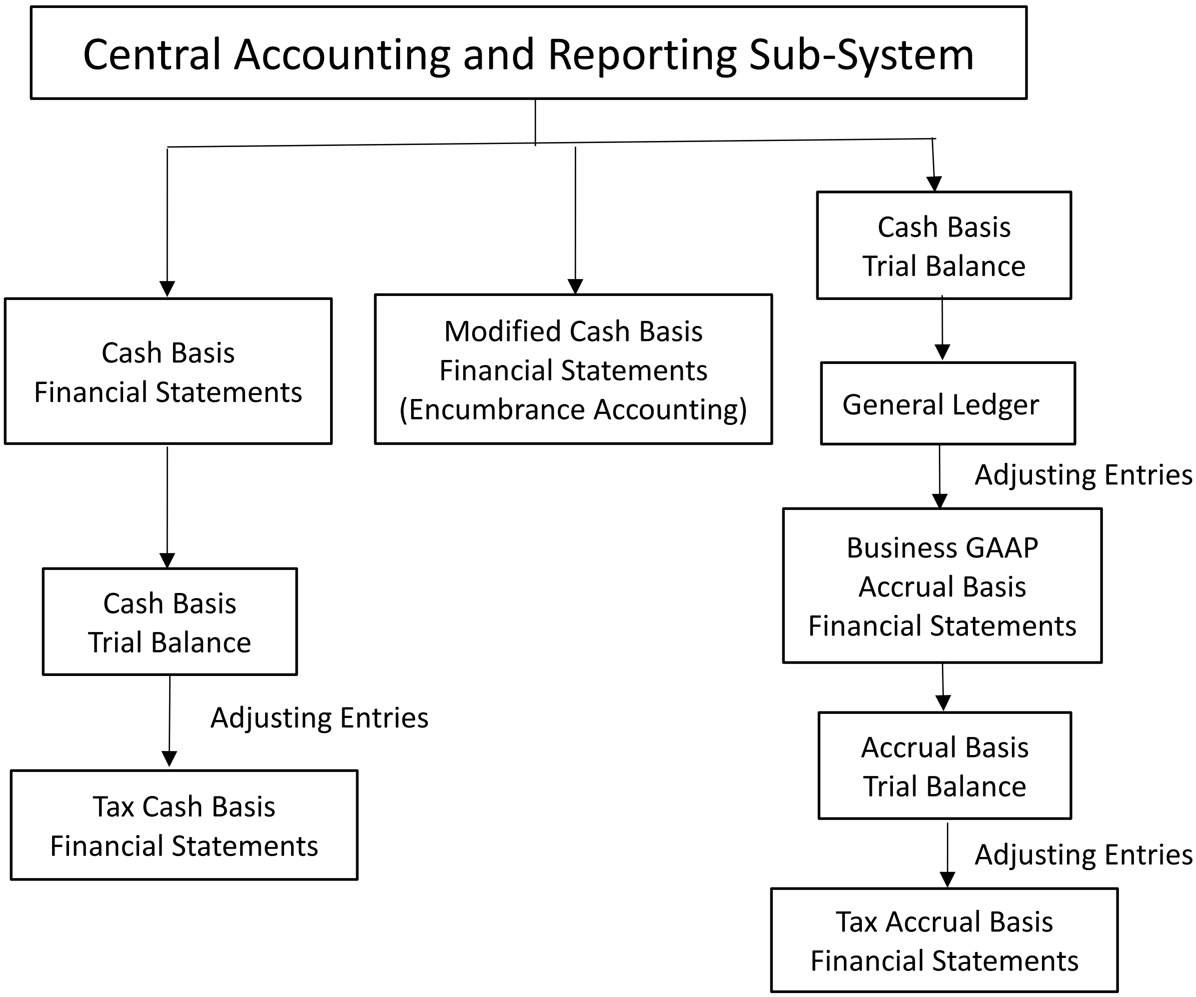
Listing of Features for The New Approach. In a separate document, you will find a summarized listing of features in these accounting sub-systems. (**HINT:** You will not find a more impressive list of features in any other accounting system, including the million-dollar accounting systems!)

Visual 3: The New Approach – Financial Statement Models

The visual identifies five different financial statement models as well as the transactional data source for the financial statement(s) – 1) Cash Basis Financial Statements (illustrated below), 2) Tax Cash Basis Financial Statements (e.g., Schedule C), 3) Modified Cash Basis Financial Statements (Encumbrance Accounting) (illustrated below), 4) Business GAAP Accrual Basis Financial Statements, and 5) Tax Accrual Basis Financial Statements.

The financial statement model reporting capability of The New Approach is quite simply, not possible in any other comprehensive financial accounting and reporting system. That, in itself, is extraordinary because of the critical importance they all provide to you in the control and management of your business interests. Even more extraordinary is that all of these financial statement models can be prepared by a non-accountant with minimal assistance from our technical support group.

The financial statements and reports are **verifiably** accurate and reliable. You, the business owner, do not need a financial statement audit to tell you that. You can monitor the entire system very easily with a mere investment of less than two hours each month. This is not even possible, at any price, using any other financial accounting and reporting system.



You, the Business Owner, likely have never before seen some of these financial statement models. We want you to understand their importance, and how they fit into your financial reporting needs and requirements.

Central Accounting and Reporting Sub-System. It is NOT by chance that ALL of the financial statement models emanate from the Central Accounting and Reporting sub-system. The Central sub-system is, in effect, the communication center for all original source data contained in the data warehouse.

Rigorous Auditing Procedures. All transactional data stored in the data warehouse is subjected to rigorous auditing procedures before it is ever used to prepare financial statements. These procedures are deliberately designed to protect the integrity of the data. This, in turn, provides assurance regarding the accuracy and reliability of the financial statements and reports prepared using the data.

Some of the audit features take place daily, and some are performed in the absence of user intervention. More rigorous audit procedures, some requiring user intervention, are performed during month-end closing procedures, and even more during year-end closing procedures.

All of these auditing procedures are integrated into the overall accounting system. All of the procedures requiring user intervention are well documented and can be performed by a non-accountant.

Unlimited Financial Statement Models. This visual is not the limit of financial statement models for The New Approach. The reporting capability is virtually without limits.

Business Segment Financial Statements. These financial statements can be prepared for the entity as a whole, as well as individual Business Operating Segments within the entity, and even groups of Business Operating Segments. If you operate multiple business operating segments, this feature alone can save you a lot of time and money, not to mention headaches.

Visual 4: The New Approach – Cash Basis Financial Statement Model

This cash basis financial statement model is your most important tool as an internal control over cash, and in fighting embezzlements. You likely have never seen a financial statement like this. Why? Because no other comprehensive financial accounting and reporting system is capable of creating this statement. DO NOT underestimate the VALUE of this information.

- **Focus Is on CASH and Cash Transactions.** As the visual shows, the financial reporting objective is cash – **beginning cash**, **cash** receipts, **cash** disbursements, and **ending cash**. Be very careful NOT to confuse **CASH** with other popular accounting terminology like revenues, expenses, expenditures, etc.

Summary of Cash Receipts, Cash Disbursements and Ending Cash
For the Year Ended December 31, 2016

Business Segments	Beginning Cash	Cash Receipts	Cash Disbursements	Ending Cash	Outstanding Commitments and Liabilities	Ending UnCommitted Cash
Segment 1	120,000	25,000	30,000	115,000	1,000	114,000
Segment 2	30,000	85,000	55,000	60,000	6,000	54,000
Segment 3	10,000	35,000	15,000	30,000	5,000	25,000
Total Entity	160,000	145,000	100,000	205,000	12,000	193,000

Composition of Cash:	Checking Accounts	44,900
	Savings Accounts	40,000
	Other Accounts	100
	Investments (CDs)	120,000
	Total	205,000

This financial statement is a routine part of every month-end closing. If necessary, it can be prepared with little effort on any given business day. Also, the statement can even be "re-created" for a specific month-end from original source data, six months later to provide assurance that the source data has NOT been altered. (HINT: None of this is possible using double entry accounting!)

This statement is as close to "proof-positive" as it gets to show the Business Owner that the cash being reported per the "books" is tied to the penny to the cash being reported per the "bank." It is an extraordinary statement in light of the following financial disclosures:

1) The Beginning Cash ties to the penny to the Ending Cash for the prior year-end.

2) The Ending Cash for all business segments combined (i.e., entity total) ties to the penny to all bank accounts, including checking accounts, savings accounts, petty cash, and cash-equivalent investments (e.g., certificates of deposit).

3) This specific financial statement can be "re-created" at a later date to verify that no original source data has been altered.

4) The "Composition of Cash" ties to the penny to related bank account reconciliations and banking reports in the Banking Sub-System. **This feature, in this financial statement, is so important it must be emphasized.** It shows that the exact amount of total cash being reported for the entity as a whole in the financial statement can be tied directly to a source of accounting records (i.e., banking records) independent of the entity's accounting records. Moreover, this is so simple to audit, it can be verified for accuracy by a non-accountant independent of the entity's accounting department (e.g., the Business Owner).

5) Ending UnCommitted Cash can be tied directly to Ending Cash, the difference being outstanding legal commitments and liabilities (outstanding encumbrances and accounts payable). This specific column of information is critical in that is provides easily-identifiable and auditable transactional data that accounts for the exact difference between cash and uncommitted cash. This "bridge" to the Budgetary Basis financial statement (illustrated below) provides assurance regarding its accuracy and reliability.

This cash basis financial statement is designed to provide continuous (e.g., month to month and year to year) audit evidence regarding the accuracy and reliability of the underlying original source transactional data that ultimately will be used for year-end tax-related financial statements, as well as GAAP accrual basis balance sheet and income statement.

Visual 5: The New Approach – Modified Cash (Budgetary) Basis Financial Statement Model

The modified cash (budgetary) basis financial statement model (encumbrance accounting) fulfills several important financial reporting functions – 1) to demonstrate compliance with budgetary expenditure limits, 2) to monitor legal commitments (encumbrances), and 3) to monitor uncommitted cash.

This financial statement, or anything like it, is rarely discussed in accounting circles. This is because there is no other comprehensive financial accounting system that is capable of preparing such a statement. To help you better understand this statement, consider these generally accepted accounting definitions related to the term **commitment**.

Accounting Definition – Commitment. The accounting definition of "commitment" is: Earmarking or setting aside of funds in response to a purchase requisition. These funds remain committed (encumbered) until the purchased good or service is paid for after its receipt, thereby converting the encumbrance into an expenditure.

Accounting Definition – Commitment Basis Accounting. The accounting definition of "commitment basis accounting": Method in which commitments (encumbrances) are recorded against an available balance, appropriation, fund, or contract authorization.

These definitions could synonymously be applied to the terms "encumbrance" and "encumbrance basis accounting." We have a slight preference to use the term "modified cash (budgetary) basis" of accounting because we apply the concept as an extension of the cash basis of accounting.

Summary of Receipts, Expenditures and Ending Uncommitted Cash

For the Year Ended December 31, 2011

Business Segments	Beginning UnCommitted Cash	Receipts	Expenditures	Ending Un-Committed Cash	Annual Budget	Variance – Under (Over) Budget
Segment 1	118,000	25,000	29,000	114,000	100,000	71,000
Segment 2	27,000	85,000	58,000	54,000	55,000	(3,000)
Segment 3	9,000	35,000	19,000	25,000	20,000	1,000
Total Entity	154,000	145,000	106,000	193,000	NA	NA

What is uncommitted cash? At the risk of sounding redundant, uncommitted cash is cash less accounts payable and legal commitments (encumbrances).

Outstanding Purchase Orders and Formal Contracts for Services and Special Projects. To keep this as simple as possible, assume you issue several purchase orders for office supplies, a new computer, and some new furniture. Or, assume you sign a formal contract to have the business office remodeled, and another contract to have your parking lot re-paved. All of these purchase orders and contracts constitute "legal commitments" for commitment (encumbrance) accounting purposes. You do not owe any money to anyone at this point because no goods or services have been delivered to you. Put another way, you do not have a "legal commitment" to pay any money, BUT you do have a legal commitment to pay money if and when the other party delivers goods or services. It is a legal commitment that you cannot get out of so long as the other party meets the terms of the agreement you have with that party.

A commitment (encumbrance) transaction is recorded in the accounting system at the time a legal commitment is made by the entity (i.e., business owner) to purchase goods or services. These typically include purchase orders and formal contractual agreements for services or special projects. The related commitment (encumbrance) transactions are reported as charges to the budget (i.e., expenditures).

Demands for Payment. Demands for you, the Business Owner, to make payment are usually evidenced by a vendor invoice requesting payment of a certain amount. Such requests for payment are considered "Accounts Payable" because the related goods or services have been delivered. Translated, that means you are legally required to make the payment in accordance with the instructions on the invoice document.

As shown in the visual, the Expenditures column represents year-to-date charges to the budget for the current budget year. The "charges" comprise three types of transactions – 1) cash disbursements, 2) accounts payable, and 3) outstanding commitments (encumbrances).

The "Ending UnCommitted Cash" column represents the cash available to support additional (budgetary) spending commitments. Technically speaking, it represents cash less disbursements, less accounts payable, less outstanding commitments (encumbrances). This is called commitment basis (encumbrance) accounting.

There is a direct correlation, **ending uncommitted cash**, between this "commitment (encumbrance) basis" financial statement model and the "cash basis" financial statement model shown in the previous visual. This correlation is important for financial auditing purposes because it increases the level of auditability as discussed below under Manageable Auditability. Also, it adds to the verifiable accuracy of the statement itself.

Our application of commitment basis (encumbrance basis) accounting is simple, accurate, and reliable. It is so simple to administer that a non-accountant can maintain the system day to day with ease. This is strikingly in contrast to all other comprehensive financial accounting systems that apply the same concept to the double entry method of bookkeeping, which is so complex as to be totally impractical. This complexity is precisely why you never see commitment basis even discussed in accounting circles.

Commitment Basis Accounting (Encumbrance Accounting) Is Popular Budget Tool. Encumbrance accounting is easily the most rational approach to budgeting. It is embedded in state laws across the nation for state and local governmental balanced budget requirements. You have never seen it in business financial accounting and reporting primarily because encumbrance accounting is next-to-impossible using double entry accounting.

Legal Commitments (e.g., Encumbrances) Are a Business GAAP Note Disclosure Requirement. Legal commitments that do not constitute liabilities (e.g., encumbrances) are not included in the basic business GAAP financial statement reporting model (accrual basis balance sheet and income statement). Hence, the note disclosure requirement. The problem is, if you do not monitor such legal commitments, it is difficult, if not impossible, to audit their existence!

Summary Comments – Cash Basis & Budgetary Basis Financial Statements

The above visuals of The New Approach cash basis and budgetary basis statements are a lot to absorb in one setting. This is particularly true of the budgetary statement and encumbrance accounting. We want to take this opportunity to make a few summary comments about them.

- **Simple to Administer.** The accounting procedures to prepare these financial statements are strikingly simple to administer. A non-accountant can maintain the entire system on a day to day basis with ease, and with minimal help from our technical support group.

- **Simple to Understand.** The financial statements are simple to understand. Each of the two statements have their own financial reporting objectives. At the same time the two statements are **verifiably** tied together in a simple, understandable, and meaningful way. This "financial" tie between the two statements (e.g., outstanding legal commitments) strengthens their accuracy and reliability.

- **Critical Information to Management and Business Owner.** The information presented in the two statements is critical for many reasons. The cash basis statement provides the accounting department with assurance the underlying source transactional data is accurate and reliable because it can be tied to the penny to cash in the bank. The statements provide, at least monthly, a simple and understandable overview of the cash flow and uncommitted cash of each of the owner's business operating segments, as well at the entity as a whole.

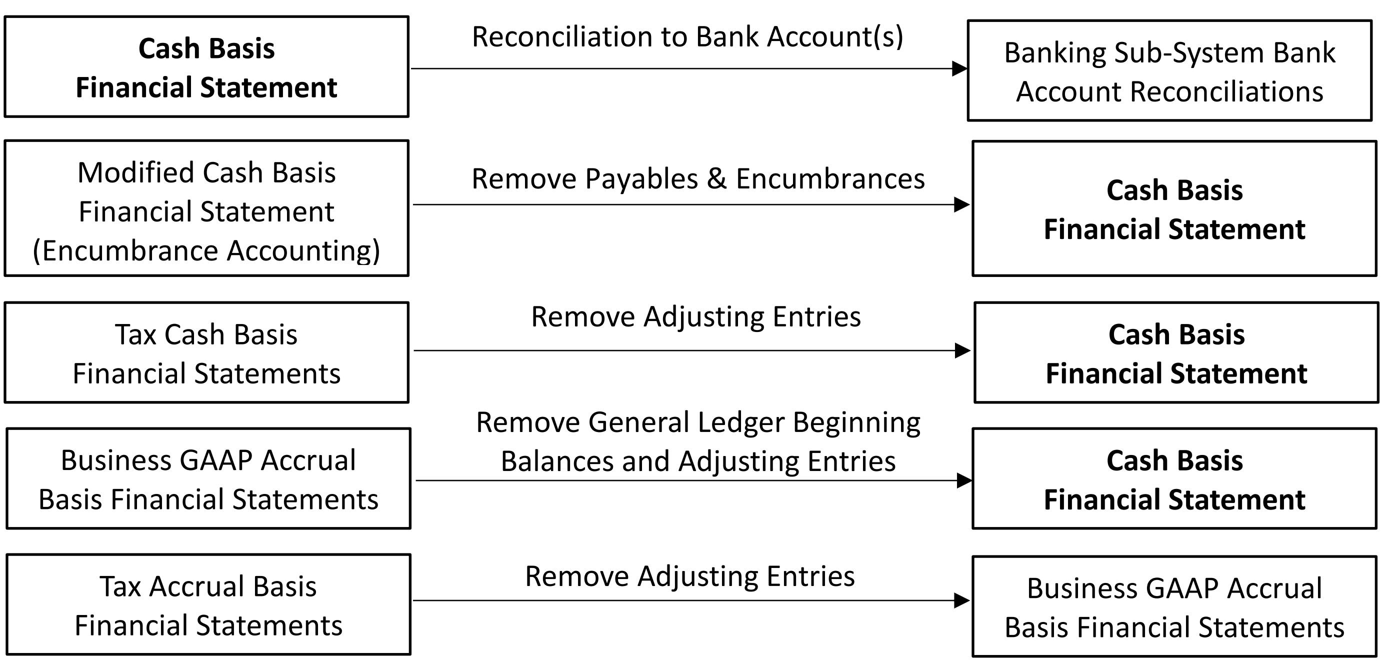
- **VERIFIABLY Accurate and Reliable.** The Business Owner can verify the accuracy of the statements **independent of the accounting department** with simple auditing procedures.

- **Tailor-Made for the Business Owner.** These financial statements are tailor-made to give the business owner a comprehensive summary of information that takes only a minute or two to absorb. And any detailed supporting information is only minutes from being printed. This type of summarized and "overview" type of information is exactly what the Business Owner wants and needs, to be able to focus on "running the business" and not spending time looking for financial information.

This is STUNNING in that no other accounting system in existence has the capability to prepare these financial statements, and at the same time be capable of preparing GAAP financial statements, not to mention, any type of tax basis financial statements.

Visual 6: The New Approach – Manageable Auditability

The New Approach takes a giant leap into the future using a new concept we refer to as "Manageable Auditability."



- **What is Manageable Auditability?** Manageable means capable of being managed or controlled. By extension, Manageable Auditability is the ability to achieve accurate results in the examination of a company's financial reporting, in a manageable or controllable environment. A company with transparency and complete records has greater auditability than a company whose records are incomplete and whose managers are evasive.

- **Five Financial Statement Models.** The same five financial statement models presented above are also shown in this visual, but in the context of Manageable Auditability. That is, for each financial statement, the visual shows how that statement can be tied (traced back) to a previous financial statement.

    1) **Cash Basis Financial Statement.** As discussed previously, all transactional data stored in the data warehouse is subjected to rigorous auditing procedures before it is ever used to prepare financial statements. These procedures take place daily, for month-end closings, and especially during year-end closing.

       These audit procedures are deliberately designed to protect the integrity of the data. This, in turn, provides assurance regarding the accuracy and reliability of the financial statements and reports prepared using the data.

       Perhaps the most significant audit procedure is to tie "book" cash to "bank" cash by means of bank account reconciliations.

    2) **Modified Cash Basis Financial Statement (Encumbrance Accounting).** The modified cash basis financial statement is easily reconciled to the cash basis financial statement – the difference being accounts payable and outstanding encumbrances.

       In an auditing sense, the only unaudited transactions are accounts payable and outstanding encumbrances. Separate detail financial reports are available for each item amount.

       Importance of Modified Cash Basis Financial Statement (Encumbrance Accounting). The importance of the modified cash basis of accounting (e.g., encumbrance accounting) financial statement might be the most unrecognized, and most under-appreciated statement of all time.

        You might be asking yourself, if this statement is so important, why is it so unrecognized and so under-appreciated? The answer to so simple, and yet not so obvious: Double Entry Accounting. Encumbrance accounting is next to impossible using double entry accounting. Tracking "uncommitted cash" on a continuous basis, day to day, month to month, or year to year IS impossible.

        Why is this financial statement so important? First, it provides the business owner the most rational approach to budgeting that has ever been developed. **Second**, it goes far beyond cash flow reporting, by providing the business owner with future cash flow needs on a continuous, day-to-day basis. **Third**, it provides financial disclosure information that might be required by generally accepted accounting principles, but does not appear in GAAP financial statements. **Fourth**, this can be an audit cost issue if you are audited, and your accounting system does not account for legal commitments. That is, the auditor must determine if there are commitments that are required to be disclosed along with the audited financial statements, and if they are not being accounted for in the accounting system they are more susceptible to fraudulent non-disclosure.

    3) **Tax Cash Basis Financial Statements.** The tax cash basis financial statements are a carbon copy of the same transactional data contained in the cash basis statements. The only differences between the two are adjusting entries for tax reporting purposes.

4) **Business GAAP Accrual Basis Financial Statements.** GAAP accrual basis financial statements start with the carry-over general ledger account balances, with the addition of a "cash basis" trial balance containing the same transactional data contained in the cash basis statements. And year-end adjusting entries would follow.

5) **Tax Accrual Basis Financial Statements.** The tax accrual basis financial statements start with an "accrual basis" trial balance of the related accrual basis financial statement (i.e., income statement). The only differences between the two are adjusting entries for tax reporting purposes.

- **Concept of Manageable Auditability on Display.** Manageable Auditability is clearly on display with GAAP accrual basis financial statements. The entries from which the accrual basis statements (balance sheet and income statement) are created can easily be identified and segregated into **three manageable and auditable groups** – 1) carry-over general ledger account balances, 2) the "cash basis" trial balance containing the same transactional data contained in the cash basis statements, and 3) year-end adjusting entries.

  Consider the following Manageable Auditability:

  1) The **carry-over general ledger account balances** can be tied directly to the prior year ending balances.

  2) The **"cash basis" trial balance** can be tied directly to the cash basis financial statement and related financial reports showing additional detail.

     Why is this "cash basis" trial balance so important? This "cash basis" trial balance feature is unique to financial accounting. It is not even possible in any other financial accounting and reporting system. When the "cash basis" trial balance is created after year-end, all cash transactions have already been subjected to audit procedures not otherwise possible in any other system. These procedures have already independently tied year-end cash to the penny to banking source records and to the prior year ending cash. These same procedures are performed every month to monitor cash, and thereby verify the accuracy and reliability of cash balances and cash transactions on a timely basis.

     What is the cost of creating the "cash basis" trial balance? These monthly and year-end auditing procedures can be performed entirely by a non-accountant. The "cash basis" trial balance itself can be created in a matter of seconds, by the click of a button. This is nothing short of incredible when you compare the alternative auditing procedures required for the same financial statements that have been prepared using double entry accounting, in which case, you must rely on, and pay for, an independent auditor to perform auditing procedures in a less manageable, less efficient, and less effective way!

  3) The number of **year-end adjusting entries** is less than one-tenth of one percent of the total number of transactional entries for the entire year.

Each of the three groups of entries are manageable because they are small in number. They also have a high degree of auditability because the entries can be traced to data sources that have already been subjected to rigorous auditing procedures, or can be examined on an individual basis.

Financial statement audits of GAAP financial statements that have always been, and are currently being prepared using double entry accounting, cannot compete with this level of Manageable Auditability.

1) This is why financial statement audits by an independent auditor are so **costly**.

2) This is why financial statement audits **fail to detect** fraudulent reporting at a rate greater than 80 percent, in at least one study, and over 50 percent in other studies. While embezzlements are not necessarily present in all cases of fraudulent reporting, most embezzlements are accompanied by fraudulent reporting. In yet another study, it was shown that employee fraud represents about six percent of gross sales on a nation-wide average. And in one case (local government), the embezzlement continued for more than two decades, totaling about $54 million, and the entity was audited every one of those years.

3) This is why financial statement audits too often take a back seat to a coincidental, accidental event to expose financial accounting, auditing, and reporting fraud.

4) This might even explain the occasional lawsuit against an auditor whose liability insurance settles with the auditor’s client (secretly) and the auditor still claims no wrongdoing.