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Important IRS Audit Information for CPAs, Enrolled Agents and Tax Preparers

Introduction:

When the IRS audits a client's records they usually require many documents for their audits. In the past, printouts or other paper documents for the audit were sufficient, but that process has changed over the years. The IRS now requires a copy of the existing QuickBooks company working file, and Intuit is conducting classes for the IRS so that the agents can review QuickBooks files and know what to look for.

Problem:

Most IRS audits are for a specific year or years, and clients are being required to turn over their entire QuickBooks file to the IRS. This presents a problem for both the client and the tax preparer because it would give the IRS unlimited access to a company's entire financial history. If a client is being audited for the tax year 2007, and they have a company file that began in 2005 and continues to present, they would have to turn over the entire QuickBooks company file from 2005 to present 2011.



No one wants to do this. It is critical that the data be separated for only the audit year(s). However, QuickBooks does not have the functionality within the program to extract only certain portions of data with a complete general ledger attached to it. You can export certain information out of a QuickBooks company file, but you will not have a complete working trial balance with this type of separation of data ... and the IRS may reject the file.

Solution:

The Queen of QuickBooks uses a proprietary program that will extract a company's financial information within a certain date range, with beginning and ending balances. With the backup copy of the audited client's QuickBooks company file, we can isolate the data range being audited. The result will be a working company file with balances and detail for only the year(s)

being audited. This includes GL detail, accurate beginning balances, payroll data, etc. The process is highly technical and requires programming expertise, but the results have been very successful.

Case Study:

Last fall, we were contacted by a CPA in Florida. His client was being audited for 2007 for two company entities, and the QuickBooks files contained data from 2002 to 2010. The client did not want to turn over their entire file, allowing the IRS unlimited access to all their historical financial information. Yet paying a CPA or bookkeeper to extract the required data was time consuming and prohibitively expensive. When the CPA found out how cost effective it was to hire us to extract the data, he sent us backup files for both companies.

With the backup files in hand, we began the extraction process. We found that with a proper preparation of the existing QuickBooks company file, the extraction process was streamlined and the completion date of the project was earlier than the CPA expected.

The CPA submitted the new IRS Audit extracted data files to the attorneys and the IRS confirmed that the data complied with their requirements.

Summary:

The IRS Audit process is rapidly evolving with regard to QuickBooks. It is in a client's best interest to give the IRS only the specific data they are requesting rather than their entire financial history. With the extraction service provided by the Queen of QuickBooks, tax preparers can offer their clients a quick and affordable way to comply with the IRS requirements while maintaining the integrity and confidentiality of their financial history.

