



# **Cleaning Up & Balancing Company Payables in Applied TAM**

SESSION HANDOUT

## Prepared for Applied Client Network and Applied Systems

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July, 2021

## Target Audience:

<input checked="" type="checkbox"/>	Accounting
<input checked="" type="checkbox"/>	Administration
<input type="checkbox"/>	Claims
<input checked="" type="checkbox"/>	Customer Service
<input type="checkbox"/>	Human Resources
<input checked="" type="checkbox"/>	IT
<input type="checkbox"/>	Legal

<input checked="" type="checkbox"/>	Marketing
<input checked="" type="checkbox"/>	Operations
<input checked="" type="checkbox"/>	Sales
<input checked="" type="checkbox"/>	Underwriting
<input type="checkbox"/>	ALL
<input type="checkbox"/>	Other: (describe)

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## Seminar Type: Accounting

**Seminar Level: Intermediate:** An Intermediate level class takes the concepts originated from a basic level course, and adds more layers or parallel concepts. For functional courses, these classes will require the participant or attendee to have some basis to work from as they are learning new facets of the agency or brokerage management system or software program.

**Class Description:** How do you know if your Company Payables are in balance? Learn the three steps to validate company payables, what it means to be “in balance”, and how to clean up “out of balance” situations.

### Learning Outcomes:

- Why is it so important to be in balance, and where do the company payable entries come from?
- Recognize how company payables get out of balance.
- Use the three steps to be sure company payables are in balance.
- Resolve typical “out of balance” situations.
- “Clean out” company payable balances, when appropriate.

**Assumptions:** This seminar is based on the following

Applied TAM Version 2021

## Company Payables & the General Ledger

Every time an agency bill transaction is invoiced, the Company Payable general ledger account is affected. Every time you issue a check, miscellaneous disbursement, or deposit money into a company payable GL account, you must reconcile the items the money applies to, or you have created an out of balance situation, with additional “touches” to get it cleaned up.

### Why reconcile?

Though it may seem easiest to just issue a check to the company for the net premium due, or just deposit a premium refund check without reconciling the company payable, here are the reasons why it's critical to process payables properly in Applied TAM:

- **Validate General Ledger Balances.**
  - If the company payables are not being reconciled, you cannot generate a report from Applied TAM that will list the unpaid items that will match the general ledger balances.
- **More effective cash flow management.**
  - When reconciling, versions of the Company Payable report can be used to track:
    - Items paid to the Company, but not paid by the client
    - Items unpaid to the Company, but paid by the client
    - Aging of items unpaid to the Company
- **Premium trust fund management.**
  - The Premium Trust report in TAM cannot be used unless reconciliations are being done timely.
- **Find the billing errors.**
  - All the billing errors will come to light, whether the agency invoiced a policy incorrectly, or the company did. When reconciling, you'll be able to identify issues before they become problems.
- **Account View at the Customer Level.**
  - From the customer transaction list, staff will be able to see not only the check, miscellaneous disbursement or deposit number, but also the date the agency issued the check or miscellaneous disbursement or entered the refund deposit.
- **Reduce E&O Exposure**
  - Here's a scenario: the agency has invoiced the client for additional coverage, and the client has paid the premium, but the company has never requested payment. Is the company aware of the coverage, and what happens if there's a claim? Do you want to wait to find out when it becomes an E&O claim, or find out when the item goes unpaid to the company for too long?

## How do balances get into the company payable accounts?

As a review, an agency bill transaction (invoice) is included in the month end journal entry generated by TAM, and the transaction is included in the list of unpaid items on the Company Payable Report. The entry is posted to the GL based on either the transaction date or effective date, whichever is the later of the two.

**EXAMPLE:** \$1,000 invoice at 15% commission (in the example below the agency is setup on an accrual basis). Notice there is no effect on the General Ledger during the reconciliation process (unless adjusting commissions, or doing write offs).

### **\$1,000 PREMIUM @ 15% AGENCY COMMISSION**

**Assumptions: Accrual Basis for Agency Bill**

	Cash		Accounts Receivable		Company Payable		Agency Commission Income	
	DR	CR	DR	CR	DR	CR	DR	CR
1 Invoice Transaction			\$ 1,000.00			\$ 850.00		\$ 150.00
2 Item Fully Paid by Customer	\$ 1,000.00			\$ 1,000.00				
3 Reconcile Company Payable								
4 Pay Company		\$ 850.00			\$ 850.00			
Totals posted to GL	\$ 1,000.00	\$ 850.00	\$ 1,000.00	\$ 1,000.00	\$ 850.00	\$ 850.00	\$ -	\$ 150.00
Net change posted to GL	\$150.00 increase		zero		zero		\$150 increase	

## What happens when I write the check to pay the company?

Writing a check to a company will credit Cash and debit the Company Payable. The opposite is true when you deposit a premium refund check from a company. If an agency does not reconcile their company payables, this is all that happens.

At this point, the General Ledger should be correct, assuming all of the following:

- Transactions that are invoiced in Applied TAM have been paid to the Company timely.
- Checks are issued to the same Company Code that is on the Billing Screen of the transaction.
- The Company has refunded all return premiums you have invoiced.
- There are no transactions on the Company statement that the agency did not invoice.
- The commissions on the Company Statement match the commission amounts on the TAM transactions.

That's a lot of assumptions! As you can see, it would be rare that not reconciling the company payables would result in the company payables being in balance, and there would be NO report in TAM that can be run to validate the paid or unpaid amounts.

## What happens during the Reconciliation process?

The reconciliation process allows you to “flag” and reconcile the items being paid to or refunded by the company. When the transaction was originally invoiced, TAM added the transaction to the list of unpaid transactions for the company. Reconciling and closing the item will remove it from the list of unpaid transactions. This process does not affect the general ledger, unless you are adjusting commissions or doing write offs during the reconciliation process.

You can now run a listing of Unpaid or Paid items to a company from the Company Payables report.

## How do Company Payables Get “Out of Balance”?

Some situations that may cause payables to be out of balances are:

- Pay a Company – Don't Bill the client
- Pay a Company – Don't Flag/Reconcile the Item
- Deposit a Refund Check – Don't flag items and Close the Statement thru Statement Utilities
- Flag a payable – Don't issue a check
- Apply Direct Bill Commission to Company Payable Account in error, or vice versa

## Auditing Company Payable Balances – 3 Steps

Keeping the company payables clean is a three step process:

1. Are the payables in balance?
2. Does the total amount of “Acct Balance” column match the total of the Company Payables on the Balance Sheet?
3. How old are the unpaid items?

### Are the Payables in Balance?

After a month is posted, run the Company Payables Report with a Report Mode of “Balance to Last Month End” with an Output of Summary. This report will list each company per line with the total of the unpaid transactions in TAM (Net Owed), the amount of the General Ledger balance (Acct Bal), and a difference column (Amt Not Bal).



### Company Payables - Summary

Company	Client Balance	Amount	Net Owed	Acct Balance	Amt Not Bal
AOI Auto Owners Insurance Co.	38.20	38.20	7.35	7.35	0.00
GAI Great American Insurance Co.	16,000.00	14,500.00	13,450.00	16,250.00	-2,800.00
HIC Hanover Insurance Company	19,280.00	19,280.00	16,366.00	7,866.00	8,500.00
PEN Pennsylvania National Ins. Co.	-2,000.00	-2,000.00	-1,700.00	-1,700.00	0.00
PRO Progressive	2,676.00	2,676.00	2,193.36	2,193.36	0.00
REL Reliance Insurance Company	22,922.50	24,122.00	20,251.80	20,251.80	0.00
WES Western Surety	1,414.66	1,414.66	985.26	985.26	0.00
Totals	60,311.36	60,010.86	51,553.77	45,853.77	5,700.00

Amt Not  
Flagged

GL  
Balance

Out of  
Balance

If the last column is all zeroes, great! If not, you've got cleanup to do (see section below).

One situation that will legitimately make your company payables out of balance is when you pay a company prior to the effective month of the transaction. For example, you pay a company on Sept 25<sup>th</sup> for a policy that is effective in October. The payment to the company will appear in September on the General Ledger, but the invoiced transaction will not appear on the Company Payables until October, creating an out of balance situation for that company. Keep track of these pre-payments so you can easily explain the "Amt Not Bal" for these companies.

This report should be included in the month end reports given to management, so management is aware that company payables are being reconciled properly in TAM.

### Does "Acct Bal" equal the Balance Sheet?

The total of "Acct Bal" column on the Company Payables-Balance to Last Month End report should match the total amount of the Company Payables on the Balance Sheet. If the amounts do NOT match, it means there are companies listed on the Balance Sheet that have no unpaid items due to the company open in TAM. These discrepancies must be identified and cleaned up by running the Status of Accounts for these GL Accts and identifying the transactions entered, and determining what steps need to be done to resolve the issues.

### How old are the unpaid items?

It's great to be in balance, but the final step is to review the age of the unpaid items to the companies. It is rare that a company will allow you to pay the net premium due more than sixty days from the accounting month on the transaction.

Back to the scenario we discussed earlier: the agency has invoiced the client for additional coverage, and the client has paid the premium, but the company has never requested payment. Is the company aware of the coverage, and what happens if there's a claim? Do you have an E&O exposure?

*TIP: Run the Company Payables Report for all Unpaid Items with the Output set to "Aged", and review items over 60 days old.*

## Clean up the Company Payables

Cleaning up the company payables involves resolving the discrepancies found in the three steps. To find the discrepancies as of the last month closed, follow the steps below:

1. Be sure to have all statements closed and paid prior to posting month end. This means no Open or Unpaid Statements. To see if there are any Open or Unpaid Statements, go to Accounting - Reconciliations – Agency Bill – List Statements.
2. Go to *Reports, Accounting, Company Payables, Report Mode = Balance to Last Month End, Output = Complete*. Select transactions Unpaid to the Company thru the last month posted. Select the Company that is out of balance. This report will list the total unreconciled items due to/from the company as of the last month.
3. Run a *Status of Accounts* for the company payable account that is out of balance. If possible, begin with the last month the account was in balance (or had a zero balance) thru the month just closed.
  - a. Suggestion: Set the Report Criteria for "Subtotal by Month" to "Yes". You'll be able to quickly find the last time the company payable balance was zero.
4. Review the Reports:
  - a. Look for the obvious first – does the amount you're out of balance jump out at you, either on the Status of Accts or the Company Payables report?
  - b. Look for any manual entries on the Status of Accounts.
    - i. Checks or Miscellaneous Disbursements with a description of "STATEMENT #XXXXXX" or "ITEM #XXXXX" were probably paid thru the proper reconciliation process (not manually). Any other checks or miscellaneous disbursements should have been reconciled and closed thru Statement Utilities with the appropriate check or miscellaneous disbursement number. If not, this may be why the payable is out of balance.
    - ii. All deposits are "manual". The items paid by the company need to be reconciled and the statement closed thru Statement Utilities. This is a commonly missed step, especially with new accounting staff.
    - iii. Compare the manual check/misc disbursement/deposit entries on the Status of Accounts with the list of closed statements in *Accounting - Agency Bill – List Statements – Closed*. If you find that the amount of the check/miscellaneous disbursement/deposit on the Status of Accounts is different than the amount showing under List Closed Statements, this could be the problem. If these figures differ, investigate why the check, miscellaneous disbursement or deposit amount differs from the amount reconciled.

- c. Look out for Direct Bill Commissions that may have been deposited to the Company Payables GL Acct in error, and when Premium refund checks have been deposited to Direct Bill Commission Income in error.

## Clean out the closet

Has your agency never reconciled company payables consistently, or not at all? If so, you may need to clean out the closet! This is a last resort, and cleanup should be done, if possible, but here are the steps to clean out the old, and get your payables in balance.

### **Step 1:** Line in the Sand Date

- Come to a decision with your accountant and agency owner on what your “line in the sand” date will be. All unreconciled company payables prior to this date will be assumed to have been paid to the company, or in the case of credits, assumed to have been refunded to the agency by the company.
- For example, we assume all transactions with an accounting month prior to Jan, 2018 have either been paid to the company, or the net premium refund has been received from the company.

### **Step 2:** Flag and Reconcile all items prior to the “line in the sand” date.

- Reconcile one company at a time, and select the accounting month prior to your “line in the sand” month. In the example above, select “Dec 2017”. TAM will only list unpaid transactions with an accounting month thru Dec 2017.
- Reconcile all items in the list using “Full Payment”.
- Complete the statement, and Close thru Statement Utilities using Check # 99999. You could close the statement with no check number, but using Check # 99999 will allow anyone to quickly see this was closed due to clean out.

### **Step 3:** Clean up the unpaid items from the “line in the sand” date thru today.

- Reconcile items that have been paid or refunded, and close the statements thru Statement Utilities using the appropriate check, deposit or misc disbursement number.
- What remains as “Unpaid” to the companies should be an accurate list of what is truly due to or from the company.

### **Step 4:** Set up a GL Account for “Company Payable Cleanup” and enter Journal Entries

- Remember, the point of this process is to get the company payables in balance. We’ve flagged off all the old payables, and the transactions that remain unpaid are true and valid. The next step is to do journal entries to force the GL balance on the company payables accounts to match the total unpaid net premium due to or from each company. The offsetting GL account will be this new account. I usually list this GL account right below my “true” company payables.

- The company payable GL accounts are now in balance. The GL balance matches the amount of the unpaid transactions for each company. Now it's up to you to keep them in balance.

**Step 5:** Decide with your accountant and agency owner when the amount in the Company Payable Cleanup GL account will be written off via journal entry to either income or expense.

## Keep your payables squeaky clean

How to keep your Company Payables clean – every time!

1. Invoice transactions before applying client payments or paying a company
2. Always reconcile the Company Payable PRIOR to paying the company – adjust commissions, when appropriate (who's right, the agency or the company?)
3. When refunds are received, offset deposit to Company Payable GL Acct, reconcile the credit item(s), and close the statement thru *Statement Utilities* with the Deposit Number.