

Bookkeeping Tips

Handling Unsubstantiated Expenses in an IRS Audit

It is standard procedure in an audit to start with your strong suit—present first every item that you can substantiate dollar for dollar. Save undocumented expenses for last.

- 1. Reconstruct details.** For instance, for company car expenses, use the original invoice to substantiate the cost of the car. Use repair bills, which usually cite odometer readings, to reconstruct miles driven. Combine this data with an average number of miles per gallon to estimate the cost of gas. You may even be able to reconstruct tolls and parking fees from sales reps' call reports. For T&E, you should be able to get photocopies of charge receipts at restaurants from your credit card company. For other expenses, ask vendors for copies of receipts.
- 2. When you cannot reconstruct details.** Present any documentation you can get your hands on relating in any way to the unsubstantiated expenses. Then say: "Since I've been able to give you all this [referring to documentation for all of the substantiated expenses], and everything you have seen is accurate, why waste your time and mine plowing through this?" Be prepared to offer a reasonable settlement or to make a counteroffer to the IRS auditor's proposal.

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The American Institute of Professional Bookkeepers (AIPB), is the national association for bookkeepers, currently with 30,000 active members

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- To recognize bookkeepers as accounting professionals
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- To return the membership fees of any bookkeeper who is dissatisfied with the benefits of membership