

CONTRA ACCOUNTS: FINANCIAL HEALTH CHECKLIST

Use this checklist monthly to review your contra accounts, spot your financial risks, and improve your business decision-making.

STEP 1: REVIEW CONTRA ASSET ACCOUNTS

Accumulated Depreciation:

- ☐ Check *that* depreciation is recorded correctly for all fixed assets.
- ☐ Verify that the calculation method matches your accounting policy (straight-line, declining balance, etc.).
- ☐ Flag any missing or unusually high depreciation entries.

Allowance for Doubtful Accounts:

- ☐ Confirm the estimate for uncollectible accounts aligns with historical bad debt trends.
- ☐ Investigate unusually large adjustments or sudden changes.

STEP 2: EXAMINE CONTRA REVENUE ACCOUNTS

Sales Returns and Allowances:

- ☐ Compare returns to total sales and prior months. Large spikes may indicate product/service quality issues.
- ☐ Identify repeat customers or products driving returns.

Sales Discounts:

- ☐ Ensure discounts are applied consistently according to policy.
- ☐ Monitor trends—growing discount totals could signal cash flow issues or pricing misalignment.

STEP 3: INSPECT CONTRA LIABILITY ACCOUNTS

Discounts on Bonds Payable / Other Adjustments:

- ☐ Confirm reductions to liabilities are accurate and documented.
- ☐ Review contractual terms to ensure proper accounting treatment.

STEP 4: REVIEW CONTRA EQUITY ACCOUNTS

Treasury Stock:

- ☐ Verify stock repurchases are properly recorded and authorized.
- ☐ Ensure contra equity balances are consistent with board approvals or legal filings.

STEP 5: TRACK TRENDS OVER TIME

- ☐ Compare contra account balances month-over-month and year-over-year.
- ☐ Identify abnormal patterns—e.g., returns increasing faster than sales growth.
- ☐ Use trends to forecast potential operational or financial issues.

STEP 6: INVESTIGATE RED FLAGS

- ☐ Large, unexplained changes in contra accounts.
- ☐ Negative net asset balances that don't align with operations.
- ☐ Sudden increases in sales returns or allowances without clear cause.

STEP 7: TAKE CORRECTIVE ACTION

- ☐ Address operational issues identified (e.g., faulty products, service errors).
- ☐ Reassess pricing, discount policies, or vendor quality controls.
- ☐ Update team training to prevent recurring issues reflected in contra accounts.

STEP 8: DOCUMENT YOUR FINDINGS

- ☐ Keep a record of adjustments, investigations, and actions taken.
- ☐ Include notes on trends, anomalies, and management decisions.
- ☐ Use documentation for audits, reporting, and strategic planning.

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For Maximum Impact: Use this checklist alongside a dashboard or spreadsheet to visualize contra account trends, making it easier to spot risks and act before they hurt profitability.