

Closing the Books for Year-End

The year-end closing is a critical part of your annual accounting process. If you are handling your own bookkeeping, here are some things that can do to help ensure your books are accurate.

1. **Perform a bank reconciliation of all your bank accounts.** A bank reconciliation is a process that matches the deposits, checks and other debits you have recorded in your general ledger to what has cleared the bank. This process should be performed monthly as it will identify errors in your accounting records and possibly errors the bank has made.
2. **Reconcile your credit cards to your general ledger.** Same process as #1 above except it has to do with your credit cards. This will also ensure you are recording interest expense and haven't missed any deductions charged to your credit card.
3. **Update your inventory balance.** If you are in a business that maintains an inventory of raw materials, work in process, finished products, or goods held for re-sale, be sure to take a physical inventory at year-end, value the inventory at cost (not retail value), and update your general ledger to reflect the amount of inventory you actually have on-hand. You must also keep this list for your records in the event the IRS audits your books.
4. **Record all of your expenses.** If you maintain your books on a cash basis (you record an expense when you actually pay for it) this is nothing more than recording all your checks you wrote by the end of the year. A bank reconciliation (#1 above) will help ensure all expenses are captured in your accounting system. If you are an accrual basis taxpayer, be sure you record all amounts you owe your vendors as of the end of the year. This will ensure you are getting credit for all the expenses you are able to deduct. You should also set up a reliable system for recording your out-of-pocket expenses.
5. **Review your outstanding accounts receivable and accounts payable.** Be sure to periodically review the outstanding amounts to make sure items aren't duplicated or otherwise misstated.
6. **Review your fixed asset listing from the prior year.** Are there assets you may have sold? Are there assets you no longer have?
7. **Reconcile all loan balances to year-end loan statements.** Not only does this ensure all interest expense is properly accounted for, you could also discover loans that remain on the books but no longer exist because of forgiveness or oversight. Also, make sure all loans are actually recorded on the books. By not recording a loan, you may inadvertently cause yourself to miss an important depreciation deduction as a result of an unrecorded asset.
8. **Set a Closing Date (QuickBooks Users)** – Before you send us your QuickBooks data, set a closing date as of the end of the year. This will help prevent making changes to your data after we get it to prepare your tax return. By deleting or adding transactions or otherwise modifying the data in a prior year (including the one you are just closing) you can create extra work for which you may incur additional fees. Because adjustments end up flowing through various balance sheet accounts, changes to prior data will cause other items to be out of balance. When this happens we must identify the changes so we can decide whether you need to amend a prior year return or whether the adjustment belongs in a following year.

By following this list, you will create more accurate books and will save the expense by making the year-end tax return more efficient and effective.