

A 39-Item Tax
and Accounting
Year-End Checklist
for Your Small Business

Keeping your accounting records up to date all year long is essential for any business so you can see exactly where your business stands and be able to make thoughtful decisions based on clean numbers.

At year-end, there are a few extra accounting tasks to finish so that your books are ready for the tax professional when tax time comes around. Plus, anything that wasn't performed monthly or more often should now be completed at year-end.



Here's our list of items we feel every small business owner should consider doing or delegating at year-end. Every company may not need to do every task – just the ones that apply to their business and their situation.

1

Bank Statement Reconciliation



All bank account balances on a company's balance sheet should be reconciled to their corresponding bank statements. Hopefully, your main checking account is being reconciled monthly, but perhaps your savings or investment accounts are not reconciled as often.

Don't forget bitcoin if you're into digital currency.

2

PayPal Reconciliation

It's easy to forget your PayPal account in the list of reconciliations to complete. It is effectively another cash account like your bank, and we list it here separately for emphasis. If you're using your PayPal account for both business and personal, get two accounts and your accounting will be less expensive and more straightforward.



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Petty Cash Reconciliation

Does your business have a petty cash account? If so, complete the reconciliation on the last day of your fiscal year. That will allow you to record all outstanding expenditures and replenish the account to its balance sheet amount.

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Credit Card Reconciliation



If you have credit card debt in your business, each credit card statement balance should be reconciled to the amount on your balance sheet report.

If you are using your credit card for both personal and business, get another credit card and use one card for personal and another for business. This will greatly cut down on your accounting expense and keep things easier to track.

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Loan Reconciliation

If your company has any loans, the loan balance on your balance sheet should match the loan balance on the bank or lender statement. When payments are made, they include both principal and interest which need to go into separate accounts. Often, this is not recorded correctly and can be corrected at year end.



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Interest Income and Expense

It's a good idea to reconcile the balances in your interest income and expense accounts with the interest you received and paid from your financial institution reports.

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Accounts Receivable



If you invoice clients and have unpaid invoices, then you will have a balance in Accounts Receivable. The total of this account should add up to all the unpaid customer invoices you have.

You may need to make adjustments so that the balance is accurate. For example, some invoices may need to be voided or adjusted if the amount is incorrect.

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Uncollectible Invoices

If any of the unpaid invoices in your Accounts Receivable account are old and might not be collectible, they can be written off or sent to a collection agency.

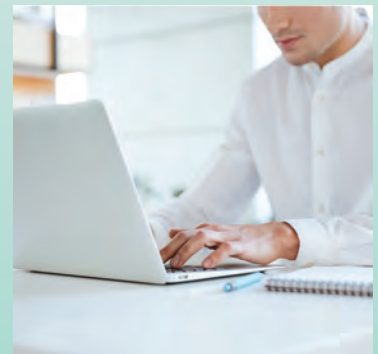
9

Inventory

If your business stores inventory or items for sale, then the cost of these items need to be reflected on your balance sheet. The reconciliation is a counting of physical inventory and matching that to the inventory balance on your books.

Your inventory may be a lot more involved if you manufacture goods for sale. You will have components such as raw materials and work-in-process in addition to finished goods.

The cost of each item is determined by the accounting method your business has adopted. Once the physical count is complete, an adjusting entry can be made to adjust the book balance.



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Inventory Write-Offs

If some of your inventory is no longer salable, it may need to be written off or sold for scrap. Your books should be adjusted for these changes at year-end or as soon as the items are determined unsalable.

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Accounts Payable



If you owe vendors money for work performed or items acquired, then you will have a balance in Accounts Payable. The total of this account should add up to all of the unpaid bills you have.

You may need to adjust the balance for accuracy. For example, some bills may need to be voided or adjusted if the amount is incorrect.

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Sales Tax Liability

If you collect sales tax when you sell your products or services and some of it is unpaid to the state or local agency, you should have an amount recorded in your sales tax liability account. It should be adjusted to the exact amount due. The amount will be determined by your payment schedule. It could be a year's worth, a quarter's worth, a month's worth, or some other amount.



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Meals and Entertainment

One of many things your tax accountant will be asking you for is the amount you spent on meals and entertainment. It's helpful to have those items in separate accounts with no other expenses so the amounts can be determined quickly.

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Documentation for Invoices, Bills, and Receipts

If you are ever audited, you'll need proof of what you spent in your business. Year-end is a good time to make sure your paperwork is in order and either filed in a safe place or scanned in and saved in the cloud.

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Fixed Assets



Your balance sheet should reflect the long-term assets your company owns, such as vehicles, buildings, land, machinery, furniture, equipment, computers, and the like. Each of these items should be listed on your fixed assets schedule and the balance should reflect the correct value of these items.

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Depreciation

Certain fixed assets can be depreciated which means a portion of the cost is expensed each year. A company should have a current depreciation schedule and that should be updated each year or more often.

An adjusting entry should be made to reflect depreciation for the current year or period if it's recorded more often.

A schedule should also be kept of differences between book and tax records so that it's easier to complete the corporate tax return.



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Wages Reconciliation



Expense accounts that are payroll-related should be reconciled with the sum of the payroll reported on the IRS Form 941s in all four quarters. These accounts include wages and payroll taxes paid by the employer.

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Officers' Salaries

Your tax professional may need the breakout in wages between officer's salaries and all other wages if your business is incorporated. Your accountant can create a separate account and make a journal entry to break it out or you can track it outside of your accounting system.



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Bonus



If you award bonuses at year-end, 'tis the season to run that special payroll cycle.

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W-2s

Hopefully your payroll system automatically generates W-2s for your employees and the W-3 submittal, but it's a good idea to check them to make sure they are accurate. You may also have state and local reporting requirements at year-end.



The totals on the W-3 should reconcile to the corresponding payroll expense accounts.

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W-4s



Year-end is a good time to see if you have copies of W-4s in hand from your employees.

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Vacation and PTO

If your company does not roll over vacation time for employees, there may be an adjustment to make in your payroll system to update the earned and unused hours.

This might need to be done on the employee's anniversary date versus year-end.



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State Unemployment Insurance Rate



At the beginning of each year, each unemployment insurance agency in the states where you have employees working will notify you of your company's new SUI rates. These should be entered into your payroll system so that the numbers can be accrued correctly.

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Workers Compensation Insurance Updates

Your workers compensation policy should always be kept up to date with new hires, new or changed work codes, employee terminations, and work location changes, but year-end provides a good time to double-check it. This year, your employees may very well be working from a new location, so be sure to update your policy if you haven't already.

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Posters

If you have workers in a state that is a stickler for labor law posters, then make sure you send up-to-date posters to each work location in your business and instruct employees to display the employment posters prominently.



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W-9s



If you pay contractors, each one will need to furnish you with their W-9. It's best to collect this before you issue the first check to them. But year-end is a good time to audit your records to see if you have what you need.

You may also want to collect their insurance certificates at this time. If you don't have them, you may be subject to paying more in workers compensation.

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1099s

Your company may need to generate and send 1099s to any contractor you paid over \$600 for the year that was not paid through credit cards or a payment vendor like PayPal.

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Other Account Balances

If you have other accounts not listed above on your balance sheet, they should be reviewed or reconciled. These accounts are less common: goodwill and other intangible assets, deposits, prepayments, escrow, and others.



It will depend on the nature of the account as to how the amount can be validated.

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Other Accruals

There may be other accrual entries not mentioned here that apply to your situation and that need to be made by your accountant.

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Barter Transactions

If you performed any barter agreements this year, you'll need to make a manual journal entry to properly record the transaction.

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Other Adjustments and General Cleanup



Other adjustments you need to make to clean up your transactions can include things like transactions that got booked without a class; entries that were made to an account when a subaccount should have been used, entries that were booked net that need to be grossed up, and entries that were booked into the wrong income or expense account or category.

You could also have accounts, customers, vendors, or other entities that were created incorrectly and that now need to be merged or deleted after the transactions are restated.

Your data will be more meaningful and consistent when you take the time to clean it up a little.

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Tax Documents

As you receive these at the beginning of the year, keep them in a safe place and all together for easy delivery to your tax professional. Better yet, scan them in as you get them and upload them to your client portal.

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Cash vs. Accrual Adjustments

Many small businesses use the accrual method of accounting to keep track of unpaid invoices and bills but use the cash basis to pay taxes. In this case, reversing entries need to be made so the books are right for tax but then are reversed on January 1 back to accrual.

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Backup Your Data

Hopefully, you're taking a backup far more often than once a year. Year-end is simply a good time to take an extra backup or even test your current backups to make sure your disaster recovery plan is sound.



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Password Change

If your accounting, payroll, bank, PayPal, and other financial accounts do not force a password change periodically, now is a good time to reset all of them. Use a different, strong password for each account. Hacking and especially phishing are way up in volume this year, so your chances of having something bad happen are significantly increased.

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CPA Review

Now is a good time to allow your CPA to review your books to see if anything else should be done. Or maybe you've delegated all of the above tasks to them and they've been with you every step of the way!



If you haven't gotten your CPA involved yet, now is the time to do it.

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Close or Lock the Books

Now that everything is tied with a bow, no more entries should be recorded that have a date of last year or your balances will change and no longer reconcile with all the hard work you've done so far. Some accounting systems allow you to close the books by preventing new entries; this is called locking or closing, so use this feature if you have it.

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Budget for Next Year



How close did you come this year to meeting your budget? An analysis of the year can be made at this time, along with the creation of a new budget for next year based on what you learned and your upcoming goals.

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Tax Projections and Plan

It's a really good idea to set up a tax projection or planning meeting with your tax professional well ahead of December 31 in case there are any moves you can make to save on taxes. This should include determining if you have deposited enough of your tax liability so that you won't owe a large amount come tax time.



You can also get a schedule of tax payments that need to be made in the coming year for the following year's taxes.

Conclusion

Of course, we can explain as well as help you complete all these items so that your books and taxes stay current, accurate and organized. Reach out to us anytime so we can help you with all your accounting and tax needs!

**Give us a call, email us, or schedule
a time on our calendar so we can talk.**