KESMIC
Consultancy Hub

HIGH FIVE

A HANDY YEAR-END ACCOUNTING GUIDE

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HIGH FIVE - A HANDY YEAR-END ACCOUNTING GUIDE

GENERAL CONCEPT

It is the most wonderful time of the year – the dawn of a new era. But, often times Accountants' bliss of the new era is cut short when the thought of closing the books strikes.

For this reason, Kesmic has put together **High Five** - A handy 5-step year-end guide to put control in the hands of Accountants to be able to close the accounting year with certitude and in no time, while illuminating business owners on what to expect of their accountants.

"The books", in the context of accounting, refers to an entity's records of financial transactions i.e. income, expenses, assets etc. Closing the books, which is sometimes referred to as year-end accounting, is a series of activities performed to confirm that an entity's financial records are up to date (complete) and recorded correctly (accurate). Undertaken to close the books for mostly a 12-months period, year-end accounting helps in spotting errors, rectifying them and balancing your books prior to a financial audit.

Outlined below are the five key steps to a hustle-free year-end accounting;

THE HIGH FIVE

1. **Deal with Invoices & Bills, and Reconcile Bank Accounts**

One of the crucial things to do when closing the books is ensuring that all income and expenses relating to the period are captured and are up-to-date. If you have any item(s) sold or services rendered for which you are yet to invoice, now is the time to do it. In the same context, if you have any customers with unpaid invoices, follow up on them immediately. Your accounting software may allow you to send such reminders, so waste no time.

On the flip side, it is very likely that you have captured majority of your expenses, so kudos! If you have a few backlogs, then here is where you catch up. More importantly, if you are yet to receive any bill for item(s) or services purchased on credit, then it is time to chase your bills.

In instances where you are not able to get your bill(s) for item(s) and/or service(s) purchased, then make accruals for such expenses. Similarly, if, for some reason(s), you are not able to invoice a customer for an item sold or a service rendered, then, a revenue is to be accrued in this regard.

If, on reasonable grounds, an unpaid invoice is deemed as not recoverable, then such invoice is to be written-off at this stage.

Once all your income and expenses are properly captured, be sure to reconcile your bank and credit card accounts. That is, matching all the income and expenses that you've recorded in your books (accounting software) to the official statement that your bank has provided. Make sure to run and review your bank reconciliation statement after your bank reconciliation exercise, and that you understand why a transaction (if any) is not reconciled at year-end.

2. **Non-Current Asset Update**

Here, you want to be double sure that all your non-current assets (a.k.a. fixed assets) are up-to-date; all newly acquired ones are added and any that was disposed of is accounted for appropriately. As well, confirm that depreciation has been run for all your non-current assets, and adjustments to Net

Book Values (NBV) are made where necessary. For example, adjustment in NBV for loss in value due to obsolescence.

3. Payroll Checks

Next, check if all payroll entries are made appropriately, especially your payroll tax, pension and other deductions are recorded appropriately, and agrees with your filed returns. In addition, establish whether there will be bonuses offered to employees as the year ends or not, and account for them accordingly.

Finally, go over employee and contractor information files for the year, and verify that you have accurate and updated contracts.

4. Inventory Checks

At this point, you will need to undertake a final stock count. This is supposed to be done on the last day of your accounting year, which is December 31 for most companies. This is to, among other things, help you reconcile what you have in your books to what is in your warehouse, and to determine how much stock you are starting the following year with. Where necessary, make adjustments for any difference between your warehouse stock figures and the figures in your books. This difference could arise as a result of theft, breakage, expiry of goods, etc. Be sure to document them and obtain the relevant supporting documents before passing such adjustments.

5. Perform GL Reconciliation & Run reports

Run your Income Statement (Profit or Loss Account) for the current year, and perform a trend analysis, comparing the current year's figures with the previous period's. The objective here is to establish reasons for any significant variations.

To further put your accounting records in a pristine condition, review the individual accounts within the general ledger to ensure that:

- the source documents based on which you recorded transactions matches with the balances and are attached to the transactions in your accounting software. If your software does not allow the attachment of source documents to transactions, then you may want to ensure you have hard or scanned copies at your disposal to which you will do the matching, and
- you know the breakdown of the balances shown in each account on the balance sheet,

Run your final Income Statement, Balance Sheet and perhaps your Cash Flow reports after your general ledger reconciliation.

Once you have completed every step, set a lock date in your accounting software, users won't be able to edit or add transactions with a date that is on or before the closing date.

Dear "High Five" Accountant, you just closed your accounting year!

To make things much easier for you, we have also included below a printable year-end checklist so you could track your progress.

YEAR-END ACCOUNTING CHECKLIST

Deal with Invoices & Bills

- ❑ Send invoices for unbilled goods, services and/or projects
- ❑ Send reminders to customers who owe you
- ❑ Follow up with vendors for bill(s) covering goods or services you have received but have not been billed
- ❑ Make accruals for revenue and/or expenses where necessary
- ❑ Write off bad debts
- ❑ Reconcile your bank, cash and credit card accounts

Non-Current Asset Update

- ❑ Ensure non-current assets are up to date
- ❑ Run depreciation
- ❑ Adjust NBV where necessary

Payroll Checks

- ❑ Review payroll entries, and agree payroll deductions to filed returns
- ❑ Decide on bonus and account for it accordingly
- ❑ Review employee and contractor's files

Inventory Checks

- ❑ Count stock on the last day of your financial year
- ❑ Reconcile book value to warehouse value, and make adjustment where necessary

Perform GL Reconciliation & Run reports

- ❑ Run Profit or Loss report and perform trend analysis
- ❑ Review individual accounts within the general ledger
- ❑ Run and review your final Profit or Loss report
- ❑ Run and review your Balance sheet
- ❑ Run and review your Cash flow report
- ❑ Set a lock date