The Time of Reckoning – Closing the Books for 2011

Year End Checklist

The end of the calendar year is also the end of the fiscal year for most businesses, and that means it's time to close the books. The end of the year also is an excellent time to analyze your business performance and get ready for your tax filing.

Closing the books means you are ending your official accounting period so you can start the next period with a clean slate. It means that once the books are "closed" there will be no more changes to the financial documents for the closed period. So accuracy is critical. The closed books are the "gospel" of what has happened in the financials for your company. Surprisingly, this may not be as easy as it sounds. If you want to accurately reflect exactly what happened in your business during any particular period, you need all of the supporting information. For example, invoices from vendors may be late, employees turn in expense reimbursements well after the expense occurred, credit card statements and banking statements take additional time to reconcile, etc.

There are a host of reasons why your financial records might need to be "tweaked" after the end of an accounting period, and once the books are closed changing the financial records is a real challenge. It's like trying to get the Pope to accept abortion or birth control. Don't bother trying it. That's why many companies close their accounting books every month or every quarter. Closing the books monthly makes a lot of sense for many businesses because it's an opportunity to stay close to the true business performance and the systems within your business. You don't want to realize after a year's time that your monthly profit and loss is off, that you owe more taxes than you thought you were going to, or that you suddenly have pension and 401K expenses that you had no idea were going to wipe out all of your hard-earned profits because you failed to close the books each month. It's important to make sure you know what is happening in your financial world. But no matter what, even if you choose to wait until the end of the year, you certainly should close the books at least annually to prepare for tax filing.

To close the books means you close out and reconcile all of your accounts; all expenses have been posted, all income has been accurately reflected, and all of this information is entered accurately to corresponding accounts on the balance sheet. It means that every financial transaction, whether it has been paid for or not, is accurately reflected in your financial ledgers. And that an IRS agent could verify all of the information you have posted in your financial records with corresponding supporting documentation. It also means that there will be no "going back" to fix the "oh we forgot," or "we didn't know that was going to happen"

It is critical that your bookkeeper and controller be able prove to you that the systems within your business support accurate and effective source document management. They need to show that what is reflected in the financials can be proven as accurate with supporting information, and that every account on your balance sheet and profit and loss actually make sense. If they don't, and you don’t understand them, then question whether or not your books are being accurately closed out each month. It’s not just about your bank balance; it is all of the accounts in your financial ledger. Each and every one needs to be accurate.

We use anAccounting Year End Closing Checklist that you can use to see if your bookkeeper or controller is truly doing what is needed when they tell you the books are closed out. Use the list to quiz them, and to demonstrate that they are actually closing the books. After your interview them and have them show you the systems they have in place, use good common sense and risk management analysis to determine how well your books are being closed out. Have you allocating enough resources to your financial record keeping. Are you investing enough into your money center, or are your books a mess, and is money being spilled recklessly about so the next IRS agent is going to tell you how reckless you have been?

The year end is the time to not only “close your books” and hand the financials over to your CPA to prepare your tax return, but assess how well your business is performing financially. You will sleep better at night, and you will have all of 2012 to work on fixing the things that you could have done better in 2011. Good luck!