

Getting Ready for your Year End Accounts



*This was originally sent out as a series of weekly email messages.
If your year-end is not December 31 you will need to translate dates.*

Introduction

It may have slipped your attention, and we will forgive you if it did, but we are now in a new tax year. It's no cause for alarm though. We aren't ready to begin work on your year-end accounts just yet, but I thought that it would be good to remind you of a few things that you could start working on over the coming weeks, while it is still fresh in your mind (we know that it can often be difficult to remember everything months later, that's why we're starting early).



Now please keep in mind that not everything in this guide will apply to you. So if we ask you to get something together that you know doesn't apply to you then please simply ignore it. If you're not sure, just drop us an email or give us a call.

And finally, PLEASE don't send stuff to us drip-feed! We simply can't handle it all coming in piecemeal. Please collate it all together in a box or in a folder on your computer – and hold it there until we ask for it. When you have it all together please call or email us. We will let you know when we are ready to begin.

When we are ready to begin we will contact you. Our work begins once we have received the responses to our questionnaire (which will cover all the details in this document). We usually allow for 4 weeks for our team to review your responses and compile your draft financial statements and tax returns. Our ability to meet this deadline is very dependent on you meeting your obligations. We request that you respond to any requests within two working days. If you don't our time line is likely to slip.

Stock-take



If your business has material that is consumed in the process of earning income (manufacturing or anyone with consumable supplies) or you purchase goods for resale (retailers) then you should do a stock-take at the end of business on December 31. You should make sure that you have planned to count your inventory as close to December 31 as possible. It's OK to count over the preceding weekend as long as we can estimate stock in and out for the last days of the year. If you count too early or too late then it's more difficult to "roll forward" or "roll back" to the balance date. If you have a perpetual inventory system that keeps an active count

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of stock on hand then try to count a chunk every day and post corrections before the end of the month. If you count after year end you will need to back date your adjustments - so keep good records.

If you deliver service or are a tradesperson you should also think about unbilled work – do you have stock on a customer’s site that you are in the process of installing? Do you have a job that is 50% complete but won’t be invoiced until January? All these things need to be noted down.

Accounts Receivable

The next thing I want you to look at is to look for missing Debtors (accounts receivable). No, not the deadbeats who have stopped answering your phone calls – that’s a whole other kettle of stinky fish! I’m talking about work you did in the last tax year (up to December) that you hadn’t been paid for. Tax rules requires that we use “accrual accounting” to prepare your accounts. One of the implications of this is that we must treat as income any amount that you have already earned.

If you are a Xero Business edition user I hope that you are using Xero to enter your sales invoices on account (not necessary for cash sales). If you are dating these invoices correctly then you should be almost done.

If you are not using Xero Business edition (you may be using the Cashbook edition or we may prepare you accounting records for you at the end of each year) for your sales invoices and you have any unpaid sales at the end of December then you should make a list of any invoices you had issued by the end of December that had not been paid, or just anyone that owed you money from sales. One useful thing you can do here is to look at your bank statement for the weeks after year-end and see who paid you. Some of those deposits may well relate to December or earlier. You should make a list of the invoice numbers, customer name, and amount of any debtors (not already in Xero). If you break your revenue down into separate lines (i.e., it doesn’t all get listed as “Sales”) then you should subtotal this list by type.

Here are a few other related things that I would like you to sort out now as well please, if they apply to you:

- **Unbanked Sales:** If you had any Cash on Hand (such as a Till Float) or any unbanked sales at December 31 please total that up and note when it was banked.
- **Work in Progress:** If you do services (consultants, tradesmen, etc.) and have done enough work to entitle you to bill, but haven’t issued the invoice, please make a schedule of all jobs in progress at December 31 and the amount of unbilled time or cost.
- **Prepayments:** If you have received funds in advance of any sale (deposits, laybys, account overpayments, etc.; and they are not already recorded as prepayments or overpayments in Xero) then please make a schedule of these.
- **Gift Vouchers:** If you have sold any gift vouchers that have not yet been redeemed at December 31 please make a list of these and total it.



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People often ask about **Bad Debts** here. CRA rules require that debts can only be written off for tax purposes in the tax year that they become “bad.” This means that as soon as you become aware that a debt is uncollectable (due to the bankruptcy of the debtor, for example) you must take steps to record it as bad immediately. If you have a customer who is not paying you may also decide to make a provision against that client. You don’t have to stop attempts to collect, but formally recognizing that the debt is impaired is the first step to being able to claim a deduction for it. The best way to do this is to make a list of these items and include them in your year-end response to us. Please don’t simply delete the invoices from Xero as this destroys the audit trail.

Unreimbursed Expenses



Do you want to build a snowman? I just can’t seem to get the song jingle from the movie “Frozen” out of my head. I haven’t actually seen the movie myself, but my kids can’t stop singing it! It’s driving me crazy!

Sorry – I got off track. Do you want to go on a treasure hunt? We routinely find that business owners forget to claim all the expenses that they are entitled to claim. When this happens they might as well flush about 40c in every dollar down the drain because that is what they are giving up by failing to include them in your year-end accounts. It’s pure gold I tell you! So let’s go hunting for treasure.

Unfortunately, most business owners aren’t as diligent as we’d like them to be when it comes to recording their business expenses. It’s not uncommon for expenses to be paid in cash (out of the owner’s pocket), by a spouse or on a personal credit card – and then they are quickly forgotten.

I recommend that you go through your personal bank account, personal credit card, paypal account and any other place where you might find hidden business transactions (yes, even those parking receipts that are stuffed down the back of the sofa – right next to the chewing gum).

Please make a schedule of the date, vendor, amount, purpose, method of payment and whether it is GSTable. We are going to need to enter these in with some detail. You can ignore anything that was reimbursed through your business bank account (as long as it didn’t look like drawings), but if you’re not sure write it down and leave a note beside it.

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Home Office Expenses

Many business owners routinely use their homes to perform their business activities. In order to claim expenses from your home office you have to be able to justify it as a legitimate business expense. To be eligible the space must be:

- your principal place of business; or
- exclusively used to earn your business income, and used on a regular and ongoing basis to meet your clients, customers, or patients (making telephone calls to clients probably qualifies – but admin use only probably does not).



If you don't know if you qualify please get in touch and we can work through the situation with you. Home Offices can be easily disallowed if abused so we want to ensure that you are qualified.

Unless you know that we aren't going to claim Home Office expenses, you want to include anything that was paid from 1 January to December 31 for the following:

- Rent on your house (if renting)
- Mortgage Interest (excluding principal repayments) that relate to the purchase/maintenance of the home (not other subsequent lending)
- Property Taxes
- Utilities (water, electricity and gas)
- Home Telephone & Internet (but exclude TV and personal subscription services)
- House and Contents Insurance
- Repairs and Maintenance

Again, make a list and total each category. Just a friendly note: we don't really want to see all these receipts. If you drop them off to us for us to sort out there will be additional charges!

We also need to know the total amount of usable floor space in your home and the amount occupied by your business.

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Bank Transactions/Reconciliations

I hope that you've been following our advice and [staying schizophrenic](#) when it comes to our business financial transactions and keeping them in a separate bank account. Because your objective this week is to ensure that we have all the data that we need to begin the process of creating your year-end accounts. Preparing your annual accounts and tax returns depends on complete and well-coded bank data – but that is only the beginning. So it's very important that this step be done well and completely, so checking bank reconciliations is the very first thing we do when we begin work on any year-end file. If we find that the bank data is not balanced or is incomplete, we can't proceed. This always leads to delays.

Monthly Bank Statement

24 HOUR TELEPHONE TRANSFER LINE - 122 5678
CUSTOMER SERVICE NUMBER - 807 1234 EXT 234

DEPOSIT ACCOUNTS
DETAIL CHECKING
REGULAR CHECKING
ACCOUNT:
NO. REC:

THIS STATEMENT SHOWS ALL ACCOUNT TRANSACTIONS FROM SEP 14 1977 - THRU OCT 12 1977

DEPOSITS		CHECKS AND DEDUCTIONS				DAILY BALANCES	
DATE	AMOUNT	NO	DATE	AMOUNT	NO	DATE	AMOUNT
9/19	100.00	4882	9/15	32.00		9/15	2533.40
		****				9/16	2503.45
		****				9/19	2503.45
9/28	289.00	4885	9/18	29.95		9/28	2583.45
		4886	9/28	10.00		9/28	2573.45
		4888	10/02	48.00		10/02	2525.45

**** INDICATES ONE OR MORE MISSING CHECKS

BEGINNING BALANCE 9/16/77	DEPOSITS & CREDITS	CHECKS & DEBITS	ENDING BALANCE 10/12/77	
NO	AMOUNT	NO	AMOUNT	
2586.40	2	309.00	2	2522.45

ENCLOSURES: 8

If you are a Xero user you need to ensure that your reconciliations are up to date to at least December 31 (but we actually recommend that you get fully reconciled now as we may need further data from the months after year-end). The easiest way to do this is in Xero to run a Bank Reconciliation Report – you can get to this from either the Bank Account's "Manage Account" menu or from the Reports – All Reports menu. For some pointers on common problems in the bank reconciliation and how to fix them please check out the [blog entry here](#). If your bank accounts are not completely reconciled there may be additional charges as we have to complete this process before we can start the rest of the process. If you notice now that you need help please contact us sooner, rather than later. We are experts at sorting out bank reconciliation problems!

If you are not using Xero and are not GST registered then we probably haven't got your data yet. To help get the data ready for us you should download the data from your bank. We will need data for 1 January (last year) to December 31 (this year) for all bank accounts. We recommend that you choose CSV file format. Please make sure that you rename the exported files so that we can tell what account they belong to. Next, you need to open the CSV file in a spreadsheet programme (like Microsoft Excel) and add notes to a spare column right after the bank data with comments that will help us code the transactions. Unless you tell us otherwise we are going to treat each deposit as a sale and treat all payments as business expense using the most appropriate category based on the details from the bank statement. If the bank statement isn't sufficient, or the transaction is personal) you should give us more detail so that we don't have to ask you.

If you have very low volume or are not keeping your business transactions sufficiently separate from your personal transactions then we may not be able to use the bank feed data. In this case we need a complete list of all your business transactions, listing date, payee/payer, amount and a description of the purpose. We have a template you can use to catalog these – please contact me to ask for it.

Please also check to see if you have opened any new bank accounts during the last tax year. If you have please make sure that we have these accounts in Xero if you are using it. Call us right away if you are not sure if we have all the right data. Don't forget to include credit cards you use exclusively

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(or mostly) for business purposes (if you intermingle your business and personal purchases on your personal credit card then it is better to just give us a list of the transactions.

Finally, we are going to need to see a copy of the year-end balance of all bank accounts and credit cards included on your accounts – preferably from a statement. It needs to show (or be able to calculate) the date and the closing balance as at December 31. Many of us are no longer receiving paper statements, so check your on-line banking for PDF versions of the statements. If the bank gives you a balance summary of all your accounts on one page then this is perfect! If you don't have any form of paper or electronic statement, then a screen shot of your online banking may show us the balance at year end. If you're not sure please call.

Accounts Payable

No one likes paying tax – not even me. But what's worse than paying tax is paying TOO MUCH tax! Our goal is to help you pay the lowest tax legally possible. Our tax system requires that businesses file their tax returns on an "accrual" basis – this means that we must generally include transactions in the tax year to which they actually relate, even if they weren't paid or settled until the next tax year.



This means that we have to include sales that you haven't been paid for yet (we covered this a few weeks ago), but also means that we can include expenses you have incurred but haven't yet paid. So this task is to make sure that we have all the information that we need to ensure that we are claiming as many expenses as we can that relate the last tax year.

If you are a Xero Business edition user you have the ability to enter your Supplier Bills into Xero. If you have been doing that for ALL of your bills correctly then there should be nothing left to do (go home early, grab a glass of wine, and put your feet up!). But if you know that not all of your bills are entered as bills (i.e., there are some bills that you only enter when you pay them) then you should continue...

What we need from you is a list of unpaid bills at December 31. By now you would have paid most of these (this task is best done after the 20th of Feb) so you should have already coded them in your bank reconciliation screen in Xero (if applicable). To identify them:

- Complete your bank reconciliations (especially the outbound payments) in Xero
- Go to Reports, All Reports and click on "Detailed Account Transactions".
- Change the date range to start at 1 January (and end today or the end of Feb) and click "Update"
- Export the report to Excel
- Open the report in Excel and review the report. Highlight any line that you know relates to the previous tax year. Feel free to add comments in the column past the right edge. Most of the transactions that you are looking for will have the type "PAY". You can ignore the first part of the list covering income as you should have reviewed this area a few weeks ago.

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If you're not a Xero user then the easiest thing to do is go through your bank statements and identify all payments out that relate to December or earlier. Make a list of the date, vendor, amount (including GST), purpose (so that we can code it correctly) and any additional comments.

That should have caught most creditors. Please also make a list of any creditors that you are still behind payments on. If you have statements from December 31 or other documents that will help us determine what the correct balance was at December 31 you should hold those documents as well.

I hope that doing this doesn't get you too depressed. Just think about the expense deductions you're finding to keep you tax bill down (OK, not everyone gets excited by that either – but work with me here).

Motor Vehicle



We all know that running a vehicle these days is very expensive. So if you use a vehicle in any way for business purposes then you may be able to claim additional expenses for your motor vehicle use.

There are three different scenarios that can apply based on your personal circumstances. If you don't know which one applies to you then please contact us. Only one will apply to each vehicle – so work out which one applies and only follow those steps. Please also remember that there are limits to the value we can deduct for vehicle purchase or lease.

Company Ownership

If you trade through a corporation and the car is in the company name then you should have already included all the motor vehicle expenses (gas, insurance, maintenance, etc) in your business bank accounts and included the "stand by charge" on your personal T4 slip (same applies to vehicles provided for your staff). If you have paid any MV expenses personally please make a list, verify that you haven't already claimed them, and have that ready for us.

Personal Car used in the Corporation

If you trade through a corporation but use your personal car you are treated as an employee. You need to do an accurate log of all your business travel during the tax year ([see here for guidance on how to do that](#)). If you already have one, fantastic! If you don't have a log book (or it's not complete) then you really are making our job harder! I recommend that you sit down with your diary and go through the last year and honestly check your records and fill in any blanks you have. Please note that driving from home to the office is considered personal unless your home is deemed to be your primary place of work.

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Sole Proprietor

If you do not trade through a corporation then you are a Sole Proprietor (or partnership). You can not claim direct expenses or mileage – you need to use the “Share of Use” method to apportion your vehicle costs between business and personal. You need two distinct sets of data here.

First, you need a log of business KMs travelled ([see here for guidance on how to do that](#)) and the total number of KMs travelled for that vehicle. This gives us a defensible percentage of business use. Please note that driving from home to the office is considered personal unless your home is deemed to be your primary place of work.

Secondly, we need to know the expenses incurred to operate that vehicle for the year. If they have already been put through your business bank accounts then you’re probably OK. But have a think about any of the following that you may have paid personally:

- Gas
- Oil changes
- Wheel alignment
- Registration
- Insurance
- General maintenance and repairs

Here are some things that we can’t claim:

- Your personal driver’s licence registration
- Parking fines
- Speeding tickets and other traffic infringements (even if you were on business)
- Costs of repairing the vehicle from an accident while not on business (if caused by general mechanical failure then include it in general maintenance for share of use, if on business then 100% claimable)
- General purchases from the gas station or cash back on your INTERAC card

So check that we have all the right details. If you are not sure what approach you should be taking feel free to ask.

Documents to Collect

We try to be a paper-less office. We don’t like stacks of papers sitting around any more than we have to. But this week - it’s time for a paper chase!

Because we do as much as we can online we really don’t want to see all your invoices and paper records. In fact, we ask that you NOT send them in to us! However there are a few things that we need you to hunt down and collect that will make it easier for us to complete your year-end accounts (but please scan or photograph them). Here they are the business documents that we need:



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- Bank statements for all business bank accounts showing the balance at December 31 (we don't need the whole year – just the one page that shows the December 31 balance. If the bank sends you a summary of all accounts then this page will do just fine)
- Copies of all invoices for legal expenses incurred during the year
- Copies of any new lease, hire purchase or loan documents that we haven't already received
- Details of changes in your company structure (changes in shareholdings, etc).

There are a few personal documents that are useful as well (if we are doing your personal tax returns):

- All T slips
- Donation receipts
- Receipts or documentation for any other deduction/credit that you intend to claim

I hope that you don't feel like that guy from The Office with the post-it notes all over him!

Pretty Much There



Congratulations – we have reached the end of this process! I really do hope that you have been able to keep up and do the work assignments bit by bit over the past several weeks. I'd also appreciate your feedback on these emails and how helpful they were to you.

Every client is different, so we have focussed on the most common things that we need from our clients. There may well be other things that we need to get from you. If you remember from last year that we asked you for something then there's a good chance we are going to ask you again. So why not grab it now and set it aside with everything else. We are very likely to have more questions, but we will be in touch later with any of these.

Please gather all the information together and scan the documents (we don't really want the paper cluttering up the office) and email to your accountant. The sooner that you can get this data to us the more likely we are to be able to meet all deadlines.

So that's it. Thanks so much for sticking with me. If you have any questions please don't hesitate to call us.