



## Sound Bookkeepers Year End Guide

This guide outlines the key areas of your bookkeeping we review at year end. The year end close out process begins around November and goes through until your return is successfully filed by you or your chosen tax preparer. This list is designed for clients who want to understand what the year end fee covers.

### 1. Chart of Accounts

The Chart of Accounts organizes your business's financial data into categories to make tax reporting easier. It's essential for these categories to align with the forms you file, like Schedule C or 1120S, and to reflect your true expenses. Common errors include unused accounts cluttering the list, misclassified expenses (such as vehicle repairs under general expenses instead of "Auto", using miscellaneous or reimbursement as a category instead of the IRS allowed category), and duplicate or vague account names. These small issues can lead to higher tax preparation fees, and possibly over or understating income, expenses, assets, and liabilities if not addressed.

### 2. Customers

This section reviews your customer list and accounts receivable (A/R) reports to ensure that outstanding invoices accurately reflect what clients owe. Errors often arise from payments that aren't matched to invoices or outdated open invoices for clients who have already paid. Even diligent bookkeepers sometimes miss these matches due to QuickBooks automation features and inaccurate data entry, leading to inflated revenue figures or inaccurate receivables.

### 3. Bank Deposits

Bank deposits need to be recorded correctly, with each deposit properly matched to existing income records. A common mistake is having "undeposited funds" that are actually deposited or payments that were not recorded in the correct period. This can lead to overstated income or discrepancies in bank reconciliations, complicating your financial records and tax filing.

### 4. Assets

Business assets like equipment, vehicles, or furniture should be recorded on the balance sheet and generally are depreciated over time. Assets can be missed or not categorized correctly, especially when purchased with personal funds. Errors here can affect your taxable income and financial statements.

### 5. Bank Balances and Reconciliations

Bank reconciliations ensure your books match your bank's records by identifying missing or duplicated transactions. Errors can occur if reconciliations are skipped or if previous reconciliations are changed. A common problem is duplicate entries or transactions that aren't reconciled, leading to inflated account balances and unreliable reports.

## **6. Sales Tax**

If you collect sales tax, it's important that the amount collected accurately reflects liabilities and is recorded properly. A frequent error is underreporting due to automated tax calculations that don't capture local rate changes or mistakenly categorized tax payments. We check to see if there is a need to manually adjust records to ensure compliance, especially when dealing with multiple jurisdictions.

## **7. Liabilities and Vendor Bills**

Liabilities such as unpaid vendor bills or loans need to be accurately recorded to reflect what your business owes. Errors occur if old bills aren't properly matched to payments or if liabilities are understated. We ensure unpaid or mismatched vendor bills are fixed, which can overstate your profit and disrupt cash flow forecasting. We also look at splitting loan and liability payments to account for interest expenses.

## **8. Equity**

Owner's equity represents your contributions and withdrawals. It's crucial to separate these accurately to reflect true business profitability. Mistakes can occur if personal expenses aren't recorded as contributions or if draws are missed. Errors in equity categorizations may lead to misstated income and an incorrect picture of your financial health.

## **9. Journal Entries**

Journal entries adjust balances for items like loan interest, payroll, or corrections. Errors happen when adjustments are missed in the procedure used to create the entries, or when journal entries don't properly separate principal and interest on loans. We revisit these entries to ensure expenses and liabilities are reported accurately.

## **10. Cost of Goods Sold (COGS)**

COGS refers to the direct costs of goods sold during the year. Accurately tracking inventory and costs ensures that only relevant expenses impact your profit. Issues often arise with missing or estimated year-end inventory counts, which can inflate or understate COGS. It is essential to accurately adjust for beginning and ending inventory, so there is no negative impact on gross profit calculations.

## **11. Income and Unapplied Payments**

All income should be properly matched to invoices and deposits. A common error is the presence of unapplied cash payments, which typically occur when a payment is recorded before an invoice is issued. This can overstate income and create discrepancies in accounts receivable, making it crucial to review each payment for accuracy. Also customer deposits can be recorded as income instead of as an accounts receivable payment causing A/R to be out of sync.

## **12. Expenses and Vendor Categorization**

Ensuring that each vendor's expenses are categorized correctly helps with tax reporting and reduces preparation time. Issues often arise when transactions are miscategorized or vendors are

duplicated. With broad vendor categories (like Costco or Amazon), which may cover multiple expense types and lead to incorrect reporting, we'll need clarification on the category.

### **13. Sales Tax and Credit Card Processing Fees**

Sales tax collected from customers should not appear as an expense; it reduces liability. Credit card fees should match your income proportionally. A common oversight is recording sales tax as an expense or missing refunded transactions. We may need to manually reconcile merchant processor reports with QuickBooks for accurate merchant fee tracking.

### **14. Payroll Review (if you have employees)**

Payroll involves multiple components, including wages, tips, and tax liabilities. Errors frequently stem from incorrect categorization of tips or taxes, or from missed adjustments when using payroll services, which could lead to IRS penalties. We'll compare the payroll reports to the year end financials to verify the numbers accurately made it across.