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Small Business End of Year Accounting and Finance Checklist

The end of the year is an important time for everyone. Just as people use it as an opportunity to self-reflect and set New Year's resolutions, business owners are wise to do the same.

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By reviewing financial performance over the past year, business owners can create accurate and robust plans for even better success in the year ahead.

As 2016 comes to an end, follow these steps so your business will be better prepared to overcome and excel in whatever challenges 2017 may bring.

1. Review accounts receivable and accounts payable

As you prepare your financial documents for the end of the year, **it's crucial that your accounts receivable are accurate**. If outstanding payments are owed, decide if it's worth chasing them down now, collecting next year (find out from your tax accountant if you file on a cash or accrual basis!), or writing them off as a loss (if allowed under the tax code). This will ensure that your cash flow is accurately represented.

On the accounts payable side, if you don't record outstanding bills on a monthly basis, consider implementing a system to do so in the new year. If you do have an accounts payable system in place, then review your AP detail to confirm for accuracy and compare to recent payments to vendors.

2. Review your inventory (if applicable)

If your business keeps physical inventory, keeping accurate records is a must. Knowing your inventory levels and inventory turnover ratio will help you plan for the next year, minimizing your cost of holding too much or missing out on sales by holding too little.

To do this, conduct an inventory cycle count and update your books with the accurate number. Depending on the software you use, you may be able to simply pull this report otherwise this process may be quite manual. We recommend reconciling inventory at a minimum on a quarterly basis, but monthly is even better if you have reports readily available. Also, if you have any unsellable inventory be sure to calculate the market value and write it off as a tax deduction.

Similar to accounts receivable, if you don't have a system for doing this on a monthly basis, consider implementing one as soon as possible.

3. Verify 1099 / W2 information and send out forms

Gather the right information for all vendors and contractors so you can prepare and send out their 1099s. Remember, the 2016 threshold for 1099s that receive non-employee compensation (box 7) remains at $600 or more. **The IRS states these 1099s must be postmarked by January 31, 2017.** Send out W2s for full-time employees as well, if your PEO or payroll system doesn't already do so.

4. Close your books and prepare for tax filing

It goes without saying (but we're saying it anyway), before you can reflect on your 2016 financials, your bookkeeper and/or accountant must close out your books for the year. This includes reconciling all of your bank accounts, credit cards, and credit facilities (e.g., lines of credit). When your bookkeeper and/or accountant presents you with full-year financials, make sure to also ask these 5 questions about your books.

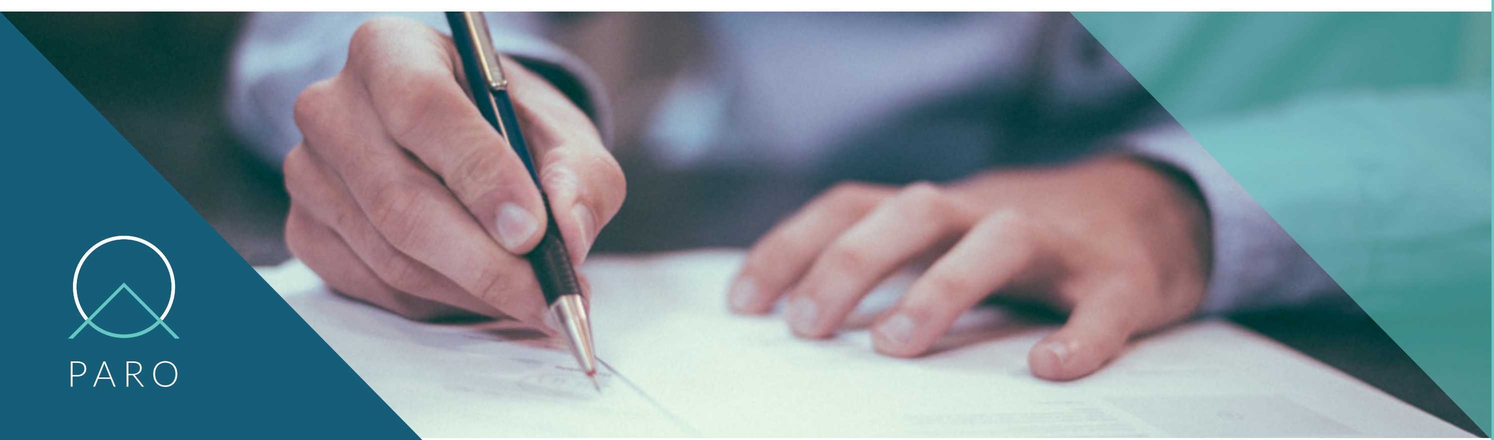
Armed with your full-year financials, approach your tax professional early so he / she has ample time to explore tax breaks and file your taxes.

5. Review your P&L Key Performance Indicators (KPIs)

While it's important to review your P&L consistently throughout the year, the end of the year is a great time to examine how key performance indicators have trended over the past 12 months.

Start by identifying two to three highly important metrics that drive the financial health of your business. Track these metrics month over month and year over year; this way you can identify trends and investigate the underlying reasons for any fluctuations. The end goal is to track and monitor why the business does well in certain areas and not so well in others - if you're unable to discern these areas then you need to adjust the KPIs that you are tracking.

Additionally, if you haven't been comparing your actual P&L to your budget on a consistent basis, take the time to compare the two month by month. Doing so will help you create a more accurate and robust budget for the upcoming year. If your review uncovers higher than expected profits, work with your accountant to decide the best use of the additional cash (such as using the money to make a large capital purchase, pay out bonuses, etc.).



6. Create a budget for the new year

Now that you've prepared and reviewed your financial statements, plan ahead and create a budget. **Reviewing your financial statements from the previous year will likely uncover some important trends that point to key budget items.** Use these new insights to adjust your budget accordingly. For example, if you spent far more than you had budgeted on meals & entertainment and parking, then set a goal to be at or below those thresholds next year.

If you're struggling to create a budget forecast, download our budget forecast template for some helpful tips. Already a budgeting pro? Take your skills to the next level with budget-variance reporting. After you have this feedback loop in place, make sure to monitor variances at a bare minimum every quarter.

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