



# PREPARING FOR YEAR-END: FAQS & CHECKLIST



[We interviewed tax accounting expert, Lisa Capparelli, a Partner with a Public Accounting Firm and the Director at Graphite Financial. They helped us put together a checklist and some FAQs on how to best prepare for your upcoming tax filing.]

To kick things off, here's a helpful tip: start fresh every year instead of relying on assumptions from the past.

For a smooth tax filing experience, gather the following materials early to help your accountant out:

01

## Completed Financial Statements

- Income statement.
- Balance sheet.

02

## Completed Key Reconciliations with Detailed Backup

- Bank reconciliations for all cash accounts.
- Credit card reconciliations.
- Accounts receivable.
- Accounts payable.

03

## Detailed Expense Accounts

- Taxes paid throughout the year, including licenses or franchise taxes.
- Meals separated from entertainment (two distinct accounts).

04

## Detailed Rollforward Analysis of Key Accounts

- Fixed assets, including capital expenditures and depreciation / amortization.
- Inventory, including purchases, cost of goods sold, and any write-offs (If possible, the best practice is to tie this to a physical inventory count).
- Retained earnings.

05

## Accrued Expenses

- Bonuses or sales commissions.
- Other material expenses that were incurred during the year but are still awaiting invoices.

06

## Details of Completed and Filed 1099s

- Payroll Information, Including W2s and Quarterly Payroll Tax Filings or Payroll Register for the Year

08

## Detailed Capitalization Table, Which Should Match What is Reported on the Balance Sheet

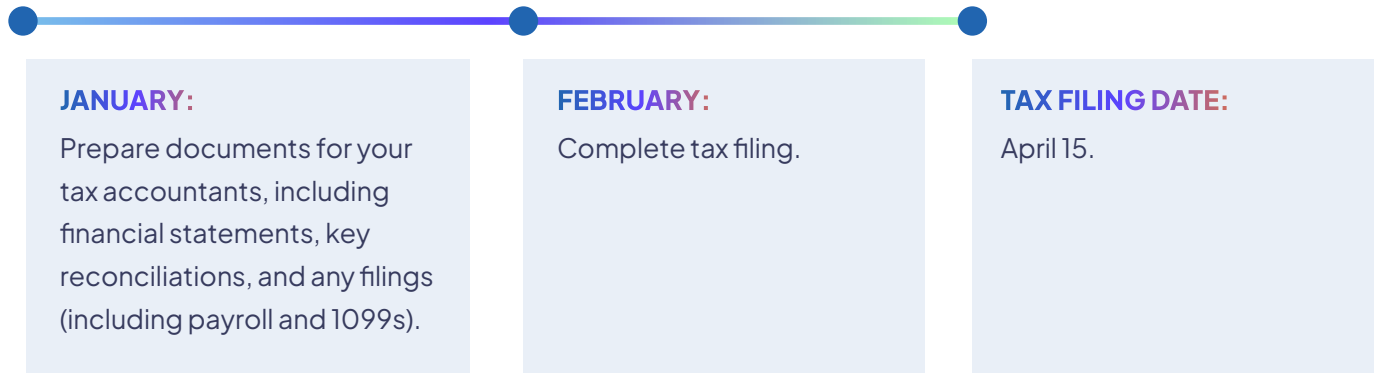
09

## Other Helpful Information to Share

- Administrative changes, including contact information and bank account.
- Accounting method used to record your books - cash basis or accrual.
- Any items that you need additional help to categorize.
- Any foreign bank accounts over \$10K at any time during the tax year. This will necessitate an FBAR (foreign information filing included in year-end tax return).
- Details of any debt or equity financings along with related expenses
- Details of other income, which could include:
  - Sale or disposal of fixed assets.
  - Foreign currency gain or loss.
  - Cancellation or forgiveness of debt.

If possible, it's helpful to review your financials with your tax accountants every quarter so they can have a jump start on any significant changes.

## Recommended Timeline for Tax Preparation for a C-Corporation



## Here Are a Few Common Mistakes Companies Make in Preparing Their Taxes:

### PROVIDING DETAIL FOR KEY RECONCILIATIONS

Confirm that key figures on your balance sheet match your statements, including the bank and credit card balance. If you have an accounts receivable or payable balance, make sure you can provide the transaction-level detail related to each of those accounts.

### RECORDING DEPRECIATION AND AMORTIZATION

Many companies failed to record amortization according to GAAP. Double-check with your CPA to review your depreciation and amortization calculations.

### CONSISTENT RETAINED EARNINGS ROLL FORWARD

When a company files for the tax return, all the information in the tax returns should be finalized, especially the retained earnings balance. One of the key mistakes companies make is their beginning balance of retained earnings does not equal the prior year's ending balance.

If there is a difference, it's worth reviewing the differences with your CPA. There are times when you may need to make a retained earning adjustment. The tax accountant will review with you on what changes were made and why, and if it is significant enough, a tax amendment might be needed.

## OTHER FAQs

### When should a company consider filing for a tax extension?

If you feel that your financials are not complete or that your materials will not be ready by March 15th, communicate that as soon as possible with your tax accountant so they can prepare to file the extension.

There is no penalty to file for an extension. It's important to note that this extension is an extension of time, not an extension to pay. If you think you will owe tax on the state level, you will still have to pay the owed amount as of April 15. Otherwise, the IRS or the state will consider your extension invalid without payment.

### What recommendations do you have for companies with physical inventory?

If possible, a physical inventory count should be done as of the end of the year. It helps provide detailed backup for your inventory roll forward, which should include the beginning balance of inventory, inventory additions and purchases, cost of goods sold shipments, and adjustments for obsolescence or shrinkage.

### What should companies ask when hiring a tax accountant?

You want to make sure that your tax accountant is a registered CPA. It's also helpful to understand how many tax returns they've filed in the past so you know you have someone who can draw on a depth and breadth of experience. Beyond technical skills and accreditation, seek a strong communicator who promptly addresses your questions and needs.

Lisa Cappotelli is an experienced CPA with 25+ years of experience in business management, general accounting, financial analysis, process improvement, and account reconciliation. She is a Partner with a Public Accounting Firm as well as a Director at Graphite Financial.

#### **Disclaimer:**

*The information provided in this article is intended as general guidance only and is not intended to be nor should it be considered legal or financial advice. You should consult with your CPA to review your business' specific accounting issues and challenges.*