white paper

Surviving the
Financial Year End

The key to streamlining the end of year process for your business is to plan it strategically. The end of year is not unforeseen after all, and so time permitting, it is a question of organising the year end routines to happen at the right time, and review both the on-going business and its drafts accounts well ahead of the period end.

This Sage white paper offers a series of brief checklists to help limited companies plan their end of year processes.

Legal requirements - the basics

All companies must file accounts annually with Companies House and HM Revenue and Customs (HMRC). A company will select a financial period end which is agreeable to a combination of its shareholders or other group members. For new companies, the main issues you need to consider are:

Setting year-ends

Companies House requirements

When you register a new company, its financial year end or accounting reference date is usually determined according to the month of incorporation - if you registered on 6 June, the accounting period will begin on the date of incorporation, 6 June, and its year end will be deemed to be 30 June, in the following year). The company's next financial year begins at the end of the previous one. If you prefer, you can specify a different period-end for the first year. But you are not allowed to file a set of accounts for a period greater than 18 months and a company cannot extend its year-end more than once every five years.

Complete ☐

HM Revenue and Customs (HMRC) requirements

You must notify HMRC within three months of the company's incorporation, or face a penalty of £100, and then file a corporation tax return annually. If the first period of trade exceeds 12 months, then two returns will be filed for this period, the latter one being for the 12 months ending on the accounting period end.

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Accounting and tax planning

If you operate a group of companies, or more than one business, having the same year end for all of them makes financial and management accounting more straightforward - particularly if you are going to want to claim group loss reliefs for any of them.

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Year ends and VAT

It is most practical to set your VAT quarters so that one will coincide with your year end. This makes reconciling the VAT at your accounting year end more straightforward.

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Payrolls and year end

The end of the payroll year is 5 April. By having an accounting year end that matches your payroll year end, you need only reconcile your payroll figures annually. However, even when a weekly payroll is run, a year end that is also a month end is more sensible as other businesses and banks provide monthly statements.

Complete ☐

Filing accounts

- **Companies House** requires private company accounts to be filed within 10 months of the year-end, but this will be extended if you decide to extend the first accounting reference date. Complete ☐

- **HMRC** requires company accounts to be filed within 12 months of the year end. This deadline will also be extended when the accounting reference date is extended. Complete ☐

Paying tax

- **All companies** other than large companies pay tax nine months and one day after their year end. Complete ☐

- **Large companies** pay tax throughout the year by instalments. Complete ☐

Planning for your financial year end

The best way to deal with your financial year end is to break down the procedures into three review and action phases. The tasks you should complete for each phase are dealt with in separate sections of this white paper.

1. Pre year end
2. End of year
3. Post year end

Pre year end

The more accounting tasks and compliance checks that can be completed prior to the year end, the less work that will be needed at the year end and after.

Previous year - tax compliance and Companies Act

1. Check that you have completed all annual requirements for the previous financial year to avoid any penalties, surcharges or interest (where applicable):

- **Corporation Tax** should have been paid for the previous year to avoid late payment surcharges and interest. If you are a small company and do not pay Corporation Tax by instalments, the company's tax liability will be due nine months and one day after the last year end. Complete ☐

- Under the **Companies Act,** a small company files accounts within 10 months of the previous year's end. Most small companies will normally file abbreviated accounts as these accounts are on public record. Complete ☐

- An annual **Corporation Tax Return (CT600)** is due within 12 months of the last year end. This return is accompanied by full company accounts and corporation tax computations. Complete ☐

2. Check that all in-year tax compliance is up-to-date:

- **Interest paid to directors**

If directors have made loans to the company, and the company is in turn paying interest on those loans to those individuals, then the company should deduct income tax from the payment at source and report it to HMRC on a quarterly return form CT-61. Your accountant will assist you with this process. Complete ☐

- **Share schemes**

Share transactions between the company and employees and officers are required to be notified annually to HMRC on Form 42, which must be filed by 7 July. You will need to review all share transactions with your accountant in order to agree treatment for PAYE and National Insurance, and notification requirements in this complex area. Complete ☐

- **Salary bonuses**

Awards made to employees and directors in the previous year's accounts should be paid, with PAYE/NI deducted, within nine months of the year end (see notes on provisions, below). Complete ☐

Negative directors' loan accounts

Any directors who have outstanding loans from the company should repay these either by cash or by voting salary or dividends before the end of the financial year. Ensure that the entries in your accounts agree to actual payments made and that all loans made to directors are fully recorded on appropriate board minutes. Complete ☐

- A company may also have to account for "beneficial loan interest" on any loan which has exceeded £5,000 during the course of the year, and this will mean an extra tax charge on that director. All loans need to be discussed with your accountant during the year to ensure that potential pitfalls like beneficial loan interest are accounted for when due to avoid later penalties. Complete ☐

Dividends

Check that board minutes reflect each payment made during the year or credited to the accounts, and that dividend warrants have been completed and passed to each shareholder. Complete ☐

VAT

- Reconcile returns filed during the year to-date to the accounts and to payments made, or repayments received, if this has not been already done on a quarter by quarter basis. Complete ☐
- Any under or over declarations may be adjusted in the final quarter, but it is worth discussing any proposed adjustments with your accountant. Complete ☐
- If the company's financial year end does not coincide with a VAT quarter then it will be necessary to reconcile VAT to that month end in addition to the last four quarters. Complete ☐

PAYE and National Insurance:

- Ensure all the annual returns are filed online and on time and that all tax and NI liabilities are paid online and on time. The deadline for end of year PAYE returns (P14s and P35s) is 19 May, six weeks after the end of the tax year. Expense-related forms (P9s and P11Ds) are due by 6 July. HMRC maintains a Business Calendar of important deadlines at: **www.hmrc.gov.uk/manuals/pommanual/paye001.htm** Complete ☐
- Reconcile cashbook payments to monthly returns. Complete ☐
- If the company's financial year end does not coincide with the end of the payroll year, then it will be necessary to reconcile the payroll to the month which is the end of the accounting year as well. Complete ☐

This year it will be mandatory for businesses to submit PAYE returns online and on time to avoid penalties.

Pre-planning for year-end provisions - bonuses and accruals

It is accounting practice that for an accounting provision to be valid, the obligation to settle the liability must be in existence at the balance sheet date. This rule means that it is not possible to vote say a salary bonus after the year end if there was no agreement at the year end that any bonus was due. Complete ☐

- **Salary bonuses** - the actual amounts do not need to be detailed but the future payment of a bonus must be agreed upon and a board minute created to confirm that there is a liability at the date of the balance sheet. Complete ☐
- **Bad debt provisions** - these provisions do not quite follow the same rules as above, as circumstances may mean that they can be adjusted after date. It is still necessary to review the sales ledger for bad debts regularly and consider necessary provisions for write off in the run up to and at the year end. Complete ☐
- **Stock write-off provisions** - stock will have been physically inspected during the stock count, and so provisions and write offs may be made after the year end, based on the count observations. Complete ☐

The stock count or stock take

- Ensure that all stock count procedures are agreed in writing for year end. Complete ☐
- Review and set proper cut-off procedures to ensure that deliveries during the count are not included in your deadline, and also that requisitions out of stock have an identical deadline. Stock in transit will affect the physical stock and it may be necessary to set aside an area for deliveries on the day if these are planned. Complete ☐
- Review stock write down policy and identification methods for obsolete or damaged stock. Complete ☐
- Prepare stock sheets, and pre-number them. Complete ☐
- Brief all staff taking part in count on procedures and so they know what sections they are counting. Complete ☐
- If you are subject to an annual audit, or an internal audit, then you should arrange timings with auditors too, and ensure that staff will be on hand to assist with any test counts or checking that they require. Complete ☐

Work in progress

- Review all work in progress to identify which jobs/projects/contracts will be incomplete at the year end. Complete ☐
- Agree a basis of valuation with your accountant and ensure that a cut off time is allocated and that there will be a method of appraising the stage of completion at the cut off. This may be done in any reasonable basis, such as man hours, actual quantities of product, or if work has come to an agreed stage. Complete ☐

Director/shareholder tax issues

It is always helpful to discuss tax issues with your accountants before the year end. A review at the nine month stage is most sensible and matters for discussion may include the following:

Tax efficient remuneration:

- Review remuneration issues with your accountants prior to the year end. Complete ☐
- Consider if there is scope for charging rent to the company for use of any assets owned by the directors or shareholders and used in the business. A provision for an item such as rent must be agreed prior to the year end. Complete ☐

National Minimum Wage (NMW) issues

- A director of a family type company will not normally be under the NMW provisions where a contract of employment is not in writing. A spouse and any family members who are not officers of the company will be subject to the NMW. Complete ☐

Directors' claims for home working

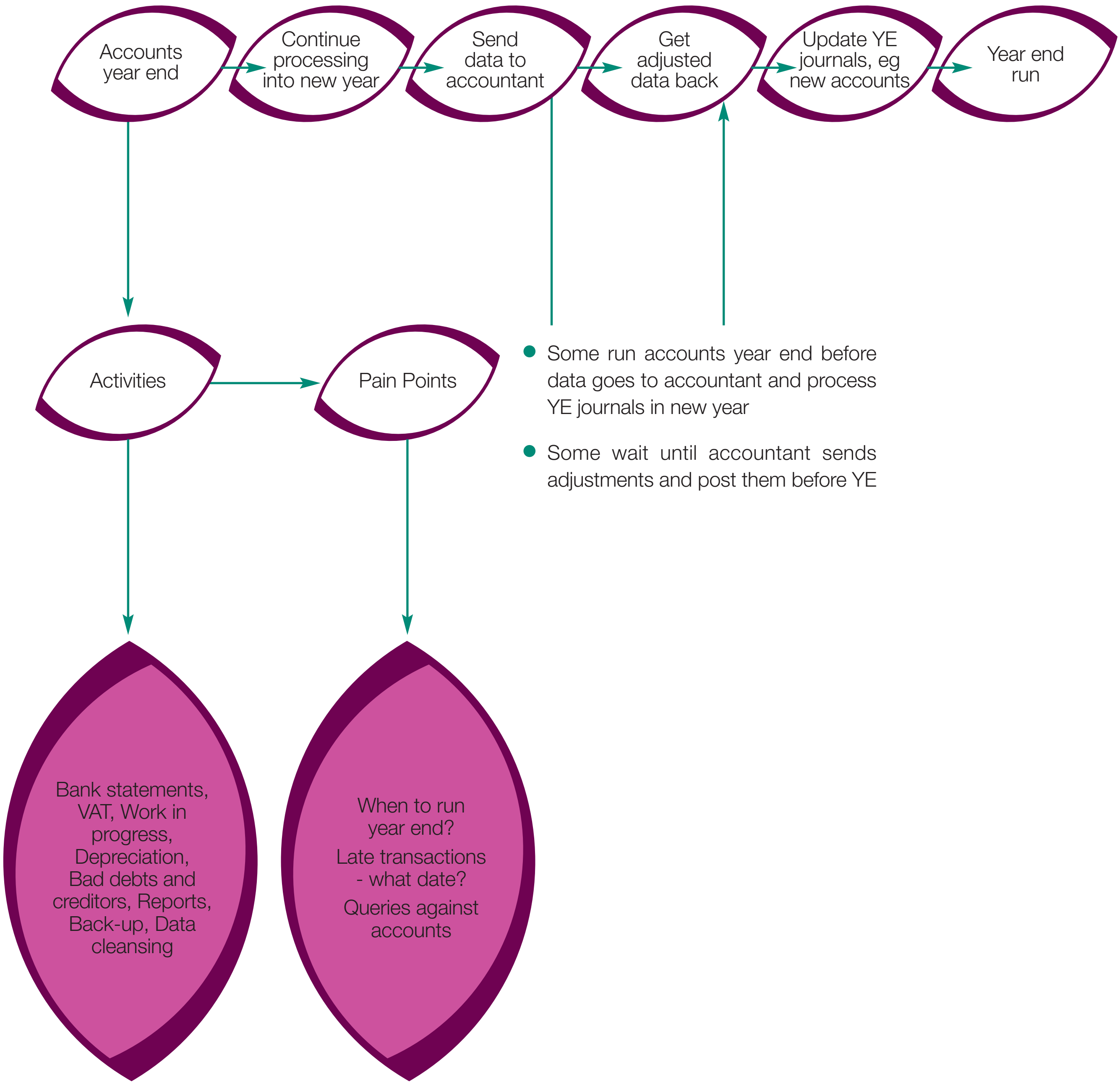
- Review any payments made to directors for 'use of home as office'. Complete ☐
- Ensure valid agreement in place and minuted with company. Complete ☐
- Ensure that any rental fee for use of office is subject to a licence. Complete ☐
- Review claims to ensure that payment is not disguised remuneration. Complete ☐

End of year

If the date of the year end is a working day, then the most important considerations are that various accounting cut offs are applied and that stock and work in progress is adequately counted on that day. If the year end falls on a non-working day such as a weekend or bank holiday, then cut off procedures need to be in place to effectively treat the last working day as if it were the last day of the year. Cut off will generally be the last working day of the year.

- **In terms of accounts production and management accounting:**
  - All monies and movements of goods in and out on the year end must be accounted for up until cut off time. Cut off date and time will be agreed in advance. Complete ☐
  - Tills are reconciled on a daily basis as usual, and the period total is recorded, and printed out. Complete ☐
  - Petty cash is reconciled to any vouchers and counted. Complete ☐
  - Debtor and creditor receipts and payments are logged as when received or paid, but subject to agreed cut off. It is often easier to do a banking on the day of the year end to avoid confusion the following day. Complete ☐
  - Statements are sent out to credit customers Complete ☐
  - The stock cut-off procedures are observed and the count is performed. Complete ☐
  - The bank and loan accounts should be reconciled to statements at the year end. Complete ☐

Accounting year and process flow chart



- Some run accounts year end before data goes to accountant and process YE journals in new year
- Some wait until accountant sends adjustments and post them before YE

Post year end

The danger immediately after the year-end is that current work supersedes the year end close down procedures and these are then put back or delayed. The longer the year end is left unfinished, the harder it is to physically finish the process. Not every business can close its accounts down on the actual date of the year end, as various accounting adjustments will be needed.

Prior to close down you will need to make a number of additional adjustments before the accounts can be finalised. How much of this side of the accounting equation that you will perform depends on your accounting knowledge and the role of your accountants. Procedures will include:

- **Close down routines**
  - Journal adjustment to include any provisions together with accruals and prepayments, and accrued income. Complete ☐
  - The gross pay and payroll journals are posted to the profit and loss account and PAYE control account. Complete ☐
  - VAT adjustments are made to account for VAT fuel scale charges. Complete ☐
  - Interest charges should be adjusted for hire purchase and leasing accounts. Complete ☐
  - Fixed assets should be reviewed and depreciation should be provided. Complete ☐
  - Employee and director expenses for the final month of the year should be posted to the accounts. Complete ☐
  - All accounting control accounts must be reconciled. This will normally be after relevant statements are printed off and received including:
    - Trade debtors and creditors
    - Bank and cash
    - VAT
    - PAYE

    Complete ☐
  - The draft accounts should be reviewed and any unexplained balances or variations from budget should be investigated. Complete ☐
  - Ensure that accounts formats are set up to include all accounts and that any new balance sheet formats used include all the accounts and balance. Complete ☐
  - List all known outstanding items and queries based on the accounts to-date for discussion with the accountants. Complete ☐
  - Make sure that at least two back-ups are taken. Complete ☐

- Print and file all year end prints. Complete ☐
- Send a copy of the back-up and notes and queries to the accountants. Complete ☐
- Run the year end close down routine, clear old balances and set budgets to roll forward. This is also a good time to tidy up, for example by removing any accounts that are no longer used or traded with and removing redundant stock codes. Complete ☐

Further adjustments

- Post balance sheet events:
    - If any events that occur after the year end have an effect on the end of year results - so called 'adjusting events' - you will need to adjust your full and abbreviated accounts by journal and post journals to the new year to reflect the adjustments. Complete ☐
    - There may be non-adjusting events; these may need to be reported within the notes to the accounts. Complete ☐
- Your accountant will usually make final adjustments to correct mispostings or particular account entries. Adjustments can be made by editing or cancelling the original posting or by journal. For example, if you receive purchase invoices for the old year after closing off your accounts that your accountant considers to be material, the year end data may need to be restored and the new invoices posted before redoing the year end routine again. Complete ☐

  More probably, your accountant will accrue any invoices received late and ask you to post them at the start of your new year to reserves and trade creditors with the transaction date as shown on the invoice. Care needs to be taken when adjusting postings that will affect VAT - you will have to make an adjustment for VAT that quarter and the transaction should flag up as unreconciled. Complete ☐

Finalisation and sign off of accounts

The timing of finalisation will depend on whether the business is subject to audit, shareholder requirements and deadlines set by the directors in meetings. Deadlines are set by the Companies Act and HM Revenue and Customs requirements and are not flexible. Complete ☐