



BTW Associates

Leadership. Integrity. Results.

As the end of the year approaches, accounting/finance departments need to close their books in order to prepare for tax return filings and year-end audits. The following is a high-level best practices year-end closing checklist for non-public companies to assist you in the process and avoid any missteps.

1. Record all transactions in an accounting software system and back up your system data.
2. Record monthly/quarterly/year-end journal entries including any accruals, reserves, deferrals, allocations, amortization/depreciation, interest expense and interest income. See below examples:
  - a. Accruals: unprocessed accounts payable, legal fees, payroll, vacation/PTO, travel/credit card expenses, contractors/consultants, taxes, etc.
  - b. Reserves: bad debt, inventory
  - c. Deferrals: rent, revenue
  - d. Allocations: facilities, resources
  - e. Amortization/Depreciation: prepaids, fixed assets
3. Be sure to save all back up documents and receipts in a secure document management system with defined user permissions access. Per IRS regulations, you must have a receipt for any expense over \$25.00.
4. Collect unpaid invoice balances as this will increase cash balances and cashflow.
5. Reconcile all balance sheet accounts to ensure the accuracy of numbers and investigate any discrepancies.
6. Review all expense accounts to ensure there were no recording errors and to determine if any expenses need to be reclassified to balance sheet accounts such as prepaids, fixed assets, etc.
7. Preparing financials statements (Balance Sheet, Income Statement and Statement of Cash Flows) according to GAAP guidelines will ensure accuracy, audit readiness and be prepared for any future transactions such as seeking funding or selling a business.
8. Compare annual budget against financial statements and provide explanations for budget to actual differences. This will provide insight to expenditures and drive the financial forecast and budget for next year.
9. Assess internal controls of processes and look for gaps that could allow the potential for fraud or errors such as creating a Purchasing/AP Approval Matrix, access to systems and banking, Month End Checklist, Monthly JE Checklist, sign off on journal entries, balance sheet reconciliations and financial statements, etc.

**Bonnie T. Wilkinson**  
BTW Associates  
PO Box 912  
Andover, MA 01810

**(978) 886-0912 Office**  
**(224) 855-3553 Fax**  
**bonnie@btwresults.com**  
**www.btwresults.com**

10. Tax reporting and annual filings:

- a. Depending on the state(s) in which you do business and are incorporated in, you will need to file an annual report, franchise taxes and sales and use taxes.  
Examples: MA Annual Report is due by the 29<sup>th</sup> of November each year and can be filed 60 days in advance of due date. DE Franchise Taxes are due 1<sup>st</sup> of March for the prior year. Depending on the amount of the Sales and Use Taxes owed, the due dates are monthly, quarterly or annually.
- b. HIRD (Health Insurance Responsibility Disclosure) form must be filed before Dec 15<sup>th</sup> each year.
- c. Payroll forms (i.e., W-2, W-3, 940, 941, etc.) can be prepared by your payroll provider or outside accounting firm. Be sure to include any non-standard taxable income on employee W-2's, such as the taxable portion of employer group term life insurance, taxable education reimbursements, and other types of taxable income that may not be processed through the normal payroll cycle. W-2s must be mailed by 31<sup>st</sup> of January to ensure they can file their tax returns in a timely manner.
- d. Obtain a W-9 for every vendor paid within the calendar year. These will assist you in determining which vendors will need to be sent a 1099. For 2020 and beyond: 1) 1099-MISC forms are used for reporting income such as rent, royalties or payments to attorneys and must be mailed by 31<sup>st</sup> of January to recipients for both paper and electronic filings. 1099-NEC forms are used for reporting independent contractor income and also must be mailed by 31<sup>st</sup> of January to recipients for both paper and electronic filings.
  - i. The Form 1099-MISC has been redesigned and rearranged box numbers for reporting certain income.
    1. Payer made direct sales of \$5,000 or more (checkbox) in box 7.
    2. Crop insurance proceeds are reported in box 9.
    3. Gross proceeds to an attorney are reported in box 10.
    4. Section 409A deferrals are reported in box 12.
    5. Nonqualified deferred compensation income is reported in box 14.
    6. Boxes 15, 16, and 17 report state taxes withheld, state identification number, and amount of income earned in the state, respectively.
- e. 1099 MISC filing to IRS is due February 28<sup>th</sup> for paper filings or March 31<sup>st</sup> for electronic filings.
- f. Federal and State Tax Returns are due April 15<sup>th</sup> for the prior year unless company is classified as an S Corp or Partnership which is due the 15<sup>th</sup> of March for the prior year. You may file for a tax return extension changing the tax filing due date to October 15<sup>th</sup> for a C Corp or September 15<sup>th</sup> for an S Corp or Partnership. This is only an extension to file the tax returns, not the taxes owed.

- g. If you offer a 401K plan, compliance testing and 5500 annual filing may be required depending on the plan and must be filed by July 31<sup>st</sup> for the prior calendar year plan.

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