ZAZEN TAX

Year-End Checklist

For online sellers. About three hours, and roughly a third of it has to happen before the date rather than after it.

Year ending .... **Completed by** .... **Date** ....

Most year-end guidance starts on the day. By then the decisions that would have saved you money have already been made, which is why section one comes first and why it is worth reading a month in advance.

1. Before the date, while you can still change things about 30 minutes

- [ ] **Diarise your year-end date now**
  Sole traders now align to the tax year, ending 5 April. A company chooses its own, and the anniversary of incorporation is the default.
- [ ] **Decide any capital purchases before the date, not after**
  Equipment bought a day before the year end gets relief a full year earlier than one bought a day after. The Annual Investment Allowance covers most small purchases in full.
- [ ] **Consider a pension contribution before the date**
  A company contribution is deductible against corporation tax and avoids National Insurance. In the 26.5 per cent marginal band it is worth 26.5p in the pound.
- [ ] **Check the director's loan account if you have one**
  Overdrawn nine months and a day after the year end and the company pays 35.75 per cent of the balance. Repaying before the date is cleaner than repaying afterwards.
- [ ] **Chase what you are owed, and decide on anything you will not collect**
  A debt written off before the year end reduces this year's profit. Left hopeful, it does not.
- [ ] **Book the stock count in the diary**
  As close to the date as you can manage, ideally on it. A count taken a fortnight either side needs reconciling back, which is more work than doing it on the day.

> WHY THIS SECTION IS FIRST
> Every item in it stops being available the moment the date passes. Everything in the rest of this checklist can be done afterwards; nothing here can.

2. The stock count about 60 minutes

- [ ] **Count everything you own, wherever it physically is**
  Your shelves, a fulfilment centre, a marketplace warehouse, and goods on a ship if title has already passed to you.
- [ ] **Exclude anything held on consignment that you have not bought**
  It is on your premises but it is not your stock.
- [ ] **Value it at landed cost, not the supplier invoice**
  Supplier price plus freight, duty and handling. The invoice on its own commonly understates the true cost by a third.
- [ ] **Apply the lower of cost and net realisable value, line by line**
  For good stock nothing happens. For damaged or obsolete stock, what you could actually sell it for is below cost, and that lower figure is the one you must use.
- [ ] **Identify damaged, obsolete and clearance lines separately**
  The write-down increases your cost of sales and therefore reduces your tax, in the year the stock went bad rather than the year you finally scrap it.
- [ ] **Do not let a good line subsidise a bad one**
  The rule applies to each line individually, not to the stockholding as a whole.
- [ ] **Record who counted, who checked and on what date**
  A stocktake nobody signed is hard to stand behind a year later.
- [ ] **Keep the workings, not just the total**
  Quantities, unit costs and any write-down with its reason. Your accountant will ask, and so might HMRC.

3. Cut-off, which is what actually goes wrong about 30 minutes

Cut-off is deciding which side of the line each transaction falls on. It is the single commonest reason a stock count refuses to agree with the books, and every item below is a place where the goods and the paperwork move on different days.

- [ ] **Goods received before the date but invoiced after it**
  They are in your stock count, so the purchase belongs in this year too. Otherwise you have stock you never bought.
- [ ] **Goods invoiced before the date but not yet arrived**
  Whether they are yours depends on the shipping terms. If title has passed they belong in the count even though you cannot see them.
- [ ] **Orders taken but not yet shipped**
  Usually still your stock, and usually not yet your sale. Two adjustments, in opposite directions.
- [ ] **Sales shipped right at the date**
  Out of stock, into sales. Check the last few days of dispatch records rather than assuming.
- [ ] **Payouts that straddle the date**
  The sales belong to the period they were made in, not the period the money arrived in.
- [ ] **Subscriptions and advertising spanning the date**
  A month of software billed in advance across the year end belongs partly to each side.

THE TEST THAT CATCHES IT

> Cost of sales in your accounts, closing stock on your balance sheet and the physical count should all tell the same story. When they do not, it is cut-off far more often than it is theft or arithmetic.

4. The liabilities people forget   about 20 minutes

- [ ] **Gift cards and vouchers sold but not yet redeemed**
  Money in, no sale yet. It is a liability until someone spends it, and treating it as revenue overstates both your profit and your tax.
- [ ] **Customer deposits and pre-orders**
  Same principle. You have the money and you still owe them the goods.
- [ ] **Returns you expect after the year end on sales made before it**
  A December sale returned in January belonged to December. If the amounts are material they need providing for.
- [ ] **Costs incurred but not yet invoiced**
  Accountancy, professional fees, utilities, anything delivered before the date and billed after it. They belong to this year.
- [ ] **VAT collected and not yet paid over**
  It sits in your bank looking exactly like your money until the return is filed. It is a liability, not revenue.
- [ ] **Anything owed to you personally, or by you, as a director**
  The loan account balance at the year end is the figure the nine-month clock runs from.

5. What your accountant will ask for   about 30 minutes

- [ ] **Bank statements for every account the business used**
  Including a personal one if business money went through it. Especially then.
- [ ] **Sales reports for every channel, gross rather than net**
  What customers paid, before fees. The net deposit is a different number and it is not your turnover.
- [ ] **Payout statements bridging those sales to the bank**
  Fees, refunds, chargebacks and reserves. Without them the gap between sales and deposits cannot be explained.
- [ ] **Purchase invoices, including import paperwork**
  Freight and duty documents matter as much as the supplier invoice, because both are part of the stock cost.
- [ ] **The stock count with its workings and write-downs**
  The total on its own raises more questions than it answers.
- [ ] **Any loan, finance or lease agreements**
  Including anything bought on finance, which is treated differently from something bought outright.
- [ ] **A note of anything unusual that happened**
  A large one-off sale, a bad debt, an asset sold, a change of premises. Five minutes writing it down saves an hour of questions.

> SEND IT ONCE, COMPLETE
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> A year end sent in pieces takes considerably longer and costs more than one sent complete. The list above is almost always the whole of it.

6. After the date about 10 minutes

- [ ] **Stop posting to the closed year**
  Once the accounts are being prepared, a late entry means the work has to be redone.
- [ ] **Carry closing stock forward as next year's opening stock**
  The two figures must match exactly. It is the commonest error in a second year of trading.
- [ ] **Diarise the filing and payment dates**
  For a company: accounts nine months after the year end, corporation tax nine months and a day, the return twelve months. The money comes before the return that calculates it.
- [ ] **Set the tax aside now that you know the number**
  It is easier to move it while the figure is fresh than to find it in January.
- [ ] **Look at the year's gross margin against last year's**
  A margin that slipped without a price change usually means buying costs moved and prices did not follow.

> IF YOU DO NOTHING ELSE
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> Count the stock on the day, value it at landed cost, and check the cut-off. Those three between them fix most of what goes wrong at a year end, and no amount of tidy bookkeeping compensates for getting them wrong.

Free tools for the year end

The inventory count workbook values stock at the lower of cost and net realisable value and bridges it into your cost of sales. The landed cost calculator, the payout reconciliation workbook and the tax calendar cover the rest. All free on zazentax.com.

Zazen Tax

Accountants for people who sell things. zazentax.com/contact