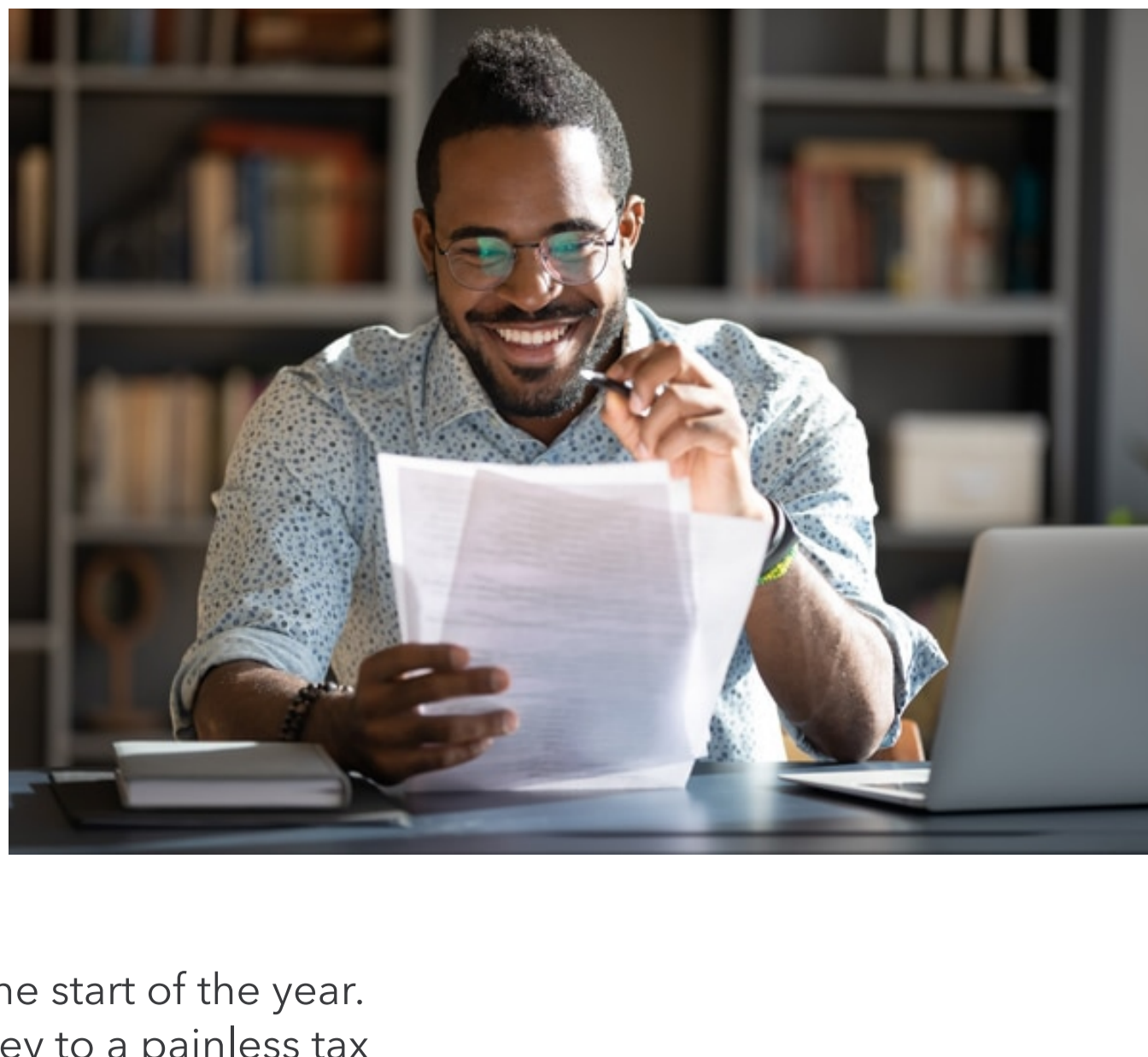


Accounting experts reveal 5 signs your books aren't ready for tax time

By QuickBooks December 10, 2020



Small business owners have a lot to think about at the start of the year. For most, tax season is near the top of the list. The key to a painless tax season lies in preparation. At the start of the year, take a hard look at your books to ensure everything is tracked and organized. Clean, accurate books make it easier for you and your accountant to file your business taxes and maximize your deductions.

But how can you tell if your books are in tiptop shape? We asked five accounting experts to share their telltale signs that a client's books aren't ready for tax season. Here's what they had to say.

Meet our tax prep experts

Alisa McCabe

President of First Steps Financial

Renee Daggett

CEO of AdminBooks

Lisa Brann

CPA CGMA, PLLC

Donna Sooter Lim

CEO of Sooter Consulting

1. Your transactions aren't categorized.

"If you still have transactions in your bank downloads, or you have items in 'uncategorized income or expense,' you need to review and place them in the proper categories," said Alisa McCabe, owner of [First Steps Financial](#). "Once this is complete, you will have a better idea of your financial picture."

[Lisa Brann](#), CPA, echoes that sentiment. "There should be no balances in the unclassified assets, unclassified liabilities, unclassified income, unclassified expenses, or 'ask my accountant' accounts. These accounts are holding accounts. If there is a balance in any of these accounts, they need to be researched and reclassified to a real account."

That being said, be careful when it comes to categorizing expenses as "other" or "miscellaneous." "Other and miscellaneous account transactions must be identified on a tax return," said Renee Daggett, CEO of [AdminBooks](#). "This type of categorization is not clear to a tax preparer."

In addition, Donna Sooter Lim, CEO of [Sooter Consulting](#), recommends making sure your chart of accounts is set up and categorized correctly. "A common mistake is to have credit card payments listed as an expense," she said. "If you carry a balance on a credit card, it is possible you took the expense at the time of the purchase. The payment is not an expense."

Finally, make sure your fixed assets are clearly marked for your tax preparer. "The tax preparer will need to know what the asset is," said Lim. "It's not enough to put the transaction in the fixed asset accounts."

2. You see negative numbers.

"Negative numbers happen," said McCabe. "For example, when you accept a payment from a client but there is no invoice to apply the payment, this creates a negative number when you run the A/R report. This should be corrected as quickly as possible to provide accurate reporting and to have your tax prep done quickly and efficiently."

And Brann agrees. "If there is a negative in the assets or liabilities section of the balance sheet, it usually means something has been recorded incorrectly or needs to be reclassified. There are always one-off cases, but usually this is a sign there is an issue that needs to be researched."

3. You haven't had a tax planning session with your tax professional.

It's always a good idea to work directly with your accountant or tax professional to ensure your books are ready for tax season. They can provide insight on your current financial situations and help you plan for the year ahead.

If you ask McCabe, "Your books are not tax ready until you have had a tax planning session with your tax professional. Tax professionals are there to help limit your tax liability and use current tax laws to your advantage."

In addition, your tax planning session is a great time to ask your tax professional any questions you might have on items in the "ask my accountant" category.

4. Your accounts aren't reconciled.

"All accounts should be reconciled through January to make sure all transactions that happened in December of the tax year are recorded," said McCabe. "This will ensure that income and expenses in your books are up to date. Reconciling enables you to see if there are any discrepancies and provides documentation from a third party that backs up your data, if an audit happens."

If you have bank feeds set up, you might think you don't have to reconcile your accounts, but Brann encourages you to double-check. "Some clients think that if the bank feeds are set up, they do not have to reconcile the bank account," she said. "If there were no outstanding items that may be the case, but most clients have outstanding items. Outstanding checks and outstanding deposits that are past the normal length of time outstanding should be investigated."

And Daggett agrees. "Uncleared checks should be reviewed to see if perhaps they were cleared but not matched or need to be reissued," she said.

"The bank feeds are great and have become reliable," said Lim. "However, it's not foolproof. We need to make sure all income and expenses are counted. We also don't know if something was deleted unless we reconcile. It's better to be safe than sorry."

5. Your balance sheet doesn't balance.

"If the balance sheet does not balance, there is an issue that needs to be fixed," said Brann. "The equity section accounts may need to be closed out, an inventory item may be incorrectly using the wrong accounts, or the file may need to be verified and rebuilt. The balance sheet must always balance."

In addition, the prior year balance sheet must tie to the balance sheet reported on the tax return. "The first thing I check with a new client is if the prior year retained earnings ties to the tax return," she said. "This usually means there have been no entries added or deleted in the prior years, which is a good sign the books match the prior year returns, and no adjustment is necessary."

Finally, Daggett recommends double-checking that your loan balances agree with the year-end loan statements on the balance sheet. "Interest, late fees, and principal should be separated into appropriate accounts," she said.

A few more clues your books aren't ready

• Your checks are missing vendor names.

"This may not seem like an issue for getting tax ready," said McCabe, "but it is needed to send out 1099s in the correct amount. Each check should have the vendor identified, the amount, and correct categorization. There should also be a W-9 on file for vendors."

• You have transaction types other than accounts receivable in your income accounts.

"Sort your report by transaction type," says Daggett. "If you see expenses, bills, checks, etc., these should be investigated for erroneous categorization."

• Your profit and loss does not match the tax and wage summary.

"Run a payroll report for the year, and reconcile wages, employer taxes, and officer wages (if applicable)," said Daggett.

• Your payroll has not been reconciled.

"This is a rookie mistake I made years ago," said Lim. "I didn't realize that it might not match, but a check may have been issued that was not cashed." Make sure payroll is recorded correctly and reconciled to the 941. What's in your books needs to match what's been reported to the IRS.

• You haven't completed a year-end inventory count.

"It's important to have a year-end inventory about any obsolete books," said Lim. "Tell your tax professional about any obsolete inventory that needs to be disposed of." While this process can be time consuming, it can also impact your tax return.

Get ready for tax season

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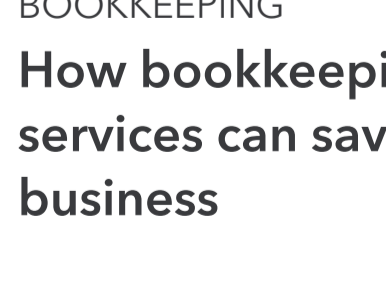
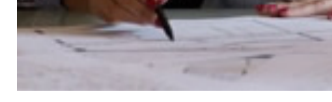
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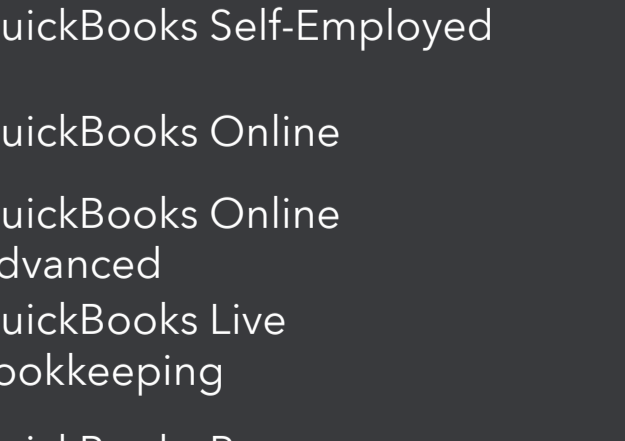


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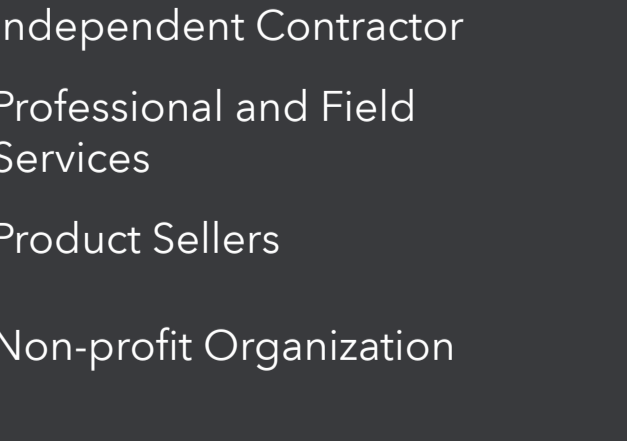
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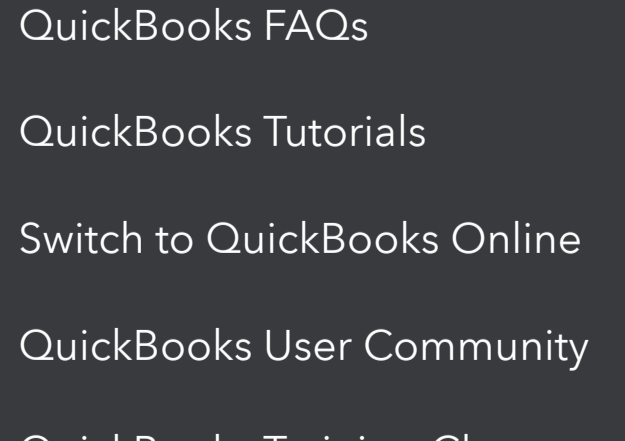
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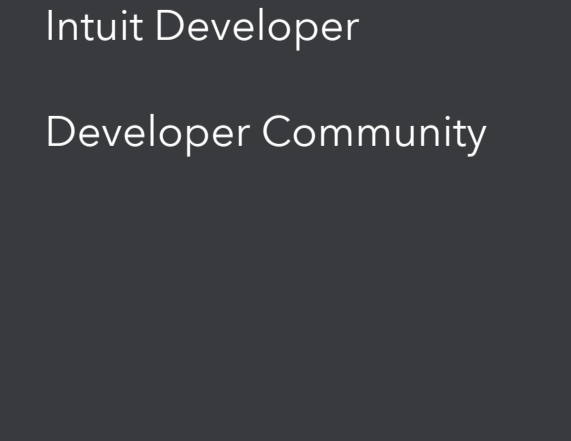
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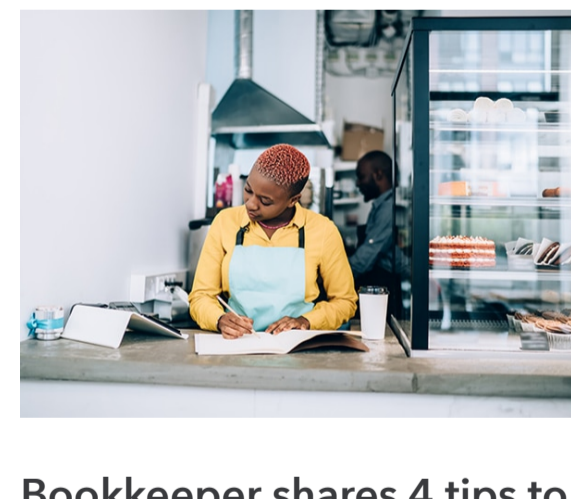


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