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## Do you close your books on New Year's Eve?

American Institute of Certified Public Accountants. Natural Business Year Committee

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*do you*  
*close your books*  
*on*



New Year's Eve?



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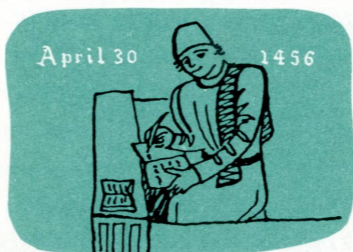
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## Do You Close Your Books On New Year's Eve?

December 31 is an inconvenient date, in more ways than one, for the closing of a company's fiscal year. Many businesses are in the midst of a busy season. Various reports must be prepared for filing with government agencies in January. The auditors are certain to be under the pressure of other engagements for clients who use the calendar year.

Why, then, do so many companies still have fiscal years ending on December 31?



Historically, this is a fairly recent habit. Italian merchants of the fifteenth century closed their books at the end of each trading venture or whenever the pages were filled. Annual closings were not customary until the nineteenth century. The widespread use of the calendar year for corporation accounts in the United States was brought about by requirements of the excise tax law of 1909. Although the tax law has been changed, the calendar year habit has remained.

## The Natural Business Year

Most companies can choose a fiscal year that has great advantages over the calendar year. There is generally an annual cycle of activity which ends when inventories, receivables and loans from banks are at their lowest point.

This is called the “natural business year” of the company.

What are the advantages of using your natural business year as your fiscal year? Here are some:

1. Your inventory can be taken when it is lowest and when your employees are least busy.



2. Your balance sheet will show your most liquid position — always a help in getting bank credit.
3. Your income statement will show results of operations during an actual cycle of your business — rather than a mixture of the end of one season and the beginning of another.
4. You will have your financial statements for each year at the time you

need them for planning the following year.

5. Your tax returns will show smaller amounts for inventories, reducing the area of possible dispute with the government.
6. Your certified public accountants will be able to render service to you more effectively when they are not in the midst of calendar-year auditing.

#### Four Times Thirteen Equals Fifty-Two

Just as the natural business year makes annual comparisons more meaningful, another step can be taken to make monthly data more comparable.

Many companies, particularly in retail sales, meat-packing and entertainment industries, divide the fiscal year into thirteen periods of four weeks each. The thirteen-period accounting year saves you from attempting to compare a 31-day January with a 28-day February, or a current year's 4-weekend month with a 5-weekend month of the previous year.

The thirteen-period accounting year solves some difficulties, but not all. Holidays still affect comparability. The additional work of 13 periods instead of 12 may not be entirely offset by other savings. There will also be a day or two left over each year, because 52 weeks

## NATURAL BUSINESS YEAR DETERMINATION CHART

19	Inventories at Close of Month																
	Production		Raw Materials		Goods in Process		Finished Goods		Sales		Accounts Receivable		Accounts Payable		Notes Payable		
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	
Jan.																	
Feb.																	
March																	
April																	
May																	
June																	
July																	
Aug.																	
Sept.																	
Oct.																	
Nov.																	
Dec.																	
		100		100		100		100		100		100		100		100	

### Form for Use With Determination Chart

Nature of business .....  
 How long in business ..... Present fiscal year .....  
 Location of plants .....  
 Location of principal sources of supply .....  
 Stocks listed on ..... Exchange  
 Bonds listed on ..... Exchange  
 Does company use perpetual inventory system? .....  
 How often is physical inventory taken? .....  
 Statements prepared by company monthly .....  
 Cumulative ..... 12 months ended .....  
 Use made of statements prepared by company .....  
 Use made of reports of auditors .....  
 Does company use a budget? .....  
 What is fiscal year for budget? .....  
 Reports to stockholders:  
 Annually ..... Semi-annually ..... Quarterly .....  
 If partnership, do partners report income to U. S.  
 Government for same period as partnership? .....

### Comments and Suggestions

The above forms are intended for use in obtaining information with regard to seasonal fluctuations in specific businesses or industries, for the purpose of determining whether changes in fiscal years might be of advantage.

In many cases, it may not be practicable to obtain and list information for all of the columns and spaces in the chart. In others, fluctuations will be more clearly indicated by additional or substitute headings.

Information for more than one year obviously would furnish a more dependable guide to seasonal fluctuations than information for only one year. Where practicable, it should be obtained for a period of years.

*Additional copies of the above chart may be secured without charge from the*

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666 Fifth Avenue, New York 19, N.Y.

take care of only 364 days, but this is easily handled by adding an extra week to the thirteenth period when 7 days have been accumulated (about once in six years).

### Tax Regulations

To gain full advantage of your natural business year, you will want to apply it to your tax returns too. Tax regulations allow corporations to do this *without advance permission* if they haven't changed their tax year in the previous ten years, there is no loss in the interim period between the two closing dates, and certain other requirements are met. Other taxpayers (including corporations which do not meet these requirements) must request permission within one month after their new closing date. A *partnership* may not adopt or change to a tax year other than that of all its principal partners, *unless* the government is satisfied that it is for a business purpose.

State tax authorities will generally give permission for a change of fiscal year approved by the federal government.

Interim returns must be filed with the Internal Revenue Service (and with state taxing authorities where applicable) for the period from the end of the present tax year until the beginning of the new fiscal year.

## How To Do It

The change to a natural business year presents few problems. The by-laws of the corporation may have to be amended, the tax regulations must be observed, and companies regulated by the SEC must file interim reports when the period between fiscal years is three months or more.

Before making the change you should, of course, have the advice of your certified public accountants and your attorneys.

In order to determine your natural business year you will have to compare



your business activity month by month. A chart on pages 6 and 7 will help you and your CPAs to find the best closing date. The effect on your vacation schedule of the new closing date should also be considered.

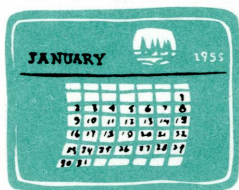
## You Have No Natural Business Year?

Most businesses have an annual cycle of activity, but yours may happen to re-



main steady regardless of the seasons.

You will still probably find advantages in avoiding the calendar year, leaving it to companies which happen to have a natural business year corresponding to the calendar year. Among other reasons, you will escape the general pressure of the year-end rush on many of the people you deal with, and on your own employees. Your accountants can best advise you as to a convenient fiscal year.



### Starting Right

A *new* company can adopt its natural business year as its fiscal year very easily by an appropriate provision in the by-laws. The first tax return should be submitted for the period from the start of business until the date selected as the close of the fiscal year.

### They Say:

*New York Stock Exchange:*

“The natural business year of an industry in which a company is engaged is

recommended, unless impractical for special reasons, as the fiscal year of the company instead of the calendar year.”

*Chief Accountant of the Securities and Exchange Commission:*

“Advantages to be obtained from the adoption of a fiscal year-end date which coincides with the lowest point in the annual cycle of operations are clear and to my mind have never been shown to be outweighed by related disadvantages.”

#### **Suggested Closing Dates**

A list of suggested closing dates for various industries is available on request. Please write to:

**NATURAL BUSINESS YEAR COMMITTEE  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
666 Fifth Avenue, New York 19, N.Y.**

