

36.2 Some practical considerations concerning accruals, etc.

You are the financial director of a major travel and holiday firm in the northern hemisphere. In what month would you choose to have the end of your accounting year? (Give reasons for your answer.)

Response

Accounting year end procedures are arduous and time-consuming. It is important therefore to choose a date for the end of the accounting year that will (as far as possible) coincide with a quiet period for the business, so that accounting and running the business do not conflict with each other. Thus in England for example, the government's financial year and the tax year both end on 5 April, coinciding with a quiet time in agriculture, which at the time these dates were fixed, was the predominant industry in the country.

In the northern hemisphere, most people take their holidays in the summer months (June, July and August), and at Christmas (late December), and the two or three months that follow. A travel firm would therefore probably avoid having its financial year end in any one of those months. Furthermore, since people generally pay in advance for their holidays, any year-end cut-off date in the months leading up to these peak periods would entail much adjustment of the accounts in respect of deferred income.

On the basis of these facts, the financial director would probably advise a travel firm to fix its financial year end somewhere in October or November.