XfE

XERO FOR EDUCATION

Xero Year-End Best Practices Guide

A practical guide to closing the books cleanly in Xero

Covers the core Xero-side controls and checks that apply at year end, whatever else feeds into the ledger

xero

PLATINUM PARTNER

TOTAL XERO WINNER 2025

Contents

General Guidance for Xero Users

This guide covers the year-end practices we recommend for any organisation using Xero, whatever combination of procurement, budgeting or payroll add-ons happens to be connected to it. Think of it as a companion to more system-specific guides, such as the Planergy & Xero year-end guide: it focuses on the core Xero-side controls and checks that apply to every client, regardless of what else feeds into the ledger.

Whatever your setup, the goal is the same. You want a clean, well-documented financial year end, with the trial balance and supporting reconciliations ready for review, and the new financial year opened in a controlled way. A number of sections below also point to timestamps in an accompanying recorded walkthrough, so you can watch each step being carried out in Xero instead of just reading about it.

1. Build a Year-End Timetable Early

Agree the key dates well before the financial year end. Leaving the timetable to be worked out at the last minute almost always costs you time later. A clear timetable gives budget holders and the finance team room to prepare, and cuts down the amount of correction needed once the period is closed.

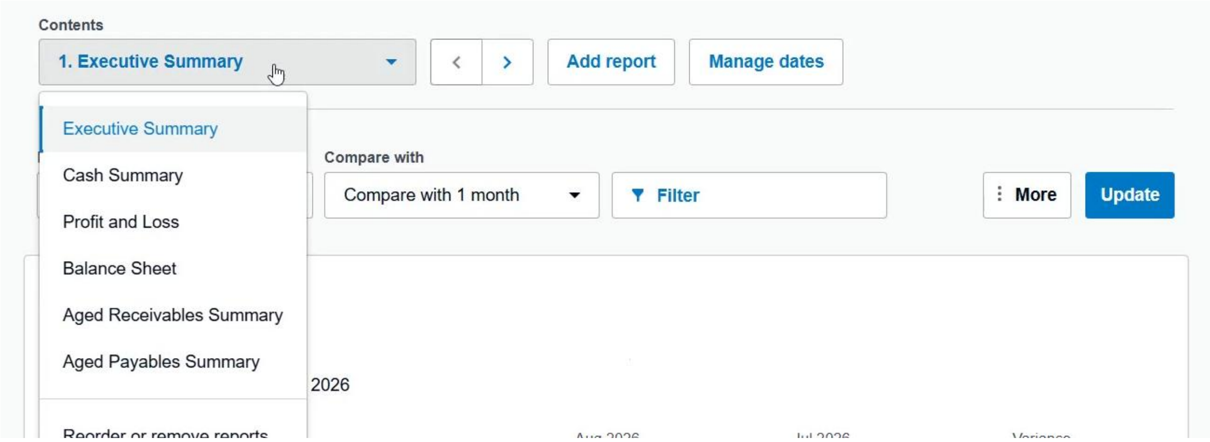
A typical timetable should set out:

- the deadline for submitting expense claims and staff reimbursements
- the deadline for suppliers' invoices to be received and entered. If a supplier invoices late for services relating to the prior period, don't hold up year end waiting for it; deal with it through an accrual instead
- the date of the "soft close", after which only agreed adjustments are posted
- the date of the final hard lock
- who is responsible for signing off each area (bank, debtors, creditors, payroll, fixed assets)

Circulate the timetable to all budget holders, not just the finance team, so late claims and invoices get minimised rather than discovered after the fact. Where you can, use the same person, such as a CFO or equivalent, to sign off each area consistently, and check they've set aside the time and understand what they're actually being asked to sign off.

2. Build a Xero Management Report Pack

Before working through the checks below, build a single custom report in Xero that pulls together everything you'll need to refer back to during year end. Start from Reporting and open the standard Management Report pack, then reorder, remove and add reports to suit. For year end you typically want the Balance Sheet, Trial Balance, Aged Receivables, Aged Payables, a Fixed Asset reconciliation, an Account Transactions report and a Bank Reconciliation Summary for each bank account. Skip the default executive summary or cash summary reports; they're not what you need here.



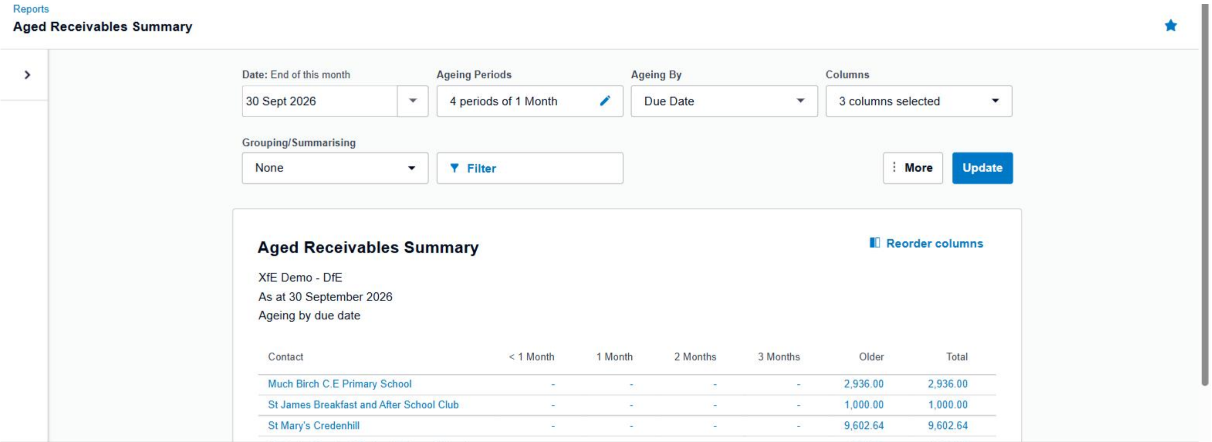
Reporting > Management Report: choosing which reports to include in the pack

- Reorder the reports so the ones you check most often, such as the trial balance, come first.
- Set every report to the same date range (for example 1 September to 31 August, compared with the prior year), so the whole pack stays anchored consistently instead of each report defaulting to its own period.
- Every report in the pack is fully drillable. The whole pack can also be exported to Excel, Google Sheets or PDF, so you and the auditors can annotate it.
- Save the configured pack as a custom report (for example "Year End Reporting") so you can come back to it at any point during the year-end process from Reporting > Custom, and re-save it as a new draft as the figures move.

> ***In the video:*** *a full walkthrough of assembling this report pack, reordering the reports, anchoring the date ranges and saving it as a custom report (02:00 to 07:26).*

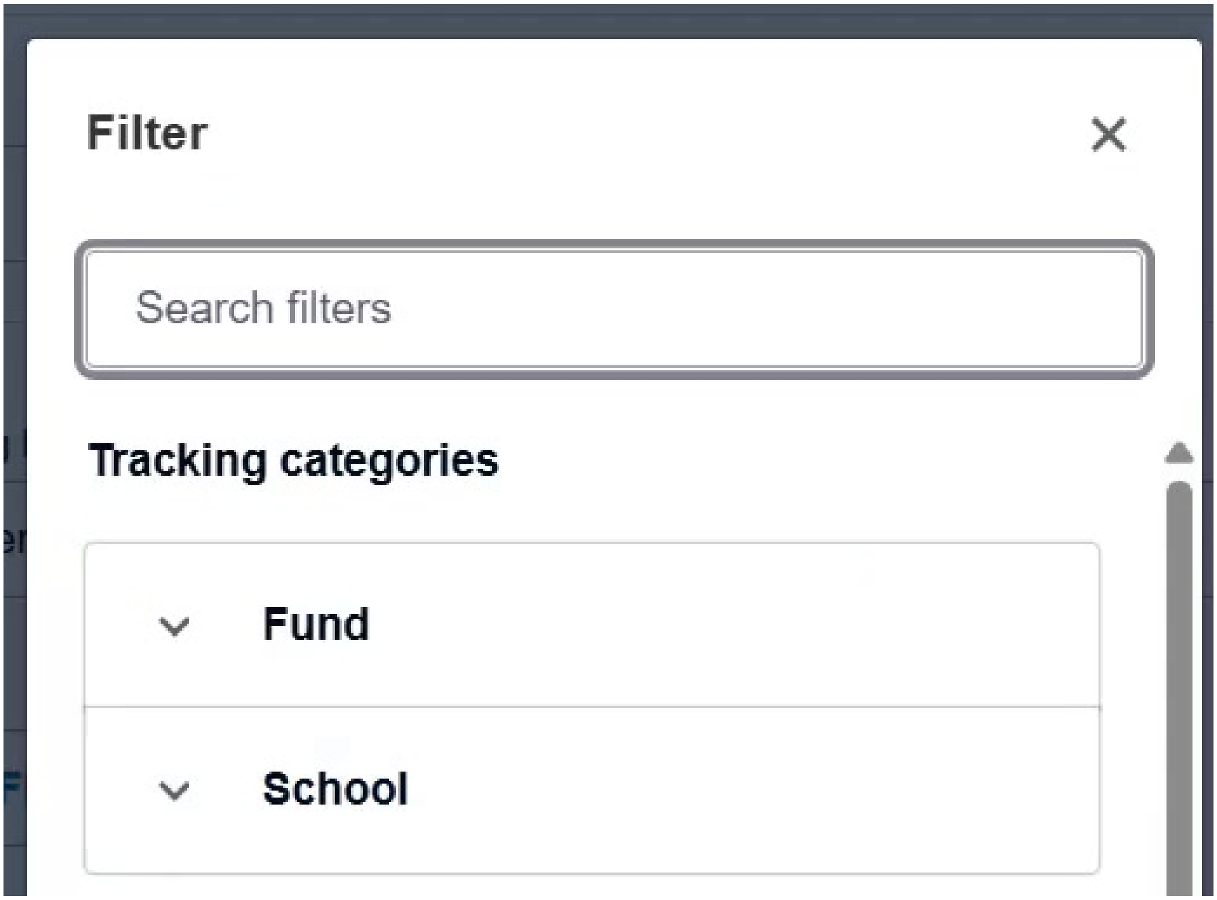
3. Review Debtors and Creditors

Run the Aged Receivables and Aged Payables reports in Xero and work through anything significantly overdue. The objective is the same as with any other commitment review: the ledger should reflect genuine, accurate balances by the time the year closes. One thing you don't need to worry about is your debtors and creditors balances agreeing to the trial balance; in Xero that's structurally impossible to get wrong, so that particular check effectively looks after itself.



Reporting > find a report > Aged Receivables Summary

- Focus on balances that are genuinely still outstanding as at today's date, not simply old according to the ageing columns; that's what tells you what's really still live.
- Chase old, uncollectable debtor balances or formally write them off. Don't let them roll forward unreviewed.
- Confirm that all supplier invoices relating to the year have been entered, even where payment isn't yet due.
- Review unallocated credit notes and payments on account, and match them against the correct invoices.
- Check for bills or invoices sitting in draft or awaiting approval that should be posted before the lock.
- If you operate as a multi-academy trust or other multi-entity organisation, filter or group the aged reports by school or tracking category and review each entity in turn.



Aged Receivables Summary > Filter: filtering by Fund and School tracking categories

> ***In the video:*** *reviewing aged receivables and creditors, and grouping the report by school for a multi-academy trust (04:14 to 05:01).*

4. Reconcile the Bank Accounts

Confirm that every bank account, including petty cash and any manually maintained accounts, is reconciled to its statement balance as at the year-end date. This is one of the most fundamental year-end controls there is, and it needs to be evidenced, not just assumed to be fine.

Bank Current Account Main Account Reconciliation Summary Reorder columns

XfE Demo - DfE
As at 31 August 2026
Bank Current Account Main Account

Date	Description	Reference	Amount
Totals Summary			
31 Aug 2026	Balance in Xero		494,038.03
	Plus outstanding payments		27,071.62
	Less outstanding receipts		191,841.91
	Plus unreconciled statement lines		-
31 Aug 2026	Statement balance (calculated)		329,267.74
31 Aug 2026	Bank statement ending balance		100,000.00
31 Aug 2026	Calculated balance out by		(229,267.74)

Balance in Xero

Bank Reconciliation Summary: statement balance, outstanding payments and receipts, and the calculated balance

- At year end you should have no outstanding unreconciled statement lines at all.
- You'll typically still have outstanding (unpresented) payments and receipts. Review each one to work out whether it's still genuinely outstanding, or whether it needs to be cancelled, redone or offset with a correcting entry.
- Add a Bank Reconciliation Summary report to your management report pack for each bank account, and enter the closing statement balance so it's ready to check that the bank's own rolling balance agrees to the calculated balance in Xero.
- Keep a record (a screenshot or exported reconciliation report) of the reconciled position at the year-end date, for audit purposes.

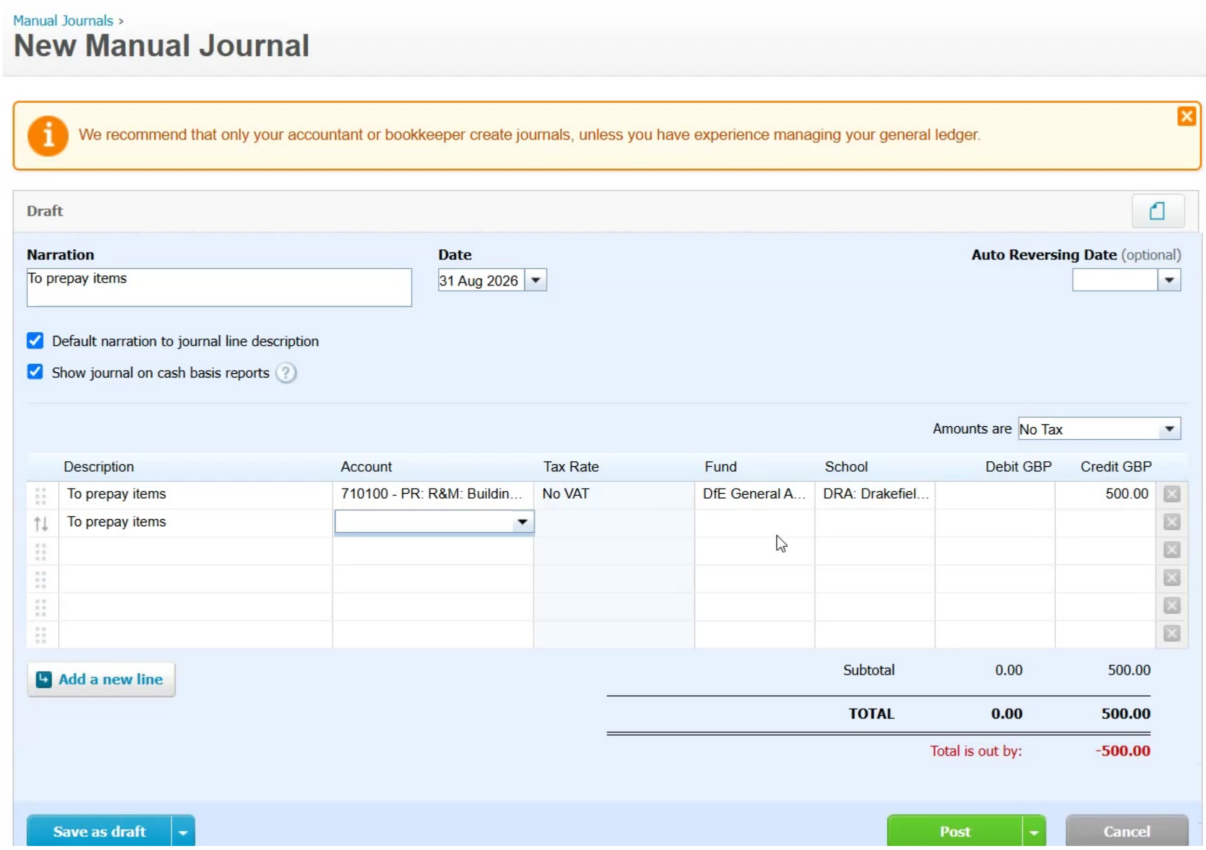
> ***In the video:*** *adding a Bank Reconciliation Summary for each account to the report pack, and reviewing outstanding payments and receipts (05:01 to 06:27).*

5. Review Prepayments, Accruals and Deferred Income

Work through the profit and loss account and identify costs and income that need matching to the correct financial year. A good way to find candidates is to filter an Account Transactions report down to the relevant expense accounts, then look for payments made close to the year end that clearly relate to a later period.

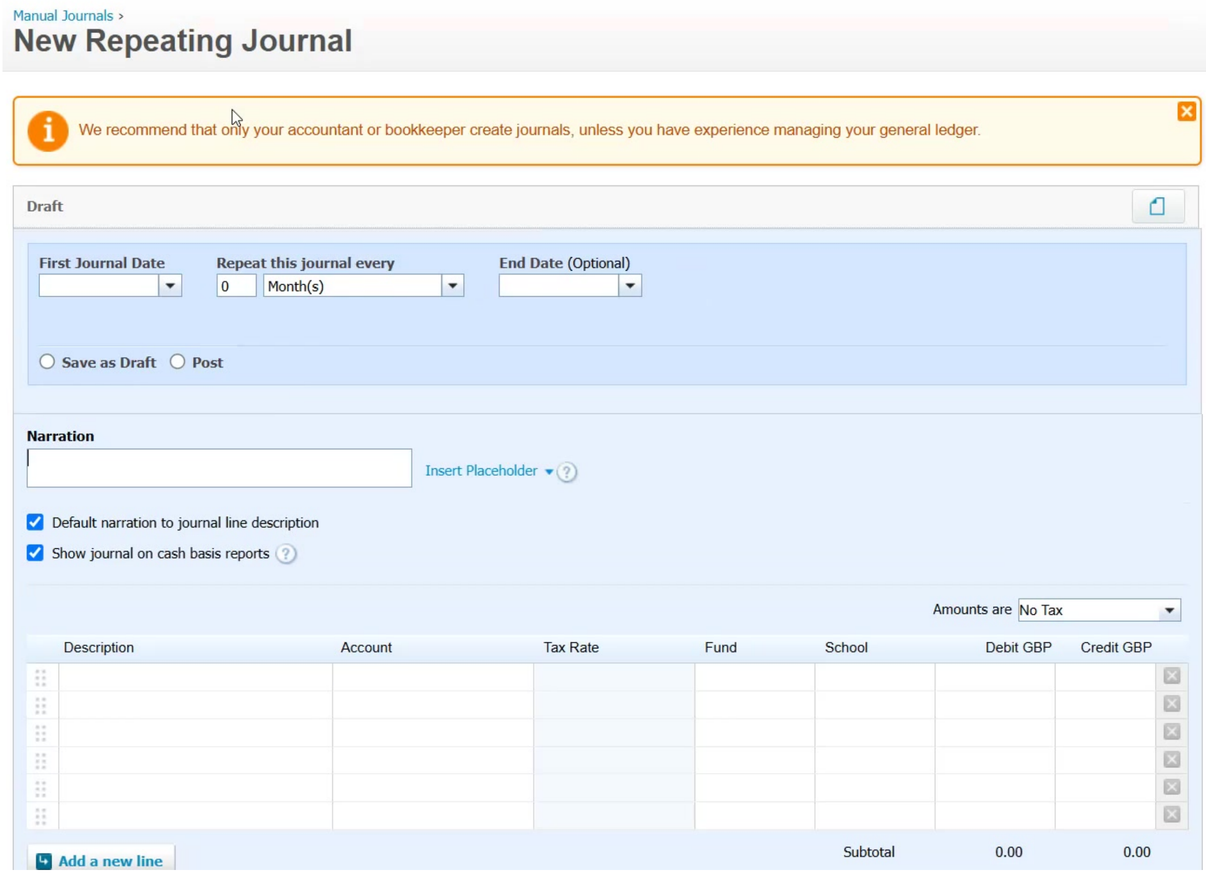
- Prepayments: costs paid in advance that relate wholly or partly to the next financial year, such as insurance, subscriptions and rent.
- Accruals: costs relating to the current year where the supplier invoice has not yet been received.
- Deferred income: amounts already invoiced or received that relate to services or goods still to be delivered.

In Xero, post these through a manual journal. Debit the balance sheet prepayments (or accruals) code and credit the relevant expense or income code, tagging the entry with the correct tracking category (fund and school, for example) as you go.



New Manual Journal: posting a prepayment with Fund and School tracking applied

- An auto-reversing date can be set on the journal so it reverses itself automatically the following month. This is optional, and it's worth treating with some caution: if the original journal turns out to be wrong, the auto-generated reversal will be wrong in exactly the same way. Some people prefer to post the journal and then reverse it manually once they're confident it's correct.
- For a prepayment or accrual that needs to release over several months, use a repeating journal instead. Set the first journal date, choose how often it repeats, and set an end date (or a fixed number of occurrences), so it releases automatically each month without any further intervention from you.



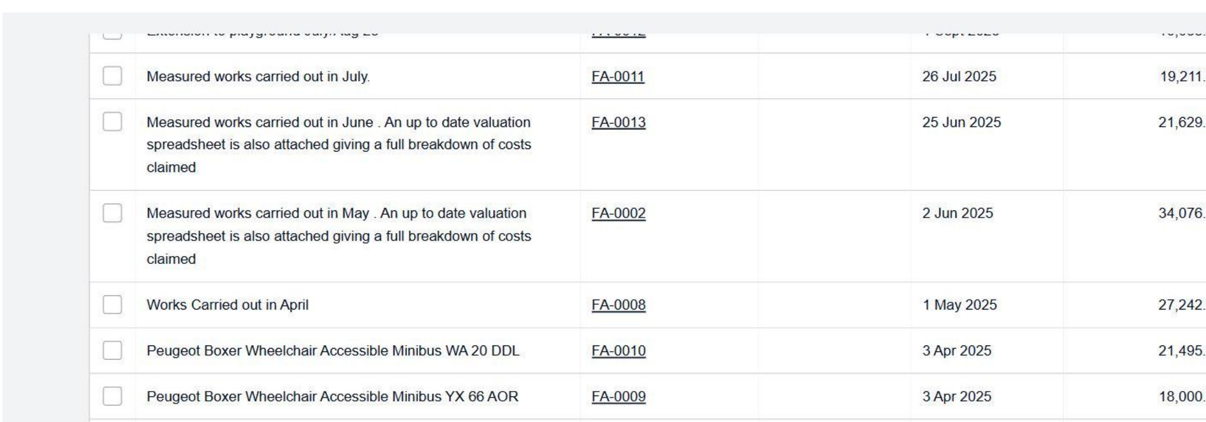
New Repeating Journal: setting the first journal date and repeat frequency

- A repeating journal will only post into periods that are open. Once a period is locked, Xero will not post anything into it, so anything still queued for a locked period is simply skipped.

> ***In the video:*** *posting a prepayment journal, the risk with auto-reversing dates, and setting up a repeating journal to release a prepayment over several months (08:11 to 10:17).*

6. Fixed Assets and Depreciation

Reconcile the fixed asset register, whether that's Xero's own module or an external register, to the fixed asset balance on the balance sheet before the year is closed.



Accounting > Fixed Assets: the draft asset register

- Process all additions and disposals for the year, and confirm that proceeds and any profit or loss on disposal are posted correctly.
- Run the final depreciation charge for the year and check it matches the expected policy rates.
- Confirm the capitalisation policy (the threshold above which spend gets capitalised instead of expensed) has been applied consistently through the year.

> **Common trap:** Xero doesn't automatically transfer the year's asset additions into cost brought forward, or the year's depreciation charge into depreciation brought forward, once the financial year rolls over. Check the fixed asset accounts at the start of the new year and you'll find the additions and depreciation figures still sitting where they were, not moved across to the brought-forward codes. A manual journal is needed to make that transfer, and it's one of the most common things people miss at year end.
>
> ***In the video:*** *showing that the fixed asset additions and depreciation figures don't roll forward automatically, and why the transfer journal is needed (12:11 to 13:06).*

7. Split Retained Earnings into Fund Balances

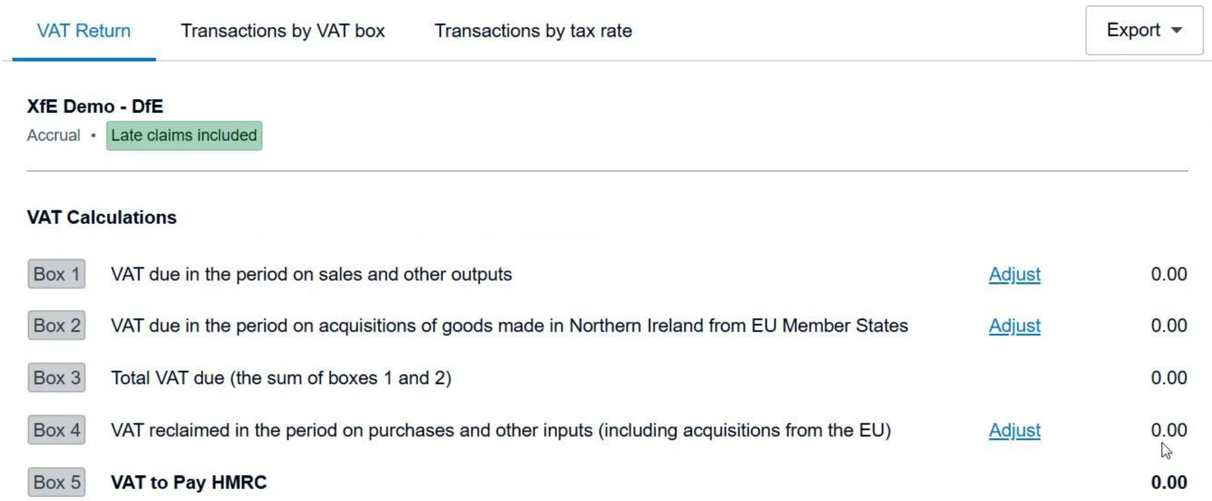
This step matters most to charities and academy trusts operating fund accounting, though the same principle applies wherever a single retained earnings balance needs splitting across more specific reserves. By default, Xero absorbs the year's surplus or deficit into one retained earnings balance, even though in substance it belongs across your different fund balances (GAG, restricted and unrestricted funds, for example).

- Where you want this reflected in Xero itself, post a journal debiting or crediting retained earnings (depending on whether the year was a surplus or a deficit), and split the corresponding entry across the relevant fund codes.
- Most organisations wait until the audited accounts are finalised before doing this, so retained earnings nets back to zero and the fund balances agree exactly to the statutory accounts. Doing it provisionally and having to correct it later is usually more hassle than it's worth.

> ***In the video:*** *explaining how retained earnings sits across the fund balances, and the approach to splitting it via journal once audited figures are confirmed (13:06 to 14:07).*

8. VAT Reconciliation

Reconcile the VAT control account on the balance sheet to the VAT return workings before the year is locked.



Tax > VAT Returns: the VAT Return boxes, ready to review before filing

- Confirm the latest VAT return has been created and filed, even if it's a nil return, so the VAT balance on the balance sheet is fully up to date and not lagging behind.
- Investigate any variances between the VAT control account and the VAT return, including timing differences.
- Clear any items sitting in Xero's VAT exceptions report. These usually mean a transaction was edited after being included on a filed return.
- Where partial exemption, reverse charge or multiple VAT schemes apply, check the relevant adjustments have been posted.

Xero's support centre has a more detailed guide to the VAT side of year end if you need to dig further into this.

> ***In the video:*** *a reminder to bring the VAT return fully up to date, and publish it as part of the year-end process (10:26 to 11:12).*

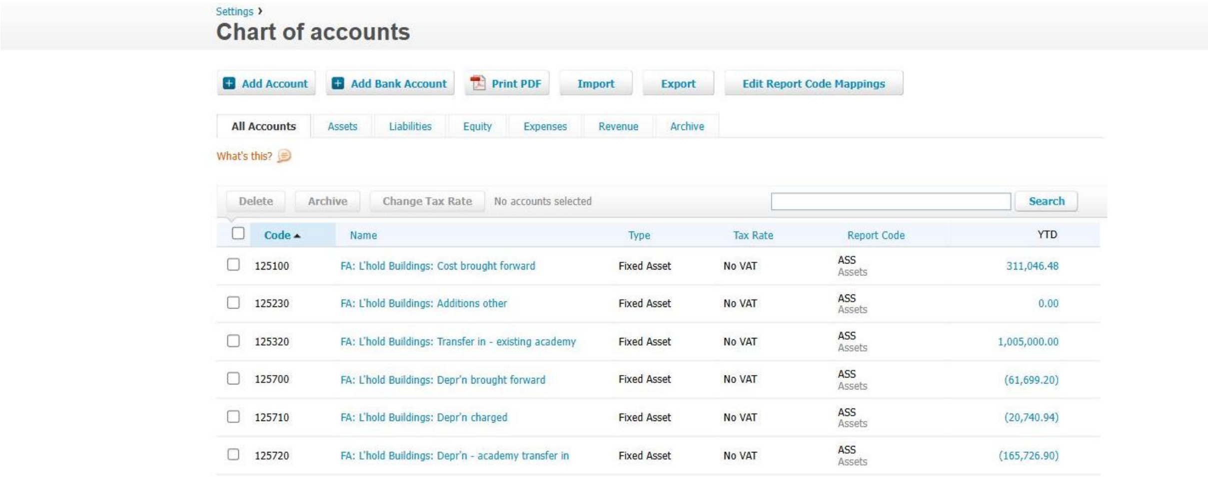
9. Payroll and PAYE Year-End Considerations

Where payroll is processed through Xero Payroll or a connected payroll system, reconcile the PAYE and National Insurance control accounts to the payroll reports before locking the period.

- Confirm pension contributions posted in Xero match the amounts reported to, and collected by, the pension provider.
- Make sure the final pay run relating to the year has been processed and posted before the lock date is applied.
- Check that any benefits in kind, bonuses or one-off payments relevant to the year end have been captured correctly.
- Agree the year-end PAYE and NI liability on the balance sheet to the payroll provider's figures.

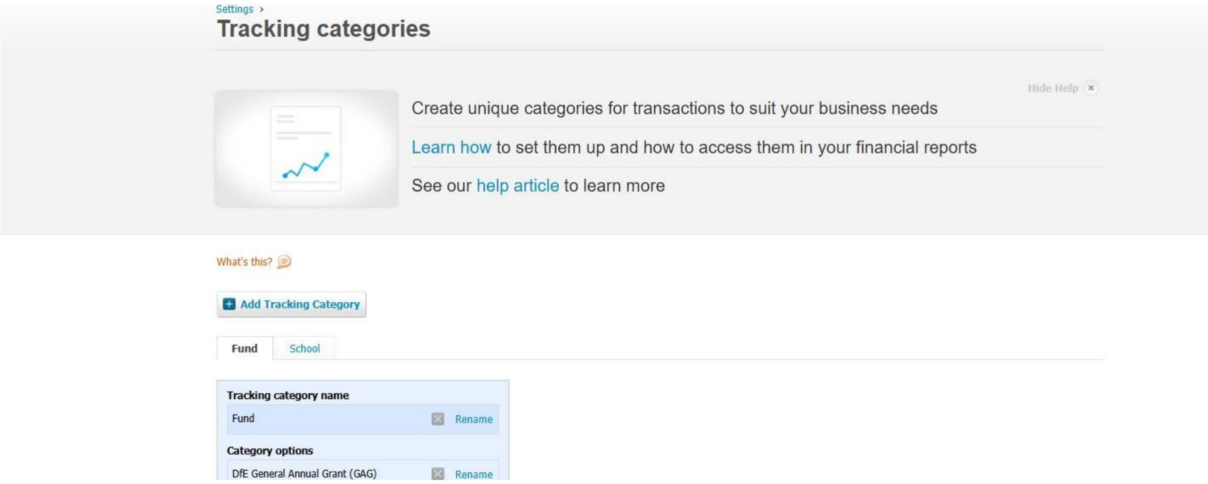
10. Review the Chart of Accounts and Tracking Categories

Year end is a natural point to tidy up the structure of the ledger, so reporting stays clean and comparable into the new year.



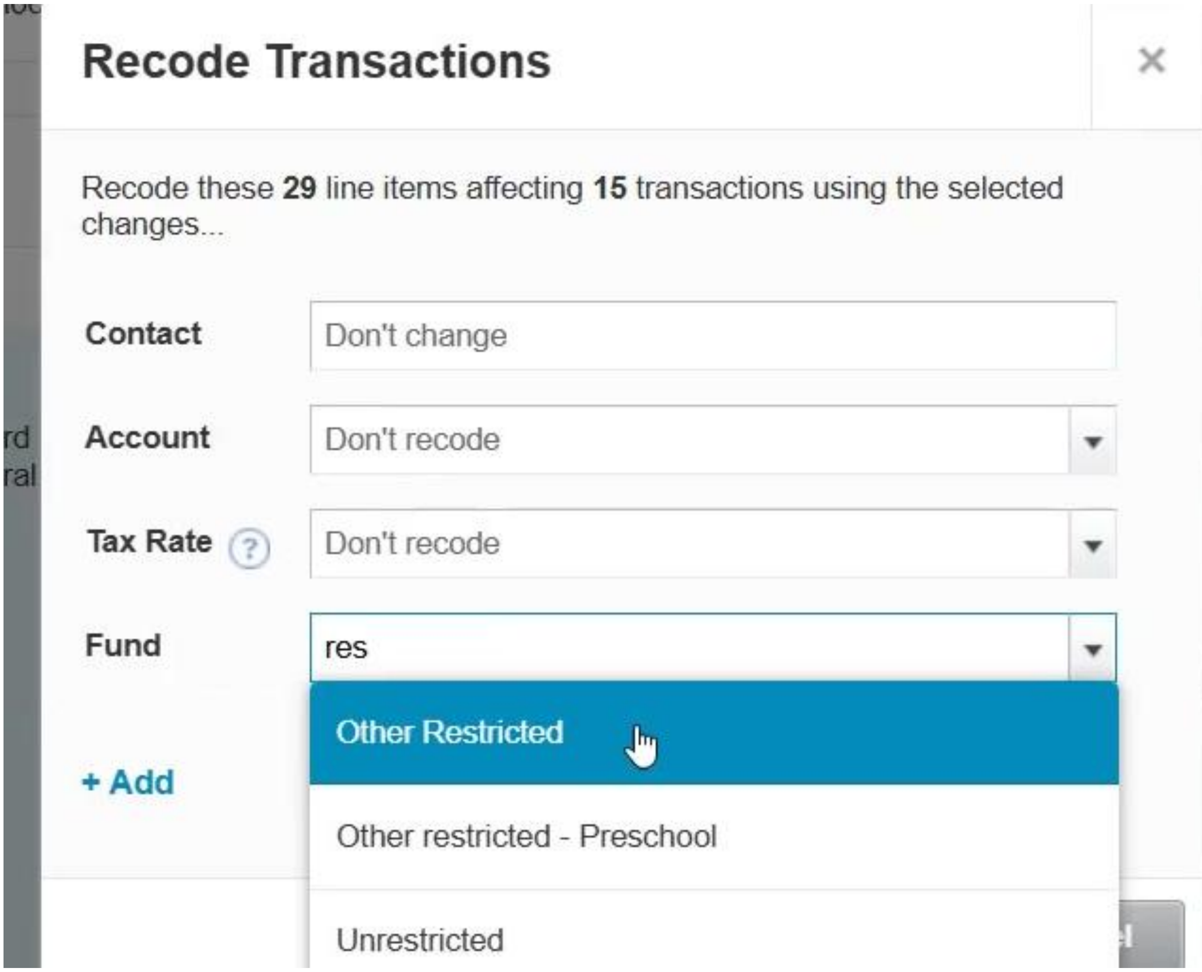
Settings > Chart of accounts

- Identify duplicate or unused nominal codes, and merge or archive them.
- Confirm tracking categories (departments, cost centres, funds, projects) are complete and consistently applied.



Settings > Tracking categories: this example uses Fund and School categories

- Review restricted funds or trip ledgers for balances that look wrong, for example income tagged to a fund with little or no corresponding expenditure against it.
- Where transactions have been posted to the wrong tracking category or left unassigned, use Xero's Find and Recode tool to locate and retag them at source in bulk instead of reposting them one by one. Bear in mind that Find and Recode can't bring back transactions from before a locked period.



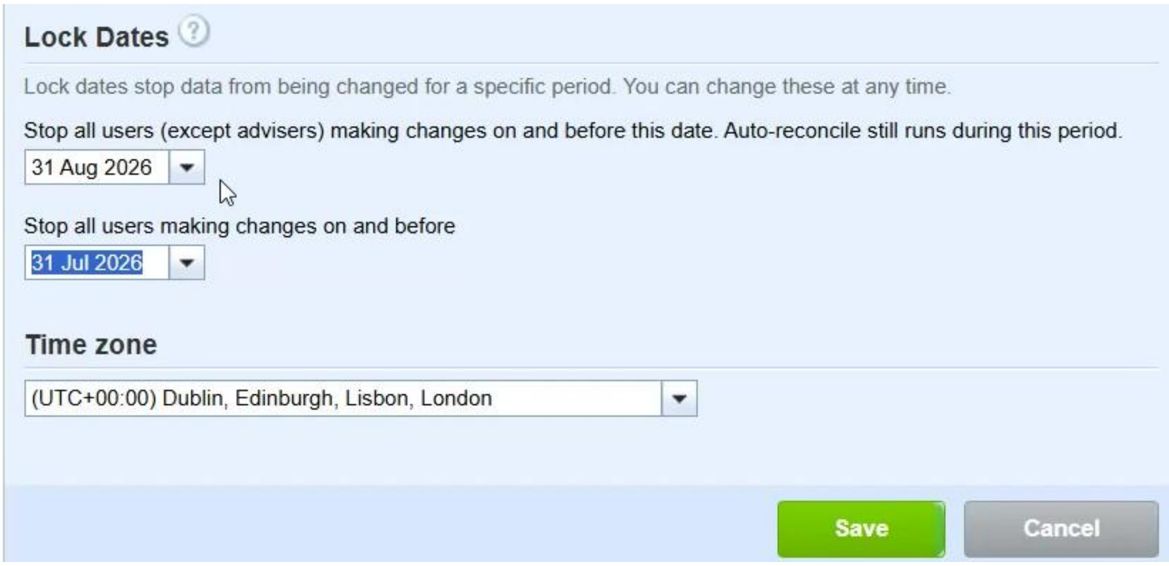
Find and Recode > Recode Transactions: bulk-retagging unassigned transactions to a Fund

- Archive tracking options (schools, trips) that are no longer in use instead of leaving them selectable, and add new ones for any schools or trips that joined during the year.
- Agree any changes to the reporting structure with budget holders before the new year starts, so comparisons between years stay meaningful.

> ***In the video:*** *reviewing a restricted fund, using Find and Recode to retag unassigned transactions in bulk, and archiving or adding tracking categories (14:07 to 17:30).*

11. Set and Apply Xero Lock Dates

The lock date is one of the most important year-end controls in Xero. Once the underlying figures are agreed, set a lock date so historic transactions can't be added, edited or deleted.



Settings > Financial settings > Lock Dates: hard lock (31 Jul) and softer lock (31 Aug) set together

In practice, it's worth using both lock dates Xero provides rather than just one. Set the hard lock date to the actual financial year end (31 July, say), which stops all users except advisers from posting on or before that date. Then set the softer lock date a month or so later (31 August, say), which stops everyone, without exception, from posting on or before that date. The net effect: most users can't post backwards past the softer date, while a smaller group with adviser access can still post the adjusting journals needed to finalise the prior year, right up to the hard lock date.

- Decide how long after the year end the softer lock should be applied, giving enough time for late invoices and adjustments to be processed.
- Check whether the lock date applies to all users, or whether advisers are permitted to keep making changes for audit adjustments.
- Think about how the lock interacts with any integrated third-party system (procurement, expenses, payroll) that posts into Xero, and align the timing of locks across systems.
- Agree the lock dates and communicate them to all users in advance, so it isn't a surprise when transactions get rejected.

> ***In the video:*** *setting a hard lock date and a softer lock date in Financial Settings, and why running both together works well (00:42 to 01:40).*

12. Handle Invoices Received After the Period Is Locked

Once a period is locked in Xero, a transaction can't simply be posted back into it. Agree the approach to late invoices before the lock is applied, and apply it consistently. What actually happens in practice depends on which procurement or approval system, if any, sits in front of Xero.

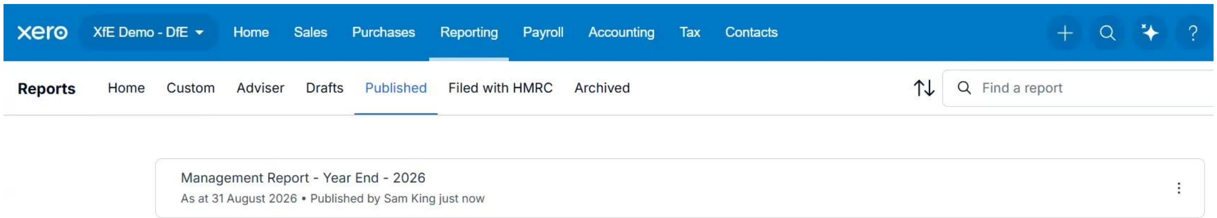
- With ApprovalMax, configured the standard way, an invoice dated within a locked period is automatically reposted to the next available open date, keeping the original due date and a copy of the invoice PDF. No manual intervention needed.
- With Planergy, a late invoice dated within a locked period creates a posting error instead, which then has to be manually corrected to a valid date before it will post through to Xero.

- Where an invoice relating to the locked period arrives late and needs handling manually, the posting date will usually need to fall into the new financial year, though you can still backdate the due date so payment terms are tracked correctly.
- Keep a simple log of any invoices treated this way, so you can explain the impact on the prior year to auditors if they ask.

> ***In the video:*** *the difference in how ApprovalMax and Planergy each handle an invoice dated within a locked period (18:40 to 19:44).*

13. Publish a Management Report Snapshot

Once the trial balance and the wider report pack are ready to go to the auditors, or as soon as the audit review begins, publish it using Xero's published reports feature.



Reporting > Published: the named year-end snapshot, ready as a fixed record for audit

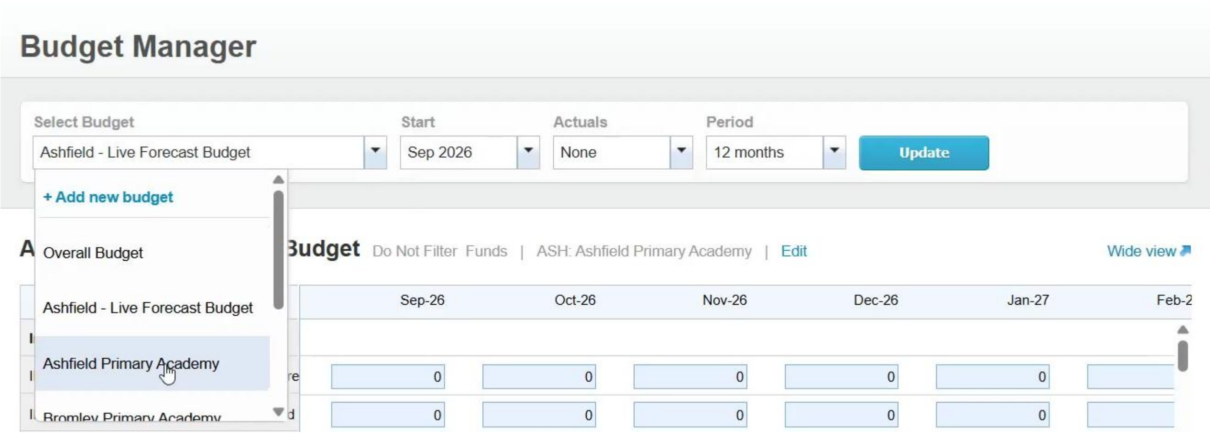
This creates a fixed snapshot of the reported figures at that point in time. It's useful during the audit because it preserves a clear record of the position as originally supplied, even after later adjustments are agreed and posted. Name the published version clearly (for example "Year End 2026, prepared by [name]"), and export a local copy to PDF or Excel as a belt-and-braces record before you apply the lock date. That way everyone involved is working from the same figures if questions come up later.

> ***In the video:*** *downloading a local copy of the report pack, publishing it in Xero, and naming it before locking the period (17:30 to 18:40).*

14. Prepare for Audit or External Review

- Gather supporting schedules for each reconciliation (bank, debtors, creditors, prepayments, accruals, fixed assets, VAT, payroll) in one place, ideally within the management report pack itself.
- Keep a brief note explaining the reasoning behind any significant judgemental entry, such as a bad debt write-off or an accrual estimate, and attach supporting workings to the journal where you can.
- If auditors get direct access to Xero, review user permissions before granting access, and remove it again once the audit is complete.
- Agree a single point of contact for audit queries, so requests for information don't get duplicated across the team.

15. Post Year-End Housekeeping



Reporting > Budget Manager: choosing between an Original budget and a Live Forecast Budget per school

You don't need to create a brand new budget in Xero for each financial year. A budget in Xero holds figures for every period you've entered, so the simplest approach is to update the date range on your existing budget to bring the new year into view. That also saves you from having to reconfigure any custom reports that reference it, which building a new budget from scratch would otherwise require.

- Load and check next year's budgets in Xero before they're needed for reporting.
- For each school or entity, consider keeping two budgets: an original budget that's set once and doesn't change, and a live or forecast budget that you update as often as needed through the year as the latest figures come in from your budgeting tools.
- Review recurring bill and invoice templates, and update any that still reference the old financial year.
- Review user access and permissions generally, and remove anyone who no longer needs access.
- Check that connected apps and integrations are still current, and that none are still writing to accounts that were tidied up in step 10.
- Archive the completed year's supporting documentation somewhere it can be found again later.

> ***In the video:*** *updating an existing budget's dates rather than recreating it, and keeping an original budget alongside a live or forecast budget per school (19:44 to 22:31).*

Recommended Year-End Sequence

Before year end

1. Agree and circulate the year-end timetable, and agree who signs off each area.

2. Build or update your Xero management report pack.
3. Begin reviewing aged debtors and creditors.
4. Review and post prepayments, accruals and deferred income.
5. Tidy the chart of accounts and tracking categories, using Find and Recode for any mis-tagged transactions.

At year end

6. Complete bank reconciliations for all accounts.
7. Finalise fixed asset additions, disposals and depreciation, and post the brought-forward transfer journal.
8. Reconcile the VAT control account, clear exceptions and file or publish the latest return.
9. Reconcile PAYE, NI and pension control accounts.
10. Confirm the trial balance and year-end position.
11. Split retained earnings into fund balances, where relevant.

Locking and transition

12. Agree the hard and soft lock dates and communicate them to all users.
13. Apply the Xero lock dates once satisfied with the position.
14. Agree and log the treatment of any late invoices, checking how your procurement system handles them.
15. Update or load next year's budgets ready for the new financial year.

Audit stage

16. Publish the management report pack in Xero to create a snapshot, and export a local copy.
17. Provide supporting schedules and notes for judgemental entries.
18. Process agreed audit adjustments once confirmed.
19. Complete post year-end housekeeping and archive documentation.

Where to See This in Action

Most of the steps above are demonstrated in the accompanying recorded walkthrough, with timestamps given in each section so you can jump straight to the relevant part. One area isn't covered there, and is worth recording separately if you want a complete visual set:

- Payroll pay runs. The screens differ by pay frequency and payroll provider, so a walkthrough of your actual setup would be more useful than a generic screenshot.

Everything else in this guide, including the report pack, bank reconciliation, prepayments, fixed assets, retained earnings, tracking categories and locking, is shown as a screenshot, a video reference, or both.

Key Takeaway

A clean Xero year end comes down to the same discipline whatever other systems feed into the ledger. Build a single report pack you trust. Reconcile the core balance sheet accounts early. Agree and apply your lock dates, and use published report snapshots to keep a controlled, clearly documented year-end position. Everything else, whichever procurement, payroll or budgeting tools you use, sits on top of that same foundation.