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What to expect when changing your company's fiscal year

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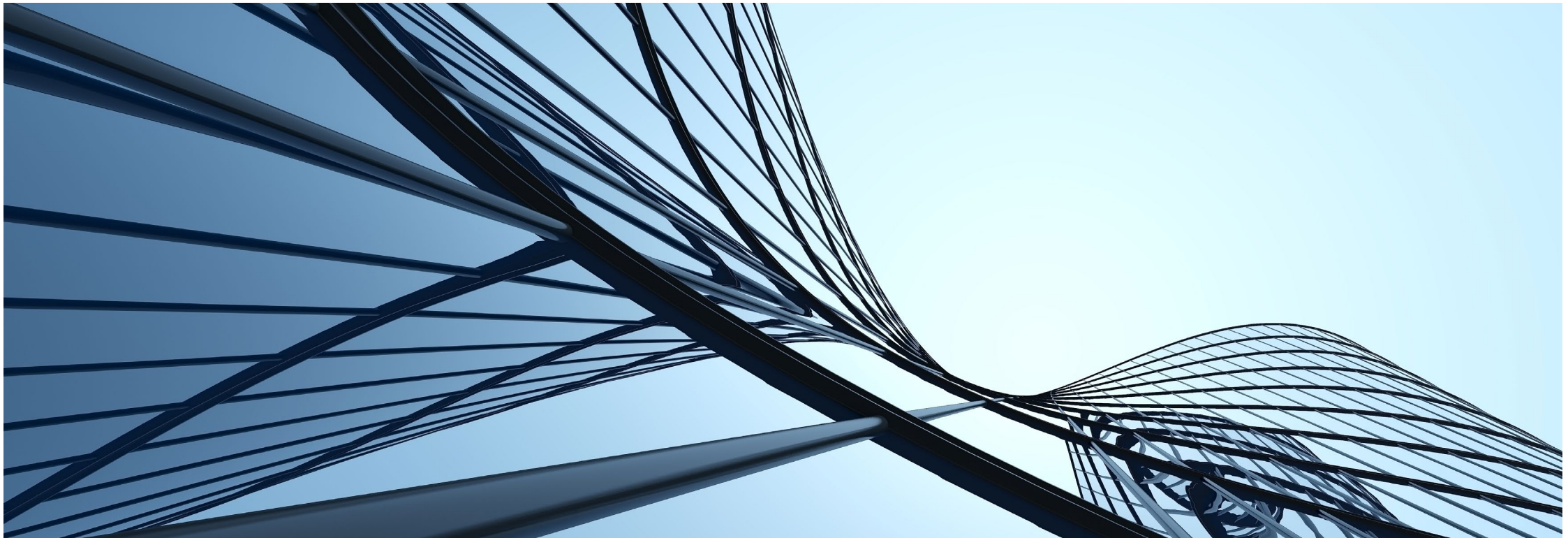


Setting the stage

Thinking about changing your company's fiscal year? It's not as uncommon as you might think. Maybe the company is about to go public, and it's time to adopt the standard calendar for your industry. Or business seasonality is creating financial noise that a shift in the accounting period could eliminate. Another scenario might be that the company has been acquired and must align with the parent company's fiscal year.

Whatever the situation, companies are often surprised to discover there's no universal playbook for changing a fiscal year-end. Beyond Securities and Exchange Commission (SEC) rules, which public companies must adhere to, there's little in the way of authoritative accounting guidance. So even privately held entities may apply the SEC's approach by analogy.

Still, changing a fiscal year can go more smoothly if you assess the implications upfront. In this article, we'll review what goes into your financial statements, then highlight some of the operational impacts that stem from a change in fiscal year.



Financial reporting implications

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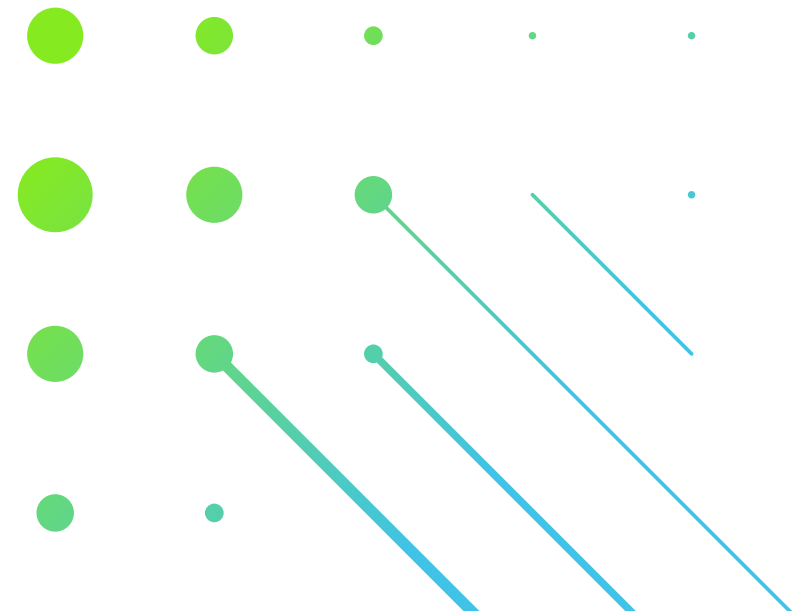
The SEC requires registrants to report their decision via Form 8-K. Registrants that change their fiscal year-end also are generally required to file a transition report or include financial statements for the transition period via Form 10-K or 10-Q. Only public companies need to file a transition report or transition period financial statements. But the SEC lays out two approaches for reporting a fiscal-year change in the financial statements, which may be helpful for private companies as well.

The first approach allows companies to report the change in fiscal year prospectively and issue financial statements for the period between the end of their previous fiscal year and the end of the new fiscal year. To illustrate, suppose you change your fiscal year from December 31 to September 30. Under this approach, the financial statements

for the nine months ended in September would be presented as the stub or transition period. Note the comparative year financial information would also be required to be presented in the footnotes to the financial statements, albeit it does not have to be audited.

The second approach allows companies to retrospectively reflect the change in fiscal year and issue financial statements assuming the new fiscal year was in effect for all periods. Although this approach may take more work, it helps investors understand what the results would have been had the company been going by the new fiscal year all along.

With either approach, it's prudent to provide—in the notes to the financial statements—clear and transparent disclosure around the change in fiscal year.





Internal processes

Internal processes

Now let's look at what a fiscal-year change can mean from an operational perspective.

Accounting and finance

teams may need to update the financial close and reporting calendars as well as board of directors and audit committee meeting schedules, realign budgets to the new fiscal periods, and adjust historical comparisons. They also may need to adjust accounting policies that are sensitive to timing (i.e., certain accruals, revenue recognition for seasonal businesses).

Systems and controls are likely to need updating to reflect the new fiscal calendar and get the appropriate data and reports flowing. In enterprise resource planning and accounting systems, updates may include the general ledger setup along with reporting templates and dashboards. Timing, testing, and other aspects of internal controls may change as well since controls are often designed around a specific fiscal calendar.

Contracts may need to be updated if terms are based on the financial results of the old fiscal year (revenue share arrangements, debt covenants, earn-outs, and milestones). Renewal clauses could be affected as well. Some contracts may have financial reporting and audit obligations, or triggers from missed reports or ratio tests.

Compensation agreements may have to be revised if performance-based compensation is tied to the old fiscal calendar. You may also need to reassess the timing of any equity grants, for example. Certain changes could have ripple effects on expense accounting as well as on disclosures in the financial statements and proxy.

Communication is essential to helping stakeholders understand how the fiscal-year change affects them. Stakeholders range from employees whose goals are tied to fiscal-year performance to investors whose decisions depend on timely, reliable, well-presented data. There's also the board of directors, who need to know the strategic rationale, any compliance implications, and the financial reporting impacts.



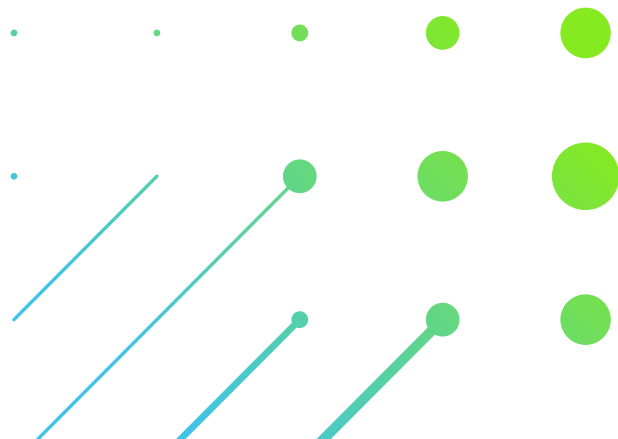


Getting ahead of a fiscal-year change

Getting ahead of a fiscal-year change

Changing a company's fiscal year may seem like a straightforward exercise at first, but the picture gets cloudier once you examine the downstream effects. If you're planning a change, the earlier you gather your team, the better. That includes auditors as well as your colleagues in legal, human resources, IT, finance, accounting, and corporate communications. All will have an important role to play in handling the transition and positioning the company to reap the full benefits of the change.

If you have questions about changing fiscal years or need assistance navigating the financial reporting and operational implications, please contact either of the following Deloitte professionals.





Let's talk

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