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THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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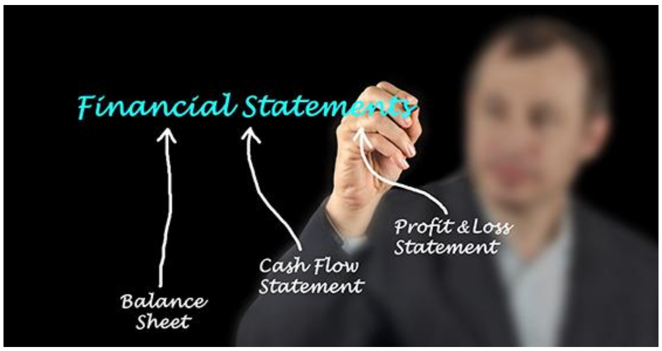
INSIDE THIS ISSUE

(3) FINANCIAL STATEMENTS YOU SHOULD KNOW



Successful business people have a solid understanding of the three financial statements prepared under U.S. Generally Accepted Accounting Principles (GAAP). A complete set of financial statements helps stakeholders – including managers, investors and lenders – evaluate a company's financial condition and results. Here's an overview of each report.

1. **Income Statement** – The income statement (also known as the profit and loss statement) shows sales, expenses and the income earned after expenses over a given period. A common term used when discussing income statements is "gross profit", or the income earned after subtracting the cost of goods sold from revenue. Costs of goods sold includes the cost of labor, materials and overhead required to make a product.

   Another important term is "net income". This is the income remaining after all expenses (including taxes) have been paid.

2. **Balance Sheet** – This report tallies the company's assets, liabilities and net worth to create a snapshot of its financial health. Current assets (such as accounts receivable or inventory) are reasonably expected to be converted to cash within a year, while long-term assets (such as plant and equipment) have longer lives. Similarly, current liabilities (such as accounts payable) come due within a year, while long-term liabilities are payment obligations that extend beyond the current year or operating cycle.

   Net worth or owner's equity is the extent to which the book value of assets exceeds liabilities. Because the balance sheet must balance, assets must equal liabilities plus net worth. If the value of your liabilities exceeds the value of assets, your net worth will be negative.

   Public companies may provide details of shareholders' equity in a separate statement called the statement of retained earnings. It details sales or repurchases of stock, dividend payments and changes caused by reported profits and losses.

3. **Cash Flow Statement** – This statement shows all the cash flowing into and out of your company. For example, your company may have cash inflows from selling products or services, borrowing money and selling stock. Outflows may result from paying expenses, investing in capital equipment and repaying debt.

   Although this report may seem similar to an income statement, it focuses solely on cash. It's possible for an otherwise profitable business to suffer from cash flow shortages, especially if it is growing quickly.

   Typically, cash flows are organized in three categories: operating, investing and financing activities. The bottom of the statement shows the net change in cash during the period. To remain in business, companies must continually generate cash to pay creditors, vendors and employees. So watch your statement of cash flows closely.

Ratios and Trends

Are you monitoring ratios and trends from your financial statements? Owners and managers who pay regular attention to these three key reports stand a better chance of catching potential trouble before it gets out of hand and pivoting, when needed to maximize the company's value.

Are income taxes taking a bite out of your trusts?

Are income taxes taking a bite out of your trusts? For trusts, the income threshold is very low for triggering the top income tax rate of 39.6%, top long-term capital gains rate of 20% and the 3.8% net investment income tax. The threshold is only $12,500 in 2017. However, you can soften the blow by using an intentionally defective grantor trust, shifting non-grantor trust assets into tax-exempt or tax-deferred investments, or distributing trust income to beneficiaries in lower tax brackets. We can review your trusts and help find the best solution to achieve your goals.

Claiming a federal tax deduction for moving costs

Are you eligible for a federal tax deduction for moving costs? You must pass (3) tests:

1) The move must be work-related.
2) The new main job location must be at least 50 miles farther from your former home than your former main job location was from that home.
3) You must work full time at the new job location for at least 39 weeks during the first year.

(Additional rules apply if you are self-employed.) Generally, you can deduct expenses such as move-related travel (but not meals) and packing and transporting your personal property. Questions? Contact us!

"Opportunities Don't Happen,
You Create Them"
~Chris Grosser

2017 Q3 tax calendar: Key deadlines for businesses and other employers

Here are some of the key tax-related deadlines affecting businesses and other employers during the second quarter of 2017. Keep in mind that this list isn't all-inclusive, so there may be additional deadlines that apply to you. Contact us to ensure you're meeting all applicable deadlines and to learn more about the filing requirements.

July 31

- Report income tax withholding and FICA taxes for second quarter 2017 (Form 941), and pay any tax due. (See exception below.)
- File a 2016 calendar-year retirement plan report (Form 5500 or Form 5500-EZ) or request an extension.

August 10

- Report income tax withholding and FICA taxes for second quarter 2017 (Form 941), Extended Deadline, if you deposited on time and in full all of the associated taxes due.

September 15

- If a calendar-year C corporation, pay the third installment of 2017 estimated income taxes.
- If a calendar-year S corporation or partnership that filed an automatic six-month extension:
- File a 2016 income tax return (Form 1120S, Form 1065 or Form 1065-B) and pay any tax, interest and penalties due.
- Make contributions for 2016 to certain employer-sponsored retirement plans.

CLOSE-UP ON RESTRICTED CASH

The Financial Accounting Standards Board (FASB) has amended U.S. Generally Accepted Accounting Principles (GAAP) to clarify the guidance on reporting restricted cash balances on cash flow statements. Until now, Accounting Standards Codification Topic 230, Statement of Cash Flows, didn't specify how to classify or present changes in restricted cash. Over the years, the lack of specific instructions has led businesses to report transfers between cash and restricted cash as operating, investing or financing activities — or a combination of all three.

The new guidance essentially says that none of the above classifications are correct.

FASB members hope the amendments will cut down on some of the inconsistent reporting practices that have been in place because of the lack of clear guidance.

Prescriptive guidance

Accounting Standards Update (ASU) No. 2016-18, Statement of Cash Flows (Topic 230) — Restricted Cash, still doesn't define restricted cash or restricted cash equivalents. But the updated guidance requires that transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents be excluded from the entity's operating, investing and financing activities. In other words, the details of those transfers shouldn't be reported as cash flow activities in the statement of cash flows at all.

Instead, if the cash flow statement includes a reconciliation of the total cash balances for the beginning and end of the period, the FASB wants the amounts for restricted cash and restricted cash equivalents to be included with cash and cash equivalents. When, during a reporting period, the totals change for cash, cash equivalents, restricted cash and restricted cash equivalents, the updated guidance requires that these changes be explained. These amounts are typically found just before the reconciliation of net income to net cash provided by operating activities in the statement of cash flows.

Moreover, a business must provide narrative and/or tabular disclosures about the nature of restrictions on its cash and cash equivalents.

Effective dates

The updated guidance goes into effect for public companies in fiscal years that start after December 15, 2017. Private companies have an extra year before they have to apply the changes. Early adoption is permitted. Contact us if you have additional questions about reported restricted cash or any other items on your company's statement of cash flows.

"In My Experience, There is Only One Motivation, and that is Desire. No Reasons or Principle Contain It or Stand Against It."

~Jane Smiley

TAX REFORM

A vision for "transformational" tax reform. In a recent speech to the National Association of Manufacturers, House Speaker Paul Ryan urged Republicans to seize this "historic opportunity" to enact meaningful tax reform. With few details, he listed goals that included a simplified tax code, lower tax rates, improved global competitiveness for American businesses, elimination of special interest carve-outs and permanent changes that give businesses certainty to plan for the future. Ryan projected that a realistic timeline for tax reform would be the end of 2017.

~ *I R S Corner*

Internal Revenue Service
United States Department of the Treasury

Don't Overlook the Benefits of Miscellaneous Deductions

If you are able to itemize your deductions on your tax return instead of claiming the standard deduction, you may be able to claim certain miscellaneous deductions. A tax deduction reduces the amount of your taxable income and generally reduces the amount of taxes you may have to pay.

Here are some things you should know about miscellaneous tax deductions:

Deductions Subject to the 2 Percent Limit. You can deduct the amount of certain miscellaneous expenses that exceed 2 percent of your adjusted gross income. Deductions subject to the 2 percent limit include:

- Unreimbursed employee expenses such as searching for a new job in the same profession, certain work clothes and uniforms, work tools, union dues, and work-related travel and transportation.
- Tax preparation fees.
- Other expenses that you pay to:

– Produce or collect taxable income,
– Manage, conserve, or maintain property held to produce taxable income, or
– Determine, contest, pay, or claim a refund of any tax.

Examples of other expenses include certain investment fees and expenses, some legal fees, hobby expenses that are not more than your hobby income and rental fees for a safe deposit box if it is not used to store jewelry and other personal effects.

Deductions Not Subject to the 2 Percent Limit. The list of deductions not subject to the 2 percent limit of adjusted gross income includes:

- Casualty and theft losses from income-producing property such as damage or theft of stocks, bonds, gold, silver, vacant lots, and works of art.
- Gambling losses up to the amount of gambling winnings.
- Impairment-related work expenses of persons with disabilities.
- Losses from Ponzi-type investment schemes.

Qualified miscellaneous deductions are reported on Schedule A, Itemized Deductions. Keep records of your miscellaneous deductions to make it easier for you to prepare your tax return when the filing season arrives.

There are also many expenses that you cannot deduct such as personal living or family expenses. You can find more information and examples in IRS Publication 529, Miscellaneous Deductions, which is available on IRS.gov or by calling 800-TAX-FORM (800-829-3676).

Keeping an Eye on Withholding

Keeping an eye on withholding. The IRS encourages taxpayers, especially those who receive the earned income tax credit (EITC) or the additional child tax credit (ACTC), to review their withholding and aim to have the correct amount of tax taken from their paychecks. They should also examine whether any events have occurred that would warrant the filing of a new Form W-4 with their employers. Having the correct amount withheld may be particularly important for those claiming the EITC or the ACTC, as these taxpayers may face delays in receiving their refunds.

"Success is the Sum of Small Efforts,
Repeated Day-In and Day-Out"
~Robert Collier