November 2017

The VOS Voice

"Because Accounting Matters And We Know It"

VOS CPAs, PLLC 30 Wall Street, NY, NY 10005 * 80 Orville Drive, Bohemia, NY 11716 * 41 Park of Commerce Way, Savannah, GA 31405
www.voscpas.com

4 Questions To Guide Your Prospective Financial Statements

CPAs don't just offer assurance services on historical financial results. They can also prepare prospective financial statements that predict how the company will perform in the future. This list of questions can help you make more meaningful assumptions for your forecasts and projections.

1. How far into the future do you want to plan?
Forecasting is generally more accurate in the short term. The longer the time period, the more likely it is that customer demand or market trends will change.

While quantitative methods, which rely on historical data, are typically the most accurate forecasting methods, they don't work well for long-term predictions. If you're planning to forecast over several years, try qualitative forecasting methods, which rely on expert opinions instead of company-specific data.

2. How steady is your demand?
Sales can fluctuate for a variety of reasons, including sales promotions and weather. For example, if you sell ice cream, chances are good your sales dip in the winter.

If demand for your products varies, consider forecasting with a quantitative method, such as time-series decomposition, which examines historical data and allows you to adjust for market trends, seasonal trends and business cycles. You also may want to use forecasting software, which allows you to plug other variables into the equation, such as individual customers' short-term buying plans.

3. How much data do you have?
Quantitative forecasting techniques require varying amounts of historical information. For instance, you'll need about three years of data to use exponential smoothing, a simple yet fairly accurate method that compares historical averages with current demand.

Want to forecast for something you don't have data for, such as a new product? In that case, use qualitative forecasting or base your forecast on historical data for a similar product in your arsenal.

4. How do you fill your orders?
Unless you fill custom orders on demand, your forecast will need to establish optimal inventory levels of finished goods. Many companies use multiple forecasting methods to estimate peak inventory levels. It's also important to consider inventory needs at the individual product level and local warehouse level, which will help you ensure speedy delivery.

If you're forecasting demand for a wide variety of products, consider a relatively simple technique, such as exponential smoothing. If you offer only one or two key products, it's probably worth your time and effort to perform a more complex, time-consuming forecast for each one, such as a statistical regression.

Plan to succeed

You may not have a crystal ball, but using the right forecasting techniques will help you gaze into your company's future with greater accuracy. We can help you establish the forecasting practices that make sense for your business.

Inside This Issue

(4) Questions to Guide Your Prospective Financial Statements	1
How Do Your Accounting Estimates Measure Up	2
Internal Controls – Drop In Restatements	2, 3
Minimize Inventory, Services to Make Your Financials Shine	3, 4
~ ***IRS Corner***	
IRS Encourages Taxpayers to Check Their Withholding	4

How Do Your Accounting Estimates Measure Up?

Today's businesses face unprecedented uncertainty — from geopolitical risks and cyberthreats to tax and regulatory reforms. So, management's historical means of addressing uncertainty in accounting estimates may not pass muster in the coming audit season.

Accounting for uncertainty

Some financial statement items are relatively cut-and-dried. But others can't be measured precisely and, instead, are based on what management *expects* to happen in the future.

Examples of accounting estimates include:

- Allowance for doubtful accounts,
- Work-in-progress inventory,
- Warranty obligations,
- Depreciation method or asset useful life,
- Recoverability provision against the carrying amount of investments,
- Fair value of goodwill and other intangibles,
- Long-term contracts,
- Uncertain tax positions, and
- Costs arising out of litigation settlements and judgments.

Accounting estimates may be based on subjective or objective information (or both) and involve a level of measurement uncertainty. Each accounting estimate is subject to its own level of uncertainty — and highly uncertain outcomes can lead to unintentional errors or, worse, intentional misstatement.

Use of specialists

Some estimates are easily determinable and may be made by in-house personnel with a fair degree of accuracy. This is especially true for estimates that can be made based on objective inputs (like published interest rates or percentages observed in previous reporting periods).

Other estimates are inherently subjective or complex — and may be derived from speculative inputs. Examples include share-based payments, goodwill and impairment write-offs. Managers are champions of the company's products and strategies and, therefore, may have unrealistic expectations. To avoid painting a rosier picture than reality, companies often use outside specialists, such as business appraisers or actuaries, to independently estimate complex items.

Ready for audit season?

Audit season is right around the corner for calendar-year-end businesses. In light of today's volatile marketplace, expect auditors to give renewed attention to your accounting estimates. For example, they may ask more in-depth questions or perform additional testing procedures. You can facilitate audit fieldwork and minimize audit adjustments by identifying accounts that are based on management's estimates and reviewing the procedures used to make the estimates. Some items may require a different measurement technique than you've used in the past.

If you're uncertain about how marketplace uncertainty could affect your estimates, contact us to help you get a timely, accurate assessment of financial performance before the start of audit season.

Internal Controls – Drop In Restatements

A recent study has found that fewer public companies are reissuing financial statements due to errors or omissions, in large part due to stronger internal controls. Want to upgrade your controls and reduce your risk of restatement? Savvy business owners and managers borrow best practices from the framework auditors use to evaluate their clients' internal controls.

(See Internal Controls – Drop in Restatements continued on page 3)

INTERNAL CONTROLS – DROP IN RESTATEMENTS

(Continued from page 2)

Drop in restatements

Research firm Audit Analytics found that the total number of restatements dropped to 6.83% (or 671 of 9,831 companies) in 2016. That's the lowest number of restatements in 15 years. Why? The Audit Analytics study attributes the decrease in restatements, at least partially, to regulatory oversight.

"I believe that the decrease in the number of restatements ... is a result, to some extent, of improved internal controls over financial reporting," said Don Whalen, director of research at Audit Analytics. Companies institute internal controls primarily to deter accounting fraud.

One resource used to improve internal controls is the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO first published its Internal Control — Integrated Framework in 1992 to help prevent a repeat of the types of accounting frauds that occurred in the 1980s. In 2013, COSO revised its framework to reflect changes to business and financial reporting that have taken place over the last two decades.

COSO framework

The updated COSO framework outlines five basic components of internal controls, including:

1. **Control environment.** A set of standards, processes and structures is needed to provide the basis for carrying out internal controls across the organization.

2. **Risk assessment.** This dynamic, iterative process identifies stumbling blocks to the achievement of the company's objectives and forms the basis for determining how risks will be managed.

3. **Control activities**. Policies and procedures are necessary to help ensure that management's directives to mitigate risks to the achievement of objectives are carried out.

4. **Information and communication**. Relevant and quality information supports the internal control process. Management needs to continually obtain and share this information with people inside and outside of the company.

5. **Monitoring.** Management should routinely evaluate whether each of the five components of internal controls is present and functioning.

External auditors generally rely on the framework's concepts when they assess internal controls. Likewise, business owners and managers can use the framework as a guide to establish, strengthen and assess their company's controls. Following this framework can help safeguard your operations from inadvertent financial reporting errors and fraud.

Practical application

COSO offers 81 "points of focus" that provide practical guidance in designing and implementing effective internal controls. Our audit team can help you turn the framework's

"Inspiration Takes You Halfway….
Action Takes You to the Top"
~ Ed Sykes

MINIMIZE INVENTORY, SERVICES TO MAKE YOUR FINANCIALS SHINE

Your business financials — where they stand currently and where they might be going next year — are incredibly important. Obviously, sales and expenses play enormous roles in the strength of your position. But a fundamental and often-overlooked way of making your cash flow statement shine is to minimize inventory or services so you have just enough to fulfill demand.

Sprucing up

Carrying too much inventory can devastate a budget as the value of the surplus items drops throughout the year. In turn, your financial statements simply won't look as good as they could. Taking stock and perhaps cutting back on excess inventory:

- Reduces interest and storage costs,
- Improves your ability to prevent fraud and theft, and
- Increases your capacity to track what's in stock.

One item to perhaps budget for here: upgraded inventory tracking and ordering software. Newer applications can help you better forecast demand, minimize overstocking, and even share data with suppliers to improve accuracy and efficiency.

(See Minimize Inventory, Services to Make Your Financials Shine continued on page 4)

Minimize Inventory, Services To Make Your Financials Shine

(Continued from page 3)

Serving wisely
If yours is a more service-oriented business, you can apply a similar approach. Check into whether you're "overstocking" on services that just aren't adding enough revenue to the bottom line. Keeping infrastructure and, yes, even employees in place that aren't improving profitability is much like leaving items on the shelves that aren't selling.

Making improvements may require some tough calls. You might have long-time customers to whom you provide certain services that just aren't substantially profitable anymore. If it's getting to the point where your company might start losing money on these customers, you may have to discontinue the services and sacrifice their business.

You can ease difficult transitions like this by referring customers to another, reputable service provider. Meanwhile, of course, your business should be looking to either find new service areas to generate revenue or expand existing services.

Brightening the future
A variety of threats can cast a dark shadow on your company's financial statements. Keeping your inventory or service selection in tip-top shape can help ensure that the numbers — and your business's future — look bright. Contact our firm for help specific to your situation.

Internal Revenue Service
United States Department of the Treasury

IRS Encourages Taxpayers to Check Their Withholding;

Checking Now Helps Avoid Surprises at Tax Time

WASHINGTON — As the end of 2017 approaches, the Internal Revenue Service today encouraged taxpayers to consider a tax withholding checkup. Taking a closer look at the taxes being withheld now can help ensure the right amount is withheld, either for tax refund purposes or to avoid an unexpected tax bill next year.

The withholding review takes on even more importance given a tax law change that started last year. This change requires the IRS to hold refunds a few weeks for some early filers claiming the Earned Income Tax Credit and the Additional Child Tax Credit. In addition, the IRS and state tax administrators continue to strengthen identity theft and refund fraud protections, which means some tax returns could require additional review time next year to protect against fraud.

"With only a few months left in the year, this is a good time to check on your withholding," said IRS Commissioner John Koskinen. "How much you choose to withhold is a personal choice, but checking now can reduce the chance for a surprise tax bill when you file in 2018."

By adjusting the Form W-4, Employee's Withholding Allowance Certificate, taxpayers can ensure that the right amount is taken out of their pay throughout the year. Having the correct amount withheld from paychecks helps to ensure that taxpayers don't pay too much tax during the year – and it also means taxpayers have money upfront rather than waiting for a bigger refund after filing their tax return.

The IRS also cautions people to be careful and check to make sure they have enough withheld from their paychecks. Under-withholding can lead to a tax bill as well as an additional penalty. The IRS especially encourages people with a second job, such as those in the sharing economy, or with a major life change to check whether they are having enough withheld or if they are making the appropriate estimated tax payments.

In many cases, a new Form W-4, Employee's Withholding Allowance Certificate, is all that is needed to make an adjustment. Taxpayers submit it to their employer, and the employer uses the form to figure the amount of federal income tax to be withheld from pay. But remember – it takes time for employers to process these payroll changes, so any adjustments should be made quickly so it can take affect during the final pay periods of 2017.

The IRS offers several online resources to help taxpayers bring taxes paid closer to what is owed. They are available anytime on IRS.gov. They include:

- IRS Withholding Calculator – Online tool helps determine the correct amount of tax to withhold.
- IRS Publication 505 – Tax Withholding and Estimated Tax.
- Tax Withholding – Complete information on withholding, estimated taxes, FAQs and more.

Self-employed taxpayers, including those involved in the sharing or gig economy, can use the Form 1040-ES worksheet to correctly figure their estimated tax payments. If they also work for an employer, they can often forgo making these quarterly payments by instead having more tax taken out of their pay.