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THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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SUPPLEMENT YOUR FINANCIAL STATEMENTS WITH TIMELY FLASH REPORTS

Most companies prepare financial statements on a monthly or quarterly basis. Unfortunately, it usually takes between two and six weeks for management to finalize reports that comply with U.S. Generally Accepted Accounting Principles (GAAP). The process takes even longer if an outside accountant reviews or audits your financial statements. Decision-making based solely on this stale information is reactive, not proactive. To help bridge the timing gap between daily operations and receipt of monthly or quarterly financial statements, consider using "flash reports."

Reap the benefits

Flash reports typically provide a snapshot of key financial figures, such as cash balances, receivables aging, collections and payroll. Some metrics might be tracked daily — including sales, shipments and deposits. This is especially critical during seasonal peaks or among distressed borrowers.

Effective flash reports are simple and comparative. Those that take longer than an hour to prepare or use more than one sheet of paper are too complex to maintain. Comparative flash reports identify patterns from week to week — or deviations from the budget that may need corrective action.

Beware of limitations

Flash reports can help management proactively identify and respond to problems and weaknesses. But they have limitations that management should recognize to avoid misuse.

Most important, flash reports provide a rough measure of performance and are seldom 100% accurate. It's also common for items such as cash balances and collections to ebb and flow throughout the month, depending on billing cycles.

Companies generally use flash reports only internally. They're rarely shared with creditors and franchisors, unless required in bankruptcy or by the franchise agreement. A lender also may ask for flash reports if a borrower fails to meet liquidity, profitability and leverage covenants.

If shared flash reports deviate from what's subsequently reported on GAAP financial statements, stakeholders may wonder if management exaggerated results on the flash report or is simply untrained in financial reporting matters. If you need to share flash reports, consider adding a disclaimer that the results are preliminary, may contain errors or omissions, and haven't been prepared in accordance with GAAP.

Customize your flash reports

Each company's flash report should contain different information. For instance, billable hours might be more relevant to a law firm, and machine utilization rates more relevant to a manufacturer. We can help you figure out what items matter most in your industry and how to create an effective flash report for your business.

INSIDE THIS ISSUE

"The Future Depends On
What We Do In The Present"
~Mahatma Gandhi

3 Breaks For Business Charitable Donations You May Not Know About

Here are three lesser-known income tax breaks for charitable donations by businesses:
1) deduction for donated food that equals the lesser of the food's basis plus one-half the fair market value in excess of basis or two times the basis,
2) deduction for qualified conservation contributions by qualified C corporation farming and ranching operations of up to 100% of adjusted taxable income, and
3) favorable tax basis rule for shareholders of S corporations that make donations of appreciated property.

Think you may be eligible? Contact us to learn more.

Close-up on cutoffs for reporting revenues and expenses

Under U.S. Generally Accepted Accounting Principles (GAAP), there are strict rules on when to recognize revenues and expenses. Here's important information about end of period accounting "cutoffs" as companies start to adopt the new revenue recognition standard.

Cutoff games

How closely does your company follow the cutoff rules? The end of the period serves as a "cutoff" for recognizing revenue and expenses. However, some companies may be tempted to play timing games to lower taxes or boost financial results.

To illustrate, let's suppose a calendar year, accrual-basis car dealer allows a customer to take home a minivan for a weekend test drive on December 29, 2017. The sales manager has verbally negotiated a deal with the customer, but the customer still needs to crunch the numbers with his spouse. The customer plans to return on January 2 to close the deal — or return the vehicle. Should the sale be reported in 2017 or 2018?

Alternatively, consider a calendar year, accrual-basis retailer that pays January's rent on December 29, 2017. Rent is due on the first day of the month. Can the store deduct the extra month's rent from this year's taxable income?

As tempting as it might be to inflate revenue to impress stakeholders or defer profits to lower your tax bill, the cutoff for a calendar-year business is December 31. So in both examples, the transaction should be reported in 2018.

Audit alert

The rules regarding cutoffs are changing for some companies. Under Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, revenue should be recognized "to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services." In some cases, the new standard could cause revenue to be reported sooner or later than under the existing rules. The updated standard goes into effect in 2018 for public companies and 2019 for private companies.

The new guidance requires management to make judgment calls about identifying performance obligations (promises) in contracts, allocating transaction prices to these promises and estimating variable consideration. These judgments could be susceptible to management bias or manipulation.

In turn, the risk of misstatement and the need for expanded disclosures will bring increased attention to revenue recognition practices. So, expect your auditors to ask more questions about cutoff policies and to perform additional audit procedures to test compliance with GAAP. For instance, they'll likely review a larger sample of customer contracts and invoices to ensure you're accurately applying the cutoff rules.

Got questions?

Timing is critical in financial reporting. Contact us if you need help understanding the rules on when to record revenue or expenses. We can help you comply with the rules and minimize audit adjustments next audit season.

PUT YOUR INCOME STATEMENT TO GOOD USE

By midyear, most businesses that follow U.S. Generally Accepted Accounting Principles (GAAP) have issued their year-end financial statements. But how many have actually used them to improve their business operations in the future? Producing financial statements is more than a matter of compliance — owners and managers can use them to analyze performance and find ways to remedy inefficiencies and anomalies. How? Let's start by looking at the income statement.

Benchmarking performance

Ratio analysis facilitates comparisons over time and against industry norms. Here are four ratios you can compute from income statement data:

1. **Gross profit**. This is profit after cost of goods sold divided by sales. This critical ratio indicates whether the company can operate profitably. It's a good ratio to compare to industry statistics because it tends to be calculated on a consistent basis.

2. **Net profit margin**. This is calculated by dividing net income by sales and is the ultimate scorecard for management. If the margin is rising, the company must be doing something right. Often, this ratio is computed on a pretax basis to accommodate for differences in tax rates between pass-through entities and C corporations.

3. **Return on assets**. This is calculated by dividing net income by the company's total assets. The return shows how efficiently management is using its assets.

4. **Return on equity**. This is calculated by dividing net profits by shareholders' equity. The resulting figure tells how well the shareholders' investment is performing compared to competing investment vehicles.

For all four profitability ratios, look at two key elements: changes between accounting periods and differences from industry averages.

Plugging profit drains

What if your company's profitability ratios have deteriorated compared to last year or industry norms? Rather than overreacting to a decline, it's important to find the cause. If the whole industry is suffering, the decline is likely part of a macroeconomic trend.

If the industry is healthy, yet a company's margins are falling, management may need to take corrective measures, such as:

- Reining in costs,
- Investing in technology, and/or
- Looking for signs of fraud.

For example, if an employee is colluding with a supplier in a kickback scam, direct materials costs may skyrocket, causing the company's gross profit to fall.

Playing detective

For clues into what's happening, study the main components of the income statement: gross sales, cost of sales, and selling and administrative costs. Determine if line items have fallen due to company-specific or industrywide trends by comparing them to public companies in the same industry. Also, monitor trade publications, trade associations and the Internet for information. Contact us to discuss possible causes and brainstorm ways to fix any problems.

"In The Middle of Every Difficulty Lies Opportunity"
~Albert Einstein

~ *I R S Corner*

Internal Revenue Service
United States Department of the Treasury

DIVORCE OR SEPARATION MAY AFFECT TAXES

IRS Summertime Tax Tip 2017-23, August 23, 2017

Taxpayers who are divorcing or recently divorced need to consider the impact divorce or separation may have on their taxes. Alimony payments paid under a divorce or separation instrument are deductible by the payer, and the recipient must include it in income. Name or address changes and individual retirement account deductions are other items to consider.

~ I R S Corner (continued)

IRS.gov has resources that can help along with these key tax tips:

Child Support Payments are not Alimony. Taxpayers can deduct alimony paid under a divorce or separation decree, whether or not they itemize deductions on their return. Taxpayers must file Form 1040; enter the amount of alimony paid and their former spouse's Social Security number or Individual Taxpayer Identification Number.

Deduct Alimony Paid. Taxpayers should report alimony received as income on Form 1040 in the year received. Alimony is not subject to tax withholding so it may be necessary to increase the tax paid during the year to avoid a penalty. To do this, it is possible to make estimated tax payments or increase the amount of tax withheld from wages.

Report Alimony Received. Taxpayers should report alimony received as income on Form 1040 in the year received. Alimony is not subject to tax withholding so it may be necessary to increase the tax paid during the year to avoid a penalty. To do this, it is possible to make estimated tax payments or increase the amount of tax withheld from wages.

IRA Considerations. A final decree of divorce or separate maintenance agreement by the end of the tax year means taxpayers can't deduct contributions made to a former spouse's traditional IRA. They can only deduct contributions made to their own traditional IRA. For more information about IRAs, see Publications 590-A and 590-B.

Report Name Changes. Notify the Social Security Administration (SSA) of any name changes after a divorce. Go to SSA.gov for more information. The name on a tax return must match SSA records. A name mismatch can cause problems in the processing of a return and may delay a refund.

For more on this topic, see Publication 504 , Divorced or Separated Individuals. Get it on IRS.gov/forms at any time.

JOB SEARCH EXPENSES CAN BE TAX DEDUCTIBLE

IRS Summertime Tax Tip 2017-24, August 25, 2017

Taxpayers who are looking for a new job that is in the same line of work may be able to deduct some job-hunting expenses on their federal income tax return, even if they don't get a new job.

Here are some important facts to know about deducting costs related to job searches:

Same Occupation. Expenses are tax deductible when the job search is in a taxpayer's current line of work.

Résumé Costs. Costs associated in preparing and mailing a résumé are tax deductible.

Travel Expenses. Travel costs to look for a new job are deductible. Expenses including transportation, meals and lodging are deductible if the trip is mainly to look for a new job. Some costs are still deductible even if looking for a job is not the main purpose of the trip.

Placement Agency. Job placement or employment agency fees are deductible.

Reimbursed Costs. If an employer or other party reimburses search related expenses, like agency fees, they are not deductible.

Schedule A. Report job search expenses on Schedule A of a 1040 tax return and claim them as miscellaneous deductions. The total miscellaneous deductions cannot be more than two percent of adjusted gross income.

Taxpayers can't deduct these expenses if they:

- Are looking for a job in a new occupation,
- Had a substantial break between the ending of their last job and looking for a new one, or
- Are looking for a job for the first time.

For more on job hunting, refer to Publication 529, Miscellaneous Deductions. IRS tax forms and publications are available any time on IRS.gov/forms.