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THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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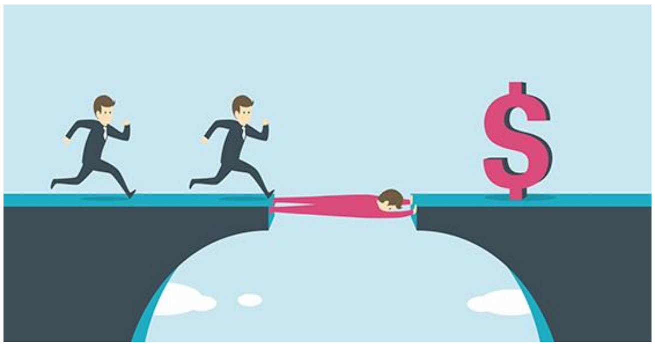


INSIDE THIS ISSUE

BRIDGING THE GAP BETWEEN BUDGETING AND RISK MANAGEMENT At many companies, a wide gap exists between the budgeting process and risk management. Failing to consider major threats could leave you vulnerable to high-impact hits to your budget if one or more of these dangers materialize. Here are some common types of risks to research, assess and incorporate into adjustments to next year's budget:

Competitive. No business is an island (or a monopoly for that matter). The relative strength and strategies of your competitors affect how your company should shape its budget. For this reason, gathering competitive intelligence and acting accordingly is a must.

For example, if a larger competitor has moved into your market, you may need to allocate more funds for marketing and advertising. Then again, if a long-time rival has closed up shop, you might be able to keep those costs the same (or even lower them) and channel more money into production as business picks up.

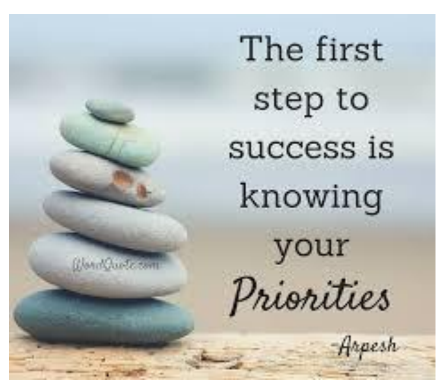
Compliance. Although federal regulatory oversight has moderated under the current presidential administration, many industries remain subject to myriad rules and regulations. State governments have also been aggressive in their efforts to gather additional revenue through oversight.

Look into how compliance rules might change for your business next year. Could a planned strategic move subject you to additional or stricter regulations? Factor compliance risks into your budget, whether in the form of increased administrative requirements or costly penalties if you slip up.

Internal. The U.S. economy is considered relatively strong. But that doesn't mean you should worry any less about what's arguably the biggest internal risk to your budget: fraud. Employees may still have plenty of rationales for stealing from you and, perhaps disturbingly, a 2019 benchmarking report from the Association of Certified Fraud Examiners found that 58% of in-house fraud investigation teams had inadequate levels of antifraud staffing and resources.

If this year's budget suffered from fraud losses, you'll absolutely need to allocate more dollars to tightened internal controls. But doing so could be a good idea anyway to minimize the possibility that a fraudster will strike. And, of course, fraud isn't the only internal risk to consider. Will your hiring costs rise in 2020 because of anticipated turnover or a need to increase staff size? Will training expenses go up because of a strategic initiative or new technology?

As the year winds down, business owners should be giving serious thought to their 2020 budgets based on financial reporting for the year. Our firm can help you undertake a sound budgeting process that includes the identification and assessment of specific threats.



Manage Your Working Capital More Efficiently

Working capital is the difference between a company's current assets and current liabilities. For a business to thrive, its working capital must be greater than zero. A positive balance enables the company to meet its short-term cash flow needs and grow.

But too much working capital can be a sign of inefficient management. In general, you want to generate as much income as possible from the money that is tied up in receivables, inventory, payables and other working capital accounts. Here is how to find the sweet spot between too little and too much working capital.

Benchmarking performance

Current assets are those that can be easily converted into cash within a 12-month period. Conversely, current liabilities include any obligations due within 12 months, including accounts payable, accrued expenses and notes payable.

In addition to calculating the difference between these two amounts, management may calculate the current ratio (current assets ÷ current liabilities) and the acid-test ratio (cash, receivables and investments ÷ current liabilities). A company's working capital ratios can be compared over time or against competitors to help gauge performance.

You can also compute turnover ratios for receivables, inventory and payables. For example, the days-in-receivables ratio equals the average accounts receivable balance divided by annual sales times 365 days. This tells you, on average, how long it takes the company to collect customer invoices.

Staying positive

There are three main goals of working capital management:

1. To ensure the company has enough cash to cover expenses and debt,
2. To minimize the cost of money spent on funding working capital, and
3. To maximize investors' returns on assets and investments.

Maintaining a positive working capital balance requires identifying patterns of activity related to line items within the current asset and liability sections.

Digging deeper

Suppose your company's current ratio has fallen from 1.5 to 1.2. Is this good or bad? That depends on your circumstances. You will need to identify the reasons it's fallen to determine whether the decline is a sign of an impending cash flow shortage. Often the answer lies in three working capital accounts: 1) accounts receivable, 2) inventory, and 3) accounts payable.

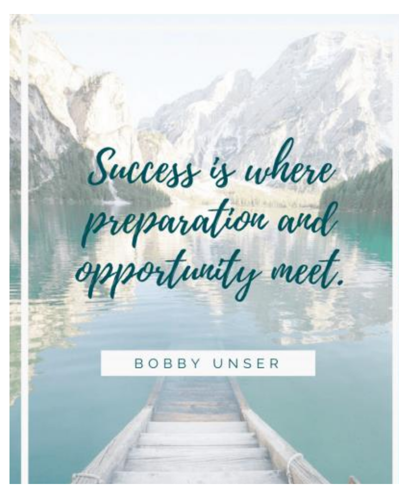
For example, when it comes to collecting from customers, how much time elapses between the recognition of an accounts receivable and its collection? Are certain customers habitually slower to pay than others?

Inventory has significant carrying costs, including storage, insurance, interest, pilferage, and the potential for damage and obsolescence. Has your company established target inventory levels? If so, who within the organization monitors compliance? To avoid running out of materials, companies often hold too much inventory. Moreover, it's often financed through trade debt, which can prove costly over the long term.

With respect to the payment of accounts payable, does your company pay according to the credit terms offered by the vendor? Are there penalties for paying past those terms? It might be time for your company to renegotiate its payment terms.

We can help

Working capital management is as much art as it is science. Contact us to help determine the optimal level of working capital based on the nature of your business. We can help you brainstorm ways to fortify your financial position and operate more efficiently.



GAAP vs. Tax-Basis: Which is right for your business?

Most businesses report financial performance using U.S. Generally Accepted Accounting Principles (GAAP). But the income-tax-basis format can save time and money for some private companies. Here's information to help you choose the financial reporting framework that will work for your situation.

The basics

GAAP is the most common financial reporting standard in the United States. The Securities and Exchange Commission (SEC) requires public companies to follow it — they don't have a choice. Many lenders expect large private borrowers to follow suit, because GAAP is familiar and consistent.

However, compliance with GAAP can be time-consuming and costly, depending on the level of assurance provided in the financial statements. So, some private companies opt to report financial statements using an "other comprehensive basis of accounting" (OCBOA) method. The most common OCBOA method is the tax-basis format.

Key differences

Departing from GAAP can result in significant differences in financial results. Why? GAAP is based on the principle of conservatism, which prevents companies from overstating profits and asset values. This runs contrary to what the IRS expects from for-profit businesses. Tax laws generally tend to favor accelerated gross income recognition and won't allow taxpayers to deduct expenses until the amounts are known and other deductibility requirements have been met. So, reported profits tend to be higher under tax-basis methods than under GAAP.

There are also differences in terminology. Under GAAP, companies report revenues, expenses and net income. Conversely, tax-basis entities report gross income, deductions and taxable income. Their nontaxable items typically appear as separate line items or are disclosed in a footnote.

Capitalization and depreciation of fixed assets is another noteworthy difference. Under GAAP, the cost of a fixed asset (less its salvage value) is capitalized and systematically depreciated over its useful life. For tax purposes, fixed assets are depreciated under the Modified Accelerated Cost Recovery System (MACRS), which generally results in shorter lives than under GAAP. Salvage value isn't subtracted for tax purposes, but Section 179 and bonus depreciation are subtracted before computing MACRS deductions.

Other reporting differences exist for inventory, pensions, leases, start-up costs and accounting for changes and errors. In addition, companies record allowances for bad debts, sales returns, inventory obsolescence and asset impairment under GAAP. But these allowances generally aren't permitted under tax law.

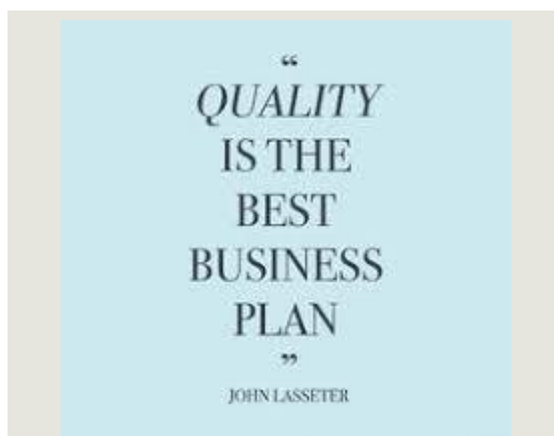
Departing from GAAP

GAAP has become increasingly complex in recent years. So some companies would prefer tax-basis reporting, if it's appropriate for financial statement users.

For example, tax-basis financials might work for a business that's owned, operated and financed by individuals closely involved in day-to-day operations who understand its financial position. But GAAP statements typically work better if the company has unsecured debt or numerous shareholders who own minority interests. Likewise, prospective buyers may prefer to perform due diligence on GAAP financial statements — or they may be public companies that are required to follow GAAP.

Contact us

Tax-basis reporting makes sense for certain types of businesses. But for other businesses, tax-basis financial statements may result in missing or even misleading information. We can help you evaluate the pros and cons and choose the appropriate reporting framework for your situation.



~ I R S Corner

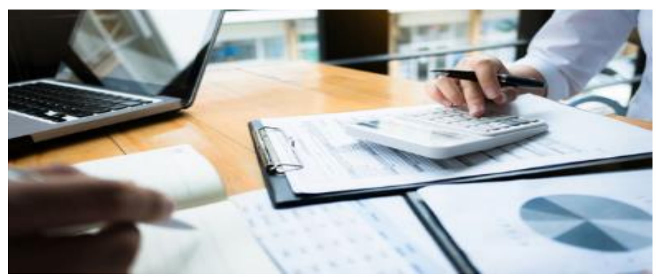
Internal Revenue Service
United States Department of the Treasury

IRS ADVISES TAXPAYERS TO REVIEW ELIGIBLE TAX CREDITS FOR 2020 FILING SEASON With the 2020 tax-filing season approaching, taxpayers may want to take time now to determine if they or their families are eligible for significant tax credits. For example, the Earned Income Tax Credit (EITC) is a refundable federal income tax credit for working people with low to moderate incomes. Certain eligibility requirements must be met. Because the EITC is a refundable credit, those who qualify and claim it pay less federal tax or no tax, or get a tax refund. It can mean a credit of up to $6,557 for working families with three or more qualifying children. Workers without a qualifying child may be eligible for a credit up to $529.

"Because Accounting Matters"

IRS UPDATES AUTOMATIC ACCOUNTING METHOD CHANGES The IRS has updated its list of automatic accounting method changes subject to automatic consent procedures. Revenue Procedure 2019-43 modifies change procedures for 1) certain sale, lease, or financing transactions; 2) tenant construction allowances; 3) streamlined method changes for taxpayers without an applicable financial statement; and 4) a change in basis of computing reserves under the tax code. Also, obsolete material has been removed from the list. The guidance generally applies to a Form 3115 ("Application for Change in Accounting Method") filed on or after Nov. 8, 2019, for a year of change ending on or after March 31, 2019.

IRS REMINDER – GOOD BUSINESS RECORDS KEY TO SUCCESSFUL BUSINESS Careful recordkeeping is one key to success for small business owners. A good system of maintaining records leads to better decision making. It helps business owners monitor business progress; prepare financial statements; identify income sources; track expenses; support items on tax returns; and more. Small business owners are free to use the system of their choice, but it should clearly show income and expenses. In only a few cases does the law require special kinds of records. Whether the choice is an electronic or paper system, it should generally summarize all business transactions in ledgers or journals.



IRS REMINDER - TAX ERRORS CAN BE COSTLY FOR SMALL BUSINESSES. Accidentally failing to comply with tax laws, violating tax codes, or filling out forms incorrectly can leave taxpayers and their businesses open to possible penalties. According to the IRS, the most common errors by small businesses include underpaying estimated taxes and depositing employment taxes late or incorrectly. Other common mistakes are not separating business and personal expenses and filing late returns. Using a tax preparer is one way to avoid these kinds of errors, the tax agency noted.

> *"Success usually comes to those who are too busy to be looking for it."*
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> *-- Henry David Thoreau*