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Three Common Audit Problems Firms Can Avoid Now *CPA Advice for a Smooth Year-End*

San Jose, Calif. – July 27, 2012 – “Firms can take action now to correct three common problems that can be costly and time-consuming when you get to the audit process,” says CPA Carol Wagner of Abbott, Stringham & Lynch. To close out your year efficiently and prepare for an audit, Wagner suggests that you review the following “sticky areas” now with your finance team, CPA and lending sources.

1. **Establish a revenue recognition policy and follow it consistently.** Take into consideration recent regulatory changes, for example, in the recognition of revenue from multiple deliverables, which may affect many tech firms. If you already have a revenue recognition policy in place, assess how the changes may impact your policies.
2. **Get up to date on inventory observation.** Observation of beginning and ending inventory is a required audit procedure under U.S. Generally Accepted Auditing Standards (GAAS). If your beginning inventory was not observed, you have a problem. To remedy the issue, you can often do a rollback to get a beginning count, but it is difficult to rollback an entire year of inventory, so take action now. Also, take a look at your overhead capitalization into inventory. Make sure you’ve established a methodology to apply to overhead, and that it has been consistently applied. Your methodology should assess direct costs and indirect costs that should be allocated to ending inventory.
3. **Take stock of all possible reporting requirements.** For example, if you have received new financing, ensure you are on track with the reporting requirements and covenants. Also, if your business is engaged in foreign activities, secure the information you need to create and update reports to foreign investors and regulatory authorities.

Wagner says that “addressing these meaty procedural and reporting issues now will make your year-end easier and equip you with the information you need for your auditors.” She adds, “Fixing these issues after the fact is often expensive and time consuming. With the first half of the year behind us, it’s not too soon to assess your position on these issues and take corrective action.”

About Abbott, Stringham & Lynch (ASL)

Abbott, Stringham & Lynch (ASL), founded in 1977, is one of the leading local CPA firms in the Silicon Valley. ASL provides emerging and mid-market private companies and their executives

with accounting and audit, tax, estate and wealth planning, and consulting services. ASL's clients include construction, technology, and real estate businesses among others. ASL is a member of PKF North America, a network of independent CPA firms.

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