

**Insero & Company's 2011 CPE Series
Presents**

Accounting & Auditing Update

September 29, 2011

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Agenda

- Speakers/Intro/Timeline
- Session #1
 - New York State CPA Rule Changes
 - FASB Updates
 - Service Organization Controls
 - *Break*
- Session #2
 - More Accounting Changes to Come
 - Compilation and Review Updates
 - *Break*

Agenda (continued)

- Session #3
 - Employee Benefit Plan Updates
 - IFRS Current Status/Timeline
 - *Break*
- Session #4
 - Business Combinations and Case Study
 - Private Company Reporting
 - SEC/PCAOB Updates
 - Other

Speakers

- Vincent Leo, CPA
- Timothy McLaughlin, CPA
- Jennifer Martlew, CPA, CFE
- Gwendolyn Falbo, CPA

Timeline

- Session #1 8:00 – 8:50am
- Session #2 9:00 – 9:50am
- Session #3 10:00 – 10:50am
- Session #4 11:00 – 11:50am
- Lunch 12:00 – 1:00pm

New York State CPA Rule Changes



What's Up with New York State?

A Lot More Than Just CPA
Requirements!

New York State CPAs

- 50,567 CPAs in New York State (7/2011)
- New Licenses Issued:
 - 2010 4,099*
 - 2009 3,003*
 - 2008 1,932
 - 2007 1,566

*Big push to avoid 5 year rule.

New York State CPAs Recent Events:

- Public Accountancy Act of 2008
- CPE/Ethics Requirements
- Accounting Firm Annual Reports
- Mandatory Peer Review
- New Mobility Law

Public Accountancy Act of 2008

- Passed in 2008
- Effective July 26, 2009
- Updates the original CPA Act of 1897
- Effects:
 - Registration
 - Expands scope of practice
 - CPE
 - Experience requirements

Public Accounting Act of 2008: Registration/Scope Issues

- Everyone must register
- Once a CPA, Always a CPA
- Can no longer elect to be “inactive”
- Can file proof of being inactive and request inactive status
- Broadly defines “Practice of Public Accounting” to be almost anything finance related

Public Accounting Act of 2008: CPE Requirements

- 40 Hours “General” CPE
- 24 Hours “Concentrated” CPE
- Ethics CPE (4 hours) every 3 years

Public Accounting Act of 2008: Other Requirements

- Firm Registration
- Mandatory Quality (Peer Review) for Firms (Starts January 1, 2012)

CPA Mobility Law of 2011

- Effective November 15, 2011
- Eases rules on out of state CPAs practicing in New York
- Eases rules on NYS CPAs practicing in other states
- Holdouts – Alaska, California, DC, Guam, Hawaii, Puerto Rico, US Virgin Islands

NYS Contact Info:

NY State Education Department
Office of the Professions
89 Washington Avenue
Albany, New York 12234-1000
Phone: 518.474.3817
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FASB Updates



FASB Updates

- FASB Codification
- Accounting Standards Update
 - 8 New ASUs in 2011
 - 29 New ASUs in 2010

FASB Codification

- Effective Fall, 2009
- Codifies all authoritative literature into one searchable database

FASB Codification (continued)

- The FASB had three primary goals in developing the Codification:
 1. Simplify user access by codifying all authoritative US GAAP in one spot
 2. Ensure that the codified content accurately represented authoritative US GAAP as of July 1, 2009
 3. Create a codification research system that is up to date for the released results of standard-setting activity
- www.FASB.org

The Codification at a Glance					
Topics					
General Principles 105 - Generally Accepted Accounting Principles Presentation 205 - Presentation of Financial Statements 210 - Balance Sheet 215 - Statement of Shareholder Equity 220 - Comprehensive Income 225 - Income Statement 230 - Statement of Cash Flows 235 - Notes to Financial Statements 240 - Accounting Changes and Error Corrections 255 - Changing Prices 260 - Earnings Per Share 270 - Interim Reporting 272 - Limited Liability Entities 274 - Personal Financial Statements 275 - Risks and Uncertainties 280 - Segment Reporting Assets 305 - Cash and Cash Equivalents 310 - Receivables 320 - Investments-Debt and Equity Securities 323 - Investments-Equity Method and Joint Ventures 325 - Investments-Other 330 - Inventory 340 - Other Assets and Deferred Costs 350 - Intangibles-Goodwill and Other 360 - Property, Plant and Equipment	Liabilities 405 - Liabilities 410 - Asset Retirement and Environmental Obligations 420 - Exit or Disposal Cost Obligations 430 - Deferred Revenue 440 - Commitments 450 - Contingencies 460 - Guarantees 470 - Debt 480 - Distinguishing Liabilities from Equity Equity 505 - Equity Revenue 605 - Revenue Recognition Expenses 705 - Cost of Sales and Services 710 - Compensation-Generat 712 - Compensation-Nonretirement Postemployment Benefits 715 - Compensation-Retirement Benefits 718 - Compensation-Stock Compensation 720 - Other Expenses 730 - Research and Development 740 - Income Taxes Broad Transactions 805 - Business Combinations 808 - Collaborative Arrangements 810 - Consolidation 815 - Derivatives and Hedging 820 - Fair Value Measurements and Disclosures	825 - Financial Instruments 830 - Foreign Currency Matters 835 - Interest 840 - Leases 845 - Nonmonetary Transactions 850 - Related Party Disclosures 852 - Reorganizations 855 - Subsequent Events 860 - Transfers and Servicing Industry 905 - Agriculture 908 - Airlines 910 - Contractors-Construction 912 - Contractors-Federal Government 915 - Development Stage Entities 920 - Entertainment-Broadcasters 922 - Entertainment-Cable Television 924 - Entertainment-Casinos 926 - Entertainment-Films 928 - Entertainment-Music 930 - Extractive Activities-Mining 932 - Extractive Activities-Oil and Gas 940 - Financial Services-Broker and Dealers 942 - Financial Services-Depository and Lending 944 - Financial Services-Insurance 946 - Financial Services-Investment Companies 948 - Financial Services-Mortgage Banking 950 - Financial Services-Title Plant 952 - Franchisors 954 - Health Care Entities 958 - Not-for-Profit Entities	960 - Plan Accounting-Defined Benefit Pension Plans 962 - Plan Accounting-Defined Contribution Pension Plans 965 - Plan Accounting-Health and Welfare Benefit Plans 970 - Real Estate-General 972 - Real Estate-Common Interest Realty Associations 974 - Real Estate-Real Estate Investment Trusts 976 - Real Estate-Retail Land 978 - Real Estate-Time-Sharing Activities 980 - Regulated Operations 985 - Software 995 - U.S. Steamship Entities Sections* 00 - Status 05 - Overview and Background 10 - Objectives 15 - Scope and Scope Exceptions 20 - Glossary 25 - Recognition 30 - Initial Measurement 35 - Subsequent Measurement 40 - Derecognition 45 - Other Presentation Matters 50 - Disclosures 55 - Implementation Guidance and Illustrations 60 - Relationships 65 - Transition and Open Effective Date Information 70 - Grandfathered Guidance 75 - XBRL Elements 999 - SEC Materials		
Referencing the Codification					
Basic format: FASB ASC XXX-YY-ZZ-PP or ASC XXX-YY-ZZ-PP (XXX = Topic, YY = Subtopic, ZZ = Section, and PP = Paragraph)					
Quick Cross Reference					
Standard	Codification	Standard	Codification	Standard	Codification
FAS 5	ASC 450, Contingencies	FAS 123R	ASC 718, Compensation-Stock Compensation	FAS 144	ASC 360, Property, Plant and Equipment
FAS 13	ASC 840, Leases	FAS 128	ASC 505-50, Equity-Based Payments to Non-Employees	FAS 146	ASC 420, Exit or Disposal Cost Obligations
FAS 52	ASC 830, Foreign Currency Matters	FAS 130	ASC 260, Earnings Per Share	FAS 150	ASC 480, Distinguishing Liabilities from Equity
FAS 57	ASC 850, Related Party Disclosures	FAS 131	ASC 280, Segment Reporting	FAS 157	ASC 820, Fair Value Measurements and Disclosures
FAS 87, 88, 106 and 132K	ASC 715, Compensation-Retirement Benefits	FAS 133	ASC 815, Derivatives and Hedging	FAS 159	ASC 825, Financial Instruments
FAS 95	ASC 230, Statement of Cash Flows	FAS 140/FAS 166	ASC 860, Transfers and Servicing	FAS 160 and FIN 46R/FAS 167	ASC 810, Consolidation
FAS 106R/IN 48	ASC 740, Income Taxes	FAS 141R	ASC 805, Business Combinations	FAS 165	ASC 855, Subsequent Events
FAS 107	ASC 825, Financial Instruments	FAS 142	ASC 350, Intangibles-Goodwill and Others	Various	ASC 470, Debt
FAS 115	ASC 320, Investments-Debt and Equity Securities	FAS 143	ASC 410, Asset Retirement and Environmental Obligations		
<small>* SEC content is denoted by an "S" preceding the Section number <small>† ASC is the abbreviation for Accounting Standards Codification</small> </small>					
McGladrey & Pullen's Quick Reference Guide to the FASB Codification - April 2010					

ASU 2010 - 01

Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash – a consensus of the FASB Emerging Issues Task Force

- The objective of this Update is to address diversity in practice related to the accounting for a distribution to shareholders that offers them the ability to elect to receive their entire distribution in cash or shares of equivalent value with a potential limitation on the total amount of cash that shareholders can elect to receive in the aggregate.
- Update clarifies that the stock portion of a distribution to shareholders is considered a share issuance and not a stock dividend.

ASU 2010 - 02

Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification

- The objective of this Update is to address implementation issues related to the changes in ownership provisions in the Consolidation – Overall Subtopic (Subtopic 810-10) of *the FASB Accounting Standards Codification*
- Deals with derecognition issues and recognition of gains and losses upon derecognition of a consolidated subsidiary

ASU 2010 – 03

Extractive Activities – Oil & Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures

ASU 2010 – 12

Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts (SEC Update)

ASU 2010 – 14

Accounting for Extractive Activities – Oil & Gas – Amendments to Paragraph 932-10-S99-1 (SEC Update)

ASU 2010 – 16

Entertainment – Casinos (Topic 924):
Accruals for Casino Jackpot Liabilities –
a consensus of the FASB Emerging
Issues Task Force

ASU 2010 – 27

Other Expenses (Topic 720): Fees Paid to the
Federal Government by Pharmaceutical
Manufacturers (a consensus of the FASB
Emerging Issues Task Force)

ASU 2010 – 04

Accounting for Various Topics – Technical Corrections to SEC Paragraphs (SEC Update)

- Technical corrections only

ASU 2010 – 05

Compensation – Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation (SEC Update)

- SEC Staff Announcement related to escrowed share arrangements and presumption of compensation

ASU 2010 – 06

Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements

What are the Main Provisions?

This Update provides amendments to Subtopic 820-10 that require new disclosures as follows:

1. Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.
2. Activity in Level 3 fair value measurements. In the recognition for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

ASU 2010 – 06 (continued)

This Update also provides amendments to subtopic 820-10 that clarify existing disclosures as follows:

1. Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.
2. Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

This Update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (Subtopic 715-20). The conforming amendments to Subtopic 715-20 change the terminology from *major categories* of assets to *classes* of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures.

ASU 2010 – 07

Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions

- The Accounting Standards Codification is amended as described in paragraphs 2-122 as a result of the issuance of FASB Statement No. 164, Not-for-Profit Entities: Mergers and Acquisitions
- Definition of terms, disclosure, methods of accounting for mergers

ASU 2010 – 08

Technical Corrections to Various Topics

- Reorgs
- Embedded Derivatives

ASU 2010 – 09

Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements

- An entity that is an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued (filing date). A non SEC entity should evaluate subsequent events through the date the financial statements are available to be issued.

ASU 2010 – 10

Consolidation (Topic 810): Amendments for Certain Investment Funds

- Investment Management Industry
- Deferral of certain provisions of SFAS 167
- To assist with IASB Convergence

ASU 2010 – 11

Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives

- Relating to embedded credit derivatives and bifurcation

ASU 2010 – 13

Compensation – Stock Compensation (Topic 718):
Effect of Denominating the Exercise Price of a Share-
Based Payment Award in the Currency of the Market in
Which the Underlying Equity Security Trades – a
consensus of the FASB Emerging Issues Task Force

ASU 2010 – 15

Financial Services – Insurance (Topic 944):
How Investments Held through Separate
Accounts Affect an Insurer’s Consolidation
Analysis of Those Investments – a consensus
of the FASB Emerging Issues Task Force

ASU 2010 – 17

Revenue Recognition – Milestone Method (Topic (605): Milestone
Method of Revenue Recognition – a consensus of the FASB Emerging
Issues Task Force

The amendments in the Update provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive.

Determining whether a milestone is substantive is a matter of judgment made at the inception of the arrangement. The following criteria must be met for a milestone to be considered substantive. The consideration earned by achieving the milestone should:

1. Be commensurate with either of the following:
 - a. The vendor’s performance to achieve the milestone
 - b. The enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor’s performance to achieve the milestone
2. Relate solely to past performance
3. Be reasonable relative to all deliverables and payment terms in the arrangement

ASU 2010 – 18

Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force

Subtopic 310-10 provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition.

As a result of the amendments in this Update, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring.

An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change.

ASU 2010 – 19

Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates (SEC Update)

SEC Staff Announcement relevant to Venezuela foreign currency issues

ASU 2010 – 20

Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the allowance for Credit Losses

This Update is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluation the adequacy of its allowance for credit losses.

Amendments to disclosure requirements - nature of credit risk, how risk is analyzed, changes in reserves and reason for changes.

ASU 2011-01 delays the effective date of this ASU.

ASU 2010 – 21

Accounting for Technical Amendments to Various SEC Rules and Schedules; Amendments to SEC Paragraphs Pursuant to Release No. 33 – 9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies (SEC Update)

ASU 2010 – 22

Accounting for Various Topics – Technical Corrections to SEC Paragraphs (SEC Update)

ASU 2010 – 23

Health Care Entities (Topic 954): Measuring Charity Care for Disclosure – a consensus of the FASB Emerging Issues Task Force

The amendments in this Update Require that cost be used as the measurement for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care.

ASU 2010 – 24

Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries (a consensus of the FASB Emerging Issues Task Force)

The amendments in this Update clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries.

ASU 2010 – 25

Plan Accounting – Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans (a consensus of the FASB Emerging Issues Task Force)

The objective of the amendments in this Update is to clarify how loans to participants should be classified and measured by employee benefit plans.

The amendments in this Update require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest.

ASU 2010 – 26

Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (a consensus of the FASB Emerging Issues Task Force)

ASU 2010 – 28

Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force)

ASU 2010 – 28-Continued

- Affects entities that have recognized goodwill in a reporting unit (RU) whose carrying amount is zero or negative
- Testing for goodwill impairment is a two-step test
 - Step 1 – Any entity must assess whether the carrying amount of a RU exceeds its fair value
 - Step 2 – If it does, any entity must determine whether goodwill has been impaired and calculate the amount of that impairment

ASU 2010-28-Continued

- Some entities with RUs that have zero or negative carrying amounts historically concluded that Step 1 of the test is automatically satisfied because the fair value of the RU will generally be greater than zero
 - As a result, Step 2 of the test was not performed despite factors indicating that goodwill may be impaired

ASU 2010-28-Continued

- The ASU modifies Step 1 of the goodwill impairment test for RUs with zero or negative carrying amounts
 - Would be required to perform Step 2 of the goodwill impairment test if adverse qualitative factors indicate that goodwill impairment is more likely than not.
- For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011
- For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010

ASU 2010-28-Continued

- Upon adoption of the amendments, an entity with a RU whose carrying amount is zero or negative is required to assess whether it is more likely than not that the goodwill of the RU is impaired
 - If determined that it is more likely than not that the goodwill is impaired, the entity should perform Step 2 of the goodwill impairment test.
 - Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption.
 - Note – Expect More Changes to Come!

ASU 2010 - 29

Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)

The amendments in this Update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only (vs. beginning of prior year and current year).

The amendments in this Update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustment directly attributable to the business combination included in the reported pro forma revenue and earnings.

ASU 2011 - 01

Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20

The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities.

ASU 2011 - 02

Receivables (Topic (310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring

There is currently diversity in practice in identifying restructurings of receivables that constitute troubled debt restructurings for a creditor. The clarifying guidance in this Update should result in more consistent application of the U.S. GAAP for debt restructurings.

ASU 2011 - 03

Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements

Improve/Update accounting for repo transactions

ASU 2011 - 04

Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS

The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this Update to result in a change in the application of the requirements in Topic 820.

Some of the amendments clarify the Board's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

ASU 2011 - 05

Comprehensive Income (Topic 220): Presentation of Comprehensive Income

To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments in this Update.

Effective Dates: Public –Fiscal Years/Interims beginning after 12/15/2011
Non Public – Fiscal Years/Interims ending after 12/15/2012

ASU 2011 - 06

Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force)

ASU 2011 - 07

Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care entities (a consensus of the FASB Emerging Issues Task Force)

The amendments in this Update require certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue.

ASU 2011 - 08

Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment

The objective of this Update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test.

Service Organization Controls



Service Organization Controls

SAS 70 is now SOC 1

Service Organization Controls

Background:

- Statements on Accounting Standards No. 70 issued in 1992 (SAS 70)
- Relates to Service Organizations
 - Payroll Processing
 - Third Party Administrators
 - Trust Departments
 - Data Centers
 - Medical Claims Processing
 - Any outsourced service provider.
- Auditing Standards Board issued Statement of Standards for Attestation Engagements No. 16 Reporting on Controls at a Service Organization in August 2010 (SSAE 16)

Service Organization Controls

Background (continued):

- Guidance relates to
 - Auditor's performing an audit of a service organization
 - and
 - Auditor's auditing the financial statements of an entity that relies/uses a service organization.

Service Organization Controls

Background (continued):

- Focus on internal controls has put a spotlight on providers
- In response, the AICPA developed the Service Organization Control (SOC) Framework.
- SOC 1 deals with reporting on controls at service organizations under SSAE 16 (replacement of SAS 70)
- Effective for SOC 1 engagements for years ending after 6/15/2011

Service Organization Controls

SSAE 16/SOC 1 Reports:

SSAE 16 (and also SAS 70) enables CPAs to provide two types of service auditors reports. In both reports the service organization must prepare a description of its system that includes, among other things, the nature of service provided, how the service is performed, and the service organization's controls over the service and related control objective. A service auditor may provide two types of reports.

Service Organization Controls

SSAE 16/ SOC 1 Reports:

There are two types of SOC 1 reports:

- **Type 1** – A report on management’s description of the service organization’s system and the suitability of the design of the controls to achieve the related control objectives included in the description as of a specified date.
- **Type 2** – A report on management’s description of the service organization’s system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description throughout a specified period.

Service Organization Controls

- Use of a SOC 1 report is restricted to existing user entities.
- Updated guidance for SOC 1 reports (SSAE 16) is effective for service auditors’ reports for periods ending on or after June 15, 2011 (although early adoption is acceptable).

Service Organization Controls

Other SOC Reports:

- SOC 2 Reports on controls at a Service Organization Relevant to Security, Availability, Processing, Integrity, Confidentiality and Privacy.
- SOC 2 Reports specifically address one or more of the following five key system attributes:
 - Security – The system is protected against unauthorized access (both physical and logical).
 - Availability – The system is available for good operation and use as committed or agreed.
 - Processing integrity – System processing is complete, accurate, timely and authorized.
 - Confidentiality – Information designated as confidential is protected as committed or agreed.
 - Privacy – Personal information is collected, used, retained, disclosed and disposed of in conformity with the commitments in the entity’s privacy notice, and with criteria set forth in Generally Accepted Privacy Principles (GAPP) issued by the AICPA.

Service Organization Controls

Other SOC Reports (continued):

- SOC 3 Report:
 - *Trust Services Report for Service Organization:* SOC 3 engagements use the predefined criteria in *Trust Service Principles, Criteria and Illustrations* that are also used in SOC 2 engagements. The key difference between a SOC 2 report and a SOC 3 report is that a SOC 2 report, which is generally a restricted-use report, contains a detailed description of the service auditor’s tests of controls and results of those tests as well as the service auditor’s opinion on the description of the service organization’s system. A SOC 3 report is a general-use report that provides only the auditor’s report on whether the system achieved the trust services criteria (no description of tests and results or opinion on the description of the system).

Break 1

**Changes, Changes and More
Changes...**

**More Accounting Changes
to Come**



More Accounting Changes to Come:

- IFRS
- Private Company Reporting
- FASB Only Projects
- FASB/IASB Joint Projects

More Changes to Come:

- IFRS
- Private Company Reporting

To Be Reviewed Later

More Accounting Changes to Come:

FASB Only Projects:

- Disclosures regarding participation in a multi employer plan (ASU 2011-09 released 9/22/11)
- Goodwill impairment assessments (released 8/12/11) Allows for more use of Qualitative Analysis before use of quantitative 2 step process
- Investment Properties (To Come)
- Disclosures regarding Liquidation Basis of Accounting (To Come)

More Accounting Changes to Come:

FASB/IASB Joint Projects:

- These projects are part of the overall Convergence Project
- Goal of the convergence project is to converge US GAAP and IFRS into one common world-wide set of GAAP
- Started in 2002
- Momentum has slowed

More Accounting Changes to Come:

FASB/IASB Joint Projects:

- Lease Accounting*
- Accounting for Financial Instruments*
- Revenue Recognition*
- Consolidation*
- Financial Instruments with Equity Characteristics*
- Statement of Comprehensive Income (ASU Issued)
- Balance Sheet – Offsetting
- Reporting Discontinued Operations
- Insurance Contracts
- Financial Statement Presentation*

* Significant changes to affect virtually all companies.

More Accounting Changes to Come:

Lease Accounting

- Announced 9/23/11 that an exposure draft is expected 2011 Q4
- Balance Sheet model for all leases
 - Lessee:
 - Asset - Right to use
 - Liability - Obligation for rent
 - Lessor: Accounting under review
- Huge shift in reporting
- Potential bank covenant and operating ratio issues
- Big push back from finance world
- Revisions expected

More Accounting Changes to Come:

Accounting for Financial Instruments

- No release date set
- Reconsiders the recognition and measurement principals
- Address impairment issues
- IFRS convergence

More Accounting Changes to Come:

Revenue Recognition

- New Exposure Draft Expected 2011 Q3
- Announced on 9/19/11 that any effective date would be no later than periods beginning 1/1/15 (public) and 1/1/16 (private)
- Remove inconsistencies and weaknesses in existing standards and procedures
- Improve compatibility across industries
- Focus on transfer of goods and services to customers
- Recognize revenue as performance obligations are met

More Accounting Changes to Come:

Consolidation

- 2 Exposure Drafts Expected in 2011 Q3 – Policy and Procedures and Investment Companies
- Consolidation Policy (General) and Investment Company Policy are two separate projects.

More Accounting Changes to Come:

Consolidation (continued)

- Consolidation Policy (General)
 - Focus on control
 - Power to direct activities
 - Not focused on ownership per se
 - Expansion of Fin 46R type evaluation

More Accounting Changes to Come:

Consolidation (continued)

- Investment Company
 - Defines “Investment Company”
 - Measure all investments at fair value
 - Disclosure updates
 - Upstream consolidation changes

More Accounting Changes to Come:

Balance Sheet Offsetting

- Final Standard to be issued 2011 Q3
- Disclosures related to balance sheet offset of financial assets and liabilities

More Accounting Changes to Come:

- Financial Instruments with Characteristics of Equity
- Reporting Discontinued Operations

Low Priority Projects: no action expected until 2012.

More Accounting Changes to Come:

- Insurance Contracts
 - Exposure Draft expected by June 30, 2012

More Accounting Changes to Come:

- Financial Statement Presentation
 - Goal of FASB/IASB –
 - To portray a “cohesive” financial picture of an entity’s activities and
 - Disaggregate information so it can be used in predicting an entity’s cash flow
 - Significant overhaul of the Financial Statements. Effects all statements – B/S, I/S and C/F.

More Accounting Changes to Come:

- Cohesive Principle –
 - Common organization structure across the financial statements
 - Structure –
 - Business
 - Operating
 - Investing
 - Financing
 - Debt
 - Equity
 - Income Taxes
 - Discontinued Operations
 - Multi Category Transactions

More Accounting Changes to Come:

- Disaggregation Principle
 - The disaggregation principle would be achieved by requiring balances to be broken out into multiple classes of similar items.
 - i.e. Revenue broken down to Revenue – Product Sales, Revenue – Service Sales.
 - Give users more information.

More Accounting Changes to Come:

- Other items:
 - Requires comparative financial statements
 - Short/Long Term classification based on a 12 month model
 - Extraordinary items not allowed
 - Cash equivalents are no longer included with cash
 - Cash flow statement would require use of Direct Method
 - More detailed segment reporting requirements

More Accounting Changes to Come:

- Other items:

Sample
Statement of Financial Position

More Accounting Changes to Come:

- Other items:

Sample
Statement of Comprehensive Income

More Accounting Changes to Come:

- Other items:

Sample
Statement of Cash Flows

More Accounting Changes to Come:

- Other items:

Time Table

Compilation & Review Update



Statement on Standards for Accounting and Review Services No. 19 (SSARS 19)

- Issued November, 2009
- Effective for periods ending after December 15, 2010 (December 31, 2010 year ends)

SSARS 19:

- First major change since 1978
- Replaces ALL previous 18 SSARS.

SSARS 19 – New Compilation Reporting Option

- Accountant has the option, but is not required to, disclose the reasons for an independence impairment in a compilation.
- If the accountant does decide to disclose the reasons for an independence impairment, all of the reasons must be disclosed
- Results in more transparent and useful reports

Clarification of Review Performance Procedures

SSARS 19 – Clarification of Review Performance Procedures

- A review is not:
 - Canned analytical procedures and inquiries
 - A compilation plus a few extra procedures
- A review is:
 - An Assurance engagement
 - As such it has certain similarities to an audit engagement

SSARS 19 – Clarification of Review Performance Procedures

(continued)

- A review requires the documentation of review evidence that provides limited assurance that there are no material modifications that should be made of the financial statements
- The accountant uses professional judgment to determine specific procedures

SSARS 19 – Clarification of Review Performance Procedures

(continued)

- Review Procedures are tailored based on the accountant's:
 - Understanding of the industry
 - Knowledge of the client
 - Awareness of the risk of misstatement
- May include procedures other than analytical procedures and inquiries

New Compilation and Review Reports

SSARS 19 – New Compilation and Review Reports

- Reports are revised to make clearer to users the services performed
- A title is now required
 - Accountant’s Compilation Report
 - Independent Accountant’s Compilation Report
 - Independent Accountant’s Review Report
 - The review report title is required to include the word “independent”

SSARS 19 – New Compilation and Review Reports (continued)

- **Compilation Reports**
 - 3 Paragraphs
 - **Introductory Paragraph:**
 - Identifies the entity
 - States that the f/s have been compiled
 - Specifies the date or period covered by the f/s
 - Includes a statement that the f/s have not been audited or reviewed

SSARS 19 – New Compilation and Review Reports (continued)

- **Second Paragraph:**
 - Management is responsible for the f/s and for internal control over financial reporting
- **Third Paragraph:**
 - Accountant is responsible to conduct the compilation in accordance with SSARSs
 - States the objective of a compilation

SSARS 19 – New Compilation and Review Reports (continued)

- Review Reports
 - 4 Paragraphs
 - Introductory Paragraph
 - Identifies the entity
 - States that the f/s have been reviewed
 - Specifies the date or period covered by the f/s
 - Includes a statement that a review consists of primarily applying analytical procedures and making inquiries
 - Includes a statement that a review is substantially less in scope than an audit and the accountant does not express an opinion

SSARS 19 – New Compilation and Review Reports (continued)

- Second Paragraph
 - Management’s responsibility for the f/s and for internal control over financial reporting
- Third Paragraph
 - Accountant’s responsibility is to conduct the review in accordance with SSARSs
 - SSARSs require the accountant to perform procedures to obtain limited assurance
 - The accountant believes that the results of the procedures provide a reasonable basis for the report
- Fourth Paragraph
 - Based upon the review, the accountant is not aware of any material modifications that should be made to the f/s

SSARS 19 – New Compilation
and Review Reports *(continued)*

Sample Review Report

Sample Compilation Report

(Handouts)

Break 2

Employee Benefit Plan Updates

Presented by: Jennifer Martlew



Know Your Role as a Plan Fiduciary

- Establish and Follow a Fiduciary Process
- Act with Loyalty to Plan Participants
- Act Prudently
- Diversify Plan Investments
- Act in accordance with Plan Documents and ERISA

Who is a Fiduciary?

The term “fiduciary” is broadly defined to include any person who : (1) exercises any discretionary authority or discretionary control respecting management of the plan; (2) exercises any authority or control respecting management or disposition of assets; (3) renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of the plan, or has any authority or responsibility to do so; or (4) has any discretionary authority or discretionary responsibility in the administration of the plan.

Establish and Follow a Fiduciary Process

- Form a committee
- Document the actions of the committee
- Prepare an investment policy statement (follow and monitor)
- Understand and Benchmark Fees
- Delegate Fiduciary Responsibilities
- Educate Participants

Act with Loyalty to Plan Participants

- One must follow a Fiduciary standard to comply with the exclusive benefit rule
- Fiduciaries must ensure plan fees are reasonable
- Provide your participants proper education so they can make informed decisions

Act Prudently

- ERISA states you must act as a Prudent Expert and if you can't then you should utilize one
- Process is more important than performance
- Provide investments that increase the likelihood of successful participant outcomes

Diversify Plan Investments

- Minimize the risk of large losses to the plan
- Provide proper diversification choices

Act in Accordance with Plan Documents and ERISA

- Maintain your plan document and all amendments in one central place
- Make sure all employees who have responsibility around the plan have read and understand the rules within the plan document

Common Issues and Hot Topics for the DOL and IRS

- Timing of contributions
 - For plans with less than 100 participants the DOL published a final rule in January 2010 to protect employee contributions deposited to pension and welfare benefit plans with fewer than 100 participants by proposing a safe harbor period of seven business days following the receipt or withholding by employers.
 - For plans with over 100 participants you must remit your contribution withheld from payroll as soon as administratively possible. There is no safe harbor for plans with over 100 participants.

Common Issues and Hot Topics for the DOL and IRS (continued)

- Participant Loans
 - Issuing in accordance with the plan agreement
 - Interest rates that are not reasonable
 - Inappropriate repayment terms
 - Plans that issue more than 25 loans per year may need to follow The Consumer Credit Protection Act
 - Improper loan limits

Common Issues and Hot Topics for the DOL and IRS (continued)

- Fidelity Bonding
 - The bond coverage must be at least 10 percent of plan assets up to a maximum bond amount of \$500,000 per plan and a minimum amount of \$1,000 per covered plan official.
- Forfeiture Reallocation
 - IRS requires forfeited employer contributions to be used, based on the rules of the plan document, within one year of being forfeited

Common Issues and Hot Topics for the DOL and IRS (continued)

- Refunds of Excess Contributions
- Timing of Plan Amendments
- Communications to Participants
 - Summary Annual Report – 9 months after the plan year end, can be extended 2 ½ months
 - Summary of Material Modifications
 - Summary Plan Description
 - Blackout Period Notices
- Timely Filings with IRS and DOL
 - Form 5500 – 7 months after the plan year end, can be extended 2 ½ months
 - Form 8955-SSA – January 17, 2012

What can you do to not have these issues?

- Know your plan documents and operate in accordance with your plan documents and ERISA
- Keep up to date on new developments
- Monitor your service providers
- Document, document, document

How can I correct issues?

- DOL – Voluntary Fiduciary Correction Program
- DOL – Delinquent Filer Voluntary Compliance Program
- IRS – Employee Plans Compliance Resolution System

What are the possible penalties?

What does the IRS look at during an audit?

What does the DOL look at during an audit?

Record Retention

- Plan Documents – Indefinitely
- IRS Opinion, Advisory and Determination Letters – Indefinitely
- Summary Plan Descriptions – Indefinitely
- Informal Plan Communications – Six years from the Form 5500 filing for the last year in which communication was used
- Administrative Procedures - Six years from the Form 5500 filing for the last year in which procedures were in use
- Form 5500 – Six years from filing date

On the Horizon

- DOL Final Rule on Fiduciary Requirements for Disclosure in Participant-Directed Individual Account Plans
 - This rule requires the disclosure of certain plan and investment related information, including fee and expense information, to participants and beneficiaries in participant directed individual account plans
 - The disclosure requirements were extended and will be effective for the quarter ending March 31, 2011 for calendar year end plans. The disclosure will need to be distributed 45 days after the quarter end.
 - Updated rules around electronic distribution of this information were released this month

On the Horizon (continued)

- Pending Rule Defining Fiduciaries of Employee Benefit Plans
 - In October 2010 the DOL published in the Federal Register a proposed rule to update the definition of fiduciary to more broadly define the term as a person who provides investment advice to plans for a fee or other compensation
- DOL Interim Final Rule on Disclosure of Fees and Conflicts of Interest Affecting 401(k) and Other Retirement Plans
 - In July 2010 the DOL issued an interim rule to enhance disclosure to fiduciaries of 401(k) and other retirement plans and assist fiduciaries in determining both the reasonableness of compensation paid to plan service providers and any conflicts of interest that may affect a service provider's performance under a service contract or arrangement.
 - This rule is effective January 1, 2012

Updates on International Financial Reporting Standards (IFRS)

Presented by: Gwen Falbo



A Background of IFRS

- International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that are becoming the global standard for the preparation of public company financial statements.
- In the US, the Securities and Exchange Commission (SEC) has expressed support for a core set of accounting standards that could serve as a framework for cross-border offerings. The SEC has made it clear that the earliest possible date for the use of IFRS by US public companies would be 2015.

Major Differences Between IFRS and US GAAP

1) Consolidation – IFRS favors a control model whereas U.S. GAAP prefers a risks-and-rewards model. Some entities consolidated in accordance with FIN 46(R) may have to be shown separately under IFRS.

- What is meant by “Control model?”
 - IFRS 10 establishes a single control model that applies to all entities which will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent.

Major Differences Between IFRS and US GAAP (continued)

2) Statement of Income – Under IFRS, extraordinary items are not segregated in the income statement, while, under US GAAP, they are shown below the net income.

- IAS 1 *Presentation of Financial Statements* in paragraph 87 states that an entity shall not present any items of income or expense as extraordinary items, in the statement of comprehensive income or the separate income statement (if presented), or in the notes.

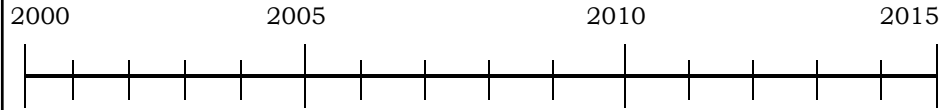
Major Differences Between IFRS and US GAAP (continued)

- 3) Inventory – Under IFRS, companies are not allowed to use the LIFO inventory method. On the other hand, companies that follow US GAAP have the choice between LIFO or FIFO.
- What is “LIFO?”
 - “Last-In-First-Out” is a historical method of recording the value of inventory where a company records the most recently purchased units as the first units sold
 - Why is LIFO prohibited under IFRS?
 - LIFO accounting is expressly prohibited because in periods of rising prices, it understates closing inventory valuation, thus overstating COGS and ultimately lowering reported profits.

Major Differences Between IFRS and US GAAP (continued)

- 4) Earning-per-Share – Under IFRS, the earning-per-share calculation does not average the individual interim period calculations, whereas under U.S. GAAP the computation averages the individual interim period incremental shares.
- 5) Development costs – These costs can be capitalized under IFRS if certain criteria are met, while it is considered as “expenses” under U.S. GAAP.

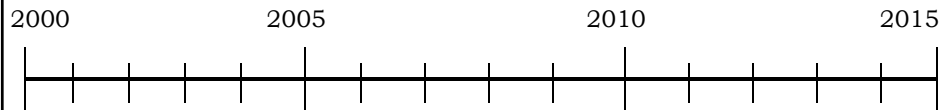
Timeline for IFRS



2001

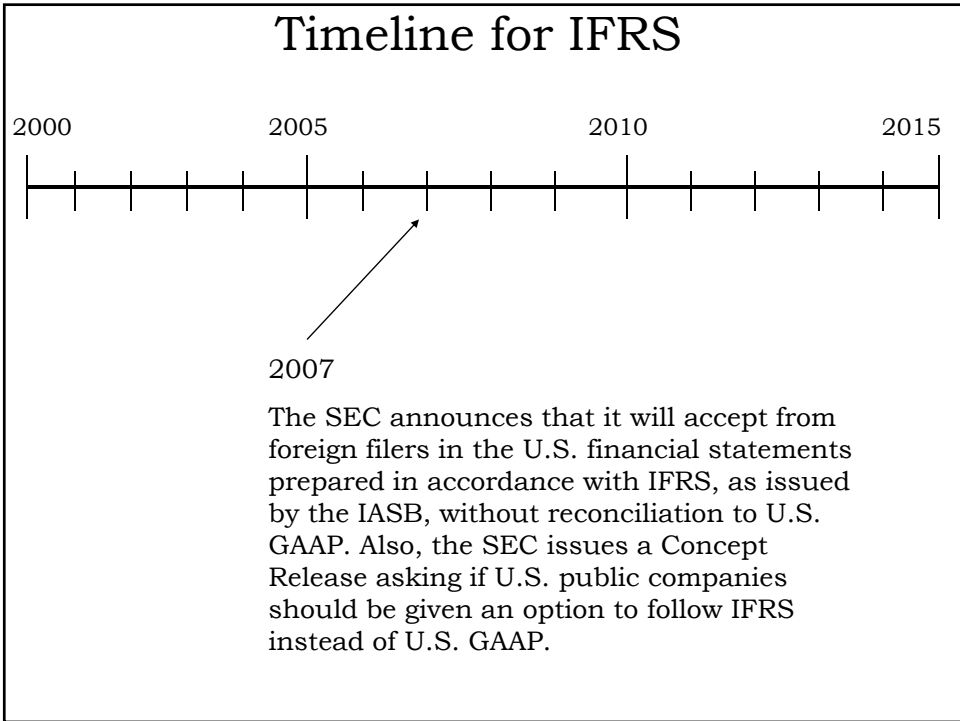
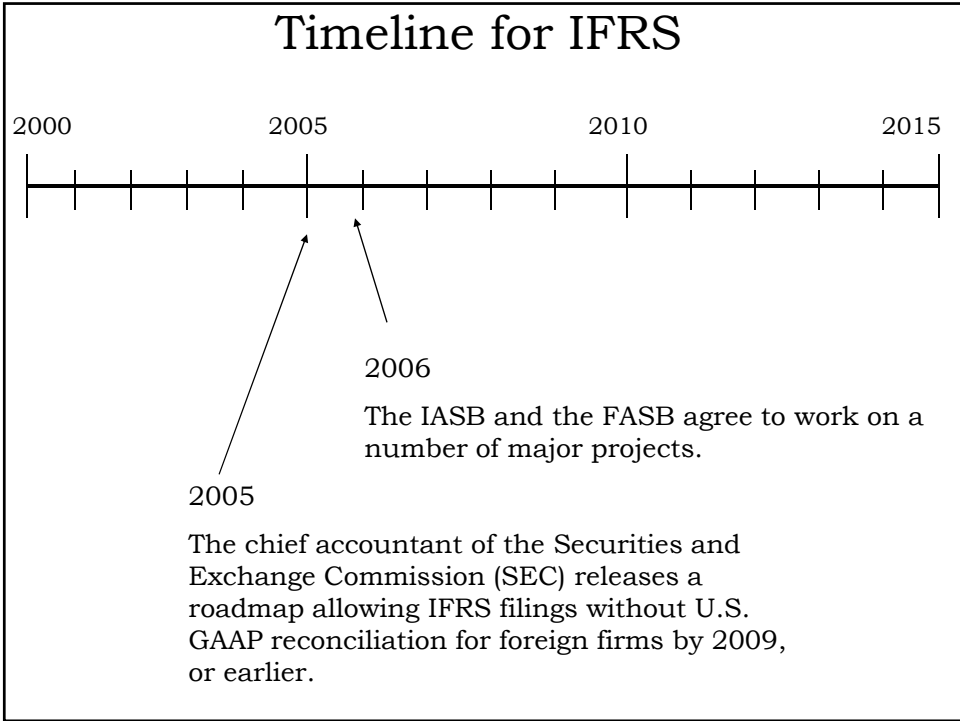
The International Accounting Standards Board (IASB) is established as the successor organization to the International Accounting Standards Committee (IASC), formed in 1973. The IASB's mandate is to develop International Financial Reporting Standards (IFRS).

Timeline for IFRS

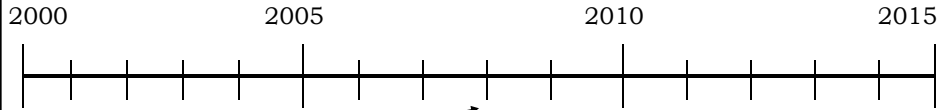


2002

The IASB and the Financial Accounting Standards Board (FASB) issue the Norwalk Agreement, acknowledging the joint commitment to developing high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. Also, the European Union (EU) announces that its member states will require IFRS in the preparation of consolidated financial statements of listed companies beginning in 2005.



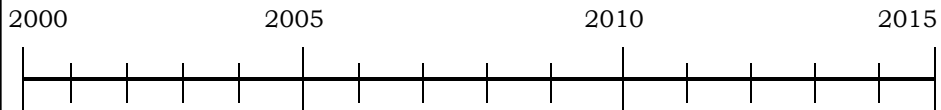
Timeline for IFRS



2008

The SEC issues a proposed roadmap that includes milestones for continuing U.S. progress toward acceptance of IFRS. The roadmap also would allow early adoption of IFRS for U.S. public companies that meet certain criteria. The AICPA's governing Council votes to recognize the IASB as an international accounting standard setter under rules 202 and 203 of the Code of Professional Conduct, thereby giving U.S. private companies and not-for-profit organizations the choice to follow IFRS. Also, the FASB and the IASB issue an updated Memorandum of Understanding that focuses the energies of both boards toward convergence of important accounting standards, such as revenue recognition, leases and consolidation.

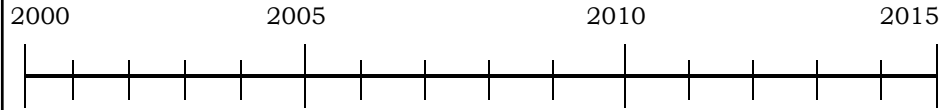
Timeline for IFRS



2009

The IASB ended its moratorium, set in 2005, on the required application of new accounting standards and major amendments to existing standards. The board had frozen its rules while more countries adopted IFRS. Japan introduces a roadmap that could lead to a decision in 2012 to adopt IFRS, with proposed adoption dates in 2015 or 2016.

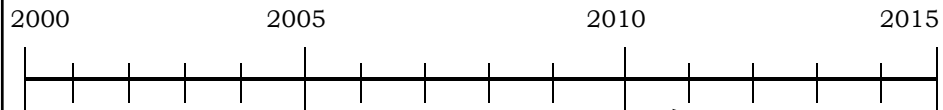
Timeline for IFRS



2010

The SEC releases a staff Work Plan to evaluate the effect that using IFRS would have on the U.S. financial reporting system. The SEC notes 2015 is currently the most likely first adoption year. Japan allows certain qualifying domestic companies the option to use IFRS for fiscal years ending on or after March 31, 2010.

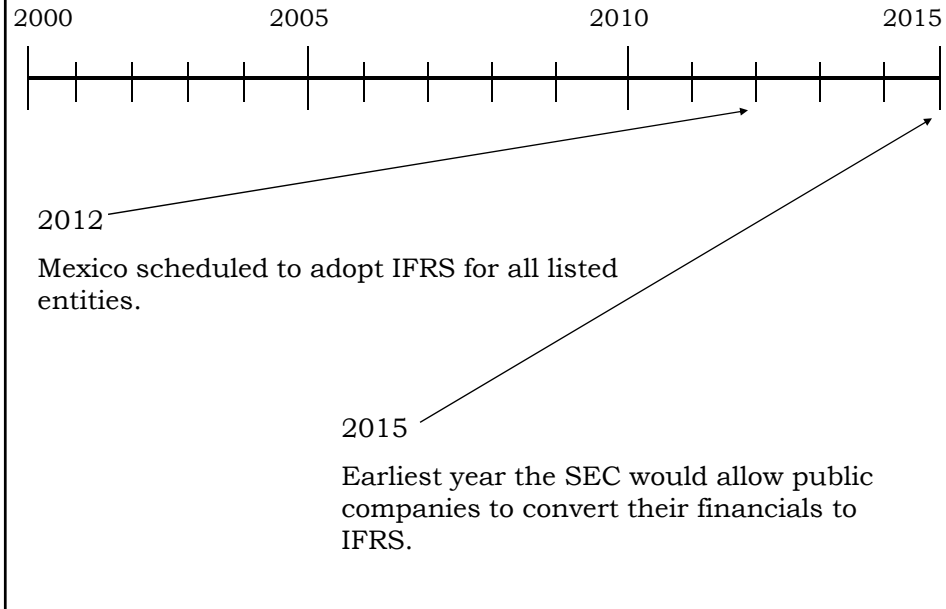
Timeline for IFRS



2011

Canadian and Indian companies are slated to begin using the global standards, and Japan is slated to have eliminated all major differences between Japanese GAAP and IFRS. SEC to evaluate feasibility of requiring use of IFRS based on completion of the outstanding MoU items and on results of the 2010 staff work plan. In the United States, questions concerning IFRS will be included in the Uniform CPA Exam.

Timeline for IFRS



The IASB and the FASB's Second Exposure Draft for Lease Accounting

- To be released in the 4th quarter
- Modifications made since the original ED:
 - Less use of subjective estimations
 - Contingent payments based on usage and performance are to be expenses when incurred
 - Clearer distinction between lease and non-lease arrangements
 - Consistent treatment of purchase options and renewal options
 - Simplified treatment of short-term leases

One of the main components of this
ED that the IASB is focusing on:

- The IASB aims to bring the rights and obligations associated with a lease onto a lessee's balance sheet as assets and liabilities.
- Why?
 - Significant influence on key metrics such as leverage, capital ratios, and net income
 - Also has a positive impact on its operating cash flows and EBITDA

“No-one in the room has ever
flown on an airplane that
appeared on the airline's balance
sheet.”

– *Sir David Tweedle*- a recently
retired chairman of the IASB

The SEC Proposes to *Incorporate* 'condorsement'

- In May of this year, the SEC staff issued a paper that proposes the possibility of *incorporating* IFRS into the US financial reporting system
- This method of having the US move toward IFRS using a transitional process is informally known as 'condorsement'

About 'condorsement'

- The US would incorporate newly-issued IFRSs into GAAP by following a modified endorsement protocol
- The FASB would provide input and support to the IASB in developing standards for other countries that have already adopted IFRS
- A timeframe for completion of this process is said to take 5-7 years
- Ultimately FASB would retain sovereignty over US accounting standard-setting, yet would not develop separate new US standards.

Recent Publications Issued by the IASB

- ED/2011/2 *Improvements to IFRSs* proposed amendments to five IFRSs under its annual improvement project:
 - IFRS 1 *First-time adoption of International Financial Reporting Standards*
 - IAS 1 *Presentation of Financial Statements*
 - IAS 16 *Property, Plant and Equipment*
 - IAS 32 *Financial Instruments: Presentation*
 - IAS 34 *Interim Financial Reporting*

Recent Publications Issued by the IASB (continued)

- ED/2011/3 *Amendments to IFRS 9 Financial Instruments (November 2009) and IFRS 9 Financial Instruments (October 2010): Mandatory Effective Date*
 - Proposes to adjust the mandatory effective date of IFRS 9 *Financial Instruments* from January 1, 2013 to January 1, 2015.

Recent Publications Issued by the IASB (continued)

- The IASB recently launched a public consultation to seek broad public input on the strategic direction and overall balance of its future work program.
- The IFRS Foundation has also published the IFRS Taxonomy 2011 interim release for IFRS 12 *Disclosure of Interest in Other Entities* and IFRS 13 *Fair Value Measurement*.

Questions?



Break 3

**Accounting for Business
Combinations**



Business Combinations

- Significant Changes
- SFAS 141
- SFAS 141R
- Now ASC Topic 805 “Business Combinations”

Business Combinations (continued)

Items of Note:

- Requires use of Fair Value Model (not a cost allocation model)
- Change to definition of a “business”
- Change to contingent consideration rules
- Change in treatment of acquisition expenses

Business Combinations (continued)

Need to involve accounting team early to avoid problems later.

Business Combinations (continued)

Scope:

- A “business” is not just an entity – it could be a group of assets.
- Business Combination vs. Asset Acquisition
- Defining whether an asset purchase is a business combination is important - due to much different accounting treatment

Business Combinations (continued)

- Business Combinations are accounted for at Fair Value
- Asset acquisitions are accounted for on an allocation of costs method

Business Combinations (continued)

Overall Accounting Model:

The overall accounting model used to account for a business combination consists of the following four steps:

1. Identify the buyer;
2. Determine the acquisition date;
3. Recognize and measure, predominantly at fair value, the assets acquired, liabilities assumed, and any noncontrolling interest (NCI); and
4. Recognize goodwill or, in rare cases, a gain from a bargain purchase

Business Combinations (continued)

Recognition of Goodwill

The amount of goodwill or, in rare cases, a gain from a bargain purchase to be recognized in conjunction with a business combination is determined as follows:

	Consideration transferred (measured predominantly at fair value)
+	Acquisition-date fair value of noncontrolling interests (in the case of a partial acquisition)
+	Acquisition-date fair value of the buyer's previously held equity interest in the target (in the case of a step acquisition)
=	Total (i.e., fair value of the target as a whole)
-	Net assets acquired by the buyer (which is 100% of the target's net assets measured predominantly at fair value)
=	Goodwill (if positive); Gain from a bargain purchase (if negative)

Business Combinations (continued)

Consideration Transferred

All consideration transferred is recognized in the accounting for the business combination at its acquisition-date fair value. This includes contingent consideration and equity securities transferred by the buyer to the sellers, which should reflect the value of the combined entity.

Business Combinations (continued)

Step Acquisition

A step acquisition occurs when the buyer in a business combination has a previously held equity interest in the target and acquires an additional interest in the target that results in the buyer obtaining control.

When a step acquisition occurs, the buyer must recognize either: (a) a gain for the excess of the acquisition-date fair value of the buyer's previously held equity interest in the target over the carrying value of that interest or (b) a loss for the excess of the carrying value of the buyer's previously held equity interest in the target over the acquisition-date fair value of that interest.

Business Combinations (continued)

Bargain Purchase

A bargain purchase results from the excess of net assets acquired by the buyer (which is 100% of the target's net assets measured predominantly at fair value); over the sum of (a) consideration transferred (measured predominantly at fair value); (b) the fair value of any noncontrolling interest; and (c) the fair value of any previously held equity interest of the buyer.

Business Combinations (continued)

Bargain Purchase (continued)

In the rare case in which a gain from a bargain purchase results from the buyer's accounting for a business combination, the buyer must perform a thorough self-review of:

- (a) the accuracy and completeness of the identifiable assets acquired and liabilities assumed and
- (b) the appropriateness of the procedures used to measure the individual components within each element of the goodwill calculation and the results of applying those procedures.

If a gain from a bargain purchase still exists after the buyer performs his thorough self-review, then the buyer would recognize a gain from a bargain purchase in its income statement and prepare its disclosure explaining why a bargain purchase resulted from the business combination.

Business Combinations (continued)

Measurement Period Adjustments

The buyer may not be able to complete its accounting for a business combination by the time it has to issue its financial statements that include the acquisition date.

If this is the case, then the buyer would recognize provisional amounts in its financial statements and would have up to one year from the acquisition date to finalize those amounts.

If the buyer's accounting for a business combination reflected in its financial statements is incomplete, then the buyer must disclose that fact and identify all amounts included in its financial statements that are provisional.

Business Combinations (continued)

- Transaction costs are expensed as period costs.

Business Combinations (continued)

Case Studies
Handout

Private Company Financial Reporting



Private Company Financial Reporting

Separate Private Company Standards

Origins:

- Standards Overload
- Fin 46 – Variable Interest Entities
- Fin 48 – Accounting for Uncertain Tax Positions
- Fair Value Measurements
- Business Combinations
- Looming IFRS Changes
- Noted increase by users in:
 - GAAP Exception/Departures and
 - OCBOA/Tax Reporting

Private Company Financial Reporting

Response:

- AICPA/FAF/NASBA forms Blue Ribbon Panel on Standards Setting for Private Companies (BRP)
- Formed in December, 2009
- Comprised of CPAs, Bankers, Educators, Standards Setters and Private Company Reps
- Déjà vu? Wheat Report, March 1972

Private Company Financial Reporting

Brief History:

- 1972 – Wheat Report
- 2004 – FASB Small Business Advisory Committee
- 2006 – FASB Forms Private Company Financial Reporting Committee (PCFRC)
- 2009 – PCFRC Suggests formation of Blue Ribbon Panel (BRP)

Private Company Financial Reporting

Role:

What are the needs of users of financial statements and how do we as CPAs deliver statements to meet their needs?

Private Company Financial Reporting

- BRP meets throughout 2010
- Issues report on January 28, 2011
- Warp speed in accounting world

Private Company Financial Reporting

Options:

- IFRS for SMEs (Small, Medium Sized Entity)
- US Version of IFRS for SMEs
- Full Adoption of IFRS
- Separate, free standing private company GAAP
- Current GAAP, with exceptions/modifications

Private Company Financial Reporting

BRP Recommendations:

- Private companies should use a standard setting model based on GAAP – with exceptions
- A separate private company standards board to be formed by Financial Accounting Foundation
- New board to determine the exceptions and modifications to current GAAP for Private Companies

Private Company Financial Reporting

- Did not recommend a separate, free standing GAAP

Private Company Financial Reporting

Current Status:

- FAF reviews BRP report 2/2011
- FAF forms Trustees Working Group to seek input
- Working Group to develop framework and plan
- Report expected by 12/31/12

SEC/PCAOB Update



PCAOB Updates

- December, 2010 – SEC Approves the PCAOB’s Auditing Standards

The 8 Approved Standards are:

- AS 8, *Audit Risk*
- AS 9, *Audit Planning*
- AS 10, *Supervision of the Audit Engagement*
- AS 11, *Consideration of Materiality in Planning and Performing an Audit*
- AS 12, *Identifying and Assessing Risks of Material Misstatement*
- AS 13, *The Auditor's Responses to the Risks of Material Misstatement*
- AS 14, *Evaluating Audit Results*
- AS 15, *Audit Evidence*

Effective for Audits of Fiscal Years beginning after December 15, 2010

PCAOB Considers Changes to Auditing Report:

- Concept release issued June, 2011
- Comments Due 9/30/2011

PCAOB Considers Changes to Auditing Report:

- Summary of Proposals
 - *Auditor’s Discussion and Analysis*
This alternative would require that an Auditor’s Discussion and Analysis (“AD&A”) be included with an auditor’s report. An AD&A would be a supplemental narrative report to the auditor’s report and would provide the auditor with the ability to discuss views regarding significant matters.
 - *Required and Expanded Use of Emphasis Paragraphs*
This alternative would require inclusion of an expanded emphasis paragraph in all audit reports that would highlight the most significant matters in the financial statements and to identify where these matters are disclosed in the financial statements.

PCAOB Considers Changes to Auditing Report:

- Summary of Proposals (continued)
 - *Auditor Assurance on Other Information Outside the Financial Statements*
This alternative would require auditors to provide assurance on information outside the financial statements, such as management’s discussion and analysis (MD&A) or other information (for example, non-GAAP information or earnings releases).
 - *Clarification of the Standard Auditor’s Report*
Another potential enhancement of the current auditor’s report could involve clarifying language about what an audit represents and auditor responsibilities. Possible language and concepts that could be clarified in the auditor’s report include: reasonable assurance, auditor’s responsibility for fraud, auditor’s responsibility for financial statement disclosures, management’s responsibility for the preparation of the financial statements, auditor’s responsibility for information outside of the financial statements, and auditor independence.

SEC Developments

- Comments from recent Center for Audit Quality (CAQ) Presentations

Financial Reporting Issues Frequently Raised in Comment Letters

- Management's Discussion & Analysis
- Reverse Mergers & "Back Door" Registrations
- Business Combinations
- Predecessor Financial Statements
- Goodwill, Intangible and Long-lived Assets
- Equity Transactions
- Embedded Conversion Options and Freestanding Warrants
- Revenue Recognition
- Disclosure Controls and Procedures
- Internal Control over Financial Reporting
- Form 8-K

CAQ Revenue Recognition Issues/Suggestions

- Policy Disclosures (i.e., SAB 104)
 - Avoid “Boilerplate” disclosures
 - Disclosure should be specific to each of company’s revenue streams
- FASB ASC 605-25 – Multiple Element Arrangements
 - Allocation of consideration
- FASB ASC 605-45 – Gross Versus Net Revenue Recognition
 - Consider and weigh all indicators
- FASB ASC 605-50 – Customer Payments and Incentives
 - Recognition
 - Classification

SEC Division of Corporate Finance Releases new Financial Reporting Manual (9/8/2011)

- No substantive content changed

Recent Items

Interesting Facts

Accounting Tidbits



Recent Items

- PCAOB Consults on Independence and Audit Firm Rotation (8/16/11)
- FASB Simplifies Guidance on Testing for Goodwill Impairment (8/12/11)
- Public Sector/Government Contractor 3% Withholding starts January 1, 2013 (8/2011)

Recent Items (continued)

- PCAOB Proposed Standard on Auditing Supplemental Information (9/2011)
- Statement of Comprehensive Income Gets Revised – ASU 2011-05 (6/2011)

Recent Items (continued)

- Where's my cash? Maybe not in China (5/22/2011)
- Litigation and Contingency Disclosures CPAs vs. Lawyers on Proposed ASU (8/2011)
- Billions of “New” Assets – Intangibles on the Rise (9/6/2011)

Recent Items (continued)

- FASB Adds Impairment of Indefinite Lives Assets to Agenda (9/8/2011)
- FAF Group plans Changes in Accounting Standards Setting Process (9/15/2011)
- US Court Fight to Get Chinese Audit Workpapers (9/15/2011)

Recent Items (continued)

- Investors Make the Case for Reforming Audit Report (9/15/2011)
- FASB Issues Update to Simplify Impairment Testing (9/16/2011)
- FASB announces IFRS convergence timeline moves to 2012 (9/20/2011)
- Pressure mounts to create Private Accounting Standards Board (9/22/2011)
- FASB Issues ASU 2011-09 Multiemployer Pension Plans (9/22/2011)

Questions

Material Disclaimer

These materials were prepared solely for the purpose of continuing professional education. They are distributed with the understanding that Inero & Company CPAs, P.C. and its employees are not engaged in rendering legal, accounting, or other professional service as part of this CPE presentation. If advice or other expert assistance is required, the services of a competent professional person should be sought. Please contact an Inero & Company team member with any questions.

BUSINESS ACQUISITION CASE STUDY #1

Buyer Company (Buyer) enters into an agreement to acquire Target Company (Target).

Buyer pays \$15,000,000 in cash to acquire Target.

Buyer incurs \$500,000 of acquisition costs.

Target's identifiable net assets are as follows:

Target	Carrying Value	Fair Value
Cash	\$ 500,000	\$ 500,000
Receivables	4,500,000	4,000,000
Inventory	8,000,000	7,500,000
PP&E, net	5,000,000	7,000,000
Customer list	<u>-</u>	<u>1,000,000</u>
IDENTIFIABLE ASSETS:	18,000,000	20,000,000
Assumed liabilities	<u>(6,200,000)</u>	<u>(6,200,000)</u>
NET IDENTIFIABLE ASSETS:	<u>\$ 11,800,000</u>	<u>\$ 13,800,000</u>

Calculation of goodwill:

Purchase price - cash	15,000,000	
Purchase price - assumption of liabilities	<u>6,200,000</u>	
Total purchase price	<u>\$ 21,200,000</u>	a

Allocation of purchase price:

Allocated to Identifiable Assets (at Fair Value)	20,000,000	b
Allocated to Goodwill	<u>1,200,000</u>	a-b
	<u>\$ 21,200,000</u>	

BUSINESS ACQUISITION CASE STUDY #1 - CONTINUED

Record Acquisition:

	Debit	Credit
Investment in Target	15,000,000	
Cash		15,000,000
<i>To record purchase price payment</i>		
Professional fees expense	500,000	
Cash		500,000
<i>To record payment of acquisition related expenses</i>		

Tim McLaughlin:

NOTE: Transaction costs are EXPENSED.

Cash	500,000	
Receivables	4,000,000	
Inventory	7,500,000	
PP&E	7,000,000	
Customer list	1,000,000	
Assumed liabilities		6,200,000
Investment in Target		15,000,000
Goodwill	1,200,000	
	21,200,000	21,200,000
<i>To record Target's assets and liabilities on Buyer's books.</i>		

COMMENTS:

- * Transaction costs are expensed.
- * First step is to determine fair value of acquired identifiable assets - including identifiable intangible assets.
- * Goodwill is the excess of purchase price over the fair value of the identifiable acquired net assets.

BUSINESS ACQUISITION CASE STUDY #2

Buyer Company (Buyer) enters into an agreement to acquire Target Company (Target).

Buyer pays \$15,000,000 in cash to acquire Target.

Buyer incurs \$500,000 of acquisition costs.

Target's identifiable net assets are as follows:

Target	<u>Carrying Value</u>	<u>Fair Value</u>	
Cash	\$ 500,000	\$ 500,000	
Receivables	4,500,000	4,500,000	
Inventory	8,000,000	8,000,000	
PP&E, net	5,000,000	7,500,000	
Identifiable Intangible assets	<u>-</u>	<u>2,000,000</u>	
IDENTIFIABLE ASSETS:	18,000,000	22,500,000	
Assumed liabilities	<u>(6,200,000)</u>	<u>(6,200,000)</u>	
NET IDENTIFIABLE ASSETS:	<u>\$ 11,800,000</u>	<u>\$ 16,300,000</u>	

Calculation of gain from bargain purchase:

Purchase price - cash	15,000,000	
Purchase price - assumption of liabilities	<u>6,200,000</u>	
Total purchase price	<u>\$ 21,200,000</u>	a
Fair value of identifiable net assets	<u>\$ 22,500,000</u>	b
Fair value of identifiable net assets in excess of purchase price = Bargain Purchase Gain	<u>\$ 1,300,000</u>	a-b

BUSINESS ACQUISITION CASE STUDY #2 - CONTINUED

Record Acquisition:

	Debit	Credit
Investment in Target	15,000,000	
Cash		15,000,000
<i>To record purchase price payment</i>		

Professional fees expense	500,000	
Cash		500,000
<i>To record payment of acquisition related expenses</i>		

Tim McLaughlin:

NOTE: Transaction costs are EXPENSED.

Cash	500,000	
Receivables	4,500,000	
Inventory	8,000,000	
PP&E	7,500,000	
Customer list	2,000,000	
Assumed liabilities		6,200,000
Investment in Target		15,000,000
Bargain Purchase Gain		1,300,000
	22,500,000	22,500,000
<i>To record Target's assets and liabilities on Buyer's books.</i>		

COMMENTS:

- * Transaction costs are expensed.
- * First step is to determine fair value of acquired identifiable assets - including identifiable intangible assets.
- * Bargain Purchase Gain is the excess of the fair value of the identifiable acquired net assets over the purchase price.

STATEMENT OF FINANCIAL POSITION

	As of December 31,	
	20X1	20X0
BUSINESS		
Operating		
Cash	74,102	61,941
Accounts receivable, trade (net of allowance)	922,036	527,841
Inventory	679,474	767,102
Prepaid advertising and other	86,552	78,150
Total short-term operating assets	1,762,164	1,435,034
Property, plant, and equipment (net of accumulated depreciation)	2,838,660	3,064,200
Goodwill and other intangible assets	189,967	189,967
Total long-term operating assets	3,028,627	3,254,167
Advances from customers	(182,000)	(425,000)
Accounts payable, trade	(612,556)	(505,000)
Wages, salaries, and benefits payable, and share-based compensation liability	(212,586)	(221,165)
Total short-term operating liabilities	(1,007,142)	(1,151,165)
Total long-term liabilities	(3,848)	(1,850)
Net operating assets before operating finance	3,779,801	3,536,186
Operating finance		
Short-term portion of lease liability and interest payable on lease liability	(50,000)	(50,000)
Total short-term operating finance liabilities	(50,000)	(50,000)
Accrued pension liability	(293,250)	(529,500)
Long-term portion of lease liability	(261,325)	(296,500)
Decommissioning liability	(29,640)	(14,250)
Total long-term operating finance liabilities	(584,215)	(840,250)
Total operating finance liabilities	(634,215)	(890,250)
Net operating assets	3,145,586	2,645,936
Investing		
Short-term investments	1,100,000	800,000
Available-for-sale securities	473,600	485,000
Total short-term investing assets	1,573,600	1,285,000
Equity method investment in Company A	261,600	240,000
Investment in Company B at fair value	46,750	39,250
Total long-term investing assets	308,350	279,250
Total investing assets	1,881,950	1,564,250
NET BUSINESS ASSETS	5,027,536	4,210,186

STATEMENT OF FINANCIAL POSITION (continued)

	<u>As of December 31,</u>	
	<u>20X1</u>	<u>20X0</u>
FINANCING		
Debt		
Short-term debt and interest payable	(702,401)	(512,563)
Dividends payable	(20,000)	(20,000)
Total short-term debt	<u>(722,401)</u>	<u>(532,563)</u>
Total long-term debt	<u>(2,050,000)</u>	<u>(2,050,000)</u>
Total debt	<u>(2,772,401)</u>	<u>(2,582,563)</u>
Equity		
Common stock (par .01, 100,000 shares authorized and issued both years; 76,149 and 73,000 shares outstanding December 31, 20X1 and 20X0, respectively)	(761)	(730)
Additional paid-in capital	(1,514,839)	(1,506,770)
Treasury stock	88,360	164,500
Retained earnings	(1,100,358)	(648,289)
Accumulated other comprehensive income	(158,081)	(138,373)
Total equity	<u>(2,685,679)</u>	<u>(2,129,662)</u>
TOTAL FINANCING	<u>(5,458,080)</u>	<u>(4,712,225)</u>
INCOME TAX		
Income taxes payable	(72,514)	(63,678)
Deferred tax asset	46,226	89,067
NET INCOME TAX (LIABILITY) ASSET	<u>(26,288)</u>	<u>25,389</u>
DISCONTINUED OPERATION		
Assets of discontinued operation	856,832	876,650
Liabilities of discontinued operation	(400,000)	(400,000)
NET ASSETS OF DISCONTINUED OPERATION	<u>456,832</u>	<u>476,650</u>
Total short-term assets	<u>4,192,596</u>	<u>3,596,684</u>
Total long-term assets	<u>3,383,203</u>	<u>3,622,484</u>
TOTAL ASSETS	<u>7,575,799</u>	<u>7,219,168</u>
Total short-term liabilities	<u>(2,252,057)</u>	<u>(2,197,406)</u>
Total long-term liabilities	<u>(2,638,063)</u>	<u>(2,892,100)</u>
TOTAL LIABILITIES	<u>(4,890,120)</u>	<u>(5,089,506)</u>

Examples from the FASB's Staff Draft of an Exposure Draft on Financial Statement Presentation

	For the Years Ended December 31,	
	20X1	20X0
BUSINESS		
Operating		
Revenue	3,487,600	3,239,250
Cost of goods sold	(1,956,629)	(1,816,903)
Gross profit	1,530,971	1,422,347
Selling expenses	(153,268)	(130,034)
General and administrative expenses	(469,754)	(433,950)
Other operating income (expense)	17,663	(2,025)
Impairment loss on goodwill	-	(35,033)
Operating income before operating finance costs	925,612	821,305
Operating finance costs	(33,235)	(33,250)
Total operating income	892,377	788,055
Investing		
Dividend and interest income	62,619	55,500
Earnings in Company A (equity method)	23,760	22,000
Realized gain on securities	18,250	7,500
Fair value change in investment in Company B	7,500	3,250
Total investing income	112,129	88,250
TOTAL BUSINESS INCOME	1,004,506	876,305
FINANCING		
Debt		
Interest expense	(111,352)	(110,250)
TOTAL FINANCING EXPENSE	(111,352)	(110,250)
Income from continuing operations before taxes	893,154	766,055
INCOME TAX		
Total income tax expense	(333,625)	(295,266)
Income from continuing operations	559,529	470,789
DISCONTINUED OPERATION		
Loss on discontinued operation	(32,400)	(35,000)
Income tax benefit	11,340	12,250
NET LOSS ON DISCONTINUED OPERATION	(21,060)	(22,750)
NET INCOME	538,469	448,039
OTHER COMPREHENSIVE INCOME (net of tax)		
Gains on available-for-sale securities arising during the year	29,056	20,150
Amounts reclassified into earnings	(11,863)	(4,875)
Unrealized gain on securities (investing)	17,193	15,275
Gains on futures contracts arising during the year	3,784	3,503
Amounts reclassified into earnings	(1,959)	(1,813)
Unrealized gain on futures contracts (operating)	1,825	1,690
Foreign currency translation adjustment on equity method investee (investing)	(1,404)	(1,300)
	2,094	(1,492)
TOTAL OTHER COMPREHENSIVE INCOME	19,708	14,173
TOTAL COMPREHENSIVE INCOME	558,177	462,212
Net income per share—basic	7.07	6.14
Net income per share—diluted	6.85	5.90

STATEMENT OF CASH FLOWS

	For the Years Ended December 31,	
	20X1	20X0
BUSINESS		
Operating		
Cash collected from customers	2,812,741	2,572,073
Cash paid for labor	(810,000)	(845,000)
Cash paid for materials	(935,554)	(785,000)
Cash contribution to pension plan	(340,200)	(315,000)
Other operating cash outflows	(260,928)	(242,535)
Cash paid for lease	(50,000)	-
Capital expenditures	(54,000)	(50,000)
Disposal of property, plant, and equipment	37,650	-
Sale of receivables	8,000	10,000
Net cash flows from operating activities	407,709	344,538
Investing		
Net change in short-term investments	(300,000)	(800,000)
Investment in Company A	-	(120,000)
Dividends and interest received	62,619	55,500
Purchase of equity securities	-	(130,000)
Sale of equity securities	56,100	51,000
Net cash flows from investing activities	(181,281)	(943,500)
NET CASH FLOWS FROM BUSINESS ACTIVITIES	226,428	(598,962)
FINANCING		
Dividends paid	(86,400)	(80,000)
Interest paid	(83,514)	(82,688)
Proceeds from reissuance of treasury stock	84,240	78,000
Proceeds from issuance of short-term debt	162,000	150,000
Proceeds from issuance of long-term debt	-	250,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	76,326	315,312
Net cash flows from continuing operations before taxes	302,754	(283,650)
INCOME TAX		
Total cash paid for income tax	(281,221)	(193,786)
Change in cash before discontinued operation and effect of foreign exchange	21,533	(477,436)
DISCONTINUED OPERATION		
Net cash outflows from discontinued operation	(12,582)	(11,650)
Effect of foreign exchange	3,210	1,027
Change in cash	12,161	(488,059)
Beginning cash	61,941	550,000
Ending cash	74,102	61,941