

# Accounting Standards Update

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# Objective

- To discuss the changes in accounting standards that will impact reporting for 2009 calendar years
  - Codification
  - Subsequent events
  - Fair value measurements
  - Derivatives disclosures
  - Uncertain income tax positions
  - Business combinations
  - Non controlling interests
  - Additional disclosures for defined benefit plans
  - Other changes

# FASB Codification

- Prepared by the FASB to bring together and organize all the different types of standards that make up US GAAP

# What is the Codification?

- Level A-D GAAP issued by standard setters
- Codified into a topically-organized format
- Not intended to change US GAAP
- One authoritative source for US GAAP
- All other prior sources of US GAAP are now superseded
- Any sources not included in the Codification are non-authoritative
- On-line Codification Research System designed by topic for better retrieval

# FASB Codification

- Includes SEC requirements which are included in the Codification as separate sections
- Structure
  - Areas
    - General Principles
    - Presentation
    - Financial Statement Accounts
    - Broad Transactions
    - Industry
  - Topics
    - Subtopics
    - Sections—recognition, measurement, disclosure

# FASB Codification

- Updating
  - The FASB will continue to issue individual standards as “FASB Codification Updates”, numbered as year-sequence e.g. 2009-003
  - The electronic Codification will be updated concurrent with the release of an Update
  - Exposure Drafts will contain proposed changes
  - Current and transitional text is presented together

# FASB Codification

- You can access the basic view at [www.fasb.org](http://www.fasb.org)
  - Codification became effective July 1, 2009
  - To be used for financial statements with periods ending after September 15, 2009

# FASB Codification

- What does it mean for you?
  - No longer refer to FASB's number and title in financial statements
  - Generally we will just use "in accordance with GAAP"
  - For year of adoption of new standard more specific reference

# Subsequent Events AS (FAS 165)

- Effective for periods ending after June 15, 2009
- Financial statements must disclose date through which management has evaluated subsequent events
- This should correspond to the date of the accountant/auditors' report

## Example Disclosure

Subsequent events have been evaluated through \_\_\_\_\_, which is the date the financial statements were available to be issued.

# Fair Value Measurements (ASC 820-10)

- Disclosures required in 2008 financial statements covered financial assets and liabilities
  - Marketable securities
  - Interest rate swaps

# Fair Value Measurements (ASC 820-10)

- 2009 brings
  - FAS 157 disclosures for non financial assets and non financial liabilities not measured on a recurring basis
    - Impairment
    - Goodwill
  - Indefinite –lived intangible assets measured at fair value for business combination
  - Additional disclosures and definitions
    - More detail about types of investments
    - Guidance when not an orderly market

# Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market

# Fair Value Hierarchy

- The fair value hierarchy prioritizes the *inputs* to valuation techniques
  - Level 1 Inputs
  - Level 2 Inputs
  - Level 3 Inputs

# Level 1 Inputs

- Quoted prices (unadjusted) in active markets for identical assets or liabilities

## Level 2 Inputs

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

## Level 3 Inputs

- Unobservable inputs for the asset or liability which reflect the report entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability

# Disclosures

- For assets and liabilities measured at fair value on non recurring basis
  - Separately for each major category of asset and liabilities
  - Fair value measurements recorded during the year and reasons for measurements
  - Level 1, Level 2 and Level 3
  - Description of Level 3 inputs and information used to develop inputs
  - Inputs and valuation techniques used and discussion of any changes from prior year

# Disclosures

- For assets and liabilities measured at fair value on recurring basis
  - Assets or liabilities measured at fair value
  - Level 1, Level 2 and Level 3 inputs
  - Reconciliation of Level 3 measurements
  - Gains or losses included in earnings
  - Where the gains or losses are reported
  - The valuation techniques used
  - Disclosures to be detailed by major security types

# Derivatives

- FAS 161 now ASC 815-10
- Effective for years beginning after Nov 15, 2008
- Additional disclosures required for derivatives and hedging instruments including
  - Objective for holding, context needed to understand objectives and strategy to achieve objectives

# Derivatives Disclosure

- Distinguish between types of hedging:
  - Cash flow
  - Fair value
  - Foreign currency for investment in foreign operations
- Purpose of derivative if not hedging
- Volume of activity

# Derivatives Disclosure

- Financial statement line item and fair value of items reported in balance sheet
- How, where reported and amount of gains and losses by different types
- Specific disclosures related to fair value and cash flow hedges

## FIN 48 – Accounting for Uncertainty in Income Taxes

- Effective for 2009 for non public companies
- Provides a two-step approach for recognizing and measuring tax benefits
- Requires disclosures regarding uncertain positions

# Accounting for Uncertainty in Income Taxes

- An enterprise shall recognize the financial statement effects of a tax position when it is more likely than not, based on technical merits that a position will be ***sustained upon examination***
  - It is presumed that the tax position will be examined by the relevant tax authority that has full knowledge of all relevant information

# Accounting for Uncertainty in Income Taxes

- Applies to pass-through entities and not for profits
- Applies to tax positions including
  - Decision not to file a tax return
  - Allocation or shift of income between jurisdictions
  - Characterization of income or a decision to exclude income
  - Classification of transaction or entity as tax-exempt
  - An entity's status, including its status as a pass-through entity or tax exempt entity

# Accounting for Uncertainty in Income Taxes

- If you are a S-Corp, partnership, LLC taxed as a partnership or non-profit
  - Assessment that your status is appropriate
  - Disclosure
    - Adoption of standard
    - No uncertain tax positions
    - Open years
    - Accounting policy for interest and penalties

# Accounting for Uncertainty in Income Taxes

- If you are a C-Corp
  - Assessment of open tax return years for any uncertain tax positions (are not greater than 50% chance of being sustained)
  - Measurement and recording of liability

# Accounting for Uncertainty in Income Taxes

- Disclosures
  - Adoption of standard
  - Effect if any
  - Open years
  - Accounting policy for interest and penalties
  - If reasonably possible amounts will change significantly in next year
    - Nature of uncertainty
    - Event that could occur
    - Range of change

# Business Combinations – FAS 141(R)

- **EFFECTIVE DATE** – All business acquisitions that take place in fiscal years beginning after December 31, 2008
- **Scope** – Does not apply to entities under common control or not-for-profits

# Business Combinations – FAS 141(R)

- Changes to Existing Rules
  - Acquisition Date – date acquirer gains effective control
  - Covers more transactions due to change in definition of business – integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return
  - Transaction costs are expensed

# Business Combinations – FAS 141(R)

- Assets and liabilities acquired are measured at fair value at acquisition date
  - Eliminates purchase price allocation method
  - Cash based earn-out agreement is recognized as liability at fair value at acquisition date

# Business Combinations – FAS 141(R)

- Contractual preacquisition contingencies are recognized at acquisition date at fair value
- Noncontractual preacquisition contingencies are recognized at fair value if more likely than not to give rise to asset or liability at acquisition date

## Business Combinations – FAS 141(R)

- Any previously held equity interest is revalued at fair value (income statement recognition of gain/loss)
- Minority interest is recorded at fair value
- R&D assets recorded at fair value based on highest and best use of the asset
- Contingent consideration that requires an employee to provide services is not part of purchase price – expensed as compensation

# Business Combinations – FAS 141(R)

- Recognize an immediate gain when bargain purchase, (i.e. fair value of assets acquired and liabilities assumed are greater than purchase price)
- If combination is done for benefit of the acquirer, actions should be accounted for separately e.g. settlement of a preexisting relationship or arrangement

## Accounting for Non Controlling Interests FAS 160

- EFFECTIVE DATE – fiscal years beginning on or after December 15, 2008
- Adopted prospectively at the beginning of the fiscal year
- Presentation and disclosure changes
  - Noncontrolling (i.e. minority) interests shall be reclassified to equity

# Accounting for Non Controlling Interests

- Consolidated net income shall be adjusted to include the net income attributed to the non-controlling interest
- Consolidated comprehensive income shall be adjusted to include the net income attributed to the non-controlling interest
- Losses are attributed to the non-controlling interest even if that attribution results in a deficit balance

## Additional Disclosures for Defined Benefit Plans

- Effective fiscal years ending after December 15, 2009
  - How investment allocation decisions are
  - Major categories of plan assets
  - How fair value is determined
  - Significant concentrations
  - How return assumptions are determined
  - Categorize major classes and disclose levels and fair value

# Other Changes

- Language in internal control letters will change for new definition of significant deficiency

*“Deficiency or combination of deficiencies in internal control less severe than a material weakness yet important enough to merit attention by those charged with governance”*

# Other Changes

- Audits required of 403(b) plans with over 100 participants (similar to 401(k) requirements)