

**North Perimeter Chapter
Georgia Society of CPAs**

**A FASB and AICPA Update
for Accountants**

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Financial Accounting Standards Board

• **Board members**



• Bob Herz, Chair
• Public Accounting
• (KPMG)
• (Re-appointed
• January 2007)

• Mike Crooch
• Public Accounting
• (Andersen)

• Tom Linsmeier
• Education
• (Michigan State)

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**Financial Accounting Standards
Board**

• **Board members**



Donald Young
Financial Analyst
(Young & Co)

Ed Trott
Public Acctg
(KPMG)

Leslie Seidman
Industry
(J.P. Morgan)

George Batavick
Industry
(Texaco)

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New FASB Standards for 2007

- SFAS 159 - The Fair Value Option for Financial Assets and Financial Liabilities (cont)
 - Separately display fair value instruments from similar non-fair value instruments
 - Disclosures are intended to provide comparability and transparency information
 - Include management's reasons for electing fair value option
 - Applicable to not-for-profits, with modifications related to display of "performance indicators"
 - Effective for fiscal years beginning after 11-15-2007, early adoption within 120 days of beginning of fiscal year and early adoption of SFAS 157 (Fair Value)



New FASB Standards for 2007

- SFAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans
 - Recognize funded status on balance sheet
 - Changes in funded status recorded as other comprehensive income
 - Must use end-of-year information
 - Additional disclosures
 - Effective dates: Publics after 12/15/06
 - Non-publics after 6/15/07



New FASB Standards for 2007

- SFAS 157 - Fair Value
 - Establishes standards for measuring fair value
 - Focus is on "exit price" rather than "entry price"
 - Consistent with current valuation standards
 - Invitation to Comment on *Valuation Guidance* issued in January 2007
 - Effective for years beginning after 11/15/07



New FASB Standards for 2007

• **SFAS 156 – Servicing Financial Assets**

- Requires fair value measurement at initiation, and permits fair value at subsequent measurement dates
- Other technical changes to existing Standard

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New FASB Standards for 2007

• **SFAS 155 – Hybrid Financial Instruments**

- Relates to accounting for beneficial interests in securitized financial assets, previously exempted in SFAS 133

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New FASB Standards for 2007

• **FIN 48 - Uncertain tax positions**

- Requires recognition of a liability (or asset reduction) for a tax position that meets a more-likely-than-not threshold
- Measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement
- Have to assume the tax position will be examined when determining more-likely-than-not
- AICPA has issued a Practice Aid on FIN 48

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Revisiting Some Recent FASB Standards

- **SFAS 154, Accounting changes and error corrections**
 - Requires retrospective application (restatement) of change in principle
 - Provides for handling when impractical to determine prior period amounts
 - No change in handling error corrections (ie, restate)



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Revisiting Some Recent FASB Standards

- **SFAS 123R, Share based payments (aka stock options)**
 - Requires expensing of stock options
 - Requires determination of fair value of options
 - Option pricing models will be used unless observable market prices exist
 - Nonpublic entities may use appropriate industry sector index to measure volatility



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Revisiting Some Recent FASB Standards

- **SFAS 153-Exchanges of non-monetary assets**
 - Part of Convergence project
 - Eliminates fair value exception for exchanges of similar productive assets
 - Replaces it with exception for exchanges that do not have commercial substance
 - Commercial substance exists if future cash flows are expected to change significantly as a result of the exchange



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Revisiting Some Recent FASB Standards

- **SFAS 152, Accounting for real estate time sharing activities**
 - Makes SOP 04-02 Level 1 gaap
 - SOP 04-02 covers all aspects of time sharing activities

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Revisiting Some Recent FASB Standards

- **SFAS 151, Inventory Costs— an amendment of ARB No. 43**
 - Requires expensing of abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage)

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Revisiting Some Recent FASB Standards

- **SFAS 150, Mandatorily redeemable equity shares**
 - Requires recognition of liability for repurchase obligations at current fair value
 - Requires recognition as interest expense of change in fair value of obligation
 - Delayed "indefinitely" for non-public companies.
 - Acceptable solution appears to be close

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Revisiting Some Recent FASB Standards

- SFAS 144 – Accounting for impairment of long lived assets
- SFAS 142 – Goodwill and other intangible assets
- SFAS 141 – Business Combinations
- SFAS 136 – Nonprofit agency contributions
- SFAS 130 – Reporting comprehensive income

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Revisiting Some Recent FASB Standards

- FIN 46, Variable Interest Entities
 - Requires consolidation of VIEs (eg lessors, other related companies)
 - Complex determination requirements for primary beneficiary

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Revisiting Some Recent FASB Standards

- FIN 45 – Guarantors accounting and disclosure requirements
 - Applies to "indirect guarantees of indebtedness of others"
 - Excludes intercompany guarantees or guarantees of obligations of entities under common control

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Recent FASB Staff Positions

- Several related to stock options
- FSP FAS 126-1; Applicability of certain disclosure requirements for obligors of debt conduit securities
- FSP AAG AIR-1; Accounting for planned major maintenance activities
- FSP AAG INV-1 and SOP 94-4-1; Reporting of fully benefit responsive investment contracts held by Investment Companies and Defined Contribution employee benefit plans
- Current ED re Cash Equivalents would eliminate CEs from Cash for cash flow



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EITF- Recent Consensus

- EITF 06-11 – “Accounting for income tax benefits of dividends on share based payment awards”
- EITF 06-10 – “Accounting for deferred compensation and post-retirement benefit aspects of collateral assignment split dollar life insurance arrangements”



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EITF- Recent Consensus

- EITF 06-9 – Reporting a change in a previously different year end of a Parent and a subsidiary or equity basis investee (edited)
- EITF 06-08 – Assessing a Buyers continuing investment for sales of condominiums (edited)
- EITF 06-7 – “Issuers accounting for a previously bifurcated conversion option in a convertible debt instrument when the conversion option no longer meets the bifurcation criteria in FASB Statement No. 133” (unedited)



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EITF- Recent Consensus

- EITF 06-6, "Application of Issue 05-7 (Accounting for modifications to conversion options embedded in debt instruments)"
- EITF 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4"
- EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"

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EITF- Recent Consensus

- EITF 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" (Gross or net OK, with disclosure)
- EITF 06-2, "Accounting for Sabbatical Leave and other similar benefits pursuant to SFAS No. 43"
- Issue 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider"

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EITF- Recent Consensus

- Issue 05-06, "Determining the amortization period for leasehold improvements after lease inception or acquired in a business combination"
- Issue 05-03, "Accounting for rental costs incurred during the construction period"
- Others

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FASB Exposure Drafts

- **Exposure Draft—Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition—an amendment of FASB Statement No. 142 (Posted October 9, 2006)**
- **Exposure Draft—Not-for-Profit Organizations: Mergers and Acquisitions (Posted October 9, 2006)**

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FASB Exposure Drafts

- **Consolidated Financial Statements**
 - Originally issued in 1995
 - Drives to “control”
- **Accounting for Business Combinations**
 - Recognize fair value of contingent payments
 - Recognize negative goodwill as income

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FASB Exposure Drafts

- **Revenue Recognition**
 - Using a change in assets and liabilities approach
 - Appears use of fair value approach has been dropped

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FASB Exposure Drafts

- **Financial Performance Reporting by Business Enterprises**
 - Improve the quality of information displayed in financial statements so that investors, creditors, and others can better evaluate an enterprise's financial performance and ...
 - Ascertain that sufficient information is contained in the financial statements to permit calculation of key financial measures used by investors and creditors

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Life at the Auditing Standards Board



They just keep on keeping on

- Harold Monk, Jr., Chair
- Davis, Monk & Company
- Gainesville, FL



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Life at the Auditing Standards Board

- **Nineteen members, consisting of**
 - 9 Public practitioners
 - >4 from big 4 firms, 5 from non-big 4 firms
 - 5 Members with state board of accountancy experience
 - 5 Members from users and public members
 - >Up to 25% may be non-AICPA members.
 - >Customarily, one seat is reserved for a government official (currently DOE - IG), and ...
 - >One seat is reserved for an academician (BYU currently)

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Life at the Auditing Standards Board

- **Relationship with PCAOB**
 - Some Big-4 firms have dropped US gaas for PCAOB
- **Convergence with International Auditing Standards**
 - Eye to possible future SEC adoption of IAASB standards

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Recent Auditing Standards

- **SAS 114 – Communication with those charged with governance**
 - Supersedes, and expands on, SAS 61
 - Requires "Communication" on all audits
 - Significant findings must be communicated in writing
 - Requires communication of scope and timing of audit

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Recent Auditing Standards

- **SAS 113 – Omnibus Standard**
 - Clean up; Nothing new

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Recent Auditing Standards

- SAS 112 – Communicating Internal Control Matters Noted in an Audit
 - Requires communication of Significant Deficiencies (formerly known as Reportable Conditions) in writing
 - Effective for audits after 12/15/06
 - > Auditors will have to determine classification of control deficiencies
 - > Will require increased knowledge of business systems, financial reporting processes and judgment



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Recent Auditing Standards

- SAS 104 – 111; The Risk Assessment Standards
 - Effective for audits for years ending after December 15, 2007
 - The auditors can no longer just say "there are no controls, or it is not efficient to rely on them for audit purposes, so we will just default to the maximum risk without making any evaluation of the company's internal controls"



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Recent Auditing Standards

- SAS 104 – 111; The Risk Assessment Standards
 - The auditors must now perform risk assessment procedures by making inquiries of management and others, perform analytical procedures and observe processes and inspect documents
 - Requires performance of "walk-thrus"



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Recent Auditing Standards

- SAS 104 – 111; The Risk Assessment Standards
 - Required to have (and document) a "brainstorming" meeting with engagement team, which may be only one person
 - Ask "What could go wrong" questions
 - Requires "tailoring" audit programs to address risks assessed
 - Use understanding to identify risk of misstatements and design audit tests to address risk
 - Requires "increased" documentation of audit procedures performed



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Recent Auditing Standards

- SAS 104 – 111; The Risk Assessment Standards
 - Sampling
 - Increased documentation
 - Non-statistical sampling is still permitted



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Recent Auditing Standards

- SAS 103 – Audit Documentation
 - Driven by PCAOB and Yellow Book
 - Report date is date all audit procedures are completed, and the client has accepted responsibility for the financial statements
 - Audit workpapers required to be "locked" within 60 days of report



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Recent Auditing Standards

- **SAS 102 – Defining Professional Requirements**
 - “Should” means “Shall”
 - Driven by international convergence
- **SAS 101 – Auditing Fair Value Measurements**
 - Consistent with FASB 157 on measuring fair value
 - Addresses the process first, and re-performance only when process is not documented



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Revisiting a troublesome auditing standard

- **SAS 99 – Fraud**
 - SAS 99 interviews are sometimes awkward for staff
 - Focusing on “As a test for fraud, ...” requires new understanding of business and users of financials



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Planning for the Future

- Monitor the FASB web site
www.fasb.org
- Monitor the AICPA web site
www.aicpa.org
- Call Chris Rouse
[404.898.2000](tel:404.898.2000)

Bon Auditpetite



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