

Insights

December 30, 2009

A biweekly audit and accounting publication

Accounting

Proposed ASUs from November EITF Meeting

At the December 2, 2009 meeting, the Financial Accounting Standards Board (FASB) ratified four consensus-for-exposure reached by the Emerging Issues Task Force (EITF) at its November meeting and approved the issuance of the following proposed Accounting Standards Updates (ASUs) for public comment. The proposed ASUs are available for comment until February 10, 2010 at www.fasb.org.

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)

Diversity in practice has developed regarding the classification of a share-based payment award with an exercise price denominated in the currency of the market in which the underlying equity security trades. Under this proposed ASU, an entity would classify as equity an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade, assuming all other criteria for equity classification are met. If finalized, the proposed ASU would be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010.

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)

A question has arisen as to whether a loan that is part of a pool of loans accounted for as a single asset should be removed from that pool upon a modification that would constitute a troubled debt restructuring. A pool is often used when a group of loans that are credit impaired are acquired. If finalized, this proposed ASU would prohibit an entity from applying troubled debt restructuring accounting to loans that are pooled together and accounted for as a single asset. The proposed ASU would apply to modifications of acquired loans accounted for within single pooled assets beginning in the first interim period after the amendments to the FASB Codification from the proposed ASU are made.

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

Under this proposed ASU, an insurance entity would be permitted to defer only those acquisition costs that are directly related to the acquisition of insurance contracts, by applying a model similar to the accounting for loan origination costs in ASC Topic 310, Receivables (from the original FAS 91 related to accounting for loan fees and costs). Insurance entities would be required to expense costs relating to unsuccessful contract efforts. An insurance entity would be required to account for advertising costs in accordance with Subtopic 340-20, Other Assets and Deferred Costs—Capitalized Advertising Costs, or Subtopic 720-35, Other Expenses – Advertising



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Costs. Those costs would not qualify for capitalization as a deferred acquisition cost. If finalized, the proposed ASU would be applied prospectively in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010.

Entertainment—Casinos (Topic 924): Casino Base Jackpot Liabilities (A consensus of the FASB Emerging Issues Task Force)

This proposed ASU would prohibit an entity from accruing base jackpots as a liability if the entity can avoid payment, because the base jackpot does not meet the definition of a liability until it has been won. The proposed ASU would be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010.

PCFRC Meets

The Private Company Financial Reporting Committee (PCFRC) met in Norwalk, Connecticut on December 3 and 4, 2009. As part of the meeting, the PCFRC met with members of the Financial Accounting Standards Board (FASB), FASB staff, staff of the American Institute of Certified Public Accountants, certain SEC staff, and members of the Small Business Advisory Committee. Representatives of each organization provided updates on their respective current activities.

The PCFRC met by itself to discuss developments in various projects on the FASB's active agenda. The PCFRC expressed general concern about the costliness to private companies that could result from some of the projects and whether the benefits of adoption would outweigh the costs. One discussion in particular related to the FASB's Financial Statement Presentation project. The PCFRC generally agreed that users of private company financial statements would not benefit from adoption of the proposals. The PCFRC elected to prepare an unsolicited comment letter to the FASB on the issue, which would include some discussion of concerns about the FASB's Disclosure Framework project as well.

The PCFRC also met with members of the FASB and FASB staff. One FASB member suggested the PCFRC set up a body, such as an "expert panel," which would be available to provide input to the PCFRC. The PCFRC chair agreed to work on assembling such a panel. Additional discussion during the joint meeting related to progress made to date by the PCFRC on recommendations put forth by the FASB and concerns related to the wording of Accounting Standards Updates. Discussions also were held regarding concerns about the applicability to private companies of three projects on the FASB agenda: Fair Value Measurement, Financial Instruments with Characteristics of Equity, and Financial Statement Presentation/Disclosure Framework.

In addition to the above, several members of the PCFRC held an educational session for FASB members and staff on the needs of users of financial statements of private entities.

The next PCFRC meeting will be held via conference call in January 2010.

Auditing

ASB Issues Proposed Standard Regarding Analytical Procedures

In conjunction with its efforts to clarify generally accepted auditing standards for audits of nonpublic companies and to converge such standards with International Standards on Auditing (ISAs), the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants recently issued a proposed Statement on Auditing Standards (SAS), *Analytical Procedures (Redrafted)*. If finalized, this proposed SAS would supersede SAS No. 56, *Analytical Procedures*, as amended. The proposed SAS has been drafted using ISA 520, *Analytical Procedures*, as a base.

This proposed SAS addresses the auditor's use of analytical procedures as substantive procedures. It also addresses the auditor's responsibility to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. The use of analytical procedures as a risk assessment procedure is addressed in the clarified SAS, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and accordingly is not addressed in the proposed SAS, *Analytical Procedures (Redrafted)*.

The proposed SAS would be effective for audits of financial statements for periods beginning on or after December 15, 2010. This effective date is provisional but will not be earlier than December 15, 2010. The proposed SAS is available for comment until May 3, 2010 at http://www.aicpa.org/download/auditstd/ED_Analytical_Procedures.pdf.

Reports on Application of Requirements of an Applicable Financial Reporting Framework

In conjunction with its efforts to clarify generally accepted auditing standards for audits of nonpublic companies and to converge such standards with International Standards on Auditing (ISAs), the Auditing Standards Board of the American Institute of Certified Public Accountants recently issued a proposed Statement on Auditing Standards (SAS), *Reports on Application of Requirements of an Applicable Financial Reporting Framework*. If finalized, this proposed SAS would supersede SAS No. 50, *Reports on the Application of Accounting Principles*. The proposed SAS does not change or expand SAS No. 50 in any significant respect. To reflect a more principles-based approach to standard setting, certain requirements that are duplicative of broader requirements in SAS No. 50 have been moved to application and other explanatory material.

Although no ISAs currently exist that correspond to the proposed SAS, certain terms within the proposed SAS have been changed to be consistent with the language used in other SASs redrafted to converge with ISAs, and to reinforce that the standards are framework neutral. The term financial reporting framework, as defined in the clarified SAS, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards, replaces the term generally accepted accounting principles. Financial reporting framework is a more general term, whereas the term generally accepted accounting principles usually is interpreted to be referring to accounting principles generally accepted in the United States of America. The term requirements of an applicable financial reporting framework, therefore, replaces the term application of accounting principles. These changes in terminology are not intended to create a difference in the application of SAS No. 50 and the proposed SAS.

The proposed SAS would be effective for audits of financial statements for periods beginning on or after December 15, 2010. This effective date is provisional but will not be earlier than December 15, 2010. The proposed SAS is available for comment until May 17, 2010 at http://www.aicpa.org/download/auditstd/ED_Reports_on_Application.pdf.

SEC

PCAOB Reproposes Risk Assessment Standards

In October, 2008, the Public Company Accounting Oversight Board (PCAOB) initially proposed for comment a suite of seven standards that focus on the risk assessment process and on the auditor's response to identified risks. Recently, the PCAOB voted to repropose these standards to reflect changes made in response to comments received on the original proposal and other refinements. Like the original proposal, the repropose standards would establish requirements for audit procedures performed throughout the audit, from the initial planning stages through the evaluation of the audit results in forming the opinion in the auditor's report.

The repropoed standards are intended to improve audits of issuers by enhancing the effectiveness of an auditor's assessment of and response to risk. The revised standards are not fundamentally different in approach from the first version. The new standards do, however, reflect numerous enhancements and clarifications, including the following:

- The proposed standards have been revised to better align with Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.
- The revised standards more explicitly emphasize the need to evaluate financial statement disclosures as part of assessing the risk of material misstatement. Consideration of whether financial statements are fairly stated includes an evaluation of the adequacy of disclosures in the notes, not just of the numbers on the face of the statements. Focusing during the planning stage on the importance of disclosures can improve the auditor's approach to testing and to evaluating audit results.
- The new proposed standards also contain stronger requirements relating to the auditor's responsibility to consider the possibility of fraud. These include increased emphasis on consideration of potential management bias and of risks related to missing or incomplete disclosures.

The revised proposals also take some additional steps to further reduce differences between these standards and International Standards on Auditing (ISAs). The document includes an appendix that provides a high-level comparison between the revised proposals and the ISAs.

The revised proposals are available for comment until March 2, 2010 at http://www.pcaobus.org/Rules/Docket_026/2009-12-16_Release_No_2009-007.pdf. Any new auditing standard or amendment to a PCAOB standard that is adopted also must be submitted to the SEC for approval before becoming effective.

International

IAASB Issues Standard for Reports on Controls at a Service Organization

The International Auditing and Assurance Standards Board (IAASB) has released International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*. This new standard addresses reports on the description, design, and operating effectiveness of controls relating to the broad range of services that service organizations provide. Such services can range from assisting with processing transactions to performing one or more business functions. ISAE 3402 deals with assurance engagements undertaken by a professional accountant in public practice to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting. It complements International Standard on Auditing (ISA) 402, *Audit Considerations Relating to an Entity Using a Service Organization*, in that reports prepared in accordance with ISAE 3402 are capable of providing appropriate evidence under ISA 402.

ISAE 3402 is effective for service auditors' reports covering periods ending on or after June 15, 2011. The new standard is available in full at <http://web.ifac.org/media/publications/1/international-standard-on-a/international-standard-on-a.pdf>.

Other Comprehensive Income: IFRS vs. U.S. GAAP

This article is the thirty-third and final in a series of articles that takes our readers on a journey through International Financial Reporting Standards (IFRS) with a special focus on the standards' quintessential feature: they are principles-based. In this article, we provide an overview of some of the most significant differences between IFRS and U.S. generally accepted accounting principles (GAAP) with regard to other comprehensive income. Actual differences in the accounting treatment between the two frameworks depend on specific circumstances.

International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, is substantially converged with Financial Accounting Standards Board Accounting Standards Codification (ASC) 220, *Comprehensive Income*, in terms of the presentation of comprehensive income. However, some differences still remain, such as:

- Reporting and display of comprehensive income - ASC 220 permits a choice of displaying comprehensive income and its components in one or two statements of financial performance or in a statement of changes in equity. IAS 1 does not permit display in a statement of changes in equity.
- Reporting other comprehensive income in the equity section of a statement of financial position - ASC 220 states that the total of other comprehensive income should be reported separately from retained earnings and additional paid-in capital in a statement of financial position at the end of the period. An entity discloses accumulated balances for each classification in that separate component of equity in a statement of financial position, in a statement of changes in equity, or in notes to the financial statements. IAS 1 does not specifically require the display of a total of accumulated other comprehensive income in the statement of financial position.
- Display of the share of other comprehensive income items of associates and joint ventures accounted for using the equity method - IAS 1 requires the display in the statement of comprehensive income of the investor's share of the investee's other comprehensive income. ASC 220 does not specify how that information should be displayed.

Other differences also exist as to which items are recognized in other comprehensive income and whether they are recycled to the income statement. Additional divergence in practice may exist based on specific facts and circumstances.

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