

# Insights

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## What Is your Personal Brand?

By Jay Hanson, National Director of Accounting, McGladrey & Pullen

About eight years ago, former managing partner Bill Travis spoke to the national office team about goals and leadership and charged us with “Everyone needs to establish their own personal brand.” I wasn’t even sure what this meant then, but it turned out to be the most important advice I have received in my 30-year career. Bill’s focus was on building and demonstrating our brand to the public and potential clients, but it is equally important within your organization. At several recent meetings with McGladrey & Pullen leaders, this subject was discussed again. Our leaders understand and embrace the concept that ultimately, we sell expertise to our clients. Everyone needs to have a personal brand to achieve the goals we aspire to.

What is your personal brand? Are you sought after for your expertise in one or more topics? Are you the “go-to” person in your location for important projects? Are you known for your follow-through on difficult assignments? In meetings, are you viewed as a solid contributor who comes prepared, actively participates, proposes solutions, and gets “on-board” with the resolution? When a team is going to visit a prospective client, are you thought of as someone who will best show the values of your organization and need to be included? When you see a training need in your location, do you proactively figure out a way to fill that void and make the training happen? When a training leader is needed, are you the logical choice to deliver?

Over time, everyone forms impressions of their co-workers. The longer you are with your organization, the more those impressions spread to other locations. The longer you are in the profession, the impressions spread to the local business community and wider.

Whatever your personal brand, many things can detract from it. Do you want to be known as the complainer? Do you want to be known as the person who promises big and doesn’t deliver? Do you want to be known as the person who sits back and lets others tackle the difficult and “less fun” jobs? Obviously, the answer to all these questions is “no”, but impressions are hard to shake sometimes.

How do you build your personal brand? How do you communicate your brand? There are no right or wrong answers to these questions. Personally, my most successful efforts in building my brand were in teaching. I started helping with local office sessions, as a manager did a lot of firm-wide staff-level training, progressed to developing and presenting higher-level Firm training, and now present nationally at conferences all over the country. It’s amazing how many bright people you meet along the way, how much you learn from other leaders and participants, and how strong the bonds are with your co-presenters.

Unfortunately, most activities that help build your brand rarely come at a convenient time. Often it seems like the most valuable activities come out of your own personal time. It is easy to over commit. As we set our goals now for next year, ask yourself what you can do to build your brand and communicate it.



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## Accounting

### More Accounting Changes Coming

A number of significant new accounting standards have been issued in the past five years. Currently, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have at least a dozen joint projects in process. The goal of each project is to replace the existing FASB and IASB guidance on the topic with a common standard. Every organization should be concerned about these major projects. If these standards were to come to fruition as currently contemplated:

- The new financial statement format will require the balance sheet and income statement to look more like a cash flow statement does today;
- The percentage-of-completion method of revenue recognition may be gone for many companies;
- All leases will be capitalized;
- Most financial instruments, including loans and receivables, will be accounted for at fair value;
- Many instruments classified as equity today will be liabilities in the future; and
- The consolidation rules will change again.

McGladrey & Pullen's National Professional Standards Group has published a summary that discusses six of the projects that will have the biggest impact on virtually all companies, plus the planned changes to the guidance on how to measure fair value. These projects are:

- Financial statement presentation
- Revenue recognition
- Financial instruments
- Leases
- Financial instruments with characteristics of equity
- Consolidation
- Fair value measurements

Other recent accounting-related publications available on the McGladrey & Pullen Web site include:

- Fair Value Disclosures for Business Combinations and Other Accounting Events
- Fundamentals of Fair Value Measurements and Disclosures
- Assigning Assets and Liabilities that Relate to Multiple Reporting Units when Testing Goodwill for Impairment
- Fundamentals of Debt Classification
- Toolkit for Private Equity Group Portfolio Company Accounting

### Milestone Method of Revenue Recognition

Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successful completion of phases in a drug study or achieving a specific result from the research or development efforts. An entity often recognizes these milestone payments as revenue in their entirety upon achieving the related milestone, commonly referred to as the milestone method. Because authoritative guidance on the use of the milestone method did not exist, the Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) 2010-17, Revenue Recognition—Milestone Method (Topic 605) - Milestone Method of Revenue Recognition - a consensus of the FASB Emerging Issues Task Force.

This ASU provides guidance to vendors 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 of the following criteria to be considered substantive. Determining whether a milestone is substantive is a matter of judgment made at the inception of the arrangement. To be considered substantive, the following criteria must be met. The consideration earned by achieving the milestone should:

- Be commensurate with either of the following:
  - o The vendor's performance to achieve the milestone
  - o 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
- Relate solely to past performance
- Be reasonable relative to all deliverables and payment terms in the arrangement

A milestone should be considered substantive in its entirety. An arrangement may include more than one milestone, and each milestone should be evaluated separately to determine whether the milestone is substantive. A vendor's decision to use the milestone method of revenue recognition for transactions within the scope of the ASU is a policy election, and certain disclosures are required for each arrangement that includes milestone consideration accounted for in accordance with the ASU. Other proportional revenue recognition methods also may be applied as long as the application of those other methods does not result in the recognition of consideration in its entirety in the period the milestone is achieved.

The amendments in the ASU are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity should apply the amendments retrospectively from the beginning of the year of adoption. Additionally, a vendor electing early adoption must provide certain disclosures for all previously reported interim periods in the fiscal year of adoption. A vendor may elect, but is not required, to adopt the amendments in the ASU retrospectively for all prior periods.

ASU 2010-17 is available in full at [http://www.fasb.org/cs/ContentServer?c=Document\\_C&pagename=FASB%2FDocument\\_C%2FDocumentPage&cid=1176156827594](http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156827594).

### **Foreign Currency Issues Related to Investments in Venezuela**

The SEC staff has received a number of inquiries regarding certain foreign currency issues related to investments in Venezuela. During the March 18, 2010 meeting of the FASB Emerging Issues Task Force the SEC Observer provided the SEC staff's view on these foreign currency issues. To codify this SEC Staff Announcement, the Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) 2010-19, Foreign Currency (Topic 830) - Foreign Currency Issues: Multiple Foreign Currency Exchange Rates - An announcement made by the staff of the U.S. Securities and Exchange Commission. Among other topics, this ASU discusses disclosures needed in cases where reported balances for financial reporting purposes differ from the actual U.S. dollar denominated balances. The difference in those reported amounts occurs when the parent company's reporting currency is the U.S. dollar and the Venezuelan subsidiary's functional currency is the Venezuelan Bolivar and the parallel rate is used to remeasure U.S. dollar denominated balances and those amounts are then translated using the official rate (that is, different rates are used for remeasurement and translation). The ASU also addresses the fact that Venezuela has met the thresholds for being considered highly inflationary and accordingly, calendar year entities that have not previously accounted for their Venezuelan investment as highly inflationary must begin applying highly inflationary accounting beginning January 1, 2010.

ASU 2010-19 was effective March 18, 2010 and is available in full at [www.fasb.org](http://www.fasb.org).

### **PCFRC Meets**

The Private Company Financial Reporting Committee (PCFRC) met with members of the Financial Accounting Standards Board (FASB) and FASB staff on April 29 and 30, 2010 to discuss recent developments in accounting standard setting.

The FASB Board members discussed the activities of the Private Company Accounting Blue Ribbon Panel, which is considering the need for separate accounting rules for private companies. The International Accounting Standards Board (IASB) has already issued a 230-page standard for small and medium-sized entities. All four FASB members in attendance disagreed with the concept of different accounting rules for private companies. Two members could not see the justification of different measurement standards for the same transaction based on the size or registration of the reporting entity. A third member indicated that, while different users have different needs, different measurement bases would create confusion to analysts and others serving both public and nonpublic clients. A fourth essentially agreed with the other three and added that different standards would not meet any cost benefit test.

The PCFRC addressed the effects of proposed accounting pronouncements on small businesses. The FASB has scheduled the issuance of thirteen major exposure drafts in the second quarter of 2010 as part of the joint FASB/IASB convergence project. The goal of each project is to replace the existing FASB and IASB guidance on the topic with a common standard. FASB staff provided updates on eight of the proposals. The bulk of the exposure drafts are expected to be issued in May and June 2010. PCFRC members noted that certain facts and circumstances unique to private companies could result in misleading financial presentations when governed by rules written with public companies in mind. For example, one proposal will require consolidation when both control and benefits (or risk) exist. The PCFRC's consensus was that the proposal did not address issues inherent to commonly controlled entities, where one individual owned several companies. Many times, these commonly controlled companies have a legal structure, intercompany transactions, and cross guarantees that may trigger consolidation.

The PCFRC also discussed standards that add to complexity in financial reporting. The consensus of the PCFRC was that goodwill impairment created much work with little benefit. The users in the Committee asserted that goodwill, and by extension, goodwill impairment, were ignored in their analysis. While acknowledging that the decision to impair (or not impair) goodwill could affect loan covenant compliance, the users indicated that they base their analysis of the health of the reporting entity on other factors. The PCFRC also identified derivative accounting as too complex, indicating that it was more cost effective in accounting for derivatives as free standing instruments rather than in applying hedge accounting.

## **Compilations and Reviews**

### **AICPA Guide: Compilation and Review Engagements**

The American Institute of Certified Public Accountants (AICPA) recently released AICPA Guide: Compilation and Review Engagements. This Guide has been updated to include relevant guidance issued through March 1, 2010. The purpose of the Guide is to assist accountants in compiling or reviewing financial statements of nonissuers in accordance with the Statements on Standards for Accounting and Review Services issued by the AICPA. The Guide is available in the Accounting Research Manager.

## **Subsequent Discovery of Facts Existing at the Date of the Report**

AR section 100, Compilation and Review of Financial Statements, provides requirements and guidance when the accountant becomes aware that facts may have existed at the date of the accountant's compilation or review report (or the date of submission of compiled financial statements not intended for third-party use in which the accountant does not report) that might have caused him or her to believe that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory had the accountant then been aware of such facts. Paragraph .79(a) states that when the accountant has concluded that action should be taken to prevent further use of the accountant's report or the financial statements, and the effect on the accountant's report or the financial statements of the subsequently discovered information can promptly be determined, disclosure should consist of issuing, as soon as practicable, revised financial statements and, where applicable, the accountant's report. The reasons for the revision usually should be described in a note to the financial statements and, where applicable, referred to in the accountant's report. Generally, only the most recently-issued compiled or reviewed financial statements would need to be revised, even though the revision resulted from events that had occurred in prior years.

The question has been raised as to what the term where applicable refers to in paragraph .79(a). In response to this question, the American Institute of Certified Public Accountants has issued TIS 9150.27, The Accountant's Reporting Responsibility With Respect to Subsequent Discovery of Facts Existing at the Date of the Report. TIS 9150.27 states that the use of the term where applicable refers to a situation in which the accountant has not reported on compiled financial statements not intended for third-party use. In the case of a review or a compilation in which the accountant has issued a report, a revised accountant's report should be issued and the reason for the financial statement's revision usually should be described in the accountant's revised report as well as in a note to the revised financial statements.

TIS 9150.27 is available in full at [http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/DownloadableDocuments/FINAL\\_TPA\\_TIS%209150%2027.pdf](http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/DownloadableDocuments/FINAL_TPA_TIS%209150%2027.pdf). For further Firm guidance regarding the re-issuance of a report on reviewed or compiled financial statements, see Review and Compilation Manual AARM Section 0700 or 0750, respectively.

## **SEC**

### **Auditing the Fair Value of Investment Securities under PCAOB Standards**

The National Professional Standards Group (NPSG) has issued Release R10-13, Auditing the Fair Value of Investment Securities under PCAOB Standards, which describes certain additional procedures and documentation that are required to be completed with respect to auditing the fair value of investment securities under the standards of the Public Company Accounting Oversight Board. Specifically, NPSG has developed an internal control understanding form to assist engagement teams in obtaining an understanding of management's process for determining fair value measurements. This form must be completed for all issuer clients as soon as possible, but no later than the date the June 30, 2010 Form 10-Q is filed. The form is available in the FI Toolkit and will continue to be available there until it can be incorporated into the MAPS audit templates.

Management should complete the form for review by engagement teams. Also, management should remediate any internal control deficiencies that have been identified no later than June 30, or consider the impact of the deficiencies on their disclosure of the effectiveness of the entity's disclosure controls. The engagement partner should discuss the form with management, explain the reasons for our request, and be available to management to answer questions as they arise. Engagement partners and managers should be actively involved in the review of the form.

The engagement quality reviewer (concurring partner) also is required to review and approve the completed document. Release R10-13 is available in full in the “What’s New” section of the Lotus Notes GS Navigator.

## Financial Institutions

### Accounting for a Loan Modification when the Loan Is Part of a Pool

Recently there has been an increase in the number of modifications of acquired loans that fall under the scope of the FASB Accounting Standards Codification (ASC) Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality. Loans subject to Subtopic 310-30 are those acquired loans that have evidence of credit deterioration upon acquisition; and, those that have common risk characteristics may be accounted for in the aggregate as a pool. Once established, a pool becomes the unit of accounting. Diversity in practice has developed on 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. To address this diversity in practice regarding such modifications, the Financial Accounting Standards Board recently issued Accounting Standards Update (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.

The amendments in ASU 2010-18 affect any entity that acquires loans subject to Subtopic 310-30, that accounts for some or all of those loans within pools, and that subsequently modifies one or more of those loans after acquisition. As a result of the amendments in this ASU, 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. Thus, the amendments clarify that the integrity of a pool as the unit of accounting for acquired loans with credit deterioration is to be maintained. Once a pool is established, individual loans should not be removed from the pool unless the entity sells, forecloses, or otherwise receives assets in satisfaction of the loan or upon write-off of the loan. The pool, as a whole, cannot 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. The amendments in this ASU do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors.

The amendments in ASU 2010-18 are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted. Upon initial adoption of the guidance in this ASU, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. ASU 2010-18 is available in full at [www.fasb.org](http://www.fasb.org).

### 2010 BSA/AML Examination Manual

The Federal Financial Institutions Examination Council has released the 2010 version of the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual. The revised Manual provides current guidance on risk-based policies, procedures and processes for banking organizations to comply with the BSA and safeguard operations from money laundering and terrorist financing. The Manual has been updated to further clarify supervisory expectations, and incorporates regulatory changes since the Manual’s 2007 release. The revisions also reflect feedback from the banking industry and examination staff.

The revised Manual can be accessed in full at [http://www.ffiec.gov/bsa\\_aml\\_infobase/documents/BSA\\_AML\\_Man\\_2010.pdf](http://www.ffiec.gov/bsa_aml_infobase/documents/BSA_AML_Man_2010.pdf).

## International

### IASB Proposes to Amend Accounting for Defined Benefit Pension Plans

The International Accounting Standards Board recently published proposed amendments to International Accounting Standard (IAS) 19, Employee Benefits. The Exposure Draft would amend the accounting for defined benefit plans through which some employers provide long-term employee benefits, such as pensions and post-employment medical care. In defined benefit plans, employers bear the risk of increases in costs and of possible poor investment performance. The amendments would require entities to:

- Account immediately for all estimated changes in the cost of providing these benefits and all changes in the value of plan assets. This Exposure Draft proposes that entities should recognize all changes in defined benefit obligations and in the fair value of plan assets when those changes occur. IAS 19 already permits entities to recognize all gains and losses when they occur, but also permits another option - to leave actuarial gains and losses unrecognized if they are within a "corridor" (the greater of 10 per cent of plan assets and 10 per cent of plan liabilities) and to defer recognition of actuarial gains and losses outside the corridor. This proposal would remove that option.
- Use a new presentation approach for changes in defined benefit obligations and the fair value of plan assets. As proposed, entities would split changes in the defined benefit obligation and the fair value of plan assets into service cost, finance cost and remeasurement components and present: (a) the service cost component in profit or loss; (b) the finance cost component, i.e. net interest on the net defined benefit liability or asset, as part of finance costs in profit or loss; and (c) the remeasurement component in other comprehensive income. Consequently, the Exposure Draft removes from IAS 19 the option for entities to recognize in profit or loss all changes in defined benefit obligations and in the fair value of plan assets.
- Disclose clearer information, including disclosures about: (a) the characteristics of an entity's defined benefit plans and the amounts in the financial statements resulting from those plans; (b) risk arising from defined benefit plans, including sensitivity analyses of changes in demographic risk; and (c) participation in multi-employer plans.

The Exposure Draft, Defined Benefit Plans, is available for comment until September 6, 2010 at <http://www.iasb.org/NR/rdonlyres/A366AC39-6AE3-4516-A81D-ACFB4A9E5D42/0/EDIAS19DefinedBenefit.pdf>.

### IASB Proposes Limited Changes to the Accounting for Financial Liabilities

The International Accounting Standards Board (IASB) has published for public comment limited proposed changes to the accounting for financial liabilities. This proposal responds to the view expressed by many investors and others that volatility in profit or loss resulting from changes in the credit risk of financial liabilities that an entity chooses to measure at fair value is counter-intuitive and does not provide useful information to investors except for derivatives and liabilities that are held for trading. The IASB is proposing that all liabilities designated under the fair value option would continue to be measured at fair value in the balance sheet. However, the IASB is proposing a two-step approach for reporting the period-to-period change in fair value. In the first step, the entity would present the entire change in fair value in profit or loss. In the second step, the entity would back out from profit or loss the portion of the fair value change that is attributable to changes in the liability's credit risk and present that amount in other comprehensive income.

No other changes are proposed for financial liabilities. Therefore, the proposals will affect only those entities that choose to apply the fair value option to their financial liabilities. Those who prefer to bifurcate financial liabilities when relevant may continue to do so.

The Exposure Draft, Fair Value Option for Financial Liabilities, is available for comment until July 16, 2010 at [http://www.iasb.org/NR/rdonlyres/B72D8EB9-64D0-4766-9EEE-3A27EE2A9617/0/EDFairValueOptionforFinancialLiabilities\\_WEBSITE.pdf](http://www.iasb.org/NR/rdonlyres/B72D8EB9-64D0-4766-9EEE-3A27EE2A9617/0/EDFairValueOptionforFinancialLiabilities_WEBSITE.pdf).

### **Proposed Standard Addresses Process to Compile Pro Forma Financial Information**

The International Auditing and Assurance Standards Board recently released a proposed new assurance standard that addresses the process of compiling pro forma financial information included in prospectuses. Proposed International Standard on Assurance Engagements (ISAE) 3420, Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus, provides comprehensive guidance on the nature and extent of a practitioner's work when reporting on whether the process of compiling pro forma financial information has been properly followed. It also covers related engagement acceptance and reporting considerations, and provides an illustrative report arising from such an engagement.

To maximize the global applicability of the proposed ISAE while maintaining compatibility with existing legal or regulatory requirements, the Exposure Draft proposes the following two alternative wordings of the opinion that the practitioner may use in meeting the requirement to express an opinion on the proper application of the process to compile the pro forma financial information:

- Whether the process to compile the pro forma financial information has, in all material respects, been applied in accordance with the applicable criteria; or
- Whether the pro forma financial information has been properly compiled on the basis stated.

The proposed ISAE explains that describing the pro forma financial information as being "properly compiled" means that the process to compile the pro forma financial information has, in all material respects, been applied by the responsible party in accordance with the applicable criteria. It also proposes guidance that explains the meaning of the term "basis stated" in the context of an engagement to report on the process to compile pro forma financial information. Either form of the opinion, read in the context of the practitioner's report as a whole, is addressing the process to compile the pro forma financial information and not the pro forma financial information itself.

The Exposure Draft is available for comment until September 30, 2010 at <http://www.ifac.org/Guidance/EXD-Download.php?EDFID=00336>.

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