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Current economic instability : accounting issues and risks for financial management and reporting - 2011; Financial Reporting Alert

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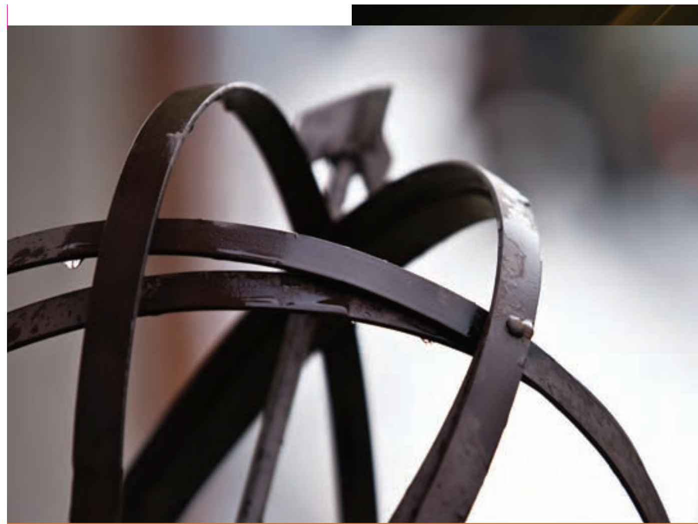

Current Economic Instability:

Accounting Issues and Risks for Financial Management and Reporting – 2011

Strengthening Financial Management and Reporting

Financial Reporting Alert

AICPA®

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Notice to Readers

This Financial Reporting Alert is intended to provide accountants practicing in business and industry with an overview of recent economic, technical, regulatory, and professional developments that may affect financial management and reporting.

This document has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA.

Anjali Patel, CPA
Technical Manager
Accounting and Auditing Publications

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How This Alert Helps You

This alert is intended to help you better understand the relevant economic and regulatory factors that affect your financial reporting and identify issues that could result in the material misstatement of your entity's financial statements.

The current economic situation makes financial management more challenging than ever. This Financial Reporting Alert (alert) is designed to be used by members of an entity's financial management and audit committee to identify and understand current accounting and regulatory developments affecting the entity's financial reporting, especially those that are the result of recent economic developments. It is intended to help you achieve a more robust understanding of the current economic environment in which your entity is operating. This alert is also an important tool to help you identify the significant risks that may result in the material misstatement of your entity's financial statements. To help you understand relevant industry, economic, and regulatory factors affecting your financial management and reporting, the AICPA also offers industry- and topic-specific alerts to be used in conjunction with this alert. These alerts can be obtained by calling the AICPA at 888.777.7077 or visiting www.cpa2biz.com. You should refer to the full text of pronouncements as well as the full text of any rules or publications that are discussed in this alert.

Certain accounting guidance referenced in this alert has been codified into the Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ (ASC). On June 30, 2009, FASB issued FASB Statement No. 168, *The* FASB Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*, which is codified in FASB ASC 105-10. On the effective date of this statement, FASB ASC became the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). At that time, FASB ASC superseded all then-existing, non-SEC accounting and reporting standards for nongovernmental entities. Once effective, all other nongrandfathered, non-SEC accounting literature not included in FASB ASC became nonauthoritative.

Understanding the Current Economic Environment to Assess Risks for Your Entity

Your entity's financial statements will be subject to specific risks of material misstatement arising from the current economic situation. The nature of your entity, the degree of regulation, or other external forces affecting the entity will vary, but this alert is designed to help you better assess these risks in order to develop appropriate controls.

It is important for members of an entity's financial management or audit committee to have a sufficient understanding of the entity and the current environment in which it operates. This understanding will help you perform not only adequate risk assessment, but also opportunity assessment. A proper risk assessment will assist you in understanding the risk that your entity's financial statements may be misstated. Understanding how the following things affect your entity will provide a basis for your risk and opportunity assessments:

- Current economic conditions
- Nature of the industry in which your entity operates and how it is changing (including effects on your supply chain and competitors)
- Industry, regulatory, and other external factors
- Business objectives and strategies and related risks
- Current, past, and projected financial performance of the entity
- Competitors' financial performance
- Internal control within your entity, which includes the selection and application of accounting policies

Your entity's financial statements are subject to specific risks of material misstatement arising from the nature of the entity, the degree of regulation, or other external forces affecting the entity (for example, political, economic, social, technical, and competitive forces). Just as the external environment changes, the conduct of your entity's business is also dynamic: business strategies and objectives change in response to external developments. Business risks result from (*a*) significant conditions, events, circumstances, actions, or inactions that could adversely affect your entity's ability to achieve its objectives and execute its strategies, or (*b*) the setting of inappropriate objectives and strategies. An understanding of business risks increases the likelihood of identifying, correcting, and preventing risks of material misstatement in your financial statements. Most business risks will eventually have financial consequences and, therefore, an effect on the financial statements. However, not all business risks give rise to risks of material misstatement.

Understanding and properly addressing, as necessary, the matters presented in this alert will help you better assess risks of material misstatement of the entity's financial statements and implement appropriate controls that will strengthen the integrity of your financial management and reporting.

Economic, Legislative, and Regulatory Developments

Determine how current economic conditions and recently issued regulations and guidance from the Department of Treasury, IRS, and SEC affect your entity.

The Current Economy

The year 2011 has not brought the indicators of economic recovery for which we had hoped. The optimistic start to 2010 slowly turned to caution as the year progressed, slowing down in the fourth quarter. The downward trend continued into the new year as increasing costs and interest rates, affected by a wave of natural disasters in the first quarter of 2011, including floods and earthquakes, which temporarily curtailed logistics for Japan, have created an uncertain global outlook. In a June 22, 2011, press release, the Federal Open Market Committee (FOMC) described the economy as recovering at a moderate pace, though somewhat more slowly than expected. The release reported that weaker than expected recent labor market indicators and higher food and energy prices have had a dampening effect on purchasing power and spending. It also cited the tragic events in Japan as causing temporary disruptions in the supply chains of various industries. Although reports released in August 2011 indicate that the Japanese economy is starting to bounce back from the disaster, heavy damage to factories in the auto and electronics sectors continues to hold back supply chain exports.

Key Economic Indicators

The real gross domestic product (GDP) measures output of goods and services by labor and property located within the United States. It increases as the economy grows or decreases as it slows. According to the Bureau of Economic Analysis, real GDP increased at an annual rate of 3.1 percent in the fourth quarter of 2010 but slowed to 0.4 percent in the first quarter of 2011 and 1.3 percent in the second quarter of 2011. The slowdown in the first quarter of 2011 has been attributed to a sharp increase in imports with a decrease in exports, a reduction in consumer spending, and the largest decline in federal spending (mainly defense spending) since the first quarter of 2000, along with the largest decline in state and local spending since the second quarter of 1981. Additionally, business investment slowed, mainly due to a downturn in structures, partly offset by a sharp increase in inventory investment. Second quarter increases have been attributed to the slowdown of imports, reflecting mainly downturns in petroleum products and autos; an increase in federal spending in national defense; and an increase in business spending on investments in structures, which was offset by a sharp downturn in consumer spending and led mainly by a downturn in motor vehicles and parts spending.

From July 2010 to July 2011, the unemployment rate decreased from 10.1 percent to 9.1 percent, representing approximately 14 million people unemployed. The U.S. Department of Bureau of Labor Statistics (BLS) has reported in their July 2011 news release that from March to June of 2011, the unemployment rate rose by 0.4 percent, with 545,000 people becoming unemployed in that period. Employment rose by an average of 215,000 per month from February through April of 2011, compared with an average of 22,000 for May and June, and 117,000 for July. Job gains continued in professional and business services, health care, and mining. Employment levels in other major private sector industries were little changed, and local government employment has continued to decline since the second half of 2008. Among those outside the labor force, that is, persons neither working nor looking for work, the number of discouraged workers (those not looking for work because they believe no jobs are available) was 982,000, down from 1.2 million a year earlier. There were 3.0 million job openings in May, reflecting increases in durable goods manufacturing, transportation, warehousing and utilities, information, and healthcare and social assistance.

Activity in the housing market remained depressed, as both weak demand and sizeable inventory of foreclosed or distressed properties continues to hold back new construction. Housing starts and new permits of single-family homes have stayed at very low levels over the past 12 months, while sales of new and existing homes remained low, and home prices fell measurably.

Net debt financing by nonfinancial corporations and outstanding amounts of commercial and industrial loans and nonfinancial commercial paper increased in the second quarter of 2011, and most indicators of business credit quality improved in this period.

In line with market expectations, the FOMC will continue its asset purchase program and maintain interest rates at near zero into early 2012, and banks will keep their prime lending rate at 3.25 percent. According to the Federal Reserve, low interest rates help households and businesses finance new spending and help keep the prices of many other assets, such as stocks and houses, steady. Economic conditions are anticipated to maintain low rates of resource utilization and likely warrant exceptionally low levels for the federal funds rate for an extended period.

In response to the disappointing current economic data, market participants have reported a general pullback from risk-taking and a decline in liquidity in a range of financial markets. In adding to the significant market pullback are the difficulties in Greece and spreading concerns about other peripheral European countries that could cause significant financial strains in the United States and the fact that some U.S. money market mutual funds have significant exposures to financial institutions from core European countries, which, in turn, have substantial exposures to Greek sovereign debt.

For corporations whose investment portfolios are substantially invested in U.S. treasuries, the United States being downgraded will affect the liquidity or valuation of their portfolio.

Corporate profits in the first quarter of 2011 increased 2.9 percent, following a 2.3 percent increase in the fourth quarter of 2010 and year-over-year, first quarter profits from 2010–2011 increased 10.2 percent. Nonfinancial corporate profits increased 6.9 percent, but financial profits decreased 15.5 percent in the first quarter. Profits from the rest of the world rose 14.6 percent in the first quarter. Import prices increased 21.8 percent, and export prices only increased 10.9 percent in the first quarter of 2011.

Consumer Price Index Trends

The BLS annually publishes its Consumer Price Index for all Urban Consumers (CPI-U). The CPI-U is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI-U is the most widely used measure of inflation and is sometimes viewed as an indicator of the effectiveness of government economic policy. It provides information about price changes in the nation's economy to government, business, labor, and private citizens and is used as a guide when making economic decisions. The table that follows shows the U.S. city annual average CPI-U for the past 5 years. The baseline measurement is 1982–1984=100.

Year	*Annual Average Consumer Price Index for all Urban Consumers*	*Change From Prior Year*
2010	219.2	1.5%
2009	215.9	2.7%
2008	210.2	0.1%
2007	210.0	4.1%
2006	201.8	2.5%

Producer Price Index Trends

The Producer Price Index (PPI) of the BLS is a family of indexes that measure the average change over time in the prices received by domestic producers of goods and services. The PPI measures price change from the perspective of the seller. This contrasts with other measures, such as the CPI, which measures price change from the purchaser's perspective. Sellers' and purchasers' prices can differ due to government subsidies, sales and excise taxes, and distribution costs. The table that follows shows the annual average PPI for finished goods for the past 5 years. The baseline measurement is 1982=100.

Year	*Annual Average Producer Price Index—Finished Goods*	*Change From Prior Year*
2010	183.0	3.9%
2009	176.2	4.4%
2008	168.8	–0.9%
2007	170.6	6.3%
2006	160.5	1.1%

Interest Rates for Below Market Rate Loans

The IRS issues the blended annual applicable federal rate each year to provide guidance in relation to Internal Revenue Code Section 7872(e)(2), "Treatment of loans with below-market interest rates—foregone interest" (*Internal Revenue Code, U.S. Code 26*). The term *foregone interest* means, with respect to any period during which the loan is outstanding, the excess of

- the amount of interest, which would have been payable on the loan for the period, if interest accrued on the loan at the applicable federal rate and was payable annually on the day referred to in Subsection (a)(2), over
- any interest payable on the loan properly allocable to such period.

This rate is a useful guide in evaluating interest rates and determining imputed interest for below market rate loans. The following table provides the blended annual rate for each of the previous five years as determined by the IRS.

Year	*Blended Annual Rate*
2010	0.59%
2009	0.82%
2008	2.80%
2007	4.92%
2006	4.71%

Regulatory Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law in July 2010 in response to weaknesses in the financial services industry that are believed to have contributed to the economic recession. As the economy is slowly recovering from the worst economic downturn since the Great Depression, this reform represents the greatest change to financial regulation since that time. It ends the era of hands-off regulation and increased deregulation of the financial services industry. The two main goals of the reform are to lower the systemic risks to the financial system and enhance consumer protections.

The Dodd-Frank Act, among many other changes, creates new regulations for companies that extend credit to customers, exempts small public companies from Section 404(b) of the Sarbanes-Oxley Act of 2002 (SOX), makes auditors of broker-dealers subject to Public Company Accounting Oversight Board (PCAOB) oversight, and changes the registration requirements for investment advisors. It mandates over 60 different studies and reports by various oversight agencies on a range of issues. The timing of the impact of these reforms has been staggered over the next few years, providing opportunities for the financial services industry to respond to the proposed regulations and work with regulators in developing reporting requirements, formats, and timetables that are practical to implement. This allows time for both regulators and the industry to meet their individual goals, which is important to the efforts to avoid market disruptions and inadvertently increase systemic risk. Large, complex institutions, in particular, and newly regulated entities with new reporting requirements are being challenged to update their systems and data infrastructures.

New Short Form Criteria to Replace Credit Ratings

On July 26, 2011, the SEC adopted new rules in light of the Dodd-Frank Act to remove credit ratings as eligibility criteria for companies seeking to use "short form" registration when registering securities for public sale. The current requirement for an issuer to receive an investment grade rating by at least one nationally recognized statistical rating organization has been eliminated and replaced by a requirement to pass one of four tests in order to file Form S-3 or F-3. In addition to the four tests, this rule eliminates Form F-9, effective December 31, 2012, and revises Form 40-F, Form S-4, and Form F-4 under the Securities Act of 1933 (the 1933 Act). It also revises Schedule 14A under the Securities Exchange Act of 1934, Rules 138, 139, and 168 under the 1933 Act, and affects Rule 134(a)(17) under the 1933 Act. The new rules and requirements become effective 30 days after publication in the Federal Register, except the rescission of Form F-9 and amendments to remove references to Form F-9 in other rules and forms will be effective December 31, 2012. A copy of this rule can be found at www.sec.gov/news/press/2011/2011-155.htm.

Red Flags Rule

In October 2007, the Federal Trade Commission issued the Red Flags Rule for financial institutions and creditors to fight identity theft. The rule sets out how certain businesses and organizations must develop, implement, and administer their identity theft prevention programs. By identifying warning signs—or "red flags"—in advance, businesses will be better equipped to spot suspicious patterns that may arise and take steps to prevent a red flag from escalating into a costly episode of identity theft. Creditors subject to the Red Flags Rule must be in compliance as of January 1, 2011.

A company's identity theft prevention program should enable the organization to

- identify relevant patterns, practices, and specific forms of activity—the "red flags"—that signal possible identity theft;
- incorporate business practices to detect red flags;
- detail your appropriate response to any red flags you detect to prevent and mitigate identity theft; and
- be updated periodically to reflect changes in risks from identity theft.

The rule requires financial institutions and creditors that hold consumer accounts designed to permit multiple payments or transactions to develop and implement an identity theft prevention program for new and existing accounts. The definition of *financial institution* includes

- all banks, savings associations, and credit unions, regardless of whether they hold a transaction account belonging to a consumer; and
- anyone else who directly or indirectly holds a transaction account belonging to a consumer.

A change in the law on December 18, 2010, amended the definition of *creditor* and limits the circumstances under which creditors are covered. The new law covers creditors who regularly, and in the ordinary course of business, meet one of three general criteria. They must

- obtain or use consumer reports in connection with a credit transaction;
- furnish information to consumer reporting agencies in connection with a credit transaction; or
- advance funds to, or on behalf of, someone, except for funds for expenses incidental to a service provided by the creditor to that person.

Financial Management Issues and Developments

Discover insight and advice from business and finance professionals to guide you in difficult economic conditions.

Operating in this current economic environment produces various challenges for your entity and requires steps to meet those challenges. The following are considerations that may help you plan your short- and long-term business strategy during these trying times.

Strategies to Navigate the Current Business Environment

Entities across the country are feeling the shock from the collapse of the global financial markets. Regardless of industry, entities are searching for strategies on how they can maintain profitability during these difficult times. The best of these entities emerge from the fallout and position themselves for success after the dust settles and a sense of normalcy returns. The AICPA Business and Industry Executive Committee has assembled a list of key considerations when reviewing your business strategies:

- Doing nothing may be the best action to take. Make sure your overall cash position and anticipated cash needs are in line with your business's short-term needs, goals, and risk tolerance level.
- Check the safety of any cash deposits you have. Have you considered a certificates of deposit account registry to spread the risk for short- to medium-term cash you may have invested in certificates of deposit?
- Focus on your broader cash flow planning situation. What are your cash flow needs for the next 90–120 days? Or 120–180 days? Do you have sufficient cash reserves for the next 30–60 days?
- Check with your lenders on the status of your credit lines. Are you in compliance with the terms? Will your bank renew the commitments at similar amounts, rates, and terms?
- Closely monitor your accounts receivables. Look for any new patterns of slow payments and follow up immediately. Review your largest and riskiest accounts to determine the potential effect of credit constraint or economic slowdown on those customers' ability to meet their obligations to you.
- Review inventory management practices if you are a manufacturer. Do you have opportunities to reduce on-hand inventory?

- Make sure you're capturing all your billable hours and are invoicing promptly if you are a service company. Have you billed all of your contractual items? How about all of your pass-through expenses, including billable third-party services and travel and living expenses?
- Control what you can in your situation. Can you reduce spending in any areas to reduce the burden on your cash flow needs?
- Review all of your insurance coverage. Pay particular attention to coverage you have with those companies that have weak balance sheets. Be careful not to surrender a policy because securing new coverage might require underwriting that can affect your coverage.

Your employees are also going to be concerned about the effect of the economy on the health of the entity, the likelihood of continued employment, and the effect on retirement or other benefit plans in which they participate. Regardless of how challenging the particular circumstances of your entity may be, communicating effectively and keeping employees informed about issues with the potential to affect them personally will pay dividends in productivity in the short term and loyalty in the long run.

Assessing Liquidity Risk

Cash flow is essential to any entity. The previous section pointed out several questions you should consider regarding liquidity. Whether you need to pay your employees, purchase goods or equipment, pay utility bills, fund research and development costs, or extend credit to customers, every entity needs access to working capital. During this time of economic uncertainty, banks and other sources of financing have severely curtailed or even eliminated many lending programs and lines of credit that are essential to businesses. In some cases, this restriction is due to tighter lending policies by the bank, in others, because the bank's own access to credit is limited. To plan for or avoid an illiquid situation, ask the following questions to determine where your risks lie:

- Does your entity rely on a single lender or group of lenders? Have they shown any signs of financial distress?
- After a review of financial covenants in your debt agreements, are you in jeopardy of default?
- Are any of your key customers or suppliers showing signs of financial distress or an inability to meet their commitments?
- Are the economic assumptions that existed at the time supplier and customer agreements were created still valid? If not, is modification possible?

- Are there concerns about your entity's key insurance providers or their ability to pay claims?
- What role is financing going to play in your plans for future capital improvements, mergers and acquisitions, or other long-term investments? Are these still viable business options?
- After a thorough review of your investment portfolio
  - — is it possible that you will have trouble accessing or liquidating any investments?
  - — have any of your investments been significantly or permanently impaired?
  - — are any of your investments now of higher risk than your investment policy allows?
- Will depressed stock prices put you at risk of a takeover by strategic or financial buyers?
- Have you employed enterprise risk management (ERM) strategies as discussed in the "Enterprise Risk Management" section of this alert?
- Have you developed a plan to access alternative sources of liquidity, including
  - — operating asset sales,
  - — obtaining equity investors,
  - — liquidating investments from your portfolio, and
  - — negotiating credit terms with a business partner or supplier?
- How will your strategy to survive economic challenges create additional demands on your cash? For example, downsizing the workforce, business line or plant closures, or benefit plan changes will likely require cash to implement.

Line of Credit Renewals

Entities frequently rely on lines of credit or short-term loans from their local bank to finance operations or capital purchases. This year, many entities will receive an unpleasant surprise when it is time to renew these loans. The renewal of a line of credit is considered to be a new borrowing transaction that results in the reassessment of the risk that the borrower represents to the bank. The result of this reassessment of the borrower's creditworthiness is often higher interest rates and less friendly loan terms due to the tightening of the bank's lending policies. Therefore, it is very important to meet with your lenders to discuss upcoming renewals even when your entity is doing business as usual.

Assistance From Small Business Administration Programs

The U.S. Small Business Administration (SBA) has a variety of loan programs that can offer financial assistance to small businesses, which are defined as businesses with less than $15 million in tangible net worth and two years' net income after taxes of less than $5 million. The most popular programs are defined as follows:

- *7(a) Loan Program.* This is the SBA's primary and most flexible loan program, with financing guaranteed for a variety of general business purposes. Under this program, the SBA guarantees loans made by participating commercial lending institutions. Possible loan maturities are available up to 10 years for working capital and generally up to 25 years for fixed assets.
- *504 Loan Program.* This program provides long-term, fixed rate financing for expansion or modernization. It is backed by the SBA but delivered by certified development companies—private, nonprofit corporations set up to contribute to the economic development of their communities. Proceeds from 504 loans must be used for fixed asset projects, such as
  - — purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots, and landscaping.
  - — constructing new facilities or modernizing, renovating, or converting existing facilities.
  - — purchasing long-term machinery and equipment.

  The 504 program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing. Interest rates on 504 loans are pegged to an increment above the current market rate for 5-year and 10-year U.S. Treasury issues. Maturities of 10 years or 20 years are available. Fees total approximately 3 percent of the debenture and may be financed with the loan. Generally, the project assets being financed are used as collateral. Personal guarantees from the principal owners are required.
- *Microloan Program.* This program provides small, short-term loans for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery, or equipment. It is designed for small businesses and nonprofit child care centers and is delivered through specially designated intermediary lenders (nonprofit organizations with experience in lending and technical assistance).

  Loan terms vary according to the size of the loan, the planned use of the funds, the requirements of the intermediary lender, and the needs of the small business borrower. The maximum term allowed for a microloan is 6 years. Interest rates vary depending on the intermediary lender and costs to the intermediary from the U.S. Treasury. Generally, these rates will be between 8 percent and 13 percent. Each intermediary lender has its own lending and credit requirements. Generally, intermediaries require some type of collateral and the personal guarantee of the business owner.

In recognition of the important role small business plays in a healthy economy, lawmakers passed the Small Business Jobs Act of 2010 (PL 111-240), which expands loan programs through the SBA, strengthens small business preference programs for federal government projects, provides incentives for exporters, offers a variety of small business tax breaks, and includes some revenue raisers.

For more information on these and other SBA loan programs, visit www.sba.gov.

There are several reasons why a small business would consider applying for an SBA loan. The benefits of an SBA-guaranteed loan include having access to capital where traditional commercial loans may not be available. For businesses with cash flow issues, an SBA loan can restructure debt at better terms by providing longer loan maturities and lower payments. Lastly, businesses without sufficient collateral to obtain a traditional commercial loan may find an SBA loan particularly useful.

The main drawback to SBA loans is the amount of paperwork required compared to that of commercial alternatives. An SBA loan requires more information and more time than conventional bank loans. In addition, certain businesses, including nonprofit organizations, lenders, and life insurance companies are ineligible for SBA loans.

More information on liquidity concerns can be found at www.aicpa.org/InterestAreas/PrivateCompaniesPracticeSection/Pages/PCPS.aspx.

Improved Reporting on Service Organizations

Since 1992, Statement on Auditing Standards (SAS) No. 70, *Service Organizations* (AICPA, *Professional Standards*, AU sec. 324), has been the authoritative standard on requirements and guidance for reporting on controls at service organizations and auditing the financial statements of entities that use service organizations to accomplish tasks that may affect their financial statements. This guidance has now been split into an attestation standard and an auditing standard to better reflect the nature of the work being performed. Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization* (AICPA, *Professional Standards*, AT sec. 801), contains the requirements for performance of the examination and reporting on controls at service organizations that are relevant to user entities' internal control over financial reporting. SSAE No. 16 is effective for service auditor's reports for periods ending on or after June 15, 2011, with earlier implementation permitted. SSAE No. 16 was developed in conjunction with International Auditing and Assurance Standards Board's International Standard on Assurance Engagements No. 3402*, Assurance Reports on Controls at a Service Organization*.

To make practitioners aware of the various professional standards available to them for examining and reporting on controls at a service organization and to help practitioners select the appropriate standard and related report for a particular engagement, the AICPA has introduced a series of three different service organization control (SOC) reports (SOC 1, SOC 2, and SOC 3). This series encompasses new SSAE No. 16, which retains the original purpose of SAS No. 70, and adds two new reporting options.

The following table highlights the three reporting options:

	Title	*Description*
SOC 1	*Service Organizations—Applying SSAE No. 16,* Reporting on Controls at a Service Organization *(SOC 1)*	To be used only in circumstances when the service organization's services and controls affect the internal control over financial reporting for the entities that use the service.
SOC 2	*Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy (SOC 2)*	The purpose is to convey trust and assurance to users of the system that the service organization has deployed an effective control system to effectively mitigate operational and compliance risks that the system may represent to its users.
SOC 3	*Trust Services Report*	These reports are designed to meet the needs of users who want assurance on the controls at a service organization related to security, availability, processing integrity, confidentiality, or privacy of a system but do not have the need for the level of detail provided in an SOC 2 report. These reports are general use reports and can be freely distributed or posted on a website as a seal.

For further information about the purpose and types of reports available for service organizations, visit www.aicpa.org/InterestAreas/FRC/AssuranceAdvisoryServices/Pages/SORHome.aspx.

Reporting on Sustainability Efforts

Sustainability is the process employed by entities to develop and execute business strategies that ensure success and viability over the long term. Based on results of a recent survey by the AICPA, the Chartered Institute of Management Accountants (CIMA), and the Canadian Institute of Charted Accountants (CICA), compliance with legal and regulatory requirements is the most common driver for sustainability initiatives in both large and small companies. Cost-cutting and efficiency ranked second among smaller companies, and managing reputational risk ranked second as the most significant driver of sustainability efforts among larger companies.

In addition to cost savings and efficiencies, consumers and business customers are increasingly looking to products and companies that are environmentally and socially responsible, creating increased revenue opportunities and driving job creation for companies embarking on the sustainability path. Companies not directly involved in sustainable technologies or products also realize revenue potential by introducing new product lines, modifying existing product offerings, or by highlighting their corporate sustainability efforts.

Companies look to CPAs to provide analysis of the business case and investment return calculations and develop and monitor performance measures or key performance indicators for important sustainability metrics. Unfortunately, although several large companies issue comprehensive sustainability reports and many smaller companies are beginning to do so as well, the AICPA/CIMA/CICA survey results reveal that finance function involvement in sustainability reporting is currently quite limited.

One recent development in the world of sustainability and business reporting that will likely have significant impact on the role of the CPA is the evolution of integrated reporting. In 2010, the Prince's Accounting for Sustainability Project and the Global Reporting Initiative (GRI) formed the International Integrated Reporting Committee (IIRC) to oversee the creation of a globally accepted, integrated reporting framework that would connect financial and sustainability reporting. *Integrated reporting* is an approach to business reporting that hopes to provide more comprehensive information about company strategy, governance, and performance in a way that considers the social, environmental, and long-term economic context within which the company operates. A discussion paper outlining the proposed IIRC framework was released for public consultation in September 2011. Visit www.theiirc.org/the-iirc/ for this discussion paper, as well as more information about the IIRC.

ERM

To meet the challenges and risks in today's business environment, many entities have turned to a process called ERM. The purpose of ERM is to address processes, procedures, and risk on an entity-wide basis to enable management to holistically understand the business risks that the entity faces. Some characteristics of the ERM model include strengthening communication; additional training, including cross-training, process, and internal control improvement; and entity-wide participation.

Once implemented, managers of individual business components can make appropriate decisions based on an understanding of the risks that each business component encounters and how those risks affect other components and the entity as a whole. The purpose of this process is not to reduce business risk but rather to provide the knowledge that management needs to effectively assess risks and then plan appropriate strategies to achieve the entity's business objectives. Examples of risks that could affect your entity and could be identified and mitigated through the application of ERM strategies include the following:

- Rising costs and limited availability of raw materials
- Availability of specialized skills labor
- Rising cost and limited availability of short-term financing and liquidity issues
- Increasing transportation costs
- Overseas price competition
- Government regulation
- Product liability lawsuits
- Environmental issues
- Natural or terrorism-related disasters
- Intellectual property theft and data security

The following are seven steps to begin a successful ERM implementation:

- *Explicitly link major risk areas to elements of strategy.* A company's insight into even the most comprehensive public disclosure of risks must extend to the private strategic insights shared only by board directors and senior leadership.
- *Talk substantively about risk at every board meeting.* A company that undertakes a substantive risk review only annually is problematic given today's market volatility and shifting regulatory landscape.
- *Ask management to clearly articulate risks encountered vs. authorized risk appetite.* With the risk linkages firmly and concretely articulated, the next logical action at the board level is the review of senior leadership's assessment of how the risks actually encountered correlate with the risk appetite of the corporation. Only with this last step can the board be confident the company is pursuing the right risks in the pursuit of performance.
- *Define and deploy early warning indicators.* Only through explicit examinations of large scale organizational risk can leadership anticipate and mitigate the likelihood of large scale hazards.

- *Align risk management and performance management.* Performance management statistics need to encompass concrete measures of risk detection and mitigation in order to create shared accountability from top to bottom.
- *Organize for enterprise-wide risk identification and mitigation.* The allocation of risk-related decision rights and responsibilities gives the board and senior leadership means of understanding who in the organization owns the various risks of the company.
- *Know the core business in concrete terms.* One of the most vexing challenges to corporate leaders today is determining in a reliable way whether the operation of the core business is in alignment with the authorized risk appetite.

Additional information about ERM can be obtained from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) website at www.coso.org/-ERM.htm and www.aicpa.org/ERM.

XBRL Enhances Financial Reporting for Public Companies

eXtensible Business Reporting Language (XBRL) is a royalty-free, international information format designed specifically for business information, also referred to as *interactive data* by the SEC. Instead of treating business information as a block of text, as shown on paper or the Internet, XBRL provides a unique, electronically readable tag for each individual disclosure item within business reports. These tags are mapped to *taxonomies*, which are dictionaries of financial concepts in which each concept is defined and assigned a relationship to other concepts.

Several benefits exist to the use of XBRL, most notably, the automation of data collection processes. As an example, data from different company divisions with different accounting systems can be assembled quickly, cheaply, and efficiently if the sources of information have been upgraded to using XBRL. XBRL will streamline the preparation of business and financial reports for internal and external decision making and will allow management to more precisely direct and publish financial information to key stakeholders.

The SEC adopted rules that would require companies to provide to the SEC financial statements in XBRL format, as well as posting to corporate websites. The final rules adopted by the SEC require a three-year phase-in schedule for financial statements with fiscal years ending on or after

- June 15, 2009, for domestic and foreign large accelerated filers that use accounting principles generally accepted in the United States of America (U.S. GAAP) and have a worldwide public float above $5 billion;
- June 15, 2010, for all other domestic and foreign large accelerated filers that use U.S. GAAP and have a worldwide public float above $700 million; and
- June 15, 2011, for all remaining filers using U.S. GAAP, including smaller reporting companies, and all foreign private issuers that prepare their financial statements in accordance with International Financial Reporting Standards (IFRSs).

Report Identifies Global Business Risks

In January 2011, the World Economic Forum released *Global Risks 2011*, its annual report on the most significant and underlying global risks facing the global economy this year and beyond. The report identifies economic disparity and global governance failures as central risks in the global risk landscape. It further identifies economic imbalances and unfunded liabilities as containing the seeds of potential future fiscal and financial crises and urges concerted coordinated action to manage them.

Global Risks 2011 highlights three risk clusters of particular concern: the relationship between illicit trade, crime, corruption and state fragility; a set of interconnected risks tied to water, food, and energy; and risks related to global macroeconomic imbalances.

The report also draws on the insights of 580 expert respondents to the forum's Global Risks Survey 2010 across stakeholder groups and regions, measuring perceptions of risk likelihood, impact, and interconnections for 37 global risks over a 10-year time horizon. The results of this survey are included in the report. Lastly, *Global Risks 2011* provides insights on a number of emerging risks and outliers to this year's global risk landscape that could surprise us in the future. The full report can be accessed at www.weforum.org/globalrisks2011.

Internal Control and Processes

Entities should continue their focus on internal controls during this economic period. Small business owners and management have long sought ways to better control the organization they manage. A system of internal control is put in place to keep the organization on course toward profitability goals and achievement of its mission and minimize surprises along the way. An effective system of internal control enables you to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal control promotes efficiency, reduces risks of asset loss, and helps ensure the reliability of financial statements and compliance with laws and regulations.

Management Objectives

Internal control includes techniques used by management to achieve its objectives and meet its responsibilities in the following three distinct categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The first category addresses an entity's basic business objectives, including performance and profitability goals and safeguarding of resources. The second relates to the preparation of reliable financial statements. The third deals with complying with those laws and regulations to which the entity is subject. These distinct, but overlapping, categories address different needs and allow a directed focus to meet the separate needs.

Components of Internal Control

Internal control consists of five interrelated components. These are derived from the way management runs an organization and are integrated with the management process. Although the components apply to all entities, smaller organizations may implement them differently than larger ones. Their controls may be less formal and less structured, yet a small organization can still have effective internal control. The five components of internal control are described in the following sections.

Control Environment

The control environment component is the foundation upon which all other components of internal control are based, and it sets the tone of an organization. A small business can have unique advantages in establishing a strong control environment. Employees in many small businesses interact more closely with top management and are directly influenced by management actions. Through day-to-day practices and actions, you can effectively reinforce the company's fundamental values and directives. The close, working relationship also enables senior management to quickly recognize when employees' actions need modification.

Risk Assessment

Risk assessment, as it relates to the objective of reliable financial reporting, involves identification and analysis of the risks of material misstatement. Establishment of financial reporting objectives articulated by a set of financial statement assertions for significant accounts is a precondition to the risk assessment process. Risk assessment in small businesses can be relatively efficient often because in-depth knowledge of the company's operations enables the owner and management to have first-hand information about where risks exist. In carrying out your normal responsibilities, including obtaining information gained from employees, customers, suppliers, and others, you can identify risks inherent in business processes. In addition to focusing operations and compliance risks, you are positioned to consider the following risks to reliable financial reporting:

- Failing to capture and record all transactions
- Recording assets that do not exist or transactions that did not occur
- Recording transactions in the wrong period, for the wrong amount, or misclassifying transactions
- Losing or altering transactions once recorded
- Failing to gather pertinent information to make reliable estimates
- Recording inappropriate journal entries
- Improperly accounting for transaction or estimates
- Inappropriately applying formulas or calculations

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. When resource constraints compromise the ability to segregate duties, many smaller companies use certain compensating controls to achieve the objectives.

Information and Communication

Information systems identify, capture, process, and distribute information supporting the achievement of financial reporting objectives. Information systems in small businesses are likely to be less formal than in large businesses, but their role is just as significant. Many small businesses rely more on manual or stand-alone IT applications than complex integrated applications. Effective internal communication between top management and employees may be facilitated in smaller companies due to fewer levels of management hierarchy, fewer employees, and greater visibility of the owner. Internal communication can take place through frequent meetings and day-to-day activities in which the owner and other managers participate.

Monitoring

Internal control systems need to be monitored, which is a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Managers of many small businesses have first-hand knowledge of company activities, and their close involvement in operations positions them to identify variances from expectations and potential inaccuracies in reported financial information.

COSO Update

In November 2010, COSO announced a project to review and update the COSO *Internal Control—Integrated Framework* (framework). This initiative is expected to make the existing framework and related evaluation tools more relevant in the increasingly complex business environment so that organizations worldwide can better design, implement, and assess internal control. The five internal control components mentioned previously remain the same for the three objectives categories: operations, reporting, and compliance. There will be principles and attributes for each of the five components. The exposure draft is expected in late October 2011 for public comment.

The framework has been widely accepted as an internal control standard for organizations implementing and evaluating internal control related to operations, compliance, and financial reporting objectives, and more recently, internal control over financial reporting in compliance with SOX and similar regulatory requirements in other countries.

Enhancements to the framework are not intended to alter the core principles first developed in 1992, but rather facilitate more robust discussion of internal control. Certain concepts and guidance in the framework will be refined to reflect the evolution of the operating environment, changed expectations of regulators, and other stakeholders. In addition, enhancements are expected to consider more than financial reporting and consider ways to enrich the guidance on operations and compliance objectives.

The initiative is expected to culminate in an updated internal control framework publication in 2012, the 20th anniversary of the initial framework.

In March 2011, the COSO board decided to develop a companion document to the updated framework that addresses the application of the framework specifically to the external financial reporting objective. This document will link external reporting to the principles and attributes included in the updated framework and provide relevant approaches and examples. The board anticipates this companion document will supersede the 2006 *Guidance on Internal Control over Financial Reporting—Guidance for Smaller Public Companies* while retaining relevant guidance for small businesses. It will be exposed for public comment commensurate with the updated framework. Such a companion document would allow for a more detailed and tailored discussion of internal control over financial reporting for compliance with SOX 404, while allowing the overall integrated framework to focus on operations, compliance, and external reporting objectives.

The underlying attestation process, for example, SOX 404(a) and 404(b), is not expected to change. In the spirit of continuous improvement, what will change is the ability to apply the framework more effectively in practice with more current applications examples (for example, control environment, information systems, and governance), greater alignment with ERM, and a more succinct and focused document.

It is anticipated that the framework will include an appendix of the key revisions made. This appendix may assist management in reviewing and applying the framework for its SOX 404 compliance.

Although the nature and extent of updates are still to be defined as of the date of this document, preliminary topics of discussion that gave rise to the need for considering an update to the original framework include the following:

- Reflecting the increased use of IT in business operations (for example, enterprise resource planning systems, other automation tools, Internet).
- Expanding the financial reporting objective to include consideration of management reporting and external reporting more broadly (for example, enabling reporting on sustainability and various third party standards). This is not intended to affect the scope of SOX compliance, which remains focused on internal controls over financial reporting.
- Providing more detail around key governance principles (for example, responsibilities of the audit committee, compensation committees, and alignment of incentives).
- Explaining the linkages between internal control and ERM frameworks to enable more effective and integrated application in practice.
- Expanding the discussion on risk assessment.
- Reflecting changes in business models (for example, increased use of outsource providers, increased rationalization of supply chain, and infrastructure management).
- Considering the nature and broader impact of fraud in the business environment (for example, inappropriate use of assets, intentional misrepresentation).

- Making more crisp and concise those areas of lengthy discussion in the original framework that have become institutional knowledge.
- Incorporating core aspects of the 2006 *Internal Control over Financial Reporting—Guidance for Smaller Public Companies* and the 2009 *Guidance on Monitoring Internal Control Systems*.

Assessing Fraud Risks

All organizations are subject to some degree of fraud risk. Personnel at all levels of an organization, including staff, management, the board of directors, and internal auditors, share responsibility for planning for and addressing this risk. The Association of Certified Fraud Examiners published a Fraud Prevention Checklist in its 2010 *Report to the Nations on Occupational Fraud and Abuse* to help organizations test the effectiveness of their fraud prevention measures. The following questions could be helpful to management in assessing the entity's fraud risk areas:

- Is ongoing antifraud training provided to all employees of the organization?
- Is an effective fraud reporting mechanism in place?
- To increase employees' perception of detection, are proactive measures taken and publicized to employees?
- Is the management climate or tone at the top one of honesty and integrity?
- Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?
- Are strong antifraud controls in place and operating effectively?
- Does the internal audit department, if applicable, have adequate resources and authority to operate effectively and without undue influence from senior management?
- Does the hiring policy include past employment verification, background checks, and so forth?
- Are employee support programs in place to assist employees struggling with addictions, mental or emotion health, family, or financial problems?
- Is an open door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?
- Are anonymous surveys conducted to assess employee morale?

The full report and additional information about fraud and fraud prevention can be accessed at www.acfe.com.

The Role of the Audit Committee

It is important to remember business risks result from significant conditions, events, circumstances, actions, or inactions that could adversely affect an entity's ability to achieve its objectives, execute its strategies, and set appropriate objectives and strategies. This is especially true under difficult economic conditions that affect an entity in a variety of significant ways. Audit committees must continue to address all types of risks with their senior management team in addition to focusing on risks in the financial statements.

The audit committee's role in ensuring accurate and transparent disclosure is more challenging and important today than it has ever been. The following are topics that audit committees should focus on in today's environment:

- *Financial reporting and disclosures.* Audit committees must be aware of financial reporting risks and cannot lose sight of the need to maintain skepticism in light of increased financial statement disclosure requirements and complex accounting standards. Special attention should be paid to disclosures related to the following areas:
  - Issues with investment or credit losses and reliance on credit rating agencies' ratings of investments
  - Understanding balance sheet exposures (cash, accounts receivable, accounts payable, debt agreements, investments, and so on), off balance sheet exposures, and other exposures (ability to access credit and capital, the cost of capital, interest rates, and so on)
  - Understanding the issues associated with a pension plan (for example, valuation of assets, interest rates, discount rates, and other assumptions used)
  - Understanding the effects of the credit crisis or consolidation, or both, on the entity's customers and suppliers
- *Risk management and internal control.* One of the difficulties facing the audit committee is clearly defining its risk responsibility relative to that of the entire board. Although the company's internal control system is designed to help mitigate risk, the audit committee focuses particularly on controls relating to financial reporting, fraud, and compliance.
- *Corporate culture, oversight of internal or external audit, and committee composition.* The audit committee must recognize how critical the right tone at the top of the company is and ensure what it is hearing in the boardroom is what employees are hearing throughout the company. In addition, the committee should continually

> assess the need for increased communication with internal audit, as well as the company's external auditors, because both groups are in a unique position to provide unfiltered and unbiased feedback about management and the company's processes. Lastly, the committee needs to comprise members with the right combination of skills and experience. It also needs a chair with the knowledge and commitment to drive the committee's work.

In addition to the items noted previously, an effective audit committee needs to have in place a charter that documents the committee's purpose, roles, and responsibilities. The AICPA issued *The AICPA Audit Committee Toolkit—Public Companies, 2nd Edition*, which contains tools (for example, the audit committee charter, conducting executive sessions, COSO *Internal Control—Integrated Framework*, and COSO *Enterprise Risk Management—Integrated Framework*) that can assist audit committees in their oversight responsibilities regardless of current events. Other audit committee toolkits are available for private companies, not-for-profits, and governments. More information on the AICPA Audit Committee Toolkits can be found at www.aicpa.org/forthepublic/auditcommitteeeffectiveness/toolkits/pages/default.aspx.

Accounting Issues and Developments

> ***Navigate the many new accounting developments to facilitate your entity's compliance.***

Given the current economic climate, a number of accounting and financial reporting issues may affect your entity. Accounting pronouncements and related guidance having particular significance are briefly explained here. The following summaries are for informational purposes only and should not be relied upon as a substitute for a complete reading of the applicable standard.

Business Combinations—Supplementary Pro Forma Information

In December 2010, FASB issued Accounting Standards Update (ASU) No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)*. This ASU affects any public entity, as defined by FASB ASC 805, *Business Combinations*, that enters into business combinations that are material on an individual or an aggregate basis. 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. Also, the supplemental pro forma disclosures under FASB ASC

805 should include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This ASU is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

Achieving Common Fair Value Measurement and Disclosure Requirements

In May 2011, FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU applies to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. The amendments in this ASU 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, FASB ASC 820, *Fair Value Measurements and Disclosures*, will remain unchanged. Some of the amendments clarify the application of existing fair value measurement requirements. Others change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

Some of the disclosures in this ASU that are not required for nonpublic entities include the following:

- Information about transfers between level 1 and level 2 of the fair value hierarchy
- Information about the sensitivity of a fair value measurement categorized within level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs
- The categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed

This ASU is effective for interim and annual periods beginning after December 15, 2011.

Disclosures About Credit Quality and Allowance for Credit Losses

In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. The ASU amends the existing disclosures to require an entity to provide the following disclosures about its financing receivables on a disaggregated basis:

- A rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the reporting period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the impairment method. For each disaggregated ending balance, the related recorded investment in financing receivables should also be disclosed.
- The nonaccrual status of financing receivables by class of financing receivables.
- Impaired financing receivables by class of financing receivables.

The amendments in this ASU require an entity to provide the following additional disclosures about its financing receivables:

- Credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables (see FASB ASC 310-10-55-19 for examples of credit quality indicators)
- The aging of past due financing receivables at the end of the reporting period by class of financing receivables
- The nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses
- The nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses
- Significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment

An entity must also describe, by portfolio segment, its accounting policies and methodology used to estimate its allowance for credit losses, including the identification of any changes to the entity's accounting policies or methodology from the prior period and the entity's rationale for the change.

The amendments in this ASU apply to all entities with financing receivables. Examples of financing receivables include loans; trade receivables; notes receivable; and receivables relating to a lessor's leveraged, direct financing, and sales-type leases. See paragraphs 13–15 of FASB ASC 310-10-55 for more information on the definition of *financing receivable*, including a list of items that are excluded from the definition (for example, debt securities). In addition, paragraphs 7–12 of FASB ASC 310-10-55 illustrate certain disclosures required by this ASU.

For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. Note that ASU No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update 2010-20*, effective January 2011, temporarily delays the effective date for all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in ASU No. 2010-20. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011.

Troubled Debt Restructuring by Creditors

In April 2011, FASB issued ASU No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This ASU applies to all creditors that restructure receivables that fall within the scope of FASB ASC 310-40. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist:

- The restructuring constitutes a concession.
- The debtor is experiencing financial difficulties.

The following guidance has been provided to help the creditor determine whether it has granted a concession:

- If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate, which may indicate that the creditor has granted a concession. In that circumstance, a creditor should consider all aspects of the restructuring in determining whether it has granted a concession, in which case, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a troubled debt restructuring.

- A temporary or permanent increase in the contractual interest rate as a result of a restructuring does not preclude the restructuring from being considered a concession because the new contractual interest rate on the restructured debt could still be below the market interest rate for new debt with similar risk characteristics. In such situations, a creditor should consider all aspects of the restructuring in determining whether it has granted a concession. If a creditor determines that it has granted a concession, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a troubled debt restructuring.
- A restructuring that results in a delay in payment that is insignificant is not a concession. However, an entity should consider various factors in assessing whether a restructuring resulting in a delay in payment is insignificant. This ASU includes examples illustrating the assessment of whether a restructuring results in a delay in payment that is insignificant.

The following guidance has been provided to help the creditor determine whether a debtor is experiencing financial difficulties: a creditor may conclude that a debtor is experiencing financial difficulties, even though the debtor is not currently in payment default. A creditor should evaluate whether it is probable that the debtor would be in payment default on any of its debt in the foreseeable future without the modification.

Additionally, a creditor is precluded from using the effective interest rate test in the debtor's guidance on restructuring of payables (paragraph 10 of FASB ASC 470-60-55) when evaluating whether a restructuring constitutes a troubled debt restructuring.

The effective date for public entities is the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying this ASU, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments in this ASU prospectively for the first interim or annual period beginning on or after June 15, 2011. An entity should disclose the total amount of receivables and the allowance for credit losses as of the end of the period of adoption related to those receivables that are newly considered impaired under FASB ASC 310-10-35 for which impairment was previously measured under FASB ASC 450-20. An entity should disclose the information required by paragraphs 33–34 of FASB ASC 310-10-50, which was deferred by ASU No. 2011-01 for interim periods beginning on or after June 15, 2011. For nonpublic entities, the disclosures are effective for annual periods ending on or after December 15, 2012.

Deferral of the Effective Date for Troubled Debt Restructuring

In January 2011, FASB issued ASU No. 2011-01. This ASU temporarily delays the effective date for all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in ASU No. 2010-20. This ASU is effective as of January 2011.

Goodwill Impairment Test

In December 2010, FASB issued ASU No. 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)*. This ASU affects all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing step 1 of the goodwill impairment test is zero or negative. For those reporting units, an entity is required to perform step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In making that determination, an entity should consider whether any adverse qualitative factors exist indicating the existence of an impairment. Paragraph 30 of FASB ASC 350-20-35 identifies those qualitative factors and requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This ASU is effective for public entities for fiscal years beginning after December 15, 2010, and effective for nonissuers for fiscal years beginning after December 15, 2011, with early adoption permitted for nonissuers.

In September 2011, FASB issued ASU No. 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. Under the amendments in this ASU, an entity is not required to calculate the fair value of a reporting unit (step 1 of the goodwill impairment test described in Topic 350), unless the entity determines, through a qualitative assessment, that it is more likely than not that its fair value is less than its carrying value. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent.

Milestone Method of Revenue Recognition

In April 2010, FASB issued ASU No. 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 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 considered to be substantive (which must be determined at the inception of the arrangement). This ASU provides criteria to be considered when measuring whether the milestone is substantive and required disclosures and is effective on a prospective basis for milestones achieved in fiscal years beginning on or after June 15, 2010.

Modifications of Loans Accounted for Within a Pool

In April 2010, FASB issued ASU No. 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)*. This ASU affects any entity that acquires loans subject to FASB ASC 310-30 and accounts for some or all of the loans within pools and subsequently modifies one or more of those loans after acquisition. The modifications of those loans would 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 would still 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. This ASU is effective for modifications of loans accounted for within pools under FASB ASC 310-30 on or after July 15, 2010.

Embedded Credit Derivatives

In March 2010, FASB issued ASU No. 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*, to address questions that have arisen in practice about the intended breadth of the embedded credit scope exception discussed in paragraphs 8–9 of FASB ASC 815-15-15. ASU No. 2010-11 clarifies the aforementioned scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. This ASU addresses how to determine which credit derivative features, including those in collateralized debt obligations and synthetic collateralized debt obligations, are considered to be embedded derivatives that should not be analyzed under FASB ASC 815-15-25 for potential bifurcation and separate accounting. Further, the ASU explains that upon initial adoption of its amendments, an entity may elect the fair value option for any investment in a beneficial interest in a securitized financial asset. The amendments in this ASU are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010.

Convergence With IFRSs

Since the signing of the Norwalk Agreement by FASB and the International Accounting Standards Board (IASB), the bodies have had a common goal—one set of accounting standards for international use. *International convergence of accounting standards* refers to both the goal of this project and the path taken to reach it. The path toward reaching this goal will both improve U.S. GAAP and IFRSs and eliminate the differences between them. In the Norwalk Agreement, each body acknowledged its commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. FASB and the IASB have undertaken several joint projects, which are being conducted simultaneously in a coordinated manner to further the goal of convergence of U.S. GAAP and IFRSs. The "On the Horizon" section of this alert discusses these joint projects. For more information, visit www.fasb.org and www.iasb.org.

SEC Work Plan for Consideration of IFRSs

In July 2011, the SEC held a roundtable discussion on IFRSs and how they ultimately may be incorporated into the U.S. financial reporting system. Although the SEC has not yet made a decision on whether or not to approve the use of IFRSs, a decision is expected by the end of the year. In the meantime, the SEC staff produced a work plan in May 2011 outlining how such a transition might happen. Many of the panelists favored the "condorsement" approach that was included in the work plan. Under this approach, FASB would endorse new IFRSs one at a time as part of the convergence process, instead of following a "Big Bang" approach. Among other things, the work plan addresses some of the comments and concerns received on the roadmap, including the following:

- Sufficient development and application of IFRSs for the U.S. reporting system
- The independence of standard setting for the benefit of investors
- Investor understanding and education regarding IFRSs
- Examination of the U.S. regulatory environment that would be affected by a change in accounting standards
- The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies
- Human capital readiness

In response to an SEC Staff Paper issued in May 2011, the AICPA issued a comment letter in August 2011, recommending that U.S. public companies be allowed the option of adopting use of IFRSs as the commission weighs a possible future framework for incorporating IFRSs into the U.S. financial reporting system. The letter states that the adoption option would be another important step towards achieving the goal of incorporating IFRSs into the U.S. financial reporting system and that the number of companies that would choose such an option would not be such that system-wide readiness would become an issue. The comment letter further states their agreement with the SEC in that FASB should continue to have an active role in the international financial reporting arena to ensure that U.S. interests are suitably addressed in the development of IFRSs.

International Financial Reporting Standard for Small and Medium-Sized Entities

IFRS for Small and Medium-sized Entities (IFRS for SMEs) is an approximately 230-page, significantly reduced and simplified version of full IFRSs. In creating *IFRS for SMEs*, the IASB eliminated many accounting topics that are not generally relevant to private companies (for example, earnings per share and segment reporting), easing the financial reporting burden on private companies through a cost-benefit approach. *IFRS for SMEs* is a self-contained global accounting and financial reporting standard applicable to the general purpose financial statements of, and other financial reporting by, entities that are known in many countries as SMEs.

Some U.S. private companies may find the simplified *IFRS for SMEs* an attractive alternative to the more complicated and voluminous U.S. GAAP. Those private companies may find *IFRS for SMEs* to be a more relevant and less costly financial accounting and reporting standard than U.S. GAAP. Being based on full IFRSs and missing many accounting topics, *IFRS for SMEs*, therefore, differs from U.S. GAAP in a variety of areas. Some of the key differences under *IFRS for SMEs* are as follows:

- Disclosures are simplified in a number of areas including pensions, leases, and financial instruments.
- Last in, first out is prohibited.
- Goodwill and indefinite life intangible assets are amortized over a period not exceeding 10 years.
- Depreciation is based on a components approach.
- The temporary difference approach to income tax accounting is simplified.
- Reversal of impairment charges, if certain criteria are met, is allowed.
- Accounting for financial assets and liabilities makes greater use of cost.

To further reduce the burden for SMEs, revisions to IFRSs will be limited to once every three years. Additional information about *IFRS for SMEs* and related IASB activities can be found at www.ifrs.com.

Private Company Financial Reporting

It is often said that private company financial reporting, as it stands now, is too complex, embodies too much irrelevant information, and is too costly and time-consuming given its benefits. The AICPA, the Financial Accounting Foundation (FAF), and the National Association of State Boards of Accountancy established the "blue-ribbon panel" to address how U.S. accounting standards can best meet the needs of users of private company financial statements. The blue-ribbon panel provides recommendations through an issued report on the future of standard setting for private companies, including whether separate, stand-alone accounting standards for private companies are needed. In January 2011, the panel finalized its recommendations and submitted a report to the FAF. The two most significant recommendations are as follows:

- The establishment of a new, separate board with standard-setting authority under the oversight of the FAF. The board would coordinate activities with FASB but not be subject to FASB approval.
- Changes and modifications should be made to existing and future generally accepted accounting principles (GAAP) that recognize the unique needs of users of private company financial statements. All such changes would reside in FASB ASC.

As a way to participate in the process of making financial reporting more relevant for private companies, users and preparers of private company financial statements are encouraged to write a letter to FAF and make the following three points:

- A systematic problem exists that hasn't been able to be fixed despite decades of attempts, so something vastly different has to be tried.
- Significant differences to the standards within GAAP, where appropriate, are necessary to recognize the unique needs of private companies and their financial statement users.
- A new separate standard-setting board needs to be created that would report directly to FAF and not be subject to FASB approval.

In March 2011, the FAF board of trustees announced the formation of a Trustee Working Group to address the important topic of accounting standard setting for nonpublic entities. Even though the panel had decided to limit its work to private for-profit companies, the FAF board of trustees elected to include not-for-profits in the scope of the working group. The establishment of the working group is the next phase of the FAF's review of the adequacy and effectiveness of FASB efforts in setting standards for the private company and nonprofit sectors in the United States. Any resulting potential significant changes to the standard-setting process and structure are expected to be exposed for public comment. The full text of the report is available at www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/AcctgFinRptg/DownloadableDocuments/Blue_Ribbon_Panel_Report.pdf. Also, refer to http://edit.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/PCFR for a toolkit provided by the AICPA to assist private companies and other stakeholders in preparing and sending letters to FAF.

In October 2011, the FAF board of trustees announced a plan to establish a new Private Company Standards Improvement Council (PCSIC) that would identify, propose, deliberate, and formally vote on specific exceptions or modifications to U.S. GAAP for private companies. The PCSIC, jointly with FASB, would develop a set of specific criteria to determine whether and when exceptions or modifications to U.S. GAAP are warranted for private companies. Based on those criteria, the PCSIC would identify aspects of existing U.S. GAAP that its members believe require exceptions or modifications and then vote on specific changes. Any proposed changes to existing U.S. GAAP would be subject to ratification by FASB and undergo thorough due process, including public comment. The PCSIC would be overseen by the FAF board of trustees. The trustees seek public comment on the plan to establish a PCSIC until January 2012; a final decision will be made on the plan following the end of the comment period.

Recent Accounting Standards Updates, Pronouncements, and Related Guidance

The following table contains a list of recently issued accounting pronouncements and related guidance. For information on accounting standards issued subsequent to the writing of this alert, please refer to the AICPA website at www.aicpa.org and the FASB website at www.fasb.org. You may also look for announcements of newly issued standards in the *CPA Letter* and *Journal of Accountancy*.

Recent Accounting Standards Updates, Pronouncements, and Related Guidance

Accounting Standards Update (ASU) No. 2011-07 Issue Date: July 2011	*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)*
ASU No. 2011-05 Issue Date: June 2011	*Comprehensive Income (Topic 220): Presentation of Comprehensive Income*
ASU No. 2011-04 Issue Date: May 2011	*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*
ASU No. 2011-03 Issue Date: April 2011	*Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*
ASU No. 2011-02 Issue Date: April 2011	*Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*
ASU No. 2011-01 Issue Date: January 2011	*Receivables (Topic 310): Deferral of the Effective Date of Disclosures About Troubled Debt Restructurings in Update No. 2010-20*
ASU No. 2010-29 Issue Date: December 2010	*Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2010-28 Issue Date: December 2010	*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 No. 2010-27 Issue Date: December 2010	*Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2010-26 Issue Date: October 2010	*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 No. 2010-25 Issue Date: September 2010	*Plan Accounting—Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Plans (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2010-24 Issue Date: August 2010	*Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2010-23 Issue Date: August 2010	*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure—a consensus of the FASB Emerging Issues Task Force*
Technical Questions and Answers (TIS) section 6910.18 Issue Date: October 2010 (Revised)	*"Disclosure of an Investment in an Issuer When One or More Securities or One or More Derivative Contracts Are Held—Nonregistered Investment Partnerships"*
TIS section 9110.17 Issue Date: July 2010	*"Application of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10 (previously, FASB Interpretation No. 48,* Accounting for Uncertainty in Income Taxes*), to Other Comprehensive Basis of Accounting (OCBOA) Financial Statements—Recognition and Measurement Provisions"*

On the Horizon

Explore current projects and pronouncements to anticipate their effect on your entity.

Presented in the following sections is information about ongoing projects of particular significance or projects that may result in significant changes.

The following table lists the various standard setting bodies' websites, where information may be obtained on outstanding exposure drafts, including downloading exposure drafts. These websites contain much more in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to information provided by the various standard setting bodies for further information.

Standard-Setting Body	*Web Site*
AICPA Auditing Standards Board	www.aicpa.org/research/standards/auditattest/asb/pages/auditingstandardsboard.aspx
Financial Accounting Standards Board	www.fasb.org
Governmental Accounting Standards Board	www.gasb.org
Professional Ethics Executive Committee	www.aicpa.org/InterestAreas/ProfessionalEthics/Pages/ProfessionalEthics.aspx
Public Company Accounting Oversight Board	www.pcaob.org
Securities and Exchange Commission	www.sec.gov

Accounting Pipeline

Presented in the following sections are accounting projects and pronouncements currently in progress. Some of the proposed pronouncements discussed in last year's alert have not been finalized as of this writing and, thus, are included again.

Derecognition of In-Substance Real Estate

In July 2011, FASB issued an exposure draft on whether the parent of an in-substance real estate subsidiary must satisfy the criteria in FASB ASC 360-20 in order to derecognize the real estate. The objective of the proposed ASU is to resolve the diversity in practice about whether the guidance in FASB ASC 360-20 applies to a parent that ceases to have a controlling financial interest (as described in FASB ASC 810-10) in a subsidiary that is in-substance real estate as a result of default on the subsidiary's nonrecourse debt. This ASU would require the reporting entity to apply the guidance in FASB ASC 360-20 to determine whether it should derecognize the assets (including real estate) and liabilities (including the related nonrecourse debt) in the in-substance real estate, as well as applying the measurement provisions in that guidance.

FASB and IASB Memorandum of Understanding

In April 2011, FASB and IASB jointly published an update of their 2006 Memorandum of Understanding (MoU) to report the progress they have made in their continued commitment to developing common, high quality standards. The MoU identifies 11 convergence topics:

- Financial Instruments
- Consolidations
- Derecognition
- Fair Value Measurement
- Revenue Recognition
- Leases
- Financial Instruments With Characteristics of Equity
- Financial Statement Presentation—Other Comprehensive Income
- Business Combinations
- Postemployment Benefits
- Intangible Assets

During 2011, the boards regularly updated project completion dates as difficulties in completing projects arose. Some projects (for example, Income Taxes) were removed from the convergence schedules when the boards agreed that convergence was unlikely to be achieved in the short time available, whereas other projects have reached the exposure draft milestone initially set. Each board believes that these standards, when completed, would improve the quality, consistency, and comparability of financial information for investors and capital markets around the world.

A progress report for the quarter ended March 31, 2011, highlighted the following topics: (*a*) completion of five projects, including IASB's issuance of new standards on consolidated financial statements, joint arrangements, and postemployment benefits, and both boards will issue new requirements in relation to fair value measurement and the presentation of other comprehensive income; (*b*) priority given to the three remaining MoU projects covering financial instruments accounting, leasing, and revenue recognition, as well as insurance accounting and the boards' joint project to improve and align U.S. and international insurance accounting standards; and (*c*) agreement to extend the timetable for the remaining priority convergence projects beyond June 2011 to permit further work and consultation with stakeholders in a manner consistent with an open and inclusive due process. The convergence projects are targeted for completion in the second half of 2011 (however, the U.S. insurance standard, which has not yet been exposed, is targeted for the first half of 2012).

The priority joint projects are financial instruments, revenue recognition, leases, and the presentation of other comprehensive income. See the following text for a discussion of each of these projects.

Financial instruments. The boards' efforts to reach a common solution have been complicated by differing imperatives that pushed their respective timetables out of alignment. IASB has been replacing its financial instrument requirements in a phased approach, whereas FASB developed a single proposal. Differing development timetables and other factors have impeded the ability of the boards to publish joint proposals on a number of important technical issues, including classification and measurement, impairment, hedge accounting, and balance sheet netting of derivatives and other financial instruments.

Revenue recognition. In June 2011, IASB and FASB agreed to reexpose their revised proposals for a common revenue recognition standard. This will provide interested parties with an opportunity to comment on revisions the boards have undertaken since the publication of an exposure draft on revenue recognition in June 2010. Consequently, the boards intend to reexpose their work in the third quarter of 2011 for a comment period of 120 days.

Other comprehensive income. In June 2011, IASB and FASB issued amendments that will improve and align the presentation of items of other comprehensive income (OCI) in financial statements prepared in accordance with IFRSs and those prepared in accordance with U.S. GAAP. The amendments to IAS 1, *Presentation of Financial Statements*, require companies preparing financial statements in accordance with IFRSs to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. FASB issued an ASU to Topic 220: *Presentation of Comprehensive Income* that brings U.S. GAAP into alignment with IFRSs for the presentation of OCI.

The changes issued therein do not address which items should be presented in OCI or when and which items should be recycled through profit or loss. However, requiring OCI to be presented as part of, or in close proximity to, the profit or loss (income) statement will make it easier for users of financial statements to assess the impact of OCI items on the overall performance of an entity and improve comparability between IFRSs and U.S. GAAP.

Leases. IASB and FASB announced in July 2011 their intention to reexpose their revised proposals for a common leasing standard. Reexposing the revised proposals will provide interested parties with an opportunity to comment on revisions the boards have undertaken since the publication of an exposure draft on leasing in August 2010. The boards intend to complete their deliberations, including consideration of the comment period, during Q3 2011 with a view to publishing a revised exposure draft shortly afterwards.

Resource Central

Discover additional tools to increase your ability to serve your entity's financial reporting needs.

The following are various resources that you may find beneficial.

Publications

You may find the following publications useful with respect to recent financial accounting, reporting, and management developments:

- *Financial Reporting Alert Not-for-Profit Entities—Accounting Issues and Risks 2011* (product no. 0292211kk [paperback])
- *The Small Business Jobs Act of 2010: Tools, Tips, and Tactics* (product no. 091052HS [CD-ROM])
- *Accounting Trends & Techniques* (product no. 0099010kk [paperback] or WAT-XX [online])
- *IFRS Accounting Trends & Techniques* (product no. 0099110 [paperback] or WIF-XX [online])
- *Checklists and Illustrative Financial Statements for Corporations* (product no. 0089310kk [paperback] or WCP-CL [online])

AICPA's Online Professional Library: Accounting and Auditing Literature

The Online Professional Library includes everything you need to prepare your annual financial statements, as well as ensure compliance with accounting and auditing standards. It addresses financial reporting and audit issues for public and private companies and includes, among other things, the AICPA's *Professional Standards*, *PCAOB Standards and Related Rules*, and full access to FASB ASC. To subscribe to this essential online service for accounting professionals, visit www.cpa2biz.com.

Continuing Professional Education

The AICPA offers a number of continuing professional education (CPE) courses that are valuable to CPAs working in industry and public practice, including the following:

- *AICPA's Annual Accounting and Auditing Update Workshop (2011–2012 Edition)* (product no. 736187kk [text] or 187195kk [DVD]). Designed for those in business and industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.
- *SEC Reporting* (product no. 736778kk [text] or 186757kk [DVD]). Confidently comply with the latest SEC reporting requirements with this comprehensive course. This course clarifies new, difficult, and important reporting and disclosure requirements while giving you examples and tips for ensuring compliance.
- *International Versus U.S. Accounting: What in the World is the Difference?* (product no. 731669kk [text]). With the fast pace of the convergence project, understanding the differences between IFRSs and U.S. GAAP is becoming more important for entities of all sizes. This course outlines the major differences between IFRSs and U.S. GAAP.
- *IFRS Certificate Program* (product no. 159770kk [On-Demand]). With a curriculum of 25 online courses, this program will give you the skills in international accounting standards that are necessary in today's global business environment.

The following courses are specifically related to the current economic state and fair value. They are useful for both members of business and industry and auditors:

- *Surviving and Growing Your Company in Difficult Times: Essential Skills for the Finance Team* (product no. 753662kk [text]). This course identifies and teaches you the skills that will be required for success in today's business environment. Implement specific methods and techniques in areas of planning, budgeting, cash management, and capital investment that will have an immediate and long-term impact on the bottom line.

- *Plug Your Profit Leaks: Ways to Significantly Save Time and Money* (product no. 733823kk [text]). This course gives you specific ways to immediately affect an organization's bottom line. These proven techniques for plugging the most overlooked profit leaks come from specific strategies for lowering costs, improving productivity, or gaining efficiencies.
- *Lean Accounting and Management: Improving Profitability by Streamlining Operations* (product no. 731277kk [text]). Learn how to minimize waste and create wealth in your organization through a lean accounting and management approach that improves profitability by streamlining operations. Develop an action plan for accomplishing the transition to this lean accounting and management approach within your organization.
- *Fair Value Accounting: A Critical New Skill for All CPAs* (product no. 733304kk [text]). The course covers the conceptual and practical issues that arise when fair value measurement is implemented under existing FASB standards and provides examples of these issues.

Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

AICPA CPExpress, offered exclusively through CPA2Biz, is AICPA's flagship online learning product. AICPA members pay $209, and nonmembers pay $435 for a new subscription. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPExpress offers hundreds of hours of learning about a wide variety of topics. Some courses of special interest to practitioners in business and industry include the following:

- Accounting & Auditing Quarterly Updates
- Accounting & Auditing Annual Updates
- Fair Value Accounting: A Critical New Skill for All CPAs
- Bottom Line Management Accounting: Practical Solutions to Real World Problems
- Plug Your Profit Leaks: Ways to Significantly Save Time and Money
- Controllers: AICPA's Annual Update
- Lean Accounting
- Lean Management

To register or learn more, visit www.cpa2biz.com.

Quarterly Webcasts and Other Resources

Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high quality, two-hour CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available on CD-ROM.

CFO Quarterly Roundtable Series

The CFO Quarterly Roundtable Series, brought to you each calendar quarter via webcast, covers a broad array of "hot topics" that successful organizations employ and subjects that are important to the CFOs' personal success. From financial reporting, budgeting, and forecasting to asset management and operations, the roundtable helps CFOs, treasurers, controllers, and other financial executives excel in their demanding roles.

SEC Quarterly Update Webcast Series

The SEC Quarterly Update Webcast Series, brought to you each calendar quarter, showcases the profession's leading experts on what is "hot" at the SEC. From corporate accounting reform legislation and new regulatory initiatives, to accounting and reporting requirements and corporate finance activities, these hard-hitting sessions will keep you "plugged in" to what is important. A must for preparers in public companies and practitioners who have public company clients, this is the place to be when it comes to knowing about the areas of current interest at the SEC.

IFRS Quarterly Webcast Series

The IFRS Quarterly Webcast Series, brought to you each calendar quarter, is part of a multistep educational process to get practitioners, financial managers, and auditors up to speed on all aspects of IFRSs implementation. Over the course of the quarterly series, IFRSs will be covered in depth. International harmonization is quickly approaching, and this series will help both accountants and auditors stay abreast of the developments and the changes they will need to implement.

AICPA Business and Industry Economic Outlook Survey

The AICPA Business and Industry Economic Outlook Survey is a leading indicator of U.S. economic growth and contraction that is based on CPA financial executives' evaluation of corporate prospects, tangible performance data, and first-hand knowledge of company staffing, spending, and financing plans. The survey is conducted quarterly, polling AICPA members in business and industry holding executive positions in both public and privately-owned organizations of all sizes and across a broad spectrum of industries.

Member Service Center

To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at 888.777.7077.

Hotlines

Accounting and Auditing Technical Hotline

Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. You can reach the Technical Hotline, available from 9 a.m. to 8 p.m. on weekdays, at 877.242.7212 or at www.aicpa.org/research/technicalhotline/pagestechnical hotline.aspx.

Ethics Hotline

In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at 888.777.7077 or by e-mail at ethics@aicpa.org.

Conferences

The AICPA offers a number of conferences for practitioners in business and industry that include the most recent developments affecting the profession:

- The AICPA Fair Value Measurements Workshop is a 2-day interactive, in-depth workshop that addresses fair value concepts, using examples of measuring fair value of individual assets as prepared by a valuation specialist. This conference will be held in New York, NY, September 19–20, 2011.
- The AICPA and IFRS Foundation are cosponsoring a conference on International Financial Reporting Standards: The North American Perspective. This conference will cover the latest and most in-depth information on IFRSs, including major convergence projects and the status of incorporating IFRSs into U.S. financial reporting. The conference will be held in Boston, MA, October 5–7, 2011.
- The AICPA sponsors a Controllers Workshop twice each year. The Controllers Workshop is a 2-day conference developed by controllers for controllers. Controllers, accounting and financial managers, treasurers, CFOs, and CEOs are all

encouraged to attend. The 2011–2012 Controllers Workshops will take place in Lake Buena Vista, FL November 10–11, 2011, and Las Vegas, NV May 17–18, 2012.

- The AICPA National CFO Conference provides the opportunity to learn from expert speakers and fellow practitioners who will share insights and practical examples on how they are managing now and in the future. The focus of this conference will be on understanding the economic outlook, developing strategic plans, maximizing organizational efficiencies, and improving leadership skills. This conference will be held in New Orleans, LA, May 17–18, 2012.

For further information about AICPA conferences or to register, call 888.777.7077 or visit www.cpa2biz.com.

Services for AICPA Members in Business, Industry, and Government

The AICPA provides a number of centers and services directed at its members in business and industry, including the Business, Industry & Government interest area, the Audit Committee Effectiveness Center, and the Audit Committee Matching System. These centers and services can be accessed by visiting www.aicpa.org/INTERESTAREAS/BUSINESSINDUSTRYANDGOVERNMENT/Pages/BIGHome.aspx.

In addition, the AICPA recently created the Financial Reporting Center to help CPAs meet the challenges of providing high quality financial reporting. This center provides financial reporting information for topics important to specific industries, while keeping you informed of changes to accounting standards. Visit www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/Pages/AccountingFinancialReporting.aspx for more information.

AICPA Business, Industry & Government

The Business, Industry & Government interest area serves CPAs working in business, industry, and government and is designed to provide financial managers and executives with tools and resources to move entities forward.

Audit Committee Effectiveness Center

Realizing that financial statement integrity and reliability depends upon balancing the pressures of multiple stakeholders, including management, regulators, investors, and the public interest, this center provides guidance and tools to make audit committee best practices actionable. Several audit committee toolkits are offered through this center, including public company, not-for-profit, and government toolkits.

Audit Committee Matching System

The Audit Committee Matching System was designed (*a*) to provide members with opportunities to serve on boards of directors, and (*b*) as a public service to provide a list of qualified, credentialed candidates to serve on boards of directors and, presumably, the audit committees of those boards.

* * * *

This Financial Reporting Alert replaces *Current Economic Instability: Accounting Issues and Risks for Financial Management and Reporting—2010*.

We hope you find this alert helpful to you and your entity. We would greatly appreciate your feedback on this Financial Reporting Alert. You may e-mail these comments to apatel@aicpa.org or write to

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220 Leigh Farm Road
Durham, NC 27707-8110

Appendix—Additional Web Resources

Here are some useful websites that may provide valuable information to accountants.

Website Name	*Content*	*Website*
AICPA	Provides summaries of recent auditing and other professional standards, as well as other AICPA activities	www.aicpa.org www.cpa2biz.com
AICPA Financial Reporting Executive Committee	Issues guides and practice bulletins containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/interestareas/frc/accountingfinancialreporting/pages/finrec.aspx
AICPA Accounting and Review Services Committee	Develops and issues review and compilation standards and interpretations	www.aicpa.org/Research/Standards/CompilationReview/ARSC/Pages/ARSC.aspx
Economy.com	Offers analysis, data, forecasts, and information on the United States and world economies	www.economy.com
The Federal Reserve Board	Presents key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summarizes recent accounting pronouncements and other FASB activities	www.fasb.org
Government Accountability Office	Offers policy and guidance materials, reports on federal agency major rules	www.gao.gov
Governmental Accounting Standards Board (GASB)	Summarizes recent accounting pronouncements and other GASB activities	www.gasb.org
International Accounting Standards Board	Summarizes International Financial Reporting Standards and International Accounting Standards	www.iasb.org
International Auditing and Assurance Standards Board	Summarizes International Standards on Auditing	www.iaasb.org
International Federation of Accountants	Presents information on standard-setting activities in the international arena	www.ifac.org
Private Company Financial Reporting Committee	Presents information on the initiative to further improve FASB's standard-setting process to consider needs of private companies and their constituents of financial reporting	www.pcfr.org
Public Company Accounting Oversight Board (PCAOB)	Provides information on accounting and auditing the activities of the PCAOB and other matters	www.pcaob.org

Website Name	*Content*	*Website*
Securities and Exchange Commission (SEC)	Offers information on current SEC rulemaking and the Electronic Data Gathering, Analysis, and Retrieval database	www.sec.gov
USA.gov	Acts as a portal through which all government agencies can be accessed	www.usa.gov
SBA.gov	Provides comprehensive resources for small business, small business owners, and prospective business owners	www.sba.gov