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# A&A ADVISOR

February 2013

## Latest News on Convergence Between IFRS and U.S. GAAP

At the December 4, 2012 AICPA Conference on Current SEC and PCAOB Developments, both the FASB Chair Leslie Seidman and IASB Chair Hans Hoogervorst spoke on the topic of convergence.

The IASB Chair indicated the importance of convergence for the U.S. and how convergence would allow the U.S. to move away from rule based approach to principle based approach. He believes this will provide the U.S. standard setters with better guidance and will unify financial reporting.

Hans was disappointed with the delay in adoption of IFRS and the U.S. remaining silent on final adoption date. Additionally, those who are for IFRS adoption expressed frustration when the SEC issued a report in July of 2012 on the Pros and Cons on IFRS in the United States as oppose to providing a clear date on IFRS adoption.

The SEC has remained silent on IFRS in the United States since it issued the report on IFRS in July 2012.

Leslie from the FASB expressed concern on the U.S. involvement if we adopt IFRS and also how certain countries deviate from IFRS which result in inconsistencies in the application of IFRS between countries. Additionally, she wanted to have a better understanding of the cost benefit of adopting IFRS.

With no real clarity by the SEC on the convergence project and the FASB needing further discussions with the IFRS Chair keeping this in my mind leaves the future of cooperation between the boards in question and the adoption of IFRS through either full adoption or convergence in the near term to be unlikely. We will keep you posted on any new development on IFRS.

## FASB Update for Real Estate Ventures

*By Alexander Narcise, Partner*

In October 2011, FASB issued two proposed ASU's that affect real estate ventures for comments from the public. These comments have been received and the FASB is currently reviewing the comments.

The first proposed ASU, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*, resulted from joint efforts with the IASB to develop consistent criteria for determining whether an entity is an investment company. Under U.S. GAAP, investment companies carry all of their investments at fair value (even if they hold a controlling interest in another company).

The primary changes in the proposed ASU relate to which entities would be considered investment companies, as well as certain disclosure and presentation requirements. The proposed amendments are intended to improve the comparability between entities that meet the criteria to be investment companies under U.S. GAAP and under the IASB's proposed amendments to IFRS.

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Welcome to our February 2013 **A&A Advisor**. Our A&A Advisor continues to focus on issues impacting the Commercial, Governmental and Non-Profit Sectors; providing you with insight and guidance on new rules, proposed changes and views of standard setters to assist you in the management of the financial and reporting aspects of your organization. I encourage you to contact us with any comments or questions you may have.

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# FASB Update for Real Estate Ventures *Continued from page 1*

The second proposed ASU, *Real Estate—Investment Property Entities (Topic 973)*, is intended to develop accounting guidance for investment property entities. This would require an entity that meets certain criteria to measure its investment properties at fair value, rather than to apply lease accounting to each individual lease. The amendments also introduce additional presentation and disclosure requirements for an investment property entity.

The FASB noted that this proposed ASU is a result of its efforts to align the scope of entities that would apply the proposed accounting model under U.S. GAAP and IFRS and to address the diversity in practice about the accounting by real estate entities.

An entity that invests in real estate properties and meets the criteria to be an investment property entity under proposed ASU Real Estate—Investment Property Entities (Topic 973) would be an investment company. The following are the proposed criteria:

**Nature of the business activities.** Substantially all of the entity's business activities are investing in a real estate property or properties.

**Express business purpose.** The express business purpose of the entity is to invest in a real estate property or properties for total return including an objective to realize capital appreciation, for example, through disposal of its real estate property or properties. Real estate properties held by an entity for either of the following purposes do not meet this criterion:

- The entity's own use in the production or supply of goods or services or for administrative purposes
- Development for sale in the ordinary course of business upon completion.

**Unit ownership.** Ownership in the entity is represented by units of investments, in the form of equity or partnership interests, to which a portion of the net assets are attributed.

**Pooling of funds.** The funds of the entity's investors are pooled to avail the investors of professional investment management. The entity has investors that are not related to the parent (if there is a parent) and those investors, in aggregate, hold a significant ownership interest in the entity.

**Reporting entity.** The entity provides financial results about its investing activities to its investors. The entity can be but does not need to be a legal entity.

## When Would the Amendments Be Effective?

The effective date will be determined after the Board considers the feedback on the amendments in this proposed Update. We will keep you posted on any new developments on the above proposed amendments.

# IN THE KNOW

## Tax Bill

As everyone is aware, last month the House at the eleventh hour passed the tax bill. The tax bill will increase the tax brackets to 39.6% for married-joint couples making $450K and greater and for single individuals the 39.6% would kick in at $400K. The top Qualified dividend and capital gain rates will increase to 20%.

What the tax bill did not accomplish was to continue with the temporary payroll tax cut for employees which was implemented in 2011. The social security tax rate will increase by 2% points which will bring the rate back to 6.2%.

The tax bill contains tax benefits such as the permanent patch to the alternative minimum tax and extension of the 50% bonus depreciation for businesses. For more information please go to **wiss.com**.

## Cyber Security

One of the most common issues confronting industries today is cyber security. As our world becomes more complex and we utilize the internet more each day, we need to consider the importance of having protocols in place to protect our businesses from cyber attacks.

In the past, hackers were mostly individuals who attempted to bring down websites or hack into client information. Today, some of these hackers are backed by governments that are not considered friends of the U.S. and other Western countries.

We strongly recommend that you consider having a back up security program so in case your system is damaged by a computer virus you will be able to utilize your back up files. Additionally, we encourage you to change your password throughout the year and try to avoid using passwords with 123 following it.

# GASB Statement No. 65: Items Previously Reported as Assets and Liabilities

*By David Gannon, Partner*

In March 2012, the Governmental Accounting Standards Board issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement's objective is to either (a) properly classify certain items as deferred outflows or deferred inflows of resources that were previously reported as assets or liabilities or (b) recognize certain items as inflows of resources (revenues) or outflows of resources (expenditures) that were previously reported as assets or liabilities. This standard compliments GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB Statement No. 63 created a new financial reporting model where assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources would equal a governmental entity's net position.

Areas identified in this new standard that are common to public sector entities that will require significant changes in financial reporting include:

**Losses on Refunding Debt**
When existing debt is refunded, the difference between the reacquisition price and the carrying amount of the refunded debt typically results in a loss on the refunding transaction. Currently this transaction is recorded as a contra liability and shown net against outstanding long-term debt. GASB has determined that this should be classified as a deferred outflow of resources since an entity must use current financial resources to obtain benefits in future periods through adjustments to interest rates or prepayment of terms. It should be noted that the balance will still be amortized as a component of interest expense over the shorter of the life of the old or new debt.

**Debt Issuance Costs**
GASB has concluded that the costs related to issuing debt are for services provided in the current period and thus they should be expensed in the current period, with the exception of prepaid insurance. This represents a significant change from current practice which is to record these as assets and amortize them over the life of the related debt issue.

**Imposed Non-exchange Revenue Transactions**
Deferred inflows of resources should be reported when resources associated with imposed non-exchange revenue transactions are received or reported as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed non-exchange revenues in which the enabling legislation includes time requirements.

**Government-mandated Non-exchange Transactions and Voluntary Non-exchange Transactions**
Providers of resources in government-mandated or voluntary non-exchange transactions frequently establish eligibility requirements. Resources transmitted before the eligibility requirements are met (excluding time requirements) should be reported as assets by the provider and as liabilities by the recipient. Resources received before time requirements are met, but after all other eligibility requirements have been met, should be reported as a deferred outflow of resources by the provider and a deferred inflow of resources by the recipient.

**Use of Term "Deferred"**
This statement also restricts the use of the term "deferred" to only those items designated as deferred outflows or deferred inflows of resources. As a result, other items that do not qualify to be reported in these categories will need to be re-titled in an entity's financial statements. For example deferred revenues will need to be renamed unearned revenues.

## Who Will Be Affected?

All governmental organizations that follow generally accepted accounting principles would be required to implement this GASB Statement.

## Timeline

The provisions of Statement No. 65 are effective for financial statement periods beginning after December 15, 2012; however, early application is encouraged.

It should also be noted that the provisions for Statement No. 63 are applicable for most public sector organizations now or in the near future and will need to be implemented. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2011.

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# Did "Hurricane Sandy" Impact Your Company?

In late October, Hurricane Sandy which became tropical storm Sandy right before making landfall in the NY metro area caused severe damage in New Jersey and New York. The storm caused wide spread power outages, damaged property along the coast line, and disrupted business in New Jersey and New York. If the storm has affected your business, you may be eligible for insurance claims and you may need to disclose the damages resulting from the storm and the insurance claims your may be entitled to. Your footnote disclosures should include the damages that resulted from the claim if material and the potential insurance proceeds you may be receiving from such claims. Your footnote may need to disclose any material business interruption and any potential insurance proceeds for business interruption.

Additionally, any losses that resulted from the hurricane such as impairment on property and etc should be considered as expense and if material should be classified as a separate item with footnote disclosures. You should consult your accountants with respect to classification of loss in the income statement.

We also want to express the importance of contacting your accountants to discuss insurance recoveries. There are certain considerations needed to be met to recognize insurance recoveries in the period of the loss.



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