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ACCOUNTANTS • CONSULTANTS

A&A ADVISOR

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FASB Proposes New Guidance to Simplify Impairment Testing for Indefinite-Lived Intangible Assets

The proposed guidance was the result of the FASB standard update on testing goodwill for impairment. The FASB brought in the notion of "more likely than not" (that is, a likelihood of more than 50 percent) when using qualitative factors in determining goodwill for impairment. As discussed in our last Advisor, if you determine that there is less than a "more likely than not" likelihood for impairment, then there is no requirement to perform the quantitative test for goodwill.

Welcome to our May 2012 edition of the A&A Advisor. Our A&A Advisor continues to focus on issues impacting the Commercial, Governmental and Non-Profit Sector; 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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The proposed amendment by the FASB would require the same logic used by the FASB goodwill impairment standard update for indefinite-lived intangible assets. Therefore, the proposed amendment would allow an entity to make a qualitative evaluation about the likelihood of impairment of an indefinite-lived intangible asset to determine whether it should apply the quantitative test.

WISS recommends, for those entities using the qualitative approach, that management document the rationale on why an indefinite-lived intangible asset should or should not be impaired. If management has determined, on the qualitative approach, that the indefinite-lived intangible asset should be impaired, management should perform the quantitative test to determine the amount of impairment.

When would the amendments be effective?

The proposed amendment is expected to be effective for annual impairment tests performed for fiscal years beginning after June 15, 2012. Early adoption would be permitted. The comment period has ended on April 24, 2012 and the Board believes the proposed amendment will be published in June 2012.

Nonpublic Entity Definition May Change

The FASB is adding to its agenda a project to re-examine the definition of a "nonpublic entity". This project will focus on defining what constitutes a private company in order to distinguish between different types of entities for standard setting purposes. This project was requested by various companies, creditors and other interest groups in order to provide clearer guidance on which companies should fall under the Private Company Decision-Making framework under the FASB. This decision making framework was the result of the FASB attempting to make financial reporting for companies considered "nonpublic entities" easier.

Next step

The FASB will begin performing research and expects Board deliberations on this project relatively soon.

Did You Know?

New Jersey now requires that all NJ CPA's complete a minimum of 20 hours of CPE in each year of a triennial period. Therefore, if you are planning on completing your entire 120 CPE requirement in the last two years of the 2012-2014 triennial period, you will be in violation of the requirement. For more information visit *www.njscpa.org/education/cpe-requirements.*

Helpful Accounting Tips

Are you acquiring a group of assets or a business?

The question you should ask yourself when purchasing a group of assets is if those assets may actually be a business that you are acquiring. If those assets have the ability to produce outputs and provide a return to you those assets may constitute a business. The FASB has three elements in defining a business. Per FASB 805 "business combination" the three elements are as follows:

Input
Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Example the ability to obtain access to necessary materials or rights, and employees.

Process
Any system, standard, protocol, convention, or rule that when applied to an input or inputs, creates or has the ability to create outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but an organized workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.

Output
The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business.

If you purchase assets and it appears to have the first two elements noted above, please consult with us on the appropriate accounting treatment. There is a big difference when treating an asset as a business versus an asset purchase. The accounting of goodwill, contingencies and transaction cost are treated differently between a business acquisition compared to an asset purchase. We can help guide you through the appropriate accounting treatment.

Bank waivers for covenant violations and what you need to be aware of

From time to time we have seen companies obtain bank waivers on covenant violations in order for them not to record their debt as current due to the covenant violations. The misconception that companies have with respect to a bank waiver is that it does not necessary mean that your debt will automatically be classified as long term. The FASB indicates that even with a waiver the company needs to assess that they will not violate the same covenant over the next fiscal year. If the company receives a waiver and they expect to violate the covenant over the next fiscal year then the debt will be classified as current.

Therefore, companies with potential covenant violations in which they do not believe they will meet the covenant again within the next fiscal year should obtain a loan amendment, as opposed to a waiver, since the waiver would not help cure the classification of debt from current to long term. If you have this situation, please speak with us as early as possible.

Nonmonetary transactions

There has been an increase in barter transactions over the past year. The common error that we have come across is when companies do not record the expenses and revenues associated with the exchange of goods and services. There is a thought that such exchanges, since they are nonmonetary, should not be included in the financial statements. Under FASB auditing standards, the fair value of those goods and services should be recorded in the financial statements. The fair value that should be used is the fair value of the services that the company performed to obtain the other services or goods.

When dealing with goods, the FASB requires that the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss be recognized on the exchange. The fair value of the asset received would be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered.

New Developments at the GASB and the U.S. Office of Management and Budget

By David Gannon, Partner

GASB Statement No. 63

In June 2011, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Previously, GASB Concepts Statement No. 4, *Elements of Financial Statements,* introduced the concept of deferred outflows, deferred inflows and net position and provided a definition for each; however, prior GASB standards did not include guidance for how those financial statement elements would be reported and how those elements were distinctly different than assets and liabilities. The net asset reporting requirements from GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* is amended by this statement and renames net assets as net position.

Financial statement amounts meeting the definitions of deferred outflows of resources and deferred inflows of resources would be reported in separate sections following assets and liabilities, respectively. The residual value of all of the financial statement elements would be classified as net position. In essence, the financial statements would reflect assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources would equal net position. The components of net position would be Net Investment in Capital Assets, Restricted and Unrestricted.

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 this Statement are effective for financial statement periods beginning after December 15, 2011.

GASB Statement No. 65

In March 2012, the GASB 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 Statement discusses the following topics, amongst others, refundings of debt, sales of future revenues and intra equity transfers of future revenues, sales of future revenues, and debt issuance costs.

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 this Statement are effective for financial statement periods beginning after December 15, 2012.

U.S. Office of Management and Budget

On February 28, 2012, the U.S. Office of Management and Budget published proposed rules in the Federal Register to solicit feedback from federal grant recipients and stakeholders in the audit community. One of the most dramatic changes being proposed relates to the establishment of a three-tiered structure for performance of single audits under OMB Circular A-133 as follows:

- Organizations that expend less than $1 million in federal awards would not be required to have a single audit performed. Currently the threshold is $500,000.
- Organizations that expend between $1 million and $3 million in federal awards would be required to undergo a more focused single audit than the current standards require. Auditors would only be required to review two compliance requirements—allowable and unallowable costs and a second compliance requirement that is most significant to the program being audited.
- Organizations that expend more than $3 million in federal awards would be required to undergo a full single audit and the current single audit requirements would be strengthened to make the single audit process more effective.

The proposed rules would also reduce the number of compliance requirements from the current 14 compliance requirements and focus much more attention on how to address improper payments, fraud, waste, abuse, and program performance. The proposed rules would also consolidate the three cost principle circulars currently being used (Circular A-21 for institutions of higher education, Circular A-87

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New Developments at the GASB
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for state and local governments and Circular A-122 for nonprofits) into one single comprehensive circular.

Who Will Be Affected?
Any organizations that receive federal funding, whether they be state and local governments, higher education institutions, not-for-profit organizations or commercial entities.

Timeline:
Comments on the proposed rules were accepted until March 29, 2012. No timeline for further evaluation or implementation has been established.

Employee Benefit Plan Audits

Increased scrutiny from the Department of Labor makes it necessary that employee benefit plan audits be serviced by professionals possessing the technical expertise and experience to ensure compliance. Our specialized team of experts understands the specific needs of employee benefit plan audits and exemplifies the characteristics that helped build our long-standing reputation for technical excellence in accounting and auditing. If you are looking for guidance on benefit plan audits please contact us today. Please go to our website at **wiss.com** or contact **Craig Erickson, Partner** directly at **973-994-9400 ext 1233**.