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A&A ADVISOR

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Revenue Recognition Model

The purpose of the proposed Revenue Recognition Guidance is to develop common revenue standards for US GAAP and IFRS that would:

a) Remove inconsistencies and weaknesses in existing revenue requirements.

b) Provide a more robust framework for addressing revenue issues.

c) Improve comparability across companies, industries and capital markets.

d) Provide more useful information to users of financial statements through improved and enhanced disclosures requirements.

e) Simplify the preparation of financial statements by reducing the number of guidance that an entity would need to consider.

Summary:

On November 14, 2011, The FASB and the IASB re-issued the Revenue Recognition Exposure Draft, which sought to revise certain provisions of the original exposure draft. The revised exposure draft continues to require a contract-based approach. Under this approach an entity would recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, the entity would apply all of the following steps:

Step 1: Identify the contract with a customer.

Step 2: Identify the separate performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the separate performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Who's affected?

The proposal will affect most entities both public and private.

What's the effective date?

The final standard will have an effective date no earlier than 2015. Full retrospective application will be required with the option to apply some transition reliefs.

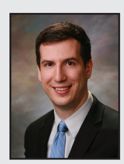
What's next?

The 120-day comment letter period ends on March 13, 2012, and we believe the boards anticipate issuing the final standard by the end of 2012 or early 2013. We will provide further guidance once the exposure draft is updated.

Going Concern Guidance

The FASB has refocused its efforts to consider a project relating to "Going Concern." The FASB is focusing on the conception of management of a company making an assertion about whether the company will continue as a going concern. There is a belief out there that management of a company lacks the objectiveness to make such an assertion. Additionally, the FASB will need to coordinate with AICPA since the AICPA has requirements for auditors in assessing going concern. We believe the FASB will provide further guidance on this project by the middle of 2012.

Welcome to our January 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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AICPA Clarity Project

In 2004, the Auditing Standards Board (ASB) undertook its Clarity Project. The project's objective is two fold:

- Simplify existing U.S. auditing standards, and
- Converge U.S. generally accepted auditing standards (GAAS) with International Standards on Auditing (ISAs).

During October 2011, the ASB finalized the Clarity Project by issuing the new Codification Standards which are applicable for periods ending on or after December 15, 2012. Even though the majority of the auditing standards have not changed, there are a few modifications which are relevant—most notably:

AU-C Section 510 "Opening Balances-Initial Audit Engagements, Including Reaudit Engagements"

This standard addresses the auditors' responsibilities relating to opening balances in an initial audit engagement, including a reaudit engagement. While the auditor is still required to evaluate the sufficiency of audit procedures applied by predecessor auditors in order to place reliance on opening balances, the new standard also requires auditors to perform certain substantive testing procedures on the opening balances.

How will this affect you: This will increase the amount of audit time with respect to a new engagement and will increase your involvement with assisting the new auditor in performing the additional procedures.

AU-C Section 600 "Using the Work of Others"

This standard is applicable when an audit report is issued which makes reference to the audit of a component auditor. A component auditor, for example, may be engaged to audit a subsidiary of a parent company while that parent is audited by another firm (typically referred to as the "lead audit firm"). This standard requires the lead auditor to perform additional procedures which were not required in the previous auditing standards. The additional procedures would require the lead auditor to read the component auditors financial statements, evaluate the component auditors' findings, have various discussions with the component auditors and assess their audits in addition to the application of specific procedures which serve to satisfy the lead auditor as to the sufficiency of the work performed by the component auditor and its team.

How will this affect you: This will increase the amount of time spent by the group auditor and would require additional involvement by you with assisting the group auditor with obtaining the required information requested by the group auditor.

FASB Exposure Draft on Consolidation

On November 3, 2011 the FASB issued an exposure draft on consolidation. The exposure draft would affect all reporting entities that are required to evaluate whether they should consolidate another entity. This draft is expected to significantly affect the financial reporting of entities involved with variable interest entities (VIE).

The exposure draft may change the evaluation of whether an entity is a variable interest entity or not. Entities that were not evaluated as variable interest entities may be required to be evaluated for consolidation under this exposure draft, while other entities may no longer be required to be evaluated under this guidance.

For example, the exposure draft brings in the concept of principle versus agent. Prior to this concept, if the consolidating entity was conducting decisions for the VIE, (i.e., "decision maker") therefore demonstrating control and baring the risk of loss of the VIE, the VIE would need to be consolidated. The exposure draft introduces a separate qualitative analysis to determine whether the decision maker is using its power in a principal or an agent capacity. This may result in the entity not consolidating the VIE since this may not demonstrate control.

Finally, the exposure draft would change the requirements for determining whether a general partner controls a limited partnership and, therefore, could affect reporting entities that are involved with partnerships and similar entities. In addition, the proposed exposure draft would change the evaluation of participating rights held by noncontrolling shareholders.

Next step:

The FASB expects all comments on this exposure draft to be provided by January 15, 2012. Once the comments have been provided, the FASB is going to determine if the exposure draft should be modified or whether a final standard will be issued. We will keep you posted on further developments.

GASB – Economic Condition Reporting: Financial Projections

By David Gannon, Partner

On November 29, 2011, the Governmental Accounting Standards Board (GASB) issued a Preliminary Views document titled "Economic Condition Reporting: Financial Projections". It is important to note that a Preliminary Views document is not an Exposure Draft, but instead is a step towards an Exposure Draft. A Preliminary Views document is issued by GASB when the GASB Board believes it is important to solicit views from the public during the early stages of a technical project. The objectives of this project are the following:

- Compare the information currently available to users of financial statements compared to the information needed by users to assess the ongoing economic condition of a governmental organization.
- Assess whether additional guidance needs to be established for reporting information that users of financial statements cannot currently obtain and how that information should be reported.
- If necessary, establish guidance for information about a governmental organization's economic condition, specifically financial projections and related narrative discussion, as part of a government organization's basic financial statements.

The Preliminary Views document communicates the Boards views on what it believes are the most critical issues related to reporting of financial projections and related narrative discussions to properly assist users in assessing a governmental organization's economic condition.

The current financial reporting focuses much of its attention on how a governmental organization performed financially in the past and relies heavily on historical information. The views contained in the Preliminary Views document take a more forward thinking approach.

The GASB Board's Preliminary Views contain five components of information that it believes are crucial to assist financial statement users in assessing a governmental organization's fiscal sustainability and include the following:

- Projections of the total cash inflows and major individual cash inflows with explanations of the known causes of fluctuations.
- Projections of the total cash outflows and major individual cash outflows with explanations of the known causes of fluctuations.
- Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts with explanations of the known cause of fluctuations.
- Projections of annual debt service payments, both principal and interest.
- A narrative discussion of any major intergovernmental service interdependencies that may exist and the nature of those service interdependencies.

The GASB Board believes the above components of fiscal sustainability should be reported as required supplementary information (RSI). Additionally, the GASB Board believes that cash inflows and cash outflows should be projected on the cash basis of accounting, and financial obligations should be projected on the accrual basis of accounting.

Illustrative examples of the five components of fiscal sustainability and how they would be reflected in a governmental organization's financial statements are included in the Preliminary Views document.

Who Will Be Affected?

All governmental organizations that follow generally accepted accounting principles would be required to report the components of fiscal sustainability information. However, for those governments that do not follow GAAP, such as New Jersey municipalities and counties, the only provisions of the Preliminary Views document that would apply would be dependent on changes promulgated by the New Jersey Division of Local Government Services through the issuance of a local finance notice.

Timeline:

Comments from the public are due back by March 16, 2012. A copy of the Preliminary Views document can be found on the GASB website at www.gasb.org.

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Did You Know?

IFRS Final Report Still A Few Months Away

On December 5, 2011, at the AICPA National Conference on current SEC and PCAOB Developments in Washington DC the SEC Chief Accountant James Kroeker said that the SEC will need a few more months to produce their final report on International Financial Reporting Standards (IFRS). This report will provide the frame work on how the US will adopt IFRS. We will continue to keep you posted on any new developments with respect to IFRS.

New Lease Accounting Rules Could Be Costly

The proposed changes to lease accounting rules could add approximately $2 trillion in debt to U.S. corporate balance sheets and reduce earnings by about 2.4%. This is according to a study from the equipment leasing industry in early December of 2011.

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