

TECHNICAL ISSUES ALERT

INFORMATION ON TECHNICAL ISSUES
AFFECTING SMALL BUSINESSES AND
THE CPAs WHO SERVE THEM

A SERVICE OF  **PCPS**
THE AICPA ALLIANCE FOR CPA FIRMS

WINTER 2005

FSP ON CONSOLIDATING VARIABLE INTEREST ENTITIES

At its November meeting, TIC provided verbal comments to the FASB staff on a proposed FASB Staff Position clarifying the provisions of FASB Interpretation (FIN) No. 46(R). TIC requested a delay for nonpublic companies in the implementation of FIN 46(R) because firms are still struggling with its provisions and because FIN 46(R) has potential ramifications on calendar 2004 audit season planning that may not be fully considered by companies or their auditors. The FASB issued proposed FSP FIN 46(R)-b, *Implicit Variable Interests Resulting from Related Party Relationships under FASB Interpretation 46 (revised December 2003), Consolidation of Variable Interest Entities*, to clarify if “a reporting enterprise should consider whether it has an implicit variable interest in a variable interest entity (VIE) when specific conditions exist.” The FSP notes that there has been diversity in practice in this area.

TIC asked the FASB to define terms and further clarify what level of involvement would trigger application of the guidance. TIC members also noted that the examples given in the guidance focus on real estate concerns and asked that FASB include other illustrations, such as one involving two operating companies. TIC strongly believes that a one-year implementation delay would give small firms and their clients adequate time to educate themselves about the FSP requirements and minimize future diversity in practice.

The FSP is available at http://www.fasb.org/fasb_staff_positions/prop_fsp_fin46r-b.pdf. The comment deadline is January 20.

IMPORTANT REMINDERS

As of December 31, 2004, CPAs are required to document in writing the understanding established with the client in accordance with General Requirement No. 3 under Interpretation 101-3, *Performance of Nonattest Services*. The requirement applies to any nonattest services performed for an attest client beginning January 1, 2005. To learn more, go to http://www.aicpa.org/download/ethics/20040205_deferral.pdf.

FUTURE MEETINGS

TIC meetings offer local practitioners the chance to provide their unique perspectives in the standard-setting process. All CPAs are invited to attend. Contact Linda Volkert, TIC Staff Liaison, at the AICPA at (212) 596-6040, to learn about attending or receiving information on upcoming meetings.

The next TIC meeting:

- January 20-21, New Orleans

JOBS ACT FSPs

TIC offered comments on two proposed FASB Staff Positions (FSPs) that have since been finalized. For FSP FAS 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*. TIC members provided recommendations on how to clarify some of the examples, such as asking that the FASB tailor the situations in the examples to better reflect U.S. tax law. The FSP recommends that the deduction in the act should be accounted for as a special deduction in accordance with Statement No. 109—and not as a tax rate reduction. Accordingly, TIC members asked that the FASB offer an example that illustrates the fact that a company’s tax rate doesn’t change under the guidance. The FSP can be found at http://www.fasb.org/fasb_staff_positions/fsp_fas109-1.pdf.

TIC members generally agreed with the provisions of FSP FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*. However, they believed that the guidance in this document will generally have little application to their firms or clients. It can be found at http://www.fasb.org/fasb_staff_positions/fsp_fas109-2.pdf.



The PCPS Technical Issues Committee (TIC) provides standard setters with the unique perspective of local CPA firms on accounting, auditing and reporting issues. We hope these highlights of issues that affect local firms will help you, your firm or your group to participate in the standard-setting process.

MORE GUIDANCE ON INTERPRETATION 101-3

The AICPA Professional Ethics Division issued two documents that offer further guidance for understanding and implementing Interpretation 101-3, *Performance of Nonattest Services*. The first, *Guidance in Understanding the Client Competency Requirement*, answers the most frequently asked questions about this requirement, clarifying what the rule means by “competency,” how competency can be assessed and which client personnel could serve as the designated competent employee.

The second document, *Requirement to Document Understanding with an Attest Client*, covers the types of required documentation and includes sample documentation language. It also offers guidance on the requirement to document the member’s understanding with the client regarding certain elements of the nonattest services engagement. This requirement becomes effective for any nonattest services performed for an attest client on or after January 1, 2005.

The documents are located at http://www.aicpa.org/news/2004/2004_1123.htm. More information on Interpretation 101-3 is available at http://www.aicpa.org/members/div/ethics/intr_101-3.htm.

EITF DEVELOPMENTS

At a recent meeting, the FASB’s Emerging Issues Task Force reached consensus on two issues that are relevant to small practitioners:

- Issue 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations*. The consensus addressed definitional items related to paragraph 42 of FASB Statement No. 144, including which cash flows should be considered in assessing whether the disposal component has been or will be eliminated; the types of involvements that constitute continuing involvement; and the assessment period. EITF concluded that direct cash inflows and outflows are to be considered in determining the significance of the continuing involvement. The term “significance,” it was decided,

is based on existing professional guidance, which is based on a greater-than-20% criterion. The assessment period should not exceed one year. The consensus itself should be reviewed when applying this standard, the FASB recommended.

- Issue No. 04-5, *Investor’s Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights*. This tentative consensus addresses important rights that the limited partners may have, indicating that the sole general partner does not have control requiring consolidation. The tentative consensus discusses both protective rights, such as the ability to remove the general partner, and substantive participating rights. A final consensus is expected at the next meeting in 2005.

NEWS UPDATE

- Watch for imminent issuance of an exposure draft of a proposed business valuation standard, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*. The draft standard, which would apply to all AICPA members performing business valuations, is intended to clarify CPAs’ responsibilities in these engagements. To learn more, visit <http://www.aicpa.org> and go to the “Business Valuation and Forensic & Litigation Services Community” site.
- CPAs might find it helpful to direct plan administrators to FAQs published by the Department of Labor on how to select an auditor for an employee benefit plan. The site contains a link for the AICPA Employee Benefit Plan Audit Quality Center. The Center’s member firms represent over 55% of the 80,000 ERISA audits performed annually. The FAQs can be found at <http://www.dol.gov/ebsa/publications/selectinganauditor.html>. To access the Center, go to <http://www.aicpa.org> and look in the “Spotlight Area-Audit Quality Centers.”

LET US HEAR FROM YOU

If you have questions, local firm advocacy issues or suggestions for TIC, contact:

Stephen McEachern, CPA
TIC Chair

Fax: (713) 260-5240

E-mail: smm@fittsroberts.com

Linda Volkert, CPA
TIC Staff Liaison

Fax: (212) 596-6233

E-mail: lvolkert@aicpa.org

TAKE THE POLL ON PEER REVIEW

The AICPA is conducting an online poll designed to allow members to weigh in on the issue of increasing transparency in peer review information. The poll takes about five to seven minutes to complete. It can be found at http://websurveyor.net/wsb.dll/20058/AICPA_Peer_Review_Survey1.htm. In addition, a variety of informational resources on this topic are available at <http://www.aicpa.org/transparency/index.htm>.



American Institute of Certified Public Accountants
1211 Avenue of the Americas, New York, NY 10036-8775