

# The Silver State CPA

November 2011

## 6th Annual Golf Tournaments a Great Success



Reno and Las Vegas Golf Tournaments bring out a combined 90 golfers to raise \$3,300 for the Nevada CPA Foundation for Education and Research. P. 8

Are You Ready for Foreign Financial Asset Reporting? P. 6

Young Professionals receive advice from former AICPA Chairman P. 12

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## President's Message



I attended the AICPA meeting of Council in Arizona on October 17-19. I've excerpted from the AICPA report, some information that I believe is timely and important to you as members of the Nevada Society of CPAs.

In regard to technical support activities this year, the Blue Ribbon Panel on Standard Setting for Private Companies (Panel), sponsored jointly by the AICPA, the Financial Accounting Foundation (FAF) and NASBA, finalized its recommendations and submitted a report to the FAF calling for the creation of an independent, autonomous board that would set changes and modifications in existing and future U.S. GAAP recognizing the private company environment. However, on October 4, 2011, the FAF released a proposal that recommends a new council whose decisions are subject to ratification by the Financial Accounting Standards Board. The AICPA responded that it is profoundly disappointed that the proposal does not include the independent board. The AICPA therefore continues to encourage CPAs, small businesses, lenders, and other users of financial statements to become engaged in the discussion and send comment letters to the FAF in support of the Panel's recommendation.

Also this year, the AICPA's Auditing Standards Board completed the majority of its project to clarify and redraft the U.S. auditing standards (for nonpublic entities) to make them easier to understand and to converge the standards with the International Standards on Auditing. For public companies, the AICPA made recommendations to the Securities and Exchange Commission regarding incorporation of International Financial Reporting Standards (IFRS) into the financial reporting system, including the assertion that U.S. public companies should have the option to switch to IFRS.

From a professional development perspective, a new course of study leading to a certificate of educational achievement in IFRS (IFRS Certificate Program) was launched in 2011. The AICPA's new IFRS Certificate Program is a comprehensive, integrated curriculum of online courses for CPAs and other accounting professionals that provides a measurable standard for demonstrating competence in understanding and applying international accounting standards.

Throughout Fiscal 2011, we worked with the London-based Chartered Institute of Management Accountants (CIMA) to develop a new focus and vision for our members. In May 2011, the AICPA governing Council unanimously approved the creation of the new Chartered Global Management Accountant (CGMA) credential through a joint venture with CIMA. The CGMA credential will offer a unique value proposition to our members by recognizing their management accounting expertise, helping them to elevate their competencies in this area, providing them with access to a credential envisioned to be the premier designation worldwide for management accountants and others performing management accounting services, and advancing the U.S. CPA on an international scale.

A video of the council meeting will be on [www.aicpa.org](http://www.aicpa.org) along with more details on all above subjects and others. Please visit the site to obtain more information.

- Nina Gallagher

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# 3<sup>rd</sup> Annual Southwest Tax Conference

## Bellagio - Las Vegas

### December 6-7, 2011

The Southwest Tax Conference is the perfect opportunity for you to get the federal tax updates and insights you need on issues that impact you and your clients. This conference will enable you to direct your clients through the maze of tax and economic information coming from Washington. Topics include individual, corporate, large to mid-size companies, green energy, and topics that affect you today in your practice. Hear from tax experts and earn up to 17 hours of CPE all in Las Vegas (including 4 hours of ethics). This is the only Taxation Conference you will need to attend in 2011.

The Southwest Tax Conference will be held at the beautiful Bellagio hotel on the vibrant Las Vegas Strip.

#### Sessions Include:

- IRS Enforcement Priorities - Current Developments in the Tax Trenches
- Employee Stock Ownership Plans
- Click! ...You've got Nexus!
- IRS Bank Secrecy
- Tax Update - Individual/Corporation/ Partnership
- Green Energy
- Estate Taxes
- Circular 230 - Update
- Local Economy Update
- Retirement Planning/Defined Benefits Plan
- IRS Panel - Updates Important to Practitioners
- Panel - Issues Nevada Firms are Facing Today (optional 1 hour of CPE)

#### Conference Pricing

Standard Pricing  
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17 or 18 (with optional hour on day one with no additional cost)

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# Penny Wise, Pound Foolish...

By Richard A. Vallari CPA, CMI

This past summer I had the opportunity to manage three audits that resulted in large sales and use tax assessments to my clients. Although these entities are not related in any way, they share a common thread – the majority of their respective assessment may have been avoided with sound bookkeeping services. It never ceases to amaze me that so many businesses fall into the trap of “winging” their bookkeeping responsibility.

In prior articles, I have made suggestions regarding potential areas of concern for auditors, and the need to be proactive rather than reactive in these areas. One specific area of concern is the importance of reconciling revenues between the monthly gross sales reported on the sales tax returns to the general ledger and the federal tax return. If a difference exists, the reason should be fully documented. Additionally, I've suggested reviewing sales invoicing for flaws in format, and for practitioners and clients to periodically discuss sales tax items. Of course, many businesses are cash sensitive, and feel secure playing the audit lottery. However, once the letter from the Nevada Department of Taxation arrives, it is too late to figure things out. When an assessment is delivered, the cost associated with the tax, along with interest and penalties is often much more than the cost of a few hours of general ledger review.

The first audit ended with an underreporting of sales percentage that was significant. Accordingly, the assessment with interest and penalties was quite steep. This particular business was not prepared to pay the assessment and entered into a payment plan. This was difficult for my client to accept, especially since all tax was properly charged. However, due to sloppy bookkeeping, the

sales tax returns were consistent in the underreporting of taxable sales. No one ever took the time to review the general ledger sales accounts and reconcile them to the monthly sales tax returns.

The second audit involved a business which was charging sales tax but not applying the sales tax to customer discounts and mandatory surcharges properly. The sales tax was being computed on the full amount of the customer charge without the discount, and not being charged to the mandatory surcharge. Although the discounts and mandatory surcharges appeared on every sales invoice in the audit sample months, the overcharging of sales tax on the customer discount could not be applied to the sales tax owed on the mandatory surcharges.

The final audit was especially disconcerting to me since the client had a fully automated system that correctly calculated sales tax, and the taxpayer's integrity was solid. However, the bookkeeper was reporting net sales with sales tax backed out as gross sales. Additionally, sales reported on the monthly sales tax return did not include some items where sales tax was charged. The reports were prepared with a mechanical mindset, creating a large underreporting of sales. A simple review of how the numbers flowed to the return would have captured this glaring error, and possibly may have resulted in a 'no change' audit.

Had the slightest amount of time been spent as proactive rather than reactive, all three of these audit assessments may have been avoided. When it comes to standard bookkeeping services, being penny wise may lead to pound foolish.

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Section 511 of the Hiring Incentives to Restore Employment Act (HIRE Act) enacted on March 18, 2010 amended the Internal Revenue Code by adding new Section 6038D, Information With Respect to Foreign Financial Assets. Section 6038D applies to taxable years beginning after March 18, 2010. This Section added new foreign asset and account reporting (FAAR) requirements.

Initially, one might wonder why Congress added these FAAR requirements to the HIRE Act when taxpayers already are required to file Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.

To understand the “why”, you first need to understand the background of foreign bank account reporting (FBAR). FBAR is a United States Code (USC) Title 31 statute, which was required under the provisions of the Bank Secrecy Act (BSA). Consequently, the statute is administered by the Financial Crimes Enforcement Network (FinCEN), which is a department within the Treasury.

This structure causes a few administration problems. First, CPAs do not have a statutory right to practice before FinCEN. However, FinCEN delegated authority to the IRS to administer FBAR

returns and, as a consequence, the IRS Office of Professional Responsibility (OPR) expects CPAs to complete FBAR forms for clients when the CPA is aware of a client’s interest in a foreign financial account. In other words, CPAs are required to fill out forms with respect to an area of the law in which they do not have a generally recognized expertise.

Second, collections of penalties under FBAR are far less efficient than normal collections by the IRS. This inefficiency is due to the fact that collection of penalties for non-compliance could only be accomplished through civil court proceedings rather than through the collection powers afforded the IRS under the IRC.

Penalties relating to FBAR can be both civil and criminal. The civil, non-willful penalty is up to \$10,000 per year; the willful penalty can range from the greater of \$100,000 or 50 percent of the account balance at the time of the violation per year. Criminal penalties can be up to an additional \$500,000 and up to 10 years imprisonment.

Third, due to non-disclosure/privacy rules, the fact a taxpayer made a disclosure of foreign assets on Schedule B of Form 1040 could not be disclosed to those who administer the FBAR rules

under the BSA.

Finally, FBAR is not part of any tax return and its filing requirements are different than tax returns. For instance, TD F 90-22.1 must be received by the due date (June 30<sup>th</sup>) at the listed filing address and not at a local IRS office (i.e. there is no “timely mailing equals timely filing” rule).

Now that you understand the background of FBAR, you can understand “why” Congress, in an effort to curb offshore tax evasion, included FAAR in the HIRE Act.

As a result, the IRS recently released a draft of Form 8938, Statement of Specified Foreign Financial Assets.

Individuals are required to file Form 8938 if they have assets with values as follows:

Unmarried taxpayers living in the U.S.-

1. Total value of specified foreign financial assets is more than \$50,000 on the last day of the tax year or
2. Total value of specified foreign financial assets is more than \$100,000 at any time during the tax year.

Married taxpayers living in the U.S. and filing a joint return-

1. Total value of specified foreign financial assets is more than \$100,000 on the last day of the tax year or

- Total value of specified foreign financial assets is more than \$200,000 at any time during the tax year.

Married taxpayers living in the U.S. and filing a separate return- Total value of specified foreign financial assets is more than \$50,000 on the last day of the tax year or

- Total value of specified foreign financial assets is more than \$100,000 at any time during the tax year.

Please note there are different requirements for taxpayers living abroad.

Form 8938 should be attached to the taxpayer's annual return and filed by the due date (including extensions) for that return.

The failure to file penalty is \$10,000, and can go up to as much as \$50,000.

Taxpayers will still need to file Form TD F 90-22.1 with the appropriate office by June 30<sup>th</sup> each year as the Form 8938 is a separate filing requirement and does not replace Form TD F 90-22.1.

However, if your clients are currently filing Form 3520, Form 5471, Form 8621, Form 8865, or Form 8891 they will not need to report the specified foreign financial asset on Form 8938. Instead, they will need to identify on Form 8938 the forms on which they reported the specified foreign financial asset and the number of these forms they filed.

If you have not done so all ready, I encourage you to view the draft Form 8938 issued by the IRS and to read its instructions.

Below are some highlights from the instructions:

#### Specified Foreign Financial Assets-

Specified foreign financial assets include the following assets:

- Any financial account maintained by a foreign financial institution.
- Other foreign financial assets, which include any of the following assets that

are held for investment and not held in an account maintained by a financial institution.

- Stock or securities issued by someone other than a U.S. person,
- Any interest in a foreign entity, and
- Any financial instrument or contract that has an issuer or counterparty that is other than a U.S. person.


#### Assets Held for Investment-

You hold an asset, including stock or a partnership interest, for investment if you do not use it in, or hold it for use in, the conduct of any trade or business.

#### Joint Ownership with Someone Other than a Spouse-

Each joint owner includes the entire value of the jointly owned asset to determine the total value of all of that joint owner's specified foreign financial assets.

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# 6<sup>th</sup> Annual

## Reno - September 23, 2011

Chaired by Mike Bosma of The Bosma Group, P.C., the Northern Nevada golf tournament was held on Friday, September 23rd at ArrowCreek Country Club. The tournament had 36 golfers and six local firms were represented. With the support of our teams and sponsors, the tournament was able to raise approximately \$800 to be given to the Nevada CPA Foundation for Education and Research.



No Pressure: Gary Jensen looks on as teammate Dave Kary lines up a putt.



FORE! Nathan Devlin tees off at the Reno Tournament.



Shotgun Start: Awaiting the start of the tournament teams gather to eat their lunches and to mingle.



Team Bonding: Jamie Kalicki, Mike Bosma and John Bailey, take a break.

CPA Fundraiser Tournament Mike Bosma 45 Lori Bosma John Bailey Jamie Kalicki	CPA Fundraiser Tournament John Bailey 88 Mike Bosma Lori Bosma Jamie Kalicki	CPA Fundraiser Tournament Jamie Kalicki 56 Mike Bosma Lori Bosma John Bailey
CPA Fundraiser Tournament Jamie Kalicki 61 Mike Bosma Lori Bosma John Bailey	CPA Fundraiser Tournament John Bailey 72 Mike Bosma Lori Bosma Jamie Kalicki	CPA Fundraiser Tournament Jamie Kalicki 58 Mike Bosma Lori Bosma John Bailey
CPA Fundraiser Tournament Jamie Kalicki 82 Mike Bosma Lori Bosma John Bailey	CPA Fundraiser Tournament John Bailey 63 Mike Bosma Lori Bosma Jamie Kalicki	CPA Fundraiser Tournament Jamie Kalicki 62 Mike Bosma Lori Bosma John Bailey

Score Card: Mike Bosma, Lori Bosma, John Bailey and Jamie Kalicki are the winning team.



Quiet On The Green: Caleb Jensen sets up his putt.

## Tournament Sponsored By:



# Golf Tournaments

## Las Vegas - October 19, 2011

It was a great day for golf in Las Vegas on Wednesday, October 19th at the Siena Golf Club. With several sponsors and 54 golfers, the tournament was able to raise approximately \$2500 for the Nevada CPA Foundation for Education and Research. Thank you to our 2011 Chairman, Bob Anderson of Holland & Hart and the remaining committee members for their work towards a successful tournament.



Downtime: Tom LaPlaca, Ryan Whiteman and Wade Christiansen wait to hit.



Golfer Skills: Richard Bowler shows what he can do on the course.



Analysis: Bob Huggins and Patrick Thorne of scope out the putting green.



Long Shot: Michael Woodfield, Bank of Nevada, observes Steve Kopjo hit a long shot.



Time to Spare: Golfers talk with their teams and others, catching up before the game begins.



Take a Breath: Bob Anderson, 2011 Las Vegas Golf Tournament Chairman takes a moment to enjoy the scene.

Tournament Sponsored By:



# Member News

**RENO, NEVADA (September 19, 2011)** Nissa Jimenez has been hired as assistant controller for The Applied Companies.

Jimenez, who holds a master's degree in taxation, is a certified public accountant with 12 years of accounting experience in the Reno-Tahoe region.

## Welcome New Members!

**Cynthia Schmidt**  
Reno, NV

**Bryce L. DuPere**  
Las Vegas, NV

**Steven Kopjo**  
Las Vegas, NV

## Picture Corner



Standing From Left: Kerry Kolvet, David Lewandowski, and Michelle Decker, Reno Chapter Meeting Speaker. Seated: Kevin Monaghan, Anna Durst and Gia Villella.



Reno Chapter Members Kelly Koliha and Dave Stark, hard at work.

### Classified Advertisements

#### Available for Hire

**Auditor/Accountant:** two years auditor for medicaid, three years as municipal account with the city of Reno, write-up work and income taxes. Willing to travel 50% on assignments.

Contact Kenneth Fuller at: [kenneth\\_fuller@hotmail.com](mailto:kenneth_fuller@hotmail.com).



The LV Chapter had an informative presentation on aspects of Dodd Frank legislation applicable to CPAs from Carlene Gaydosh of the Investment Counsel Company. Chapter President Bob Anderson gave a report on the Golf Tournament noting that registration was up almost 20% over last year and reminded members of

the upcoming tax conference. Carolyn Crockett SVP Senior Loan officer at Service1st Bank (SBA Lending) will give a presentation at the November meeting on the various types of SBA loans that are available for our clients and a description of the important aspects of the SBA loan package.

- Bob Anderson,  
Las Vegas Chapter President.



Fall has fell and winter's coming. I hope everyone made it through their "crunch" times, and are now enjoying some less hectic times.

Thank you everyone that attended our October luncheon and thanks to our speaker, Michelle Decker, for tackling the ever so challenging topic of healthcare reform. I don't know about everyone else, but 2012 is coming way too fast, what were those health insurance rules again???

Unfortunately we did not have a "lunch scholarship sponsor" for this last luncheon, hopefully we have some folks that are interested in working with us to both present relevant vendors to our colleagues as well as fund our local scholarship pool for students at UNR. Remember, just \$200 provides the donor the ability to set up a table at the entrance to our luncheon as well as give a quick 3-5 minute presentation on their goods or services.

On September 30th Sharon Uithoven, Lauren Hansen, and myself, representing the NVCPA, attended the Meet the Firms Night at UNR. It was a wonderful event put on by Beta Alpha Psi and provided a good opportunity to speak with the students about what NVCPA is and how they assist CPA's and students alike.

Our next luncheon meeting will be on November 16th. Our speaker will be Steve Cerocke, of IQ Technology Solutions. Mr. Cerocke will be presenting on the topic of Cloud Computing.

Finally, I'd like to thank Anna Durst for stepping up and volunteering to become our new board Vice President.

We hope to see you all at the November luncheon, and let the holiday season begin.

- Darrin Maddox,  
Reno Chapter President.

# Young Professionals Leadership Training

Being a leader does not come from one's title but from one's actions. This is one of the main messages spoken by Ernest Almonte at the first annual Young Professionals Leadership Training day.

On October 20th and 21st young professionals gathered in Reno and Las Vegas to hear Ernie, former AICPA Chairman, speak on Leadership. Ernie opened the class with a lesson on core values. Taking out one of his business cards, he showed that, like many, one side of his card contains his name, position, and contact information. What makes his card unique is the reverse side. What most consider the back of his or her business card Almonte presents first when giving someone his card. The reverse side of his card contains a list of his core values, his foundation, the things he believes people should know about him before his contact information. Ernie provided the class with time to think about what their core values are and advised them to carry these values with them through the rest of their lives. "The most dangerous person in the world is a brilliant person with no ethics," Ernie said.

The day was comprised of examples of great leaders Ernie has come across in his life and advice and tools on how to become one of these great people. Las Vegas attendee Ashlee Lum wrote, "Ernie was an awesome speaker, I enjoyed his real life stories and experiences." Zakahra White, from Reno, had a similar opinion, writing, "Giving examples of each skill really helped me understand exactly how to utilize it for the future." One thing that Almonte reminded everyone is that being a leader does not come from one's title but from one's actions. A leader as anyone from a company head to a new employee. He described a leader as someone who offers an opinion when needed, who speaks up when they realize a decision could negatively affect a company, who stands up for what they believe in, and who listens to what people have to say instead of just hearing them speak as well as many other traits.

Attendee Christine Oar said, "I thought the event was both informative and inspiring to a young professional like myself. I very much enjoyed Ernie's presentation; the topics covered really allowed me to broaden my tunnel vision set on a busy life of work and studying for the CPA exam and made me able to examine what I would like to portray to clients, colleagues, and other professionals as I get my feet wet in the public accounting arena. It was nice to lift my head from the work papers and tax returns for a day and find my identity as a young leader in the workplace."



## Quotes from Ernie Almonte.

*As a mentor you provide steps, information and advice but never provide the answers because one should never be robbed of the pleasure of discovery.*

[Regarding both himself as a mentor and those who mentored him.]



*One of the most important things a person should remember is that in life one is both a teacher and a student.*

# Upcoming NVCPA CPE Courses

## Reno Courses

Held at the Atlantis Resort and Casino

Date	Title	Instructor	CPE	Member	Non-member
November 15-16	AICPA's 2011 Corporate Income Tax Returns Workshop by Sid Kess	Steve Renberg	16	\$495	\$525
November 17-18	AICPA's 1040 Tax Return Workshop by Sid Kess	Gordon Meicher	16	\$495	\$525
December 5	Ex-Con Shares 15 Things You Need to Know About Fraud for and Uncertain Audit Environment	Mark Morze	8	\$295	\$325
December 6	Advanced Tips & Tricks of Investment Tax Management to Enhance Client Wealth Accumulation & Retirement Security	Edward Harter	8	\$295	\$325
December 7	Best Income Tax, Estate Tax, and Financial Planning	Edward Harter	8	\$295	\$325
December 13	Tax Advisors Update	Robert Ranweiler	8	\$295	\$325

## Las Vegas Courses

Held at the Monte Carlo

Date	Title	Instructor	CPE	Member	Non-member
November 14	Surgent McCoy's Handbook for Mastering Basis, Distributions, and Loss Limitation Issues for S Corporations, LLCs, and Partnerships	Edward Harter	8	\$295	\$325
November 15	Choosing the Best Entity Structure Under the New Tax Law in 2011	Edward Harter	8	\$295	\$325
November 16	The Complete Guide to Payroll Taxes & 1099 Issues	Edward Harter	4	\$295	\$325
November 17-18	AICPA's 2011 Corporate Income Tax Returns Workshop by Sid Kess	Richard Edmunds	16	\$495	\$525
November 21-22	AICPA's 1040 Tax Return Workshop by Sid Kess	Richard Edmunds	16	\$495	\$525
December 6	Ex-Con Shares 15 Things You Need to Know About Fraud for and Uncertain Audit Environment	Mark Morze	8	\$295	\$325
December 8	Advanced Tips & Tricks of Investment Tax Management to Enhance Client Wealth Accumulation & Retirement Security	Edward Harter	8	\$295	\$325
December 9	Best Income Tax, Estate Tax, and Financial Planning	Edward Harter	8	\$295	\$325
December 12	Tax Advisors Update	Robert Ranweiler	8	\$295	\$325
December 13	Nevada Ethics Course	David Osburn	4	\$165	\$175
December 14	Chief Financial Officer	Bill O'Brien	8	\$295	\$325
December 15	Surgent McCoy's Advanced Critical Tax Issues for Limited Liability Companies and Partnerships	Susan Smith	8	\$295	\$325

To register for courses or for a course description, please visit the Society online at:  
[www.nevadacpa.org](http://www.nevadacpa.org)

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**OK, Ron, is this client relationship really a risk to me?**

Well, let’s look at the red flags. The client has careless record-keeping practices, is late in providing information and is often non-responsive, causing you delays. What happens if the business fails or you later discover the client had been deliberately withholding information due to unethical activity? How might you be blamed?

**Isn’t it better to fix the problem and keep the client?**

Sure, if you can. But at what cost to you, your staff and your firm?

**But disengagement is such an unpleasant business...**

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**OK, so I’m ready to disengage from this problem client. What’s the next step?**

Calling CAMICO is always your first step. Our risk management specialists will help you tactfully and securely end the relationship. We have over a dozen sample disengagement letters and will even help you tailor your own letter to make sure all your bases are covered.

**Not insured by us? Give CAMICO a call, and we can start the conversation about lowering your risk – and easing your heartburn – today.**

See a video of Ron Klein talking about how CPAs can best handle disengagements at [www.camico.com/disengage](http://www.camico.com/disengage)

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# Was GAAP Ever “Generally Accepted”?

## An Alternate Point of View

By Howard B. Levy, CPA

This is a response to an article by Jamie Lawson, CPA, published in the September 2011 issue of The Silver State CPA entitled “When is ‘Generally Accepted’ no longer generally accepted?” Ms. Lawson’s article briefly explores the evolution of generally accepted accounting principles (what we call “GAAP”), asserts that it has lost its “general” acceptability over time, and finally concludes that it is now time to restore its acceptability by making accounting standards both “relevant to users and relatively simple to understand and implement.”

Although it is easy to agree with many of Ms. Lawson’s observations, I must take issue with her ultimate conclusions and implied remedies.

So rather than explore the historical development of GAAP, *per se* (i.e., its content), as Ms. Lawson does, I will briefly explore the evolution of the use of the term, *generally accepted accounting principles*, itself.

Although it has never been clearly defined, it is clear that over time, the meaning of the term, “GAAP,” has become increasingly unclear, as its usage has evolved, and, therefore, more likely misunderstood. In fact, I believe the term has become rather antiquated and, as a result, probably should be either more rigorously defined (with the definition made readily available to financial statement users) or replaced by an alternate term that is more likely to clearly convey what it is intended to mean.

But first, I will examine the question of relevance to financial statement users.

### User relevance.

Ms. Lawson advocates simplifying GAAP and making the financial

statements more relevant to users to better meet the reporting needs of small businesses while at the same time asserting that it would be “poor policy” to have two GAAPs, one for private companies and one for public companies because that would make “comparability between private and public companies virtually impossible.” (She correctly cites the “Wheat Report” of the early 1970s as the beginning of a 40-year long debate over the bifurcation of GAAP along such lines, often called the “big GAAP, little GAAP” issue). Although I agree that it makes little sense to have two comprehensive GAAPs that are divided along some arbitrary line based on either company size or public vs. private ownership, *per se*, I do not share the view that comparability between private and public companies is an important objective of financial reporting. And I certainly do not believe that user needs are well-served by circumventing sound accounting and encouraging OCBOA reporting or GAAP departures instead.

I do believe, however, that certain GAAP alternatives should be available within the standards, not to be selected based on the self-serving reporting objectives of managements but rather based upon the application of sound judgment as to the distinctly different, fundamental needs of principal intended users, whether they be creditors or equity investors. (While the principal users of financial statements of small business, whether privately or publicly held, generally tend to be lenders and other creditors rather than outside equity investors, such is not always the case.)

Consistent with responses submitted by my firm in September 2010 to

the survey questionnaire of the “Blue-Ribbon” Panel on Standard Setting for Private Companies, I believe that certain accounting choices should be made available within the authoritative accounting standards. I also believe that GAAP should provide that such choices be made consistently throughout the financial statements based on the same user relevance judgments and that an accompanying accounting policy disclosure such as follows be required. “The selection of accounting policies from among available alternatives has been made based on management’s judgment so as to best serve the needs of the of the principal intended financial statement users consisting of the Company’s lenders [or equity investors].”

I believe most of the accounting alternatives that should be made available for selection based on relevance to perceived user needs would be in the area of required disclosures but that some might entail measurement or presentation matters. For example, consolidation rules might be relaxed or eliminated when lenders who are principal users do not have access to the assets of variable interest entities or other subsidiaries.

### Evolution of the term, “GAAP.”

The earliest seeds that appear to have resulted eventually in the widespread use of the term that we commonly abbreviate with the acronym, GAAP, surfaced in 1938 when the SEC issued Accounting Series Release (ASR) No. 4 stating that it would accept financial statements based on accounting for which there was “substantial authoritative support,” a vague

term about which no elaboration was made at the time. Following ASR 4, the AICPA's Committee on Accounting Procedure commenced issuing a series of Accounting Research Bulletins (ARBs) and asserted that they constituted "rules which may be subject to exception" with a burden of proof accruing to those who would depart from them. However, the stated objective of the ARBs was not to constitute a comprehensive framework of accounting principles but rather their scope was limited to specific issues as they were identified.

The early ARBs were each accompanied by a caveat that stated that their authority rested on their *general acceptability*, again, without definition or elaboration, and there were at the time (and still are to this day) many well-established and common alternative accounting practices in use, whether approved by the authorized standard-setting body or not, that are inconsistent with one another and irreconcilable on a conceptual basis.

The expression, *generally accepted accounting principles*, appears even before ARB 1 in the very first American auditing standard, Statement on Auditing Procedures (SAP) No. 1, issued in 1939 by the AICPA's then newly formed Committee on Auditing Procedures (created in response to the infamous McKesson & Robbins fraud). It was used in SAP 1 in what was then called the "short form" audit report as a frame of reference in conjunction with another now common but then new and undefined term, *presents fairly*, much as it is still used in today's standard audit reports. It appeared in the accounting literature for the first time in an early ARB and was later re-issued in 1949 as Accounting Terminology Bulletin No. 1, but there never was any attempt to define GAAP in any of these early sources.

Noted author and accounting professor, Robert K. Mautz, wrote (in collaboration with H.A. Sharaf) in *The Philosophy of Auditing*, the widely respected monograph published in 1961 by the American

Accounting Association, that "there does not exist any authoritative, comprehensive system of accounting principles" but "the rather odd assortment of authoritatively established principles is presumably what auditors now refer to as generally accepted accounting principles. ... This presents a considerable problem to both accountants and auditors."

Recognizing the problem two years earlier, in 1959, the Accounting Principles Board (APB), which was the AICPA's successor to the Committee on Accounting Procedure, set out for the first time to develop, based on research, "a fairly broad set of coordinated principles ... [that] should serve as a framework for the solution of detailed problems." This is an objective that continues to be elusive as standard-setters and users continue today to (a) seek to eliminate accounting alternatives that can produce materially inconsistent results in similar circumstances or that are otherwise conceptually unsound (probably the primary objective of standard-setting in accounting), and (b) debate the relative merits of "principles-based" vs. "rules-based" accounting standards. But until 1965, each pronouncement of the APB (called "opinions") contained the same caveat as in the predecessor ARBs, *i.e.*, that their authority rested on their *general acceptability* (still without any definition or elaboration).

Beginning in 1965, although the reference in APB opinions to *general acceptability* continued, new language was added that included the first "official" definition of GAAP, as adopted by the AICPA's governing Council in 1964. It stated that "generally accepted accounting principles are those principles which have substantial authoritative support." It also asserted that APB opinions constituted *substantial authoritative support*, but that other principles may also have such support.

Thus, despite the introduction of this first formal, albeit incomplete, definition of GAAP, it remained quite unclear in 1965 as to

what was needed to constitute *substantial authoritative support* and, thus enable inclusion of a given practice in GAAP. In 1969, the last reference in an accounting standard to *general acceptability* as a basis for the authority thereof appeared in APB Opinion No. 15, and beginning in 1972 the last few APB opinions (nos. 28-31) cited then newly effective Rule 203 of the AICPA's Code of Professional Ethics as the basis for their authority, which rule established a formidable burden for members to justify any material departures on a basis that compliance would be misleading. This rule is still in place.

Since 1973, the Financial Accounting Standards Board (FASB) has been the private sector accounting standard-setter at the highest level of authority for nongovernmental entities in the U.S. and the only source that was backed by the effect of ethics Rule 203. In 1992, Statement on Auditing Standards (SAS) No. 69 (AU Sec. 411) for the first time set forth a hierarchy that established the relative of authority of various sources of GAAP. However, to further confuse matters, the notion of *general acceptability* returned in SAS 69, which made it the auditor's responsibility to determine. In 2008, the FASB issued Statement No. 162 causing SAS 69 to be rescinded and bringing into the standards a four-level GAAP hierarchy similar to that which had previously resided only in the auditing literature, but without the notion of *general acceptability*. However, in 2009, the FASB completed its Accounting Standards Codification (ASC), the most recent step in the never-ending effort to develop a comprehensive set of accounting principles, and established a two-level hierarchy with the ASC as the sole private sector source of *authoritative* U.S. GAAP for nongovernmental entities (other than the SEC for publicly held entities), and everything else was designated as nonauthoritative.

### So what is GAAP now?

ASC Subtopic 105-10-05, although

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titled “Generally Accepted Accounting Principles,” still fails to tell us clearly and precisely what that old term means. It suggests, however, (albeit subtly), that in the absence of applicable authoritative GAAP, other sources of “guidance and literature” (a list of which that is inherently incomplete appears in ASC Subtopic 105-10-05-03), although non-authoritative, are nevertheless part of the broad expression, GAAP. It remains today an ill-defined and boundless universe in which only the very brave (or very foolish) should dare to venture far beyond its comfort zone.

But despite all the historic vagaries about the meaning of the words, *generally accepted*, in GAAP, my research and my more than 44 years of experience as an accountant and an auditor tell me that the selection of appropriate accounting principles (a) was never intended to be based on a democratic popularity contest among unschooled, nonexpert voters, and (b) should not be based on what is “relatively simple to understand and implement” (or what is inexpensive).

Today’s business environment is subject to ever increasing challenges and complexities, laden with ever more complicated transactions and financial instruments, valuation issues and ever more difficult questions of substance vs. form that must be carefully addressed. In my opinion, the “dumbing down” of accounting standards to be “relatively simple to understand and implement” is essentially to fail to recognize both those challenges and the immeasurable value to modern society of the contributions of countless highly intelligent and dedicated individuals to our common body of knowledge over the last three quarters of a century, most of whom (but for the seven members of the FASB) have been volunteers. It is likewise to diminish significantly the value of what we all do, what we produce, and what we all are as professionals.



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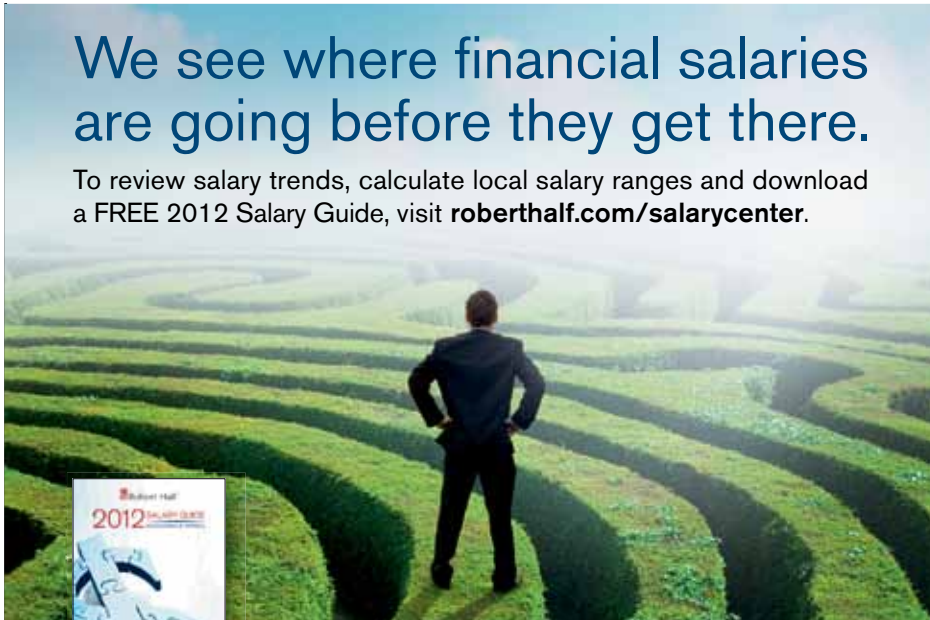
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