AUDIT & ACCOUNTING UPDATE

The standards are changing AGAIN!

As a non-accountant, understanding your business from a financial stand point can be difficult as it is. What could possibly make it more confusing? How about changes in the presentation of your financial statements? There will be certain changes to your audited financial statements for the year ending December 31, 2012, and potentially even larger changes in the not too distant horizon.

What's causing these changes and potential changes? The Financial Accounting Standards Boards (FASB), which is the designated private sector organization in the U.S. that establishes financial accounting and reporting standards, has been working towards the convergence of U.S. accounting standards with international accounting standards with the ultimate goal for one set of global accounting principles.

Multiemployer Pension Plans

Many of you who have union employees are part of multiemployer pension plans. These plans typically cover thousands of active participants through pension agreements negotiated by local unions with hundreds, if not thousands, of employers. FASB has been concerned that there is a lack of transparency in financial statement disclosures regarding employer risks related to their participation in multiemployer pension plans.

Previously, the only financial statement disclosure requirement for employers in regards to these plans are historical contributions made to such plans, changes in rates of required contributions, other comparability matters, and certain contingent risks such as the possibility that an employer may have increased contribution obligations to maintain negotiated levels of benefit coverage.

The FASB's goal for disclosure changes is to help users of financial statements assess the potential future cash flow implications relating to an employer's participation in multiemployer pension plans. The amendment does not change the measurement recognition of how a potential liability accrual might occur related to obligations of underfunded plans.

So what then is required to be disclosed? All December 31, 2012, financial statements will require the following disclosures related to multiemployer retirement plans:

1. The plan names and federal tax identification numbers for plans in which the employer participates,
2. The level of an employer's participation in the significant multiemployer plans, including the employer's contributions made to the plans and an indication whether the employer's contributions represent more than 5 percent of the total contributions made to the plan by all contributing employers,
3. The financial health of the significant multiemployer plans, including an indication of the funded status, whether funding improvement plans are pending or implemented, and whether the plan has imposed surcharges on the contributions to the plan, and
4. The nature of the employer commitments to the plan and the expiration dates of the collective-bargaining agreement(s) requiring contributions to the plan.

Goodwill Impairment

For those of you who have goodwill reported on your financial statements, there are changes related to how goodwill will be tested for impairment. FASB has attempted to simplify this process. Previously, a company with goodwill on its books was required to perform an annual test of its goodwill by comparing the carrying value of goodwill (the amount reported on the financial statements) to the fair value of the reporting unit, which would require time consuming extensive quantitative calculations.

Under FASB's amendments to the standard, a company is no longer required to calculate the fair value of a reporting unit if the company determines, after considering only qualitative factors, that there is more than 50 percent likelihood that the carrying value of goodwill will be less than the fair value of the reporting unit. The amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011.

Leases

FASB and the International Accounting Standards Board have been in serious discussion about working towards a new lease standard for a long time. Although changes have not been made yet, it is our understanding that changes in accounting for leases will happen. Such changes in accounting for leases would have a significant impact for many companies.

Currently, under generally accepted accounting principles (GAAP), leases that don't meet capitalization criteria are expensed in the current operating period. Such leases are classified as operating leases. The company is also required to disclose in its financial statement footnotes all major operating leases entered into and its future minimum lease payments for the next five years.

FASB has proposed accounting for operating leases in a completely different manner. For a lessee, the new proposal would require a company to report on its balance sheet an asset representing its right to use the lease asset for the lease term and a liability to make the lease payments. For the lessor, the accounting treatment would be to recognize an asset representing its right to receive lease payments, and would either recognize a lease liability while continuing to recognize the underlying asset, or derecognize the rights in the underlying asset and continue to recognize a residual asset representing its rights to the underlying asset at the end of the lease term.

So get ready and be prepared for the upcoming changes. If you have any questions, or would like help implementing these new accounting standards please feel free to contact Jason Reecy.

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