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August 1998

To All of Our Valued Clients and Friends:

We are pleased to be able to send you our August 1998 newsletter. Our topics for this newsletter are as follows:

- NON-TRADITIONAL ACCOUNTING ENGAGEMENTS
- IRS TRANSFER PRICING CRACKDOWN COMING?
- WINDOWS 98

Cutting Costs

The global economy has been experiencing much volatility. Enterprises in Japan have been hit especially hard under the current recession. The resultant ripple effect has required many companies to cut costs to remain competitive. Often times, the most logical area to cut costs is in operating expenses such as professional fees. It is not always advantageous to utilize large accounting or law firms for every engagement. Kakimoto and Co., LLP can provide the same services at lower costs.

- ***Selection of Firms Based on Company Needs* -** Companies need to be very selective on who can provide the best value for services rendered. For medium to larger sized organizations, utilizing local firms for specific projects, individual and corporate tax returns, and when appropriate, audits, may make sense.

- ***Cutting Costs on Audit Services* -** Japanese accounting standards have been under scrutiny in the move towards the "Big Bang". With fiscal years beginning April 1, 2000, Japanese public companies may be required to present half-year audits on a consolidated basis in addition to the annual audited financial statements. Accordingly, U.S. subsidiaries may have to comply with the same audit requirements. We offer high quality audit services at significantly lower fees than the Big 5 firms and at competitive fees with other local firms.

- ***Cutting Costs on Individual and Corporate Tax Returns* -** We currently provide tax only services to a number of our clients. These clients are taking advantage of our competitive fees, which are generally about 40% less than those charged by most Big 5 firms. This is yet another area we can assist you in cutting costs, while still maintaining the high professional standards offered by Kakimoto and Co., LLP.

For any of our services, please call us for a free consultation and fee quotes.

If you are interested or have any questions, please call Gerald W. Kakimoto or Edward Y. Valparaiso at (310) 715-9100. For more information about our firm, please visit our website at *http://www.kakimoto.com.*

And lastly, the Japanese version of this newsletter is available by request or through our website.
Kakimoto and Co., LLP

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NON-TRADITIONAL ACCOUNTING ENGAGEMENTS

Most clients and potential clients request typical accounting or audit services. Some, however, have specific needs (for example, as requested by a potential lender, regulatory authority, stockholder, or absentee owner) that cannot be met by the traditional compilation, review, or audit of financial statements. In these cases, a nontraditional engagement will often provide the best alternative. Kakimoto and Co., LLP is available to offer our services in all types of engagements, including non-traditional engagements.

The following are examples of non-traditional engagements:

- Reporting to assess the credibility of the company's specified financial statement elements such as cash, accounts receivable, inventory, fixed assets, etc. This can be performed in the form of audit, review, or compilation.
- Reporting sales to a landlord in connection with a lease agreement for the purposes of determining percentage rent.
- Reporting in connection with other contractual agreements (such as loan agreements, partnership agreements, profit sharing agreements, or licensing agreements).
- Reporting on compliance with laws and regulations.
- Reporting on pro forma information to recast historical financial statements.
- Attestation engagements, which often provide some type of assurance on nonfinancial information.
- Reporting and consulting on internal controls.
- Acquisition assistance engagements (such as due diligence assistance, businessman's reviews, acquisition reviews, and acquisition analysis).
- Other engagements (such as reports on the application of accounting principles, reporting related to requests by lenders, and fraud audits).

Non-traditional engagements include specific procedures requested by clients to be performed and the findings reported for specific purposes or users, or certain procedures in accordance with generally accepted standards. One of the advantages of such engagements is flexibility in the form of the presentations. Some special-purpose reports described above do not need to be in accordance with Generally Accepted Accounting Principles (GAAP) or Other Comprehensive Basis of Accounting (OCBOA). Financial statements may be completed on a prescribed basis (such as the provisions of a contract or regulations) other than GAAP or OCBOA. For example, a client may request financial statements based on replacement value or liquidation value, or operating statements in which revenues are recognized using a basis that is not GAAP or OCBOA. The report is prepared to provide the financial information that is relevant to a contractual agreement. Services can also be provided in relation to a client's compliance with terms of contractual agreements.

The above non-traditional engagements enable us to meet the needs of our clients with added flexibility. Since the users' needs will vary from one engagement to another, the specific nature of each agreed-upon procedures engagement will vary as well. If you have a specific objective in mind, but not a specific type of service, consult with us for the most appropriate type of engagement we can provide. Non-traditional engagements may be a less costly, value-added services so it would be beneficial for clients.

IRS TRANSFER PRICING CRACKDOWN COMING?

A provision that was removed from the recently enacted IRS Restructuring and Reform Act of 1998 prior to the bill's passage should serve as a warning to multi-national companies doing business in the United States. The provision, which was included in the Senate version of the bill, would have required the newly created IRS Oversight Board to study the transfer pricing practices of multi-national corporations to determine whether Congress should beef-up the Service's audit capabilities in the transfer pricing area. The IRS would have been required to assist the Board in the study, by analyzing the effectiveness of its current transfer pricing enforcement techniques, and determining the amount of tax avoidance that results from taxpayers employing improper transfer pricing methods.

The Conference Committee, which is responsible for reaching a compromise between the House and Senate versions of a bill, removed the provision from the final version of the bill. The reasons the Conference Committee removed the provision are not clear. However, multi-national corporations doing business in the U.S. should not ignore the provision merely because it was not enacted into law. The fact that the provision was included in the Senate version of the bill indicates that at least some members of Congress are concerned about the amount of U.S. tax multi-national corporations are paying, and the use of improper transfer pricing methods to reduce such tax. Independent studies on the impact of transfer pricing abuse vary, but indicate that it results in anywhere from $4 to $40 billion in lost revenue annually.

Given Congress' concern about transfer pricing practices, a similar provision might re-appear in future legislation. Also, the IRS might take a cue from Congress and begin cracking down on the use of improper transfer pricing methods on its own. Either way, it appears likely that the IRS will be giving transfer pricing increased scrutiny in the future. Therefore, multi-national corporations should be as diligent as ever in setting and documenting transfer prices. This may mean conducting a transfer pricing study to determine an appropriate transfer price, or updating an old transfer pricing study for current economic conditions. Even corporations that are comfortable with their current transfer pricing should review their documentation practices to ensure that they can meet their burden of proof upon an IRS audit.

The results of improper transfer pricing or documentation practices can be costly, not only in terms of additional tax, interest and penalties, but in terms of time and money spent defending an IRS audit adjustment. Kakimoto and Co., LLP is knowledgeable in the transfer pricing area, and can help its multi-national corporate clients assess the adequacy of their current transfer pricing practices, and recommend necessary changes, if any. This can help those clients avoid the potentially substantial costs of an IRS audit adjustment.

WINDOWS 98

Microsoft has released their newest operating system, Windows 98. According to Microsoft this product is more powerful, easier to use, and more stable than Windows 95. Does this make Windows 98 a wise choice for you? To answer this question, you need to weigh the advantages and disadvantages, and make the choice that is best suited for your company.

One of the many features included in Windows 98, is the FAT 32 support. Basically, the FAT 32 file system allows Windows 98 to store data more efficiently, thus allowing more data to be stored on your hard drive. After converting a hard drive to FAT 32 the average user will see increases in free disk space of 30 percent or more. Windows 98 also optimizes the storage of data on your hard drive, allowing applications to load faster.

WINDOWS 98 (Continued)

The Windows 98 user interface is similar to the look and feel of Windows 95, unlike the upgrade from Windows 3.1 to Windows 95. And current users of the World Wide Web will find Windows 98's user interface familiar, since Microsoft's Internet Explorer 4.0 is integrated into the desktop. This feature gives the user the ability to browse through the files on their computer as if they were surfing on the Web. Windows 98 also has new utilities, which make it easier to troubleshoot, update hardware drivers, and customize startup options.

The greatest disadvantages of Windows 98 are the demands it places on your system. While new computer systems have adequate power to handle Windows 98's demands, older systems such as a 486 or an older Pentium (100 MHz or less) will become noticeably slower. We recommend that these users avoid upgrading to Windows 98 due to the large load it places on the system. Windows 98 also takes more disk space than Windows 95. Users with less than 1 gigabyte of hard drive should consider adding another drive since a Windows 98 installation can use over 300 megabytes.

One of the benefits of Windows 98 is its speed performance. But for the cost to upgrade to Windows 98 you can buy additional RAM for your existing Windows 95 system, and also improve its speed. The price for RAM has been decreasing and you can now buy 64 megabytes for about the same price it costs to upgrade to Windows 98.

Windows 98, in general, is not a major change, so all applications written for Windows 98 will run on Windows 95 as well. However, Windows 98 has some multimedia program enhancements, such as the ability to watch television on your computer, advanced imaging capabilities, and added multimedia hardware support. We feel these features are more attractive to the consumer market and are not necessary features for most businesses.

With the release of Windows 98, Microsoft has added yet another operating system to choose from. Because your choice of operating system can have a big effect on your productivity, it is important to consider all program enhancements and decide whether upgrading will be worthwhile for your company.

If you are interested or have any questions, please do not hesitate to contact us.

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