



NEWSLETTER

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Any Questions?

As we continually search for new ways to improve the value our newsletter brings to you each quarter, it is important to know your thoughts as well.

We would like to know your thoughts on our new format as well as any topic ideas or suggestions you might have. Send an email to the editor, at kaco@kakimoto.com or give us a call. We appreciate any comments you may have and thank you in advance for taking time in sharing them with us.

Summary of Articles

The Movement Towards Fair Value Accounting Although most agree with the concept of fair value accounting, how to apply it on a practical level is extremely difficult. What is fair value? How does one measure fair value on a consistent and reliable basis? During the past few years, accounting pronouncements have been introduced to account for certain assets and liabilities at fair value, but we are far from completely embracing this ideal.

Choosing a Business Form Business tax planning involves not only economic planning for the current year, but also making tax decisions that will benefit your business in future years. Tax strategies must take into account short-term and long-term goals so that decisions regarding a business form represent sound tax decisions in following years. Because business planning often must be viewed in conjunction with personal tax planning, you should consider individual and investment considerations when making business decisions.

Selecting a Web Hosting Service Selecting a web hosting service involves some research. Today, if your web hosting provider goes out of business, your web application could follow behind. With web services, you are not only relying on the functionality of which the services provide, but also relying on the vendor's network infrastructure, staffing, security, and business strategies. These additional dependencies are the reason why it crucial to closely research any vendor's web services your Company is considering.

Fair Value – Do You Know What You're Worth?

During the past two years, accounting standards and principles have come under increased fire due to the recent high profile financial reporting improprieties and the resulting market unrest. Could some of these events been avoided in part if, perhaps, reliable

"The FASB has concluded that fair value information is relevant..."

fair values were used as the measure for financial statements? The Financial Account-

ing Standards Board (FASB) has concluded that fair value information is relevant and most users agree that fair value measurements provide for more transparent financial information. Traditionally, assets and liabilities have

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Fair Value – Do You Know What You’re Worth?

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been recorded at historical cost; however, there are certain items, pursuant to recent accounting pronouncements, that require measurement at fair value.

Under current accounting standards, fair value is defined as:

“The amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.”

As stipulated in recent accounting pronouncements, quoted market prices in active markets are the best evidence of fair value and should be used as the basis of measurement. If quoted market prices are unavailable, estimates of fair value should be based on the best information available in the circumstances; estimates of fair value should consider prices for similar assets and liabilities and the results of valuation techniques to the extent available in the circumstances.

“Traditionally, assets and liabilities have been recorded at historical cost; however, there are certain items, pursuant to recent accounting pronouncements, that require measurement at fair value.”

Everyone is in agreement that

financial statements and information should be relevant and reliable. Especially in the current marketplace, where business transactions are becoming more sophisticated and complicated, relevant financial information is important in making business decisions – what are assets worth today? Proponents of fair value accounting place emphasis on the relevance of the amounts reported.

“The amount at which that asset or liability could be bought (or incurred) or sold (or settled) in a current transaction...”

Assets and liabilities measured at historical costs are only relevant at the time they are recorded. For instance, property, plant and equipment are generally carried at cost and depreciated over a period of time; net book values may vary considerably from fair values. While most agree that relevance is important, there is a concern whether fair value measurements can be reliable. Companies are challenged to make good estimates of fair value where quoted market prices don’t exist. If these prices don’t exist, numerous assumptions need to be made and valuation techniques administered which call into question the credibility of the fair value estimation. Opponents of fair value accounting argue that if amounts are not reliable they

are useless and, therefore, not relevant. In addition, fair value measurements may introduce

“Assets and liabilities measured at historical costs are only relevant at the time they are recorded.”

significant fluctuations which may make measuring management and operating performance difficult to evaluate; comparability with budgets and past period results would become compromised.



The FASB, in its current fair value project, has concluded that fair value information is relevant and noted that there is limited guidance for measuring fair value - a major objective of this FASB project is the establishment of a framework for measuring fair value. The debate continues as to the attributes of fair value versus historical cost accounting. The movement towards fair value accounting undoubtedly will forge ahead; however, it will unlikely proceed without some form of acknowledgement of historical cost accounting and information.

Choosing a Business Form

The choice of a business entity involves selecting among five options: sole proprietorship, partnership, C corporation, S corporation, and the limited liability company (LLC). There are both legal and tax considerations in making this selection. Please note that, in most instances, the best entity choice is the one that provides optimal cash flow and the greatest overall amount of long-term, after-tax income. We will discuss some of the major features of these entities.

Sole Proprietorship

A sole proprietorship is an unincorporated business that is owned by one person and has no separate identity apart from its owner. The income and expenses of the business are reported on the owner's individual tax return. In addition, the owner pays self-employment tax on his or her entire share of business income. The owner's assets are subject to the risks of the business, since the liabilities of the business are the owner's personal liabilities. It may be possible to obtain liability protection through liability insurance.

Partnership

A partnership is an association of two or more persons to carry on a trade or business. Each partner contributes cash, property, or services with the expectation of sharing in the profits and losses of the busi-

ness. The partnership is not a separate taxable entity and its profits and losses are included on the individual tax returns of the partners. A general partnership, which includes only general partners, provides no asset protection for the partners since the creditors of the partnership can attach the personal assets of the partners. A limited partnership, which is a partnership that includes at least one limited partner, results in a two-tier system. As in a general partnership, general partners in the limited partnership have no asset protection. Limited partners, however, have their risk of loss limited to the amount of capital invested in the partnership.

C Corporation

A C corporation is separate legal entity organized under state law and created when shareholders transfer cash or property in exchange for stock of the corporation. The profits of the corporation are taxed to both the corporation and also to the shareholders when distributed in the form of dividends. Shareholders cannot deduct any losses incurred by the corporation. Shareholder liability is limited to the amount of investment in the corporation, and a shareholder's personal assets are protected from any creditors of the corporation.

S Corporation

An eligible domestic corpora-

tion can elect to be treated as an S corporation. S corporation shareholders include on their individual tax return their share of the corporation's separately stated items of income, deduction, loss, or credit, and their share of nonseparately stated items of income or loss. S corporation status generally provides shareholders with the same limited personal liability that is given to C corporation shareholders.

Limited Liability Company

A limited liability company (LLC) is an organization formed under state law that allows limited liability for its members for company obligations and that is usually classified as a partnership for federal tax purposes. The LLC is not subject to tax; instead, the company income and losses are passed down to its members to be included on their individual tax returns. LLC members also have the same limited personal liability benefit provided to C corporation shareholders.

Although many factors, such as fringe benefits or state taxes, must be considered in selecting a business form, this discussion highlights some of the major considerations. We would be happy to discuss with you in detail all of the factors in determining the most appropriate business form for you.

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Selecting a Web Hosting Service

Finding a provider to host and maintain your web presence can be an easy process, if you gather the right information. Or, it can be a disaster waiting to happen. The following are a few suggestions you will want to consider when shopping for a web hosting service:

Identify the objective you want to achieve with your web site. Know what type of service you will need and pay only for those services.

“Consider download speeds. Your web site must be very easy to download from anywhere.”

Examine whether the vendor has guaranteed the pricing for a fixed period of time. If so, find out if there any stipulations that state that once a period expires, rates will increase at a rate no higher than a certain percentage. Also, inquire about the time frame in which the vendor agrees to notify you of any future pricing changes. This will give you the opportu-

nity to begin exploring other options within sufficient time, if the pricing structure is not acceptable. Use caution when signing a contract for a term longer than one year. Verify if there is an early termination fee, and if there is an escape clause should the vendor not meet certain quality of service requirements.

Investigate connectivity. Reliable connectivity is essential to successful web services. Inquire about the level of connectivity, which is provided to the servers by determining the number of T1 or T3 lines.

Inquire about the amount of



space you are buying. Specifically ask about how much capacity the vendor will allow for email server, log files, system programs and graphics. How many email addresses are you allowed? Also ask about whether they provide statistical data on visitors to your web site.

Consider download speeds. Your web site must be very easy to download from anywhere. Keep in mind, that many users are still using slow computers. Downloading time also depends on the processing speed of the server where your web site is stored and the speed of your modem. Dis-

tance is also be a factor affecting download speed when downloading data or just retrieving your email.

Ask questions regarding connections and links to the search engines and directories. If this service is offered, then it should be incorporated into the price of development of your web site. You may spend a lot of money and time on the development of your web site, however if it does not have any links to various search engines and directories you will not get any additional business from it because the Internet search engines will not be able to find it.

Do a background check. Verify

“Ask questions regarding connections and links to search engines and directories.”

the number of years the company has been in business. Keep in mind using a large name company may not always be the best solution for a small business. With larger companies you could be competing for attention and may not get issues addressed promptly.

With web services, there is a high dependency on the vendor's network infrastructure, staffing, security and business strategies. These additional dependencies change the relationship between customer and vendor to business partners, making it essential to consider at a minimum, the suggestions mentioned above.

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