KAKIMOTO & NAGASHIMA LLP

CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS

NEWSLETTER

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New Beginnings

We would like to wish everyone a prosperous 2004. For us the past year was a year committed to improving our client services. The New Year will bring major changes in our quest for continuous improvements. Effective as of January 2004, we have merged with Nagashima & Company to form Kakimoto & Nagashima LLP. Under the new firm, we will renew our commitment to do our best to provide excellent services to you. Your continued support of the new firm will be greatly appreciated.

Summary of Articles

SAS No. 99 – Consideration of Fraud in a Financial Statement Audit

As part of an urgent need to respond to the public outcry over recent financial debacles, the American Institute of Certified Public Accountants had issued SAS No. 99. In development since 2000, this pronouncement provides expanded guidance to auditors related to the detection of material misstatement caused by fraud. This standard brings forward our responsibilities as auditors. It also emphasizes the continuing responsibility of our clients for the design and implementation of antifraud programs.

Excluding Gain on the Sale of Your Personal Residence

You may be aware of the provision in the tax law that allows you to sell your principal residence and not pay any tax on all or part of the gain on the sale. Before you sell your property, it is important to understand the general rules to make sure that you qualify for this income tax exclusion. Up to $250,000 of gain ($500,000 of gain for a couple married filing jointly) realized on the sale of a principal residence can be excluded from tax. Our discussion will highlight the major requirements to qualify for this tax break.

Online Shopping Safety

Online shopping is a fast and convenient way of purchasing both merchandise and services over the Internet. Since the Internet is always open, online shopping has gained in popularity but there are a few precautions to consider before making your online purchase. Here are some examples of these precautions: verify the website is secure and is using encrypted technology, shop with familiar retailers you trust, understand the conditions of the purchase, limit your personal information given, and keep good records of your purchase. Following these guideline will help ensure your online shopping experience remains safe.

Any Questions?

We are committed to providing our clients with quality and excellent services. If you have any questions or comments, please let us know. You can either email us or give us a call.

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SAS No. 99 – In Consideration of Fraud, What Can You Expect?

Enron. Tyco. WorldCom. Names that bring back to the public's mind visions of fraudulent activities and massive improprieties. As we move past the episodes of corporate misdeeds and into a world complete with increased uncertainty and scrutiny, obviously, the battle against fraud includes participation from all fronts; external and internal auditors, management, boards of directors, audit committees, and employees will all have roles in this effort. But what should our clients and the public expect from our role as an external auditor? In October of 2002, the American Institute of Certified Public Accountants (AICPA) had issued Statement on Auditing Standards No. 99 "*Consideration of Fraud in a Financial Statement Audit*" (SAS No. 99); this standard is effective for audits of financial statements for periods beginning on or after December 15, 2002. In acknowledgement of the gap between the actual responsibilities of auditors in the area of fraud and the public's perception thereof, the AICPA began work in this area in 2000 before the recent upheaval; SAS No. 99 is the culmination of the AICPA's efforts to provide for more definitive audit procedures and guidance in the auditor's role in relation to fraud. It should be emphasized that SAS No. 99 does not change the auditor's responsibility with respect to fraud. SAS No. 99 states:

> "The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud."

"… SAS No. 99 this standard is effective for audits of financial statements for periods beginning on or after December 15, 2002."

Although our responsibility has not changed, SAS No. 99 has specified certain required procedures that we must incorporate into our audits. Certain procedures will be performed in-house, however, there will be procedures that we will perform that will be evident to you. Procedures will include the following:

- an increase of our planning time; this includes assessing the risk of fraud and the incorporation of that assessment in our planned and ongoing audit testwork; internal discussions of the engagement team members regarding the risks of material misstatement due to fraud specific to each client's engagement
- making inquiries of management and others regarding fraud
- gathering additional information to identify fraud risks
- increased use of analytics
- exercising professional skepticism in consideration of a material misstatement due to fraud
- other audit procedures as applicable to each client's situation

We will be asking for specific management representations with respect to fraud. SAS No. 99 does not alter our client's responsibility for designing and implementing company programs and controls to prevent, deter and detect fraud. The responsibility remains with our clients to maintain effective antifraud programs and controls. SAS No. 99 introduces additional required audit procedures which cannot be alleviated by simple and routine processes; this translates into an increase in the amount of time to be spent on each client engagement. In out efforts to minimize any audit fee increases, we at Kakimoto and Nagashima, LLP, have been working diligently to incorporate these new requirements by addressing each client's circumstances and by promoting the education of our staff members. If you should have any questions or concerns, we would be happy to discuss them with you. ♦

Excluding Gain on the Sale of Your Personal Residence

To qualify for up to $250,000 of exclusion of gain on the sale of your principal residence, three general requirements must be met:

1. You must **own** your home as your principal residence for a total of two years during the five-year period ending on the date of the sale.

2. You must **use** the home as your principal residence for a total of two years during the five-year period ending on the date of the sale.

3. You can exclude gain on the sale of a principal residence only once every two years.

The $250,000 exclusion is doubled to $500,000 for a couple married filing jointly if four general requirements are met:

1. **Either** spouse **owns** the property for two of the last five years.

2. **Both** spouses **use** the property as their principal residence for two of the last five years.

3. **Neither spouse is ineligible** because more than one sale has been reported during the previous two years.

4. A husband and wife file **a joint return** for the taxable year of the sale of the property.

Please note that you can take advantage of these rules even if you are classified as a nonresident alien for federal tax purposes as long as you meet all of the applicable requirements.

Although these rules must generally be met, if the primary reason that you cannot comply with all of the two-year rules is because of a change in place of employment, health, or other unforeseen circumstances, you still may be able to exclude a portion of the entire $250,000/$500,000 exclusion amounts. To date, the IRS has defined "unforeseen circumstances" as the occurrence of an event that you did not anticipate before purchasing and occupying the residence. Examples of qualifying "unforeseen circumstances" include:

1. Death

2. An individual who becomes eligible for unemployment compensation.

3. A job change that results in your inability to pay housing costs and reasonable basic living expenses.

4. A divorce or legal separation under a decree of divorce or legal separation.

5. Multiple births from the same pregnancy, for example, the birth of triplets that makes your recently purchased home too small.

It is important to remember that these rules only apply to a gain from the sale of your personal residence. If you sell your residence at a loss, the loss is not deductible.

If you have more than one residence that might qualify as a personal residence, the rules should be reviewed to verify that a sale of one of the properties would qualify for the exclusion. Also, if you have taken office-in-home deductions on your tax return, you may have to pay tax on a portion of the gain.

In many situations, the rules can be applied fairly easily. However, if you are close to meeting the two-year rules relating to the exclusion of gain, it is imperative that you monitor your situation to ensure that you do, in fact, meet all of the qualifications. Failure to meet all of the requirements could substantially increase your tax bill.

Since not qualifying for the exclusion of gain from the sale of your personal residence can be very costly, we would be happy to discuss your situation with you to ensure that you take advantage of this tax provision. ♦

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Online Shopping Safety

Online shopping has become more popular than ever. Due to its convenience, more and more people have made the switch from the malls to the Internet. When shopping online, there are several things you can do to add to your shopping safety.

"The "s" in the "https", indicates a secure site using SSL (Secure Sockets Layer) technology, which encrypts your credit card information that is sent over the Internet."

1. Use a secure web site. On the payment page of a web site, look for the prefix https:// at the beginning of the web page address or a little locked padlock icon in the lower right corner of your browser window. The "s" in the "https", indicates a secure site using SSL (Secure Sockets Layer) technology, which encrypts your credit card information that is sent over the Internet. Clicking on the locked padlock icon will give more information on the security features of the web page. If the web site is not secured, do not make a purchase.

2. Shop with familiar retailers. Make purchases with retailers who you know and trust. If you are unfamiliar with the retailer, use caution. Check the Better Business Bureau to gather information on the company's reputation and to see if there have been any complaints reported. Be wary if the seller's contact information is only a post office box.

3. Have a clear understanding about the goods and services offered before you make your purchase. Be sure you know and understand what you are purchasing, the total price, delivery date, shipping charges, if any, return and cancellation policies and the terms of any guarantee.

4. Pay by using a specific credit card. Purchasing online by credit card is the safest method of shopping online. The Fair Credit Billing Act protects all credit card transactions. If your credit card is used without authorization you are generally only liable for the first $50, and sometimes less. In addition to protection, limiting online purchases to one card will provide a record of your online purchases.

5. Limit personal information given. When making a purchase, try to limit the amount of personal information you give out. If your social security number, driver's license number, or password is requested, do not place your order with that retailer. Generally, this type of personal information is not necessary to make a purchase.

6. Keep a paper trail of your purchase. Print out the seller's contact information, a copy of your receipt, a page describing the item you ordered, and the email confirming the order.

7. Read the policies defining warranties, refunds, returns, legal statements and privacy policies. Be sure to read the refund and return policy carefully. Will the website provide a refund? Can the item be returned to a retail store? Will you have to pay for the shipping when returning the item? Also, read the privacy statement carefully. Many companies feel free to sell your personal information or add you to multiple email lists. By using their website, you also may unknowingly be giving them permission to hand out your email address. ♦