



**Kakimoto & Nagashima LLP**  
Certified Public Accountants  
Consultants

## NEWSLETTER

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### 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 by either e-mail or phone. Our company profile is available on the internet at:

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## Summary of Articles

### The New Risk Assessment Standards

In March, 2006 the AICPA's Auditing Standard Board ("ASB") issued Statements on Auditing Standards ("SAS") 104 through 111 collectively known as the "Risk Assessment Standards". The risk assessment standards will be effective for periods beginning on or after December 15, 2006. In general, these eight audit standards will substantially impact the way audits are performed for the nonpublic company. Our current article provides an overview of the new standards and what changes companies can expect.

### Entertainment, Meals and Business Gift Deduction

In the business world, there is often a need to entertain clients or customers. This is often a business necessity and the costs can really add up. What kind of criteria does your entertainment, meal and business gift expense need to meet in order to be deductible? We are providing this simple guide for your information.

### Quickbooks – Leading the Way

QuickBooks and its entire product line provide standard accounting and business tools for organizing your finances with ease. You can manage the finances of your entire business, on a single screen: Accounting tasks, payroll and routine paperwork are easier than ever. Boost efficiency with direct access to key tasks and information, with the financial management solution recommended by more accountants than any other, including the professionals here at KNLLP.

### IRS Strengthens Withholding Compliance Program

The IRS has stepped up its withholding compliance program by making more effective use of information reported on W-2 wage statements to ensure that employees have enough federal income tax withheld from their paychecks. At the same time, employers are no longer required to submit potentially questionable Forms W-4 to the IRS.

## The New Risk Assessment Standards - Putting Yourself at Risk: Changes in the Audit

In March, 2006 the AICPA's Auditing Standard Board ("ASB") issued Statements on Auditing Standards ("SAS") 104 through 111 collectively known as the "Risk Assessment Standards". These eight audit standards are the result of a process which involved the efforts of the Risk Assessments Task Force (a joint effort of the ASB and the IFAC's International Auditing Practices Committee), consideration of PCAOB and International Auditing and Assurance Board auditing standards, and comment letters. The risk assessment standards will be effective for periods beginning on or after December 15, 2006. Changes caused by the risk assessment standards, in combination with other standards recently issued, are perceived to be some of the most influential standard changes in recent history; a change in the audit approach and process will generally be required.

The ASB had three primary objectives in the development of the risk assessment standards:

- (1) a greater and more comprehensive understanding of the entity and its environment, including its internal control
- (2) a more rigorous assessment of the risk of material misstatement of the financial statements based on that understanding
- (3) better correlation between assessed risks and the nature, timing and extent of audit procedures performed in response to those risks

The Risk Assessment Standards establish standards and provide guidance regarding the auditor's assessment of the risks of material misstatement (whether caused by fraud or error) in a financial statement audit. The standards also provide guidelines for the design and performance of audit procedures to address assessed risks, audit risk and materiality, planning and supervision and audit evidence.

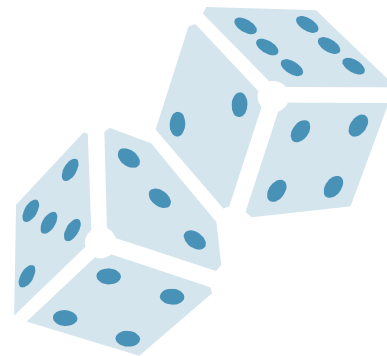
### The Risk Assessment Standards:

- SAS 104: Amendment to SAS 1, Codification of Auditing Standards and Procedures (Due Professional Care in the Performance of Work)
- SAS 105: Amendment to SAS 95, Generally Accepted Auditing Standards
- SAS 106: Audit Evidence
- SAS 107: Audit Risk and Materiality in Conducting an Audit
- SAS 108: Planning and Supervision
- SAS 109: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- SAS 110: Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained
- SAS 111: Amendment to SAS 39, Audit Sampling

The risk assessment standards have specified certain required procedures that we must incorporate into our audits. Certain procedures will be performed in-house, however, there will be several procedures that we will perform that will be evident to you. More specifically, clients may observe the following changes in the audit process:

### Improvements in the Understanding of the Entity and Its Environment

Includes obtaining a comprehensive understanding of an entity's environment. Evaluation of the design and consideration of the implementation of an entity's internal controls in the risk assessment process.



### Enhancement of the Risk Assessment Process

Risk assessment should be supported by the auditor's understanding of the entity, its environment and internal controls. Assessment of risks is to be addressed at the financial statement and relevant assertion levels. Identification of significant risks that require specific audit treatment.

### Improvements in the Correlation of Assessed Risks and Audit Procedures

A clear linkage between the auditor's understanding of the entity, risk assessments and design of audit procedures. Changes in the nature, timing and extent of audit testing.

As part of the risk assessment standards requirements, additional procedures, testwork and documentation will be required. Because each company is unique, auditors will emphasize the "custom-tailoring" of procedures and testwork to suit each company's circumstances. Companies will need to communicate with their auditors in more detail and should expect more testing of their systems in addition to the validation of their account balances.

Kakimoto & Nagashima LLP is dedicated to our clients and their success. We are also committed to professional standards and assisting our clients to understand the new and significant changes in those standards. If you should have any questions or concerns, please do not hesitate to contact us.♦

## Entertainment, Meals and Business Gift Deduction

### Entertainment

**E**ntertainment includes any activity generally considered to provide entertainment, amusement, or recreation. Examples include entertaining guests at nightclubs, social, athletic, and sporting clubs, theaters, sporting events, on yachts, or on hunting, fishing, vacation, and similar trips.

Entertainment also may include meeting personal, living, or family needs of individuals, such as providing meals, a hotel suite, or a car to customers or their families.

You may be able to deduct business-related entertainment expenses to entertain a client, customer, or employee if the expenses are both ordinary and necessary and meet one of two tests: either the directly-related test or the associated test.

An ordinary expense is one that is common and accepted in your trade, business, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.

#### One of two tests to be met:

##### 1. Directly-related test:

To meet the directly-related test, you must show that the main purpose of entertainment was the active conduct of business, you did engage in business with the person during the entertainment period, and you had more than a general expectation of getting income or some other specific business benefit. Even if you show that business was the main purpose, you generally cannot deduct the expenses for the use of an entertainment facility, such as a yacht, hunting lodge, or swimming pool.

##### 2. Associated test:

To meet the associated test, you must show that entertainment is associated with your trade or business, and entertainment directly precedes or follows a substantial business discussion.

The amount you can deduct for entertainment expenses may be limited. Generally, you can deduct only 50% of your unreimbursed entertainment expenses.

Club dues and membership fees are nondeductible expense (including initiation fees). For example, you cannot deduct dues to country clubs, golf and athletic clubs, airline clubs, hotel clubs, and clubs operated to provide meals under circumstances generally considered to be conducive to business discussions.

### Meals

Entertainment includes the cost of a meal you provide to a customer or client, whether the meal is a part of other enter-

tainment or by itself. A meal expense includes the cost of food, beverages, taxes, and tips for the meal. To deduct an entertainment-related meal, you or your employee must be present when the food or beverages are provided.

In order for a travel meal to be deductible, it must meet either of the following criteria.

1. Business-related entertainment (please see the entertainment section); or
2. It is necessary for you to stop for substantial sleep or rest to properly perform your duties while traveling away from home on business

You cannot deduct expenses for meals that are lavish or extravagant. An expense is not considered lavish or extravagant if it is reasonable based on the facts and circumstances. You can figure your meal expense using either actual cost or the standard meal allowance. The standard meal allowance is the federal meals and incidental expense (M&IE). You can find the information on the Internet at [www.irs.gov](http://www.irs.gov). If you use the actual cost of your meals to figure your expense, you must keep records. Regardless of the method you use, you generally can deduct only 50% of your meal expense.

### Gifts

If you give gifts in the course of your trade or business, you can deduct all or part of the cost.

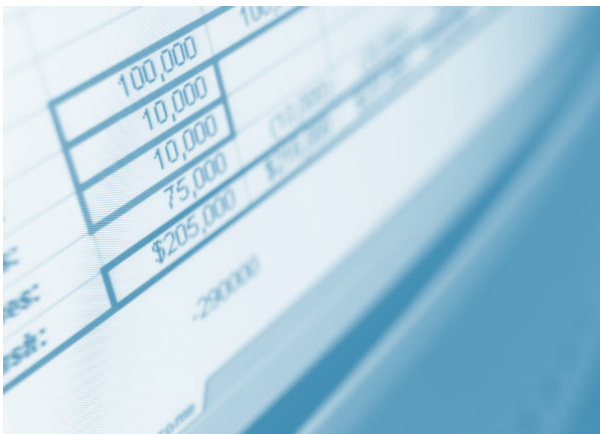
**\$25 limit.** You can deduct no more than \$25 for business gifts you give directly or indirectly to each person during your tax year. If you give a gift to a member of a customer's family, the gift is generally considered to be an indirect gift to the customer. If you give a gift to a person who will eventually use or will benefit from it, it will be a direct gift.

**Incidental costs.** A cost is incidental only if it does not add substantial value to the gift and the incidental cost is generally not included in determining the cost of a gift for purposes of the \$25 limit. For example, engraving on jewelry, packaging, insuring, and mailing are incidental costs, but the purchase of a fruit basket for packaging fruit is not an incidental cost if the value of the basket is substantial compared to the value of the fruit.

**Gift or entertainment.** Any item that might be considered either a gift or entertainment generally will be considered entertainment. However, if you give a customer packaged food or beverages that you intend the customer will use at a later date, treat it as a gift.♦

## Quickbooks by Intuit – The Ideal Accounting Package for Small Businesses

Intuit is the market leader in the United States for small business accounting with its QuickBooks line. This product has enjoyed increasing success in the last five years, but it has been with us for 10+ years. The product is available in multiple versions and styles, and is a very safe recommendation. The entry point for this product line is a sub \$100 version called SimpleStart. We frequently recommend this product, particularly where there is no inventory requirement and minimal to no payroll requirement. This product allows checks to be written and simple financial statements created. For most small businesses that want to do GL, AP and AR, this is a great product. The simplified menus allow easy handling of cash and have very simple in and out transactions. This product is an exceptionally safe choice since the physical code is actually QuickBooks Pro with a different menu. So if the client needs more capability, an upgrade in place can be performed. All of the transactions are preserved since the data files are of exactly the same format. In our opinion, this is the safest small business accounting product today.



Although SimpleStart is good, Intuit's mainstream products are better. QuickBooks has multiple versions including Pro, Premier, Accountant's Edition and offerings in several vertical industries including construction, NFP, healthcare, etc. If a company has a limited number of users, less than \$10 Million in sales, and fairly simple inventory needs, the QuickBooks line does a fine job of doing the accounting. Starting with QuickBooks 2006, issues like speed, reliability of the data files, scalability, and audit trail were all addressed and solved. The QuickBooks 2007 lines of product have almost as many features as mid-market products of the late 1990s.

Intuit has seen more key opportunities with its product line, specifically to grow the number of users and to add and allow specialty products to integrate seamlessly. QuickBooks Enterprise Edition has satisfied a large number of companies that need up to 15 end users. By helping larger companies, Intuit has seen the need for more sophisticated features and special-

ized functions they just weren't going to write. Around five years ago, the vendor opened up the QuickBooks interface with a software development kit (SDK) that allowed reading and writing of data. Today, Intuit enjoys specialized applications for CRM, inventory, manufacturing, route management and document management. The size and complexity of companies that can be satisfied with Intuit Quickbooks has become more of a threat to the mid-market accounting products.

With more than three million users, Quickbooks is the most widely used small-business accounting software. It's recommended by accountants over any other product. A 13-year history of continuous improvement assures you of the simplest, most flexible software for your business. If you feel that your business is in need of a better way to manage its "books", Quickbooks may just be the answer to your prayers. Our experienced and knowledgeable staff here at Kakimoto & Nagashima LLP can help you take a step in the right direction. ♦

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