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NEWSLETTER

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Inside this issue:

Summary of Articles

FASB Statement No. 141 (revised 2007) – Business Combinations

Is your company considering acquiring a business? Beginning in 2009, most business acquisitions will be subject to new accounting requirements. In December 2007, the Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R was issued to reduce the diversity and inconsistency in accounting practice relating to the accounting for business combinations. The revised statement brings about several changes which are set forth in the accompanying article; one should understand the ramifications of these changes for any business acquisitions planned for 2008 or 2009.

Tax Benefits for Home Owners

Home ownership has long been considered to be the materialistic foundation of the American Dream, but it can also offer numerous tax benefits. The Joint Committee on Taxation has estimated that the annual tax expenditure for itemizing mortgage interest, real estate taxes and other deductions related to homeownership exceeds $100 billion. From the initial interest payments made in obtaining the loan to the mortgage interest payments, it is important for you, as a homeowner, to turn these expenditures into a tax saving opportunity.

Why Backups Are Important

In information technology, backup refers to making copies of data so that these additional copies may be used to restore the original after a data loss event. These additional copies are typically called "backups." Backups are useful primarily for two purposes: To restore data after a loss due to disaster or due to human error. No matter what, all businesses should have this last line of defense protecting their data.

FDIC coverage limits

Federal Deposit Insurance Corporation (FDIC) is an agency of the United States government which protects depositors against the loss of their deposits if an FDIC-insured bank or savings association fails. It was created in 1933 in response to the large number of bank failures during the Great Depression. The basic insurance amount was $100,000 per depositor per insured bank, which had not been increased since 1980. However, with the passage of the new economic bailout bill, FDIC coverage limits have been temporarily increased to $250,000. This higher limit is effective October 3, 2008, through December 31, 2009.

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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Accounting for Business Combinations - Statement of Financial Accounting Standards No. 141R

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 (revised 2007), "*Business Combinations*" ("SFAS 141R"); this statement is effective for periods beginning on or after December 15, 2008 with earlier adoption prohibited. In addition to the FASB's fundamental goal of improving upon the relevance and transparency of financial statement information, SFAS 141R was issued to reduce the diversity and inconsistency in accounting practice relating to the accounting for business combinations. Also, this new standard represents the completion of the FASB's first major joint project with the International Accounting Standards Board ("IASB"); the IASB released its counterpart revised standard on business combinations, "International Financial Reporting Standards 3" in January 2008.

The issuance of SFAS 141R brings about several changes in the accounting for business combinations. One notable change is that SFAS 141R requires a buyer to record 100% of the assets acquired and liabilities assumed, whether full, partial or a step acquisition. Amounts to be recorded will be measured at fair values as of the acquisition date. Any minority interest or "noncontrolling interest" resulting from a partial or step acquisition will be considered as a component of stockholders' equity instead of a liability or "mezzanine" item in conjunction with Statement of Financial Accounting Standards No. 160, "*Noncontrolling Interests in Consolidated Financial Statements*". The general accounting treatment of certain other key changes are summarized as follows:

Provision	**Current U.S. GAAP**	**SFAS No. 141R**
Acquisition transaction costs	Qualified costs are considered part of the purchase price.	Acquisition related transaction costs will be expensed as incurred rather than treated as part of the acquisition cost.
Bargain purchase gain	Fair value in excess of cost reduces certain acquisition asset values on a pro rata basis.	Acquired assets and liabilities will be recorded at fair value; assets will no longer be reduced. Any excess will generally result in a recognition of a gain in earnings.
Contingent consideration	Contingent consideration is generally recognized as an adjustment to the purchase price when the contingency is resolved.	Contingent consideration is recognized at fair value on the acquisition date; any subsequent adjustments will be recognized in earnings.
In-process research and development costs ("R & D")	A fair value is associated with in-process R & D assets but then is immediately written-off.	In-process R & D will be measured at fair value and be classified as intangible assets with indefinite lives subject to subsequent impairment tests.
Contingencies	Contingent liabilities are recognized when the liability is deemed probable and reasonably estimated (Statement of Financial Accounting Standards No. 5, "*Accounting for Contingencies*" ("SFAS 5").	An exemption from SFAS 5 requirements for most acquired contingencies. Acquirers will record all contractual contingencies at fair value. Noncontractual contingencies will be recorded at fair value if the "more likely than not" criterion is met.
Goodwill	Only goodwill related with the buyer's interest is recognized.	Goodwill relating to both the controlling and noncontrolling interests is recognized.
Deferred income taxes	Changes to either the buyer's and target's deferred tax benefit valuation allowances could affect the purchase price allocation.	Generally, changes in the valuation allowances could be recognized in the income tax provision which would affect earnings.

In addition, the definitions of a business and a business combination have been expanded; consequently, more transactions will qualify as business combinations. Aside from the certain provision changes noted above, there are several other revisions brought about by SFAS 141R that could have a bearing on your company's acquisition plans. We are committed to assisting our clients in understanding the significant changes in new accounting standards. If your company is considering acquiring a business, please contact us; we will be able to consult with you regarding any questions or concerns that you may have.♦

Tax Benefits for Home Owners

Home ownership is considered one of the best tax savings available. But tax laws pertaining to home ownership are never stagnant and are constantly adapting to the volatile economy. It is important for you as a homeowner to obtain the most up-to-date information in maximizing your deductions and getting the most out of your home. Below is a general guideline in understanding your tax benefits from home ownership.

I. Mortgage Interest

Mortgage interest is considered one of the biggest tax advantages for most homeowners because payments on home mortgage interest are generally fully deductible. The following conditions must be met before deducting your mortgage:

A. You must file Form 1040 and itemize deductions on Schedule A
B. You must be legally liable for the loan
C. The mortgage must be a secured debt on a qualified home in which you have an ownership interest

Generally speaking, to fully deduct the mortgage interest, neither your main home nor your second home can be rented out or used for other than residential living. There is also a $1 million ($500,000 if your filing status is married filing separately) limitation on your total mortgage debt. If your total mortgage (combined mortgage of your main and second home) exceeds $1 million, only a portion of the interest that you pay on your loans can be deducted.

Interests paid on home equity loans are tax deductible as well. Home equity loans are loans made in exchange for pledging the home as collateral and can be used to help finance for the cost of education, medical bills, personal debt, home improvement, etc. The deductible amount for equity loan interest varies with the principal usage of the loan. If the loan was used to build, purchase, or improve your main or second home, it would be considered as part of mortgage debt and deductible as explained above. If the equity loan was used for any other reasons, the deductible interest is based on the smaller of (1) loan of $100,000 or (2) value of eligible debt, which is computed by subtracting first mortgage and other debts of the home from its fair market value.

IRS allows deductions on another type of mortgage interest payment called discount points. Discount points are a prepayment of interest on a loan and if eligible, can be fully deducted in the year it was paid or deducted ratably (equally) over the life of the loan. Discount points paid to refinance a mortgage are also typically allocated throughout the life of the loan. In addition, any unamortized points remaining from the previous loan can be written off in the year the loan is refinanced.

II. Real Estate Taxes

Real estate taxes are annual taxes levied by the local, state or foreign government based on the assessed value of the property. Real estate taxes are deductible if the taxes paid were based on the value of the property and the tax authority charges a uniform rate on all property in its jurisdiction (i.e. taxes paid are for the welfare of the general public and not as a condition for special treatment granted to the taxpayer). Taxes paid for local benefits and improvements that will increase the value of the property cannot be deducted because these taxes are not for the interest of the general public.

III. Mortgage Insurance Premiums

Qualified mortgage insurance premiums paid during the year can be treated as deductible qualified residence interest. The deduction may allow taxpayers with adjusted gross income (AGI) of less than $100,000 ($50,000 if your filing status is married filing separately) to deduct the full cost of their mortgage insurance premiums on their federal return. Deduction for prepaid qualified mortgage insurance premiums must be allocated according to the tax year. Unless Congress extends this benefit, tax deductions for mortgage insurance premiums are limited to insured mortgages that originate between 2007 and 2010.

IV. First-Time Homebuyer Tax Credit

First-time homebuyers who purchase a home after April 8, 2008 and before July 1, 2009 are eligible to receive a First-Time Homebuyer Tax Credit on their tax return. The credit is worth the lesser of 10% of your home purchase price or $7,500 (maximum of $3,750 if your filing status is married filing separately) but the amount will depend greatly on your modified adjusted gross income (MAGI). To receive the full tax benefit, your MAGI (calculated by using your adjusted gross income minus certain deductions but before standard or itemized deductions or personal exemptions) cannot be over $150,000 for a married couple filing a joint return and $75,000 for any other taxpayers. The credit is sometimes referred to as an "interest-free loan" because the full amount must be repaid evenly to the government over the course of a 15-year period. The repayment of the credit will take effect two years after the year the credit was claimed.♦

Why Backups Are Important

A study concluded that more than half of small businesses that suffer a major data loss don't survive very long. The lack of a sufficient backup solution was the deciding factor which ultimately determined the fate of these businesses. Small business owners should be wise to keep up with their electronic data backups. It will save you, your clients, your time, your money and quite possibly your business.

More often than not a new business does not think a data center disaster recovery plan is necessary, much less a priority. They usually think that a disaster won't happen to them or think that since their business doesn't use software as much as other businesses that there isn't any reason to spend the money required of a sound data center disaster recovery plan. But let me tell you why you definitely need it right now:

1. **Self-Confidence:** Employees and customers both will be grateful for the peace of mind that comes from protection against any sort of disaster. They can rest easy when the corporation they are devoted to knows how to think ahead and plan for unforeseen events. When the company makes certain that it is prepared for any crisis that may come its way, people definitely feel secure and this brings on loyalty. It also acts as a major selling point to potential clients, helping build a strong customer base that is crucial in every business.
2. **Records:** Data center disaster recovery plans always include computer backup systems so businesses enjoy the proper documentation that is included in the system. This is just one fringe benefit any business can enjoy. An extremely useful feature of some systems is the capability of sorting and organizing backup data easily in case there is a need to refer and restore original files and programs that have been deleted or misplaced as a result of human error.
3. **Safekeeping Files:** The risk of data destruction is extremely high with all of the worms and viruses threatening computer systems on a daily basis. These malicious programs could wreak devastation on a data center, bringing the business to a complete stop. When you have a computer backup system you can fix this chaos quickly by replacing the corrupted files. Then it is back to business as usual at its normal speed.
4. **Effectiveness:** Computer backup systems support work efficiency by restoring damaged or deleted files, so the work stoppage is just a small blip of the chart instead of a major downtrend in production that a major delay would cause. You have to realize that data center disaster recovery plans are useful in minor problems or accidents as well as a full-blown disaster.
5. **Investments:** A data center disaster recovery plan saves the business a ton of money the first time it needs to be used. You are saving money in the long run by preventing any type of software problem, no matter what the size from affecting and slowing down business.
6. **Worst Circumstance:** If you are struck with any type of disaster and your valuable data is completely wiped out, not to worry; all you have to do is go to your online computer backups that can restore all the data that was lost. You can be sure that any businesses without any online computer backups will be wishing they had a serious data center disaster recovery plan in place when they are trying to remember what they lost!

You need a total system and data protection solution that combines ease-of-use with robust performance. It allows you to perform fast backup and recovery jobs reliably, and protects all MS Windows based desktops, laptops, and networked systems against various types of threats such as system failure, human error, and disaster.

What else do you need to know? Missing a backup or deciding to bring an online system back up instead of rerunning a failed backup job are no longer options as requirements for compliance such as Sarbanes-Oxley have intensified. Even if you are not part of a publicly traded company, please pay attention to it because what's happening is part of a general trend towards stricter rules for corporate governance. The current tide of governance is still at a relatively low level, but when the storm hits, the tidal wave will overcome you if you are not prepared.

Sarbanes-Oxley-impacted companies are seeing the results of the high tide from the compliance storm. Such companies are mandated to verify the authenticity of their financial records. Each company must build and maintain an internal control structure and procedures for financial planning that also contain an assessment of the effectiveness of that approach.

Enterprises tend to spend a great deal of money putting policies, processes, procedures, and practices for the necessary overall process management in place. While these steps are necessary, enterprises must keep in mind that the heart of compliance is data protection. How so? Data preservation and data confidentiality are two key objectives of data protection. Take data preservation. Data preservation must be met for Sarbanes-Oxley compliance. No loss of data that would invalidate the integrity of the financial reports can be tolerated.

That has an important ramification for the backup/restore process. If the official production copy of the data that makes up the financial records and key information that is tightly coupled with those financial records (say e-mails discussing a large customer order) is destroyed or rendered invalid for any reason, the data protection copy of the data assumes paramount importance as the complete and accurate copy of the data.

What are your choices? A correct backup copy is essential in those circumstances in order to completely and accurately recover all of the required data. Now you can see why you will lose the flexibility of occasionally missing a backup.

That increases the burden on you. Data Protection Management (DPM) is rapidly becoming a necessity in order not only to ensure that backups have been done in case there is a need to restore, but also for auditing purposes. DPM must be done at the front-end to ensure that backups have been done. But those backups must be tested to make sure that the data can be restored when necessary. Putting good test procedures in place can be difficult, but you must find a way.

With high speed internet available almost anywhere, the use of online backup solutions have become far more cost-effective and simple to use than traditional backup and storage methods. Online storage provides one of the most affordable insurance policies against the liability and devastation of data loss. By evaluating these issues and determining what works best for a company’s needs, business owners can feel confident knowing that their most important data is protected from disaster or loss.

The time is now to evaluate your current backup solution. Tomorrow is too late. If you feel that your current backup solution is in need of an upgrade, please contact the professionals at Kakimoto & Nagashima LLP. We will help guide you to a solution to put your mind at ease.♦

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