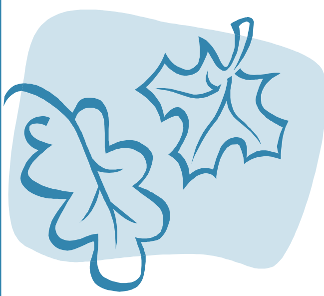
Kakimoto & Nagashima LLP
Certified Public Accountants
Consultants

NEWSLETTER

Volume 7, Issue 3 October 2009

Inside this issue:



Summary of Articles

International Financial Reporting Standards/IFRS – Going the Distance

Convergence/adoption programs between IFRS and generally accepted accounting standards in the U.S. and Japan are expected to move forward. Will your Company be ready to make the transition? Our current article provides an overview of items to consider when making the transition to IFRS.

Cash For Clunkers Not The Only Benefit For New Car Buyers

Did you miss out on "Cash for Clunkers"? There are still tax benefits for purchasing a new vehicle before the end of 2009. You can learn about these benefits from the article in this month's newsletter.

Financial Due Diligence

An acquisition deal involving purchase of assets or equity in an ongoing business usually requires the proper due diligence work for either buyer or seller to make the right decisions. Without this step, the buyer may pay too much or the seller may receive too little. Financial due diligence, or more specifically accounting and tax due diligence, will provide the buyer or seller the confidence to execute the deal based upon reliable financial information and evaluation of tax considerations.

FIN 48 Preparedness
Kakimoto & Nagashima LLP Assurance and Tax Services

FIN 48 (FASB Interpretation Number 48) implementation affects your financial statements!

Please consult us for practical applications of the financial accounting standard now applicable for private companies in the United States for fiscal year beginning after December 15, 2008.

Inventorying tax positions
Recognition/Measurement process
Accounting requirements
Documentation
Disclosures

Quality. Trusted. An alternative solution to large-firm pricing.

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:

http://www.knllp.com

Tel: (310) 320-2700
Fax: (310) 320-4630
E-mail: sboffice@knllp.com

International Financial Reporting Standards - Moving Forward

Although many in the U.S. continue to consider the merits of the International Financial Reporting Standards ("IFRS"), most believe the conversion and/or adoption of IFRS in the U.S. will ultimately become a reality. Earlier this year, the SEC solicited comments on its proposed roadmap targets for IFRS convergence. Unfortunately, due to the financial crisis, SEC efforts related to the IFRS movement appeared to be stalled. However, at the end of September, 2009, both the SEC's chairman, Mary Schapiro, and chief accountant, James Kroeker, have put forward the SEC's intentions to refocus on IFRS convergence and to make it a priority; it is expected that the SEC will make clear their course of action with respect to IFRS later on this fall.

With the convergence/adoption of IFRS moving more quickly in many countries, in June 2009 Japan's Business Accounting Council, a key advisory group of the Financial Services Agency, proposed a roadmap with the intent to aggressively pursue the subject of IFRS convergence. Three significant areas were addressed: voluntary adoption of IFRS, the timing of the final decision regarding the mandatory application of IFRS and an appropriate transition period. Current proposed timelines for IFRS convergence/adoption for the U.S./public companies (as proposed by the SEC) and Japan are presented in the chart below.

Looking Forward

Moving towards the use of a universal set of accounting principles is not without its challenges. Companies operate in countries with diverse cultural backgrounds; differing interpretations and applications of accounting standards are inevitable and will need to be synchronized. Infrastructure changes may result, for instance, from legal framework reconsiderations involving financial reporting matters. Conversion to IFRS will be different for each Company. Conversion factors would include: how closely a Company's current accounting policies align with IFRS, attributes of the Company's business and the size/complexity of the Company and its operations. In order to achieve a successful IFRS implementation, management should establish a strategy/plan which could incorporate the following steps:

- Evaluation of current systems/environment and scope of IFRS conversion
- Designing/drafting of the implementation plan
- Implementation and follow-up

Evaluation of Current Systems/Environment and Scope of IFRS Conversion

Assess the impact of converting to IFRS for the Company. How will IFRS affect external and internal reporting and accounting requirements? Areas to consider:

- Accounting/financial statement reporting – Identify key differences between U.S. GAAP and IFRS
- Systems/processes – financial data processing; internal controls
- Legal – reassessment of contracts and agreements
- Tax – accounting and statutory compliance
- Adequate IFRS knowledge base – training of Company personnel affected by the adoption of IFRS
- Affiliate coordination/communication – Parent Company and subsidiary levels

Designing/drafting of the Implementation Plan

Begin mapping the implementation plan by involving management, considering changes to infrastructure and timelines. Potential items to consider:

- Accounting/financial reporting – proper treatment of accounting/reporting issues
- Technology – will the Company's current technology support anticipated changes?
- Outsourcing – Companies with limited resources should consider outsourcing and approaching outside experts to assist in the process
- Investor obligations – Parent Company expectations
- Timeframes – important milestones and targets should be set

Implementation and Follow-up

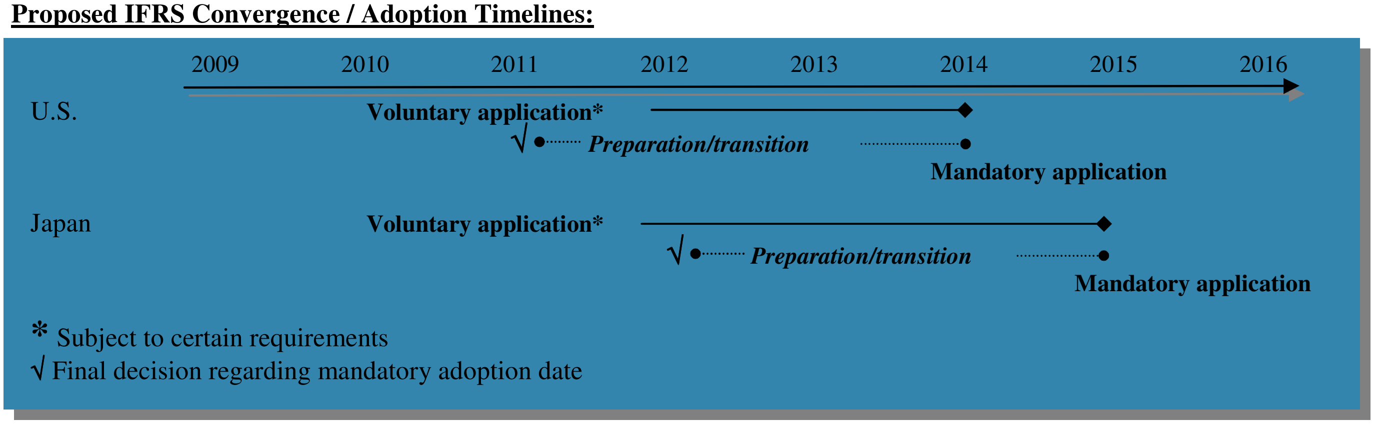
Successful IFRS implementation plans depend on well-thought out planning throughout the entire process and having the right team in place. In many cases, initial IFRS based financial statements may have been prepared using temporary solutions and nonintegrated (manual) processes. Companies should address these matters and make efforts to "embed" IFRS reporting processes into the routine activities of its operations.

Identification of Key Differences Between U.S GAAP and IFRS

The scale and degree of a Company's IFRS implementation plan will be largely dependent on the magnitude of differences between the Company's current accounting policies and IFRS. Although the FASB and IASB are currently working on several joint accounting

(Continued on page 3)

Proposed IFRS Convergence / Adoption Timelines:



New Vehicle Sales or Excise Tax Deduction

In our July newsletter we alerted readers to the Car Allowance Rebate System (CARS), otherwise known as "Cash for Clunkers", which offered up to $4,500 in government provided incentives with which to offset the purchase or lease price of a new fuel efficient vehicle upon the surrender of an eligible trade-in vehicle. That program ended on August 24, 2009 and resulted in nearly 700,000 clunkers taken off the roads, replaced with more fuel efficient vehicles. Congress had provided $3 billion to fund the program and rebate applications worth approximately $2.877 billion were submitted by the deadline. Interestingly, the average fuel economy of the cars traded in was 15.8 miles per gallon, while the average fuel economy of the vehicles purchased was 24.9 miles per gallon. That is an improvement of 58%!

For those of us who were not able to take advantage of the cash for clunkers program, there are still tax benefits to purchasing a new vehicle before the end of 2009. The American Recovery and Reinvestment Act of 2009 provided a tax break for taxpayers who buy new motor vehicles this year. Taxpayers are entitled to claim a deduction from gross income with respect to "qualified motor vehicle taxes". Qualified motor vehicle taxes are any state or local sales or excise tax imposed on the purchase of a "qualified motor vehicle".

The IRS has published Special Edition Tax Tip 2009-09 in which it gives nine important facts taxpayers should know about the deduction.

1. State and local sales and excise taxes paid on up to $49,500 of the purchase price of each qualifying vehicle are deductible.

2. Qualified motor vehicles generally include new cars, light trucks, motor homes and motorcycles.

3. To qualify for the deduction the new car, light truck or motorcycle must weigh 8,500 pounds or less. Motor homes are not subject to the weight limit.

4. Purchases must occur after February 16, 2009 and before January 1, 2010.

5. Taxpayers who purchase new motor vehicles in states that do not have state sales taxes may be entitled to deduct other fees or taxes assessed on the purchase of those vehicles. Fees or taxes that qualify must be based on the vehicle's sales price or as a per unit fee. These states include Alaska, Delaware, Hawaii, Montana, New Hampshire and Oregon.

6. Taxpayers who purchase qualified motor vehicles may claim the deduction when they file their 2009 tax return in 2010.

7. The deduction may not be taken on 2008 tax returns.

8. The deduction can be taken regardless of whether the buyers itemize their deductions or choose the standard deduction. Taxpayers who do not itemize will add this additional amount to the standard deduction on their 2009 tax return.

9. The amount of the deduction is phased out for taxpayers whose modified adjusted gross income is between $125,000 and $135,000 for individual filers and between $250,000 and $260,000 for joint filers.

The deduction for sales or excise taxes paid on the purchase of a qualified motor vehicle can provide a benefit to those who make their purchase before January 1, 2010. So if you are in the market for a new vehicle, it may make sense to make your purchase before January 1, 2010 in order to take advantage of this generous tax break.♦

(Continued from page 2)
standard projects, certain differences between U.S. GAAP and IFRS do exist in areas such as:

- Revenue recognition
- Business combinations
- Intangibles
- Impairment
- Inventory
- Consolidation
- Foreign currency
- Financial instruments
- Income taxes
- Leases
- Contingencies
- Financial statement presentation

U.S. Private Companies

In July 2009, the IASB issued the "International Financial Reporting Standard for Small and Medium-sized Entities" ("IFRS for SMEs"). IFRS for SMEs was issued to meet the financial reporting needs of the private company - several "full IFRS" accounting principles have been simplified with required financial statement disclosures significantly reduced. IFRS for SMEs is separate from "full IFRS" and can be adopted by entities that meet certain criteria; the IASB has also stated that each jurisdiction will make the decision as to which entities would be allowed to use IFRS for SMEs.

Adopting IFRS will not only impact accounting policies but will entail modifications to many company processes: financial reporting, internal control, tax and legal to name a few. Please consult us for further information or to discuss the future impact that IFRS may have on your Company.♦

Financial Due Diligence

WHAT IS IT?

Financial due diligence is an important step in an acquisition deal to verify the validity of financial information and records. Without accurate underlying financial information, the buyer may pay too much or the seller may receive too little. Financial due diligence can be separated into accounting due diligence and tax due diligence.

Although accounting due diligence provides a level of assurance that appropriate accounting standards are applied, assets are at least worth the amount recorded and liabilities are no more than what is recorded on the books, accounting due diligence procedures are tailored for each transaction and often go beyond the scope of a financial statement audit. Procedures can include evaluation and testing of management reports, determination of the strengths and weaknesses of the accounting department, review of audit reports and supporting workpapers, and further testing and inquiries to management based on an as-needed and tailored approach.

A buyer seeks to know what they are acquiring is really worth. For instance, inaccurate historical financial records used to project future cash flows do not provide a strong basis for a proper valuation. A buyer without reliable financial information also cannot concentrate on other important aspects of a deal. A seller can benefit by providing quality and accurate financial information to smooth the deal process and save time. Adequate details and accurate financial information give the buyer confidence to close the deal. On the other hand, inadequate and inaccurate financial information usually gives the buyer room to negotiate the price downward.

Tax due diligence provides both buyer and seller a clear understanding of significant tax obligations and potential tax savings alternatives that may often be unclear and many times addressed after the fact. Not only income taxes are considered. For example, sales & use taxes, payroll taxes, property taxes, and status of pending tax examinations are also considered. Back taxes, interest, and penalties can make a significant impact to the deal. Tax implications are often critical in a stock acquisition as the buyer assumes all liabilities of the target company.

WHAT TO LOOK FOR

Identifying critical financial issues early on in the due diligence process and to gain comfort on those issues is key to successfully closing a deal. A seller can benefit from emphasizing the value and thus receiving the best price possible. A buyer can benefit from being able to focus their attention on critical areas.

In an asset purchase, both buyer and seller will primarily be concerned with the valuation and existence of significant assets. Hard assets can be physically observed and appraised. Unless a valuation study can be performed, intangible assets are reviewed to determine if they are properly recorded under appropriate accounting standards and tested for impairment of value. However, the intrinsic values of intangible assets are considered should it impact the deal price.

In an equity deal, look for unrecorded liabilities. Additional taxes, accrued compensation, unpaid contract obligations and contingent liabilities often surface during the due diligence process. Companies operate in this ever complex business environment with legal and contractual obligations which may not be fully recorded on the books.

Perform prorations at closing for allocation of income and expenses to the proper accounting periods.

Time is usually of concern in an acquisition deal. Use of secured access to virtual data speeds up the information gathering and document review processes. Virtual meetings are useful to get key individuals across the globe to meet on the fly. However, virtual meetings will not replace the comfort of a face-to-face meeting which often provides hints of whether the other party is bluffing or not.

CONSIDER US TO BE ON YOUR TEAM

We suggest our consultants and tax advisors meet with the acquisition team early on in the deal and preferably before the letter of intent is signed. We also coordinate our financial due diligence work with counsel and other advisors. We help identify the critical and significant financial issues and put together a list of agreed-upon procedures including the timing of our work and deliverables based on client needs. The financial due diligence findings often impact the terms of the deal. Some say the real work begins when the definitive agreement is signed. We also provide assistance on post-transaction processes, pricing analysis and business valuations.

Please contact us if you have any questions regarding these consulting services. We would be happy to discuss them with you.♦

Questions or comments about this issue or inquiries about our newsletter by e-mail subscription service can be sent to:

newsletter@knllp.com