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

FASB Standard-Setting Developments

The FASB has several accounting/financial reporting projects underway. Included are projects related to Joint Transition Resource Group for Revenue Recognition concerns, as well as projects introduced through the FASB simplification initiative. Companies should continue to monitor the status of these projects and consider the possible impact to their accounting and financial reporting processes. Summarized in this article are selected projects, expected timing and possible changes in accounting/financial reporting that may result from each project's completion.

Final Tangible Property Regulations / Accounting Method Changes and Elections

After many years in the making, implementation of the tangible property regulations, which is mandatory for taxable years beginning after January 1, 2014, is here. The final regulations provide analyses of distinguishing deductible repairs and maintenance from capital improvements, as well as safe harbors and elections to ease taxpayer compliance. Please read our article for some of the major elections and accounting method changes available to taxpayers who use tangible property in their business.

Outsource Your Way Towards Reliable and Current Financial Information

How can you get reliable and current financial information without slowing down your business to put it together? As you focus on the core activities of your growing company, you will also need to deal with your non-core functions efficiently. Outsourcing work is a tried-and-tested model and a competitive strategy for success. Our article summarizes the benefits of outsourcing and the things to consider when choosing an accounting provider.

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http://www.knllp.com/newsletter/registration.php

We look forward to providing you with up-to-date accounting and tax information.

FASB Accounting Projects – Under Development

There will be changes in your future accounting and financial reporting requirements. The U.S. Financial Accounting Standards Board ("FASB") is currently working on several accounting projects with possible standard issuance dates in 2015 or 2016. In addition, with revenue recognition standards being recently issued by both the FASB (ASU 2014-09) and the International Accounting Standards Board ("IASB"; IFRS 15), implementation issues arise regarding the new guidance. The FASB and the IASB have created the Joint Transition Resource Group for Revenue Recognition (“TRG”) in response to application concerns and to assist in the transition to the new standard. The TRG will support the Boards to determine if additional guidance is needed in applying the new standard. Expect to see more clarification issued from the Boards in the revenue recognition area.

The FASB continues to work on projects introduced through its simplification initiative which was launched in 2014. The objective of the simplification initiative is to improve or maintain the usefulness of the information reported in financial statements while reducing the cost and complexity in financial reporting. Projects are narrow-scoped and short-term.

The FASB’s 2015 agenda also includes the following goals: finalize its major projects with the IASB, continue to cooperate with international standard setters, and make U.S. GAAP codification more manageable for users.

With the issuance of new standards, certain accounting and reporting issues may initially become more challenging and warrant additional attention. Anticipated principles or objectives, possible changes and expected standard issuance dates for certain FASB projects are summarized below.

Project Area	Anticipated Principles or Objectives	Possible Changes	Status	Expected Standard Issuance Date
Leases	Create common lease accounting requirements in which the assets and liabilities arising from lease contracts are recognized on the balance sheet.	Almost all leases would be recorded on the balance sheet. Requirement to identify all lease agreements and relevant lease data using new definitions. New criteria and tests to measure leases; certain reassessment and remeasurement of lease assets/liabilities expected at each reporting date.	Final standard drafting has begun.	Fourth quarter, 2015
Revenue Recognition – Deferral of Effective Date	Address implementation issues identified by the TRG.	Generally defer revenue recognition (ASU 2014-09) effective date for nonpublic entities for annual reporting periods beginning after December 15, 2018 (public entities for annual reporting period beginning after December 15, 2017).	Final standard drafting has begun.	Third quarter, 2015
Revenue Recognition – Identifying Performance Obligations and Licenses	Address implementation issues identified by the TRG.	Clarify guidance regarding performance obligations and licensing.	Exposure draft stage with comment period ended June, 2015.	Not established
Revenue Recognition – Narrow Scope Improvements and Practical Expedients	Address implementation issues identified by the TRG.	Possible expedients related to contract modifications and sales tax presentation; clarification regarding noncash consideration and collectability.	Exposure draft expected third quarter, 2015.	Not established
Accounting for Financial Instruments	Improve usefulness of financial instrument reporting while also providing for certain simplification; the project will: 1) Reconsider the recognition/measurement of financial instruments 2) Address issues related to impairment of financial instruments and hedge accounting	Would significantly change the accounting for a broad range of financial instruments. Extent of effect would depend upon the significance of financial instruments to the entity’s operations and financial position.	Classification/ Measurement and Impairment final standard drafting has begun; FASB continues to redeliberate on Hedge Accounting	Classification/ Measurement and Impairment: Fourth quarter, 2015; Hedge Accounting: not established
Accounting for Income Taxes	Reduce the cost/complexity of accounting for income taxes.	Income tax consequences for intra-entity asset transfers; financial statement noncurrent classification for deferred tax assets/ liabilities.	Exposure draft redeliberations.	Not established
Simplifying the Equity Method of Accounting	Reduce the cost/complexity of equity method investment accounting.	Eliminate accounting requirements for the basis difference and related disclosures. Changes in retroactive application of the equity method.	Exposure draft stage with comment period to end August, 2015.	Not established
Simplifying the Subsequent Measurement of Inventory	Reduce the cost/complexity of inventory measurements.	Inventory to be measured at the lower of cost and net realizable value.	Final standard issued.	Issued, third quarter, 2015
Measurement Period Adjustments in a Business Combination	Reduce the cost/complexity of the accounting related to business combinations.	Timing of the recognition of provisional amount adjustments recorded in a business combination.	Exposure draft stage with comment period ended July, 2015	Not established
Employee Share-Based Payments	Reduce the cost/complexity of the accounting for share-based payment awards issued for employees.	Simplification of several aspects of share-based payment transactions including: income taxes and financial statement classification.	Exposure draft stage with comment period to end August, 2015	Not established

Please consult us for further information or to discuss the impact that these FASB projects may have on your Company's future accounting and financial reporting. ♦

Final Tangible Property Regulations / Accounting Method Changes and Elections

The IRS issued the long-awaited final repair regulations on September 13, 2013 and the final disposition regulations on August 18, 2014. Since these rules are mandatory for tax years beginning on or after January 1, 2014, implementation of these regulations is finally here. These rules provide the guidance on acquiring, producing, improving, and the disposition of tangible property, and will impact all taxpayers who use tangible property in their business. Procedural guidance, Revenue Procedures 2015-13 and 2015-14, was issued in January of 2015 and provides the rules for making method changes required to implement the final repair and disposition regulations. Many businesses will need to file Form 3115 to request a change in method of accounting, as well as file new elections with their tax returns in order to comply with the final regulations. Some of the method changes are prospective while others may be applied retroactively.

Some of the major accounting method changes and elections are outlined below.

De Minimis Safe Harbor Election [Reg.§1-263(a)-1(f)]
Taxpayers that have a written policy at the beginning of their tax year to expense, for non-tax purposes, amounts paid for property costing less than a specified dollar amount or having an economic useful life of 12 months or less may take the same deduction for tax purposes. The de minimis safe harbor rule applies as long as the taxpayer consistently treats such amounts as an expense on its applicable financial statement, and the book minimum capitalization policy does not exceed $5,000 per invoice or per item on an invoice. If the taxpayer does not have an applicable financial statement, the threshold is reduced to $500 per invoice or per item on an invoice. The de minimis safe harbor rule must be applied to all amounts expensed under the taxpayer's book policy, including materials and supplies. The de minimis safe harbor election is an irrevocable annual election made on a timely filed original federal tax return.

Capitalization Election for Repair and Maintenance Costs [Reg.§1-263(a)-3(n)]
A taxpayer may elect to capitalize otherwise deductible repairs that are capitalized on its books and records. The election to capitalize repair and maintenance costs is an irrevocable annual election made on a taxpayer's timely filed original federal tax return.

Unit of Property for Purposes of Applying the Improvement Rules [Reg.§1.263(a)-3(e))]
Taxpayers that own or lease a building should consider redefining the "unit of property". Unit of property is a fundamental concept in applying the capitalization standards. Most taxpayers currently define their unit of property as the entire building. However, under the repair regulations, a unit of property can be defined as structural components of a building or the individual building systems. The nine building systems are: 1) heating, ventilation and air-conditioning (HVAC); 2) plumbing; 3) electrical; 4) all escalators; 5) all elevators; 6) the fire protection and alarm systems; 7) the security systems; 8) the gas distribution systems; and 9) other systems identified in published guidance. Taxpayers that own a building are required to make a change in 2014 to redefine the unit of property for purposes of applying the improvement rules. The significance of determining a unit of property is because whether an expenditure is classified as a deductible expense or a capitalizable improvement is greatly affected by the value of the unit of property. The change to redefine a unit of property for a building for purposes of applying the improvement rules requires filing Form 3115, Application for Change in Accounting Method.

Deduct Eligible Amounts Under the Routine Maintenance Safe Harbor[Reg.§1.263(a)-3(i)]
Routine maintenance consists of amounts paid for recurring activities that a taxpayer expects to perform on a building or equipment to keep the property in its ordinarily efficient operating condition. As long as you can reasonably expect to perform these maintenance activities more than once during the 10 year period beginning when the building is placed in service, or for property other than buildings, more than once during the class life of the property, expenditures are not considered to improve the property. The routine maintenance safe harbor provides an accounting method to deduct such amounts for tax rather than requiring the expenditure to be capitalized as an improvement.

Qualifying activities include inspection, cleaning, and testing of the building structure or each building system, as well as the replacement of damaged or worn parts with comparable and commercially available replacement parts. Filing of Form 3115, Application for Change in Accounting Method, may be required to deduct routine maintenance costs.

Deductibility of Materials and Supplies [Reg.§1-162-3]
Materials and supplies are deductible at different times depending on how the items are categorized: incidental, non-incidental, rotable, temporary, or emergency spare parts. Incidental materials and supplies are items of minor importance for which no record of consumption is kept and include items such as shop materials and routine office supplies. Incidental materials and supplies are deductible when purchased provided taxable income is clearly reflected. Non-incidental materials and supplies are deductible when used or consumed. Rotable, temporary or emergency standby spare parts are deductible when disposed of. In general, the final regulations did not change the rules for deducting materials and supplies, but if a taxpayer was not previously compliant with the regulations, the filing of Form 3115, Application for Change in Accounting Method would be required to become compliant.

The final tangible property regulations are extensive and complex, and implementation will require careful consideration of each taxpayer's specific circumstances. Please contact Kakimoto and Nagashima LLP to help you navigate through these extensive rules.♦

Outsource Your Way Towards Reliable and Current Financial Information

An effective resource for developing businesses is to have accurate and current financial information. Reliable financial information allows business owners to properly analyze the results of operations and make better business decisions. However, the process of putting together and communicating financial information can be tedious and can place a major burden on your company's resources. Most small-business owners experience difficulties through their monthly and yearly closing by doing it on their own and spending precious time when they could be directing their attention on their main business operations. There are also instances that they need a general-ledger accountant or a clerk, but not a full-time employee. These are situations in which finding the right solution is very difficult.

The good news is that, there are ways to resolve these issues and one of them is outsourcing. It may take time to look for outside help if you are rushing to put together financial information, or if you are making too many decisions without reliable and current financial information. Accounting should not take away key employees and business owners from their critical responsibilities. When you are distracted from your main business practices, you run the risk of not providing better service to your customers or missing opportunities. Outsourcing your accounting needs will provide much needed assistance and extra time so that you can focus on your business.

A number of companies are now considering outsourcing components of their accounting functions to well-established firms in order to improve their processes, to take advantage of skill sets, and to be able to obtain accurate and current information needed for business decisions. Additional benefits include reduction in salary costs, improved efficiency through process automation, and more time for executives to focus on building their business. Further, as the business grows, it requires greater financial expertise. By working with an outsourced accounting firm, a business can acquire expert services without the risk and investment of a full-time employee.

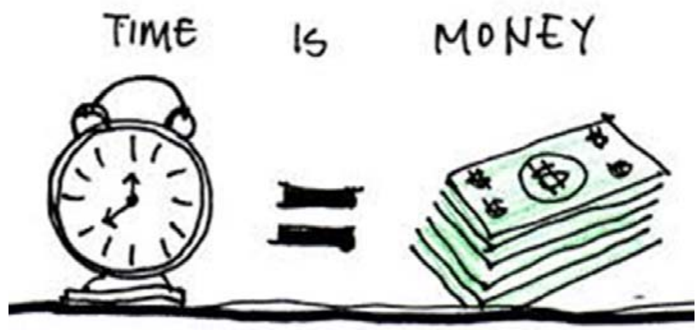
Once you decide to outsource, begin by choosing an accounting provider that has familiarity and strong knowledge of your industry and that has the resources of a full-service accounting firm. Make sure to obtain referrals and check references. Firms that specialize in outsourced accounting for small and mid-sized businesses are generally best equipped to provide reasonable fees because they operate with lower overhead.

You also need to take the time to discuss your specific expectations with potential providers before making a selection. This will enable your new accounting provider to understand your current and future needs.

Business owners who need help but may not require an in-house accounting department can outsource various accounting functions such as bookkeeping, payroll, write-up, tax planning, custom financial reporting, book closing, miscellaneous taxes, and strategic financial planning.

Lastly, you want to be sure to work with an accounting provider that focuses on building long-term business relationships with its clients and that will work together toward your success. If your provider is truly engaged, they will spend time to get to know you before recommending and or implementing a solution in order to identify critical areas that will provide value to your business.

If you are considering outsourcing your non-core operations, Kakimoto and Nagashima LLP is a provider of quality outsourcing services to a wide range of clientele in various industries. We have proven competencies in finance and accounting services. To learn more about the services we offer, call us at (310)-320-2700. You can also visit our website at www.knllp.com.♦



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