Private Company Financial Reporting

RubinBrown works hard to stay on top of this ever-changing regulatory environment. To assist our clients and keep them updated, we have compiled a list of resources below that will be continuously updated to keep you informed about relevant technical accounting issues impacting private companies.

RubinBrown SEMINAR
Private Company Financial Reporting Relief is Here

After decades of scrutiny, efforts to improve financial reporting for private companies are finally bearing fruit.

Recently, the Private Company Council (PCC) was established with the goal of developing, maintaining, and promulgating a set of generally accepted accounting principles (GAAP) for the needs of users of private company financial statements. Additionally, the AICPA released its Financial Accounting Framework for Small and Medium-sized Entities (SFAS 127). The framework accounts for all entities that are subject to GAAP, including those that are not publicly traded.

Early panels and meetings will focus on the execution of this new framework, which may require changes to the financial statements prepared by the PCC and the AICPA.

Upcoming events:

- Learn about the PCC’s mission and how it affects users of financial statements.
- Get an understanding of recent updates to GAAP as well as the PCC’s accounting for goodwill, intangible assets, and how it’s all tied together.

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Agenda

- A Brief History of Private Company Financial Reporting
- FASB’s Private Company Council (PCC)
- AICPA’s Financial Reporting Framework for Small and Medium Sized Entities (FRF for SMEs)
- Working With Our Clients on Considering Implementation
A Brief History of Private Company Financial Reporting

1974
AICPA Committee on GAAP for Smaller and/or Closely Held Businesses

1980
AICPA Special Committee on Small and Medium Sized Firms

1981
AICPA Special Committee on Accounting Standards Overload

1983
FASB Invitation to Comment: Financial Reporting by Private and Small Public Companies

1996
AICPA Special Task Force on Standards Overload

2004
AICPA Private Company Financial Reporting Task Force
A Brief History of Private Company Financial Reporting

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>FASB / AICPA Private Company Financial Reporting Committee</td>
</tr>
<tr>
<td>2010</td>
<td>AICPA / NASBA Blue Ribbon Panel on Private Company Financial Reporting</td>
</tr>
<tr>
<td>2012</td>
<td>FASB Private Company Council</td>
</tr>
</tbody>
</table>

FASB’s Private Company Council (PCC)
Private Company Council
Background

- Financial Accounting Foundation (FAF) established the Private Company Council (PCC)
- PCC consists of 9 members
- Inaugural public meeting on December 6, 2012

Private Company Council
Background

- PCC determines whether exceptions or modifications to U.S. GAAP are necessary to address the needs of users of private company financial statements
- Changes proposed by PCC are subject to FASB endorsement
The FASB has issued 3 Accounting Standards Updates that resulted from the PCC’s agenda:
- ASU 2014-02
- ASU 2014-03
- ASU 2014-07

Private companies now have the option to amortize goodwill on a straight-line basis over 10 years or less than 10 years if another useful life is more appropriate.
Accounting For Goodwill (2014–02)

• Eliminates annual impairment test requirement – test only upon triggering event
• Requirement to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level

When testing goodwill for impairment, private companies continue to have the option to first assess qualitative factors
• Step two of impairment test (hypothetical purchase price allocation) is eliminated
  • Impairment loss, if any, represents the excess of carrying value over fair value (not to exceed 100% of goodwill)
Accounting For Goodwill (2014–02)

- Applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after December 15, 2014
- Early application is permitted
- Can be used by all entities except for public business entities, not-for-profit entities and employee benefit plans

Accounting For Certain Interest Rate Swaps (2014–03)

- Private companies often have difficulty obtaining fixed rate borrowing
- Enter into a “receive-variable, pay-fixed” interest rate swap, which is a derivative instrument
- Following derivative standards, without electing hedge accounting (complex) caused income statement volatility
Accounting For Certain Interest Rate Swaps (2014–03)

• Simpler approach to accounting for “plain vanilla” interest rate swaps
• Simplified hedge accounting approach if criteria are met

Requirements
• Variable rate on the swap and the borrowing are based on the same index
• “Plain–vanilla” swap – the terms are typical
• Repricing and settlement dates for the swap and borrowing match or differ by no more than a few days
• Swap’s fair value at inception is at or near zero
• The notional amount of the swap matches or is less than the principal amount of the borrowing being hedged
• The interest payments are designated as hedged
Accounting For Certain Interest Rate Swaps (2014–03)

- Hedge documentation can be completed up until the date on which the financial statements are available to be issued
- Can measure swap at settlement value instead of fair value
- Removes requirement to provide additional fair value disclosures when instrument is accounted for as a derivative

Accounting For Certain Interest Rate Swaps (2014–03)

- Effective Date
  - Annual periods beginning after December 15, 2014
  - Transition is either:
    - Modified retrospective approach: corresponding adjustments made to the assets, liabilities and opening balance of AOCI and retained earnings of the current period presented to reflect the application of hedge accounting from the date the swap was entered into
    - A full retrospective approach of the earliest period presented
Accounting For Certain Interest Rate Swaps (2014–03)

- Early adoption is permitted
- Can be used by all entities except for public business entities, not-for-profit entities, employee benefit plans and financial institutions

VIE Guidance For Common Control Leasing Arrangements (2014–07)

- Accounting election not to apply VIE guidance to a lessor entity under common control if certain criteria are met
- If elected, the alternative should be applied to all current and future leasing arrangements under common control that meet the criteria
VIE Guidance For Common Control Leasing Arrangements (2014–07)

- Private company lessee and lessor are under common control
- Private company lessee has a leasing arrangement with lessor
- Substantially all of the activity between lessee and lessor is related to the leasing activities
- If lessee explicitly guarantees or provides collateral for lessor obligation related to the leased asset, principal amount of obligation at inception cannot exceed the value of the leased asset

Required disclosures under the alternative:

- Amount and key terms of liabilities recognized by the lessor entity that expose the lessee to providing financial support
- A qualitative description of the circumstances not recognized in the financial statements of the lessor entity that expose the lessee to providing financial support to the lessor
VIE Guidance For Common Control Leasing Arrangements (2014–07)

- Effective for annual periods beginning after December 15, 2014
- If elected, should be applied retrospectively to all periods presented
- Early application is permitted
- Can be used by all entities except for public business entities, not-for-profit entities and employee benefit plans

Other Issue On The PCC Agenda

- Accounting for Identifiable Intangible Assets in a Business Combination
  - Would modify requirements for private companies in order to separately recognize fewer intangible assets acquired in a business combination
  - The PCC considered comments on Exposure Draft and concluded that the proposed guidance would not reduce cost and complexity
  - PCC has directed FASB staff to perform additional research
Future Need For Public Company Financial Statements

- If a private company may need public company financial statements in the future, further consideration may be warranted as neither the FASB nor the SEC has provided transition guidance.

AICPA’s Financial Reporting Framework for Small and Medium Sized Entities
Dan Noll, AICPA Accounting Standards Director

• Dan’s primary responsibilities include working with the Financial Reporting Executive Committee (FINREC) in arriving at AICPA positions on financial reporting matters and in providing external financial reporting guidance.

Bob Durak, AICPA Director of Private Company Financial Reporting

• Bob oversaw the development of the AICPA’s framework for smaller businesses and staffed the Private Company Financial Reporting Committee (PCFRC) for six years. He currently directs the AICPA’s new Center for Plain English Accounting.
Our Discussion Today

- What is FRF for SMEs?
- FRF for SMEs in Action
- What Does the Market Say?
- Key Principles
- Comparison: FRF for SMEs to U.S. GAAP
- Reporting by CPAs
- Extracts from Illustrative Financial Statements
- FRF for SMEs Toolkits
What is FRF for SMEs?

An additional non-GAAP framework
Separate from FASB and PCC

FRF for SMEs  
- Not GAAP - Special Purpose Framework  
- Complementary to efforts by FASB/PCC  
- AICPA fully supports the work of the PCC and FASB to address the private company environment

Private Company Council  
- GAAP  
- Modify GAAP for private companies

Who could use it?

For use when GAAP-based financial statements are not needed

- Small and medium-sized entities
- Owner-managed/for-profit
- Can be used by any industry group
- Incorporated and unincorporated
Who is it for?

**Owner-Managers**
Depend on reliable financial statements to
– Confirm assessments of performance
– Determine what they owe/own
– Understand cash flows

**Users**
External financial statement users who have direct access to management

**Non-issuers**
No intent of going public

Characteristics of typical entities

– Entity does not operate in an industry that has highly specialized accounting guidance
  – such as financial institutions and investment companies
– Entity does not engage in overly complicated transactions
– Entity does not have significant foreign operations
– Financial statement users may have greater interest in cash flows, liquidity, statement of financial position strength and interest coverage
Features

- Standalone framework
- Concise
- Suitable criteria for general-use financial statements
- Accrual based
- Blend of traditional accounting and accrual income tax methods
- Fewer adjustments from book to tax

Features

- Excess narrative avoided
- Eschews prescriptive rules
- Use of professional judgment
- Intuitive and understandable
- Stable yet nimble
CPAs are putting FRF for SMEs to use...

- Firms assessing client base
- Using tools and discussing with clients and bankers
- Holding seminars for local bankers
- Taking steps to implement, and actually converting clients
  - Otherwise risk losing business or missing opportunities
...And finding success

- CPA in WI demonstrated before-and-after financial statements to large regional and local banks. Banks received positively. Has had success converting compilation clients.

- CPA in FL influenced local BofA branch to accept FRF for SMEs on behalf of a client.

CPAs’ experiences with bankers

- CPAs introducing FRF for SMEs and educating state bank organizations
- FRF for SMEs treated as OCBOA
- Mostly positive responses
- Bankers want to see what they are getting
- Use tools – sample financial statements and comparison charts
CPAs’ experiences with clients

- CPA in Ohio says one converted client saves a lot on disclosures; financials are more relevant.

- CPA in AK met with client starting new construction company; bonding agency agreed to use FRF for SMEs.

Banking regulators/acceptance

- Discussed FRF for SMEs with regulators/exam chiefs
- Bankers accept OCBOA today/Flexible with smaller businesses
- Exam chiefs will treat FRF for SMEs as another OCBOA
What Does the Market Say?

CPAs in the Field Say

“We met with 18 banks… They appreciated the framework's comprehensiveness and relevant disclosures.”
—CPA from WA

“For many of my clients, I use the FRF for SMEs because it makes the financial statements more understandable from their perspective.”
—CPA from WI

“We quickly put in place a strategy to offer FRF for SMEs-based financial statement preparation to our clients.”
—CPA from CO
“A new effort to streamline financial reporting could help credit officers make small-business loans without studying a mountain of footnote-laden documents.”

-American Banker, 1/27/14

“The framework could help our bank land small-business customers…”

-Banker from MO

Key Principles

New accounting framework useful tool for lenders

A new accounting framework for smaller and mid-sized enterprises (SMEs) could be a competitive tool for banks. Or, when looked at another way, it’s an option bank lenders should be aware of so as not to be at a disadvantage in prospecting for business in the SME space.

Rollout last year by the American Institute of Certified Public Accountants (AICPA), the Financial Reporting Framework for Small- and Medium-Sized Entities is a “special purpose framework,” one of several non-GAAP accounting frameworks. GAAP accounting (generally accepted accounting principles) is required for all public and large private entities, but the small and medium-sized companies can use what used to be called “other comprehensive bases of accounting,” or OCBOA. Some of these include cash basis, modified cash basis, tax basis, and regulatory basis, none of which have been used for decades. According to an AICPA spokesperson, a survey found that many SME companies needed something more than cash basis or tax basis financial statements, but didn’t need to go all the way to GAAP. The new SME framework is more robust than other non-GAAP options—without adding unnecessary complexity, the spokesperson stated, another thing that sets apart the new framework from other non-GAAP options is that it is fully documented. A 350-page document spells it out (but not for free).

Quoting from that document, the AICPA framework “focuses upon a blend of traditional accounting principles and accrual income tax methods of accounting. It adopts historical cost as its primary measurement basis. In addition, it provides measurement bases other than historical cost when choosing accounting policies to better meet the needs of the user.”

Bank lenders, of course, are one of those end users, and the spokesperson pointed out that bankers can request certain information to be included in the financial statements of clients or prospects using the new framework. Bankers also can point out to clients the availability of the new option and assess clients in using it as a way to new costs or to improve financial

The AICPA has no enforcement authority over the use of special purpose frameworks by companies. The decision rests with the user.

The new SME framework would not be applicable to banks themselves; however, the AICPA document spells out 11 “characteristics of special entities” that may use the new framework, one of which specifically references financial institutions, which require the use of specialized accounting guidance.

To download the AICPA’s SME document, go to bit.ly/FRF-SME-Guide

—Bill Blumen, editor and publisher
Historical cost

Framework primarily uses historical cost basis, steering away from complicated fair value measurements.

Most relevant and reliable measurement basis for small business financial reporting needs.

Well-suited as a metric for evaluating an entity’s cash flow.

Objective, verifiable, straight-forward.

Historical cost

Directly relates to the past experience and past decisions of an entity.

Sound basis for financial forecasts.

Best measurement basis to help evaluate the performance of a small business.

Stands the test of time.
Optionality in certain accounting policies

Answers the varying informational needs of different financial statement users

Financial reporting that is truly representative of the underlying economics of a small business

Optionality nothing new to accountants – make choices today

Primary accounting policy options

Income tax accounting – taxes payable method or deferred income taxes method

Subsidiary accounting – consolidate or equity method

Long-term contracts – percentage of completion method or the completed contract method
Targeted disclosures

Only targeted disclosures in the financial statements

Stakeholders receive the pertinent, understandable information they need

Avoid excess narrative or irrelevant “noise” in the financial reports

Comparison:
FRF for SMEs to U.S. GAAP
## Comparison of FRF for SMEs to U.S. GAAP

### Fair Value

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uses the term “market value” - consideration that would be agreed upon in an arm’s length transaction.</td>
<td>Fair value is an exit price.</td>
</tr>
</tbody>
</table>

- Market value used only in very limited circumstances
  - Business combinations.
  - Certain nonmonetary transactions.
  - Marketable securities held for sale.
- Greater use of fair value measurements.
- Provides an overall framework to measuring fair value.
- Standardized disclosure requirements for fair value measurements.
- Nonpublic entities are exempt from certain fair value disclosures.

### Income Taxes

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
</table>
| • Policy choice to account for income taxes using either the taxes payable method or the deferred income taxes method.  
  • No evaluation or accrual of uncertain tax positions. | • Deferred income tax method is used.  
  • Uncertain income tax positions must be evaluated and accrual made if certain conditions are met. |
Comparison of FRF for SMEs to U.S. GAAP

### Comprehensive Income

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No concept of comprehensive income or items of other comprehensive income.</td>
<td>• Certain items are classified as other comprehensive income (OCI) and displayed as such.</td>
</tr>
</tbody>
</table>

### Consolidation/Subsidiaries

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
</table>
| • Policy choice to either consolidate subsidiaries or account for subsidiaries using the equity method.  
  • *Subsidiary* defined as an entity in which another entity owns more than 50 percent of the outstanding residual equity interests.  
  • No concept of variable interest entities. | • Consolidation is required for reporting entity with controlling financial interest in another entity.  
  • Variable interest entity (VIE) model is used when controlling financial interest is achieved through arrangements that do not involve voting interests.  
  • Common control leasing arrangements at private companies exempt from VIE model. |
Comparison of FRF for SMEs to U.S. GAAP

**Impairment**

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No assessment of impairments for long-lived assets.</td>
<td>• Long-lived assets are tested for impairment upon a triggering event.</td>
</tr>
<tr>
<td>• A depreciated or amortized cost approach is followed. Assets no longer used are written off.</td>
<td>• Indefinite-lived intangible assets are subject to an impairment test annually.</td>
</tr>
</tbody>
</table>

**Going Concern**

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Requires management assessment of whether the going concern basis of accounting is appropriate.</td>
<td>• No requirement for management assessment of whether the going concern basis of accounting is appropriate.</td>
</tr>
<tr>
<td></td>
<td>• Project underway to address going concern.</td>
</tr>
</tbody>
</table>
**Comparison of FRF for SMEs to U.S. GAAP**

**Leases**

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Traditional accounting approach blended with some accrual income tax</td>
<td>• Lessee classifies leases as either operating or capital leases.</td>
</tr>
<tr>
<td>accounting methods.</td>
<td>• Lessor accounts for leases as sales type, direct financing, or operating.</td>
</tr>
<tr>
<td>• Lessee classifies leases as either operating or capital leases.</td>
<td>• Project underway to revamp lease model.</td>
</tr>
<tr>
<td>• Lessor accounts for leases as sales type, direct financing, or operating.</td>
<td></td>
</tr>
</tbody>
</table>

**Comparison of FRF for SMEs to U.S. GAAP**

**Goodwill**

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Amortized over the same period as that used for federal income tax purposes</td>
<td>• Private companies allowed to amortize over a period of 10 years or less.</td>
</tr>
<tr>
<td>or 15 years.</td>
<td>• Trigger-based impairment testing.</td>
</tr>
<tr>
<td>• No impairment testing.</td>
<td></td>
</tr>
</tbody>
</table>
### Comparison of FRF for SMEs to U.S. GAAP

#### Revenue Recognition

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Broad, principle-based guidance.</td>
<td>• Current model focuses on completion of the earnings process.</td>
</tr>
<tr>
<td>• Revenue should be recognized when performance is achieved and ultimate collection is reasonably assured.</td>
<td>• New model being issued.</td>
</tr>
<tr>
<td></td>
<td>• New standard will recognize revenue when control of goods or services has passed to a customer.</td>
</tr>
<tr>
<td></td>
<td>• For many companies, revenue recognition may not be different, but the process the company will take to determine when to recognize revenue may change.</td>
</tr>
</tbody>
</table>

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### Comparison of FRF for SMEs to U.S. GAAP

#### Investments/Financial Assets & Liabilities

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Historical cost approach.</td>
<td>• Classification required based on management intent and ability.</td>
</tr>
<tr>
<td>• Market value measurement required only for investments being held for sale.</td>
<td>• Securities classified as “available for sale” or “trading” measured at fair value.</td>
</tr>
<tr>
<td>• Changes in market value included in net income.</td>
<td>• Debt securities classified as “held-to-maturity” measured at amortized cost.</td>
</tr>
<tr>
<td></td>
<td>• Accounting for changes in fair value depends upon classification.</td>
</tr>
</tbody>
</table>
Comparison of FRF for SMEs to U.S. GAAP

Derivatives

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Disclosure approach.</td>
<td>• All derivatives recognized as either assets or liabilities.</td>
</tr>
<tr>
<td>• Recognition at settlement (cash basis).</td>
<td>• Measured at fair value.</td>
</tr>
<tr>
<td>• No hedge accounting.</td>
<td>• Accounting for changes in fair value depends on the use of the derivative.</td>
</tr>
<tr>
<td></td>
<td>• Hedge accounting permitted.</td>
</tr>
<tr>
<td></td>
<td>• Simplified hedge accounting for plain-vanilla interest rate swaps allowed for private companies.</td>
</tr>
</tbody>
</table>

Stock-based Compensation

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Disclosure only.</td>
<td>• Stock-based compensation is classified as “Liability” or “Equity”.</td>
</tr>
<tr>
<td></td>
<td>• Accounting for stock-based compensation expense depends upon classification.</td>
</tr>
<tr>
<td></td>
<td>• Measurement of stock-based compensation is fair-value based.</td>
</tr>
<tr>
<td></td>
<td>• Private companies permitted to measure stock-based compensation under “calculated-value method”.</td>
</tr>
<tr>
<td></td>
<td>• When it is not possible to reasonably estimate fair value or calculated value, intrinsic value is permitted.</td>
</tr>
</tbody>
</table>
### Comparison of FRF for SMEs to U.S. GAAP Defined Benefit Plans

<table>
<thead>
<tr>
<th>FRF for SMEs</th>
<th>U.S. GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Policy choice to account for plans using either a current contribution</td>
<td>• Plans accounted for using a projected benefit obligation model.</td>
</tr>
<tr>
<td>payable method or one of the accrued benefit obligation methods.</td>
<td></td>
</tr>
</tbody>
</table>

### Reporting by CPAs
Reporting by CPAs

CPAs performing audit, review or compilation engagements on financial statements prepared under the FRF for SMEs will follow the same standards as they do today when reporting on other SPF financial statements

- Compilation: AR section 80, Compilation of Financial Statements
- Review: AR section 90, Review of Financial Statements
- Audit: AU-C section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks

Sample standard review report

Independent Accountant’s Review Report

Board of Directors

XYZ Company

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with Financial Reporting Framework for Small- and Medium-Sized Entities™, as described in Note 1.

[Signature of accounting firm or accountant, as appropriate]
[Date]
Sample basis of presentation note

The accompanying financial statements have been prepared in accordance with the Financial Reporting Framework for Small- and Medium-Sized Entities issued by the American Institute of Certified Public Accountants. This special purpose framework, unlike generally accepted accounting principles (GAAP) in the United States of America, does not require the recognition of deferred taxes. We have chosen the option to recognize only current income tax assets and liabilities.

Other primary differences would be described as necessary.

Extracts from Illustrative Financial Statements
Example Financial Statement Extracts

- Example assumes primary difference between FRF for SMEs and GAAP financial statements is that management uses “taxes payable” method rather than “deferred taxes” method.

- Deferred tax balances account for differences in financials

Statement of Financial Position
Extract from Current Assets

<table>
<thead>
<tr>
<th>Assets</th>
<th>FRF for SMEs</th>
<th>GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$304,400</td>
<td>$304,400</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>3,789,200</td>
<td>3,789,200</td>
</tr>
<tr>
<td>Inventory</td>
<td>89,700</td>
<td>89,700</td>
</tr>
<tr>
<td>Prepaid charges and other assets</td>
<td>118,400</td>
<td>118,400</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$4,301,700</td>
<td>$4,301,700</td>
</tr>
</tbody>
</table>
## Statement of Financial Position
### Extract from Long-term Assets

<table>
<thead>
<tr>
<th>Assets</th>
<th>FRF for SMEs</th>
<th>GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity in joint venture</td>
<td>$ 205,600</td>
<td>$ 205,600</td>
</tr>
<tr>
<td>Note receivable, related party</td>
<td>175,000</td>
<td>175,000</td>
</tr>
<tr>
<td>Property and equipment net of accumulated depreciation</td>
<td>976,400</td>
<td>976,400</td>
</tr>
<tr>
<td>Total long-term assets</td>
<td>1,357,000</td>
<td>1,357,000</td>
</tr>
</tbody>
</table>

## Statement of Financial Position
### Extract from Current liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>FRF for SMEs</th>
<th>GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current maturities of notes payable</td>
<td>$ 110,300</td>
<td>$ 110,300</td>
</tr>
<tr>
<td>Current portion of leases payable</td>
<td>62,250</td>
<td>62,250</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>2,543,100</td>
<td>2,543,100</td>
</tr>
<tr>
<td>Current deferred tax liability</td>
<td></td>
<td>594,000</td>
</tr>
<tr>
<td>Other accrued liabilities</td>
<td>88,600</td>
<td>88,600</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$ 2,804,250</td>
<td>$ 3,398,250</td>
</tr>
</tbody>
</table>
### Statement of Financial Position
#### Extract from Long-term liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>FRF for SMEs</th>
<th>GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable, less current maturities</td>
<td>$ 357,800</td>
<td>$ 357,800</td>
</tr>
<tr>
<td>Leases payable, less current portion</td>
<td>135,350</td>
<td>135,350</td>
</tr>
<tr>
<td>Long-term accrued liabilities</td>
<td>154,200</td>
<td>154,200</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>25,200</td>
<td></td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>$ 647,350</td>
<td>$ 672,550</td>
</tr>
</tbody>
</table>

### Statement of Financial Position
#### Extract from Shareholders’ Equity

<table>
<thead>
<tr>
<th>Equity</th>
<th>FRF for SMEs</th>
<th>GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock - $1 par value, 500,000 authorized shares</td>
<td>$ 300,000</td>
<td>$ 300,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,907,100</td>
<td>1,287,900</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>2,207,100</td>
<td>1,587,900</td>
</tr>
<tr>
<td>Total liabilities and shareholders’ equity</td>
<td>$ 5,658,700</td>
<td>$ 5,658,700</td>
</tr>
</tbody>
</table>
### Extract from Statement of Operations

<table>
<thead>
<tr>
<th>Equity</th>
<th>FRF for SMEs</th>
<th>GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues earned</td>
<td>$ 9,630,800</td>
<td>$ 9,630,800</td>
</tr>
<tr>
<td>Cost of revenues earned</td>
<td>7,436,100</td>
<td>7,436,100</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>2,194,700</td>
<td>2,194,700</td>
</tr>
<tr>
<td>Selling, general, and administrative expense</td>
<td>895,600</td>
<td>895,600</td>
</tr>
<tr>
<td>Income from operations</td>
<td>1,299,100</td>
<td>1,299,100</td>
</tr>
<tr>
<td>Gain on sale of equipment</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(69,500)</td>
<td>(69,500)</td>
</tr>
<tr>
<td>Income before provision for income taxes</td>
<td>1,239,600</td>
<td>1,239,600</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>451,700</td>
<td>662,900</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>787,900</td>
<td>576,700</td>
</tr>
</tbody>
</table>

### Extract from Statement of Cash Flows

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th>FRF for SMEs</th>
<th>GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 787,900</td>
<td>$ 576,700</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>167,800</td>
<td>167,800</td>
</tr>
<tr>
<td>Provision for losses on receivables</td>
<td>6,300</td>
<td>6,300</td>
</tr>
<tr>
<td>Gain on sale of equipment</td>
<td>(10,000)</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Increase in deferred taxes</td>
<td>211,200</td>
<td></td>
</tr>
<tr>
<td>Increase in long-term accrued liabilities</td>
<td>128,000</td>
<td>128,000</td>
</tr>
<tr>
<td>Decrease in inventory</td>
<td>9,400</td>
<td>9,400</td>
</tr>
<tr>
<td>Increase in accounts receivable</td>
<td>(461,400)</td>
<td>(461,400)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>628,000</td>
<td>628,000</td>
</tr>
</tbody>
</table>
FRF for SMEs
Toolkits

Resources: Client-facing materials

- An Introduction to the Financial Reporting Framework for Small- and Medium-Sized Entities is a primer on the FRF for SMEs framework.
- A short, animated video highlights the evolution of the framework and some of the FRF for SMEs accounting framework's key benefits. (View or download in BrightCove format or download PPT format for use in PowerPoint slides—href, save video file in same folder as the slide deck.)
- Illustrative financial statements demonstrate to clients how the new framework can simplify the communication of financial information.
- An article outlines the new framework and may be included in your client communications, newsletters or on your firm’s website.
- Comparisons of the FRF for SMEs accounting framework to U.S. GAAP, tax basis (CICPA) and IFRS for SMEs will help staff understand how the FRF for SMEs reporting option differs from other reporting frameworks.
- A backgrounder outlines why the FRF for SMEs accounting framework was needed and how it fills a void in the non-GAAP financial reporting arena.
- A flyer explains key features of the FRF for SMEs accounting framework.
- Frequently Asked Questions help clients and potential clients understand the framework.
- A PowerPoint presentation helps you introduce the new framework to clients in meetings and at events.
- A checklist to help financial statement preparers and practitioners comply with the FRF for SMEs framework disclosure and presentation requirements.

And more....
Summarizes chapters in FRF for SMEs

Includes sample CPA reports:
- Compilation
- Review
- Audit

Illustrative financial statements
Comparisons with other frameworks

- FRF for SMEs
- U.S. GAAP
- Tax basis OCBOA
- IFRS for SMEs

PowerPoint for use with clients/users

Brand with firm name/information

Financial Reporting Framework for Small- and Medium-Sized Entities
FRF for SMEs™ Accounting Framework
Name of presenter
Audience
Date
Flyers for clients, users

- Hand out / mail
- Co-brand with your firm
- QR code to mobile page with information and educational resources

Disclosure checklist

Presentation and Disclosure Checklist for FRF for SMEs™
Additional resources

- Social media support (LinkedIn, Facebook, Tweets, Foursquare)
- #MainStFinancials – ongoing conversation
- Article for website and/or newsletter/mailer
- Short video – social media, meetings, presentations

Financial Statement User Education

- Outreach to related media and press
- Articles and ads in publications and on websites
- Social media and blog posts
Consider your reporting options

Option 1
- Continue utilizing your current financial reporting

Option 2
- Consider adopting Private Company Council’s FASB Accounting Standards Updates

Option 3
- Consider implementing the AICPA’s Framework for Small and Medium Sized Entities
Should a company consider implementing?

**Benefits**
- Enhanced & targeted financial reporting
- Better alignment with internal reporting
- Better alignment with tax reporting (FRF)

**Resources**
- Internal management team
- Support from your CPA firm & key users of the financial statements
- Toolkits and resources created by AICPA

**Costs**
- First year implementation costs
- Cost savings in subsequent reporting years

---

**Proposed Implementation Timeline**

<table>
<thead>
<tr>
<th>Six Months Prior to Year End</th>
<th>Four Months Prior to Year End</th>
<th>Two Months Prior to Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet with RubinBrown to perform initial cost / benefit assessment</td>
<td>Meet with RubinBrown and other key users to analyze key accounting principles</td>
<td>Perform final review with RubinBrown and key users of the financial statements (evaluate any changes in the business)</td>
</tr>
</tbody>
</table>
What’s the next step?

• Let’s have a discussion
  • Owners/Managers
  • Users

Questions
New accounting framework useful tool for lenders

A new accounting option for small and mid-sized enterprises (SMEs) could be a competitive tool for banks. Or, when looked at another way, it’s an option bank lenders should be aware of so as not to be at a disadvantage in prospecting for business in the SME space.

Rolled out last year by the American Institute of Certified Public Accountants (AICPA), the Financial Reporting Framework for Small- and Medium-Sized Entities is a “special purpose framework,” one of several non-GAAP accounting frameworks. GAAP accounting (generally accepted accounting principles) is required for all public and large private companies, but many other private companies can use what used to be called “other comprehensive bases of accounting,” or OCBOA. Some of these include cash basis, modified cash basis, tax basis, and regulatory basis—most of which have been around for decades. According to an AICPA spokesperson, a survey found that many SME companies needed something more than cash basis or tax basis financial statements, but didn’t need to go all the way to GAAP. The new SME framework is more robust than other non-GAAP options, without adding unnecessary complexity, the spokesperson stated.

Another thing that sets apart the new framework from other non-GAAP options is that it is fully documented. A 200-page document spells it out (see link at the end of the story).

Quoting from that document, the new framework “draws upon a blend of traditional accounting principles and accrual income tax methods of accounting. It utilizes historical cost as its primary measurement basis. In addition, it provides management with a suitable degree of optionality when choosing accounting policies to better meet the needs of the end users.”

Bank lenders, of course, are one of those end users, and the spokesperson pointed out that bankers can request certain information to be included in the financial statements of clients or prospects using the new framework. Bankers also can point out to clients the availability of the new option and assist them in using it as a way to save costs or to improve financial reporting. The AICPA has no enforcement authority over the use of special purpose frameworks by companies. The decision rests with management.

The new SME framework would not be applicable to banks themselves, however. The AICPA document spells out 11 “characteristics of typical entities” that may use the new framework, one of which specifically references financial institutions, which require the use of specialized accounting guidance.

To download the AICPA’s SME document, go to: bit.ly/FRF-SMEs-Users

— Bill Streeter, editor and publisher