Kakimoto & Nagashima LLP

Certified Public Accountants
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NEWSLETTER

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Inside this issue:

Summary of Articles 1

Financial Statement Presentation: a Joint FASB/IASB Project 2

- *2011 Offshore Voluntary Disclosure Initiative Business Standard* 3
- *Mileage Rate Increased for Last Half of 2011 – Other Rates Also Rise*
- *California Statewide Sales and Use Tax Rate to Decrease by 1% on July 1, 2011*

- *Outsourcing* 4
- *California Single Sales Factor Apportionment*

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

Since the start of the financial crisis in 2008 with Lehman Brothers filing for bankruptcy, the world economy has continued to be volatile. Companies in all industries have experienced the ups and downs during the economic turmoil, and to make matters worse, the devastating earthquake and tsunami in Northeast Japan have, in addition to the tragic human toll, impacted many businesses extensively.

In these times of extreme hardships, businesses must regroup and continue to provide quality products at competitive prices. Costs of all services must again be reviewed so that the competitive edge can be maintained against others who are eager and ready to be substitutes in providing similar products.

We at Kakimoto & Nagashima LLP understand the extreme pressures that executives, both here in the US and Japan, are under to perform well under these circumstances. If a **cost savings of 30% to 50%** can be achieved annually in the accounting, tax, and special financial project work, would that not help to contribute to lower the costs of your products and improve the contribution margin? If you are interested in getting an idea as to how much savings can be achieved, please contact us. We have over 30 years of experience helping companies, large and small, in reducing the financial compliance costs as well as in meeting the expectations of our clients. As one of the top operating or financial executives of a company, it is your responsibility to reduce costs and maximize profits. This is an opportunity to consider alternative sources of services to address that responsibility, without any obligations, costs, or risks.♦

Financial Statement Presentation – a Look at the FASB/IASB Joint Project

The FASB and IASB are conducting a joint project to establish a global standard that will provide guidance to the organization and presentation of financial statements. If most of the proposed modifications are retained in the final standard, the look and feel of financial statements will change substantially. In this article we share an overview of the possible presentation changes being considered as well as taking a brief look at newly issued ASU No. 2011-05, *"Presentation of Comprehensive Income"*.

Report of Foreign Bank and Financial Accounts – Required But Failed to File?

As noted in our January 2010 newsletter, the U.S. Treasury Department has strengthened the enforcement of FBAR compliance. Have you taken any steps toward complying with the FBAR filing requirement? Are you worried about the penalties attributed to noncompliance? Did you miss out on the 2009 Offshore Voluntary Disclosure Program? There's no need to worry. Take advantage of the 2011 Offshore Voluntary Disclosure Initiative currently available for a limited time.

IRS Announced an Increase in the Optional Standard Mileage Rates for the Final Six Months of 2011

The rate increased to 55.5 cents per mile for all business miles driven from July 1, 2011, through Dec. 31, 2011.

California Statewide Sales and Use Tax Rate Decreased by 1% on July 1, 2011

Have you adjusted CA sales tax rates in your E-Commerce web? The combined statewide sales and use tax rate decreased from 8.25% to 7.25% effective July 1, 2011.

California Single Sales Factor Apportionment

Effective with tax years beginning on or after January 1, 2011, taxpayers may make an irrevocable annual election to apportion their business income based on a single sales factor apportionment formula instead of the traditional three factor formula.

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Financial Statement Presentation: a Joint FASB/IASB Project

The Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") have been engaged in a project which could significantly change the format and presentation of financial statements. A joint project since 2004 and included as one of the FASB/IASB's Memorandum of Understanding projects, the FASB/IASB's goal is to improve the usefulness of information provided in financial statements to assist users in their decision making. The purpose of the joint project is to establish a global standard that will provide guidance to the organization and presentation of information in financial statements. The project was divided into phases which include: requirements for a complete set of financial statements, fundamental presentation issues and interim financial reporting.

In July 2010, the FASB and IASB each issued a "staff draft" outlining tentative FASB/IASB decisions on financial statement presentation as of April 2010. Staff drafts are not approved by either the FASB or the IASB; ***decisions as proposed in the staff drafts are subject to change until the FASB/IASB issue the final standard.***

Staff Draft - Key Proposals/Possible Changes
Core Principles
The staff draft proposes two core financial statement presentation principles:

- Cohesiveness – a financial picture is portrayed across the financial statements in a clear and consistent matter. The relationship between items reported on separate financial statements should be evident by aligning sections and categories in each of the statements of financial position, comprehensive income and cash flows. A common financial statement structure is proposed in the staff draft.
- Disaggregation of information – provide adequate detail to explain the components of financial position and performance. "Disaggregation means separating resources by the activity in which they are used and by their economic characteristics."

The FASB and IASB believe the proposed financial statement structure/format broken down into common section and categories will enable the user to better understand the financial performance of an entity. Proposed sections and categories follow:

Statement of Financial Position	**Statement of Comprehensive Income**	**Statement of Cash Flows**
Business section	Business section	Business section
Operating category	Operating category	Operating category
Operating finance subcategory	Operating finance subcategory	
Investing category	Investing category	Investing category
Financing section	Financing section	Financing section
Debt category	Debt category	
Equity category		
Income tax section	Income tax section	Income tax section
Discontinued operations section	Discontinued operations section	Discontinued operations section
	Other comprehensive income section	

Other key changes being proposed are:

- mandatory comparative information
- direct method to be used for the Statement of Cash Flows (with certain indirect reconciliation)
- analysis of significant asset and liabilities changes (a "rollforward") presented in footnotes (public companies only)

At this time, due to the priorities given to other joint projects (e.g. revenue recognition, leases) it is unclear as to issuance dates for an exposure draft and final standard for the financial statement presentation project. Although no significant FASB/IASB activity is expected until the end of 2011, this project is expected to continue once other priority projects are substantially complete.

Current Developments - Presentation of Comprehensive Income
In June 2011, the FASB issued Accounting Standards Update No. 2011-05, "Presentation of Comprehensive Income" ("ASU 2011-05") which amends FASB ASC 220, "Comprehensive Income". ASU 2011-05 is the result of a joint project conducted by the FASB/IASB; initially part of the financial statement project mentioned above, the FASB/IASB decided to address presentation matters related to net income and other comprehensive income ("OCI") in a separate joint project.

ASU 2011-05 was issued to improve comparability of financial reporting, increase the prominence of items reported in OCI and facilitate convergence of U.S. GAAP and IFRS. All entities that report items of OCI will be affected by the changes made by ASU 2011-05. A concurrent

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(Continued from page 2)
amendment to IAS 1, "Presentation of Financial Statements", was issued by the IASB that brings IFRS into alignment with U.S. GAAP for the presentation of OCI.

Major Changes Resulting from ASU 2011-05
Companies will have the option to present the components of net income and OCI in either:

- Single continuous statement – entities must present the components of net income, a total for net income, the components of OCI, a total for OCI, and a total for comprehensive income; or
- Two separate but consecutive statements – entities must present components of net income and total net income in one statement, immediately followed by a statement which presents the components of OCI, a total for OCI, and a total for comprehensive income.

Under each of the above approaches, items reclassified from OCI to net income must be reported on the face of the financial statement(s). ASU 2011-05 does not change the components that must be reported in OCI; however, the ASU eliminates the option to present OCI and its components in the statement of changes in stockholder's equity.

For public entities, ASU 2011-05 will be effective for fiscal years (and interim periods within those years) beginning after December 15, 2011; nonpublic entities are required to adopt the ASU for fiscal years ending after December 15, 2012.

We're Here to Help
The changes proposed in the financial statement presentation project discussed at the beginning of this article will have a significant impact to those that are involved in the financial statement reporting process. Accounting systems and information tracking will most likely need to be substantially modified to accommodate for the additional information and classification requirements necessary to comply with finalized pronouncements. Please consult us for further information or to discuss the impact that this may have on your Company's future accounting and financial reporting needs.♦

2011 Offshore Voluntary Disclosure Initiative

As discussed in our January 2010 newsletter, the Report of Foreign Bank and Financial Accounts ("FBAR") is a tool to help the United States government identify persons who may be using foreign financial accounts to evade United States law. An FBAR helps to identify and trace funds used for illicit purposes or to uncover unreported income maintained or generated abroad as well as to provide an additional tool to combat money laundering and other crimes. The civil and criminal penalties for noncompliance with FBAR reporting requirements can be severe. In 2009, the IRS offered the Offshore Voluntary Disclosure Program ("OVDP") for taxpayers with unreported income relating to offshore transactions. OVDP provides taxpayers an opportunity to avoid penalties associated with previous years' noncompliance by voluntarily disclosing the information. The 2009 OVDP ended on October 15, 2009 with roughly 15,000 voluntary disclosures.

In February 2011, the IRS launched its second disclosure program: the 2011 Offshore Voluntary Disclosure Initiative ("OVDI"). The objective of the 2011 OVDI is the same as the prior program; that is, to bring taxpayers that have used undisclosed foreign accounts and foreign entities to avoid or evade tax into compliance with the United States tax laws. The 2011 OVDI is available through August 31, 2011. A 90-day extension request may be made only if the taxpayer can demonstrate a good faith attempt to comply by the original due date. The penalty rate is higher than its previous program, but it offers various benefits to taxpayers including an opportunity to become compliant, to avoid substantial civil penalties, and to minimize the risk of criminal prosecution. If you have bank or other financial accounts in foreign countries and wish to participate in the 2011 OVDI, please contact us immediately. For more details of FBAR requirements, please refer to our January 2010 newsletter found in our website.♦

Business Standard Mileage Rate Increased for Last Half of 2011 – Other Rates Also Rise

The optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) increased by 4.5¢ from 51¢ to 55.5¢ per mile for business travel from July 1, 2011 to Dec. 31, 2011. The increase is to better reflect the real cost of operating an auto in this period of rapidly rising gas prices. The rate for using a car in connection with deductible medical care or for deductible moving also increased by 4.5¢ for the last half of 2011 from 19¢ to 23.5¢ per mile.♦

California Statewide Sales and Use Tax Rate to Decrease by 1% on July 1, 2011

The statewide sales and use tax rate decreased from 8.25 percent to 7.25 percent. In areas where there are voter-approved district taxes, the total tax rate related to sales and purchases will be the statewide base tax rate of 7.25 percent plus the applicable district tax. You can find the revised sales & use tax rate chart for each jurisdiction at: http://www.boe.ca.gov/cgi-bin/rates.cgi.♦

Outsourcing

Outsourcing relates to contracting out all or a portion of business functions to an external provider who possess specialized knowledge and resources in performing a task. Companies often outsource different components of their operations to enhance efficiency, reduce costs, and improve the quality of work. In particular, it is beneficial for start-up organizations to implement outsourcing services as their resources and personnel tend to be scarce.

Types of Outsourcing

Outsourcing services can include a wide range of business functions such as: Accounting/ Tax /Financial related services, Inventory Management, HR (including payroll calculation), Sales, Customer Service, IT, Research & Development, and Quality Control. Companies have the option to outsource all or a portion of their activities in each business function. For example, outsourcing for accounting related activities may include the following:

- Data entry (bookkeeping)
- Handling payments and deposits
- Managing accounts payable and receivable
- Performing monthly/annual write-up of the company's books
- Creating monthly/annual financial statements and reports

Companies that have outsourced their entire accounting functions generally only have an accounting officer whose principal role in accounting is to take responsibility of the company's finances. Companies that also outsource the tasks of an accounting officer will generally not have an accounting department.

Benefits of Outsourcing

The benefits of outsourcing services generally include increased productivity, reduced general and administrative expenses, improved operational quality and speed, and having access to expert advice. When outsourcing its business components to external service providers, management should carefully evaluate the flow of its operations to locate areas that have the greatest cost benefit if outsourced. By revisiting their operational flow, companies also have the opportunity to identify "potholes" in their performance which could have been overlooked and allow management to effectively allocate its limited resources.

Things to Consider

Outsourcing is a service that can greatly benefit a company through reduction in expenditures and increase in efficiency. However, failure to adequately prepare and maintain thorough communication with service providers can lead to adverse effects such as incurring unnecessary costs and inefficiency in operations. To take accounting functions as an example, information verification between the accounting department and other departments can be an important step in the data entry process. Outsourcing this type of activity without properly analyzing operations and overlooking the information verification process will lead to problems. These problems include excess cost and workload, which is the opposite of the intended benefits of outsourcing. Also, not putting enough attention in selecting providers that best fit the business needs will result in an unfavorable outcome. The key idea is to look for a provider that can give expert knowledge and continuous service.

Thorough planning and good communication are essential in successfully outsourcing your business. By carefully reviewing your operational flow and planning in advance, outsourcing can speed up business operations, improve quality of work, and reduce corporate expenditures. If you have any questions about outsourcing services, please do not hesitate to contact us.♦

California Single Sales Factor Apportionment

Beginning with the 2011 taxable year, taxpayers, other than those that are primarily engaged in an agricultural, extractive, savings and loan, or banking or financial business activity, may make an irrevocable annual election to apportion their business income using a single sales factor apportionment formula.

Pre -2011 taxable years

California tax law provides that, in general, a taxpayer doing business in more than one state must apportion its business income to California by applying an apportionment factor to its net income. The apportionment factor, or percentage, is based on a three-factor formula consisting of property, payroll and sales. Each factor is derived by taking the ratio of the amount in California to the amount everywhere. The sales factor is double weighted, and the sum of all of the ratios is divided by four to determine an average combined ratio or apportionment percentage.

Post -2010 taxable years

For tax years beginning on or after January 1, 2011, taxpayers may make an annual irrevocable election to apportion their business income using either a single sales factor or the standard three-factor formula. The election is irrevocable as to the year for which it is made. The election must be made on a timely filed original return in the manner and form prescribed by the Franchise Tax Board.

Impact of Apportionment Policy Change

What are the likely effects of giving taxpayers a choice between the two formulas? The fact that the election is made on an annual basis provides substantial opportunities for both in-state and out-of-state corporations. For example, a California-based company with relatively high payroll and property may be able to substantially reduce its income apportioned to California by using a single sales factor in years they are profitable. For a loss year, it may maximize its loss apportioned to California by electing the standard apportionment formula. The reverse would generally be true for companies based outside the state which have minimal property and payroll within California but have substantial sales to California .♦