



Leaders' Edge

The newsletter of The Michigan Association of
Certified Public Accountants



Accounting & Auditing
Association Briefs
Continuing Education
Legislative & Regulatory
Of Interest
Tax Tidbits
Classifieds
Home

Article Archive

- [Leaders' Edge July/August 2009](#)
- [Leaders' Edge May/June 2009](#)
- [Leaders' Edge March/April 2009](#)
- [E-News Archive](#)
- [Business Edge Archive](#)
- [Money Management Articles](#)

Download the
Leaders' Edge
in pdf format!



Top Stories

[State Budget Negotiations...Here We Go Again?](#)

While Lansing is abuzz with ideas on how to make ends meet for 2009-2010, the budget is not completed and much work remains. In 2007, similar circumstances resulted in 11th hour decisions (including general tax increases) to narrowly avoid a government shutdown. The Legislature and Governor Jennifer Granholm are hoping to avoid such drastic measures this time around...but how close are they?

[Tax Preparer Disclosure and Penalty Rules Become a Significant Practice Issue](#)

[IRC 7216: Raising the Bar for Ethics Standards Compliance](#)

As of January 1, 2009, new regulations under Internal Revenue Code Section 7216 have required tax preparers to obtain informed, written consent from taxpayers when using or disclosing information on a personal tax return for any purpose outside of preparing and filing the return. In addition to these new regulations, the *AICPA Code of Professional Conduct* contains client confidentiality requirements. What follows are a few *eye opening* questions and answers that stir the "ethics pot" and could land you in the proverbial "hot water" without a proper understanding.

[From the Chair of the Board Profession's Impact Increases During Turbulent Times](#)

The latest research says CPAs are viewed by business decision-makers and investors more positively than any other business professional. Client satisfaction with CPAs is also high. About four of every five decision-makers at companies of all sizes say that they are satisfied with both their internal and external CPAs, according to a recent AICPA study to measure perceptions about the CPA brand.

Of Interest

2nd Edition of Hospice Manual Now Available
New Start Here, Go Places. Website Offers Greater Interactivity for Students
Preparing CPAs for the Next Generation of Accounting - *Michigan CPA Among 28 in Inaugural Leadership Academy*
IFRS for Small and Medium-sized Entities (SMEs)

Accounting & Auditing

[Testing the SaaS Waters with Audit Applications](#)

September/October 2009

HOME & AUTO INSURANCE



Competitively priced,
expertly serviced.
A true member benefit.

Plans to cover your needs.
A promise to cover everyone.

Blue Cross Blue Shield of Michigan
Nonprofit organization and independent licensee of the Blue Cross and Blue Shield Association
Visit bcbasm.com

Learn More

Professional Development

- [Accounting & Auditing Update 2009 with Russ Madray](#)
- [AICPA/AHI Staff Training: Beginning In-Charge](#)
- [FIN 46R Variable Interest Entity Consolidation Rules: Not Just a Big Company Issue](#)
- [Michigan Business Tax with Ed Kisscorni & Ron Kaley](#)
- [AICPA/AHI Staff Training: Basic](#)
- [Financial Institutions Conference](#)
- [Federal Tax Camp by Jack Surgent](#)
- [Advanced Excel for Accountants](#)
- [CPE Catalog Search](#)

Tax Tidbits

[R&D Tax Credit Evolves: But Still Useful](#)

Legislative & Regulatory

[New Peer Review Process Will Simplify Form Submission](#)

[MACPA Membership Terminated](#)

[Legislative Update and 2010 Election Preview](#)

[MACPA Asks FTC to Exempt CPAs from "Red Flags" Rule](#)

Continuing Education

[For CPAs in Industry and Public Accounting - Major Conference Brings Together Five Industry Topics](#)

Association Briefs

["Bonus" Sessions Added to Fall Member Symposium](#)

[In Memoriam](#)

[Association Financial Statements Accessible Via the Web](#)

[Top](#)



PO Box 5068 Troy, MI 48007-5068 Phone: 248.267.3700 Fax: 248.267.3737 E-mail: macpa@michcpa.org

September/October 2009

Leaders' Edge[PRINT](#)

Top Stories

State Budget Negotiations...Here We Go Again?

Michigan's Constitution requires a balanced budget to be in place by the beginning of the state's fiscal year in order to continue operations. The new fiscal year starts on October 1. While Lansing is abuzz with ideas on how to make ends meet for 2009-2010, the budget is not completed and much work remains. In 2007, similar circumstances resulted in 11th hour decisions (including general tax increases) to narrowly avoid a government shutdown. The Legislature and Governor Jennifer Granholm are hoping to avoid such drastic measures this time around...but how close are they?

Projected revenues are currently an estimated \$2.8 billion over expenditures for the 2009-2010 fiscal year. Leaders are looking at a similar shortfall for 2010-2011; and, much of the negotiating to-date has included efforts to address portions of the 2010-2011 budget.

The Senate, under Republican control, passed a budget plan in June, calling for \$1.2 billion in cuts beyond the Governor's original plan from January. While this was a productive first step in negotiations, it included many items found unpalatable to the Democratic House of Representatives and the Granholm administration. The Senate plan included the elimination of Promise Grants (\$4,000 to students who complete statewide high school exams and go on to college) and reductions to many human services, K-12 education funding and revenue sharing to municipalities.

Since that time, the Senate has been calling on the Governor and the House of Representatives to formally propose their budget plans and begin negotiations in earnest. Many sources have indicated the hold-up includes items in the 2010- 2011 budget.

Under increased pressure, the Governor released the details of her proposal this week. Her 2009-2010 fiscal year plan calls for \$464 million in General Fund cuts, \$973 million in federal stimulus monies and \$685 million in new revenue. Similar numbers are proposed for the following year's budget.

Her cuts include closing numerous business tax "loopholes," such as the film credit available for the Michigan Business Tax (MBT) and \$22 million from the 21st Century Jobs Fund. She doesn't touch the Promise Grants. The revenue portion of the Governor's proposal includes, among other items, new taxes on bottled water, tickets to live events, and pop from vending machines, along with an increase in the tax on cigarettes and other tobacco products.

Shortly after the Governor released her proposal, the House of Representatives responded with their plan for revenue enhancements of \$543 million in order to eliminate the 22 percent MBT surcharge during the 2009-2010 fiscal year. Among the items championed by the House

and, specifically, House Appropriations Committee Chair George Cushingberry, is a five percent increase on satellite TV, a 50-cent-per-month charge on cell phones and a two percent excise tax on fast food.

With less than 15 business days remaining until the September 30 deadline, the Governor and legislative leaders (Senate Majority Leader Mike Bishop and Speaker of the House Andy Dillon) are clearly far from agreement, raising eyebrows among pundits in Lansing who wonder if this is déjà vu.

September/October 2009

Leaders' Edge

[PRINT](#)

Top Stories

Tax Preparer Disclosure and Penalty Rules Become a Significant Practice Issue

*IRC 7216: Raising the Bar for Ethics Standards Compliance**By Michael E. Slomski CPA, MSF*

As of January 1, 2009, new regulations under Internal Revenue Code Section 7216 have required tax preparers to obtain informed, written consent from taxpayers when using or disclosing information on a personal tax return for any purpose outside of preparing and filing the return. This not only includes providing data to outside institutions such as banks or mortgage companies, but also relates to sending clients information, such as educational articles or marketing literature for services that are not tax-related.

In addition to these new regulations, the AICPA Code of Professional Conduct contains client confidentiality requirements. With the Privacy Act requirements well in place and the constant vigilance for client confidentiality under ET-Section 301, CPAs have exercised considerable safeguards to provide a secure safe haven for client and employer information. Repercussions of potential ethics violations must also be considered under ET-Section 201, General Standards of Practice and ET-Section 501, Acts Discreditable to the Profession.

Now, through Section 7216, the Internal Revenue Service has taken us several steps further in interpreting these three ethics code sections by redefining the commonly accepted term of "tax preparer" and the use of confidential client information.

What follows are a few *eye opening* questions and answers that stir the "ethics pot" and could land you in the proverbial "hot water" without a proper understanding.

Q. A tax return preparer is the individual that signs the tax return as the preparer. What is different under Treas. Reg. Sec. 301.7216?

A. Recent changes to the tax preparer penalty statute are substantial and preparers should understand the risks associated with these revisions. A person may be a preparer without regard to a particular professional license or educational requirement.

**MACPA Continuing
Education
Opportunities on
IRC 7216:**

[Financial Planning and
Advanced Federal Tax
Conference](#) (session O
- What's New in
Federal Tax)

[Tax Season Update
with Steve Dilley](#)

[Federal Tax Lectures](#)

**Dates for Webinars
on IRC 7216:**

Thursday, October
29th, 1pm

Thursday, December
10th, 1pm

*Registration for these
webinars will be*

Previously, income tax preparers who prepared returns for compensation, or employed others to prepare tax returns for compensation or a substantial portion of a tax return were considered tax preparers. Now, preparers of income, estate and gift tax returns are subject to the new statute. Also included are preparers of information tax returns such as a Form 1065, U.S. Return for Partnership Income if the items on the Partnership return constitute a substantial portion of a partner's individual income tax return.

*available soon on the
[MACPA website.](#)*

Two categories of preparers now exist...those that actually sign the tax return and non-signers, the individuals that prepare a substantial portion of a tax return and do not sign or who provide written or oral advice regarding a position taken on a tax return.

What may be considered "substantial" is determined on the merits of each return. There can only be one signer of the tax return but the responsibility for the tax consequences of the return can lie with both the signer and non-signer.

When giving tax advice, CPAs should determine their responsibility for the return and ask, who is the preparer?

Q. How does IRC 7216 impact issues of client confidentiality and standards of practice?

A. Sec. 7216, issued in 2008, reinforced client confidentiality issues that essentially were unchanged since 1980. The new guidance became effective on January 1, 2009 and prohibits tax return preparers from knowingly and recklessly using client tax return information. The new rules require a practitioner to obtain written or electronic permission from the client prior to, not after, disclosure of confidential information is made. The content of the consent form is different when dealing with an individual income tax return as compared to a business tax return.

The only exception to the confidentiality provision occurs when client information is required under court order.

Q. What is the definition of "confidential client information"?

A. The definition of client information is well defined under IRC 7216. Basically, it not only includes the taxpayer's name, address and social security or Federal identification number, but also includes any data derived through the preparation of the tax return or rendering advice regarding the tax return.

Q. What is meant by "disclosure"?

A. Any use of client data by a practitioner in making that information available in any manner whatsoever, without specific client consent, would meet the definition of disclosure.

Q. Where can I find a more in depth discussion of the new tax preparer rules and the disclosure of taxpayer information?

A. Consult the following resources for more information:

[MACPA Website Resources for Sec. 7216](#)

[IRS 7216 FAQ](#)

[Internal Revenue Code 301.7216](#)

[The Tax Advisor-May 2009 article: New Tax Preparer Rules for Disclosure and Use of Return Information](#)

The Tax Advisor-August 2009 article: [Tax Preparer Penalties: Who Is a Preparer?](#)

September/October 2009

Leaders' Edge

[PRINT](#)

Message from the Chair of the Board

Profession's Impact Increases During Turbulent Times



*Jonathan D. Anibal
2009-2010 MACPA
Chair of the Board*

The latest research says CPAs are viewed by business decision-makers and investors more positively than any other business professional. Client satisfaction with CPAs is also high. About four of every five decision-makers at companies of all sizes say that they are satisfied with both their internal and external CPAs, according to a recent AICPA study to measure perceptions about the CPA brand.

Furthermore, a recent salary survey by the Institute of Management Accountants shows that while many white-collar professions lose stability amid an economic crisis, the CPA profession is actually weathering the storm. The IMA attributes the stability and opportunity within the accounting profession to the fact that employers and clients recognize that CPA's bring higher skill levels and greater ethical cores to their

finance teams.

These attributes are key to our economic recovery and long-term business sustainability. The bottom line? The CPA profession is in a great position to help Michigan companies grow forward. For example, we can help our clients and employers take advantage of the myriad of tax credits, TARP money, venture funding, economic development initiatives, and more. *We* can make sense of these opportunities by helping companies get past the frustration and through the red tape, offering value that extends far beyond tax and audit work.

In Michigan, there's a strong CPA volunteer base helping in our communities. For CPAs, it's more than about numbers. It's about making a difference and giving back. Our members work with the armed forces, help low-income citizens with tax returns, raise money for cancer awareness and research, and so much more. We're excited to honor some of these CPA heroes at the [MACPA Awards Dinner](#) on Monday, October 5. We'll also pay tribute to a visionary of our profession – AICPA Chair Ernie Almonte. All members are invited to attend this event, which will include a silent auction to benefit the Michigan Accountancy Foundation. While times are difficult in our state and nation, recognizing the achievements of our fellow members inspires all of us.

I believe that one of the keys to the long-term success – of our profession, our employers, our firms, and our state – is actively engaging the younger members of our profession. We must take an active role in identifying, developing and preparing our young leaders. It's important to involve them in our task forces, and serve as mentors to them. Lauren Foster, a

member of our Professional Ethics Task Force, is a great example of a dynamic young CPA. She recently participated in the AICPA's first Leadership Academy. You can read more about her in this [story](#).

I'm excited and energized to take on the role of Chair of the MACPA. It's an honor to serve with you, as we work together to grow our profession and move our state forward.

Jonathan D. Anibal

September/October 2009

Leaders' Edge

[PRINT](#)

Of Interest

2nd Edition of Hospice Manual Now Available

The Michigan Association of Certified Public Accountants (MACPA), in partnership with Hospice of Michigan (HOM), recently published the second edition of the resource manual, *Financial Affairs: At the End of Life*. This updated edition is designed to help families with loved ones in the final stages of life, as they are often overwhelmed with financial and estate planning documents and responsibilities.

"People don't have the documents they need, and don't know where to look to find them," said Judy Trepeck, a member of the MACPA Financial Literacy Task Force and Board of Trustees for Hospice of Michigan. "This guide gives them the tools."

Financial Affairs: At the End of Life walks families through key areas such as organizing financial information, decisions to be made about dependents, retirement accounts, business succession, and meeting immediate and future financial needs of family members. It includes a list of helpful tools and documents, electronic links and other resources including a chapter to help people find the appropriate resources and referral sources such as CPAs, attorneys, and financial planners. The resources provided are available to individuals with and without Internet access.

When should people begin going through the guide in order to best prepare? "Yesterday," Trepeck said. "The reality is that it's not just an end-of-life discussion. Working on this manual was eye opening for me. If I could take all the information and documents I have and put them together in a folder, it's the best thing I could do for my children or my parents."

Financial Affairs: At the End of Life is available free-of-charge via download or regular mail. CPAs can obtain copies of the manual, electronically or in hard copy, to provide to clients.

Trepeck was recently named HOM's Outstanding Volunteer, and will be recognized at the organization's 24th Annual Crystal Rose Ball on October 2, 2009.

"It's not about the people they give awards to, it's about recognizing what hospice and palliative care does for people," Trepeck said of winning the award. "It gives them a better quality end of life. People have lived longer and lived better than they would have without hospice and palliative care, and that's a really wonderful thing."

To obtain your copy of *Financial Affairs: At the End of Life*, visit www.michcpa.org or call the MACPA at 248.267.3700.

September/October 2009

Leaders' Edge[PRINT](#)

Of Interest

New Start Here, Go Places. Website Offers Greater Interactivity for Students

In late July, the AICPA's Academic & Career Development team launched an updated version of the Start Here, Go Places. website. With the number of accounting majors on the rise and the overall popularity of the CPA profession increasing, the new site meets this demand head-on, building on the program's existing momentum, while providing an even more interactive and robust experience. Start Here, Go Places. continues to be the online destination for students, educators and parents to learn everything they need to know about accounting careers.

In 2001, the AICPA created the Start Here, Go Places. program to encourage high school and college students to pursue careers in accounting and ultimately to become CPAs. Through a combination of online and print activities, the website provides students, parents and educators with accounting-related career resources. The campaign has continued to be successful over the years and has increased awareness and understanding of the CPA profession

"Over the past 10 years, the number of students interested in the field of accounting has grown rapidly. The tools and resources on the State Here. Go Places. website were developed to stay in touch with the ever changing CPA Profession and provide guidance to students interested in the field of accounting. The site has been redesigned, offering students an even more interactive experience and helping them see the infinite possibilities in the career of accounting," said Jeannie Patton, Vice President of AICPA Students, Academics and Membership.

The State Here. Go Places. website lays the groundwork for students to discover exactly what a career in accounting means, and gives them the opportunity to apply their own interests and values to finding a career that's right for them. Among the many helpful resources located on the website, the recent enhancements include:

- The "FutureMe" feature allows students to create a future vision of themselves by choosing a specific career in accounting and a road map to get there. When first visiting the site, students are presented with questions to discover career paths that best suit their needs.
- Meet a CPA (by interest and/or state), with print testimonials for each CPA. This feature allows students to see real life careers in action and provides insight on what their life in accounting could be like. This tool, in addition to the others, helps students to create a concise road map in finding the career that's right for them.
- Salary & demand information for dozens of careers.
- Detailed information for each step of the journey to becoming a CPA: high school (job shadowing), college (school & scholarship searches) and post college (CPA Exam &

licensure information).

- Facebook Connect capability which allows students to post and share content from Start Here, Go Places. to their personal Facebook profiles.

The Start Here, Go Places. campaign has won numerous awards including: the 2008 American Business Award for "Best Direct Response Web Site", the 2007 Gold Circle Award, American Society of Association Executives and the 2007 Gold Quill, International Association of Business Communicators.

The new website offers a fresh opportunity for today's generations to engage with the accounting profession.

Start Here, Go Places. website

www.startheregoplaces.com

For more information on AICPA Academic and Career Development, visit

www.aicpa.org/MediaCenter/Academic_Career_Development.htm

September/October 2009

Leaders' Edge

[PRINT](#)

Of Interest

Preparing CPAs for the Next Generation of Accounting - *Michigan CPA Among 28 in Inaugural Leadership Academy*

As more and more baby boomer CPAs near retirement, the demand for talented younger CPAs who can take their place is high. Fortunately, the number of people declaring accounting majors and entering the profession is greater than ever before. With that growth, however, comes a need to provide the tools and resources necessary to develop today's young CPAs into the profession's leaders of tomorrow.

On July 7–9, 2009, the AICPA held its inaugural Leadership Academy. A young Michigan CPA, Lauren Foster, was tapped to join in this first-time event. A member of the MACPA Professional Ethics Task Force, Lauren is assistant controller with Wayne County Airport Authority (WCAA).

The goal of the Academy is to groom today's young CPAs to be future leaders of the profession. Twenty-eight CPAs under the age of 35 from around the U.S. gathered for three days to participate in interactive learning exercises and receive mentoring from some of the profession's best and brightest minds.

"A large portion of the program involved collaboration with my fellow classmates on multiple topics including priorities for the CPA profession, management techniques, complex problem solving, and leadership practices," noted Lauren. "Since my return from the Academy, I have applied many things I learned into my current job," she added.

"As the premier national association for CPAs, the AICPA takes very seriously its charge to help the profession continue meeting its responsibility to the public," said Ernest A. Almonte, CPA-CITP/CFF, chairman of AICPA Board of Directors, who conceived the idea. "To accomplish that mission, we must identify and develop our young leaders, people who not only have superior technical skills, but also possess the potential to shape our direction. The 28 professionals we've selected have that potential."

"I could sense the excitement for the Academy program when it was first introduced to me by Ernie Almonte, during the MACPA Spring Members Advisory Symposium," Lauren said.

Lauren was selected from more than 120 candidates recommended by employers and state



"Since I returned from the Academy, my perspective has changed. With everything going on these days, it is hard to believe that one person can make a difference or can inspire others and effect change, but that is usually how it works. I plan to continue working to provide a contribution to both my profession and state."

– Inaugural Leadership Academy participant Lauren Foster, from Michigan

CPA societies. She had to submit her résumé including work history, licensure information, professional volunteer activities, community service, and awards and honors. Additionally, she supplied a statement explaining why participating in the Leadership Academy would be important personally.

As part of the program, participants read an article on leadership and submitted a personal leadership case study in advance. The leadership case study provides an opportunity for CPAs to express their real-world business challenges, learn the leadership role they should play in that situation and make actual progress on their challenge while participating in interactive exercises with their peers. This case study is just one of many exercises that focus on the Leadership Academy's two primary principles: application and engagement.

Participants in the Leadership Academy gained knowledge through a variety of lectures, group activities and individual work. The program centered on helping CPAs apply the lessons and develop ideas for both the AICPA and their own individual work environments.

Speakers at the Leadership Academy included, among others, AICPA Chair Ernest Almonte and AICPA President Barry Melancon, Marty Linsky, adjunct lecturer in public policy at the Harvard University Kennedy School of Government, led many of the sessions.

In addition to the seminars, each young CPA is assigned to a term on an AICPA volunteer committee or to one from the participant's state society. Current and former AICPA leaders will serve as personal mentors. The mentorship will help participants cement and personalize the training and will allow them to cultivate their leadership skills.

Lauren also learned about the professional value of online tools such as Twitter and LinkedIn. "Prior to Academy, many of us were not using the Internet to network professionally and keep up with the latest industry news. I was one who felt there was too much on my plate already to add another thing to manage," she said. "But, I learned how these tools could benefit my career; the instructors even helped me set up my account." Now, Lauren stays connected and "follows" AICPA, MACPA, and colleagues from the program in real-time.

"While the Academy was only three days, the relationships are ongoing," commented Lauren. "Since returning to Michigan, I have been in touch with my new AICPA mentor, appointed to a National AICPA Committee, re-appointed to the MACPA Ethics Task Force, and received a new credential, Certified Information Technology Professional (CITP)."

Applicants for the AICPA Leadership Academy in 2010 will be accepted in the fall of 2009. Additionally, those who were not selected for 2009 will automatically be considered for 2010.

September/October 2009

Leaders' Edge

[PRINT](#)

Of Interest

IFRS for Small and Medium-sized Entities (SMEs)

By John L. Daly, Executive Education, Inc.

The July 2009 release of International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (SMEs) is a major event in the adoption of international standards by U.S. companies. Since the AICPA's May 2008 recognition of the International Accounting Standards Board (IASB) as a standard-setting body, IFRS for SMEs automatically becomes an acceptable basis for accounting in the United States.

Prior to the release of IFRS for SMEs, professionals studying the U.S. adoption of IFRS generally concluded that public companies would lead the way in U.S. adoption. However, since the SEC has made it clear other problems are more pressing right now, it is quite possible that private companies, not public ones, will lead the U.S. adoption of international standards.

The IASB intended IFRS for SMEs to be the acceptable standard that most companies would use. The standards setters envisioned that companies with **public accountability** would use full IFRS and all other for-profit entities would use IFRS for SMEs. The IASB defined public accountability to mean public companies and those holding assets in a fiduciary capacity for outsiders such as banks, credit unions, insurance companies, broker dealers and mutual funds. They defined SMEs as everyone else. Thus, their definition of "small and medium-sized entities" has little to do with size. A huge closely held company might fall under IFRS for SMEs while a small public company might be subject to full IFRS.

The IASB estimates that 95 percent of the world's for-profit entities would use IFRS for SMEs. The IASB acknowledged that legislatures and standard-setting bodies of each jurisdiction would make the decision about which entities would use each of the two IFRS standards. No international standards yet exist for not-for-profit entities.

What You Need To Know

The good news is that IFRS for SMEs is relatively short. Presented on an odd-sized 6"x 9¾" paper with a tiny 8.5-point font, the full text runs only 231 pages. This compares to some 2,500 pages for full IFRS and 25,000 pages for U.S. GAAP. IFRS for SMEs is not some severely scaled-down standard designed for third-world countries, but a comprehensive principles-based standard.

Other good news is that most of the standards discussed in IFRS for SMEs will seem familiar and common sense to U.S. accountants. These are among the key provisions:

Daly to Speak on IFRS at MACPA Seminar

Author John Daly will be presenting a full-day seminar, [The Coming IFRS Conversion: Preparing for the Ultimate GAAP Makeover](#) in Lansing on October 26th. You may register on the MACPA's website

IFRS for SMEs is available on the IFRS [website](#).

Inventory Valuation – Inventory under IFRS is valued at lower of cost or selling price less cost to sell (net realizable value). While similar to the “lower of cost or market” used in U.S. GAAP, this is a harder analysis to perform due to the added requirement of estimating selling costs.

Fair Value Accounting for Property, Plant and Equipment (PP&E), which is one of the major differences between full IFRS and U.S. GAAP, is not an option under IFRS for SMEs. Using historical cost is the only option. However, this is not the same historical cost methodology used by U.S. GAAP where accountants routinely ignore residual value and employ depreciable lives that sometimes represent merely half of economic reality. Under IFRS historical cost, companies adjust both useful lives and residual value as circumstances change.

While it will take most accountants well under an hour to understand the principles of IFRS historical cost accounting for PP&E, the amount of work to implement this standard may be considerable.

Revenue Recognition for SMEs closely resembles full IFRS, which consists of relatively few principles-based standards. Unlike rule-based U.S. GAAP, IFRS expects accountants to apply and interpret revenue recognition principles to their own company's situation.

Financial Statement Presentation – IFRS for SMEs specifies the following basic financial statements:

- Statement of Financial Position
- Statement of Comprehensive Income
- Statement of Changes in Equity
- Statement of Cash Flows

The standard also provides companies an alternative that allows them to show profit and loss on a separate statement from comprehensive income. In addition, when a company's only changes in equity are to retained earnings and dividends, they may combine the Statement of Changes in Equity with the Income Statement.

The current IFRS standards specify what must appear on financial statements, but not how companies must present them. Current IFRS will have little affect on US financial statement presentation. However, the current FASB/IASB's financial statement formatting joint project could completely remake financial statements as accountants worldwide know them today.

While not well known, despite a prominent article in the November 2008 *Journal of Accountancy*, this joint project would remake all of the basic financial statements used in the United States today. The project has been controversial, particularly in view that the Statement of Financial Position would no longer reflect a balanced “Assets = Liabilities and Equity” format.

Like the changes to accounting for PP&E, understanding the potential changes to financial statements is likely to be easy when compared to the work involved in implementing the changes. The proposed changes to financial statement formatting are not minor and may require completely different financial reporting software than you are currently using. Thus, companies should only undertake new information technology projects with a full knowledge of these potential financial reporting changes.

Footnotes – IFRS for SMEs specifies Financial Statement footnotes must be in a systematic order and that companies must cross-reference them to the financial statements. This is a common-sense enhancement to financial statement readability.

Plan for the Future

Professionals who follow accounting standards generally agree that the United States will adopt IFRS. The only real issue is when. There also seems to be a consensus that the time accountants spend understanding the new standards will only be a small fraction of the work involved in the conversion effort. Most people estimate that IFRS conversion will involve an effort whose magnitude will rival implementation of *Sarbanes-Oxley*. Some estimates have been much higher.

Lessons learned from implementations in the United Kingdom tell us that most companies:

- Under-estimated the amount of work involved in converting to IFRS
- Started their conversion projects too late, and
- Failed to involve other departments, particularly IT early enough in the process.

While we do not yet know when companies in the United States will convert, we know that it is not too soon to begin thinking about the conversion process in our own companies.

About the Author

*John L. Daly, MBA, CPA, CMA, CPIM is a Chelsea, Michigan-based management consultant who has taught continuing professional education seminars since 1995. He was previously CFO of a tier 1 automotive parts supplier and a large restaurant chain. Daly is the author of **Pricing for Profitability**, published by Wiley & Sons and is a frequent speaker on financial management topics for Executive Education, Inc.*

USAGE CONDITIONS FOR THIS MATERIAL

We grant not-for-profit accounting associations the free use of this article for distribution to their members under the condition that the name of our company, Executive Education, Inc., appears both beneath the name of the author underneath the title of the article and in the author's biography at the end of the article. The name "Executive Education, Inc." is to be in a font that is at least as large as the size of the text of the article.

Accounting & Auditing

Testing the SaaS Waters with Audit Applications

By Marty McCutchen, CPA CITP

Some tend to be “thoughtful” adopters of technology — waiting for others to test it out and report back the results. Though there is nothing wrong with taking a slower, cautious evaluation approach, at some point you simply have to take the plunge. Where well-developed, cost-effective technology is concerned, CPAs that have jumped in the deep end of the pool are finding that the water is quite nice.

Such is the case with leading Software as a Service (SaaS) tools. These applications offer the profession powerful technology to answer a real need — the need to consistently elevate efficiency. Not a new concept in the tax and accounting field, the SaaS model has only recently started to gain momentum and get the attention it deserves. There are two primary reasons for this:

1. SaaS applications can be very cost effective, and
2. Many SaaS products have proven their value in terms of quality and ROI.

SaaS Explained

Software as a Service is a model where a software vendor licenses an application for use, usually over the Internet, on demand.

SaaS-based Audit Tools are a Good Example

Historically, technology hasn't come cheap. In fact, software/hardware solutions rank as the largest cost item for firms, second only to staff compensation. SaaS applications are reversing this trend by offering powerful tools at a much lower cost. Because software is deployed over the Internet and typically developed for a broad audience, development costs are significantly reduced. The savings carries through to the end user. This means that firms get all the advantages of advanced technology without the tremendous upfront cost.

In addition to a lighter price tag, there are several SaaS applications that have “earned their keep.” For example, leading Disclosure and Reporting Manager (DRM) software further streamlines complex audit workflows by seamlessly integrating with core audit and engagement applications. DRM software supplements larger audit solutions by providing comprehensive and customized reporting capabilities and the ability to generate commonly used documents such as proposals, engagement letters, financial statement with footnotes, and management representation and recommendation letters. The SaaS-based DRM application fully integrates with a firm's checklists and practice aids and comes equipped with databases that allow you to store sample letters and footnote disclosures for reference. The end result is a far more efficient and standardized audit process.

The SaaS model continues to grow in popularity among CPAs, especially as more quality

vendors continue to pop up on the radar. Not only do SaaS audit applications provide a lower-cost alternative, but many also integrate with core audit/engagement systems — providing needed functionality that is typically not available.

As new mandates and regulations hit the profession, not to mention ever-increasing client demands, firms require tools that accelerate efficiency. Many SaaS products have been around for years, so not even the slowest adopters can sit back for much longer. Because these products are tested and proven, it just might be time to jump in the deep end of the SaaS pool. Powerful, cost-effective solutions are there to help you operate your firm, well, *swimmingly*.

About the Author

Marty McCutchen, CPA CITP, founded CPA Service Group, LLC in 2006, and currently serves as the company's president and Chief Executive Officer. Previously, he spent 11 years in public accounting. He can be reached at martym@cpaservicegroup.com.

September/October 2009

Leaders' Edge

[PRINT](#)

Tax Tidbits

R&D Tax Credit Evolves; But Still Useful

By Randy Crabtree, CPA, Tri-Merit, LLC

Technological innovations are critical to the future success and growth of our economy. The U.S. and most state governments have recognized this and implemented tax incentives to encourage businesses to invest in Research and Development. The Federal R&D Credit was most recently extended through December 31, 2009, by H.R. 1424, the Emergency Economic Stabilization Act of 2008, passed on October 3, 2008.

The Research and Development Tax Credit is designed to stimulate increased company spending on Research and Development activities over time by reducing taxes. In general, a qualifying company is eligible to deduct from corporate income taxes an amount equal to 20 percent of qualified research expenses above a base amount. Qualified research expenses include wages, supplies, and contract research expenditures.

Qualified activities for the research credit must pass a four-part test:

1. **Permitted Purpose:** The project must be intended to be useful in the development of a new or improved business component for the taxpayer. A business component may include a product, process, technique, formula, invention, or software.
2. **Technological in Nature:** The project must be undertaken for the purpose of discovering information that is technical in nature. Thus, the activity must rely on the principles of physical sciences such as engineering, biology, or computer science.
3. **Elimination of Uncertainty:** The project must be intended to eliminate uncertainty related to the development or improvement of a business component. Uncertainty can include the capability, development method, or optimal design of the business component.
4. **Process of Experimentation:** The project must evaluate one or more alternative solutions through the development, refinement, and testing of different options. Further, technical risk must be present, which means that there is a chance the project will not be successful.

The R&D Tax Credit (IRS Code §41) was established by the Economic Recovery Tax Act of 1981, and since that time it has expired and been extended 13 times. During its 28-year history, the credit has frequently undergone significant changes and revisions. The past several years have been no different, with important developments coming from new case law, IRS pronouncements, and legislative action.

Recent Case Law – *U.S. v. McFerrin*

The recent ruling by the Fifth Circuit Court of Appeals in the case of *U.S. v. McFerrin* established new guidance and precedence for the examination of R&D Tax Credit claims and will likely be heavily relied upon by taxpayers in future examinations.

In the original district court decision, several issues were cited in ruling that it was not persuaded that qualified research for the purposes of the research tax credit took place. First, the court took issue with the fact that the evaluation of qualified activities and the calculation of the credit were not conducted by engineers or anyone with meaningful scientific experience. Second, the company was unable to produce any records of the hours worked on any given project or the hours worked or supplies used that involved research. Third, and most significantly, the district court held that research only qualified if it expanded or refined the existing principles in a technical field and had a high threshold of innovation (known as the "discovery test"). Finally, the court also held that qualified research only applied if a process of experimentation occurred that involved the forming and testing of a hypothesis, rather than "trial and error" testing.

In the appellate court ruling handed down June 9, 2009, it was found that the district court had used incorrect applications of the "discovery test" and "process of experimentation" by applying the wrong legal standards and failing to consider all the relevant evidence of the taxpayer. Most importantly, the appellate court stated that the "Cohan Doctrine" allows a taxpayer to use estimates of qualified research expenses when it can be proved that qualified research activities have occurred. Further, the appeals court found that oral testimony (through interviews) and the institutional knowledge of employees is acceptable in determining estimates. Based on this the appellate court vacated the district court's original ruling and sent it back for further proceedings consistent with the appellate court's findings.

Given the issues identified above, it is recommended that a client's facts be aligned with those identified in the *McFerrin* decisions. First, utilize engineers or technical experts to evaluate and document the qualified nature of projects. Second, ensure that sufficient documentation exists to support the existence and facts of each qualified project and the array of employees involved in those qualified projects.

IRS Pronouncements

The volume of R&D Credit claims that have been filed in recent years has significantly increased. As a result, on April 4, 2007, the Research and Development Tax Credit was designated as an LMSB Tier 1 Audit Issue. Tier 1 Audit Issues are issues that, if present in an audited tax return, are required to be reviewed. Due to this, tax practitioners should expect to see an increased level of scrutiny relating to R&D Credit claims.

In May of 2008, the IRS published a revised version of its document titled "Research Credit Claims Audit Techniques Guide (RCCATG): Credit for Increasing Research Activities § 41." The audit technique guide is not an official pronouncement of law or the position of the Service and thus cannot be used, cited, or relied upon as such. However, for the practitioner it does provide an indispensable view of how the IRS views the R&D Credit and further insight

into the main issues the IRS focuses on in examination. As such, it should be considered required reading for anyone preparing an R&D Credit claim.

Legislative Action

With the passage of H.R. 1424, the Emergency Economic Stabilization Act of 2008, the R&D Credit was most recently extended through the end of the 2009 calendar year.

In addition to extending the R&D Credit, H.R. 1424 also implemented changes to the credit. First, the Alternative Simplified Credit (ASC) was increased from 12% to 14% for taxable years ending after January 1, 2009. Second, the Alternative Incremental Credit (AIC) is no longer electable after December 31, 2008. Finally, a technical correction was made to modify the computation of the research credit's base amount for a tax year in which the credit was not in effect for the entire year.

Summary

The Research and Development Tax Credit can be extremely valuable in reducing the tax liability of a business engaged in qualifying activities. Due to the heightened scrutiny the credit is receiving, however, it is recommended to proactively prepare the supporting documentation as outlined above, utilizing technical staff with a scientific background, to ensure the substantiation will align with the requirements of the IRS.

About the Author

Randy Crabtree, CPA, is a partner with Tri-Merit, LLC. He has over 20 years of public accounting experience and has focused solely on the R&D Tax Credit for the past three years. He can be contacted at rcrabtree@tri-merit.net.

September/October 2009

Leaders' Edge[PRINT](#)

Legislative & Regulatory

New Peer Review Process Will Simplify Form Submission

Beginning September 2009, the AICPA and MACPA will transition to a new computer system for administering Peer Reviews. Ultimately, the new process should simplify document submission for firms, and it will reduce the overall time period required to complete a Peer Review.

Over the past two years, the MACPA has been involved at varying levels with the development of the new system, Peer Review Information System (PRISM). The system itself is used primarily by the administrator (the MACPA). However, firms will notice some changes, including the ability to communicate via e-mail to a greater degree. Initially, the most significant change will be filling out "background" forms online.

Firms subject to Peer Review should verify that the MACPA has an accurate e-mail address for the Peer Review contact person. Please forward current information to dpickering@michcpa.org.

Questions or concerns about the transition can be directed to the MACPA Peer Review staff. Contact Randy Halleck, assistant director of Peer Review, at rhalleck@michcpa.org.

September/October 2009

Leaders' Edge[PRINT](#)

Legislative & Regulatory

MACPA Membership Terminated

At a hearing of the AICPA's Joint Trial Board, conducted in accordance with the AICPA and MACPA Joint Ethics Enforcement Program, in regard to the conduct of Teri E. Tuttle, CPA, the Joint Trial Board found Ms. Tuttle in violation of Rule 501 - Acts Discreditable of the *AICPA/MACPA Code of Professional Conduct*. Ms. Tuttle failed to respond to investigative inquiries made by the MACPA Professional Ethics Task Force. As a result, Ms. Tuttle's membership within the MACPA was terminated effective July 10, 2009.

September/October 2009

Leaders' Edge[PRINT](#)

Legislative & Regulatory

Legislative Update and 2010 Election Preview

The column in the July/August issue of *Leaders' Edge* discussed the MACPA Legislative Team's (comprised of the Legislative Advisory Group, Political Action Committee, President, Government Relations staff and external lobbyist) efforts protecting the integrity of the CPA designation and advancing the agenda of the profession. An update on these initiatives follows – but also an early glimpse at the pending 2010 election, the event that dictates much of the MACPA's strategy and success in the legislative process.

CPA Licensing and Other Regulatory Changes

Following the passage of CPA license mobility legislation in June 2008, work began on a comprehensive review and rewrite of Article 7 of the Michigan *Occupational Code* and the Administrative Rules promulgated thereunder, governing the CPA profession in Michigan. Some of these updates are necessary given the new mobility provisions, such as altering the rule regarding temporary practice permits; however, the MACPA is working closely with the State Board of Accountancy and staff from the State of Michigan Licensing Bureau to examine references to practice standards and other items. A detailed examination of this legislation, still being drafted, will be available on the MACPA's website and covered in *Leaders' Edge* later this year.

On the **tax front**, the Association, mainly the experts on the MACPA State & Local Tax Task Force, continues to review all proposals, debates and conversations relative to changes to the MBT. These changes could be significant in 2009 and the MACPA remains committed to engage in the debate where appropriate. MACPA is currently working with members of this Task Force and subcommittee on Business Tax Restructuring to target ambiguities and necessary technical corrections in the MBT and communicating with the appropriate individuals inside the State Legislature and at the Department of Treasury.

Beyond the MBT, the rumor-mill is turning and discussions have resurfaced regarding an expansion of the sales/use tax base to include services. The newly reorganized Detroit Renaissance is expected to issue a formal proposal calling for a reduction in the state's sales/use tax rate, an expansion of the base to include services, and a 60 percent reduction in the MBT. MACPA is monitoring this situation and communicating with policy makers daily.

Finally, the MACPA is always tracking policy proposals that may impact CPAs, working diligently to protect the profession's interests. Although no legislation has been introduced, efforts remain afoot here in Michigan to create a licensing or regulatory structure for paid tax preparers, a proposal that flies in the face of MACPA's mission to protect both the public and the CPA profession. Initiatives have also surfaced in recent years to require audit partner and/or firm rotations for specific sectors (i.e. school districts, area agencies on aging, etc.).

The MACPA is committed to defeating any such proposals.

Michigan's term limit law will be having its way with the Legislature again in 2010, as 29 of 38 current State Senators are termed-out. In addition to those members termed-out of the House, speculation is that three or so House members could be running for each Senate seat. In all, of the 148 state legislators currently in office (38 Senators and 100 Representatives), as many as 100 new faces could be coming to Lansing and taking office in January of 2011.

Weighing in the balance of this election is more than the majority control of the House and Senate (the House is currently under a significant Democratic majority of 67 – 43; the Senate under Republican majority of 21 – 16 with one seat vacant). 2010 is a census year, so the Legislature elected in November will be charged with "redistricting." That is the redrawing of district lines adjusted for population purposes. IF one political party finds itself in control of both legislative chambers during this process, it often can secure itself similar control for years to come.

The drastic impact of this election doesn't stop there – all of the state's constitutional offices (Governor, Lt. Governor, Secretary of State and Attorney General) are also up for election.

To ensure future success in representing the CPA profession in Michigan government, advancing the MACPA's agenda and protecting the integrity of the designation, we must be engaged in the upcoming election and work every day to establish and cultivate relationships with office-holders and those running for office.

MACPA's State Keyperson Program, our grassroots advocacy initiative, as well as the MACPA Political Action Committee (PAC) play a vital role in this effort. For more information on how you can be involved, visit www.michcpa.org/Content/16960.aspx.

September/October 2009

Leaders' Edge[PRINT](#)

Legislative & Regulatory

MACPA Asks FTC to Exempt CPAs from "Red Flags" Rule

The MACPA, AICPA and other state societies have asked the Federal Trade Commission (FTC) to exempt CPAs from its "Red Flags" Rule, designed to help prevent identity theft.

The FTC recently deferred the effective date of the Red Flags Rule from August 1 to November 1, and is providing additional resources and guidance to clarify whether businesses are covered by the Rule and what they must do to comply.

The Red Flags Rule is an anti-fraud regulation, requiring "creditors" and "financial institutions" with covered accounts to implement programs to identify, detect, and respond to the warning signs, or "red flags," that could indicate identity theft. The financial regulatory agencies, including the FTC, developed the Rule, which was mandated by the Fair and Accurate Credit Transactions Act of 2003 (FACTA).

In an [August 5 letter](#) to FTC Chairman Jonathan Leibowitz, MACPA President and CEO Peggy Dzierzawski expressed concern about the potentially broad application of the Red Flags Rule to the accounting profession. She stressed that CPAs already adhere to strict privacy requirements related to identifying information.

"Creating an additional requirement for any CPA that defers payments for services, even in the normal course of business, to develop and implement a written Identity Theft Prevention Program, seems excessively burdensome," she said.

The FTC recently launched this web site, www.ftc.gov/redflagsrule, offering resources and information related to the Red Flags Rule.

September/October 2009

Leaders' Edge

[PRINT](#)

Continuing Education

For CPAs in Industry and Public Accounting - Major Conference Brings Together Five Industry Topics

The MACPA is pleased to announce that the **Automotive Dealers, Construction Industry and Controllership Conferences** have been rolled into one fantastic conference that also includes Manufacturing and Real Estate. [CPE Select](#), featuring two of the MACPA's favorite speakers, will be held on Wednesday, September 30, 2009 at Rock Financial Showplace in Novi. By combining these conferences into one major event, industry members as well as public accounting members will have a more extensive list of offerings from which to choose to fill up a full day of educational programming.

Dana Johnson, senior vice president and chief economist at Comerica Bank, will share his thoughts on the latest economic developments specific to these industries, both nationally and in Michigan. Also making a keynote presentation is John L. Daly, CPA, MBA, CMA, CPIM, president of Executive Education, Inc. Daly will identify key strategies to keep your company and your client's profitability and competitive edge ahead of the game.

In addition to these two presentations, attendees will have the freedom to choose topics from ANY of the "subject" tracks, ensuring the most "bang for your buck." Our expert presenters will give you the information, tools and skills necessary for the financial survival of your organizations.

We hope you will join us on Wednesday, September 30 for this one-of-a-kind event. For more information or to register, please contact the MACPA at 248-267-3700 or visit www.michcpa.org.

September/October 2009

Leaders' Edge

[PRINT](#)

Association Briefs

"Bonus" Sessions Added to Fall Member Symposium

Michigan's financial leaders are coming together for a premier event – the Michigan Association of CPA's Fall Members Advisory Symposium on September 22 in Novi. This one-day event will focus on the state budget crisis and how the economy is impacting the profession. New for 2009, the symposium will feature two bonus sessions for attendees of the Symposium providing members with the opportunity to earn CPE credit at no charge. These special-session topics are designed to help members weather the current economic storm: collecting receivables in this tough economic climate and How to Capitalize on the New Michigan.

Just added to the program agenda is Dr. David Cole. Chair of the Center for Automotive Research in Ann Arbor, Dr. Cole will look at what the future may hold for Michigan and the auto industry.

Symposium registrants will also hear the latest on Michigan's budget crisis. *Crain's Detroit Business* Publisher Mary Kramer will moderate a panel of budget heavyweights featuring Doug Roberts, director of the Institute for Public Policy & Social Research at Michigan State University and a former state treasurer; Mitchell Bean, director of the Michigan House Fiscal Agency, the non-partisan analysis staff of the Michigan House of Representatives; and Phil Power, president of The Center for Michigan and founder of HomeTown Communications Network, Inc. Expect to learn more about the state's restructuring, reform and revenue issues from this premier group of speakers.

What else will you learn at the Fall Members Advisory Symposium? David E. Cole, Chairman for the Center for Automotive Research will explain what happened to the automotive industry in Michigan and what lies ahead for the future. You'll hear from AICPA Incoming Chair of the Board Robert Harris as he shares his thoughts on how our profession is being reshaped by not only the economic crisis, but also by legislative and regulatory reforms. MACPA President and CEO Peggy Dzierzawski will offer her insider's view on the Association's initiatives, and tell you how the MACPA is evolving to better meet your needs. CPA Licensing Director Joyce Carr will provide an update on license renewal, the new online CPE reporting system and changes to the peer review methods. Noted lobbyist, political strategist and advisor Tom Hoisington will also be on-hand to get you up to speed on the legislative issues affecting financial professionals.

An [optional early-bird session](#) with ethics credits will examine common ethics complaints and the process. You can earn up to 8 hours of CPE, including ethics, when you attend the Symposium, optional Early Bird Ethics Session and both new complimentary afternoon sessions.

We hope you'll join us on Tuesday, September 22 at Rock Financial Showplace in Novi as our experts discuss the issues facing our profession in these unprecedented times. For more information or to register, please contact the MACPA at 248.267.3700 or visit www.michcpa.org.

September/October 2009

Leaders' Edge[PRINT](#)

Association Briefs

In Memoriam

Elizabeth A. Duggan, CPA

July 8, 2009

Livonia, MI

Joined MACPA: September 30, 1988

Certified: October 27, 1988

Frank R. Gilsdorf, CPA

April 7, 2009

Flint, MI

Joined MACPA: May 31, 1958

Certified: February 11, 1958

Gerald B. Hubbard, CPA

July 4, 2007

Canton, MI

Joined MACPA: January 31, 1958

Certified: October 16, 1957

Anthony C. Kern, CPA

June 1, 2009

Novi, MI

Joined MACPA: January 15, 2009

Gary F. Kopmeyer, CPA

February 25, 2009

Livonia, MI

Joined MACPA: September 28, 1984

Certified: July 1, 1984

Charles D. Koshar, CPA

June 24, 2009

Birmingham, MI

Joined MACPA: April 30, 1956

Certified: February 2, 1956

Robert L. Meythaler, CPA

January 17, 2009

Fenton, MI

Joined MACPA: April 30, 1956

Certified: February 2, 1956

Willis J. Nelson, CPA

September 18, 2006

Grand Rapids, MI

Joined MACPA: November 18, 1949

Certified: August 9, 1949

Carl F. Reitz, CPA

June 13, 2009

Grand Blanc, MI

Joined MACPA: September 17, 1952

Certified: July 17, 1950

Paul F. Reithel, CPA

October 2, 2008

Plymouth, MI

Joined MACPA: March 1, 1944

Certified: December 31, 1943

Roseanna G. Valcke, CPA

June 3, 2009

Macomb, MI

Joined MACPA: May 31, 1990

James C. Wyatt, II, CPA

April 16, 2009

Gregory, MI

Joined MACPA: February 28, 1990

Certified: November 1, 1976

September/October 2009

Leaders' Edge[PRINT](#)

Association Briefs

Association Financial Statements Accessible Via the Web

Article IV, Section 3, of the Association's [bylaws](#) require that the MACPA audit report shall be distributed by mail communication or by publication in an official publication of the Association. The [MACPA Financial Statements](#), audited by MRPR Group CPAs & Advisors, for years ended March 31, 2009 and March 31, 2008, are available on the member website or they may also be reviewed at the [MACPA office](#) in Troy.