

L·B·B BRIEFS

FOR SMALLER REPORTING COMPANIES

ON THE HORIZON: MORE SIGNIFICANT NEW ACCOUNTING STANDARDS. *GAAP continues to change at an unprecedented rate*, and the guidance in several currently proposed standards is extensive. This newsletter provides a brief glimpse of a few of the important aspects of each project. Additional information should be obtained from the FASB website at www.fasb.org.

Accounting for Leases - The goal of this project is to ensure that all assets and liabilities arising from lease contracts are recognized in the balance sheet. The proposed guidance will provide both lessee and lessor accounting requirements. However, it would only apply to assets considered property, plant, and equipment and would include a number of scope exceptions, including leases of intangible assets and contracts that represent the purchase or sale of the underlying asset. The proposed guidance essentially eliminates the operating lease accounting method currently allowed under existing U.S. GAAP.

An important item to note is that even *existing* leases would require measurement and recognition when this guidance is implemented. Thus, entities must be prepared for significant changes to their balance sheets and resulting changes to related ratios such as the debt-to-equity ratio. There are changes for lessors as well, as well as for short-term leases. An exposure draft of a proposed ASU is expected to be released in the third quarter of 2010, followed by roundtable discussions in the fourth quarter, and the release of a final ASU in the second quarter of 2011.

Revenue Recognition - In June 2010, the FASB released an exposure draft of a proposed ASU, *Revenue from Contracts with Customers*. The proposed guidance would establish a single revenue recognition standard that would apply across various industries and capital markets. It would also eliminate inconsistencies in current revenue recognition standards and practices and remove existing industry-specific revenue recognition requirements. The new guidance would likely have a significant effect on certain industries and reporting entities such as construction contractors. The FASB anticipates issuing a final ASU in the second quarter of 2011.

Disclosure of Certain Loss Contingencies - The FASB is pushing forward its project to improve the disclosure requirements for loss contingencies. While the project is not being conducted jointly with the IASB, nonpublic entities should be aware of the project, as it could significantly impact their financial statement disclosures. The comment period for the proposed ASU, *Disclosure of Certain Loss Contingencies*, ends on September 20, 2010. The FASB hopes to issue the final ASU in 2010.

The proposed guidance would require entities to disclose additional qualitative and quantitative information about loss contingencies. The intent of the enhanced disclosures is to help users of the financial statements understand the nature, potential timing, and possible magnitude of the contingencies. The proposed disclosures would be expected to become more extensive as additional information becomes available and the contingency nears resolution.

The proposed ASU would retain the existing requirement to disclose asserted claims and assessments when the likelihood of loss is at least *reasonably possible*. But, in some instances, it would also require disclosure of *remote* loss contingencies that are not currently required to be disclosed.

Other key proposed standards changes:

Comprehensive Income

Financial Statement Presentation

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