

February 9, 2010

## Accounting

### Guidance on Fair Value Measurements and Disclosures

McGladrey & Pullen's National Professional Standards Group has developed a document, *Fundamentals of Fair Value Measurements and Disclosures*, to assist middle market companies in understanding and applying the fundamentals of the authoritative guidance on measuring and disclosing information about fair value measurements included in the financial statements. This authoritative guidance is included in Topic 820, "Fair Value Measurements and Disclosures," of the Financial Accounting Standards Board's (FASB) *Accounting Standards Codification (ASC)*. The primary source literature for FASB ASC 820 was FASB Statement No. 157, *Fair Value Measurements*.

*Fundamentals of Fair Value Measurements and Disclosures* is highly relevant to middle market companies given the increasing importance placed on fair value measurements and disclosures by users of the financial statements and the response to that importance by the standard setters. This importance is apparent in the FASB's efforts to require recognition and measurement at fair value in the financial statements in more and more situations and its efforts to require additional disclosures about these fair value measurements. Recent and pending standard-setting activities related to fair value measurements and disclosures are discussed in the document, including activities related to: (a) determining whether a market is active or inactive and whether a transaction is orderly or disorderly; (b) measuring the fair value of liabilities; (c) measuring the fair value of alternative investments; and (d) enhancing disclosures related to fair value measurements.

An electronic copy of the document is available at

[http://www.mcgladrey.com/Resource\\_Center/fundamentals\\_fairvaule.pdf](http://www.mcgladrey.com/Resource_Center/fundamentals_fairvaule.pdf).

### Additional Fair Value Measurement Disclosures Required

To provide more and improved disclosures about fair value measurements, the Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*. This ASU affects all entities that are required to make disclosures about recurring and nonrecurring fair value measurements under FASB Accounting Standards Codification Topic 820, originally issued as FASB Statement No. 157, *Fair Value Measurements*. The ASU requires the following new disclosures:

- Transfers in and out of Levels 1 and 2: A reporting entity must disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.
- Activity in Level 3 fair value measurements: In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (*i.e.*, on a gross basis rather than as one net number).

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The ASU also clarifies two existing disclosures as follows:

- Level of disaggregation: Currently, entities are required to provide disclosures about fair value measurements for each *major category* of assets and liabilities. Some users noted that many companies seem to have interpreted the phrase *major category* to mean a line item in the statement of financial position. The FASB decided that disclosures about fair value measurements would be more useful if the entities provided them for each *class* of assets and liabilities. A *class* is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.
- Disclosures about inputs and valuation techniques: The ASU clarifies that an entity is required to provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements – not just nonrecurring fair value measurements. Also, those disclosures are required for fair value measurements that fall in either Level 2 or Level 3 – not just those in Level 3.

The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. In the period of, and periods after, initial adoption, comparative disclosures are required only for periods ending after initial adoption.

The ASU is available in full at

[http://www.fasb.org/cs/ContentServer?c=Document\\_C&pagename=FASB%2FDocument\\_C%2FDocumentPage&cid=1176156622659](http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156622659).

### FASB Makes Technical Corrections to Various Topics

From time to time, the Financial Accounting Standards Board (FASB) reviews its standards to determine if any provisions are outdated, contain inconsistencies, or need clarifications. On February 2, 2010, the FASB issued Accounting Standards Update (ASU) 2010-08, *Technical Corrections to Various Topics*, which eliminates those inconsistencies and outdated provisions and provides the needed clarifications. The changes are generally nonsubstantive in nature and will not result in pervasive changes to current practice. However, the amendments that clarify the guidance on embedded derivatives and hedging (Subtopic 815-15) may cause a change in the application of that Subtopic.

The clarifications of the guidance on embedded derivatives and hedging (Subtopic 815-15) are effective for fiscal years beginning after December 15, 2009, and special transition provisions are provided for those amendments. The amendments to the guidance on accounting for income taxes in a reorganization (Subtopic 852-740) applies to reorganizations for which the date of the reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. All other amendments are effective as of the first reporting period (including interim periods) beginning after February 2, 2010.

ASU 2010-08 is available in full at

[http://www.fasb.org/cs/ContentServer?c=Document\\_C&pagename=FASB%2FDocument\\_C%2FDocumentPage&cid=1176156633037](http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156633037).

## McGladrey & Pullen Comments on Proposed Amendments for Subsequent Events Requirements

Because questions had arisen in practice about Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 855, *Subsequent Events*, in December 2009 the FASB issued proposed Accounting Standards Updated (ASU), *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. Specifically, this proposed ASU addressed (a) certain SEC requirements related to the identification and disclosure of subsequent events that potentially conflict with certain aspects of Topic 855, and (b) the breadth of the scope of the reissuance disclosure requirements to include restated financial statements only.

McGladrey & Pullen, LLP supports the efforts of the FASB to address these issues and recently issued a letter of comment to the FASB regarding the proposed ASU. Our Firm believes that the proposed ASU sufficiently addresses both the interaction of the requirements of Topic 855 with the SEC's registration requirements and the reissuance disclosures provision. However, we offered comments regarding the following issues, which we believe merit the FASB's attention for further clarification:

- Certain banks (and other entities) file forms with bank regulators that are either identical to or substantially equivalent to those filed with the SEC. Our firm believes that the same operational issues identified by the FASB that the proposed ASU addresses also apply to these entities that file directly with a bank regulator versus the SEC. Our letter therefore recommends that the same changes proposed for entities that file with the SEC also apply to such entities that file with a bank regulator. Our suggested wording states, "An entity that files or furnished financial statements with the SEC (or a regulator if such filing satisfies the SEC requirements) shall evaluate subsequent events through the date the financial statements are issued."
- Some non-public entities, such as employee benefit plans and certain not-for-profit organizations, provide GAAP financial statements to some users and later make such financial statements widely available. This is often due to regulatory reporting requirements. In these circumstances, the date on which some non-public entities' financial statements are available to be issued to certain users may precede the date they are widely distributed by a significant time period. Current practice treats the financial statements that are available to be issued as in compliance with GAAP, and generally no further subsequent events are considered or disclosed when such statements are later made available for wider distribution. It is operationally impractical and may involve significant incremental costs for many non-public entities to coordinate the initial issuance of the audited financial statements to certain users and then later update that subsequent events evaluation with the filing of forms and reporting packages months later. To address these operational issues, our letter suggests that the FASB consider (a) specifying that entities that do not file or furnish financial statements to the SEC evaluate subsequent events through the date the financial statement are available to be issued and disclose such date; and/or (b) clarifying the definition of "widely distributed" to exclude requirements that are imposed by law for employee benefit plans and not-for-profit organizations.

McGladrey & Pullen's comment letter is available in full at [www.fasb.org](http://www.fasb.org).

## Auditing

### XBRL Q&A

XBRL, eXtensible Business Reporting Language, is a language for the electronic communication of business and financial data that requires all individual disclosure items within business reports to be assigned unique, electronically readable tags. These tags are mapped to taxonomies that have been and are being developed by market constituents (such as regulators, accounting standard setters, and others) and are publicly available. Taxonomies are, in essence, dictionaries that contain the terms used in financial statements and other business

reports and their corresponding XBRL tags. The staff of the International Auditing and Assurance Standards Board recently issued a question and answer (Q&A) document to raise awareness about how XBRL-tagged data is prepared and how it may affect financial reporting. The Q&A addresses questions such as:

- What is XBRL?
- What is an XBRL taxonomy and how is a taxonomy developed and used?
- How do entities generate XBRL tagged-data?
- How may XBRL affect financial reporting?
- What level of involvement do auditors of the financial statements have with XBRL-tagged data?
- What types of engagements might practitioners be asked to perform with regard to XBRL?
- Where can I find more information about XBRL?

*XBRL: the Emerging Landscape* is available in full at <http://web.ifac.org/media/publications/0/xbrl-the-emerging-landscape/xbrl-the-emerging-landscape.pdf>. Other sources of information about XBRL and related matters include:

- XBRL International's Web site: <http://www.xbrl.org/Home>
- The AICPA's portal for information about XBRL: <http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/BRAAS/XBRL.html>
- The SEC's portal for information about XBRL: <http://xbrl.sec.gov/>

## Public Sector

### Audit Sampling Considerations of Circular A-133 Compliance Audits

The 2009 edition of the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*, (A-133 Guide) was recently released. The A-133 Guide includes a new chapter, "Audit Sampling Considerations of Circular A-133 Compliance Audits," which provides practitioners with guidance regarding sampling in the single audit environment. This guidance was issued primarily in response to the results of a federal study regarding the quality of audits performed in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133). The resulting *Report on National Single Audit Sampling Project* was issued in June 2007 by the President's Council on Integrity and Efficiency (PCIE), and can be accessed at <http://www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf>. Among the deficiencies noted in the PCIE report are deficiencies in: understanding and testing of internal control over compliance; risk assessments as part of the major program determination; and the presentation and auditing of schedules of expenditures of federal awards. The report recommended a three-pronged approach to improving audit quality, one of which was to revise and improve single audit criteria, standards, and guidance to address the identified deficiencies. As a result of the PCIE report, the AICPA Government Audit Quality Center (GAQC) established a task force, which included representatives of McGladrey & Pullen, LLP, to respond to those recommendations relating to sampling. The new A-133 Guide chapter, which was cleared by the AICPA Auditing Standards Board and federal agency representatives, is a result of the work performed by the GAQC task force.

The new chapter, "Audit Sampling Considerations of Circular A-133 Compliance Audits," provides guidance about the application of sampling in a single audit; planning considerations; suggested minimum sample sizes; sample selection methods; evaluation considerations for control deviations and compliance exceptions; and documentation elements relating to sampling. Although this guidance is aimed at practitioners, it is important that auditees

understand the risk analysis process undertaken by their audit firm when determining the nature and extent of A-133 testing to be performed and the potential impact on the audit process.

Because auditing guidance contained in an AICPA Audit Guide is considered an interpretative publication, the A-133 Guide was effective upon issuance. However, many firms, including McGladrey & Pullen, LLP, have already adopted these provisions in anticipation of an earlier release of the Guide. The GAOC has developed an executive summary of the new chapter. Although the new chapter provides much more context and detail for sampling considerations, the executive summary serves as a good overview of the changes. The executive summary, as well as additional information regarding the process and individuals involved in the new chapter, can be accessed on the GAOC's Web site at <http://gaoc.aicpa.org/Resources/Research+Tools+and+Aids/Single+Audit+Practice+Aids.htm>. The full A-133 Guide is available through the AICPA.

### ASU Codifies FASB Statement No. 164 for Mergers and Acquisitions by Not-for-Profit Entities

On January 28, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities (Topic 958) - Not-for-Profit Entities: Mergers and Acquisitions*, to codify FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*. Statement No. 164 was issued in May 2009 to establish principles and requirements for how a not-for-profit entity:

- Determines whether a combination is a merger or an acquisition;
- Applies the carryover method in accounting for a merger;
- Applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and
- Determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition.

Statement No. 164 also amended Statement No. 142, *Goodwill and Other Intangible Assets*, to make it fully applicable to not-for-profit entities. Statement No. 164 is effective for mergers occurring on or after December 15, 2009, and acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009.

ASU No. 2010-07 is available in full at

[http://www.fasb.org/cs/ContentServer?c=Document\\_C&pagename=FASB%2FDocument\\_C%2FDocumentPage&cid=1176156629975](http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156629975).

### Proposed Codification of Pre-1989 FASB and AICPA Pronouncements

The Governmental Accounting Standards Board (GASB) recently issued an Exposure Draft of a proposed Statement, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This proposed Statement would incorporate into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure

Incorporating and maintaining this guidance in a single source would eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local

governments. The proposed Statement is available for comment until July 31, 2010 at [http://www.gasb.org/exp/ED\\_Pre89\\_FASB\\_and\\_AICPA\\_Pronouncements\\_with\\_AppD.pdf](http://www.gasb.org/exp/ED_Pre89_FASB_and_AICPA_Pronouncements_with_AppD.pdf).

## International

### IASB Issues Amendment to IFRS 1

The International Accounting Standards Board recently issued a minor amendment to International Financial Reporting Standard (IFRS) 1, *First-time Adoption of International Financial Reporting Standards*. The amendment, *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment to IFRS 1)*, relieves first-time adopters of IFRS from providing the additional disclosures about fair value measurements and liquidity risk introduced in March 2009 by *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)*. In addition, the amendment to IFRS 1 clarifies the IASB's conclusions and intended transition for *Amendments to IFRS 7*. The effective date of the amendment to IFRS 1 is July 1, 2010, with earlier application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.