The new rules

Financial reporting challenges for CFOs of small SEC filers

As we pass the mid-year point of 2007, it's a good time to perform a status check on the various financial processes your small company has in place to meet the reporting requirements you'll face. Staying up-to-date with the ever-changing landscape of financial reporting standards can be a challenge.

Smart Business asked Sheldon D. Zimmerman, CPA, audit principal of Tauber & Balser, P.C., about the top financial reporting challenges for CFOs of small SEC filers.

Sheldon D. Zimmerman, CPA
Audit principal
Tauber & Balser, P.C.

When will small public companies be required to comply with Sarbanes Oxley?

The Public Company Accounting Oversight Board (PCAOB) recently adopted Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements, to replace its previous internal control auditing standard, Auditing Standard No. 2. The new standard, known as AS5, is less burdensome for smaller public companies and will put small businesses on track for compliance with section 404 of Sarbanes Oxley, possibly as early as this summer.

AS5 is principles-based and written to be simpler than AS2, which has been criticized as being too difficult to adhere to, especially for smaller public companies.

The Securities and Exchange Commission is expected to approve AS5 this summer, which would require compliance for small businesses [market capitalization of less than $75 million]. Companies would have to begin complying with the management assessment portion of 404, although full compliance would not begin until March 2009.

What are some of the other financial reporting challenges for CFOs of small companies?

There are a number of areas on which small company CFOs should focus, including:

Uncertain tax positions — FASB's (The Financial Accounting Standards Board) FIN No. 48, Accounting for Uncertainty in Income Taxes, became effective for public companies beginning the first quarter of 2007. Many have already started the process, however, we have seen a number of cases where the process has been implemented in a rather cursory manner, so there will need to be fine-tuning before the end of this year.

XBRL — Interactive data technologies based on eXtensible Business Reporting Language (XBRL) provide a way to improve the timeliness, accuracy and accessibility of business information. The SEC and other regulators around the world are launching initiatives to encourage companies to report in XBRL.

Complex debt and equity transactions — Many smaller companies have complex debt and equity structures that typically contain complicated provisions such as beneficial conversions. Since these transactions are so complex, they need to be evaluated by the accountants to make sure the company's management team understands the financial statement implications before they enter into the agreements.

Fair value — FASB issued a new standard this year, Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which provides companies with an option to report selected financial assets and liabilities at fair value. The standard aims to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Statement No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, Fair Value Measurements, and No. 107, Disclosures about Fair Value of Financial Instruments. Statement No. 159 is effective as of the beginning of an entity's first fiscal year beginning after Nov. 15, 2007.

Guarantor's accounting and disclosure requirements for guarantees — These disclosure requirements, along with variable interest entities, require a careful analysis of the underlying relationships that don't necessarily involve ownership interests. But if companies issue a guarantee or make advances, which, in essence, funds the losses of another entity, they may be required to consolidate those as if they were a subsidiary.

SHELDON D. ZIMMERMAN, CPA, is an audit principal at Tauber & Balser, P.C., providing accounting and auditing services to private and public companies. He is experienced in bankruptcy matters, corporate restructurings, lender negotiations and cash-flow enhancements. Additionally, he has experience with strategic initiatives involving acquisitions along with hands-on experience in managing the finance and treasury operation of a large corporation. Reach him at (404) 814-4958 or szimmerman@tbcpa.com.