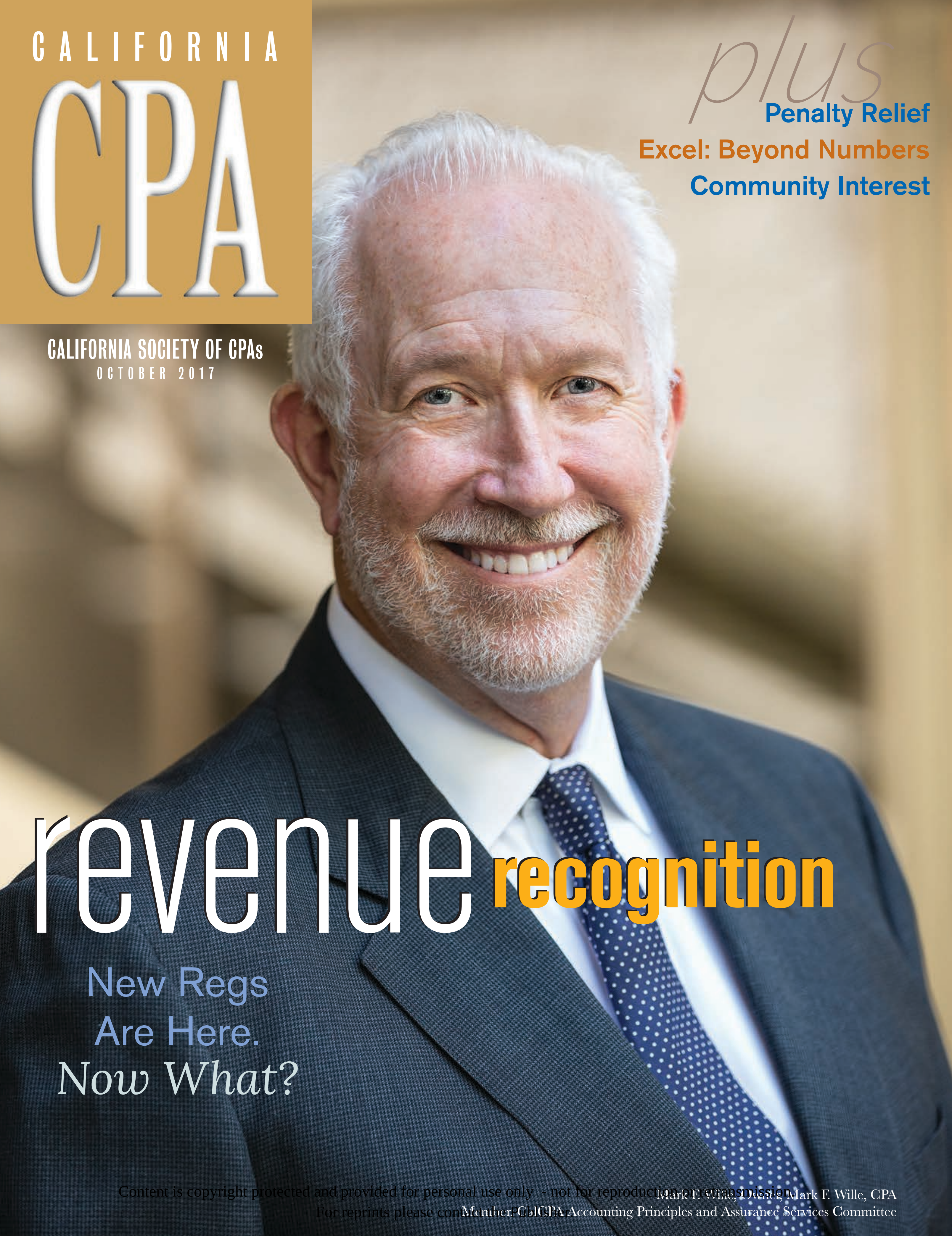

CALIFORNIA
CPA
CALIFORNIA SOCIETY OF CPAs
OCTOBER 2017

plus
Penalty Relief
Excel: Beyond Numbers
Community Interest

revenue recognition

New Regs
Are Here.
Now What?

Mark F. Wille, Owner, Mark F. Wille, CPA
Member, CalCPA Accounting Principles and Assurance Services Committee

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A Guide to Creating Sustainable Value in Your Practice

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CALIFORNIA CPA

californiacpa.calcpa.org
Volume 86, No. 4, October 2017

California Society of Certified Public Accountants

Offices
1710 Gilbreth Road; Burlingame, CA 94010, (800) 922-5272
330 N. Brand, Suite 710, Glendale CA 91203, (818) 546-3500
1201 K St., Suite 1000, Sacramento, CA 95814
Fax: (650) 522-3009 • www.calcpa.org

California CPA (ISSN 1530-4035) is published monthly except for February and April by the California Society of Certified Public Accountants, 1710 Gilbreth Road, Burlingame, CA 94010. Periodicals Postage Paid at Burlingame, CA and at additional mailing offices. Members receive California CPA regularly. Nonmember subscription rate: $75 per year, or $8.50 per issue; foreign rate: $110 per year. Remit U.S. funds only.

All correspondence pertaining to advertising or nonmember subscriptions should be addressed to the Advertising Department; POSTMASTER: Send address changes to: California CPA; Customer Services; California Society of CPAs; 1710 Gilbreth Road, Burlingame, CA 94010.

CalCPA

BPA WORLDWIDE BUSINESS

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"Modern market capitalism remains the single most efficient generator of social wealth and prosperity. Nevertheless, it is a fragile system because it depends fundamentally on trust ... As accounting professionals, you are the guardians of that trust and the single most important line of defense to ensure our economy can continue to grow and generate jobs and wealth. That's a pretty noble reason to get up and go to work in the morning, so I encourage you not to lose sight of it."

—FASB Chairman Russ Golden

CPE seekers

Learning on the Clock?

maybe not...

When asked, **"Do you allow employees to attend CPE courses during business hours?,"** CFOs responded:

26%: Yes

24%: Yes, if the employees has a proven track record for success.

23%: No, generally, but we have made exceptions.

27%: No

—Robert Half

the numbers

51%

Number of CEOs who said they play at least some role in shaping corporate culture.

—Robert Half

24%

Number of workers who said they had less than $1,000 saved for retirement.

—Employee Benefit Research Institute

$694M

Estimated amount of lost company productivity when employees viewed the Aug. 21 eclipse.

—Challenger, Grey & Christmas Inc.

1 out of 5

Number of execs who said they lost out on top job candidates because of increased competition.

—AICPA Economic Outlook Survey

CalCPA Committees

Build Leadership Skills, Share Expertise

Want to use your talents at the statewide level? Your opportunity awaits—the application period will soon open to serve on our statewide committees for 2018-19. From estate planning to technology, and from personal financial planning to taxation, there's a committee meeting your interests and expertise.

Please note: If you serve on a state committee and would like to continue, reapplication is necessary.

Serving on state committees allows you to work with your peers on projects that increase members' technical knowledge, enhance the profession's image and draw the best and brightest into accounting—all while you build leadership skills and make valuable contacts.

Keep an eye out for details about the application process. Committee appointments will be made in early 2018 and the committee term is May 1–April 30.

CalCPA

2017-18 EMERGING LEADERS CERTIFICATE PROGRAM

UNLEASH THE LEADER WITHIN YOU

Be inspired with CalCPA Emerging Leaders Certificate Program. This two-day program will help you in your career as you develop your leadership capabilities and diversify your professional community.

The program starts with a regional conference and is followed by a chapter-based workshop designed to evolve your soft skills into success skills.

Open mainly for young accounting and finance professionals within 10 years of their career prior to taking Leadership Institute.

Southern California
Monday, Jan. 8, 2018
California Community Foundation
Los Angeles

Monday, Jan. 22, 2018
Chapter-based locations TBA

Northern California
Tuesday, Jan. 9, 2018
Google Community Room
San Francisco

Monday, Jan. 22, 2018
Chapter-based locations TBA

EVENT DETAILS

TIME
8:30 A.M.- 4:30 P.M.

COST
$325 Members
$425 Nonmembers
Includes breakfast and lunch

CREDIT
CPE: 16 hours
Fraud: 2 hours

AGENDA

DAY ONE (Jan. 8 and 9 - Regional Conferences):

- **See Your True Colors**
  Gina Snyder, Consultant
  Gina Snyder Career Focus
- **Work Life Balance**
  Scott Hoppe, CPA, Principal, Hoppe Tax
- **Hackers, Ransomware, Phishing and You**
  Southern California Speaker
  TaMiya Dickerson, CPA
  Partner, Grant Thornton

  Northern California Speakers
  Orus Dearman
  Managing Director, Grant Thornton

  Dhawal A. Thakker, CISA, CISSP
  Senior Manager, Grant Thornton
- **Managing Your Career (Panel)**
  Southern California Panel
  Angela Amenero, CPA
  Senior Accountant
  Murphy, Murphy & Murphy, Inc.

  Keith Hamasaki, CPA
  Senior Audit Manager, KROST CPAs

  Kathy Johnson, CPA, CFF, CGMA
  Principal Partner, Owner, CPA Forensics Plus

  Northern California Panel
  Deepa Bhat, CPA, CFE, ACA
  Audit Principal, Abbot Stringham & Lynch

  Ashley Jacobsen, CPA
  Business Assurance Senior Manager
  Moss Adams LLP

  Okorie Ramsey, CPA
  VP Finance Compliance Officer & SOX
  Kaiser Permanente

  Erin Roche, CPA
  Team Leader, Elliott CPA Group
- **Artificial Intelligence and the Future of Accounting**
  Southern California Speaker
  TBD

  Northern California Speaker
  TBD

DAY TWO (Jan. 22- Chapter-based Workshop):

- **Unleashing Innovation and Creativity for Greater Results**
  Todd Dewett, Ph.D
  Leadership & Life Expert, Dr. Todd Dewett
- **Executive Presence: Speak Up—Move Up**
  Wanda Royse, Presentation & Executive Presence Consultant, WR Communications Consultants Inc.
- **Negotiation Skill Building**
  David L. Osburn, CCRA
  Founder, Osburn & Associates, LLC
- **Making the Shift from Individual Contributor to Supervisor**
  Erin Daiber, CPA
  Founder and CEO
  Erin Daiber Coaching & Consulting
- **20 Questions: Speed Mentoring**
  Various Chapter Leaders

Learn more and register:
calcpa.org/elcp

CalCPA Health Trustee Nominations

CalCPA Council annually nominates candidates to serve three-year terms as trustees of CalCPA Health (The Group Insurance Trust). Additionally, participating employers in CalCPA Health may nominate candidates to be placed on the ballot by submitting supporting petitions by Nov. 1 from at least 20 firms participating in one or more of CalCPA Health's group health and welfare plans.

For more information, contact Genna Armanini at (800) 556-5771, ext. 3257, or genna.armanini@calcpa.org.

Study Supports PCAOB Oversight in Boosting Investor Confidence

A recent academic study lends support to the Public Company Accounting Oversight Board's regulatory oversight of auditing firms, suggesting it gives investors greater confidence in companies, in turn leading to more capital available to businesses.

The study found that companies issue additional capital amounting to 0.5 percent of assets and increase investment expenditures by 0.3 percent of assets as a result of additional auditor regulatory oversight.

The study used data from the PCAOB International Inspection Program to test whether auditor regulatory oversight affects companies' financing and investing behavior. The study examined a sample of non-U.S. companies that were audited by a PCAOB-inspected auditor. Using data from 35 countries from 2002–14, the study found that companies whose auditors are inspected by the PCAOB raised significantly more debt and equity capital after the publication of their audit firm's PCAOB inspection report.

Read more at www.calcpa.org/PCAOBStudy.

CAMICO Insurance

tip of the month

Warning Signs of Problems

Screen clients for potential problems well before any tax or other deadlines, thereby providing ample lead time for a client to replace you if you decide to disengage. Client screening should be conducted at least annually to identify less desirable clients that may be keeping your firm from developing the clients you want.

Some warning signs include slow payments, difficult or unresponsive behavior, lack of cooperation, and withheld information or documents—especially if the client is urging you to proceed with work. Repeated delays could be warning signs of inappropriate, unethical or illegal activity.

Changes in the client's business or in your firm (such as the loss of a partner) also may call for client screening. Look for potential conflicts of interest and any situations that may create opposing or disappointed factions.

If you disengage, do so in writing, professionally and formally, and include a clear description of your work and a list of any due dates or filings. Done effectively, disengagement can leave your client feeling that you have acted in the best interests of both parties.

ASC Topic 606

SEC Updates Guidance on
Revenue Recognition

The SEC has released a staff accounting bulletin to conform its existing staff guidance to the new revenue recognition standard that takes effect for public companies at the end of the year.

The new revenue recognition standard is classified as Topic 606 in the Financial Accounting Standards Board's Accounting Standards Codification. The old revenue recognition it's replacing is classified as ASC Topic 13, and the SEC said Topic 13 is no longer applicable when a registrant adopts ASC Topic 606.

Public companies are supposed to apply the new revenue standard to annual reporting periods beginning after Dec. 15, 2017, while nonpublic organizations will apply the new standard to annual reporting periods beginning after Dec. 15, 2018.

Find more information at www.calcpa.org/SECRevRec.

And be sure to check out this month's feature on revenue recognition and next steps on Page 11.

Transferable CPE

Introducing Share100

Created for organizations like yours, Share100 offers 100 hours of transferable CPE to share among your colleagues. Features include:

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The standard price is $2,995 ($30/credit hour). Are you a 100% membership firm? You can save 20%: $2,396 ($24/credit hour).

Find more details and purchase your Share 100 at www.calcpa.org/discount

40-Year Life Members

We congratulate—and thank—the following for achieving 40-year membership status with CalCPA this month:

- **Central Coast Chapter:** Richard Chafin, Fred Russell
- **Channel Counties Chapter**: Leonard Aron, Richard Banks
- **East Bay Chapter**: William Lum, Gerald Kratz
- **Inland Empire Chapter**: Bradley Jones
- **Los Angeles Chapter**: Larry Dressler, Richard Feldstein, Rodrigo Francisco, Marsha Friedman, Alexander Goland, Mark Ittner, Zachary Powell, Eric Sato, Martin Shallon, Lawrence Snyder, Mark Starr
- **Orange County/Long Beach**: Wayne Bartolme, Blaine Bush, William Dewberry, Mary Farmer, Roy Molina
- **Peninsula Silicon Valley Chapter**: Brian Dinsmore, Russell Wong
- **Sacramento Chapter**: Glen Campbell, Lita Freeman, Gary Riccio, Bruce Stimson, Stephen Taylor, Thomas White, Charles Nicholson
- **San Diego Chapter**: Arthur Lohr
- **San Francisco Chapter**: Bernard Benson, Jerilynn Blackstone, Dennis Harter, Timothy Zainer
- **San Joaquin Chapter**: Bill Ringer
- **Silicon Valley San Jose Chapter**: William Feichtmann, Frank Minuti, Richard Rammer

40 MEMBER FOR YEARS

REPORT:

College Accounting Enrollment Continues at Historic Pace

Enrollment figures for college and university accounting programs continue to show strong interest in the profession as a new generation is graduating and entering the workforce.

Colleges and universities are now filled with members of Generation Z, the successors to the Millennials, and the number of students enrolled in bachelor's degree accounting programs grew to a record high of 216,482 in 2015-16, according to an AICPA report. The data presented in the report for the overall number of enrollments, graduates and hires are based on statistical projections.

But at the same time, enrollment in master's degree accounting programs slid. The report, which describes the supply of accounting graduates and the demand for public accounting recruits, showed that the number of master's degree enrollees fell 21 percent from 2014-15 to 35,620.

Check our more data at www.calcpa.org/trendsreport.

IRS news

Penalty Relief

This month's Fed Tax column on Page 23 discusses new IRS Notice 2017-47, which grants penalty relief to many partnerships.

This relief will be granted automatically for penalties to timely file Forms 1065, 1065-B, 8804, 8805, 5471 and any other returns for which the due date is tied to the Form 1065 or 1065-B due date. Partnerships that qualify for relief and have already been assessed penalties can expect to receive a letter within the next several months notifying them that the penalties have been abated.

For reconsideration of a penalty covered by Notice 2017-47 that has not been abated by Feb. 28, 2018, call the number in the letter that notified the partnership of the penalty, or call (800) 829-1040, and state the partnership is entitled to relief under this Notice.

Partnerships qualifying for relief under Notice 2017-47 will not be treated as having received a first-time abatement under the IRS administrative penalty waiver program.

In addition, the IRS updated Notice 2017-47 so that it also applies to real estate mortgage investment conduits (REMICs) that are treated as partnerships. — *Stuart R. Josephs, CPA*

Why the IRS Comes Knocking

Failing to report payment received for work performed as independent contractor, improper management of Form 1099-B and/or Schedule K-1 and filing early without having all the necessary financial documents were the top three reasons taxpayers receive an incorrect tax calculation from the IRS, according to a survey by the National Association of Enrolled Agents.

Once taxpayers receive the notice, the biggest mistakes they make include:

- Waiting too long to respond;
- Not responding at all; and
- Simply agreeing to the updated total without consulting a tax professional.

Read more at www.calcpa.org/IRSNotice.

Update About e-Services Accounts

The IRS is continuing a series of actions this fall to improve e-Services usability and to improve e-Services security.

The result will be a better product that will better protect users and their clients.

These changes will affect all e-Services users and include three parts:

1. Launching a new e-Services platform and landing page;
2. Establishing a new e-Services user agreement; and
3. Protecting e-Services accounts with the IRS' Secure Access authentication process.

Read more about these changes at www.calcpa.org/IRSeservices.

Study Hits Critics of SOX Internal Controls Provision

A study in a recent issue of *Auditing: A Journal of Practice & Theory*, an American Accounting Association publication, concludes that Sarbanes-Oxley Sect. 404(b) provides “an early warning system” for company fraud. The research finds “a statistically and economically significant association between material weaknesses (in internal controls) and the future revelation of fraud.”

This result, the paper says, “is driven entirely by instances where the internal control issue reflects a general opportunity to commit fraud.”

According to the research, the incidence of fraud disclosures at companies previously found to have material weaknesses is about 80 percent to 90 percent greater than is the case among companies generally. Further, of the 127 fraud cases identified by the study, nearly 30 percent were preceded by auditor reports of material weakness in internal controls.

Read more at www.calcpa.org/soxstudy.

AICPA Study

More Single Audits Leading to Greater Conformity

The AICPA has determined three key factors that must be present for a quality performance in a single audit, following a recent study.

Regardless of firm size, the more single audits done means a greater likelihood that they will conform to standards. In firms performing 11 or more single audits annually, there’s 85 percent conformity.

Members of the Governmental Audit Quality Center had twice as much conformity as nonmembers. Members who did 11 or more single audits annually had 100 percent conformity.

Qualified engagement partners helps. Those doing 11 or more audits annually had 75 percent conformity. Non-conformity increased when engagement partners had six years or less of single-audit experience, had previous non-conforming engagements and had less than nine hours of continuing education specific to single audits in the past three years.

Read more at www.calcpa.org/singleaudits.

Common Audit Issues and Tips

Over the past few years, the FTB has identified common personal income tax audit issues, which typically involve substantiation or interpretation of the facts:

- **Gains and Losses from Sales of Stock**: When shares of stocks are sold, the FTB will ask for substantiation for the gains/losses. Adjustments are typically found in the computation of stock basis.
- **Real Property Sales**: The FTB will typically ask for substantiation of purchase costs, improvements and repairs. Adjustments are made when the documentation provided does not reconcile to the amounts claimed.
- **Like-kind Exchanges**: The FTB looks at all aspects of the exchange. Common adjustments are for certain requirements not being met, when there is a difference in the calculation of boot, or when the property basis is unsubstantiated.
- **Charitable Contributions**: The FTB will ask for appraisal reports for large non-cash donations to support the claimed fair market value of donated items. Adjustments occur when the FTB finds that fair market value is overstated.

Read more at www.ftb.ca.gov/Professionals/Taxnews/Editions/2017/September.shtml.

Coming

Jan. 17

CPA Day at the Capitol

All it takes is one individual—like you—and less than one day to make a difference at CPA Day at the Capitol.

Meet with California legislators to discuss issues that impact you, the public and the profession, such as preventing sales tax on services and promoting financial literacy. Once you register, we'll handle the logistics of scheduling the appointments and providing you with talking points.

Make your voice—and the voice of the profession—heard at CPA Day at the Capitol.

Register at www.calcpa.org/cpaday.

mm membermilestones

Members in the News

Gregg Wind discussed financial questions surrounding the death of a spouse on dollarstretcher.com … In an Aug, 3 *Accounting Today* article, **Brian Stoner** discussed questions tax preparers just can't ask clients.

Member Milestones

David Cieslak, **Loretta Doon** and **Amy Vetter** were among those mentioned in *Accounting Today*'s Top People in Public Accounting for 2017 … **John Boyle** was named CEO of SoCal AAA … **Scott Hoppe** and **Blake Oliver** were named to *CPA Practice Advisor*'s 40 Under 40 list. CPA

ASC TOPIC 606

REVENUE RECOGNITION

It's Here. Now What?

By Nancy Rix, Mark F. Wille and Mark Dauberman

It took more than 11 years for the Financial Accounting Standards Board and the International Accounting Standards Board to develop a converged standard for revenue recognition, which first appeared on the boards' technical agendas in 2002. Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606) was issued on May 28, 2014.

And by now, you've likely read about the new, five-step process and know that the standard soon will be effective. You've also likely heard the warnings of the "many implications," "changing business model" or "full transformation" that will be required to be compliant. Much of this is true and, as such, it's time to start considering how this is going to impact the small-firm practitioner—including the impact of the principles nature of this standard, the transition methods and what the new standard will mean for certain industries.

Principles-based Approach

While the idea of a principles-based approach to U.S. standard setting is not new, ASC Topic 606 may be the most striking and significant example to date of the FASB's willingness to promulgate new guidelines using this approach, rather than the rules-based method. The FASB has used its conceptual framework—a principles-based methodology—for more than 30 years in developing new accounting standards, but beginning in the early to mid 2000s, critics began asserting that standards were becoming increasingly detailed and rules-based, complex, difficult and costly to apply. Examples of financial engineering to structure transactions around the rules began to emerge.

Under a principles-based approach, new standards are applied more broadly and are more general, providing few bright lines and mandates. In theory, standard-setting bodies such as the FASB provide less interpretive and implementation guidance, which requires firms to prepare analyses and make extensive and critical judgments regarding measurement, recognition and disclosure issues. The FASB has commented that any guidance issued should focus "only on significant matters addressed in the standards, thereby increasing the need to apply professional judgment in the situations not addressed."

Now that we understand that applying the standard will involve significant judgment, with possibly a few specific prescriptions, let's review the five-step process.

1. Determine Whether You Have a Contract

To determine if there is an actual contract, consider if the agreement:

- Is approved and the parties have committed either orally or in writing;
- Identifies the rights and responsibilities of the parties;
- Has payment terms, though it's sufficient that if the specific amount is not included in the contracts it can easily be estimated;
- Has commercial substance; and
- Collectability is probable.

Using these factors to determine whether a contract exists will be a threshold issue. There is no need to apply this standard where there is no contract.

WHAT ASC TOPIC 606 MEANS FOR...

The Engineering & Construction Industries

A significant difference for construction accounting will result from change orders and modifications. Modifications will need to be evaluated within the context of whether it represents a separate contract—for example, whether all rights and responsibilities are delineated and whether or not the parties approved the new contract, either orally or in writing. If a separate contract does not exist, the accounting for the modification may be done in one of three ways:

1. Termination of the existing contract and creation of a new one;
2. Treated as if the changes were part of an existing contract; or
3. A combination of nos. 1 and 2.

What this means is that should the contractor begin work on the modification prior to establishment of enforceable rights and obligations, no profit will be recognized on that work until the modification is approved. Of course, as discussed previously, this could also give rise to significant book/tax differences.

In addition, construction clients also may see differences from current accounting for mobilization costs and loss contingencies, and for accounting for the costs of obtaining a contract, such as bonding costs. Other identified implementation issues with guidance either already provided or forthcoming include:

- **Identifying the Unit of Account (including combining contracts, loss of segmentation guidance, options, separate performance obligations):** This implementation issue will discuss how to determine the unit of account for recognition of revenue and margin for engineering and construction contracts, including combining of contracts, segmenting of contracts, and identifying performance obligations. **Status:** Finalized (included in the 2017 AICPA *Audit and Accounting Guide: Revenue Recognition*).
- **Variable Consideration and Estimation Methods (including claims, change orders (un-priced and unapproved), incentives, penalties, extras, liquidated damages, back charges, collectability):** This issue deals with the factors used in estimating the amount of variable consideration to which an entity will be entitled, and how an entity should determine the amount of estimated variable consideration to include in the transaction price. For example, un-priced change orders give rise to variable consideration. This issue also involves the types of constraints to be considered when recognizing variable consideration. See also the specific examples in the codification dealing with contract modifications and unapproved change orders in FASB ASC 606-10-55-111 to 55-116 and FASB ASC 606-10-55-134 to 55-135. **Status:** Finalized (included in the 2017 AICPA *Audit and Accounting Guide: Revenue Recognition*).
- **Acceptable Measures of Progress, Accounting for Service Contracts, and Wasted Materials:** This implementation issue involves acceptable measures of progress, i.e. the acceptable use of the cost-to-cost method for performance obligations satisfied over time. **Status:** *Finalized* (included in the 2017 AICPA *Audit and Accounting Guide: Revenue Recognition*).
- **Uninstalled Materials:** Depending on the contract, uninstalled materials may be considered an input variable used when considering progress toward completion of the job. This means that uninstalled materials can be included in revenue in certain circumstances. The issue involves whether the determination of uninstalled materials as an input variable is only required at the onset of the contract; whether the model applies to both inventoriable and non-inventoriable, such as highly customized materials; and how to account for such materials when installed. **Status:** Out for exposure.
- **Impact of Termination for Convenience on Contract Duration:** This question involves the impact of customer termination rights and penalties on contract terms. **Status:** Out for exposure.
- **Contract Costs:** This involves clarifying the accounting for pre-contract costs and all other costs that qualify for capitalization. Note that under the new standard, the incremental costs of obtaining a contract, such as bonding costs, must be capitalized and amortized on a systematic basis. **Status:** Out for exposure.
- **Disclosures:** This deals with clarifications of disclosure requirements. Under ASC Topic 606, disclosures are intended to provide both qualitative and quantitative information about contracts and the corresponding significant judgments applied, as well as the assets recognized from costs to fulfill a contract. An area of discussion includes required disclosures related to incomplete performance obligations—including the required actions, timing and expenses necessary to satisfy the performance obligation. **Status**: Out for exposure.

WHAT ASC TOPIC 606 MEANS FOR...

Nonprofit Entities

Accounting and financial reporting for many nonprofit entities is undergoing significant change. As this article was being written, the FASB has issued an exposure draft covering accounting for grants and contributions expected to have enormous impact on the industry.

Remember that nonprofit entities *are* included within the scope of this standard even though contribution revenue largely is not. More specifically, exchange revenue from sources as membership fees, sales of products and services, naming rights, sponsorships and special events is included under the new standard. So, the delineation of transactions between exchange (covered under new revenue recognition rules) and contributions (covered under new industry guidance) is expected to be challenging. Further difficulties will be presented by transactions including elements of both exchanges and contributions. Other specific issues include:

- **Tuition and Housing Revenue for Higher Education Institutions:** This issue involves determining the transaction price and how to recognize revenue for tuition and housing over time. **Status:** Finalized (included in the 2017 AICPA *Audit and Accounting Guide: Revenue Recognition*).
- **Subscription and Membership Dues:** This issue deals with how nonprofit organizations should account for membership dues, subscription revenue and lifetime subscriptions. **Status:** Finalized (included in the 2017 AICPA *Audit and Accounting Guide: Revenue Recognition*).

2. Identify the Performance Obligations

Now that you have a contract, it's time to identify what the standard refers to as the "performance obligation."

Under the new standard, you'll need to separate each performance obligation into distinct pieces or bundles. If a customer can use or benefit from an individual good or service on its own, or with other readily available resources, that specific performance obligation is considered distinct. However, if a good or service is dependent on, or highly interrelated with, other items promised in the contract, that piece alone cannot be considered distinct.

3. Determine the Transaction Price

The new standard provides several considerations when determining transaction price:

- **Variable consideration**: Estimate what you will receive in exchange for the goods or services provided, taking into account such factors as discounts, rebates, refunds and other similar items. Historical and forecast data should also be considered when estimating consideration.
- **Constraining estimates of variable consideration**: Consider constraining events when estimating the amount of variable consideration that should be included in the transaction price. Even things outside of the entity's control should be included. After each reporting period, the estimate should be updated based on the most relevant facts. Constraining events might include situations giving rise to a reversal of revenue such as a history of unsuccessful projects with a particular customer.
- **Significant financing component**: A time value of money impact should be accounted for in the estimate.
- **Noncash consideration**: If the customer is not paying cash for the goods or services provided, the goods or services should be measured at fair value.
- **Consideration payable to a customer**: Revenue recognized should be reduced by that amount.

ASC Topic 606 may be the most striking and significant example to date of the FASB's willingness to promulgate new rules using this approach, rather than the rules-based method.

4. Allocate the Transaction Price

If the contract includes separate performance obligations, revenue should be recognized as each is completed. You also must consider discounts. If a discount relates to only one or a few (but not all) specific contract items, then the discount should be allocated to reduce the transaction price of that performance obligation and reduce revenue related to that performance obligation. However, a general discount should be allocated proportionately as revenue is recognized. A similar rule should be followed for variable consideration.

5. Recognize Revenue When (or as) Performance Obligations Are Satisfied

Under ASC Topic 606, revenue is recognized when transfer of control occurs. If the entity transfers control of a good or service over time, then revenue should be recognized over time.

So how do we begin to think about whether these rules will impact our clients? Consider our client's business model and industry. Understanding the economic rewards and consequences of common transactions in specific industries is a good place to start. A broad understanding of how our clients generate sustainable profits is a solid foundation for navigating through the five-step process. This is also the approach the AICPA has taken in preparing its recently released *Audit and Accounting Guide: Revenue Recognition*.

Now that we have an idea what needs to be done, we need to understand the transition rules.

Transition

While it seems like the implementation date provides companies with plenty of time to determine whether and what changes will be required, the effective date of the new standard is relatively soon, i.e. 2019 for calendar year-end private companies.

But for entities, choosing the appropriate transition methods will require much earlier consideration of what the standard means. Under the full retrospective method, private entities may need to restate one comparative year prior to the implementation date. Companies also may choose to take advantage of numerous practical expedients, including one that permits them to not restate contracts that begin and end within the same annual reporting period for contracts completed before the date of initial application.

Under an alternative method, the new standard applies only to contracts that are not completed under legacy IFRS or U.S. GAAP at the date of initial application. Entities would recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings in the year of initial application. Comparative years would not be restated, but some detailed additional disclosures would be required.

Each transition option has pros and cons. Companies may want to consider both options, but won't be able to do that without a focused, thorough effort that must start soon.

Under ASC Topic 606, revenue is recognized when transfer of control occurs. If the entity transfers control of a good or service over time, then revenue should be recognized over time.

Small CPA Firm Clients

Many small firms do not have the resources to efficiently and effectively tackle this problem. Our guess is implementations work something like trickle-down economics. While leaders in significant industries may update contract wording to achieve the desired accounting outcome, this might not occur in time to alleviate stressful and expensive accounting changes. CPA firms may need to issue or report on financial statements with a combination of notes, disclosures, emphasis of matter opinions or GAAP departures resulting from the client's inability to navigate the changes.

Some situations may be preventative in nature since "we don't know what we don't know." For many small firms the question is: Will the client pay for us to review all their contracts and determine how to apply the rules?

For clients whose revenues exceed a threshold, say $10 million, for example, this may be another matter. In these cases you will need to get the top financial officer to review the new revenue recognition rules and determine the effect on the client, and then you will need to review or audit that analysis.

Since the implementation dates are close, implementation of revenue recognition, leasing and new credit rules is effectively all occurring at once. Will this effort be so daunting that it will drive clients to an alternative basis of accounting or reporting?

WHAT ASC TOPIC 606 MEANS FOR...

The Asset Management & Real Estate Industries

Implementation in the real estate industry is expected to be challenging due to issues involved with determining whether or not a contract exists, identifying the customer and calculating the amount of variable consideration to be recognized. Some of the specific issues include:

- **Identifying the Customer:** This question involved considerations needed when assessing whether or not a contract exists between an asset manager and customer, and identifying the customer (i.e. the investor or the fund). **Status**: Finalized (included in the 2017 AICPA *Audit and Accounting Guide: Revenue Recognition*).
- **Management Fee Revenues, Fee Waivers, Fund Expense Reimbursements:** This issue involves when and how to recognize revenue from management fees—including unitary fees, fee waivers and customer expense reimbursements. Complexities involve identifying and analyzing separate performance obligations within the management fees. **Status**: On June 1, 2017, the task force issued a comprehensive working draft: *Asset Management Revenue Recognition Implementation Issue for Management Fee Revenue Excluding Performance Fee Revenue*.
- **Costs of Managing Investment Companies:** This implementation issue discusses how asset managers should account for the costs related to managing an investment company. **Status**: Out for exposure.
- **Incentive or Performance Fee Revenues (excluding carried interest):** This issue concerns how and when incentive or performance revenue, excluding carried interest, should be recognized under the new standard **Status**: On June 1, 2017, the task force issued a comprehensive working draft: *Asset Management Revenue Recognition Implementation Issue for Incentive or Performance Fee Revenue, Excluding Incentive-based Capital Allocations* (such as carried interest).
- **Incentive-Based Capital Allocations:** This implementation issue raises the question of whether incentive-based capital allocations, such as carried interest, fall within the scope of FASB ASC Topic 606 or FASB ASC Topic 323, *Investments—Equity Method and Joint Ventures*. **Status**: Out for exposure.
- **Recognition of Contingent Deferred Sales Charges:** This issue evaluates the criteria used to recognize revenue from such charges under the new guidance, including the identification of separate performance obligations and variable consideration. **Status:** Finalized (included in the 2017 AICPA *Audit and Accounting Guide: Revenue Recognition*).

Alternatives

In 2013 the AICPA issued its *Financial Reporting Framework for Small- and Medium-Sized Entities* (FRF for SMEs). This is a non-GAAP alternative basis of accounting joining other available comprehensive bases of accounting such as tax and cash method. These alternatives propose simplified reporting and accounting for:

- Taxes;
- Variable interest entities;
- Goodwill; and,
- Revenue recognition and leasing.

Will smaller clients that don't already report on non-GAAP methods make the change?

And as discussed earlier, another choice is to use a "GAAP-with-exceptions" type of hybrid accounting, requiring explanations and possibly qualifications in the Accountants' or Auditors' Report.

> Many **small firms** do not have the resources to efficiently and effectively tackle this problem.

Tax Consequences

Taxes are yet another matter. If revenue has been reported for tax purposes using a particular method, a change for book purposes may prompt you or your client to request a corresponding method change from the IRS. Until effective, there could be an M-1 adjustment (timing difference) requiring additional record keeping. So you may have to calculate revenues two ways. How very nice for us!

So the effects of implementation could be muddled and confusing. Clients will fully transition on different timetables and in different ways. Some will stay with alternative accounting, while others will go to the new rules. You will need to pay close attention during this period as things become clearer. What you don't want is for your peer reviewer to ask you how you implemented revenue recognition and stare back at them like a deer in the headlights.

Industry Changes: What Are the Pit Falls?

Let's be clear, this is a big project. It will take years for all the questions to be answered. But with the effective date fast approaching, entities operating in many industries need to consider all developments.

One way to do this is to follow guidance issued by the FASB's Joint Transition Resource Group for Revenue Recognition (TRG). You can find the TRG under the "standards" tab at www.fasb.org/home. Since ASC Topic 606 was issued, the TRG has been working to solicit,

WHAT ASC TOPIC 606 MEANS FOR...

The Health Care Industry

ASC TOPIC 606

- **Self-Pay Customers:** Health care entities will have issues around self-pay customers—including how to apply the portfolio approach to contracts, the identification of contracts and evaluation of whether a contract exists and the determination of the transaction price. There also are expected to be issues dealing with price concessions. **Status**: The price concession questions were submitted to the TRG while the other issues are finalized and included in the 2017 AICPA *Audit and Accounting Guide: Revenue Recognition.*
- **Continuing Care Retirement Community (CCRC):** Implementation issues here include how a CCRC will estimate the transaction price and recognize nonrefundable entrance fees as well as monthly/periodic fees received from residents. The task force also expects to provide guidance on how CCRCs assess whether a significant financing component exists when determining the transactions price. Lastly the task force is addressing and expects to describe the changes to a CCRC's calculation of the obligation to provide future services and use of facilities, also referred to as the future service obligation. **Status**: The task force has not yet been able to provide guidance and has referred back to the AICPA's Revenue Recognition Working Group.
- **Accounting for Contract Costs:** This implementation issue will discuss how health care organizations will account for certain costs of acquiring and fulfilling contracts under the new model. **Status**: Submitted to the Financial Reporting Executive Committee in September 2015.
- **Third-Party Settlement Estimates:** This issue involves accounting for revenue earned under arrangements with government programs (for example, Medicare or Medicaid), which typically contain a variable element requiring providers to estimate the cash flows ultimately expected to be received for services provided. Under the current standard, entities make their best estimate of amounts due to or from third-party payors. Under the new standard, they are required to consistently use the most likely amount, or expected value amount, applying this constraint consistently to similar forms of variable consideration. **Status**: Out for exposure.
- **Disclosure Requirements:** Disclosure requirements under the new standard are expected to exceed GAAP. This issue involves judgments related to these new disclosure requirements, including presentation of bad debts and information about an entity's contracts with customers. Disclosures include disaggregation of revenue, information about asset and liability balances and information about an entity's performance obligations. **Status:** Out for exposure.

analyze and discuss issues that arise as organizations prepare to implement the standard.

To ensure that all stakeholders have an opportunity to learn about the new standard from others involved with implementation, TRG members were selected to represent a wide spectrum of industries, public and private organizations, and perspectives (financial statement preparers, auditors, and users).

The TRG has met several times and discussed more than 55 implementation issues. The discussions have helped to inform the FASB about a few areas for which clarifications or practical expedients would be helpful. In response to that feedback, the FASB has made improvements that are expected to increase consistent application of the standard by reducing cost and complexity both at implementation and on an ongoing basis.

For example, *Accounting Standards Update No. 2016-08* (ASU 2016-08) issued in March 2016 clarified the guidance in determining whether an organization is a principal or an agent. In April 2016, FASB clarified the guidance on identifying performance obligations and licensing by issuing *Accounting Standards Update No. 2016-10* (ASU 2016-10). Finally, *Accounting Standards Update No. 2016-12* (ASU 2016-12), issued in May 2016, addressed challenges related to collectibility, noncash consideration, contract modifications and the presentation of sales taxes.

Entities also will want to monitor developments of the 16 industry task forces formed by the AICPA to address implementation issues and help develop a new *Audit and Accounting Guide: Revenue Recognition*. The guide includes general accounting and auditing information to be considered when implementing the new standard as well as industry-specific considerations. You can monitor activities of the industry task forces by scrolling through the interest areas tab on the AICPA website to reach the Financial Reporting Center, which contains a further link to the revenue recognition area.

We've highlighted in the sidebars a sample of questions identified by the task forces for a few of the industries impacted. While these are not all of the issues you may come upon and represent only four of the 16 industry task forces, they embody some of the areas where the AICPA is putting forth effort to provide guidance. As things change you will have to keep your wits about you. The guidance available in 2017 might be less substantial that that available in 2020. Good luck! CPA

Nancy Rix, CPA is partner at Dickerson Rix & Company, LLP. **Mark F. Wille, CPA** is owner of Mark F Wille, CPA. **Mark Dauberman, CPA** is principal at Mark Dauberman Seminars. You can reach them at nrix@dickersonrix.com, mfw@mfwcpa.com and mark@dauberman.com.

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by Jeff Lenning, CPA, CITP

Beyond Numbers

Excel Tips and Tricks: Joining Text

Often when we use Excel, we think of its ability to operate with numbers. But Excel is also good at operating on other data types, such as dates and text strings. When we limit our use of formulas to numbers only, we miss out on many opportunities for efficiency. In this article, I'll talk about one of my favorite text operations, and, how it just got way better in a recent update.

One of my most-used text operations is that of joining text values together. This operation is known as concatenation. Traditionally, concatenation was performed by using the CONCATENATE function, or by using the concatenation operator (&). Let's visualize this idea with an example.

Let's say we've exported an account list from our accounting system. The primary account is in column A, and the subaccount is in column B. We need to combine them into a full account and separate them with a colon, as shown in Figure 1, column C.

Figure 1

	A	B	C
1	**Primary**	**Subaccount**	**Full Account**
2	Cash	Checking	Cash:Checking
3	Cash	Savings	Cash:Savings
4	Cash	Payroll	Cash:Payroll

The following formula, written into C2, uses the CONCATENATE function to accomplish this task.

=CONCATENATE(A2, ":", B2)

Or, we could use the concatenation operator (&) instead, as shown here:

=A2 & ":" & B2

Both would join the values in A2 and B2 to create the combined, full account. We could then fill the formula down for the remaining accounts.

Figure 2

	A	B	C
1	**Primary**	**Subaccount**	**Subaccount**
2	Cash		
3	Cash	Checking	
4	Cash	Checking	Wells Fargo
5	Cash	Checking	BofA

While this would work if all accounts had a primary account and one subaccount, it wouldn't work if some accounts had multiple subaccounts, or, if some accounts had only a primary account, as illustrated in Figure 2.

Fortunately, in a recent update to Excel 2016 for Windows subscription license, we have two new functions, CONCAT and TEXTJOIN.

The CONCAT function replaces CONCATENATE, and Microsoft recommends using it going forward, as CONCATENATE is available only for backwards compatibility. The big improvement in CONCAT is that it accepts a range reference, rather than being restricted to single-cell references.

The TEXTJOIN function joins cell values and allows us to specify a delimiter, such as a colon. The first function argument is the delimiter, the second allows us to skip blank cells, and the third is the range of cells to join. For example, the following formula written in D2 would combine the accounts with a colon delimiter, and could be filled down to work for all rows:

=TEXTJOIN(":",TRUE,A2:C2)

The result of this formula is illustrated in Figure 3, column D.

A quick note about Excel versions: Excel 2016 for Windows is offered with two licenses, a perpetual license and a subscription license. The perpetual license is the way we're used to buying Excel. Buy it once, install it and use it forever. If you're an Office 365 user, then you have a subscription license and will receive updates and enhancements, including new features and functions. The perpetual license doesn't receive new features and functions. So, if you're on a perpetual license, you may not see the CONCAT and TEXTJOIN functions, which were enhancements made in subscription licenses.

Figure 3

	A	B	C	D
1	**Primary**	**Subaccount**	**Subaccount**	**Full Account**
2	Cash			Cash
3	Cash	Checking		Cash:Checking
4	Cash	Checking	Wells Fargo	Cash:Checking:Wells Fargo
5	Cash	Checking	BofA	Cash:Checking:BofA

I use concatenation all the time in my workbooks, and these new options will enable me to use it even more often. I hope they will help you out, as well, and remember, Excel rules! CPA

Jeff Lenning CPA, CITP, is author of Excel University (www.excel-university.com) and owner of Click Consulting. You can reach him at jeff@excel-university.com.

BY PETER M. WALZER

Apportionment

Calculating Community Interest In Separate Property

The principle methods of determining a community interest in separate property businesses were established in the cases of *Pereira* v. *Pereira* (1909) and *Van Camp* v. *Van Camp* (1921). The doctrines established in these cases have been applied to a variety of assets. *Pereira* is often applied in cases where the principle engine of growth is the personal efforts of a spouse and *Van Camp* is usually applied where the engine of growth is either capital appreciation or market factors—or both.

The *Pereira* approach, which uses a calculation to determine the community property in the business, generally favors the community and the *Van Camp* approach, which requires no valuation and favors the separate property estate. In *Beam v. Bank of America* (1971), the Supreme Court of California declared that, in determining which method to use, the court must use the method that will achieve substantial justice. In other words, there is no bright line rule that determines which method a court should use. Rather, a court should look at each set of facts to determine what would be most equitable.

The Brandes Marriage

Nothing in *Van Camp* or *Pereira* precludes a court from using both methods in one case—which is exactly what happened in *In Re Marriage of Brandes* (2015). The court applied the *Pereira* method for the years that the husband's efforts were the primary factor in the company's growth. During the last years of the marriage, however, the court found that the growth of the company was chiefly attributable to factors other than the husband's personal efforts, and so allocation under the *Van Camp* approach was proper.

Mrs. Brandes argued that there was no basis for the court's use of a hybrid method and that use of this method did not achieve the "substantial justice" required by *Beam*. The appellate court, however, disagreed and ruled that all payments in excess of his reasonable compensation were his separate property.

Post-*Brandes*, trial courts may take a more nuanced view of community appreciation in a separate property business by applying this hybrid approach. It could be argued, for example, that a court could view each year individually, or that a determination could be made at varying phases of the businesses' growth.

A hybrid approach was proposed by George Norton and Jennifer F. Wald in their 1992 article, "Equitable Apportionment of a Separate Property Business" (*Family Law News*, State Bar of California Family Law Section Vol. 20, No. 2 (Summer 1997).

Norton and Wald suggest that an approach used in a 1945 United States Tax Court case, *Todd v. CIR*, could be applied in calculating a community property interest in a separate asset.

In *Todd*, the court apportioned profits between the community and separate estates on an annual basis, considering whether the annual income was due to the community efforts or capital appreciation. Four years after the *Todd* case, California went after the Todds in an FTB collection case, *Todd v. McColgan* (1949), and used the same approach to calculate the community and separate property portions of the taxpayers' incomes for the taxable years at issue in the matter. In discussing this approach with Wald, she said this approach was used in several unreported cases her firm litigated.

The Formulas

The objective of the alternate apportionment formulas is to carve out the community's fair share of the increase in value of a separate property business. Norton and Wald called the two hybrid methods they used the Capital-Labor Apportionment Model (CLAM) and the Capital Labor Natural Enhancement Model (aka Earning Apportionment Model, or EAM). Both methods were extrapolated from the initial *Todd* case.

In that case, the court determined deficiencies in the income taxes for the calendar years 1940 and 1941 for each of the husbands (petitioners), who were equal partners in a California business. The dispute between the parties concerned the portion of the income attributable to capital and the amount arising from the taxpayers' management of the business.

The court described the method of calculation used by the commissioner as: "The capital of the business was constantly increasing. Eight percent of the average capital balance in each of these years is held the base of the capital earnings. Salaries for services are found annually for the base of the community earnings. The two are added together and the percentage each base bares to the total constitute the proportions of the total income attributable to capital and to services (*Todd v. CIR* at p.555)."

This formula was the progenitor of the CLAM formula, where the profits of the separate business are analyzed year-by-year. This approach eliminates the need to choose between *Pereira* and *Van Camp*. Using one approach or the other might ignore the actual contributions to a firm's growth. It's akin to the *Brandes* approach, where different formulas were applied to different periods of the marriage.

CLAM

To apply CLAM, the reasonable compensation of the working spouse(s) must be determined for each year of marriage. To the extent that actual compensation exceeds reasonable compensation, the community is deemed to have made a capital investment in the business. This calculation does not create a vested community interest in the business. It creates a running total of the contribution of labor.

In their above-referenced article, Norton and Wald write, "It is more like an account payable, rather than a vested interest." Nevertheless, this running total becomes the basis for calculating the community interest in the business.

Next, a rate of return is applied to the separate property capital for each year. The ratio of the contribution of labor compared to the return on capital is the basis for allocating the annual income between community and separate interests. Finally, the cumulative allocation of annual income will result in the total separate property and community property investment in the business, which is the ratio used to apportion the business value.

EAM Method

The EAM method is a variation on the *Pereira* approach. In the *Pereira* method, the value of the business is determined as of the date of marriage, and the rate of a long-term investment well secured is attributed a rate of return to that asset. The total of the date of marriage value and the return on the investment are subtracted from the value of the business at the end of marriage. The EAM method simply subtracts an increase in value due to market factors or what Norton/Wald call natural enhancements from the overall community increase in value.

The EAM method could be applied to the day trader who increases the value of the separate assets by actively managing them during marriage. The trader will argue that market factors caused the increase whereas the other spouse will argue that it was due to the skill and efforts of the trader. A strategy that forces a court to choose between applying *Pereira* or *Van Camp* could be risky—it's an all or nothing bet. The EAM method will credit some of the gain to market factors, but also recognize that the community is entitled to compensation for community efforts.

The *Brandes* case opens the door for practitioners to analyze the increase in value of separate property businesses in a more creative way. Choosing one approach or the other may not achieve substantial justice. It may be more effective to take an approach that recognizes the many factors that grow a business. You may select a variation on one of the methods proposed here or a method of your own creation that takes into account the law, economics, and what would be equitable. The menu may only have fish and cigars on it, but now you can order a CLAM.

Peter M. Walzer is a partner at Walzer, Melcher LLP. You can reach him at peterwalzer@gmail.com.

Statement of Ownership, Management and Circulation

1. Publication Title: California CPA magazine
2. Publication Number: 020-222
3. Filing Date: Oct. 1, 2017
4. Issue Frequency: Monthly except for February and April
5. Number of Issues Published Annually: Ten
6. Annual Subscription Price: $75
7. Complete Mailing Address of Known Office of Publication: CalCPA; 1710 Gilbreth Road; Burlingame, CA 94010.
8. Complete Mailing Address of Headquarters or General Business Office of Publisher: CalCPA; 1710 Gilbreth Road; Burlingame, CA 94010.
9. Full Names and Complete Mailing Addresses of Publisher: Loretta Doon, CalCPA; 1710 Gilbreth Road; Burlingame, CA 94010.
   Editor: Aldo Maragoni; Managing Editor: Damien B.M. English.
10. Owner: CalCPA; 1710 Gilbreth Road; Burlingame, CA 94010.
11. Known Bondholders, Mortgagees, and Other Security Holders Owning or Holding 1 Percent or More of Total Amount of Bonds, Mortgages or Other Securities: None
12. Tax Status: Has Not Changed During Preceding 12 Months
13. Publication Title: California CPA magazine
14. Issue Date for Circulation Data Below: 10/1/2016–09/30/2017
15. Extent and Nature of Circulation:

	Avg. No Copies Each Issue During Preceding 12 months	No. Copies of Single Issue Published Nearest to Filing Date
a. Total Number of Copies (net Press run)	35,887	32,700
b. Paid and/or Requested Circulation		
1) Paid/Requested Outside County Mail Subscriptions Stated in Form 3541	35,122	31,928
2) Paid In-County Subscriptions Stated on Form 3541	0	0
3) Sales through Dealers and Carriers, Street Vendors, Counter Sales, and Other Non-USPS Paid Distribution	0	0
4) Other Classes Mailed Through USPS	0	0
c. Total Paid and/or Requested Circulation (sum of 15b. (1), (2), (3) and (4)	35,122	31,928
d. Free Distribution by mail		
1) Outside-County as Stated on Form 3541	90	92
2) In-County as Stated on Form 3541	0	0
3) Other Classes Mailed Through USPS	0	0
4) Free Distribution Outside Mail 559	0	0
e. Total Free Distribution (Sum of 15d. and 15e.)	90	92
f. Total Distribution (Sum of 15c. and 15e.)	35,212	32,020
g. Copies Not Distributed	675	680
h. Total (Sum of 15g. and h.)	35,887	32,700
i. Percent Paid and/or Requested Circulation (15c. divided by 15g. times 100)	99.74%	99.71%

16. Publication of Statement of Ownership: Publication Required
17. Signature and Title of Editor, Publisher, Business Manager, or Owner: Aldo Maragoni, Editor; Date: October 01, 2017

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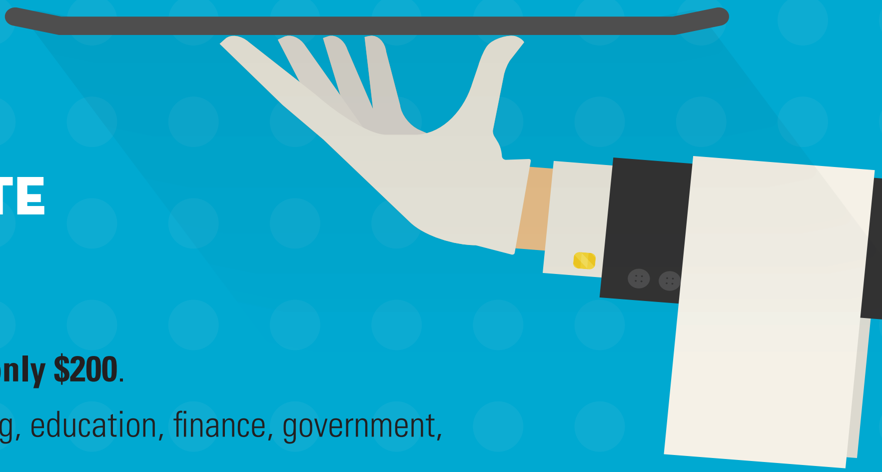

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By Stuart R. Josephs, CPA

Penalty Relief

New IRS Guidance Helps Many Partnerships

IRS Notice 2017-47 (IRB 2017-38, Sept. 18, 2017) provides penalty relief to partnerships that filed certain untimely returns or untimely extension requests to file those returns for their first tax year beginning after 2015, by the 15th day of the fourth month following that tax year's close.

Background

The 2015 Surface Transportation and Veterans Health Care Choice Improvement Act (the Act), P.L. 114-41, amended IRC Sec. 6072 to change the date by which a partnership must file its annual return. Its due date changed from the 15th day of the fourth month following the tax year's close, April 15 for calendar-year partnerships, to the 15th day of the third month following the tax year's close, March 15 for calendar-year partnerships.

This new due date applies to partnership returns for tax years beginning after 2015. (See October 2015 *California CPA*, Page 23.)

Partnerships filing the following types of returns are affected by the Act's amendment:

- Form 1065, U.S. Return of Partnership Income; and
- Form 1065-B, U.S. Return of Income for Electing Large Partnerships.

The partnerships also may file:

- Form 8804, Annual Return for Partnership Withholding Tax (Sec. 1446); and
- Form 8805, Foreign Partner's Information Statement of Sec. 1446 Withholding Tax.

These forms, generally, are due to the IRS on the same date as Form 1065 or 1065-B.

Form 1065 filers must furnish their partners with Schedules K-1, "Partner's Share of Income, Deductions, Credits, etc." by Form's 1065's due date. Form 1065-B filers must furnish their partners with Schedules K-1 by the first March 15 following the partnership's tax year's close.

Form 8804 filers required to file Forms 8805 also must furnish their partners with their respective copies of Forms 8805 by Form's 8804's due date.

Some partnerships also must file additional returns, such as Form 5471, "Information Return of U.S. Persons With Respect to Certain Foreign Corporations" by the due date of Form 1065 or 1065-B.

Six-Month Extensions

Partnerships can obtain a six-month extension to file Forms 1065, 1065-B or 8804 by filing Form 7004, "Application for Automatic Extension of Time to File Certain Business Income Tax, Information and Other Returns" by the statutory due date of those returns. Partnerships receiving an extension to file Form 1065 receive a concurrent extension to furnish Schedules K-1 to their partners.

Also, partnerships receiving an extension to file Form 8804 receive concurrent extensions to file Form 8805 and furnish copies of these forms to their partners.

This six-month extension may apply to additional returns that partnerships may be required to file by the due date of their forms 1065 or 1065-B, but it does *not* affect the due date for partnerships filing Form 1065-B to furnish their partners with Schedules K-1.

Late Filing Penalties

Partnerships failing to file Form 1065, 1065B or 8804 by the due date, including extensions, are subject to penalties under secs. 6698 or 6651. Partnerships failing to file Form 8805 by the due date, including extensions, are subject to penalty under Sec. 6721. Partnerships failing to furnish Schedules K-1 or the partner copies of Form 8805 by the due date are subject to penalty under Sec. 6722.

Partnerships failing to file Form 5471 by the due date are subject to penalties under secs. 6038 or 6679. Partnerships failing to file additional returns that they must file by the due date of their forms 1065 or 1065-B also may be subject to other penalties

Problem

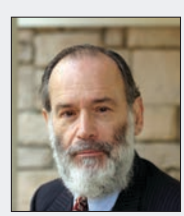
Many partnerships filed the returns discussed above or Form 7004 for their first tax-year beginning after 2015 by the date previously required by Sec. 6072. If not for the Act, these returns and extension requests would have been timely.

IRS Solution

The IRS will grant relief from the penalties described above for any return described above for any partnership's first tax year beginning after 2015 if the following conditions are satisfied:

(1) The partnership filed the Form 1065, 1065-B, 8804, 8805, 5471 or other return required to be filed with the IRS and furnished copies or Schedules K-1 to the partners, as appropriate, by the date that would have been timely under Sec. 6072 before the Act's Amendment—April 18, 2017, for calendar-year, partnerships; *or*

(2) The partnership filed Form 7004 by the date that would have been timely under Sec. 6072 before the Act's Amendment and files the return with the IRS and furnishes copies or Schedules K-1 to the partners, as appropriate, by the 15th day of the *ninth* month after the close of the partnership's tax year—Sept. 15, 2017, for calendar-year partnerships. If the partnership files Form 1065-B and was required to furnish Schedules K-1 to the partners by March 15, 2017, it must have done so to qualify for relief. CPA



Stuart R. Josephs, CPA has a San Diego-based Tax Assistance Practice that specializes in assisting practitioners in resolving their clients' tax questions and problems. Josephs, chair of the Federal Subcommittee of CalCPA's Committee on Taxation, can be reached at (619) 469-6999 or stuartrjosephs@yahoo.com.

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By Jason Fox

Post Change

CalCPA Takes Stock of Changes, Looks Ahead

CalCPA is taking stock of the major policy changes passed this year, now that the legislative session has come to an end. With the goal of continuing to build our relationships with legislators, CalCPA will use the interim break to shift focus to our grassroots program and to CPA Day at the Capitol Jan. 17.

OTA Cleanup

After the passage of landmark legislation earlier this year, much of the Board of Equalization's duties were distributed to two new state agencies: the California Department of Tax and Fee Administration and the Office of Tax Appeals (OTA).

As with most legislation that makes a major policy change in a short time, a cleanup bill is often needed to address unintended consequences, clarify intent and other technical changes. In the case of the OTA, this type of measure was needed.

The original legislation raised concerns about whether CPAs would be able to continue to represent taxpayers in front of the newly formed OTA in the same fashion they did before the BOE. Specifically, CalCPA raised concerns related to the ability of CPAs to represent audit clients in tax matters without impairing a CPA's independence, which is guided by strict professional standards.

In response, the Legislature agreed that further amendments to the statute was needed to clarify that it was not the intent of the Legislature to create a forum that would preclude a CPA from representing taxpayers in the same fashion that they had before.

CalCPA, the governor's office and legislative leaders worked on crafting a cleanup bill that addressed this issue, as well as other technical changes. Specifically, the language strengthened key characteristics of the OTA to make clear that an appeal before the OTA is an administrative proceeding and would not in itself threaten to impair a CPA's independence. These changes further align the structure and operation of the OTA with the Legislature's overarching intent for a taxpayer to be represented by a broad spectrum of individuals, including CPAs, at every stage of an appeal before the OTA.

The language was incorporated and passed by the Legislature as a part of several other budget cleanup bills in September.

Most significantly, this is an example of how CPAs being vigilant and responsive to legislative proposals can help shape public policy for the better.

2018 CPA Day at the Capitol

The annual CPA Day at the Capitol gives members the opportunity to meet with legislators in Sacramento. By participating, CalCPA members will have the chance to meet with members of the Legislature to discuss issues facing the CPA profession in California. Attendees also will get the opportunity to meet their elected representatives, reiterating the local connection CalCPA has in their district.

CPA Day will be taking place Wednesday, Jan. 17. Details will be coming soon, but registration is open: www.calcpa.org/cpaday.

Student Outreach

The California Board of Accountancy's September meeting took place at the campus of California State University, Fullerton, and the CBA used the opportunity to reach out to students and CPA candidates about the CBA's role in licensing and overseeing the profession.

CalCPA coordinated with the CBA to provide opportunities for students to network with CBA members and staff, ask licensing questions and discuss the career opportunities of a CPA in today's world. CalCPA Chair Kathy Johnson and CalCPA Orange County/Long Beach Chapter Vice President Summer Taylor participated in the event and spoke to the CBA about the resources and networking opportunities CalCPA facilitates for students and candidates as they go through the licensing process and begin their careers as a CPA.

New CPE Regs to Take Effect

Regulations implementing the CPE changes related to preparation engagements under SSARS 21 were adopted by the Office of Administrative Law and took effect Oct. 1.

The CBA held a regulatory hearing at its July 2016 meeting and adopted new regulations that establishes and defines the A&A CPE requirements for licensees who, as the highest level of service, provided preparation engagements at eight hours of the 80 hours required every two years.

In addition, the regulations require such licensees to complete the requirement of four hours of fraud prevention, detection and reporting of fraud affecting financial statements.

New CBA Member Appointed

Tustin's Dan Jacobson has been appointed to the CBA by the Speaker of the Assembly to fill a public member position.

Jacobson has practiced civil litigation law in California since 1988, and served on the Board of Governors of the California Insurance Guarantee Association and as a Temporary Judge for the Orange County Superior Court.

CalCPA congratulates Jacobson on his appointment and looks forward to working with him.

Jason Fox is CalCPA's director of legislation. You can reach him at jason.fox@calcpa.org.

CalCPA scene

Out and about at CalCPA's Days of Service. Tweet your event photos: **@Cal_CPA, use #CalCPA_Scene**.

Candy Sorting for At the Crossroads

CalCPA Burlingame staff sorted through candy and made cards for the homeless clients that At The Crossroads serves.

Helping out at My New Red Shoes

Some of the **Burlingame staff** taking a lunch break at My New Red Shoes, which helps homeless and low-income children look and feel confident as they start the school year by providing them with new clothing and shoes.

Glendale Service Day

The **Glendale office** was joined by program associates from our Inland Empire, Orange County/Long Beach and San Diego chapters in helping Operation Gratitude with checking first responder bags, reviewing letters to the troops and making paracord bracelets.

At the Oakland Zoo

all smiles

Staff pose after a long day of helping clean and tend animal enclosures at the Oakland Zoo.

CalCPA **be seen**

Where will we **see you** next?

Chapter Scene

ABC Night: Modesto | San Joaquin
Oct 5: Camp 4 Wine Café, Modesto
calcpa.org/SJQabc

Emerging Professionals Workshop: Networking Skills (Members Only) | San Francisco
Bernstein Global Wealth Management, San Francisco
calcpa.org/SFskills

31st Annual Fall Seminar Series #5: Tax Crimes and Divorce Orange County Long Beach
Oct 19: CSU Fullerton - Irvine Campus, Irvine
calcpa.org/OCLB5

Fall ABC Mixer | Sacramento
Oct 26: Sutter Club, Sacramento
calcpa.org/SCabc

Member Appreciation/End of October Tax Season Happy Hour Peninsula Silicon Valley
Oct 26: Nola, Palo Alto
calcpa.org/PSVhappy

Golf Tournament | Channel Counties
Oct 30: Sandpiper Golf Club, Santa Barbara
calcpa.org/CHCgolf

Golf Tournament | Los Angeles
Oct 30: Brookside Golf Course, Pasadena
calcpa.org/LAgolf

Foundation Scene

REGISTER TODAY: CONFERENCES
Bookmark **calcpa.org/conferences** for updates

FAMILY LAW
Oct. 26 | Los Angeles Airport & Webcast
Oct. 27 | San Francisco
calcpa.org/FLC

22ND ANNUAL CONFERENCE ON FINANCIAL REPORTING
Nov. 10 | San Francisco
haas.berkeley.edu/CFRM-conference

ACCOUNTING AND AUDITING
Nov. 6 | Simulcast & Webcast
calcpa.org/AAC

DIGITAL CPA CONFERENCE
DEC. 4–6 | San Francisco
dcpa17.com

WINE INDUSTRY
Dec. 5 | Sonoma & Webcast
calcpa.org/WINE

REGISTER FOR CPE WEEKS
Bookmark **calcpa.org/cpeweeks** for updates
Available online » **CPE Weeks Brochure**
calcpa.org/CPEWeeksBrochure

SAN LUIS OBISPO
Oct. 23-27
Embassy Suites SLO
calcpa.org/cpeslo

PALM SPRINGS
Nov. 27–Dec. 1
Omni Rancho Las Palmas
calcpa.org/cpeps

REGISTER TODAY

CPA to the Skies

Recently, David Klasing, CPA, owner and operator of his namesake tax practice, brought his CPA talents to the air, launching his own plane as a new tool for his growing business. We talked to Klasing to see how this idea came about and ways his pilot license is helping him serve his clients.

When did you start flying and why?

My father was trained by the Dutch Airforce as a fighter pilot and flew P38s. Before I could walk he was taking me on frequent family outings to airshows and I guess you could say it was in my blood from day one.

How challenging was it to get your pilot's license?

Learning to fly was an incredibly emotional and challenging experience. I experienced emotional swings from elation to desperation, self-doubt, aggravation, sweat-inducing fear, regret, excitement, pleasure and pain. It's incomprehensibly expensive, time consuming, infinitely complicated and mentally stimulating. My five-year journey began by building a flight simulator and by taking a six-month private pilot ground school class. Because I was over 50 and had high blood pressure I had to go through all sorts of vigorous testing to make sure my heart could take the rigors of flight training: blood enzyme tests, halter monitor, tread mill, EKG, etc. Flight training is very misleading. I could probably teach the average CPA how to mechanically fly the airplane, turn right, turn left, go up, go down in all of five minutes. It's all of the theory that makes flight possible, all the systems knowledge you're required to have and all of the federal air regulations you have to know cold that makes the task of actually becoming a pilot so difficult and expensive.

Landing an aircraft is purely art and not science and every landing is unique and different. It's by far the hardest thing to learn how to do safely and can be downright frightening at times. I have had landings where I almost ran out of runway, and put flat spots in the tires trying to stop the plane, I have had landings where the plane pitches sideways at the last second for no apparent or logical reason responding to either a sideways air current or the jet blast from a distant parked or taxiing jet. I have had landings where I could not keep the airplane on centerline and nearly careened off the runway. The scary part is that my experiences are common to all "low time" pilots.

What are some exciting flights you've logged?

The most exciting flying I have done is to Catalina's "airport in the sky." The airport is 1,600 feet above sea level, has a cliff on both sides of it and a high spot in the middle such that when you land you have the optical illusion of landing on a very small runway which has caused many accidents where pilots try to get the airplane stopped unnecessarily fast.

Any parallels between learning to fly and being a CPA?

Learning to fly is very similar to becoming a CPA in that it takes a ton of drive and dedication to accomplish both. Less than one quarter of 1 percent of the population flies. Barriers to flying include the amount of time effort, money, drive, intelligence and perseverance it takes. Just in the manner the CPA exam and the qualifications to sit for it limit the number of CPAs walking around out there, so does private pilot ground school, the private pilot written exam and the private pilot oral exam and demonstrated flying skills test with an FAA examiner. It takes an analytical mind to fly an airplane.

How did the idea to incorporate your plane into your tax business originate?

I first came up with the idea some six years ago at the UCLA Tax Controversy Institute, where a panel was briefly discussing a case where an attorney had prevailed over the IRS when the IRS had disallowed the attorneys private pilot air travel expenses as not being ordinary and necessary to the practice of law. After talking with the IRS Chief Counsel Attorney on the case, I came to the conclusion that if I could show a large increase in revenue and taxable profit because flying gave me a competitive advantage in my practice, I could deduct a reasonable amount of travel expenses. I did a ton of research before spending one dime on flight training. I have been pursuing aviation for about five years and have not deducted one penny of my training or air travel expenses, but expect that to change when I get the business use of my airplane up to 50 percent.

What is the involvement of your plane in your business?

I have had an office in Westwood, near Santa Monica Airport, for the last three years or so. I have on a few occasions tested my hypothesis regarding saving time by flying to that office rather than driving. Because of the horrific traffic patterns in and out of the west side, it takes nearly four hours, round trip, by car to travel to my LA office from my Irvine office. I have made the flight between Irvine and Santa Monica in 18 minutes before. It is less than 50 miles by air to travel from John Wayne to Santa Monica. When you add in the time to preflight the airplane, do a run up, taxi for takeoff, secure the airplane on landing and Uber back and forth to Santa Monica, the average travel time by air is less than two hours. This leads to a two-hour time savings where you can be working and billing clients. After earning my instrument rating I opened four more satellite offices in San Bernardino, Panorama City, Oxnard and Santa Barbara. If the use of the airplane leads to a competitive advantage, then I will go to a faster, higher flying airplane and expand into Northern California and surrounding states.

This is creative marketing for your firm. Any advice for other CPAs struggling with marketing?

All marketing in my opinion is a form of expensive experimentation. If it works, keep doing it! If it doesn't work, stop doing it. Also if you come up with something unique, don't share it with anyone because once everyone else is doing it, it will no longer be quite as effective.