

Especially for members in **Business, Industry & Government (BIG)**

Organizations Face Challenges. CPAs in B&I Can Address Them.

Since early 2007, the economy has gone from bad to worse. In 2008, there was little doubt that the economy was headed for a recession. Amid current rising unemployment and economic bailouts, the immediate future seems unclear.

As a CPA in business and industry operating in the current economic environment, you and your organization face numerous challenges and must take steps to overcome them. By managing your liquidity and overall risk, improving internal controls and processes, providing increased transparency through disclosures, gaining an understanding of fair value and determining impairment, you have the opportunity to help your organization secure a foothold in today's shaky environment.

Risk Management

Given the events of 2008, you and your team should work to minimize counterparty risk to every extent practicable. Your other considerations should include: analyzing the amounts of recourse, non-recourse, and unlevered financings to ensure an appropriate balance exists; and increasing lines of credits or exploring other measures to ensure any future requirements for liquidity to be met. Given the sharp declines in the stock prices of many organizations, some management teams are also exploring executing repurchase plans. If this is a route your organization is considering, you'll need to investigate the necessary approvals. In addition, you'll need to consider the potential tax and debt covenant implications of such repurchases.

When making future decisions regarding liquidity needs, you should also understand your organization's obligatory contributions to pension plans.

Internal Control and Processes

Many organizations, in an attempt to prevent another crisis, are developing process controls, which can help them better understand their capital at risk at any given point. Some organizations are even going so far as to create processes and controls within these processes, to foster greater executive involvement and oversight. Another solution is to implement controls via human capital or software that more effectively capture the risk of an investment. If yours is an organization that invests heavily in financial assets and liabilities that are accounted for at fair value under FASB Statement No. 157, you should consider implementing a controlled process and related policies for how to determine these measurements.

Disclosures

Given the current economic climate, both investors and regulators will be looking for increased disclosures in financial statements. Some specific topics on which you should consider expanding disclosures include, but are not limited to:

- liquidity and capital resources;
- material impairments;

LOOKING FOR MORE INFORMATION?

To assist preparers and auditors in valuing assets in illiquid markets, the SEC issued a press release and FASB issued FSP FAS 157-3. You can learn more about fair value by visiting: http://www.aicpa.org/MediaCenter/fva_faq.htm.

- pension plan assets;
- fair value determinations;
- critical accounting policies and estimates;
- risk factors; and
- relationships with distressed businesses.

The coming year will be a challenging one, and you and your team should continue to discuss your strategy for dealing with both the changing market conditions resulting from the economic crisis and the impact of market conditions that have yet to develop.

Fair Value

In addition to managing your business in the economic downturn, another major concern for you may be fair value reporting. Many CPAs express confusion over the use of “market” quotes; specifically whether current market prices represent fair value in accordance with FASB Statement No. 157 or whether market prices represent, in actuality, distressed sales.

You and your team may face challenges when measuring alternative investments at fair value, since a readily determinable fair value rarely exists. Further, net asset value of a fund may not represent fair value under FASB Statement No. 157. Given the state of the economy, many funds are imposing limitations on redemptions and some are even unwinding. As this occurs, the fair value measurements applied to these investments will fall under increased scrutiny and become even more important.

Impairment

Impairment is another important topic in today’s market environment and you and your team may be

struggling to determine when an investment is “other than temporarily impaired.”¹ A determining factor is whether you expect to collect all amounts due according to the contractual terms of the investment. Specifically, if an investment of yours experiences an adverse change in cash flows, the investment is considered other than temporarily impaired. The degree of decline in value, the time until anticipated recovery of value, and the period of time in which a decline has existed are also determining factors in whether an investment is other than temporarily impaired. GAAP does not provide any “bright lines” on this topic—professional judgment is required. When faced with a situation of impairment, you and your team should also consider the possibility that your organization’s goodwill has become impaired.

Where You Can Go to Find Out More

The AICPA is developing a Financial Reporting Alert (FRA), *Current Accounting Issues and Risks 2009*, for those in business and industry that focuses on the current economic situation. It is designed to be used by members of an organization’s financial management and audit committees to identify and understand current accounting and regulatory developments affecting financial reporting in light of the current economic situation. This FRA is geared towards organizations of all sizes and meant for both public and private organizations. Please visit www.cpa2biz.com to find out about this FRA. For information that can help you and your organization navigate during this difficult economic time, visit <http://economy.aicpa.org/>.

¹ For this analysis other than temporary does not mean permanent.

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