Your Future is Our Focus

RINA accountancy corporation

STATEMENTS

Second Quarter 2016

Will the New Revenue Recognition Rules Impact Your Financials?

by Jeff Tikalsky, Audit Senior

Revenue is an important element in all businesses, a key indicator in determining performance. Currently FASB Accounting Standards Codification® contains revenue recognition guidance for multiple industries, each with unique reporting requirements. The Financial Accounting Standards Board (FASB) wanted to simplify these complex revenue recognition rules and create a uniform guidance that could be applied consistently across all entity types and regions, thus the addition of a new standard "Revenue from Contracts with Customers."

Effective January 2018 for public companies and 2019 for private companies, all revenues are to be recognized using 5 steps to apply the core principle. "An entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services."

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Each step contains a series of criteria and considerations that requires entities to exercise professional judgment in estimating probable amounts to be collected and timing of performance obligations to be fulfilled.

But why do we care? We have 2-3 years before implementation. To get an idea of the complexity of these changes, see the following "Example 1" from ASC 606-10-55:

A real estate developer enters into a contract with a customer to sell a building for $1 million. The customer intends to open a restaurant in the building. The building is located in an area where new restaurants face high levels of competition, and the customer has little experience in the restaurant industry.

The customer pays a nonrefundable deposit of $50,000 at inception of the contract and enters into a long-term financing agreement with the entity for the remaining 95 percent of the promised consideration. The financing arrangement is provided on a nonrecourse basis, which means that if the customer defaults, the entity can repossess the building but cannot seek further compensation from the customer, even if the collateral does not cover the full value of the amount owed. The entity's cost of the building is $600,000. The customer obtains control of the building at contract inception.

In assessing whether the contract meets the criteria, the entity concludes that the criterion is not met because it is not probable that the entity will collect the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the entity observes that the customer's ability and intention to pay may be in doubt because of the following factors:

1. The customer intends to repay the loan (which has a significant balance) primarily from income derived from its restaurant business (which is a business facing significant risks because of high competition in the industry and the customer's limited experience)
2. The customer lacks other income or assets that could be used to repay the loan
3. The customer's liability under the loan is limited because the loan is nonrecourse

Because of the preceding facts it is not probable the developer will collect and should not record the sale of the building until either:

1. The developer can conclude it is probable they will collect
2. Substantially all of the consideration from the contract has been received
3. The contract has been terminated

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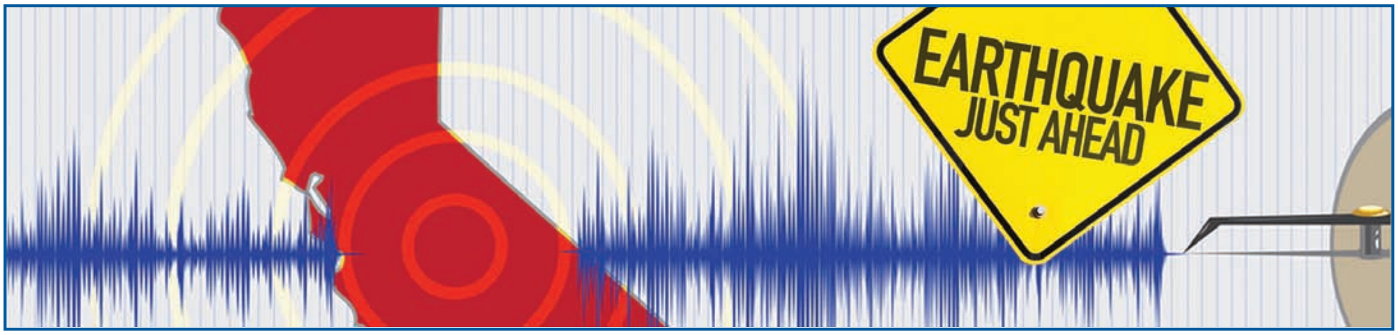
Seismic / Energy Tax Advantaged Financing Program

by Dan Sanders, Proforma Construction



There is a unique financing instrument for commercial, industrial, residential and multifamily property owners. The AllianceNRG Program™ is a finance tool for eligible improvements that strengthen businesses and homes against seismic events, reduce energy consumption and create renewable energy onsite. Unlike other financing options, the AllianceNRG provides up to 100 % financing at fixed interest rates. Maturities match the average useful life of the eligible instruments; up to 20 years financing for energy efficient improvements, up to 25 years for renewable energy projects (e.g. solar, dual glazed windows, energy efficient HVAC, set back thermostats) and up to 30 years for seismic retrofits.

The program covers all costs of the eligible improvement including engineering and design, construction, costs of equipment, installation and the costs of most support services. Repayments are made through a special assessment on the property owner's real estate tax bill that may be a tax deduction. When the property is sold or exchanged, any remaining balance of the assessment stays with the property. You should consult with your RINA accountancy representative for details as to how this applies to your specific real estate portfolio. The program is entirely voluntary and is only available in participating municipalities as identified on the AllianceNRG website.

The process to obtain financing is simple.

Step 1: Determine if your property is eligible. Has your county and/or city (issuers of your tax bill) approved implementation of the program for your property? This can be done through the AllianceNRG website or in conjunction with an AllianceNRG approved contractor.
Step 2: Submit a formal application for funding to AllianceNRG.
Step 3: Engage a Design and Installation professional.
Step 4: Oversight by AllianceNRG and review of Contractor "Scope of Work" to be provided.
Step 5: Commence installation of the eligible improvements.
Step 6: Final inspections of completed project and final payment to installation contractor by AllianceNRG. It is just that simple.

FOR FURTHER INFORMATION CONTACT:

Dan Sanders of Proforma Construction, Inc.

dan.sanders@proformaco.com
Direct (925) 249-3466, Cell (925) 367-5757

Proforma Construction is a licensed general engineering, commercial general contractor approved by the AllianceNRG

Will the New Revenue Recognition Rules Impact Your Financials? *— continued from page 1*

The payments received from the restaurant owner will be treated as a customer deposit (liability) until such time as the developer determines the collection is "probable."

This is one example of a list of five total criteria that all need to be met before revenue can be recognized (not to be confused with the five steps listed earlier). See ASC 606-10-55-93 for 63 in-depth illustrations of applying this new pronouncement.

This change is to be adopted one of two ways; retrospectively to each prior reporting period presented in the financial statements, or retrospectively with the cumulative effect recognized at date of initial application.

The retrospective adoption stresses the importance of gaining an early understanding of these changes in order to determine the information needed for disclosures and cumulative effect adjustments.

This pronouncement affects all entities that have contracts with customers. It is safe to say many entities will be affected. Whether it's obtaining contract information for new disclosures, calculating probable estimates of variable consideration, recognizing revenue at blended prices due to a modification of contract for goods, or calculating book tax differences, an early understanding of these changes will help save time when this change is required. Please contact RINA to discuss how these new rules will impact your business revenue.

Is Composite Tax Return Filing the Right Choice?

by Jeff Curtis, Tax Manager

Many businesses operate in multiple states which creates different tax issues. For flow-through entities such as partnerships and S Corporations, the business activity in each state can create a filing requirement in that state for all of its partners or shareholders. This is where the decision must be made as to whether or not to file a composite tax return.

A composite return is a tax return filed and paid at the entity level on behalf of the non-resident partners or shareholders. Each state has its own rules on eligibility and even the availability of filing a composite tax return, so it is important to be aware of the tax laws in each state. The largest benefit of filing a composite return is the convenience of filing only one state return at the entity level instead of filing returns for each non-resident. This benefit will also result in lower tax preparation fees and put the burden of notices and assessments on the entity and not on the partners/shareholders. However, the convenience comes at the cost of the payment of the tax; most states have the tax rate at the highest marginal rate which may not apply to every partner/shareholder. The tax payment on behalf of the partners/shareholders is also not a deduction at the entity level but treated as a distribution and payment on behalf of the non-resident. While this allows the partners/shareholders to use the payments as a state income tax deduction; it also can create disproportionate distributions which can be problematic when maintaining partnership capital accounts or proportionate S corporation distributions. If the business has a loss in the state, then generally it does not carryforward on a composite return, thus losing the partner's/shareholder's ability to carry it forward to future years.

Other considerations include the number of partners and their relative tax brackets, partner/shareholder eligibility for a composite return, and the statute of limitations to filing a return in each state. It is important to note that composite returns are elective each year so filing in one tax year may make more sense than others. That is why it is important to have a discussion with your RINA tax advisor regarding the benefits and costs of filing a composite return.

Scenario Planning – Managing Your Business Future

by Howard Zangwill, Stockholder and Cristina Monteiro, Staff Accountant

Imagine having the power to foresee the future of your business. Would you know how to innovate and gain advantage over your competitors? Would you anticipate the price fluctuations associated with your key products? Would you take risks with confidence and leadership?

Luckily, you don't have to wish for superhuman abilities. For decades, companies large and small, from every imaginable industry, have employed a forward-thinking, strategic planning process known as scenario planning to achieve the same results. Initially developed as a tool in military planning, and later applied to business, most notably by Royal Dutch/Shell, scenario planning has proven to be a powerful forecasting tool.

Put simply, scenario planning is the process of imagining different variations of the future based on information that is readily available or can be easily obtained. This tool is uniquely compelling because it allows businesses to expand their thinking, imagine possibilities and develop creative solutions in a timely cost-effective manner. Looking back at Shell, which has employed scenario planning since the early 1970's, we see the power in the process. Through its use of scenario planning, Shell was able to forecast the 1975 oil embargo, something none of its competitors had seen coming. This foresight advanced Shell in its industry as it had already developed solutions to tackle such an event.

The process of scenario planning involves a few steps, which require some time and thought at each point.

1) **Determine the focal issue:** What do you hope to achieve? How far into the future do you plan to look? Who will play a key role in this future? Will it be customers, changing technology, regulations?
2) **Determine external factors and uncertainties:** Perhaps a small competitor might be gaining market share, minimum wage laws might affect your bottom line, or key products might become obsolete. These are situations which are out of your control, however can greatly affect the success of your business.
3) **Develop scenarios:** Now it's time to imagine the future. Most experts recommend constructing 3 to 4 scenarios. One simple method is to develop one scenario with every negative possibility, another with all the positive, and a third somewhere in between. Ultimately, the goal is to think outside of the box and imagine possibilities.
4) **Research:** After developing the scenarios, additional research may be required. Gather all the information needed to help determine a likely outcome and which course of action is best to pursue for each individual case.
5) **Design solutions:** Once you have all the information, you can design plans of action for each scenario. Again, remember to be creative as you're still working within an imagined reality.

Through the use of scenario planning, you can now determine what the probable future might be. You can be proactive in order to edge out your competitors and be prepared for any major external forces that can have an impact on your business. With a bit of time, research, creativity, and collaboration, scenario planning can be the next best tool in your business planning repertoire. To learn more about scenario planning, or for assistance in getting started, please contact your RINA Representative.

RINA Second Quarter

APRIL

April 1

- Alameda, Contra Costa, Los Angeles, Marin, Napa, Sacramento, Santa Clara, San Francisco, San Mateo, Solano and Sonoma counties business property tax statements for 2016 due.

April 18

- Form 1040 - 2015 individual income tax returns due.
- Form 709 - 2015 United States gift tax returns due.
- Form 1065- calendar year 2015 partnership tax returns due.
- Form 1041 - calendar year 2015 trust and estate income tax returns due.
- First quarter 2016 estimated tax payments due for individuals, trusts and calendar year corporations.

MAY

May 7

- Legal deadline for filing business personal property statements without penalty.

JUNE

June 15

- Second quarter 2016 estimated tax payments due for individuals, trusts and calendar year corporations.

RINA
accountancy corporation

Established 1946 • www.rina.com
Member of MGI

475 14th St., Suite 1200, Oakland, CA 94612
(510) 893-6908 / eFax: (510) 873-0977 / 1-800-RINA CPA

201 N. Civic Dr., Ste. 220, Walnut Creek, CA 94596
(925) 210-2180 / eFax: (925) 210-2190

100 Montgomery St., Suite 2075, San Francisco, CA 94104
(415) 777-4488 / eFax: (415) 837-1260

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Connect With Us

RINA Gives Back

AIDS/Lifecyle Event

by Erin Altman, Staff Accountant

I've participated in AIDS/LifeCycle every summer since 2004, either as a cyclist or a volunteer (called a "roadie"). This group of loving, selfless people has become a second family to me over the years, and it makes me feel good to help a sector of humanity that is as real and alive as you and I are. I've been involved as a cyclist for seven years and have volunteered as a roadie for five years. I keep coming back year after year because I want to help reduce the stigma surrounding HIV/AIDS and I want to make a world of difference in the lives of people living with HIV and AIDS.

AIDS/LifeCycle is co-produced by the San Francisco AIDS Foundation and the Los Angeles LGBT Center and is designed to advance their shared interests to end the pandemic and human suffering caused by AIDS.

The event is a fully supported, 7-day bike ride from San Francisco to Los Angeles to raise money and awareness in the fight against HIV/AIDS. The 2016 event will take place June 5th - June 11, 2016. Every year, this landmark ride through beautiful California delivers a life-changing experience for thousands of participants from all backgrounds and fitness levels united by a common desire to do something heroic.

A few of the goals of AIDS/LifeCycle are to:

- Raise funds to support the HIV/AIDS services of the Los Angeles LGBT Center and the San Francisco AIDS Foundation.
- Increase awareness and knowledge about the services and programs offered by the benefiting organizations.
- Increase awareness and knowledge about HIV/AIDS among participants, their donors and the general public.
- Increase AIDS activism and volunteerism among the participant and donor communities, inspiring them to become ambassadors in the fight against AIDS.

If you are interested in volunteering as a "roadie", visit www.aidslifecycle.org.