



# Kakimoto & Nagashima LLP

## Certified Public Accountants Consultants

### NEWSLETTER

Volume 13, Issue 3

November 2015

#### Inside this issue:

<b>Summary of Articles</b>	<b>1</b>
• <b>Accounting Changes in Sight for Lessees – the Proposed Lease Accounting Standard</b>	<b>2</b>
• <b>New Due Dates for Certain Commonly Filed Federal Tax Returns</b>	<b>3</b>
• <b>The Real Cost of Computer Viruses</b>	<b>4</b>



#### Any Questions?

We are committed to providing our clients with quality and excellent services. If you have any questions or comments, please let us know by either e-mail or phone. Our company profile is available on the internet at:

<http://www.knllp.com>

Tel: (310) 320-2700

Fax: (310) 320-4630

E-mail: [sboffice@knllp.com](mailto:sboffice@knllp.com)

## Summary of Articles

### The Proposed Lease Accounting Standard

The U.S. Financial Accounting Standards Board (“FASB”) plans on issuing its accounting standard on leases by the end of 2015. This new lease accounting standard will result in considerable changes for most companies in their accounting and financial reporting process. Accordingly, all companies should begin to assess the impact to enable them to determine what changes to systems, processes, and policies would be needed to implement the new accounting standard. Featured in this article are the FASB’s proposed key provisions and consideration points for implementation.

### New Due Dates for Certain Commonly Filed Federal Tax Returns

Beginning with the 2016 tax year (tax years beginning after December 31, 2015), new due dates will apply to various tax returns including partnership and corporate returns, as well as foreign bank account reports (FinCen Form 114). The changes in due dates place the calendar year partnership filing due date one month ahead of the April 15 due date for calendar year corporations (revised) and individuals (unchanged). The revised due dates provide for a more logical flow of partnership filing information into corporate and individual tax returns. The original and extended due dates are unchanged for individuals, S Corporations, and some information returns such as W-2s and 1099s.

### The Real Cost of Computer Viruses

It is estimated that \$55 billion dollars are spent every year dealing with viruses. This estimate includes the cost of cleaning up infected or buying new security software and hardware. From this amount approximately \$8 billion is for virus protection for computers and network equipment. On average that equates to a little more than \$500 dollars spent per employee. How does your tech budget compare to this average?

Kakimoto & Nagashima’s future newsletters will only be published on-line for your convenience. Please make sure we have your current e-mail address by registering with us at:

<http://www.knllp.com/newsletter/registration.php>

We look forward to providing you with up-to-date accounting and tax information.

An Independent Member of the

plante moran  
ALLIANCE

## Accounting Changes in Sight for Lessees – the Proposed Lease Accounting Standard

New lease accounting standards are expected to be issued in the near future by both the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”). The lease accounting project was added as one of the FASB/IASB joint projects to address the concern that current lease accounting did not adequately portray the resources and obligations arising from lease transactions. The proposed standard would require lessees to include all leases, including those that were generally classified as operating leases, on the balance sheet.

Drafting the final lease standard is in progress; FASB’s lease standard is expected to be issued before the end of 2015. The FASB will meet in early November to set an effective date. The effective date is anticipated to be no earlier than 2018 or 2019 depending on the standard’s issuance date. Because the FASB and the IASB did not agree on certain key issues, the Boards will not be issuing converged final lease accounting standards, unlike the revenue recognition standards where convergence was largely achieved.

### **Key Provisions**

#### **Lease Type Classification**

The FASB opted for two lease types for lessee accounting:

Type A: Recognition of a right-of-use (“ROU”) asset and corresponding lease obligation on the balance sheet. The ROU asset would be subject to amortization/depreciation; the obligation would be amortized with interest expense charged separately from amortization/depreciation.

Type B: Recognition of a right-of-use (“ROU”) asset and corresponding liability on the balance sheet. Lease expense would be charged in a manner that would approximate straight line rent expense.

Leases are classified into the two types based on principles generally consistent with International Accounting Standard 17 (“IAS 17” – Leases). The concepts used in IAS 17 are similar to those currently used in U.S. GAAP, but without the bright lines. Type A classification is comparable to leases currently categorized as capital leases; all other leases would be classified as Type B. The IASB’s lease accounting model is based on a single lease type with all leases classified as Type A for lessees (a dual classification model is used for lessors). Short-term leases (i.e. leases of 12 months or less) are generally exempted from the balance sheet recognition/measurement provisions noted above.

### **Financial Statement Presentation**

#### **Balance Sheet**

Type A ROU assets and Type B ROU assets are to be presented as separate line items (or disclosed in the notes); Type A ROU assets are not to be presented together with Type B ROU assets. Corresponding liabilities are also to be presented separately (or disclosed in the notes).

#### **Cash Flow Statement**

Cash payments related to Type A leases are to be classified within financing activities except for cash payments related to the interest portion of the lease liability arising from Type A leases which are classified within operating activities. Cash payments arising from Type B leases are classified as operating cash flows.

#### **Disclosures**

Proposed disclosure requirements will be more robust and extensive with both qualitative and quantitative information required.

### **Transition**

The standard should be adopted using a modified retrospective approach for all leases existing at, or entered into after, the date of initial application; certain practical expedients will be available for election. The date of initial application, as proposed, would be the beginning of the earliest comparative period presented in the financial statements.

### **Looking Forward**

Virtually all companies will be affected by this standard; certain companies may have a significant financial statement and disclosure impact due to the change. Companies should begin to assess the impact of the new lease accounting standard on the organization and prepare for implementation. Assessment and preparation may include the following:

#### **Lease Administration**

Management should gain an understanding of the leasing activity in the company, including where and how leases are initiated, managed and accounted for. Many smaller companies do not centralize their leasing information function; more information will be necessary to assess the changes to financial statement recognition and disclosure. An inventory of leases with the appropriate information should be compiled.

#### **Financial Statement Implications**

Evaluate the financial statement effects. The balance sheet would now include recognition of liabilities from leasing transactions that were previously only disclosed (“off balance sheet”). The income statement would have changes related to expense classification and recognition pattern. This will affect financial ratios and metrics which could impact certain agreements and contracts (e.g. debt covenants/financing arrangements, agreements based on key performance indicators). Also, when performing an evaluation of the accounting change from current GAAP to the new standard, management should consider working with their auditors to ensure that the approach to implementing the new leasing standard and any changes in lease accounting are documented properly.

#### **Systems Suitable to Extract Proper Information**

Extracting accurate information may entail changes in IT, internal control and business processes. In addition to gathering data about lease terms and payment amounts, information on items such as renewal options, fair values and estimates/judgments would be needed to comply with the proposed standard.

#### **Stakeholder Communication**

Management should consider the effect the change in lease accounting may have from a stakeholder’s perspective (both internal and external). Communication of the change in accounting to the stakeholder should be considered and, if warranted, done in advance. Educating stakeholders to better understand the changes may be necessary.

Although companies may make considerable efforts in complying with the new lease accounting standard, this may present an opportunity to rethink leasing arrangements and to make improved business decisions as a result of compiling the required lease data and reviewing its leasing processes.

### **We’re Here to Help**

Kakimoto & Nagashima LLP is dedicated to providing our clients with quality service and experience. We are also committed to professional standards and assisting our clients to understand the new and significant changes in those standards. If you should have any questions or comments, please contact us. ♦

## New Due Dates for Certain Commonly Filed Federal Tax Returns

Recent legislation signed into law by President Obama on July 31, 2015 modified tax return due dates for corporations and partnerships to follow a more logical sequence of due dates. Beginning with the 2016 tax year (tax years beginning after December 31, 2015), calendar year partnership tax returns will be due on March 15 instead of April 15. Conversely, calendar year corporate tax returns will be due on April 15 instead of March 15. Under the new rules, Schedule K-1s (Form 1065) distributed by the original March 15 due date will enable corporations one month to incorporate K-1 results into their corporate tax returns, enhancing the possibility of filing the corporate tax return by the original April 15 due date.

Corresponding changes apply for fiscal year-end corporate filers (with the unusual exception for June 30 fiscal year-end companies illustrated in the table below).

The filing deadlines for individuals and S Corporation tax returns, as well as some information returns such as W-2s and 1099s remain unchanged; however, individuals with partnership interests will benefit from the possibility of an earlier delivery date of K-1s (assuming the partnership is able to distribute the K-1s by the March 15 original due date).

### Extended Due Dates

The extended due dates for calendar year and fiscal year-end corporate (other than June 30 fiscal year-end companies) tax returns remain unchanged through 2025. Beginning with 2026, the extended due date for calendar year federal corporate tax returns will be October 15 (one month later than the current extended due date of September 15).

The extended due date for partnership returns remains unchanged (still the 15th day of the ninth month following the year end).

The table below contrasts the due dates before and after the new legislation for corporate returns, partnership returns, and foreign bank account reports (FinCEN Form 114). The new requirements take effect beginning with the 2016 tax year.

The filing requirements for the state of California will not automatically conform to the federal changes above. At this time, California has not announced any corresponding due date changes.

### Planning Ahead for the 2016 Tax Year

It is reasonable to expect that some individuals and corporations with partnership interests will be eager to receive their K-1s by the March 15, 2017 due date (the first accelerated due date). This will require advance planning by partnerships and coordination with their tax return preparers.

At this time, not all of the new tax regulations are finalized. We will provide further information to you as it becomes available.

If you have any questions regarding these changes, please contact Kakimoto & Nagashima LLP.♦

The following table summarizes the changes in filing due dates. The new due dates apply for tax years beginning after December 31, 2015 unless otherwise noted.

### Summary of Due Dates

Return Type/Form	Current		New		Comments
	Original Due Date	Extended Due Date	Original Due Date	Extended Due Date	
C Corporation Form 1120 - calendar year	March 15	September 15	April 15	September 15	For a calendar-year corporation beginning before January 1, 2026, the maximum extension allowed is <b>five months</b> (i.e., September 15). From the calendar year 2026, a maximum extension of <b>six months</b> is allowed (i.e., October 15).
C Corporation Form 1120 - fiscal year (other than June 30)	The 15th of the third month following the close of the fiscal year	A 6-month maximum extension from the original due date	The 15th of the fourth month following the close of the fiscal year.	A 5-month extension from the original due date through 2025. Thereafter, a 6-month extension.	For a fiscal year corporation beginning before January 1, 2026, the maximum extension allowed is <b>five months</b> . For fiscal years beginning after December 31, 2025, a maximum extension of <b>six months</b> is allowed.
C Corporation Form 1120 - June 30 fiscal year	September 15	March 15	Sept. 15 through 2025. Thereafter, October 15.	April 15	For a June 30 fiscal year corporation beginning before January 1, 2026, the maximum extension allowed is <b>seven months</b> . For fiscal years beginning after December 31, 2025, a maximum extension of <b>six months</b> is allowed.
Partnership Form 1065 - calendar year	April 15	September 15	March 15	September 15	
Partnership Form 1065 - fiscal year	The 15th day of the fourth month following the close of the fiscal year	A 5-month maximum extension from the original due date	The 15th of the third month following the close of the fiscal year	A 6-month maximum extension from the original due date	
FinCEN Form 114	June 30	N/A	April 15	October 15	A 6-month maximum extension was added
Information Returns (i.e., W-2s and 1099s)	To IRS and SSA - February 28, and March 31, if filed electronically		To IRS and SSA - February 28, and March 31, if filed electronically		No change
S Corporation Form 1120S - calendar year	March 15	September 15	March 15	September 15	No change
S Corporation Form 1120S - fiscal year	The 15th day of the third month following the close of the fiscal year	A 6-month maximum extension from the original due date	The 15th day of the third month following the close of the fiscal year	A 6-month maximum extension from the original due date	No change
Individual Form 1040	April 15	October 15	April 15	October 15	No change

## The Real Cost of Computer Viruses

Getting a virus on your computer is an annoying thing. For the most part, your security software will catch and stop it from infecting your pc. However, it's virtually impossible to stop 100% of the viruses out in the wild. Most of the time, disinfecting a computer is an easy task and can be remedied by even the novice user. If you're not that lucky, you could be one of the 16 million Americans who have had a serious vulnerability in the last two years.

As you may already know computer viruses are quite a nuisance. What you may not know is just what they cost US households and workplaces each year. But how much do Americans spend on virus protection and removal? What are the true costs these vulnerabilities impose in lost money, time, and labor?

Every year, computer viruses, worms, and other vulnerabilities cost homes and businesses billions of dollars in lost time and equipment. It is estimated that \$55 billion dollars are spent every year dealing with viruses. This estimate includes the cost of cleaning up infected or buying new security software and hardware. From this amount approximately \$8 billion per year is for virus protection for computers and network equipment. On average that equates to a little more than \$500 dollars spent per employee.

### Top 5 Most Expensive Computer Viruses

<u>Virus Name</u>	<u>Worldwide Cost</u>	<u>Year</u>
MyDoom	\$38 billion	2004
SoBig	\$37.1 billion	2003
ILOVEYOU	\$15 billion	2000
Conficker	\$9.1 billion	2007
Code Red	\$2 billion	2001

Fortunately, the days of the billion dollar loss due to computer viruses is now a thing of the past. Technological improvements and user knowledge has helped to curb this from ever happening again. However, that's not to say that we are forever in the clear, as viruses and the like continue to evolve.

### Ransomware

Trend Micro defines ransomware as a type of malware that prevents or limits users from accessing their system. This type of malware forces its victims to pay the ransom through certain online payment methods in order to grant access to their systems, or to get their data back. Some ransomware, called CryptoLocker or CryptoWall, encrypts files on the users system. These encrypted files are then unable to be opened by the user without being decrypted.

So far, the CryptoLocker ransomware has cost an estimated \$3 million dollars' worth of damages. The CryptoWall ransomware has cost victims more than \$18 Million since April 2014. Both of these totals only represent the reported losses, as many companies have not disclosed their damage. If you include the downtime, the totals should be expected to be much higher.

### How to Protect Your Computer from Ransomware as Recommended by the FBI:

- Make sure you have updated antivirus software on your computer.
- Enable automated patches for your operating system and web browser.

- Have strong passwords, and don't use the same passwords for everything.
- Use a pop-up blocker.
- Only download software—especially free software—from sites you know and trust (malware can also come in downloadable games, file-sharing programs, and customized toolbars).
- Don't open attachments in unsolicited e-mails, even if they come from people in your contact list, and never click on a URL contained in an unsolicited e-mail, even if you think it looks safe. Instead, close out the e-mail and go to the organization's website directly.
- Use the same precautions on your mobile phone as you would on your computer when using the Internet.
- To prevent the loss of essential files due to a ransomware infection, it's recommended that individuals and businesses always conduct regular system back-ups and store the backed-up data offline.

Should you find yourself to be infected with a ransomware virus, it is recommended that you do not pay. There is no guarantee that handing over the ransom will give you access to your files again. Paying the ransom could also target you for more malware in the future.

### 5 Major Costs of a Virus Attack on Your Computer

1. Hiring an expert can cost a lot of money – Most users are not computer savvy and may require expert help to fix the problems from a virus attack. Technicians normally charge by the hour and a virus cleanup can require 5 or more hours.
2. You may have to pay for new programs – Depending on the age of your computer, it may be required to purchase a new operating system, office software and antivirus software. Some will just purchase a new computer out right instead of fixing an aged one.
3. Renting a temporary laptop – Renting, borrowing, or temporarily going without a replacement computer each has its own incurred costs.
4. Lost files – Different viruses have different behaviors. If a particular virus destroys valuable data saved on your laptop, the time needed to replicate these files can prove to be quite costly.
5. Losing a client or missing out on a deadline – Again, time while being pre-occupied with fixing an infestation could result in severe downtime from your other priorities, not to mention the stress and panic while taking care of the problem.

Computer security, can seem costly to maintain, but is definitely a wise investment. Considering the costs involved when managing a computer virus infestation, it's a small price to pay to maintain a healthy computer working environment. If you feel that your computer security is aging and needs to be evaluated, please give the professionals at Kakimoto & Nagashima a call. We will gladly give a helping hand ♦

Questions or comments about this issue or inquiries about our newsletter by e-mail subscription service can be sent to:

[newsletter@knllp.com](mailto:newsletter@knllp.com)