

# PKF PERSPECTIVES

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## GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) FOR PRIVATE COMPANIES?

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With the ever-increasing complexity of accounting rules that are typically designed for large and complex organizations, the debate over the need for separate accounting rules for privately-held companies is intensifying.

In a recent development, a panel sponsored by the American Institute of Certified Public Accountants, the Financial Accounting Foundation, and the National Association of State Boards of Accountancy, will explore the process of accounting standard-setting for private companies and recommend whether these companies need their own version of generally accepted accounting principles (GAAP). The panel will consist of lenders, investors, owners, preparers, auditors, and regulators.

Following the collapse of Enron and the passage of the Sarbanes-Oxley Act, financial reporting and oversight became more onerous for public companies. A number of these developments ultimately affected private companies, too, resulting in increased compliance costs.

Some observers further believe that many of the accounting rules developed by the Financial Accounting Standards Board (FASB) are based on the needs of public-company investors, who generally do not have the ability that users of private-company financial statements have to simply request more information from the company. This is especially true for some disclosures required by GAAP.

The increasing complexity of accounting rules further adds to the compliance and reporting costs incurred by private companies, many of which do not have sophisticated accounting resources.

A number of options have been explored in the United States and elsewhere to deal with this issue of differential reporting. These include:

1. Carving out for private companies some requirements of GAAP [for example, either FASB's rules or International Financial Reporting Standards (IFRS) if the U.S. ultimately adopts them];
2. Developing new, simplified standards specifically for private companies; and
3. Requiring the preparation of private company financial statements on the tax basis of accounting.

IFRS already has its own separate set of guidelines for private companies, called **IFRS for Small and Medium-Sized Entities (SMEs)**, which offers private companies a significantly slimmed-down version of IFRS, with the understanding that they will be revised only once every three years.

Private companies in the U.S. may adopt IFRS for SMEs, but until such time as the Securities and Exchange Commission announces its plans with regard to IFRS for public companies, it is unlikely that this will be a popular option.

Additional obstacles to IFRS include concerns that U.S. banks, creditors, investors, etc. are not yet comfortable with IFRS as they have not been widely taught in U.S. colleges and universities for any number of years.

**Are two GAAPs (“big GAAP” and “small GAAP”) in our immediate future?** Stay tuned.

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# ELECTRONIC BANK CONFIRMATIONS:

## What You Should Know

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More and more banks are no longer accepting or responding to paper bank confirmation requests and are requiring auditors to confirm through an electronic service. We have been using Capital Confirmations, which maintains an in-network relationship with hundreds of banks and a secure website.

If you are a signatory for your company bank account(s) and have been our bank contact in the past, you will continue to be asked to sign the paper bank confirmation form and our staffperson will provide a copy of it, as well as your title and e-mail address, to one of PKF's support staff at our office who will set up the electronic confirmation process.

You will receive an e-mail from the confirmation company advising that PKF New York is completing work on your behalf and needs your authorization to provide an "AUD" number (a randomly generated personal identification number) which will allow your financial institution to release account information to us as your auditor.

Once that AUD number is received the confirmation(s) will be initiated. Presently, the charge is \$20 for each account confirmation up to five accounts. After five accounts per client per reporting period, the charge is 50 cents per account. The charge will be billed back to the client by PKF.

Not all the banks electronically confirm all types of accounts, e.g. mortgages. In those cases, we will find out the method and out-of-pocket cost involved to confirm such accounts.

Typically, the turnaround time after we initiate the electronic confirmation is no more than five

business days. If you are involved in the audit confirmation process and your e-mail server has restricted mail, please ask your IT department to unrestrict for the following e-mail address:

[systems.administrator@confirmation.com](mailto:systems.administrator@confirmation.com)

It is very important that your corporate name is accurate, as well as the name/type of your bank account and the account number. If these do not match with bank records, the confirmation will be denied.

Presently, Bank of America, HSBC, Citizens and M&T Bank are some of the financial institutions that will confirm electronically only. Not all of them, however, confirm every type of account electronically.

As we get more experienced with the electronic process and as more services are offered online, we hope to be of greater assistance to our clients.

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