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Via email to: director@fasb.org

September 7, 2012

Technical Director
Financial Accounting and Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

File Reference No. 2012-210

Re: Proposed Accounting Standards Update: Presentation of Financial Statements
(Topic 205), The Liquidation Basis of Accounting

The Accounting Principles and Auditing Standards Committee (“the Committee” or “We”) of the California Society of Certified Public Accountants (“CalCPA”) is grateful for the opportunity to comment on the proposed auditing standard referenced above. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee is comprised of 49 members, of whom 53 percent are from local or regional firms, 27 percent are from large multi-office firms, 10 percent are sole practitioners in public practice, 8 percent are in academia and 2 percent are in an international firm.

Questions for Respondents

Question 1: *The proposed guidance would require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent, as defined in the proposed guidance. Is the proposed guidance about when an entity should apply the liquidation basis of accounting appropriate and operational? If not, why?*

The standard should be clarified to include all situations where an entity expects to liquidate, whether in be a proceeding in bankruptcy court, a liquidation proceeding in state court, an arrangement for benefit of creditors, or where liquidation may occur in a non-judicial proceeding. While bankruptcy court may be the most common venue, it does not seem sensible to exclude other liquidations from the scope of the proposal.

In addition, the definition of “imminent” in 230-30-25-1 and 2 is too narrow. It requires a plan of liquidation, which may be a convenient “bright line”. However, there is a period of time between when management may have concluded that the entity can no longer function as a going concern and reorganization is not a viable course of action and when liquidation plans are set, so liquidation may in fact be about to happen before a formal plan of liquidation is prepared. **The**

requirement for preparation of financial statements on a liquidation basis should be stated as - when those charged with governance have taken the decision to liquidate.

Question 2: The proposed guidance includes a principle for measuring assets and liabilities, as well as related items of income and expense, using the liquidation basis of accounting. The proposed guidance would require supplemental disclosures about the methods and assumptions used in arriving at those measurements. This guidance is intentionally nonprescriptive in light of the specialized nature of liquidation basis financial statements and the impracticability of providing prescriptive guidance for the myriad of circumstances to which it might apply. Is the proposed guidance on how to prepare financial statements using the liquidation basis sufficient and operational? If not, why?

The guidance is incomplete in its handling of liabilities and operations.

In a liquidation (excluding a planned liquidation of a limited life entity) liabilities usually exceed assets, and if that is the case, determining the distribution of assets among creditors, and which liabilities get paid, often takes time. Creditors' claims may differ from amounts in the financial statements, and the priority of claims and which claims are subject to compromise may require determination. Management may not be in control of significant aspects of determining payment of liabilities. Until these matters are resolved, stating liabilities at amounts expected by management to be paid is premature and inappropriate. Liabilities should initially be at their stated amount, or estimates if amounts are not stated, and adjusted to amounts accepted by creditors as the liquidation proceeds. What is useful to users of the financial statements (usually creditors) is a statement of assets and a statement of liabilities, with the balancing number either a deficit or a surplus.

While it may be implicit that the results of operations through completion of liquidation should be estimated and accrued as a net asset or liability, the proposal should clearly state this as the requirement. Further, actual results of operation should be disclosed so users can gauge management's stewardship during liquidation.

Question 3: The proposed guidance would apply to all entities that prepare financial statements in accordance with U.S. GAAP. Should the proposed guidance differ for any entities (for example, investment companies) whose primary measurement attribute is fair value? If so, why?

The proposed guidance should be applicable to all entities. The basic issues are the same across all entities. The prior use of fair value as the primary measurement attribute is not a reason not to follow the proposed guidance, because "realizable in liquidation" may differ from "fair value" used in preparation of financial statements of a going concern.

Question 4: The proposed guidance would apply to a limited-life entity when significant management activities are limited to those necessary to carry out a plan for liquidation other than that which was specified in the entity's governing documents. Indicators have been provided to help an entity determine whether a plan for liquidation differs from that which was specified in the governing documents. Do you agree with the proposed guidance about when a limited-life entity should use the liquidation basis of accounting? If not, why?

The Committee agrees with the proposal.

Question 5: The proposed guidance would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should.

The Committee agrees with the proposal.

The Committee would be glad to discuss our comments further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink that reads "Howard Sibelman". The signature is written in a cursive, flowing style.

Howard Sibelman, Chair
Accounting Principles and auditing Standards Committee
California Society of Certified Public Accountants