

THE BUSINESS OF ACCOUNTING

A Roundtable Discussion

Doing business in San Diego County is becoming increasingly complex, and the dynamics seem to evolve at a dizzying rate. Should you be in global markets? Should you be expanding? What about strategic partnerships or acquisitions? No wonder professional services are among the fastest growing sectors in our region. As in other professions, firms themselves are dealing with new technologies, aging executive ranks and challenges in attracting new talent. The demands facing accounting firms are in many ways no less daunting than what their clients face. The San Diego Business Journal posed a series of questions to some of the area's leading financial experts. Here's what they had to say about the state of business accounting in 2014 and beyond.



Carisa Wisniewski
Partner in Charge, San Diego Office
Moss Adams LLP

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Senior Managing Director
CBIZ MHM and Mayer Hoffman McCann

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ACCOUNTING ROUNDTABLE

The Business of Accounting

Q & A



‘There are many outlets for accounting skills, so it’s important young professionals take time to decide what they’re passionate about and where that passion will fit best long term. Our role is to provide an environment where that can happen.’

CARISA WISNIEWSKI

‘The CPA is more about relationships today than in the past. When you are networking, you never know who or what future client you’re going to meet.’

MICHAEL G. WASTVEDT



What is your initial advice for clients looking to expand into global markets?

NATION: Ensure that you understand the culture and legal environment of the markets you are working in. Make sure that you have adequate capital to survive in the long run and, of course, make sure that you have good, experienced advisors.

What are the biggest challenges to recruiting new talent to San Diego firms? Are there enough young people in the CPA pipeline?

WISNIEWSKI: San Diego universities’ accounting students enter the profession each year in large numbers, so the more significant challenge for us is not the pipeline but rather getting young professionals to connect their passion with their profession. In public accounting this generally becomes an issue of retention. We’ve had the most success when team members can customize their career paths. There are many outlets for accounting skills, so it’s important young professionals take time to decide what they’re passionate about and where that passion will fit best long term. Our role is to provide an environment where that can happen.

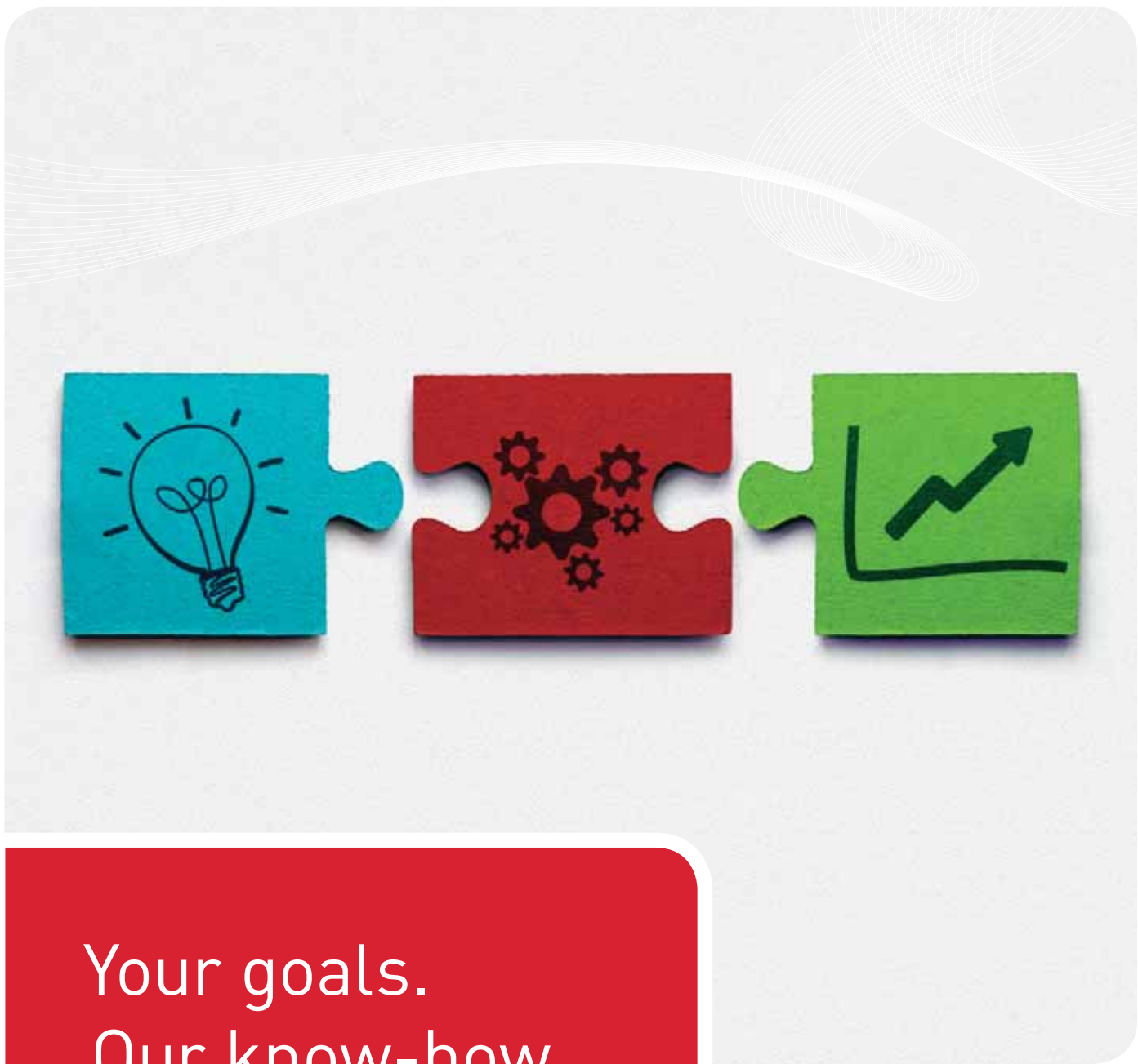
How is emerging technology changing the way you service clients?

NATION: The primary changes are improved mobile communication and more applications in the cloud. These two changes allow us to service clients worldwide with lower costs.

WASTVEDT: For the past two years Wastvedt & Company has embraced green technology and been fully paperless. Our clients all have access to secure portals where they can view, receive and send documents, upload receipts and transfer payments. Accessible also by Apple and Android apps, we invested in this technology to improve productivity and give our clients the flexibility to conduct business wherever they are. As an example, if a lender needed a client’s tax returns for a loan, with this technology our client could, without interacting, send the documents securely from his chair while vacationing on the beaches of Hawaii.

Do you see your firm in the long term reducing its office presence as employees utilize technology to work remotely?

WISNIEWSKI: We’re relocating and chose to take a different approach, focusing instead on how people use our office. Regarding technology, our goal is to empower our people to work anywhere, but to first choose to work at the client’s location — since their presence helps build better service — second, in the office, and third, wherever they choose. Still, we realize it’s not realistic for them to be at clients full time. Since we want their second choice to be the office, our new space provides a range of environments to match how people work most effectively — whether in groups, alone, on couches, etc.



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'Don't rush the process and give yourself adequate time to provide quality information up front. Be honest and transparent in your responses.'

PAUL NATION

'One of the greatest opportunities for the accounting profession is technology, which has changed how we can work and serve our clients.'

CARISA WISNIEWSKI



What possible disruptions in the industry concern you most? What can you learn from other professions that were slow to meet changing demands or adopt process innovations and implement new technology?

WISNIEWSKI: One of the greatest opportunities for the accounting profession is technology, which has changed how we can work and serve our clients. It allows us to exchange and evaluate data more efficiently than ever, and by extension requires less time in a physical location or traveling between locations. That time can be exchanged for quality time with clients. Generally technology has been used to duplicate paper processes, but the opportunity comes from actually changing how we do things and embracing many of the practices of the Y and Millennial generations regarding where and how to work.

The long-awaited new revenue recognition standards are expected to provide investors with more comparable information about potential transactions. What does it mean for you and your clients?

WISNIEWSKI: The new standards are a bold step. They take an evolving body of literature and replace it with one comprehensive standard that looks at revenue recognition as a set of steps to be applied to any agreement, regardless of industry. The new standard will have companies look at the internal controls they have in place to evaluate their agreements and make determinations on each step, then reevaluate the steps at appropriate intervals. This shift from one model to another that, while complex, could be applied generally once it's understood, will require an evaluation of each agreement a company enters into.

How has public accounting changed since you first started in the profession, and what do you expect in the next 10 years?

ADAMS: The accounting profession is a reflection of the business environment it serves. As companies adapt and change, accountants also must learn new skills and understand the evolving business landscape. This includes new business models, technology and competitive pressures. In the next decade, we are likely to see exponentially more technological advances, particularly in 'on-the-go' personal computing, and an increasingly global economy. Workforces will become more diverse and much more mobile, and we must adapt to keep our best and brightest. The U.S. regulatory standard setters will continue to experience pressure to move toward a unified international set of standards. These changes will likely be challenging to meet; but with such change lies great opportunity — especially for innovative companies who carefully build their talent pool and demand great things from their outside service providers.

What advice would you offer to new accountants entering the industry today?

WASTVEDT: The CPA is more about relationships today than in the past. When you are networking, you never know who or what future client you're going to meet. It's also about learning to be successful as a public practice CPA where you're expected to interact with the way clients think and understand. Look to develop basic skills in public practice, which can be imparted similar to a residency in the medical field. In our firm we examine ways to help CPA's develop the skills they'll need and put them on a path to long-term success.

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What are the keys to managing the filing review process and dealing with SEC comments? Do your clients understand the many variables and the range of possible involvement on the part of the SEC?

WISNIEWSKI: We provide our clients resources—including a recent publication, “Revenue Recognition: The FASB’s New Guidelines and Their Effect on Your Contracts with Customers,” and our upcoming November 18 webcast, “Managing Change: A Look at the FASB’s New Revenue Recognition Rules” — that focus on the continuing practice of being a public company. The key is remembering that access to the public market requires an additional level of transparency and internal capacity — whether you’re preparing to go public company or are already public. Many companies prepare to go public only to locate an alternate funding source; still, the preparation creates long-term benefits.

NATION: Don’t rush the process and give yourself adequate time to provide quality information up front. Be honest and transparent in your responses. Anticipate SEC comments as much as possible and have documentation of the support for the decisions made. Have this documentation prepared in advance (contemporaneously with the decisions) so that you don’t find yourself reacting to comments. To be sure you understand what the SEC is looking for and to ensure that you can satisfy them with your first response, have a conference call with the SEC and your auditor on accounting comments, in advance of sending your response.

ADAMS: Haskell & White was involved in a successful initial public offering (IPO) for one of our clients earlier this year. Understanding the filing, review and comfort process is a critical success factor in any such undertaking. As roughly half of our audit work is performed for public or pre-IPO companies, we work closely with our

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‘We are proud of our ability to identify gaps in our clients’ environments early, and to provide assistance and supplement our clients’ resources, all while carefully maintaining our independence.’

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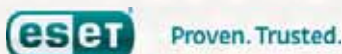
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'Clients want more information for planning, not just historical issues, but to look into the future.'

MICHAEL G. WASTVEDT

'Don't be in too big of a hurry; a professional career is a marathon not a sprint.'

PAUL NATION



clients to help keep them ahead of the regulatory curve. Many of our clients are managing resources carefully but still understand the need to do the right thing in an ever-changing landscape. We are proud of our ability to identify gaps in our clients' environments early, and to provide assistance and supplement our clients' resources, all while carefully maintaining our independence. Our firm's affiliation with the Leading Edge Alliance of professional service firms gives us the breadth and scope to serve growth companies in all stages — across the country and around the world.

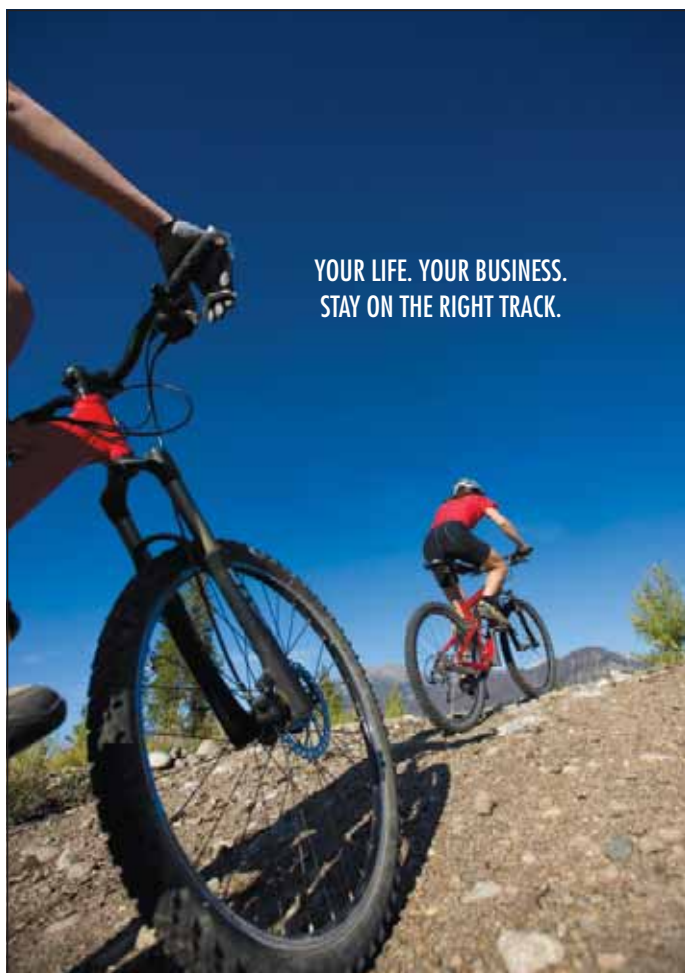
What do you think is the single biggest issue in the CPA profession today?

WASTVEDT: The challenge for firms today is finding qualified talent. There are tremendous increases in client services and a decrease in CPA's. Research shows compliance and historical work can comprise 45 percent of the practice, while in other firm's tax and business planning may be upwards of 65 percent of the workload. This illustrates that people want forward-looking CPA's. Clients want more information for planning, not just historical issues, but to look into the future. To attract applicants we try to communicate the rewards in advancement, compensation and lifestyle that a career as a CPA provides with our firm, particularly in a market like San Diego.

What are the benefits of using an accounting firm that is a specialist in the industry?

NATION: Everything will go smoother and faster. Your internal staff will spend much less time educating your auditor. An experienced accountant should also bring ideas that will help your business.

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ACCOUNTING ROUNDTABLE

What advice would you offer to new accountants entering the industry today?

NATION: It's a great career that provides opportunity and great flexibility for the rest of your life. Work to maintain a reasonable balance between your professional and personal life. Don't be in too big of a hurry; a professional career is a marathon not a sprint.

Most people think the business of accounting is all about numbers. What role does ethics play in the everyday lives of accountants and why are they important?

ADAMS: Public trust is the basis of our profession. Whether accountants are serving internally at companies, or auditing financial statements for public or private entities, shareholders and parties of interest rely on the information to make important decisions. Our profession reminds us that we are often collectively the last line of defense in the presentation of the 'corporate story.' As a result, I feel strongly that each of us has a responsibility not only to understand the impact of our actions as they relate to the big picture, say when preparing or auditing financial statements and on periodic earnings calls; but also in the small decisions we make every day. The accumulation of such decisions becomes the cornerstone of an accountant's personal brand.

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What's Driving the Boom in Life Sciences IPOs?

by Reety Sandhu, CCSA, Senior Manager, Moss Adams LLP

Globally, the number of initial public offerings (IPOs) has continued to soar over the last year—particularly among life sciences companies. As of September 30, nearly 100 life sciences companies had successfully completed IPOs, raising almost \$8 billion. Compare this number to the 66 life sciences IPOs completed in all of 2013. Life sciences IPOs have nearly tripled since just a few years ago, when the lingering recession made it difficult for life sciences companies to raise public funds.

And San Diego is no exception: Six of the IPOs completed this year were San Diego-based companies, compared with nine last year and an average of three annually in 2010, 2011, and 2012.

So what's allowing so many life sciences companies to put together IPOs?

Three Contributing Factors

While some aspects of the overall economy are still struggling, the stock market is generally doing well: Year over year the NASDAQ Composite Index is up 11.24 percent, and the NASDAQ Biotechnology Index is up 28.09 percent. Furthermore, life sciences companies that recently issued an IPO (particularly those

offering innovative therapies) significantly outperformed the overall market. As a result the public landscape is looking particularly inviting to life sciences start-ups.

Another factor has been the Jumpstart Our Business Startups Act, which was signed into law in April 2012 and significantly eased the IPO process. Since the law went into effect, emerging growth companies in the life sciences have benefited from reduced regulations and lighter public filing requirements, which have made it easier for them to go public and set accurate initial prices.

The FDA approval process for new drugs has also had an impact. So far this year the FDA has approved 32 new molecular entity applications (up from 27 in 2013). Review time for new molecular entities has decreased over the last two decades to an average of 10 months (compared to 19 months), and about half of new drug applications now qualify for fast track, priority review, or accelerated approval. While perhaps not causal, this increase in molecular entity applications is strongly correlated with the life sciences sector's market performance.

The recent success of the life sciences

industry as a whole and the performance of newly public companies are also key elements drawing start-ups into the public sphere. While it's uncertain whether this IPO flurry will translate directly into strong future sales, it is certain that new companies are in a much better place now to drive innovation than in years past.

Preparing an IPO

The strength of any company's public offering comes in large part from the strength of its internal controls, and compliance with Section 404 of the Sarbanes-Oxley Act of 2002 is critically important to companies planning to go public. Consult a qualified assurance professional to learn whether making an IPO is a viable option for your organization and for help preparing it.



Reety Sandhu, CCSA, Senior Manager, Moss Adams LLP, specializing in SOX compliance, internal audit and risk management. He can be reached at (858) 627-1437 or reety.sandhu@mossadams.com

Navigating the Multistate Tax Treatment of Intellectual or Intangible Property Transactions

by Alex Tran, CPA, Manager, Moss Adams LLP

Compared with how we transacted business just three to four decades ago, we now live in a world where businesses don't just sell this simple widget or that common service. In today's world—built upon things like social media and the virtual cloud that houses all our worldly possessions—businesses are constantly evolving to come up with new ways to generate revenue. Heck, perhaps one day we'll all be counting that revenue through nontangible cryptocurrencies like Bitcoin. And although he may be slow to adapt, the old and wise Uncle Sam that presides over each of our beloved 50 unified-yet-sovereign states always finds a way to make sure businesses are paying their "fair share," (even if he doesn't know why every person on the planet is placing those annoying pound signs before every other word).

Whether it's trying to determine the sourcing rules for state income tax purposes or the taxability of a transaction for sales tax purposes, every state is either getting there or has just recently found a way to get there. Think about the amount and variety of revenue generated today via social media, digital music, e-books,

our countless apps, virtual storage space, and the buying and selling of ad space on all of the above—not to mention the licensing of the rights to all their related IP. We're just now figuring out how best to account for these sources of revenue on our financial statements, and we're even further away from figuring out how to pay (or not have to pay) state-level taxes on it.

While many states are still working through their often antiquated tax regimes, don't kid yourself: Each and every year, more and more states roll out new tax rules and policies on how they're going to get their piece of the action. Consider, for example, the handful of states (including California) that have adopted a form of market-based sourcing for income tax, which attempts to source revenue based on the location of the elusive "benefit received." Although these law changes often appear innocuous, they can radically alter the way business revenue (derived from services, licensing agreements, patents, goodwill, and even the sale of stock) is sourced. Infuse these new rules with the older, antiquated tax rules and policies of states still trying

to catch up and you have yourself a recipe for potentially sourcing the same dollar of revenue to multiple states.

While the haziness continues to clear for the sales tax world, revenue generated from the aforementioned sources can be a painful stumbling block for the unwary. Just ask software-as-a-service sellers—or users—in Texas.

Navigating through these interesting times in multistate tax can be very challenging for businesses and tax practitioners alike. Examining in advance some of the challenges your state tax experts have already taken on can be a saving grace—and may perhaps save you complex tax disputes down the road.



Alex Tran, CPA, Manager, Moss Adams LLP, provides state and local tax services to a variety of clients across the firm. He can be reached at (858) 627-1452 or alex.tran@mossadams.com

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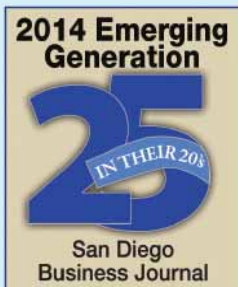


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