



US GAAP – Going, Going, Gone? IFRS-GAAP Roadmap Update

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SEALE & BEERS, CPAs

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About Seale & Beers, CPAs

- Founded 2009
- Registered Auditor - *PCAOB* in the US and Canada's *CPAB*
- Non-audit accounting, finance, tax and management advisory services; contract CFO and venture advisory
- International client base; staff have lived/worked in Russia, Serbia, Venezuela, Spain, Finland and United Kingdom
- Partners: former Nevada State Treasurer, Senator, Assembly
- UNLV College of Business faculty (Entrepreneurship and Finance), alumni and students
- CPAs in Nevada, California and Maryland
- Members, Nevada Society of CPAs and AICPA



Background and Roadmap

- Designed for private and public profit-oriented entities (both Full and SME IFRS versions)
- Convergence of GAAP and IFRS; already in use by many nations; further global adoption expected in 2010
- All firms listed on an EU-regulated market must use IFRS as consolidated statement presentation basis; additionally required in EEA nations and Australia and New Zealand
- SEC providing guidance for registrants via Work Plan



Background and Roadmap

- IFRS more principles-based standards (“objectives-oriented” per SEC)
 - Consists of standards and interpretations issued by IASB (HQ – City of London)
 - More judgmental latitude and disclosures involved



Background and Roadmap

- US GAAP more rules-based, acknowledged by SEC and FASB
 - Several types of authoritative pronouncements are cumbersome
 - Standard-setters moved to alleviate this problem; in July 2009 the Accounting Standards Codification (ASC) became effective for financial-statement reporting periods ending after 15 Sept 2009; ASC now single source of authoritative GAAP applicable to non-governmental entities



Practical Considerations



SEC Work Plan

- 24 Feb 2010 – SEC voted to issue statement supporting single set of high-quality globally accepted accounting standards; directed staff to execute “Work Plan” to address various IFRS-related projects; initial findings expected Oct 2010
- Work Plan elements and research will include emphasis on the following highlighted stakeholders:
 - Accounting profession; investment community; regulators; human resources; issuers and registrants
 - Also a focus on comprehensiveness, auditability and enforceability of IFRS; cross-jurisdictional comparability



Accounting Profession

- SEC staff will take into consideration:
 - Oversight, composition and funding of IFRS Foundation and IASB
 - Process for setting standards by IASB
 - Objectivity, independence and flexibility to resolve new accounting-related issues



Investment Community

- Investors are the most prominent stakeholder in this process as end users and readers of financial statements and information; as a result, convergence of IFRS to GAAP a benefit to US market participants via greater transparency
- SEC staff will take into consideration:
 - Existing and proposed available means to educate investors on accounting standard development, process of setting standards and understanding of convergence methodology



Regulation

- SEC staff will take into consideration:
 - Overall mission of the Commission
 - Industry/sector regulation (variations)
 - Tax policy
 - Legal restrictions on dividends and share repurchase arrangements
 - Audit regulation and setting of standards
 - Financial intermediaries, ie broker-dealers
 - Public vs private reporting



Regulation

- Much of these activities are underway re future IFRS usage in US
 - AICPA currently soliciting for IFRS question writers for 2011 Exam
 - Creation of Blue-Ribbon Panel to focus on private-company IFRS standards; AICPA, FAF and NASBA leading the effort; RMA's former Chair, Dev Striscek, SunTrust Banks SVP, recently appointed



Human Resource Preparedness

- SEC staff will take into consideration:
 - Training and education of various stakeholder groups
 - Auditor capabilities
 - Time, cost and concerns addressed adequately?



Issuers and Registrants

- SEC staff will take into consideration:
 - Controls, procedures and systems
 - Contracts and covenants; ratio analysis
 - Governance
 - Contingencies
 - Small vs large issuers (more later)
 - Breadth of impact and oversight; registrant's BoD and audit committee two of many key players



US GAAP vs IFRS Comparison Selected Financial Statement Items



Inventories

- US GAAP

- Lower of cost or market
- Reversal after writedown not allowed; new cost basis
- Writedowns - item-by-item basis or category
- LIFO, FIFO, Weighted Average
- “Market” = replacement cost limited by net realizable value (ceiling) and net realizable value – normal profit margin (floor)

- IFRS

- Lower of cost and net realizable value
- Reversal (ltd to amt original writedown amt) required for subsequent increase in value
- Writedowns - item-by-item basis
- FIFO, Wtg Avg yes ; LIFO no
- Asset retirement obligations via inventory production not permitted to be added to carrying amt of related PPE



Property Plant & Equipment

- US GAAP

- Useful life/residual value/depn method reviewed only when no longer deemed reasonable based on events
- Component accounting permitted but not required
- Recorded at cost; no revaluation allowed

- IFRS

- Residual values/useful lives must be reviewed each balance sheet date
- Cost or revaluation model permitted
- Only component accounting allowed
- Three depreciation methods permitted: straight line, diminishing balance, units of production



Revenue

- US GAAP

- Recognition guidance more extensive and includes specialized industry and SEC pronouncement guidance
- Different verbiage, although IFRS and GAAP recognition criteria are generally consistent

- IFRS

- General recognition principles apply to all entities; not industry-specific
- Requires criteria to be applied to each element in multiple-element transaction separately, no guidance re multiple-element identification (principal or agent)



Revenue

- US GAAP

- Delivery is significant factor in recognition
- Technology/software recognition different, more detailed from IFRS

- IFRS

- Delivery not as significant; more focused on when buyer gains control (bill-and-hold vs delivery)
- Limited guidance on sales of real estate



Revenue recognition issues

- Contract-based approach
 - Performance obligations: allocate price to each obligation as it occurs; incremental recognition of revenue
- Expected milestone dates re ED/Standard in mid-year 2010 and 2011, respectively



Development Stage Entities

- Not directly addressed in IFRS, although all relevant IFRS apply as well to companies that would be deemed in development stage under US GAAP
- Covered in GAAP (ASC 915-10-15); defined as devoting substantially all of its efforts to establish a new business and either its (1) operations have not started, or (2) operations underway but have not yet generated significant revenue
- Substance over form dictates much accounting judgment and disclosure, especially in terms of capitalization/expense decisions



Other Areas of MoU Convergence

- Fair value
- Leases
- Equity classification
- Liability measurement
- Presentation
- Amortization
- Consolidation
- Derecognition
- Financial instruments



IFRS for Small/Medium-Sized Entities (SMEs)



IFRS for SMEs

- Stand-alone document for SMEs; defined by IASB as those entities that do not have public accountability but publish general-purpose financial statements for external users, i.e. lending institutions
- Much simpler version than Full IFRS; 300 vs 3000 required disclosures
- Non-relevant topics omitted, i.e. EPS, interim financial and segment reporting



SMEs vs Full IFRS

- Financial Instrument Classification
 - SMEs – basic financial instruments measured at cost/amortized cost; all other instruments at fair value via profit/loss
 - Full IFRS – certain financial instruments must be classified as either held to maturity or available for sale (management intention dictates which)



SMEs vs Full IFRS

- Intangible Assets
 - SMEs – goodwill and other intangibles have finite lives; calculation of recoverable amount (impairment testing) is required only if certain indicators of impairment are present
 - Full IFRS – intangibles may have indefinite lives based on analysis of relevant factors; annual impairment test, similar to GAAP



SMEs vs Full IFRS

- Research and Development costs
 - SMEs – all R&D charged to profit/loss as incurred
 - Full IFRS – development costs incurred after project deemed commercially viable capitalized
- Borrowing Costs
 - SMEs – all borrowing costs charged to expense when incurred
 - Full IFRS – borrowing costs directly attributable to acquisition/construction of qualifying asset are capitalized



SMEs vs Full IFRS

- Investments in Associated Entities
 - SMEs – investments in associates/jointly controlled entities which have published price quotations are measured at fair value via profit/loss; for others cost method may be applied
 - Full IFRS – accounted for under equity method similar to GAAP; joint ventures may be either equity method or proportionate consolidation



SMEs vs Full IFRS

- Investment Property
 - SMEs – not based on entity's choice, rather based on circumstances...if fair value of property can be measured w/o undue cost or effort, fair value method must be applied; cost method in all other instances
 - Full IFRS – may at entity's option be accounted for at fair value via profit/loss or at cost, less accumulated depreciation and impairment losses



Where We Go From Here



Where do we go from here?

- Current projected timetable for adoption (tentative, dates were in place prior to Work Plan announcement; contingent/subject to change on Work Plan outcomes etc):
 - Large accelerated filers begin 2014
 - Accelerated filers 2015
 - Smaller companies 2016
- Upon adoption, all filers would have to provide three years of audited annual IFRS financial statements
 - Large accelerated filers: 2012, 2013, 2014
 - Accelerated filers: 2013, 2014, 2015
 - All other filers: 2014, 2015, 2016



Where do we go from here?

- Commission decision sometime in 2011; 30 June has been mentioned as a completion date for MoU convergence work; public comment will be available; early adoption could be allowed for US registrants
- Non-US registrants have been granted permission by the Commission to file financial statements prepared in conformity with IFRS, without a requirement to provide reconciliations of reported net income and shareholders' equity to corresponding amounts under US GAAP



Timing Concerns

- Stop the Runaway Train!
 - Professors Paul Miller (UC-Colo Sprgs) and Paul Bahnson (Boise State) in their monthly *Accounting Today* article express concern regarding timetable and speed of adoption
 - Concern re schedule of 13 EDs by 3Q10, 13 final statements and three discussion papers by YE2010, then six more final statements in 2011
 - Worried that focus will be on completion rather than thoughtful and appropriate solutions



Timing Concerns

- However, some corporate practitioners do not share the views of the academicians....
 - Some US large-cap multinationals are concerned that the process still does not have a date certain for adoption...cost issue involved with waiting out the process re system conversions, etc
 - Many of these multinational organizations are already using IFRS in providing financial statements to non-US local markets that have adopted IFRS; they feel at a somewhat competitive disadvantage to international competitors
 - AICPA appears to be sympathetic to this view



Sources and Further Research

- “IFRS Compared to US GAAP: An Overview” – www.kpmgifrg.com
- IFRS disclosure checklist – www.iasplus.com (Deloitte)
- International Accounting Standards Board – www.iasb.org
- “U.S GAAP and IFRS: A Comparative Analysis”, 2010 Edition, Allan B. Afterman. Thomson Reuters (2009).
- “Are You Ready for IFRS? Moving Beyond the Basics”, AICPA (2009).
- “IFRS Quarterly Update Series, 1st Quarter 2010”, AICPA (31 March 2010). Also from AICPA, www.ifrs.com
- “Countdown to Convergence”, Matthew G. Lamoreaux, *Journal of Accountancy*, March 2010, pp. 23-29.
- “To the SEC: Forget the timetable and stop the runaway train”, Paul B.W. Miller and Paul R Bahnson, *Accounting Today*, March 15-April 18, 2010, pp. 14-15.
- “The SEC’s IFRS Work Plan”, Alexandra DeFelice and Matthew G. Lamoreaux, *Journal of Accountancy*, April 2010, pp. 22-25.



Thank You

Merci

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Kiitos

спасибо

Hvala

Gracias

Danke

谢谢你

Obrigado

Grazie

Tack



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