



Fountainhead Forum

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**Dear Nina,**

I hope you are doing well. This volume features a variety of interesting and important topics, including an excellent article on International Financial Reporting Standards written by Sandra C. Ribble of Tatum Partners, LLC. Enjoy and have a great month!

IFRS - What is it and What are the Differences?

Article by:**Sandra C Ribble****Tatum, LLC Principal**

International Financial Reporting Standards (IFRS) refers to the new numbered series of pronouncements that the International Accounting Standards Board (IASB) is issuing, as distinct from the International Accounting Standards' (IAS) series issued by the International Accounting Standards Committee (IASC), the predecessor to the IASB. Many of the standards forming part of IFRS are known by the older name of IAS. The IAS were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS.

Throughout the world, regulatory agencies and investors have been working cooperatively towards international convergence of accounting standards for a long time. The Financial Accounting Standards Board (FASB) board members' and staff worked with the International Accounting Standards Committee (IASC) to cooperate

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"I have made tough decisions, always with an eye toward the bottom line. Perhaps it's time America was run like a business."

-Donald Trump



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in the development of core standards to establish a consistent worldwide standard for financial reporting, resulting in the U.S. Securities and Exchange Commission (SEC) publishing a proposed roadmap for large corporations to switch to international accounting standards by 2014. Under this proposed plan, more than 100 US companies may be able to start following IFRS with their 2009 financial statements.

By 2014 the SEC envisages that the bulk of US listed companies will report under the Standards. At present over 100 countries, including the entire EU, either allow or require corporations to report under IFRS with many more including Canada and Russia (2011) in transition. Many U.S. companies have not begun preparations for the possible transition from the current Generally Accepted Accounting Principles (U.S. GAAP) to International Financial Reporting Standards (IFRS).

IFRSs are considered a "principles based" set of standards in that they establish broad rules as well dictate specific treatments. US GAAP is a "rules based" set of standards.

- Principals not rules: a question of judgment
 - IFRS is based on amount of Control vs. % of ownership
 - IFRS requires that we exercise professional judgment
- Principals-based standards require a clear hierarchy of overarching concepts
 - IFRS is based on use of judgment vs. a "check-list" culture
- Principles-based standards provides flexibility in order to deal with new and different situations as they arise
 - Guidance anticipates the use of judgment whereas rules discourages judgment*

To date, over 100 countries have adopted the rules or say that they intend to adopt them. The International Accounting Standards Board (IASB) expects that this figure will increase to 150 countries by 2011.

The underlying assumptions used in IFRS are:

- Accrual basis - the effect of transactions and other events are recognized when they occur, not as cash is received or paid;
- Going concern - the financial statements are prepared on the basis that an entity will continue in operation for the foreseeable future.

The Framework describes the qualitative characteristics of financial statements as having:

- Understandability

- Relevance
- Reliability and
- Comparability

Making the shift to IFRS at times can feel like learning a foreign language. Many CPAs are approaching this transition by starting with what they know - U.S. GAAP - and attempting to identify the differences without reading the original pronouncements. Spend the time and energy to learn the new standards by reading the consolidated IFRS text issued annually by the IASB and publications such as: Interpretation and Application of International Accounting and Financial Reporting Standards, by Barry Epstein and Eva Jermakowicz, and/or subscribing to an electronic service such as the Deloitte Accounting Research Tool (DART). Looking beyond the surface and reading the pronouncements thoroughly is critical in acquiring the needed skills because subtle differences can have a significant impact.

Outside training is invaluable, and individual corporate accountants, individual small and midsize CPA firms must be willing to invest time and money in educating themselves and their staff if they hope to ensure their employability and capture IFRS work.

Much debate exists around adoption approaches to be taken by the regulators (i.e. an option to report under IFRS followed by a mandate or simply one mandatory date). One increasingly likely scenario includes having a short optional conversion period (from 2011-2013) with a mandatory adoption date (2013). In addition, the SEC may consider having staggered mandatory adoption dates with larger issuers being required to adopt first, followed by smaller issuers. This would be similar to the implementation of the SOX 404 requirements. Regardless of the method advocated, the overriding message is clear: IFRS awareness is building, especially among larger public companies - some of which are already taking steps to better understand the practicalities and benefits of an IFRS transition. For private companies, IFRS is also an important issue, although the specific approaches and questions around adoption may differ. At the June 2008 FASB forum, Judy O'Dell, President of the Private Companies Financial Reporting Committee (PCFRC), discussed several options for private company financial reporting ranging from staying with U.S. GAAP, to full IFRS, to some version of IFRS specific to private companies.

A frequent question raised in IFRS discussions is: What are the differences between IFRS and U.S. GAAP? For good reason: Understanding and addressing these differences is central to the company's financial reporting. In the next several issues, we will review some of these differences, including consolidation policy, share based payments, property and impairment, and revenue recognition, to name a few.

To give you a brief example of financial differences to consider is

consolidation of entities under IFRS.

A fundamental consideration in preparing consolidated IFRS financial statements is determining which entities to include in the IFRS consolidation. The consolidation model under IFRS is different from the U.S. GAAP model. Although the consolidation models under IFRS and U.S. GAAP are both premised on whether or not one entity controls another, the approaches are very different. IFRS has a single model that incorporates both the notion of governance and risks and rewards into the consolidation analysis. However, U.S. GAAP has two distinct models: a risk and rewards model under FIN 46(R) and a voting control model under ARB 51.

As a general rule in IAS 27, control is presumed to exist when an investor owns, directly or indirectly, more than 50 percent of the voting power of an entity. Control also exists when the parent owns half or less of the voting power of an entity when there is:

- Power over more than half of the voting rights by virtue of an agreement with other investors;
- Power to govern the financial and operating policies of the entity under a statute or an agreement;
- Power to appoint or remove the majority of the members of the board of directors or equivalent governing body where control of the entity is by that board or body; or
- Power to cast the majority of votes at meetings of the board of directors or equivalent governing body where control of the entity is by that board or body.

In determining whether control exists under IFRS, the above points look to the existence of power and not intent or actual exercise of that power. For example, currently exercisable or convertible potential voting rights held by an investor are considered in determining whether it controls an entity. Also, an investor's retention of risk and ability to obtain benefits in an entity should not be ignored in the IFRS consolidation analysis.

Since entities may experience changes in the affiliates that are consolidated under IFRS, as compared to the determinations reached under U.S. GAAP, it is important for companies to be aware of these differences.

Last year the SEC decided to allow foreign companies to report using IFRS without reconciling to U.S. GAAP. The AICPA's Auditing Standards Board (ASB) and the Accounting and Review Services Committee (ARSC) will now prepare clarifying language on how audit, review, and compilation reports can be modified when reporting on financial statements prepared in accordance with IFRS.

In addition, the AICPA launched a new website, IFRS.com. The

website was designed in partnership with CPA2Biz to help CPAs and financial professionals understand IFRS and navigate the differences between international standards and U.S. generally accepted accounting principles. IFRS is coming, whether we are ready or not!

It's Wildfire Season - Fire Prevention Tips

The hot and extremely dry weather is here and along with that is the fire season. Beth Hansen, Director at Fountainhead Staffing, is married to a "Division Chief" with one of the Phoenix Metro Fire Departments.



He reminds us that each year in Arizona, countless wildfires occur and leave people homeless. We need to better educate ourselves on the various causes, safety measures and awareness that will help us establish wildfire prevention in the future.

What causes wildfires?

Wildfires are a natural phenomenon of the environment - nature's way of eliminating dead vegetation. Although the weather plays an important part, 75% of wildfires are caused by people being careless. Most wildfires are caused by people burning debris, vehicle exhaust, sparks from trains and heavy equipment, camping, smoking, arson and lightning.

Additionally, weather and topography play a crucial role in how wildfires spread. For example, fires spread faster uphill because of heat radiation and convection. The steepness or slope of a hill also affects the speed of the spread: the greater the slope, the faster the spread. Vegetation can act as fuel during a fire.

Prevention:

1. Be informed and prepared.
2. Install smoke detectors or alarms, test them monthly and replace the batteries regularly.
3. Be sure to have functional fire extinguishers on every floor of your home, especially in the kitchen and garage.
4. Develop a fire escape plan and practice it with your family regularly. The escape route should have at least two ground-floor exits.
5. Clear any vegetation growing near your house, especially dry vegetation as it would intensify and speed up a fire's spread.
6. Questions / Confused: Contact your local fire department - they would much rather help you prevent a fire than have to rush over to extinguish one.

While nature causes many wildfires, humans cause the majority. Wildfire prevention is of the utmost importance if we wish to save our environment, our homes, and our lives.

(*Wildfire Prevention Tips*, John Manley, January 25, 2007, www.buzzle.com)

News Highlights

National

- Renowned macroeconomist and professor at Northwestern University, Robert Gordon, has declared the recession over. Gordon is one of the seven members of the federal committee that officially decide when recessions begin and end. Gordon claims that in every recession since 1974, jobless claims peaked just before the start of a recovery. Gordon says that according to his research, jobless claims peaked in mid-April. This fact and much other evidence points to the conclusion that the worst is over for this economy. (*Road to Recovery*, Smart Money, Donald Luskin, MSN Money, May 21, 2009)



- A Reuters/University of Michigan survey of consumer confidence showed that Americans are growing more confident about the economy. Consumer confidence rose in May to the highest level since September 2008. The same survey showed that the index of consumer expectations jumped to its highest point since October 2007.

- General Motors filed for bankruptcy on June 1, 2009. GM will close 1,100 dealerships in 2010 and will close 17 plants by the end of 2011. In addition to the 1,100 dealerships, GM will sell the Hummer, Saturn, and Saab brands. GM previously announced that the Pontiac brand would be phased out in 2010. To punctuate the dramatic fall of General Motors from the world's largest car company to bankruptcy filing, GM was informed that it would be removed from the Dow. Under the new structure, the U.S. and Canadian governments will own 72.5% of the newly restructured GM.

Chrysler also announced plans to eliminate 789 dealerships as a follow up to their bankruptcy filing in April. Italy's Fiat is making a move to acquire Chrysler. (MSN Money, June 1, 2009)

Local

- The Phoenix metro area's unemployment rate fell to 7.3% in April, down slightly from 7.4% in March. The numbers for Arizona as a whole were 7.7% in April versus 7.8% in March.

- Sales of existing homes in Maricopa County were up about 5.5% in April over March numbers and about 30% higher than April of last year. Foreclosure activity represented about 27% of sales, which was down sharply from 51% two months earlier.

Arizona was the third highest ranked state in year-over-year increases in home sales for the first quarter of 2009. Only two states, Nevada and California, are seeing a larger percentage increase. (Phoenix Business Journal online, May 21, 2009 and June 5, 2009)

Keep in touch,

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