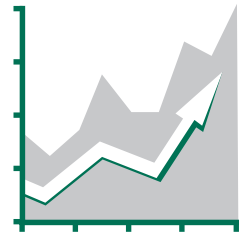


Financial Adviser



Getting Ready for International Accounting Standards

Every day we see the impact the global economy is having here in the United States. You already may be seeing this global influence on how your business reports financials.

For several years, the Securities and Exchange Commission (SEC) has discussed the convergence of the Generally Accepted Accounting Principles used in the US (US-GAAP) with the International Financial Reporting Standards (IFRS). The SEC has now published a timetable by which all public companies will be required to adopt IFRS between 2014 and 2016.

Private companies likely will see a similar transition sooner or later than the SEC timetable since lenders and investors will be looking for consistency of reporting across the globe, which is the main goal of transitioning to IFRS.

If you are not already being affected by IFRS you most likely will in the near future. So understanding these standards and their potential business implications on your company will be imperative.

There are fundamental differences between the US-GAAP and IFRS. Following are some important differences:

Principles Over Rules

The US-GAAP standards are based on defined rules. Once a rule is applied, the process to account for transactions is unambiguous and straightforward.

IFRS provides fewer rules. Instead, it relies on the accountants and auditors' judgment to reflect the transactions substance and relationship to economic realities and to treat it consistently with other transactions.

LIFO Not Recognized

'Last in, first out' (LIFO) inventory process permitted by US-GAAP is not recognized by IFRS. This will affect manufacturers and distributors that used this method for significant tax savings in times of inflation.

Revaluation to Fair Value

Companies cannot currently revalue their long-term fixed and tangible assets under US-GAAP rules. IFRS allows companies to elect either a cost model or a revaluation model and apply it to an entire class of assets. The revaluation model permits assets to be revalued to fair value on a regular basis.

Impairment Losses

An impairment loss is recognized under US-GAAP when an asset's carrying value exceeds its fair value. (Fair value is calculated as the sum of future undiscounted cash flows to be derived from the asset.)

IFRS recognizes an impairment loss if an asset's carrying value exceeds the higher of: 1) its value minus the costs of selling it; or 2) its value in use (the discounted present value of future cash flows).

US-GAAP prohibits reversal of an impairment loss, while IFRS allows reversal, except for goodwill losses, up to the new recoverable amount not to exceed the original carrying amount.

Classification of Leases

In determining if a lease is an operating or capital lease, US-GAAP provides bright-line tests. However, IFRS seeks the "essence of the transaction." This is determined by such factors as whether the lease term is a "major part" of the asset's economic life, and whether the present value of the minimum lease

payments represents "substantially all" of the asset's fair value.

Classification of Debt Subject to Loan Covenant Violations

US-GAAP permits such debt to be presented as a noncurrent liability if the lender provides a waiver prior to the issuance of financial statements.

IFRS permits the debt to be presented as a noncurrent liability only if the lender provides a waiver prior to the balance sheet date. Otherwise, it must be presented as a current liability.

The convergence to IFRS will require a list of new choices, procedures and technology. It is important to understand the implications of IFRS now and how it will influence your business in the coming years. For companies that do business abroad, you will most likely encounter the shift and transition to IFRS before the SEC timetable. ☆

For more information and questions regarding the IFRS, contact Shawn Emerson at McGill, Power, Bell & Associates, LLP at shawne@mpbcpa.com or 814/453-6594.

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