

Consumer Business Compass

October 2008

The Newsletter of the BDO Seidman
Retail and Consumer Product Practice

The Big Picture

What Does the Move to International Accounting Standards Mean to You?

By Dan Harris and Doug Hart

Most of the world's major global economies require, or have a future date certain to require public companies to report under International Financial Reporting Standards (IFRS). The U.S. is the one major economy continuing to use U.S. Generally Accepted Accounting Standards (US GAAP). In recognition of the increasing globalization of the economy, the SEC has proposed a roadmap which could lead to adoption of IFRS by U.S. public companies.

On August 27, 2008, the SEC issued for public comment a press release regarding a proposed roadmap that would potentially, require all public companies to transition to IFRS beginning in 2014, with some possible staggering of the effective date. The proposed roadmap would allow certain of the very largest companies, in industries dominated by IFRS, to transition as early as 2009. A final decision and related rulemaking will be made in 2011 once the commission has assessed whether the milestones set out in the proposal have been met. These milestones include the expanded use of IFRS in other countries and the continued convergence between US GAAP and IFRS.

As part of this convergence, the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB), the standard setters behind IFRS and US GAAP, respectively, have continued to work together. This relationship has seen new standards

continues on page 2



Dan Harris is an Assurance Senior Manager at BDO Stoy Hayward LLP in London, serving a secondment in BDO Seidman, LLP's San Francisco office. He can be reached at dharris@bdo.com.



Doug Hart is an Assurance Partner in the Retail and Consumer Product Practice at BDO Seidman, LLP in San Francisco. He can be reached at dhart@bdo.com.



BDO Seidman, LLP
Accountants and Consultants

The Big Picture

What Does the Move to International Accounting Standards Mean to You? (continued from page 1)

introduced into both sets of guidance such that they are now more alike than they are different. While the new standards are very similar, they are not identical. As a result, convergence is still a work in process, with plenty of future changes to come.

Until the convergence process is completed, differences will remain between IFRS and US GAAP, many of which are deep in the detail of the standards. Some of the 'devils in the detail' that we believe consumer businesses should be aware of are:

Inventory costing

One of the most talked about differences is the IFRS prohibition of the Last in First Out or 'LIFO' costing methodology. However, U.S. tax law requires companies that use LIFO for tax to use LIFO for books. If IFRS and tax laws were both to remain unchanged, LIFO companies would incur a large tax bill upon adoption of IFRS. Many people expect further developments in this area.

An inventory-related increase to earnings may arise as IFRS permits reversals of inventory write downs, which are not permitted under US GAAP, if the reasons for the initial write-down no longer exist. .

Asset valuation

IFRS generally involves greater use of fair value measurements than US GAAP. Included in fair value account-

ing is the option to record property and equipment at fair value; under US GAAP, such assets are recorded at cost. While this may well boost balance sheets, the requirement to re-measure the fair value at each reporting date can introduce additional volatility into earnings. As a result of this requirement, most companies already reporting under IFRS have declined this option and continue to record property and equipment at cost.

Asset impairments under IFRS may be more common. Under US GAAP, long-term assets are impaired if their book value exceeds the *undiscounted* cash flows. IFRS compares the book value to the *discounted* cash flows which will mean that impairment tests will be more difficult to pass under IFRS. Impairment charges (and potentially their reversals) may be making more regular appearances in companies' profit and loss accounts.

Lease classification

As is common under IFRS, the determination of whether a lease is operating or capital in nature focuses on the substance of the transaction; the 'bright-line' thresholds we are used to under US GAAP have been replaced by judgments and 'grey areas'. This change in approach could see leases that are currently treated as operating, being treated as capital or vice versa. Both earnings and balance sheets could be impacted by any change in classification.

Customer loyalty programs

Treatment of these programs in the U.S. varies depending on the nature of the loyalty program and the benefit provided. For certain types of loyalty programs US GAAP does not provide clear guidance. As a result, some U.S. companies accrue for these programs based on the cost of goods owed, while others accrue the sales price. In addition, some companies record these costs against sales, while others report them as cost of goods or even marketing costs. IFRS specifically considers these transactions as separate sales transactions requiring the allocation of the fair value of the consideration received and deferral of the sales price of the goods owed.

IT Systems

When IFRS was adopted in countries such as Australia and the UK, many companies found that IT systems had to be modified in order to capture and record data under IFRS. Given consumer-based companies' reliance on IT systems, IT will be a key component of any IFRS transition plan. Further consideration should be given to the need to run parallel IFRS and US GAAP systems during the transition.

Impact on Constituents

Companies must consider the impact of IFRS conversion on the users of their financial statements. Public companies will be required to let the market know of any significant changes to their earnings or financial

continues on page 3

The Big Picture

What Does the Move to International Accounting Standards Mean to You?

(continued from page 2)

position and may be required to present US GAAP information as well as IFRS information in the transition period. Further, agreements and contracts such as debt covenants or employee bonus arrangements may need to be modified to take into account IFRS differences. Finally, internal accounting personnel will need IFRS training in order to be able to prepare accurate financial statements with appropriate required disclosures.

Although the IFRS roadmap is still a work in process, companies should begin thinking about the implications of an IFRS conversion on their business. As IFRS and US GAAP will continue to converge, companies should monitor developments and focus on key differences that may not change in the near future. Finally, advance planning to identify logistical issues and identify resource needs will be critical.

BDO Seidman, LLP is the U.S. Member Firm of BDO International, the 5th largest accounting and consulting network in the world with more than 600 Member Firm offices in 110 countries. Please do not hesitate to contact us if you need assistance in your IFRS transition efforts.

BDO Seidman Retail & Consumer Product Practice

BDO Seidman, LLP has been a valued business advisor to retail and consumer product companies for almost 100 years. The firm works with a wide variety of retail clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on myriad accounting, tax and other financial issues.

For more information on BDO Seidman's service offerings to this industry vertical, please contact one of the regional service leaders below:

Al Ferrara, New York
aferrara@bdo.com / 212-885-8000

Steve Ferrara, Chicago
sferrara@bdo.com / 312-856-9100

Ted Vaughan, Dallas
tvaughan@bdo.com / 214-969-7007

Douglas Hart, San Francisco
dhart@bdo.com / 415-397-7900

About BDO Seidman, LLP

BDO Seidman, LLP is a national professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. Guided by core values including competence, honesty and integrity, professionalism, dedication, responsibility and accountability, for almost 100 years we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

BDO Seidman serves clients through 37 offices and more than 400 independent alliance firm locations nationwide. As a Member Firm of BDO International, BDO Seidman, LLP serves multi-national clients by leveraging a global network of resources comprised of 626 Member Firm offices in 110 countries. BDO International is a worldwide network of public accounting firms, called BDO Member Firms, serving international clients. Each BDO Member Firm is an independent legal entity in its own country.

Material discussed is meant to provide general information and should not be acted upon without first obtaining professional advice appropriately tailored to your individual circumstances.

To ensure compliance with Treasury Department regulations, we wish to inform you that any tax advice that may be contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax or (ii) promoting, marketing or recommending to another party any tax-related tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.



BDO Seidman, LLP
Accountants and Consultants

Copyright © 2008 BDO Seidman, LLP
All rights reserved. www.bdo.com