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Perspective from Marc Blythe

With the joint FASB/IASB boards reversing recent decisions, companies are understandably reluctant to invest in new processes until final rules are issued.

One overarching issue, however, remains clear:
The new converged U.S. GAAP and IFRS standards
will have a significant impact
on how all companies report financial results.

Wise companies will find the balance
between doing nothing and taking measured steps today
to minimize surprises.

In my [newsletters](#) to you, I've discussed the Security and Exchange Commission's (SEC) active support for a single set of global accounting standards with International Financial Reporting Standards (IFRS) taking prominence. I've also discussed the challenges these changes will present to all companies – both public and private – in the areas of lease accounting and revenue recognition.

On April 21, 2011, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) released a joint report on their efforts to converge U.S. generally accepted accounting principles (GAAP) and IFRS. From this report, it appeared the boards would dilute some changes – a direct response to considerable feedback concerning the scope of the anticipated changes and the subsequent burden on companies to comply.

At a May 19, 2011 meeting, however, the boards reversed some decisions in the above report – specifically in the area of lease accounting.

In this newsletter, I'll update you on both these recent pronouncements and offer my comments. Please keep in mind that because the boards have not completed their work, all decisions are tentative and subject to change – right up until final rules are issued. Thus, my comments – and advice – may change in future newsletters.

In my assessment, there are two overall takeaways from the April report and May meeting:

1. **Timing.** While the boards are pushing ahead with all projects, publication of final rules for many projects – including lease accounting and revenue recognition – has been delayed from the middle to late 2011/early 2012 to enable the boards to perform additional research on many open items. Although final implementation dates have not been issued, many

observers are projecting anywhere from late 2014 to 2015. Importantly, the boards have stated that they will consider staggering mandated implementation of the new standards so companies can incorporate them in an orderly fashion.

- 2. Scope of Changes.** Regarding a single revenue recognition standard, the boards are reviewing the considerable feedback they've received to assess whether they can proceed toward finalizing their previously issued Exposure Draft or if additional work is necessary.

Regarding lease accounting, at the May meeting, the boards affirmed continued support for the single finance model as it concerns profit and loss recognition patterns – a reversal of the tentative decision in the April report. On the subject of lessor accounting, the boards have not yet reached a decision.

As one of the organizations providing feedback to the boards, I've stressed the following to them:

- Of all the planned changes, those related to lease accounting will have the greatest impact. The move to record almost all leases on the balance sheet will affect all companies regardless of whether they are lessors or lessees and regardless of whether the leased item is a Boeing 777 contracted for 20 years or a desktop copier contracted for 20 months. All companies will see a sizeable increase in workload to ensure compliance. Lessor companies and companies whose capital inventory is heavily skewed toward leased items will be forced to revamp their entire approach to, and management of, leases.
- The changes to revenue recognition will also have a considerable impact on companies – requiring management to render more judgment decisions and to ensure even more disclosures and transparency. And while the new rules will offer the opportunity for some companies to recognize some revenue earlier, they will also hold the potential for improper revenue recognition and the toll it can take on a company's reputation.
- Companies continue to feel that the pace and number of changes are onerous and make it difficult to stay current and compliant – without the overlay of convergence. Implementation of the converged rules will exacerbate the problem by requiring companies to enact complex, new, automated processes and to upgrade skills.

With the above as backdrop, what's a company to do?

Understandably, many senior executives have taken a wait-and-see position. Blythe Global advises a more measured approach with the CFO taking the lead. CFOs need to invest their time – a precious commodity to be sure – to keep abreast of this moving target to avoid surprises as final standards become more fully formed. Some incremental, interim steps today can minimize costly changes when final rules are issued. Here are a few tips:

- Update the CEO, Board of Directors and the rest of the corporate management team regularly about all FASB/IASB tentative decisions so senior management has an on-going awareness of the potential impact of the final rules.
- Similarly, keep communications staff updated so when final rules are announced they can move quickly to tell employees, shareholders and other stakeholders how the changes will affect the company.
- Inform department and functional managers of tentative decisions so new investments can be made with the best possible consideration of future implications.
- Be sure any major decision – a merger, acquisition, sale or new contracts – takes into account how the final converged rules might influence issues such as future specific ratios, revenues, etc. and incorporate appropriate language into current documents that anticipates and accommodates future standards.

If you would like more information about anything covered in this newsletter or if you're looking for general accounting advice and counsel, please contact us.

At Blythe Global Advisors, we have the experience to help fill the gap in financial and accounting expertise. We'd be honored to help you.

**To discuss this important topic further,
contact marc@blytheglobal.com**

Here's a sample of the services we are currently providing to several clients.

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- Assisting understaffed public companies with SEC financial reporting compliance, including responding to SEC comment letters.
- Helping to "ready" IPO – bound companies by filling financial reporting gaps and implementing leading practices.

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About Marc Blythe



As president of Blythe Global Advisors, Marc Blythe brings more than 22 years' experience advising companies of all sizes across all industries on their accounting and financial reporting requirements. His areas of expertise include revenue recognition, equity compensation, mergers and acquisitions/purchase accounting, restructurings/impairments, consolidations, lease accounting, derivatives and debt. Prior to forming Blythe Global Advisors, Marc was an audit partner at Ernst & Young.