



April 2012

A&A Update

The Technical Standards Update of Crowe Horwath International

From The Standards Setters

IASB Plans Cooling-Down Period for New Standards

IASB chairman Hans Hoogervorst told attendees at a financial conference in Mid-March that the board plans to give accountants a period of relative stability to give them time to adjust to all the new standards. He noted that the IASB is approaching the completion of its convergence program with the FASB. "We have four remaining convergence projects to complete and I am hopeful that we can complete this work in relatively short order."

FASB and IASB disagree on how to expense leases

At the March meeting in London, the FASB and the IASB discussed different methods of amortizing the right-of-use asset in response to feedback received regarding the income statement effects. Basically, the issue is the front-loading of expense that results from treating all leases as de facto financing transactions regardless of whether or not the lease effectively results in the purchase of an asset.

The IASB supported a new approach that effectively recognizes that some leases should be expensed straight-line, more or less. The IASB approach takes the view that the lessee should amortize the right-of-use asset based on the estimated consumption of the underlying leased asset over the lease term. Consequently, the higher the consumption rate, the more the income statement effects would resemble those that would arise from purchasing the underlying asset and financing it separately. The lower the rate of consumption, the more the income statement effects would resemble the rental expense pattern under current operating lease accounting, i.e. straight-line.

The FASB, although split, is more of the view that the new IASB method is fine for leases that are not in substance purchases, but that the financing accounting is the best approach when the lease is a de facto purchase.

Taxes from Dividend Payments Will Be Recognized in Accordance with IAS 12, not IAS 32

As recommended by IFRIC in March, the IASB has eliminated conflicting guidance in two standards on the income tax consequences of dividends by removing the language about taxes in IAS 32, [*Financial Instruments: Presentation*,] that conflicts with IAS 12, [*Income Taxes*,].

Paragraph 52B of IAS 12 requires the recognition of the income tax consequences of dividends in the income statement, although it allows for a few exceptions. A section of IAS 32 required that the tax consequences of dividend payments be recognized in shareholder equity. The amendment will clarify that the tax effect of both dividends to shareholders and costs related to stock transactions should be accounted for in accordance with IAS 12.

IASB amends IFRS 1

In March, the IASB issued amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendments cover the issue of loans received from governments at a below market rate of interest. The amendments give first-time adopters of IFRS relief from full retrospective application of the international standards when accounting for these loans on transition. The amendments are mandatory for annual periods beginning on or after 1 January 2013, but earlier application is permitted.

New Compilation Engagement Standard Issued

In mid-March, the IAASB released a revised standard for compilation engagements, specially enhanced for the needs of small and mid-sized entities. International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, can be downloaded at no charge [here](#).

From the Regulators

Kudos from the PCAOB

Actually, the PCAOB does not issue kudos, but a PCAOB inspection report that does not identify any audit performance issues or, in other words, a clean bill of health from a PCAOB inspection, is an achievement. Three users of the Crowe Horwath International Audit Methodology and Process (CHAMP) recently received clean reports from the PCAOB on their inspections demonstrating their commitment to audit quality, and that CHAMP works.

Reminder for all PCAOB registered firms

The annual reporting period is about to end (31 March) with Form 2 due by 30 June. Please [click here](#) for additional information.

Headlines from around the world

U.S. Congress Passes JOBS Act for Small Business

On 27 March, the House voted to send the JOBS Act to the President's desk for his signature. The President is expected to sign the legislation. This will significantly change the landscape for raising capital in the U.S.

Here are some of the major provisions:

- Creates a new category of issuers called **emerging growth companies**, which retain that status for five years, or until they exceed US\$1 billion in annual gross revenue, or become large accelerated filers
- Removes an SEC regulatory ban preventing small businesses from using advertisements to solicit investors
- Removes SEC restrictions on "crowdfunding" thus allowing for the raising capital from a large pool of small investors who may or may not be considered "accredited" by the SEC. Companies would be able to pool up to US\$1 million from investors without registering with the SEC, or up to US\$2 million if the company provides the SEC with audited financial statements
- Increases the offering threshold for companies exempted from SEC registration from US\$5 million to US\$50 million

- Raises the shareholder registration requirement threshold from 500 to 1,000 shareholders
- The market capitalization level test for SOX 404(b), audits of internal controls, rises to US\$700 million from US\$75 million, but exempts **emerging growth companies** from SOX 404(b) for five years, or until they reach the US\$700 million market capitalization threshold
- Instead of three years of audited financial information, **emerging growth companies** could go public with only two.

The Jobs Act is actually made up of 6 separate bills. For more details please click [here](#). From this link you can navigate to each of the six bills.

U.S. Congress Moves to Block PCAOB on Auditor Rotation

The U.S. Congress has decided to join the fray over mandatory audit rotation with an amendment to Sarbanes-Oxley to block the Public Company Accounting Oversight Board from writing a new rule limiting auditor tenure. You can read more [here](#).

Netherlands to cast final vote on audit reforms

The Dutch Government plans to cast the final vote on a bill requiring mandatory rotation for audit firms and a restriction on non-audit services. The bill, which is in anticipation of the European Commissions (EC) planned reform on the audit market, has so far been passed by the Dutch Lower Parliament and will restrict the scope of auditors forcing them to rotate every eight years and banning them from providing non-audit services to the companies it audits. Auditors will be allowed to work on the audit engagement only after a two year cooling-off period while non-audit services may still be provided as part of contractual obligations up until two years after the bill becomes effective.

These amendments will be discussed and voted by the first chamber later this year, but if approved are expected to become effective from January 2014.

Fraud alert - Seeds of Accounting Trouble Sown at Diamond Foods Years Ago – The message? Don't overlook what your gut instincts tell you

The accounting scandal at snack maker Diamond Foods in recent months may have shocked shareholders and some California walnut farmers, but as you will read in this article, simple analytical procedures performed by one interested person caused a concern that the company did not pass the "smell" test.

[Read More...](#)

Useful Links

- Crowe Horwath International ShareFile site www.crowehorwathinternational.sharefile.com
- International Accounting Standards Board (IASB) www.iasb.org
- IASB Exposure Drafts open for comment www.iasb.org/Open+to+Comment/International+Accounting+Standards+Board++Open+to+Comment.htm
- International Auditing and Assurance Standards Board (IAASB) www.ifac.org/iaasb
- International Federation of Accountants (IFAC) www.ifac.org

- IFRS Interpretations Committee (IFRIC) www.iasb.org/Updates/IFRIC+Updates/IFRIC+Updates.htm
 - Financial Accounting Standards Board (FASB) www.fasb.org
 - Public Company Accounting Oversight Board (PCAOB) www.pcaob.org
 - American Institute of CPAs Auditing Standards Board (AICPA ASB) www.aicpa.org/InterestAreas/AccountingAndAuditing/Pages/AccountingandAuditing.aspx
 - United States Securities and Exchange Commission (SEC) www.sec.gov
 - European Commission (EC) ec.europa.eu/internal_market/index_en.htm
 - Forum of Firms (FoF) www.ifac.org/Forum_of_Firms
 - Transnational Auditors Committee (TAC) www.ifac.org/TransnationalAuditors
 - TAC Guidance Statement No. 1, Definition of Transnational Audit - web.ifac.org/download/TAC_Guidance_Statement_1.pdf
 - UK Financial Reporting Council www.frc.org.uk
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Editor-in-Chief: Howard Sibelman
Editors: David Chitty, Beth Share