UNIFORM ACCOUNTING STANDARDS

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Accounting standard-setters around the world have been working on convergence — or uniform accounting standards among countries — for decades. Progress has been slow, but it has picked up speed in recent years. And, as convergence moves closer to reality, the end of Generally Accepted Accounting Principles (GAAP) may be drawing nearer.

Gaining ground

More than 100 countries already have adopted country-neutral International Financial Reporting Standards (IFRS); another 50 — including Canada, China, Japan and India — are expected to do so by 2012. The United States recognizes both GAAP and IFRS, but the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) also continue to work diligently and cooperatively on convergence of the two.

Why the push toward global standards? When companies, including manufacturers, prepare financial reports using different standards, it’s more burdensome for investors and creditors. Convergence would allow them to compare financial statements without adjusting for national accounting differences.

In addition, universal high-quality accounting standards can make the world’s capital markets more efficient. That may lower the cost of capital for businesses and encourage global economic growth, which, in turn, may create jobs and lower the cost of goods and services.

Antichoice movement

How soon the change will come remains up in the air. Late last year a Securities and Exchange Commission (SEC) proposal to allow foreign firms using IFRS to stop reconciling their accounts to U.S. GAAP rules met with resistance at home and abroad.

The European Federation of Accountants and the U.S.-based FASB both asked the SEC not to implement what FASB termed an “extended period of choice” that would add complexity to the overall reporting system. Instead, the organizations urged the SEC to move more purposefully toward completing the U.S. transition to IFRS.
Key differences

That transition has been under way for some time, but differences remain. The differences pertain to:

**Balance sheets.** IFRS doesn’t require a specific format. Typically, assets and liabilities are presented in a current/noncurrent format, unless a liquidity presentation is more relevant and reliable. Companies that use U.S. GAAP rules may present either classified or nonclassified balance sheets.

**Income statements.** No particular format is prescribed with IFRS, but expenditures are presented in either function or nature format. With U.S. GAAP, income statements are presented in either single- or multiple-step formats, with expenditures by function.

**Historical cost or valuation.** U.S. GAAP allows revaluations for only certain types of financial instruments. IFRS uses historical costs, but intangible assets, property, plant and equipment, and investment property may be revalued to fair value.

**Revenue recognition.** IFRS requires recognition when risks, rewards and control have been transferred and revenue can be reliably measured. U.S. GAAP includes extensive guidance for specific types of transactions, though the rules are similar in principle to IFRS.

**Inventories.** IFRS prohibits last in, first out (LIFO). Inventory is carried at the lower of the cost (determined by first in, first out or weighted average) and net realizable value. U.S. GAAP is similar, but allows LIFO.

These are just some of the differences between IFRS and U.S. GAAP. The similarities between the two continue to grow, however, and you should consult your financial advisor as to when you should change to IFRS.

More than 100 countries already have adopted country-neutral International Financial Reporting Standards.

When you do, you’ll be required to apply all effective IFRS standards retrospectively, with some limited exemptions and exceptions. You’ll also have to reconcile profit or loss under the last period you reported under U.S. GAAP, equity at the end of that period, and equity at the start of the earliest period presented in comparatives.

Changing proactively

The first financial statement under IFRS will require a lot of work to complete, but it seems change is inevitable. You may want to change soon — proactively — rather than wait until you absolutely must.

Information in a box

Data warehousing can help you make better business decisions

If your company is like most manufacturing firms, you probably rely on several databases to keep your operation running smoothly. This generally works fine, but what if copies of all your databases were maintained in a single “box,” available for immediate access from any location? Think of how much easier it would be to get the information you need to make important decisions.

Data warehousing gives you just that capability. With it, you (or a designated data analyst) can plumb your corporate records for even the minutest data from any of your databases.
Information, please!

Data warehouses can provide information to identify or improve a host of manufacturing considerations, including:

- Supply chain management,
- Sales forecasting,
- Detection and management of product defects,
- Worker productivity,
- Emerging business trends,
- Unprofitable product lines,
- Market demand, and
- Standard vs. actual product cost variances.

Data warehouses are subject-oriented, so that all the elements related to a certain event or topic are linked. In addition, they’re “nonvolatile,” meaning data is never overwritten or deleted. And they’re integrated, so they contain consistently formatted data from all your operations. Data warehouses are also time-related, with data changes recorded to allow tracking over time.

Handling the data

Before developing a data warehouse, you must identify what you want to measure, what data is required to measure it, where that data is currently stored and who will use the data warehouse to generate reports. The better you understand these business questions, and how to extract the answers, the more valuable the data warehouse will be.

Consider, too, how your data warehouse will extract data from the diverse software applications your various departments use. Somehow, the data warehouse will need to gather and integrate data from legacy systems that may have developed some unique quirks as they’ve been modified over the years.

Even if your legacy systems are compatible with your data warehouse, you need to make sure the data stored in each is decipherable to the data warehouse. If, for example, your sales department system records dates as Nov. 14, 2007, while the logistics format is 11/14/07, the difference must be resolved before the data warehouse imports this information.

This requires you to conduct a “data cleansing” using extract, transform and load (ETL) tools. ETL tools will extract information from databases and transform it to a uniform format before loading it into the data warehouse. In some cases, a database administrator can write scripts to perform these functions, but vendor-supplied ETL tools are easier to use for ongoing data cleansing.

Don’t get trashed

Before making the decision to buy a data warehouse program, you must spend a great deal of time planning. When it comes to data warehousing, the expression “garbage in, garbage out,” can’t be overemphasized. Taking care on the front end can help you avoid buyer’s remorse down the line.

The price of data storage

Data warehousing can significantly speed decision making and improve business performance. It can also become expensive.

Because data warehouses vary widely according to the extent of the data they encompass and the size of the company using them, they’re often priced by usable terabyte (TB). A terabyte is 1 trillion bytes, or 1,000 gigabytes. For some perspective, consider that the U.S. Library of Congress has more than 70 terabytes of data.

Pricing varies, too, but you can expect to pay at least $15,000 per terabyte for your data warehouse. Thus, a 10TB configuration may cost $150,000 or more.

One way to offset some of that cost is with open source data warehousing. Open source software costs nothing, because developers create it specifically to share openly with others, but you’ll need someone to build the data warehouse itself — a process that can take months. If you don’t have the specialized talent required on staff, you’ll have to hire it, and that can cost as much as $100,000.
The laws surrounding corporate estimated taxes have changed a number of times in the last 20 years, but the IRS has been slow to amend its rules to reflect those changes. As of August 2007, however, the IRS is up to date — and that means you need to be as well.

Final regulations issued last August, which apply to tax years beginning after Sept. 6, 2007, include many changes. Even though you still must make quarterly payments of at least 25% of your required annual payment, you may now determine that payment in one of three ways.

1. Payments based on previous year

This method is perhaps the easiest way to calculate your estimated tax payments, because you base them on the amount you paid last year. You need not recalculate last year’s tax using this year’s tax rate — even if the tax rates are different.

If you filed an amended return, though, you must take that into account when you’re calculating your required annual estimated payment. Keep in mind that the amended tax affects only the estimated payments you make after you filed the amended return.

2. Annualized income installment

The IRS regulations mean more changes for manufacturers who annualize income for estimated tax purposes. For one thing, you can’t determine taxable income for an annualization period as though it were a short taxable year. There are specific rules on how to account for income and deduction items during an annualization period.

Net operating loss deductions are considered extraordinary for purposes of annualization. They’re treated as occurring on the first day of the taxable year and are taken into account after annualization.

In determining an estimated annual depreciation expense, you may take into account any purchases, sales, changes in use or similar events that you expect to occur during the taxable year — as long as your expectations are reasonable based on information available on the last day of the annualization period.

Similarly, you can make a reasonable estimate of your manufacturers’ deduction to determine how much to consider when you’re calculating your annualized taxable income.

3. Adjusted seasonal installment

Manufacturers who realize 70% of their income during the same six-month period each year may use the adjusted seasonal installment method to determine their estimated taxes. The IRS final regulations make it clear, however, that, if you use this method, you must take into account the amount of alternative minimum tax that would apply for the computation period.

Abide by the rules

These and all the other rules in the final regulations have been years in the making, but you don’t have years to comply with them. If you haven’t already begun to review your current method of calculating estimated tax payments to see how it measures up to the new rules, you should do so as soon as possible.
On the move
What to consider before relocating

Mike’s manufacturing company has been recording solid profits for the past several years. Orders are “through the roof,” and Mike has determined his business needs additional capacity. Problem is, there’s no room for expansion at his current facility. Mike thinks it may be time to relocate.

Whether you’re in Mike’s situation or you have another reason for relocating, there are operational, financial and logistical implications to consider.

Think first

Engage your management team in a brainstorming session to answer these significant questions:

▼ Why are you considering a relocation? Do you wish to be in close proximity to certain workers, customers, suppliers, natural resources, or infrastructure, such as transportation, utilities and technology? Do you simply need more space?

▼ What changes do you want to make as a result of a move? Do you want to lower operating costs? Establish a presence in a new market? Acquire updated equipment or facilities?

▼ What aspects of your operations do you want to keep?

Carefully assess your decisions. For example, moving to a city that has a larger pool of qualified workers may seem like a great idea. But if the labor costs in that city or state are higher, you could simply be trading one problem for another.

Create a master list of the major issues that are important to the relocation or expansion to help focus your priorities.

Hit the road

Selecting a new location can require months of analysis. Ask yourself: What geographic areas are best suited to our business? Is it more cost effective to buy and renovate an existing building or is new construction the best approach? You may also want to consider leasing property rather than buying it.

Create a list of must-haves and deal killers for the project before launching a site search. Some considerations include:

▼ Usable acreage (including office and plant space, outdoor storage, parking space, and truck docking space),

▼ Zoning,

▼ Utility service,

▼ Access to interstates, roads and highways,

▼ Proximity to rail and port,

▼ Access to air freight service, and

▼ Ability or inability to relocate in a nonattainment area.
Manufacturer, know thy competition

The manufacturing industry is growing and becoming more competitive all the time. If you want to stay in the game, you need to know your enemy: the competition. Competitive analysis can give you a leg up in the manufacturing industry, but you need to know how to do it effectively.

Begin by defining your competition. Think broadly: Include any company or industry that could pull customers away from you — even if it isn’t in direct competition. Paper goods manufacturers could, for example, negatively influence linens or pottery, while pay-per-view cable television could have an effect on DVD manufacturers’ sales.

Similarly, be attuned to the potential for new competition. What would you do if a national chain or regional competitor moved into your market?

Before you begin gathering information on your competitors, understand what you will do with it. Collecting data does little good if you can’t use it in making strategic or tactical decisions.

If you’re considering developing a new product, information on competing firms’ plans in that area will be valuable. And if you’re interested in how the industry will grow during the next 10 years, you won’t need the same information you’d need to assess a potential merger or acquisition.

Once you’ve narrowed down the type of information you’re seeking, begin to collect it. Dun & Bradstreet has a database of more than 30 million companies around the world, and Hoover’s has considerable information on public companies. A subscription may be required to access some information.

Your sales force also is an excellent source of information. They hear what the competition is doing from customers. And your research and development department may be the first to hear of new patents.

Watch what your competition is doing in the market, too. If a company lowers its prices, this may indicate it’s trying to expand its market share. A cost-cutting campaign may be an attempt to increase profits.
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