

Going international

How IFRS will affect your company **Interviewed by Matt McClellan**

Ready or not, the requirement for U.S. companies to comply with new international accounting standards is rapidly approaching. Over the last several years there has been a huge push in the accounting world to implement the use of International Financial Reporting Standards. There has been a recent push for companies located in the United States and other nations to present financial statements on the same basis so that making comparisons will be easier.

“Just as other broad-based international policies have been reactive to the rapidly growing global economy, the accounting industry has to change its reporting policies,” says Larry Kane, CPA and director of Assurance Services for Glenn M. Gelman & Associates, Certified Public Accountants and Business Consultants. “The financial world wants standards that will provide for consistency in reporting no matter where a particular company is domiciled. As a consequence, the U.S. Financial Accounting Standards Board has a wide range of joint projects currently in process with the International Accounting Standards Board to assist in creating the desired consistency.”

Smart Business spoke with Kane to discuss whether the switch from U.S. generally accepted accounting principles to IFRS is inevitable for U.S. companies.

What are IFRS and how are they different than U.S. GAAP?

IFRS are accounting standards developed by the IASB. The IASB is an independent accounting standards setting body consisting of various member countries including the United States. IFRS are becoming the global standards for preparation of publicly held company financial statements.

IFRS use a principles-based approach versus the rules-based approach used under U.S. GAAP. Probably the biggest difference between U.S. GAAP and IFRS is that IFRS provides less overall detail and less industry-specific guidance. It is for this reason that many believe that the adoption of IFRS could lessen the quality of current financial reporting. In response, the FSAB is working diligently on the convergence of U.S. GAAP and IFRS.

How are U.S. governing boards adapting to the proposed standards?

As I stated earlier, the FASB is working with the IASB to create a convergence of



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both sets of standards so that when and if use of IFRS is mandated, the major accounting differences will have been resolved. In November of last year, the FASB and IASB reaffirmed their commitment to achieve convergence by June of 2011. In recent meetings they have stated that some of the projects will be completed by the target date, but others may be delayed until the second quarter of 2011.

Current joint projects being addressed by the FASB and IASB include projects relating to leases, revenue recognition, financial statement presentation, fair value measurements, liabilities and equity, the statement of comprehensive income and financial instruments.

The SEC is also very interested in seeing through the implementation of IFRS. However, they have made it known that they most likely will not require U.S. public companies to use IFRS any time before the year 2015. They currently have no plans to pursue an early adoption date.

Will the standards also be applicable for privately held companies?

The short answer is no. However, IFRS has created reporting standards for small and medium-sized entities ‘SMEs.’ The term SME is somewhat misleading. It does not refer to

size, but rather to entities that are not publicly held. This is something that accountants and U.S. private companies have always wanted the FASB to do. The standards are contained in a 230-page document.

The standards actually simplify accounting requirements by omitting some topics required by IFRS and by prohibiting some items that are optional under IFRS. They also provide simplified recognition and measurement principles for a number of items including financial instruments, intangibles, joint ventures, share-based compensation and income taxes. The IFRS for SMEs will also require substantially fewer disclosures.

In general, private U.S. companies are allowed to use IFRS for SMEs as a basis of accounting. It is not deemed an ‘other comprehensive basis of accounting.’ However, before adopting, a company considering IFRS should determine if the user of the financial statement is willing to accept them as an alternative to U.S. GAAP.

In light of recognizing that IFRS has addressed separate accounting standards for private companies, it is important to note that the AICPA has also recently addressed this issue. A new ‘blue-ribbon panel’ has been formed to study whether there is a need for separate standalone accounting standards for private companies. The panel will address standards for private companies adopted in other countries as well as the issuance of IFRS for SMEs.

What other considerations are there regarding implementation?

As it is with any change, costs and training are always a concern. CPAs in both public and private accounting will have to become knowledgeable in implementing the new rules. There are numerous sources that are already providing training materials and publications. IFRS is already being covered in accounting textbooks.

There will also be significant costs associated with converting to IFRS. They will vary of course depending on the size and nature of the company converting. Studies have shown that costs for the first year of implementation could be between 0.125 percent and 0.13 percent of revenue.

For more information on IFRS, you can visit www.IFRS.org or www.ifrs.com. <<

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