

IFRS & International Accounting

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International Tales...Faith, Passion & Risk

- Life in West Africa...compliance audits, financial facilitation, AK-47s, interrogations, heat, roaches, blood, missed flights (missing planes, tires, etc.), coups d'états...
- Earthquakes & Tsunamis
- Excel... "cut & paste"
- Burger King & Chick-fil-A

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Key Issues in International Accounting

- International Financial Reporting Standards (IFRS)
- Global mobility
- CPA credential
- Cultural differences

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Key Issues in International Accounting

- Cultural influence on accounting and financial statement judgments (Hofstede theory of culture, 1990)
 - Individualism vs. Collectivism
 - Power distance (large vs. small)
 - Uncertainty avoidance (strong vs. weak)
 - Masculinity vs. femininity (achievement, heroism, assertiveness, & success vs. relationships, modesty, & quality of life)
- Dimensions of Accounting Values (Gray, 1988)
 - Professionalism vs. statutory control (judgment vs. legal requirements)
 - Uniformity vs. flexibility (consistency vs. individualism [uniqueness])
 - Conservatism vs. optimism (caution vs. risk taking)
 - Secrecy vs. transparency (confidentiality vs. openness)

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[How & When did it Start?]

- International standard-setting began several decades ago in an effort by industrialized nations to create standards that could be used by developing nations unable to establish their own accounting standards.
- IASC formed in 1973 – Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom, Ireland, and United States
- April 1, 2001 – IASB was formed.

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[How & When did it Start?]

- As the business world has become more global, regulators, investors, large companies & auditing firms began to realize the importance of having common standards in all areas of the financial reporting chain
- Good thought...the “Devil is in the Details!”

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Principles- vs. Rules-Based

- **Sir David Tweedie (IASB Chairman)** sees adopting IFRS as a choice between the benefits of greater professional judgment that come with principle-based accounting and the over-reliance on complex guidance associated with GAAP.
- **“I don’t think you have to use a search engine to do accounting. The profession is about making a call, not about looking up page 17,493 to see what the answer is.”**

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Impact on financial statements

- In Europe in 2005, studies have shown the “heft” of the annual reports increased by more than 50 percent due to additional disclosures.

(Coleen Cunningham – AICPA Global Managing Director – 2010)

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Is more disclosure a bad thing?

I have five teenaged children. If I told them they needed to be in by 11:00 p.m. on Friday – that would be a rule. If I told them to be home at a “reasonable hour” – that would be a principle.

All five would interpret the “principle” a little differently, but would provide me with robust disclosure about why the time he/she came home was “reasonable” for him/her.

I could make the determination about whether the argument made sense. And, if they were pushing the envelope, I might make decisions about whether I should trust other judgments they have made.

(Coleen Cunningham – AICPA Global Managing Director – 2010) 9

Going Global....

- More than 25,000 (of 50,356) companies in approximately 119 jurisdictions (83%) have adopted (require or allow use of for all/most companies) IFRS (90 countries have fully conformed)
- 80% of companies not using IFRS are in China, India, Japan, United States
- 93% (133/143 jurisdictions) have made public commitment to IFRS as the single set of global accounting standards.
- In 2005, EU began requiring companies listed on an EU-regulated stock exchange to prepare financial statements. in accordance with IFRS.

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Going Global...

- Australia, New Zealand & Israel have adopted IFRS as their national standards
- Canada began requiring IFRS for publicly accountable entities in 2011 (had planned convergence with U.S. GAAP)
- ASBJ and IASB planned convergence in 2012 (adoption planned for 2016...now, uncertain)
- Mexico adopted IFRS for all listed entities in 2012
- U.S. SEC considering adoption of IFRS for U.S. public companies...when???

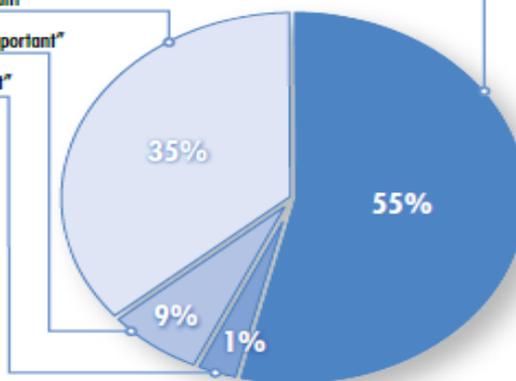
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IFAC 2007 Survey Results:

With respect to the importance of convergence to International Financial Reporting Standards for economic growth in their countries:

- 55 percent of respondents said IFRS adoption was "very important" to economic growth
- 35 percent said "important"
- 9 percent "somewhat important"
- 1 percent "not important"

143 leaders from 91 countries responded – 90% reported a single set of International standards was "very important" or "important"



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Source: AICPA; also at <http://www.ifac.org/globalsurvey>

SEC Leadership in International Effort

SEC Timeline:

- 1988 – begins encouraging international efforts to develop a core set of accounting standards
- 1997 – notes difficulties, increased compliance costs & inefficiencies for issuers raising capital in multiple countries
- 2002 – supports Norwalk Agreement between FASB and IASB
- 2006 – affirms commitment to “roadmap”

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SEC Leadership in International Effort

- 2007 (Nov.) – unanimously votes to accept from foreign private issuers financial statements prepared in accordance with IFRS without reconciliation to GAAP
- 2007 (Dec.) – issues Concept Release seeking input on allowing U.S. public companies to use IFRS when preparing financial statements.
- 2008 – issues proposed roadmap with timeline & milestones for moving to IFRS & allowing early adoption for some U.S. public companies – target 2014
- 2010 (Feb) – outlines workplan – pushes dates out to 2015-2016

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SEC Leadership in International Effort

- 2011 (May) – plan to issue method of incorporation and proposed timeline in coming weeks
- 2011 (Nov) – staff paper issued providing summary of similarities and differences between IFRS and FASB standards. It also provides status update of convergence.
- 2011 (Dec) – FASB & IASB Chairs agree new convergence model needed
- 2012 (Feb) – SEC Chair resists move to IFRS unless it is good for U.S. Business

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SEC Leadership in International Effort

- 2012 (July) – issues final work plan (change to IFRS “...would be significant if not nearly impossible, at least in any near-term time horizon”
- 2012 (Dec.) – IASB Chair – global accounting standards moving ahead despite absence of SEC’s expressed commitment
- 2013 (Jan.) – IASB – moving forward
- 2014 (May) – SEC – IFRS convergence “languishing”; has hit a “rocky road”...we must consider U.S. investors’ first; move to IFRS will involve a “steep learning curve”.
- Limited communication since...???

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AICPA's Role:

- 2008 – voted to update Rules 202 & 203 of the Code of Professional Conduct to recognize IASB so private companies and not-for-profits have option whether to follow IFRS
- Continuing to educate AICPA members about IFRS
- Working with accounting educators, textbook authors & educational institutions to prepare future professionals to use IFRS.
- Making certain the voice of U.S. CPAs is heard internationally.
- Incorporating questions about IFRS into the Uniform CPA Examination in 2012

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Pro's ...

- Easier to compare financial results of reporting entities from different countries
- Better opportunities for investors
- Large public companies can use one set of standards to prepare financial statements company-wide & present financial statements in the same “language” as their competitors.
- Financial professionals (including CPAs) will become more mobile because of common knowledge

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[Con's ...]

- Many believe U.S. GAAP is the “gold standard” & something (quality) will be lost with full acceptance of IFRS
- Significant costs to implement???
- U.S. companies without significant non-US operations may resist because of no market incentive

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[Con's ...]

- Many countries claim convergence will not be 100% within each country because most reserve the right to carve out selectively or modify standards they do not consider in their national interest, an action which could lead to incomparability – the very issue IFRS seeks to address
- IFRS flexibility allows manipulations of revenue or profits...which can be misleading to investors

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[IFRS – “lesser standards”?]

- SEC did a study on both sets of standards under the economic crisis – IFRS held up better as it basically forced more special-purpose entities to be included on the balance sheet (not off-balance sheet) – hence, more transparent.

(Coleen Cunningham – AICPA Global Managing Director – 2010)

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[Still Differences between GAAP & IFRS]

- IFRS does not permit LIFO inventory method
- IFRS requires reversal of inventory write-down if value increases.
- IFRS permits reversal of asset impairment write-downs making write-downs more likely
- IFRS uses a single-step method for impairment write-downs (rather than the two-step method used in U.S. GAAP) making write-downs more likely

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Still Differences between GAAP & IFRS

- IFRS allows revaluation of PP&E to Fair Value
- IFRS requires components of an asset with different patterns of benefits to be depreciated differently
- IFRS has a different probability threshold & measurement objective for contingencies
- IFRS does not permit curing debt covenant violations after year-end
- IFRS revenue recognition guidance is less extensive than GAAP & has little industry-specific instruction

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Still Differences between GAAP & IFRS

- IFRS - deferred tax asset always non-current (GAAP – based upon related asset or liability)
- IFRS has a different probability threshold & measurement objective for contingencies
- IFRS revenue recognition guidance is less extensive than GAAP & has little industry-specific instruction
- IFRS allows more than one presentation currency for financial statements.

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It's Not Just an Accounting Issue...



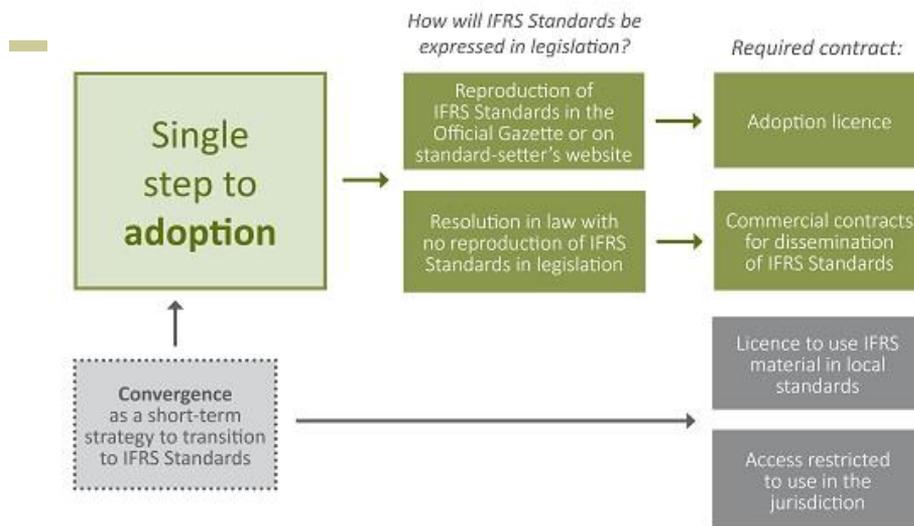
Source – Ernst & Young

How to Adopt IFRS

- When a country adopts IFRS Standards, it is often necessary to publish the Standards in the official gazette, and allow them to be freely accessed and distributed. The [IFRS Foundation](#) recognizes this, and will work with the entity that has the legal authority to set financial reporting standards to ensure that [copyright restrictions](#) on the material adopted do not prevent the adoption of IFRS.
- Each jurisdiction is assigned a Translation, Adoption and Copyright (TAC) Project Manager who acts as key support and contact. To identify your method of adoption before contacting the [Translation, Adoption & Copyright team](#), please use the diagram below. For further information on each method, see also [Methods of adoption](#).

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Methods of adoption



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Recent Events...

- G20 – repeatedly affirms the importance of achieving a set of high quality global accounting standards by 2011.
- 14/20 have adopted IFRS; 3 (India, Japan, US) permit IFRS on limited basis for domestic and foreign; Saudi Arabia requires for banking & insurance companies only; China has substantially converged all China GAAP to IFRS; Indonesia has adopted, but not implemented IFRS.
- 18/20 audit reports refer to IFRS (China & Indonesia)

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Recent Events...

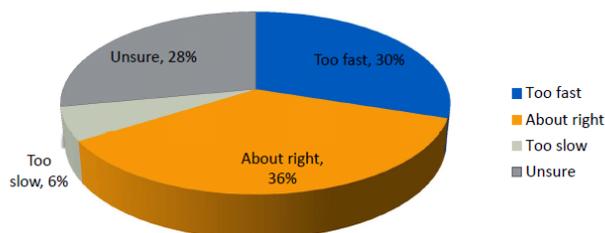
- Application of fair value in illiquid markets (FASB concerns) – FASB 159 and IAS 39
- Accounting for off balance sheet items (need for transparency in accounting for these items)
- Disclosures related to liquidity risk associated with financial instruments

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Pace of Change...

Convergence: Pace of Change

By the end of 2011, FASB and IASB plan to complete major convergence projects outlined in their Memorandum of Understanding and issue several new accounting standards codification updates and IFRS amendments. What is your opinion about the pace of change?



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[Impact on Government???

- Investments
 - Pensions
 - Treasuries
- Economic Development
 - International companies

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[Resources...

- www.ifrs.com
- www.aicpa.org
- www.iasb.org
- http://www.ifrs.com/pdf/IFRSUpdate_V8.pdf
- <http://www.aicpa.org/Research/StudiesandPapers/DownloadableDocuments/ifrs-readiness-survey-public-fall-2011.pdf>

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Convergence of Standards?

“they
said it
wouldn’t
be so
bad...”



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