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IFRS: Not a Big Deal After All?

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For much of the past year and a half, the accounting world has been buzzing about the Securities and Exchange Commission's (SEC) intent to publish and subsequently release the proposed roadmap to transition the U.S. reporting community to international accounting standards. While the current proposal does not call for the majority of U.S. listed companies to comply with International Financial Reporting Standards (IFRS) until the 2014-2016 timeframe, many companies have already started looking into beginning the transition process. Even if the current roadmap gets delayed or modified in some fashion, the IFRS train has left the station and it is only a matter of time before it arrives at your company's door step.

Further, in June 2009, President Obama announced a comprehensive plan for financial regulatory reform that calls for accounting standard setters to make substantial progress by the end of 2009 toward development of a single set of high quality, global accounting standards.

Many small to mid-sized businesses with one or two business locations located within the United States might not find the transition to IFRS too difficult of a task. Some larger companies with many domestic and/or international locations with differing accounting policies by location will struggle more with the initial implementation. Let's use Property and Equipment as an example: under U.S. GAAP, management of each business location (or class of asset) has the ability to elect how they would like to depreciate their asset (i.e. declining balance, sum of the years' digits, straight-line, etc) providing it is applied consistently amongst periods.

IFRS (IAS 16, Property, Plant and Equipment) on the other hand, does not allow for this flexibility. Once a company elects an accounting policy it is to be applied in the same manner across the worldwide enterprise. In other words, if the U.S. operation depreciates equipment in a straight-lined manner and its overseas affiliate uses declining balance, then the two units would have to choose one way to depreciate assets and apply it to all business units, locations, etc. Any differences between the two methods upon IFRS adoption would have to be evaluated under IFRS 1, First-time Adoption of International Financial Reporting Standards. Smaller, less complex organizations usually would not share the same struggles as its larger counterparts with respect to inconsistent accounting policies.

Some other examples of how IFRS might not be drastically different from its U.S. GAAP equivalent are in the area of leases and revenue recognition. Under FAS 13* (now Accounting Standards Codification ASC 840), a lease is considered an operating lease unless it fails at least one rigid test (out of four tests). IAS 17, Leases, gives broader terms for when a lease is an operating or capital lease. The broader language allows the participants to record the transaction based on its intent rather than a prescribed numeric metric. That being said, the broader language allows the company to choose its accounting policy; therefore, if the company wanted to follow FAS 13* (ASC 840) it would be able to do so. EITF 00-21* (ASC 605) is a 30-plus page piece of guidance that tells organizations how to record revenue with multiple element arrangements. IAS 18, Revenue, has one paragraph (#13) that discusses multiple element arrangements and the guidance indicates that companies should deal with the two transactions together. Clearly, the U.S. standards are much more complex and rigid in this case. However, an organization can comply with IAS 18, paragraph 13 by using the guidance in EITF 00-21* (ASC 605), and thus no real impact to the adoption.

There are still some differences that will impact any company (regardless of size and number of locations) trying to adopt IFRS for the first time such as those using LIFO for inventory costing under US GAAP. IAS 2, Inventories, does not permit the use of LIFO whereas U.S. GAAP permits this costing method. Additionally, IAS 36, Impairment of Assets, permits companies to write back a portion of previously impaired assets, where as US GAAP does not allow this. Both of these differences if IFRS is adopted would be handled in accordance with IFRS 1.

There are still many differences between U.S. GAAP and IFRS, however to use a blanket statement that all companies will need to devote an astronomical amount of time and resources is not accurate. Each organization will need to take an in depth look at its accounting policies and determine if differences exist and how those differences will need to be handled, if at all.

** Note: The references to US GAAP literature are those prior to the Financial Accounting Standards Board Codification (Accounting Standards Codification "ASC") which went live on July 1, 2009 and will be effective for interim and annual periods ending on or after Sept. 15, 2009.*

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