HOW INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) WILL CHANGE THE GAME FOR FINANCIAL ANALYSIS AND FINANCIAL ANALYSTS

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ABSTRACT

The Securities Exchange Commission and Financial Accounting Standards Board are engaged in an effort which could transform prescribed accounting principles from generally accepted accounting principles based on historic costs, as developed in this country (US GAAP), to a worldwide standard, quite likely based upon international financial reporting standards (IFRS) promulgated by the International Accounting Standards Board and currently applicable, to varying degrees, in places outside the United States of America. Depending upon the final resolution of issues currently being analyzed and evaluated, a change could take effect as early as 2015 or 2016. Much discussion has obviously focused on the implications for accountants, but financial analysts must also understand the implications of such a change. This paper reviews the history and current status of efforts in this country to converge US GAAP to IFRS, identifies differences between US GAAP and IFRS, and discusses potential implications for financial analysts and others who analyze financial statements and other financial information for a host of purposes.

> *I just can't imagine the amount of money that's going to be spent retraining everybody. Everybody who touches finance and accounting is going to have to have some kind of reeducation and training.*
> --*Larry Levine, head of business valuation and corporate finance, RSM McGladrey*

A topic of intense discussion and significance in accounting circles during recent years has been the anticipated change to a set of global accounting standards, which could include a shift of U.S. accounting principles from historical cost under generally accepted accounting principles (US GAAP) developed in the United States of America (US) to international financial reporting standards (IFRS) currently applicable in most countries outside the USA, or a convergence of US GAAP and IFRS. The actual timing of the implementation of any change is currently uncertain, pending analysis by the Financial Accounting Standards Board (FASB), Securities Exchange Commission (SEC), and others. There is a trend toward worldwide adoption of a common set of accounting standards[1], and it appears more likely than not that the US will join the trend at some point. While the implications for accountants have been widely discussed and documented, the implications for financial analysts, credit analysts, and other users have been less widely addressed. This paper reviews the history and current status of--and prospects for--ongoing conversion efforts; identifies differences between US GAAP, as promulgated by FASB, and IFRS, as promulgated by the IASB); and discusses potential implications for financial analysts and other users of financial information prepared on the basis of a set of global accounting standards.

HISTORICAL OVERVIEW OF CONVERSION TO GLOBAL ACCOUNTING STANDARDS

In 1988, the Securities and Exchange Commission (SEC) issued a policy statement that "all securities regulators should work together diligently to create sound international regulatory frameworks that will enhance the vitality of capital markets."[2] In 1997, the "SEC encouraged the efforts of the International Accounting Standards Committee to develop a core set of accounting standards. These standards are now known as IFRS."[3] Subsequently, in 2000, the International Organization of Securities Commissions, of which the SEC is a leading member, recommended that its members "allow multinational issuers to use 30 'core' standards issued by the IASB's predecessor body in cross-border offerings and listings."[4]

One of the first tangible steps toward implementation of IFRS in the US came about in 2007, when the SEC issued a rule permitting foreign registrants who file in the US to satisfy their US reporting requirements with statements prepared pursuant to IFRS, without any reconciliation to US GAAP.[5] A further step occurred in November 2008 when the SEC first sought comments on their plans for issuing a rule to mandate IFRS for all US companies.[6] Per its roadmap for implementing IFRS, the SEC stated at that time an intention to issue a final rule in 2011 that will require conversion to IFRS for all public companies, provided sufficient progress has been made in the following areas:[7]

- Continued improvements/convergence of IFRS
- Funding and accountability of IASB
- Education and training in the US
- Improvements in the use of XBRL for IFRS

[1] PriceWaterhouseCoopers, 2011.
[2] SEC, 2008, Securities Act Release No. 6807.
[3] AICPA, 2011.
[4] AICPA, 2011.
[5] SEC, 2007.
[6] SEC, 2008, "Roadmap."
[7] SEC, 2008, "Roadmap."

The proposed deadlines for mandatory implementation would be for fiscal years ending after December 15 in the following years:[8]

- 2014 for large accelerated filers (issuers with market capitalization ≥ $700 million)
- 2015 for other accelerated filers (issuers with market capitalization ≥ $75 million but < $700 million)
- 2016 for non-accelerated filers (issuers with market capitalization < $75 million)

At the time the roadmap was developed in 2008, transition rules offered some interesting possibilities:[9]

- A limited number of companies (the SEC estimates about 110) would be eligible for voluntary adoption of IFRS for fiscal years ending after December 15, 2009 (thus a calendar-year company that meets the criteria could file its 2009 Form 10-K using IFRS); eligibility would be based on meeting both of the following conditions:
    - The issuer would need to be among the 20 largest companies, measured by market capitalization, in their industry group; and
    - IFRS must be used by the majority of the 20 largest companies, measured by market capitalization, in that industry group.
- If the SEC final rule passed as intended in 2011, all companies would have the ability to early adopt at that time.
- Upon initial adoption of IFRS, three years of IFRS financial statements (current year plus two comparable periods) will be required.

To implement the roadmap, the SEC has sought for a “convergence” or migration of US GAAP into IFRS, as opposed to a more difficult, outright adoption of/conversion to a different set of standards. Convergence has involved FASB and IASB working to resolve differences between the two sets of standards (a process that has formally existed since 2002[10]).

In the wake of the financial crisis, combined with a shift in political policy, the incoming chairman of the SEC, Mary Schapiro, in January 2009, “signaled that she could delay the planned transition to International Financial Reporting Standards.”[11] While the outgoing SEC chairman Christopher Cox endorsed a move from US GAAP to IFRS with the November 2008 roadmap, Ms. Schapiro told the Senate Banking Committee, “I will take a deep breath and look at this entire area again carefully and I will not necessarily feel bound by the existing roadmap that is out for public comment.”[12] The basis of this shift was that “Schapiro is worried about the

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[8] SEC, 2008, “Roadmap.”
[9] Securities and Exchange Commission, 2008.
[10] *Journal of Accountancy*, December 6, 2011.
[11] WebCPA Staff, 2009.
[12] WebCPA Staff, 2009.

high cost, the independence of the International Accounting Standards Board and the looser nature of IFRS's principles-based standard."[13]

On Feb. 24, 2010, the SEC issued Release Nos. 33-9109 and 34-61578, Commission Statement in Support of Convergence and Global Accounting Standards, in which the SEC stated its continued belief that a single set of high-quality globally accepted accounting standards would benefit U.S. investors and expressed encouragement for the continued convergence of U.S. GAAP and IFRS. The releases also called for the development and execution of a "work plan" to enhance both the understanding of the SEC's purpose and public transparency in regard to IFRS. The work plan addresses many of the areas of concern highlighted in the comment letters to the 2008 roadmap."[14] The release of the work plan effectively delayed plans to allow US issuers to use IFRS. "The soonest U.S. companies could start using…IFRS, would be in 2015 instead of 2014, but even that date is not certain."[15] The February 2010 work plan "…is intended to inform the Commission to make a determination in 2011 about whether to incorporate International Financial Reporting Standards (IFRS) into the financial reporting system for U.S. issuers."[16] The work plan addresses six key areas:

1. Sufficient development and application of IFRS for the U.S. domestic reporting system;
2. The independence of standard setting for the benefit of investors;
3. Investor understanding and education regarding IFRS;
4. Examination of the U.S. regulatory environment that would be affected by a change in accounting standards;
5. The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies; and
6. Human capital readiness.[17]

On Oct. 29, 2010, the SEC released a progress report on its IFRS Work Plan. The report provided details on progress and remaining research and analysis to be done as the SEC considers whether to incorporate IFRS into the US financial reporting system for US issuers.[18]

<u>FASB and ISAB Convergence</u>

"The convergence process in the U.S. began in earnest in 2002, when FASB and IASB entered into the Norwalk Agreement, a joint commitment that set long-term goals for both standard setters to undertake in an effort toward creating a single, global standard."[19] The Norwalk

[13] WebCPA Staff, 2009.
[14] AICPA, 2011.
[15] Younglai, 2010.
[16] Securities and Exchange Commission, 2011, "Spotlight."
[17] SEC, 2010.
[18] AICPA, 2010.
[19] Lutolf, 2007

Agreement was signed by FASB and IASB in October 2002 and is commonly referred to as the Memorandum of Understanding (MoU). The commitment of FASB and IASB "was further strengthened in 2006 when the IASB and FASB set specific milestones to be reached by 2008 (A Roadmap for Convergence 2006 – 2008)."[20]

"In a subsequent Memorandum of Understanding in September 2008, the FASB and the IASB agreed that a common set of high-quality, global standards remained their long-term strategic priority and established a plan to align the financial reporting of U.S. issuers under U.S. generally accepted accounting principles (GAAP) with that of companies using IFRS."[21]

The MoU originally highlighted several major convergence projects between IASB and FASB scheduled for completion in 2011. In response to the requests from the leaders of the G20, the IASB and FASB published a progress report, describing an intensification of their work program, including monthly joint board meetings and quarterly progress updates on these convergence projects.[22]

Since the publication of the 2008 update to the 2006 MoU, FASB and IASB have published a reaffirmation of commitment to the 2006 MoU in November 2009 and four quarterly progress updates on their progress on the convergence projects. On April 24, 2011, the FASB and IASB published in their first quarter 2011 progress report that "the convergence projects are targeted for completion in the second half of 2011."[23]

Privately-held Companies

With the focus primarily on implementing IFRS with public companies, no timetable has been set for privately-held US companies. This provokes the obvious question as to whether it will be possible to support a system in which publicly-held companies convert to IFRS while private companies remain on US GAAP. Will standards-setting agencies, academic curricula, public accounting firms, and industry accountants be willing or able to support two alternative approaches? As a follow-up question, what of private companies that want to go public – what barriers and obstacles would they face with having to adopt IFRS? Considering questions such as these, it would appear that the only way to resolve such dilemmas would be for privately-held companies to convert to IFRS, as well.

CURRENT STATUS AND PROJECTED IMPLEMENTATION OF IFRS IN THE USA

There is a worldwide momentum for global accounting standards. "In late 2007 the International Federation of Accountants (IFAC) conducted a survey of a large majority of accounting leaders from around the world, who agreed that a single set of international standards is important for

[20] IFRS Foundation, 2011, "Convergence."
[21] AICPA, 2010.
[22] AICPA, 2011.
[23] IFRS Foundation, 2011, "Progress."

economic growth. Of the 143 leaders from 91 countries who responded, 90% reported that a single set of international financial reporting standards was “very important” or “important” for economic growth in their countries…Currently, more than 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies.”[24]

The debate of the specific method of transition by the USA to a single global accounting standard (e.g., standard-by-standard adoption, wholesale adoption, convergence) continues not only in the USA but also internationally.

In April 2010, Wayne Upton, Director of International Activities for the IASB, expressed that the IASB recognizes there are “cultural, legal, or political obstacles to an immediate full adoption of IFRSs…some countries decide on strategies of continuous convergence with IFRSs…We respect the reasons why those jurisdictions reach that decision, and work with them to support their convergence process. However, in doing so, it is our ultimate objective to make full adoption of IFRSs possible because we believe that only then will a country be able to fully benefit from the advantages of using IFRSs…While convergence may be the necessary preparation for some countries to adopt IFRSs, the simplest, least costly and most straightforward approach is to adopt the complete body of IFRSs in a single step rather than opting for long-term convergence. Certainly, this is a significant change, but the alternatives may be more difficult and may be of less benefit to a country in the long run. The main reason why most companies want to use IFRSs in their financial statements is the ability to demonstrate to the investor community that their financial statements are IFRS-compliant. For that purpose it is not sufficient that the standards have converged. The only way to make a valid that claim is to apply all the standards as issued by the IASB and make the compliance representation required by IAS 1. Hence, while convergence is good, adoption is necessary to be truly able to harvest the benefits of the change.”[25]

On April 20, 2011, the SEC announced that it would sponsor a roundtable in July “to discuss benefits or challenges in potentially incorporating International Financial Reporting Standards (IFRS) into the financial reporting system for U.S. issuers.”[26] This roundtable is designed to “feature three panels representing investors, smaller public companies, and regulators.”[27] The focus of the panel discussions are “on topics such as investor understanding of IFRS and the impact on smaller public companies and on the regulatory environment of incorporating IFRS.”[28]

However, the hesitancy of the US to use a wholesale adoption of IFRS stems from the lack of independence and assurance of funding of the IFRS Foundation, the parent of the IASB. This overarching issue was first identified in the November 2008 road map and highlighted in 2009 as

[24] AICPA, 2011.
[25] Upton, 2010.
[26] SEC, 2011, “Roundtable.”
[27] SEC, 2011, “Roundtable.”
[28] SEC, 2011, “Roundtable.”

Ms. Schapiro was the SEC chairman nominee. Recently, Ms. Schapiro in remarked before the Financial Accounting Foundation's (the parent of the FASB) 2011 Annual Board of Trustees dinner on May 24, 2011, that "…Yet another important standard-setter, the IASB, lacks an independent and assured source of funding, as the IFRS Foundation has no authority to impose funding requirements. The threats of interference during the financial crisis serve as a continued reminder of the importance of financial independence for the IFRS Foundation and the IASB. I know from my role as a member of the Monitoring Board that the trustees of the IFRS Foundation are working closely with regulatory and other public authorities and key stakeholder groups to explore more stable funding mechanisms. Until then, however, funding for the IASB will remain a challenge. And so the SEC's staff continues to evaluate short-and long-term options for assisting the IFRS Foundation. I would like to thank the FAF and its leadership for their continued input and support on this important issue."[29]

Therefore, until the SEC has assurance of the resolution of the issues of independence and funding of the IASB, coupled with the on-going comments from US issuers and roundtable discussions, the ultimate mechanism to the adoption of a set of global accounting standards remains uncertain.

With the resolution a challenging and difficult process for reaching agreement, the SEC has sought to encourage convergence with an endorsement by FASB of the need for convergence to IFRS, which the SEC refers to as "condorsement."[30] Although a number of issues have been resolved by the FASB and IASB, the respective chairs of each stated that the current process needs to be modified to be more manageable and efficient with reaching resolution on issues.

As a result of the lack of resolution, the SEC did not issue a final rule for implementation by the expected deadline of November 15, 2011 nor has it during the first quarter of 2012. Despite the missed deadline and lack of resolution, the IFRS Foundation Monitoring Board, which monitors the IASB, made a change in February 2012 regarding the types of entities that can oversee the IASB. Beginning in 2013, monitoring entities will need to mandate "domestic use of IFRS in [their] jurisdiction's capital market."[31] This new criterion has been interpreted as a hint or nudge for the SEC, an entity on the monitoring board, to move forward with IFRS. While it has been a challenging process, it is clear to see that steps are being taken towards eventual following of IFRS standards by public companies in the US.

DIFFERENCES BETWEEN US GAAP AND IFRS

While the basic principles underlying both US GAAP and IFRS are very similar, there are some conceptual differences in the application of those principles, thereby causing some of the issues sought to be resolved between FASB and IASB. The conceptual differences might be

[29] Schapiro, 2011.
[30] SEC, 2010.
[31] Johnson, 2012.

summarized by stating that IFRS is more principles-based, whereas US GAAP is more rules-based. This difference presents itself in many ways, for example:

- Whereas US GAAP has extensive guidance for specific industries, IFRS includes almost no industry-specific rules and very little implementation guidance.
- It has been estimated that the sum total of US GAAP pronouncements covers some 25,000 pages, whereas IFRS covers less than 3,000 pages.[32] IFRS offers a "light" version for small and medium-sized entities (SMEs) that includes only 237 pages.[33]

As a result, the implementation of IFRS will require far more judgement, both on the part of management in preparing financial statements and on the part of independent auditors in reaching an opinion on the fairness of presentation. In the absence of the kinds of "bright line" rules that characterize US GAAP, different companies may reach different accounting conclusions for transactions that are essentially the same. On perhaps a more favorable note, this may end the need for extensive structuring of certain transactions in order to compel a certain desired applicability (or non-applicability, as the case may be) of specific US GAAP provisions (i.e., instead of structure dominating form in some instances, form will rightfully dominate structure, which is in accordance with the principles of both US GAAP and IFRS).

The following summary of key differences between US GAAP and IFRS highlights several ways in which IFRS is less wedded to the principle of conservatism than is US GAAP[34]:

AREA	**US GAAP**	**IFRS**
Inventory	Reversal of inventory write-downs prohibited. Market = replacement cost, with floor & ceiling.	LIFO prohibited. Reversal of inventory write-downs required in certain cases. Market = net realizable value.
Deferred Taxes	Deferred tax assets and liabilities classified current/non-current. Deferred taxes recognized in full, with valuation allowance for non-probable part. Measured based on enacted tax rates. Deferred tax on intercompany profits recognized at seller's rate.	Deferred tax assets and liabilities always non-current. Only probable portion of deferred taxes recognized. Measured based on enacted or "substantially enacted" tax rates. Deferred tax on intercompany profits recognized at buyer's rate.
Fixed Assets	Historical cost, no revaluation. Residual value may only be adjusted downward. Residual value, useful life, and depreciation reviewed only when significant events or changes occur.	Historical cost or revalued amount may be used. Residual value may be adjusted up or down. Residual value, useful life, and depreciation method reviewed annually.

[32] Markus, 2009.
[33] Thacker, 2009.
[34] See http://www.sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-paper-111611-gaap.pdf for a more detailed discussion comparing US GAAP to IFRS.

AREA	US GAAP	IFRS
Asset Impairment	Asset impaired when carrying value greater than expected future cash flows from asset. Reversal of impairment loss is prohibited.	Asset impaired when carrying amount is higher that larger of (1) asset's value in continued use, or (2) fair value less costs to sell. Reversal of impairment loss required if certain conditions are met.
Leases	Primarily based on substance, but extensive form-driven requirements. Land and buildings considered as one unit unless land >25% of value. Discounted using implicit rate. Gain on sale/leaseback amortized over term of lease. Currently in Joint Convergence Project of FASB/IASB. Exposure draft publication in 2H 2012.	Substance over form. Land and buildings considered separately unless land is immaterial. Lessors use implicit rate; lessees use lower of incremental borrowing rate or implicit rate. Gain on sale/leaseback recognized immediately.
Revenue Recognition	Much more detailed specific guidance on multiple deliverables, software, and industry-specific issues. Currently in Joint Convergence Project of FASB/IASB. Proposals re-exposed for public comment until March 13, 2012. Roundtable discussions are to be held in 2Q 2012.	Prohibits completed contract method of revenue recognition, and requires cost recovery when percentage completion cannot be determined.
Pensions	Past service costs on vested benefits amortized over remaining service period of life expectancy. Defers actuarial gains and losses as part of comprehensive income, then amortized to net income. Distinction between pensions and other post-retirement benefits.	Past service costs on vested benefits recognized immediately. Actuarial gains or losses can be recognized immediately or deferred; if deferred in equity, not through income statement. No distinction between pensions and other benefits.
Interim Reporting	Generally treats interim period as integral part of full year.	Each interim reporting period treated as a discrete accounting period.

Rather than following the US GAAP preference for stating all things as conservatively as possible, it would appear that IFRS is oriented more toward trying to reflect economic reality across the board. In this regard, it should be noted that US GAAP has, in many ways (such as application of mark-to-market principles), already moved from its prior position of historical cost and extreme conservatism to one that relies ever more on market criteria. As a reminder, FASB and IASB have been working formally since 2002 with resolving differences between the two sets of standards. For this reason, much of the transition may be easier than it would have been from a purely conservative, historical cost approach.

FINANCIAL STATEMENT PRESENTATION

Perhaps the most obvious change, at least visually to users, resulting from implementation of IFRS may be the format for financial presentation. Although this remains a work in progress at this time, the expectation is that the ultimate formats for IFRS financial statements will be as that shown below.[35] Note that the IFRS statement of financial position corresponds to the US GAAP balance sheet, and the statement of comprehensive income corresponds to the US GAAP income statement. All statements share a common organization scheme similar to that currently used in the US GAAP statement of cash flows. Account balances and activity are classified as business (corresponding to operating and investing activities per the US GAAP statement of cash flows), financing (corresponding to the same classification per the US GAAP statement of cash flows), income taxes, discontinued operations, and equity (statements of comprehensive financial position and cash flow) or other comprehensive income (statement of comprehensive income):

STATEMENT OF FINANCIAL POSITION	STATEMENT OF COMPREHENSIVE INCOME	STATEMENT OF CASH FLOWS

Business
• Operating assets and liabilities
  • Short-term assets
  • Short-term liabilities
  • Long-term assets
  • Long-term liabilities
• Investing assets and liabilities
  • Short-term assets
  • Short-term liabilities
  • Long-term assets
  • Long-term liabilities
	Business
	• Operating income and expense
	• Investing income and expense
		Business
		• Operating cash flows
		• Investing cash flows

Financing
• Financing assets
  • Short-term
  • Long-term
• Financing liabilities
  • Short-term
  • Long-term
	Financing
	• Income from financing assets
	• Expense from financing liabilities
		Financing
		• Financing asset cash flows
		• Financing liability cash flows

[35] McClain and McLelland, 2008.

STATEMENT OF FINANCIAL POSITION	STATEMENT OF COMPREHENSIVE INCOME	STATEMENT OF CASH FLOWS
Income taxes	Income taxes (related to business and financing)	Income taxes
Discontinued operations	Discontinued operations, net of tax	Discontinued operations
Equity	Other comprehensive income, net of tax	Equity

IMPLICATIONS FOR THE FINANCIAL ANALYST

For the financial analyst trained to analyze US GAAP financial information, the implementation of IFRS introduces several considerations. As with most new procedures, there are both good points and bad points for both analysts and those training analysts (i.e., academia).

One positive result is that once IFRS is completely implemented (assuming that it will be at some point in the future), analysts will have a larger population for a data base for comparisons since international comparables can then be included. This also comes with a caveat, however, in that just as sufficient variations occur within the application of US GAAP to impose comparability issues (consider for example full-cost versus successful-efforts oil and gas accounting), the potential for such variability increases several fold across national and cultural boundaries. Following the same general principles does not mean that the specific application of those principles will be uniform, and there are many places where cultural differences will impose practical differences in the interpretation of established principles.

Another positive is that the analyst has had some exposure to similar reporting after having worked with some of US GAAP's mark-to-market requirements. This experience has already introduced the analyst to the extra identification capability that might be included but has also implied a requirement for much more experience on his or her part in understanding exactly what is happening and how recorded.

On the negative side, the changes will materially affect financial ratios and other standards that analysts use to perform fundamental or relative evaluations. While in theory or principle a company's true economic value should not depend upon the accounting method chosen, it is important to look at the steps the analyst takes in calculating key metrics,[36] including the following.

- Current ratio (CR)

  CR = Current assets ÷ Current liabilities

[36] Heino and Fontana (undated).

- Return on equity (ROE)

ROE	=	Net income	÷	Total equity

- Return on assets (ROA)

ROA	=	Net income	÷	Total assets

- Earnings before interest, taxes, depreciation, and amortization (EBITDA)

EBITDA = Net income + interest expense + income tax expense + depreciation expense + amortization expense

- Price/earnings ratio (P/E)

P/E	=	Stock price	÷	Earnings per share (EPS)

- Book to market ratio (B/M)

B/M	=	Book value	÷	Market

Based upon the financial statement formats presented above, the calculation of CR will become much more complex, changing from the simple calculation of short-term assets divided by short-term liabilities to:

CR	=	(Short term operating assets + Short-term investing assets + Short-term financing assets + Short-term income tax assets)	÷	(Short-term operating liabilities + Short-term investing liabilities + Short-term financing liabilities + Short-term income tax liabilities)

Both ROE and ROA will be impacted by the following:

- Any changes in the way net income is determined, such as the classification of cash expenses as development costs (increased net income plus increased value of investing assets), and
- The impact of mark-to-market accounting on the values (assets or equity) included in the denominator.

EBITDA will be impacted by any changes in the way net income is determined, plus any changes to the add-back components (such as a change in depreciation as a result of applying mark-to-market accounting to fixed assets).

P/E will be affected by the impact on EPS from the changes in determination of net income.

B/M will be affected by any changes to book value resulting from mark-to-market or any other changes to accounting rules.

Similar changes will occur in the usage of most analytical tools. Clearly, changing the composition of the factor(s) in the numerator and/or denominator will present a different numerical answer from what the analyst has been seeing. Determining whether these differences result simply from changing the rules, or alternatively reflect real changes in financial capacity, will be a challenging task. There will clearly be differences between what has been expected under US GAAP and what should be anticipated under IFRS. The analyst must understand that the benchmarks will move, as what was once a happy and understood result may no longer be so until becoming familiar with and understanding the underlying changes.

One distinct advantage of rules-based US GAAP presentation is that, while the basis of presentation may not in all cases be the most appropriate one, or the one that best reflects economic reality (i.e., form over substance), the analyst will at least be able to determine with some confidence just what specific rules were applied to develop that presentation. The analyst can consult the rules under which the information was developed (at least purportedly) and can use them in preparing his or her analysis. Interpretation of principles-based IFRS statements will require that analysts develop a much broader understanding of the underlying principles in order to evaluate the information before him or her. For the academic community, this implies that future curricula in the area of finance will require more extensive and sophisticated development of accounting principles than is currently done, including both their underlying theory, application and interpretation of results.

These additional demands on the analyst will require substantial revamping for academic instruction and professional training programs. The analyst will need to be trained to a skill level closer to the application level rather than the current familiarity level of knowledge. This will necessitate a change of focus both for academia and instructors involved in on-the-job training. Analyst trainees will no longer be able simply to memorize the appropriate rules in order to analyze what has been presented, but will have to understand the underlying implications. This more advanced ability currently comes with experience gained after initial employment, a luxury the user of the IFRS analyst's product cannot afford to wait to acquire.

It should be remembered that, while the SEC regulates public companies quite heavily, its rules do not apply to privately-held companies. If private companies are not required to convert to IFRS on the same timetable as public companies, there could be significant challenges in analyzing financial information for privately-held companies and comparing them to publicly-traded companies. The authors anticipate that the most logical solution to this problem would be to move private companies to IFRS in roughly the same timeframe, but it is by no means certain that will occur.

The SEC has noted, "Regardless of whether the Commission decides to allow or require IFRS for U.S. issuers in the future, the past and anticipated move towards the use of IFRS in other jurisdictions may have begun to affect U.S. investors' ability to evaluate investment alternatives as their level of investment in non-U.S. companies has increased over time… As more companies move towards IFRS reporting, current and potential investors in U.S. issuers may increasingly be comparing those U.S. issuers' financial information to IFRS-based financial information of competing investment opportunities. For example, approximately 120 foreign private issuers currently report to the Commission using IFRS financial statements."[37]

CONCLUSION

IFRS attempts to better mirror economic reality more than US GAAP through its focus on principles-based standards, and probably succeeds. In order to do this, it replaces many of the specific and detailed rules upon which US GAAP is based with much greater reliance on professional judgement. That difference is a game-changer for anyone charged with understanding and analyzing the resulting financial statements.

While there is a plethora of information in current literature about the problems for accountants associated with a change to IFRS, that effort has not been matched with similar attention to the problems for financial analysts, credit analysts and other users of financial reports. Substantial attention is extremely critical in academia due to the amount of time necessary to prepare materials needed for curriculum changes and implementation in the classroom. If the change to IFRS occurs as early as 2015 or 2016, then undergraduate finance majors already enrolled in universities classes will enter an IFRS environment upon graduation or shortly thereafter. Even if the required time to implement is delayed for a few years, it is clear that the time to understand the issues and to take appropriate action is now.

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It depicts the importance of International Financial Reporting standards in Accounting and its success. It is one of the most importance and vital issue to be discussed in the business world and must be discussed in the most vivid way to provide a clear understanding of the term along with its important components. The objective of issuing such IFRSs and IASs is to ensure global convergence of accounting and financial reporting system. The study basically focuses on the theoretical background along with the history of the development of IFRS and its major components. International Financial Reporting Standards (IFRSs) are from the IASB Standards. Unless and until All International Accounting Standards (IASs) and analysis issued by the earlier IASC are amended or withdrawn they would be implemented. They are applicable to the common financial reports and other reporting by business entities, including those engaged in commercial, industrial, financial and similar activities, regardless of their legal stature. IFRS may be suitable for non-profit-oriented business entities also. Financial statements based on the guidelines of IFRS intend to cater to the frequ Links to summaries, analysis, history and resources for International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), IFRIC Interpretations, SIC Interpretations and other pronouncements issued by the International Accounting Standards Board (IASB) and its related bodies.Â The full functionality of our site is not supported on your browser version, or you may have 'compatibility mode' selected. Please turn off compatibility mode, upgrade your browser to at least Internet Explorer 9, or try using another browser such as Google Chrome or Mozilla Firefox.