1-15-2009

Global Accounting

University of Dayton, Ohio (url: http://www.udayton.edu/index.php)

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01.15.2009 | Faculty, Business

Accounting firms and corporations are watching with great interest how quickly the Obama administration will move to adopt International Financial Reporting Standards for U.S.-listed companies, according to an international accounting expert.

When the Securities and Exchange Commission announced an interest in moving U.S. companies to IFRS a few years ago, corporations and accounting firms realized the move from generally accepted accounting principles, known as U.S. GAAP, would be costly and time-consuming. However, because of the economic and credit crisis, the transition is likely to be even more challenging, according to University of Dayton accounting professor Donna Street.

At the same time, many business schools are not moving quickly enough to teach the international standards and equip accounting graduates with the knowledge they'll need to be competitive, said Street, president of the International Association for Accounting Education and Research.

"There is a tremendous amount of uncertainty, not only because of the transition in administration, but because the credit crisis got in the way," said Street. "The SEC's attention has been on addressing the crisis."

The SEC proposed a road map in 2008 that would require all U.S.-listed companies to convert to IFRS. Comment letters to the SEC are due early this year, she said. However, Street noted there is some speculation that the road map will be revised, so the adoption deadline may be pushed back.

She expects with the transition in administration, it will be at least mid-year before new leadership at the SEC is in place and ready to signal its course of action.

"For large U.S.-listed companies, the SEC estimates it will cost approximately $32 million per company to make the conversion from U.S. standards to IFRS," Street said. "In this economy, most companies don't have $32 million laying around, and this may impact the timing of the move."

However, Street also said there will be a "tremendous advantage" for some companies to move to the international standards. Currently, U.S.-listed companies with international subsidiaries prepare those overseas accounts using IFRS, but then must convert these to U.S. GAAP, which is both costly and time-consuming.

"There is also a competitive advantage for some U.S. companies to move to IFRS," Street said. "U.S. companies want to use the same accounting standards as their major competitors, so there is a level playing field. Using the same standards within an industry helps analysts and other users of financial statements make meaningful comparisons. In some industries, for example software, IFRS allows for earlier recognition of revenue, placing U.S. companies at a disadvantage when comparing the bottom line.

"The large international accounting firms really support the conversion. It would be so much easier if all their clients were using the same accounting standards around the world. A comparison can be made to everyone speaking the same language," Street said.

"Staff would only have to be trained in one system, not both. Today more than 100 countries require or allow use of IFRS. That makes it the global norm and leaves the U.S. and Japan as the only major exceptions. In the international arena, it would be a tremendous advantage to the international accounting firms if all major companies used IFRS," Street said.

She noted there are concerns that sufficient progress has not been made to reduce differences between the two systems – a process called convergence. For years, the SEC has said convergence will be a major consideration in the move to the international standard, Street said.

At the same time, there are also concerns that some key improvements in the international standards are necessary, but resolution of those differences has been delayed by attention required by the credit crisis, she said.

Although the movement to IFRS has been in the works for several years, Street said that business schools should be doing a better job of preparing students to work in both systems.

"Recent surveys suggest that fewer than 25 percent of U.S. business schools are presently providing some IFRS training for accounting majors," she said. "Schools should be teaching both IFRS and U.S. GAAP concepts, but few U.S. faculty are trained in international standards."

Street said, "Even if the U.S. does not move to the international standard in the next few years, more and more U.S.-based accountants and auditors will be working for or with companies preparing IFRS accounts."

"Recent graduates report that knowledge of IFRS is useful in their careers. Graduates of schools providing substantial IFRS training are definitely going to be ahead of the game and sought out by employees," Street said, adding that more students are asking for the training.

Street is in her second two-year term as president of the International Association for Accounting Education and Research. She's also past president of the International Accounting section of the American Accounting Association and a member of the Educational Advisory Group of the IASCF. She holds the Mahrt Chair of Accounting at the University of Dayton.

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