

# Accounting *focus*



\* **Accounting focus is published by faculty of the University of Arizona Department of Accounting**

\* **Our goal is to keep our students up-to-date on current events in the accounting world, including FASB, IASB and SEC happenings.**

## SEC Releases IFRS "Roadmap"

### Change is the Constant

Change offers new challenges and opportunities. Individuals who effectively adapt to change survive and prosper. Individuals who fail to adapt to change become irrelevant. Smart accounting professionals anticipate change, prepare for change, and manage the change process to the extent possible. The accounting profession has seen lots of change during the current decade. The Sarbanes-Oxley Act of 2002 significantly changed the regulatory framework for financial reporting and auditing, in response to the scandals at Enron, WorldCom, and other companies. Observers of the current financial crisis predict significant regulatory change next year, in response to alleged deficiencies in risk management, transparency, and accountability at some financial institutions. One possibility is a mega-regulator that takes over the responsibilities of the Securities and Exchange Commission (SEC) and other agencies. Stay tuned for details.

Some major changes unfold over a long time frame, rather than as a response to an unexpected crisis. In recent decades, financial markets

around the world have become increasingly interconnected. Such connectivity has good and bad consequences. On the minus side, events that adversely affect U.S. markets on one day similarly affect Europe and Asia on the next. We sneeze, and they catch a cold. Contagion from toxic assets is an example. On the plus side, investment opportunities in today's world extend beyond "lines on a map." The great benefit of market competition is the tendency for resources to be allocated to their highest-value use. Market competition in principle maximizes the size of the economic pie. Expanding global opportunities for capital investment increases aggregate wealth in the world.

Accounting plays a necessary role in global capital allocation. Investors want useful financial and non-financial information that helps them to compare alternative investment opportunities. Comparing the financial performance of companies based in the U.S., Germany, Japan, or other countries, requires more than a mechanical

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### U of A Accounting Department to include IFRS in Courses

With CPA exam coverage beginning as early as 2011, students graduating in 2010 may need to have detailed knowledge of IFRS. Certainly students graduating in 2011 will need to have such knowledge.

The Department of Accounting plans to incorporate coverage of IFRS in our accounting course offerings in two stages: an "Awareness" stage and a "Compare and Contrast" stage.

Awareness coverage has already begun, and will continue through Spring 2009. Students in Accounting 400A, 400B, 451, 501, 540 and 554 will be given exposure to IASB, IFRS, the SEC Roadmap, and examples of IFRS vs. US GAAP differences.

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## FASB Publishes Discussion Paper on Financial Statement Presentation

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In October, the FASB issued a discussion paper, "Preliminary Views on Financial Statement Presentation." After collecting comments from interested parties, the FASB expects to issue a Proposed Statement of Financial Accounting Standards that, if adopted, could be effective as early as 2011.

Based on focus group meetings with financial statement preparers, financial analysts and other users, the discussion paper proposes extensive changes in the format and content of the three

primary financial statements: statement of financial position, statement of comprehensive income, and statement of cash flows. First, each statement would be divided into two main sections: Business and Financing. Second, a reconciliation of cash flows to income statement amounts would be required for each line item on the statement of comprehensive income. Finally, the statement of cash flows would be required to be prepared using the direct method, rather than the indirect method which is now al-

most universally used.

The Board's objectives in proposing these sweeping changes is to create a financial reporting model that (1) provides a cohesive financial picture of an entity's activities, (2) disaggregates information so that it is useful in predicting an entity's future cash flows, and (3) helps users assess an entity's liquidity and financial flexibility.

The discussion paper can be viewed at [www.fasb.org/draft/DP\\_Financial\\_Statement\\_Presentation.pdf](http://www.fasb.org/draft/DP_Financial_Statement_Presentation.pdf).

## IFRS Roadmap

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translation of dollars into euros or yen. Comparability also requires companies in different countries to use similar accounting methods for measuring assets, equities, and income. A major step forward in the process of global convergence in accounting standards took place on November 14, 2008, when the SEC issued its official roadmap for the use of international financial reporting standards (IFRS) by U.S. companies, in place of generally accepted accounting principles (GAAP).

### *SEC roadmap to IFRS*

The SEC endorses the view that IFRS provide a common platform for financial reporting that enhances the comparability of global

investment opportunities.

The SEC roadmap is a series of steps or milestones that culminate in the mandated use of IFRS by all U.S. public companies. The first step is the option of early adoption by companies that meet certain criteria. The main criterion is industry membership. If a U.S. company is one of the 20 largest companies in an industry where

IFRS are widely used among these 20 competitors, then the U.S. company is eligible for early adoption of IFRS in place of GAAP. The SEC estimates that 110 U.S. companies in 34 industries meet this criterion. Early adoption starts for fiscal years ending on or after December 15, 2009, which is right around the corner. The second step occurs in 2011 when the SEC re-visits its policy decision and votes whether to

require all U.S. public companies to switch to IFRS. The vote hinges on factors such as the following. Are the organization and funding of the IASB satisfactory? Based in London, the IASB is the international counterpart of the FASB. Are IFRS of high quality and comprehensive, in comparison with GAAP? Given the co-ordination of the FASB and IASB in recent years, the answer to this question is likely to be affirmative. Are the education and training of accountants satisfactory with respect to IFRS? The answer depends on the programs at universities, public accounting firms, and other organizations. The answer also depends on your involvement. Given that the SEC votes to go ahead with IFRS, large companies switch in 2014, mid-sized companies in 2015, and smaller companies in 2016. This staggered intro-

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## Accounting Department IFRS Plan

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“Compare and Contrast” or side-by-side coverage of IFRS and GAAP rules on a topic-by-topic basis will commence in Fall 2008 in each of the financial accounting courses.

We considered and rejected the idea of a separate required or elective course on IFRS. We believe that it is important to integrate IFRS

coverage into courses across the curriculum rather than attempting to relegate IFRS material to a separate course.

Common guesses about CPA exam coverage center around a phasing-in of IFRS starting about 2011, and the SEC Roadmap contemplates a phasing-in of IFRS during a period ending in 2016 for public companies. Non-public companies will

probably not be required to adopt IFRS until after 2017. We believe there will be about a 10-year period where our students will graduate into a “two GAAP world,” and our planning will proceed based on this belief.

The transition from US GAAP to IFRS will require continuous revision of course content for the next several years. For example,

at some point, a switch will need to be made from primary coverage of US GAAP supplemented by coverage of IFRS to primary coverage of IFRS supplemented by US GAAP. The key factors in deciding the timing of this switch may be textbook availability and CPA exam emphasis.

## IFRS Roadmap

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duction spreads the workload for accountants.

### Rules versus principles

A common misconception is that IFRS and GAAP are qualitatively different: IFRS are principle-based, whereas GAAP are rule-based. Did you hear the one about the American accountant who preferred GAAP, arguing with the European accountant who

preferred IFRS? The American argued that “IFRS are principle-based, so IFRS must be *unruly*.” The European argued that “GAAP are rule-based, so it must be *unprincipled*.” The joke is silly, but so is the idea that IFRS lack rules or that GAAP lack principles. For a long time, the FASB has relied on a conceptual framework for developing its standards. The FASB’s standards and interpretations get wordy, if not

full of rules, but principles underlie the standards and interpretations. The IASB relies on principles, but also requires elaboration of the principles into guidelines that look a lot like rules. Another reason not to overemphasize the distinction is that substantial convergence between IFRS and GAAP already has taken place, especially in regard to fair value accounting. More convergence is likely to occur before the SEC vote in

2011. University of Arizona accounting classes have already begun coverage of IFRS (see accompanying article).

### Your road trip with IFRS

Assuming that these changes unfold according to plan, the switch to IFRS will have a big effect on your accounting career. But, don’t think that you have wasted your time studying GAAP. On the contrary, the demand for your services depends on your ability to provide knowledge-based solutions to companies’ problems including financial reporting. To help public companies make the switch to IFRS, accountants need to understand both GAAP and IFRS. Knowledge of GAAP will not be obsolete until 2016 at the earliest. The SEC estimates that large U.S. companies, on average, will spend over \$30 million to make the switch to IFRS. This expenditure is likely to pay a part of your salary and create opportunities for your professional growth. Prepare for the change to IFRS, adapt effectively to the change, and you will prosper from the change.

## Find Out About IFRS on the Internet

The IASB website includes summaries of IFRS pronouncements, information about IASB projects and agenda items, and news about IFRS adoption around the world:

<http://www.iasb.org/Home.htm>

The full text (165 pages!) of the SEC “Roadmap” is available at:

<http://sec.gov/rules/proposed/2008/33-8982.pdf>

Each of the Big-4 accounting firms has made significant investments in building IFRS web resources. Here are a few suggested searches to access this information:

[Deloitte + IFRS](#)

[Ernst & Young + IFRS](#)

[KPMG + IFRS](#)

[PriceWaterhouseCoopers + IFRS](#)