The Impact Of International Financial Reporting Standards On Accounting Curriculum In The United States

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ABSTRACT

According to the time line presently specified by the Securities and Exchange Commission (SEC), business firms in the United States (US) should switch from the existing US accounting reporting guidelines of the Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) by the year 2014. The US business school graduates and accounting professionals have less than four years to understand the differences between the two accounting systems, and to learn how to implement the new International Accounting Standards. But many of the business schools in the US are not yet ready to include the new IFRS standards in their accounting curriculum. In many schools, administrators do not have any understanding of how to incorporate the new standards in their curriculum. Many European countries shifted to IFRS as early as 2005. They are ahead of the US in teaching IFRS to their students. The main problems in incorporating IFRS in the curriculum include lack of good textbooks and providing training for professors to learn IFRS procedures so that they can teach them to their students. This paper makes an effort in presenting the historical background of IFRS, and the impact of the adapting of IFRS on US business schools.

Keywords: International Financial Reporting Standards; Securities and Exchange Commission; GAAP; International Accounting Standards Board; Accounting curriculum

INTRODUCTION

In the United States, all the accounting measurement and reporting procedures are governed by the Generally Accepted Accounting Principles (GAAP). These guidelines were developed first by the AICPA Committee on Accounting Procedure (1939-1959), followed by the Accounting Principles Board (1959-1973) and now by the Financial Accounting Standards Board constituted in 1973. As Wiecek and Young (2010) observe, different GAAP were developed in different countries in the past. The differences have arisen out of different legal, sociological, regulatory and religious environments in various countries. These differences in the GAAP among the countries render it impossible to compare and interpret financial statements issued by companies in different countries, leading to impediments to global capital movement, resulting in suboptimal capital allocation.

Gradually, accounting professionals all over the world began a movement towards convergence of the GAAP of various countries. The most notable initiative came from the International Accounting Standards Committee (IASC) started in 1973 which was later restructured in 2001 into the International Standards Board (IASB) based in London, England. The IASB issues the International Financial Accounting Standards (IFRS). The mandate for the IASB is, "to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent, comparable information in general purpose financial statements" (www.iasb.org). IASB also coordinates with accounting standard setters in each country to move toward global convergence of accounting standards. Till now, close to 100 countries have achieved convergence by requiring or allowing adoption of IFRS (Wiecek and Young, 2010).

TRANSITIONING TO IFRS

The Securities and Exchange Commission (SEC) recently proposed a Road Map for adopting IFRS by U. S. companies suggesting that FASB and IASB continue to work toward convergence through 2011. At that time, the SEC will evaluate if IFRS is of "high quality and sufficiently comprehensive". If IFRS meets the requirements, the U. S. companies could be required to use IFRS by the year 2014 (Rahr et.al. 2010). The globalization of business has so far led over 12,000 companies in about 100 countries to adopt IFRS. A survey recently conducted by International Accounting Standards Committee (IASC) showed that over 55 per cent of the responding accounting professionals around the world agreed that a single set of international accounting standards is important for global economic growth (AICPA Backgrounder, 2008). The SEC justified its position on the adoption of IFRS on two counts: (1). U. S. companies would continue to retain comparability among U. S. companies while attaining similar comparability with companies in other countries; and (2). It provides U. S. companies with greater opportunity to compete in global markets. Additionally, IFRS received ubstantial impetus recently, when the G-20 leaders, at their meeting in 2009, urged the accounting standard setters to agree on a single set of high quality global accounting standards (Rahr et.al. 2010).

IMPACT OF IFRS ADOPTION

As Gray (2007) states, if implementing Sarbanes-Oxley Act of 2002 was felt as a headache, accountants now need to brace themselves up for a veritable migraine, going through the transition from GAAP to IFRS. The impact of convergence from US GAAP to IFRS on companies, public accounting firms, and on educational institutions in the US will be enormous. It is going to be very costly and time-consuming. SEC estimates the cost of adopting IFRS at nearly $32 million for each company. For the nearly 110 issuers who are expected to reach early adoption, the total cost for the first 3 years would be about $3.5 billion. The effect of IFRS adoption on the public accounting firms will be not only in financial reporting but will also be in auditing, taxation, and consulting functions. The CPAs should understand the intricacies of IFRS sufficiently well to be able to advise companies to effectively accomplish transition to the new standards. The impact of IFRS would be particularly harsh on small accounting firms. The Big Four accounting firms seem to be well ahead in the preparation for IFRS convergence but the small accounting firms are not, because they do not have the same resources.

IFRS adoption would have an enormous impact on a CPA's legal liability as well. The principal difference between US GAAP and IFRS is that US GAAP are rule-based, whereas IFRS are principles-based. The principles-basis of IFRS allows more flexibility. This flexibility of IFRS would require the CPAs to make professional judgment calls in preparing and/or auditing financial statements. Any situations wherein these judgment calls go awry would provide fertile ground for costly litigation. This possibility of litigation liability requires that effective training process in IFRS must be started immediately. Colleges and universities must make IFRS as part of their accounting curriculum (Rahr et.al. 2010)

IMPACT OF IFRS ON ACCOUNTING CURRICULUM

In view of the SEC's proposed date of 2014 for convergence, the U.S colleges and universities would have to be in a position to enable their accounting graduates to have an effective understanding of IFRS by 2014. That means IFRS must be made a part of the accounting curriculum, starting in fall 2010. But, most of the U.S business schools are not yet ready to teach the new standards. In fall of 2008, American Accounting Association (AAA) and KMPG LLP conducted a survey which included over 500 accounting professors. In that survey, 62% responded that they have not taken any significant actions to incorporate IFRS into their accounting programs. 30% of respondents expect the class of 2011 to be the first group of students to have a substantial background in IFRS education (Shinn, 2009). According to 38% of respondents in the survey, the main reason for the delay in adopting IFRS in business schools is that administrators have no understanding of the effort required for IFRS adoption. 79% of surveyed professors said that main problem was developing curriculum material for the change. Only 16% said that their administration will fund IFRS training for professors so that they can teach the students (Shinn, 2009). 42% of respondents cited that one of the growing problems is that textbooks on IFRS would not be ready till the 2011-2012 academic year (Shinn, 2009). However, according to Kroll (2009), all of the Big Four accounting firms have developed curriculum relating to IFRS for use by the faculty, and are making it available to faculty through

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webcasts, seminars, and case studies. The timeline of IFRS has considerable impact on the future of CPA examinations regarding the timing and IFRS content thereof. Munter and Reckers (2009) observe that, in the KMPG/AAA survey of academics, "about half of the faculty surveyed expected comprehensive IFRS coverage on the CPA exams by 2011 or before, but nearly an equal number did not anticipate comprehensive coverage until 2012 or later."

FUTURE PERSPECTIVE

Karr (2008) points out that students and financial statement preparers are not the only groups that would need training in IFRS. Other groups include academia, auditors, investors, regulators, stock exchanges, financial analysts, members of the FASB, and the SEC. As Larson and Brady (2009) state, there is a lot of uncertainty as to the degree to which the U.S GAAP and IFRS would converge and also regarding the timing of the changes. Some are estimating that it may take up to five years. Others suggest that the U.S companies have to be given the option to choose between U.S GAAP and the IFRS. In any case, it is imperative for accounting students in U.S schools to become well-versed in IFRS to access the careers in the global markets. Some AICPA members expect that U.S GAAP will continue to be relevant for some time, requiring the CPAs to be bilingual, that is, be well-grounded in both U.S GAAP and IFRS (Nilson, 2008).

Epstein (2009) confirms that empirical research supports the theory that uniform reporting standards would increase market liquidity, decrease transition costs, lower cost of capital, and facilitate global capital flows. At present there is one such set of standards, the IFRS. Epstein states that there is sufficient basis to endorse IFRS and commence the task of educating users, auditors, and regulators. The academia and public accountants alike have significant roles to play in this exciting, and seemingly inevitable, future (Epstein, 2009). However, there are also some leaders of the financial community who believe that the U.S is charging blindly headlong into a disaster. The U.S GAAP are developed by skilled professionals through hard work, over a long period of time, and should not be given up in favor of a set of global standards whose benefits are never proven to be superior to those of U.S GAAP. King (2010) vehemently exhorts that there is no evidence whatsoever that IFRS produces better financial reporting. He laments that the United States accounting system is indulging in an entirely unnecessary attempt to fix a system that is not broken!

AUTHOR INFORMATION

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