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During the past decade, there have been increasing discussions between the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB) regarding the harmonization of United States Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS). What used to be talk is now becoming a reality. On October 29, 2002 FASB and the International Accounting Standards Board (IASB) released the Memorandum of Understanding, which announced the significant steps that are being taken to converge the US and the International Accounting Standards. There are hopes for some parts of the convergence to be finalized by 2011, but in some areas it is still to be determined. This pending change in the United States (US) raises many important questions and concerns for companies currently using US GAAP for financial reporting. What are the differences between US GAAP and the IFRS? How will this change affect US firms? Many accounting professionals are not familiar with the differences between US GAAP and IFRS, and firms are starting to struggle with the technical and system changes needed to adopt IFRS. In addition, what are the implications to current accounting students?

The International Accounting Standards Board is a non-profit organization, whose objective is to develop a "single set of high quality, understandable, and enforceable global accounting standards" (Blanchette, 2007). Currently, over 100 countries have chosen IASB as their governing accounting board or are participating in becoming part of the IASB. Professionals and students alike may not be aware that the IASB is not as foreign to the US as many may think. The US has been heavily involved with the creation of the IASB and the International Accounting Standards Committee. The US has helped with the development of the harmonization between the IASB and FASB, and the development of the International Auditing and Assurance Standards Boards (Barth, 2008). Currently, foreign companies listed on the US market may use IFRS or US GAAP. However, US companies must use US GAAP for financial reporting in the US and IFRS in other countries. This is one example of the additional costs for US companies relating to this problem.

This paper will discuss the main differences between the US GAAP and IFRS. It will include whether the harmonization is a beneficial change for the US firms, the affects of this conversion on the accounting curricula in higher education and impact on foreign analysts. Lastly, it will compare the

US convergence to the Canadian adoption. Overall, this paper will give the reader a better understanding of what will be a historic event in the financial world.

US GAAP vs. IFRS

The harmonization of US GAAP to IFRS is a historical step in the accounting profession. "The result of truly global financial reporting would be one language of business, which will enhance comparability of accounting information." (Barth, 2008). If all businesses are reporting with the same information, it will give better information to investors and will improve their ability to compare with others. The IASB and the FASB both have a conceptual framework, but differ in theory. US GAAP is rules based and IFRS is principles based which creates differences in the financial statements. The differences in their standards are due to the different technical requirements each board requires. For example, the US GAAP takes the historical cost into account when figuring out an asset's value. However IFRS has eliminated the historical cost and have values come from the present value (Beuren, Hein, & Klann, 2008). Other differences are seen in accounting for intangible assets and inventory. For example, when accounting for intangible assets IFRS allows re-evaluation of these assets, while US GAAP does not. And with regard to valuing inventory, US GAAP allows the Average Cost method, the First in First out method (FIFO), and the Last in First Out method (LIFO) which was eliminated in revision IAS 2 in 2003. (Beuren, Hein, &Klann, 2008).

One of the more significant issues indirectly affects the financial statements; it's a conceptual difference. FASB focuses more on rules and has stricter regulations for reporting certain situations. IASB on the other hand, allows more interpretation for how a rule can be depicted. This will be one of the greatest challenges for US firms to attempt to understand.

Arguments for Harmonization

Many accounting professionals have supported harmonization of US GAAP and IFRS. "Harmonization helps reduce information asymmetry, lowers the cost of capital, and increases capital flow across borders" (Bae, Tan, Welker, 2008). Information asymmetry comes from the large number of individual accounting standards in US GAAP. US GAAP has stricter rules for reporting information in comparison to IASB, so many believe it is harder for analysts to analyze information and make a proper forecast on a company which uses IFRS. Harmonization will allow familiarization of IFRS so investors have time to adjust to the changes. For harmonization to actually work it must be enforced by the states that are using it or else standards become lax and forecasts become inaccurate (Bae, Tan Welker, 2008).

There are two ways to harmonize; adoption and convergence. The difference between adoption and convergence is that countries that adopt make few modifications before setting a date to completely change. For an example, Canada made January 1, 2011 their date that all firms would adopt the IFRS. Other countries that took the adoption route are Russia, Australia, and the European Union (Barth, 2008).

The US has chosen the convergence approach. Countries that decide to converge are part of a more drawn out process that makes continual comprises until the standards become the same. The US is the leading prospect using this approach. Ever since the Norwalk Agreement, which stated the IASB and FASB would work together to arrive at the same answers in the same language to different technical questions that arise, the US has been continually working to narrow the gap with the IASB. Other countries that would use convergence are China and Japan (Barth, 2008).

Arguments against Harmonization

In order to develop one set of standards for the world, one must consider the major factors involved in developing accounting standards and their origination. Many of our standards come from each country's history and pre-existing frameworks that have evolved into the standards we have today around the world. These factors call into question: can all countries live by the same standards? The answer would be no. Certain countries need their standards for political, cultural or ethnic reasons. Another issue is cost. Changing the accounting standards for a firm will be a very costly procedure because of the training that'll need to be done to comply with the new standards, the required changes in systems and technology (Bae, Tan, Welker, 2008).

As mentioned before all countries are not run the same. The political pressures that can arise can cause major issues within an accounting board. For example, the IASB and FASB were going to issue a standard that made "recognition of expenses related to share base payments" mandatory, but FASB wanted to hold off on releasing it because of political pressures (Barth, 2008). Another factor is that countries have different priorities. Some accounting boards may think on part of a financial statement is more important than another and will make more changes to that part as opposed to another board that thinks a different area is more important.

The last major difference goes back to what was mentioned before. The different styles of standards create the most problem. FASB is a much more detailed and rule oriented board, while IASB is a judgment based board. This is the greatest argument against harmonization because the US regulations have made it easy to follow financial statements and is a black and white system of reporting financial information. The IASB is judgment based, which means that there are different ways that you can arrive at the same answer. This difference scares a lot of accountants because it is a whole new look at figuring out information. Also, this allows the argument if you are trying to have everything under one board to make accounting information one language, then if you allow different ways of interpreting concepts then that allows different languages to be used to express results. This will create divergence not convergence to reporting financial statements (Barth, 2008).

US Steps Taken to Convert

Currently the US is taking six key steps to help make the convergence with IASB a smoother process. The first steps are joint projects between FASB and IASB. These projects involve joint boards working simultaneously to complete projects in a timely manner. The two major projects being worked on right now involve revenue recognition and business combinations (FASB, 2008). The second step is a short term project involving the IASB and FASB working close together. This project's objective is to see if it is manageable to take the differences between US GAAP and IFRS and see if it is possible to make a "high-quality solution" in a short amount of time. This project will help determined the difficulties that the US will be faced with their attempts of conversion to IASB (FASB, 2008).

The third step the US has taken to help accelerate the process is hiring an IASB member to work in the FASB offices. The IASB member, James J. Leisenring, was a former FASB board member. Now he is acting as a liaison between IASB and FASB. He is a living model of what the daily life will be like in the IASB (FASB, 2008). The fourth step being taken is monitoring IASB projects. FASB is reviewing projects and determining which ones are of interest to them and overseeing the IASB process. By monitoring this process, it is allowing FASB to get a behind the scenes look at what processes the IASB takes when dealing with projects. This will serve as a model for FASB to follow in the future (FASB, 2008). The fifth element of the convergence is a research project on the convergence to IASB. FASB is looking at all of the difference between US GAAP and IRFS. By doing this FASB is ranking the difference in order of importance and finding out solutions to each of the problems. Some of the common problems that have been discussed earlier in this paper include recognition, presentation, measurement, and disclosure of different accounting transactions (FASB, 2008). The research project will provide a better understand of the difficulties which are involved in a massive transformation. The final step of the transformation is, "Explicit consideration of convergence potential in all Board agenda decisions" (FASB, 2008). This means that projects FASB is considering regarding new standards would need to comply with IASB. In addition, they continue to focus on agendas that would increase their convergence worldwide and that comply with the standard setters that have been put in place. These are the major steps that will help US firms have an easier transition into the IASB frontier.

US Academics

Whether individuals are for or against the convergence between FASB and IASB, it is inevitable that it will happen. This brings about the question of academics in the United States. Will everything accounting students learn between now and the convergence date become obsolete? How should professors prepare for this phenomenon? It all goes back to the basics. The most important element is the conceptual framework. Concepts change less often than standards, and with this knowledge students will be better prepared for the inevitable. Some colleges and universities already offer classes on global financial reporting, but now need to implement it throughout their curriculum. Faculty need to incorporate these differences in their course and assessment process to ensure students understand the differences. Since IASB is more principle based than rule based, faculty could implement each concept. These changes are especially necessary for accounting students currently in college because they are the future professionals who will be expected to have knowledge of the global issues in the next few years.

Even though the change is from US GAAP to IFRS, students should also be aware of economic concepts and issues. The study of economics gives students a different view of financial information. It allows them to understand how the financial markets work and how to value money in different terms. The curriculum at Bridgewater State College requires students to take microeconomics and macroeconomics. Both classes explain markets and how they can differ between different countries. Researchers also believe this is important. "Students need to understand that financial reporting is not about bookkeeping- it is about providing information to outside providers of capital" (Barth 2008).

Key Concepts That May Need Review

Research has shown that many accounting students have been exposed to the key accounting concepts and terms, but many of them do not actually understand them fully. One example is the matching principle. Many believe that the matching principle is just revenues and expenses that are matched up with assets or liabilities. This is untrue and it is stated as "matching concept in the conceptual framework does not allow the recognition of items in the statement of financial position that do not meet the definition of assets or liabilities" (Barth, 2008). For something to be considered an asset or a liability it must be a future economic benefit or a future economic sacrifice. By just saying that the matching principle is for expenses and revenues, many people will "match" them up with items that are not assets or liabilities (Barth, 2008).

Another concept involves terminology. When learning about relevance and reliability, some students will use the term *precision*, which is not what reliability stands for at all. When a financial statement is precise it could mean that it is what the company wants the numbers to look like. It does not include correction of errors. That is why the term that should always be used when talking about reliability is *faithful representation*. By using this term, the student is showing that to the best of their knowledge there are no biases or errors in their report. Also, it shows that it corresponds with the current economic state (Barth, 2008).

The last concept for review is the use of conservatism. The whole use of the accounting world is to have an unbiased account of financial transactions. The word conservatism in itself is stating there is a bias in the transactions because there is a reserve that is taking place. That is why accountants should take prudence, not conserving, when making estimates. The framework says, "the exercise of prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, so that assets or income are not overstated and liabilities or expenses are not understated"(Barth, 2008). By taking prudence, companies will be able to stay neutral because items will not be over or understated. Also, financial statements will be more reliable because they won't be obscured by misrepresented numbers (Barth, 2008).

Valuation Theory

One of the greatest changes that students will see is in the valuation theory. With FASB, when an asset is valued, it always involves the historical cost. When using the IFRS, they eliminate historical cost and only use the present value of an asset. One reason they use fair value is because the value is more relevant to the current economy. This value is more current which makes it more reliable especially when predicting future cash flows (Barth, 2008). Along with being reliable, fair value is also better for faithful representation because it uses the current value, which will make assets and liabilities more accurate. Lastly, since fair value is from the current period, it will make comparability between financial statements more accurate because they will all be done from a certain time period. These are the more major issues that students need to be aware of when learning the rules of the IFRS.

Foreign Analysts

Some of the greatest challenges that pose foreign analysts are how they collect their data. Many analysts analyze countries that are similar to their country because of the familiarity between their regulations and their financial statements. When Bae, Tan, Welker (2008) started to do research for their paper, they found out that accuracy in forecasting increased with firms using IASB. Another part of their research questioned the accuracy in comparable data when the countries being compared are of different stature. "Analysts with superior ability and resources consistently outperform other analysts in common law countries, where market forces provide incentives for performance, than in civil law countries, where market-based incentives are less effective" (Bae, Tan, Welker, 2008). These findings show that even with all countries on the same playing field, some will still outperform others when being compared. Even though incentive based analysts perform better, this can also put them at risk of being unethical. Sometimes their forecasts can be misguided because their incentive can cause them to either manipulate or withhold information from shareholders. These issues still arise whether it is ruled under GAAP or IASB.

Canada's Changes

During this transition to IFRS, if FASB experiences any issues, they can analyze Canada's transition. Similar to US GAAP, Canadian GAAP has already started to converge to the IASB. At the moment, only public companies are participating in this change. Other organizations will not have to implement the full affects of the IFRS (Blanchette, 2007). The key differences can be seen through the details in the Canadian GAAP system. The main differences between the IASB and Canadian GAAP is visible in impairments, financial asset de-recognition, and investment properties (Martin, Mezon, Forristal, Labelle, Radcliffe, GAA, 2008). As of right now, the finalized convergence date for Canadian GAAP to IASB is in 2011. At the moment, they have been working on different projects that have full implementation of IFRS, this way they can start their convergence process. The transformation began with trying to separate the differences between their GAAP and the IASB. This procedure has helped lubricate their transition. By 2011 though, any differences will have to be extinguished because the adoption of IFRS will finally be established (Martin, Mezon, Forristal, Labelle, Radcliffe, GAA, 2008).

IFRS 1

The IFRS 1 is a rule created to help countries that are converging into the IFRS to have special standards set in place to make their transition more comfortable. The major requirement for this rule is that the country must use the IASB for one year before it can use the IFRS1. By doing this, the company will be providing financial statements that can be comparable with future statements. Before this standard was put in place, the Securities and Exchange Commission (SEC) required that companies needed to have two years of comparative figures to be accepted. But as seen before by Australia and the European Union, they were able to get an exemption because they were becoming part of the IASB (Martin, Mezon, Forristal, Labelle, Radcliffe, GAA, 2008).

Potential Problems

Similar to the United States, Canada is trying to forecast any potential problems that may be caused by the transition to IFRS. One of the forecasted problems involves the affect a drastic change in an IFRS Standard would have on a recently converted Canadian firm. Canada does not want to adopt the International Accounting Standards and then within a year have the standards change. It would be asking Canadian firms to commit to one new change and then immediately commit to another new change. Another issue involves standards that do not have a corresponding IASB standard. Once they become part of the IASB, they will need to put in a request to have the IASB make a standard that will include similarities to Canada's old standard. They would need to take a similar approach for any non-profit organization, which tend to have more unique standards (Martin, Mezon, Forristal, Labelle, Radcliffe, GAA, 2008).

Steps to Canadian Conversion

Canadian GAAP is taking a similar approach to gradually accepting the inevitable transformation. They are involved in projects with the IASB that will help smooth their conversion. With this conversion, Canada has increased its need for qualified accountants. To be considered qualified, one must be able to understand the standards and be able to explain them to nonfinancial leaders, someone that can put the technical terms into plain English and help advise these companies through this transition period. The US SEC is making the transition easier for Canada by eliminating their need to convert financial Statements to U.S. GAAP. Now, Canada can focus solely on the IFRS conversion. (Blanchette, 2007.)

Canadian GAAP vs. IFRS

Some of the major physical difference effecting Canadian GAAP is the overall presentation of their financial statement. Similar to US GAAP, Canadian GAAP arranges their balance sheet by liquidity. IFRS allows this method to be used, but the majority of countries record their financial statements in the reverse order. This means their financial statements would have non-liquid assets first and its equity before its liabilities (Blanchette, 2007). Also, when reporting cash flows, the IFRS has a more lenient view on recording certain transactions. It allows interest received and dividends received to be recorded in either financing or operating activities. It allows different ways to arrive at the same information (Blanchette, 2007).

Similar to US GAAP, Canadian GAAP has a change in its method of valuating assets. Canadian GAAP uses historic cost to arrive at the current value of an asset, but the IFRS allows fair value. It also allows reevaluation on intangible assets, which is not allowed in Canadian GAAP. Canada has already made more of an effort in complying with this rule by using fair value to evaluate many of its assets. One of Canada's predicaments with this rule involves cost transactions from held-for-trading securities. Under Canadian GAAP, they can choose whether or not to expense or capitalize these items, while under IFRS they must include the original cost of the security (Blanchette, 2007). Another major difference can be seen in the revenue section of the income statement. Both US GAAP and Canadian GAAP, currently allow the completed contract method, which allows a company to delay reporting revenue until the contract is completed. Under IFRS, the completed contract method isn't allowed at all. This regulation is going to be a major issue with many construction companies that use this method, and will create a new comparability issue for these companies to attempt to forecast through (Blanchette, 2007). There are many similarities between Canadian GAAP and US GAAP and the changes these two countries are going to have to make to complete their transformations.

Conclusion

In conclusion, this is a very exciting time to be part of the financial world. The US is moving from an independent approach to a new global view. There are many different aspects that are affected by this major change. First, there are the physical differences between their reporting standards and regulations. Then, we see the conceptual differences between the United States Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). FASB is more rule oriented, which paves a road for strict guidelines and robotic techniques for recording transactions. On the other hand, the IASB allows firms to use different concepts that fit their company to arrive at the same answer. US accounting firms should not fear this new phenomenon, but should embrace their ability to see accounting on a whole new playing field. Companies step outside their comfort zones and see the full value of these concepts and the opportunity to use all the accounting tools that they have available to them. This paper highlighted some of the steps that both US GAAP and Canadian GAAP were taking to become part of the IASB. These countries are easily comparable because of their similar accounting systems. The timing for each of their conversions is essential for each country to learn from each other's adjustments to the new standards and learn from the difficulties or setbacks the other country has faced.

Also, students should be learning from the difficulties in converging IASB and FASB. They should understand the importance of fundamentals and understanding the basic concepts. The students of today are going to be the masters of this historical transformation. Professors need to take this into account. They need to help build strong conceptual backgrounds and start blending IFRS into their current curriculum. Also, students need to stay alert to the constantly changing regulations and standards, as the US moves towards IASB. The economics behind these changes are more important than ever before. Students need to make a stronger commitment to their economic studies to be able to excel in this change. Lastly, the reader should have a better understanding of foreign analysts, the importance of uniform information, and the factors that can cause differing information in forecasting. Overall, the reader will maintain an understanding of the United States' current situation involving the convergence to International Accounting Standards.

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