NORTHERN ILLINOIS UNIVERSITY

Implications of IFRS in the United States

A Thesis Submitted to the

University Honors Program

In Partial Fulfillment of the

Requirements of the Baccalaureate Degree

With Upper Division Honors

Department of

Accountancy

By

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DeKalb, Illinois

May 2009

University Honors Program

Capstone Approval Page

Capstone Title (print or type): Implications of IFRS in the United States

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Faculty Approval Signature:

Department of (print or type): Accountancy

Date of Approval (print or type): 04-27-2009

HONORS THESIS ABSTRACT
THESIS SUBMISSION FORM

AUTHOR: Daniel Rehor

THESIS TITLE: Implications of IFRS in the United States

ADVISOR: Mark Riley

ADVISOR'S DEPT: Accountancy

DISCIPLINE: Accounting

YEAR: 2009

PAGE LENGTH: 17

BIBLIOGRAPHY: Yes

ILLUSTRATED: No

PUBLISHED (YES OR NO): No

LIST PUBLICATION:

COPIES AVAILABLE (HARD COPY, MICROFILM, DISKETTE): Hard Copy

ABSTRACT (100 – 200 WORDS):

International Financial Reporting Standards (IFRS) is on a crash course for adoption in the United States, which uses United States GAAP. Many differences and similiarities exist between the two accounting standards. The means of adoption in the United States is still under discussion, but the ramifications will be felt in many areas. Companies will have to prepare and make the necessary adjustments in their operations. The main research method used in my thesis was business magazines and other accounting websites. Due to the fact that this topic is relatively new, many books were not sufficient for my research. My faculty advisor did a phenomenal job at providing resources that would incorporate my topic. My findings included that some industries would incur millions of dollars in extra cost due to the exclusion of some methods used currently in the United States.

International Financial Reporting Standards (IFRS) is on a crash course for adoption in the United States, which uses United States GAAP. Many differences and disparities exist between the two accounting standards. The means of adoption in the United States is still under discussion, but the ramifications will be felt in many areas. Companies will have to prepare and make the necessary adjustments in their operations. The main research method used in my thesis was business magazines and other accounting websites. Due to the fact that this topic is relatively new, many books were not sufficient for my research. My faculty advisor did a phenomenal job at providing resources that would incorporate my topic. My findings included that some industries would incur millions of dollars in extra costs due to the exclusion of some methods used currently in the United States.

Background and Introduction

Christopher Cox, former Securities and Exchange Commission (SEC) chairman, highlighted the main reason behind the possible adoption of International Financial Reporting Standards (IFRS) in the United States: "The expanded use of a single, high-quality accounting standard will eventually empower investors to make better-informed investment decisions by giving them information that is more easily comparable" (S. Johnson, 2008, *IFRS: No Longer If, but When,* paragraph 2). While over 100 countries already using IFRS, many multinational firms operating in the United States must report two sets of statements: U.S. Generally Accepted Accounting Principals (U.S. GAAP) and IFRS. By formulating two sets of statements, companies waste a great deal of time and money. The SEC believes that in order to continue to compete in the increasingly global business world one set of standards may be necessary.

In 2002, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) worked on a project entitled the Norwalk Agreement, a "commitment to developing high-quality compatible accounting standards that could be used for both domestic and cross-border financial reporting" (AICPA, 2008, paragraph 2). In 2004, both of the boards worked on a joint project aimed at correcting financial statement presentation that would allow "a common standard for the form, content, classification, aggregation, and display of line items to the face of financial statements" (McClain, 2008, p. 1). While convergence was the primary option for the FASB several years ago, the adoption of IFRS may be the better alternative, which was highlighted by a landmark decision by the SEC.

On August 27, 2008, the SEC agreed to a proposed roadmap for the transition of U.S. GAAP to IFRS, which allows some U.S. issuers to transition to IFRS for fiscal periods ending on or after December 15, 2014 (Gibson, Dunn & Crutcher, LLP, 2008). In 2016, all U.S. companies would have to comply with the new standards. In 2011, the SEC will vote to formally adopt IFRS for U.S. issuers with certain conditions attached. Since financial presentations include current and previous years, U.S. companies would have to implement IFRS in 2012 in order to be ready for the change in 2014. The SEC also allows for the voluntary adoption of IFRS by a number of companies at the end of 2009. These companies would have to meet two conditions: the issuer has a market capitalization in the top twenty in its industry and the majority of the top twenty companies in its industry already adopted IFRS (GD&C, 2008). This would include about 110 U.S. companies in over 34 different industries (GD&C, 2008). However, experts are doubtful that these companies will choose this option.

The SEC decided that companies that follow international standards and trade in the U.S. will not have to reconcile their books to U.S. GAAP, effective in 2008 (Norris, 2008). Many investors and financial analysts now need to be well informed of the differences in the international standards immediately.

While many believe that one set of standards is a benefit to investors, many other factions are worried, in particular auditors and accounting firms. Since IFRS is principles based, there is greater need for professional judgment, which could potentially lead to many gray areas. More professional judgment regarding accounting areas can lead to a greater number of lawsuits against accounting firms.

Other issues need to be addressed in the U.S. in order to be prepared for the accounting changes, including the CPA examination. The CPA examination is an area that may undergo significant alterations. Debra Hopkins, director of the CPA Review program at Northern Illinois University, stated that the plan for IFRS on the CPA examination is to first test the basic standard setting processes and the technical issues when they are finalized. The IFRS content would be on the Financial Accounting and Reporting section on the CPA examination around 2011. Accounting training and education will undergo an overhaul. Many employees at accounting firms are unfamiliar with the international standards and rely on experts for guidance.

The Big Four accounting firms are taking a proactive approach to the impending IFRS change. Deloitte has set up case studies and lectures involving international accounting in "an attempt to speed the integration of IFRS into the college curriculum" (Harris, 2008, *Big Four Makes Plans*). Ernst & Young founded the Academic Resource Center that focuses on educating faculty members on emerging global issues. Klynveld Peat Marwick Goerdeler (KPMG) created the IFRS Institute and KPMG's CEO stated that it would "give a voice to each participant in the financial reporting process" (Harris, 2008, *Big Four Makes Plans*). PriceWaterhouseCoopers (PWC) has been working on IFRS-related issues through its University of Faculty. Not to be outdone is the U.S. company ContractualCFO, which offers "self-study" programs for accountants to learn IFRS (Harris, 2008).

Implications for Companies

The cost to covert to IFRS would fall mainly on the companies who must adopt the new standards. According to *Defining Issues* (2007), a pamphlet by KPMG, companies would incur costs "to adapt systems, train personnel, and gain the experience needed to efficiently and effectively apply the knowledge gained from training" (Bielstein, p. 3). There would also be a conversion plan developed to identify and quantify differences between U.S. GAAP and IFRS. These costs may be considerable, but many are considered nonrecurring and would not be as substantial with companies that already have foreign operations. In fact, according to the pamphlet there may be a net decline in costs due to the elimination of the two sets of standards for foreign segments that must use international standards in their operations but U.S. GAAP for financial presentation (Bielstein, 2007).

A company looking to get a head start on the conversion to IFRS can save expenses and have a significant advantage over their competitors. Since the earliest change is in 2014, a company should have parallel IFRS information beginning in 2012. This will allow for the identification of any gaps in information needs and a strategy for companies to bride this gap (Ernst & Young, 2008). Management should already be considering the effects of converting to IFRS and the corresponding planning activities. According to Ernst and Young's pamphlet entitled *IFRS for audit committees and boards of directors* (2008), "companies should start the conversion process with a diagnostic—that is, identify differences between their current accounting policies and practices and IFRS and analyze the major impacts to systems, processes, etc" (p. 5). Internal controls need to be modified and strengthened due to the lack of clear rules under IFRS. Since IFRS sometimes allows for multiple accounting options, management should identify and decide which options they believe will best represent their financial results and position. Larger companies should recognize peers that have already adapted IFRS in their respective countries and use their information as a foundation for their own transition plan.

Because of the potential risks involved with converting to IFRS (e.g. multiple accounting frameworks, excessive costs, missed deadlines), effective communication is paramount to the success of early implementation. Communication centers on the ability of the company to detail the possible effects of IFRS on their financial reporting so that no one is caught off-guard and everyone is prepared in the same way. Ernst & Young (2008) adds that "clear, continuous and consistent communication with stakeholders will reduce the risk of misunderstandings and aid a smooth transition" (p. 7). Companies will have to weigh the costs/benefits of the early transition to IFRS and decide if it is in the company's best interests to pursue this action.

Many companies are already complaining about the enormous task of IFRS conversion and the lack of time in which they achieve it; this transition will impact not only company's financial reporting but many other factors, including their internal controls and financial benchmarks. However, after a 2002 mandate by the European Commission, European companies took only three years to change from home-country GAAP to IFRS (Johnson, 2007). The process went smoothly and was considered an overall success. Since companies already know of the IFRS conversion date, there is a six-year window for companies to become acclimated to IFRS -- twice the amount granted to the European companies. In fact, the change is considered easier for U.S. companies due to the fact that both sets of standards are somewhat similar. While cost is considered the biggest worry about IFRS, more and more companies are accepting the fact that IFRS is inevitable and will pay off in the long run.

Need for Uniform Standards

Over 100 countries currently use IFRS. Many of these countries are similar economically to the U.S. (France, Japan, Great Britain). One of the reasons to adopt IFRS in the U.S. is to compete for investment capital with the rest of the developed world. Comparability is important in investing and U.S. GAAP was a major roadblock for some international investors. Some investors had uncertainties as to the accuracy of U.S. GAAP and were hesitant to invest in U.S. companies. With the adoption of IFRS, investors would have the ability to clearly compare companies along the same parameters. Former SEC Chairman Cox fully supports this rationale as the main motive for the IFRS adoption.

The decision for uniform standards is emphasized in a survey by the International Federation of Accountants. They asked 143 accounting leaders from 91 countries to rate how important the convergence of standards is. Eighty nine percent said it was "very important" or "important", while just nine percent indicated that the convergence of standards was "somewhat important" (Rappeport, 2007). A single set of accounting standards was considered important for economic growth.

Similar to this, PWC's pamphlet entitled *10 Minutes on IFRS* (2007) lists four key reasons why IFRS in the U.S. will prevail. The first is globalization. They list more than 12,000 companies and 100 countries already using IFRS and that the U.S. is the largest of the hold-outs. The second reason deals with the complexity of the current U.S. standards. "Decades of detailed guidance and brightline answers are difficult to navigate and apply correctly," the pamphlet argues, "IFRS offers a sophisticated and simplified platform for a fresh start" (p. 1). Thirdly is the idea that convergence of the two dominant accounting frameworks is a difficult procedure. While progress has been made to unite both standards, PWC suggests that the law of diminishing returns will make adoption the overriding conclusion.

The last reason why IFRS will eventually arrive in the U.S. is that it "will create cost efficiencies for global companies" (PWC, 2007, p. 1). PWC notes that many forward-looking companies are already preparing for IFRS with the goal of savings and efficiencies. As a result, common accounting and financial reporting will increase global comparability, reduce complexity and the risk of errors, and increase the competitiveness of U.S. companies and capital markets by removing barriers (PWC, 2007).

Differences between IFRS and U.S. GAAP

Principles versus Rules

There are many differences between U.S. GAAP and IFRS, which focus on the area of subjectivity in its measures. As previously indicated, the current U.S. system is rules based while IFRS is principles based. This means that under U.S. GAAP, there are strict rules and regulations governing the accounting treatment of specific types of transactions. However, under IFRS there is more room for professional judgment and leeway in certain areas, allowing the accountant to use his or her expertise to formulate the response. Using one's expertise opens up a Pandora's Box for legal matters. According to a PWC briefing document (2008), "If an accounting and reporting framework that relies on professional judgment rather than detailed rules is to flourish in the U.S., the legal and regulatory environment will need to evolve in ways that remain to be seen" (Crovitz, paragraph 11). The differences between philosophies are tremendous: under IFRS, there are about 2,500 pages of accounting regulations, where U.S. GAAP has over 2,000 separate pronouncements and each can be hundreds of pages long (McClain, 2008).

U.S. GAAP uses more of a numerical approach in setting guidelines than IFRS. For example, one of the requirements for a lease to be considered a capital lease is that the asset must be owned for greater than 75% of its economic life. IFRS, however, uses the term "a majority" of the asset's life instead of using a concrete number. Accountants are given more authority in determining revenue under IFRS than U.S. GAAP. IFRS believes that if the money received is reasonably assured, revenue can be recorded. U.S. GAAP follows a strict guideline where revenue is usually deferred until received.

Asset Impairments

Another difference is the impairment of assets. When a long-term asset (usually goodwill or an intangible asset) is impaired, there is recognition of a loss and corresponding journal entries follow. The impairment is written down to the newly determined amount. Under U.S. GAAP, the method for determining impairment is a two-step approach: first, the carrying amount of the asset is compared with the projected undiscounted cash flows from the assets. There is no impairment loss if the carrying amount is lower than the undiscounted cash flows. Second, if the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying amount and fair value (price received on the open market). There are more impairments under IFRS than U.S. GAAP, which could have an impact on a U.S. company's financial statements.

Under U.S. GAAP, the reversal of a loss is prohibited, while IFRS allows for long-term assets to be reviewed annually for reversal indicators (Ernst & Young, 2008, *U.S. GAAP vs. IFRS*). Since IFRS allows for the annual review of assets and a less complicated approach to determining impairment, impairment of a long-term asset would occur at an earlier stage than under U.S. GAAP.

Valuing Inventory

Inventory is considered an asset that is held for sale under the ordinary course of business, in the process of production, or as supplies to be consumed in the production process (Business Town, 2003).

A write-down of inventory happens when the inventory's fair market value falls below cost, which would decrease the value of inventory. Under U.S. GAAP the reversal of any write-downs are prohibited. IFRS require that previous write-downs reversed must be changed in the period where the reversal occurred. The reversal is shown on the income statement. In addition, inventory valuation varies significantly between GAAP and IFRS and will be addressed in full detail. Methods of inventory costing and two other differences, lease accounting and revenue recognition, are the three biggest disparities under IFRS and can have an influence on a company's financial performance.

One major roadblock in the adoption of IFRS in the U.S. is the concept of inventory costing. Inventory costing is how a company assigns costs to its inventory. There are several different ways to do this. First is the FIFO (first in, first out) method, which states that the first items of inventory bought are considered the first to be sold. There is specific identification, which uses a detailed physical count and is used particularly in the jewelry and airline industries. The weighted average method is another, which is the total cost of items in inventory available for sale divided by the total number of units available for sale (Business Town, 2003).

LIFO

An additional method used in the U.S. is called LIFO (last in, first out), which means that the last items of inventory purchased are the first sold. In times of inflation or rising prices, LIFO gives companies the greatest tax break: since the computation to determine taxable income starts with sales less cost of goods sold, LIFO would have the highest cost of goods sold, decreasing gross margin and eventually taxes.

There is also the LIFO conformity rule in the U.S., which states that if LIFO is used for tax purposes it must be used for financial reporting purposes (an IRS rule). Under U.S. GAAP, FIFO must also be disclosed in the financial footnotes. LIFO will understate assets, which will create unfavorable financial metrics. Companies face a dilemma in using LIFO: take the tax break and a higher cash flow or allow for better financial numbers. This dilemma may be short lived due to the fact that LIFO is not permitted under IFRS.

Companies using U.S. GAAP presently may experience significantly different operating results and cash flows under IFRS (PWC, 2008, *IFRS and US GAAP Similarities and Differences*). If the IFRS methodology is used for inventory costing, a substantial change will occur for many U.S. companies, especially in the construction industry.

Caterpillar and John Deere are two of the many U.S. companies that could experience increased taxes if LIFO is eliminated due to the adoption of IFRS. Caterpillar is a major producer of farm and construction equipment, with revenues in the billions of dollars. According to its year-end financial statements for 2007, if the FIFO method had been used, inventories would have been $2.6 billion higher than reported at December 31, 2007. The difference is called the LIFO reserve, which is the difference between ending inventory under LIFO and FIFO. Under IFRS, the LIFO reserve would not exist because Caterpillar would only use FIFO. LIFO reserves increase assets and equity, thereby increasing the company's earnings. In Caterpillar's case, since the LIFO reserve was $2.6 billion in 2007, the company would add $2.6 billion to their assets and equity. If Caterpillar has to pay taxes on this difference, it will owe almost $75 million to the government, assuming a 35 percent tax rate.

Similar to Caterpillar, John Deere had a LIFO reserve of $1.2 billion for 2007. This number signifies that LIFO is $1.2 billion lower than FIFO in 2007. Since this number is material, John Deere would add $1.2 billion to its assets and equity in 2007 and would owe over $30 million in taxes to the government, assuming a 35 percent tax rate. While IFRS is proposed to arrive in the United States fiscal year ending 2014, LIFO is one potential barrier. Many lobbyists in Washington, especially from the oil and chemical companies, will push hard for the continuation of LIFO. Congress would prefer to repeal LIFO and leave FIFO due to the increase in taxes.

Leases

Accounting for leases is another area where disagreement arises. A lease is an agreement where the lessee obtains the agreed upon item and compensates the lessor in return. Several advantages exist under leases, a few being that there is no money down at the purchase date, less risk for the lessee compared to a loan, and protection against obsolescence. To become a capital lease under U.S. GAAP, the lease must meet one of four criteria: there is implication of a transfer of ownership, a bargaining purchase option exists at the end of the lease term, the lease covers 75% of the asset's economic life, or the present value of the minimum rental payments is 90% or more of the fair market value of the asset (*Lease Accounting Rules*, 2006). If the asset does not meet any of these requirements, the lease is considered an operating lease. Operating leases are not reported on the balance sheet. Instead, the lease is treated as an expense and only appears on the income statement. Most companies prefer operating leases because the present value of the lease expense under a capital lease is treated as debt. Companies try to structure leases so they qualify as operating leases.

IFRS follows a similar set of principles regarding leases. Under IFRS, a capital lease is called a finance lease and must meet one of *five* requirements. The first two are the same as U.S. GAAP but the next three are slightly different. Under IFRS, the term of the lease covers *a major part* of the asset's economic life. The present value of the minimum lease payments equals to *nearly all* of the asset's fair market value. The fifth criterion states that the asset leased must be specialized in nature and only useable by the lessee unless major adjustments are made to the asset (IAS, 2008). In other words, the asset must be of special purpose for the lessee to use (Epstein, 2008).

Note the contrast under the third and fourth criteria: U.S. GAAP uses a numerical amount to indicate a capital lease, while IFRS uses the terms "a major part" and "nearly all". There is no exact number to decide what is "a major part" and "nearly all". The difference is attributed to the main philosophy of each accounting standard, where IFRS is principles-based and allows for more professional expertise in its accounting. U.S. GAAP sets clear and easily determinable guidelines in its practices. While many companies enjoy the benefits of operating leases, the FASB is pushing hard to require that more leases appear on the balance sheet. The main reason behind this change is to give investors a better picture of a company's performance. Considering that the estimated total of all operating leases is roughly $1.25 trillion, this would have a major impact on financial reporting (*New FASB/IASB Project*, 2006.). The FASB and IASB are currently working on a solution and the change from operating to capital leases is believed to transpire by 2011 (*New FASB/IASB Project*, 2006). The airline industry is one of the many that could be impacted greatly, as many companies lease their aircraft and other flight equipment.

Southwest Airlines is one of the most successful airlines today. In the notes to the financial statements, Southwest discloses almost $2.4 billion in operating leases. In 2007, Southwest had only nine aircraft classified as a capital lease, totaling $168 million. The total operating leases for Southwest in 2007 for 86 aircraft was $469 million, well above the capital lease amount. The elimination of operating leases would significantly alter Southwest's financial numbers. Using the present value tables for $1, each operating lease amount will be discounted to its present value and capitalized. To reiterate, capitalization is where a lease is allocated to an asset account and depreciated over its useful life. In addition, there is a charge to a liability account as payment for the lease. For 2008, there is $400 million tied to operating leases. In order to capitalize this amount, the discount rate used will be 6 percent.

Using the tables to compute the present value, over $377 million would be capitalized, and this amount would increase Southwest's property, plant, and equipment as well as their long-term liability. This would result in substantial change to Southwest's financial ratios and impact their overall business. For example, their debt-to-equity ratio on their current numbers is 0.992, but with the inclusion of the capitalized leases, this changes to 1.536. The change would influence potential investors and Southwest may take further action to decrease the amount. Since Southwest has operating leases extending beyond 2008, these must be capitalized as well. Computing present value for each of these amounts, roughly $1.44 billion would be added to their equipment and long-term debt. As one can clearly see, this enormous quantity would greatly alter Southwest's balance sheet and financial metrics.

Delta Air Lines is another airline that could see a great difference. According to their financial statements, Delta has about $4 billion in operating leases, ranging from $755 million in 2008 to $1.477 billion after 2012. Using the 6 percent discount rate, about $3.42 billion would appear under Delta's flight and ground equipment under capital leases and long-term debt.

Revenue Recognition

Revenue recognition is one of the biggest areas of discrepancy between IFRS and U.S. GAAP. Revenue recognition is a complex issue due to the difficulty of determining when revenue is actually "earned". FASB issued SFAS 48, which stated that revenue cannot be recognized until it is realized, realizable, and earned (FASB, 2008). This means that in many cases a product cannot officially be called revenue until the product is formally delivered to its customer and a transaction takes place. For example, if a painter agrees to paint a building in June for $1,000 and the money is paid in January, does the painter actually recognize the $1,000 as income for his or her business? Some believe that since the painter has the money in January this is actually income that can be recognized as revenue. However, since the services were not performed until June, the money cannot be recognized as revenue and must be allocated over the duration of the paint job.

IFRS and U.S. GAAP differ in their policies under revenue recognition. Many of these policies impact revenue recognition for software companies. Under U.S. GAAP, AICPA's Statement of Position No. 97-2 details a four-part test to determine the recognition of revenue. First, persuasive evidence of an arrangement must exist. This means that a real contract needs to exist (Revenue Recognition, 2008). Companies have to wait until a signed contract is returned to recognize revenue. If a product is shipped on May 31 but the signed contract is not received until June 1, no revenue can be recognized in May. The second requirement is that delivery must have occurred. The title needs to be transferred in order for an actual delivery to take place (Revenue Recognition, 2008). Third, the vendor's fee is fixed and determinable and, finally, collection is probable. These tests merely apply to actual software and do not take into account the development, licensing or customization of software.

When software companies bundle their products together, this is known as a "multiple-element arrangement". The recognition of revenue under multiple elements is complex. When multiple elements are delivered, a VSOE needs to be considered. VSOE stands for vendor-specific objective evidence, which is basically the price that would be charged for each individual segment. If there is a VSOE, the total contract revenue is "allocated among the elements of a contract in proportion to the fair value of each element, regardless of the prices specified in the contract" (PWC, 2008, *A Shifting Software Landscape?* p. 9). When no VSOE exists, third-party objective evidence can be used (PWC, 2008). However, in many cases no VSOE can be determined. As a result, there is a complete deferral of revenue. IFRS, on the other hand, does not have the VSOE requirement in order for revenue to be recognized and has no other equivalent requirement (PWC, 2008). This would indicate that, under IFRS, revenue can be recognized earlier under U.S. GAAP in many instances. In addition, under an extended license agreement, IFRS allows for the entire recognition immediately, while U.S. GAAP would have to wait. Here is a scenario of the discrepancy:

> For example, consider a software company that makes an extended license agreement with a customer over a five-year period and expects to collect $100,000 each of those years. Under IFRS, the company could record that revenue up-front, whereas a GAAP filer would have to account for the fact that the terms of the arrangement – and the expected payments – could change over time. (Johnson, 2008, *The Revenue Recognition Paradox*, paragraph 5)

The IFRS philosophy allows for more flexibility and the option to recognize revenue sooner. IFRS focuses more on the economic substance of transactions, rather than the specific criteria for revenue recognition that U.S. GAAP follows. Also, under IFRS, the completed-contract method is prohibited (PWC, 2008). The completed-contract method applies mainly to construction companies and states that no revenue is recognized until the project is completed. This will result in the recognition of revenue earlier under IFRS.

U.S. GAAP uses the incremental cost model, which is vastly different from the multiple-element approach (PWC, 2008). The result of IFRS will lead to a deferral of more revenue and profit (PWC, 2008). In summary, the PWC study stated that the IFRS approach allows for a "greater scope of judgment" for accountants but may offer little comfort as a replacement for U.S. GAAP. (Harris, 2008, *PWC Sees Revenue Recognition Snag*)

Conclusion

As illustrated by the examples, the adoption of IFRS would involve a significant change in a company's financial reporting. Not only would the accounting profession see these changes, potential investors need to be cognizant of the new accounting alterations. Since IFRS stresses professional expertise and judgment in many of its financial reporting decisions, it may take time for accountants to become fully aware of the expanded subjectivity. This could lead to an increase in litigation against accountants and auditors, since an increase in subjectivity can lead to gray areas that make the accountant liable.

While IFRS has its risks, many benefits are apparent. Globalization is a major reason that the United States has chosen the apparent path of adopting IFRS. Since the world is becoming more globally competitive, the U.S. will be doing itself a favor to adopt the standards used in over 100 countries. This will allow for easier access to foreign capital and lower the costs for multinational firms (Briginshaw, 2008). In addition, IFRS is less complicated and more concise. As previously stated, IFRS has about 2,500 pages of accounting regulations, where U.S. GAAP has many times more. IFRS put many decisions in the hands of the accountant, allowing the accountant to use his or her knowledge instead of abiding by strict rules.

When the FASB tried to convince the IASB to change its rules on fair value to the U.S.'s historical cost, the IASB vehemently opposed it. The new guidance being proposed "encourages companies to do more legwork than merely relying on the last traded price when they estimate the fair value of securities that are not actively traded" (Microsoft Dynamics, 2008, paragraph 7). According to a report, there was a "terse" exchange between members of both boards about the quality of the U.S.'s proposal (Microsoft Dynamics, 2008). Recently appointed SEC chairwoman Mary Schapiro has not yet stated her opinion on the controversy surrounding fair value accounting, but is a little apprehensive towards the adoption of IFRS. The price tag for companies converting to IFRS seems to be the sticking point behind her apprehension, she said that she "will not be bound by the existing roadmap that's out for public comment" (Johnson, 2009, paragraph 11).

Nonetheless, the adoption of IFRS is a clear possibility and with it will come its advantages and disadvantages. IFRS will affect many different entities and change accounting as we know it today. Former Chairman Cox summed it up best in highlighting the chief advantage of adopting IFRS: "A global set of high quality standards would be an international language of disclosure, transparency, and comparability" (Sukhaj, 2008, paragraph 4).

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