

How to get ready for IFRS

By Robert G. Zunich, CPA, ABV

Financial statements have traditionally been prepared on GAAP basis (generally accepted accounting principles) or OCBOA basis (other comprehensive basis of accounting). Small and medium business owners generally refer to the former as accrual method and the latter as cash or tax method accounting. These options have expanded with the International Accounting Standards Board (IASB) set of accounting standards, which are known as International Financial Reporting Standards (IFRS). To make these standards even more relevant, the IASB further released the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). IFRS for SMEs are a self-contained document of 230 pages tailored to the needs and capabilities of small and medium-sized nonpublicly accountable businesses.

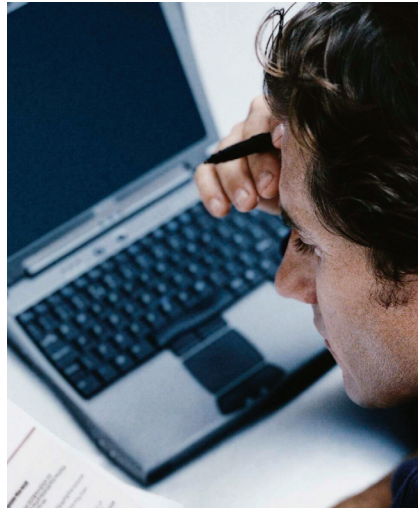
Not too long ago if a small or medium business owner even knew what IFRS stood for, his or her common reaction was it was not going to be applicable to his or her business. However, the tide may be turning. Recently, I have noticed the topic of IFRS is coming up more frequently, which suggests it is becoming more commonplace. For example, a manufacturing client of mine, who reports its operating results overseas, recently received a request that its financial statements be prepared in accordance with IFRS. At my daughter's basketball game, a friend who is a chief financial officer of a local company raised the question as to my thoughts on IFRS. I believe IFRS will continue to gain traction.

How does IFRS differ from U.S. GAAP?

IFRS is more principles-based while U.S. generally accepted accounting principles (GAAP) is rules-based (it is comprised of many forms of authoritative pronouncements and industry-specific requirements). It should be noted U.S. GAAP was recently codified into a single authoritative source.

Some of the more notable differences are:

- IFRS does not permit use of last in, first out (LIFO) as an acceptable inventory method.
- IFRS has different probability thresholds and measurement objectives for contingencies.



- IFRS guidance regarding revenue recognition is less extensive than GAAP and contains relatively little industry-specific instruction.
- IFRS has comparative financial statement requirements.
- Different accounting policies are not permitted within a consolidated group.

These are a few of the more common differences. IFRS for SMEs represents a simplification of IFRS. Further support for IFRS for SMEs can be noted in the FAQs section of www.ifrs.com where the following question is asked and answered:

Q: Are IFRS and IFRS for SMEs considered generally accepted accounting principles?

A: Yes. The AICPA's governing council recognizes the ISAB as an accounting body for purposes of establishing international financial accounting and reporting principles. Full IFRS and IFRS for SMEs are not an other comprehensive basis of accounting (OCBOA). Rather, they are generally accepted accounting principles.

Given the movement toward IFRS, what should your company be doing now?

The place to begin assessing the need for IFRS prepared financial statements is review-

ing the user of your financial statements. Do you currently have or plan to have users and/or stakeholders outside of the U.S.? This should be forward-thinking and in conjunction with your business plan. This assessment should also include your foreign competitors who are preparing financial statements under IFRS. If the possibility of using IFRS warrants further assessment, I suggest the following key elements to adoption:

- Educate your implementation team. Understand the key differences between U.S. GAAP and IFRS and how they impact your accounting policies and financial reporting. Stakeholders in your financial statements may need this education to function properly in their oversight roles.
- Adopt methodology. Senior management, the board and project management should employ best practices and support for the conversion process.
- Set and adhere to a conversion timeline. Understand the options and requirements of IFRS and IFRS for SMEs.
- Solicit feedback and input from both financial and nonfinancial departments. Obviously, consider the impact to your financial reporting system. Modifications may be necessary to your payroll, treasury, general ledger, etc. systems. Other areas, for example your IT department, should also be kept in mind.
- Learn from the pains of others already converted. Poor planning included treating the change as a basic accounting and reporting exercise and failing to effectively plan with adequate resources. Companies suffered from these poor decisions by spending post-conversion years incurring costs and utilizing resources.

As it becomes more commonplace to do business worldwide, the preparation of IFRS-based financial statements will become more commonplace. The aforementioned simple steps are a good way to begin to understand and plan for these changes.



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