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IFRS Is Here To Stay: The Global Implications of its Adoption on Publicly Listed Companies' Cost/Benefit Analysis

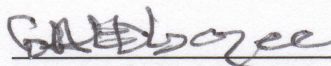
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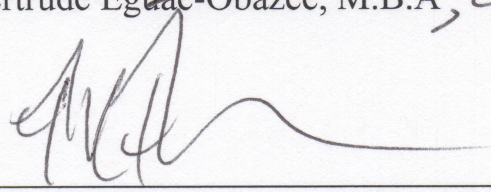
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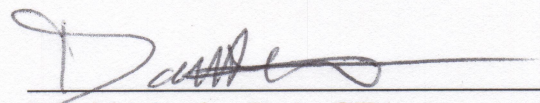
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IFRS Is Here To Stay:

The Global Implications of its
Adoption on

Publicly Listed Companies'
Cost/Benefit Analysis

By: Wanda Brown

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IFRS IS HERE TO STAY:

THE GLOBAL IMPLICATIONS OF ITS ADOPTION BY PUBLICLY LISTED COMPANIES' COST/BENEFIT ANALYSIS

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EXECUTIVE SUMMARY

- **Accounting was invented as a result of complex transactions** which needed to be recorded. Double entry bookkeeping originated around the 13th century, and evolved into “accounting” due to the growth of international commerce between Europe and the Middle East. The intersection point of this massive trade was in the Northern Italy states; which is where accounting was invented (Anders).
- **The 19th century brought about more changes** as businesses expanded in size and distance. The Cotton Gin and the Industrial Revolution were two major factors in the expansion of the accounting system. The formation of corporations resulted in owners needing assistance with reporting to their creditors and shareholders (Anders).
- **The 20th century brought about many other changes** that need to be addressed. Factors such as globalization, a surge in international trade, advanced technology, advances in

infrastructure of telecommunications, the breakdown of trade barriers, and different countries' current trends in exports and imports of goods and services require a universal accounting language. Other negative factors, such as the downfall of Enron in 2001 and white collar crimes increased a need for changes in accounting standards (Choi & Meek, 2008 p.35).

- **The Securities Exchange Commission** oversees the U.S. financial market and accounting standards board. It was created as a regulatory agency after the stock market crashed in 1929. Soon thereafter, the SEC granted Accounting Standard Board authority to establish Generally Accepted Accounting Principles, (GAAP).
- **For the past 75 years** guidance, exception, and amendments of financial reporting standards have been directed by U.S. GAAP (Largay, 2008). Many view U.S. GAAP as having been the “guiding light of accountants for decades,” and many speculate that something will be lost with full acceptance of IFRS. This view creates hesitancy of many to accept the adoption of IFRS (Scannell & Slater, 2008).

➤ **International Financial Reporting Standards (IFRS)**

are a set of global accounting standards that were written by International Accounting Standards Board, (IASB). The reporting goals of IFRS include transparency, enforceability, understanding, high quality, and comparability in a globalizing economy (Bradford, 2008).

➤ **There are multiple differences** between GAAP and IFRS.

Major differences include:

- GAAP is historically rule based, while IFRS is principle based (Scannell & Slater, 2008).
- Valuation of inventory varies between GAAP and IFRS. GAAP allows the usage of LIFO but IFRS does not (Sorensen & Kyle, 2007).
- Research and development costs are generally expensed under GAAP, but under the principles of IFRS these costs are amortized once a project gets to the development stage (Scannell & Reilly, 2007).

- GAAP has specific directives in the oil and insurance industry, whereas IFRS does not (Scannell & Slater, 2008).
- **IASB, the overseer of IFRS, and FASB**, the overseer of GAAP, signed the Norwalk agreement in 2002, and they are currently working on ways to reconcile the differences in these reporting standards. Beyond reconciliation, the need exists for one accounting language to be universally spoken (Gill, 2007).
- **Without a unified accounting language**, comparisons of financial statements are virtually impossible, and/or extremely costly to all concerned. IFRS offers greater ease of interpretation of global financial statements. A global benefit will be added with a universal accounting language (Stanko, 2000).
- **Each user should have financial statements** available to read and compare financial statements. Currently, a huge comparability problem exists due to different countries' usage of different accounting rules and regulations. Countries such as the United States, Japan, and Mexico report according to their

respective GAAP. Approximately 100 countries require or permit implementation of IFRS. This number is expected to grow in the near future (Heffes & Graziano, 2007).

Factors such as culture, laws and regulations, capital market structure, and a country's business and legal environment significantly contribute to each country's accounting practices (Murphy Smith, 2008).

Globalization is demanding the use of one universal accounting language in an effort to harmonize standard accounting globally (Murphy Smith, Sagafi-Nejad & Wang 2008).

- **Consequences arise** when publicly listed companies do not adhere to one set of standards. Difficulties arise when an economic event is reported with different values. GAAP includes the principle of comparability. However, with different countries reporting according to their native GAAP, there is a global lack of comparability (Stanko, 2008).

This lack of global comparability produces bad decisions in an effort to obtain overseas operations. Non comparable items may skew an analyst's recommendation concerning a credit

rating of a foreign company. Investment decisions can be negatively affected without comparability. A domestic producer may use an overseas supplier, when in fact it may have been wiser to use a local producer (Stanko, 2008).

- **Conclusion:** Superior economic analysis is more likely to occur with the globally uniform, transparent accounting system offered by IFRS. A uniform global reporting standard will allow for more clarity, consistency, and comparability (Stanko, 2008). I believe that the global benefits outweigh the implicit costs of publicly listed companies' adoption of IFRS.

Accounting has changed drastically after the 13th century, and we have had to adapt to these changes. These changes resulted in added costs, but huge costs were also incurred because practical accounting changes were absent.

Some publicly listed companies report according to U.S. GAAP, other publicly listed companies report according to their native GAAP; yet, other publicly listed companies from various countries report according to IFRS.

There are significant differences in GAAP and IFRS, which can have a great impact on an investors or entities decision-making process. The relevance in this matter is that different countries report using different standards. Thus, an important component is currently omitted in the business world. Globalized capital markets, trade, technology, and communications, among other 20th century demands is driving the need for a unified accounting reporting system.

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INTRODUCTION

The intent of this paper is to provide the reader with a brief history of the changes in accounting, and to provide a context and an understanding that the time has come for yet another change, known as International Financial Reporting Standards, IFRS.

Currently, many publicly listed companies report according to their countries' respective GAAP, while other publicly listed companies report according to IFRS. GAAP has provided guidance, exceptions, and amendments for the past 75 years (Largay, 2008).

In 2002, the Norwalk agreement was signed by FASB and IASB, as an effort to reconcile the difference between them. I have highlighted below some of these differences between GAAP and IFRS in an effort to show the lack of comparability and transparency in our current accounting standards globally, as well as to bring awareness of some of these discrepancies to the reader (Gill, 2007).

Globalized capital markets, trade, technology, and communications, among other 20th century demands are driving a need for one universal language of accounting/a uniform reporting system, known as IFRS.

IFRS became of interest to me during my International Accounting Seminar at Albright College, and it is a “buzzword” of accounting; thus, my research began. After researching much information, I believe that the time for IFRS is now and currently, there is no other standard that offers global comparability, high-quality, and transparency.

Although there is hesitancy among accountants to change from GAAP to IFRS, I strongly believe that the implications of publicly listed companies’ reporting adoption of IFRS will result in benefits to investors, merchants, and creditors, and that those benefits will outweigh the costs.

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HISTORY OF ACCOUNTING

During the Middle-Ages, international commerce between Europe and the Middle East expanded greatly. Northern Italy was the intersection point of this trade. The development of double entry bookkeeping, which is the genesis of modern accounting, resulted (Choi & Meek, 2008 p.2).

Accounting originated around the 13th century in the Italian city states. The oldest surviving textbook “The Summa,” was written by Luca Pacioli in 1494. Some argue that he did not invent accounting, but rather that he expanded the knowledge of accounting; however, Luca Pacioli is accepted as the “Father of Accounting” (Anders).

To assist the merchants of the Fugger Era¹ and the Hanseatic League², accounting migrated to Germany (Choi & Meek, 2008 p.2).

French Government officials began applying double-entry bookkeeping to governmental planning and found that this added to accountability, while Netherland business philosophers tightened their methods of calculating periodic income (Choi & Meek, 2008 p. 2).

¹ The first member of the Fugger Era is noted in history during 1357. The Fugger family is known as a historically prominent family, which was a group of European bankers.

² The Hanseatic League recognized for the trade monopoly in northern Europe during the 13th-17th centuries

Modern day accounting spread to the British Isles. In 1850, Scotland organized public accounting. England organized its accounting system around 1870. The British accounting principles subsequently spread to North America and throughout the British Commonwealth (Choi & Meek, 2008 p.2).

In 1887, thirty one accountants formed The American Institute of CPAs, (AICPA), was a charter member of the International Accounting Standards Committee, and it has applied itself to the advancement of international convergence of accounting standards (IFRS: An AICPA Backgrounder, 2008).

The invention of the Cotton Gin by Eli Whitney and advances of The Industrial Revolution spurred a new accounting trend in the 19th Century. These important historical factors assisted in the process of corporation formation. Businesses' physical sizes, mechanization, employees' cultivation, and transportation also had a major impact on the expansion of accounting (Anders).

When businesses organized as corporations, this resulted in issuance of stocks and bonds. The corporate formation required that the corporations' reporting of financial statements be made available to the stockholders and

creditors. The enlargement of governmental regulation and taxation of these corporations became inevitable (Anders).

With tremendous growth of corporations, managers were encumbered with the task of running their business, as well as reporting such information. The growth of businesses' size and distance necessitated enhanced accounting methods (Anders).

The stock market crashed in 1929. Soon thereafter, Congress to vote for the regulation of the securities market, and this task was assigned to the Securities Exchange Commission (SEC).

During the 1970's, the SEC assigned FASB to the task of governing GAAP, which is the current basis of financial accounting. GAAP is the current reporting standard of countries such as the United States, Japan, and Mexico. These countries currently report according to their respective GAAP (Bradford 2007).

During the 20th century, a need arose for companies to report internationally. Thus, International Accounting Standards Committee (IASC) issued International Accounting Standards (IAS) from 1973 to 2000. The trustees of the IASC Foundation are the overseeing body of IASB, which began formation in 2001 due to the demands of the expansion

of a globalized capital market and the Enron scandal (Murphy Smith, Sagafi-Nejad & Wang, 2008).

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GENESIS OF IFRS

IASB is based in London and is funded by various sources, such as the banking industry, and private and public accounting firms (Bradford, 2007).

IASB consists of a committee of fourteen members from nine different countries. Each of these committee members is permitted one vote for each accounting standard. The IASB is working to develop global accounting standards (Bradford, 2007).

IASB has the assignment of extensively researching accounting standards and procedures. It has also attempted to harmonize regulations with an effort to prepare and present financial statements globally, i.e. IFRS (Bradford, 2007).

In an effort to meet the demands of the 20th century, a principle based reporting standard known as IFRS was written by the IASB Accounting. IASB commenced the standard setting activities of International Financial Reporting Standards (IFRS) (Murphy Smith, Sagafi-Nejad & Wang, 2008).

The International Accounting sixth edition written by Frederic D.S. Choi

& Gary K, Meek, lists the objectives of the IASB as:

- “1. To develop, in the public interest, a single set of high-quality, understandable, and enforceable global accounting standards that require high-quality, transparent, and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions.
2. To promote the use and rigorous application of those standards.
3. In fulfilling the objectives associated with (1) and (2), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies.
4. To bring about convergence of national accounting standards, and International Accounting Standards and International Financial Reporting Standards to high-quality solutions” (Choi & Meek, 2008 p. 291).

Approximately 100 countries have adopted IFRS. In 2002, consolidation of financial statements became a requirement by 2005 for 27 European listed companies. Many companies have been operating in multiple countries throughout the world. Several countries have mandated the implementation of IFRS, but some countries have not required that publicly listed companies implement IFRS (Murphy Smith, Sagafi-Nejad, & Wang, 2008).

Some of the countries which have adopted IFRS are: Australia, New Zealand, South Africa, Singapore, the Philippines, and Hong Kong. In addition, Bahrain, Croatia, Costa Rica, Cyprus, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Jamaica, Kenya, Malta, Mauritius, Nepal, Oman, Panama, Tanzania, Tajikistan, Trinidad, and United Arab Emirates. Canada, India, and Japan plan to adopt IFRS in 2011. Effective 2011, all agencies of the United Nations are scheduled to adopt IFRS. Approximately 8,000 listed European companies were given directives by the EU to prepare their consolidated financial statements according to IFRS. EU's companies which do not list their stock on an exchange are not currently required to report according to IFRS (Murphy Smith, Sagafi-Nejad, & Wang, 2008).

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BRIEF OVERVIEW OF GAAP

The SEC granted to the Financial Accounting Standard Board the authority to establish GAAP principles, although different organizations contribute to GAAP (Bradford, 2007).

For the past 75 years, U.S. GAAP has provided guidance, exceptions, and amendments to accountants. Many people view U.S. GAAP as the accountants' "guiding light for decades," and many believe that a loss will occur by full acceptance of IFRS. This view creates hesitancy of many to accept the adoption of IFRS (Scannell & Slater, 2008).

According to Tiffany Bradford, "Generally Accepted Accounting Principles (GAAP) is the basis of financial accounting and reflects federal financial accounting standards." United States' publicly listed companies and some other countries currently report according to their respective GAAP (Bradford 2007).

GAAP has very general methods. Thus, different types of corporations use different methods to process, prepare, and present public accounting information, for the purpose of accountability. GAAP can either be

principle-based or have specific technical inductively developed requirements. In general, GAAP has some flexibility. However, the expectation is that United States' firms follow GAAP's postulate principles of consistency, relevance, reliability, and comparability (Bradford, 2007).

Our ever changing world has accounted for changes that dictate implementation of a uniform accounting reporting standard. An example of one change is capital market globalization. This change is requiring global transparency and comparability for the benefit of investors, merchants, and creditors.

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OVERVIEW OF 20TH CENTURY DEMANDS

Globalization is defined as “a social change, an increase in connections among societies and their elements. The term is applied to many social, commercial and economic activities. Depending on the context it can mean closer contact between different parts of the world (globalization of the world), or increasing relations among members of an industry in different parts of the world (globalization of an industry). It shares a number of characteristics with internationalization and is used interchangeably, although some prefer to use globalization to emphasize the erosion of the nation or national boundaries” (<http://www.websters-onlinedictionary.org/definition/globalization>).

Global Accounting standards are important and necessary because of the expansion of capital markets and trade. Stanko asserts that since 1991, statistics indicated that there has been an increase of more than twenty-fold in dollar volume of cross-border equity flows. Syndicated loans and offerings of international bonds and other debt instruments have also increased since 1990 (Stanko 2000).

Since 1990, the value of international securities offerings has quadrupled, and today it exceeds \$ 1.5 trillion (Choi & Meek, 2008 p. 13).

Investment banks such as Merrill Lynch & Morgan Stanley estimate that “global retail hedge fund investments” will reach \$ 2.5 trillion by 2010 (Choi & Meek, 2008 p. 13).

Stanko cites statistics that reveal an increase in non U. S. equities from \$200 billion to more than \$1 trillion since 1991. Also in 1991, an increase of 4 percent was cited of foreign equities. An increase between 20 to 35 percent in foreign percentage of the equity portfolio is anticipated, while portfolio risk is expected to decline by 2 percent (Stanko, 2000).

According to Choi & Meek, the New York Stock Exchange acquired Euronext, which is a pan-European stock exchange. This occasioned a merger of the Amsterdam, Brussels, Lisbon and Paris exchanges, resulting in the first world transatlantic stock market. Spectators are predicting that the financial market and trading will eventually be controlled by two or three global exchange groups. These trends have led to the importance of high quality, comparable, transparent financial statements. Broken trade barriers also increase the need for global accounting reporting standards (Choi & Meek, 2008 p.17).

Europe is one of the leading areas of this trade growth, particularly because of the formation of the European Union. Countries in Africa, Asia, the Middle East, North America, South America, and Central America also have a significant impact on the amount of imports and exports. This growth in world trade requires that one set of accounting standards for use

by publicly listed companies be mandated globally (Choi & Meek, 2008 p. 15).

Nestlé Company demonstrates an excellent example of a company which has expanded through the process of globalization, and which will benefit by adoption of global accounting standards. Nestlé is one of the largest foods and beverage companies in the world, operating in more than 30 countries. Nestlé's headquarters is located in Vevey, Switzerland. For tax and statutory purposes, each affiliate must prepare its accounting statements according to the generally accepted principles of the country in which it operates. Albeit this is the same company, national financial reporting principles and redundant costs tend to vary from country to country. This is due to different socioeconomic environments. The adoption of IFRS will eliminate different reporting principles for Nestlé and similarly situated companies (Choi & Meek, 2008 p.8).

The past decades have made allowances for the "landscape of the business world globally", but not enough for the dramatic change. Technology has progressed, trade barriers have been broken, and significant advances in telecommunications infrastructure have taken place. These three issues have had a major impact on globalization. An

assortment of companies is becoming more competitive in a variety of countries (Stanko, 2000).

Companies use partial or complete process outsourcing to achieve the economic benefits of cheaper labor and products. It is very common for a firm, regardless of size, to outsource anywhere in the world where the job can be best done inexpensively (Choi & Meek, 2008).

The phenomenon of global competition demands one set of financial accounting standards. International acquisitions and mergers are becoming a daily practice. The development of new revenue sources have further resulted in a need for one worldwide accounting language, as opposed to some publicly listed companies reporting according to GAAP, while others report according to IFRS (Choi & Meek, 2008 p. 12).

According to Stanko, not having one set of comparable standards can lead to bad decisions to obtain operations overseas. This can also skew an analysts' recommendation or credit rating of a foreign company. Investment decisions can be affected vastly. A domestic producer may use overseas supplies, when in fact; it may have fared favorably had it used a local producer. Competitors' financial position can be better evaluated if transparency is available (Stanko, 2008).

Transparency is defined as “the extent to which financial reports reveal an entity’s underlying economics in a way that is readily understandable by those using the financial reports”(Bath & Schipper, 2008).

Capital costs can be reduced by increased transparency. If risk is reduced by improved transparency then the cost of capital is lowered. The transparency that IFRS offers is extremely desirable because it offers a better indication of fundamental economics of a firm, along with a better understanding of reported financial information (Barth & Schipper, 2007).

The adoption of IFRS will eliminate differences in reporting rules and regulations. Thus, the creation of different measures of the same economic event will be terminated. As discussed below, there are currently many differences between GAAP and IFRS that interfere with the reporting standards that include reliable accounting principles of transparency, comparability, and relevance (Gill, 2007).

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DIFFERENCES BETWEEN GAAP AND IFRS

There are many differences between IFRS and GAAP. In 2002, these two boards governing these standards signed the Norwalk agreement to reconcile these differences in an effort to birth one set of financial reporting standards. Some major differences include the following: rule based versus principle based, primary principles of financial statements, consolidation of financial statements, capitalization and amortization, and valuation of assets.

- **Rule based versus Principle based**

GAAP allows for some flexibility, but it also has requirements that are specific and technical. One main difference of U.S. GAAP and IFRS is that U.S. GAAP is primarily a historical rule-based, inductively developed reporting system with numerous detailed and specific guidelines; however, broad principles, deductively developed standards, are the basis for IFRS (Parrott, 2008).

The primary principles of U.S. GAAP are consistency, relevance, reliability, and comparability. The principles of IFRS are transparency, high quality, and comparability. The allowance of two different reporting

standards, such as IFRS and GAAP, creates a lack of global comparability (Bradford, 2007).

Another difference is that IFRS allows for greater flexibility as long as treatments are consistent with IFRS principles; whereas, U.S. GAAP dictates rules that may be justifiable in diverse ways. IFRS has a broad set of principles with some rules, while U.S. GAAP dictates specific accounting treatments (Barth & Schipper, 2008). William Parrot asserts that IFRS is easier to understand, as well as shorter and less complicated than U.S. GAAP (Parrot, 2008).

- **Financial Statement Requirements**

IFRS requires four financial statements and explanatory notes, which are: 1. Consolidated Balance Sheet, 2. Income Statement, 3. Cash Flow Statement 4. Statement of Change in Equity.

Explanatory Notes describe judgments regarding accounting policies and key assumptions made by management, along with other important estimations (Choi & Meek, 2008 p. 58).

The following four financial statements are required by GAAP:

1. Balance Sheet
2. Income Statement
3. Statement of Retained Earnings
4. Statement of Cash Flow.

The presentation of financial statements is different in IFRS and GAAP. IFRS does not stipulate an exact format and requires minimum information in the balance sheet or an income statement. However, U.S. GAAP does require a precise format for these two financial statements (Sorensen & Kyle, 2007).

IFRS does not require that the separate financial statement of the parent company be presented in addition to the consolidated financial statements (Choi & Meek, 2008 p.58). However, GAAP does have this requirement.

- **Valuation Differences**

One requirement of IFRS is that firms expense pre-operating and startup costs, training, advertising, moving, and relocation. Under GAAP, these assets are usually capitalized and amortized over a period of time. Under IFRS, these assets would not be available (Sorensen & Kyle, 2007).

In addition, IFRS permits an entity to make the election of capitalizing or expensing borrowing costs for qualified assets, but U.S. GAAP requires that borrowing costs for qualifying assets be capitalized (Sorensen & Kyle, 2007).

Another difference appears with fair value. Values attributed to assets that appear on the balance sheet may be presented differently, both reporting systems approve the historical cost based, but IFRS allows for plant, property, and equipment to be accounted for based on the fair market values. Under IFRS, a firm can revalue long term assets such as property, plant, and equipment on a regular basis and changes in values can be recognized as profit or loss. However, under U.S. GAAP, the historical cost based method is required (Gill, 2007).

Amortization and impairment of goodwill is allowed under GAAP but not under IFRS. This allows for the recognition accounted for based on the fair market values. Under IFRS, an entity is permitted to revalue property regularly to fair market value. A stipulation of IFRS concerning this matter is that a corporation cannot just revalue one asset; it must revalue all assets within a class of assets. This allows for the recognition of profit and loss changes in value. Although the same assets appear on the balance sheet in U.S. GAAP and IFRS, those assets may very well have different values attributed to them. This is a prime example of a problem which results when reporting using two different standards. These reporting

requirements will cause a difference in net income and retained earnings (Gill, 2007).

All business combinations are treated as purchases according to IFRS. The difference between the fair value of consideration given and the fair value of the assets, liabilities, and contingent liabilities is Goodwill. There is an annual test for impairment of goodwill, and negative goodwill is recognized as income, as a result, there is a difference in the carrying value of goodwill between IFRS and U.S. GAAP, which has created a reconciling item between them (Choi & Meek, 2008).

Inventory valuation is also different in the two reporting systems. Under certain circumstances, U.S. GAAP does not allow firms to reverse write-downs of inventory, but IFRS allows this approach. U.S. GAAP does not recognize certain development costs that IFRS requires (Gill, 2007).

Last in, first out (LIFO) is not allowed in pricing inventory according to IFRS, but U.S. GAAP does allow the usage of this inventory control method. However, IFRS and GAAP do allow for the first in, first out method (FIFO). The result of IFRS disallowance of LIFO as a method to value inventory may result in companies paying higher taxes. However, if all publicly listed companies report according to IFRS each will be impacted equally. IFRS

accepts mark-to-market inventory accounting, whereas, GAAP does not. FASB and the IASB have a common goal of reconciling the differences that subsist between IFRS and U.S. GAAP (Choi & Meek, 2008).

- **Two-Stage Analysis of EU's Adoption of IFRS**

In March of 2004, the European Union required that all publicly listed companies adopt IFRS. In September 2008, a two-stage analysis by Gary Grudnitski of San Diego State University and Francois Aubert found significant positive higher Return on Assets, (ROA) for IFRS versus local GAAP. The higher ROA from IFRS occurred in firms in Finland, France, Italy, the Netherlands, Norway, Sweden, Switzerland and the UK. Belgium was the only country where IFRS produced a lower ROA (Grudnitski & Aubert, 2008).

The study supports the timeliness of IFRS accounting information for firms in various places, such as Switzerland, France, and the Netherlands.

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CONCLUSION

There are several reasons why I conclude that the opportunity costs will outweigh the implicit costs of publicly listed companies' adoption of IFRS. One universal accounting language will eliminate current language barriers, result in a more efficient capital market which will increase competition and the quality of accounting, and that benefits will be reaped globally by merchants, creditor, and investors.

Global accounting standards are especially important because of globalized capital markets and trade. An investor's ability to make a sound decision concerning global investment opportunities can be impaired due to a lack of statement comparability. Ludolph points out that the changes to IFRS "have important practical implications and benefits for all stakeholders" (Ludolph, 2006). Globalization has led more investors to seek access to foreign markets and companies to seek capital all over the world and to demand financial reporting standards that surpass national borders. An example of this increase of globalization is displayed in the level of increase in direct investment in Asia, which increased by \$ 312.10 billion within 15 years (Sorensen & Kyle).

With global uniform accounting standards, financial information will be uniformly presented and understood, which will reduce uncertainty in analysis. The reduced uncertainty reduces the risk of foreign investment and stimulates global capital flows. With global capital flows and lower risk, required rates of return fall and security prices rise.

Currently, not all publicly listed companies of foreign entities list their stock on a US stock exchange. The SEC issued a proposal in July 2007 that would allow non-U.S. companies which adopted IFRS to have access to the U.S. capital markets. These companies would not have the requirement of providing U.S. GAAP reconciliations (Murphy Smith, Sagafi-Nejad & Wang, 2008). This complements the notion that if IFRS were required globally by all publicly listed companies the capital market would greatly improve because investors will have more stock to choose from. Greater investment choices result in greater efficiency in transferring of capital from one country to another. Stimulation of investments could result largely by the adoption of IFRS globally (Stanko, 2000).

Developing countries also need the stimulus of foreign investments. According to Clem Chambers, "Complying with an internationally

understood accounting paradigm opens up a wider investment audience” (Chambers, 2005).

I believe that the capital market will become more competitive when all publicly listed companies’ implement IFRS. More stock markets will be visible to the eye of the public when firms use the same standards. More investors will have additional choice and the opportunity to view comparable financial statements. Investors will receive access to financial information that is more reliable, consistent, and easier to compare and analyze, which may ultimately result in a better decision making process.

History will be made on the day that stakeholders will be able to compare financial statements across borders. Stakeholders will ultimately benefit from this important change that will allow comparability of the performance of the business world globally (Ludolph, 2006). An increase in investments will prove extremely helpful in the world’s economy.

Comparability is currently unavailable because different countries report according to their respective GAAP. This problem will be eliminated and an increase in stock listings may result in an increased willingness of prospective investors because of the comparability and transparency that IFRS offers (Attmore, Mead & Betz, 2008). Certainly, an increase in clarity

of financial statements should increase the odds of investing for the stakeholder.

I believe that it is vital for all publicly listed companies to report using IFRS. With over 100 countries, such as Australia, China, and 27 EU countries requiring reporting using IFRS, there is a need for a uniform accounting standard. Even though many countries report according to IFRS, many countries including the United States have not required the adoption of IFRS, which can result in many different negative effects (Gill, 2007). These differences may give more concerns to changes that are necessary for the adoption of a uniform accounting standard.

With global adoption of IFRS, developing countries or newly industrialized countries will also be provided with accounting standards. This will allow for compatibility of consistent international and domestic accounting requirements. It is also suggested that efficient allocation of resources and higher economic growth will result from publicly listed companies' adoption of international standards (Global challenges, 2005).

According to Brian Stanko, companies' ability to acquire an overseas operation may be impaired without the global adoption of IFRS. Decisions concerning whether or not to acquire an overseas operation may be

distorted without a universal accounting language. Creditworthiness analysis can be less efficient and effective if there is not a universal transparent reporting system such as IFRS. Less precision in evaluation of profitability, liquidity, and financial position of competitors is also a concern (Stanko, 2000).

By meeting the demands of the global marketplace, IFRS offers harmonization of accounting standards and disclosures. According to Arthur Wyatt, the former chairperson of the IASC, “Harmonization is not merely philosophical notion that is debatable, but it is necessary for global trade and commerce necessitates this ingredient” (Smith, Sagafi-Nejeid & Wang, 2008). The current language barriers of accounting reporting will become obsolete with the adoption of IFRS, as each company will report using the same standards. This will abolish one major cause of miscommunication in financial reporting globally.

Every day companies are extending their borders and companies’ operations are expanding greatly. This expansion calls for comparability and transparency among users and investors, which I believe will ultimately result in a vast capital market. The changes of the world are requiring more accounting changes and accountability.

The history of accounting reveals that there has been a continual change in accounting standards. David Tweedie, Chairman of the SEC noted that, “following the collapse of Enron and other financial scandals in the US, the willingness to accept international approaches to accounting standards grew.” The time has come to complete this change (Clinch & Tarca, 2008).

Change may be difficult for many people, and it is an unpopular activity. Some fear that a new order such as IFRS may be “less benign” than GAAP. Accounting has changed many times in the past, and the time for another accounting change is now (Chamber, 2005).

Accounting began as a technique for recording banking services and tax collections. During the 13th century, the double entry bookkeeping system was developed. Another important turn occurred with the escalation of money laundering and other white-collar crimes. Thus, accountants had to find ways to measure and report in a manner which helped decrease these crimes. Some of these accounting changes have led to an increase in costs, but new accounting fundamentals positively resulted (Choi & Meek, 2008).

According to Gray Meek, “Accounting is environmentally sensitive; accounting principles and financial reporting practices developed in response to a complex interaction of economic, political, and social

variables” (Meek, 1984). Globalized capital market, the Enron scandal, the breakdown of trade barriers, and globalized communications are creating a need for all publicly listed companies to report according to one standard, IFRS. Notably, there will be some challenges involved in making these changes to IFRS, but I believe that the global benefits of opportunity costs will ultimately outweigh the implicit costs of publicly listed companies’ adoption of IFRS.

Corporations may be required to pay higher interest rates or experience lower common stock prices if they do not provide transparent financial statements to users.

IFRS does not permit LIFO, and many believe that this will result in higher taxes for corporations. Initially, this may cause a burden for publicly listed companies. Nonetheless, the same burden will result for those who previously used LIFO, and these costs will not nearly cost as much if all publicly listed companies do not adopt IFRS (Gill, 2007).

I believe that other immeasurable benefits will result globally when publicly listed companies report according to IFRS. The implementation of IFRS will ultimately result in a higher level of management, complemented with improved management decisions. Managers will be required to be

more accountable and prudent in their decision making process, which I believe will ultimately result in competition becoming fiercer globally. The adoption of IFRS ultimately will cause an increase in the quality of accounting (Sukhraj, 2008).

Managers' increase in accurately planning, evaluating, and managing in a more sophisticated manner will cause production to be more efficient, as well as upgrade the efficiency of operations globally. I believe that better living standards will be a global benefit, a better allocation of resources, and the quality of accounting will be elevated.

The quality of auditor's work will also improve and be more consistent; thus, an improved accounting system will result. Some auditors are currently auditing IFRS financial statements. Already, over 100 countries require or allow the use of IFRS. This number is increasing every day. The demand for IFRS trained auditors will increase, as IFRS replaces GAAP (Turley, 2007).

Accountants must become more alert and more knowledgeable about IFRS. On a series of levels for many, more education will be necessary for this much needed accounting change. Education is known for its vital role in opening doors (Sukhraj, 2008).

Universities and colleges will undoubtedly have increased costs due to the implementation of IFRS into their curriculum, as GAAP is currently the basis of accounting. However, many of these costs are passed onto consumers. Ernst & Young, one of the Big 4 accounting firms, is supporting this change and is providing assistance to colleges in incorporating IFRS into the college curriculum.

CPAs, professors, actuaries, valuation experts, and other professionals will be affected by this change. When GAAP is replaced by IFRS, GAAP will no longer be on the CPA exam, as reporting standards will be that of IFRS. All changes have costs, but the ultimate benefit will be more efficient and accountable auditors when all publicly listed companies reporting according to one standard (Sorensen & Kyle, 2008).

I believe a change to IFRS could possibly spur a growth in the number of firms which audit internationally. Yes, auditors will be required to obtain knowledge about IFRS, but this will enhance their knowledge and keep them informed, because our changing world has provided this challenge (Dzinkowski, 2008).

The Sec Chairman, Mr. David Tweedie “has reaffirmed the benefits of International Financial Reporting Standards for auditors when addressing

the Economic and Monetary Affairs Committee of the European Parliament” (Clinch & Tarca, 2008).

The completion of the EU countries’ adoption of IFRS was in March 2004. According to Mr. Tweedie, “The result was stable platform.” There were 17 amended standards and six new standards. Mr. Tweedie acknowledges that these changes were made in a short period of time and guarantees that this will not occur again (Clinch & Tarca, 2008).

With the adoption of IFRS, various rules and regulations will be nonexistent in a global market for publicly traded companies. This will eliminate the creation of different measures of the same economic event (Global Challenges, 2005).

Different countries report according to their respective GAAP, causing a lack of comparability between various countries’ current GAAP. There is a need for investors to be able to view each publicly listed company’s financial statements so that a wiser choice for investment, comparisons for purchases, and more accurate creditor ratings can be made. Developing countries, such as Haiti and many in Africa will be in a better position to market their products.

GAAP is ruled based, whereas, IFRS is principle based. However, IFRS still allows for countries to respect their culture, environment, and customs. Although IFRS offers more principles, countries will have to comply with the guidelines within IFRS. There is a lack of consistency with reporting and very little comparability with the current multiple accounting standards. If all publicly listed companies are required to report according to IFRS it will be the first time that one uniform accounting language will be spoken universally. Unfortunately, GAAP does not provide a uniform accounting language (Meek, 1984).

I am not challenging that GAAP has served its purpose for the United States or other countries such as Japan and Mexico. GAAP has certainly served its role for accountants for many years, and it has its advantages. However, although various countries report according to GAAP, each country has its own respective GAAP and this causes deficiency in comparability, transparency, and communication.

Nor am I challenging that all of US GAAP rules should be totally ignored, as many of its rules have been taken into consideration by the IASB, which has the task of approving IFRS. However, I adamantly believe that the time has come that all publicly listed companies must report using the same

standards which the IASB has worked diligently to provide. I believe that ultimately, the benefits of one universal language/a uniformed financial reporting standard will outweigh the costs of having various countries speaking different accounting languages.

According to Choi & Meek, misunderstanding in transnational financial reporting will be significantly reduced with the harmonization of accounting standards that IFRS provides (Choi & Meek, 2008).

Some believe that required rates of returns will be lowered and resource allocation will also improve with the comparability that IFRS brings into the equation. In the long run, corporations will save money and time, since they will no longer need to prepare different sets of financial statements (Global Challenges, 2005).

Parent companies currently provide multiple financial statements. This will no longer be necessary with the adoption of IFRS; thus, time and money can be saved by firms which operate in multiple countries. Elimination of this process by using IFRS will create a reduction of costs for parent companies (Ludolph, 2006).

According to Sue Ludolph, "The goal is to create one single set of accounting standards that can be applied anywhere in the world, saving

millions for firms with more than one listing and allowing investors to compare the performance of businesses across geographic boundaries for the first time” (Ludolph, 2006).

Adoption of IFRS will result in less complication, as well as improve financial statement analysis. Reduction of complications can provide developing countries with necessary tools which will assist in their growth. Implementation of IFRS will enhance growth in developing countries such as Africa. Results of these growths can motivate a wider investment audience may arise. Freer flow of international capital will also be an added advantage. According to the former SEC Chairman Christopher Cox, The proposal is a “significant next step” toward one globally accepted accounting standard and having all companies speak the same financial language (Scannell and Reilly).

Peter Wong, a former member of IFAC, was commissioned to study challenges and successes in adoption of international standards. He noted that more and more countries have opened up their doors to foreign investors result in businesses expanding across borders. He states that strong globally accepted international standards would also be ideal for both public and private sectors (Global challenges, 2005).

Former chairman of the SEC, Christopher Cox, noted that “virtually everyone issuers, investors and stakeholders alike agrees that the world’s capital market would benefit from the widespread acceptance and use of high-quality global accounting standards. Replacing the ‘Babel of competing and often contradictory standards’ would improve investor confidence, allow investors to draw better conclusions, and simplify the process and cut cost for issuers” (Gill, 2007).

In the long run, the implementation of IFRS will create greater flexibility yet, allow for comparability, establish a common accounting language, elevate auditors’ knowledge and standards; lower interest rates and perhaps result in better resource allocation. The lower the interest rates, the higher the probability of investors making an investment. The expanded investment opportunities will increase the probability that economic resources will be used more efficiently. I strongly believe that ultimately the global benefits will definitely outweigh the costs of publicly listed companies’ adoption of IFRS.

Conversely, I believe that if the adoption of IFRS is not accomplished by all publicly listed companies that the costs will soon become detrimental to our world. According to Ernst & Young Chairman James Turley,

“International Financial Reporting Standards, (IFRS) is the single most important initiative in the financial reporting world, the impact of which stretches far beyond accounting to affect every key decision you make, not just how you report it” (Ernst & Young).

Globalized capital markets, world trade, and other 20th century demands are requiring a uniform accounting standard that is transparent, of high-quality accounting standards, and comparable have lead me to state firmly that the time has come for the adoption of one universal accounting standard. The only reporting standard that offers global comparability and transparency for all publicly listed companies' financial statements is IFRS. IFRS is the only reporting accounting standard with financial information that will be uniformly presented and understood, reducing uncertainty in analysis, reducing the risk of foreign investment and stimulating global capital flows. When there is a lower risk, required rates of return fall and prices of securities rise, and these factors create the ability of capital to flow more efficiently. Thus, I believe that the time is now for all publicly traded companies to adopt IFRS, and that the benefits will outweigh the costs, as IFRS is here to stay.

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