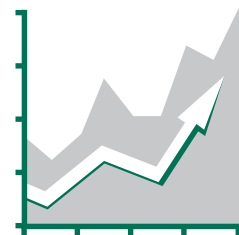


Financial Adviser



International Accounting Standards Broadened to Impact Small and Medium-Size Businesses

While smaller private companies initially were not part of the accounting industry's efforts to transform U.S. accounting rules to international financial reporting standards (IFRS), that has now changed. In July, the International Accounting Standards Board (IASB) approved a radical and long-awaited alternative in how small and medium-size entities (SMEs) account for their financial performance. Considered a "major breakthrough," it signals the continuing transformation away from our nation's tried and true, but complex and globally unpopular financial reporting system known as U.S. GAAP (generally accepted accounting principles).

For the first time, smaller U.S. businesses will share with other global companies a "common high quality and internationally respected set of accounting requirements ... felt in both developed and emerging economies," says the IASB. Known as "IFRS for SMEs," it presents an opportunity for private companies to transition to a more efficient, less costly global accounting system.

SMEs represent approximately 95 percent of all businesses worldwide. The finalization of IFRS for SMEs has led the United Kingdom's Accounting Standards Board to issue a proposal to replace U.K. GAAP with IFRS – could the United States be far behind, or even next?

Background

On July 9, 2009, IASB published IFRS for SMEs, finalizing the five-year process to reduce the burden of IFRS implementation on private companies. The objective was to develop a standard for entities that:

- Do not have public accountability; and

- Publish general-purpose financial statements for external users.

Contrary to its title, size is not the determining factor for eligibility. Nearly all entities without public accountability may use IFRS for SMEs. Publicly accountable entities either:

- Have debt or equity instruments traded in a public market (or are issuing such instruments); or
- Hold assets in a fiduciary capacity such as mutual funds, investment banks, security broker/dealers or insurance companies.

The IFRS conversion will be a major endeavor for first-time adopters. Companies will face critical questions such as: "Do we create a parallel accounting system within our accounting package or adjust our current general ledger? Will loan covenants or other financial agreements need to be modified? What impact will there be on internal measurements and benchmarks for bonuses and profit sharing?"

IASB believes IFRS will benefit smaller businesses in three ways:

- Provide improved comparability for users of accounts;
- Enhance overall confidence in the accounts of SMEs; and
- Reduce significant costs of maintaining standards on a national basis.

Reporting requirements for SMEs have been minimized. Certain topics, such as earnings per share and segment reporting, are eliminated, as they are generally irrelevant to private companies. Additional differences include business combinations, deferred income taxes, recognition of development costs, goodwill, and certain other intangible assets.

While the Securities Exchange Commission (SEC) previously issued its own roadmap for IFRS adoption by public companies, this has been overshadowed by IFRS for SMEs. While guidance for public filers had been issued earlier in the United States, there has been confusion on how, or if, IFRS would apply to non-public companies. IFRS for SMEs answers the question.

Finance ministers from the Group of 20 (G-20) are lobbying IASB to modify accounting rules as part of a broader overhaul of the U.S. financial system. One European Central Bank governing council member said he believes that uniform accounting standards are vital for "developing stronger prudential regulation."

The U.S. push to adopt IFRS will be accelerated by the AICPA, FASB and others. Private companies may lead the way, taking advantage of the new simplicity. ☆

To receive a free IFRS briefing, or an "IFRS Implementation Guide" at no obligation, contact ifrs@malinbergquist.com or call toll-free at 866/739-1561.

Partner Jeffrey T. Deane, CPA, heads the International Businesses Group of Malin Bergquist, Erie's largest and fastest-growing certified public accounting firm, which serves more than 40 international clients. Partner Stephen H. Heilman, CPA, lower right, who works extensively with international companies, assisted with this article.

