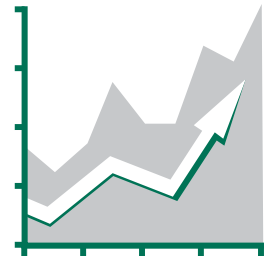


Financial Adviser

International Manufacturers Need to 'Mind the GAAP'

United States May Adopt International Financial Reporting Standards by 2013



For the past seven-plus decades, Corporate America has used its own distinct set of financial accounting standards, but that is about to change. On June 17, 2008, the American Institute of Certified Public Accountants (AICPA) called for a timeframe of three to five years for members to abandon their generally accepted accounting principles (U.S. GAAP) and adopt International Financial Reporting Standards (IFRS).

This is good news, as U.S. GAAP has become increasingly complex with many rules and exceptions as opposed to IFRS, which is a high-quality, principles-based framework far less cumbersome to apply. Currently more than 100 countries have adopted IFRS.

The change will be welcomed by companies doing business internationally – as well as foreign-owned businesses operating here – which no longer will need to keep parallel sets of financial records and reconcile them to each other.

With the changes ahead, U.S. businesses need to develop a transition plan to enter a new era of global accounting systems and be in synchronization with most of the rest of the world.

The bad news is that the conversion to IFRS is a significant endeavor and U.S. businesses are ill-prepared for what lies ahead.

RECENT DEVELOPMENTS

In November 2007, the Securities and Exchange Commission voted to allow foreign private securities issuers to use IFRS in preparing financial statements without reconciling

them to GAAP. Then, in May 2008, the governing council of the AICPA voted to designate the International Accounting Standards Board (IASB) as an accounting body to establish international financial accounting and reporting principles.

IMPACT ON MANUFACTURERS

Adopting IFRS will affect manufacturers in several ways. Companies will need to analyze how best to transition to IFRS, whether to create a new parallel system or modify a current accounting system. Adoption of IFRS may cause companies' financial positions to change, potentially resulting in failure of loan covenants and jeopardizing other financial agreements.

While significant guidance is provided within IFRS 1, *First-time Adoption of International Financial Reporting Standards*, it does not address many practical issues. As a result, companies should begin preliminary assessments to identify potentially sensitive issues. They also should develop an adoption strategy, including timetables, and finally begin the conversion process to IFRS.

Fortunately, training options are emerging, with classes being offered by industry groups and consultants. The training ranges from one-day, high level overviews, to more intensive eight-day full-immersion courses. The downside is that training can cost \$1,000 a day.

ACCOUNTING PROFESSION

Currently, very few CPAs in the U.S. have exposure and knowledge relating to the intricate details and subtleties of IFRS. Nearly 75 percent

of CPAs will reach retirement age within the next 15 years. The current CPA exam is void of questions on IFRS, and college courses are limited. The profession needs to address these issues expeditiously if the AICPA's timeline is adopted.

ACADEMIA AND BANKING

Colleges and universities will need to modify their faculty training and curricula. Studies show that the average age of faculty is 56 years and recent roundtable discussions indicate a reluctance to learn a totally new set of accounting principles.

Banking and financial institutions may struggle to understand and compare financial information prepared under IFRS against U.S. GAAP benchmarks, financial ratios and debt covenants.

While the initial conversion will be time intensive as well as expensive, the upshot is that long-term benefits should be more than worthwhile.

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