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Are U.S. Taxes Causing A Global Disadvantage?



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CFOs find that keeping top performers — during recessions or prosperity — is just smart business

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UPS's finance chief says economic woes of late have given the finance role more importance and clout

Is IFRS for SMEs For Your Company?

Robert S. Miller

Imagine if the federal tax code were reduced to the length of a novella. Well, something nearly as unlikely has taken place. Private companies — which make up more than 95 percent of United States businesses — now have the option of replacing 17,000 pages of accounting regulations with the newly-published 230-page International Financial Reporting Standards for Small- and Medium-Sized Entities, known as IFRS for SMEs.

Until recently, U.S. generally accepted accounting principles was 25,000 pages, or more than 100 times longer than IFRS for SMEs. Can accounting standards that have been reduced to 230 pages still be effective?

IFRS for SMEs is a condensed version of the full IFRS, which runs about 2,800 pages, and is, in many ways, as complex as U.S. GAAP. The big difference is that IFRS is based on principles — rather than rules — which attempt to address every potential situation.

IFRS for SMEs also omits standards that are irrelevant to private companies. For example, standards relating to earnings per share, interim financial reporting and segment reporting are gone.

Where standards are not eliminated, they are simplified. For example, IFRS for SMEs simplifies the methodology for determining how assets, liabilities, income and expenses are recognized and measured. In addition, where IFRS allows policy choices, IFRS for SMEs allows only the easiest option; there is no option to revalue property, equipment or intangibles. Finally, IFRS for SME requires about 300 disclosures, compared with roughly 3,000 for full IFRS.

Pros and Cons of Adoption

If it sounds so good, why are many businesses reluctant to adopt IFRS for SMEs?

The biggest hurdle is adoption itself. American companies are accustomed to

following regulations, not principles. GAAP standards are lengthy, but address virtually everything. It takes an adjustment to adapt to a new way of accounting.

Changes will be required for accounting software and lending agreements, for example, and users of financial statements will need to be educated about the new standards. Some companies may need to change their accounting firms to find firms that understand and know how to apply IFRS for SMEs.

Conversely, those who currently use U.S. GAAP can quickly learn IFRS for SMEs. It's well organized and is written in easy-to-understand language.

Some may also think the vagueness of principles will lead to inconsistencies or at least make it more difficult to defend their company's accounting if outside parties challenge their accounting treatment. In practice, however, IFRS for SMEs has been shown to produce consistent results in the countries where it has already been adopted. It is a legitimate alternative that requires the same degree of prudence as U.S. GAAP.

Others may wonder whether IFRS for SMEs will be around years from now. Will early adopters adjust to the new standards and then have to abandon them?

After all, IFRS is not the metric system. IFRS for SMEs was produced by the International Accounting Standards Board, which has been officially endorsed by the American Institute for Certified Public Accountants. The U.S. Financial Accounting Standards Board has been working with IASB to develop common accounting standards for seven years and both organizations continue to work jointly to ensure consistency and convergence of standards on all levels.

Another concern many small and mid-sized businesses may have is that their lenders may not understand the

new regulations. That may be true of many domestic lenders, but compliance with IFRS for SMEs may also improve a company's access to capital from international banks and other investors abroad, who are already accustomed to IFRS.

Full or partial IFRS has been adopted by more than 100 countries.

Considerations and Steps

So what should a private company do? The first step is to assess your needs. What are your objectives? Who are your investors or potential investors? What markets are you in and what are the company's plans?

If the need for capital is significant and there may be opportunities for your company at the international level, IFRS for SMEs warrants serious consideration. In many cases, existing investors and lenders will accept IFRS after they understand the benefits.

Once existing lenders and investors are on board, private companies should assess their capabilities. How familiar with IFRS for SMEs is the existing controller and accounting staff? In many cases, this is not a big hurdle. U.S. GAAP is more similar to IFRS for SMEs than you may think. If your accounting staff has no familiarity with IFRS principles, partner with a firm that has the skills.

SMEs are already overburdened with regulations and may find the idea of adopting new accounting standards unnecessary and inconvenient. But since many see IFRS as the future of accounting, adopting the new standards today can give them a competitive head start.

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