INTRODUCING IFRS IN INTRODUCTORY FINANCIAL ACCOUNTING COURSES

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ABSTRACT

With the possibility that International Financial Reporting Standards (IFRS)may replace or may change substantially the US Generally Accepted Accounting Principles (GAAP) standards currently in place within the next decade, there is a question for accounting educators about how much of the current accounting curriculum should be devoted to IFRS. This is especially critical in the first levels of accounting, where the fundamentals of accounting are learned. While the major accounting firms are positioning themselves to advise clients when a transition in accounting standards occurs, an understanding of current US GAAP and current and potential IFRS standards will be necessary for today's students. This paper will examine strategies for incorporating IFRS into the introductory levels of the accounting curriculum. The paper will advocate that IFRS education should be incorporated into each introductory level course in accounting. A variety of approaches will be analyzed. The paper will demonstrate that a basic knowledge of IFRS is essential to the business vocabulary for both accounting and non-accounting majors, and therefore a valuable component of the introductory accounting curriculum.

JEL: J3, J25, J26, J27, J28, J29

KEYWORDS: IFRS, IASB, Accounting Education

INTRODUCTION

Prior to 2000, with a full curriculum already in place for accounting students, the addition of course segments devoted to international accounting standards was often minimal in the introductory and intermediate levels of accounting. Recent changes have brought harmonization of international accounting standards and widespread adoption of IFRS International Financial Reporting Standards. The question of whether and how to integrate IFRS into the established accounting curriculum has been controversial for a number of years. Today, with the AICPA announcements that IFRS will be included in the future Certified Public Accountant (CPA) examination, it seems obvious that an understanding of IFRS is a necessary part of accounting education.

Therefore, this paper seeks to demonstrate in the global economy, the value added to an accounting program by introducing IFRS is evident. Introducing IFRS into the curriculum in the initial and intermediate level of accounting requires the development of desired learning objectives and outcomes and coordination with the existing framework of accounting study. Outcomes for study that can be integrated using the IFRS materials include a basic understanding of the History of IFRS development and a comparison of IFRS and US GAAP frameworks. Accounting programs differ in structure but the IFRS related goals of the program will be relatively easy to incorporate in the initial and intermediate level accounting courses.

This paper will discuss integration of IFRS in the Accounting curriculum. First, will discuss the historical background of IFRS, from the International Accounting Standards created under the IASC, to the formation of the IASB, the formulation IFRS, future implementation issues and SEC support for the IFRS usage. Second, will discuss IFRS and US GAAP in the Accounting Curriculum, including AICPA perspectives; Integration in the Uniform CPA Examination and IASB initiatives. Third, we will discuss development of IFRS Integration Strategies. Fourth, will discuss the differences in integrating IFRS concepts in Intermediate Accounting and Accounting I. Fifth, will discuss methods for implementation of IFRS standards within the curriculum. Finally, will provide conclusions as to the optimal methods placement and timing of IFRS.

LITERATURE REVIEW

IFRS integration will have an impact on the future of accounting information. In the Journal of Accountancy article "How IFRS is Affecting Accounting Education" Kim Nilson identified the fact that most accounting students were not aware of IFRS as of the end of 2008, and that inclusion of IFRS concepts in undergraduate and graduate programs was limited. In addition, in a study by Deloitte and Touche, entitled "Incorporating International Financial Reporting Standards (IFRS) into Intermediate Accounting", the study suggests that intermediate accounting classes should incorporate IFRS education on a section by section basis. The growth of IFRS on an international level and the potential of IFRS integration in the US place new importance on IFRS in the accounting curriculum. International Accounting Standards have been promulgated by several large international accounting standard setting organizations over the past 50 years. In 2000, there was a greater move towards harmonization of international accounting standards and a movement where many economies were ready to join in unified accounting standards. The tremendous growth of acceptance of IFRS standards has the objective of simplifying global business issues. With respect to accounting education the change in IFRS application will be critical.

A paper presented at the American Accounting Association meeting in Long Branch, New Jersey outlined the Mastery Goal Approach to Accounting Education Susan Muzarewa, Morgan State University. With a mastery goal orientation the focus is on learning improvement and mastering of skills. A mastery goal orientation seeks to provide students with the opportunity to grapple with authentic and complex problems using cognitive tools, multiple sources of information and other individuals as resources (Meece, Blumenfeld & Hoyle, 1988). Students develop understanding of the subject matter by solving problems in interactions and exchange with other learners and between teachers and students to promote understanding (Blumenfeld, 1992; Toulmin, 1972). Pintrich, Marx, & Boyle (1993) note that mastery goal orientation can be equated to master–apprentice relationship with respect to instruction. "Like masters, teachers should scaffold instruction by breaking down tasks, use modeling and coaching to teach strategies for thinking and problem solving, and gradually release responsibility to the learner" (Blumenfeld, 1992; Collins, Brown, & Newman, 1989; Palincsar & Brown, 1984). An important and integral part of mastery goal orientation is the wide use of cooperative learning, which has been shown to encourage a deeper approach and improvement in the quality of learning outcomes (Tang, 1998).
This active approach to learning will provide good outcomes in to apply the IFRS framework to education within the first year curriculum.

Background

International Accounting Standards have been promulgated by several large international accounting standard setting organizations over the past 50 years. In 2000, there was a greater move towards harmonization of international accounting standards and a movement where many economies were ready to join in unified accounting standards. This section traces the beginnings of the modern day IFRS, from the formation of the IASC in 1973, to the current IASB. Since 2001, 120 countries have adopted or permit use of IFRS. The tremendous growth of acceptance of IFRS standards has the objective of simplifying global business issues.

International Accounting Standards, as created prior to 2000 were established under the International Accounting Standards Committee, the IASC. A paper by the Deloitte IAS Education group notes the creation of the multinational standard setting body in 1973:

> The International Accounting Standards Committee (IASC) was formed in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. Additional sponsoring members were added in subsequent years, and in 1982 the sponsoring "members" of the IASC comprised all of the professional accountancy bodies that were members of the International Federation of Accountants (IFAC). Accounting standards were set by a part-time, volunteer IASC Board that had 13 country members and up to 3 additional organizational members. Each member was generally represented by two "representatives" and one "technical advisor". The individuals came from a wide range of backgrounds – accounting practice, business (particularly multinational businesses), financial analysis, accounting education, and national accounting standard-setting. The Board also had a number of observer members (including representatives of IOSCO, FASB, and the European Commission) who participated in the debate but did not vote. (Deloitte IAS Plus)

The IASC promulgated accounting standards and provided technical advice on multinational accounting issues. The structure of the IASC was radically changed in 2000, and the IASC was replaced by the International Accounting Standards Board (IASB).

As many countries economies were developing, the need for additional accounting standards encouraged a change in structure for the IASC. The International Accounting Standards Board was created to replace the IASC and has sought to create standards applicable to modern transactional needs and to advocate for widespread harmonization of accounting principles.

> International Financial Reporting Standards, commonly referred to as IFRS, are gaining momentum as the global norm in financial reporting. Issued by the London-based International Accounting Standards Board (IASB), IFRS is currently accepted in approximately 100 countries, including the members of the European Union, Israel and Australia. Many other countries, such as Canada, Mexico, India and Japan have committed to adopt or converge with IFRS by dates ranging from 2009 to 2011.
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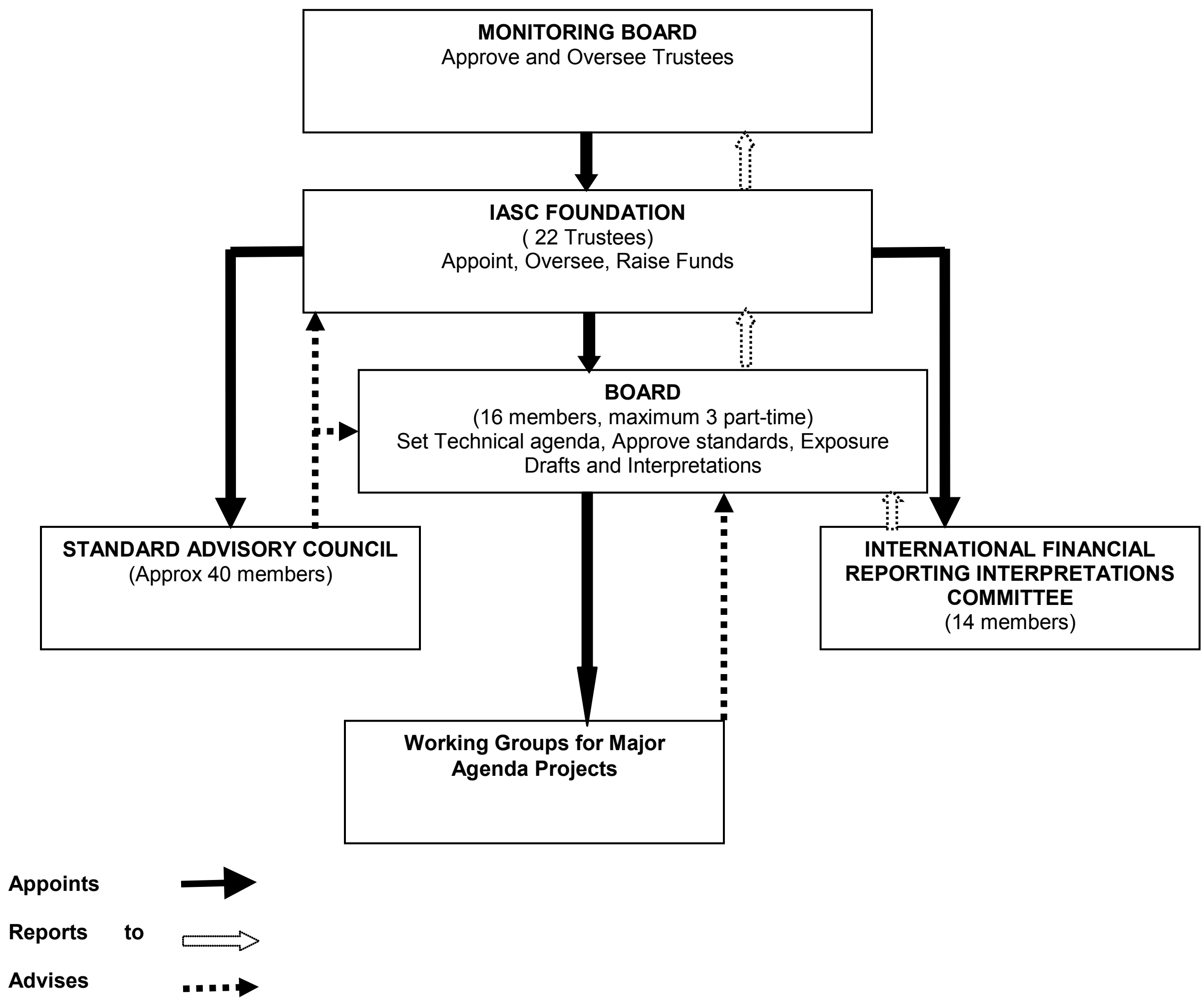
> For years, the Financial Accounting Standards Board (FASB) has been working with the IASB as part of a long-term plan toward convergence of IFRS and U.S. generally accepted accounting principles (U.S. GAAP). With the 2007 decision of the U.S. Securities and Exchange Commission (SEC) to accept IFRS financial statements for foreign filers (without requiring reconciliation to U.S. GAAP), the timeline for U.S. adoption of IFRS is expected to accelerate at a rapid pace. In response to the SEC's decision, accountants, managers and analysts began to question when the SEC would allow, or require, U.S. companies to use IFRS for their annual filings. While the answer to this question is still unknown, other ripple effects of the SEC's decision can already be seen. In May 2008, the AICPA expressed its intent to incorporate IFRS into the CPA exam. In the same month, the AICPA also amended Rules 202 and 203 of the Code of Professional Conduct to recognize the IASB as an international accounting standard, allowing accountants of private US companies to prepare financial statements in accordance with IFRS. (Deloitte IFRS Paper)

The new structure of the IASB is shown in the following diagram; an oversight board provides monitoring of the IASC foundation. On the next tier of operations, a 22 member board of trustees is in place with the goal of fundraising and appointing Board members. The Board is comprised of 16 members and at least 13 must be full time positions. The Board may create subcommittees designed to develop working papers on emerging issues. Independent of the Board and reporting to the Trustees is a

Standards Advisory Council and an International Financial Reporting Interpretations committee consisting of 14 members.

Figure 1: IASB Hierarchy



The IASB Hierarchy is designed to provide a framework for analyzing accounting issues and drafting and promulgating standards. The IASC foundation includes the Standards Advisory Council, the Board, the International Financial Reporting Interpretations Committee and Working Groups.

Standard setting by the IASB occurs as follows: The IASB creates IFRS through standardized review process. International Financial Reporting Standards (IFRSs) are developed through an international consultation process, the "due process", which involves interested individuals and organizations from around the world. The due process comprises six stages, with the Trustees having the opportunity to ensure compliance at various points throughout: setting the agenda , planning the project , developing and publishing the discussion paper, developing and publishing the exposure draft, and developing and publishing the standard.

The IASB has set an agenda for coverage of technical issues involving substance and procedure of adoption and implementation of accounting standards. In A Practical Guide to New IFRS for 2010, the

PriceWaterhouseCoopers group identifies the many new IFRS aspects that will be rolled out between now and 2010. The changes include codifications of basic issues and advanced accounting topics such as consolidations.(PWC 2010)

The Securities and Exchange Commission is actively advocating the use of IFRS. On March 2, 2010, the SEC released Commission Statement in Support of Convergence and Global Accounting Standards. The Statement lists the potential benefits of global accounting harmonization: Greater comparability for investors across firms and industries on a global basis; reduced listing costs for companies with multiple listings; increased competition among exchanges; better global resource allocation and capital formation; lowered cost of capital; and a higher global economic growth rate.

The Statement also gives the current status as to the US consideration as to whether to adopt IFRS, perhaps as early as 2014. "The Proposed Roadmap contemplated that, subject to an assessment of the milestones and other considerations, and after consideration of public comment, the Commission could be in a position in 2011 to decide whether to require the use of IFRS by U.S. issuers beginning in 2014, potentially allowing earlier use by certain U.S. issuers beginning with filings for fiscal years ending on or after December 15, 2009."

Concerns identified by the SEC as to this implementation include: Sufficient development and application of IFRS for the U.S. domestic reporting system; The independence of standard setting for the benefit of investors; Investor understanding and education regarding IFRS; Examination of the U.S. regulatory environment that would be affected by a change in accounting standards; The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies; and Human capital readiness.

This development of the Statement in convergence was the result of many years of discussion as the SEC started a dialog and a series of Roundtable discussions on the use and implementation of IFRS standards for multinational companies. In *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers* (Release No. 33-8982; November 14, 2008) the SEC set out a timetable for IFRS integration.

IFRS and US GAAP in the Accounting Curriculum

The American Institute of Certified Public Accountants (AICPA) has been highly supportive about the adoption of IFRS. In 2008, the AICPA called for a three to five year timeline for transition to IFRS. (CPA Letter 2008. The Uniform CPA examination will begin testing on IFRS issues in the next few years. Questions on IFRS are currently under review. The Content Specific Outlines (CSOs) that include the content that will be tested on the Certified Public Accounting Examination were revised to include IFRS in 2008.(The Uniform CPA Examination Alert 2009) Additional guidance is expected on the IFRS content for the exam.

All of the major accounting firms have poised themselves to be ready for the possible convergence of GAAP and IFRS. In addition, the Accounting firms have partnered with educational institutions to advocate the implementation of IFRS in the Accounting curriculum. Some examples of this include: Deloitte IFRS University Consortium, Ernst & Young bi-monthly newsletters on IFRS changes as well as interpretive guidance on select standards, KPMG online library include briefing sheets providing monthly updates on IFRS changes, and the option to order additional resources such as IFRS/national GAAP, PriceWaterhouseCoopers resources including IFRS guidance by topic, comparisons to US (and other national) GAAP, and illustrative financial statements by industry.

RECOMMENDATIONS

There are many education theories on the presentation of accounting topics. This section presents the mastery goal approach to integrate IFRS concepts into the accounting curriculum.

Mastery Goal Approach

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This active approach to learning will provide good outcomes in the IFRS framework. The next question is at what level of accounting education is it appropriate to introduce IFRS concepts. This section looks at the introduction in the intermediate level and concerns with introduction in the first year curriculum.
There are papers discussing the integration of IFRS standards for the Intermediate Accounting level courses. A Deloitte publication created by the faculty of Virginia Tech entitled, Incorporating International Financial Reporting Standards (IFRS) into Intermediate Accounting, advocates for inclusion of the IFRS standards, and provides resources for implementation. The paper shows specific areas for inclusion of IFRS standards. The Deloitte paper notes that while the IFRS standards have not been adopted, knowledge of the standards will be important to accounting professionals.

> As of July 2008, there is no timetable for conversion from U.S. GAAP to IFRS for public companies operating in the United States. However, most of the rest of the developed world has adopted IFRS, so it is important that today's accounting students have a basic understanding of these standards even if they do not become U.S. GAAP.(Deloitte IFRS Paper).

The structure of Accounting I differs from that of advanced levels because essential accounting topics must be initially learned, the format of the financial statements, ratio analysis, US GAAP sources. For non-accounting majors in a business major or minor, the first course may be their only introduction to international accounting standards. For these reasons IFRS should be integrated into the first year curriculum. The method of introduction will be added in the next segment and a discussion of the placement of IFRS study within the course will be considered.

Methods of Integrating IFRS standards into the accounting curriculum

There are three basic methods for integration of accounting methods within the first year curriculum. Each alternative poses benefits and challenges. The desired result is to allow students to appreciate the similarities and differences in the different methods. The first method is to incorporate the IFRS standards directly as each accounting concept is taught. The second method is to create a module at the end of the semester to present the material. Finally the interactive research and workshop presentations may be used to engage students in IFRS issues.

The challenge with integrating IFRS in the first year accounting curriculum is that students are yet unfamiliar with the format and function of the financial statements and of the uses and underlying rationales about the preparation of accounting information. Integrating IFRS directly before a basic knowledge of US GAAP is mastered may cause confusion for students. For example, a knowledge of the basic accounting assumptions is essential prior to engaging in comparative analysis.

At an intermediate accounting level, the students should be better equipped to discuss the distinctions between US GAAP and IFRS on a day to day basis in class. In addition, students will require the IFRS issues for their preparation for the CPA examination and can better examine the professional ramifications of the IFRS standards.

Introduction as a separate module at the end of the year can reinforce the basic US GAAP learned throughout the semester while then allowing students to note similarities and differences in the reporting requirements. This method is probably beneficial because the students have already mastered the US GAAP framework and underlying concepts and are ready to analyze the differences in the IFRS standards.

This module can also be done after a comprehensive view on ratio analysis and the many useful applications of the financial statements. This discussion of comparative and divisional analysis leads to international issues well. Class projects can be an effective method of incorporating IFRS into the curriculum. Several methods are class mini case presentations; group projects and traditional research/workshop problems. The challenge is incorporating the material so students have time to engage the concepts and demonstrate their knowledge. By presenting cases and conclusions students can reinforce their knowledge and gain feedback from the professor and other students.

CONCLUSIONS

The IFRS educational process must be managed in the accounting curriculum. Placement of IFRS modules in the Accounting I curriculum requires special planning considerations, to ensure successful learning. Objectives should be clearly set and delineated.

<u>Three Essential Questions for IFRS Implementation: Integration of IFRS; Level of Integration; Optimal Method of Integration</u>

The conclusions to be gained are based on the questions: Is it time to integrate IFRS Accounting in the Accounting curriculum, where the standards and overall implementation of IFRS standards are still in transition? If so, in what levels of the accounting education system should the IFRS issues be discussed? Finally, what methods should be used in introducing IFRS through the curriculum, and how can we introduce students to the process of transition to IFRS standards?

As to whether IFRS education is an appropriate part of the accounting curriculum, Integration of IFRS in the accounting curriculum is appropriate and indeed an essential component of the program at the present time. With the inclusion of IFRS in the Uniform CPA examination in 2011, the IFRS standards are a core part of the vocabulary of accounting. The support of IFRS standards is overwhelming from the AICPA and SEC among other accounting standard setting bodies.

As such, IFRS standards should be integrated throughout the curriculum and in particular introduced in the first year program. The introductory courses should include IFRS because many business students will not progress to advanced levels of study and should be exposed to international practice standards.

IFRS standards might be incorporated throughout the semester as key accounting concepts are learned, or a separate course module can be created after the fundamentals of US GAAP are learned. Under a mastery goal approach to teaching, interactive workshops concerning concepts and connection with contemporary dialog will be effective in introducing and engaging students in this process.

Because the implementation of IFRS standards is in a transitional stage, it may be best to treat the IFRS topic as a separate course module. Teaching IFRS as an individual module allows students to master US GAAP and understand the history of accounting practices in the United States and the development of international accounting standards. Making this study interactive and exposing students to the issues surrounding implementation of IFRS is an important way of introducing practice issues. Interactive projects and class presentations may ease this process by making the task action oriented. The future of accounting will be a blend of the new rules and teaching students to navigate these issues will ensure their success as accounting professionals.

Over the next few years the accounting academic community will respond to the SEC pronouncements concerning IFRS integration. The risk in including IFRS topics in introductory accounting classes is that the IFRS standards as adopted will be significantly changed, or that the IFRS standards will not be implemented. The future studies that should be done will include the impact of the AICPA addition of IFRS to the CPA exam. Studies will also be done on the potential impact of IFRS education on the profession.

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