

# Climbing the Learning Curve

By Susan Schott Karr

Imagine you've been teaching and studying French for many years. Then, you get the word that before long you'll be dropping French and using Italian. They're both Romance languages, yes — but the idioms and idiosyncrasies in one are vastly different from the other.

That's analogous to what's happening in the way undergraduate schools prepare upcoming generations of accountants, as well as how companies and firms train their U.S. statement preparers. It appears likely that within the next three to seven years, U.S. issuers will be using International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), in lieu of U.S. generally accepted accounting principles (GAAP).

Currently, about 12,000 companies in about 100 countries use some form of IFRS. The bottom line for students and practitioners is that they will have to develop an understanding of how IFRS reporting affects financial statements.

As FEI President and CEO Michael Cangemi wrote in the March issue of *Financial Executive*: "This means that all of the GAAP books you own, everything you learned in college and in your entire career will change."

To prepare for this sea change, it is important to address what schools and firms are doing now and what they should be doing to define the knowledge they want their job candidates and practitioners to have.

Students of financial reporting and U.S. financial-statement preparers are not the only groups that will require education or training. Other stakeholders include academics, auditors, regulators, investors and stock exchanges; credit analysts; foreign filers and their advisors; U.S. and foreign investment bankers and investment-fund managers. This includes representatives of the U.S. Financial Accounting Standards Board (FASB) and the U.S. Securities and Exchange Commission (SEC), as well as other standard-setters.

Training for making the switch

Moving from U.S. GAAP to International Financial Reporting Standards



# GAAP to IFRS

from using U.S. GAAP to IFRS will vary by audience. The breadth of the audience — from an educational and training perspective — brings with it a host of challenges.

“The challenges depend on what subset of the population we are focusing on — users, academics, preparers, etc.,” says Paul Munter, a partner in the audit practice at KPMG’s Department of Professional Practice. He characterizes the task ahead as a “joint challenge of climbing the learning curve.”

Estimated undergraduate student enrollment in accounting increased 12.3 percent between 1993 and 2004, according to a Feb. 19, 2008 report of the American Accounting Association (AAA), “Accounting Faculty in U.S. Colleges and Universities: Status and Trends, 1993–2004.” During this same period, full- and part-time accounting faculty, in all types of postsecondary institutions, increased from 17,400 to 17,610, just 1.21 percent, paving the way for larger class sizes and heavier faculty workloads.

Major accounting schools — the Universities of Texas, Illinois and Wisconsin — will teach IFRS, says Larry Rittenberg, Ph.D., Ernst & Young professor, University of Wisconsin, and current chairman of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) board. Most universities, he notes, already have a class in IFRS. Their students go to work for global companies and auditors. Schools sending their students to local markets don’t offer these classes.

Rittenberg believes there will be a transition period, when schools teach basic accounting concepts and fundamentals, then move on to teach GAAP/IFRS.

“We can learn to teach the [global] standards, just as we learned to teach U.S. standards,” says Philip M. J. Reckers, Ph.D., vice president, American Accounting Association and Professional Advisory Board Professor of Accountancy at the W.P. Carey School of Business, Arizona State University. All of the standards

change, he notes. “We need to understand transactions, but also the economic drivers and substance that underlie the events.”

## **GAAP vs IFRS; Rules vs. Principles-based**

Although there has been much conjecture about the need to teach IFRS as a “principles-based” system versus teaching U.S. GAAP as a “rules-based” system, this may be more jargon than anything. In a 2003 Sarbanes-Oxley-mandated study, the SEC said neither U.S. GAAP nor IFRS can be described as one or the other. Both have aspects of each.

KPMG’s Munter says the distinction between IFRS and U.S. GAAP has more to do with industry guidance (IFRS has none) and application guidance (U.S. GAAP has more). One outgrowth, he says, is a need for more teaching of the conceptual framework of standards, which is part of the IFRS hierarchy.

Munter’s experience is that students get some, but not enough,

will largely impact the way accounting is taught — all the way from the university level to continuing education at the corporate level, and is seen as a joint challenge for the constituencies involved.

## Timeline for Adopting IFRS

- June 2002** European Union announces Jan. 1, 2005 deadline (6,700 companies, including the U.K.)
- June 2002** Russia announces 2004 deadline
- Jan. 2003** New Zealand announces 2007 deadline
- Aug. 4, 2003** Australia announces Jan. 1, 2005 deadline
- March 2006** Brazil announces 2010 deadline Japan, China (1,400 companies) and India announce 2011 deadline
- Feb. 13, 2008** Canada confirms 2011 deadline

## Other Dates

- Aug. 8, 2007** SEC Rule-making and Concept Release on IFRS use for domestic issuers
- Dec. 2007** SEC Roundtable on U.S. Conversion to IFRS
- Dec. 2007** IASC Foundation publishes Revised Constitution reflecting changes relating to expansion of IFRIC to 14 members
- March 31, 2008** SEC posts comments on Concept Release

exposure to the framework. Thus, many practitioners are not familiar with the framework.

Reckers believes that, over time, FASB made exceptions to its conceptual framework of standards that made it difficult to teach concepts and to teach students to think through accounting situations. Creative thinking, analysis, cogent decision-making and teamwork are needed, explains Reckers. "When you talk about principles-based accounting, you've got to have an underlying set of principles, a clear framework for making judgments."

Rittenberg says we need to understand that the objective is to report important economic information. "What we need to see is a move back to more fundamental reporting principles — even more so than IFRS provides."

He says the challenge is to "go back to understanding the basics, which requires a different kind of teaching." He illustrates this with assets and liabilities in talking about

leasing. His students might start quoting FASB rules. But what he wants to know is, "What is an asset? What is a liability?" Then, he says, you have a basis for understanding how U.S. GAAP and IFRS communicate information. "The challenge is to rethink the manner in which we are preparing the students to understand the underlying structure of accounting," says Rittenberg.

"Are we still trying to teach students the facts or to think critically?" asks Reckers. "Our job is to elevate them to think critically and understand the things that are more important." It is important, he says, to know the current regulations, "but that is not the end-all."

### Changing Accounting Curricula

Reckers says accounting curricula have not been seriously looked at since 1990. At that time, the Accounting Education Change Commission, supported by the Big Eight accounting firms, provided funds to schools to develop best practices. Unfortu-

nately, he comments, it was underfunded, and came and went, and not a lot has been done as a collective group since then.

At issue now is how and where IFRS fits into the curriculum in light of other demands on it. As FASB is moving in North America from historical-cost accounting to a fair-value model, there is a whole skill set that needs to be developed, says Reckers. He notes that since Enron, there's been a need to teach more forensics, then ethics and now, international accounting standards.

"What do you take out?" he asks. "You can't just keep adding. We need to add material synergistically, teaching multiple things simultaneously, [and] integrating. We can keep teaching all of the rules. But you still need to find the answers. Rules may not give you the answers. Reasoning may."

He likens the situation to adding one more room to a house, then another and then another, cautioning that accounting education could become a "vocationally-oriented program."

So, how should international accounting standards be taught? Rittenberg says they should be taught through cases and real-life situations — group work where the professors and peers challenge the student's thinking. He believes the trend is toward online education, which is good for rote work, but not good at teaching the fundamental way of approaching cases.

KPMG has begun to educate faculty about how to integrate the new standards and competencies into curriculums. This spring, it held a series of Faculty Forum webcasts; it plans to hold seminars on IFRS for faculty and workshops and roundtables at accounting academic association meetings during the rest of this year.

### Getting Started

Companies might take one of several approaches in adopting the new standards, says Munter. These include minimizing the differences between IFRS and U.S. GAAP, treating IFRS as a "clean sheet of paper" or some-



Paul Munter, Partner, KPMG Department of Professional Practice

where in-between. "The approach chosen will drive the steepness of the learning curve," he says.

Indeed, the initiative to document the differences between IFRS and U.S. GAAP

is ongoing. IFRS, in a bound volume, is 2,752 pages, while U.S. GAAP exceeds 10,000 pages.

There is an attitude that the appearance of good textbooks on IFRS will be market-driven, and that when a timeline is in place, there will be demand for getting textbooks written, published and sold.

"The question isn't who will write the textbooks, but what will the market buy?" says Rittenberg. He believes there already exist a number of well-written textbooks that teach GAAP rules, yet are "principles-based" and present concepts clearly.

The Big Four accounting firms have created programs for practitioners, the general public and academics. Ernst & Young has developed a Web-based training series to address basic accounting concepts and knowledge of IFRS; Deloitte offers a series of online courses, which are geared to the general public; and PricewaterhouseCoopers has established online learning and reference materials, which include e-learning for reporting teams, company executives and accounting professionals. And KPMG has established the IFRS Institute to raise awareness and address the information needs of companies, investors, academics and others who may be affected by a transition by U.S. companies to IFRS.

In developing educational programs for both academics and accounting students, collaboration between industry and academia is seen as an essential factor. Munter says the academic community is "a key provider of our input. We work closely with them outside of

the classroom."

Rittenberg believes that the best approach practitioners can take is to serve on alumni advisory boards and be willing to bring real-life cases into the classroom. He cites the Deloitte cases, which are part of the Annual Deloitte National Student Case Study Competition and teach in the context of knowledge about the field.

At KPMG, in-house cases are developed and used for internal training. KPMG wants to work with academics, says Munter, and "cases are a natural platform for drawing out those analytical skills."

Reckers says it's important to share best practices. At AAA's annual meeting in August, it plans to address what schools are doing in terms of international standards. AAA has also created "Our Accounting Comments," an online repository for sharing information and IFRS best practices.

The SEC, too, is considering "a recommendation related to the education of students, as well as to the continuing education of investors, preparers, and auditors" to "encourage understanding of the economic substance and business purposes of transactions, in contrast to mechanical compliance with rules without sufficient context," as reported in its Feb. 11, 2008 Progress Report draft, "Advisory Committee on Improvements to Financial Reporting."

### Implementation Date Will Impact Development and Training

Experts agree that an SEC mandate and a clear timetable for implementation will influence educational and training development. "If we say we need something in five years, no one will do anything now. If you need it tomorrow, people will deliver," argues Reckers.

Munter echoes that having a firm date and phasing IFRS in over time will "start us all marching forward." From a planning perspective, he says a deadline helps "enormously" in putting together training. Further, as pertains to following the lead of others, he says, "The more our process looks

like it did in other countries, the more their experience will work for us."

A key lesson from other jurisdictions, says Munter, is that it's a major undertaking. "It must be approached as a major process

that requires careful planning and execution to optimize the transition experience."

He adds, "We need a communication and feedback process that will allow us to understand how it is being practiced around the world; we need to make sure transparency exists in terms of how IFRS is being taught and applied. This will be a challenge as companies go through implementation."

Another issue is how to handle the CPA exams, and this raises a knot of questions: What should happen to the CPA exam? How much of it should be associated with IFRS? Who will write new questions for the exams? How will students studying IFRS get credits toward their CPAs? Bottom line, advises Rittenberg, "We need to look at the issues from the ground up."

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### TAKEAWAYS

>> Major change is in store for financial statements for U.S. filers, auditors, standard-setters, regulators, investors, credit analysts, investment bankers and more as the move from U.S. GAAP to IFRS gains steam.

>> Estimated undergraduate student enrollment in accounting increased 12.3 percent between 1993 and 2004, but full- and part-time accounting faculty increased from 17,400 to just 17,610.

>> With heavy demands on accounting curricula already, where would IFRS fit in? What would be taken out?



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