

Small Firms Can Meet Clients' Needs in the IFRS Environment

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If you are a small firm or sole practitioner, it's very much in your interest to know about International Financial Reporting Standards (IFRS). For decades, changes in the global marketplace—and particularly in international accounting standards—appeared to have little direct impact on CPAs in smaller firms. That's no longer the case.

The United States is heading toward convergence with international accounting standards. Recently, the Securities and Exchange Commission announced it is proposing a roadmap of key milestones and a timeline to continue progress toward adoption of IFRS by U.S. public companies. The roadmap might propose mandating the use of IFRS by 2014 for all public companies and allow early adoption for the nation's 110 largest companies beginning with 2010 financial statement filings. Private companies will probably also face adoption of IFRS in an effort to internationalize their businesses.

Even the smallest companies are increasingly doing business in the global marketplace. According to the U.S. Small Business Administration, exports by U.S. small businesses

soared fourfold – to \$400 billion – between 1992 and 2007. And it's expected that half of U.S. small businesses will be involved in international trade in the next 10 years.

Borders around the world are disappearing. Barriers to doing business in other countries are minimal to non-existent now. In a worldwide economy, one set of high-quality accounting standards will improve transparency and support international investor relations. Acquirers and those being acquired will be comparing apples to apples, speaking the same financial language. Same deal for investors in public companies.

CPAs who understand IFRS will position their firms to seize these new opportunities. IFRS knowledge is already in demand from businesses of all sizes, and firms have begun assisting companies that were not their clients previously. CPAs with IFRS expertise are being called upon to familiarize, educate and evaluate the effects of a conversion, and oftentimes lead clients' efforts in adopting these standards. Keep in mind, too, that some U.S. operations of foreign corporations are adopting IFRS now.

Now is the time to begin or expand conversations about international business ventures with your clients. The conversation should begin with more probing questions than answers on your part, such as:

- What sales opportunities exist for your products/service outside the U.S.?
- What supplier and outsourcing opportunities are there for your business outside the U.S.?
- What are the merger opportunities?
- If you had a capital source outside the U.S. to expand, what successes do you envision?

Once an understanding is reached of the extent of present client activity internationally and the future opportunities are probed, the discussion can move to the financial reporting and where it is headed. Let them know that the U.S. is on a path toward moving to IFRS and that these standards could bring benefits that would help make international business easier even for the smallest of businesses. Talk about how the economies of standardization of the financial reporting process would mitigate having to bear additional accounting fees from having statements prepared under two different methods. If the client asks about the differences, it only makes sense to describe the general differences that may apply specifically to their business, such as LIFO or fixed assets differences. Some of the challenges should also be pointed out, such as how existing debt covenants may be affected.

The conversation should end with a commitment to keep the client updated as developments occur. They may trigger a more in-depth discussion of evaluating the conversion to IFRS sooner rather than later. For example, IFRS for private entities is expected to be released in early 2009.

CPAs can help businesses understand that converting to IFRS is more than an accounting issue. It is a business issue affecting many aspects of a company's operations, including information technology systems and tax reporting requirements. Firms may also want to consider providing clients with a copy of the AICPA IFRS Backgrounder available online from www.IFRS.com.

The IFRS site also features FAQs and other informative material, including training and educational resources. It is continually being updated with news and developments as well to keep CPAs informed.