Walden University

COLLEGE OF MANAGEMENT AND TECHNOLOGY

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Doris Feltham

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2013

Abstract

The Adoption of International Accounting Standards for Small- and Medium-Sized Entities

by

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MBA, Dallas Baptist University, 1993

BS, Oral Roberts University, 1981

Dissertation Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Philosophy

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Abstract

U.S. private entities considering adoption of International Standards for Small- and Medium-sized Entities (IFRS for SMEs) need to understand how the new standards will modify financial reporting. However, there has been no determination of the significance of the financial statement impact of changing from United States Generally Accepted Accounting Principles (U.S. GAAP) to IFRS for SMEs. Without this knowledge, private entities in the United States will not be able to make an informed decision as to the benefits or consequences of adopting IFRS for SMEs. Based on stakeholder theory, this study sought to determine how adoption of IFRS for SMEs would affect the financial reporting of U.S. private entities. Using identified reporting differences between the 2 sets of standards, hypothetical 2010 IFRS for SMEs' financial statements were prepared for 3 participating entities. Analysis of variation between the hypothetical IFRS for SMEs' financial statements and the original U.S. GAAP financial statements provided a means to determine the financial reporting impact of IFRS for SMEs' adoption. In each of the 3 case studies, adoption of IFRS for SMEs did not significantly influence the financial reporting of U.S private entities, indicating that the communication of financial information would be fundamentally the same using the simplified IFRS for SMEs or the more complex U.S. GAAP. The results of this study suggest that IFRS for SMEs should be considered an acceptable set of standards for the preparation of quality financial statements by U.S. private entities. This study positively contributes to social change by providing new knowledge to assist private companies in the evaluation of the adoption of IFRS for SMEs; such knowledge could, in turn, reduce financial reporting costs and improve the SMEs' economic conditions.

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Dedication

I would like to dedicate this paper to my husband Don and my children, Chris, Abigail, Sarah and my son-in-law Jeff, who have been a source of emotional support and encouragement throughout the process of completing this project. Thank you for being patient, sacrificial, and flexible not only through the writing of this dissertation but also through the five years of the doctoral program. You are the best!

I would also to dedicate this paper to the memory of my daughter, Kelly, whose short but important life helped me truly understand Philippians 4:13 (NKJV) "I can do all things through Christ for strengthens me."

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Chapter 1: Introduction to the Study

Background

The International Accounting Standard Board (IASB; 2009) published the International Financial Reporting Standard for Small- and Medium-sized Entities (IFRS for SMEs) as a means to address the financial reporting needs of private entities by providing a simpler version of full International Financial Reporting Standards (IFRS). The development of this stand-alone, set of accounting standards for nonpublic entities was in response to international demand from both developed and emerging economies (Jermakowicz & Epstein, 2010). The management of private entities sought relief from the burden of complying with accounting standards primarily designed to meet the informational needs of entities participating in the public capital market (Pacter, 2009a). With a focus on public entities, the complex accounting procedures and reporting requirements of IFRS are generally not cost beneficial for most small- and medium-sized entities (SMEs) (IASB, 2009a). Therefore, SMEs have found it challenging to comply with accounting standards in jurisdictions that have adopted full IFRS for all entities (Pacter, 2009a).

According to Millman (2010), users of a public entity's financial statement generally have a greater focus on the entity's future growth potential and the long-term financial position while users of private entities' financial information commonly prefer short-term cash flows, liquidity, and balance sheet strength (p. 5). The combination of the difference in user's need and the cost-burden of complex accounting standards contributed to the demand for the development of a set of international standards for nonpublic entities (Pacter, 2009a).

The Necessity of IFRS for SMEs

The rapid growth of global capital markets created the demand for a common set of accounting standards that would improve comparability of financial information as well as the flow and pricing of capital (Epstein & Jermakowicz, 2009; Niswander & Conover, 2009; Pacter, 2009a). In response to this demand, the IASB developed the International Financial Reporting Standards. While the IASB (2004) argued that full IFRSs are suitable for all entities, the complexity of the set of accounting standards has made the adoption difficult for many small- and medium-sized entities; therefore, publically traded entities are the primary users of full IFRS in the developed countries (IASB, 2004). In an effort to improve accountings practices and enter the global markets, many small or developing countries adopted full IFRS for all entities, thereby creating a situation where the smallest of entities must comply with highly complex accounting regulations. This "pushing down" of complicated standards to nonpublic entities is not only occurring through nations adopting full IFRS, but also through convergence of the national GAAPs with IFRS (Pacter, 2009a).

While not participating in the public capital market, many private entities are active in global commerce; therefore, the preparation of the internationally compatible financial statements could assist in lending decisions, loan monitoring, establishing international vendor credit, and the development of other international business relationships (Evans et al., 2005; Pacter, 2009a). With the goal of reducing the financial reporting burden of private entities, the IASB (2009b) developed the IFRS for SMEs for use by small- and medium-sized nonpublic entities that publish general-purpose financial statements for external users. The simplified version of full IFRS provides relief from the complexity of full IFRS accounting procedures and reduction in disclosure requirements, which should lead to improvement in the overall quality of private entity reporting in many jurisdictions (Pacter, 2009a).

IFRS for SMEs in the United States

Since the July 2009 release of IFRS for SMEs, industry leading certified public accounting (CPA) firms and the American Institute Certified Public Accountants (AICPA) have made an effort to educate the U.S. business community regarding the new international standards (AICPA, 2010a; Deloitte, 2009d; KPMG, 2009, 2010b; PricewaterhouseCoopers, 2009). Exclusive of the participation of U.S. entities in the 2007 field test of the IFRS for SMEs Exposure Draft, researchers who have studied IFRS for SMEs have primarily focused on identification of SME users and their associated financial reporting needs (Allee & Yohn, 2009; Botosan et al., 2006; Deaconu, Silvia, Nistor, & Popa, 2009; Eierle & Haller, 2009; Evans et al., 2005). With over 22 million private businesses generating more than half of the U. S. annual economic output, changes to accounting standards could have an effect on the U.S. economy (AICPA, 2008b). In consideration of the U.S.GAAP/IFRS convergence efforts, the simpler and more straight-forward format of IFRS for SMEs maybe an acceptable alternative to the increasing complex U.S. GAAP (Millman, 2010). Additionally, the use of international standards may provide benefits to private entities which have growing participation in international commerce (Deloitte, 2009a). However, without a clearer understanding of how adoption of IFRS for SMEs will influence financial reporting, U.S. business entities may be hesitate to change from U.S. GAAP.

IFRS for SMEs Research

In order to assess the scope of the IFRS for SMEs Exposure Draft (ED), the IASB conducted a field test, which included 116 entities from 20 countries. Additional field test goals included assessment of the cost and effort burden, nature and degree of change from current accounting principles, ED accounting policy choices, micro entity adoption problems, and the implementation guidance (IASB, 2008, pp. 1-2).

All of the responding entities had legal requirements to prepare annual financial statements and 90% had a mandatory submission of financial statements to some form of governmental agency (IASB, 2008, p. 3). The majority of the participants were reporting under national GAAP, but 12 did use full IFRS as the national law allowed or required unlisted entities to use IFRS. Other noteworthy demographics included 70% of the field test entities had 50 or fewer full time employees, including 35% with 10 or fewer employees (ISAB, 2008, p.3). Additionally, 60% had less than $5 million in sales, 60% had bank loans, and 30% of the entities had transactions with "other countries or other foreign operations" (ISAB, 2008, p.4). In the summary of field test results, the IASB (2008) stated that approximately half of the participating entities reported zero, one, or two issues. Furthermore, participants stated that they found the ED was both "understandable and appropriate" (ISAB, 2008, p.5). Other IFRS for

SMEs implementation challenges noted during the field test included difficulty in establishing fair value in business environment where "market prices or active markets are not available" (ISAB, 2008, p. 6). As previously stated, one of the goals of the IFRS for SMEs field test was to assess the impact of IFRS for SMEs adoption. However, statistical data regarding the degree of change between U.S. GAAP financial statements and field test IFRS for SMEs (ED) financial statements was not presented in the summary reports of the IFRS for SMEs field test. While the field test provided information to guide the IASB in making changes to the IFRS for SMEs ED, it did not provide users of U.S. GAAP a determination of the anticipated impact of the preparing financial statement in accordance with the international SME standards.

Since the release of the IFRS for SMEs, the U.S. accounting community has sought to provide IFRS for SMEs information to assist accounting professionals and users of financial statements in understanding the use of the international standards. The Big 4 CPA (Deloitte, 2009f; KPMG, 2009) firms, as well as the AICPA (2010a), have contributed to the IFRS for SMEs knowledge by providing information regarding the new international standards on the organizations' websites. In July 2009, Deloitte (2009e) conducted a survey of 220 private company financial professionals to "gather data and information about the challenges of current U.S. GAAP and the level of interest in IFRS for SMEs" (p.1). Jermakowicz and Epstein (2010) used content analysis to identify the differences between full IFRS or United States GAAP and IFRS for SMEs. In 2010, the AICPA created the IFRS for SMEs – U.S. GAAP Comparison

Wiki as a collaborative resource to assist the accounting industry in understanding the new the international standard (AICPA, 2010a).

Assessment of Adoption Impact

With increasing participation in international commerce, private U.S. entities are also seeking to obtain foreign financing ,which may result in an increase in demand for financial statements prepared in accordance with international standards (Lombard & Rider, 2010). However, in additional to foreign stakeholders, U.S. private entities will also need to consider internal users as well as U.S. capital providers and other external users of financial statements before changing financial standards. As a result, the U.S. business community needs more information regarding the anticipated financial statement impact of changing to the international standards. Christie, Brozovsky, and Hicks (2010) argued that accountants need to " see the details before they will use a new set of accounting standards" (p. 43). Yet, apart from a component of the 2007 Field-Test of the IFRS for SMEs ED, there has been limited data available to assess the nature and degree of financial statements changes resulting from changing accounting standards from U.S. GAAP to IFRS for SMEs. I completed this multi case study using projected IFRS for SMEs as a means to gain further understanding of the impact of the adoption of IFRS for SMEs,

Problem Statement

Private entity stakeholders rely on information presented in financial reports to assist in making decisions in matters such as operations management, provision of credit, and equity investments. The format and the content of the financial information are contingent upon the accounting standards that the entity has elected to follow; therefore, changes to the underlying accounting standards may modify the presentation of the financial information. When considering adopting a new accounting standard, it is important that the users of the financial information understand how the proposed accounting guidelines will affect financial reporting. Consequently, U.S. private entities considering adoption of international standards for small- and medium-sized entities need to understand how the new standards will alter financial reporting. The problem is there has been no determination of the significance of the financial statement impact of changing from U.S. GAAP to IFRS for SMEs. Without this knowledge, private entities in the United States will not be able to make an informed decision as to the benefits or consequences of adopting IFRS for SMEs.

Purpose of the Study

The purpose of this qualitative, multi case study was to determine if the adoption of IFRS for SMEs would affect the financial reporting of private entities that had historically reported using U.S. GAAP. Financial reports serve a role in organizations' decision-making process; therefore, any changes to the underlying accounting standards could possibly alter the outcome of the decision process and business operations. Consequently, organizations considering adoption of IFRS for SMEs need to have an understanding of how a change in accounting standards affects financial reporting. Due to the recentness of the release of IFRS for SMEs, there were limited examples of pre and post adoption financial reports available for studying the financial statement impact. For that reason, I projected IFRS for SMEs financial statements for the case participants in order make a determination of adoption impact. The development of IFRS for SMEs financial statement included interviews of corporate personnel, reviews of US GAAP financial reporting, and discussions with the participants' external accountants. This process allowed me to identify the international accounting standard (IAS) differences that were relevant to each participant. Using this knowledge, I completed a high-level conversion of each participant's financial statements from U.S. GAAP to IFRS for SMEs. The resulting projected IFRS for SMEs financial statements allowed the analysis of the financial reporting impact of IFRS for SMEs adoption by each participating organization.

Research Question

The purpose of this research was to ascertain the impact of IFRS for SMEs adoption on the financial statement of U.S. entities that had historically followed U.S. GAAP. Specifically, I considered the following question:

- How will IFRS for SMEs adoption impact the presentation of statements of financial position, net income and cash flows as well as notes to the financial statements of United States private entities that currently follow U.S. GAAP?

To address this question, the financial statements of three private U.S. entities were changed from U.S. GAAP compliance to IFRS for SMEs compliance. Since the underlying financial transactions were the same, the form and content difference between IFRS for SMEs and U.S. GAAP financial statements provided a basis for analyzing the potential impact of adopting the SME international standards.

Theoretical Base

According to IASB (2009d), " the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions" (p. 80). The needs of the users are vital in the establishment of the accounting standards because the standards determine the form and content of financial statements (IASB, 2009a, p. 18). Similarly, the U.S. financial reporting systems also views financial accounting as a process providing financial reports to both internal and external users. A set of formal financial statements are considered the primary means to communicate information to external users such as investors, credits, and governmental agencies (Kieso, Weygandt, & Warfield, 2006).

In most countries, there is a legal requirement that many, and in some cases all, entities prepare financial statements in accordance with a nationally recognized set of accounting standards and submit the statements to the government. Beside the government, the financial information may also be made available to other interested parties such as creditors, suppliers, and employees (IASB, 2004, p. 10). With the global acceptance and adoption of international standards, full IFRS replaced many national GAAPs, which in some situations required the smallest of entities to use a set of complex accounting standards that are more appropriate for publically traded entities. The IASB (2009a) argued that the preparation of high-quality comparable financial statements by SMEs would improve cross-border financing as well as international commercial activities. Additionally, the IASB (2009a) argued that not addressing the accounting needs of SMEs would be ignoring " 99 percent of all entities in virtually all jurisdictions" (p. 17). Motivated by the differences in users' needs and the argument that benefits of global financial reporting standards are not limited to public companies, the IASB developed the separate set of standards for SMEs (IASB, 2009a; Pacter, 2009a).

SME Users' Accounting Needs: An Application of Stakeholder's Theory

The IASB's recognition of SMEs users' needs and the necessity for differential accounting represents an application of stakeholder's theory applied to SMEs. According to Freeman (1984), an organization's stakeholders includes all " groups that affect or are affected by the accomplishments of the organization's purpose" (p.25). Both internal and external stakeholders frequently look to financial statements as a source of decision-making information (Scott, 2009). Even though nonpublic entities' financial statements are generally private and are prepared for internal users, many external users, such as lending institutions or suppliers, rely upon financial statements for decision-useful information. The IASB (2009a) defended the need for a separate accounting standard for SMEs due to the difference between public and private entities users. In regards to public entities, the IASB (2009a) argued that public entities obtain capital financing through stock sales, and public entities must produce financial reports that provide information to facilitate the investors' analysis of future growth potential due to the focus on long-term financial position. In contrast, the IASB (2009a) argued that SMEs' financing comes from manager/owners, nonmanager/owners, directors, banks, and other creditors as well as vendors. Banks are the primary users of SME financial reporting with other key users being owner-managers, nonowner-managers, taxing authorities, and other creditors. As a result, SME users concentrate more on short-term cash flows, profitability, and liquidity with the business strategy focusing on survival and stability rather than long-term financial position (Cudia, 2008; Deaconu, Popa, Buiga, & Fulop, 2009; Deloitte, 2009f; Evans et al., 2005; IASB, 2004; International Federation of Accountants, 2007; O'Dell, 2009; Tudor & Mutiu, 2008).

While the conceptual basis for both U.S. GAAP and IFRS for SMEs are similar, the differences between the two standards may result in variations in the financial information communicated to the stakeholders of the organization. Since adopting IFRS for SMEs will alter to some degree financial reporting form and content, U.S. entities must consider how adoption of the international standards will change the stakeholders' perception of the financial position of an entity. Using case studies of projected IFRS for SMEs adoption, I sought to make a determination of how the use of IFRS for SMEs will affect the financial statements of U.S. entities. The stakeholder's theory is an appropriate theoretical foundation for this study, as the choice of standards will determine the form and content of financial statements. If the impact of IFRS for SMEs adoption is significant, stakeholders of an organization may not have the ability to ascertain the financial position of the organization. As a result, financial statements prepared in accordance with IFRS for SMEs would not meet the financial informational needs of the organizations' stakeholders.

Definition of Terms

This section contains accounting terminology used in these writings that require addition explanation.

Cost versus benefit: One of the constraining and modifying qualitative characteristics of private company financial statements (FASB, 2006). The cost versus benefit characteristic determines that in order to justify requiring a particular disclosure in private company financial statements, the perceived derived benefits should exceed the perceived costs (Millman, 2010, p. 2).

Convergence: The process to bring about the union of U.S. GAAP and IFRS resulting in a single high quality set of global accounting standards (Epstein & Jermakowicz, 2009, p. 15).

Differential accounting: An accounting system that permits the use of differing accounting standards based on an entity's quantitative or qualitative characteristics (Baker, 2007).

Framework: The IASC Foundation written document that sets out the concepts that underlie the preparation and presentation of financial statements for external statements (IASB, 2009d).

GAAP: In the United States and other English speaking countries, this term is an acronym for Generally Accepted Accounting Principles (Alexander, Britton, & Jorissen, 2009). When discussing accounting theory, GAAP that has become synonymous with a nation's concepts and guidelines for financial accounting (Alexander et al., 2009).

Harmonization: A process of increasing the compatibility of accounting practices by setting bounds to their degree of variation (Alexander & Nobes, 2007, p. 80).

Micro entities: While international definitions of micro entities vary, they are the very smallest of business entities (Neag, 2009). The European Union recommended a definition of less than 10 employees and/or turnover of 2 million Euros and/or a balance sheet of 2 million Euros (as cited in Roberts & Sian, 2006).

Third–tier: A simple level of accounting standards designed to meet the accounting needs of the smallest of business entities known as micro entities (Pacter, 2009a).

Significance of the Study

Through the efforts of the Private Company Financial Reporting Committee and the Blue Ribbon Panel task force, the U.S. accounting profession is considering the development of a separate set of accounting standards for private entities. In July of 2010, the Blue Ribbon Panel rejected the use of private entity accounting models based on IFRS for SMEs (DeFelice, 2010). While IFRS for SMEs is still available for use by U.S. private entities, there has been no determination as to the impact that adoption of IFRS for SMEs will have on the financial reporting of U.S. entities that are currently using U.S. GAAP. Using the multi case qualitative methodology, I provided an assessment of the impact adoption of IFRS for SMEs had on the financial reporting on the participants. This information makes a contribution to the U.S. business community in general and the accounting professionals specifically.

Summary and Overview

While not participating in the public capital market, private entities are still important participants in the local, national, and global economies. Private entity financial reporting is an important element in lending decisions, loan monitoring, establishing credit, and development of business relationships (Pacter, 2009a); therefore, quality financial statements are critical to the operational success of private entities. In consideration of the increasing cost of compliance and the growing complexity of U.S. GAAP, U.S. private entities may find the simpler and more straightforward IFRS for SMEs an attractive alternative set of financial reporting standards. However, changes to the accounting standards underlying financial reports may affect the resulting financial information. Accordingly, U.S. private entities considering adopting IFRS for SMEs need to understand the anticipated financial statement impact of adoption. The desired understanding of IFRS for SMEs is being limited due to the recentness of the release of IFRS for SMEs as well as the lack of a determination of the financial reporting impact of IFRS for SMEs adoption by U.S. private entities. I used a case study methodology to provide new knowledge regarding the nature and degree of financial statement changes resulting from IFRS for SMEs adoption. The conversion of the financial statements of three participating private entities to reflect the SME international financial standards allowed the comparison of the converted IFRS for SMEs financial statements to the original U.S. GAAP statements. Since the same financial data were the basis for both versions of the financial statements, the analysis of the differences between the two statements provided a determination of the potential effect of IFRS for SMEs adoption.

Chapter 2 contains a review of the literature associated with accounting for small- and medium-sized entities in the international community. Additionally, the literature review presents the historical arguments for and against the development of a separate set of international standards for SMEs, the IASB IFRS for SMEs development process, and a review of the current SME accounting literature. Chapter 3 provides an explanation of the multi case study methodology used to obtain data regarding the impact of adoption of IFRS for SMEs. Chapter 4 presents a discussion of the identified variations between each participating organization's financial reporting under U.S. GAAP compared to compliance with IFRS for SMEs. Chapter 5 summarizes the research study and suggests possibilities of future research.

Chapter 2: Literature Review

Introduction

The review of IFRS for SMEs literature began with a search of peer-reviewed literature found in academic and professional databases provided by Walden University and Arkansas State University libraries. The database searches included ABI/INFORM, Academic Search Complete, Business Source Complete, EBSCOhost, Emerald, and Science Direct. The search was limited to articles from within the last 5 years and the following key terms were used in the search: *IFRS*, *IFRS for SMEs*, *international accounting*, *international standards*, *small- and medium-sized entities*, *small- and medium-sized enterprises*, *private companies*, and *private companies accounting*. Searches for IFRS for SMEs literature also include the organizational websites of the AICPA, IASB, FASB, and the United Nations. Furthermore, searches for IFRS for SMEs literature were completed at the professional firm websites of Deloitte, Ernst & Young, Grant Thornton, KPMG, and PricewaterhouseCooper. The focus of the search was to obtain IFRS for SMEs specific literature; however, literature regarding the historical development of full IFRS as well as SMEs and private companies accounting needs contributed to the evaluation of the applicability of IFRS for SMEs to U.S. private enterprises.

Development of IAS

Traditionally, the development of a nation's accounting standards was influenced by such factors as the legal system, culture, political events, inflation, and complexity of business operations (Niswander & Conover, 2009). Erickson, Esplin, and Maines (2009) compared the resulting variations in national accounting standards to the biblical story of the Tower of Babel in which God inhibited communication by splitting a single language into multiple languages. While accounting is the "language of business", Erickson et al. argued that the consequence of variations in national accounting standards is the "confusion of language" requiring investors to be able to understand "different financial languages" (p. 531). Since World War II, understanding different national accounting principles has become more substantive due to economic globalization, the emergence of global financial markets, changes in international monetary systems, and the growth in multinational enterprises [MNEs](Nobes & Parker, 2008, p. 6). This growing need for improved global conveyance of financial information created a demand for the harmonization of global accounting standards (Nobes & Parker, 2008, p.76). A response to demand began in 1973 when a group of nine nations, including the United States, formed the International Accounting Standards Committee (IASC) as an independent organization with a stated purpose to develop, publish, and promote accounting standards in order to improve and harmonization global accounting standards (Flower & Ebbers, 2002). Between 1973 and 2001, the IASC developed 34 IAS; however, an administrative reorganization transferred the responsibility to the IASC Foundation, which included a new standards development board known as the IASB. While the IASB formally adopted the 34 IAS, all subsequently issued IASB standards carry the designation of IFRS in order to differentiate between the actions of the previous IASC and the new authority of the IASB (Al-Omari, 2010; Epstein & Jermakowicz, 2009).

Due to the IASC Foundation's status as an independent private organization, the acceptability and implementation of the IAS developed by the IASB is dependent upon the endorsement of influential global standard-setting bodies and regulatory agencies (Flower & Ebbers, 2002). Historically, key endorsements have proven critical to the global acceptability and advancement of IAS. During the 1990s, the International Organization of Securities Commission (IOSCO), which represents over 100 national securities regulatory agencies, began working closely with the IASC to revise or develop standards that would be acceptable to its membership (Nobes & Parker, 2008). According to Deloitte (2009c), the IOSCO technical committee completed their review of IASC standards in early 2000 and recommended the endorsement of the international standards for the "purpose of multinational offerings and cross-border listings" (p.2). Also in 2000, the global acceptance and implementation of IFRS was influenced by the European Commission's decision to require that the 7,000 listed companies of the European Union (EU) to adopt IFRS on or before 2005 (Alexander et al., 2009; Alfredson et al., 2007; Epstein & Jermakowicz, 2009). The adoption of IFRS by the EU accelerated the global spread, acceptance, and use of the set of IAS.

The IASC Foundation's stated objectives include developing a single set of high quality, understandable, and enforceable global accounting standards to assist in the decision-making of participants in the global capital markets. In addition to development of standards, the IASC Foundation also seeks to promote the "use and rigorous application of those standards" (IASB, 2009d, p. 68). While these stated objectives appear to focus only on the needs of participants in the public financial markets, the IASC Foundation does further states its objective to consider the "special needs of small and medium-sized entities and emerging economies" as well as "bring about convergence of national accounting standards and IFRS to high quality solutions" (IASB, 2009d, p. 68). The reason for this additional objective is explained in the December 2000 IASC transitional report which noted that a demand existed for IAS designed for small enterprises (as cited in Deloitte, 2009b).

Discussion Paper: Preliminary Views on Accounting Standards for SMEs

In 2004, IASB (2004) issued a discussion paper setting forth the IASC Foundation's preliminary views on accounting standards for small- and medium-sized entities. The main issued presented in the discussion paper was whether the IASB should develop a separate set of standards for small- and medium-sized entities. According to the IASB (2009d), the IFRS *Framework* is suitable for all entities including private as well as public entities (p. 78); therefore, IASB could have adopted the viewpoint that the development of a separate standard for SMEs was unnecessary (IASB, 2004, p. 13). However, the IASB noted that users of SME financial statements have different informational needs than users of public entities financial statements. The IASB (2004) argued that the SME's users focus on "short-term cash flows, liquidity, balance sheet strength and interest coverage, historical trends, and interest coverage" (p.14) differed from the public markets' interest in long-term cash flows, earnings, and value. In addition to variations in needs between users of public and SMEs financial informational, the IASB (2004) acknowledged that differences in types of SMEs as well as "limitations in and the cost of, the accounting expertise available to

SMEs" (p.15) supported the argument for a separate set of standards for SMEs. According to Di Pietra et al. (2008), many jurisdictions have variations in accounting standards based on size or types of enterprises. Di Pietra et al. argued that the possibility of other regulators developing IFRS conflicting standards for nonpublic entities was also a motivation for the IASB's development of an IFRS for small- and medium-sized entities (p. 28).

Wong (2004) presented the views of a cross-section of international participants gained through a series of focus groups, interviews, and written responses. Wong stated that "virtually all participants" expressed concern regarding the relevance of IFRS to small- and medium-sized entities as well as accounting firms (p. 16). Namely,:

Length and complexity of the international standards; Cost of compliance with IFRSs versus benefits obtained; Inconsistent application of the international standards; Perceived focus on large-entity issues; and Lack of sufficient small and medium-sized entity and accounting firm representation on the international standard-setting board. (Wong, 2004, p. 16)

Wong argued that participants' impressions were that standard setters did not acknowledge the affects changes to international standards had on SMEs nor the extent of the "re-education process" (p.16) needed for SME financial statement users. Based on the participants' response, Wong argued that the IASB might need to develop a third segment or tier of IAS for small entities, which mainly use financial reporting for tax authorities and banks (p.17).

Nerudova and Bohusova (2009) noted that the numerous tax and accounting systems present within the EU resulted in the SMEs experiencing " disproportionate high compliance costs" when compared to large enterprises (p. 234). Additionally, the SMEs were more involved in their national markets than in the cross-border activities (Nerudova & Bohusova, 2009, p. 234). Nerudova and Bohusova argued that internationally comparable SME financial statements would better facilitate cross-border lending while also increasing international trade and long-term business relationships by providing understandable information to customers and suppliers. Additionally, the use of a single-set of SME accounting standards would allow for the development of a uniform credit rating system and encourage venture capital firms to provide funding to SMEs (Nerudova & Bohusova, 2009, p. 236). Other anticipated benefits of IFRS for SMEs include improved information for nonmanagement owners and improvement in audit quality as well as accounting education and training. However, Nerudova and Bohusova also noted that the SMEs are concerned with the possible negative effect that an increase in financial statement transparency may have on commercial competition (p. 237).

To address concerns that IASB may not be the best standard- setter to develop SME standards, the IASB (2009a) conducted a 2003 survey of global standard-setters to solicit their input. The response was an almost unanimous in support for the IASB vision to develop global standards for SMEs (IASB, 2009a, p. 17). Therefore, the IASB proceeded with the development of the *Discussion Paper: Preliminary Views on Accounting Standards for SMEs*. Within the discussion paper, the IASB (2004) stated that the objectives of an IFRS for SMEs would be to provide high quality, understandable, and enforceable accounting standards suitable for SMEs globally. The standards would focus on meeting the needs of the users of SME financial statements and would be based on the same conceptual framework as IFRSs. Additional objectives were the reduction of the financial reporting burden on SMEs that want to use global standards and the allowance of an easy transition to full IFRS for those SMES that become publicly accountable or choose to switch to full IFRS (IASB, 2004, pp. 18-19).

According to the IASB (2004), the reduction of the burden of SME financial statement preparation while still meeting the informational needs of the users of SME financial statements was the primary reasons for the SME project. However, the IASB also clarified that the primary purpose of the SME standards project was not to provide information for management decision-making or for taxing authorities, but instead the focus was external users' needs (p. 19). The IASB (2004) stated that one of the critical issues of the discussion paper was defining which entities would qualify to use the SME standards (p. 480). The IASB requested input from respondents on questions such as whether the characteristics of a SME should include a "size test" and if the standard should be applicable to all nonpublic entities. Additionally, the IASB sought input regarding the value of "public accountability" indicators, the necessity of owners' agreement on the use of IFRS for SMEs, and applicability of IFRS for SMEs to a subsidiary, joint venture, or associate of a public entity (p. 25). Further issues discussed included the value of a mandatory fall back to full IFRS and the use of full

IFRS as the starting point for development of IFRS for SMEs. According to Deloitte (2009b), the response to the IASB's issuance of the discussion paper reflected not only a demand for the creation of a IFRS for SMEs, but also a preference for a simplified IAS over nations' local standards. Additionally, the majority of the respondents expressed the opinion that full IFRS was "not suitable for all identities" and that a SME definition should be based upon an entities "characteristics" not "quantitative guidelines" (Deloitte, 2009b, p. 23).

In response to the preliminary discussion paper, Evans et al. (2005) argued that SMEs have an impact of the global economy and also stated that EU SMEs have more regulatory compliance costs than their counterparts in the United States. However, Evans et al. did question whether a set of accounting standards developed by the IASB within an "Anglo-American governance and capital market context" (p. 25) could realistically meet the needs of SMEs on a global level. Based on a review of prior literature regarding the need for differential accounting for SMEs, Evans et al. identified the arguments for separate SME accounting standards, which included the economic significance of SMEs, variations in SME accounting standards, and differentials in user needs between private entities and public entities. However, Evans et al. stated that the main argument for differential reporting was the "undue burdens and disproportionate costs for SMEs, as well as the perceived lack of relevance of statutory accounts to the main user groups" (p. 38). Evans et al.'s arguments against differential accounting included a need for consistency in the application of accounting standards to facilitate comparability and the assumption that current GAAP provide better information to external stakeholder. In conclusion, Evans et al. recommended that the IASB should develop IFRS for SMEs, but also should consider developing a “three-tier" system of standards that would better address the needs of small entities (p. 39).

The Di Pietra et al. (2008) response on behalf of the European Accounting Association’s Financial Reporting Standards Committee also recommended the development of three-tier system to meet the needs of the smallest SMEs. Additionally, Di Pietra et al. suggested the conducting of more research to address size relative and location influenced variations in the SME users’ needs (p. 30). Di Pietra et al. argued that the IFRS’s Framework was not appropriate as the basis for new SME standards and recommended further research to develop a more suitable framework for SMEs. The European’s standards committee final comment on the preliminary discussion paper was that “neither size nor legal form seemed suitable indicators” for the application of IFRS for SMEs. Di Pietra et al. argued that the responsibility to decide who should use IFRS for SMEs was “outside of the IASB’s authority”; therefore, the IASB should “suggest” suitable entities, but the EU should decide on the “regulation” regarding the users of the standard (p. 30).

Bohusova (2007) questioned whether IFRS for SMEs were the best solution for micro entities’ financial reporting. Bohusova argued that many micro entities, “especially in transition economies”, did not keep proper financial records due to the perception that the financial information was not useful for decision-making and control (p.58). While micro entities could use financial information for items such as compensation awards, performance evaluation, loans, and taxation, Bohusova stated that the major uses of financial information are determination of tax liability and obtaining financing. Since taxing guidelines vary between taxing authorities, taxation was not a reason for harmonization; however, obtaining financing is an important reason. Arguing that harmonized financial reporting could be a source of information for all micro entities in the future, Bohusova suggested three ways of micro entities financial reporting harmonization. First, micro entities should employ financial reporting based on the cash basis. While this approach is simple and provides useful information for tax compliance and loan repayment abilities, Bohusova maintained that it does not provide enough information for management and decision-making. The second alternative for harmonization is financial reporting based on the accrual concept by simplifying the proposed IFRS for SMEs. Bohusova argued that the IFRS for SMEs simplification could occur by omitting items such as requiring the recording of provisions and adjustments, requiring only the balance sheet and income statement, using historical cost as the primary valuation base, recording all leases as operating leases, recording construction contracts on the invoice basis, and only recording current income tax (p.59). The last alternative for micro entities is the use of an IFRS for SMEs. Bohusova stated that IFRS for SMEs would be the most costly alternative for compliance and would require the highest skill level of preparers; but it is currently the only discussed option for micro entities accounting harmonization (p. 61). Bohusova argued that if IFRS for SMEs could serve as the basis for taxation compliance then the international standards could "replace national standards or current practices" (p. 61).

This would allow harmonization of micro entities' accounting and improve micro entities' access to cross-border financing and grants.

In their reply to the IFRS for SMEs preliminary paper, the Financial Accounting Standards Committee of the American Accounting Association pointed out there was a key difference between private companies in the United States and entities in many IASB countries. The difference being the nonpublic entities in the United States did not have a regulatory required to file financial statements with a government agency (Botosan et al., 2006, p. 180). However, the FAS committee agreed that separate private company GAAP could be necessary in countries where private companies do have regulatory requirement to submit financial statements. According to Botosan et al., the primary external users of private entities were lenders who preferred financial statements prepared in accordance with GAAP (p. 187). Nevertheless, Botosan et al. also argued that if costs outweigh benefits "market forces lead to deviation from GAAP" (p. 188). Therefore, Botosan et al. agreed that IASB had just cause to develop separate SME standards if following full IFRS forced the private entities to occur significant costs.

Exposure Draft IFRS for SMEs

As result of the demand for a SME international standard reflected in the response to the preliminary discussion paper, the IASB made use of public round-table discussions and working groups to gain valuable insight from preparers and users of SME financial statements to assist in the development of a set of SME international standards (IASB, 2009a). Participants in the round tables addressed the feasibility of simplification of recognition and measurement for SMEs as well as which aspect of full IFRS could be eliminated due to inapplicability to SMEs (Neag, Masca, & Pascan, 2009, p. 34). According to Neag et al. (2009), the public meetings held during 2006 addressed the following main issues regarding the development of IFRS for SMEs.

> The necessity for the existence of some financial reporting standards for SMEs, the users of the SMEs financial statements, I ASB legitimacy of developing international standards for SMEs, the needs of the different users and considerations on the cost-benefit ratio, the relative level of adequacy of the financial reporting concepts to all entities, why doesn't the IFRS project for SMEs have as goal the providing of information for sole proprietors, the adequate character of the *IFRS Project for SMES* for the very small entities- the so called "micro" entities (p. 34).

In 2007, the IASB issued an exposure draft (ED) for a proposed IFRS for SME, which not only addressed the financial reporting needs of SMEs but also the cost-benefits of the implementation of the accounting standards. While based upon the same theoretical concepts as the full IFRS, the ED reflected an exclusion of topics irrelevant to SMEs, simpler and more limited accounting options, simplified recognition and measuring principles as well as decreases in disclosure requirements and a plain English writing style (IASB, 2009a, pp. 8-9). According to the IASB (2009a), the main issues identified during the comment period included the need for IFRS for SMEs to be a standalone document without cross-referencing to full IFRS, additional simplification of disclosures, and the limitation of fair value measurements to where " (a) market price is readily available without undue cost or effort" and (b) all derivatives" (p. 11).

Necessity for SME Reporting Standard

The theoretical basis for the IASB's (2009a) development of global financial reporting standards includes the argument that the consistent application of a global financial reporting standard improved the comparability of financial information which results in improvement in the "efficiency of allocation and pricing of capital" (p. 16). When considering the financial reporting needs of private entities, the IASB (2009a) argued that the benefits of global financial reporting standards are not limited to entities who participate in the public capital markets. The IASB further contended that a demand existed for cross-country comparability of SME financial statements due to multinational and cross-border lending, multinational trading, global credit rating, and global investing in SMEs (p.16). When studying the acceptability and adoption of IAS by small and closely held companies in Bahrain, Joshi, and Ramadhan (2008) noted that the primary reasons for voluntary adoption included anticipated improvement in financial reporting, influence of banks and the desire to improve credit ratings. Joshi and Ramadhan agreed with the IASB argument for the development of the IFRS for SMEs.

According to Nerudova and Bohusova (2008), small- and medium-sized entities are responsible for the creation 66% of the jobs in the EU. While researchers have indicated that the majority of SMEs business operations are within domestic markets, Nerudova and Bohusova argued that the entry of the SMEs into the international markets would increase the economy and growth of the EU. However, most EU SMEs have legal or regulatory requirements to prepare financial statements in accordance with a national accounting standard; therefore, interested parties from other countries, such creditors or investors, have difficulty understanding the financial statements. In agreement with the IASB, Nerudova and Bohusova argued that comparable SME financial statements would improve cross-border lending, and vendors' ability to evaluate the credit worthiness of entities while also assisting SMEs in developing long-term international trading partnership. Nerudova and Bohusova contended that full IFRS meet the accounting needs of large multinational organization, but may not necessary meet the accounting needs of small- and medium-sized entities.

Pacter (2009a) argued that in the past few decades there has been an increasing concern by SMEs that compliance with accounting standards is becoming progressively more burdensome. Pacter attributed the situation to the "pushing down" of public capital market accounting standards to private entities (p. 6). This is especially true in jurisdictions that have adopted full IFRS for all entities. Pacter also argued that the IFRS for SMEs would improve private entities' financial reporting since the current standards in some jurisdictions do not have "decision-usefulness as the overriding objective" (p.6). Pacter supported the argument for the need of the IFRS for SME with the following insights into the current legal requirements for financial reporting by private entities in many jurisdictions. According to Pacter,

> In many jurisdictions, legal requirements: were written into law many years ago (sometimes the result of political compromise), are limited in scope,

> are cash (not accrual) oriented, do not include many accounting recognition and measurement principles, are tax-driven rather than aimed at providing information for lending, credit and investing decisions, and require only one or two primary financial statements (for example the income statement and balance sheet), often without supporting notes or with only very limited disclosures (p. 6).

IASB Legitimacy to Develop International SME Standards

Prior to beginning the IFRS for SMEs project, the IASB sought input from national and regional standard-setters regarding the organization's legitimacy in assuming the role as the developer of a set of global SME financial standards (IASB, 2004). As previously discussed, standard-setters encouraged the development of a separate set of private entities standards. This response supported the IASB (2004) argument that the mission of the IASC Foundation was not limited to developing standards only for public entities. Additionally, the IASB argued that focusing only on public entities would result in practice standards that do not address the needs of the external users of private companies, which comprise 99% of the business entities in "virtually all jurisdictions" (IASB, 2009a, p. 17). Neag et al. (2009) agreed with the IASB role in SME standard development, arguing that the IASB was the right body to develop a European or IAS. However, Flower questioned whether the IASB was the appropriate organization to be developing SME standards since few board members had experience with SMEs (as cited in Roberts & Sian, 2006, p. 7).

SMEs Users, Their Needs, and Cost-Benefit Analysis

Public entities seek external financing via the sale of ownership capital; therefore, potential investors rely upon financial statements to provide information to assist in their analysis of the entities future growth potential. SMEs may seek capital from owners, directors, banks, and suppliers through loans and credit; consequently, the IASB (2009a) argued that information provided by full IFRS might not be of interest to the external users of SME financial statements. In contrast to the public capital market's interest in entity's forecasted long-term financial position, users of SME financial statements have more interest in short-term cash flows, liquidity, interest coverage, balance sheet strength, and historical profit and loss trends (IASB, 2009a). The IASB also acknowledged that it was important that the benefits of applying accounting standards exceed the cost of compliance. Due to the complexity of full IFRS, SMEs may not have positive cost-benefit when following full IFRS. However, the IASB maintained that the objectives of financial statements presented in the *Framework* of full IFRS were still appropriate for SMEs despite the development of an IFRS for SMEs (IASB, 2009a, p. 19). In contrast to users of public company's financial statements and in similarity with the IASB, O'Dell (2009) argued that U.S. private companies have a smaller range of financial statement users with the primary external users being "lenders, venture capitalists and sureties" (p.2). In agreement with the IASB, O'Dell suggested that private entities users' primary focus is short-term cash flow, liquidity, and earnings before interest, taxes, depreciation, and amortization (EBITDA). Agreeing with the IASB that banks, owner-managers, or non owner-managers were key users of SME financial statements, Roberts and Sian (2006) argued that tax authorities and ”more recently venture capitalist, business angels and grant-awarding bodies were also users of SME financial statement” (p.2).

Neag et al. (2009) agreed with the IASB assessment that one of primary users of SME financial statements was institutions providing financial credit. However, Neag et al. did not agree with the IASB’s argument that providing information for sole-proprietors was not a goal of the IFRS for SMEs since financial statements prepared only by sole proprietors use did not constitute general-purpose financial statements. Neag et al. suggested that the IASB’s viewpoint on sole-proprietors’ financial statements was “very elegant, yet very expensive” (p.34) given that preparing additional financial information was costly to sole proprietorships. Neag et al. noted that the main argument against uniform application of IFRS for SMEs was the high cost of accounting in relation to small businesses’ revenue (p. 41).

In their study of small business accounting in Bahrain, Joshi and Ramadhan (2008) also noted that banks and company partners were the primary users of SME financial statements. While the respondents in the Joshi and Ramadhan study were implementing full IFRS, the small- and closely-held companies did not find the adoption costly, which leads one to speculate that the simplified IFRS for SMEs would also be cost-beneficial to small entities (p. 439). Pacter (2009) argued that the use of simplified IFRS for SMEs would not only be cost beneficial to SMEs, but would also provide cost savings to professional bodies which are in the process of developing national private entity standards. Pacter suggested that with the adoption of IFRS for

SMEs, professional bodies could transfer their attention from developing standards to assisting its membership in the implementation of IFRS for SMEs (p. 7).

IASB is not the only professional body seeking to simplify accounting guidance for small- and medium-sized entities. The United Kingdom's Accounting Standards Board (ASBs) issued the Financial Reporting Standard for Smaller Enterprises (FRSSE) and the United Nation Committee on Trade and Development (UNCTAD) issued two sets of accounting guidelines: one for small enterprises and one for micro-owner-managed entities (Sian & Roberts, 2009, pp. 289-290). Using their study of UK small businesses as support for their conclusions, Sian and Roberts (2009) agreed with the aforementioned agencies' efforts to simplify SME accounting guidelines. Sian and Roberts indicated that the majority of the owner-manager respondents lacked financial awareness and training in accountancy; thus, indicating a need for accounting guidelines which are easy to understand (p. 301). Additionally, Sian and Roberts revealed that SMEs owners had concern regarding the cost of accounting services; therefore, the IASB focus on cost-beneficial standards is appropriate for SMEs. In agreement with the IASB, Sian and Roberts also concluded that banks were the key users of SME financial statements.

In a study of the development of accounting standards for SMEs in South Africa, Stainbank (2008) argued that the consideration of SME users' needs and cost-benefit constraint provided justification for separate standards for small- and medium-sized entities. Stainbank stated that other South African researchers supplied evidence that cost of compliance with general-purpose accounting such as South African GAAP or IFRS exceeded the benefits for SMEs (p.3). In reference to accounting practices in the United States, Stainbank argued that differential accounting for private entities already exist as evidence by the permitted use of "other comprehensive basis of accounting" (OCBOA) for financial reporting.

Applicability to Micro entities

When presented with the assertion that it was unrealistic to design a single standard that would be applicable to any sized private entity, the IASB (2009a) argued that the IFRS for SMEs was an appropriate standard for any "entity, regardless of size, who was required or elected to publish general purpose financial statements for external users" (p.26). Therefore, users of the SME standard would include "micro entities", generally described as entities with 10 or fewer employees, as well as large private companies. Neag et al. (2009) disagreed with the IASB's argument that IFRS for SMEs would appropriate and not a financial burden to micro entities. Neag et al. argued that IFRS for SMEs are more appropriate for larger, unlisted entities; therefore, there should be recognition of micro entities as a distinct accounting standards category that has different financial informational needs (p.36). Neag et al.'s argument for separate, less complex standards for micro entities is in agreement with Evans's (2005) recommendation that the IASB develop a three-tier accounting standard system. Even though the IASB developed IFRS for SMEs to better meet the needs for nonpublic entities, the UN (2010) also contended that the standards may not be appropriate for smaller enterprises. The UN recommended the development of a third-tier or level of financial standards for micro entities that would use " a simplified accruals-based accounting, closely linked to cash transactions" (p. 78). In contrast, Pacter (2009) argued that IFRS for SMEs is suitable for micro entities that prepare general-purpose financial statements. While the IFRS for SMEs may provide guidance for transactions or circumstances that are generally inapplicable to micro entities, Pacter argued that this should not cause any unnecessary burden. Organized by topics and written in plain English, the simple and straightforward presentation of the SME accounting standards will allow micro entities to identify the applicable guidance (Pacter, 2009, p.8).

Response to the IFRS for SMEs ED

While the IASB(2009b) defined SMEs as entities that (a) do not have public accountability and (b) publish general purpose financial statements for external users (p. 10), Tudor and Mutiu (2008) argued that the concept of SMEs is inclusive of enterprises with different characteristics and different user needs. Therefore, in some countries, entities may qualify to use IFRS for SMEs but characteristics, such as size, do not meet the general understanding of an SME. When addressing this issue regarding applicability of IFRS for SMEs to private companies, Pacter (2007) stated that each jurisdiction will have to decide " which entities should be required or permitted to use IFRS for SMEs" (p. 17). Tudor and Mutiu agreed but also argued that SME accounting is a national or regional matter; therefore, each jurisdiction needs to decide whether to promote the use of the international standard (p.8). However, Tudor and Mutiu did conclude that IFRS for SMEs ED was an appropriate set of standards for SMEs that met the financial statement needs of SME's users better than full IFRS (p. 10). In agreement, Neag et al. (2009) argued that SMEs have an important role in the world wide economy and the accounting needs of SMEs are equally important. However, Neag et al. disagreed with the IASB establishing the objectives of the IFRS for SMEs project before "clarifying the group of entities these standards are addressed to" (p. 33). Moreover, Neag et al. suggested that IASB did not have a sufficient level of consideration for the "multitude of accounting practice used worldwide" that meet the reporting needs of small entities (p. 33).

In their response to the IFRS for SMEs ED, Deaconu et al. (2009) stated that in the view of Europeans, the SME standards did not " really take into account the stakeholders specific to SMEs and their needs" (p. 39). The IASB (2009a, p. 18) stated that SMEs have a greater interest in short-term cash flow than in forecasted, long-term cash flows, but the ED did not provide details as to how the standards responded to SMEs' needs. In contrast to the IASB, Deaconu et al. indicated that SMEs stakeholders focus on "the long-term information than on short-term" (p. 39). Additionally, Deaconu et al. also argued that that IFRS for SMEs ED was still too complex and sophisticated for many small- and medium-sized entities (p.40) which differs from the IASB view that the SME standards were suitable for all nonpublic entities.

The IASB (2009a) argued that global accounting standards were needed since many SMEs had outside investors who were not involved in the daily management of the enterprises (p. 16). To evaluate the suitability of the IFRS for SMEs ED for different-sized entities, Eierle and Haller (2009) selected a sample of 4,000 German enterprises using disproportionate stratified random sampling (p. 200). In support of the IASB's argument, Eierle and Haller indicated that several SMEs, "especially larger entities, have external shareholders/owners for which financial statements are probably an important source of information" (pp. 225-226). Eierle and Haller also suggested that cross-border activities and knowledge of IFRS were both size-sensitive issues, but small entities did have some international trade activities and IFRS knowledge. Therefore, Eierle and Haller argued that the IASB's development of IFRS for SMEs was beneficial to even the smaller SMEs as it would allow the preparation of internationally comparable financial statements. However, Eierle and Haller also indicated that the majority of SMEs did not see the need for such statements (p. 226). Eierle and Haller argued that this finding, in conjunction with the perceived cost of IFRS for SMEs adoption, might provide insight into "the reluctance of SMEs to apply IFRS so far" (p. 226).

The International Federation of Accountants [IFAC](2007) expressed the organization's support for the development of IFRS for SMEs in a November 2007 ED comment letter. The IFAC argued that the IFRS for SME would allow international comparability of SME financial statements. Additionally, the IFAC suggested that the new standards would improve SME financial reporting while providing cost-beneficial financial information. Other stated benefits would be improved credibility and greater financial disciple and transparency. In regards to capital, the IFAC anticipated that the use of IFRS for SMEs would include the reduction of cost of capital and improved capital allocation (p.3). The IFAC also argued that the development of IFRS for SMEs would enhance the efforts towards global accounting convergence since the existence of only “full” IFRS created implementation and compliance challenges for SMEs in developing nations. The IASC disagreed with the IASB’s view that the IFRS for SMEs were suitable for all sizes of SMEs and noted that the IFRS for SMEs ED appeared focused on the needs of medium- and larger private entities. Therefore, the IFAC questioned whether the standards were cost-beneficial to small entities producing financial statements for external users and recommended exclusion of smaller SMEs from the scope of the IFRS for SMEs (p.4). The IFAC’s proposal to omit smaller SMEs from the IFRS for SME is in agreement with Neag et al.’s (2009) argument that micro entities should have a separate accounting standard. While agreeing with the IASB’s explanation of SME users, the IFAC argued that the ED did not satisfactorily clarify “users of SME financial statements and their informational needs” (p.6). Despite concurring with the theory that SME users primarily are creditors, management and owners, the IFAC suggested that the IASB conduct future assessment of users’ satisfaction with IFRS for SMEs prepared financial statements (p.7). When designing the IFRS for SMEs, the IASB had in mind a typical entity with 50 employees (Pacter, 2009a, p. 8). As a result, the IFAC contended that the IFRS for SMEs ED was “skewed in favor of entities with considerably more than 50 employees”; therefore, the ED needed further simplification in order to achieve the “optimal cost-benefit outcome” for the majority of SMEs (p.8).

Representing the European Accounting Association, Di Pietra et al. (2008) stated that during the development of the IFRS for SMEs, IASB made use of “ round tables, staff questionnaires, and field tests” (p. 30) to gain a better understanding of the financial reporting needs of SME users and the associated cost-benefit issues. However, Di Pietra et al. argued that input from actual users and preparers of SMEs financial statements was not as prevalent as the opinions of accounting profession, regulators, and academics. Disagreeing with the IFRS for SMEs ED's assumption that all SMEs have similar characteristics and needs, Di Pietra et al. contented that the complexity of the IFRS for SMEs ED would not be cost-beneficial to smaller and micro entities, especially in European countries where there is a close relationship between financial reporting and tax regulations (p. 31). Pointing out that the IFRS for SME ED was more complex than the UK's Financial Reporting Standard for Smaller Enterprises (FRSSE), Di Pietra et al. argued that the IFRS for IFRS ED needed additional simplification and more exemptions (p. 42). Arguing that the IFRS for SMEs is bias towards large, internationally-focused SMEs, the EU accountants agreed with IFAC's (2007) opinion that the IFRS for SMEs ED is "skewed in favor of entities with considerably more than 50 employees" (p. 8). Noting the absence of supportive evidence , Di Pietra et al. disagreed with the use of the IFRS's *Framework* as the theoretical foundation for the IFRS for SMEs, despite the IASB's argument that a "fresh start" approach would have been " costly and time-consuming and ultimately futile " (IASB, 2009a, p. 33). Other issues raised by Di Pietra et al. included the lack of SME constituents' representation on the IASB' board structure and the practical enforcement of the standards given that SMEs are commonly exempted from audit requirements (p.43).

According to Nerudova and Bohusova (2009), respondents to the IFRS for SMEs ED suggested that a separate standard was not needed but instead the SMEs should “simply follow tax accounting requirements” (p. 238). The ED respondents argued that requiring the use of IFRS for SMEs would necessitate the keeping of “two sets of book” (Nerudova & Bohusova, 2009, p. 238). In response to this argument, the IASB (2009a) stated that the objective of the IFRS for SMEs was to facilitate the preparation of general-purpose financial statements for profit-oriented entities. While the IFRS for SMEs’ financial report can provide a starting point for tax calculations, determining taxable income requires financial information prepared in accordance with the jurisdiction’s laws and regulations (IASB, 2009a, p. 20; Pacter, 2009a, p. 10). According to Nerudova and Bohusova, Green supported the IASB viewpoint in a 1995 article in which Nerudova and Bohusova argued financial and tax accounting cannot be the same since they each have different rules and purposes (p. 239).

Through their analysis of the comment letter submitted in response to the IASB’s ED IFRS for SMEs, Adela and Silvia (2009) expressed concern that fair value usage may not be appropirate for SMEs (p. 39). Adela and Silvia suggested that fair value accounting occurs whenever measurement is other than historical cost, Adela and Silvia argued that the commonly used fair value models are market value or value in use but inconsistencies within both US GAAP and IFRS make the application of fair value accounting unclear. Adela and Silvia contended that their content analysis of the IFRS for SME ED comment letters indicated that acceptance of fair value accounting is dependent upon the provision of additional measurement guidance. Additionally, Adela and Silvia indicated that SME users who lack accounting training would benefit from “clearer and less technical information” regarding market value (p. 45). Adela and

Silvia also suggested that the ED did not address the challenges of determining market value nor the SMEs cost-benefit of using fair value measurment. Therefore, Adela and Silvia argued that IASB needed to supply additional SME appropirate guidance for fair value measurements. To reduce the cost for obtaining externally provided fair value measurements, Adela and Silvia suggested the use of value-in-use measurement models based on internal forecast or previous budgets.

In response to the IASB issuance of the IFRS for SMEs ED, South Africa adopted the transitional standard for limited interest companies without public accountability; thereby, becoming the first in the world to adopt IFRS for SMEs (Stainbank, 2008, p. 1). Since prior to adoption, SMEs had to comply with full IFRS that adoption of IFRS for SMEs brought financial reporting relief to nonpublic entities, but it did also require South Africa to reform its corporate laws to permit differential accounting. While commending the efforts of the IASB, Stainbank (2008) argued that additional research is needed to evalute whether the IFRS for SMEs meets the needs of users of SMEs' financial stament (p.14). In agreement with Evans (2005), Di Pietra et al. (2008) and Neag et al. (2009), Stainbank argued that a third-tier of financial reporting may also be necessary to better meet the needs of small and micro entities as well as small practitioners .

Nerudova and Bohusova (2008) sought to evaluate the applicability of the IFRS for SMEs' ED by obtaining information regarding the financial practices and economic positions of 45 Czechian SMEs comprised of 25 micro entities, 10 small entities, and 10 medium-sized entities. Although Nerudova and Bohusova found that most SMEs did not consider the current Czech Republic taxation and accounting systems favorably, Nerudova and Bohusova did not view the differences in European accounting systems as a hindrance to cross-border business transactions. Nerudova and Bohusova argued that accounting harmonization would be more beneficial to SMEs with foreign branches or subsidiaries and in companies involved in international trade. In regards to Czech's micro entities, the adoption of the accrual accounting , such as IFRS for SMEs, would not be cost-beneficial since the entities primarily prepared cash-basis financial reports and the of use accrual accounting would increase costs "disproportionally" (p. 168). As previously discussed, the IASB's objective for IFRS for SMEs is the preparation of general-purpose financial statements for external users. Nerudova and Bohusova (2008) disagreed with this viewpoint and argued that financial statements "should often serve managers as a source of information on business financial position, performance, and cash flows" (p. 166).

Cudia (2008) gathered evidence regarding factors that influenced accounting methodology small- and medium-sized entities as well as external auditors who serviced SMEs in Metro Manila. Cudia argued that the nature of the business influenced accounting methodology with the cash basis preferred for industries such as restaurants with industries, such as manufacturing, preferring the accrual method. Convenience in record keeping and usefulness in decision-making were also identified as influencing factors. Both the external auditors and the SMEs considered the accrual method of accounting applicable to SMEs as it presented a more realistic and accurate analysis of the entities' performance and was useful in decision-making and financial reporting. However, cash basis was more applicable for tax compliance purposes (Feltham, 2010). Cudia argued that accrual basis accounting was more applicable than cash accounting for SMEs in Metro Manila; therefore, the IFRS for SMEs would be an acceptable set of accounting standards for the SMEs in Metro Manila.

IFRS for SMEs Final Changes

According to the Deloitte's (2009b) IASB agenda summary, there was discussion regarding the naming of the accounting standards prior to final issuance. During the development process, the IASB used three different titles for the simplified set of international standards: International Reporting Standards for Small and Medium-sized entities, International Reporting Standards for Non-publicly Accountable Entities (NPAE), and International Reporting Standards for Private Entities. Constituents expressed concerned that the term "small and medium-sized entities" suggested that quantitative size determined an entity's eligibility to use the standard. Therefore, respondents to the Ed suggested the use of an alternative term (Deloitte, 2009b, p. 65). While public accountability is the determining use factor for IFRS for SMEs, there was little use of the term "nonpublic-interest-entity" noted in the literature review. However, publications during 2008 and early 2009 did reflect the use of the IFRS for Private Entities title (O'Keeffe & Hackett, 2009; Pacter, 2009a). At the April 2009 meeting, the IASB again considered the various views presented on which terminology should be associated with the new standards. The decision was to return to the original title of the standards, International Financial Reporting Standards for Small and Medium-sized Entities or IFRS for SMEs (Deloitte, 2009b, p. 92).

The IASB's considerations of the ED comments and field test resulted in changes in recognition, measurement, and presentation principles proposed in the ED. Although cross-referencing to full IFRS was included in the IFRS for SMEs ED, the final version of the IFRS for SMEs is a "stand –alone" set of standard with the only "fallback" or cross-reference to full IFRS being the optional use of IAS 39 for financial instruments (IASB, 2009a, p. 13; Pacter, 2009b, pp. 2-3). Beside the issue of cross-referencing to full IFRS, changes to the IFRS for SMEs before final release were numerous. Some additional changes included the elimination of the more complex options and the addition of guidance for the remaining options, omitting topics not commonly encountered by typical SMEs, not permitting a revaluation option for property, plant and equipment, and requiring the amortization of all indefinite life intangibles, including goodwill (IASB, 2009a, pp. 13-14).

Users of the New Standard

The IASB's motivations for the IFRS for SMEs project was the recognition that full IFRS compliance was generally too costly and may not meet needs for SME users. Pacter (2009b) stated that the IASB was " aiming at" nonpublicly accountable entities that must produce general purpose financial statements (GPSF). Pacter argued that GPFS are financial statements that "present fairly" an entity's financial position, operating results, and cash flows for external capital providers and others (p. 3). Pacter also argued that it is not the IASB's responsibility to determine who "must produce GPFS" but instead each jurisdiction's legislature and regulators (p. 3). Hepp and Illiano (2010) argued that the publication of the IFRS for SMEs "firmly establishes the intent of the IASB to move beyond financial reporting standards for global capital markets and become the standard setter for all for-profit entities" (p.2). The IASB defined the users of the new standards as small- or medium-size entities that "do not have public accountability and publish general purpose financial statements for external users" (IASB, 2009b, p. 10). The IFRS for SMEs literature explains that an entity has public accountability if

> its debt or equity is traded or in the process of becoming traded in a public market or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary business. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks (IASB, 2009b, p. 10).

Pacter (2009b) defined an entity that does not have public accountability as one who does not have publically traded securities or it is not a financial institution (p. 2). Notably, the standard omits any size limitation for nonpublic companies and does not forbid usage by public utilities, not-for-profit entities, or public sector entities. In contrast, listed companies, no matter how small, are ineligible to use IFRS for SMEs. However, the standard does allow a subsidiary, whose parent uses IFRS, the option to use IFRS for SMEs for its financial statements as long as the subsidiary is not itself publically traded and it complies with full IFRS for consolidating purposes (Feltham, 2010; Pacter, 2009b).

With the permission of local jurisdiction, promoters of the IFRS for SMEs estimated that over 99% of private entities worldwide are eligible to use the standard

(IASB, 2009b, p. 11; Pacter, 2009b, p. 2). While the Financial Accounting Standards Board (FASB) is the primary standard-setter in the United States, the IASB has gained the status as the second designated standard-setter. In 2008, the AICPA (2009b) voted to recognize the IASB as an international accounting standard-setter. This act gives the AICPA members the option of using and reporting on IFRS. Therefore, U.S. CPAs, who are professionally competent in the international standards, can now provide accounting services for clients who desired to use IFRSs or IFRS for SMEs (Feltham, 2010, p. 9) .

Status of Global Adoption

In 2009, the IASC Foundation asked the world standard-setters to respond to a question asking if they plan to require or permit adoption of IFRS for SMEs within the next 3 years. Of the 51 responses received, 19 planned to require IFRS for SMEs, 11 planned to permit the use of the SME standards, 11 may require or permit the use of IFRS for SMEs, and 10 had no plan to either require or permit use (Pacter, 2009b, p. 13). Jurisdictions' plans for adoption varied with some requiring the use of IFRS for SMEs but allowing the SMEs to use full IFRSs or a national equivalent and some plans including a third-tier of GAAP for "tiny SMEs" (Pacter, 2009b, p. 13). Pacter (2009b) also noted that "permit" and "require" did not "necessarily mean all SMEs" (p.13). As of October 2009, among the nations planning to require IFRS for SMEs were the Bahamas, Bahrain, Saudi Arabia, South Africa, and the UK. Those planning to permit the use of IFRS for SMEs included the United States, Austria, Nigeria, and Denmark. Jurisdictions considering either requiring or permitting included such nations as Hong

Kong, Israel, Romania, and Taiwan. Included in the group of nations opposed to either requiring or permitting were Canada, France, Germany, Japan, and Mexico (Pacter, 2009b, pp. 14-15).

Czech Republic

Müllerová, Paseková, and Hýblová (2010) argued that SMEs play a role not only in the Czech Republic, but also in the EU in general. While the EU's public companies report using IFRS, SMEs primarily use the national accounting standards. Müllerová et al. suggested that this lack of common SME accounting standards contributes to European SMEs' low participation in the single European market. Other factors inhibiting cross-border trading include variations in member countries' legal regulations, a lack of unified taxation, limited sources of capital, insufficient support of SME cross-border business activities, cultutral and language differences, and a lack of information (Müllerová et al., 2010, p. 57). While the European Commission is considering revisions to the accounting directives to address the reporting needs of SMEs, it is anticipated that the EU and multinational institutions will demand the adoption of the new IFRS for SMEs. However, as Müllerová et al. (2010) pointed out that the adoption of IFRS for SMEs would result in the loss of the EU's identity.

Reasons provided for this viewpoint included

IFRS for SMEs is an simplification of full IFRS which is in the process of converging with US GAAP. This could be "destructive for the existing EU environment"(p.58) and for historically recognized European values.

Conceptual differences exist between IFRS for SMEs and traditional

> continental. European accounting philosophical approaches. Tax compliance is major purpose of financial reporting of continential European SMEs. Tax reporting is not the designed purpose of IFRS for SMEs. Adoption of IFRS for SMEs will force the EU to adapt its environment legally, economically, and socially in order to apply the standards. (Müllerová et al., 2010, p. 58)

Nevertheless, the recognition of SMEs as a important part of the global economy are resulting in the disappearance of the historical arguments against the harmonization of SME accounting standards. The IASB (2009a) asserted that IFRS for SMEs is a high-quality set of international SME accounting standards, which will improve comparability of financial statements and overall trust in financial information, facilitate a growing enterprises transition to full IFRS while also reducing expenses associated with maintaining national standards (p. 16). In regards to the implementation of IFRS for SMEs in the Czech Republic, Müllerová et al. (2010) argued that one of main problems is that accounting profit serves as the basis for tax calculation. As a result, Czech entities' adoption of IFRS for SMEs would require adjustments to financial information in order to calculate taxes in accordance with Czech regulations. Therefore, new accounting legislation and retraining of accounting professionals would be necessary if the Czech Republic adopted IFRS for SMEs. This would initially result in an increase in the administrative needs as well as expenses of SME entities. Additionally, Müllerová et al. stated that the majority of Czech Republic SMEs have little interest in "a trustable and truthview" (p. 60) of accounting. Instead, many Czech SMEs view accounting information as a means to determine profit tax basis, not as a useful managerial decision-making tool. Müllerová et al. argued that the adoption of new standards would require a change in how Czech SMEs view accounting from stressing correct accounting procedures to focusing on the final product in the financial statements. This would require SMEs to understand not just a set of accounting rules, but also the consequences and relationships of business transactions.

Romania

In order to evaluate the possible implementation of IFRS for SMEs in Romania, Albu et al. (2010) reviewed relevant literature while also conducting face-to-face interviews and performing analysis of current Romania regulations in comparison to the IFRS for SMEs (p. 45). In the context of transition (ex-communist) countries, Albu et al. argued that the accounting culture's point of reference is "the State as the main user of financial statements, the tax influence over the accounting system, and the preference, given this mentality, of a rule-based set of regulations" (p.48). This cultural situation accounts for the various approaches to IFRS' implementation and the demonstrated resistance to change. Albu et al. argued that the Romanian experience of full IFRS implementation provides insight into the anticipated challenges of implementing IFRS for SMEs. According to Ionascu (as cited in Albu et al., 2010), Romanian listed companies perceived the benefits of full IFRS as insignificant even though cost "were rather low" (p.56). One identified IFRS implementation issue was the lack of IFRS guidance in conjunction with the complexity of the standards. This forced Romanian entities to depend upon other existing implementation guidance, generally U.S. GAAP or national GAAP, professional bodies' recommendation and tax rules, or auditors' recommendations (Albu et al., 2010, p. 57). Albu et al. also reported that Romanian accounting researchers indicated that the majority of respondents felt the need for detailed regulations with only 20% agreeing with principle-based regulations. Based on the IFRS experience and the conducted studies, one may project that Romanian SMEs will also find that the IFRS for SMEs does not provide sufficient detailed regulations. Albu et al argued that the translation and interpretation of the IFRS for SMEs may not necessary result in the same method of application, which raises concerns regarding the possible "de jure" (legal) IFRS for SMEs adoption but not "de facto" (in fact) adoption. In support of this argument, Albu et al. noted that, while IFRS for SMEs and Romanian regulations use the same verbiage of "true and fair view", researchers have indicated that Romanian financial statements "give a fiscal image and not a true and fair view, and they are conceived for a single user – the State" (p.58). When addressing the concept of "substance over form" (SOF), Albu et al. argued that Romanians are not encouraged or even allowed to use professional judgment. To support this argument, Albu et al. provided the following quote from an interview with a Big Four auditor.

> Unfortunately, even if in theory in Romania we apply substance over form, actually, there are a very limited numbers of cases where we apply it. For lease contracts, we have the accounting approach (theoretically using SOF), but also a fiscal approach and a legalistic approach. Usually, preparers consider that the nature of the lease is stipulated in the contract, without taking into account the

> substance. And of course for the authorities it also is the best, because if on a piece of paper it is written 'financial lease ' it is exquisite! (p. 58)

Albu et al. cited numerous challenges facing the possible Romanian adoption of IFRS for SMEs, including a current Romanian translation, lack of trainers, teachers, and practical specialist. However, Albu et al. “generally” agreed that the adoption of IFRS for SMEs would result in better financial communications, higher quality financial statements, better understandability, and comparability while also removing the requirement to follow Romanian regulations vs. IFRS (p. 63). Also from the Romanian perspective, Deaconu et al. (2009) found that SMEs require a simplified accounting system to meet the specific needs of their stakeholders. Deaconu et al. argued that IFRS for SMEs was not suitable for Romania, specifically, and Europe, in general, due to cultural diversity and the existence of a wide variety of accounting systems (p.30).

Canada

In response to Canada’s adoption of full IFRS effective January 1, 2011, the Accounting Standards Board of the Canadian Institute of Chartered Accountants made a decision to develop its own separate set of standards for private companies and released the *Accounting Standards for Private Enterprises* (ASPE) on December 15, 2009 (Hepp & Illiano, 2010). The release of this standard established differential accounting or “Big GAAP, Little GAAP” in Canada. Hepp and Illiano (2010) argued for Canada’s acceptance of IFRS for public companies, but the rejection of IFRS for

SMEs for private companies signifies that the IASB, as of yet, is not accepted as the global standard setter for non-public companies (p.3).

Private Entity Accounting – United States

Historically, the United States has had a strong accounting system, with the U.S. GAAP recognized as a quality standard system; thus, the United States has had little interest in adopting IFRS (Nobes & Parker, 2008). However, the financial scandals of the early 2000s and the International Organization of Securities Commission's (IOSCO) endorsement of IFRS, brought about a change in attitude by the Securities Exchange Commission [SEC] (Alexander et al., 2009). In 2002, the FASB and the IASB entered into the *Norwalk Agreement* in which they formally committed to working together to develop high quality compatible standards for use domestically and internationally (Alexander et al., 2009). The FASB and IASB advanced the convergence efforts with the 2006 publishing of a memorandum of understanding (MOU), which reaffirmed the joint commitment to the continued development of a single-set of global accounting standards and included the SEC's plan to remove the 20-F reconciliation to U.S. GAAP requirement (Alfredson et al., 2007; Feltham, 2009; Niswander & Conover, 2009). In November of 2008, the SEC proposed mandatory IFRS usage by U.S. issuers beginning in 2014 (Feltham, 2009; IASB, 2008; Niswander & Conover, 2009; SEC, 2008). While there has been no final decision as to when U.S. public companies will be required to use IFRS, the convergence efforts by the FASB and IASB, as well as the SEC continuing support of IFRS adoption, indicates that IAS will be required for public company financial reporting (Patrisso, 2010).

Does There Need to be a Different Set of Standards for U.S. Private Entities?

In the United States, over 22 million private businesses generate more than half of the annual economic output. Therefore, providing accounting standards that meet the informational needs of private entities users is an important element of maintaining the strength of the U.S. economy (AICPA, 2008b). However, the United States differs from most nations in that it does not legally require private entities to comply with the same reporting requirements as public entities. Without private entity regulation, the market determines the accounting practices of private entities in response to the varying needs of users with consideration given to "cost-benefit trade-offs" (Botosan et al., 2006, p. 180). Therefore, the SEC's anticipated adoption of IFRS will not directly require U.S. private entities to use IFRS. Yet, the current convergence efforts of FASB and IASB may result in a replacement of U.S. GAAP with IFRS in the near future. The anticipated use of full IFRS by public company has increased the accounting professions' discussion regarding the need for separate accounting standards for U.S. private entities.

The arguments for and against differential accounting within U.S. GAAP has been the topic of much debate since the mid-1970s (Christopher, Price, & Saunders, 2005). The AICPA (1976) reported on GAAP for small businesses and found that accountants had two main concerns regarding U.S. GAAP and small business accounting. In the opinion of the AICPA members, the small business financial statements prepared in accordance with GAAP were unnecessary costly due to the inclusion of required informational that did not assist in meeting the users' needs. However, despite the findings, the AICPA committee still recommended that financial statement development procedures be the same for all entities. The AICPA (2005) again concluded that U.S. GAAP does not adequately meet the needs of private entities. The AICPA (2005) argued for developing a separate private entity GAAP that would better meet the "distinctly different needs of constituents of that financial reporting" (p. 21). In similarity with the IASB use of public accountability as the determining use factor, the AICPA (2005) argued that the difference between private and public companies was a more significant factor in financial statement needs than the actual size of the companies p. 21).

Sinnett and Graziano (2006), in agreement with the AICPA (2005), argued that U.S. GAAP does not provide the detailed financial information that external investors and banks require. Additionally, Sinnett and Graziano noted that compliance with the standards was sometimes "difficult and time consuming" (p.3). Based on a survey of accountants providing services for small businesses in the United States, Christopher et al. (2005) stated that there should be a SME designation. Additionally, Christopher et al. suggested that the designation as SME should be based on a maximum level of sales in a range between $10 million and $100 million (p. 50). In their study of the financial reporting practices of small privately held business in the United States, Allee and Yohn (2009) concluded that entities had incentives to produce and use quality financial statements, even though not required by regulations. Although the benefits of accrual-based financial statement included a lower cost of capital, Allee and Yohn found that the existence of audited financial increased an entities' accessibility to credit. Allee and Yohn agreed with the AICPA (2005), which also argued that private companies found benefits in the use of US GAAP financial statement regardless of the "low relevance of GAAP-specific requirements" (p.22). Though the debate over differential accounting continued during the 1980s and 1990s, the discussion became more prevalent with the globalization of the U.S. economy, the expansion of IAS, and the resulting convergence efforts between U.S. GAAP and full IFRS.

The Accounting Industry Consideration of Differential Accounting

In an effort to improve financial reporting of U.S. private companies, the FASB (2006a), with the assistance of the AICPA, formed the Private Company Financial Reporting Committee (PCFRC) in 2006 (FASB, 2006a). The stated mission of the PCFRC is " To consider differences in prospective and existing GAAP accounting standards related to private companies based on user needs and cost/benefit considerations, and make formal recommendations to the Financial Accounting Standards Board" (FASB, 2006b, p. 2). In response to the SEC's anticipated use of IFRS by public entities in the near future, the necessity of developing a separate GAAP for U.S. private companies became more urgent. In 2008, the PCFRC proposed five models for private company accounting. The model options included the use of full IFRS or IFRS for SMEs, the use of an adapted IFRS for SMEs, the use of an adapted version of full IFRS, the use of an adapted version of current U.S. GAAP, or the use of current U.S. GAAP with periodic future updates (AICPA, 2008b, pp. 1-2). Considering the use of IFRS- based accounting standards, some of the committee's concerns included the possibility that conversion cost would outweigh the benefits; there would be an difficult *learning curve* for preparers, users, and practitioners; and the more principles-based IFRS and IFRS for SMEs "may not be adequate in the litigious U.S. marketplace" (AICPA, 2008b, p.4). In regards to IFRS for SMEs, the PCFRC (2006b) also expressed concern that the perception of the simpler set of standards would be that they were "dumb-downed and second class to full IFRS" (p.4). The PCFRC's (2006b) concern with keeping some version of U.S. GAAP for private companies included the future lack of comparability of private company financial reports to international companies or U.S. public companies. Additionally, the existence of non-IFRS standards could cause confusion in the marketplace due to the difference in recording transaction. The possibility that the marketplace would view U.S. GAAP as second class to IFRS was also a stated concern for the U.S. GAAP models. In December of 2009, the AICPA, the Financial Accounting Foundation (FAF), and National Accounting Standards Board (NASBA) announced the formation of the " blue-ribbon panel" to "address how U.S. accounting standards best meet the needs of users of private company financial statements" (AICPA, 2009a, p. 1). The stated purpose of the panel was to provide recommendations regarding future standards for private companies and the whether there was a need for a separate set of standards for U.S. private entities. According to Hepp and Illiano (2010), the reasons for the reviewing U.S. private entity accounting standards included the issuance of the IFRS for SMEs and the efforts underway in other countries to address private company GAAP, including the recent publication of *Accounting Standards for Private Enterprises* in

Canada. Additionally, Hepp and Illiano found that financial professionals in the United States would prefer differential accounting standards for private companies due to the increasing number of complicated accounting standards, driven by public company reporting, for which compliance is expensive and less beneficial to private companies (p.2).

Based on a series of meetings with stakeholders and panel discussion, the Blue Ribbon Panel concluded that the current GAAP was not meeting the financial statement requirements of private companies in a cost effectively manner (AICPA, 2010b). Due to the insufficient staff and financial resources of many private entities, the PCFRC expressed concerned that U.S. GAAP changes , resulting from FASB/IASB convergence project, would be difficult for private companies to implement (as cited in Deloitte, 2010). The Blue Ribbon Panel rejected the use of any impending models based on IFRS, and instead recommended three models based on current U.S. GAAP. The three models proposed included (a) U.S. GAAP with exclusion and enhancements for private companies, (b) a basic U.S. GAAP with public company add-ons, or (c) separate, stand-alone standards for private companies based on current U.S. GAAP (AICPA, 2010b, p. 1; DeFelice, 2010, p. 26).

IFRS for SMEs Still an Option

The business community does not appear to be rejecting private company use of IFRS for SMEs. In November 2010, 40.3% of the participates in a Deloitte (2010) online webinar indicated that private companies should be required to adopt IFRSs. Millman (2010) argued that is unlikely that U.S. private companies will have any future regulatory requirements to use GAAP, IFRS, or IFRS for SMEs. However, with the current efforts to converge U.S. GAAP and IFRS, U.S. and international standards will affect private entity's accounting methods, even if the organization does not formally adopted IFRS or IFRS for SMEs. In disagreement with the Blue Ribbon Panel, Millman argued that the principles-based IFRS for SMEs is more straightforward than U.S. GAAP. Therefore, IFRS for SMEs may be an acceptable alternative to U.S. private entities frustrated with the complexity of U.S. GAAP. Since IFRS for SMEs does not permit Last-in-First-out (LIFO) inventory valuation, the adoption of the international standard would not only require a change to an allowable method, but also recognition of taxable income previously deferred in inventor, which maybe a deterrent adoption. Millman also noted that executives of private companies seemed to be more interested in the potential of IFRS for SMEs than financing institutions. Bankers, interviewed by Millman, argued that most credit analysis did not have training or expertise in IFRS so there were additional costs of training and software upgrades associated with serving IFRS for SMEs clients. However, the bankers stated they would "accommodate borrowers who opt to make the switch" (Millman, 2010, p. 19).

Grant Thornton (2009) conducted a survey of 846 U.S. CFOs and senior comptrollers. Thornton addressed private company accounting issues, which included the use of IFRS for SMEs. Fifty-two percent of the participants agreed with permitting U.S. private entities to use IFRS for SMEs for financial statement preparation. According to Grant Thornton, this was a change from the 36% positive response received in a March 2009 survey. The majority of the participants agreed that there should be different recognition and measurements for private entities. In addition, 60% of the participants agreed that recognition and measurements for private entities should be simpler than public entity requirements (p. 12). Grant Thornton argued that the complexity of financial standards was a contributing factor to the demand for simpler standards. Grant Thornton noted that 73% of the CFOs considered financial statements "too complex to be usable by the average investor" (p.13). Deloitte (2009e) argued that IFRS for SMEs was an attractive option to U.S. GAAP for many private companies (p.2). Deloitte stated that potential benefits included simplified reporting, greater financial statement comparability, and a reduction in the "burden of financial statement preparation for private entities" (p.2). Deloitte (2009d) also acknowledged that challenges in adopting IFRS for SMEs included the need for more education about IFRS for SMEs within the U.S. business community and the reluctance to adopt unless required. Carfang (2010) agreed with Deloitte noting that IFRS for SMEs was not well known among the financial statement users in the United States ;therefore, users did not understand how IFRS for SMEs differed from U.S. GAAP. The present U.S. GAAP has detailed rules for recording business transactions, which was an element missing from the principles-based IFRS for SMEs. Carfang argued that the difference in the two standard methods of recording transactions could result in significant variations in the financial results.

Since the AICPA (2009b) recognized the IASB as an international accounting standard-setter, U.S. private entities seeking alternative to U.S. GAAP may choose to adopt IFRS for SMEs. In consideration of the use of IFRS for SMEs by private U.S.

entities, Jermakowicz and Epstein (2010) stated that many believe that the "light IFRS" can "provide stakeholders with improved comparability of accounts as well as with transparent, reliable financial information to guide effective decision-making" (p.72). Paul Pacter (2010) stated that the use of the international standard will improve the cross-border comparability of financial reporting, leading to a reduction in compliance costs and more efficient allocation of capital. The benefits of international comparability of private entity financial statements could increase with the U.S. entities growing in participation in international trade. While the burden of complying with U.S. GAAP and the expansion of international trade appears to be stimulating an interest in IFRS for SMEs, a more thorough understanding of how IFRS for SMEs will affect financial reporting would be beneficial to all private entity stakeholders.

Key Differences between U.S. GAAP and IFRS for SMEs

IFRS for SMEs and the U.S. GAAP have similar accounting assumptions, such as materiality, going concern and comparability, as well similar qualitative characteristics of financial statements including reliability and relevance (Niswander & Conover, 2009). While IFRS for SMEs are more principles- and judgment-based than U.S. GAAP, the international standard still provides guidance for implementation of its concepts and principles. Comparatively, U.S. standards still require professional judgment to apply concepts and principles, despite the detailed guidance and rules contained in the GAAP codification (Feltham, 2010). In contrast to the U.S. GAAP , which does not have a specific standard for private entities, IFRS for SMEs is only available for use by small- and medium-sized entities that prepare general purpose financial statements and do not have public accountability (IASB, 2009b). Since their publication in July of 2009, the IFRS for SME standards have gained the support of key U.S. accounting and finance organizations including the AICPA and the Institute of Management Accountants and Financial Executives International (Nolte, 2009). The AICPA (2009b) released a statement in which it welcomed " the introduction of IFRS for small and medium entities as an alternative accounting and reporting option for private companies" (p. 1). Additionally, the AICPA also stated that the issuance of IFRS for SMEs supported the theory that users of private company financial statement users have different needs than users of public company financial statements. According to Nolte (2009), the AICPA also acknowledged that some private companies may find the simplified IFRS for SMEs more relevant and less costly than U.S. GAAP (p.1).

With the AICPA's amendment in 2008 to recognize the IASB as an accounting-standard setting body, members of the AICPA, who met professional knowledge qualifications, are permitted to issue opinions on not only financial statements prepared in accordance with full IFRS but also IFRS for SMEs (Fitzpatrick & Frank, 2009).

Accounting Framework

When comparing IFRS for SMEs and U.S. GAAP, one of the first differences noted is the number of pages of guidance provided by each standard. While the U.S. GAAP codification contains approximately 17,000 pages of accounting regulations, the full IFRS contains approximately 2,500 pages; the simplified plain English international standard for private entities is only 230 pages in length (Nolte, 2009). The physical size difference between the two standards lies in the international standard's greater reliance on professional judgment, which contrasts with the U.S. GAAP's emphasis on detailed written guidance and rules. This is not to say that the U.S. GAAP does not rely on professional judgment or that IFRS for SMEs does not rely on written guidance. Although both standards incorporate professional judgment and written guidance, there is a marked difference in the specific guidance and examples. It is also important to note that the U.S. GAAP includes guidance for both public and private entities while only nonpublic entities qualify to use IFRS for SMEs (IASB, 2009b).

The comparison of IFRS for SMEs and U.S. GAAP reveals many similar accounting assumptions, such as materiality, comparability, and going concern, as well as common qualitative characteristics, like reliability and relevance (Niswander & Conover, 2009). There are some variations between the frameworks of the two standards. For example, IFRS for SMEs includes "substance over form" as a separate qualitative characteristic, which is not found in the FASB's *Conceptual Framework (*AICPA, 2010a, section 2.8). Another difference in the two frameworks is the U.S. GAAP's inclusion of "verifiability" as a characteristic of reliability (AICPA, 2010a, section 2.7). There is also the possibility of variation in the recognition of transaction due to minor differences in the definition of assets and liabilities.

The IFRS for SMEs describes an asset as a resources controlled from which the entity will receive "economic benefit and a liability as present obligation whose payment will be made through an "outflow of economic benefit" (IASB, 2009b, pp. 14-15). In a different description, U.S. GAAP defined an asset as " probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" and liabilities as present obligations to be settled by a transfer of assets or service (AICPA, 2010a, section 2.15(a)).

Presentation of Financial Statements

Financial statements prepared in accordance with IFRS for SMEs will have some variations from financial statement prepared in conformity with U.S. GAAP. To ensure that users understand which accounting standards are being used, the notes to the financial statements must state that the report preparation is in compliance with IFRS for SMEs (IASB, 2009b). Another differential from U.S. GAAP is the international standards' allowance of noncompliance with standard guidance if doing so would result in misleading financial statements (AICPA, 2010a), which is an option not available for U.S. GAAP users. In similarity with U.S. GAAP, a set of IFRS for SMEs' financial statements include a statement of financial position, a statement of income, a statement of changes in equity, and a statement of cash flows and notes (IASB, 2009b). However, there are also notable difference between the U.S. GAAP and IFRS for SMEs. While it is common for U.S. GAAP statements to include comparative information, it is not required. In contrast, IFRS for SMEs requires at least 1 year of comparative information and the presentation of a classified statement of financial position (KPMG, 2010). Other financial statement differentials include the IFRS for SMEs' classification of all deferred taxes as noncurrent, exclusion of the extraordinary classification, and the international standard's requirement for a separate statement of changes in equity (AICPA, 2010a). The IFRS for SMEs also permits a numerical discrepancy between cash and cash equivalents presented in the statement of financial positions and in the amount presented in the statement of cash flows; however, if a discrepancy exists, reconciliation between the amounts must be included in the statement of cash flows. Another variation between the two standards is the IFRS for SMEs' requirement for entities to present expense classifications based on either the nature or function of expenses, whichever is more reliable and relevant (IASB, 2009b). U.S. GAAP does not contain a requirement for the presentation of expenses by nature.

Both IFRS for SMEs and the U.S. GAAP require affiliated organizations to prepared consolidated financial statements by using the controlling-financial-interest model with consolidation required with more than 50% ownership exists. However, when determining the level of ownership, IFRS for SMEs also considers potential voting rights as well as current voting rights. There are also exemptions from consolidation available under IFRS for SMEs that are not present in U.S. GAAP. When following IFRS for SMEs, organization can avoid consolidation if (a) the parent itself is a subsidiary and the ultimate parent prepares financial statements in accordance with full IFRS or IFRS for SMEs or (b) if the only subsidiary was acquired with the intention of selling within a year (IASB, 2009b). Another differential is that the U.S. GAAP allows consolidating entities to have individual reporting dates with up to 3 months apart, but, IFRS for SMEs requires that all group members have uniform accounting policies and the same reporting date (AICPA, 2010a).

Financial Instruments

Since accounting for financial instruments is one of topics of the MOU between the IASB and FASB, it is anticipated that the U,S. GAAP guidance will change as the result of the convergence effort (FASB, 2009). There are notable differences in accounting standard's guidance for financial instruments present in IFRS for SMEs and the regulations contained with the U.S. GAAP. The U.S. GAAP has three categories available for financial assets and liabilities (a) trading securities, (b) available-for-sale securities, and (c) held-to-maturity. In contrast, IFRS for SMEs' guidance for reporting financial assets and liabilities is contained two sections: *Section 11 Basic Financial Instruments* and *Section 12 Other Financial Instruments*. According to the IFRS for SMEs (IASB, 2009b), financial instruments that follow guidance provided in *Section 11* include cash, demand- and fixed-term deposits, commercial paper and bills held, accounts receivable/ payable, notes receivable/payable, loans receivable/payable, bonds, investments in nonconvertible preferred shares, and nonputtable ordinary and preference shares. The initial measurement of these basic financial instruments is the transaction prices including costs; however, if the financial asset or liability is a financing transaction, the present value of the future payments discounted at the market rate of interest determines the instrument's value. While U.S. GAAP also uses transaction price plus costs for initial measurement for most instruments, trading securities, available-for-sale securities, and instruments electing fair value option through profit and loss are initially measured at fair value. There are variations between the two standards' methods of subsequent measurements of financial instruments. In accordance with IFRS for SMEs, debt instruments, determined to be a basic financial instrument, are measured at each reporting period at amortized costs using the effective interest method. While U.S. GAAP also subsequently measures loans not held for sale and long-term receivables at amortized costs using the effective interest method, held for sale and debt securities are measured at a lower cost or market or fair value, respectively (AICPA, 2010a).

All financial instruments that do not meet the qualifying characteristic describe in *Section 11 Basic Financial Instruments* must follow the accounting guidance provided in *Section 12 Other Financial Instruments*. The international standard measures all complex financial instruments initially at fair value which is " normally is the transaction price" (IASB, 2009b, p. 70). While derivatives and the previously mentioned trading, available-for-sale and fair value through profit and loss instruments are initially measured at fair value, U.S. GAAP records other financial instruments at cost (AICPA, 2010a). For each subsequent reporting period, IFRS for SMEs requires the measurement of Section 12 financial instruments at fair value. However, the international standard does provide an exception for subsequent fair value measurement if an equity instrument is not publically traded and value cannot be reliably determined (IASB, 2009b). While both standards provide guidance for hedge accounting, fewer types of hedge risks and instruments qualify for hedge accounting using IFRS for SMES than if reporting under U.S. GAAP (KPMG, 2010, p. 10). According to IFRS for SMEs Section 12 (IASB, 2009b), the qualification for hedge accounting includes the entity designating and documenting the hedged risk and hedging instrument for specifically identified interest, foreign exchange, or price risks. KPMG (2010) stated that the U.S. GAAP allows hedge accounting for risks beyond those identified in the IFRS for SMEs if certain criteria, including effectiveness, are met (p. 10).

At this time, variations between the timing and measurement of impairment could result in differences between financial statement presentation of financial instruments in financial reports prepared in accordance with IFRS for SMEs and those prepared using U.S. GAAP. At each reporting period, IFRS for SMEs' guidance for both basic and complex financial instruments requires entities to determine if there exists objective evidence indicating impairment for any financial assets measured at cost or amortized costs. If objective evidence indicates impairment, the loss must be recognized immediately (IASB, 2009b). In contrast, the U.S. GAAP does not require impairment assessment for financial instruments measure at cost or amortized cost at each reporting date (AICPA, 2010a). In regards to measurement of the impaired assets, IFRS for SME uses present the value of discounted cash flows for assets measured at amortized costs and best estimate of sales proceeds to value instruments being measured at cost (IASB, 2009b). In contrast, the U.S. GAAP allows for impairment assessment using the present value of discounted expected cash flows, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent (FASB, 2011). Notably, IFRS for SMEs allows subsequent reversals of impairment write-down's as long as the reversal "does not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would be have been had the impairment not been previously recognized"

(IASB, 2009b, p. 62). The timing of derecognition of financial asset may also vary between the two standards due to IFRS for SMEs' consideration of the transference of "substantially all risks and rewards of ownership (AICPA, 2010a, section 11.33b) . However, the basis for the U.S. GAAP derecognition model is whether " legal, actual and effective control has been achieved" (AICPA, 2010a, section 11.33b).

Inventory

The disallowance of the use of LIFO inventory costing is one of most significant differences between IFRS for SMEs and U.S. GAAP (Jermakowicz, 2010). Since the U.S. GAAP requires consistency between the financial statement and tax return inventory costing methods, the adoption of IFRS for SMEs would require entities using LIFO to change tax return costing methods also. For these entities, there would be tax consequences associated with the adoption of IFRS for SMEs required First-in-First-Out (FIFO) or weighted average cost formulas. Other key differences from U.S. GAAP include IFRS for SMEs' requirement for the same cost formula for inventory items that similar nature and use, the disallowance of all capitalization of borrowing costs, and the ability to reverse previously recognized inventory impairment.

Investments in Associates and in Joint Ventures

When addressing the accounting for investments in associates by entities with significant investment, users of IFRS for SMEs have three options: the cost method for investees with no published price quotation, the equity method, or the fair-value-through earnings method for investees with published price quotation (IASB, 2009b). However, the U.S. GAAP requires the use of the equity method or fair-value-through-earnings recording methodology when there is the presence of an influence over an investee (AICPA, 2010a). Similarly, IFRS for SMEs allows the use of the same three options when recording joint venture transactions while U.S. GAAP applies the equity method to joint ventures.

Investment Property

Uniquely different from the U.S. GAAP, IFRS for SMES provides separate guidance for the financial reporting of investment property, which is described as land and buildings owned or under a financial lease held to earn rentals or for capital appreciation (IASB, 2009b). In similarity with the U.S. GAAP, IFRS requires the initial measurement of investment property using the purchase prices plus the associated costs. The differential between the two standards occurs when one considers guidance for measurement after recognition. The IFRS for SMEs requires subsequent reporting date measurement at fair value, with changes reported in profit and loss, when the fair value can "be measured reliably without undue cost or effort" (IASB, 2009b, p. 90). If investment property does not meet this fair value criterion, subsequent measurement is completed using the cost-depreciation-impairment model in similarity with other property, plant, and equipment. Another difference between IFRS for SMEs and U.S. GAAP, is the international standard's guidance that property held through an operating lease may be classified and accounted for as investment property if the property would otherwise meet the classification as an investment property and the fair value can be determined without undue cost or effort (IASB, 2009b).

Property, Plant, and Equipment

In regards to property, plant, and equipment, both IFRS for SMEs and the U.S. GAAP require the initial measurement of the assets at acquisition costs. Subsequently, the assets are measured using cost less accumulated depreciation and accumulated impairment losses. However, as stated in IFRS for SMES *Section 25 Borrowing Costs,* an entity must expense all borrowing costs; thus, the capitalized interest is not a component of the cost of property, plant, or equipment when following the international standards (IASB, 2009b). Another variation between the two sets of standards is the IFRS for SMEs' required use of component depreciation if elements of property or equipment have different economic benefit consumption patterns In contrast, the U.S. GAAP permits component deprecation but the standards do not required its use (Siegel, Levine, Qureshi, & Shim, 2009). While both standards require assessment for impairment, the difference in methodology could result in the dissimilar measurement. Whereas IFRS for SMEs requires impairment assessment at each reporting date (IASB, 2009b), the U.S. GAAP only requires impairment assessment if a review of events and changes suggest impairment (AICPA, 2010a). In respect to the valuation of the impaired asset, the IFRS for SMEs' recoverable amount is the higher of fair value less costs to sell or the asset's value in use, which is described as the present value of the asset's future cash flow stream (IASB, 2009b). Entities following the U.S. GAAP value an impaired asset as the undiscounted expected cash flow that results in a different asset measurement than determined using IFRS for SMEs (Kieso et al., 2006).

Intangible Assets other than Goodwill

IFRS for SMEs and U.S. GAAP vary in their guidance on the recognition of intangible assets other than goodwill. Section 18 of IFRS for SMEs permits the recognition of an intangible asset if (a) it is probable that there will be future economic benefit from the asset, (b) the cost or value of the asset can be measured, and (c) the asset does not result from expenditure incurred internally on an intangible (IASB, 2009b, p. 98). In contrast, the U.S. GAAP does allow the recognition of internally generated intangible assets if certain conditions are met. When considering the guidance for recognition of intangible assets acquired through a business combination, the basis of U.S. GAAP recognition is contracts and legal rights while IFRS for SMEs generally recognizes an asset only if the fair value can be reliably measured and there is an evidence of exchange transactions for similar assets (AICPA, 2010a). Separately purchased intangibles are initially measured at cost using IFRS for SMEs while U.S. GAAP requires these assets to be recorded at fair value. Nevertheless, the AICPA (2010) stated that the fair value is normally the basis for the purchase price so U.S. GAAP and IFRS for SMEs would have similar measurements. In regards to amortization of intangible assets, both sets of standards amortize the assets over their useful life. However, IFRS for SMEs instructs the amortization of indefinite lived intangibles over 10 years when U.S. GAAP does not provide for amortization of indefinite lived intangibles. As noted in the discussion of other assets, IFRS for SMEs allows for the reversal of impairment of intangible assets, which is an accounting procedure not permitted when using U.S. GAAP for reporting purposes.

Leases

IFRS for SMEs' provides accounting guidance for two classifications of leases: finance and operating. The international standard describes a finance lease as one that "transfers substantially all the risks and rewards incidental to ownership" (IASB, 2009b, p. 110) and an operating lease is any lease arrangement that does meet the criteria of a finance lease. In comparison, the U.S. GAAP provides three lease categories: operating, capital, and sales type leases; however, the capital and sales-type lease categories parallel the IFRS for SMEs' finance lease classification. U.S. GAAP guidance also uses the transference of risks and rewards as the condition for lease classification, but the standard requires the capital lease accounting methodology with the presence of any four conditions. The U.S. GAAP capital lease criterions, known as bright-lines, include the transference of ownership at the end of the lease and existence of bargain purchase option. Additional decision factors are the existence of a lease term of 75% or more and the property life and the present value of the minimum lease payment is 90% or more of the fair market value of property at the lease inception (Siegel et al., 2009, p. 13.08). Furthermore, the U.S. GAAP requires that the collectability minimum lease payments is expected and the amount of lessor costs is reasonably certain (AICPA, 2010a). Since the focus of IFRS for SMEs is on the substance of the transaction rather the wording of the contract (IASB, 2009b), leasing arrangements could be a finance lease under the international standards but classified as operating leases under U.S. GAAP.

Business Combinations and Goodwill

IFRS for SMEs and U.S. GAAP provide similar guidance for recording transactions related to business combinations and goodwill. However, IFRS for SMEs requires the capitalization business combination direct costs while acquisition-related costs are expenses as incurred when following the U.S. GAAP (KPMG, 2010). There are also variations between the two standards regarding the recognition of contingent assets and liabilities. While the IFRS for SMEs require contingent liabilities to be probable and reliably measureable for recognition (IASB, 2009b), these conditions are not present in the U.S. GAAP guidance. Additionally, IFRS for SMEs does not recognize contingent assets associated with the business combination. In contrast, the U.S. GAAP requires the recording of contingent assets if they meet the same conditions as required for the recording of contingent liabilities (AICPA, 2010a). In regards to the accounting treatment of goodwill acquired through a business combination, IFRS for SMEs required the amortization of the goodwill over its useful life or 10 years and the assessment for impairment at each reporting date. Dissimilarly, the U.S. GAAP does not permit amortization of goodwill, but instead requires impairment testing of the asset annually. Notably, IFRS for SMEs does not allowed the reversal of goodwill impairment in subsequent periods (IASB, 2009b).

Provision and Contingences

While contingent liabilities that meet the probable and reliably measurable criterion are recognized as part of business combinations, this accounting directive is an exception to general guidance within the IFRS for SMEs. According to the IFRS for

SMEs (IASB, 2009b), a liability cannot be recognized as a liability in the statement of financial position unless it is an obligation at the end of the reporting period that results from a past event and it is probable that the entity will be required to transfer economic resources to settled the obligation. The U.S. GAAP similarly defines liabilities as present obligations which will require the use of future economic benefits to settle (Spiceland, Sepe, & Tomassini, 2007). Within the IFRS for SMEs *Section 21 Provisions and Contingencie*s (IASB, 2009b), the term "provisions" is used to describe liabilities of uncertain timing and amount which meet the recognition criteria, including being an obligation at the reporting date, having probable settlement, and being reliably measureable. Within the U.S. GAAP, recognizable contingent liabilities have a definition similar to what IFRS for SMES describe as provisions. If the liabilities result from a past event, settlement is probable, and the amount can be reasonably estimated, then the contingent liability is recognized in the U.S. GAAP financial statements (Spiceland et al., 2007). Variations between the two standards' recognition of uncertain liabilities may also be associated with the difference in terminology definitions. According to the AICPA (2010), the international standards interprets probable to mean "more-likely-than-not," whereas the U.S. GAAP typically understands the probability threshold for liability recognition to mean 80%. Additionally, if there exists a range of equally possible outcomes, IFRS for SMEs requires the use of the midpoint to measure the liability while the U.S. GAAP uses the low end of the range (KPMG, 2010). Another notable difference between the two standards is the IFRS for SMEs' requirement to recognize a provision for onerous contract, which are contracts for which the costs of meeting the obligation exceed the expected economic benefit (IASB, 2009b).

Deferred Income Tax

With a few specific exceptions, IFRS for SMEs and U.S. GAAP both required the recognition of deferred taxes on temporary differences; however, IFRS for SMEs requires the noncurrent classification for all deferred taxes (AICPA, 2010a; IASB, 2009b). The underlying calculations for deferred taxes may also result in differences, as the IFRS for SMEs requires the use of the rates and laws "enacted or substantively enacted by the reporting date" (IASB, 2009b, p. 180).

Income and Expenses

Due to the complexity of revenue recognition, it is not surprising that there are both similarities and differences in the revenue guidance set forth in the IFRS for SMEs and the U.S. GAAP. In regards to recognition of a sale of goods, the IFRS for SMEs (IASB, 2009b) requires the transference of significant risks and rewards, release of control, measurability of revenue and costs, and probability of inflow of economic benefits. In accordance with the U.S. GAAP, revenue recognition generally occurs at the time goods are sold or services performed at a point when the earnings process is complete and the transaction can be objectively measured (Siegel et al., 2009, p. 2.05). However, due to special circumstances and industry-specific guidance provided within the U.S. GAAP, the revenue recognition and recording of related expenses are complex topics. The comparison of U.S. GAAP with IFRS for SMEs reveals that the U.S. standards has a greater focus on legal arrangements and the purchase terms within the transaction documents. In contrast, IFRS for SMEs is more principle-based with standards focus being the transference of ownership risks and rewards as well as control. This differential may lead to dissimilar reporting for similar income and expense transactions.

Government Grants

In *Section 24 Government Grants* (IASB, 2009b), the IFAB provides accounting guidance for private entities receiving government funding in return for past or future compliance with "specified conditions relating to the operating activities of the entity" (p. 149). The standard requires the recognition of governmental grant income only when performance conditions are complete; therefore, any funds received prior to performance completion are classified as a liability. Additionally, the standard instructs the measurement of the grants at the fair value of the assets received or receivable. In contrast to IFRS for SMEs, the U.S. GAAP does not provide specific guidance for the recording of government grants by business entities; however, U.S. not-for-profit organizations follow procedures similar to IFRS for SMEs when reporting governmental grant income (KPMG, 2010).

IFRS for SMEs Research

The current IFRS for SMEs literature consists of knowledge gained from a variety of research methods including focus groups, content reviews, the IFRS for SMEs ED field test, and various surveys. When researching how to best achieve international accounting convergence, Wong (2004) used a series of focus group meetings and interviews to collect evidence regarding the relevance of full IFRS to

SMEs. Tudor and Mutiu (2008) studied specialized literature and regulations in their efforts to address questions regarding the need for a separate set of accounting standards for SMEs. In response to the IASB's discussion paper, Evans et al. (2005) conducted a review of previous literature to gather evidence to support their arguments for the development of IFRS for SMEs. Prior to issuing a response to the IASB's *Exposure Draft of IFRS for SMEs*, the European Accounting Association (Di Pietra et al., 2008) reviewed literature from various EU member states in order to identified the advantages and challenges of adoption of IFRS for SMEs. In order to identify the SMEs stakeholder needs, Deaconu et al. (2009) conducted content analysis of responses to the *Exposure Draft – IFRS for SMEs*. Many researchers, such as Jermakowicz and Epstein (2010), used content analysis to identify the differences between full IFRS or U.S. GAAP and IFRS for SMEs. The Big 4 CPA (Deloitte, 2009f; KPMG, 2009) firms as well as the AICPA (2010a) have contributed to the IFRS for SMEs education by providing detailed comparisons of IFRS for SMEs literature on the organizations' websites. During the development of IFRS for SMEs, 116 entities from 20 countries participated in the IASB's field-testing of the proposed standard. The participants in the research restated their most recent financial statements using the proposed IFRS for SMEs then reported to the IASB issues encountered during the conversion (Deloitte, 2009b, p. 68). Based on field test results and comments made in response to the IFRS for SMEs' ED, the IASB made changes to the proposed standard before its final issuance in July 2009.

Prior to beginning the IFRS for SMEs development process, the IASB (2009a) used a simple survey to obtain the opinion of world standard-setters regarding the need for separate international standards for SMEs (p.5). Nerudova and Bohusova (2008) used the research questionnaire format to acquire Czech Republic SMEs' data regarding the business activities, participation in cross-border activities, and the SMEs' willingness adopt IFRS for SMEs (p. 164). Nerudova and Bohusova highlighted that the adoption of IFRS for SME by the smallest entities, known as micro entities, would increase costs disproportionally. Nerudova and Bohusova also indicated that the relevance of the IAS increased in companies that had related foreign companies or were involved in export and import activities (p. 168). Müllerová et al. (2010) used the questionnaire research method in a study to identify potential problems that could occur if Czech SMEs adopted IFRS for SMEs. Eierle and Haller (2009) sought to decrease the IFRS for SMEs literature gap through surveying 4,000 German firms meeting the IASB's definition of SMEs and having annual sales of 8 million Euros. The survey instrument consisted of 34 questions that were used to obtain information regarding the demographics of the entities, the relevance of certain accounting issues, perceptions, expectations of international accounting harmonization, and cost-benefit perceptions of selected accounting methods (Eierle & Haller, 2009, p.200). In July 2009, Deloitte (2009e) conducted a survey of 220 private company financial professionals to " gather data and information about the challenges of current U.S. GAAP and the level of interest in IFRS for SMEs" (p.1).

While the current literature provides information regarding new IAS for private entities, there is a lack of knowledge regarding how adoption of IFRS for SMEs will influence the financial reporting of entities currently following U.S. GAAP. Within the IFRS for SMEs literature, there are limited studies that actually address how the IFRS for SMEs will affect financial reporting of adopting entities. The 2007 IASB field test of the IFRS for SMEs ED included goals of assessing understandability, scope, burden, impact accounting policy choices, micro and developing country problems, and implementation guidance (IASB, 2008, pp. 1-2). While entities located in the United States participated in the IFRS for SMEs ED field test, the focus of the field test was not to ascertain how IFRS for SMEs specifically influenced the financial reporting of United States entities.

Summary

The IASB's development of the IFRS for SMEs was in response to the demand for a set of quality international financial standards that would address the needs of SME financial statement users. The IASB argued that IFRS for SMEs would increase the comparability of financial information, improved access to capital, and increased cross-border trading for private entities. Additionally, Jermakowicz and Epstein (2010) suggested that IFRS for SMEs may also provide stakeholders with transparent and reliable financial information to assist in successful decision-making (p.72). The simplified standard should also bring relief to SMEs' burden associated with preparing financial statements in accordance with more complex standards such as full IFRS or U.S. GAAP. However, opposition still exists to differential accounting for nonpublic entities. Some argue that all entities, including all public and private, should follow the same set of accounting standards when preparing general-purpose financial statements to avoid confusion within the business community. Yet, other accounting theorists argue that differential accounting should extend to a three-tier system with the creation of separate standards for micro entities.

As the IASB and FASB seek to harmonize IFRS and U.S. GAAP, the discussion regarding differential accounting within the United States has intensified. The financial burden associated with U.S. private entities complying with the increasing complexity of U.S. GAAP, and possibly full IFRS, is resulting in a demand for a separate private entity standard that will cost effectively meet user needs. While there are some significant as well as minor differences between current U.S. GAAP and IFRS for SMEs, the simplified international standard may be an attractive alternative to U.S. private entities, especially those involved in international commerce. In this study, I provide new IFRS for SMEs knowledge to assist U.S. private entities in their evaluation of IFRS for SMEs adoption. Chapter 3 will include information on the methodology of the study.

Chapter 3: Research Method

Introduction

In the United States, all private entities, regardless of size, are exempt from regulatory compliance with the U.S. GAAP as well as audits (Roberts & Sian, 2006). However, due to market demand and business needs, many private U.S. companies still favor the U.S. GAAP financial statements as they perceive value in the preparation of audited financial statements (Sinnett & Graziano, 2006). The growing complexity of the U.S. GAAP and the efforts to converge the U.S. GAAP and full IFRS has led to increasing discussions regarding the need for a separate U.S. GAAP for private entities (Christie & Brozovsky, 2010). With the July 2009 release of IFRS for SMEs, U.S. private entities now have the option to adopt a set of IAS specifically designed for nonpublic entities.

The purpose of this research was to determine the impact of IFRS for SMEs adoption by U.S. entities that have historically prepared financial statements in accordance with the U.S. GAAP. With the limited availability of actual IFRS for SMEs financial statements for study, it was necessary to generate hypothetical IFRS for SMEs financial statements from each participant's U.S. GAAP financial statements. Since both sets of statements were based on the same financial transactions, the comparison of the two sets of statements allowed a determination of how IFRS for SMEs adoption affected the form and content of financial reporting. In order to achieve a more comprehensive analysis, the research included multiple qualitative case studies of private entities that met the descriptive qualifications as presented in Section 1 of the

IFRS for SMEs. Therefore, all participating entities did not have public accountability, but did publish general purpose financial statement for external users (IASB, 2009b, p. 10).

Research Methodology

A designer of a research study can choose from three different approaches: qualitative, quantitative, and mixed methods. A qualitative researcher may use five different strategies to explore and understand events or problems: ethnography, grounded theory, case study, phenomenological research, or narrative research (Creswell, 2009, p. 13). In contrast, quantitative researchers test objective theories by investigating the relationship between variables using numerical data that is analyzed using statistical procedures (Creswell, 2009, p.4). When a researcher combines both qualitative and quantitative approaches, the result is mixed methods research. Due to the recentness of the issuance the IFRS for SMEs, there was limited availability of financial statements prepared for entities that had already adopted IFRS for SMEs. As a result, the use of statistical analysis of historical financial statements was not a viable option. While consideration was given to the use of a survey instrument, this quantitative approach was abandoned due to the lack of an adequate private entity sampling frame and difficulty of obtaining the desire detail data using a survey instrument. Creswell (2009) described case studies as a means for a researcher to explore an event whereby the cases are "bounded by time and activity, and researchers collect detailed information using variety of data collection procedures" (p. 13). Since the purpose of this study was to determine the financial reporting consequences of IFRS for SMEs adoption by U.S. entities, I needed to collect detailed information from each study participant. Therefore, the qualitative multiple case studies research approach was an acceptable method by which to achieve the objective of this study. Using case studies of three entities, I sought to determine the impact of IFRS of SMEs adoption on the financial reporting of U.S. private entities. The study introduction letter, CPA firm letter of cooperation and the participating organization consent letter are attached in Appendixes A, B, and C. The IRB approval number is 01-09-12-0062002.

Definition of SMEs

When developing the IFRS for SMEs, IASB used a typical entity with 50 employees as a guideline in deciding on the content of the standard (as cited in Pacter, 2009a, p. 8). Pacter (2009b) explained that the intent of the IASB was not to establish size criterion but to develop a document useable by private entities which have employee levels both larger and smaller than 50. However, the title of the standard, IFRS for SMEs does raise a question. What are SMEs? The IASB does not answer this question within the standard. In the IASB's opinion, it is each jurisdiction's responsibility to establish public policy determining the entities qualified to use IFRS for SMEs (as cited in Pacter, 2009b, p. 10). In order to determine which entities would qualify as small- or medium-sized for the purpose of this study, I considered the definitions contained with the SME literature. Table 1 summarizes the EU size criteria for classification as medium, small, and micro enterprises.

Table 1

EU Recommendations on the Size Criteria for Micro SMEs

	Employees/AND	Turnover AND/OR	Balance Sheet
2005/Medium	250	€50m	€43m
2005/Small	50	€10m	€10m
2005/Micro	10	€2m	€2m
1996/Medium	250	€40m	€27m
1996/Small	50	€7m	€5m

Note. *m*= million. Adapted from “Micro-Entity Financial Reporting: Perspectives of Preparers and Users” by C. Roberts and S. Sian, 2006, Information Paper Prepared for International Federation of Accountants, p. 25. Copyright by the International Federation of Accountants

In their study of suitability of IFRS for SMEs for German SMEs, Eierle and Haller (2009) sampled firms who met the IFRS for SMEs Section 1 description of an SME and who had annual sales of at least 8 million Euros. Eierle and Haller attributed their exclusion of entities with less than 8 million Euros to the likelihood that the smallest entities would not be eligible to adopt IFRS for SMEs if the standard was introduced in Germany (p.200). In an attempt to determine a basis for the SME designation in the United States, Christopher, Price, and Saunders (2005) surveyed CPAs who primarily served SMEs. Christopher et al. indicated that 71.2% of the participants chose "net sales as their preferred basis for SME designation" (p. 49) with the maximum level of net sales being in a range between \$ 10 million and \$ 100 million (p. 50). In similarity with these studies and the EU's recommendations for SMEs, I defined a qualifying SME as one that had net sales of less than \$ 100 million of annual net sales and 250 or fewer employees. According to the cooperating firm partner (personal communication, January 26, 2011), many clients of the participating CPA firm, which were potential case study participants, had annual net sales between \$ 10 and \$ 50 million and had an employee headcount ranging from 50 to 100. Therefore, the clients of the participating CPA firm were the first organizations approached to participant in the study.

Selection of Case Study Participants

One of the difficulties with conducting a case study of private companies was the fact they are private entities. The financial information needed to conduct this case study was not available to the public; thus, obtaining the cooperation of each entity's management team and access to confidential information was vital to the success of this study. Another consideration was the high value of obtaining the cooperation of the external CPA firms that provided auditing or review services to the study participants. In many cases, the external CPA had a deeper understanding of the complex accounting standards represented in the financial statements of the participating entity. Therefore, I requested the cooperation of a regional CPA firm to assist in identifying private entities that had a possible interest in gaining a better understanding of IFRS for SMEs and willingness to participant in the study. The CPA firm's willingness to assist with the study was associated with an interest in gaining new IFRS for SMEs' knowledge. To provide clarity to the relationship between the cooperating CPA firm and myself, a representative of the CPA firm and I signed a letter of cooperation. (Appendix A). The letter included issues pertaining to access to the firm's clients, and with proper client authorization, access to the client's audit or financial statement documents. Additionally, the letter included an explanation of the right of the CPA to withdrawal its assistance at any time.

In regards to sample selection, I used convenience sampling whereby the selection of participants was associated with the willingness to participate and their convenient availability. Since the purpose of the study was to gain new IFRS for SMEs' knowledge through an exploratory study and not to make inferences about a population, convenience sampling was an appropriate method of participate selection (Singleton & Straits, 2010, p. 173). Accordingly, I requested the assistance of the cooperating CPA firm in identifying potential participants with the following characteristics.

- The entity was qualified to use IFRS for SMEs based on the criterion stated in Section 1 of the IFRS for SMEs (IASB, 2009b).
- The entity was a client of the cooperating CPA firm and had 2010 net sales of less than $ 100 million and 250 or fewer full-time employees.
- The entity was willing to provide access to the confidential records of the organization.

In order to maintain the confidentiality of the firm's clients, I did not know the identity of any of the potential participants until the entity's management expressed an interest in participating in the study. A representative of the participating CPA firm mailed a study introductory letter (see Appendix A) to approximately 12 private companies which met the previously stated characteristics. Once an entity had agreed to participate in the study, I provided the entity a consent form explaining the research study and requesting the chief financial officer or controller to sign a statement of consent (see Appendix A). Key issues addressed in the statement of consent included the study background information, research procedures, the voluntary nature of the study, risks, and benefits, compensation through gaining of new knowledge, and maintenance of confidentiality. As further explained in Chapter 4, two of the cooperating CPA firms' clients agreed to participate in the study. In order to gain additional participates, I contacted professional colleagues that were senior executives at qualifying organizations or university professors. Through these expanded efforts, one additional participating organization was identified. In similarity with the original procedures, I provided the participating organization a study introductory and requested the completion of a consent form. In the addition, the organization's CPA firm signed a letter of cooperation.

Data Analysis

Using case study methodology, I provided an analysis of the projected impact of IFRS for SMEs adoption by analyzing the difference between IFRS for SMEs and U.S. GAAP financial reporting of participants individually and as a group. The analysis included identifying how reporting of financial transactions varies if an entity follows IFRS for SMEs guidance instead of U.S. GAAP. Besides determining the effect of IFRS for SMEs' adoption on individual accounts, I evaluated the overall impact on the participants' financial statements including the information reported in the footnotes. Since none of the participants had actually adopted IFRS for SMEs, there were no historical financial statements prepared in accordance with the international standards. Therefore, it was necessary for me to convert each participant's financial statements from U.S. GAAP to IFRS for SMEs.

As part of the process of developing hypothetical IFRS for SMEs financial statements, a senior accounting manager from each participant completed a questionnaire (See Appendix B) which assisted in identifying the international standards that would possibly affect the participant's financial reporting. To develop the questionnaire, I relied upon IFRS for SMEs literature including the IFRS for SMEs (IASB, 2009b), summaries of the differences between U.S. GAAP and IFRS for SMEs (Jermakowicz & Epstein, 2010; KPMG, 2010), and the AICPA's IFRS for SMEs – U.S. GAAP Wiki (AICPA, 2010a). The key differences between IFRS for SMEs and

U.S. GAAP are summarized in Table 2, which was developed by Jermakowicz and Epstein (2010).

Table 2

Major differences between IFRS for SMEs and U.S. GAAP

Topic	Differences from U.S. GAAP
Presentation of financial statement	A combined statement of comprehensive income and retained earnings allowed At least one year of comparative information required
Consolidated Policy	Consolidation based on a control model; potential voting rights are considered (e.g. options)
Business combinations	Business combinations accounted for using the purchase method Non-controlling interests measured at the proportionate share of the value of identifiable assets and liabilities
Revenue recognition	Based on general principles versus complex detailed guidance
Financial assets and liabilities	Cost measurements used more often for financial assets and liabilities Simplified classification (two categories: amortized cost and fair value through profit or loss) and derecognition criteria
Inventory	LIFO prohibited Inventories measured at the lower of cost and net realizable value Impairment losses are subsequently reversed
Property, plant and equipment	A 'components' approach required for depreciation of an asset with differing patterns of benefits
Goodwill and indefinite life intangibles	Amortized over useful lives not to exceed 10 years Impairment testing required only when is an indicator of impairment
Asset impairment	An assessment of impairment indicators at each reporting date required Impairment based on the difference between the asset's "recoverable amount" versus carrying value Reversals of impairment recognized, other than in respect of goodwill

Note: Adapted from "IFRS for SMEs – An option for U.S. Private Entities?' by E.K. Jermakowicz and B.J. Epstein (2010*), Review of Business, 30*(2), p. 76. Copyright 2010 by St. John's University.

Using the interview questionnaire as a guide, I reviewed the fiscal year 2010 financial statements, and, if applicable, the 2009 transactions, to identify the accounts that required adjustment to conform to IFRS for SMEs. Based on the participants' interview responses, I requested additional access to financial records such as

- Detailed trial balance
- Inventory costing records
- Property, plant, and equipment records
- Detailed information regarding intangible assets
- Lease agreements
- Detailed records of financial instruments
- Detail of hedging transactions
- Business agreements anticipated to be effected by IFRS for SMEs adoption
- Other types of information needed to calculate the financial statement effect of IFRS for SMEs adoption

In addition to the interview with the participant's accountants and the review of internally generated financial records, I also reviewed the CPA firm's engagement work papers, as necessary, to gain additional information regarding certain business transactions of the study participants. While the application of accounting standards and information presented in the financial statements was the responsibility of the private entity, the external CPA firm provided validity to the financial statements through audit attestation (Spiceland et al., 2007). Therefore, I relied upon the external audit or the review process to support the accuracy of the information provided by the participants.

Upon identification of the potential difference in the IFRS for SMEs' presentation of an account, the detail for each account was reviewed to determine the adjustment needed to conform to IFRS for SMEs. Using Microsoft Excel software and adjusting journal entries, the participants' 2010 balance sheet accounts were adapted to reflect compliance with IFRS for SMEs. Since the conversion adjustments required changes to the income statement, any needed conversion adjustments were also recorded for the 2010 income statement accounts. Upon completion of the accounts review and the recording of the conversion journal entries, projected IFRS for SMEs financial statement were prepared to allow an analysis and comparison to the original U.S. GAAP financial statements. The preparation of financial ratios for both the U.S. GAAP financial statements and the IFRS for SMEs' financial statements also provided a means to evaluate the impact of IFRS for SMEs adoption. As part of the case study of each participant, I sought to identify financial statement note changes that would result from the adoption of IFRS for SMEs. Since debt covenants, compensation agreements, and other types of agreements are often dependent upon financial ratios or targeted financial goals such as net sales or net income, a change in financial statement presentation could indirectly influence business agreements. Therefore, I also considered the types of business agreements that could potentially require revision due to the adoption of IFRS for SMEs.

Summary

Due to the reliance of SME stakeholders on information presented in financial statements (Evans et al., 2005; Sever, 2008), changes to the form and content of financial statements may also affect how stakeholders perceive the financial position of the entity. Since stakeholders' perception of an entity's financial positions may influence management's choice of accounting methods (Bowen, DuCharme, & Shores, 1995), an understanding of the financial statement impact of IFRS for SMEs' adoption is an important factor in an entity's decision to convert to the international standard. Using case study methodology, I conducted research to determine the impact that adoption of IFRS for SMEs will have on the financial reporting of U.S. private entities. The key standards differences presented in IFRS for SMEs literature assisted in determining the material differences between the participants' current U.S. GAAP financial statements and those generated in accordance with IFRS for SMEs. I relied upon the cooperation of a regional CPA firm to assist in the selection of participants as well as the in the provision of the documentation supporting the financial information reported on the client's financial statement. Through relationships with professional colleagues, one additional consenting participating organization was identified. Upon request of the participating organization, the external CPA firm of this participating organization agreed to cooperate in the study. The generation of IFRS for SMEs' financial statements from the same transactions provided a means to compare and contrast IFRS for SMEs and U.S. GAAP financial statements. This information was the basis to make a determination on how IFRS for SMEs adoption affected the financial reporting of the participating U.S. private entities. Chapter 4 will include the results of the study.

Chapter 4: Results

Introduction

In order to make a determination of the financial reporting impact of adopting IFRS for SMEs, I evaluated the difference between financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with IFRS for SMEs. However, due to the recent issuance of the SME international standard and the limited historical data available for analysis, this research required the completion of a high-level conversion of U.S. GAAP statements to hypothetical or projected IFRS for SMEs statements before the completion of analysis. Applying the case study methodology to three nonpublic entities, I identified trial balance accounts which would be most likely affected by the each entity's adoption IFRS for SMEs. This information provided the foundation for a high-level conversion of the financial statements from U.S. GAAP to IFRS for SMEs. The comparison of the resulting two sets of financial reports provided the basis for determining the impact of IFRS for SMEs' adoption by U.S. private entities currently recording transactions under U.S. GAAP.

The Selection of the Study Participants

To qualify for the study, private entities needed to meet three criteria: qualify as a SME as described in Section 1 of the IFRS for SMEs (IASB, 2009b), have a 2010 net sales of less $100 million, have 250 or fewer full-time employees, and be willing to provide access to the financial records of the entity. Since private entities are generally protective of their financial information, the last criterion, "willing to provide access", required the participating organizations to have a high level of trust and professional respect for me. Therefore, I decided to request the cooperation of a regional CPA firm to assist in the solicitation of private entities to participate in the research study. After signing a letter of cooperation (Appendix A), the CPA firm cooperating partner selected 12 clients who were audit clients and, in the partner's opinion, would possibly have an interest in gaining new knowledge regarding the organizational impact of IFRS for SMEs adoption. The CPA firm partner e-mailed the chief financial officer or financial controller of the selected organizations a copy of the study introductory letter. Of these 12 organizations, only two agreed to participant in the research study. The low response rate was attributed to the entities' fear of releasing private corporate data to a person outside of their organization, despite assurance of confidentially. Since the research design called for the participation of four of the cooperating CPA firm clients, I decided to expand the search for willing participants by contacting professional colleagues that served in senior leadership of various private entities. I also contacted professional colleagues at other CPA firms and business professors at two universities to request assistance in locating additional participating entities. The successful identification of entities willing to participate in the study relied upon the existence of a direct or indirect trusted professional relationship between the researcher and the senior management of prospective entities. However, through this professional networking, only one additional organization agreed to participate in the study.

When designing the research study, I anticipated that the cooperation of an organization's external CPA firm would provide a level of professional assurance to potential study participants and result in the participation of a sufficient number of study participants. Unfortunately, the majority of the CPA firm's clients either considered the risk of exposure of private information too high or simply did not want to participant in an academic study. Attempts to obtain study participants through professional networking also provided a limited number of organizations willing to participate in the research study. The most common reason given for not participating was the business owners' reluctance to share private corporate data with an outsider. While the private entities concern with privacy was expected, I had not anticipated the level of difficulty in obtaining private entities to participate in the study. As a result, the research study was limited to the analysis for three private entities.

Gathering Source Data

Once a private entity consented to participant in the study, the chief financial officer or controller completed a questionnaire (Appendix B) consisting of 37 questions addressing the key differences between U.S. GAAP and IFRS for SMEs (Jermakowicz & Epstein, 2010; KPMG, 2010). The purpose of the questionnaire was to assist in the identification of the financial statement accounts most likely affected by adoption of IFRS for SMEs. In addition to the questionnaire, the participating chief financial officer or controller provided copies of the entity's 2009 and 2010 financial statements as well as the detailed trial balance from which the statements were prepared. Participating organizations provided the financial information in electronic formats including portable document format (PDF), Microsoft Word, and Excel files. Each participating organization's data were stored in a separate electronic folder on my password-protected private computer and were backed-up on an external hard drive.

With the assistance of the questionnaire responses, I identified the trial balance accounts likely to be affected by IFRS for SMEs' adoption. If in this review process I found possible reporting differences, I gathered additional data to determine the impact of the variations between the two standards guidance. The process of obtaining additional data included communication with the organization's chief financial officer or controller and the external CPA via e-mail, phone conversations, and face-to-face meetings. After analyzing an organization's data, I estimated the account value changes that would result if the entity had followed IFRS for SMEs guidance instead of U.S. GAAP. Using journal entries, the trial balances of each organization were adjusted by the anticipated account value changes necessary to convert to financial reporting under IFRS for SMEs. Through comparing and contrasting the resulting IFRS for SMEs' financial statements with the original U.S. GAAP financial statements, the projected impact of IFRS for SMEs adoption was determined for each participating entity.

IFRS for SMEs Financial Statements

To comply with IFRS for SMEs, an entity's complete set of financial statements must include a statement of financial position at the reporting date, a single statement of comprehensive income or a separate statement of income and separate statement of comprehensive income, a statement of changes in equity, and a statement of cash flows and notes. Unlike U.S. GAAP requirements, IFRS for SMEs requires that entities provide comparative data for all amounts presented in the financial statements and the notes to the financial statements (IASB, 2009b). However, due to the unavailability of actual historical IFRS for SMEs financial statements, the projected statements presented in the study did not include prior-period comparative data that would be required if actual IFRS for SMEs statements were prepared.

In regards to the line items on the statement of financial position, the IFRS for SMEs requires the presentation of current and noncurrent assets and liabilities unless "presentation based on liquidity provides information that is reliable and more relevant" (IASB, 2009b, p. 28). In similarity with the U.S. GAAP, the international standard classifies assets consumed within the normal operating cycle, realized within 12 months, or held primarily for trading as current assets. Similarly, the description of current liabilities are those obligations that are to be settled within the normal operating cycle, settled within 12 months, or are held primarily for trading.

According to Section 5 of the IFRS for SMEs (IASB, 2009b), an entity must present total comprehensive income in a single statement of comprehensive income or in two separate statements with one being the income statement and one being the statement of comprehensive income (IASB, 2009b, p. 31). Additionally, an entity must also provide a statement of changes in equity. However, if the changes in equity are limited to current year earnings, dividends, corrections of prior period errors, or changes in accounting policy, an entity may present a combined statement of income and retained earnings (IASB, 2009b, p. 35).

Resembling the U.S. GAAP, the IFRS for SMEs' statement of cash flows consist of three activity sections: operating, investing, and financing. Minor differences between the two standards include the international standard's allowance of bank overdrafts as a component of cash and cash equivalents and the international standard's guidance to present separately all investing cash transactions. Additionally, the IFRS for SMEs permits the classification of interest and dividends paid and received as either operating, investing, or financing activities but with the requirement that the line items' classification must be consistently applied from period to period (IASB, 2009b, p. 39). Furthermore, the international standard allows for the existence of a difference between cash and cash equivalents reported on the statement of cash flow and cash equivalent presented on the statement of financial position balance; however, the presentation of reconciliation between the two cash balances is required (ISAB, 2009b, p. 40). This is a variation from the U.S. GAAP which requires agreement between cash reported on the statement of cash flows and the cash reported on the statement of financial position (AICPA, 2010a, section 7).

Disclosures

In similarity with the U.S. GAAP, the IFRS for SMEs requires the disclosure of all information necessary to present a fair presentation of an entity's financial information. According to Jermakowicz and Epstein (2010), IFRS for SMEs disclosures are simplified in several areas such as "financial instruments, share-based payments, leases and pensions"(p. 76). According to Section 8 of the IFRS for SMEs, the notes to the financial statements must disclose the basis for preparation of the financial statements, accounting policies, information required by the standards, as well any additional information that is relevant to the users (IASB, 2009b, p. 41). The standard further requires the presentation of the notes in a systematic order with cross-referencing to the financial statements (ISAB, 2009b). In the formal set of IFRS for SMEs statements, a column for cross-referencing to the notes would appear on each of the financial statements. After providing the general information of the entity, the normal order of presentation begins with a statement that the financial statements have been prepared in compliance with the IFRS for SMEs as follows: According to (IASB, 2009c), “These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board. They are presented in United States dollars” (p. 11). The summary of accounting policies applied follows the statement of IFRS for SMEs’ compliance with additional supporting information presented in the same sequence as the items financial statements appearance. The financial statement notes conclude with any other disclosures. According to the IASB (2009c), disclosure requirements are only applicable to material items. The Entity B findings include an example of financial statement cross-referencing and a brief explanation of the referenced note.

Within the findings narrative is a discussion of the financial statement reporting differences that would occur if the participating organization adopted IFRS for SMEs. In all three cases, the majority of required disclosures are associated with IFRS for SMEs *Section 11 – Basic Financial Instruments, Section 13- Inventories* and *Section 17- Property, Plant and Equipment*. As defined by Section 11, a basic financial instrument includes “cash, a debt instrument (such as account, note or loan receivable or payable), commitment to receive a loan cannot be settle in cash, non-convertible preferences shares and non-puttable ordinary shares or preference shares" (IASB, 2009b, p. 56). The standard also states that the debt instruments must meet additional stated conditions regarding the returns to the holder and contractual provision. Section 11 of the IFRS for SMEs provides examples of basic financial instruments include trade account and notes receivable and payable as well as loans from banks or other third party, loans to or from subsidiaries, or associates that due on demand (IASB, 2009b,, p. 57). If the revenue line items on the statement of income included sub classifications, the notes should include a disclosure of the types of revenue. The IFRS for SMEs requires disclosure of the items combined for presentation of other income and other expenses line items. Another differential in disclosures is the IFRS for SMEs requirement for the notes to include total amount of key employee compensation (IASB, 2009b). A disclosure for the profit before tax line item should also report the cost of inventories recognized as an expense, research and development costs included in expenses, foreign exchange loss on trade payables, and warranty expenses. IFRS for SMEs disclosures should also include the date the board of directors approved the financial statements for distributions.

Since all three participants had inventory assets, minor differences in inventory measurement could result from the international standard's measurement of inventory at lower of cost or selling price in comparison to the U.S. GAAP's measurement of inventory at the lower of cost or market (AICPA, 2010a, section 13.4). The identification of the inventory measurement difference due to variation between selling price and market is beyond the scope of this study. Therefore, I assumed that any difference resulting from this variation between standards is immaterial and is not discussed in the findings narrative.

Transition Date Statement of Financial Position

When an entity decides to adopt IFRS for SMEs, the date of transition to the new standards is the "beginning of the earliest period for which the entity presents full comparative information in accordance with IFRS for SMEs"(IASB, 2009b, p. 204). To facilitate the transition, the standards require the restatement of the entity's statement of the financial position at date of transition. According to Section 35 of the standards, the restated statement should recognize assets and liabilities as required or not recognize assets and liabilities in order to comply with IFRS for SMEs (IASB, 2009b). The restatement of the beginning statement of financial position would also require the reclassification of items from one type of asset, liability, or equity to another as needed for IFRS for SMEs compliance. Restatement also requires the application of IFRS for SMEs measurement guidelines for recognizing assets and liabilities (IASB, 2009b). To facilitate the preparation of projected IFRS for SMEs statement of cash flow, the study included a projected transition date statement of financial position.

Findings of the Research Study Questionnaire

The basis for the content of the research study questionnaire was the identified key differences between U.S. GAAP and IFRS for SMEs presented in the accounting literature. Therefore, the chief financial officer's responses to the questions assisted in identifying how IFRS for SMEs adoption would affect the entity's financial statements. Presented in Table 3 are the participating organizations' responses to the questionnaire.

To maintain the privacy of the organizations, the actual names of entities were not used but instead the organizations were described as Entity A, Entity B, and Entity C. The alpha characteristic assignment was based on size of total assets as fiscal year 2010: Entity A with total assets of $ 67 million, Entity B with total assets of $10 million, and Entity C with total assets of $3 million. In regards to the key differences between the two standards, there were only a few responses indicating financial reporting changes resulting from IFRS for SMEs adoption. However, the response of the participating financial officers did suggest a possible relationship between organizational size and the financial reporting impact of adoption of IFRS for SMEs. Questions 9 through 29 included the key measurement difference in U.S. GAAP and IFRS for SMEs. Entity A, the largest organization in regards to total assets and net sales, had three positive responses to these questions while Entity C, the smallest organization in regards to total assets and net sales, had no positive responses.

Table 3

CFO Responses Questionnaire

No.	Private Entity Identification Name	Entity A	Entity B	Entity C
	North American Industry Classification System (NAICS) CODE	55112	336370	
1	Employee 2010	135	217	22
2	Net Sales 2010	54M	24M	13M
3	Total Assets 2010	67M	10M	3M
4	Reporting Basis	U.S. GAAP	U.S. GAAP	U.S. GAAP
5	Respondents IFRS for SMEs Knowledge	Little	Little	Little
6	Primary Users of Financial Statements	EO,L,M	EO,L,M	LM,BOD
7	Agreements Using Financial Metrics	DC	DC	DC
8	Subsidiary of Public Company	No	No	No
9	Held for Sales-Securities	No	No	No
10	Available for Sales-Securities	No	No	No
11	Unrecognized Impairment Reversal-Financial Instruments	No	No	No
12	Unrecognized Impairment Reversal-Inventory	No	No	No
13	Inventory Valuation Method	FIFO	FIFO	Wt Ave
14	Agricultural Produce Inventory	No	No	No
15	Financial Statements Include Investment Property	No	No	No
16	Qualifying PP&E No Using Component Depreciation	No	No	No
17	PP&E Cost Includes Capitalized Interest	No	No	No

Table Continues

18	PP&E Includes Biological Assets	No	No	No
19	Financial Statements Include Goodwill	Yes	No	No
20	Previously Recognized Goodwill Impairment Loss	Yes	No	No
21	Unrecognized Impairment Reversal-Goodwill	No	No	No
22	Internally Generated Intangible Assets	No	No	No
23	Indefinite-Lived Intangible Assets	No	No	No
24	Unrecognized Impairment Reversal-Intangible Assets	No	No	No
25	Operating Lease Payable>50% of est. Economic Life	No	No	No
26	Operating Lease Payable >60% of PV of Min. Lease Prints	No	No	No
27	Operating Lease Receivable >60% of PV of Min. Lease Prints	Yes	No	No
28	Hedge Accounting, Besides Interest, Foreign Exchange, or Price Risks	No	No	No
29	Use of Industry-Specific	No	Yes	No
30	2010 Sales Considered Foreign Exports	10%	24%	1%
31	2010 Expenditures Associated with Foreign Imports	60%	10%	0%
32	Equity Owned by Foreign Investors	100%	0%	0%
33	Borrowings From Foreign Institutions	100%	0%	0%
34	Foreign Business Sites or Distributors	No	No	No
35	Foreign Subsidies	No	Yes	No
36	Competition From Foreign Investors	Yes	Yes	No
37	Trading Partners Interest in IFRS or IFRS for SMEs Statements	No	No	No

Note. EO=Owners, L=Lenders, M=Management, EC=Employee Contracts, DC=Debt Covenants, BC=Business Contracts, BOD=Board of Directors, FIFO=First-in-First-Out, Wt Ave- Weighted Average.

Entity A

The consolidated financial statements of Entity A included the parent holding company and three subsidiaries: a manufacturer/importer/distributor of equipment, an equipment-leasing company, and a wholesaler of related equipment supplies. The headquarters for the Entity A is in the south central region of the United States. Entity A is a wholly owned subsidiary of a European Parent, which is the global leading industry manufacturer. In regards to international activity, approximately 10% of Entity A's 2010 sales were exported outside of the United States in comparison to 60% of expenditures being associated with foreign imports. Additionally, 100% of the Entity A's external financing were from sources outside of the United States and the majority of the entity's competition was coming from competitors outside of the United States. The primary users of the Entity A's financial statements were the equity owners, financial lenders, and management. At this time, there have been no user requests for financial statements prepared in accordance with international standards.

Entity A –Findings

Through consideration of the Entity A's chief financial officer's responses to the study questionnaire and review of the formal financial statements and supporting financial statement data, I identified areas of Entity A's financial report that will be affected by adoption of IFRS for SMEs. A discussion of each of these findings follows.

Agreements Using Financial Metrics

The 2010 financial statements of Entity A reported a nonrelated party debt of $18 million with an associated debt covenant which requires a 25% equity ratio reflected in financial reports for semiannual and annual periods ended June 30 and December 31, respectively. Since the debt was related to funding the leasing subsidiary's operations, the equity ratio covenant was attributed to only the statement of the financial position of the subsidiary leasing corporation. According to the chief financial officer, the lending institution permits the inclusion of the subordinated notes payable to the German parent holding company as equity. Under the U.S. GAAP, the 2010 covenant ratio for the leasing division was 33.87%. The projected IFRS for SMEs' statement of financial position for only the subsidiary leasing corporation resulted in an equity to asset ratio of 38.63%; therefore, IFRS for SMEs' adoption would not negatively affect the current loan covenants.

Goodwill

The Entity A's chief financial officer indicated that the financial statements included Goodwill. Unlike the U.S. GAAP, IFRS for SMEs requires the amortization of Goodwill over its useful life, which is presumed to be 10 years (IASB, 2009b, p. 107). According to Entity's A's financial statements, a 2009 business purchased resulted in the reporting of $ 850,000 of Goodwill on the balance sheet. As required by both the U.S. GAAP (Siegel et al., 2009) and IFRS for SMEs (IASB, 2009b), a testing or an assessment of the value of the Goodwill impairment was completed at the 2010 reporting date. Using the discounted cash flow method, the testing of the Goodwill indicated an impairment of the entire Goodwill balance as of December 31, 2010. Therefore, the only financial reporting difference associated with Goodwill would be a reduction of the 2010 impairment loss by the 2009 Goodwill amortization of 31,875 which represents 4 ½ months of the Goodwill using the required 10 year life.

Provisions

According the IFRS for SMEs Section 21 – Provisions and Contingencies (IASB, 2009b), a provision is a liability of uncertain timing and amount that is recognizable at the reporting date only if it the obligation results from a past event. Additionally, transference of economic benefits to settle the obligation must be probable, which is defined as "more likely than not," and the amount must be estimated reliably (IASB, 2009b, p. 118). The accrual for warranty expense is a common liability of uncertain timing and amount that qualifies as a liability for both the U.S. GAAP and IFRS for SMEs. However, additional guidance within Section 21 states that if the effect of the time value of money is material, the provision should be recorded at its present value using pretax rates, which reflect the "current market assessments of the time value of money" (IASB, 2009b, p.119). In the Section 21 sample calculations, the IASB (2009b) recommended the use of the "risk-free" discount rate of government for the same period of the anticipated provision cash out-flow. As of December 31, 2010, Entity A had a warranty accrual of $ 250,000 payable with an anticipated cash out-flow over 3 years. Using the applicable U.S. Treasury bill rates, the discounted warranty accrual was calculated to be $248,658. The interest rates for 1, 2, and 3-year treasury bills as of 2010 were 3/8 %, 1/2%, and 7/8%, respectfully. Due to the low market interest rate, the effect of the time value of money was immaterial in the case of Entity A and, thus, IFRS for SMEs would not require the recording of the provision at present value. However, if either the market interest rate or the estimated provision had been higher, a conversion to IFRS for SMEs may require the provision for warranty expense to be valued at present value.

Intangible Assets Acquired as Part of Business Combination

In 2010, Entity A acquired assets of a competitor in exchange for cash and the assumption of a long-term building lease. The purchased assets/intangible assets valued at $ 440,000. According to IFRS for SMEs guidance on business combinations, an intangible asset cannot be recognized unless it is separable from goodwill and there is a "history or evidence of exchange transactions for the same or similar assets" (IASB, 2009b, p. 99). In contrast, the recognition of purchased intangible assets when complying with the U.S. GAAP is determined by the contract or legal rights (AICPA, 2010a, section 18.18). The detail review of the purchase agreement stated that the intangible assets purchased included trademarks, distributor relationships and customer lists, domain names, telephone numbers, technical data, and governmental registrations. It appeared that that intangibles acquired meet the contractual-legal criterion for identification as an intangible asset. The guidance for IFRS for SMEs acknowledges that active markets for intangibles are uncommon and, therefore, recommends using valuation techniques such as discounting estimated future cash flows, estimating costs the entity avoids by owning the intangible asset, or estimating the cost to replace the intangible asset (IFRS-Foundation, 2010, pp. 19-20). A review of the asset purchase transaction details indicated that Entity A's methodology, to determine the value of the purchased intangible assets, was consistent with the suggested IFRS for valuation techniques; therefore, no conversion adjustment was necessary to adjust the value. Due to the finalization of the purchase agreement in December, the Entity A's chief financial officer made the decision not to record 2010 amortization expense for the acquired intangibles due to the immateriality. Since the calculation of amortization expenses would be the same under IFRS for SMEs, it was assumed that chief financial officer's decision to not record amortization due to immateriality would also be the same if Entity A had adopted IFRS for SMEs. Therefore, projected 2010 IFRS for SMEs financial statements do not report amortization expense for the intangible assets acquired in December 2010.

Classification of Leases

Based on the questionnaire responses, Entity A has leasing contracts currently treated as operating leases under U.S. GAAP, which may be considered finance leases if IFRS for SMEs was adopted. Since revenue from operating leases represented 37% of Entity A's 2010 gross revenue, a change in the classification of Entity A's lease contracts receivable could affect financial reporting. Currently, Entity A classifies the majority of its leasing contracts as operating leases as they do not meet one of the four leasing criteria found in the U.S. GAAP namely: transference of ownership at the end of the lease term, a bargain purchase or lease renewal option, lease term of 75% or more of the life of the property, or the present value of lease at inception is equal to or exceeding 90% of the fair market value of the asset (Siegel et al., 2009, p. 13.08).

Therefore, Entity A's balance sheet only reflects lease contract monthly payments due within 15 days of the reporting date. Because the equipment under lease are still considered assets of the Entity A, the value of net property, plant, and equipment includes the cost and associated accumulated depreciation of leased equipment. On the income statement, net sales include operating lease revenue and cost of goods sold includes the depreciation expense associated with the leased equipment. The leasing guidance within the IFRS for SMEs (IASB, 2009b) stated that a "lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership" (p. 110). In order to determine whether the lease contracts of Entity A would possibly meet the international criteria for classification as finance leases, it was necessary to perform a more detailed review of Entity A's leasing contracts.

Entity A's standard business lease agreement states that ownership of the equipment does not transfer at the end of the lease. However, there is an option to purchase at the residual amount stated in the lease. In the review of the leasing contracts, I found that the residual amount for each lease is listed as 20% of the initial cost of the equipment, which is an amount representing the estimated of the fair value of the equipment at the end of the lease.

The leasing subsidiary of Entity A includes the purchasing of lease equipment either from the equipment manufacturing sister-company or from a third party vendor. The equipment purchased is generally to comply with a future lessee's request as set forth in a tentative leasing contract. This allows the purchased leased equipment to be transfer directly from the vendor to the lessee's business location. The fixed assets of the leasing subsidiary reflects the cost of the leased equipment with the value of the equipment depreciated over a useful life equal to the term of the lease contract, which is generally 36 to 48 months. According to the leasing manager, the actual useful life of the leased equipment averages 10 to 12 years; thus, the lease contract is less than 75% of the life of equipment and does not require capitalization.

While the language of the contracts states that the end of lease purchase option is at fair value, 20% residual is below market value. The useful life of the equipment is 10 to 12 years, while the lease terms are usually 36 to 48 months. Therefore, there are 6 to 9 years of useful life remaining when the lessee exercises the purchase option. If the equipment depreciates evenly over its life, the lessee is acquiring 60 to 70 % of the asset's original value for only 20 % of the original cost. According to the chief financial officer, the majority of leases do purchase the equipment at the end of the lease since the value of the equipment is substantially higher than the 20% residual stated in the contract. Per the chief financial officer, Entity A and the lessee both prefer to have the lease contracts written as operating leases and not finance leases; therefore, the present value of the minimum lease payments at inception is always less than 90%. The Entity A's standard lease contract has the following features: an advance payment equal to 10% of the equipment purchase, an estimated end of lease equipment residual value equal to 20% of the equipment purchase price, and an end of lease option to purchase the equipment at fair value. The business lease agreement also states that no portion of the rental payments would be considered payment for an equity interest and that title for the equipment remained with the lessor. The format of the contract is designed to classify the leases as operating leases with the monthly payments recognized as leasing income and advance payment amortized monthly into income. To make some determination as whether the adoption of IFRS for SMEs would require treatment of the leases as finance leases instead of operating, a more detailed study of Entity A's leasing portfolio was conducted.

From the December 31, 2010 leasing contract portfolio report, nine leasing contracts were chosen for a detailed review. Three leases were chosen from each of the three leased equipment values ranges: less than $100,000, between $ 100,000 and $400,000, and over $ 400,000, which is not a statistical methodology. From copies of leasing contracts provided by Entity A, the term of the lease, amount of payments, and implicit interest rate was used to calculate the present value of the minimum lease payments at inception. As reported in Table 4, the present value of minimum lease payments was over 85% of the initial cost of equipment with an average of 84.77%. If the B3 lease, which was substantially lower than other leases, was omitted from the calculation, the average of present value of payments to equipment costs would be 86.36%. Unlike the specific guidance or "bright lines" found in U.S. GAAP, IFRS for SMEs leasing guidance focuses on the substance of the leasing contract rather than the form of the contract (IASB, 2009b). Therefore, the high percentage does meet the "substantially all of the fair value of the lease" (IASB, 2009b, p. 111) finance lease guidance provided in section 20 of the IFRS for SMEs.

Table 4

Entity A Review of Present Value of Lease Contracts

Lease	A1	A2	A3	B1	B2	B3	C1	C2	C3
Equipment value	5,395	23,750	40,995	175,683	236,890	357,573	439,842	543,667	551,892
Months	36	42	42	36	36	42	42	42	48
First Month Advance Payment	540	2,375	4,100	17,568	26,539	11,884	18,496	54,367	11,139
Monthly Payments	148	557	961	4,409	6,056	7,701	10,115	12,746	11,139
Annual Rate	15.00%	13.00%	13.00%	10.50%	12.25%	15.00%	8.90%	13.00%	6.96%
Present Value – Advance payment	540	2375	4,100	17,568	26,539	11,884	18,496	54,367	11,139
Present Value – Monthly payments	4,175	18,361	31,678	132,429	177,476	245,876	356,465	420,156	457,089
Present Value – Total Minimum payments at inception	4,715	20,736	35,778	149,997	204,015	257,460	374,961	474,523	468,228
PV as % of Equipment Value	87.39%	87.31%	87.27%	85.38%	86.12%	72.09%	85.25%	87.28%	84.84%

In consideration of the stated value of the purchase option being below market and the high present value to equipment cost ratio, it was determined that it would be a high probability that Equity A's current operating leases would be recorded as finance leases with the adoption of IFRS for SMEs.

The December 31, 2010 lease portfolio report was available in Excel format, providing the data in a manner that allowed the calculation of the present value of remaining payments of each lease. Since the leasing agreements stated that the residual purchase options must be made in a lump-sum payment, the residual payment present value was calculated assuming it would be paid in the final month of the contract. As the future payments include interest, the present value of all future payments represents the December 31, 2010 leasing contract receivable that would result from the reclassification of leasing contracts to finance leases. Table 5 below shows Entity A's lease contract receivables as of December 31, 2010.

Table 5

Entity A Lease Contract Receivables as of December 31, 2010

Year Due	2011	2012	2013	2014	2015	2016	Total
Present value of remaining monthly payments	14,181,242	7,997,765	2,854,398	226,495	25,456	1,602	25,286,958
Present value of residual payments	3,393,251	3,121,065	2,377,971	510,030	11,031	22,015	9,435,363
Total Present value by year	17,574,493	11,118,830	5,232,369	736,525	36,487	23,617	34,722,321

Under the assumption that the adoption of IFRS for SMEs would require the reclassification of the operating leases to finance leases, in Table 6, the following converting entries were made to Entity A's December 31, 2010 Statement of Financial Position.

Table 6

Conversion Entry for December 31, 2010 Statement of Financial Position

Account	Debit	Credit
Unearned Revenue	4,189,738	
Accumulated Depreciation-Leased Equipment	32,551,394	
Accounts Receivable-Operating leases		1,533,264
Leased Equipment – Operating leases		69,308,273
Finance Lease Receivable-Current	17,574,493	
Finance Lease Receivable-Long-term	17,147,827	
Retained Earnings		621,915

Besides removal of the fixed asset accounts associated with the leasing contracts and the recording of the estimated lease receivable, the unamortized advanced payments recorded in the unearned revenue account was also decreased. If the leases contracts were recorded as finance leases, the advanced payments would be a down payment to the vendor and would not be reflected on the books of Entity A. The conversion of the income statements to reflect activities from finance lease income required the removal of operating lease income and the associated leasing equipment depreciation and the addition of estimated financing lease income. To estimate the financing lease income, loan amortization schedules were prepared for three 2010 leasing contracts. Since the current operating lease payment structure includes an end of lease purchase option equal to the residual value, the projected amortization schedules also included a lump sum payment and used the same monthly payment amount. In the amortization schedules, I found that the interest averaged 20.52% of the total loan payments. If Entity A had used IFRS for SMEs in 2010, it was estimated that the finance lease income would be 20.52% of the $19,925,776 lease payments or $4,088,769. If Entity A had adopted IFRS for SMEs for 2010, the difference in the reporting of lease income would have had an effect on working capital. Since the leasing division has no other operating business activities, the assumption is that the change in leasing contract format will directly affect the cash flow of the entity. The converting entries record the net income statement differential in the cash account.

The entries needed to convert Entity A's 2010 income statement from U.S. GAAP to IFRS for SMEs would include the following, as illustrated in Table 7.

Table 7

Conversion Entry for 2010 Income Statement from U.S. GAAP to IFRS for SMEs

Account	Debit	Credit
Operating Lease Income	19,925,776	
Cost of Sales –Depreciation		15,710,598
Finance Lease Income		4,088,769
Cash		126,409

Transition Date Statement of Financial Position

In order to make some determination on how the adoption of IFRS for SMEs would impact the statement of cash flow, the following journal entry was made to the

December 31, 2009 statement of financial position to estimate the projected January 1, 2010 IFRS for SMEs account balances. The resulting beginning of the year statement of financial position was the basis for projecting the IFRS for SMEs statement of cash flow for 2010, as illustrated in Table 8 below.

Table 8

Conversion Entry for January 1, 2010 Statement of Financial Position

Account	Debit	Credit
Unearned Revenue	3,643,521	
Accumulated Depreciation-Leased Equipment	25,616,491	
Accounts Receivable-Operating leases		1,367,971
Leased Equipment – Operating leases		60,805,305
Finance Lease Receivable-Current	17,339,741	
Finance Lease Receivable-Long-term	17,546,780	
Goodwill		31,875
Accounts Receivable-Allowance for Doubtful Account	300,000	
Lease Receivable-Allowance for Doubtful Account		300,000
Retained Earnings		1,941,382

In the annual footnotes to the financial statements, Entity A reported an estimation of the future minimum lease payments receivable using Entity A's cost of capital, not the implicit interest rate of the individual lease contracts. When I calculated the net present value of future minimum lease payments inclusive of the residual payment using the implicit rate, the resulting values of net present value future lease payments were approximately 119.94% higher than the value reported in Entity A's financial statement footnote. Therefore, the January 1, 2010 finance lease receivables were estimated by multiplying the lease receivables reported in the December 31, 2009 footnotes by 119.94%. Operating leasing contracts related that accounts of unearned revenue, equipment under lease, and accumulated depreciation of lease equipment were derecognized. Lease receivables were reclassified from account receivables. To comply with IFRS for SMEs measurements, the transition date journal entry includes the recognition of 4 1/2 months of goodwill amortization calculated using the IFRS for SMEs presumed Goodwill 10-year useful life (IASB, 2009b, p. 107). Entity A's projected January 1, 2010 transition date statement of financial position is presented in Appendix E.

Statement of Financial Position

To allow a comparison of Entity A's original U.S. GAAP statement of financial position and the projected IFRS for SMEs statement of financial position, both statements are presented alongside each other in Table 9.

Table 9

Entity A Comparative Consolidated Statement of Financial Position December 31, 2010

	U.S. GAAP	IFRS for SMEs
Assets		
Current Assets		
Cash and cash equivalents	$3,202,739	$3,078,596
Accounts receivable	5,966,010	4,932,746
Finance Lease Receivable		17,074,493
Notes receivable, net	1,338,358	1,338,358
Inventories, net	15,714,428	15,714,428
Prepaid Expenses & other current assets	559,162	559,162
Total Current Assets	26,780,697	42,697,783
Property, plant, and equipment	82,909,357	13,601,084
Accumulated Depreciation	(42,841,724)	(10,290,330)
Net property, plant and equipment	40,067,633	3,310,754
Finance Lease Receivable, less current		17,147,827
Patent and Intangible Assets, net	460,000	460,000
Total Long-term Assets	40,527,633	20,918,581
Total Assets	$67,308,330	$63,616,364
Liabilities and Stockholders' Equity		
Current Liabilities		
Customer Deposits	$154,705	154,705
Accounts Payable	3,585,755	3,585,755
Accounts Payable – Parent	25,201,002	25,201,002
Accrued expenses	2,564,322	2,564,322
Current portion of long-term debt	10,193,537	10,193,537
Unearned Revenue	4,684,103	494,365
Total Current Liabilities	46,383,424	42,193,686
Notes payable to related parties	10,600,000	10,600,000
Long Term Debt, less current	7,823,477	7,823,477
Long Term Lease Liability	608,500	608,500
Total Long-term Liabilities	19,031,977	19,031,977
Total Liabilities	65,415,401	61,225,663
Stockholders' Equity		
Common Stock	2	2
Additional PIC	47,000,098	47,000,098
Retained Earnings	(45,107,171)	(44,609,399)
Total Stockholders' Equity	1,892,929	2,390,701
Total Liabilities and Equity	$67,308,330	$63,616,364

As shown in Table 10's presentation of the 2010 comparative common-sized statement of financial positions, the reclassification of operating lease contracts as finance leases resulted in a 59% increase in total current assets. However, due to the removal of the related lease assets from property, plant, and equipment, total assets actually decreased by 5.5%. Additionally, total current liabilities decreased by 6.4% due to the removal of unearned revenue associated with operating lease contracts.

Table 10

Entity A Comparative Common-Sized Statement of Financial Position December 31, 2010

	US GAAP		IFRS for SMES	
Assets				
Current Assets				
Cash and cash equivalents	$3,202,739	4.8%	$3,078,596	4.8%
Accounts receivable, net	4,932,746	7.3%	4,932,746	7.8%
Finance Lease Receivable	1,033,264	1.5%	17,074,493	26.8%
Notes receivable, net	1,338,358	2.0%	1,338,358	2.1%
Inventories, net	15,714,428	23.3%	15,714,428	24.7%
Prepaid Expenses, other current assets	559,162	0.8%	559,162	0.9%
Total Current Assets	26,780,697	39.8%	42,697,783	67.1%
Property, plant, and equipment	82,909,357	123.2%	13,601,084	21.4%
Accumulated Depreciation	(42,841,724)	-63.6%	(10,290,330)	-16.2%
Net Property, plant, and equipment	40,067,633	59.5%	3,310,754	5.2%
Lease Receivable, less current	0	0.0%	17,147,827	27.0%
Patent and Intangible Assets, net	460,000	0.7%	460,000	0.7%
Total Long-term Assets	40,527,633	60.2%	20,918,581	32.9%
Total Assets	$67,308,330	100.0%	$63,616,364	100.0%
Liabilities and Stockholder's Equity				
Current Liabilities				
Customer Deposits	$154,705	0.2%	$154,705	0.2%
Accounts Payable	3,585,755	5.3%	3,585,755	5.6%
Accounts Payable - Parent	25,201,002	37.4%	25,201,002	39.6%
Accrued expenses	2,564,322	3.8%	2,564,322	4.0%
Current portion of long-term debt	10,193,537	15.1%	10,193,537	16.0%
Unearned Revenue	4,684,103	7.0%	494,365	0.8%
Total Current Liabilities	46,383,424	68.9%	42,193,686	66.3%
Notes payable to related parties	10,600,000	15.7%	10,600,000	16.7%
Long Term Debt, less current	7,823,477	11.6%	7,823,477	12.3%
Long Term Lease Liability	608,500	0.9%	608,500	1.0%
Total Long-term Liabilities	19,031,977	28.3%	19,031,977	29.9%
Total Liabilities	65,415,401	97.2%	61,225,663	96.2%
Stockholders' Equity:				
Common Stock	2	0.0%	2	0.0%
Additional Paid in Capital	47,000,098	69.8%	47,000,098	73.9%
Retained Earnings	(45,107,171)	-67.0%	(44,609,399)	-70.1%
Total Stockholders' Equity	1,892,929	2.8%	2,390,701	3.8%
Total Liabilities and Equity	$67,308,330	100.0%	$63,616,364	100.0%

Statement of Loss and Retained Deficit

Entity A's retained earnings transactions for 2010 met the qualification for the combination statement; thus, this format was used to report the comparative net loss and retained earnings in Table 11. Entity A presents its consolidated statement of income by function with selling, administrative, and general combined into one operating expenses line item. Adoption of IFRS for SMEs would require these functional categories to be separated; therefore, the IFRS for SMEs column of Table 11 reflects this separation. To assist in understanding the impact of the IFRS for SMEs adoption, Table 12 presents a common-sized statement of loss and retained deficit for the year ended December 31, 2010. The projected IFRS for SMEs statement reclassification of leasing contracts to financing resulted in a 10.2% increase in gross profit, which appears to be attributed to the gross profit on the operating leasing activity being lower than other sales activities of Entity A. However, the $ 53,844 operating income decreased from .1% of total revenue to a net operating loss of $ 72,565, which is equivalent of .2% of total IFRS for SMES total revenue. The final income statement impact of the conversion adjustments was to increase the entity's net loss by 3.5% from $ 2,630,006 to $ 2,722,274.

Table 11

Entity A Comparative Consolidated Statement of Loss and Retained Deficit for Year Ended December 31, 2010

	U.S. GAAP	IFRS for SMEs
Net sales	$33,914,317	$33,914,317
Leasing Revenue	19,925,776	4,088,769
Total Revenue	53,840,093	38,003,086
Cost of goods sold	40,763,820	25,053,222
Gross profit	13,076,273	12,949,864
Selling Expense		8,219,261
General and Administration		4,803,168
Operating Expenses	13,022,429	13,022,429
Operating income (loss)	53,844	(72,565)
Other income (expense)		
Interest income	11,928	11,928
Interest expense	(1,560,015)	(1,560,015)
Other financing expenses	(191,798)	(191,798)
Other expenses	(158,665)	(158,665)
Other income (expense),net	(1,898,550)	(1,898,550)
Loss before write-down of Goodwill and income taxes	(1,844,706)	(1,971,115)
Write Down Goodwill	(850,000)	(818,125)
Loss before taxes	(2,694,706)	(2,789,240)
Benefit from provision for taxes	64,700	66,966
Net loss for the year	(2,630,006)	(2,722,274)
Other Comprehensive Income	0	0
Total comprehensive loss for the year	($2,630,006)	($2,722,274)
Retained deficit at the beginning of year	($42,477,165)	($42,477,165)
IFRS for SMEs conversion adjustment		590,040
Current year earnings	(2,630,006)	(2,722,274)
Retained Earnings at the end of year	($45,107,171)	($44,609,399)

Table 12

Entity A: Comparative Common-Sized Consolidated Statement of Net Loss December 31, 2010

	US GAAP		IFRS for SMEs	
Net sales	$33,914,317	63%	$33914,317	89.3%
Leasing Revenue	19,925,776	37%	4,088,769	10.8%
Total Revenue	53,840,093	100%	38,003,086	100%
Cost of goods sold	40,763,820	75.7%	25,053,222	65.9%
Gross profit	13,076,273	24.3%	12,949,864	34.1%
Selling Expense			8,219,261	21.6%
General and Administrative			4,803,168	12.6%
Operating Expenses	13,022,429	24.2%	13,022,429	34.3%
Operating income (loss)	53,844	0.1%	(72,565)	-0.2%
Other income (expense)				
Interest income	11,928	0%	11,928	0%
Interest expense	(1,560,015)	-2.9%	(1,560,015)	-4.1%
Other financing expenses	(191,798)	-0.4%	(191,798)	-0.5%
Other expenses	(158,665)	-0.3%	(158,665)	-0.4%
Other income (expense),net	(1,898,550)	-3.5%	(1,898,550)	-5%
Loss before write-down of Goodwill and income taxes	(1,844,706)	-3.4%	(1,971,115)	-5.2%
Write Down Goodwill	(850,000)	-1.6%	(818,125)	-2.1%
Loss before taxes	(2,694,706)	-5%	(2,789,240)	-7.3%
Benefit from provision for taxes	64,700	0.1%	66,966	0.2%
Net Loss	$(2,630,006)	-4.9%	$(2,722,274)	-7.1%

Statement of Cash Flow

Due to the variation between the U.S. GAAP and IFRS for SMEs' treatment of leases, projecting the 2010 IFRS for SMEs statement of cash flow for Entity A was difficult. In the case of Entity A, all leased equipment associated with the IFRS for SMEs recognition of finance leases receivable would have been derecognized as of January 1, 2010 and thus not available to be sold during 2010. If IFRS for SMEs adoption had actually occurred on January 1, 2010, the 2010 cash flow investing activity would have been materially different from that reported under U.S. GAAP. Specifically, transactions reported as cash flow from the disposition of equipment in reported under U.S. GAAP may have been classified as finance leasing income or possibly totally absent under IFRS for SMEs. However, in order to provide some understanding of the impact of IFRS adoption, the projected statement of cash flows assumes that the gain on sale of equipment is the same under both standards. Based on this assumption and using the projected change in net property, plant, and equipment under IFRS for SMEs, $833,857 of the original $3,187,634 cash proceeds from sale of property, plant, and equipment was reclassified as proceeds from leasing activities on the IFRS for SMEs' statement of cash flows. Additionally, the $ 18,112,500 cash used to purchase new leasing equipment during 2010 was reported as funds used to finance lease contracts on the IFRS for SMEs' statement of cash flows. Using an estimation of January 1, 2010 finance lease receivable, the calculated receipt of finance lease payments was $ 18,511,473. However, the statement of cash flow indicated that an unidentified additional $ 2,185,192 use of cash. Since all other cash flow activities were already identified, it is assumed that the cash outflow was related to the conversion of operating leasing contracts to finance leases. Therefore, a $2,185,192 use of cash is reported as a conversion adjustment. While these assumptions allows one to make a reasonable estimate of the impact of IFRS for SMEs adoption on cash flow, actual results may have been materially different if the IFRS for SMEs adoption had taken place on January 1, 2010. Due to the unavailability of information, the IFRS for SMEs required disclosure for cash paid for interest and dividends paid and received was omitted from the projected statement of cash flows. As presented in Table 13, the projected cash flow impact of converting to IFRS for SMEs is a $124,137 decrease in cash flow for the year ended December 31, 2010, which translates to a 3.9% decrease in year-end cash balance.

Table 13 Entity A Comparative Consolidated Statement of Cash Flows for Year Ended December 31, 2010

	US GAAP	IFRS for SMEs
Cash flows from Operating Activities		
Net Loss	($2,630,006)	($2,722,274)
Adjustments to reconcile net loss to net cash		
Provided by operating activities		
Provision for doubtful accounts	742,674	742,674
Depreciation and Amortization	16,625,425	914,827
Gain on sale of property, plant, and equipment	(252,796)	(252,796)
Write down of goodwill	850,000	818,125
Changes in operating assets and liabilities		
Accounts receivable	442,864	1,039,418
Financing lease receivable	0	(666,013)
Notes receivable	(617,055)	(617,055)
Inventories	3,214,243	3,214,243
Prepaid expenses and other assets	(384,738)	(384,738)
Accounts payable and customer deposits	(791,121)	(791,121)
Accounts payable to parent and its subsidiaries	(9,965,723)	(9,965,723)
Accrued liabilities	285,321	285,321
Unearned revenue	709,760	163,542
Net Cash provided by operating activities	8,228,848	(8,221,570)
Cash flows from investing activities		
Proceeds from dispositions of property, plant, and equipment	3,187,634	2,353,777
Proceeds from dispositions of PPE reclassify to leasing activity		833,857
Purchase of property, plant, and equipment	(18,540,767)	(428,247)
Issuance of New Finance leases (converted from PPE purchase)		(18,112,520)
Receipt of payments of Finance leases		18,511,473
Unidentified use of cash associated with lease contract conversion		(2,185,192)
Withdrawal of restricted cash	3,694,643	3,694,643

Table Continues

Purchases of business	(1,175,000)	(1,175,000)
Net cash (used) provided by financing activities	(12,833,490)	3,492,791
Borrowings of long-term debt	10,783,294	10,783,294
Payments of long-term debt	(10,966,484)	(10,966,484)
Net cash used in financing activities	(183,190)	(183,190)
Net increase (decrease) in cash and cash equivalents	(4,787,832)	(4,911,969)
Beginning of year	7,990,571	7,990,571
End of year	$3,202,739	$3,078,602
Non-cash transaction- Purchase of Business Assets		
Inventory	$3,545,168	
Equipment	225,000	
Liability assumed for long-term lease on building	(608,500)	
Cash Payment	$1,175,000	

Financial Ratios

Table 14 present a comparison of Entity A's key financial ratios calculated based on the original U.S. GAAP financial statement and the projected IFRS for SMEs statements. While the conversion to the international standards increased Entity A's gross profit margin, all of the remaining profitability ratios decreased. The exception was the loss on equity ratio that improved slightly due to the conversion impact on beginning of the year equity. The efficiency ratios of Entity A also decreased with the conversion to IFRS for SMEs resulting in both lower inventory and total asset turnover ratios. Due to the recognition of finance lease receivables, the conversion to IFRS for SMEs did improve the current ratio of Entity A; however, the decrease in net income negatively affected the interest coverage ratio. While the IFRS for SMEs statements have a lower debt to equity ratio, the ratio is large so the conversion change would probably have little impact on perceived business risk of Entity A.

Table 14

Comparison of Entity A's Key Ratios for U.S. GAAP and IFRS for SMEs for the Year Ended December 31, 2010

	U.S. GAAP	IFRS for SMEs	Variance
Profitability Ratios			
Return on equity	-138.9%	-113.9%	25.1%
Return on assets	-3.9%	-4.3%	-0.4%
Return on sales	-4.9%	-7.2%	-2.3%
Gross profit margin	24.3%	34.1%	9.8%
Net profit	-4.9%	-7.1%	-2.2%
Efficiency Ratios			
Inventory Turnover	2.62	1.61	-1.01
Total Asset Turnover	0.75	0.55	-0.20
Leverage and Liquidity Ratios			
Quick or acid test ratio	0.23	0.22	(0.00)
Current Ratio	0.58	1.01	0.43
Debt to equity ratio	34.56	25.61	(8.95)
Interest Coverage	0.03	-0.05	(0.08)

Notes to the Financial Statements

While IFRS for SMEs and the U.S. GAAP disclosure requirements are similar, there are standard differences that will affect the financial reporting of U.S. entities adopting IFRS for SMEs. The IFRS for SMEs requires that management makes a "explicit and unreserved statement" of compliance with IFRS for SMEs in the first financial statement note (IASB, 2009b, p. 22). Additionally, the financial statements must include cross-referencing to the notes. The majority of the IFRS for SMEs' disclosure requirements are already fulfilled in notes that accompany Entity A's audited financial statements; however, the adoption of IFRS for SMEs would require a few additional disclosure requirements. The IFRS for SMEs states that an entity is required to disclose the sub classification of statement of financial position line items presented for property, plant and equipment, trade and other receivables, inventory, trade and other payables, provisions for employee benefits, and other provisions and classes of equity (IASB, 2009b, p. 29). Therefore, the adoption of IFRS for SME would require Entity A to disclose the sub classification of prepaid expenses and other current assets line item. Disclosure of the content of accounts payable and customer deposits line item and the accrued liabilities would also be necessary. A warranty provision disclosure would report the beginning of year accrual balance, the additional warranty accrual amount, and the subtraction of current year warranty costs to arrive at the year-end balance. The disclosure for new finance lease receivable would include "reconciliation between the gross investment in the lease at the end of the reporting period and the present value of the minimum lease payments receivable" (IASB, 2009b,

p. 49). The standards also state that the finance lease disclosure must include the gross investment and present value of minimum lease payments three periods: not later than 1 year, later than 1 year to 5 years and over 5 years. Other information required in the finance lease receivable footnote would be unearned finance income, accrual of benefits from unguaranteed residual values, allowance for uncollectible payments, and a general description of the significant leasing arrangements (ISAB, 2009b, p. 49). Since Entity A combines multiply types of revenue in net sales, a disclosure of the type of revenue would be necessary. *Section 333 –Related Party Disclosures* (IASB, 2009b) requires the disclosure of key management personnel compensation, which includes all benefits. According to the standard, key management personnel are those who have "authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director of the entity" (IASB, 2009b, p.197). The disclosure of the key management personnel compensation would be an addition to the current related party transactions footnote. Cross-referenced to the line item " net loss before taxes" would be a note disclosing the cost of inventories recognized as an expense, research and development costs included in expenses, foreign exchange loss on trade payables, and warranty expense. Adoption of IFRS for SMEs would also require the board of directors to formally approve the release of the financial statements and disclose the date of the approval in the financial statement notes. An example of financial statement disclosure cross-referencing under IFRS for SMEs is provided with the discussion of Entity B findings.

Entity B

Entity B's parent corporation and one subsidiary are manufacturers of metal and plastic fasteners with facilities in the Great Lakes Region of the United States. The consolidated entity also includes a Canadian subsidiary, which operates a sales office in Canada, and an Interest Charge-Domestic International Sales Corporation (IS-DISC). As disclosed in the footnotes to Entity B's financial statements, the entity pays a commission on its export sales to the IC-DISC. In the consolidation process, the commission expense and the related commission income are eliminated (B, 2010). Entity B's participation in the international trade includes international sales, comprising 24% of Entity B's total 2010 sales, and foreign expenditures, which were approximately 10% of 2010 total expenditures. The primary users of the financial statements include equity owners, financial lenders, and management; however, there are no foreign investors or financing from foreign institutions. As of fiscal year 2010, there has been no user requests for financial statements prepared in accordance with international standards The consolidated 2010 financial statements were reviewed by an external CPA firm whose Accountants' Review Report contained a disclosure of a departure from the U.S. GAAP.

While Entity B has no formal chief financial officer, Entity B's President/CEO is also a majority stockholder, CPA, and the respondent to the study questionnaire. At the CEO's request, the controller of Entity B provided detailed financial data. The following discussions address the portions of Entity B's financial reporting that required additional research as to determine the impact of adoption of IFRS for SMEs.

Agreements Using Financial Metrics

Entity B had three debt covenants associated with financing agreements: the maintenance of a minimum tangible net worth of not less $ 6.1 million, fixed charge coverage of 1.0:1.0, and a borrowing base of up to the greater of $1.5 million or 80% of eligible accounts receivable. The adoption of IFRS for SMEs had no impact of the loan covenant financial metrics.

Accrual of Pending Litigation

In accordance with ASC 450-20-55-10, the 2010 financial statements of Entity B reported an accrual of $355,000 for a pending litigation resulting from an event occurring prior to December 31, 2010 that had a liability that was probable and reasonably estimated. The AICPA (2010a) described the probability threshold for recognition of a contingent liability as "higher than 'more-than-likely-than-not'" which is "typically interpreted to mean 80%" (section 21.4). Similarly, the IFRS for SMEs requirements for a liability provision state that recognition is required if the obligation existed at the reporting date and was from a past event (ISAB, 2009b). The recognizable liability must be probable, which is defined as "more likely than not," required the entity to "transfer economic benefits in settlement" and the liability amount should be "estimated reliably" (IASB, 2009b, p. 118). While both standards have the same basic requirements for recognition of contingent liabilities, differences could still occur due to the variation in the interpretation of "probable". Since Entity B's accrual for pending litigation meets the U.S. GAAPs "higher than more-likely-than-not" threshold, it should also meet the IFRS for SMEs interpretation of "more-likely-than-not". Therefore, the conversion to IFRS for SMEs is assumed to affect not the recognition of the contingent liability.

Foreign Currency Adjustment

In accordance with ASC 830-30-45-12 (FASB, 2012), Entity B's consolidated statement of stockholder's equity and comprehensive income reports the foreign currency translation loss related to the translating transactions the reporting currency. Similarly, the international standard's Section *30 –Foreign Currency Translation* states that exchange differences arising from translating a subsidiary's assets, liabilities, income, and expenses into the functional currency for reporting purposes should be recognized in other comprehensive income on the income statement and should be reported as a component of equity (IASB, 2009b, pp. 186- 187). Therefore, Entity B's foreign currency adjustment loss would appear in both in the IFRS for SMEs consolidated statement of comprehensive income and as a component of the consolidated statement of stockholder's equity.

Departure From U.S. GAAP – Omission of Variable Interest Entity

Entity B disclosed the existence of a related limited liability corporation (LLC) from which Entity B leases an industrial facility. Due to common ownership and the LLC's inability to finance its activities without additional financial support from Entity B, U.S. GAAP considers the LLC to be a variable interest entity. Although FASB ASC 810-10 requires consolidation of a variable interest entity with its primary beneficiary, Entity B did not consolidate the LLC in the December 31, 2010 financial statements. The accountant's review report and the financial statement footnotes disclosed this departure from U.S. GAAP as well as additional information regarding the financial statement effect of non-consolidation (Entity B, 2010). Since the purpose of this study was to determine that impact of IFRS for SMEs adoption on U.S. entities who prepare financial statements in accordance with U.S. GAAP, it was necessary to adjust the financial statements of Entity B to include the variable interest entity (VIE) prior to conversion to IFRS for SMEs. The financial assets of the VIE were limited to cash, short-term securities, accounts receivable, and the building and land under lease to Entity B. Liabilities were limited to industrial revenue bonds and a long-term loan to a close relative of Entity B stockholders. While the financial statements of the VIE were not reviewed, the same CPA firm that issued the reviewed financial report for Entity B also issued the compilation report for the CPA. Since the primary activity of the LLC was rental of a single building to Entity B, it is assumed that reviewed procedures performed in the issuance of Entity B's annual report provided some level of assurance of the accuracy of the LLC financial activity. Therefore, in order to comply with U.S. GAAP, the complied 2010 financial statements of LLC were used to consolidate the transactions of the VIE with Entity B's reviewed statements. After eliminating transactions between Entity B and the LLC, consolidated statements reflected an increase in total assets increased by $3,795,597 and in total liabilities by $2,881,099. Additionally, the consolidated net income increased by $ 241,461. Table 15 and Table 16 present the consolidation of the LLC with Entity B' consolidated statement of financial position and consolidated statement of loss, respectively. With the inclusion of the LLC, the adjusted consolidated statements comply with U.S. GAAP. Therefore, these adjusted statements are the basis for determining the financial statement impact of IFRS for SMEs' adoption by Entity B.

Table 15

Entity B's Consolidated Statement of Financial Position (With V.I.E.) December 31, 2010

	Consolidated Without VIE	Variable Interest Entity	Consolidated With VIE
Assets			
Current Assets			
Cash and cash equivalents	$446,819	$67,490	$514,309
Investment in Securities		43,064	43,064
Accounts receivable, net	3,323,515	15,000	3,338,515
Inventories, net	2,527,727		2,527,727
Advances to Employees	66,524		66,524
Prepaid Expenses & other	142,317		142,317
Total Current Assets	6,506,902	125,554	6,632,456
Property, plant, and equipment	10,604,300	4,210,826	14,815,126
Accumulated Depreciation	7,033,795	(540,783)	(7,574,578)
Equipment not placed in service	95,609	0	95,609
Net Property, plant, and equipment	3,666,114	3,670,043	7,336,157
Other current assets	66,747	0	66,747
Total Assets	$10,239,763	$3,795,597	$14,035,360
Liabilities and Stockholders' and Member's Equity			
Current Liabilities			
Notes payable, bank	$35,000	$0	$35,000
Current portion of long-term debt	228,764	41,649	270,413
Bonds payable, current portion		135,000	135,000
Accounts Payable	1,596,757		1,596,757
Accrued expenses	305,428		305,428
Contingencies	355,000		355,000
Total Current Liabilities	2,520,949	176,649	2,697,598
Long-term debt, net of current maturities	376,503		376,503
Bonds Payable, net of current maturities		2,380,000	2,380,000

Table Continues

Note payable related party		585,742	585,742
Due to affiliate	261,292	(261,292)	0
Total Long-term Liabilities	637,795	2,704,450	3,342,245
Total Liabilities	3,158,744	2,881,099	6,039,843
Stockholders' and Member's Equity:			
Common Stock, no par value, 100,000 shares. Authorized, 8,800 issued and 7,942 outstanding	11,000		11,000
Treasury Stock, 858 shares, at cost	(122,100)		(122,100)
Variable Interest Entity, LLC member equity		914,498	914,498
Retained Earnings	7,202,801		7,202,801
Accumulated other comprehensive loss	(10,682)		(10,682)
Total Stockholder's and Member's Equity	7,081,019	914,498	7,995,517
Total Liabilities and Stockholder's and Member's Equity	$10,239,763	$3,795,597	$14,035,360

Table 16

Entity B Consolidated Statement of Income (With VIE) for the Year Ended December 31, 2010

	Consolidated Without VIE	Variable Interest Entity	Consolidated with VIE
Net Sales	$23,517,275	$0	$23,517,275
Cost of Goods Sold	15,952,063	(412,583)	7,152,629
Gross Profit	7,565,212	(412,583)	7,152,629
Selling General and Administrative Expense	4,630,125	13,464	4,643,589
Income From Operations	2,935,087	399,199	3,334,206
Other Income (expenses)			
Interest Income	4,476		4,476
Interest Expense	(32,063)	(70,181)	(102,244)
Other Expense	(301,665)		(301,665)
Gain on Sale of Equipment	7,081		7,081
Industrial Revenue Bond Expense		(87,467)	(87,467)
Total Other Income (expense)	(322,171)	(157,657)	(479,828)
Net Income	$2,612,916	$241,462	$2,854,378

Entity B Consolidation Requirements Under IFRS for SMEs

According the Section 9 of the IFRS for SMEs (IASB, 2009b), the parent corporation must present consolidation financial statements which include not only subsidiaries but also any "special purpose entity" controlled by the parent (p. 43). To assist in determining whether control exists, the international standard provides four examples of indications of control; however, the standard also acknowledges that these examples do represent a complete list of control situations.

- The activities of the SPE are being conducted on behalf of the entity according to its specific business needs.
- The entity has the ultimate decision-making powers over the activities of the SPE even if the day-today decisions have been delegated.
- The entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE.
- The entity retains the majority of the residual or ownership risks related to the SPE or its assets.(IASB, 2009b, p. 44)

In the case of Entity B, the stockholders of the parent corporation are also the equity member owners of the LLC, which is the lessor of one of Entity B's manufacturing facilities. While the corporate itself does not actually own the LLC, the financial activities of the LLC are conducted to benefit Entity B. Additionally, Entity B is the guarantor of the LLC's Industrial Revenue Bond debt obligation; therefore, it has risk incidental to the activities of the LLC. If Entity B did adopt IFRS for SMEs, there is enough evidence of control, as defined by the international standard, to require the classification of the LLC as a special purpose entity. In similarity with the requirements of U.S. GAAP, the IFRS for SMEs would require the consolidation of the affiliated LLC within the financial statements of Entity B. Therefore, the consolidated statement of financial position would be the same under U.S. GAAP and IFRS for SMEs. Presented in Table 17 is Entity B's projected IFRS for SMEs statement of financial position for the year ended December 31, 2010. To demonstrate how notes are cross-referenced within the international standard, Entity B's projected statements include the notes column. While the brief descriptions of the notes are included in the table, they would not appear on the formal statements. As there were no projected differences between the U.S. GAAP and the IFRS for SMEs financial statements, Entity B's projected January 1, 2010 transition date statement of financial position is not presented.

Table 17

Entity B Comparable Consolidated Statement of Financial Position as of December 31, 2010

	U.S. GAAP	Notes	IFRS for SMEs	Note Content
Assets				
Current Assets				
Cash and cash equivalents	$514,309	A	$514,309	Sub classifications
Investment in Securities	43,064	B	43,064	Description ,terms, measurement
Accounts receivable, net	3,338,515	C	3,338,515	Sub classifications
Inventories, net	2,527,727	D	2,527,727	Sub classifications
Advances to Employees	66,524	E	66,524	Description , terms
Prepaid Expenses and refundable state taxes	142,317	F	142,317	Sub classifications
Total Current Assets	6,632,456		6,632,456	
Property, plant, and equipment	14,815,126	G	14,815,126	measurement, depreciation method
Accumulated Depreciation	(7,574,578)		(7,574,578)	reconciliation of carrying values
	7,240,548		7,240,548	
Equipment not placed in service	95,609		95,609	
Net Property, plant, and equipment	7,336,157		7,336,157	
Other current assets	66,747		66,747	
Total Assets	$14,035,360		$ 14,035,360	
Liabilities and Stockholders' Equity				
Current Liabilities				
Notes payable, bank	$35,000	H	$ 35,000	Terms, collateral
Current portion of long-term debt	228,764	I	228,764	Terms, collateral
Current portion related party note	41,649	N	41,649	
Bonds payable, current portion	135,000	J	135,000	Terms, collateral
Accounts Payable	1,596,757	K	1,596,757	Sub classifications
Accrued expenses	305,428	L	305,428	Sub classifications
Contingencies	355,000	M	355,000	Description, timing, uncertainties
Total Current Liabilities	2,697,598		2,697,598	
Long-term debt, net of current maturities	376,503	I	376,503	
Bonds Payable, net of current maturities	2,380,000	J	2,380,000	
Note payable related party	585,742	N	585,742	Nature of relationship, terms
Total Long-term Liabilities	3,342,245		3,342,245	
Total Liabilities	6,039,843		6,039,843	
Stockholders' and Member's Equity:	0		0	
Common Stock, no par value, 100,000 shares	11,000		11,000	
authorized, 8,800 issued and 7,942 outstanding	0		0	
Treasury Stock, 858 shares, at cost	(122,100)		(122,100)	
Variable Interest Entity, LLC member equity	914,498	P	914,498	Basis for concluding control exists
Retained Earnings	7,202,801		7,202,801	
Accumulated other comprehensive loss	(10,682)		(10,682)	
Total Stockholder's and Member's Equity	7,995,517		7,995,517	
Total Liabilities and Stockholder's and Member' Equity	$14,035,360		$14,035,360	

Income Statement Presentation

The IAS for private entities requires the presentation of the income statement either by nature expenses, such as depreciation, transportation costs, wages and sales, and so on, or by specific functions, like cost of goods sold, selling costs, and administration (IASB, 2009b, p. 33). While the presentation of Entity B's 2010 U.S. GAAP consolidated statement of income is by function (Table 18), the presentation of selling, administrative, and general expenses is as one combined number. Adoption of IFRS for SMEs would require separate presentations of the classifications of selling, administrative, and other expenses. Since Entity B has elected tax treatment as a S-corporation under the U.S. Internal Revenue Code (Entity B, 2010) with tax liabilities and benefits flowing through to the stockholders, there is no provision for federal income taxes on the corporate financial statements. However, in compliance with state laws, the company does accrue state income and replacement taxes. While currently combined with selling and administrative expense on the U.S. GAAP statements, IFRS for SMEs statements would report income taxes as a separate income statement classification. IFRS for SMEs requires the reporting of the 2010 foreign currency translation as part of the consolidated statement of comprehensive income. Beside the aforementioned variations, the Table 19 also includes a column for disclosure cross-referencing that would appear on a formal IFRS for SMEs statement and a brief explanation of the example disclosure, which would not be part of a formal statement.

Table 18

Entity B Consolidated Statement of Income With VIE for the Year Ended December 31, 2010

	U.S. GAAP
Net Sales	$23,517,275
Cost of Goods Sold	15,539,480
Gross Profit	7,997,795
Selling General and Administrative Expense	4,643,589
Income From Operations	3,334,206
Other Income (Expenses)	
Interest Income	4,476
Interest Expense	(102,244)
Other Expense	(301,665)
Gain on Sale of Equipment	7,081
Industrial Revenue Bond Expense	(87,476)
Total Other Income (Expense)	(479,828)
Net Income	$2,854,378

Table 19

Entity B Consolidated IFRS for SMEs Statement of Comprehensive Income for the Year Ended December 31, 2010

	Note	IFRS for SMEs	Note Content
Revenue	Q	$23,517,275	Sub classifications
Cost of Goods Sold		15,539,480	
Gross Profit		7,977,795	
Selling Expense		939,208	
Administrative Expense		3,700,241	
Income From Operations		3,338,346	
Other Income (Expenses)			
Interest Income		4,476	
Interest Expense	R	(102,244)	Financing Categories: Banks, Related Party
Other Expense	S	(301,665)	Sub classifications
Gain on Sale of Equipment	G	7,081	
Industrial Revenue Bond Expense	J	(87,476)	Description
Total Other Income (Expense)		(479,828)	
Profit Before Taxes	T	2,858,518	See *T
State Income and Replacement Taxes	U	4,140	Expense Calculation
Profit for Year		2,854,378	
Other Comprehensive Loss		0	
Foreign Currency Translation Loss	V	(6,596)	
Total Comprehensive Income For Year		$2,847,782	

Note. *T- Notes content related to profit before taxes includes disclosures for cost of Inventories recognized as expense, research and development expense, foreign exchange loss on trade payables, and warranty expense

Consolidated Statement of Equity

Due to the distribution of stockholders during 2010, Entity B does not qualify to prepare a combined statement of profit and retained earnings. Instead, IFRS for SMEs requires the preparation a separate statement of comprehensive income and a statement of changes in equity. Table 20 presents Entity B's original U.S.GAAP *Consolidated Statement of Stockholder's Equity and Comprehensive Loss*, which reports the currency translation loss within comprehensive income in equity. With the adoption of IFRS for SMEs, Entity B would prepare a consolidated statement of equity, which includes comprehensive income, as presented in Table 21.

Table 20

Entity Consolidated Statement of Stockholder's Equity and Comprehensive Loss Year Ended December 31, 2010

U.S. GAAP	Common Stock	Treasury Stock	VIE Equity	Retained Earnings	Accumulated Other Comprehensive Loss	Stockholder's Equity	Comprehensive Income
Balance, January 1, 2010	$11,000	$(122,100)	673,036	$6,572,702	$(4,086)	$7,130,552	
Net Income			241,462	2,612,916		2,854,378	$2,854,378
Other Comprehensive Loss							
Translation Adjustment					(6,596)	(6,596)	(6,596)
Total Comprehensive Income							$2,847,782
Distributions				(1,982,817)		(1,982,817)	
Balance, December 31, 2010	$11,000	(122,100)	$914,498	$7,202,801	$(10,682)	$7,995,517	

Table 21

Entity B Consolidated Statement of Stockholder's Equity Year Ended December 31, 2010

	Common Stock	Treasury Stock	VIE Equity	Retained Earnings	Stockholder's Equity
Balance January 1, 2010	$11,000	(122,100)	$673,036	6.658,616	$7,130,553
Total Comprehensive Income			241,662	2,606,320	2,847,378
Profit			241,662	2,612,916	2,854,378
Translation of Foreign Operations				-6,596	-6,596
Transactions With Owner's Distribution				-1,982,817	-1,982,817
Balance, December 31, 2010	$11,000	$(122,100)	$914,498	$7,192,119	$7,995,517

Statement of Cash Flows

The adoption of IFRS for SMEs would have no impact on Entity B's 2010 statement of cash flows. In a matter consistent with U.S. GAAP, IFRS for SMEs requires that unrealized gains and losses arise from changes in foreign currency exchange be reported separately from operating, investing, and financing activities. Since the IFRS for SMEs requires the disclosure of cash flows from interest and dividends received and paid, the supplemental disclosure of cash paid for interest during the year is applicable to both the U.S. GAAP statement of cash flows and the IFRS for SMEs statement of cash flows (IASB, 2009b, p. 39). The control of Entity B over the lessor LLC was judged to require consolidation under IFRS for SMEs as a special purpose entity. Since the management of Entity B had elected not to consolidate the LLC, the statement of cash flow consolidates the LLC with Entity B to comply with U.S. GAAP and IFRS for SMEs. Table 22's presentation of cash flows reflects that the adjusted U.S. GAAP statement of cash would is the same as the projected IFRS for SMEs statement of cash flow.

Table 22

Entity B Consolidated Statement of Cash Flows for the Year Ended December 31, 2010

	Entity B	VIE	U.S. GAAP and IFRS for SMEs' Entity B With VIE
Cash flows from operating activities			
Net Income	$2,612,916	$241,462	$2,854,378
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	638,204	87,293	725,497
Bad Debts	36,443		36,443
Gain on the sale of property and equipment	(6,831)		(6,831)
Increase in assets			
Accounts receivable	(1,098,146)	35,000	(1,063,146)
Inventories	(589,339)		(589,339)
Advances to employees	(62,449)		(62,449)
Prepaid expenses and Refundable state taxes	(16,271)		(16,271)
Short-term investments		(620)	(620)
Other assets	(29,243)		(29,243)
Increase in liabilities			
Accounts payable	189,013		189,013
Accrued expenses	497,086		497,086
Net cash provided by operating activities	2,171,383	363,135	2,534,518
Cash flows from investing activities			
Purchases of property and equipment	(1,309,544)		(1,309,544)
Proceeds from sale of property and equipment	10,000		10,000
Purchases of investments		(8,796)	(8,796)
Repayments from affiliate	38,865		38,865
Net cash used in investing activities	(1,260,679)	(8,796)	(1,260,679)
Cash flows from financing activities			
Dividends to stockholders	(1,307,414)		(1,307,414)
Proceeds from note payable, bank	35,000		35,000
Repayment of bond payable		(135,000)	(135,000)
Repayment of related party loan		(41,892)	(41,892)
Repayment of note payable, bank	(400,000)		(400,000)
Proceeds from long-term debt	400,000		400,000
Principal repayments of long-term debt	(111,400)		(111,400)
Advances from affiliate	159,861	(159,861)	
Net cash used in financing activities	(1,223,953)	(336,753)	(1,560,706)
Effect of exchange rate changes on cash	(6,596)		(6,596)
Net Decrease in cash	(319,845)	17,586	(302,259)
Cash, at beginning of year	766,664	49,904	816,568
Cash at end of year	$446,819	$67,490	$514,309

Table Continues

Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$24,963	$77,281	$102,244
Supplemental disclosure of non-cash transactions			
Amounts due from stockholders and affiliates that were re-characterized as distributions	$675,403		$675,403

Notes to the Financial Statements

As required by IFRS for SMEs, Entity B's first financial statement footnotes would be a disclosure stating that the financial statements were prepared in compliance with IFRS for SMEs. As demonstrated in the previous Entity B tables, the footnotes would be numbered and cross-referenced to line items in the financial statements. Like the case of Entity A, many of the footnotes disclose material sub classifications consolidated into one line item in the financial statements. The current U.S. GAAP property, plant, and equipment footnote would be expanded under IFRS for SMEs to disclose more detail to reconcile the carrying amounts at the beginning and end of the reporting period (IASB, 2009b, p. 97). Cross-referenced to the line item " net loss before taxes" would be a note disclosing the cost of inventories recognized as an expense, any research and development costs included in expenses, any foreign exchange loss on trade payables and warranty expense. An additional footnote would state the date when the board of directors would formally approve the release of the financial statements. Under IFRS for SMEs, the related party footnote would be expanded to disclose total key employee compensation.

Entity C

Entity C is an association owned by members, which are primarily rural telephone cooperatives and commercial companies. The purpose of Entity C is to “sell outside plant, telephone networking, and customer premises equipment primarily to its members. cooperative association which serves as a distributor of telecommunications equipment to rural telecommunications companies”(Entity C, 2010). According to the chief financial officer of Entity C, the association members and customers consist of cooperative organizations that were formed to provide services when large telecommunications companies, such as AT & T, did not want to provide communication service to rural areas of the United States. Historically, the Entity C’s main product line has been telephone systems for purchase by cooperative members who sell the equipment to the end user telecommunication customers. In addition to the communication systems, Entity C also provides presales support and assistance in configuring the systems. With the expansion of high-speed Internet, Entity C has increasing sales of broadband-related equipment as well as associated technical support and training (Chief Financial Officer of Entity C, personal communication, July 5, 2012).

Entity C –Findings

Qualification to use IFRS for SMEs

As defined by the IFRS for SMEs, an entity cannot use the international standard if it has public accountability. Since Entity C is a member-owned cooperative and not a typical stockholder-owned private entity, it was necessary to examine further guidance to determine if Entity C is a nonpublic entity as described in Section 1 of the international standard. In Section 1.4 of the IFRS for SMEs (IASB, 2009b), the standards state that entities do not have public accountability if they "hold and manage financial resources for members not involved in management" and "they do so for reason incidental to a primary business"(p.10). The standard states that cooperative enterprises requiring a nominal membership deposit do not have public accountability and, therefore, are qualified to follow IFRS for SMEs. The cooperating external CPA firm principal described Entity C as a "unique organization" which was originally part of a larger national telecommunication cooperative (personal communication, July 9, 2012). The external CPA firm representative further explained that the paid-in-capital balance reported on the statement of financial position had "been on the books since incorporation in 1976 and has not changed for over 15 years" (personal communication, July 9, 2012). As described by the cooperating CPA firm, the bylaws stated that the members own Entity C; the board of directors is comprised of organization member-owners, and the amount annual dues paid by the members is determined by the board of directors. The cooperating CPA firm also asserted that the association's membership fluctuates little but the organization may lose or gain a few members during any given year. The 2010 notes to the financial statement stated that the "Association's core purpose is to deliver solutions that will enhance each member's competitiveness"(Entity C, 2010, p. 5). Based on this information, it was determined that Entity C is a nonpublic entity as described in Section 1 of the IFRS for SMEs and, therefore, is qualified to prepare financial statements in accordance with IFRS for SMEs.

Effect of Entity C's Adoption of IFRS for SMEs

In the review of the financial statements of Entity C, I found that there would be little or no financial reporting impact if Entity C adopted IFRS for SMEs. The cash, investments, accounts receivable, accounts payables, and loan payables were recorded in compliance with IFRS for SMEs *Section 11 – Basic Financial Instruments.* Property and equipment was recorded at cost with depreciation calculated using straight-line methodology over the asset's useful life, which is a recognition method compatible with IFRS for SMEs. The chief financial officer did not indicate any financial statement activity that would require adjustment to convert the trial balance to comply with IFRS for SMEs. Since IFRS for SMEs' adoption would have no impact on the trial balance numbers, the statements of financial positions for U.S. GAAP and IFRS for SMEs presented in Table 22 are identical. Similarly, the Table 23 comparative statements of loss and member's equity and the Table 24 presentation of cash flows are identical. As there were no projected differences between the U.S. GAAP and the IFRS for SMEs financial statements, Entity C's projected January 1, 2010 transition date statement of financial position is not presented.

Table 23

Entity C Comparable Statement of Financial Position

	US GAAP	IFRS for SMEs
Assets		
Current Assets:		
Cash and cash equivalents	$ 825,902	$ 825,902
Certificates of deposits	46,287	46,287
Accounts receivable from members	1,079,135	1,079,135
Inventory	673,605	673,605
Prepaid expenses	65,530	65,530
Total Current Assets	2,690,459	2,690,459
Property and equipment, net	689,830	689,830
Other assets:		
Prefunded postretirement health benefits	62,391	62,391
Other	961	961
Total other assets	63,352	63,352
Total Assets	$ 3,443,641	$ 3,443,641
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable	674,704	674,704
Accrued liabilities	172,236	172,236
Current portion of long-term debt	75,000	75,000
Total Current Liabilities	921,940	921,940
Long-term debt, less current portion	545,000	545,000
Total Liabilities	1,466,940	1,466,940
Member's Equity		
Paid-in capital	488,000	488,000
Retained earnings	1,488,701	1,488,701
Total Member's Equity	1,976,701	1,976,701
Total Liabilities and Members' Equity	$ 3,443,641	$ 3,443,641

Table 24

Entity C Statement of Loss and Member's Equity for the Year Ended December 31, 2020

Net Sales	$13,077,345	$13,077,345
Cost of Sales	11,105,768	11,105,768
Gross Sales Profit	1,971,577	1,971,577
Gross training profit	108,117	108,117
Gross professional services profit	188,002	188,002
Annual dues income	69,687	69,687
	365,806	365,806
Gross Profit	2,337,383	2,337,383
Operating Expenses		
Salaries, benefits, and taxes expense	1,924,189	1,924,189
Travel and Training	61,569	61,569
Sales and marketing expense	96,828	96,828
Communications expense	45,734	45,734
Supplies expense	12,237	12,237
Information technology expense	48,648	48,648
Building expense	37,517	37,517
Office administration expense	46,719	46,719
Taxes and insurance expense	70,980	70,980
Depreciation Expense	119,512	119,512
Total operating expense	2,463,933	2,463,933
Total operating income (expense)	(126,550)	(126,550)
Other income(expense)		
Interest expense	(32,985)	(32,985)
Interest income	3,570	3,570
Unrealized gain(loss) on prefunded postretirement health benefits	51,097	51,097
Miscellaneous income	7,480	7,480
Other income(expense), net	29,162	29,162
Loss before income tax expense	(97,388)	(97,388)
Income tax expense	0	0
Net loss	(97,388)	(97,388)
Member's Equity beginning of year	2,074,089	2,074,089
Member's Equity end of year	$1,976,701	$1,976,701

Table 25

Entity Comparable Statement of Cash Flows For the Year Ended December 31, 2010

	U.S. GAAP	IFRS for SMEs
Cash flow from operating activities:		
Net loss	$(97,388)	$(97,388)
Adjustments to reconcile net loss to cash provided by operating activities		
Depreciation	119,512	119,512
Gain on disposal of property and equipment	(408)	(408)
Change in operating assets and liabilities		
Accounts receivable from members	3,102	3,102
Inventory	(60,701)	(60,701)
Prepaid expenses and prefunded postretirement health benefits	(55,576)	(55,576)
Accounts payable	156,101	156,101
Accrued liabilities	(41,929)	(41,929)
Total adjustments	120,101	120,101
Net cash provided by operating activities	22,713	22,713
Cash flows from investing activities		
Purchase of investments	(45,000)	(45,000)
Proceeds from maturities of investments	305,296	305,296
Purchase of property and equipment	(44,384)	(44,384)
Net cash provided by (used in) investing activities	215,912	215,912
Cash flows from financing activities:		
Payments on long-term debt	-	-
Net increase in cash and cash equivalents	238,625	238,625
Cash and cash equivalents, beginning of year	587,277	587,277
Cash and cash equivalents, end of year	$825,902	$825,902
Additional disclosures:		
Cash paid for interest expense	$ 33,000	$ 33,000

Effect of IFRS for SMEs Adoption on Financial Statement Notes

As discussed with the first two entities' narrative, Entity C's first IFRS for SMEs disclosure note would include an explicit and unreserved statement of compliance with IFRS for SMEs and the formal financial statements would include cross-referencing to the notes that accompany the financial statements. To comply with the IFRS for SMEs' requirement to classify statements of financial position line items, Entity C would include disclosures of the sub classifications within the accounts receivable, inventory, and accrued liabilities line items. IFRS for SMEs adoption would also require additional disclosure for key management personnel compensation. Entity C's U.S. GAAP note regarding prefunded postretirement health benefits fulfills all the IFRS for SMEs' disclosure requirement; thus, adoption would not affect this disclosure. Since Entity C discloses the sub classifications of revenue within its statement of loss and member's equity, an additional footnote disclosure would not be necessary under IFRS for SMEs. In similarity with cases Entity A and Entity B, a disclosure for the net loss line item will disclose the cost of inventories recognized as an expense. In addition, the adoption IFRS for SMEs would require the board of directors to formally approve the release of the financial statements and disclose the date of the approval in the financial statement notes.

Summary of Findings

The case studies of Entity A, Entity B, and Entity C did not reflect material differences between the U.S. GAAP and projected IFRS for SMEs financial statements. However, the greatest impact occurred in Entity A, which was the largest of the three case corporations in the areas of total assets and net sales. Entity C, the smallest in total assets and net sales, had no projected difference between U.S. GAAP and projected IFRS for SMEs financial statements. In the case study of Entity A, the most significant impact of IFRS was the change in the treatment of leasing contracts from operating lease receivables to finance lease receivable. If I had judged that Entity A's lease contracts did not transfer substantially all risks and rewards incidental to ownership, the leasing contracts would have remained classified as operating leases under IFRS for SMEs. Without the reclassification of the leasing contracts, Entity A's differences between U.S. GAAP and IFRS for SMEs reporting would have been immaterial. Given that lease accounting is currently one of joint projects of the IASB and FASB (FASB, 2009), a change in future U.S. GAAP guidance for reporting lease is anticipated. As discussed further in Chapter 5, the proposed changes to U.S. GAAP leasing guidance would result in an immaterial difference between U.S. GAAP and IFRS for SMEs treatment of leasing contracts. Therefore, the impact of IFRS for SMEs adoption by Entity A in this future scenario would also be immaterial. My judgment also had a role in the case study outcome of Entity B. If, in my judgment, there were no evidence of control, the lessor LLC would have not been considered a special purpose entity under IFRS for SMEs. Therefore, the projected consolidated financial statements of Entity B would have not included the LLC while the U.S. GAAP consolidated statements would include the VIE. The results would have been material financial reporting difference between U.S. GAAP and IFRS for SMEs. I found that the accountant's professional judgment influences how financial transactions are reported under IFRS for SMEs. As previously discussed, Jermakowicz and Epstein (2010) argued that IFRS for SMEs' disclosures are simplified in several areas. While the content of specific footnote requirements may be simplified, I found that adoption of IFRS for SMEs would require the entities to add new footnote disclosures such as the specific statement of IFRS for SMEs compliance, detail of material items combined into one line item, and disclosure of key employee compensation. Chapter 5 will include the summary, conclusions, and recommendations for future study.

Chapter 5: Discussion, Conclusions, and Recommendations

Overview

The purpose of this multi case exploratory study was to analyze the effect adoption of IFRS for SMEs would have on U.S. private entities that had historically prepared financial statements in accordance with U.S. GAAP. Since private entity stakeholders rely upon financial reports to manage and assess business operations, it is important that stakeholders understand how accounting standards influence the presentation of financial information. Changes to the financial standards underlying the financial statements may change, not only the format of the financial reports, but also the valuation of the business transactions presented in the reports. Without an understanding of the impact of adoption of IFRS for SMEs, private entities stakeholders would be hesitant to adopt the international set of standards. To contribute to the IFRS for SMEs body of knowledge, the research question addressed in this study was

1. How will IFRS for SMEs adoption impact the presentation of statements of financial position, net income and cash flows as well as notes to the financial statements of United States private entities that currently follow U.S. GAAP?

Due to the recentness of the release of IFRS for SMEs and the limited use of the set of international standards by U.S. entities, I did not have actual IFRS for SMEs financial statements readily available for study. As a result, it was necessary to complete a high-level conversion of three participating organizations' 2010 financial statements from U.S. GAAP compliant to IFRS for SMEs compliant in order to have comparable financial data to analyze.

The completion of the high-level conversion of the financial statement required the identification of the business transactions treated differently under IFRS for SMEs and the determination of the financial statement effect of the differences. To assist in identifying areas of the financial statements most likely affected by compliance with IFRS for SMEs, the senior accounting manager for each participating organization completed a questionnaire in which content was based on the summaries of differences between U.S. GAAP and IFRS for SMEs (AICPA, 2010a; IASB, 2009b; Jermakowicz & Epstein, 2010; KPMG, 2010). With the assistance of the questionnaire responses, I reviewed the formal financial statements, detailed trial balance sheets, and additional supporting data to determine financial statement accounts materially affected by IFRS for SMEs adoption. After identifying the financial transactions that would be recorded definitely under IFRS for SMEs, I used journal entries to adjust the U.S. GAAP 2010 trial balances for the IFRS for SMEs variations. The resulting projected 2010 IFRS for SMEs financial statements provided the basis for analyzing the differences between financial reporting under U.S. GAAP and financial reporting in accordance with IFRS for SMEs. To complete the evaluation of the impact of IFRS for SMEs adoption, the participating organizations' statements of financial positions, income (loss), retained earnings (deficit), and cash flows prepared under each standard were compared. Additionally, a comparison was made of the key financial ratios of U.S. GAAP financial statements to the key financial ratios of the projected IFRS for SMEs financial statements. The case studies also included the difference between the disclosures requirements for U.S GAAP in comparison the disclosure requirements of IFRS for SMEs.

Interpretation of Findings

The research findings originated from the senior accounting manager of the participating organizations responses to the study questionnaire and the identified variations between each case organization's original U.S. GAAP financial statements and projected IFRS for SMEs financial statements.

In similarity with SME literature, all of the case organizations indicated that the primary users of the entity's responses were the owners, management board of directors, or external lenders (IASB, 2009a; Joshi et al., 2008; O'Dell, 2009). The chief financial officers also affirmed the importance of financial statements to external lenders as all participating organizations acknowledged the existence of debt covenants reliant upon financial statement metrics. However, in the analysis of the projected IFRS for SMEs financial statements, I found that the adoption of IFRS for SMEs did not negatively affect any of the case organizations' financial covenant metrics, as there were minimal or no changes in the associated financial data. In the case of Entity A, the equity to assets ratio increased; thus, positively affecting the debt covenant metrics. IFRS for SMEs adoption would have no impact of Entity B's debt covenant metrics as the U.S. GAAP financial statements presented the same financial results as statements prepared in accordance to IFRS for SMEs. Although the lack of outstanding debt at December 31, 2010 resulting in the irrelevance of Entity C's debt covenants, Entity C had the same financial results for both IFRS for SMEs and U.S. GAAP so adoption would not have affected the debt covenant metrics, regardless of the status of the organizations liabilities.

The purpose of study Questions 9 through 29 was to address the key financial reporting differences between U.S. GAAP and IFRS for SMEs. A positive response to any of these questions was an indication that an underlying transaction could have a different financial reporting methodology if the entity adopted IFRS for SMEs. Entity A reported three positive responses, Entity B reported one positive response, and Entity C reported had no positive responses. In Question 13, the chief financial officer was asked to provide the type of inventory valuation. All of the participating chief financial officers indicated a valuation method that was compliant with IFRS for SMEs; thus, chief financial officers signified that there would be no IFRS for SMEs adoption differences in the reporting of inventory valuation. The case study organizations' limited positive responses to Questions 9 through 29 suggested that the financial reporting of the organizations would not be impacted by the adoption of IFRS for SMEs. Entity A was the largest organization in regards to net sales and total assets, and had the largest number of positive responses to Questions 9 through 29. In comparison, Entity C, the smallest in net sales and total assets, had no positive responses and Entity B, which was size-median of the entities, had the positive-response median. Therefore, I suggest that there may be a relationship between the size of an entity and the financial statement impact of IFRS for SMEs adoption.

The final section of the study questionnaire served to evaluate the organizations' participation in international commerce. According to responses to Questions 30 through 37, Entity C had no international commerce activities; however, Entity A, a subsidiary of a European parent-corporation, and Entity B, a parent of a Canadian subsidiary and an Interest Charge-Domestic International Sales Corporation, had international commerce activities. Nevertheless, neither Entity A nor Entity B's international trading partners have requested financial statement prepared using IFRS for SMEs financial statements, which suggests that there may be a limited demand for the use of the international standards.

The adoption of IFRS for SMEs by the case study organizations would have little impact on the entities' formal financial reports. However, the most significant variation between the two standards was indicated in the case of Entity A. A material portion of the IFRS for SMEs adoption impact was associated with the determination that the international standard would require Entity A to treat its lease receivable contracts as finance leases. With the increase in finance lease receivable increased assets, the removable of the net book value of the equipment of lease offset this increase and resulted in a net decrease in total assets of 5.49%. Total liabilities decreased by a corresponding 5.49% due to the removal of associated unamortized advanced payments. Although the conversion of the leases from operating to finance did not materially affect total assets, it did change the classification of the leasing transactions from long-term assets to current assets as well as the classification of uses of cash. While U.S. GAAP allows the classification of Entity A's leases as operating, the outcome of the IASB and FASB joint lease project may result in changes to lease accounting. According to the IFRS- Foundation (2012), the leasing contracts of Entity A would be recorded using the proposed "right-of-use model" since the lessee "consumes more than insignificant portion of leased assets" (slide 8). The lease accounting approach would require Entity A to recognize the right to receive lease payments and the value of the anticipated residual asset on the balance sheet. On the income statement, Entity A would then recognize a profit on the transfer of "right of use" and interest income on the receivable and residual asset (slide 10). Because of these anticipated changes, the variation between future U.S. GAAP lease accounting and IFRS for SMEs lease accounting may be insignificant. A summary of the financial statement variations for the three participating organization appears in Table 26.

Table 26

Summary of Financial Statement Comparison US GAAP Versus IFRS for SMEs

	Entity A U.S. GAAP	Entity A IFRS for SME	Change	Entity B US GAAP	Entity B IFRS for SMEs	Entity C US GAAP	Entity C IFRS for SMEs
Current Assets	26,780,697	42,697,783	59.43%	6,632,545	6,632,545	2,690,459	2,690,459
Total long-term assets	40,527,633	20,918,581	-48.38%	7,402,815	7,402,815	753,182	753,182
Total Assets	67,308,330	63,616,364	-5.49%	14,035,360	14,035,360	3,443,641	3,443,641
Current Liabilities	46,383,424	42,193,686	-9.03%	2,697,598	2,697,598	921,940	921,940
Total Liabilities	65,415,401	61,225,663	-6.40%	3,342,245	3,342,245	1,466,940	1,466,940
Total Equity	1,892,929	2,390,701	26.30%	7,995,517	7,995,517	1,976,701	1,976,701
Total Liabilities and Equity	67,308,330	63,616,364	-5.49%	14,035,360	14,035,360	3,443,641	3,443,641
Net Revenue	53,840,093	38,003,086	-29.41%	23,517,275	23,517,275	13,443,151	13,443,151
Cost of goods sold	40,763,820	25,053,222	-38.54%	15,539,480	15,539,480	11,105,768	11,105,768
Gross profit	13,076,273	12,949,864	-0.97%	7,977,795	7,977,795	2,337,383	2,337,383
Operating expenses	13,022,429	13,022,429	0.00%	4,639,449	4,639,449	2,463,933	2,463,933
Operating Income	53,844	(72,565)	-234.77%	3,338,346	3,338,346	(126,550)	(126,550)
Other income (expense), net	(1,898,550)	(1,898,550)	0.00%	(479,828)	(479,828)	29,162	29,162
Income (loss) before goodwill and taxes	(1,844,706)	(1,971,115)	6.85%	2,858,518	2,858,518	(97,388)	(97,388)
Write-down of goodwill	(850,000)	(818,125)	-3.75%	-	-	-	-
Income (loss) before taxes	(2,694,706)	(2,789,240)	3.51%	2,858,518	2,858,518	(97,388)	(97,388)
Tax provision (expense) benefit	64,700	66,966	3.50%	4,140	4,140	-	-
Net income (loss) for year	(2,630,006)	(2,722,274)	3.51%	2,854,378	2,854,378	(97,388)	(97,388)
Comprehensive income (loss)	-	-	-	(6,596)	(6,596)	-	-
Total comprehensive income(loss)	(2,630,006)	(2,722,274)	3.51%	2,847,782	2,847,782	(97,388)	(97,388)
Cash flow from operating	8,228,848	(8,221,570)	(16,450,418)	2,534,518	2,534,518	22,713	22,713
Cash flow from investing	(12,833,490)	3,492,791	16,326,281	(1,269,475)	(1,269,475)	215,912	215,912
Cash flow from financing	(183,190)	(183,190)	-	(1,560,706)	(1,560,706)	-	-
Effect of Exchange rate on cash	-	-	-	(6,596)	(6,596)	-	-
Net increase (decrease) in Cash	(4,787,832)	(4,911,969)	(124,137)	(302,259)	(302,259)	825,902	825,902

Summary of Findings

Using the responses to the study questionnaire, the audited or reviewed financial statements and supporting documents, I prepared projected 2010 IFRS for SMEs financial statement for each participating organization. Since the projected international statements were prepared using the same financial transactions underlying U.S. GAAP statements, the comparison of the two sets of financial statements provided a means to analyze the impact of IFRS for SMEs adoption. Based on this analysis, I argue that the adoption of IFRS for SMEs would have little impact on financial reporting of the three case study organizations. This research contributes to the IFRS for SMEs body of knowledge by providing examples of how IFRS for SMEs adoption will affect the financial statements private entities, which have historically prepared financial statements using U.S. GAAP.

Recommendations for Actions

In July of 2010, the Blue-Ribbon Panel eliminated standard models based on IFRS from consideration as the basis for a new U.S. GAAP for private companies (DeFelice, 2010, p. 24). According to the AICPA, a IFRS-based model for private companies was "rejected fairly quickly by the panel" since they did not want to "wait four to five years until IFRS for may take hold here" (i.e., the United States; AICPA, 2012, p. 3). Yet, the Blue-Ribbon Panel also acknowledged that IFRS for SMEs "may ultimately be a good option for private companies" (AICPA, 2012, p.3). Given that the SEC had not made the final decision on adoption of full IFRS for public company, the Blue-Ribbon Panel considered adoption IFRS for SMEs was the not "the right step to take at this time" (AICPA,2012p.3). The development of IAS was stimulated by the demand for a common set of accounting standards that would improve comparability of financial information (Epstein & Jermakowicz, 2009; Niswander & Conover, 2009; Pacter, 2009a). In regards to SMEs, the simplified IFRS for SMEs is a set of accounting standards that meets the demand for a common accounting language for nonpublic entities. By definition, private entities are not publically traded but the entities still seek operational capital from owners, directors, banks, and suppliers through loans and credit; therefore, there is still a need for high-quality financial statements (IASB, 2009a). The adoption of the international standards would provide a way to improve a U.S. private entity's ability to communicate financial information to international providers of capital as well as other stakeholders. The use of IFRS for SMEs would be especially helpful in situations where the U.S. private entity is a subsidiary of a foreign parent and there is a requirement for financial data consolidation with related international corporations. In the case of Entity A, the organization is a wholly owned subsidiary of a German corporation that adjusts the U.S. GAAP statements to German GAAP prior to consolidation into the parent's financial statements. Since IFRS for SMEs is recognized on a global level, the adoption of IFRS for SMEs by the U.S. subsidiary and other subsidiaries of the foreign parent would improve the comparability of international operations divisions and reduce the overall cost of financial reporting on a national and international level. The benefits of IFRS for SMEs adoption are not limited to only private entities owned by foreign parents or entities involved in international commerce. I found that the adoption of IFRS for

SMEs might have little or no impact on the financial statements of U.S. small- and medium-sized private entities. As a result, the adoption of IFRS for SMEs by U.S. private entities would result in high quality financial statements that report financial transactions in a manner similar to U.S. GAAP. Additionally, since IFRS for SMEs standards are not as complex as U.S. GAAP, the assumption can be made that the adoption would reduce the overall burden of financial reporting. While the U.S. accounting community is in the process of developing U.S. GAAP for private entities, the IFRS for SMEs is already completed and available for use. Consequently, U.S. private companies already have acceptable alternatives to the present U.S. GAAP or the future U.S. GAAP for private entities in the form of the IFRS for SMEs. To support the use of IFRS for SMEs in the United States, the recommendation is that the AICPA, state CPA societies, and other accounting professional education organizations increase the development of IFRS for SMEs education and application training materials. As demonstrated in this study, professional judgment serves a role in the implementation of the international standards; therefore, the educational materials must include training models that not only focus on the content of the standards but also foster the development of professional judgment. The resulting increase in IFRS for SMEs body of knowledge will assist accountants in understanding how to evaluate and prepare financial statements that comply with IFRS for SMEs.

According to O'Dell (2009), the primary external users of the financial statements of U.S. private entities are providers of credit financing. Roberts and Sian (2006) and Pacter (2009a) argued that banks who make loans to SMEs are sources of external financing and are one of the primary users of private entities' financial statements. Sinnett and Graziano (2006) argued that U.S. GAAP does not provide the detailed financial information that external investors and banks require. Additionally, Sinnett and Graziano noted that compliance with the U.S. GAAP standards could be "difficult and time consuming" (p.3). Based on my experience in the preparation of SME financial statements, the increasing complexity of U.S. GAAP requires SMEs to spend increasingly more time, effort, and financial resources to comply with the standards. While adoption of IFRS for SMEs may reduce the burden of financial reporting, an entity will not be able to use the international standards unless the provider of external financing institution has a working knowledge of IFRS for SMEs. Consequently, the increase in IFRS for SMEs education must also extend to the financial institutions that provide financing to private entities. For this reason, it is recommended that the finance industry expand its professional training to include interpretation and analysis of financial statements prepared in accordance with IFRS for SMEs.

The IFRS for SMEs and U.S. GAAP have similar accounting assumptions and qualitative characteristics (Niswander & Conover, 2009); however, the international set of standards is more principles- and judgment-based than U.S. GAAP. Therefore, the accountant must learn not only the content of the standards but also have training in decision-making to sustain the need for professional judgment when interpreting the IFRS for SMEs guidance. Currently, the majority of IFRS for SMEs educational materials is found at the IASB website or those of the Big 4 CPA firms

(TeachingIFRS.com, 2012) with limited exposure in higher education textbooks. In order to provide accounting services to entities adopting IFRS for SMEs, the next generation of accountants needs to receive the training, which requires university accounting programs to include IFRS for SMEs in their curriculum. The third recommendation is that accounting educators and textbook developers work together to increase the IFRS for SMEs content within university textbooks. Consideration should also be given to developing case models that allow students to learn how adoption of IFRS for SMEs will affect the financial reporting of a sample company.

Implication of Social Change

With private entities representing 99% of the business entities in practically all global jurisdictions (IASB, 2009a), SMEs and the entities' accounting information have an important position in the global economy (Neag et al., 2009). Therefore, it is important that accounting standards used by private entities meet the information needs of the financial statement users. However, many times full IFRS or the complex and detailed U.S. GAAP are irrelevant to SMEs for which short-term cash flows, liquid, and solvency are the more important issue. As a result, private companies incur high costs for creating financial statements that may not be relevant to their economic activities (Fitzpatrick & Frank, 2009; IASB, 2009a; Love, 2011; Millman, 2010; O'Dell, 2009). Yet, Allee and Yohn (2009) concluded that private entities benefits from the preparation of accrual-based audited financial statements including a lower cost of capital and increased accessibility to credit (pp. 21-22).

In response to the SME’s demand for simpler accounting standards, the IASB (2009a) developed the IFRS for SMEs with the goal of reducing the burden associated with publication of general-purpose financial statements. Due to the high cost of U.S. GAAP compliance, a. private entity’s adoption IFRS for SMEs may positively influence the U.S. economy by reducing the burden associated with the preparation of financial statements. Additionally, the adoption of IFRS for SMEs may allow U.S. private entities to increase their participation in the global economy and possibly the obtaining of foreign financing. Neag et al. (2009) stated that economic globalization “has an important influence on the human condition, socioeconomic and cultural situation of the collectivities”(p.32). Therefore, this study may influence social change by providing new knowledge regarding the financial statement impact of IFRS for SMEs adoption. This new knowledge may assist U.S. private companies in evaluating the economic benefits of the adoption of the international standards, which should positively influence society as a whole.

Recommendation for Further Research

Due to the difficulty in obtaining access to private entity data, this study was limited to three entities from three different industries. The first recommendation for further research would be to repeat this study with more participating organizations. One format of the expanded study could be the repeat of the study with multiple participating organizations from the same industry to analyze the variation of IFRS for SMEs adoption between industries. As noted in the findings, I found that there might be a relationship between economic size of an organization and the impact of IFRS for

SMEs adoption. Therefore, the expanded research should include evaluation of the results to determine if there is correlation between IFRS for SMEs adoption impact and size.

I found that the professional judgment in the interpretation of the international standard influenced the research results. To evaluate the role of professional judgment in application of IFRS for SMEs, the second recommendation would be to alter the original study by requesting participating accounting professionals or university accounting students to complete a high-level IFRS for SMEs conversion of U.S. GAAP financial statements using the same data.

The education of the accounting professional is an important element in the feasibility of actual use of IFRS for SMEs in the United States (Love, 2011); therefore, a third recommendation would be to survey university accounting programs to determine if and how curriculum is being adapted to include IFRS form SMEs. Since lenders are one of the primary users of SME financial statements (IASB, 2009a; O'Dell, 2009), the fourth research recommendation is to survey financial institutions to determine how the banking industry is responding to use of IFRS for SMEs by U.S. private companies.

Research Experience

I began this research study to gain an understanding on how adoption of IFRS for SMEs would change the financial reporting of a U.S. private entity. During my years as a practicing public accounting, I gained firsthand knowledge of the difficulties and costs associated with private entities complying with U.S. GAAP. In many cases, SME lenders require a certified audit or review to obtain financing for business operations. As a result, entities incurred not only the cost of annual professional engagements, but also the ongoing cost of internal accounting procedures necessary to capture information needed for an unqualified audit or review. In many cases, these additional accounting procedures or year-end adjustments to U.S. GAAP provides no new relevant information; thus, the U.S. GAAP compliance costs add no value to business operations except in the meeting of a lending requirement. Because of my experience of working with SMEs, I was interested in whether IFRS for SMEs would actually be an acceptable alternative to U.S. GAAP. During my public accounting career, I have had many conversations in which I had to justify the cost of my accounting services. Because of this, the concept of having a simple set of accounting standards for SMEs was appealing. My own perception for the need for change in private entity accounting did create some bias in favor of IFRS for SMEs adoption; however, I relied upon my training as an auditor to analyze the financial data of the participating organizations in an objective manner.

I relied upon the cooperation of private U.S. entities and their external CPA firms for the provision of research data. When I designed the study, I understood that most private companies are “private” in regards to their financial information and thus gaining the cooperation of participating organizations could be challenging. The original research designed included the cooperation of a regional CPA firm in e-mailing a study introduction letter to firm clients that met the qualification for study participation. Since the assumedly trusted accounting professional was the transmitter of the study introduction letter, I anticipated that I would have an acceptable positive response from the firm's clientele. Yet, only two of the firm's clients agreed to participate in the study. This required me to change the study procedures to include my distribution of the study introduction letter directly to personal or business associates that were senior managers or an external CPAs for a SME. I also solicited assistance for identifying addition study organizations from colleagues at two universities. Despite my best efforts, I achieved the cooperation of only one additional study organization. From this experience, I learned how difficult it is to research U.S. private companies. Nevertheless, I still consider it important to continue research in SME accounting as the current U.S. GAAP is not meeting the needs for many U.S private entities. Whether the best alternative is the IFRS for SMEs is yet to be determined.

Conclusion

The United States Small Business Administration estimated that 99% of all employer firms are small businesses, which employ over 50% of the private sector employees and generate more than half of the gross domestic product (as cited in Allee & Yohn, 2009, p. 2). Unlike public corporations, the millions of U.S. private companies are not subject to regulatory reporting requirement. Nevertheless, many private entities prepare financial statements in accordance to U.S. GAAP due to the perceived benefits, including lower cost of capital and increased accessibility to credit (AICPA, 2005; Allee & Yohn, 2009). Due to the increasing complexity of U.S. GAAP and the variations between public and private company users' needs, the necessity of differential accounting for private U.S. companies has been frequently debated within the accounting industry for nearly 4 decades (Christopher et al., 2005; Pacter, 2009b). In response to stakeholders' growing concern over the relevance U.S. GAAP to private companies and the associated costs and benefits of complying the standards (AICPA, 2005), the AICPA has conducted or participated in studies of need for differential accounting. The most recent Blue-Ribbon Panel study resulted in the recommendation for a separate private entity GAAP based on a U.S. GAAP model (DeFelice, 2010). In May of 2012, the Financial Accounting Foundation approved of the establishment of the Private Company Council (PCC) which is described as "a new body to improve the process of setting accounting standards for private companies" (FAF, 2012, p.1). In the process of developing a SME GAAP, the PCC is currently seeking comments on a discussion paper to address the private company decision-making framework (Munter & Metcalfe, 2012).

However, AICPA recognized the IASB as a standard-setter in 2008 which gave members the option to use IFRS as an alternative to U.S. GAAP (AICPA, 2008a). As a result, U.S. private entities have had a recognized SME GAAP available for use since the IASB's July 2009 release of IFRS for SMEs. Millman (2010) argued that the simpler IFRS for SMEs is an acceptable alternative set of standards for private entities that are frustrated with the burden of complying with U.S. GAAP. Nevertheless, few U.S. private entities have actually adopted the international standards. In my opinion, the hesitation to adopt the new standard may be associated with a lack of an understanding of how IFRS for SMEs adoption will change financial reporting. Therefore, the problem addressed in this research study was that there has been no determination of the significance of the financial statement impact of changing from U.S. GAAP to IFRS for SMEs. By comparing historical U.S. GAAP financial statements with projected IFRS for SMEs, I identified the variations between financial statements prepared from the same business transaction but using different two sets of standards. I found that the adoption of IFRS for SMEs could well have a limited impact on the financial statements of private entities that currently prepare financial statements in accordance with U.S. GAAP. I also found that professional judgment plays a role in how businesses comply with the IFRS for SMEs guidance.

This study was limited to the study of three private entities; thus, the results may not reflect the true impact of IFRS for SMEs if a greater number of organizations had been included in the study. The recommendation for further research is to repeat the study with more participating organizations to determine if future research will confirm or disprove the finding of limited impact of IFRS for SMEs adoption. Since the IFRS for SMEs are principal-based and lack the detailed guidance of U.S.GAAP, further research to evaluate relationship between professional judgment and financial statement impact of IFRS for SMEs adoption is also recommended. Increasing IFRS for SMEs knowledge within the accounting professional, banking industry, academic community, and as well as in the general business community is vital to the successful use of the international standard; thus, the recommendation for additional study in IFRS for SMEs education.

Based on this research study, U.S. private entities could adopt IFRS for SMEs without significant change in the presentation of their financial results. Therefore, I argue that IFRS for SMEs is a currently available set of quality financial standards that U.S. private entities should consider as an acceptable alternative to the more complex U.S. GAAP.

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Appendix A: Study Introduction Letter

Study Introduction Letter to Potential Participants

Doris K. Feltham MBA CPA
[redacted]

Dear Sir or Madam:
In response to the growing demand for a single-set of global accounting standards for non-public entities, the International Accounting Standards Board (IASB) issued

International Financial Reporting Standards for Small and medium-sized entities (IFRS For SMEs) in July of 2009. This simplified version of the International Financial Reporting Standards (IFRS) is a possible alternative set of accounting standards for U.S. private entities. In order to evaluate the impact of IFRS for SMEs adoption by U.S. private entities, I am completing a research study that consists of converting the financial statements of a number of private entities from U.S. Generally Accepted Accounting Principles (U.S.GAAP) to IFRS for SMEs. Using the developed IFRS for SMEs statements, I will analyze the financial reporting difference between the two accounting standards.

I am contacting you to ask if your company would be willing to participant in this study. First, if you do participant, please be assured that any information you provide will be kept confidential and anonymous. I will not use your information for any purposes outside of this research project. In addition, I will not include your name or anything else that could identify you in any reports of the study.

If you agree to be in this study, a senior financial manager of your organization will be asked to complete a written questionnaire regarding your business operations and accounting procedures. This information will be used to identify the IFRS for SMEs – US GAAP differences that will specifically affect your organization. This questionnaire is comprised of 38 questions, which I estimate most respondents will be able complete in 1 to 2 hours.

Additionally, I will need a copy your 2010 and 2009 external financial statements as well as your permission to review and discuss the supporting report work papers with representatives from Name of CPA Firm. It may also be necessary for you to provide additional information from internal accounting records to complete the determination of how IFRS for SMEs will change the recording of a business transaction. Examples of internal records that may be needed include documents supporting the account balances for:
Financial Instruments
Inventory
Property, Plant and Equipment
Intangible Assets
Business agreements associated with financial ratios (e.g. loan covenants)

I anticipate that the majority, if not all, of the collection of research data will be completed via electronic communication. Therefore, the time commitment of your personnel should total less than 15 hours over a three-month period.

There is no financial compensation associated with participation in this study. However, you will be provided a summary of the study results, which will include your organization's data, as well as data of other participating entities. Again, all this information will be anonymous and you will not know the identities of the other participating entities.

If you are willing to participate in this study, please contact the person, you received this letter from or you may contact me directly at [redacted]

Thank you for considering participating in this study.

Sincerely,

Doris K. Feltham, MBA CPA
ABD – Walden University

Appendix B: Letter of Cooperation

CPA firm Letter of Cooperation

Name of CPA Firm
Address of CPA Firm

Date

Dear Ms. Feltham,

Based on my review of your research proposal, I give permission for Name of CPA Firm to cooperation with you in the completion of the study entitled "How adoption of International Accounting Standards for SMEs affects U.S private entities: A case study". As part of this study, I authorize you to use the client database of Name of CPA Firm to select participants for the study. The selected entities' participation will be voluntary and at their own discretion. With the participants consent, Name of CPA Firm will provide access to firm prepared financial reports and supporting documents to assist you with the study. We reserve the right to withdraw from the study at any time.

I confirm that I am authorized to approve research in this setting.

I understand that the data collected will remain entirely confidential and will not be provided to anyone outside of the research team without permission from the Walden University IRB.

Sincerely,

Signature of Authorized Firm Representative
Printed Name of Authorized Firm Representative
Title of Authorized Firm Representative

Appendix C: Consent Form

Doris K. Feltham MBA CPA
[redacted]

Name of Senior Finance/Accounting Personnel
Name of Company
Address of Company

You are invited to take part in a research study of the effect of IFRS for SMEs adoption by United States private entities. You were chosen for the study because your organization is a privately held entity that meets the criterion to use international accounting standard for small and medium-sized entities as described in section 1 of the IFRS for SMEs and you are a client of Name of CPA firm. This form is part of a process called "informed consent" to allow you to understand this study before deciding whether to take part.

A researcher named Doris K. Feltham, who is a doctoral student at Walden University, is conducting this study.

Background Information:
The purpose of this study is to identify how the adoption of the International Financial Reporting Standard for Small and Medium-sized Entities, known as IFRS for SMEs, would affect your annual financial reporting. Consideration will also be given to how the change in financial statements will affect financial ratios and business agreements that are based on the affected financial ratios.

Procedures:
If you agree to be in this study, you will be asked to

Complete an interview with the researcher in which you are asked questions regarding your business operations, accounting policies and procedures and how specific business transactions were recorded.

Provide access to current and prior year external financial statements and permit review and discussion of the supporting work papers with the external accounting firm.

Provide access to internal accounting records that would allow the researcher to determine how IFRS for SMEs will change the treatment of business transactions.

Examples of internal records needed include documents supporting the account balances of

Financial Instruments
Inventory
Property, Plant and Equipment
Intangible Assets
Business agreements associated with financial ratios (e.g. loan covenants)

Voluntary Nature of the Study:
Your participation in this study is voluntary. This means that everyone will respect your decision of whether or not you want to be in the study. No one at Name of CPA Firm will treat you differently if you decide not to be in the study. The organization may cease participating in the study at any time.

Risks and Benefits of Being in the Study:
The potential benefits associated with participation in study are in the form of new knowledge regarding how your organization would be affected by IFRS for SMEs adoption. While every effort will be expended to maintain the confidentiality of your financial records, there is minimal risk that unintended recipients will gain access to confidential information through unauthorized access to data.

Compensation:
There is no financial compensation associated with participation in this study. However, you will be provided a summary of the study results, which will include your organization's data, as well as those of other participating entities.

Confidentiality:
Any information you provide will be kept confidential and anonymous. The researcher will not use your information for any purposes outside of this research project. In addition, the researcher will not include your name or anything else that could identify you in any reports of the study.

Contacts and Questions:
You may ask any questions you have now. Alternatively, if you have questions later, you may contact the researcher via phone at [redacted], cell phone [redacted] or by email at doris.feltham@waldenu.edu. If you want to talk privately about your rights as a participant, you can call Dr. Leilani Endicott. She is the Walden University representative who can discuss this with you. Her phone number is 1-800-925-3368, extension 1210. Walden University's approval number for this study is 01-09-12-0062002 and it expires on January 8, 2013.

The researcher will give you a copy of this form to keep.

Statement of Consent:

I have read the above information and I feel I understand the study well enough to make a decision about my involvement. By Insert signing below, I am agreeing to the terms described above.

Printed Name of Participant- Organization ______________________________

Printed Name of Representative ______________________________

Title of Representative ______________________________

Date of consent ______________________________

Representative's Signature ______________________________

Researcher's Signature ______________________________

Appendix D: Participant Questionnaire

Name of organization __________________________________
Name of respondent ______________________
Position __________________________
Phone ___________________________ email ______________________________

What is the entity's NAICS Code_________________?

1. What was your entity's average number of employees for fiscal year 2010?

   ____

2. What were the entity's net sales for the fiscal year 2010?

   ____

3. What was total asset on the year-end balance sheet for fiscal year 2010?

   ____

4. What basis of accounting do your currently use for financial reporting purposes?

   a. U.S. GAAP
   b. International Financial Reporting Standards (IFRS)
   c. IFRS for SMEs
   d. Other, please specify_____________________________

5. How would you describe your current knowledge of IFRS for SMEs?

   a. No knowledge
   b. Little Knowledge
   c. Moderate Knowledge
   d. Good Knowledge
   e. Very Good Knowledge

6. Please indicate whom you view as your primary users. You may choose more than one.

   a. Current owners of equity interests
   b. Loan providers
   c. Management

d. Other creditors
e. Potential owners of equity interest
f. Other, please specify ____

7. Please indicate whether the entity has any of the following types of business agreements, which include financial performance metrics such as EBITDA or net profit?

   a. Employee compensation agreements
   b. Debt covenants
   c. Business Contracts
   d. Other, please specify _________________________
   e. Our organization does not have any business agreements tied to financial performance metrics

8. Is the entity a subsidiary of a publically traded corporation?

Basic Financial Instruments

9. Does the entity hold debt securities classified as "Held-for-sale" which are measured at the lower of cost and market?

   If yes, will need the following information

   If the loan (s) were measured at amortized cost using the effective interest method, the change in the measurement would be
   $___________________ increase
   $ ___________________decrease

10. Does the entity hold Debt Securities classified as "Available for Sale", which are reported at fair value?

   If yes, will need the following information

   If the Debt Security (ies) was/were measured at amortized cost using the effective interest method, the change in the measurement would be
   $___________________ increase
   $ ___________________decrease

11. Does your entity have financial instruments for which an impairment loss has been recognized; however, there is currently an "unrecognized impairment reversal"?

    Amount of impairment reversal? __________

Inventory

12. Do you have inventory items that was previously written down to market value, but which market value has since increased?

    There exist unrecognized reversal of impairment of $_________________

13. What inventory valuation method does the entity use? LIFO, FIFO, Weighted Average, Other___________.

    If FIFO was used our inventory valuation would ___increase (___decrease) by $__________________

    If Weighted Average was used our inventory valuation would ___ increase (___decrease) by $____________________

14. Does your inventory include agricultural produce harvested from biological assets?

    Is yes, is the inventory currently value at cost?

    If the agricultural produce was measured at fair value less coast to sell at point of harvest, the inventory valuation would increase by $ _____________________

Investment Property

15. Does your entity own or are acquiring through a financial lease land or buildings that are:

    Are not being used in production or supply of goods or services or for administrative purposes or being held for sale in the ordinary course of business?

    If yes, please indicate the assets. _________________________________

Property, Plant, and Equipment

16. Does your entity have one or more items of property, plant and equipment that have major components that have significantly different patterns of consumption of economic benefit (such as a roof of a building) for which you have not depreciated the major components separately? If yes, please identify ____

    How would the use of component depreciation effect current year depreciation and accumulated depreciation?

17. Does your entity have one or more items of property, plant, and equipment that include capitalized interest as part of its cost? If yes, please identify

    ____

18. Do your property, plant, and equipment include biological assets related to agricultural activity? If yes, please identify

    ____

Intangibles and Goodwill

19. Do the financial statements include Goodwill?

20. Has the entity previously recognized a Goodwill impairment loss?

21. If you have recognized Goodwill impairment, has the impairment loss subsequently decreased resulting in an "unrecognized impairment loss reversal"?

    Determine the amount of reversal

22. Do your financial statements include capitalized value for internally generated Intangible Assets? If yes, please identify

    ____

23. Do the entity's financial statements include Indefinite-lived Assets (thus, by definition are not being amortized? If yes, please identify

    ____

24. Do the entity's financial statements include Intangible Assets for which an impairment loss has been recorded, but the impairment loss has subsequently decreased? If yes, determine amount of reversal

Leases

25. Does the entity have operating leases payable, which at conception the lease term was in excess of 50% of the estimated economic life of the asset but was less than 75% required for classification as a finance lease? If yes, review lease agreements

26. Does the entity have operating leases payable which at the inception of the lease the present value of the minimum lease payment was more than 60%, but less than 90% present value required for classification as a finance lease? If yes, review lease agreements

27. Does the entity have operating leases receivable which at the inception of the lease the present value of the minimum lease payment was more than 60%, but less than 90% present value required for classification as a finance lease? If yes, review lease transaction and agreement.

Other

28. Does your entity use hedge accounting for any risks besides interest, foreign exchange, or price risks? ________ If yes, what type of risks? ______________________

29. Does your entity rely upon detailed industry specific guidelines provided in U.S. GAAP to determine revenue recognition

International Commerce Activity

30. What percentage of your fiscal year 2010 sales was considered Foreign Exports?

31. What percentages of your 2010 expenditures (including inventory and property, plant and equipment purchases) were associated with foreign imports?

32. What percentage of your entity's equity is owned by foreign investors?

33. What percentage of your entity's borrowings is from foreign institutions?

34. Does the entity have any foreign business sites or distributors?

35. Does the entity have any foreign subsidiaries?

36. Does the entity experience competition from foreign entities?

37. Do you have international trading partners that have expressed interest in your entity providing financial statements prepared in accordance with International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for Small-medium-sized Entities (IFRS for SMEs)?

Who? Why?

Appendix E: Entity A - Conversion Date Statement of Financial Position

Table E1

Entity A Consolidated Statement of Financial Position at Conversion Date of January 1, 2010

	U.S. GAAP	Conversion Debit	Entries Credit	IRS for SMES
Assets				
Current Assets				
Cash and cash equivalents	$7,990,571			$7,990,571
Restricted cash	1,828,602			1,828,602
Accounts receivable, net	7,061,548	300,000	1,367,971	5,993,577
Finance lease receivable ,net		17,339,741	300,000	17,039,741
Notes receivable, net	811,303			811,303
Inventories, net	15,383,503			15,383,503
Prepaid expenses & other current assets	306,961			306,961
Total Current Assets	33,382,488			49,354,258
Property, plant, and equipment	76,390,350		60,805,305	15,585,045
Accumulated depreciation	(35,664,758)	25,616,491		(10,048,267)
Net, property, plant and equipment	40,725,592			5,536,778
Restricted cash	1,866,041			1,866,041
Finance Lease Receivable, less current	0	17,546,780		17,546,780
Goodwill, net	850,000		31,875	818,125
Patent and Intangible Assets, net	24,000			24,000
Total Long-term Assets	2,740,041			20,254,946
Total Assets	$76,848,121			$75,145,982
Liabilities and Stockholder's Equity				
Current Liabilities				
Accounts Payable and Customer Deposits	$2,104,913			$2,104,913
Accounts Payable - Parent	35,166,725			35,166,725
Accrued expenses	2,279,001			2,279,001
Current portion of long-term debt	9,308,629			9,308,629
Unearned Revenue	3,974,343	2,338,456	221,587	330,822
		1,312,236		
		214,416		
Total Current Liabilities	52,833,611			49,190,090
Notes payable to related parties	10,600,000			10,600,000
Long Term Debt, less current	8,891,575			8,891,575
Total Long-term Liabilities	19,491,575			19,491,575
Total Liabilities	72,325,186			68,681,665
Stockholders' Equity:				
Common Stock	2			2
Additional PIC	47,000,098			47,000,098
Treasury Stock				
Retained Earnings - EOY	(42,477,165)	32,913,264	34,886,521	(40,535,783)
		31,875		
Total Stockholders' Equity	4,522,935			6,464,317
Total Liabilities and Stockholder's Equity	$76,848,121			$75,145,982

Curriculum Vitae

Doris K. Feltham, MBA, BS

Education

PhD Applied Management and Decision Sciences (Accounting), Walden University, Minneapolis, Minnesota. Expected graduation January 2013
MBA (Finance), Dallas Baptist University, Dallas, Texas. 1993
BS (Accounting), Oral Roberts University, Tulsa, Oklahoma. 1981

Research Interest

International Financial Reports Standards for Small and Medium-sized Entities, GAAP for SMEs, and lean accounting

Higher Education Teaching Experience

<u>Part-time Online Faculty</u> January 2011– current
Online Adjust Instructor January - May 2010
Oral Roberts University *Tulsa, OK*
Courses taught: Financial Management, Personal Financial Planning, and Quantitative Analysis.

Instructor for online accounting and finance courses, selected textbooks and associated computer software, created syllabi, developed discussion questions, monitored course discussion board, provided online instruction and assessed course.

<u>Online Adjunct Instructor – Adult and Graduate Studies Program</u>
Indiana Wesleyan University *Marion, Indiana* January 2011 - May 2011
Courses taught: Financial Planning and Control Systems, Managerial Accounting Prerequisite

Monitored course discussions, provided online instruction, and assessed course.

<u>Accounting Instructor</u>
Arkansas State University *Jonesboro, AR* Aug 2006 - May 2007
Courses Taught: Principles of Accounting 1 and 2, and Auditing

Created course syllabi, instruction provided in traditional face-to-face classroom, developed assignments and exams, assessed assignments and course, advised students.

Assistant Professor
North Central University *Minneapolis, MN* Aug 2005 - May 2006
Courses Taught: Principles of Accounting 1 and 2, Introduction to Business, Introduction to Corporate Finance and Operations Management.

Created course syllabi, instruction provided in traditional face-to-face classroom, developed assignments and exams, assessed assignments and course, advised students, served on university committee.

Business Lecturer
University of Wisconsin- Rock County *Janesville, WI* Aug 1997 - May 1999
Courses Taught: Financial Accounting, Managerial Accounting, Introduction to Business, Personal Finance.

Created course syllabi, instruction provided in traditional face-to-face classroom, developed assignments and exams, assessed assignments and course, advised students.

On-site Instructor
Conviser/Duffy CPA Review Course *Milwaukee, WI* Aug 1995 - May 1997

CPA Exam Review Course: Monitored on-site video presentation followed by discussion and reviewed of sample exam questions.

Adjunct Instructor
Gateway Technical College *Elkhorn, WI* Aug 1993 - Dec 1993
Course Taught: Introduction to Microcomputers

Created course syllabi, instruction provided in traditional face-to-face classroom, developed assignments and exams, assessed assignments and course.

Adjunct Professor
Dallas Baptist University *Dallas, TX* Aug 1990 - May 1993
Courses Taught: Financial Accounting, Managerial Accounting and Securities Analysis

Created course syllabi, instruction provided in traditional face-to-face classroom, developed assignments and exams, assessed assignments and course.

Public Accounting Experience

CPA/Owner (Part-time)
Doris K. Feltham MBA CPA *Jonesboro, AR* Aug 2005 – May 2011

Tax and business consulting practice additional activities included serving as Executor and Trustee.

Manager/Principal
Duick & Company *Elkhorn, WI* Oct 2000 - Jul 2005
Responsible for planning, supervision, and review of audit, reviews, and compilation engagements; preparation and review of business, personal, estate, and trust tax returns. Participated in overall management of two-office firm including teaching in-house CPE courses.

CPA/Owner
Doris K. Feltham, MBA CPA *Elkhorn, WI* Jan 1986 - Sep 2000
Developed and managed business consulting and tax practice. Assisted clients in the transition from manual accounting systems to computerized accounting systems.

Staff/Senior Accountant
Crone, Kipp, Blomgren & Co. *Rockford, IL* June 1981 - Dec 1985
Responsibilities included business and nonprofit organization audits, reviews and compilations and personal, business, and trust tax return preparation.

Publications

"New Standards Aid Smaller Entities" (May 31, 2010) Arkansas Business, Vo. 27 (21), p. 19. Commentary on IFRS for SMEs.

Conference Presentations

Arkansas Children of the Courts Conference Little Rock, AR May 2010
Created and presented a 1.5-hour session addressing non-profit financial management best practices and fraud.

Professional Memberships and License

American Institute of Certified Public Accountants
Arkansas Society of Certified Public Accountants
American Accounting Association
Licensed Certified Public Accountant – Wisconsin

Community Activities

Board Treasurer - Court Appointed Special Advocates (CASA) of the 2nd Judicial District

Implemented new computerized accounting system, assisted with grant writing, personnel management and office administration (November 2007 to June 2010)

Software

QuickBooks
Ultra Tax
Microsoft Office Suite
WebTycho
Desire2Learn
Blackboard