

Accounting Profession Is Ready For International Financial Reporting Standards: Financial Statements Comparable Enough

Dahli Gray, Walden University, USA

ABSTRACT

Comparative analysis of three matched pairs of corporations revealed that there are more similarities than differences where one used IFRS and the other used US GAAP. Since US GAAP focuses on usefulness of information rather than uniform reporting, the use of IFRS is just another variation on a theme that has existed for decades. The Big 4 accounting firms provide guidance and training for practitioners, professors and students that ease the road to understanding.

Keywords: Financial Accounting, International Financial Reporting Standards, United States Generally Accepted Accounting Principles

INTRODUCTION

This paper presents research results indicating that the United States (US) accounting profession is ready for International Financial Reporting Standards (IFRS). The US Generally Accepted Accounting Principles (GAAP) allow for diversity in financial statements. This is what the “generally accepted” rather than “absolutely accepted” means. Diversity already exists in financial reporting and the accounting profession manages it.

The accounting concept of full disclosure requires organizations to disclose when they are using something other than US GAAP. This accounting principle opened the door for the Securities & Exchange Commission (SEC) to allow organizations to use IFRS.

Three corporations that use IFRS and report to the SEC are FedEx, GlaxoSmithKline and Shell. This paper reports on a comparison of FedEx, GlaxoSmithKline and Shell to corporations similar to them that used US GAAP. FedEx was compared to UPS, GlaxoSmithKline was compared to Pfizer and Shell was compared to Exxon Mobil. The tables below summarize key IFRS versus US GAAP differences in the measuring and reporting practices of these corporations.

The last two tables provide a comparison of the IFRS guidance and training provided by the Big 4 accounting firms. The guidance and training are available to practitioners, professors and students. While US text books are being revised or developed to include IFRS, the Big 4 accounting firms provide guidance and training to fill the temporary gap in available text books.

EXXON MOBIL VERSUS SHELL

Table 1 provides a summary of the Income Statement comparison of 3rd Quarter 2009 Reports for Exxon Mobil versus Shell. The key differences are the management of research and development (R&D) and partial ownership of subsidiaries. The R&D expenditures are expensed under US GAAP, which is the method used by Exxon Mobil. Part of the R&D expenditures is capitalized under IFRS, which is Shell.

Income attributable to partial ownership of subsidiaries is reported as noncontrolling interests under US GAAP, which is Exxon Mobil. Income attributable to partial ownership of subsidiaries is reported as minority interests under IFRS, which is Shell.

Table 2 summarizes key similarities of 3rd quarter 2009 Balance Sheet reports of Exxon Mobil (using US GAAP) and Shell (using IFRS). Inventory is reported using last in first out (LIFO) by Exxon Mobil. Shell reported inventory measured using first in first out (FIFO) as IFRS does not allow LIFO. As noted regarding the Income Statements, R&D expenditures are not capitalized for Exxon Mobil. The capitalized R&D expenditures for Shell appear as assets. Contingent liabilities are recorded on Exxon Mobil’s Balance Sheet if the loss is probable and reasonably estimated. Contingent liabilities are recorded on Shell’s report if the loss is more likely than not.

Table 3 summarizes key presentation and disclosure information comparing Exxon Mobil (using US GAAP) and Shell (using IFRS) resulting from an analysis of the 4th quarter 2009 reports. The number of years presented were similar. The quantity of footnotes was different. For the quarterly reports, Exxon Mobil had 10 footnotes compared to Shell’s seven footnotes. Shell had 35 footnotes regarding annual disclosures versus Exxon Mobil’s 18 footnotes. Exxon Mobil only needed to explain any variations from US GAAP (which is a rules based system). Shell needed to explain basis for most measuring and reporting decisions as IFRS is principles based. When an organization reports in the US and follows US GAAP, then it is assumed that the organization is following the rules unless otherwise disclosed.

The comparison of Exxon Mobil versus Shell is in more detail. It included selected similarities and differences are for the 3rd quarter for the year 2009. These are most current reports used in this analysis. The annual reports for the year 2008 are used for the matched pairs of FedEx versus UPS (discussed next) and GlaxoSmithKline versus Pfizer (discussed later).

**Table 1
Exxon Mobil (US GAAP) versus Shell (IFRS) Quarter 2009 Reports
Income Statement Comparison**

Component	Exxon Mobil¹	Shell²
Revenue	Title passes to the customer and risks and rewards of ownership have been transferred ¹	Title passes to the customer and risks and rewards of ownership have been transferred ²
Revenue Recognition for Oil/Gas Imbalances	Entitlement method ¹	Entitlement method ²
Other Income	Includes gain/loss from sale of assets ³	Includes gain/loss from sale of assets ⁴
Cost of Sales	All research & development expensed ¹	Some research & development expensed, some capitalized ²
Income attributable to partial ownership of subsidiaries	Noncontrolling interests ³	Minority interests ⁴

Note. Adapted from
¹ Form 10-K, by Exxon Mobil Corporation (February 27, 2009) Retrieved from <http://www.sec.gov/Archives/edgar/data/34088/000119312509040966/d10k.htm>,
² Form 20-F, by Royal Dutch Shell (March 11, 2009) Retrieved from <http://www.sec.gov/Archives/edgar/data/1306965/000115697309000153/y06016e20vf.htm#127>,
³ Form 10-Q, by Exxon Mobil Corporation (November 5, 2009) Retrieved from <http://ir.exxonmobil.com/phoenix.zhtml?c=115024&p=irol-SECText&TEXT=aHR0cDovL2NjYm4uMTBrd2l6YXJkLmNvbS94bWwvZmlsaW5nLnhtbD9yZXBvPXRlbmsmaXBhZ2U9NjU4NjEyMSZhdHRhY2g9T04mc1hCUkw9MQ%3d%3d>,
⁴ Quarterly Results, by Royal Dutch Shell (October 29, 2009) Retrieved from http://www.shell.com/home/content/investor/financial_information/quarterlyresults/2009/q3/q3_2009_results_29102009.html

Table 2
Exxon Shell (US GAAP) versus Mobil (IFRS) 3rd Quarter 2009 Reports
Balance Sheet Comparison

<i>Balance Sheet Comparison</i>		
Component	Exxon Mobil¹	Shell²
Inventory	LIFO (last in, first out) ¹	FIFO (first in, first out) ²
PP&E-Depreciation, Depletion and Amortization	Unit-of-production method and straight-line method ¹	Unit-of-production method and straight-line method ²
PPE & Exploration Costs	Successful efforts method ¹	Successful efforts method ²
Intangible Assets	Does not include capitalized R&D expenditures ¹	Does include capitalized R&D expenditure ²
Contingent Liabilities	Recorded if "Loss is probable and reasonably estimated" ¹	Recorded if "More likely than not" ²
<p><i>Note.</i> Adapted from</p> <p>¹Form 10-K, by Exxon Mobil Corporation (February 27, 2009) Retrieved from http://www.sec.gov/Archives/edgar/data/34088/000119312509040966/d10k.htm.</p> <p>²Form 20-F, by Royal Dutch Shell (March 11, 2009) Retrieved from http://www.sec.gov/Archives/edgar/data/1306965/000115697309000153/y06016e20vf.htm#127.</p> <p>³Form 10-Q, by Exxon Mobil Corporation (November 5, 2009) Retrieved from http://ir.exxonmobil.com/phoenix.zhtml?c=115024&p=irol-SECText&TEXT= aHR0cDovL2NjYm4uMTBrd2l6YXJkLmNvbS94bWwvZmlsaW5nLnhtbD9yZXBvPXRlbmsmaXBhZ2U9NjU4NjEyMSZhdHRhY2g9T04mc1hCUkw9MQ%3d%3d.</p> <p>⁴Quarterly Results, by Royal Dutch Shell (October 29, 2009) Retrieved from http://www.shell.com/home/content/investor/financial_information/quarterlyresults/2009/q3/q3_2009_results_29102009.html</p>		

Table 3
Exxon Mobil (US GAAP) versus Shell (IFRS) 3rd Quarter 2009 Reports
Presentation and Disclosure Comparison

<i>Presentation and Disclosure Comparison</i>		
Component	Exxon Mobil¹	Shell²
Quarterly Comparative Financial Information	All statements-2 years ¹	All statements-2 years ²
Annually Comparative Financial Information	Income Statement-3 years ³ Balance Sheet-2 years ³ Statement of Equity-3 years ³ Cash Flow Statement-3 years ³	Income Statement-3 years ⁴ Balance Sheet-2 years ⁴ Statement of Equity-3 years ⁴ Cash Flow Statement-3 years ⁴
Quarterly Disclosures	10 Footnotes to the financials ¹	7 Explanatory notes ²
Annual Disclosures	18 Footnotes to the financials ³	35 Footnotes to the financials ⁴
Short-term Assets/Liabilities	Presented first on the balance sheet ^{1,3}	Presented after the long-term assets/liabilities ^{2,4}
<p><i>Note.</i> Adapted from ¹Form 10-K, by Exxon Mobil Corporation (February 27, 2009) Retrieved from http://www.sec.gov/Archives/edgar/data/34088/000119312509040966/d10k.htm.</p> <p>²Form 20-F, by Royal Dutch Shell (March 11, 2009) Retrieved from http://www.sec.gov/Archives/edgar/data/1306965/000115697309000153/y06016e20vf.htm#127.</p> <p>³Form 10-Q, by Exxon Mobil Corporation (November 5, 2009) Retrieved from http://ir.exxonmobil.com/phoenix.zhtml?c=115024&p=irol-SECText&TEXT= aHR0cDovL2NjYm4uMTBrd2l6YXJkLmNvbS94bWwvZmlsaW5nLnhtbD9yZXBvPXRlbmsmaXBhZ2U9NjU4NjEyMSZhdHRhY2g9T04mc1hCUkw9MQ%3d%3d.</p> <p>⁴Quarterly Results, by Royal Dutch Shell plc. (October 29, 2009) Retrieved from http://www.shell.com/home/content/investor/financial_information/quarterlyresults/2009/q3/q3_2009_results_29102009.html</p>		

FEDEX VERSUS UPS

Table 4 summarizes key differences found in the 2008 annual reports for FedEx (using IFRS) versus UPS (using US GAAP). FedEx and UPS presented consolidated balance sheets. The key difference found was that the subsidiaries' minority interest was included in the equity section of the balance for FedEx and not for UPS. Both

organizations discussed market risks, new accounting pronouncement, and contingencies. The key difference was the quantity of notes to the consolidated financial statements. There were 20 footnotes presented by FedEx and only 18 by UPS. The footnotes were more detailed for FedEx than for UPS. Under IFRS, organizations are allowed to make measurement and reporting choices based on principles. The reasons for the choices need to be explained in the footnotes. If an organization reports using US GAAP, then only variations from the rules need to be explained in detail.

Table 4
UPS (US GAAP) versus FedEx (IFRS) Annual 2008 Reports

Differences	UPS	FedEx
PPE & Exploration Costs	Successful efforts method	Successful efforts method
Footnotes	18	20

Note. Adapted from the following: FedEx (2008). FedEx 2008 Annual Report. Retrieved from <http://files.shareholder.com/downloads/FDX/785113796x0x223284/b51e2e11-6edc-44a3-bcad-e5379c70a765/fedex08ar.pdf>
 UPS (2008). UPS 2008 Annual Report. Retrieved from <http://files.shareholder.com/downloads/UPS/785112829x0x281044/fa0304b6-7a81-457d-bf70-49179fe7b22a/UPS2008ARlores.pdf>

GLAXCOSMITHKLINE VERSUS PFIZER

Table 5 presents identified differences between the 2008 annual reports for Pfizer (prepared using US GAAP) versus GlaxoSmithKline (prepared using IFRS).

Table 5
Pfizer (US GAAP) versus GlaxoSmithKline (IFRS) Annual 2008 Reports

Component	Pfizer	GlaxoSmithKline
Account order	Noncurrent assets listed first	Most liquid listed first
Inventory	Average cost using lower of cost and net realizable value	FIFO (first in, first out) using lower of cost or market
Reports	Consolidated Statement of Shareholders' Equity	Consolidated Statement of Recognized Income and Expense
PP&E-Depreciation, Depletion and Amortization	Impairment determined by the higher of fair value less costs to sell and value in use; accelerated depreciation for tax purposes	Impairment recorded for present value amount of future cash flows less than carrying value of asset; component depreciation
Revenue	Deductions reported separately from revenue	Revenue recorded with deductions included
Research and Development	Expensed	Capitalized

Note. Adapted from the following: GlaxoSmithKline (2008) Annual Report for 2008 Retrieved from <http://www.gsk.com/investors/reps08/GSK-Report-2008-full.pdf>
 Pfizer (2008) Annual Financial Report for 2008. Retrieved from <http://media.pfizer.com/files/annualreport/2008/financial/financial2008.pdf>

The matched-pairs comparison results indicate that there are some differences between the organizations using IFRS versus organizations using US GAAP. Since differences exist between organizations that use US GAAP and financial statement users manage the differences, this does appear to support the SEC's decision to allow organizations to use IFRS. Educating existing and future practitioners and professors is the next issue addressed in this paper. The Big 4 Accounting firms (Ernst & Young, Deloitte Touche Tohmatsu, KPMG and PriceWaterhouse Coopers) provide IFRS educational materials and programs. The next section of this paper compares and contrasts materials and programs provided by two of the Big 4 firms.

BIG 4 IFRS TRAINING AND EDUCATION MATERIALS

Table 6 summarizes the IFRS training and educational material provided without cost by the Big Four Accounting firms. Deloitte Touche Tohmatsu (Deloitte) provides the most materials for free, while KPMG provides the least. Ernst and Young (E&Y) provide the second most materials for free, which PriceWaterhouse Coopers (PwC) provides the next to the least materials for free.

Table 6
Comparison of Free IFRS Training and Educational Material From the Big Four Accounting Firms

IFRS Resources for free	Deloitte	E&Y	KPMG	PwC
IFRS E-Learning Modules	✓	✓		
IFRS-Related Publications	✓	✓		
IFRS Materials available to schools	✓	✓		✓
Illustrative IFRS Financial Statements	✓	✓		✓
IFRS Tax Services	✓			✓
IFRS Faculty and Student Resources	✓	✓	✓	✓
IFRS Webcasts and/or Podcasts	✓	✓	✓	✓
IFRS Video Learning Center				✓
Foundation/Grant Programs	✓	✓		✓
IFRS Newsletter	✓	✓		
IFRS Resources Library	✓	✓	✓	

Each check mark represents the resource type per CPA firm available for free

Table 6 summarizes the IFRS training and educational materials available from the Big 4 accounting firms for a fee. The cost varies, but the key issue addressed for this paper was whether the materials were free or only available if purchased. Deloitte and E&Y offer a detailed handbook. An IFRS subscription is available for clients of E&Y and PwC. KPMG and PwC offer continuing professional education (CPE) credit accounting courses, seminars, workshops and updates.

Table 7
Comparison of IFRS Training and Educational Material Available for a Fee from the Big Four Accounting Firms

IFRS Resources for a fee	Deloitte	E&Y	KPMG	PwC
Detailed Handbook	✓	✓		
IFRS subscription available for clients		✓		✓
CPE credit accounting courses, seminars, workshops and update			✓	✓

Each check mark represents the resource type per CPA firm available for a fee

SUMMARY AND CONCLUSIONS

The research results reported in this paper support the idea that the US accounting profession is ready for IFRS. The SEC appears to hold this opinion as IFRS-based reports as the SEC accepts IFRS-based financial statements. For example, FedEx and Exxon Mobil submit IFRS-based reports to the SEC. Comparing FedEx (using IFRS to UPS (using US GAAP), GlaxoSmithKline (using IFRS) to Pfizer (using US GAAP) and Mobil (using IFRS) to Exxon Shell (using US GAAP), the research revealed more similarities than differences. Since financial statements prepared using US GAAP allow for different measuring and reporting (as long as the differences from US GAAP are disclosed), the accounting profession is prepared and experienced in considering and reconciling differences. Stakeholders interested in financial statements are also experienced in considering and reconciling measuring and reporting differences found when comparing financial statements. Where additional education is needed it is available for free and/or a fee from the Big 4 accounting firms.

AUTHOR INFORMATION

Dahli Gray earned her doctoral degree from the George Washington University, MBA from Portland State University and bachelors degree from Eastern Oregon University. She is a licensed CPA in Maryland and also holds CMA and CFE credentials. She has published in numerous journals, including the Journal of Accounting Research and the Journal of Accountancy. She has presented at conferences in places such as Ireland, England, Japan, Mexico, Canada and throughout the United States. She has had a private consulting firm since the year 2000, which includes teaching part-time for Walden University.

REFERENCES

1. Deloitte Touche Tohmatsu. (July 2008). IFRSs and US GAAP: A Pocket Comparison. *IAS Plus*. Retrieved from <http://www.iasplus.com/dttpubs/0809ifrsusgaap.pdf>
2. Ernst & Young. (January 2009). US GAAP vs IFRS the Basics. Retrieved from [http://www.ey.com/Publication/vwLUAssets/IFRS_v_GAAP_basics_Jan09/\\$FILE/IFRS_v_GAAP_basics_Jan09.pdf](http://www.ey.com/Publication/vwLUAssets/IFRS_v_GAAP_basics_Jan09/$FILE/IFRS_v_GAAP_basics_Jan09.pdf)
3. Exxon Mobil (February 27, 2009). Form 10-K. *Exxon Mobil Corporation*. Retrieved from <http://www.sec.gov/Archives/edgar/data/34088/000119312509040966/d10k.htm>
4. Exxon Mobil (October 29, 2009). News Release: Exxon Mobil Corporation Announces Estimated Third Quarter 2009 Results. *Exxon Mobil Corporation*. Retrieved from http://www.exxonmobil.com/Corporate/Files/news_release_earnings3q09.pdf
5. Exxon Mobil (November 5, 2009). Form 10-Q. *Exxon Mobil Corporation*. Retrieved from <http://ir.exxonmobil.com/phoenix.zhtml?c=115024&p=irol-SECText&TEXT=aHR0cDovL2NjYm4uMTBrd2l6YXJkLmNvbS94bWwvZmlsaW5nLnhtbD9yZXBvPXRlbmsmaXBhZ2U9NjU4NjEyMSZhdHRhY2g9T04mc1hCUkw9MQ%3d%3d>
6. FedEx (2008). FedEx 2008 Annual Report. Retrieved from <http://files.shareholder.com/downloads/FDX/785113796x0x223284/b51e2e11-6edc-44a3-bcad-e5379c70a765/fedex08ar.pdf>
7. GlaxoSmithKilne (2008) Annual Report for 2008. Retrieved from <http://www.gsk.com/investors/reps08/GSK-Report-2008-full.pdf>
8. Pfizer (2008) Annual Financial Report for 2008. Retrieved from <http://media.pfizer.com/files/annualreport/2008/financial/financial2008.pdf>
9. UPS (2008) UPS 2008 Annual Report. Retrieved from <http://files.shareholder.com/downloads/UPS/785112829x0x281044/fa0304b6-7a81-457d-bf70-49179fe7b22a/UPS2008ARlores.pdf>