INTERNATIONAL FINANCIAL ACCOUNTING

PROBLEMS FACED BY INDUSTRIES IN IMPLEMENTING IFRS

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SUBMITTED

TO

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INTRODUCTION

In this era, company owner and business stakeholders with one word needs to have clear, precise, effective and cost efficient but similar accounting standard for their global business. IFRS (International Financial Reporting Standard) is the standard that gives equal opportunity for companies in preparing their consolidated financial statement and comparable condition for business stakeholders in understanding financial matters of their worldwide business. Though, IFRS is a choice for many countries and companies, it is still far for them to get an arm length success, because its implementation requires different but uncontrolled resources. Therefore, this short paper is dealt with Problems (Expertise) Faced by Companies in Implementing IFRS.

Companies found in European Union member countries have started preparing their consolidated financial reports and the rest of the world are coming soon. Recording, preparing and proper controlling consolidated financial statement, communicating with sister companies about financial matters and understanding and implementing IFRS, needs well trained accounting and other related professionals. The importance of this paper is, therefore, to pinpoint the incidence of shortage of professionals and reminding companies and countries to run to solve this shortage.

In answering this problem, I have used the following different parts of the paper. First, background of the paper gives very general information about the problem and proposed solutions for it. Second, literature review of the paper gives detailed information about the problem and related materials used in relation to the problem. Third, in statement of the problem, I have tried to elaborate the importance of solving the problem and its worthiness in the future. Fourth, presentation of your work, in this part of the paper, all out comes of the study and proposed solutions are stated. Fifth, conclusion and recommendation part, the readers here, will see a short conclusion of the paper and recommendations of the writer. Finally, I have tried to state all reference materials used in the reference part of the paper.
BACKGROUND

This days business environment, through out the world, needs well organized and
technologically equipped accounting system. Companies of the same organization
found in different parts of the world or different companies in either corners of the
globe should talk the same accounting language. If a person wants to know how
different countries treat invested capital in their own accounting system he/she
should not be expected to know accounting standards of each and every country.
Therefore, IASB (International Accounting Standard Board) is now exercising one
and similar accounting standard, that is IFRS, for the globe that will totally replace
country’s GAAP (Generally Accepted Accounting Principle).

Therefore, the paper will try to show the reader, potential problems faced by
companies in implementing IFRS and the respective proposed solutions. With this
worldwide move to wards IFRS what is now becoming obvious is shortage of experts.
Therefore, particularly for this paper, problem mean luck of qualified finance related
experts.

Many things have been said about companies’ general problems in implementing
IFRS, even about luck of experts included with other company problems, but the
problem is still not solved. This paper strives to add some timely and integrated
solutions mainly for expertise problem.

In answering the problem I have stare at different web sights and tried to be
genuine not to include what was not seen in the study in my analysis. I have used
my past experience together with study materials to draw solutions for the problem.

REVIEW OF THE LITERATURE

News papers, magazines, world class TVs and other communication medias talks
more about the need for similar accounting standard for the globe. I think it is good
to supply some general information with supporting documents on, why companies
are bothering about these experts even for IFRS? Are countries in need to IFRS? Is it a trial or a will? I feel these questions are basic and they have to be answered before I try to describe shortage of expertise prevalent now in companies. In respect to the importance of IFRS, Tiffany Bradford, states the following,

*The International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS) that they issue are very important for the future of accounting. With businesses turning global, it is important that investors are able to compare companies under similar standards. Likewise, it is important for businesses operating in multiple countries to be able to create financial statements that are understandable in all of the countries they operate in.*

Eventually, International Accounting Standards Board (IASB) and other accounting organizations hope to see a convergence of all accounting standards throughout the world. This type of convergence, would allow for the best of circumstances for investors and other interested parties to be able to examine and compare companies in a transparent and equal way. With the coordination of the International Financial Reporting Standards (IFRS) with other accounting standards from around the globe, this goal of convergence may not be as far-fetched as it may sound.


Accepting IFRS is a voluntary obligation. It is a matter of time, if it is not today, companies will use IFRS tomorrow. This is because, it eases accounting work & reporting and it is easily understandable by stakeholders.

*The move would ensure a smooth migration to IFRS by April 2011. Nearly 150 countries, including Australia, New Zealand, China, Singapore, Japan, Middle East, Africa & European Union, have either adopted or are converging to IFRS. Consequently, over 8,000 EU-listed companies adopted IFRS in one go.*

(www.economictimes.indiatims.com, by Ernst & Young India director, Rahul Roy, 11 Jul 2008, 0000 hrs IST, ET Bureau.)
International Federation of Accountants by mid 2008 tries to give assurance about indispensability of similar accounting standard throughout the world after taking a worldwide survey on the importance of similar international accounting standard.

A large majority of accounting leaders from around the world agree that a single set of international standards is important for economic growth, according to a survey conducted recently by the International Federation of Accountants (IFAC). Of the 143 leaders from 91 countries polled, 90% responded that a single set of international financial reporting standards was “very important” or “important” for economic growth in their countries.

(www.blog.aefeldman.com/2008/o8/23 at 1:00) A.E Feldman, President for mitch Feldman, executive search)

International Accounting Standard Board (IASB) wants to see global convergence to IFRS, to that effect it works hard with United States Financial Accounting Standard Board (US FASB) and with other countries too. Dramatically, the real situations even in US companies are far from the expected. Paul Parks, CPA, AICPA, point out that, one of the main problems of US companies convergence policy to IFRS will be shortage of professionals says early this year and he forwarded some temporary solution for the problem.

One of the challenges U.S. companies will face is a shortage of trained and experienced personnel. Early training will help companies clear this hurdle. Development of a comprehensive training program for accounting and finance personnel should help reduce reliance on outside consultants as the project progresses.

www.trainingindustry.com (Cornerstone for Successful IFRS Conversion Training & Education, By Paul Parks, CPA, AICPA, February 19, 2009)

Deficiency of professionals is not only the problem of US companies but also highly observed in India too. Ernst & Young India director, Rahul Roy last year tries to express his fear Indian companies will face in the following years in relation to IFRS professionals, was an indicator for companies and even for IASB that many tasks are remaining to bring similar accounting language for companies of the world. If not
government should interfere with internal administrative system of companies and this must go up to amendment of rules of companies, he added in his speech.

India Inc will face a severe shortage of actuarial and accounting professionals, even as the country plans to adopt International Financial Reporting Standards (IFRS) by April 2011. Addressing a seminar on IFRS here on Saturday, organized by the Bengal Chamber of Commerce & Industry, Ernst & Young India director, Rahul Roy, said: “A parallel framework of financial analysts needs to be prepared to interpret IFRS. There is a serious shortage of professionals in actuarial and accounting fields.”

(www.economictimes.indiatimes.com) by Ernst & Young India director, Rahul Roy, 11 Jul 2008, 0000 hrs IST, ET Bureau)

The shortage goes beyond a single field that is; it may cover many different areas that have connection with the business. Too many individuals think that IFRS is only an accounting issue and they believe that educating and training accountants is enough to overcome the problem.

Company managers that symbolize the company during business discussion and who sign important financial decisions should know what they are signing, Auditors who are evaluators of financial statements must understand how companies are presenting financial transactions in order to say its financial statement is fairly presented or not , asset evaluators supposed to know special rules and principles found in IFRS before making asset evaluations , actuaries found in insurance companies ought to know specialties of IFRS in relation to insurance companies to present information to higher officials for decision making and many other professionals should also know what IFRS mean and its implementation. Convergence to IFRS therefore urgently needs to fulfill these expertise shortages in addition to accountants.

For many executives, the impending transition to International Financial Reporting Standards (IFRS) has not yet registered on the radar screen or has, at best, been mentally filed as an "accounting" issue. However, this landmark change is going to have a significant impact on all publicly accountable enterprises, and that impact will not be confined to the books.
There is currently a shortage of chartered accountants and other financial professionals with practical IFRS experience, so this will be important to tackle early to ensure the right talent is recruited while keeping costs to a minimum. You don't want to get into a talent bidding war at the late stages of the conversion process.

www.Financialpost.com, Christian Wray, CA, is the managing principal of Wallace Consulting Group. (cwray@wallaceconsultinggroup.ca), Nov. 25, 2008.

Senior management needs to be knowledgeable about IFRS so they are able to communicate with outside parties, especially investors. A move to IFRS is a major undertaking. Executives need to understand the reasons for the change and stress the importance of a successful conversion. The SEC will assess the effectiveness of training and education about IFRS for investors, accountants, auditors, customers, vendors, rating agencies, analysts, audit committees, actuaries, valuation experts and other specialists.

(www.trainingindustry.com, Cornerstone for Successful IFRS Conversion: Training & Education, By Paul Parks, CPA, AICPA, February 19, 2009)

“To enable an orderly transition to IFRS, auditors and registrants will need to be trained in the standards, audit committee members will need to understand how to address the implications of these reporting standards on their companies’ financial statements,

(www.blog.aefeldman.com/2008/08/23 at 1:00, A.E Feldman, President for mitch Feldman, executive search)

A.E Feldman, President of Mitch Feldman, in his blog (Insight on Hot Issues, News and Trends in Employment in Financial Services, Accounting and Legal plus Expert Advice on the Executive Search Process) taking information from AICPA, seriously underlined that countries that trying to converge to IFRS all over the world including US have faced shortage of executives, accountants and other related professionals.
Right now, the push towards convergence is accelerating…along with demand for IFRS expertise, reports executive search firm, A.E. Feldman. The bottom line: almost every country, including the United States, will most likely be using IFRS to some extent by 2011. Right now, however, there remains a shortage of professionals with sufficient knowledge of IFRS to make the conversion and to maintain IFRS financial statements, both among domestic and international operations. As a result, A.E. Feldman reports that accounting jobs are opening up as the need for IFRS-trained accounting talent intensifies.

The use of IFRS by U.S. publicly held companies will create the need for effective training and education, according to the AICPA. The group contends that currently most U.S. accountants in the United States are not trained in IFRS. Additionally, most specialists, such as actuaries and valuation experts, who are engaged by management to assist in measuring certain assets and liabilities, are also not taught IFRS. The AICPA concludes that all parties will need to undertake comprehensive IFRS training.

(www.blog.aefeldman.com/2008/08/23 at 1:00, A.E Feldman, President for mitch Feldman, executive search)

**STATEMENT OF THE PROBLEM**

The need for similar global accounting standard is not the question of one giant company or it is not an interest of one or two influential countries rather it is coming the day to day badly need of most countries and companies of the world. It is obvious that IFRS, over all, simplifies financial communication because it uses unilingual experts (IFRS experts). Unfortunately, now, it is very difficult to get these experts as many as possible and with out these experts companies may encounter implementation problem. Statement of the problem is therefore stated as, Problems Faced by Companies in Implementing IFRS. Problems, especially for this paper includes shortage of professionals like, accountants, auditors, actuaries, valuation experts and other related professionals.

Company officers, finance managers and most paper writers with one word
appreciates IFRS as a global accounting standard. They declare that, this standard makes the work simple and easily understandable, it is convincing for every stakeholder, easy to prepare consolidated financial statement, effective and cost efficient. On the contrary, most of them agreed on the occurrence of shortage of professionals in this area. What ever they wrote and said how much the shortage is savior, the situation is not rewarding yet.

Reports from many countries all over the world assured that, shortage of experts is still persistent and will continue if not immediate and organized measures are taken. Most universities of the world including US still not decide to include IFRS to their course curriculum, there are no enough number of IFRS trainers who can give in-service training for company GAAP experts. In one or another, shortage of IFRS professionals is still there and may be continue for the future. It becomes a big issue now that company managers have to talk and struggle to make an end for it. Therefore, it is time to ask and discuss on the matter, because the problem is relevant and has to be resolved.

Answering this problem is helpful for companies in three ways, these are, first, it is easy for them to converge to IFRS, at least they erase this days big barrier to go to the new standard. Second, they can apply the new accounting standard to prepare their consolidated financial statement, by doing this, they can save time and cost, they can present easily understandable reports to investors etc. Third, they can be worldwide competent in their business activity.

Companies, to efficiently use IFRS, first should solve shortage of their experts both in number and qualification. That is why; I am trying to point out that, solving this problem is as equally important as, even more important as, escalating IFRS through out the world.

Therefore, to manage the business productively by using this new emerging standard, it is a necessity for companies to catch all necessary inputs specially experts, if not, it is like expecting healthy and strong seedlings from not well prepared and managed seedbeds.
PRESENTATION OF YOUR WORK

I have seen adequate evidences, from various regions of the world, and inspected them thoroughly to draw a solution for the problems (expertise problem) that companies faced in implementing IFRS. Therefore, the study specifies that, implementation of IFRS reveals the reality of lack of experts in most companies and this is one of the key problems of companies facing in adapting or converging to IFRS.

According to the study, deficiencies are observed in areas of auditors, actuaries, valuation experts’ and accountants. All these expertise are essential for companies to implement IFRS. Though the scarcity is from diverse profession, in relative terms accountants take the foremost place. If the scarcity is expressed in terms of degree (scarceness) then managers can use this as a criteria where to group the trainees based on the shortage during the training.

“Training requirements and opportunities reach much further than individuals involved in the accounting profession and the companies they serve.”

In solving the problem and facilitating the move towards IFRS the above traced article best articulates my stand. It strongly stresses how much training has the power even more than professionals and the organizations themselves and exposes the secret what was behind brilliant and devoted experts. With no exaggeration, it underlines the importance of training for remarkable performance, what ever a person is professional and experienced or a company with worldwide business and a shining goodwill. My proposed solutions are also strengthens the significance of training as shown bellow.

I have proposed six potential solutions grouped under short term and long term proposed solutions. Companies can up grade or obtain their required professionals with in short period of time if they use these proposed solutions in integrated manner. Company managers ought to show their devotion and initiation for the training and should consider the training as a campaign towards IFRS.

1. Short term solutions- these are entirely planned, controlled and run by company managers for urgently needed expert shortages. Company managers
should make trainee (GAAP expert) groups to each proposed solutions based on some criteria, may be merit, efficiency, specialization, attitude, urgency etc. The training should be timely and cost effective. Training courses, training period (days, weeks, or months required for the training) may be decided by the company. To save time and to be cost efficient all this trainings are taken during the same period, therefore detailed training plans are prepared before starting the training. Based on agreement with the company and trainees or by considering some compensation mechanism, the training can be given on week ends, nonworking hours and even on holidays.

A. **Self training and examination** - this type training works only for some brilliant and voluntary trainees working (or new employee) in the company. Through their experience in the company, some employees may show their talent in understanding and accepting new things better than others or they may perform different tasks in the company more pleasantly than others, and managers may consider such exceptional qualities to group trainees under A. Along with their day to day activity, these employees should study and prepare themselves with IFRS. At the end of the training period they will seat for standardized IFRS exam.

B. **Training by trainer from the company** - the company can prepare the training by its own IFRS knowledgeable employees, if any, and at the end of the training there should be an IFRS exam. If there are untrained GAAP experts and if it is time taking to wait to the second round, company managers may decide to the next proposed solution. All this are planned before starting the training.

C. **College or university training** - universities are the next timely and cost efficient training areas. The company can make a contract with universities for a special training on selected titles. Trainees went to the university and take the training there. They will seat for an exam and will be certified for this specific training and their result should be sent to the company managers.
D. **Expert training**- this training is given by outsiders that is external IFRS professionals who are more experienced and more knowledgeable individuals. More expensive than other short term trainings. An experience from other trainings indicates that such trainings are focused and more concentrated on the practical aspects of the training manual. As usual, this too will end with an exam.

2. **Long term solution**- this training is prepared for those trainees whose expertise are not urgently needed (but still in shortage) by the company for the adoption or convergence to IFRS process. It takes a minimum time period of a semester, if not, a year or more. Managers have some participation on such training programs especially on the experience sharing program.

A. **Experience sharing**- companies can take experience sharing, as another option, with others that have exposures on IFRS and acquire experiences on it. This may be accomplished in two ways, sending a group of experts to the experienced company or inviting group of trained experts to the company. In this case, both companies are beneficiary in one or the other, since the training focuses on the real and day to day IFRS related activities of the company. To be effective such experience sharing should be taken again and again till the company believes that it acquired the required expertise.

B. **College or University Training**- this is quit formal, taken as class lecture and can take longer time periods than ever. Such trainings are given in colleges or universities. Courses are given in full according to the universities course schedule. In this case trainees are simply, university students, they are under the rules and regulations of colleges’ and universities’. They are completely out of the control of company managers and may get permission for their regular work for the whole training period, since the required colleges or universities may be found out of the country or town.

One additional way for the training is opening web sights and supplying books and
written materials that provide information about IFRS, even though, this is used by many companies, since it is very crucial and important to build up experts potential and knowledge on IFRS, I decide to include it as an addition for the training.

Specially, self trainees are advantageous from these. They use these books and websites to develop their knowledge with IFRS and to prepare themselves for the exam. Even other trainees, along with their own training they can refer and search additional information from books and websites. Plus to this, they are an asset for the company for future development too.

**CONCLUSION AND RECOMMENDATION**

It is real that the globe needs similar accounting standard and this standard is IFRS, it is also real that this standard needs high level and qualified expertise and the other thing that widely known is that these expertise are inadequate and in order to take a smooth move towards IFRS this expertise inadequacy should be resolved.

Therefore, to conclude the result, companies must fill their urgently needed vacant positions with the required personnel and must train their untrained or unqualified expertise, if any, with the new standard. Trainings, as part of the solution, ought to be integrated; cost efficient and timely and I believe my solutions have all these.

Proposed solutions tries to cover most basic areas in relation to training and orderly placed according to increasing cost. Therefore, company managers can make trainee groups that match with the solutions step by step down to decrease training cost. Companies can get the required number of expertise on time if they start all their trainings at a time but it should be noted that, what ever the training is urgent and crucial, it wouldn’t lag companies current business activity. I suppose, this paper has much to solve companies’ recent expertise problem that hampers them to implement IFRS. It contributes its part in the struggle to overcome the shortage.

There is always a change, our globe has been passing continuous changes, accordingly companies have been responding as much as they can. The turn for this days change is accounting standard that most companies of the world are accepting
or exercising and struggling to harmonize them with the change. Every change has its own strengths and weaknesses and may create opportunities and problems. Along with exercising opportunities, it is companies’ common experience to resist problems. What I am trying to say is that, there will be additional new or similar unresolved problems that comes with development and of course new standard too. Therefore, there will be successive research and findings, consistent with the problems manifested or unresolved and this paper can be taken as an addition or an initial for further study for others on similar problems.
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