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IFRS: The Opportunities Abound for Small Firms

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Can you name five significant differences between U.S. generally accepted accounting principles and international financial reporting standards? CPAs who are familiar with IFRS and can explain them to small business clients will find themselves in increasing demand in the near future. They will be called upon to provide everything from presentations before business groups to consulting engagements in which they will help clients understand and take advantage of global opportunities.

If you are a small practitioner, now is the time to become fluent in the language of IFRS. Even the smallest companies are increasingly doing business in the global marketplace, or at least hearing about further opportunities in trade association meetings or in the business news. According to the U.S. Small Business Administration, exports by U.S. small businesses soared fourfold — to \$400 billion — between 1992 and 2007. By 2018, half of U.S. small businesses are expected to be involved in international trade.

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Opening the Door

To introduce the subject, remember that small businesspeople will be much more open to a discussion about seizing international business opportunities than about preparing financial statements. Some of your clients may already have been approached by overseas companies interested in doing business with them. Many know what products and services they could sell or buy overseas, but they may not be sure how to do it. For example, international transactions involve credit approvals from sources outside the United States, as well as granting credit to potential customers. This is not limited to supplier/customer credit but applies more significantly to bank credit, bonding agents, brokers, insurance companies and other financial institutions. A CPA knowledgeable about international business can provide invaluable help in navigating financing and other business questions and enabling them to seize or increase their global business options.

The best way to introduce the topic is to ask the client for lunch or coffee to talk about emerging trends. Begin the conversation with some probing questions.

- ▶ What sales opportunities do you see for your products/service outside the United States?
- ▶ What supplier and outsourcing opportunities are there for your business outside the U.S.?
- ▶ What are the merger opportunities?
- ▶ If you had a capital source outside the U.S. to expand, what do you think you could accomplish?

Once you've discussed the client's current international efforts and envisioned future opportunities, the discussion can move to the worldwide accounting profession and where it is headed. Describe the benefits of IFRS and how they will make it possible for businesses around the world to speak the same language. Explain why this global understanding will facilitate international business even for the smallest of businesses. Describe the benefits of the economies of standardization of the financial reporting process and how it can mitigate the cost of preparing statements under two different methods. If the client asks about the differences, it only makes sense to describe the ones that will apply specifically to their company, including variations in how LIFO or fixed assets are treated. Some of the challenges should also be pointed out, such as the effect on existing debt covenants. The conversation should end with a commitment to keep the client updated as developments occur.

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Opportunities for Small Practitioners

CPAs who establish themselves as IFRS experts could be called on to provide:

- ▶ High level briefings of company stakeholders, audit committees, credit grantors and other financial statement users on topics such as expected developments in international financial reporting, the significant differences from GAAP and the strategic business considerations. Other possible audiences include business organizations, trade associations and civic business groups.
- ▶ Formal education programs for company stakeholders, audit committees, credit grantors and other financial statement users, including local bankers, bonding companies, insurance professionals, investment professionals and any local constituency that uses financial statements or advises businesses and their owners.
- ▶ Consulting engagements analyzing the optimal choice for companies deciding between U.S. GAAP vs. IFRS reporting.
- ▶ Engagements performing the actual conversions of financial statements from U.S. GAAP to IFRS and project management of the conversion process.
- ▶ Assistance to businesses and credit grantors in making key decisions by explanation and interpretation of financial statements received that are prepared on IFRS.

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A Real Need for Small Firms

IFRS expertise is particularly relevant for small practitioners because it's easy to envision that IFRS will one day be adopted by private companies as the globalization of business and convergence continues its rapid acceleration. And small practitioners have established strong, ongoing relationships with private company clients. In addition, there are over 17,000 public companies, the majority of which are small entities spread throughout the U.S., along with many divisions that are separate entities. All will need to consider IFRS.

The Sarbanes-Oxley Act ushered in many new opportunities for small firms, spurring dramatic growth in non-attest services that could not be performed by a public company's auditors. SOX also precluded auditors from acting as an outsourced accounting function, opening the door for small firms to perform core accounting and tax work for businesses that they might not have previously imagined as a potential client. The result was an avalanche of new work for smaller firms in new markets. IFRS present an opportunity that is no different in scope, and perhaps offers wider options.

How can small firms learn more? The AICPA has launched a new Web site to educate members and interested users on the subject: www.ifrs.com. I encourage you to check it out and to consider how this new development can benefit your firm.

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