TRAINING AND EDUCATION AND THE UNITED STATES CONVERGENCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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ABSTRACT

The purpose of this study is to determine if a level of significant statistical relationship exists between IFRS training and the knowledge level of financial/accounting department staff in multinational Fortune 500 companies headquartered within the United States. By offering the accounting personnel the opportunity for more IFRS implementation training or academic education, it is hypothesized that the organizations studied could effectuate economic savings, increase the knowledge, skill, and abilities of the accounting employees, and reduce the problems associated with converting systems from GAAP to IFRS.This research determined if there is a significant statistical difference between IFRS training and the knowledge level of accounting employees. The variables inherent in IFRS implementation education or training cannot be controlled due to the study participants being self-assigning to one of the particular groups. Many variables affect the make-up of IFRS implementation training within each organization. These variables directly impact the hypothesis that IFRS implementation education or training improves the ability to implement IFRS for the studied groups.

Keywords: *Accounting, IFRS, Knowledge, Training, Financial*

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The Securities and Exchange Committee (SEC) is recommending that United States (U.S.) based companies implement International Accounting Standards (IAS) and initiate the reporting of financial statements in accordance with the International Financial Reporting Standards (IFRS) over a three-year period beginning in 2014 as determined by the classification of their business unit. In 2007, the SEC eliminated the need for foreign companies to reconcile with U.S. Generally Accepted Accounting Procedures (GAAP) if these foreign companies filed their financial reports utilizing IFRS. It also provided U.S. companies the option of filing their financial reports in accordance with IFRS instead of U.S. GAAP (Cabrera, 2008). Before implementation of IFRS can occur, however a basis of knowledge is required but currently there is limited education in IAS and IFRS being conducted in the U.S. academic world of accounting nor is it covered on the CPA exam (Cabrera, 2008).

To ensure IFRS is implemented in a timely fashion, U.S. companies must consider how to train their employees at all levels and departments within the corporation. The training must focus on the differences and how those differences will affect the computer programs and computer systems along with the internal controls utilized within the company (Cabrera, 2008). In early 2010 the SEC released a new policy statement which moved the implementation date from 2014 to no earlier than 2015 to allow for additional research into "(D)etermining whether the people who prepare and audit financial statements are sufficiently prepared through education and experience to convert to IFRS" (DeFelice & Lamoreaux, 2010, p. 23).

LITERATURE REVIEW

UNITED STATES SERCURITIES AND EXCHANGE COMMISSION (SEC)

The SEC was established as a result of the stock market crash in 1929. During the four-year period from 1929 to 1932 an 83% reduction in value of stocks on the New York Stock Exchange was seen by investors (Seligman, 2003). As a result of the crash, in 1932 the U.S. Senate Banking Committee conducted the Pecora Hearings on Wall Street practices to determine a justification for the crash and evaluate the possibilities of preventing future occurrences (Seligman, 2003). In 1933 during the first 100 days of President Roosevelt's presidency the Federal Securities Laws were drafted and the Securities Act of 1933 was made a federal law which included the first occurrences of specific types of securities undergoing regulation, the development and issuance of prospectuses, and the requirement of registering with the Federal Trade Commission (FTC). The intent was to provide sufficient information in regards to the type of security and the issuer of said security with an overarching intent of prevention of fraudulent offerings (Seligman, 2003).

With the enactment of the 1934 Securities Exchange Act the Securities and Exchange Commission (SEC) was empowered "with the authority to approve stock exchange rules" (Seligman, 2003, p. 99). This Act also mandates of registration and the filing of financial reports on a regular basis is derived. The Act also granted the SEC the rights to "issue rules regarding corporate proxy elections and the over-the-counter markets" (Seligman, 2003, p. 100)

Expansion. During the period from 1940 to the mid-1960s limited legislative acts occurred with respect to the SEC, but a few are worth of noting. The 1940s saw the passage, of the Investment Company Act and the Investment Advisers Act, the focus of which was the required registration of advisors, directors and managers of investment companies. The mid-1950s brought forth a change to the proxy rules. The most significant change in the SEC legislation cam with the passage of the Securities Act Amendments of 1964, One of these amendments which had a profound effect on the securities industry and that was the "extending of the 1934 Securities Exchange Act's regulations to unlisted securities with three hundred or more shareholders" (Seligman, 2003, p. 310).

From the 1970s through the 1990s, saw a number of significant SEC acts or amendments to acts in various areas, but mostly for the protection of the investor. Some examples include the Securities Investor Protection Act (1970), the Racketeer Influenced and Corrupt Organizations Act (1970), Foreign Corrupt Practices Act (1974), the Futures Trading Act (1982), Insider Trading Sanctions Act (1984), the Tax Reform Act (1986), the Market Reform Act (1990) (Seligman, 2003).

The decade of the 2000's one of the most significant acts having the largest impact on reporting requirements is the Sarbanes-Oxley (SOX) Act of 2002. In addition to SOX, the SEC in 2007 had a pronouncement which eliminated the requirement to reconcile with United States Generally Accepted Accounting Procedures for corporations which utilize the International Financial Report Standards (Cabrera, 2008; Hopkins et al., 2008).

According to the International Accounting Standards Board (IASB) and its oversight body the International Accounting Standards Committee (IASC), the goal is to find the best accounting standards from across the world and incorporate them into a single set of accounting standards in order to improve the financial reports that currently exist. By having one single accounting standard worldwide, it is hypothesized by researchers that there will be a reduction in the disparity among financial forecasts for corporate earnings among financial analysts and will greatly increase the accuracy of these forecasts (Tarca, 2005). These same researchers also contend wide variations in how the disparate accounting standards are adopted and implemented in the countries where they are used. This further exacerbates the inaccuracy of the analyst's earnings forecast, thus causing greater problems in the overall financial markets by adding an extra layer of risk with any associated stock purchase or any transaction involving the data from that analyst or organization (Tarca, 2005).

BIRTH OF INTERNATIONAL STANDARDS

The International Accounting Standards Committee (IASC) was founded in 1973 for the development of accounting standards worldwide by the United States, the United Kingdom, Japan, Mexico, the Netherlands, Ireland, Australia, Canada, France, and Germany (Camfferman & Zeff, 2007). The first real move toward converging accounting standards worldwide was in 2001 when the IASC formed the International Accounting Standards Board (IASB) (Fajardo, 2007). The creation of IASB foreshadowed the release in 2002 of a joint statement, termed the Norwalk Agreement ("Financial Accounting Standards Board and International Accounting Standards Board memorandum of understanding: The Norwalk agreement," 2007), from the IASB and the United States Financial Accounting Standards Board (FASB) which laid out the vision that the two boards had for a convergence of accounting standards. The Norwalk Agreement was updated February 2006 when both FASB and IASB agreed to guidelines that helped to reiterate their commitment to converging accounting standards worldwide ("Memorandum of understanding between FASB and the IASB: A roadmap for convergence between IFRSs and US GAAP - 2006-2008," 2006).

A driving catalyst behind the convergence of FASB and IASB is the myriad of financial scandals that shook the financial community when they came to light in the early 2000s (e.g. Enron, WorldCom, Arthur Anderson, and Global Crossing). Other reasons include a yearning for accounting standards that could be applied consistently across nation-state boundaries.

Expansion. The investigation and initiation of memorandums of understanding between various countries and the International Accounting Standards Board (IASB) for the convergence with International Financial Reporting Standards continues to increase yearly. One example of this agreement between countries is Japan, which entered into such an agreement in 2005. During a four-year period Japan, in conjunction with The People's Republic of China and Republic of Korea, signed a joint Memorandum of Understanding with each other ("Memorandum of Understanding (MoU) of the 5th Three Countries' Accounting Standard Setters' Meeting between China, Japan and Republic of Korea," 2005). The acceptance of IFRS by companies and their respective countries on each continent continues to increase year by year, with Pakistan and South Africa being further instances (Stovall, 2010). Another example of the expansion and acceptance of IFRS is seen with the Australian Accounting Standards Board placing an increased emphasis on financial statements being in greater compliance with international standards unless there are mitigating circumstances for non-compliance (Collett, Godfrey, & Hrasky, 2001).

Mandated Use. In December 2007 the SEC eliminated the need for foreign companies to reconcile with U.S. GAAP if these foreign companies filed their financial reports utilizing IFRS (Cabrera, 2008). Also, during 2007 the SEC provided U.S. companies the option of filing their financial reports in accordance with IFRS instead of U.S. GAAP (Cabrera, 2008). Previously in 2005 a directive requiring the utilization of IFRS issued by the European Union (EU) resulted in an increase of over 6,000 companies reporting under IFRS standards rather than "report[ing] in their home country's version of GAAP" (Cabrera, 2008, p. 36).

IMPLEMENTATION OF INTERNATIONAL FINANCUAL REPORTING STANDARDS

The Australian Accounting Profession (AAP) initiated its foray into harmonizing their national accounting standards with international accounting standards in the 1970's with support from the Institute of Charter Accountants in Australia (ICAA) and the group Australian Certified Practising Accountants (CPA) (McCombie & Deo, 2005). However, it was not until the 1990's that the Australian Federal Government (AFG) entered the discussion with a very active role in setting standards and advocated adopting IFRS (McCombie & Deo, 2005). This level of mandating of acceptance of IFRS from the AFG provides an excellent example to view that implementing IFRS as a win-win for the AFG and the various professional accounting bodies within Australia. The AFG expresses the benefits of harmonization as a true entrance into the "discourse of globalization" (McCombie & Deo, 2005, p. 154). Whether or not harmonization of accounting is viewed as a win-win situation, the term globalization must be defined, which is a problem within Australia. During the 1970's the "globalization ha(d) a tendency to obscure the hidden agenda of neo-liberalist discourse"(McCombie & Deo, 2005, p. 154). McCombie & Deo (2005) observed that the current usage of globalization still remains a top-down elitist term. Harmonization and globalization is very much a public policy push and will determine how the issue is viewed. It is the public policy view and the unclear understanding of globalization which inhibits the increase of a win-win situation.

As previously mentioned the AAP, ICAA & CPA sought comparability in accounting in the 1970's. The 1990's saw a relationship begin to develop between AAP, AFG, international capital markets and bodies in the areas of both power and knowledge (McCombie & Deo, 2005), the relationship is a result of a potential economic loss to the Australian Stock Exchange (ASX) due to the International Organization of Securities Commissions recommendation for adoption of one accounting standard for reporting procedures (McCombie & Deo, 2005) . The benefits of accounting harmonization are common comparability and increased quality of information but, on the other hand, because of harmonization the ASX may see a decrease in quality so the balance of win-win is off balance. From AFG's view full adoption of IFRS provides a high probability of there being an economic increase instead of an economic decrease for ASX (McCombie & Deo, 2005).

Attention is being paid to the convergence of IFRS and U.S. GAAP because the United States has been and is currently seen as the dominate financial center of the world. The U.S. at present powers the global economy and since the demise of Bretton Woods the U.S. dollar has been and still is the reserve currency for the world. Because of these reasons and too many others to discuss it, is major news and of significant importance that the U.S. is converging accounting standards with IFRS to make it easier for global financial investments and to help retain hegemony in the world capital markets.

FASB and IASB are converging toward each other as evidenced by the progress report on the February 2006 memorandum for understanding ("Completing the February 2006 memorandum of understanding: A progress report and timetable for completion September 2008,"). In the area of short-term convergence the following projects were completed:

The FASB and the IASB issued standards on a number of short-term convergence projects. Bringing U.S. GAAP into line with IFRSs, the FASB issued new or amended standards that introduced a fair value option (SFAS 159) and adopted the IFRS approach to accounting for research and development assets acquired in a business combination (SFAS 141R). Converging IFRSs with U.S. GAAP, the IASB published new standards on borrowing costs (IAS 23 revised) and segment reporting (IFRS 8). ("Completing the February 2006 memorandum of understanding: A progress report and timetable for completion September 2008," p. 2)

METHODOLOGY

Academic education and training seminars enhance employees' exposure to new concepts and tools that are needed to deal with the multifaceted business situations and accounting issues that confront every organization. If managers are able to receive the education or training that is based on the needs that confront them on the job and if this is coupled with the willingness of the managers to implement the needed changes in their own skills and abilities, then the organization should be able to benefit from such education and training. Research has indicated that commitment to the organization, education and training are all interrelated and are paramount to an organization meeting its strategic goals and moving forward in the global business community. Some areas that have been shown to be beneficial for education and training are coaching, communications, and change management.

The comparative research method was utilized in gathering survey questionnaires from organizational subjects in Fortune 500 organizations for this quantitative research. The subjects were asked to voluntarily complete surveys that reflect their appraisal of how the IFRS implementation training has affected their overall ability to implement the new reporting system.

The problem this researcher proposed was to determine if there was a significant statistical difference between the training levels between financial managers and accounting personnel. The variables inherent in IFRS implementation education or training between the financial managers and financial/accounting department staff cannot be controlled due to the study participants being self-assigning to one of the particular groups. These variables directly impact the hypothesis that IFRS implementation education or training improves the ability of the organization to implement IFRS for the studied groups.

The research determined if there is a significant statistical difference between IFRS training and the knowledge level of financial/accounting department staff. The variables inherent in IFRS implementation education or training cannot be controlled due to the study participants being self-assigning to one of the particular groups. Many variables affect the make-up of IFRS implementation training within each organization. These variables directly impact the hypothesis that IFRS implementation education or training improves the ability to implement IFRS for the studied groups

By utilizing quantitative analysis, the researcher was able to analyze data using statistical methods (Pearson r, *t* test, and ANOVA) that are well proven and tested. Sampling among the Fortune 500 corporations was done by using a convenience sampling method. The survey instrument was distributed via the Internet and completion of this survey on the part of the participant was voluntary. External validity issues with the researcher-designed survey were handled by ensuring that the research questions could be generalized to the population sample.

FINDINGS

The statistics portrayed for the hypothesis illustrate a correlation between survey questions six (sufficient training) and the sum total of the thirteen knowledge questions of the financial/accounting department staff, the null and alternative hypothesis are restated below. A Pearson's Product Moment Correlation was utilized with the Levels of Significance for a two-Tailed Test set at: a = .05 and the critical table r set at r = .088 as determined by entering the Correlation Table at a *df* of 500. A *df* of 500 was selected since the N for the sum total of thirteen knowledge questions answer by the financial/accounting department staff are 584 which is over 500 but below the max *df* of 1000 (Steinberg & Price, 2008, p. 478).

The null hypothesis ($H_0$1): There is no significant statistical relationship between IFRS training and the knowledge level of financial/accounting department staff.

Alternative (H_a1): There is a significant statistical relationship between IFRS training and the knowledge level of financial/accounting department staff.

Table 1

Accounting Employee's Statistics Sufficient TRNG and Knowledge Score

		Sufficient Trng	*KQ Score*
N	Valid	586	606
	Missing	20	0
Mean		1.67	26.88
Median		2.00	27.00
Mode		1	30
Std. Deviation		0.730	3.502
Skewness		0.943	-1.452
Std. Error of Skewness		0.101	0.099
Kurtosis		0.658	4.227
Std. Error of Kurtosis		0.202	0.198
Minimum		1	9
Maximum		4	37

Table 2

Accounting Employee's Frequency Statistics Sufficient TRNG

		Frequency	*Percent*	*Valid Percent*	*Cumulative Percent*
Valid	yes	271	44.7	46.2	46.2
	no	250	41.3	42.7	88.9
	Currently in TRNG	52	8.6	8.9	97.8
	Currently scheduled	13	2.1	2.2	100.0
	Total	586	96.7	100.0	
Missing	System	20	3.3		
Total		606	100.0		

Table 3

Accounting Employee's Frequency Statistics Knowledge Questions Score

		Frequency	*Percent*	*Valid Percent*	*Cumulative Percent*
Valid	9	2	0.3	0.3	0.3
	11	1	0.2	0.2	0.5
	12	1	0.2	0.2	0.7
	13	1	0.2	0.2	0.8
	14	3	0.5	0.5	1.3
	15	1	0.2	0.2	1.5
	16	5	0.8	0.8	2.3
	18	3	0.5	0.5	2.8

19	3	0.5	0.5	3.3
20	7	1.2	1.2	4.5
21	8	1.3	1.3	5.8
22	13	2.1	2.1	7.9
23	37	6.1	6.1	14.0
24	27	4.5	4.5	18.5
25	52	8.6	8.6	27.1
26	64	10.6	10.6	37.6
27	91	15.0	15.0	52.6
28	81	13.4	13.4	66.0
29	53	8.7	8.7	74.8
30	118	19.5	19.5	94.2
31	15	2.5	2.5	96.7
32	5	0.8	0.8	97.5
33	12	2.0	2.0	99.5
34	2	0.3	0.3	99.8
37	1	0.2	0.2	100.0
Total	606	100.0	100.0	

Table 4

Account Employee's Pearson's Product Moment Correlation to Sum Total of Accounting Employee's Knowledge Questions

	Mean	*Std. Deviation*	*N*
Sufficient TRNG	1.67	0.730	586
KQ Score	26.88	3.502	606

		Sufficient TRNG	*KQ Score*
Sufficient TRNG	Pearson Correlation	1	0.015
	Sig. (2-tailed)		0.722
	N	586	586
KQ Score	Pearson Correlation	0.015	1
	Sig. (2-tailed)	0.722	
	N	586	606

A Pearson correlation was calculated examining the relationship between the survey respondent's answer to the IFRS implementation training question which related sufficient training and sum total of the thirteen IFRS knowledge questions. A very weak correlation was found (r (584) = +.722, p > .05). IFRS implementation training is not statistically related to IFRS knowledge level and $H_0$1 is not rejected.

CONCLUSIONS

This research led to the conclusion that while training is being conducted within the organizations to which the researcher's survey was distributed there is room for improvement in the training and the retention of the training offered. There is also a lack of desire in the financial/accounting department staff to seek training outside of that provided by the organization, thus further hampering the financial/accounting department staff IFRS knowledge and retention of the knowledge. As such, it can be said that the financial/accounting department staff of the 100 Fortune 500 organizations in this study are ill prepared for the impending transition to IFRS from GAAP. Many reasons can be assumed for this, but that is outside the scope of this research. In this research, the dependent variable was IFRS knowledge questions and IFRS implementation training and employee level was the independent variables. The researcher's findings can be generalized to the convenience sample of financial managers and financial/accounting department staff in 100 Fortune 500 organizations.

The researcher also concluded that IFRS training should be a higher priority for these organizations so as to allow the financial/accounting department staff and managers to further develop and hone their accounting skills that will apply when IFRS is fully implemented.

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