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Teaching and educational notes

Using Form 20-F reconciliations to internationalize an accounting course

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Abstract

Accounting courses and textbooks in the United States focus on US generally accepted accounting principles (GAAP). As a result, US accounting students have little exposure to International Financial Reporting Standards (IFRS) and to differences between these standards and US GAAP. To familiarize students with the differences between IFRS and US GAAP, accounting instructors can develop assignments based upon the reconciliation of IFRS to US GAAP net income included in Form 20-F, the annual document submitted to the SEC by non-US firms. The course assignment described in this paper provides students with a "road map" of the differences underlying specific company financial reporting, and helps instructors identify where these differences occur. The assignment represents an innovative way of integrating international financial reporting standards and SEC reporting requirements into a higher level undergraduate or graduate accounting course.

Keywords: International accounting education; International Financial Reporting Standards; IFRS; Form 20-F reconciliation

1. Introduction

Most accounting courses and textbooks in the US focus on US generally accepted accounting principles (GAAP). As a result, students studying accounting at US colleges and universities that do not offer a separate course in international accounting

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or International Financial Reporting Standards (IFRS) have little exposure to non-US GAAP. If accounting students are to understand the differences which result from disparities between US and non-US GAAP, ways to effectively integrate international accounting within US GAAP-based financial accounting courses are needed.

The accounting literature was reviewed to identify a logical way to add an international component to the material included in the US GAAP-based textbooks. The Form 20-F reconciliation completed by foreign private issuers[1] registered with the US Securities and Exchange Commission (SEC) is a useful framework for internationalizing upper-level accounting courses. The European Commission's required use of IFRS for European Union (EU) public company consolidated financial reports beginning in 2005, and the adoption of IFRS by other major countries, has increased their use and importance within global financial markets[2]. As a result, the assignment described in this paper focuses on Form 20-F reconciliations based upon IFRS, rather than on individual country accounting standards.

Although current IFRS incorporate changes brought about by the IASB's core standards project and the standards improvement project completed in anticipation of the EU's 2005 adoption of IFRS, significant differences continue to exist between US GAAP and IFRS (IASB & FASB, 2006). These differences are not trivial to the financial statement results or market effects. For example, The Division of Corporate Finance (SEC, 2004) noted that reconciling items may result from income taxes, stock compensation, the treatment of derivatives, and FIN No. 46-R's treatment of variable interest entities. IAS Plus (Deloitte, 2005) identified 110 specific differences between IFRS and US GAAP, and a study of 2005 20-Fs filed by companies in three European countries found that significant differences continue to exist between net income determined under IFRS and US GAAP (Hughes & Sander, 2007).

IFRS and US GAAP are expected to converge as joint efforts to reduce differences continue in specific reporting areas. While these changes will reduce the number and scale of the 20-F reconciling items between IFRS and US GAAP, US investors should still expect some reconciling items between the two standards.

This paper briefly reviews the SEC filing requirements for foreign private issuers, describes the nature of Form 20-F reconciliations, and then details relevant disclosures and the reconciling items included in the 2005 Form 20-Fs of four companies. It next explains how course assignments based on the 20-F reconciliation help students identify specific differences between US GAAP and IFRS, determine the basis for these differences as described in individual notes supporting the reconciliation, use the narrative as a guide to locate the relevant accounting pronouncements, and evaluate the differences between the standards. A possible extension of the assignment, in which students recast US GAAP-based results to those likely under IFRS, is also described. The paper concludes with teaching notes and observations from actual class experience.

[1] The definition of a foreign private issuer was amended in Release Nos. 33-7745 and 34-41936; International Series Release No. 1205 to any foreign company that issues securities within the US and that has less than 50% of the shares owned within the US and for which the majority of the officers and directors or assets are not located in the US (SEC, 2000).

[2] More than 8000 listed companies in the EU and Australia were estimated to use IFRS for the first time in 2005 (Tokar, 2007).