



> The International Financial Reporting Standards (IFRS)

The increasing globalization of capital markets combined with a diversity of accounting practices has led to an international effort to increase the comparability over time and among firms of financial information. The International Accounting Standards Board (IASB) was established to develop International Financial Reporting Standards (IFRS) that will unify all public companies under one global set of reporting standards. The objective of this effort is to increase the decision usefulness of the economic information presented within the financial statements .

Companies in the United States are expected to comply with U.S. GAAP. However, it is expected that U.S. firms will be required to report using IFRS in the near future. For these companies, the important questions are when will IFRS reporting be required and what will the reporting standards be? We expect U.S. public companies will report using IFRS by 2014 with some larger firms on the system by 2010. Currently, over 12,000 companies in more than 100 countries report under IFRS. However, despite the push for comparability, not everyone is convinced that IFRS will improve the usefulness of accounting information. As one observer put it “There is a real risk of a veneer of comparability that hides a lot of differences.” Countries—29 at last count—have typically reserved the right to adopt exceptions to IFRS when they deem them to be appropriate.

Your authors believe users should be aware of major differences between the current United States Generally Accepted Accounting Principles (U.S. GAAP) and the accounting practices required under IFRS standards. In the following table, we summarize some of the important differences by chapter and then by topic within each chapter. Where a book topic is not referenced, you can assume the IFRS treatment is either identical or sufficiently similar that further clarification of any difference can be delayed to a more advanced course.

Chapter	Topic	GAAP Requirements	IFRS Requirements
1	Financial Statements: Years Reported	U. S. GAAP requires 3 years of statements except for the balance sheet where 2 years are reported.	IFRS requires 2 years of statements.
	Nature versus Function Reporting	GAAP requires a function approach (e.g., marketing).	IFRS allows reporting items by function (e.g., marketing) or by nature (e.g. advertising). If the nature classification is used, a functional breakdown is also required.
	Philosophical Difference	GAAP relies on a detailed rule-based approach. (GAAP requires over 25,000 pages to cover its pronouncements.)	IFRS is simpler relying more on fair value and the faithfulness of the representation. (IFRS requires about 2,500 pages currently to cover its pronouncements.)
	Conceptual Framework	The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) are working on a common conceptual framework.	
	Regulation and Oversight	Oversight is provided by the SEC, the AICPA and Sarbanes-Oxley as well as the FASB.	IFRS relies in the IASB and whatever oversight is supplied by individual countries.
2 & 3	Constructing Financial Statements	The IASB and the FASB are working on a project the will ultimately result in the balance sheet, the income statement and the cash flow statement all using the same classifications. Under this approach, the reporting is scheduled to report an entity's financing activities separately from its operating activities. A further refinement would separate financing activities of owners from those of creditors.	
	Expense Recognition	The primary areas of difference in expense recognition relate to employee benefits covered in Chapter 9 and interest capitalization, covered in Chapter 7. Revenue recognition is covered in Chapter 5.	
4	Noncash Investing and Financing Activities	Under GAAP, these transactions may be reported in either the notes or in with the cash flow statement.	Under IFRS reporting, noncash investing and financing activities are reported in the notes and excluded from the cash flow statement.
	Interest Payments	Classified as operating cash flow.	Classified as either operating or financing cash flow.
5	Extraordinary Items	Extraordinary items are reported separately (net of tax) below income from operations	Extraordinary items are not recognized, but instead are included with other revenues and expenses in IFRS reporting.
	Distinguishing Between Revenues and Gains	GAAP distinguishes between revenues and gains. The two items are reported separately.	IFRS includes gains in revenues.
	Revenue Recognition	Revenue recognition when risks, benefits and control have been transferred is the guiding philosophy under GAAP. However, under GAAP much greater guidance exists involving certain transactions that can lead to different results in practice.	Revenue recognition when risks, benefits and control have been transferred is also the guiding philosophy under IFRS.
	The Completed Contract Method for Long-Term Contracts	Permitted under GAAP in rare circumstances when the percentage-of-completion method is not justified.	Prohibited under IFRS. IFRS requires the cost-recovery method be used instead of the completed-contract method.
6	Use of the Last-In-First-Out Inventory Method	GAAP permits the use of the last-in-first-out inventory method.	IFRS prohibits the use of the last-in-first-out inventory method.
	Application of Cost-or-Market	GAAP defines market as net realizable value and uses a ceiling or floor measure to bound net realizable value.	IFRS defines market as net realizable value and does not use a ceiling or floor measure to bound net realizable value.
	Inventory Write Downs	Under GAAP, if inventory is written down using cost or market, the written-down value is the new cost.	Under IFRS this cost can be written back up when justified but to no more that the original cost.

continued

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7	Revaluing Long-Term Assets	GAAP does not permit long-term assets to be revalued upward	IFRS permits long-term assets to be revalued upward when conditions justify.
	Impairment of Long-Term Assets	Under GAAP impairment is determined without discounting the cash flows. The impaired amount is the difference between the carrying value and the fair value. Reversals are not permitted.	Under IFRS is impairment is deemed to exist when the discounted values of the related cash flows are below book value. The asset is then reduced to the higher of its fair value or value in use. Reversals of previous write-downs are allowed, but not above the original cost.
	Interest on Directly Related Borrowings During Construction	Under GAAP interest during construction is capitalized. This includes interest on construction loans as well as some interest on debt not related to construction.	Interest on directly related borrowing during construction is capitalized under IFRS after 1/1/2009. Other interest can be expensed.
	Research Costs	Research costs are expensed. Capitalization of development costs under GAAP is allowed only in the case of software and web site situations and then only when special development goals have been met.	Under IFRS, research costs are expensed. However, development costs can be capitalized when specific criteria are met.
8 & 9	Capitalization Reporting of Leases	Financing leases are capitalized while operating leases are not. Under GAAP, additional rules apply that relate to lease classification (operating versus financing).	Financing leases are capitalized while operating leases are not. Leasing standards are quite similar to those under GAAP.
	Actuarial Gains and Losses (Pensions)	Under GAAP, actuarial gains and losses cannot be deferred but are instead recognized in accumulated other comprehensive income and amortized to income over time.	Under IFRS these gains and losses can be deferred or recognized outside the income statement.
	Deferred Taxes: Classification	GAAP classifies the deferred tax based on the classification of the asset that gives rise to the deferred tax.	IFRS classifies all deferred taxes as non-current.
	Deferred Tax Assets: Amount Recognized	GAAP recognizes the entire amount but applies a net valuation allowance to the total.	IFRS recognizes the deferred tax at the probable amount of the recovery.
10	Statement of Stockholders' Equity: Location	Under GAAP reporting, the SEC permits the Statement of Stockholders' Equity to be presented in either the notes or as a primary statement with the latter being the typical approach.	Under IFRS reporting, the entity can report a comprehensive report (called a SoRIE) that also includes the coverage of the GAAP statement, and Other Comprehensive Income.
	Treatment of Mandatorily Redeemable Preferred Shares	Under GAAP, certain redeemable instruments can be classified separately between debt and equity.	Under IFRS, preferred shares that are mandatorily redeemable are classified as liabilities.
	Convertible Debt	Under GAAP, it is treated as debt only.	Under IFRS convertible debt is split between debt and equity.
11	Investments With Significant Influence	GAAP uses "equity" to describe an investment with significant influence (usually associate with a voting interest between 20 and 50 percent).	IFRS uses the term "associate" to describe an investment with significant influence (usually associated with a voting interest between 20 and 50 percent).
	Minority Interests	Under GAAP the value is reported at the pre-acquisition carrying value of the net assets.	Any minority interest is valued at the fair value of the net assets under IFRS.
	Negative Good will	Under GAAP, the excess of the liabilities over the fair value of the assets acquired is used to reduce proportionally the fair value of the non-current assets with the remainder, if any, treated as an immediate gain.	Any negative good will is recognized immediately in the income statement under IFRS.