

READING 31: FINANCIAL REPORTING STANDARDS

FRAMEWORK			
	U.S. GAAP	IFRS	Similarities
Purpose of Framework	The FASB framework resides lower in hierarchy. Management is not required to prioritize it if no standard is available.	Management is explicitly required to prioritize the IASB framework if there is no standard or interpretation available.	Both the frameworks are similar in their purpose to assist in developing and assisting standards.
Objectives of financial statement	It provides different objectives for business entities versus non business entities.	It gives one objective for different business entities.	Both frameworks have a broad focus to provide relevant information to a wide range of users.
Underlying assumptions	Although it recognizes, but not given much prominence is given to accrual and going concern basis. In fact going concern assumption is not well developed in particular	Give importance to accrual and going concern basis	
Qualitative Characteristics	Same characteristics but with a hierarchy <ul style="list-style-type: none"> • Relevance and Reliability are primary qualities. • Comparability is the secondary quality. • Understandability, treated as user-specific 	It has the same characteristics (understandability, comparability, relevance and reliability) but there is no such hierarchy.	The characteristics are same.
Approach	Rules based approach in the past but moving towards adopting object oriented approach	Principles based approach	
Financial statement elements (definition, recognition, and measurement)			
Performance elements	Elements are revenues, expenses, gains, losses, and comprehensive income.	Revenues and Expenses	
Financial Position elements	Asset: a future economic benefit. Term 'Probable' is used to define assets and liabilities elements.	Asset: a future economic resource with which future economic benefits are expected 'Probable' is a part of the framework recognition criteria.	
Recognition of elements	Does not discuss "Probable" for recognition criteria. Has separate criteria based upon "Relevance"	IASB framework requires that it is probable that any future economic benefit to flow to/from the entity.	
Measurement of elements	FASB generally prohibits revaluations except for certain categories which must be carried at fair value (discussed in later topics).	Revaluation is usually permitted (discussed in later topics)	Measurement attributes like historical cost, current cost, settlement value, current market value, and present value are broadly consistent.

READING 32: COMPONENTS AND FORMAT OF THE INCOME STATEMENT

	U.S. GAAP	IFRS	Similarities
Revenue Recognition	<p>It specifies that revenue should be recognized when it is "realized or realizable and earned."</p> <ol style="list-style-type: none"> 1. There is evidence of an arrangement between buyer and seller. 2. The product has been delivered, or the service has been rendered. 3. The price is determined, or determinable. 4. The seller is reasonably sure of collecting money. 	<p>The basic revenue recognition deal with the definition of "earned." The conditions are:</p> <ol style="list-style-type: none"> 1. The entity has transferred to the buyer the significant risks and rewards of ownership of the goods; 2. The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; 3. The amount of revenue can be measured reliably; 4. It is probable that the economic benefits associated with the transaction will flow to the entity; and 5. The costs incurred or to be incurred in respect of the transaction can be measured reliably. 	
Revenue Recognition (Service)	Does not deal separately	<p>The outcome of service can be estimated reliably, revenue associated with the transaction will be recognized with reference to the stage of completion of the transaction at the balance sheet date. The conditions to measure reliably are:</p> <ol style="list-style-type: none"> 1. The amount of revenue can be measured reliably; 2. It is probable that the economic benefits associated with the transaction will flow to the entity; 3. The stage of completion of the transaction at the balance sheet date can be measured reliably; and 4. The costs incurred for the transaction and the costs to complete the transaction can be measured reliably. 	

Long term Contracts	Under U.S. GAAP, a different method is used when the outcome cannot be measured reliably, termed the "completed contract method." Under the completed contract method, the company does not report any revenue until the contract is finished. Under U.S. GAAP, the completed contract method is also appropriate when the contract is not a long-term contract.	If the outcome of the contract cannot be measured reliably, then revenue is only reported to the extent of contract costs incurred (if it is probable the costs will be recovered). Costs are expensed in the period incurred. Under this method, no profit would be reported until completion of the contract.	IFRS provide that when the outcome of a construction contract can be measured reliably, revenue and expenses should be recognized in reference to the stage of completion. U.S. GAAP has a similar requirement. Under both IFRS and U.S. GAAP, if a loss is expected on the contract, the loss is reported immediately, not upon completion of the contract, regardless of the method used.
Barter	U.S. GAAP states that revenue can be recognized at fair value only if a company has historically received cash payments for such services and can thus use this historical experience as a basis for determining fair value.	Under IFRS, revenue from barter transactions must be measured based on the fair value of revenue from similar non barter transactions with unrelated parties (parties other than the barter partner)	
Gross Vs. Net Reporting	To report gross revenues, the following criteria are relevant: 1. The company is the primary obligor under the contract, 2. bears inventory risk and credit risk, 3. can choose its supplier, and 4. has reasonable latitude to establish price. If these criteria are not met, the company should report revenues net		
Depreciation Amortization			In most cases IFRS and U.S. GAAP, amortizable intangible assets are amortized using the straight-line method with no residual value. Goodwill and intangible assets with indefinite life are not amortized. Instead, they are tested at least annually for impairment.
Discontinued Operations			The income statement reports separately the effect of this disposal as a "discontinued" operation under both IFRS and U.S. GAAP.
Extraordinary Items	Under U.S. GAAP, an extraordinary item is one that is both unusual in nature and infrequent in occurrence.	IFRS prohibits classification of any income or expense items as being "extraordinary."	
Earnings Per share	Under U.S. GAAP, equity for which EPS is presented is referred to as common stock or common shares.	Under IFRS, the type of equity for which EPS is presented is ordinary shares.	Both IFRS & U.S. GAAP require the presentation of EPS on the face of the income statement for net profit or loss from continuing operations.

Treasury Stock Method	Under U.S. GAAP, when a company has stock options, warrants, or their equivalents outstanding, the diluted EPS is calculated using the treasury stock method	Under IFRS, requires a similar computation but does not refer to it as the "treasury stock method."	
Comprehensive Income	According to U.S. GAAP, four types of items are treated as other comprehensive income. <ul style="list-style-type: none"> • Foreign currency translation adjustments. • Unrealized gains or losses on derivatives contracts accounted for as hedges. • Unrealized holding gains and losses on a certain category of available-for-sale securities. • Changes in the funded status of a company's defined benefit post-retirement plans. 		

READING 33: UNDERSTANDING THE BALANCE SHEET

	U.S. GAAP	IFRS	Similarities
Balance sheet illustrations	Under U.S. GAAP current assets and current liabilities are shown before long term assets and liabilities respectively. It requires that minority interests be presented on the consolidated balance sheet as a separate component of stockholders' equity and labeled separately. Entity with multiple minority interests may present in aggregate.	Under IFRS the minority section is shown, as required, in the equity section. Noncurrent assets, as common practice are shown before current assets.	
Measurement basis			The notes to financial statements and management's discussion and analysis are integral parts of the U.S. GAAP and IFRS financial reporting processes.
Inventories	LIFO is allowed under U.S. GAAP along with FIFO, specific identification and weighted average	LIFO is not allowed under IFRS whereas FIFO, specific identification and weighted average are allowed	

Specifically identifiable intangible assets	U.S. GAAP prohibits the capitalization as an asset of almost all research and development costs. All such costs usually must be expensed. Generally, under U.S. GAAP, acquired intangible assets are reported as separately identifiable intangibles (as opposed to goodwill) if they arise from contractual rights (such as a licensing agreement), other legal rights (such as patents), or have the ability to be separated and sold (such as a customer list).	Under IFRS, specifically identifiable intangible assets are recognized on the balance sheet if it is probable that future economic benefits will flow to the company and the cost of the asset can be measured reliably (externally purchased). IFRS prohibits the capitalization of costs as intangible assets during the research phase. Instead, these costs must be expensed on the income statement. Costs incurred in the development stage can be capitalized as intangible assets if certain criteria are met.	Internally created identifiable intangibles are less likely to be reported on the balance sheet under IFRS or U.S. GAAP rather expensed out
Goodwill			Under both IFRS & U.S. GAAP Goodwill should be capitalized and tested for impairment annually.

READING 34: UNDERSTANDING THE CASH FLOW STATEMENT

	U.S. GAAP	IFRS	Similarities
Interests received	Operating cash flow	Operating or Investing cash flow	
Interest paid	Operating cash flow	Operating or Financing cash flow	
Dividends received	Operating cash flow	Operating or Investing cash flow	
Dividends paid	Financing cash flow	Operating or Financing cash flow	
Bank overdrafts	Not considered as cash or cash equivalents; classified as financing	Considered part of cash equivalent	
Taxes paid	Operating	Generally operating but a portion can be investing or financing if identified separately with these categories	
Format of statement	If direct is used reconciliation of NI with Operating cash flow must be provided	No such requirement to provide any reconciliation	Direct or Indirect; Direct is encouraged
Disclosures	If not presented on the cash flow statement, both interest and taxes paid must be disclosed in footnotes	Tax cash flows must be separately disclosed in the cash flow statement	
Previous Years Statements	Three years of cash flow statements are provided	Two years of cash flow statements are provided	

READING 35: FINANCIAL ANALYSIS TECHNIQUES

	U.S. GAAP	IFRS	Similarities
Segment Reporting	Requirements are similar to IFRS but less detailed. Disclosure of Segment Liabilities is a noticeable omission	IFRS requires the detailed reporting of segments	

READING 36: INVENTORIES

	U.S. GAAP	IFRS	Similarities
Cost of Inventories			Under both IFRS and U.S. GAAP the costs to be included in inventories and those needed to be expensed immediately are same.
Inventory Valuation Methods	LIFO is permitted	LIFO is not permitted	Under both IFRS and U.S. GAAP specific identification, weighted average and FIFO are allowed.
Measurement of Inventory Value	Inventories are measured at lower of costs or market where market is the current replacement cost which cannot be greater than NRV and lower than NRV minus Profit margin.	Inventories should be measured at lower of cost and NRV (net realizable value).	
Reversal of Write-down	U.S. GAAP prohibits any reversal of write-down.	The amount of any reversal of any write-down of inventory arising from an increase in net realizable value is recognized as a reduction in cost of sales (COGS)	
Mark to Market (presenting on fair value)			U.S. GAAP are similar to IFRS in the treatment of inventories of agricultural and forest products and mineral ores. Mark-to-market inventory accounting is allowed for refined bullion of precious metals.
Disclosures	U.S. GAAP require of disclosure of income from LIFO Liquidation and significant estimates related to inventories.	IFRS requires the amount of write down to be disclosed and the circumstances which led to the write down of inventories	Other disclosures are similar.

Changes in inventory valuation method	<ul style="list-style-type: none"> Under U.S. GAAP, a company making a change in inventory valuation method is required to explain why the newly adopted inventory valuation method is superior and preferable to the old method. If a company changes from LIFO to any other method retrospective application is necessary. If a company changes to LIFO method then prospective application is necessary 	<p>Under IFRS, a change in accounting policy, also cost formula, is acceptable only if the change results in the financial statements providing</p> <ul style="list-style-type: none"> reliable more relevant information about the effects of transactions, other events, or conditions on the business financial position, financial performance, or cash flows. 	
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READING 37: LONG LIVED ASSETS

	U.S. GAAP	IFRS	Similarities
Acquisition of Long lived Assets	U.S. GAAP does not net the interests.	Under IFRS, income earned on temporarily investing the borrowed monies decreases the amount of borrowing costs eligible for capitalization.	
Intangible assets developed internally	U.S. GAAP requires both research and development costs to be expensed except for software development	Under IFRS the research cost is expensed whereas the development cost is capitalized as an intangible asset	The treatment of software development costs under U.S. GAAP is similar to the treatment of all costs of internally developed intangible assets under IFRS.
Intangible assets acquired in a Business Combination	Under U.S. GAAP, there are two criteria to judge whether an intangible asset acquired in a business combination should be recognized separately from goodwill: <ul style="list-style-type: none"> The asset must be either an item arising from contractual legal rights An item that can be separated from the acquired company 	Under IFRS, the acquired individual assets include identifiable intangible assets that meet the definitional and recognition criteria. If it doesn't then it will be recorded as goodwill	
Depreciation/ Amortization. of Long lived assets	U.S. GAAP requires the cost model of reporting for long lived assets	The cost model is permitted under IFRS	
Revaluation method	U.S. GAAP do not permit the use of revaluation method	IFRS permits the revaluation method	
Reviewing estimates	U.S. GAAP does not require companies to review their estimates affecting depreciation expense annually	IFRS requires companies to review these estimates annually	
Component Method	Under U.S. GAAP the component method is allowed but is seldom used	IFRS requires companies to use component method of depreciation	

Impairment of Assets	Reversal is not permitted under U.S. GAAP	Reversal is permitted under IFRS	Both IFRS and U.S. GAAP require companies to write down the carrying amount of impaired assets.
Impairment Test	Under U.S. GAAP an asset's carrying amount is considered not recoverable when it exceeds the undiscounted expected future cash flows. The impairment loss is then measured as the difference between the asset's fair value and carrying amount.	IFRS defines the recoverable amount as the higher of its fair value less costs to sell and its 'value in use' where 'value in use' is a discounted measure of expected future cash flows	
Reversal of Impairment	Under U.S. GAAP, once an impairment loss has been recognized for assets held for use, it cannot be reversed. For assets held for sale, if the fair value increases after an impairment loss, the loss can be reversed.	IFRS permit impairment losses to be reversed if the recoverable amount of an asset increases regardless of whether the asset is classified as held for use or held for sale. IFRS do not permit the revaluation to the recoverable amount if the recoverable amount exceeds the previous carrying amount	
Disclosures (Tangible Asset Class)	Under U.S. GAAP the requirements are less exhaustive. Disclosure includes: <ul style="list-style-type: none"> • Period's depreciation expense • Balance of major classes of depreciable assets • Accumulated depreciation by major class or in total • General description of the depreciation method 	Under IFRS for each class of PP&E a company should disclose <ul style="list-style-type: none"> • Measurement base • Depreciation method • Useful life used • Gross carrying amount • Accumulated depreciation at the beginning of each period • Restriction or title and pledge • Contractual agreement to acquire PP&E If revaluation model used then: <ul style="list-style-type: none"> • Date of revaluation • How fair value was obtained • Carrying amount under the cost model • Revaluation surplus (if any) 	

Disclosures (Intangible asset class)	<p>Under U.S. GAAP companies are required to disclose:</p> <ul style="list-style-type: none"> • Gross carrying amount • Accumulated amortization by asset class • Aggregate amortization expense for the period • Estimated amortized expense for the next 5 years 	<p>Under IFRS a company must disclose</p> <ul style="list-style-type: none"> • Asset class is having finite or infinite life • If finite the company must disclose useful life • The amortization method used • The gross carrying value • Accumulated Amortization at beginning of each period • Reconciliation of carrying amount at the beginning and end of each period <p>For indefinite life</p> <ul style="list-style-type: none"> • Carrying amount & why it is considered with indefinite life <p>Revaluation model disclosures are same if used</p>	
Disclosures (Impairment losses)	<p>Under U.S. GAAP</p> <ul style="list-style-type: none"> • Description of the impaired asset • Why impairment was done • Method of determining fair value • Amount of impairment loss • Where the loss is recognized on financial statements 	<p>Under IFRS</p> <ul style="list-style-type: none"> • The amount of impairment loss • Reversal of impairment losses • Where they are recognized on financial statements • Main classes affected by impairment loss and reversal • Main events and circumstances leading to impairment loss and reversal. 	

READING 38: INCOME TAXES

	U.S. GAAP	IFRS	Similarities
Deferred Tax Assets and Liabilities	Under U.S. GAAP deferred tax assets and liabilities are classified as current and noncurrent based on the classification of asset or liability	Under IFRS deferred tax assets and liabilities are always classified as noncurrent.	
Economic Benefit does not match	Under U.S. GAAP a valuation allowance is established if deferred tax asset or liability resulted in past but the criteria of economic benefit does not match with current balance sheet	Under IFRS an existing deferred tax asset of liability related to the item will be reversed if it resulted in past but the criteria of economic benefit does not match with current balance sheet	

Tax Base of a Liability	Under U.S. GAAP the tax legislation within the jurisdiction will determine the amount recognized on the income statement and whether the liability (revenue received in advance) will have a tax base greater than zero. This will depend on how tax legislation recognizes revenue received in advance.	IFRS offers specific guidelines with regard to revenue received in advance. It states the tax base is the carrying amount less any amount of the revenue that will not be taxed at a future date.	The analysis of the tax base results in similar outcome
Differences between Taxable & Accounting Profit	Under U.S. GAAP a deferred tax asset or liability is not recognized for unamortizable goodwill. There is no exemption for the initial recognition of asset or liability in transaction that <ul style="list-style-type: none"> • Is not a business combination • Affect nor accounting or taxable profit 	Under IFRS, a deferred tax account is not recognized for goodwill arising in a business combination. Since goodwill is a residual, the recognition of a deferred tax liability would increase the carrying amount of goodwill. There is an exemption for initial recognition of asset or liability in transactions stated before	IFRS and U.S. GAAP both prescribe balance sheet liability method for recognition of deferred tax
Deductable Temporary Difference			Under IFRS and U.S. GAAP, any deferred tax assets that arise from investments in subsidiaries, branches, associates, and interests in joint ventures are recognized as a deferred tax asset. They both allow the creation of deferred tax asset in the case of tax losses and credits
Recognition of Tax Charged directly to Equity	Revaluations are not permissible under U.S. GAAP		Charged Directly to Equity In general, IFRS and U.S. GAAP require that the recognition of deferred tax liabilities and current income tax should be treated similarly to the asset or liability that gave rise to the deferred tax liability or income tax based on accounting treatment.

READING 39: NON-CURRENT LIABILITIES

	U.S. GAAP	IFRS	Similarities
Bond Issuance	Under U.S. GAAP the issuance cost is recognized as an asset and amortized on straight line basis over the life of the bond	Under IFRS all issuance costs are included in the measurement of liability, bonds payable, and netted.	Under both U.S. GAAP and IFRS the issuance costs are included in cash outflow from financing activities and usually netted against bonds proceeds
Accounting Method for bond issuance	Under U.S. GAAP the effective interest method is preferred	Under IFRS the effective interest method is required	
Reporting of Interest Payments	It is reported as operating cash outflow	Could be either report as operating or financing cash outflow	

Reporting Option			IFRS and U.S. GAAP require fair value disclosures in the financial statements unless the carrying amount approximates fair value or the fair value cannot be reliably measured.
De-recognition of Debt	The debt issuance costs are accounted for separately from bonds payable. Any unamortized debt issuance costs must be written off at the time of redemption and included in the gain or loss on debt extinguishment.	The issuance cost are a part of the liability thus part of the carrying amount	
Lease terminology	Capital lease is the terminology	Finance lease is the terminology	
Classification as Finance/ Capital Lease	<p>Though the principle is same but provisions are more specific</p> <ul style="list-style-type: none"> • Ownership of the lease to be transferred at the end of the lease • Lease contains an option to purchase the asset at cheaply, bargain price option • Lease term 75 percent or more of the useful life of the asset • Present value of lease payments to be a least 90 percent of the fair value <p>Lessee requires one of these criteria to consider lease as capital whereas Lessor requires at least one of the criteria plus meeting the reasonable assurance for getting the cash and performed substantially under the lease to record as capital lease.</p>	<ul style="list-style-type: none"> • Ownership is transferred to the lessee by the end of the lease term • Option to purchase the asset at price sufficiently less than the fair price • Lease term extended to major part of economic life of the asset, even the title is not transferred • At inception the present value of minimum lease payments be equal to the fair value of the asset • Asset can only be used by lessee unless major modifications are made <p>Generally is all the risks and rewards associated with the asset are transferred, both the lessee and the lessor record finance lease</p>	
Interest portion of lease payment	U.S. GAAP consider the interest portion of lease payment as an outflow from operating activity	Either operating or financing cash outflow under IFRS for interest portion of the lease payment	
Reporting by the Lessor	<p>From lessor's perspective there are two types of lease</p> <ul style="list-style-type: none"> • Direct Financing: When present value of the lease payments equals the carrying amount of the asset • Sales-type: When present value exceeds the carrying amount of the asset 	Under IFRS there is no such classification but treatment is available when manufacturer is also the lessor.	Under IFRS and U.S. GAAP, if a lessor enters into an operating lease, the lessor records any lease revenue when earned. The lessor also continues to report the leased asset on the balance sheet and the asset's associated depreciation expense on the income statement.
Actuarial gains/losses & Prior Service Costs			Both IFRS and U.S. GAAP allow the companies to smooth the effect of these two items over time

Net Pension Obligation	Under U.S. GAAP companies are required to measure the net pension obligation (asset) as pension obligation less plan assets.	Under IFRS companies can choose to measure net pension obligation. Companies alternatively can choose to exclude the unrecognized smoothed amounts resulted from actuarial gains/losses or prior service costs	
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READING 43: INTERNATIONAL STANDARD CONVERGENCE

	U.S. GAAP	IFRS	Similarities
Long-Term Investments	U.S. GAAP requires the use of equity method for accounting interests in equity method U.S. GAAP uses a dual model based on voting control and economic control in accounting for investment in another area	IFRS permits the use of proportionate or equity method in joint ventures. IFRS uses voting control method to determine need for consolidation in accounting for investment in another area	