Where in Time is IFRS?

Where are we with IFRS?

Accounting impacts companies across the world, which requires us to adopt a global view. Consider the following:

- IFRS now adopted or accepted in over 115 countries, including over 30 member-states of the EU
- FASB and IASB are attempting to converge IFRS and U.S. GAAP
- Regulators consider a transition entirely from U.S. GAAP to IFRS for U.S. companies
- U.S. Securities and Exchange Commission (SEC) proposes a "roadmap" for use of IFRS by U.S. companies (see following roadmap)

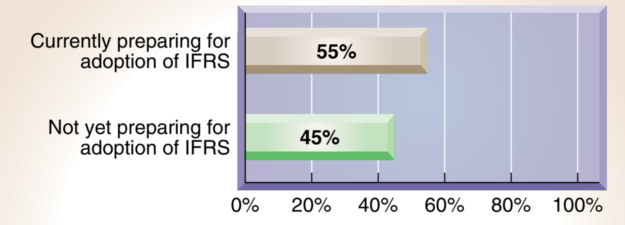
What hurdles exist with IFRS?

- Cost estimates are $30 to $40 million per large company to transition to IFRS
- Convergence between IFRS and U.S. GAAP is slower than anticipated
- Skeptics assert convergence is unlikely and that IFRS and U.S. GAAP will never be identical
- Critics assert that U.S. GAAP is the "gold standard" and that IFRS will yield reports of less quality
- Both U.S. executives and accountants are not yet prepared for IFRS (see following survey results)

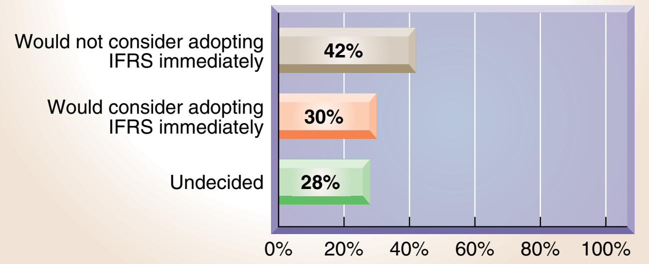
IFRS Roadmap

2001	IASB established
2002	IASB and FASB agree on efforts to converge IFRS and U.S. GAAP
2005	SEC proposes a "Roadmap" for foreign companies to use IFRS without reconciliation to U.S. GAAP
2007	Foreign companies can use IFRS in lieu of U.S. GAAP for U.S. SEC filings
2008	SEC proposes a "Roadmap for Potential Use of Financial Statements Prepared in Accordance with IFRS by U.S. Issuers"
2010	SEC seeks company volunteers to convert to IFRS
2011	Potential for early adoption of IFRS
2012	SEC targeted decision point on mandating IFRS
2014	Potential phase-in of IFRS for large, accelerated companies
2015	Potential phase-in of IFRS for medium-sized, accelerated companies
2016	Potential phase-in of IFRS for smaller, nonaccelerated companies

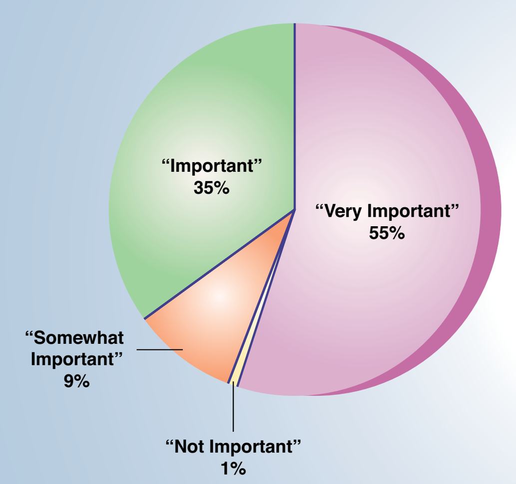
Survey of U.S. CPAs on IFRS readiness



Survey of U.S. executives on adopting IFRS



Global survey of business leaders on importance of IFRS for economic growth



Source: International Financial Reporting Standards (IFRS): An AICPA Backgrounder "International Federation of Accountants survey", p. 2 © 2008, American Institute of Certified Public Accountants. New York, NY 10036-8775

What benefits exist to IFRS?

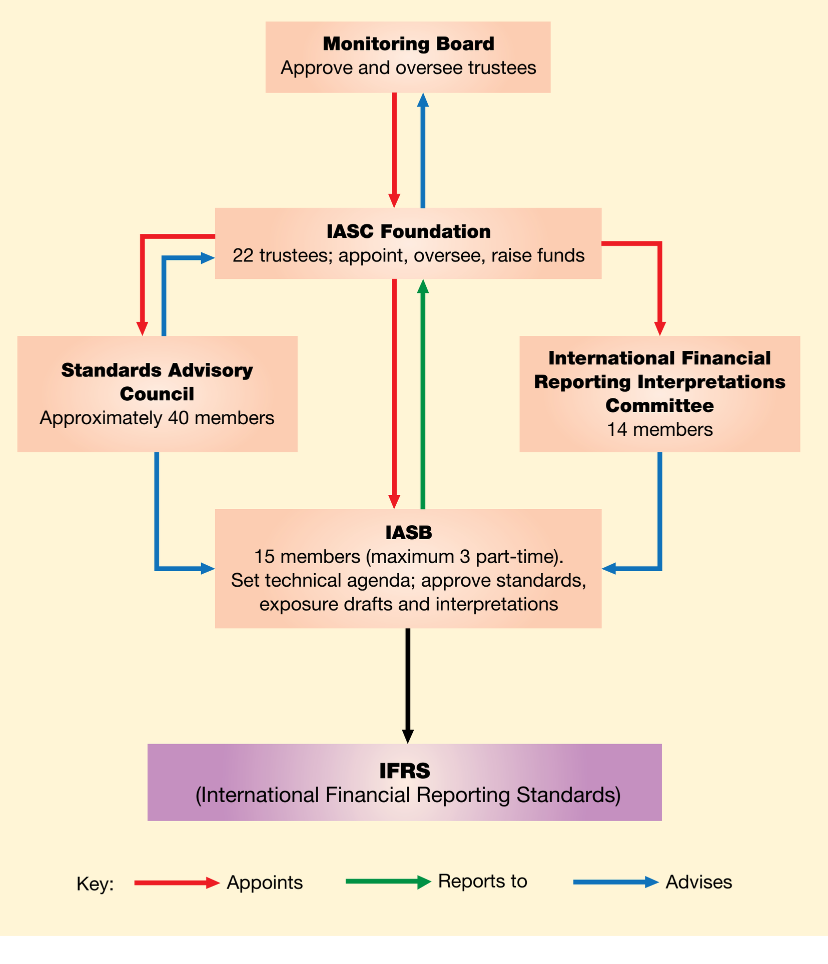
- IFRS is becoming the global norm for accounting standards, and nonadopters run the risk of being marginalized
- Global IFRS usage enhances analysis and capital allocations
- Global standards aid users in comparative analysis and help companies raise financing throughout the world
- High quality global standards promote financial disclosure and transparency
- IFRS emphasizes "principles-based" standards that encourage disclosure of economically relevant and transparent business activities
- One set of global standards can reduce long-run costs of the accounting for, analysis of, and translations with business activities
- Uniform, global standards allow companies to centralize financial reporting and simplify its processes
- Enhanced global standards and transparency reduce the cost of capital
- U.S. adoption of IFRS would align the U.S. with the rest of the world and encourage economic growth (see chart to the side)

What in the World is IFRS?

What is IFRS? IFRS is an abbreviation for International Financial Reporting Standards, which are set by the International Accounting Standards Board (IASB), headquartered in London. The majority of companies throughout the world report financial statements following IFRS. However, companies listing their stock on U.S. stock exchanges report financial statements following U.S. GAAP, which is set by the Financial Accounting Standards Board (FASB), headquartered in Connecticut. There is increasing pressure on many fronts for the U.S. to adopt IFRS for financial reporting. Already, many international subsidiaries of U.S. companies prepare financial statements following IFRS, not U.S. GAAP.

The illustration to the side shows the general structure and the responsible parties for the setting of IFRS. The key parties are identified in this graphic and are defined below. This illustration shows that IFRS is established by the IASB. The IASB reports to (overseen by) the International Accounting Standards Committee Foundation (IASCF). That Foundation is appointed by a Monitoring Board. The Foundation appoints the Standards Advisory Council (SAC) and the International Financial Reporting Interpretations Committee (IFRIC). More detail on each of these groups is provided below.

The IASB and FASB have mutually agreed to a *Memorandum of Understanding*, which is a commitment to cooperate on making existing and future standards compatible. The U.S. Securities and Exchange Commission (SEC) has also stepped in with a *Roadmap to Convergence*. These developments have set in motion what most believe is inevitable; that is, the convergence of U.S. GAAP to IFRS, and the conversion of financial statements under U.S. GAAP to IFRS. No one knows the exact timetable, but we do know that IFRS is already the business language for much of the world.



Monitoring Board
The Monitoring Board serves as a source of communication between key market participants and the IASCF. One of its goals is to aid regulators in requiring IFRS in their jurisdictions. This board also aids in appointing trustees and in providing advice to those trustees. Members include leaders from the European Commission, the Financial Services Agency of Japan, the U.S. Securities and Exchange Commission, the Emerging Markets Committee of IOSCO, and the Technical Committee of IOSCO.

International Accounting Standards Committee Foundation (IASCF)
The IASCF is a nonprofit, private sector group who represents the public interest when appointing and overseeing the Board. Members include six from North America, six from Europe, six from the Asia/Oceania region, and four from any area. Members also include a balance of professional backgrounds, including auditors, preparers, users, academics, and others.

International Accounting Standards Board (IASB)
The IASB approves standards, exposure drafts, and interpretations. Members normally include four from the Asia/Oceania region, four from Europe, four from North America, one each from Africa and South America, and the remainder appointed from any area. Members are professionally competent with a diversity of international business experience.

Standards Advisory Council (SAC)
SAC serves the IASB as a means to consult a wide range of representatives from user groups, preparers, financial analysts, academics, auditors, regulators, professional accounting bodies, and investor groups that are affected by and interested in the IASB's work.

International Financial Reporting Interpretations Committee (IFRIC)
The IFRIC is the interpretative body of the IASC Foundation. Its mandate is to review on a timely basis widespread accounting issues that have arisen within the context of current IFRS. The work of the IFRIC is aimed at reaching consensus on the proper accounting treatment (IFRIC Interpretations) and providing authoritative guidance on those issues.

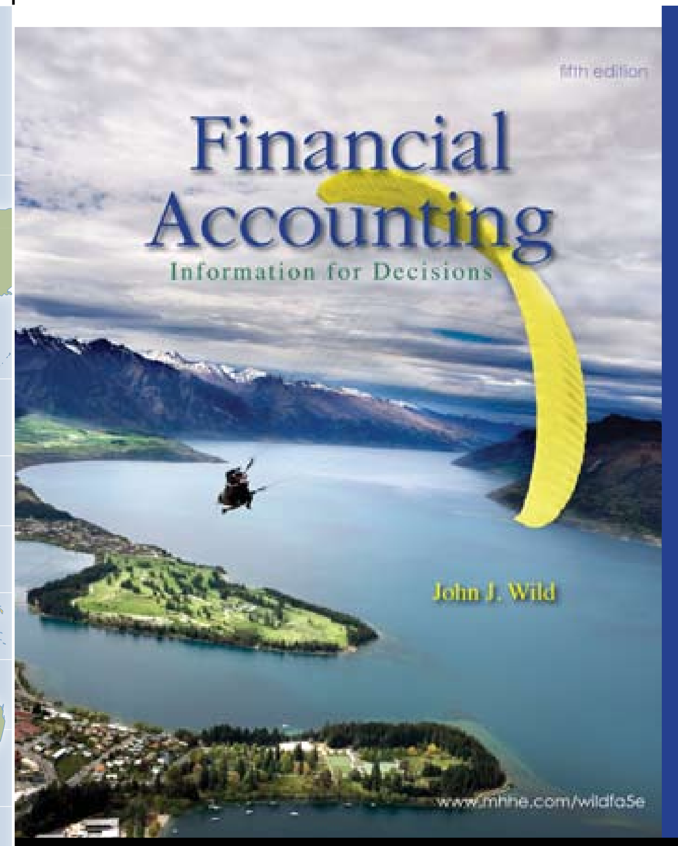
International Financial Reporting Standards (IFRS)
A single set of high quality, understandable international financial reporting standards (IFRS) for general-purpose financial statements.

Where in the World is IFRS?

Abu Dhabi-United Arab Emirates
Anguilla
Antigua and Barbuda
Armenia
Aruba
Austria
Australia
Azerbaijan
Bahamas
Bahrain
Barbados
Belgium
Belarus
Bermuda
Bolivia
Bosnia and Herzegovina
Botswana
Brazil
Bulgaria
Canada
Cayman Islands
Chile
Costa Rica
Cyprus
Czech Republic
Denmark
Dominica
Dominican Republic
Dubai-United Arab Emirates
Ecuador
Egypt
El Salvador
Estonia
Fiji
Finland
France
Germany
Georgia
Ghana
Gibraltar
Grenada
Greece
Guatemala
Guyana
Haiti
Honduras
Hong Kong
Hungary
Iceland
Iraq
Ireland
Israel
Italy
Jamaica
Jordan
Kazakhstan
Kenya
Kuwait
Kyrgyzstan
Laos
Latvia
Lebanon
Liechtenstein
Lesotho
Lithuania
Luxembourg
Macedonia
Malawi
Maldives
Malta
Mauritius
Mongolia
Montenegro
Morocco
Mozambique
Myanmar
Namibia
Netherlands
Netherlands Antilles
Nepal
New Zealand
Nicaragua
Norway
Oman
Panama
Papua New Guinea
Paraguay
Peru
Poland
Portugal
Qatar
Romania
Russia
St. Kitts and Nevis
Serbia
Slovenia
Slovak Republic
South Africa
Spain
Sri Lanka
Suriname
Sweden
Swaziland
Switzerland
Tajikistan
Tanzania
Trinidad and Tobago
Turkey
Uganda
Ukraine
United Kingdom
Venezuela
Virgin Islands (British)
West Bank/Gaza
Zambia
Zimbabwe

For updates on countries joining the IFRS ranks, see www.IASplus.com/country/useias.htm

ISBN 13: 978-0-07-740532-8
ISBN 10: 0-07-740532-3



2010 IFRS Guide

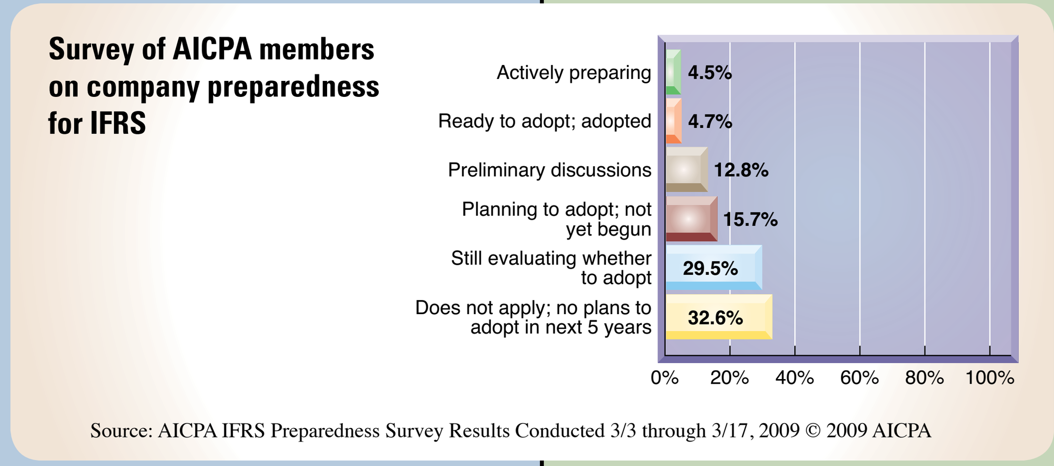
for use with

Financial Accounting

Information for Decisions, 5e

by
John J. Wild

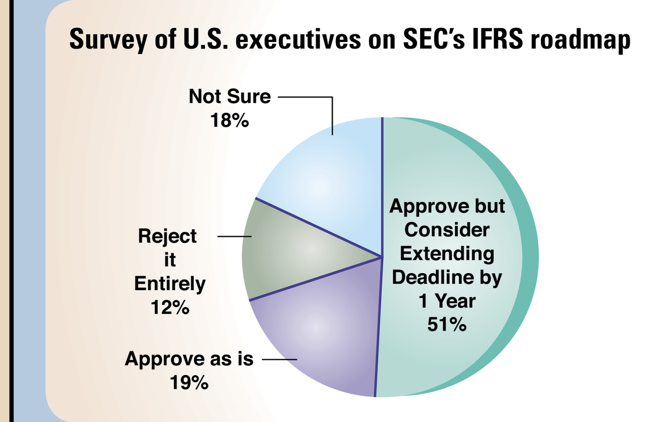
Topic	Similarities	Differences
Analyzing and Recording Transactions (Chapters 1 & 2)	• U.S. GAAP and IFRS apply the identical double-entry accounting system • Debits and credits are applied in an identical manner • Accounting (4-step) processes of identifying, analyzing, recording, and posting are identical • Use of general ledgers, account ledgers, balance column accounts, and the trial balance is identical • Accounting equation applies for both systems at all times	• IFRS is more "principles-based" versus "rules-based," which emphasizes the spirit of the accounting standard rather than strict adherence to a written rule • IFRS derives from a conceptual framework that is similar to that for U.S. GAAP but emphasizes stewardship to a greater extent and includes more measurement options beyond historical cost and U.S.-based fair value options • IFRS has similar revenue recognition criteria, but offer much less detailed (industry-specific) guidance vis-à-vis U.S. GAAP
Accounting Adjustments (Chapter 3)	• Adjusting (3-step) processes of determining current balance, determining what it should be, and recording adjustments are identical • Adjustments are similarly categorized as prepaid expenses, unearned revenues, accrued expenses, and accrued revenues • Use of adjusted and post-closing trial balances is identical • Accounts similarly classified as temporary or permanent • Identical steps in the accounting cycle, including the 4-step closing process	• IFRS and U.S. GAAP apply similar revenue and expense recognition criteria, but some differences can result in accounting adjustments being recorded in different periods under IFRS versus U.S. GAAP • IFRS employs classified balance sheets, but the ordering of assets and liabilities is normally from least liquid to most liquid (reverse of U.S. GAAP)

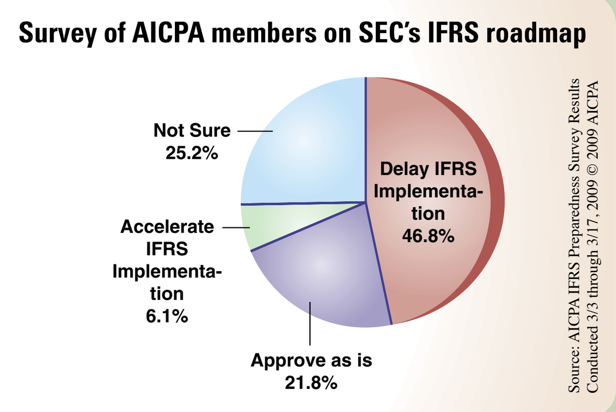


Source: AICPA IFRS Preparedness Survey Results Conducted 3/3 through 3/17, 2009 © 2009 AICPA

Topic	Similarities	Differences
Financial Statements (Chapters 1, 2, 3)	• IFRS and U.S. GAAP require four basic statements: income statement, balance sheet (also called statement of financial position), statement of changes in equity, and statement of cash flows • Financial statements apply similar account titles with some notable differences such as *finance costs* for interest expense, and *finance revenues* for interest revenue	• IFRS income statement reports expenses by function or nature; U.S. GAAP is usually by function and applies a single-step or multiple-step format • IFRS balance sheets commonly report assets and liabilities in reverse order of liquidity; unique subtotals commonly arise such as net current assets and net assets
Merchandising Operations and Inventory (Chapters 4 & 5)	• IFRS and U.S. GAAP define inventories similarly; and both measure inventories at cost using generally similar criteria • Merchandising entries are similar under IFRS and U.S. GAAP for purchases, sales, adjustments, and closing	• IFRS and U.S. GAAP apply similar cost flow assumptions such as specific identification, FIFO, and average costs; however, IFRS prohibits LIFO • IFRS and U.S. GAAP apply lower of cost or market, but both define market a bit differently and IFRS permits a reversal of write downs
Cash and Internal Controls (Chapter 6)	• Principles, procedures, and motivations for internal controls are similar for companies worldwide • IFRS and U.S. GAAP define cash and cash equivalents similarly • Controls involving cash receipts and disbursements, bank reconciliations, and vouchers are similar for companies worldwide	• Sarbanes-Oxley (SOX) internal control requirements (Section 404) are only applicable to companies that list their securities on U.S. exchanges; some argue that this creates a competitive disadvantage for U.S. exchanges (and U.S. companies) relative to non-U.S. exchanges (and non-U.S. companies)

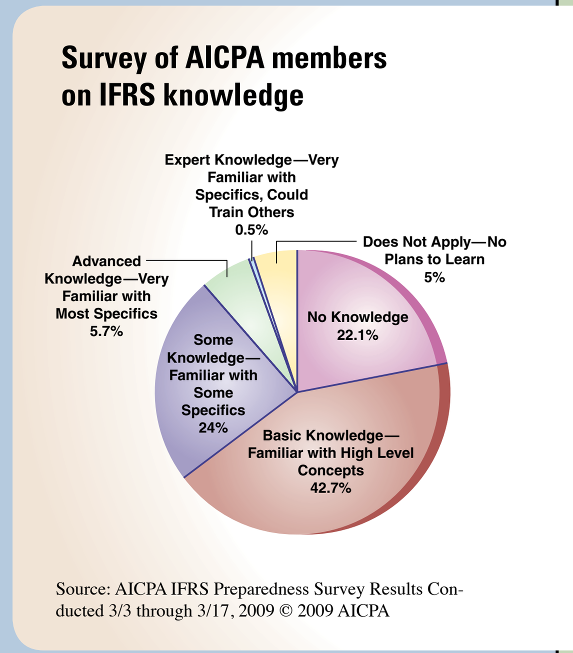
Topic	Similarities	Differences
Receivables (Chapter 7)	• Recognizing and valuing receivables are similar under IFRS and U.S. GAAP, including estimating bad debts and allowances • The "fair value option" applies to receivables under both IFRS and U.S. GAAP	• Allowance for Doubtful Accounts under U.S. GAAP is commonly titled Provision for Doubtful Accounts under IFRS • Both IFRS and U.S. GAAP require recognition of any impairment losses from receivables; however, IFRS, unlike U.S. GAAP, permits reversals of impairment losses • IFRS and U.S. GAAP apply similar accounting when disposing of receivables; however, IFRS focuses on tests of risk and reward for disposition, while U.S. GAAP focuses on tests of control
Plant Assets (Chapter 8)	• IFRS and U.S. GAAP apply similar accounting for cost determination, depreciation, additional expenditures, and disposition ("cost model") • Similar depreciation methods are applied under IFRS and U.S. GAAP • Impairment tests are similar, but not identical, under IFRS and U.S. GAAP; impairment entries are identical	• IFRS permits (does not require) a "revaluation model" for plant assets, which uses the assets' fair value at the balance sheet date of revaluation • IFRS requires "component depreciation" if asset components have different useful lives; U.S. GAAP permits it, but does not require it • IFRS permits recoveries of impairments, U.S. GAAP does not
Intangible Assets (Chapter 8)	• IFRS and U.S. GAAP apply similar accounting for intangible assets having indefinite lives and for those having limited lives ("cost model") • IFRS and U.S. GAAP apply impairment testing, but tests are different under IFRS and U.S. GAAP • U.S. GAAP treats research and development expenditures as expenses in the period incurred; IFRS treatment is similar for research expenditures	• IFRS permits (does not require) a "revaluation model" for intangible assets *having limited lives*, which uses the assets' fair value at the balance sheet date of revaluation • IFRS permits recoveries of impairments (except for goodwill), whereas U.S. GAAP does not • IFRS treats development expenditures meeting certain criteria as intangible assets (capitalized)
Current Liabilities (Chapter 9)	• IFRS and U.S. GAAP apply similar accounting for current liabilities, including definitions, classifications, and reporting • IFRS and U.S. GAAP recognize contingent liabilities applying gererally similar criteria • Accounting for income taxes is similar under IFRS and U.S. GAAP, with obvious differences in computations linked to different tax rates across countries	• IFRS has different requirements for current liabilities that are refinanced, are in violation of covenants, and reflect bank overdrafts • IFRS estimates of contingent liabilities tend to be at the mid-point of possible values, whereas U.S. GAAP estimates are at the lower end of values • IFRS commonly titles contingent liabilities as a "provision" for those liabilities • Liabilities are commonly presented in order of liquidity; U.S. GAAP from most liquid to least, whereas IFRS from least liquid to most
Long-Term Liabilities (Chapter 10)	• IFRS and U.S. GAAP apply similar accounting for bonds and notes, including their definitions, classifications, and reporting • Accounting for pensions and leases is similar under IFRS and U.S. GAAP; the respective boards are attempting to converge any minor differences	• Accounting for bonds and notes that carry characteristics of equity such as mandatorily redeemable notes or convertible bonds is different under IFRS and U.S. GAAP; IFRS attempts to identify them (or a component) as either a liability or equity • A capital lease under U.S. GAAP is referred to as a finance lease under IFRS





Source: AICPA IFRS Preparedness Survey Results Conducted 3/3 through 3/17, 2009 © 2009 AICPA

Topic	Similarities	Differences
Equity (Chapter 11)	• IFRS and U.S. GAAP apply similar accounting for equity, including its definition, issuance, classification, and reporting • Accounting for basic and diluted earnings per share is similar under IFRS and U.S. GAAP; slight differences exist in detailed calculations	• IFRS and U.S. GAAP have some terminology differences that commonly include the following: U.S. GAAP — IFRS Common stock — Share capital Paid-In capital in excess of par — Share premium Accumulated other comp income — General reserve & other
Statement of Cash Flows (Chapter 12)	• IFRS and U.S. GAAP similarly require a statement of cash flows that classifies cash flows as either operating, investing, or financing activities • This statement is prepared using either the indirect or direct method; indirect is more popular for companies reporting under IFRS and for those under U.S. GAAP • IFRS and U.S. GAAP require disclosure of noncash investing and financing activities; however, U.S. GAAP (not IFRS) permits disclosure in the body of the statement	• IFRS and U.S. GAAP differ on the classification of the following cash flows as operating, investing, or financing: Transaction — U.S. GAAP — IFRS Interest paid — Operating — Financing or Operating Dividends paid — Financing — Financing or Operating Interest received — Operating — Operating or Investing Dividends received — Operating — Operating or Investing Income taxes — Operating — Operating unless linked with financing or investing items
Financial Analysis (Chapter 13)	• IFRS and U.S. GAAP are similar in not requiring any substantial analysis of the financial statements; ratios are limited to items such as earnings per share • IFRS and U.S. GAAP have converged their reporting for discontinued operations, error corrections, accounting policy changes, and accounting estimate changes	• U.S. GAAP presents a transaction that is both unusual and infrequent as Extraordinary on the income statement or notes; IFRS prohibits any classification as Extraordinary and, instead, encourages descriptive titles for such items
Investments (Appendix C)	• IFRS and U.S. GAAP apply similar accounting for available-for-sale, held-to-maturity, and trading securities • IFRS and U.S. GAAP determine the accounting for equity securities based on the level of control the investor has; the presumption is an investor lacks significant influence if holding less than 20% of the voting rights, but has significant influence if holding between 20% and 50% • Both IFRS and U.S. GAAP presume an investor controls an entity if it holds more than 50% of the voting rights	• IFRS and U.S. GAAP use similar titles for available-for-sale and held-to-maturity securities; they differ on the following categories: U.S. GAAP — IFRS Trading securities — Financial assets at fair value through profit or loss (Nothing similar) — Loans & receivables • IFRS permits recoveries of impairment losses on investments under certain conditions; U.S. GAAP does not • IFRS uses "associate investment" in lieu of U.S. GAAP's "equity investment" terminology



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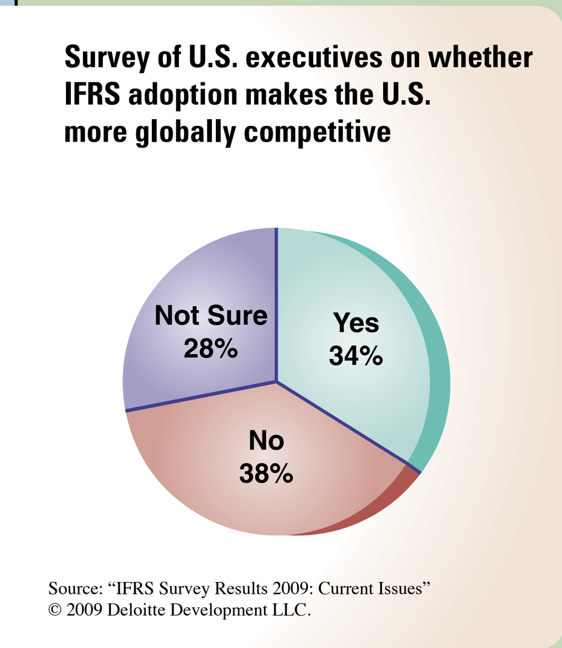

Source: "IFRS Survey Results 2009: Current Issues" © 2009 Deloitte Development LLC.

Financial Statement Presentation

Companies preparing financial statements under IFRS disclose four basic statements: balance sheet, income statement, statement of changes in equity, and statement of cash flows. Following are discussions for each of these.

(Both the IASB and FASB are working on a financial statement presentation project that has targeted 2011 for completion. The current proposal calls for reorganization of each financial statement into five sections: *Business*, includes items related to operating and investing activities; *Financing*, includes items related to financing activities; *Income Taxes*; *Discontinued Operations*; and *Equity*.)

Balance Sheet

Following is a typical balance sheet, also called *statement of financial position*. IFRS requires that certain items be disclosed on the balance sheet in its notes (see IAS 1). It also requires separate classification for current and noncurrent items, however, no subtotals are specified. The items of deferred and current tax liabilities, and assets, are required as separate line items; and financial (or finance) liabilities generally refer to debt such as notes, bonds, and other borrowings. Minority interest must be shown within equity, separate from the parent's equity. Although not required, most balance sheets under IFRS present assets and liabilities in reverse order of liquidity; however, there is an increasing number that present them in order of liquidity (consistent with companies reporting under U.S. GAAP).

Balance Sheet (under IFRS)
"Date"

ASSETS			EQUITY AND LIABILITIES		
Noncurrent assets			**Equity**		
Goodwill	#		Share (issued) capital	#	
Intangible assets, net	#		Share premium	#	
Property, plant and equipment, net	#		Retained earnings (profit)	#	
Investments in associates and subsidiaries	#		Reserves	#	
Long-term financial assets	#		Treasury shares	(#)	
Deferred tax assets	#		Equity attributable to parent shareholders	#	
Pension assets for plans with surpluses	#		Minority (noncontrolling) interest	(#)	
Total noncurrent assets		#	Total equity		#
Current assets			**Noncurrent liabilities**		
Inventories	#		Long-term financial (finance) liabilities	#	
Current tax assets	#		Deferred tax liabilities	#	
Accounts (trade) receivable	#		Pension liabilities for plans with deficits	#	
Prepaid expenses (prepayments)	#		Long-term provisions	#	
Short-term financial (finance) assets:			Total noncurrent liabilities		#
Held for trading	#		**Current liabilities**		
At fair value through profit or loss	#		Short-term provisions	#	
Loans and receivables	#		Short-term financial (finance) liabilities	#	
Available for sale	#		Current tax liabilities	#	
Held-to-maturity	#		Accounts (trade) payable	#	
Prepaid expenses (prepayments)	#		Total current liabilities		#
Cash and cash equivalents	#		Total liabilities		#
Total current assets		#	**Total equity and liabilities**		#
Total assets		#			

Income Statement

The layout of the income statement, also called a *statement of comprehensive income*, is similar to U.S. GAAP and, thus, is not shown here. However, a few differences are worth mentioning. Expenses are separated according to either their *nature* or their *function*. All items, headings, and subtotals that are material must be reported (IAS 1 specifies items that must be included). Identifying items as extraordinary is prohibited; however, discontinued (held-for-sale) items are presented.

Statement of Changes in Equity

The layout of the statement of changes in equity, also called *statement of changes in stockholder's equity* (of which statement of retained earnings is a component), is similar to U.S. GAAP and, thus, is not shown. (One will also sometimes see a statement of comprehensive income or a statement of recognized income and expense, which are both acceptable; these statements are part of the broader statement of changes in equity.)

Statement of Cash Flows

The layout of the statement of cash flows is similar to U.S. GAAP and, thus, is not shown. A few differences are worth highlighting. Interest and dividends paid are consistently shown as operating or financing cash flows, whereas interest and dividends received are consistently shown as operating or investing cash flows. Taxation cash flows are reported separately under operating unless they are identified specifically with investing or financing cash flows.