CFA Level 1

Financial Reporting Analysis

Differences between IFRS and USGAAP

BASIS	IFRS	US GAAP
Study Session 7		
Formulated by	IASB	FASB
Approach	Principle Based	Rule Based
Comprehensive Income	Income Statement + OCI = Comprehensive Income Or can be reported separately	Comprehensive Income can be a part of statement of shareholders' equity
Internal control	-	Auditor must express an opinion on internal control
Asset Definition	Resource from which a future economic benefit is expected to flow	A future economic benefit. The word probable is used in the definition
Upward revaluation of assets	Mostly allowed	Mostly not allowed
Components of performance	• Income • Expanse	• Revenues / Expenses • Gains /Losses • Comprehensive income
Conceptual Framework	→ Relevance & faithful Representation →comparability, verifiability, timeliness & understandability	

Study Session 8

Revenue Recognition	<u>*Goods*</u> • Revenue can be reliably measured • Probable flow of economic benefit • Risk & reward transferred • No continuing control • Cost can be reliably measured	<u>*Services*</u> • Revenue can be reliably measured • Probable flow of economic benefit • Stage of completion can be measured • Cost incurred determinable	• Revenue realized or realizable & revenue earned Note: SEC has 4 criteria • Evidence of arrangement between buyer & seller • Product delivered / Service rendered • Price determinable • Seller sure of collecting money
Long term contracts:			
-If outcome can be reasonably ascertained	Percentage of completion method		Same
-If outcome cannot be ascertained reliably	• Recognize revenue to the extent of cost. Recognize profit on completion (cost recovery method)		• Recognize revenue, cost & profit only at contract completion (completed contract method)
-Expected Losses	Immediately recognized		Immediately recognized
Instalment sale	If outcome of the project ascertainable: - PV of instalments recognized at the time of sale - Interest over time If outcome unascertainable: - Cost Recovery Method		Collectability certain: - Revenue recognized at the time of sale Collectability cannot be reasonably ascertained: - Instalment method Collectability highly uncertain: - Cost recovery method

Barter transaction	Fair value of similar non barter transaction	Fair value if the firm has received cash in the past, else at the 'carrying value of asset surrendered'
Gross revenue reporting		Allowed if the firm: • Is the Primary obligor of contract • Bears inventory & credit risk • Is able to choose its supplier • Has Reasonable latitude to establish price
Extraordinary items	Not allowed to be separated from operating results	Reported separately net of tax after income from continuing operations
Balance sheet format	Classified / liquidity based	Classified
Inventory -Cost flow assumption	• FIFO • Weighted average • Specific identification	• FIFO • Weighted average • Specific identification • LIFO
Inventory- Cost recognized	Cost or NRV -Lower Note: If NRV>cost, (cost-NRV) transferred to P/L	Cost or market value – lower Note: market value = Replacement cost; *where* , (NRV – normal profit margin) < replacement cost < NRV
Write up of inventory	Allowed; up to original cost	Not allowed

		Exception: commodity like products
PP&E can be reported using	• Cost model • Revaluation model	Cost model only
Changes in cost flow assumption- inventory	Allowed if change will provide more reliable and relevant information	Allowed if firm can explain why change is preferable
Investment property	• Includes assets that generate rental income or capital appreciation • Can be reported at amortized cost or fair value	Does not have a specific definition Of investment property
Interest / dividend received	CFO / CFI	CFO
Dividend paid	CFF / CFO	CFF
Interest paid	CFF	CFO
Taxes paid	Depending on the taxes - CFO/CFI/CFO	All taxes under CFO
Direct / indirect method – CFO	Both are allowed	Both are allowed but if direct method followed reconciliation of net income & CFO to be disclosed
Payment for interest & taxes	To be disclosed separately in cash flow statement	Can be reported in cash flow statement of disclosed in notes
FCCFF = CFO + interest (1-tax) – FC inv.	Interest might not be added as it would have been deducted in CFF	
FCFE	If dividend paid subtracted from CFO, then it needs to be added	

Study Session 9		
Interest earned by temporarily investing borrowed funds	Reduces the interest capitalized	No such reduction is allowed shown as income
Research and development cost	Research is expensed while development is capitalized	Both Expensed; except software development
Software development cost -For sale to others	Expensed till technological feasibility established and then expensed off	Same
Software development cost -For personal use	Same as above	Capitalize development costs
Component depreciation	Required	Allowed – but seldom used
Long lived asset Revaluation	Both revaluation and cost model allowed	Not allowed Depreciated Cost reported in B/S
Test for impairment	Annually	When events and circumstances indicate that the firm may not be able to recover the carrying value of the asset
Test for impairment	Carrying amount(CA) > Recoverable amount (RA); where RA is higher of NRV or present value of future cash flows)	Carrying amount > **undiscounted** future cash flows
Loss on impairment	CA - RA	**CA- Fair value;** if its known, or **CA- Discounted** future cash flows
Loss recovery	Allowed - limited to original impairment loss	Not allowed Exception – impairment loss can be reversed for assets reclassified as available for sale

Amortized expense		An estimate for next 5 years needs to be disclosed
Identifiable intangible asset	Must be • Capable of being separated from the firm • Controlled by the firm • Expected to provide future economic benefits	
Investment property & long lived assets	Distinguishes between the two	Does not
Valuation allowance		If probability of DTA not being realised > 50%; valuation allowance to be created
Note: Refer the table in Schweser for Differences US GAAAP and IFRS for DTA/ DTL		
Recognition of bond on balance sheet	Effective interest rate method required	Effective interest rate method preferred, but straight line method allowed
Issuance cost	Initial bond liability in B/S reduced, increasing the bond's effective interest rate. In effect treated as unamortized discount. (Netted under CFF) (no write off required on derecognition of debt)	Capitalized as an asset and expensed over the life of the bond (netted under CFF) [on derecognition of debt, balance write off]
Option to report debt at face value	Irrevocable option to do so and all gains and losses recognized in the income statement	Same

Circumstances for classification as finance lease. (by lessee)	• Title to the asset transferred at the end of the life • Bargain purchase option • Lease covers major portion of asset's life • PV of lease payments = FV of asset • Specialized asset - useless to anyone except lessee	• Same • Same • >75% • PV of lease >= 90% of FV of asset
Classification as finance lease by lessor	Same as lessee	One of the criteria by lessee met, Collectability certain and lessor has substantially completed his performance
Sales type or direct financing - lessor's perspective	Not distinguished	If PV of rentals > carrying value of asset - sales type lease ; else direct financing
Funded status of pension fund - B/S	• -Overfunded – asset; -Underfunded – liability; • Represents economic reality	• Funded status (-) unrecognized actuarial gains and losses (-) unrecognised prior service cost • Does not represent economic reality