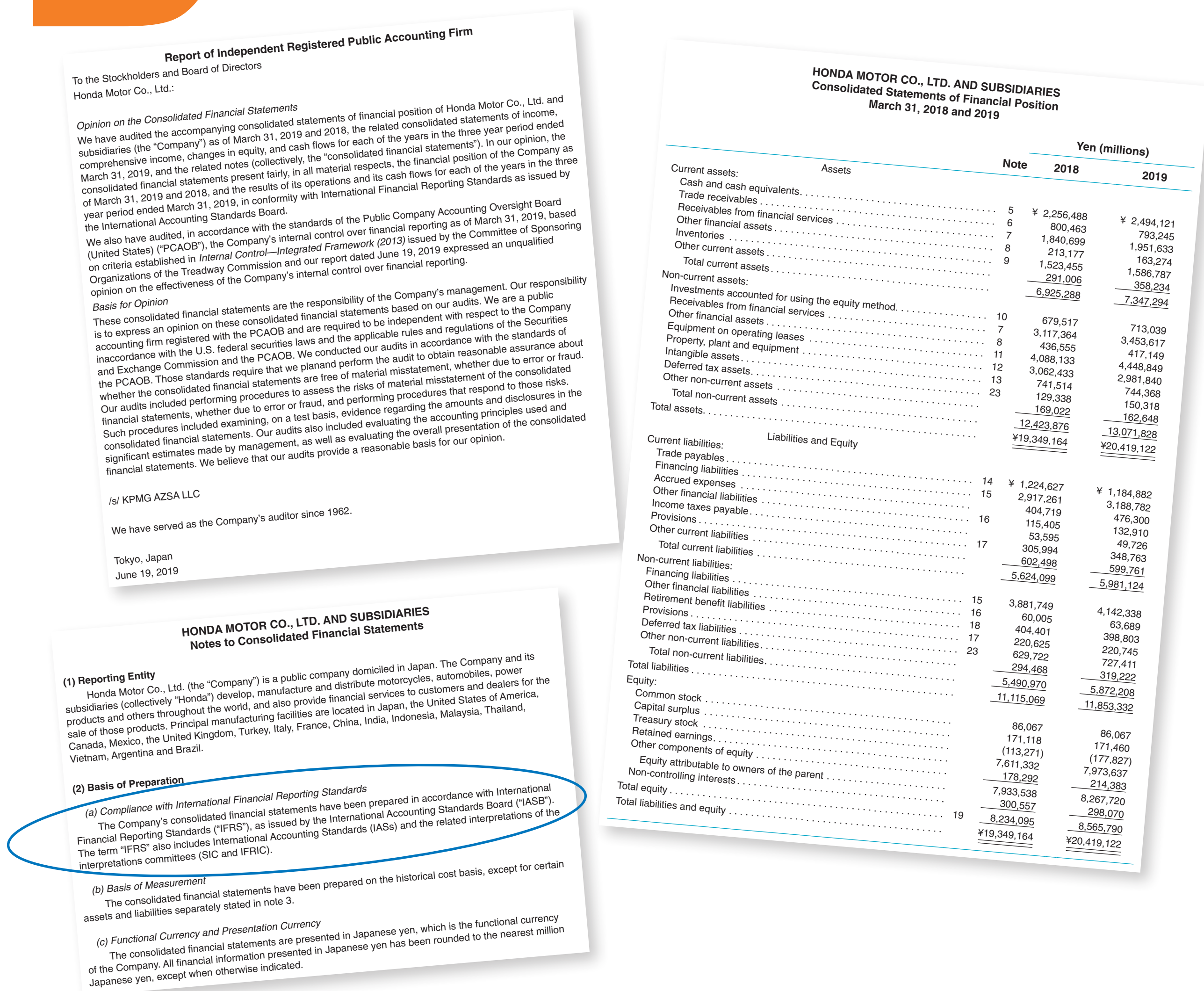
B IFRS



Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Honda Motor Co., Ltd.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Honda Motor Co., Ltd. and subsidiaries (the "Company") as of March 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three year period ended March 31, 2019, and the related notes (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three year period ended March 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 19, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company inaccordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we planand perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG AZSA LLC

We have served as the Company's auditor since 1962.

Tokyo, Japan
June 19, 2019

HONDA MOTOR CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position
March 31, 2018 and 2019

		Yen (millions)	
Assets	**Note**	**2018**	**2019**
Current assets:			
Cash and cash equivalents	5	¥ 2,256,488	¥ 2,494,121
Trade receivables	6	800,463	793,245
Receivables from financial services	7	1,840,699	1,951,633
Other financial assets	8	213,177	163,274
Inventories	9	1,523,455	1,586,787
Other current assets		291,006	358,234
Total current assets		6,925,288	7,347,294
Non-current assets:			
Investments accounted for using the equity method	10	679,517	713,039
Receivables from financial services	7	3,117,364	3,453,617
Other financial assets	8	436,555	417,149
Equipment on operating leases	11	4,088,133	4,448,849
Property, plant and equipment	12	3,062,433	2,981,840
Intangible assets	13	741,514	744,368
Deferred tax assets	23	129,338	150,318
Other non-current assets		169,022	162,648
Total non-current assets		12,423,876	13,071,828
Total assets		¥19,349,164	¥20,419,122
Liabilities and Equity			
Current liabilities:			
Trade payables	14	¥ 1,224,627	¥ 1,184,882
Financing liabilities	15	2,917,261	3,188,782
Accrued expenses		404,719	476,300
Other financial liabilities	16	115,405	132,910
Income taxes payable		53,595	49,726
Provisions	17	305,994	348,763
Other current liabilities		602,498	599,761
Total current liabilities		5,624,099	5,981,124
Non-current liabilities:			
Financing liabilities	15	3,881,749	4,142,338
Other financial liabilities	16	60,005	63,689
Retirement benefit liabilities	18	404,401	398,803
Provisions	17	220,625	220,745
Deferred tax liabilities	23	629,722	727,411
Other non-current liabilities		294,468	319,222
Total non-current liabilities		5,490,970	5,872,208
Total liabilities		11,115,069	11,853,332
Equity:			
Common stock		86,067	86,067
Capital surplus		171,118	171,460
Treasury stock		(113,271)	(177,827)
Retained earnings		7,611,332	7,973,637
Other components of equity		178,292	214,383
Equity attributable to owners of the parent		7,933,538	8,267,720
Non-controlling interests		300,557	298,070
Total equity		8,234,095	8,565,790
Total liabilities and equity	19	¥19,349,164	¥20,419,122

HONDA MOTOR CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Reporting Entity

Honda Motor Co., Ltd. (the "Company") is a public company domiciled in Japan. The Company and its subsidiaries (collectively "Honda") develop, manufacture and distribute motorcycles, automobiles, power products and others throughout the world, and also provide financial services to customers and dealers for the sale of those products. Principal manufacturing facilities are located in Japan, the United States of America, Canada, Mexico, the United Kingdom, Turkey, Italy, France, China, India, Indonesia, Malaysia, Thailand, Vietnam, Argentina and Brazil.

(2) Basis of Preparation

(a) Compliance with International Financial Reporting Standards

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The term "IFRS" also includes International Accounting Standards (IASs) and the related interpretations of the interpretations committees (SIC and IFRIC).

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities separately stated in note 3.

(c) Functional Currency and Presentation Currency

The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. All financial information presented in Japanese yen has been rounded to the nearest million Japanese yen, except when otherwise indicated.

Appendix Preview

Chapters 1 through 22 of this text are grounded in the principles of U.S. GAAP included in the Codification. However, the vast majority of countries outside of the U.S. follow IFRS (International Financial Reporting Standards). This appendix includes a learning objective that extends each chapter (with the exception of Chapter 6 and Chapter 9). Each learning objective identifies key differences between U.S. GAAP and IFRS relevant to that chapter. While you'll see differences between the standards in each topic area, you will find that the majority of the accounting guidance is similar across the standards.

Action Plan

LO	Topic/Subtopic	Page	Demos	Reviews	Assignments
LO 1–7	**IFRS—Compare international accounting standards and standard setters to the U.S. accounting standards and standard setters** IASB :: IFRS Interpretive Committee :: IFRS Advisory Council :: IFRS Foundation Trustees :: IFRS :: IFRS Conceptual Framework	B-4	D1-7A D1-7B	R1-7	1-76, 1-77, 1-78, 1-79, 1-80, 1-81
LO 2–11	**IFRS—Describe the process of initial adoption of IFRS** Initial Adoption :: Retrospective Treatment :: Transition Date :: Reporting Date	B-7	D2-11	R2-11	2-85, 2-86
LO 3–9	**IFRS—Compare the income statement and the statement of comprehensive income presentation between U.S. GAAP and IFRS** Expense Presentation :: Required Minimum Items :: Discontinued Operations Definition	B-8	D3-9	R3-9	3-78, 3-79, 3-80, 3-81, 3-82
LO 4–6	**IFRS—Compare balance sheet presentations between U.S. GAAP and IFRS** Statement of Financial Position :: Minimum Required Amounts :: Order of Liquidity :: Net Asset Presentation	B-11	D4-6	R4-6	4-90, 4-91, 4-92, 4-93
LO 5–9	**IFRS—Compare the presentation of the statement of cash flows between U.S. GAAP and IFRS** Interest Paid :: Interest Received :: Dividends Paid :: Dividends Received	B-12	D5-9	R5-9	5-87, 5-88, 5-89, 5-90
LO 7–12	**IFRS—Describe differences in accounting for revenue between U.S. GAAP and IFRS** Collectibility Threshold :: Licenses :: Shipping and Handling :: Onerous Contracts :: Sales Tax	B-14	D7-12	R7-12	7-115, 7-116, 7-117, 7-118, 7-119, 7-120
LO 8–10	**IFRS—Describe differences in accounting for cash and receivables between U.S. GAAP and IFRS** Bank Overdrafts :: Credit Losses on Receivables :: Classification of Receivables :: Transfer of Receivables	B-16	D8-10	R8-10	8-111, 8-112, 8-113, 8-114, 8-115
LO 10–10	**IFRS—Compare accounting for inventory between U.S. GAAP and IFRS** LIFO Inventory Method :: Reversal of Inventory Impairment Losses	B-17	D10-10	R10-10	10-106, 10-107, 10-108, 10-109
LO 11–10	**IFRS—Compare accounting for property, plant, and equipment between U.S. GAAP and IFRS** Revaluation of Fixed Assets :: Interest Capitalization :: Donation by Government Grant	B-18	D11-10	R11-10	11-98, 11-99, 11-100, 11-101
LO 12–12	**IFRS—Compare accounting for depreciation and impairment of property, plant, and equipment between U.S. GAAP and IFRS** Depreciation by Component :: Fixed Asset Impairment :: Loss Reversals	B-19	D12-12	R12-12	12-127, 12-128, 12-129, 12-130, 12-131
LO 13-7	**IFRS—Compare accounting for intangible assets between U.S. GAAP and IFRS** Development Costs :: Revaluation :: Impairment :: Reversal of Impairment Losses	B-21	D13-7	R13-7	13-74, 13-75, 13-76, 13-77, 13-78, 13-79

continued

continued from previous page

LO	Topic/Subtopic	Page	Demos	Reviews	Assignments
LO 14-10	**IFRS—Compare accounting for investments between U.S. GAAP and IFRS** Classification of Debt and Equity Securities :: Category Transfer :: Fair Value Option :: Loss on Impairment	B-23	D14-10	R14-10	14-131, 14-132, 14-133, 14-134
LO 15–7	**IFRS—Describe differences in accounting for current liabilities and contingencies between U.S. GAAP and IFRS** Provisions :: Contingent Liabilities:: Present Value of Provisions :: Compensated Absences :: Gain Contingencies	B-25	D15-7	R15-7	15-98, 15-99, 15-100, 15-101
LO 16–13	**IFRS—Describe differences in accounting for long-term liabilities between U.S. GAAP and IFRS** Net Method for Bonds :: Effective Interest Method :: Debt Settlement :: Convertible Debt	B-26	D16-13	R16-13	16-132, 16-133, 16-134, 16-135, 16-136
LO 17–10	**IFRS—Compare accounting for leases between U.S. GAAP and IFRS** Lessee Finance Lease :: Short-Term Lease Exception :: Remeasurement of Lease Liability	B-28	D17-10	R17-10	17-125, 17-126, 17-127, 17-128, 17-129
LO 18–11	**IFRS—Compare accounting for taxes between U.S. GAAP and IFRS** Deferred Tax Asset Valuation Allowance :: Uncertain Tax Positions :: Substantively Enacted Tax Rates	B-29	D18-11	R18-11	18-115, 18-116, 18-117, 18-118
LO 19–11	**IFRS—Compare accounting for pensions between U.S. GAAP and IFRS** Net Interest :: Remeasurement Gain/Loss :: Past Service Costs :: Pension Expense Reporting :: Ceiling on Plan Assets	B-30	D19-11	R19-11	19-108, 19-109, 19-110, 19-111, 19-112, 19-113
LO 20–9	**IFRS—Compare accounting for stockholders' equity between U.S. GAAP and IFRS** Stockholders' Equity Terminology :: Balance Sheet Classification of Preferred Stock	B-32	D20-9	R20-9	20-121, 20-122, 20-123, 20-124
LO 21–11	**IFRS—Compare accounting of share-based compensation and earnings per share between U.S. GAAP and IFRS** Employee Share Purchase Plan :: Treasury Stock Method :: Options with Graded Vesting	B-33	D21-11	R21-11	21-106, 21-107
LO 22–9	**IFRS—Compare presentations of the statement of cash flows between U.S. GAAP and IFRS** Classification of Interest, Dividends, Taxes :: Classification of Bank Overdrafts :: Cash Flow Disclosures	B-34	D22-9	R22-9	22-110, 22-111, 22-112, 22-113, 22-114

Compare international accounting standards and standard setters to the U.S. accounting standards and standard setters

IFRS LO 1-7

The FASB is responsible for the development and any updates to U.S. GAAP. However, the vast majority of countries outside of the U.S. follow international standards called **International Financial Reporting Standards (IFRS)**. In this section, we extend the discussion from Chapter 1 on the international standards and standard setters.

LO 1-7 Overview

Financial Reporting Standards

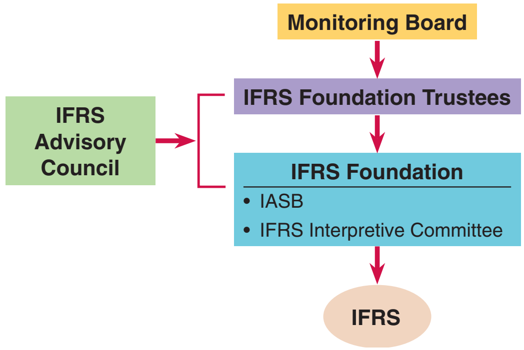
- U.S. Standards—U.S. GAAP
  - Developed by FASB
  - Primarily rules-based
- International Standards—IFRS
  - Developed by IASB
  - Primarily principles-based

Setting International Standards

The structure of the entities that are responsible for the development of international reporting standards is identified in **Exhibit 1-19**. There are many similarities with the structure and responsibilities of entities that produce U.S. GAAP.

The **IFRS Foundation,** an independent, private sector, not-for-profit organization is made up of the **International Accounting Standards Board (IASB)** and the **IFRS Interpretive Committee**. The IASB establishes and updates the international standards. The board members have different expertises and geographical backgrounds. For example, on January 1, 2020, the IASB board was made up of 14 members from four regions: Europe, Americas, Asia-Oceania, and Africa. The IASB is based in London but has a global mission. IASB was established in 2001, replacing the International Accounting Standards Committee (IASC) established in 1973. The IFRS Interpretive Committee is the interpretive body of the IASB, tasked with timely review of implementation issues of the IFRS.

EXHIBIT 1-19
Structure of International Standard Setters



IFRS Foundation Trustees are responsible for governance and oversight of the IASB including the appointment of IASB board members, review of the operating procedures and strategy of the IASB, and funding for the IFRS Foundation. The IFRS Foundation Trustees are held publicly accountable to duties established in the constitution of the IFRS Foundation through a **Monitoring Board**, made up of public authorities such as financial market regulators. For example, among the current members of the Monitoring Board are representatives of the SEC and the European Commission. The **IFRS Advisory Council** is the formal advisory board to the IASB and the Trustees.

Impact of International Standards

The IFRS Foundation states that its goal is to produce one set of high-quality global standards.

> The IFRS Foundation is a not-for-profit, public interest organization established to develop a single set of high-quality, understandable, enforceable and globally accepted accounting standards—IFRS Standards—and to promote and facilitate adoption of the standards. (www.ifrs.org)

As a result of the foundation's mission and related efforts, most countries now require use of IFRS, or some form of IFRS, for financial statements of their domestic, publicly accountable entities. A survey by the IFRS Foundation indicates that 156 countries and other jurisdictions across the world either require IFRS for all or most public companies or permit or require IFRS for at least some publicly accountable entities (http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx). Remaining major markets without a mandate for the use of IFRS include seven jurisdictions using national or regional standards including the U.S. and China. This is a major shift in that around year 2000, more than 70 different accounting standards were applied across the world.

Aims of International Standards

In comparing U.S. GAAP to IFRS, there are a vast array of similarities. Yet, key differences exist. The objective of U.S. GAAP is to provide general-purpose financial information to existing and potential investors and creditors. IFRS has a similar interest in serving investors and creditors as the primary users. IFRS is largely a principles-based guidance as compared to GAAP, which is largely a rules-based guidance. A November 2011 study by the SEC indicated that IFRS contains general principles with less guidance on specific transactions, industry situations, and exceptions, as compared to U.S. GAAP. Another study released in November 2011 by the SEC indicated that companies following IFRS applied the standards inconsistently due to different options permitted under IFRS or the lack of specific guidance. (The SEC reports are accessed at https://www.sec.gov/spotlight/globalaccountingstandards.shtml.)

Sources and Development of International Standards

In applying international financial reporting standards, companies reference the following sources.

- IFRS (International Financial Reporting Standards)
- Previously issued and amended International Accounting Standards (issued prior to the IASB)
- Interpretations by the IFRS Interpretive Committee

The development of IFRS follows a six-stage process: (1) agenda is established, (2) project is planned, (3) discussion paper is developed and published with public input, (4) exposure draft is developed and published with public input, (5) standard is developed and published, and (6) unanticipated implementation issues are addressed.

In **Demo 1-7A**, we compare characteristics of the FASB and the IASB.

Demo 1-7A **LO1-7** **Comparing U.S. Standard Setters vs. International Standard Setters**

Demo MBC

For each of the five characteristics listed, enter the facts for both the FASB and the IASB.

Characteristic	FASB	IASB
1. Public or Private	**Private**	**Private**
2. Location	**Norwalk, Connecticut**	**London, England**
3. Date of Origination	**1972**	**2001**
4. Number of members	**7 full-time members**	**Up to 16 full-time members**
5. Reporting standard produced	**U.S. GAAP**	**IFRS**

IASB Conceptual Framework

The IASB is responsible for updates to the **IFRS Conceptual Framework**. The IFRS Conceptual Framework describes the objectives and concepts for general-purpose financial reporting. The Conceptual Framework is a source of guidance to the IASB in the development of IFRS. The Conceptual Framework also guides preparers when interpreting IFRS or when no IFRS standards apply.

The IASB and the FASB participated in joint projects that resulted in similar standards for the objective of financial reporting and qualitative characteristics of useful information. The boards also participated in joint projects on the measurement of fair value and revenue recognition. However, currently, the FASB and IASB are engaged in independent efforts in updating portions of their respective conceptual framework projects.

While largely similar, the basic difference between the two conceptual frameworks is how they are applied. *For entities preparing financial statements under IFRS, companies are required to consider the IASB framework when there are no standards applicable to a reporting issue.* Recall from Chapter 1 that the U.S. Conceptual Framework is a non-authoritative guide.

Another key difference between the two frameworks is the presentation of assumptions. The IASB framework prominently features two underlying assumptions: the accruals basis and the going-concern basis. The FASB does not list assumptions; but, accrual accounting is discussed extensively, while going-concern has limited mention in a footnote.

IASB Financial Statement Elements The definitions of financial statement elements of the IASB are in **Exhibit 1-20**. The FASB and IASB frameworks have broadly similar definitions of elements. In both frameworks, element definitions are based on the definition of assets.

There are some differences in the element definitions. The FASB includes "probable" as part of the definition of assets and liabilities, whereas the IASB does not. The IASB defines an asset as the resource from which future economic benefits are expected to flow, whereas the FASB indicates that an asset is the future economic benefits themselves. The IASB combines the FASB definitions of revenues and gains as income. Also, the IASB combines the FASB definitions of expenses and losses as expenses.

EXHIBIT 1-20
IASB Element Definitions

Element	Description
Assets	Resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
Liabilities	Present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
Equity	Residual interest in the assets of the entity after deducting all its liabilities.
Income	Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. The definition of income encompasses both revenue and gains.
Expenses	Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity.

Future Convergence of U.S. GAAP and IFRS?

Some wonder why U.S. GAAP continues to exist outside of IFRS. The SEC did consider the possibility of adopting IFRS into the U.S. financial reporting system. For example, in 2010, the SEC outlined a work plan that would help inform the decision of whether to adopt IFRS. As part of the work plan, the FASB and the IASB collaborated on several key areas including revenue recognition, leasing, and financial instruments. However, the boards reached *different* conclusions in certain areas in the final standards. In 2012, the SEC issued a final report on its work plan indicating that a decision on how to incorporate IFRS into the U.S. financial reporting system should not be expected in the near term. The study questioned the funding of the IASB, the timeliness of responses by the IFRS Interpretations Committee, and the cost of adoption for U.S. public companies (see https://www.sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-final-report.pdf).

On one hand, the adoption of IFRS by the U.S. would improve comparability and consistency of financial information, allowing markets to allocate funds more efficiently. Further, having a single set of reporting standards would reduce financial reporting costs for preparers and users who have to navigate two sets of standards. However, feedback gathered by the SEC indicates that there is little support to allow an option for domestic companies to prepare financial statements under IFRS and virtually no support for the SEC to mandate the use of IFRS domestically. The SEC has concluded that U.S. GAAP best serves the needs of domestic users for the foreseeable future.

What are the future prospects for the convergence of IFRS and U.S. GAAP? Currently, convergence as a standard setting policy is not a priority for the IASB and the FASB. However, past collaborative work projects did result in more alignment between IFRS and U.S. GAAP. While differences exist between U.S. GAAP and IFRS, one option in the future may be to bridge the gap through disclosure. However, at this time, there is no movement in this direction by the SEC.

Motivation to Understand IFRS

We highlight major differences between U.S. GAAP and IFRS relating to chapter content in this appendix. Although differences will be noted, the two sets of standards are vastly similar as IFRS is grounded in many of the principles of U.S. GAAP.

We might wonder why it is important to understand differences between U.S. GAAP and IFRS because domestic companies in the U.S. are required to follow only U.S. GAAP. Let's review some reasons why it is beneficial to have knowledge about IFRS in our dual-standard financial reporting world.

- **Widespread usage:** The vast majority of countries outside the U.S. adopt (or plan to adopt) IFRS.
- **Non-U.S. based SEC filers can use IFRS:** Approximately 500 non-U.S. filers with the SEC use IFRS without reconciliation to GAAP with market capitalization in the amount of trillions of dollars (in 2007, the SEC eliminated a filing requirement for foreign private issuers who follow IFRS to provide a reconciliation from IFRS to U.S. GAAP).
- **Investor interest in companies following IFRS:** Investors increasingly are looking abroad for investment opportunities as global markets are increasingly accessible.
- **M&A targets may use IFRS:** Mergers and acquisition activities take place with targets outside of the U.S. who likely report using IFRS.
- **Statutory reporting:** Non-U.S. subsidiaries often require IFRS statutory reporting.
- **Requirements of foreign investees:** U.S. companies have non-U.S. investors that require IFRS financial information to make investing decisions.
- **Internal management reporting:** Companies can prepare internal management information using IFRS.
- **Potential voluntary disclosures:** In the future, the SEC could allow voluntary IFRS supplements to U.S. GAAP statements. However, no action has been taken at this time.
- **Inclusion on the CPA Exam:** The AICPA incorporates questions on IFRS in the Uniform CPA Exam.

In **Demo 1-7B**, we compare characteristics of U.S. GAAP (discussed in Chapter 1) and the IFRS.

U.S. GAAP vs. IFRS **LO1-7** **Demo 1-7B**

Demo MBC

For each of the five characteristics, enter the facts for both U.S. GAAP and IFRS.

Characteristic	U.S. GAAP	IFRS
1. Rules-based or principles-based	**Primarily rules-based**	**Primarily principles-based**
2. General or detailed guidance	**Detailed guidance**	**General guidance**
3. Considered primary users	**Investors and creditors**	**Investors and creditors**
4. Jurisdictions required or permitted to use standards	**U.S.**	**156 jurisdictions**
5. Use of conceptual framework	**Not considered GAAP**	**Can be referenced when IFRS is incomplete**

REVIEW 1-7 **LO1-7** **Accounting Standards and Accounting Standard Setters**

Review MBC

Part One—International Organizations Match each of the following organizations *a* through *e* with its set of responsibilities 1 through 5.

International Organizations

a. IASB
b. Monitoring Board
c. IFRS Interpretive Committee
d. IFRS Foundation Trustees
e. IFRS Advisory Council

Responsibilities

_____ 1. Responsible for the funding of the IASB.
_____ 2. Provides guidance to the IASB and the IFRS Foundation Trustees.
_____ 3. Offers guidance on implementation issues of IFRS.
_____ 4. Holds IFRS Foundation Trustees accountable to established duties.
_____ 5. Establishes international financial reporting standards.

Part Two—Comparison of U.S. GAAP and IFRS Match each of the terms and phrases *a* through *e* with the best description 1 through 5.

a. U.S. GAAP
b. International Financial Reporting Standards
c. IFRS Conceptual Framework
d. U.S. Conceptual Framework
e. Adoption of IFRS

_____ 1. Used as guidance in financial reporting if no supporting standard exists.
_____ 2. Consists of IFRS, IAS Standards, and Interpretations.
_____ 3. Non-authoritative for financial reporting purposes.
_____ 4. Unlikely action by the U.S. in the foreseeable future.
_____ 5. Consists of accounting standards in the Codification.

More Practice:
1-76, 1-77, 1-78, 1-79

Solution on p. B-55.

IFRS LO 2-11 Describe the process of initial adoption of IFRS

LO 2-11 Overview

Initial Adoption of IFRS
- Apply IFRS retrospectively to all periods presented
- Determine accounting policies where options are allowed
- Disclose information on the transition to IFRS

IFRS includes guidance for initial transition to IFRS. The guiding principle for adoption of IFRS is a *full retrospective application* of IFRS Standards as of the reporting date of the first financial statements under IFRS. The **reporting date** is the time that the company declares will be the first reporting date under IFRS. Because of the challenges of transition to IFRS, some exceptions are allowed.

IFRS standards indicate that the goal of a transition to IFRS is to provide *high-quality information* in an entity's first IFRS financial statements. The information should be (*a*) transparent and comparable over all periods presented, (*b*) a suitable starting point for accounting in accordance with IFRS, and (*c*) generated at a cost that does not exceed the benefits.

Requirements in Adopting IFRS

IFRS requires the following steps in transitioning to IFRS (also reviewed in **Demo 2-11**).

- Prepare an initial opening balance sheet under IFRS standards.
- Determine accounting policies where options are allowed. The company should choose a policy that best reflects the substance of economic transactions.
- Apply IFRS retrospectively to periods presented in the first IFRS financial statements. For example, if two periods are presented, both periods must be transitioned to IFRS.
- Determine whether the company will elect to apply optional exemptions from retrospective application. For example, a company may elect an exemption on business combinations.
- Apply mandatory exceptions from retrospective application. For example, IFRS prohibits the retrospective application of accounting estimates.
- Disclose information necessary related to the transition. Disclosures relate to the transition itself while other disclosures relate to the initial financial statements under IFRS. A company must reconcile between certain amounts under previous reporting standards and under IFRS.

The first IFRS financial statements must include:

- Three statements of financial position
- Two statements of changes in equity
- Two statements of comprehensive income
- Two statements of cash flows

For example, with a transition to IFRS with a reporting date of December 31, 2019, the company would report statements of financial position on December 31, 2019, January 1, 2019, and January 1, 2018, under IFRS. The opening statement of financial position on January 1, 2018, (the transition date) should include all IFRS required assets and liabilities and exclude any assets or liabilities not permitted under IFRS. The amounts should be classified and measured in accordance with IFRS.

EXPANDING YOUR KNOWLEDGE **Double Entry Accounting System —IFRS**

The steps in the accounting cycle as discussed in Chapter 2 under GAAP are similar under IFRS. Although differences exist between the standards of GAAP and IFRS, the double-entry accounting system of debits and credits is the same.

Initial Adoption of IFRS

LO2-11 **Demo 2-11**

Demo MBC

Global Inc. declares a transition to IFRS for the year ended December 31, 2020. Global Inc. will provide the minimum required comparative information as of December 31, 2020. Answer the following questions.

Question	Answer
a. What is this company's first reporting date under IFRS?	**December 31, 2020**
b. How many annual statements of comprehensive income must be presented?	**Two years**
c. What is the date of the opening statement of financial position?	**January 1, 2019**
d. What is the date of transition?	**January 1, 2019**

LO2-11 **REVIEW 2-11**

Review MBC

For each statement below, indicate which of the two answers is more appropriate.

a.	General principle in the initial adoption of IFRS.	Prospective	or	Retrospective
b.	Minimum number of statements of financial position required in first IFRS statements.	Three	or	Two
c.	Opening balance sheet date under IFRS.	Transition date	or	Reporting date
d.	Differences between the accounting cycle under GAAP vs. IFRS.	Numerous	or	Minimal

More Practice: 2-85

Solution on p. B-55.

Compare the income statement and the statement of comprehensive income presentation between U.S. GAAP and IFRS

IFRS LO 3-9

The income statement and the statement of comprehensive income are both required financial statements under U.S. GAAP and IFRS. Although the standards differ on the recording of some items on these statements, we focus in this section on statement presentation.

LO 3-9 Overview

Financial Reporting Standards

- Income statement
  - Similar presentation formats (IFRS and GAAP)
  - IFRS allows reporting of expenses by nature
  - IFRS allows non-GAAP measures on face of income statement
  - Definition of discontinued business component differs
- Statement of comprehensive income
  - Both standards allow single format or separate consecutive format

Income Statement

The income statement presentations under U.S. GAAP and IFRS are similar even though the income statement is called the **statement of profit or loss** under IFRS. Following are the major differences between the two standards as they relate to income statement presentation.

- **Expense Presentation by Function or by Nature** Although U.S. GAAP allows reporting of expenses by nature or function, companies registered with the SEC are required to report expenses by function such as cost of goods sold, and selling, general and administrative. IFRS allows companies to report expenses by function or by nature (such as salaries and pension costs). Further, if classified by function, certain disclosures of expenses by nature are required in notes accompanying financial statements.
  Exhibit 3-5 shows how the same expenses are grouped by function or by nature with the totals being the same. An allocation by function, although it is a somewhat subjective allocation among categories, provides valuable information to financial statement users about how costs contribute to revenue generation.
- **Required Minimum Items** IFRS requires certain minimum items to be shown on the income statement including such items as revenue, finance costs, share of income of associates, and tax expense. Companies following IFRS can add additional items and subtotals. U.S. GAAP indicates no minimum items to be included on the income statement. However, SEC registrants are required to display a number of line items (when applicable) on the income statement under Regulation S-X such as costs and expenses applicable to sales and revenues and selling, general and administrative expenses. In addition, the SEC prohibits non-GAAP measures on the face of the income statement. For example, a non-GAAP measure such as operating profit would be prohibited on a SEC registrant's statements. However, a non-GAAP measure would be allowed under IFRS if the measure is determined to be relevant to an understanding of financial performance. In general, the SEC regulations are more prescriptive and restrictive than the requirements under IFRS.
- **Defining Discontinued Operations** Under IFRS, a discontinued operation is a component held for sale or disposed of and (1) represents a separate major line of business or geographic area, (2) is part of a single coordinated plan to dispose of a separate major line of business or geographical area, or (3) is a subsidiary acquired exclusively with an intent to resell. Unlike IFRS, U.S. GAAP reports discontinued operations when a business component has been sold or held for sale and represents a strategic shift. U.S. GAAP provides examples of a strategic shift but this criterion is not included in IFRS.

EXHIBIT 3-5
Reporting Expense by Function vs. Expense by Nature

Expense by Function		Expense by Nature	
General and Administrative			
Depreciation expense	$ 10,000	Depreciation expense	$ 20,000
Salaries expense	25,000	Salaries expense	60,000
Utilities expense	1,500	Utilities expense	3,000
Miscellaneous expense	3,500	Marketing expense	18,000
General and administrative expenses	40,000	Miscellaneous expense	3,500
Selling			
Depreciation expense	10,000		
Salaries expense	35,000		
Utilities expense	1,500		
Marketing expense	18,000		
Selling expenses	64,500		
Total Operating Expenses	$104,500	Total Operating Expenses	$104,500

Statement of Comprehensive Income

Both U.S. GAAP and IFRS require certain items to be classified as *other comprehensive income* and not be reported on the income statement. Also, both U.S. GAAP and IFRS allow companies to present comprehensive income either in one single statement of comprehensive income or in two separate, but consecutive, statements of income and comprehensive income.

Although most classifications of other comprehensive income items are similar under U.S. GAAP and IFRS, the revaluation surplus results in a difference in accounting and presentation. Under IFRS, a company can elect to report items of property, plant, and equipment at fair value under the Revaluation model. Adjustments for losses are recognized as expense on the income statement. Adjustments for increases in fair value over carrying value are recognized as other comprehensive income (unless it is a reversal of a previous loss which would be reflected in net income). There is no revaluation option of fixed assets allowed under U.S. GAAP.

In **Demo 3-9**, we illustrate the differences in the income statement and the statement of comprehensive income between IFRS and U.S. GAAP.

EXPANDING YOUR KNOWLEDGE **Interim Financial Reporting Under IFRS**

Under IFRS and U.S. GAAP, interim financial statements include financial statements for a period shorter than a fiscal year. Although the condensed statement of financial position, comprehensive income, cash flows, and selected disclosures are required under both U.S. GAAP and IFRS, IFRS also requires a condensed statement of changes in equity.

continued

continued from previous page

IFRS views an interim period as a discrete standalone period (other than for income taxes). Under U.S. GAAP, each interim period is also viewed as an integral part of its full fiscal period. In other words, under U.S. GAAP, amounts can be allocated over several periods when the costs benefit several periods. Under IFRS, to defer a cost as an asset or liability, the asset or liability must meet the definition of an asset or liability *at the end of an interim period*. Under both IFRS and U.S. GAAP, however, income taxes are reported on an interim basis by using an estimate of the tax rate expected to apply for the full year.

Income Statement and the Statement of Comprehensive Income under U.S. GAAP vs. IFRS

LO3-9 Demo 3-9

Demo MBC

For each of the five characteristics, enter the facts for both U.S. GAAP (and SEC if different) and IFRS.

Characteristics	U.S. GAAP and SEC	IFRS
1. Presentation of expenses on income statement	**U.S. GAAP: by function or nature** **SEC: by function**	**By function or nature**
2. Presentation of comprehensive income	**Single statement or two separate consecutive statements**	**Single statement or two separate consecutive statements**
3. Guidelines for minimum line items included on the face of the income statement	**U.S. GAAP: no minimum items** **SEC: Specified minimum line items**	**Some minimum line item requirements**
4. Definition of a discontinued business component	**Components held for sale or disposed of and represent a strategic shift**	**Assets held for sale or disposed of (1) representing a major line or geographical area, (2) included in a plan for disposal, or (3) acquired as a subsidiary with intent to resell**
5. Overall approach(es) to interim reporting	**Integral and discrete approaches**	**Discrete approach only**

U.S. GAAP vs. IFRS in Income Statement and Comprehensive Income Reporting

LO3-9 REVIEW 3-9

Review MBC

Identify the reporting standards *a* through *d* that are most appropriate for each of the financial statement presentation items, 1 through 5.

Reporting Standards

a. Consistent with U.S. GAAP only
b. Consistent with IFRS only
c. Consistent with both U.S. GAAP and IFRS
d. Does not follow U.S. GAAP or IFRS

Financial Statement Presentation

_____ 1. Revaluation surplus classified as other comprehensive income.
_____ 2. Reporting EBIT on the face of the income statement. (EBIT equals earnings before interest and taxes.)
_____ 3. Single comprehensive statement presentation or separate, consecutive statement presentation.
_____ 4. Displaying all depreciation expense as one line item on the income statement.
_____ 5. Discontinued operations on the income statement.

More Practice:
3-78, 3-79, 3-80

Solution on p. B-55.

IFRS LO 4-6 Compare balance sheet presentations between U.S. GAAP and IFRS

LO 4-6 Overview

Balance Sheet under IFRS

- Uses the title *Statement of Financial Position*
- Requires a minimum number of accounts
- Lists accounts in increasing order of liquidity
- Allows net asset presentation
- Allows the use of the term *reserve*
- Defines current assets and liabilities in terms of trading purposes

The balance sheet presentation requirements under both IFRS and U.S. GAAP are similar. Both financial statements are prepared on the accrual basis of accounting except under rare circumstances. While the standards differ on the recording of some specific balance sheet items, we focus in this section on statement presentation differences and illustrate these differences in **Demo 4-6**.

- **Title of financial statement** IFRS uses the title *statement of financial position* for the balance sheet although companies are not required to use that title. In the U.S., a small percentage of companies use the title *statement of financial position* for the balance sheet.
- **Minimum required amounts** There are no general requirements within U.S. GAAP to prepare the balance sheet in accordance with a specific layout. However, public companies must follow the detailed requirements in Regulation S-X. IFRS does not prescribe a standard layout, but includes a list of minimum line items to be reported on the statement of financial position. These minimum line items are less prescriptive than the requirements from the SEC.
- **Current and noncurrent** Although the format of the statement of financial position is not prescribed in IFRS standards, unlike in U.S. GAAP, the majority of IFRS companies list noncurrent assets and liabilities *before* current assets and liabilities, respectively.
- **Net asset presentation** A net asset presentation (assets minus liabilities) is allowed under IFRS.
- **Use of the term reserve** The term *reserve* is discouraged under U.S. GAAP but is referenced in IFRS standards.
- **Defining current assets** Similar to U.S. GAAP, current assets are defined as resources expected to be realized within a year or operating cycle, whichever is longer. However, IFRS restricts current assets to those assets held primarily for the purpose of trading or those assets classified as cash/cash equivalents.
- **Defining current liabilities** Similar to U.S. GAAP, current liabilities are defined as obligations expected to be settled within the company's normal operating cycle or within 12 months, whichever is longer. However, IFRS restricts current liabilities to those liabilities held for trading purposes and for which the company does not have an unconditional right to defer beyond 12 months.
- **Equity section** Some of the terminology used in the equity section of the statement of financial position differs from U.S. GAAP terminology. Typical equity terminology under IFRS follows.
    - Share capital or Common shares: Par value or stated value of shares issued.
    - Share premium: Excess of paid-in amounts over par or stated value.
    - Retained earnings: Undistributed earnings.
    - Accumulated other comprehensive income: Cumulative amount of other comprehensive income.
    - Treasury shares: Shares repurchased.
    - Noncontrolling interest: Share of equity owned by noncontrolling interests.

EXPANDING YOUR KNOWLEDGE **IFRS Minimum Items on Balance Sheet**

IAS 1 includes the following list of minimum items to be included on the statement of financial position prepared under IFRS.

1. Property, plant and equipment
2. Investment property
3. Intangible assets
4. Financial assets
5. Investments accounted for using the equity method
6. Biological assets
7. Inventories
8. Trade and other receivables
9. Cash and cash equivalents
10. Assets held for sale
11. Trade and other payables
12. Provisions
13. Financial liabilities
14. Current tax liabilities and current tax assets
15. Deferred tax liabilities and deferred tax assets
16. Liabilities included in disposal groups
17. Noncontrolling interests, presented within equity
18. Issued capital and reserves attributable to owners of the parent

Balance Sheet Presentation under U.S. GAAP vs. IFRS

LO4-6 **Demo 4-6**

For each statement below, indicate which of the two standards supports that statement.

a. Allows reporting of assets in reverse order of liquidity . . . . U.S. GAAP or IFRS

b. Discourages the term *reserve* in financial reporting . . . . U.S. GAAP or IFRS

c. Uses the title *statement of financial position* in its guidance . . . . U.S. GAAP or IFRS

d. States minimum line items required to be reported on the balance sheet . . . U.S. GAAP or IFRS

e. Does not restrict current liabilities to those held for trading purposes. . . . . . U.S. GAAP or IFRS

EXPANDING YOUR KNOWLEDGE — IFRS Segment Reporting

Few differences exist between U.S. GAAP and IFRS regarding segment reporting. The following highlights key differences.

Segment liabilities IFRS requires disclosure of segment liabilities (if reportable to a chief operating decision maker) while U.S. GAAP does not have this requirement.

Segment assets IFRS requires disclosure of segment assets only when it is reportable to a chief operating decision maker, whereas U.S. GAAP requires disclosure in all cases.

Management judgment Under IFRS and U.S. GAAP, disclosures are required about products and services, geographic areas, major customers, and factors used to identify an entity's reportable segments. However, unlike U.S. GAAP, there is an IFRS requirement to disclose the judgments made by management in applying the aggregation criteria.

GAAP vs. IFRS Balance Sheet Reporting

LO4-6 **REVIEW 4-6**

For each statement below, indicate which of the two answers is more appropriate.

a.	Title used in GAAP standards.	Balance sheet	or	Statement of financial position
b.	Title used in IFRS standards	Balance sheet	or	Statement of financial position
c.	Typically presents assets from most liquid to least liquid	U.S. GAAP	or	IFRS
d.	Allows a net asset presentation on balance sheet	U.S. GAAP	or	IFRS
e.	Requires minimum line items to be reported on balance sheet	U.S. GAAP	or	IFRS
f.	Defines current assets as cash or assets held for trading purposes . . .	U.S. GAAP	or	IFRS

Review MBC

More Practice: 4-90, 4-91, 4-93

Solution on p. B-55.

Compare the statement of cash flow presentation between U.S. GAAP and IFRS

IFRS LO 5-9

IFRS requires the reporting of a statement of cash flows similar to U.S. GAAP. Under IFRS, three sections are reported: operating, investing, and financing. However, IFRS allows users more flexibility under its standards regarding the classification of cash flows pertaining to interest and dividends.

Under IFRS, the following classifications are allowed:

- **Interest paid:** operating or financing activity
- **Dividends paid:** operating or financing activity
- **Interest received:** operating or investing activity
- **Dividends received:** operating or investing activity
- **Income taxes paid:** operating, unless taxes can be identified with financing or investing activities

Further, IFRS does not specify that the operating activities section begin with net income when presenting this section using the indirect method. Instead, under IFRS, a company may begin the reconciliation with operating income. Next in **Demo 5-9**, we illustrate the differences in the presentation of the statement of cash flows between IFRS and U.S. GAAP.

LO 5-9 Overview

IFRS: Statement of Cash Flow Classifications

- Interest paid and dividends paid: *operating* or *financing*
- Interest received and dividends received: *operating* or *investing*

Demo 5-9 LO5-9 IFRS—Statement of Cash Flows

Demo MBC

Determine how each of the following items, *a* through *h*, are classified in the statement of cash flows: operating, investing, and/or financing.

	Operating	Investing	Financing
a. Interest paid—U.S. GAAP	✔		
b. Interest paid—IFRS	✔		✔
c. Interest received—U.S. GAAP	✔		
d. Interest received—IFRS	✔	✔	
e. Dividends paid—U.S. GAAP			✔
f. Dividends paid—IFRS	✔		✔
g. Dividends received—U.S. GAAP	✔		
h. Dividends received—IFRS	✔	✔	

REVIEW 5-9 LO5-9 Statement of Cash Flows—IFRS

Review MBC

The following is a U.S. GAAP statement of cash flows for Northern Lights Inc. for the year ended December 31, 2020. Compute net cash flows from operating, investing, and financing activities under IFRS. Assume that under IFRS, the company classifies interest received as an *investing* activity, interest paid as a *financing* activity, and dividends paid as an *operating* activity.

NORTHERN LIGHTS INC.
Statement of Cash Flows
For Year Ended December 31, 2020

Cash flows from operating activities	
Cash received from customers	$156,000
Cash paid to suppliers	(90,000)
Cash paid for operating expenses	(40,000)
Interest received on note receivable	3,500
Cash paid for interest on note payable	(4,800)
Net cash inflow from operating activities	24,700
Cash flows from investing activities	
Sale of land	6,000
Issuance of note receivable	(40,000)
Purchase of plant assets	(18,000)
Net cash outflow from investing activities	(52,000)
Cash flows from financing activities	
Payment on note payable	(5,000)
Issuance of common stock	50,000
Cash paid for dividends	(15,000)
Net cash inflow from financing activities	30,000
Net increase in cash and cash equivalents during 2020	2,700
Cash and cash equivalents, December 31, 2019	24,000
Cash and cash equivalents, December 31, 2020	$ 26,700

More Practice: 5-87, 5-88, 5-89

Solution on p. B-55.

Describe differences in accounting for revenue between U.S. GAAP and IFRS

IFRS LO 7-12

To address weaknesses in accounting standards, the FASB and IASB participated in a joint international project with a goal of producing a single converged revenue recognition standard. The goal was to improve the comparability and consistency of revenue reporting across companies and industries. The new revenue recognition standard was largely converged with the international standard. However, some differences remained after both boards issued revenue recognition standards and some subsequent updates resulted in more differences. However, the standards are largely similar, both grounded in the five-step revenue recognition process.

LO 7-12 Overview

Revenue Recognition Under IFRS

- No classification of licenses (as functional and symbolic)
- No election for shipping and handling
- No election for *immaterial* goods and services
- No election for automatically reporting sales net of sales tax
- Allows contract cost loss reversals
- Requires the reporting of obligations for onerous contracts

1 Identify contract(s) with customer → 2 Identify performance obligation(s) in the contract → 3 Determine transaction price → 4 Allocate transaction price to performance obligation(s) → 5 Recognize revenue when (as) each performance obligation is satisfied through a transfer of control

We focus on major differences between the two standards as they relate to revenue recognition, and illustrate those differences in **Demo 7-12**.

Collectibility Threshold of a Valid Contract

The collectibility condition of a contract is the same under U.S. GAAP and IFRS: both standards require collectibility to be probable for a valid contract to be in effect. However, U.S. GAAP defines probable as *likely to occur*, while under IFRS, probable is defined as *more likely than not*. The threshold for *more likely than not* is generally interpreted as greater than 50%, while the threshold for *likely to occur* is considered greater than that (generally 75% to 80%).

Licenses

While the FASB incorporated the classifications of functional and symbolic for licenses, IFRS did not. Under U.S. GAAP, revenue recognized related to a symbolic intellectual property is generally recognized over time and revenue recognized related to a functional license is generally recognized at a point in time. Under IFRS, the seller recognizes revenue over time if the seller's ongoing activities affect the benefits obtained by the customer from the intellectual property. Revenue can be recognized at a *point in time* if there are no ongoing activities of the seller that significantly affect the intellectual property.

Shipping and Handling

IFRS has no election for shipping and handling costs. Because that is the case, sellers must determine if shipping and handling costs are distinct from the other distinct goods and services in a contract. If shipping and handling is determined to be a separate performance obligation and it takes place after the transfer of the goods to a customer, revenue allocated to shipping will be deferred and recognized only after the shipment occurs. U.S. GAAP includes an election that allows companies to account for shipping and handling costs that occur after the customer has obtained control of the good as an expense rather than as an additional promise in the contract.

Performance Obligations—Immaterial Goods and Services

While the IASB clarified in the Basis for Conclusions on IFRS 15 that it did not intend for entities to individually identify every possible promised good or service in a contract, IFRS does not have specific language indicating that sellers do not have to account for a performance obligation separately if it is *immaterial* to the context of a contract (as is the case in U.S. GAAP).

Noncash Consideration

A measurement date for noncash consideration at fair value, other than the contract inception date, is allowed under IFRS which is consistent with legacy IFRS. Under U.S. GAAP, noncash consideration is valued only at the contract inception date.

Onerous Contracts

Under IFRS, the present obligation of an onerous revenue contract is recognized. An **onerous** contract is a contract in which the unavoidable costs of meeting obligations under the contract exceed the economic benefits expected to be received under it. The liability is the lesser of the net cost of exiting from the contract (such as penalties), or the cost of fulfilling remaining obligations under the contract. Under U.S. GAAP, recording losses are not permitted unless required by a specific standard.

Reversal of Impairment Losses on Contract Costs

IFRS allows the reversal of impairment losses for assets such as contract costs, while U.S. GAAP does not allow an entity to reverse an impairment on an asset such as contract costs.

Sales Tax Presentation

U.S. GAAP allows for an election to exclude all sales taxes (and similar taxes) from the measurement of the transaction price. This means revenue would automatically be reported on a net basis. Under IFRS (and U.S. GAAP for entities that do not make this election) each tax type (in each jurisdiction) must be evaluated to determine which amounts to exclude from revenue and which amounts to include, using the accounting guidance of principal and agency.

Disclosure of Remaining Performance Obligation

While U.S. GAAP allows some optional exemptions from the disclosures about remaining performance obligations (in certain cases), IFRS does not.

Demo 7-12 **LO7-12** **Compare Revenue Recognition between U.S. GAAP and IFRS**

Demo MBC

For each of the revenue standard descriptions listed, indicate whether the description applies to U.S. GAAP, IFRS, or both.

Revenue Standard Description	U.S. GAAP	IFRS
a. Includes an election to report all revenue *net* of sales taxes.	✔	
b. Does not specify the measurement date for noncash consideration received.		✔
c. Does not have an election to allow shipping and handling costs to be expensed rather than treated as an additional promise in the contract.		✔
d. Does not have a specific disclosure requirement for onerous contracts.	✔	
e. Does not allow a reversal of losses on capitalized contract costs.	✔	
f. Defines probable as *likely to occur*.	✔	
g. Does not recognize licenses as symbolic and functional.		✔

REVIEW 7-12 **LO7-12** **Compare Revenue Recognition between U.S. GAAP and IFRS**

Review MBC

For each description, 1 through 8, indicate the appropriate reference, choosing from items *a* through *d*.

Set of Standards

_____ *a.* Consistent with U.S. GAAP only

_____ *b.* Consistent with IFRS only

_____ *c.* Consistent with both U.S. GAAP and IFRS

_____ *d.* Does not follow U.S. GAAP or IFRS

Accounting Description

1. Licenses are classified as either functional or symbolic.
2. Requires collectibility to be probable for a valid contract.
3. Allows reversals of capitalized contract costs.
4. Allows certain exemptions for disclosures on remaining performance obligations.
5. Does not allow an automatic exemption on the reporting of revenue net of sales tax.
6. Requires recording of obligations of contracts where the unavoidable costs exceed the benefits under contract.
7. Does not have a provision specifically addressing the accounting of performance obligations immaterial to the context of the contract.
8. Measures the fair value of noncash consideration only at the contract inception date.

More Practice: 7-115, 7-116, 7-117

Solution on p. B-55.

Describe differences in accounting for cash and receivables between U.S. GAAP and IFRS

IFRS LO 8-10

Accounting treatment of cash and receivables is similar under U.S. GAAP and IFRS. This section focuses on the accounting differences and illustrates those differences in **Demo 8-10**.

> **IFRS: Accounting for Cash and Receivables**
> - Net bank overdrafts against bank deposits
> - Estimate credit losses using expected credit loss model
> - Recognize receivable transfers when risk of loss and reward has transferred
>
> LO8-10 Overview

Bank Overdrafts

U.S. GAAP requires bank overdrafts (bank withdrawals in excess of bank deposits) to be classified as a liability. IFRS permits bank overdrafts to be classified as cash (net against other positive cash amounts) if the bank overdrafts are an integral part of an entity's cash management program to minimize cash balances.

Estimate of Credit Losses on Receivables

Under U.S. GAAP (CECL model), full *lifetime expected credit losses* are recorded upon initial recognition of the financial asset. Thus, under U.S. GAAP, expected credit losses on receivables will reflect lifetime expected credit losses and will be informed by historical and current information, as well as reasonable and supportable forecasts. Under IFRS, full lifetime expected credit losses are only recorded upon a significant deterioration in credit risk. Absent a significant deterioration in credit risk, IFRS recognizes credit losses expected within *12 months* after the reporting date. Under this *ECL Model* (Expected Credit Loss Model), evidence of impairment is required before credit losses are calculated based upon lifetime credit losses. Thus, under IFRS, credit losses on receivables are estimated either as 12-month credit losses or as lifetime expected credit losses, depending on the circumstances.

Classification of Receivables

U.S. GAAP specifies that certain receivables be separately reported (such as related party receivables). IFRS provides recommendations on separate disclosures but does not require separate reporting.

Transfer of Receivables

Under U.S. GAAP, receivables are considered transferred to another party (factor) if control of the asset is transferred. Under IFRS, a transfer is based on a mix of models. If there is a transfer of the risks and rewards of ownership, the transaction is treated as a sale. **Transfer of control** is evaluated only when an analysis of a **transfer of risks and rewards** is not conclusive. For example, risks and rewards can be considered transferred to a factor if the seller does not maintain significant loss guarantees after the transfer of the receivables. If the seller has neither retained nor transferred substantially all of the risks and rewards of owning the receivables, transfer of control is evaluated through specified criteria.

Fair Value Option

While the fair value option for receivables is permitted under both U.S. GAAP and IFRS, IFRS limits its usage to certain circumstances.

Cash and Receivables under U.S. GAAP vs. IFRS — LO8-10 — Demo 8-10

Demo MBC

For each of the four financial statement reporting items, indicate whether the reporting described is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Combine trade receivables and receivables due from related party on the balance sheet.		✔
2. Net bank overdrafts from Bank One with surplus balances in Bank Two..		✔
3. Record a sale of receivables when control of the receivables was transferred but the risks and rewards of ownership were not transferred..	✔	
4. Estimate credit losses based upon possible losses occurring not longer than 12 months after the reporting date.		✔

REVIEW 8-10 **LO8-10** **U.S. GAAP vs. IFRS in Reporting Cash and Receivables**

Review MBC

Indicate the appropriate accounting treatment choosing from items *a* through *d*, for each description, 1 through 4.

a. Accounting treatment supported by U.S. GAAP only.
b. Accounting treatment supported by IFRS only.
c. Accounting treatment supported by both U.S. GAAP and IFRS.
d. Accounting treatment supported by U.S. GAAP or IFRS.

____ 1. Netting of an overdraft in an account from Bank One with a surplus in another account at Bank One.
____ 2. Use of the Expected Credit Loss Model to estimate losses on uncollectible receivables.
____ 3. Determining whether a sale of receivables took place by analyzing risks and rewards of ownership.
____ 4. Use of the Current Expected Credit Loss Model to estimate losses on uncollectible accounts.

More Practice: 8-111

Solution on p. B-55.

IFRS LO 10-10 Compare accounting for inventory between U.S. GAAP and IFRS

LO 10-10 Overview

IFRS: Accounting for Inventories
- LIFO not allowed under IFRS
- IFRS does not measure inventory at the lower-of-cost-or-market
- Reversals of inventory impairment are allowed under IFRS

Accounting treatment of inventories is similar under U.S. GAAP and IFRS. In this section, we focus on the accounting differences and illustrate those differences in **Demo 10-10**.

Inventory Methods

Under IFRS, the cost of inventory is generally determined using the FIFO method or the weighted-average cost method. The use of the LIFO method is prohibited. Other methods, such as the standard cost or retail methods, can be used if the results approximate actual cost.

Consistent inventory methods for all inventories similar in nature are not explicitly required under U.S. GAAP. However, under IFRS, the same inventory method must be applied to all inventories similar in nature or of use to the company.

Lower-of-Cost-or-Net Realizable Value

Under IFRS, inventory is recorded at the lower-of-cost-or-net realizable value. Under U.S. GAAP, while most inventory is recorded at the lower-of-cost-or-net realizable value, there are two exceptions where inventory is measured at the lower-of-cost-or-market: LIFO and the retail inventory method.

U.S. GAAP also allows application of the lower-of-cost-or-net realizable value rule or the lower-of-cost-or-market rule to individual items, classifications, or to inventory in total. Under IFRS, assessment is applied to individual items while application by classification is restricted to certain situations.

Reversals of Inventory Write-Downs

Under IFRS, previously recorded inventory losses are reversed up to the amount of the original impairment loss when the reasons for the impairment no longer exist. Under U.S. GAAP, however, reversals are not allowed. The value of the asset after write-down becomes the new basis of the asset. Under IFRS, the amount of inventory impairment reversals must be disclosed.

Demo 10-10 **LO10-10** **Inventories under U.S. GAAP vs. IFRS**

Demo MBC

For each of the following *four* financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Reversal of an inventory impairment loss		✔
2. Inventory recorded at lower-of-cost-or-market	✔	
3. Inventory recorded using the LIFO method	✔	
4. Inventory recorded using the FIFO method	✔	✔

U.S. GAAP vs. IFRS in Reporting Inventories **LO10-10** **REVIEW 10-10**

Indicate the appropriate accounting treatment choosing from items *a* through *c*, for each description, 1 through 4.

a. Accounting treatment supported by U.S. GAAP only.
b. Accounting treatment supported by IFRS only.
c. Accounting treatment supported by both U.S. GAAP and IFRS.

_____1. Use of the LIFO retail method to estimate inventory.
_____2. LIFO inventory recorded at lower-of-cost-or-market.
_____3. FIFO inventory recorded at lower-of-cost-or-net realizable value.
_____4. Different inventory methods applied to inventories, similar in nature.

Review MBC

More Practice: 10-106, 10-107, 10-108

Solution on p. B-55.

Compare accounting for property, plant, and equipment between U.S. GAAP and IFRS

IFRS LO 11-10

Accounting treatment of property, plant, and equipment is similar under GAAP and IFRS. This section focuses on the material accounting differences between the two and illustrates those differences in **Demo 11-10**.

IFRS: Property, Plant, and Equipment
- Revaluation of fixed assets
- Interest capitalization
- Donation by government grants
- Capitalization of major overhauls

LO 11-10 Overview

Property, Plant, and Equipment

Under IFRS, companies can either adopt the historical cost model or the revaluation model to measure fixed assets. Under the revaluation model, fixed assets can be revalued to fair value if fair value can be measured reliably. Revaluation takes place systematically over the asset life.

Unlike IFRS, revaluation of property, plant, and equipment is not permitted under U.S. GAAP.

Interest Capitalization

Under U.S. GAAP, interest earned on the temporary investment of borrowed funds generally cannot offset interest costs incurred during the period for interest capitalization. However, under IFRS, the amount of capitalized interest is offset by investment income earned from the temporary investment of the borrowed funds.

Donation by Government Grant

Under U.S. GAAP, donations (including donations by governmental bodies) are recorded at fair value with an increase to revenue from contributions. Under IFRS, however, donations through government grants are recorded either (1) as a deduction from the cost of the asset or (2) initially as deferred income, and subsequently recognized as income over the life of the asset.

Major Replacements of Fixed Assets

A major overhaul or replacement of a component under IFRS must be capitalized and the carrying amount of the original component must be derecognized. Various treatments of a major overhaul are permitted under GAAP such as capitalizing or expensing as incurred.

Biological Assets

A **biological asset** (noncurrent asset) is a living animal or plant such as cows or apple trees. Under U.S. GAAP, biological assets are generally measured at *historical cost*. These assets are tested for impairment in the same manner as other noncurrent assets.

Under IFRS, biological assets are initially measured at *net realizable value* of the fair value less costs to sell and at each subsequent reporting date, except when the measurement of fair value is unreliable. All changes in fair value are recognized in the income statement in the period in which they incur.

Demo 11-10 **LO11-10** **Property, Plant, and Equipment under U.S. GAAP vs. IFRS**

For each of the six financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Revaluation of fixed assets to fair value at reporting dates.		✔
2. Recording of fixed assets under the historical cost model.	✔	✔
3. Reduction of interest capitalized for interest earned on borrowed funds.		✔
4. Recording fixed assets *net* of government grants received.		✔
5. Recording of government grants received immediately as contribution revenue.	✔	
6. Biological asset recorded at historical cost.	✔	

REVIEW 11-10 **LO11-10** **U.S. GAAP vs. IFRS in Reporting Property, Plant, and Equipment**

Review MBC

Prepare the necessary journal entry(ies) for the following transactions and events for Global Supplier Inc., an IFRS financial statement reporter.

a. Global Supplier receives $1,000,000 as a government grant toward the purchase of a $5,000,000 building. If the company opts to record the contribution as a deduction from the building, record a summary entry for the purchase.

b. Global Supplier calculated the following amounts related to the construction of a new building on its property.

Actual interest costs	$55,000
Avoidable interest costs	50,000
Interest earnings on borrowing	2,000

Record the summary entry to capitalize interest expense, assuming that the building is complete at year-end.

c. A company elects to report land using the revaluation model. The carrying value of land at year-end is $100,000 while an appraisal indicates that the land has a fair value of $120,000. Record the adjusting entry required at year-end.

More Practice: 11-98, 11-99, 11-100

Solution on p. B-55.

IFRS LO 12-12 Compare accounting for depreciation and impairment of property, plant, and equipment between U.S. GAAP and IFRS

LO12-12 Overview

IFRS: Accounting for Depreciation and Impairment

- Depreciation by component
- Depreciation estimates
- Impairment of fixed assets on assets held for use
- Reversal of impairment losses on assets held for use

Accounting treatment of property, plant, and equipment is similar under U.S. GAAP as compared to IFRS. For example, IFRS uses similar depreciation methods. The IFRS standards mention three depreciation methods: straight-line, units-of-production, and diminishing balance method (similar to declining balance under U.S. GAAP). Similar to U.S. reporters, the vast majority of IFRS reporters use the straight-line method. In this section, we focus on the material accounting differences and illustrate those differences in **Demo 12-12**.

Depreciation by Component

Under IFRS, each component of a fixed asset must be depreciated separately if the component is significant to the total cost of the fixed asset and has a different pattern of benefit. For example, the roof and HVAC (heating, ventilation, and air conditioning) system can be considered separate components of a building.

U.S. GAAP allows but does not require depreciation by component. Depreciation by component is not common under U.S. GAAP.

Depreciation Estimates

While it is expected under U.S. GAAP that companies review estimates, IFRS explicitly requires a review of residual values and useful life estimates at each balance sheet date.

Analyzing Impairment on Fixed Assets Held for Use

Under IFRS, there is no asset recoverability test on fixed assets held for use. Instead, based on the annually *required* review for indicators of assessment, an impairment loss is recognized as the difference between the book value and the recoverable amount (greater of the asset's estimated present value of future cash flows or the fair value less costs to sell).

Reversal of Impairment Losses on Fixed Assets Held for Use

Reversal of impairment losses on property, plant, and equipment held for use are required under IFRS if the circumstances that caused impairment are later eliminated. U.S. GAAP does not permit reversal of impairment losses on property, plant, and equipment held for use.

Depreciation and Impairment under U.S. GAAP vs. IFRS

LO12-12 Demo 12-12

Demo MBC

For each of the six financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Reversal of impairment losses on assets held for use.		✔
2. Reversal of impairment losses on assets held for sale.	✔	✔
3. Use of the asset recoverability test to identify impaired (held for use) assets.	✔	
4. Depreciation of individual, significant components of a fixed asset.	✔	✔
5. Prospective adjustments to depreciation due to changes in estimates of residual values.	✔	✔
6. Impairment loss when the carrying value of an asset is *less than* the undiscounted future cash flows from the asset but is *greater than* the present value of future cash flows.		✔

U.S. GAAP vs. IFRS in Reporting Property, Plant, and Equipment

LO12-12 REVIEW 12-12

Review MBC

Example One—A building consists of three major components identified as follows.

Building Components	Cost	Useful Life
Component 1	$ 120,000	15 years
Component 2	400,000	25 years
Component 3	600,000	30 years
Total cost of building	$1,120,000	

Compute annual straight-line depreciation for year one under (a) IFRS and (b) U.S. GAAP. Under IFRS, depreciate by component. Under U.S. GAAP, estimate depreciation over the 30-year estimated useful life of the building. Assume no residual value on the building.

Example Two—The following information relates to a fixed asset owned by a company.

Carrying value	$1,000,000
Estimated cash flows (undiscounted)	1,100,000
Present value of future cash flows	880,000
Fair value less cost to sell	850,000

More Practice: 12-127, 12-128, 12-129

Determine the loss on impairment under (a) IFRS and (b) U.S. GAAP.

Solution on p. B-55.

IFRS LO 13-7 Compare accounting for intangible assets between U.S. GAAP and IFRS

LO 13-7 Overview

IFRS: Accounting for Intangibles
- Capitalization of development costs
- Revaluation of finite life intangible assets
- Impairment of intangible assets
- Reversal of impairment losses on intangible assets

The accounting treatment of intangible assets is similar under U.S. GAAP and IFRS. In this section, we will focus on the material accounting differences and illustrate those differences in **Demo 13-7**.

Accounting for Research and Development Costs

Under IFRS, companies expense research and development costs in the research phase, but capitalize research and development costs in the development phase. Costs may be capitalized in the development phase if the following criteria are met.

1. Technical feasibility of completing the intangible asset, making it available for use or for sale.
2. Intention to complete the intangible asset for use or for sale.
3. Ability to use or sell the intangible asset.
4. Plan for generation of probable future economic benefits.
5. Availability of adequate technical, financial, and other resources to complete the development for use or for sale of the intangible asset.
6. Ability to measure reliably the expenditure attributable to the intangible asset during development.

Meeting the criteria above indicates that the company has established technical and economic feasibility pertaining to the new product. The capitalization period for development costs ends when the asset is available for sale or for use. Under U.S. GAAP, development costs are generally expensed as incurred.

Revaluation of Finite Life Intangible Assets

IFRS allows companies to elect to report finite life intangible assets at fair value if an active market exists. If fair value is greater, a gain is reported as other comprehensive income. If fair value is lower, the loss is reported as part of net income. However, because revaluation requires a reference to an active market for the specific type of intangible, revaluation is relatively uncommon in practice.

Impairment of Finite Life Intangible Asset

Unlike U.S. GAAP, under IFRS, there is no asset recoverability test. Instead, an annual review for indicators of assessment is required. If indicators are present signaling a possible impairment, the impairment loss is measured as the difference between the intangible asset's book value and recoverable amount (greater of the intangible asset's estimated present value of future cash flows and the intangible asset's fair value less costs to sell).

Impairment of Goodwill and Other Indefinite Life Intangible Assets

Under IFRS, a qualitative assessment is not permitted. Instead, annually, an analysis must be done comparing the carrying amount to the recoverable amount of the cash-generating unit. The recoverable amount is the higher of the fair value less costs of disposal or **value-in-use.** Value-in-use is the present value of future cash flows derived from the intangible asset.

Under IFRS, goodwill is assigned to the cash-generating unit that is expected to benefit from the business combination. The cash-generating unit is the smallest identifiable group of assets that generates cash flows. Under U.S. GAAP, goodwill is tested for impairment at the reporting unit level, the segment for which discrete financial information is available.

Reversal of Impairment Losses

With the exception of goodwill, losses may be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount. A reversal may result from situations such as a change in market conditions or in the intended use of the intangible asset.

Subsequent Litigation Costs

Unlike U.S. GAAP, subsequent litigation costs to successfully defend a patent are generally expensed under IFRS. Only in rare instances where future benefits increase would such costs be capitalized under IFRS.

Accounting for Intangible Assets under U.S. GAAP vs. IFRS

LO13-7 Demo 13-7

Demo MBC

For each of the seven financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Reversal of impairment losses on a finite life intangible asset.		✔
2. Capitalization of development costs of a patent.		✔
3. Capitalization of development costs of computer software.	✔	✔
4. Calculation of the impairment of goodwill as the excess of carrying value over recoverable amount.		✔
5. Calculation of the impairment of goodwill as the excess of carrying value over fair value.	✔	
6. Report finite life intangible assets using revaluation.		✔
7. Use of a qualitative test to determine whether goodwill is impaired. . . .	✔	

U.S. GAAP vs. IFRS in Reporting Intangibles

LO13-7 REVIEW 13-7

Review MBC

Part One—Accounting for Development Costs

For each of the following expenditures *a* through *d*, indicate the appropriate IFRS *initial* accounting treatment: (1) R&D expense, (2) non-R&D expense, or (3) intangible asset.

____ *a.* Routine quality reviews to improve upon the qualities of an existing product.

____ *b.* Engineering activity required to advance the design of a product to the point that it meets specific functional requirements necessary to be ready to manufacture. The criteria to enter the development phase have been met.

____ *c.* Costs to adapt a product requirement to meet a current customer's specific need.

____ *d.* Testing of a product prototype. The criteria to enter the development phase have been met.

Part Two—Impairment of Goodwill

Celestial Co. recorded goodwill in January 2019, related to a purchase of another company. The carrying value of the goodwill is $30,000 on December 31, 2020. On December 31, 2020, the cash-generating unit for which the goodwill relates had a fair value, net of disposal costs of $280,000. The book value of the net assets of the cash-generating unit (including goodwill) is $300,000. The present value of the cash flows related to the cash-generating unit is $285,000.

Determine the loss on impairment under IFRS.

Part Three—Impairment of Patent

Information related to an intangible asset is provided as follows.

Carrying value	$200,000
Estimated cash flows (undiscounted)	205,000
Present value of future cash flows	180,000
Fair value less cost to sell	190,000

More Practice: 13-74, 13-75

Determine the loss on impairment under IFRS.

Solution on p. B-55.

IFRS LO 14-10 Compare accounting for investment assets between U.S. GAAP and IFRS

LO 14-10 Overview

IFRS: Accounting for Investments
- Classifications of debt and equity securities
- Transfer among debt investment categories
- Fair value option
- Impairment

The accounting treatment of investments varies under U.S. GAAP and IFRS. The categories of debt and equity securities are different between U.S. GAAP and IFRS, although there are many similarities in the accounting treatment across categories. In this section, we focus on the material accounting differences and illustrate those differences in **Demo 14-10**.

Accounting for Classifications of Debt Investments

The following table identifies the classification of debt investments under IFRS.

IFRS Debt Categories	Classification Criteria	Similar GAAP Category	Difference between GAAP and IFRS Accounting Treatment
Amortized cost	▪ Payments consist solely of principal and interest. ▪ Investment is held only to collect contractual cash flows.	HTM	Similar
Fair value through other comprehensive income (FVTOCI)	▪ Payments consist solely of principal and interest. ▪ Investment held both to collect contractual cash flows *and* to sell financial assets at a profit.	AFS	Similar except for impairment recognition criteria.
Fair value through profit or loss (FVTPL)	Asset does not meet criteria above.	TS	Similar

Transfer among Debt Investment Categories

Transfer of investments among the categories of (1) amortized cost, (2) fair value through other comprehensive income, and (3) fair value through profit or loss is allowed under IFRS only if a company changes its business model for managing the debt securities.

Fair Value Option

Under IFRS, companies may choose the fair value option to measure financial assets only under certain circumstances, while under U.S. GAAP, specific conditions are not required for this election. For example, under IFRS the fair value option may be used if it significantly reduces an accounting mismatch where some parts of an arrangement are measured at fair value and others at cost.

Impairment

Under IFRS, the expected credit loss model (ECL Model) is used to measure impairment, rather than under the CECL model under U.S. GAAP. Under U.S. GAAP, full *lifetime expected credit losses* are recorded upon initial recognition of the financial asset. However, under IFRS, full lifetime expected credit losses are only recorded upon a significant deterioration in credit risk. Absent a significant deterioration in credit risk, IFRS recognizes credit losses expected within *12 months* after the reporting date.

Accounting for Classifications of Equity Investments

The following table identifies the classification of equity investments under IFRS.

IFRS Equity Categories	Classification Criteria	Similar GAAP Category	Difference between GAAP and IFRS
Fair value through profit or loss (FVTPL)	▪ Investor has *insignificant* influence over investee. ▪ Asset is held for trading.	Fair Value Method	Similar
Fair value through other comprehensive income (FVTOCI)	▪ Investor has *insignificant* influence over investee. ▪ Asset is not held for trading. ▪ Asset may be held for trading as long as the FVTOCI irrevocable election is made on purchase date.	n/a	Realized gains and losses are not reclassified out of OCI and into net income when sold. Instead, OCI gains and losses flow directly to retained earnings.

continued

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IFRS Equity Categories	Classification Criteria	Similar GAAP Category	Difference between GAAP and IFRS
Equity method	Investor has significant influence over investee.	Equity Method	Uniform accounting policies between investor and investee required before the equity method may be selected under IFRS.

IFRS does not include a practical expedient or an option for valuing securities without a determinable fair value. However, in limited situations, IFRS allows an entity to use cost as an appropriate estimate of fair value for unquoted equity investments.

Transfer of Equity Securities

Under IFRS, a *fair value through other comprehensive income* security may not be later classified as a *fair value through profit or loss security*.

Equity Method

Under IFRS, a company may only account for investments under the equity method if the investee adjusts accounting policies to correlate with the investor.

Accounting for Investments under U.S. GAAP vs. IFRS — LO14-10 — Demo 14-10

Demo MBC

For each of the seven accounting policies, indicate whether the accounting policy is consistent with U.S. GAAP, IFRS, or both.

Accounting Policy	U.S. GAAP	IFRS
1. A security is accounted for at amortized cost when the investor has the intent and ability to hold to maturity.	✔	
2. A security is accounted for at amortized cost when the investor holds the security *only* to obtain contractual principal and interest payments.		✔
3. The fair value option may be elected to account for equity method investments only under limited circumstances.		✔
4. When estimating a loss on impairment, credit losses expected beyond the next 12 months are *not* considered unless there is evidence of significant deterioration of credit risk.		✔
5. Includes an equity investment category where adjustments to fair value are reported in the income statement.	✔	✔
6. Includes an equity investment category where adjustments to fair value are reported in other comprehensive income.		✔
7. Includes a debt investment category where adjustments to fair value are reported in the income statement.	✔	✔

U.S. GAAP vs. IFRS in Reporting Investments — LO14-10 — REVIEW 14-10

Review MBC

Example One—Accounting for Debt Investment under IFRS

On September 30, 2020, New Apple Inc. purchased $20,000 of Mack Corp. bonds. These bonds pay 5% interest annually on September 30 and pay the principal amount upon maturity on September 30, 2029. New Apple intends to sell the investment in the near future for a short-term gain. The effective rate of interest on the bonds is 5%.

continued

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Record the following entries for New Apple under IFRS.

a. Record the entry for the purchase of the bonds on September 30, 2020.

b. Record the entry on December 31, 2020, to accrue interest revenue.

c. Record the entry on December 31, 2020, to adjust the investment to fair value, determined to be $21,000 on December 31, 2020.

Example Two—Accounting for Equity Investment under IFRS

On September 1, 2020, Big Apple Inc. purchased 2,500 shares of common stock of Mack Corp. for $250,000. Big Apple has insignificant influence over Mack Corp. and has irrevocably elected to account for the investment under FVTOCI. At December 31, 2020, Mack Corp. paid dividends of $3 per share. The fair value of the investment in Mack Corp. was $255,500 on December 31, 2020.

Record the following entries for Big Apple under IFRS.

More Practice: 14-131, 14-132

a. Purchase on September 1, 2020.

b. Dividends received on December 31, 2020.

c. Adjustment to fair value on December 31, 2020.

Solution on p. B-56.

IFRS LO 15-7 Describe differences in accounting for current liabilities and contingencies between U.S. GAAP and IFRS

LO 15-7 Overview

IFRS: Accounting for Current Liabilities and Contingencies

- Measurement of contingencies
- Present value of contingencies
- Gain contingencies
- Compensated absences
- Refinancing of debt

Accounting treatment of current liabilities and contingencies is similar under U.S. GAAP and IFRS. In this section, we focus on the accounting differences including the differences in terminology and measurement of contingencies, and the differences in valuation of compensated absences accruals and debt classifications. We illustrate these differences in **Demo 15-7**.

Contingency Terminology

Under IFRS, amounts recognized as liabilities are called **provisions**, while amounts that are not accrued, but are possible obligations are called **contingent liabilities**. U.S. GAAP does not differentiate between the two, but all are referred to as contingencies.

Measurement of a Contingency

Under IFRS, a contingent liability becomes a provision and is recorded when all three criteria are met:

- A present obligation from a past event exists.
- It is probable that an outflow of resources will be required to settle the obligation.
- A reliable estimate can be made.

Also, under U.S. GAAP and IFRS, the term **probable** is defined differently. Under IFRS, probable is defined as *more likely than not* (or just over 50%) while under U.S. GAAP probable is defined as *likely* (generally 75% to 80%).

Under IFRS, when no individual point in a range is more likely than another point in the range, the *mid-point* of the range is used to measure the liability. Under U.S. GAAP in an equivalent situation, the *minimum point* in the range is used to measure the liability.

Present Value of Provisions

Under IFRS, provisions must be recorded at present value if the effect of the time value of money is material. Cash flows are discounted using a discount rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability if the effect is significant. Under U.S. GAAP, however, some items are required to be recorded at present value such as asset retirement obligations, while most items are not discounted to present value.

Gain Contingencies

Gain contingencies are never recorded under U.S. GAAP but can be recorded under IFRS if future realization is *virtually certain to occur* (generally a probability of 90% or greater).

Compensated Absences

IFRS specifically requires that compensated absences be accrued based upon the *expected* cost to a company. Therefore, IFRS reporters will be more likely than U.S. GAAP reporters to use expected *future salaries* when estimating compensation accruals.

Refinancing of Debt

Under IFRS, refinancing debt to a long-term basis must be complete by year-end for a liability to be reclassified from a current debt to a noncurrent debt.

Contingencies and Current Liabilities under U.S. GAAP vs. IFRS — LO15-7 — Demo 15-7

For each of the four financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Accrual for a legal liability if the event occurred before year-end, and the liability is probable and may be reasonably estimated.	✔	✔
2. Reclassification of a short-term debt to long-term if the company has the ability and intent to refinance on a long-term basis in the next year.	✔	
3. Accrual of sick pay based upon current salaries.	✔	
4. Accrual of a legal liability using the mid-point of a range as an estimate when no points in the range are more likely than other points in the range..		✔

U.S. GAAP vs. IFRS in Reporting Contingencies and Current Liabilities LO15-7 — REVIEW 15-7

Review MBC

Indicate the appropriate accounting treatment choosing from items *a* through *c*, for each description, 1 through 5.

a. Accounting treatment supported by U.S. GAAP only.
b. Accounting treatment supported by IFRS only.
c. Accounting treatment supported by both U.S. GAAP and IFRS.

____ 1. Accrual of amounts labeled “contingencies” if certain criteria are met.
____ 2. Defining the term *probable* as likely.
____ 3. Accrual of a liability using the lowest point in a range where no point in a range is more likely than another point.
____ 4. Typically accruing a provision at present value.
____ 5. Recognition of a gain contingency when probability is virtually certain.

More Practice: 15-98, 15-99 15-100

Solution on p. B-56.

Describe differences in accounting for noncurrent liabilities between U.S. GAAP and IFRS

IFRS LO 16-13

Accounting treatment of noncurrent liabilities is similar under U.S. GAAP and IFRS. In this section, we focus on the accounting differences and illustrate these differences in **Demo 16-13**.

IFRS: Accounting for Noncurrent Liabilities (LO 16-13 Overview)
- Recording bonds at net method
- Amortizing discounts and premiums
- Reporting of debt
- Extinguishment of debt
- Recording convertible debt

Net Method

Under IFRS, bonds are typically recorded on a net basis. This means a separate discount or premium account is not used—discounts and premiums adjust the bonds payable account directly.

Amortization of Discounts and Premiums

Under IFRS, the effective interest method *must* be used to amortize discounts and premiums. Under U.S. GAAP, a company can use the straight-line interest method if the results are not materially different from using the effective interest method.

Debt Covenant Violations and Refinancing

Under IFRS, debt associated with a covenant violation must be presented in the balance sheet as current unless the lender agreement was reached *prior to the balance sheet date*. Under U.S. GAAP, debt can be presented as noncurrent if a lender agreement to waive the right to demand repayment for more than one year exists *before the financial statements are issued*. Under IFRS, refinancing debt to a long-term basis must be complete by year-end for a liability to be reclassified from a current debt to a long-term debt.

Extinguishment of Debt

Under IFRS, debt is derecognized when it is extinguished or when terms are substantially modified. This means that there are no exceptions for restructuring, as is the case under U.S. GAAP.

Convertible Debt

IFRS specifically requires that hybrid financial instruments be split into debt and equity components. Thus, convertible bonds must be segregated into a debt component and an equity component upon sale of the bonds. If the value of the bonds (without the conversion feature) is not determinable, the fair value is estimated by discounting the interest and principal payments of the bonds using the market rate of interest at the time of issuance.

Demo 16-13 **LO16-13** **Noncurrent Liabilities under U.S. GAAP vs. IFRS**

Demo MBC

For each of the four financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Amortization of a bond discount using the straight-line interest method.	✔	
2. Treatment of a substantial change of terms of a debt agreement as an extinguishment of debt.		✔
3. Classification of debt as long-term if the refinancing of short-term debt took place before the financial statements were issued but after the balance sheet date.	✔	
4. Allocation of proceeds from the sale of convertible bonds into debt and equity components.		✔

REVIEW 16-13 **LO16-13** **U.S. GAAP vs. IFRS in Reporting Noncurrent Liabilities**

Review MBC

For each of the items 1 through 5, select the appropriate description, choosing from items *a* through *d*.

a. Accounting treatment supported by U.S. GAAP only.
b. Accounting treatment supported by IFRS only.
c. Accounting treatment supported by both U.S. GAAP and IFRS.
d. Accounting treatment supported by U.S. GAAP or IFRS.

____ 1. Recording convertible debt as a liability only.
____ 2. Accounting for a substantial change in debt terms as a debt restructuring.
____ 3. Classifying debt as short-term when a covenant is violated at year-end, even when the lender signs a waiver before the issuance of financial statements.
____ 4. Recording of bonds on a net basis.
____ 5. Use of the effective interest method to amortize bond discounts and premiums.

More Practice: 16-132, 16-133, 16-134

Solution on p. B-56.

Compare accounting for leases between U.S. GAAP and IFRS

IFRS LO 17-10

The accounting treatment of leases is similar under U.S. GAAP and IFRS. In this section, we focus on the material accounting differences and illustrate these differences in **Demo 17-10**.

LO 17-10 Overview

IFRS: Accounting for Leases
- Lessee classification of leases
- Short-term lease exception
- Remeasurement of lease liabilities

Lessee Lease Classification

Under IFRS, all leases are accounted for by lessees as finance leases (with the exception of the short-term leases). IFRS does not have an operating lease classification for lessees.

Exceptions for Accounting under Lease Standards

Under U.S. GAAP, a lease results in expense only (no balance sheet impact) through the short-term lease exception when a lease has a term of 12 months or less and does not include a renewal option that the lessee is reasonably certain to exercise. Under IFRS, a lease qualifies for the short-term lease exception if it is short-term in nature (12 months or less) and does not contain a renewal option, or if the leased asset has a value of $5,000 or less.

Direct Financing Leases

Under IFRS 16, selling profit is recognized on direct financing leases when performance obligations in IFRS 15, Revenue from Contracts with Lessees, have been met. Under U.S. GAAP, a selling profit on a direct financing lease is deferred and recognized over the lease term.

Remeasurement

Unlike U.S. GAAP, a lease liability under IFRS is to be remeasured to reflect changes caused by a *change in an index or rate*. This would not be a reassessment event under ASC 842. Under ASC 842, such changes are recognized when incurred, unless the lessee is otherwise required to remeasure the lease liability (for example, as a result of reassessing the lease term). Under IFRS 16, lease assets and liabilities are remeasured whenever the cash flow changes.

Sale-Leaseback

Under ASC 842, a seller-lessee would recognize the full gain from a sale and leaseback transaction that qualifies as a sale. IFRS 16 limits the recognition of gains from sale and leaseback transactions.

Accounting for Leases under U.S. GAAP vs. IFRS **LO17-10** **Demo 17-10**

Demo MBC

For each of the seven financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Reporting of an operating lease by a lessee.	✔	
2. Reporting of a finance lease by a lessee.	✔	✔
3. Reporting of an operating lease by a lessor.	✔	✔
4. Reporting of a lease with a one-year term with no renewal options under the short-term lease exception.	✔	✔
5. Reporting of a lease with an underlying asset with a fair value of $3,000 under the short-term lease exception.		✔
6. Initial recording of a selling profit in a direct financing lease when a performance obligation has been met.		✔
7. Remeasurement of a lease liability triggered by a change in an index.		✔

REVIEW 17-10 **LO17-10** **U.S. GAAP vs. IFRS in Reporting Leases**

Review MBC

Example One—Accounting for a Lease by a Lessee

On January 1, 2020, Global Inc. (lessor) purchased a building for $3 million to be leased. The building is expected to have a 50-year life with no salvage value. The building was leased immediately by Lessee Inc. for $180,000 a year, payable January 1 of each year starting January 1, 2020. The lease term is seven years with no renewal or purchase option reasonably expected to be exercised. There are no uncertainties surrounding collection of the lease payments. The implicit rate of the lease is 6% known by Lessee Inc.

a. How would Lessee Inc. classify the lease under IFRS?

b. Prepare the entries for Lessee Inc. for 2020.

Example Two—Short-Term Lease Exception

Lessee Inc. entered into a contract on January 1, 2020, to lease equipment for two years, with annual payments of $2,520, due at the beginning of each year. The equipment has a fair value of $4,858. The lease agreement does not contain an option for purchase or renewal. The lessor's implicit rate of return is 6%. Prepare the entries for Lessee Inc. on January 1, 2020, and on January 31, 2020, under IFRS.

More Practice:
17-125, 17-126, 17-127

Solution on p. B-56.

IFRS LO 18-11 Compare accounting for income taxes between U.S. GAAP and IFRS

LO 18-11 Overview

IFRS: Accounting for Income Taxes

- Deferred tax asset valuation allowance
- Deferred tax effect exclusions
- Uncertain tax positions
- Enacted tax rates

The accounting treatment of income taxes is similar under U.S. GAAP and IFRS. In this section, we focus on material accounting differences and illustrate these differences in **Demo 18-11**.

Deferred Tax Asset Valuation Allowance

Under IFRS, a deferred tax asset is only recognized to the extent that it is *probable* that it will be realized. In other words, a valuation account is not used because assets are *only* recorded if it is probable that they will be realized. However, under U.S. GAAP, a deferred tax asset is recognized and a valuation allowance is recorded to the extent that it is *more likely than not* that the deferred tax assets will not be realized. Therefore, while *net* deferred asset balances may be similar under U.S. GAAP and IFRS, the gross deferred tax asset balances and offsetting valuation allowances may be greater under U.S. GAAP.

Exclusions for the Recognition of Deferred Tax Assets and Liabilities

Under IFRS, deferred tax effects arising from the initial recognition of an asset or liability are not recognized when: (1) the amounts did not arise from a business combination, and (2) upon occurrence, the transaction affects neither accounting nor taxable profit (such as acquisition of non-deductible assets).

Uncertain Tax Positions

Under IFRS, accounting for uncertain tax positions is not specifically addressed; therefore, accounting practices vary. For example, some companies will record all uncertain tax positions at expected value while others will only record uncertain tax positions that are *more likely than not* to not result in a cash outflow.

Unlike IFRS, U.S. GAAP has specific guidance on the uncertain tax positions using a two-step approach. The benefits of uncertainty in income taxes are recognized only if it is *more likely than not* that the tax positions are sustainable. For tax positions that are *more likely than not* to be sustained, the largest amount of tax benefit that is greater than 50% likely of being realized on settlement is recognized.

Enacted Tax Rates

Under IFRS, enacted or substantively enacted tax rates as of the balance sheet date must be used. Unlike IFRS, current and deferred tax are only measured in U.S. GAAP based on rates and tax laws that are enacted *at the reporting date*.

Accounting for Income Taxes under U.S. GAAP vs. IFRS LO18-11 **Demo 18-11**

For each of the six financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Demo MBC

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Recognizing a deferred tax asset only when it is probable that it will be realized.		✔
2. Gross recognition of a deferred tax asset.	✔	
3. Expected value approach to recording uncertain tax positions.		✔
4. Use of a two-step approach in recording uncertain tax positions.	✔	
5. Use of a fully enacted tax rate, but not a substantially enacted tax rate to measure a deferred tax asset or liability.	✔	
6. Use of a substantially enacted or a fully enacted tax rate to measure a deferred tax asset or liability.		✔

U.S. GAAP vs. IFRS in Reporting Income Taxes LO18-11 **REVIEW 18-11**

For each description, 1 through 5, Indicate the appropriate accounting treatment choosing from items *a* through *d*.

Review MBC

a. Consistent with U.S. GAAP only
b. Consistent with IFRS only
c. Consistent with both U.S. GAAP and IFRS
d. Does not follow U.S. GAAP or IFRS

____ 1. Reporting of a deferred tax asset valuation account.
____ 2. Calculating a deferred tax liability using a tax rate enacted two days after year-end.
____ 3. Two-step approach to address uncertain tax positions.
____ 4. Recognizing a deferred tax asset, offset in total by an allowance.
____ 5. Use of a substantially enacted tax rate in measurement of deferred tax assets and liabilities.

More Practice:
18-115, 18-116, 18-117

Solution on p. B-57.

Compare accounting for pensions between U.S. GAAP and IFRS

IFRS LO 19-11

The accounting measurement of pensions is similar under U.S. GAAP and IFRS. However, there are a few differences between U.S. GAAP and IFRS presented in this section and illustrated in **Demo 19-11**.

Calculation of Interest Expense and Expected Return

Under IFRS, interest expense is equal to the **defined benefit obligation** multiplied by a *high-grade corporate bond rate*. The expected return is equal to plan assets multiplied by the *same high-grade corporate bond rate*. The combination of these two amounts is reported as **net interest on the net defined benefit liability (asset).**

Gains and Losses in Accumulated Other Comprehensive Income

Under IFRS, pension gains and losses (**OCI—Remeasurement Gain/Loss**) deferred in accumulated other comprehensive income remain in accumulated other

IFRS: Accounting for Pensions

- Single discount rate and reporting of net interest
- No amortization of deferred pension gain/loss
- Immediate recognition of past service costs
- Segmentation of pension costs on the income statement
- Plan asset ceiling

LO 19-11 Overview

comprehensive income. The amount is not amortized to expense through the corridor approach or other systematic methods.

Prior Service Cost

Under IFRS, prior service costs (referred to in IFRS as **past service costs**) are not deferred in other comprehensive income. Instead, prior service costs are included as pension expense along with current year service costs.

Reporting of Pension Expense

Under IFRS, companies have flexibility to either present all components recognized in determining net income as a single net amount or to present those components separately within the income statement. This means that under IFRS, a company may report service cost separately from interest cost. However, under U.S. GAAP, all service cost is reported as part of operating income while the remaining portion of net pension expense is reported as nonoperating income.

Ceiling on Plan Assets

IFRS incorporates an asset ceiling test that limits the amount of the net pension asset that can be recognized. The amount must be the lower of either the amount of the net pension asset *or* the present value of any economic benefits available in the form of refunds or reductions in future contributions to the plan. No such asset ceiling test exists in U.S. GAAP.

Demo 19-11 **LO19-11** **Accounting for Pensions under U.S. GAAP vs. IFRS**

Demo MBC

For each of the six financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Reporting of net interest on defined benefit obligations.		✔
2. Use of the corridor approach to amortize to income deferred gains or losses in accumulated OCI.	✔	
3. Full recognition of past service costs in the period granted.		✔
4. Reporting of pension expense (including service costs) as one line item in the income statement.		✔
5. Reporting fully a new pension asset when the pension plan is overfunded, without consideration of a ceiling.	✔	
6. The required use of a single interest rate to determine interest expense on the PBO and expected gain on plan assets..		✔

REVIEW 19-11 **LO19-11** **Determine Pension Costs under IFRS**

Review MBC

The following data relate to a pension plan for BMXX Inc.

Account Balances	Jan 1, 2020
Projected Benefit Obligation.	$300,000 Cr.
Plan Assets.	350,000 Dr.
Accumulated OCI—Remeasurement Gain/Loss	5,000 Dr.

Activity	
Initial total past service costs awarded Jan. 1, 2020	$30,000
Service cost (2020).	33,000
Contributions to pension fund (2020) . . .	40,000
Benefits paid to retirees (2020)	38,000
Actual return on plan assets (2020)	16,000

More Practice: 19-108, 19-111

Solution on p. B-57.

Determine the components of pension expense reported in the income statement under IFRS assuming a discount rate on high-quality corporate bonds of 5%.

Compare accounting for stockholders' equity between U.S. GAAP and IFRS

IFRS LO 20-9

IFRS: Accounting for Stockholders' Equity
- Stockholders' equity terminology
- Balance sheet classification of preferred stock
- Hybrid securities

LO 20-9 Overview

The accounting measurement of stockholders' equity is similar under U.S. GAAP and IFRS. However, there are a few differences between U.S. GAAP and IFRS regarding terminology and presentation. These differences are illustrated in **Demo 20-9**.

Stockholders' Equity Terminology

Some of the terminology used in the equity section of the statement of financial position differs from U.S. GAAP terminology. Typical equity terminology under IFRS reporting follows:

- **Share capital:** Consists of ordinary shares and preference shares.
- **Share premium:** Excess of paid-in amounts over par or stated value.
- **Retained earnings** or **retained profit** or **accumulated profit and loss:** Undistributed earnings.
- **Reserves or accumulated other comprehensive income:** Cumulative amount of other comprehensive income. May use terms such as investment revaluation reserve, translation reserve, and revaluation reserve.
- **Treasury shares:** Shares repurchased.
- **Noncontrolling interest:** Share of equity owned by noncontrolling interests.

Treatment of Preferred Stock

While mandatorily redeemable preferred stock is treated as debt in U.S. GAAP, IFRS requires classification of other types of preferred stock as debt. Under IFRS, preferred stock is classified as a liability if the issuer is (or can be) required to deliver cash or another financial asset to the holder of the shares. Therefore, shares are considered debt under IFRS that are redeemable (mandatory or at the option of the holder) and offer a fixed (contractual) dividend payment.

Hybrid Securities

As mentioned in the section on liabilities, IFRS specifically requires that hybrid financial instruments be split into debt and equity components. Thus, convertible bonds must be segregated into a debt component and an equity component upon sale of the bonds.

Accounting for Stockholders' Equity under U.S. GAAP vs. IFRS LO20-9 **Demo 20-9**

Demo MBC

For each of the four financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Recognize common stock at par value as share capital.		✔
2. Recognize accumulated OCI as a reserve.		✔
3. Classification of mandatorily redeemable preferred stock as a liability.	✔	✔
4. Classification of convertible debt as part equity and part liability.		✔

Determine Preferred Stock Classification under IFRS LO20-9 **REVIEW 20-9**

Review MBC

Five separate scenarios follow for the issuance of preferred stock.

a. Bell Inc. issued 1,000 shares of 6%, cumulative preferred stock ($10 par value) on December 31, 2020, for $100,000.

b. Bell Inc. issued 1,000 shares of 4% preferred stock ($10 par value) on December 31, 2020, for $100,000.

c. Bell Inc. issued 1,000 shares of 6% redeemable (at the option of the holder) preferred stock ($10 par value) on December 31, 2020, for $100,000.

continued

continued from previous page

d. Bell Inc. issued 1,000 shares of 6% cumulative, callable (at the option of the issuer) preferred stock ($10 par value) on December 31, 2020, for $100,000.

e. Bell Inc. issued 1,000 shares of 6% redeemable preferred stock ($10 par value) on December 31, 2020, for $100,000. The call date is established as December 31, 2025, at 110.

For each *separate* scenario, indicate the balance sheet classification of preferred stock on December 31, 2020, for Bell Inc., an IFRS reporter.

More Practice: 20-121, 20-123

Solution on p. B-57.

IFRS LO 21-11 Compare accounting for share-based compensation and earnings per share between U.S. GAAP and IFRS

LO 21-11 Overview

IFRS: Accounting for Share-Based Compensation and EPS
- Estimating forfeitures
- Earnings per share
  - Treasury stock method
  - Contract that may be settled with cash
- Stock options with graded vesting

The accounting treatment of share-based compensation and EPS is similar under U.S. GAAP and IFRS. In this section we focus on the accounting differences and illustrate those differences in **Demo 21-11**.

Forfeitures of Employee Share-Based Awards

Under U.S. GAAP, companies may either estimate forfeitures or record forfeitures as incurred. IFRS does not allow for such an election. Instead, initial accruals of compensation cost are based on the estimated number of instruments for expected employee services. That estimate should be revised if subsequent information indicates that the actual number of instruments is likely to differ from previous estimates. In other words, forfeitures should be estimated.

Earnings per Share

- **Treasury stock method:** Under U.S. GAAP, the treasury cost method calculation requires the weighted average of the amount of incremental shares reported in the four quarters in interim financial statements. This is not a requirement under IFRS. Under IFRS, the annual period is considered the full period.
- **Contract that may be settled in shares or cash:** Under U.S. GAAP, if a conversion may be settled in cash rather than in shares, a company would assume the conversion of shares unless evidence is provided to the alternative. For example, a company may have an existing practice or a stated policy of settling in cash. Under IFRS, the assumption is that all securities will be settled in shares.

Stock Options with Graded Vesting

Under IFRS, companies must use an accelerated method (not straight-line method) to recognize compensation expense on separately measured groups of options with graded vesting. Also, while U.S. GAAP has a requirement to record a minimum amount of amortization equal to amounts vested at reporting date, IFRS does not include such a restriction.

Demo 21-11 **LO21-11** **Accounting for Share-Based Compensation and EPS under U.S. GAAP vs. IFRS**

Demo MBC

For each of the four financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Presentation of basic and diluted EPS on the income statement.	✔	✔
2. Accounting for forfeitures of stock options as they are incurred.	✔	
3. Exclusion from diluted EPS calculations of convertible instruments with options for cash settlement instead of shares.	✔	
4. Use of accelerated or straight-line method to recognize compensation expense for stock options with graded vesting.	✔	

Share-Based Compensation and EPS under IFRS **LO21-11** **REVIEW 21-11**

For each statement below, indicate which of the two standards (or both) supports each statement.

a.	Reporting of a minimum requirement of compensation expense for stock options with graded vesting	U.S. GAAP and/or IFRS
b.	Application of the treasury cost method across a full annual period for purposes of computing diluted EPS	U.S. GAAP and/or IFRS
c.	Recognizing an estimate of forfeitures on stock options	U.S. GAAP and/or IFRS
d.	Accounting for forfeitures of stock options as incurred	U.S. GAAP and/or IFRS

Review MBC

More Practice: 21-107

Solution on p. B-57.

Compare presentations of the statement of cash flows between U.S. GAAP and IFRS

IFRS LO 22-9

The presentation of the statement of cash flows is similar under U.S. GAAP and IFRS. In this section, we focus on the material differences, which we illustrate in **Demo 22-9**.

IFRS: Presentation of the Statement of Cash Flows

- Interest paid and dividends paid: *operating* or *financing*
- Interest received and dividends received: *operating* or *investing*
- Classification of bank overdrafts
- Disclosure

LO 22-9 Overview

Classification of Cash Flow Items

As explained in Chapter 5, under IFRS, the following classifications are allowed:

- **Interest paid**: operating or financing activity
- **Dividends paid**: operating or financing activity
- **Interest received**: operating or investing activity
- **Dividends received:** operating or investing activity
- **Income taxes paid:** operating, unless taxes can be identified with financing or investing activities

Starting Point of Indirect Method—Cash Flows from Operating Activities

Under the indirect method, IFRS does not specify that the operating activities section begin with net income. Instead, under IFRS, a company may begin the reconciliation with operating income.

Bank Overdrafts

Under IFRS, bank overdrafts (or when a bank balance falls below zero) in certain situations are classified as cash or cash equivalents. This means the negative balances of bank overdrafts may be offset against other positive cash balances under certain conditions, resulting in a net positive cash balance. Under U.S. GAAP, bank overdrafts would typically be recorded as a liability with changes presented as a financing activity.

Investment Classification

Under IFRS, there is a requirement for expenditures recognized as an asset to be classified as investing activities.

Presentation of Noncash Investing and Financing Activities

Whereas U.S. GAAP permits the presentation of noncash investing and financing activities in the statement of cash flows, IFRS requires such items to be disclosed in the notes accompanying financial statements.

Disclosure in the Statement of Cash Flows

Under IFRS, a reconciliation of net income to net cash provided by operating activities is *not* a required disclosure unless the indirect method is used. IFRS, however, does require the disclosure of cash balances not available for use and other information that may provide additional information on a company's financial position and liquidity. In addition, U.S. GAAP prohibits a company from disclosing cash flow per share on the face of the financial statements, whereas this is not explicitly prohibited under IFRS.

Presentation of Restricted Cash

Under U.S. GAAP, companies include restricted cash or cash equivalents with the beginning and ending cash and cash equivalent balances on the statement of cash flows. IFRS offers no specific guidance on this topic.

Demo 22-9 LO22-9 Presenting Cash Flows under U.S. GAAP vs. IFRS

Demo MBC

For each of the six financial statement reporting items, indicate whether the reporting is acceptable under U.S. GAAP, IFRS, or both.

Financial Statement Reporting Item	U.S. GAAP	IFRS
1. Reporting of interest paid as a financing activity.		✔
2. Reporting dividends received as an operating activity..	✔	✔
3. Reporting of a bank overdraft as a financing activity.	✔	
4. Showing a change in restricted cash as an operating activity.		✔
5. Inclusion of cash flow per share on the bottom of the statement of cash flows.		✔
6. Reporting of operating, investing, and financing cash flows.	✔	✔

REVIEW 22-9 LO22-9 Presenting Cash Flows under U.S. GAAP vs. IFRS

Review MBC

For each description 1 through 5, indicate the appropriate accounting treatment, choosing from options *a* through *d*.

a. Consistent with U.S. GAAP only
b. Consistent with IFRS only
c. Consistent with both U.S. GAAP and IFRS
d. Does not follow U.S. GAAP or IFRS

____ 1. Reporting of interest received as a financing activity.
____ 2. Reporting of interest paid as a financing activity.
____ 3. Reporting a payment for equipment, in the investing activities section.
____ 4. Excluding a schedule reconciling net income to net cash flows from operating activities when electing the direct cash flow method.
____ 5. Including a bank overdraft in the calculation of the change in cash used in the cash flow reconciliation of cash.

More Practice:
22-110, 22-111, 22-112

Solution on p. B-57.

IFRS—Questions

1-71. Describe the oversight structure of the IASB in its role of developing and publishing the International Financial Reporting Standards.
1-72. How do GAAP and IFRS differ?
1-73. What guidance is considered part of the international reporting standards?
1-74. Why do these two separate reporting standards exist: GAAP and IFRS?
1-75. Why is it important for accountants in the U.S. to have an understanding of IFRS?
2-83. Epik Inc. is planning to adopt IFRS as of December 31, 2021, its fiscal year-end. The company will report the minimum required comparative financial statements under IFRS. What principle will guide its reporting of financial statement information?
2-84. What are the characteristics of high-quality information in an entity’s first IFRS financial statements? Describe IFRS requirements that help ensure that financial information is of high quality.

IFRS—Brief Exercises

IFRS—Brief Exercise 1-76
International Standard Setters **LO1-7**
Hint: See Demo 1-7A

Select the appropriate answer for each of the following four separate situations.

a. IFRS are produced by the IASB *or* the FASB?
b. The IFRS Foundation is counseled by the IFRS Foundation Trustees *or* the IFRS Advisory Council?
c. The IFRS Foundation is overseen by the IFRS Foundation Trustees *or* the Monitoring Board?
d. Implementation issues of international standards are addressed by the IFRS Interpretive Committee *or* the IASB?

IFRS—Brief Exercise 1-77
International Standards **LO1-7**
Hint: See Demo 1-7B

Select the appropriate answer for each of the following four separate situations.

a. Is IFRS primarily principles-based *or* rules-based?
b. Are the primary users of IFRS a varied source of users including governmental bodies *or* investors and creditors?
c. Is the IFRS conceptual framework nonauthoritative *or* authoritative when there is a gap in IFRS standards?
d. In recent years, has the U.S. made a commitment to adopt IFRS *or* to continue to improve U.S. GAAP?

IFRS—Brief Exercise 3-78
Reporting Income Numbers per U.S. GAAP vs. IFRS **LO3-9**

Select the appropriate answer for each of the following four separate situations.

a. The SEC requires companies to report expenses by nature *or* by function?
b. The IFRS allows companies to report expenses by nature and function *or* by function only?
c. On the face of the income statement, the IFRS allows companies to add its own financial measures *or* specifies allowable financial measures?
d. On the face of the income statement, the SEC allows companies to add its own financial measures *or* specifies allowable financial measures?

IFRS—Brief Exercise 3-79
Reporting Comprehensive Income and Discontinued Component per U.S. GAAP vs. IFRS **LO3-9**
Hint: See Demo 3-9

Select the appropriate answer for each of the following four separate situations.

a. Does U.S. GAAP allow companies to report comprehensive income in a single statement, or in two separate but consecutive statements of income and comprehensive income, or in either way?
b. Does IFRS allow companies to report comprehensive income in a single statement, or in two separate but consecutive statements of income and comprehensive income, or in either way?
c. Does U.S. GAAP define a discontinued component as representing a strategic shift or a major line of business or geographic area?
d. Does IFRS define a discontinued component as representing a strategic shift or a major line of business or geographic area?

IFRS—Brief Exercise 4-90
Reporting Balance Sheet Items: IFRS vs. U.S. GAAP **LO4-6**

1. In a typical IFRS balance sheet, what would we expect to be listed first, cash or equipment?
2. In a typical U.S. GAAP balance sheet, what would we expect to be listed first, cash or equipment?
3. In what type of statement would we likely see the term *reserve*, a U.S. GAAP statement or an IFRS statement?
4. In what type of statement would we likely see the term *share capital*, a U.S. GAAP statement or an IFRS statement?
5. In what type of statement would we likely see the title *statement of financial position*, a U.S. GAAP statement or an IFRS statement?

IFRS—Brief Exercise 4-91
Reporting Financial Statements: IFRS vs. U.S. GAAP **LO4-6**
Hint: See Demo 4-6

For each of the following five questions, circle the standards that are more applicable, U.S. GAAP or IFRS.

1. Requires disclosures of segment liabilities	U.S. GAAP	or	IFRS
2. Allows a net asset presentation on balance sheet	U.S. GAAP	or	IFRS
3. Balance sheet presents assets from least liquid to most liquid	U.S. GAAP	or	IFRS
4. Does not require minimum specified line items to be reported on balance sheet	U.S. GAAP	or	IFRS
5. Defines current assets as cash or assets held for trading purposes	U.S. GAAP	or	IFRS

IFRS—Brief Exercise 5-87
Reporting Layout of a Statement of Cash Flows: IFRS vs. U.S. GAAP **LO5-9**

1. In a typical IFRS statement of cash flows, how many sections would we expect: two or three?
2. In a typical U.S. GAAP statement of cash flows, what would we expect to be listed first, net income or operating income if the indirect method is used in presenting operating activities?
3. In a typical IFRS statement of cash flows, net income must be listed first or can operating income be listed first?

4. Income taxes paid in an IFRS statement are always included as an operating activity or can be shown in other sections in certain circumstances?
5. Which standards allow more flexibility in classification of items in the statement of cash flows: IFRS or U.S. GAAP?

IFRS—Brief Exercise 5-88
Reporting of Cash Flows: IFRS vs. U.S. GAAP **LO5-9**
Hint: See Demo 5-9

For each of the following five questions, circle the standards that are more applicable, U.S. GAAP or IFRS.

1.	Requires interest paid classified as an operating activity	U.S. GAAP	or	IFRS
2.	Allows interest paid to be classified as an operating or financing activity	U.S. GAAP	or	IFRS
3.	Requires dividends received to be classified as an operating activity	U.S. GAAP	or	IFRS
4.	Allows dividends received to be classified as an operating or investing activity	U.S. GAAP	or	IFRS
5.	Allows interest received to be classified as an operating or investing activity	U.S. GAAP	or	IFRS

IFRS—Brief Exercise 7-115
Comparing Revenue Recognition: IFRS vs. U.S. GAAP **LO7-12**

1. In IFRS, is the term *probable* defined as *more likely than not* or *likely to occur*?
2. Which standards require intellectual property to be classified as functional or symbolic: IFRS or U.S. GAAP?
3. Does IFRS offer an exemption from identifying separately, performance obligations deemed *immaterial* to a contract?
4. Would a company following U.S. GAAP need to report a liability for a contract determined to be *onerous*?
5. Which standards allow more flexibility in the reporting of shipping and handling costs: IFRS or U.S. GAAP?

IFRS—Brief Exercise 7-116
Comparing Revenue Recognition: IFRS vs. U.S. GAAP **LO7-12**
Hint: See Demo 7-12

For each of the following five questions, circle the standard that is more applicable: U.S. GAAP or IFRS.

1.	Requires the evaluation of all sales tax types for proper accounting.	U.S. GAAP	or	IFRS
2.	Does not allow reversal of capitalized contract costs.	U.S. GAAP	or	IFRS
3.	Formally excludes separate treatment of immaterial performance obligations.	U.S. GAAP	or	IFRS
4.	Requires noncash consideration to be valued only at contract inception.	U.S. GAAP	or	IFRS
5.	Typically has a *lower* threshold for measuring the probability of collection on contracts.	U.S. GAAP	or	IFRS

IFRS—Brief Exercise 8-111
Analyzing the Accounting for Cash and Receivables Under IFRS as Compared to U.S. GAAP **LO8-10**
Hint: See Demo 8-10

For each of the following five questions, circle the standard that is more applicable, U.S. GAAP or IFRS.

a.	Allows netting of bank overdraft at Bank A with the bank balance at Bank B	U.S. GAAP	or	IFRS
b.	Is more restrictive in the use of the fair value option	U.S. GAAP	or	IFRS
c.	Requires certain receivables to be separately reported	U.S. GAAP	or	IFRS
d.	Considers a receivable sold following a single model of transfer of control	U.S. GAAP	or	IFRS
e.	Unless a significant deterioration in credit risk, records expected 12-month losses on impairment	U.S. GAAP	or	IFRS

IFRS—Brief Exercise 8-112
Analyzing the Accounting for Cash and Receivables Under IFRS as Compared to U.S. GAAP **LO8-10**

a. Bell Company transfers ownership of a receivable of $5,000 to a factor. However, the transferor guarantees all losses on the receivables after the transfer. Would Bell Company record a sale (1) under U.S. GAAP? (2) under IFRS?

b. Bell Company has an overdraft in Bank One of $5,000, but it has a balance of $50,000 in Bank Two. The overdraft is allowed at Bank One as long as a deposit is made within 24 hours of the overdraft. On the balance sheet, would Bell Company record (1) a cash balance of $45,000 or (2) a cash balance of $50,000 and a current liability of $5,000 under U.S. GAAP? How about under IFRS?

IFRS—Brief Exercise 10-106
Analyzing Inventory Accounting: IFRS vs. U.S. GAAP **LO10-10**

1. Would a company following U.S. GAAP have the option to record its inventory at the lower-of-cost-or-net realizable value or the lower-of-cost-or-market?
2. Which standard requires impairment losses on inventory to be reversed: IFRS or U.S. GAAP?
3. Does IFRS allow different inventory methods to be applied to inventories of a similar nature?
4. Would a company following U.S. GAAP need to report all inventory types at the lower-of-cost-or-net realizable value?
5. Which standards allow more flexibility in applying the lower-of-cost-or-net realizable value rule: IFRS or U.S. GAAP?

IFRS—Brief Exercise 10-107
Analyzing Inventory Accounting: IFRS vs. U.S. GAAP **LO10-10**
Hint: See Demo 10-10

For each of the following five questions, circle the standard that is more applicable: U.S. GAAP or IFRS.

1.	Has exceptions for applying the lower-of-cost-or-market rule.	U.S. GAAP	or	IFRS
2.	Does not allow companies to apply the LIFO method.	U.S. GAAP	or	IFRS
3.	Does not allow the reversal of inventory impairment losses.	U.S. GAAP	or	IFRS

4. Requires companies to always use the lower-of-cost-or-net realizable rule in evaluating inventory.	U.S. GAAP	or	IFRS
5. Requires the same inventory method to be applied to similar inventories.	U.S. GAAP	or	IFRS

IFRS—Brief Exercise 11-98
Analyzing Noncurrent Asset Accounting: IFRS vs. U.S. GAAP **LO11-10**

1. Under IFRS, can a company opt to account for fixed assets under the revaluation model?
2. Which standard requires earnings on investment income to reduce interest capitalized, IFRS or U.S. GAAP?
3. Does IFRS allow the deferral of contribution revenue received for government grants?
4. Must an IFRS reporter disclose all fixed assets using the historical cost model?
5. Which standards allow more flexibility in reporting for donations received from a government grant, IFRS or U.S. GAAP?
6. Under IFRS, is a biological asset recorded at historical cost?

IFRS—Brief Exercise 11-99
Analyzing Noncurrent Asset Accounting: IFRS vs. U.S. GAAP **LO11-10**
Hint: See Demo 11-10

For each of the following six questions, circle the standard that is more applicable, U.S. GAAP or IFRS.

1. Does not allow fixed assets to be revalued to fair value.	U.S. GAAP	or	IFRS
2. Does not allow companies to reduce interest capitalized by interest income.	U.S. GAAP	or	IFRS
3. Does allow a deferral of revenue related to donations from government grants.	U.S. GAAP	or	IFRS
4. Does allow a netting of government grants against a related asset purchase.	U.S. GAAP	or	IFRS
5. Requires fixed assets to be accounted for under the historical cost principle.	U.S. GAAP	or	IFRS
6. Requires biological assets to be recorded at net realizable value.	U.S. GAAP	or	IFRS

IFRS—Brief Exercise 12-127
Comparing Accounting for Depreciation and Impairment: IFRS vs. U.S. GAAP **LO12-12**

1. Under IFRS, can a company opt to depreciate an asset with major components as a single asset?
2. Which standard(s) specifically requires an annual review of useful lives used in depreciation estimates, IFRS and/or U.S. GAAP?
3. Does IFRS allow the reversal of impairment losses on fixed assets held for use?
4. Would an IFRS reporter be required to perform the asset recoverability test for impairment if indicators of impairment are present?
5. Which standard requires a company to depreciate assets by significant component, IFRS or U.S. GAAP?

IFRS—Brief Exercise 12-128
Comparing Accounting for Depreciation and Impairment: IFRS vs. U.S. GAAP **LO12-12**
Hint: See Demo 12-12

For each of the following five questions, circle the standard that is more applicable, U.S. GAAP or IFRS.

1. Does not allow the reversal of impairment losses on assets held for use.	U.S. GAAP	or	IFRS
2. Specifically requires an annual review of residual values in depreciation estimates.	U.S. GAAP	or	IFRS
3. Does not require the depreciation of assets by significant component.	U.S. GAAP	or	IFRS
4. Typically has a lower threshold for recording an impairment of a fixed asset held for use.	U.S. GAAP	or	IFRS
5. Specifically requires an annual review of service lives in depreciation estimates.	U.S. GAAP	or	IFRS

IFRS—Brief Exercise 13-74
Comparing Intangible Asset Accounting: IFRS vs. U.S. GAAP **LO13-7**

1. In IFRS, can a company reverse an impairment loss on a finite life intangible asset?
2. Which standard allows the capitalization of development costs of a patent, IFRS or U.S. GAAP?
3. Does IFRS allow the use of the revaluation method for goodwill?
4. Would an IFRS reporter need to perform the asset recoverability test for impairment testing of an intangible asset?
5. Which standard requires an annual quantitative impairment test of a trademark (indefinite life), IFRS or U.S. GAAP?

IFRS—Brief Exercise 13-75
Comparing Intangible Asset Accounting: IFRS vs. U.S. GAAP **LO13-7**
Hint: See Demo 13-7

For each of the following eight questions, circle the standard that is more applicable,U.S. GAAP or IFRS.

1. Does not allow the reversal of impairment losses on finite life intangible assets.	U.S. GAAP	or	IFRS
2. Requires capitalization of development costs after reaching economic viability.	U.S. GAAP	or	IFRS
3. Assigns goodwill to cash-generating units for impairment evaluation.	U.S. GAAP	or	IFRS
4. Assigns goodwill to reporting units for impairment evaluation.	U.S. GAAP	or	IFRS
5. Typically has a lower threshold for recording an impairment of a finite intangible asset.	U.S. GAAP	or	IFRS
6. Allows capitalization of development costs for software development only.	U.S. GAAP	or	IFRS
7. Allows the use of a qualitative test to determine whether a patent is potentially impaired.	U.S. GAAP	or	IFRS
8. Requires capitalization of legal costs to successfully defend a patent.	U.S. GAAP	or	IFRS

IFRS—Brief Exercise 14-131
Comparing Investment Accounting: IFRS vs. U.S. GAAP **LO14-10**

1. Under IFRS, do companies account for all equity investments with significant influence (but not controlling interest) under the equity method?
2. Which standard requires the use of the expected credit loss model, IFRS or U.S. GAAP?
3. Does IFRS allow the use of the fair value through profit or loss classification for both debt and equity securities?
4. Would an IFRS reporter need to estimate credit losses beyond 12 months in calculating impairment losses on investments when there is no evidence of significant deterioration of credit risk?
5. Which standard requires some equity investments to adjust to fair market value through other comprehensive income, IFRS or U.S. GAAP?

IFRS—Brief Exercise 14-132
Comparing Investment Accounting: IFRS vs. U.S. GAAP **LO14-10**
Hint: See Demo 14-10

For each of the following eight questions, circle the standard that is more applicable, U.S. GAAP or IFRS.

1.	The residual category for debt securities is fair value through profit or loss.	U.S. GAAP	or	IFRS
2.	The residual category for debt securities is available-for-sale securities.	U.S. GAAP	or	IFRS
3.	The residual category for equity securities is fair value through profit or loss.	U.S. GAAP	or	IFRS
4.	No adjustments to fair value for equity securities impact OCI.	U.S. GAAP	or	IFRS
5.	Following the equity method requires a company to adopt the policies of the investor.	U.S. GAAP	or	IFRS
6.	Uses the lifetime expected credit loss model to estimate impairment losses.	U.S. GAAP	or	IFRS
7.	Allows the use of the fair value option with limited restrictions.	U.S. GAAP	or	IFRS
8.	Requires a change in business model for managing debt in order to change debt classification.	U.S. GAAP	or	IFRS

IFRS—Brief Exercise 15-98
Contingencies and Current Liabilities: IFRS vs. U.S. GAAP **LO15-7**
Hint: See Demo 15-7

Answer each of the following four *separate* statements:

a. Under IFRS, a provision is accrued *or* disclosed?
b. Under IFRS, a contingent liability is accrued *or* disclosed?
c. Under U.S. GAAP, the term *probable* is defined as likely *or* more likely than not?
d. Under IFRS, the term *virtually certain* is used to measure a gain contingency or a loss contingency?

IFRS—Brief Exercise 15-99
Contingencies and Current Liabilities: IFRS vs. U.S. GAAP **LO15-7**

Answer each of the following six separate statements:

a. The IFRS threshold for probable outflow of resources is higher or lower than the threshold under U.S. GAAP?
b. Under IFRS, when no point in a range is more likely, is the lowest point, mid-point, or highest point used to measure a liability?
c. Which standard allows the reclassification of a note payable to a noncurrent asset when the refinancing takes place after year-end, but before the financial statements are issued, U.S. GAAP or IFRS?
d. A gain contingency may be recorded under certain circumstances under U.S. GAAP or IFRS?
e. Liabilities for contingencies are generally recorded at fair value under U.S. GAAP or IFRS?
f. Under IFRS, the liability for compensated absences is estimated using current salaries or future salaries?

IFRS—Brief Exercise 16-132
Analyzing GAAP vs. IFRS: Noncurrent Liabilities **LO16-13**

Answer each of the following four *separate* statements.

a. Under IFRS, a bond payable is recorded net *or* gross?
b. Under IFRS, discounts and premiums on bonds are amortized using the straight-line *or* effective interest method?
c. Under IFRS, a substantial revision in debt terms is accounted for as a debt settlement *or* a debt restructuring?
d. Under IFRS, the conversion feature of convertible debt is measured as equity or debt?

IFRS—Brief Exercise 16-133
Analyzing GAAP vs. IFRS: Noncurrent Liabilities **LO16-13**
Hint: See Demo 16-13

Answer each of the following five separate statements.

a. Which standard allows the use of the straight-line interest method if the results are not materially different from results under the effective interest method, U.S. GAAP or IFRS?
b. Under U.S. GAAP, discounts and premiums on bonds are reported separately, or net of the liability?
c. Which standard allows the reclassification of a note payable to a noncurrent asset when the refinancing takes place after year-end, but before the financial statements are issued, U.S. GAAP or IFRS?
d. Which standard requires convertible debt to be treated solely as debt, U.S. GAAP or IFRS?
e. Under IFRS to avoid reporting a long-term liability as current, a waiver of a debt covenant must be signed before the balance sheet date or the financial statement issuance date?

IFRS—Brief Exercise 17-125
Analyzing GAAP vs. IFRS: Accounting for Leases **LO17-10**

Answer each of the following four *separate* statements.

a. Under IFRS, a lessee records an operating lease or a finance lease?
b. Under IFRS, a short-term lease exception applies for leases less than or equal to 12 months or 24 months?
c. Under IFRS, a short-term lease exception applies for leases with the fair value of a leased asset that is less than $5,000 or $2,500?
d. A change in an index or rate may cause a remeasurement of a lease payment or a lease liability under IFRS?

IFRS—Brief Exercise 17-126
Analyzing GAAP vs. IFRS: Accounting for Leases **LO17-10**
Hint: See Demo 17-10

Answer each of the following five separate statements.

a. Recording a gain on a sale-leaseback under IFRS is more or less restrictive than under U.S. GAAP?
b. A remeasurement of a lease liability may be caused by a change in an index or rate under U.S. GAAP or IFRS?
c. A selling profit may be recognized on direct financing leases when performance obligations are met under U.S. GAAP or IFRS?
d. In order to classify a short-term lease under the short-term lease exception, the lease must not include a renewal option under U.S. GAAP or IFRS?
e. A lessee may classify a lease as operating under U.S. GAAP or IFRS?

IFRS—Brief Exercise 18-115
GAAP vs. IFRS: Accounting for Income Tax **LO18-11**

Answer each of the following four separate statements.

a. The IFRS requires companies to report deferred tax assets at gross *or* net?
b. IFRS provides specific or unspecified guidance on the treatment of uncertain tax positions?
c. A deferred tax asset is recorded when it is possible or probable of being realized in IFRS?
d. In order to use an enacted tax rate in IFRS, a tax rate must be fully enacted or substantively enacted?

IFRS—Brief Exercise 18-116
GAAP vs. IFRS: Accounting for Income Tax **LO18-11**
Hint: See Demo 18-11

Answer each of the following four separate statements.

a. Accounting practices vary for the treatment of uncertain tax positions under U.S. GAAP or IFRS?
b. Which standard allows for a two-step approach for the treatment of uncertain tax positions, U.S. GAAP or IFRS?
c. A deferred tax allowance may be recorded under U.S. GAAP or IFRS?
d. Which standard, U.S. GAAP or IFRS, requires the use of substantially enacted, but not officially enacted tax rates in estimating deferred tax accounts?

IFRS—Brief Exercise 19-108
Analyzing GAAP vs. IFRS: Pension Plans **LO19-11**
Hint: See Demo 19-108

Answer each of the following five separate statements.

a. IFRS discount rate used to calculate interest on a defined benefit obligation is the same *or* different from the rate used to calculate the expected gain on plan assets for the same benefit plan?
b. Under IFRS, interest expense on its defined benefit obligation and actual interest on plan assets are reported separately, or net on the income statement?
c. Which standard requires the deferral of actuarial gains and losses on benefit obligations in OCI, without recognition in the income statement, U.S. GAAP or IFRS?
d. Which standard requires the immediate recognition in the income statement of past service costs, U.S. GAAP or IFRS?
e. Under U.S. GAAP, the service cost component of pension expense must be reported as part of operating or nonoperating income on the income statement?

IFRS—Brief Exercise 19-109
Reporting Past Service Costs **LO19-11**

Clark Kent Co. (IFRS reporter) approved a prior service obligation of $120,000 on January 1, 2020, which granted retroactive benefits to employees. Assuming an average remaining service period of 10 years for all active plan participants, what is the effect on Kent's income statement of the past service cost?

IFRS—Brief Exercise 19-110
Reporting Pension Gain/Loss **LO19-11**

On June 1, 2018, West Corporation (IFRS reporter) established a defined benefit pension plan for its employees. The following information was available in 2020:

Account Balance	Jan. 1, 2020
Defined benefit obligation	$3,625,000
Plan assets at fair market value	3,750,000
OCI—Remeasurement Gain	637,500
Average service life of employees: 10 years	

Determine the impact on West's income statement in 2020 for its remeasurement pension gain.

IFRS—Brief Exercise 20-121
GAAP vs. IFRS: Accounting for Stockholders' Equity **LO20-9**
Hint: See Demo 20-9

Answer each of the following four separate statements.

a. IFRS requires companies to report redeemable (at the option of the holder) preferred stock as a liability or equity?
b. U.S. GAAP requires companies to report redeemable (at the option of the holder) preferred stock as a liability or equity?
c. The term *reserve* is typically used in statements prepared under U.S. GAAP or IFRS?
d. Redeemable preferred stock requiring a fixed annual dividend payment would typically be recorded as a liability under U.S. GAAP or IFRS?

IFRS—Brief Exercise 20-122
GAAP vs. IFRS: Accounting for Stockholders' Equity **LO20-9**

Indicate a term commonly used with IFRS reporters that corresponds to the following GAAP terms.

a. Common stock
b. Additional paid-in capital—common stock
c. Retained earnings
d. Accumulated other comprehensive income
e. Treasury stock

IFRS—Brief Exercise 21-106
Analyze Accounting for Share-Based Compensation and EPS Under IFRS as Compared to U.S. GAAP **LO21-11**

Answer each of the following four separate statements:

a. IFRS accounts for forfeitures on stock options as incurred or in advance as an estimate?
b. Under IFRS, incremental shares under the treasury stock method in accounting for stock options are calculated based on information for a full year or of quarterly interim periods?
c. Convertible bonds that may be settled in cash by the company rather than in stock may be excluded from the calculation of diluted EPS under U.S. GAAP or IFRS?
d. Compensation of stock options with graded vesting is recognized under IFRS using a straight-line method or an accelerated method?

IFRS—Brief Exercise 21-107
Analyze Accounting for Share-Based Compensation and EPS Under IFRS as Compared to U.S. GAAP **LO21-11**
Hint: See Demo 21-11

For each description *a* through *d*, indicate the appropriate accounting treatment, choosing from items 1 through 4.

1. Consistent with U.S. GAAP regulations only
2. Consistent with IFRS only
3. Consistent with both U.S. GAAP regulations and IFRS
4. Does not follow U.S. GAAP regulations or IFRS

____ *a.* Allows a company to elect to record forfeitures on restricted stock awards as incurred.
____ *b.* The number of incremental shares using the treasury stock method in accounting for diluted EPS is computed as the weighted average of previously reported incremental shares on quarterly financial reports.
____ *c.* Computing diluted earnings per share without adding incremental shares associated with convertible preferred stock because it is the company's practice to settle conversions with cash.
____ *d.* Reporting of basic and diluted earnings per share on the face of the income statement.

IFRS—Brief Exercise 22-110
Analyzing the Statement of Cash Flows: IFRS vs. U.S. GAAP **LO22-9**

1. In a typical IFRS statement of cash flows, would a bank overdraft be included as part of financing activities or as part of the cash balance?
2. In a typical U.S. GAAP statement of cash flows, what would we expect to be listed first, net income or operating income if the indirect method is used to present cash flows from operating activities?
3. Income taxes paid in an IFRS statement are always included as an operating activity or may be shown in other sections in certain circumstances?
4. Which standards allow more flexibility in classification of items in the statement of cash flows, IFRS or U.S. GAAP?
5. An expenditure must be recognized as an asset to allow for classification as an investing activity under IFRS or U.S. GAAP?

IFRS—Brief Exercise 22-111
Analyzing the Financial Reporting: IFRS vs. U.S. GAAP **LO22-9**
Hint: See Demo 22-9

For each of the following five questions, circle the standards that are more applicable, U.S. GAAP or IFRS.

1.	Requires income tax paid to be classified as an operating activity.	U.S. GAAP or IFRS
2.	Allows interest paid to be classified as an operating or financing activity.	U.S. GAAP or IFRS
3.	Requires disclosure of noncash activity in a separate, accompanying note.	U.S. GAAP or IFRS
4.	Generally requires a bank overdraft to be reported as a financing activity.	U.S. GAAP or IFRS
5.	Allows interest received to be classified as an operating or investing activity.	U.S. GAAP or IFRS

IFRS—Exercises

IFRS—Exercise 1-78
International Accounting Organizations **LO1-7**

Match each of the descriptions 1 through 8 with the phrase *a* through *h* that it is best associated with.

1. Entity with a mission to develop a single set of high-quality global standards.
2. Entity involved with international standards that has a similar objective as the EITF in the U.S.
3. Entity established in 2001 to replace the IASC.
4. Consists of standards issued by the IASB, previously issued standards by the IASC, and Interpretations.
5. Governs and appoints members to the IASB.
6. Regulatory body of the IFRS Foundation Trustees.
7. Entity involved with international standards that has a similar objective as the FASAC in the U.S.
8. Guidance used as a reference in financial reporting when no guidance is in the international reporting standards.

____ *a.* IFRS Interpretive Committee
____ *b.* IFRS Conceptual Framework
____ *c.* International Accounting Standards Board
____ *d.* Monitoring Board
____ *e.* IFRS Advisory Council
____ *f.* International Financial Reporting Standards
____ *g.* IFRS Foundation
____ *h.* IFRS Foundation Trustees

IFRS—Exercise 1-79
International Accounting Organizations vs. U.S. Accounting Organizations **LO1-7**

Match each of the organizations *a* through *e* with the U.S. entity that has a similar role.

International Accounting Organizations	U.S. Accounting Organizations
a. IASB	_____ 1. Financial Accounting Standards Board
b. Monitoring Board	_____ 2. Financial Accounting Standards Advisory Committee
c. IFRS Interpretive Committee	_____ 3. Securities Exchange Commission
d. IFRS Foundation Trustees	_____ 4. Emerging Issues Task Force
e. IFRS Advisory Council	_____ 5. Financial Accounting Foundation

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IFRS—Exercise 1-80
U.S. GAAP vs. IFRS **LO1-7**

Indicate for each description *a* through *j* whether it best describes U.S. GAAP, IFRS, or both.

____ *a.* Outlines industry-specificguidance.
____ *b.* Allows for interpretations from the conceptual framework in cases where standard guidance is lacking.
____ *c.* Developed by the IASB.
____ *d.* Allows for updates through a transparent process.
____ *e.* Usage is adopted or permitted by 156 jurisdictions across the world.
____ *f.* Geared toward the financial reporting needs of investors and creditors.
____ *g.* Developed by a private organization.
____ *h.* Primary users are considered to be investors and creditors.
____ *i.* Application may be inconsistent due to the options and generalities inherent in the guidance provided.
____ *j.* Developed by the FASB.

IFRS—Exercise 1-81
Analyze Financial Statements Following IFRS **LO1-7**

Obtain an electronic copy of the 20-F for **Honda Motor Co., Ltd.** for the year ended March 31, 2019, which is on the company's website (http://world.honda.com) or the SEC Edgar website (https://www.sec.gov/edgar/searchedgar/companysearch.html). Answer the following questions.

Required

a. What accounting standard is the basis for the company's presentation?
b. What financial statements are presented in the 20-F report?
c. What form of currency is used to measure the results?
d. Who is the auditor of the annual statements?
e. How many notes accompany the financial statements?
f. What is the total profit reported for the fiscal year ended March 31, 2019?

IFRS—Exercise 2-85
IFRS Initial Adoption **LO2-11**
Hint: See Demo 2-11

Match each of the following terms or phrases *a* through *h* with the appropriate descriptions 1 through 8.

Terms	Descriptions
a. Reporting date	____ 1. General principle followed when initially adopting IFRS.
b. Financial statement disclosures	____ 2. Date of financial statements declared by a company to follow IFRS.
c. Comparable and transparent	____ 3. Characteristics of high-quality information in initial IFRS financial statements.
d. Transition date	____ 4. Date of opening balance sheet under IFRS.
e. Retrospective treatment	____ 5. Similar under GAAP and IFRS.
f. Comparative	____ 6. Type(s) of financial statements required in initial IFRS statements.
g. Steps in the accounting cycle	____ 7. Type(s) of exemptions allowed from retrospective treatment.
h. Mandatory and optional	____ 8. Information communicated to financial statement users regarding the transition to IFRS.

IFRS—Exercise 2-86
IFRS Initial Adoption **LO2-11**

Bloom Inc. declared an adoption of IFRS for its financial statements with a fiscal year-end of December 31, 2022. Identify each financial statement type *a* through *d* with the appropriate reporting period 1 through 6, assuming the minimum comparative financial statement requirements.

Financial Statement Type	Reporting Period
a. Financial position	____ 1. As of years ended December 31, 2022, 2021, and 2020.
b. Changes in equity	____ 2. As of years ended December 31, 2022, and 2021.
c. Comprehensive income	____ 3. As of years ended December 31, 2022.
d. Cash flows	____ 4. For years ended December 31, 2022, 2021, and 2020.
	____ 5. For years ended December 31, 2022, and 2021.
	____ 6. For years ended December 31, 2022.

IFRS—Exercise 3-80
Financial Statement Presentation under U.S. GAAP vs. IFRS **LO3-9**

Identify which of the reporting requirements 1 through 4 best describes the accounting followed in cases *a* through *d*. Items 1 through 4 can be identified more than once or not at all.

1. Consistent with SEC regulations only
2. Consistent with IFRS only
3. Consistent with both SEC regulations and IFRS
4. Does not follow SEC regulations or IFRS

____ *a.* Allows expense classification in categories such as general and administrative and cost of goods sold which are more subjective allocations.
____ *b.* Allows expense classification on the income statement in categories such as depreciation expense, amortization expense, and employee benefit expense.
____ *c.* Allows the reporting of EBITA on the face of the income statement (EBITA is earnings before interest, taxes, and amortization).
____ *d.* Allocates net income or profits to noncontrolling interests.

IFRS—Exercise 3-81
Reporting Expenses by Nature or Function **LO3-9**

Global Inc. reported the following income statement items.

Cost of Sales		Selling Expenses		General and Administrative Expenses	
Cost of materials used . . .	$60,000	Salaries expense	$30,000	Salaries expense	$20,000
Salaries (direct labor)	30,000	Advertising expense. . .	5,000	Depreciation expense	2,500
Depreciation expense. . . .	12,000	Supplies expense	2,500	Utilities expense	1,500
Utilities expense	3,000	Utilities expense	800	Supplies expense	1,000
Misc. supplies.	3,000	Rent expense	1,000	Insurance expense	800
				Rent expense	1,000

Required

a. Prepare a report of expenses organized by function.
b. Prepare a report of expenses organized by nature.

IFRS—Exercise 3-82
Reviewing an IFRS Income Statement **LO3-9**

The following is an excerpt from **Honda Motor**'s consolidated statement of income from a recent annual report prepared under IFRS.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Income
Years ended March 31, 2014, 2015 and 2016

Yen (millions)	2014	2015	2016
Sales revenue	¥12,506,091	¥13,328,099	¥14,601,151
Operating costs and expenses:			
Cost of sales	(9,590,557)	(10,330,784)	(11,332,399)
Selling, general and administrative	(1,493,298)	(1,720,550)	(2,108,874)
Research and development	(598,372)	(606,162)	(656,502)
Total operating costs and expenses	(11,682,227)	(12,657,496)	(14,097,775)
Operating profit	823,864	670,603	503,376
Share of profit of investments accounted for using the equity method	130,916	96,097	126,001
Finance income and finance costs:			
Interest income	24,072	27,037	28,468
Interest expense	(12,803)	(18,194)	(18,146)
Other, net	(32,146)	30,694	(4,249)
Total finance income and finance costs	(20,877)	39,537	6,073
Profit before income taxes	933,903	806,237	635,450
Income tax expense	(267,992)	(245,139)	(229,092)
Profit for the year	¥ 665,911	¥ 561,098	¥ 406,358
Profit for the year attributable to:			
Owners of the parent	624,703	509,435	344,531
Noncontrolling interests	41,208	51,663	61,827

Required

a. Are the expenses in the statement of income organized by nature or by function?

b. What label is usually given in a U.S. GAAP income statement for “profit for the year”?

c. What types of items do we expect to be included in the category “finance income and finance costs”?

d. How is the presentation of noncontrolling interest usually different under U.S. GAAP?

IFRS—Exercise 4-92
Defining Financial Terminology: IFRS vs. U.S. GAAP **LO4-6**

Match the terms relating to concepts, 1 through 12, with descriptions of these terms, *a* through *l*.

Terms

____ 1. Statement of financial position
____ 2. Reserve
____ 3. Share capital
____ 4. Share premium
____ 5. Minimum line item requirements
____ 6. Decreasing order of liquidity
____ 7. Increasing order of liquidity
____ 8. Net asset presentation
____ 9. Current asset
____ 10. Current liabilities
____ 11. Segment liabilities
____ 12. Segment assets

Description of Terms

a. Assets not required to be disclosed under IFRS standards if amounts are not reportable to a chief operating decision maker.
b. Term discouraged in U.S. GAAP but used in IFRS.
c. Order of presentation of assets and liabilities typical on a U.S. GAAP statement of financial position.
d. Presentation of assets minus liabilities in a statement of financial position under IFRS standards.
e. Excess of amounts paid by investors over par or stated value.
f. Defined similarly in IFRS and U.S. GAAP except IFRS limits to liabilities held for trading with no deferral options beyond 12 months.
g. Specified minimum labels required to be included on statement of financial position.
h. Order of presentation of assets and liabilities typical on an IFRS statement of financial position.
i. Par value or stated value of shares issued.
j. Defined similarly in IFRS and U.S. GAAP except IFRS limits to trading assets or cash.
k. Alternative title for balance sheet.
l. Required disclosure under IFRS but not U.S. GAAP.

IFRS—Exercise 4-93
Reporting Financial Statements and Notes: IFRS vs. U.S. GAAP **LO4-6**

The following table includes eight statements. For each statement indicate whether it is more in line with U.S. GAAP or IFRS.

	U.S. GAAP	IFRS
1. Uses the title of statement of financial position in its standards.		
2. Requires specified accounts to be reported on the balance sheet such as biological assets and investment property.		
3. Does not require that current liabilities be held for trading purposes.		
4. Allows the net asset presentation in the statement of financial position.		
5. Uses the term *reserve* in its standards.		
6. Requires the disclosure of segment liabilities.		
7. Always requires the disclosure of segment assets.		
8. Supports companies presenting current assets in increasing order of liquidity.		

IFRS—Exercise 5-89
Classifying Item in a Statement of Cash Flows: IFRS vs. U.S. GAAP **LO5-9**
Hint: See Demo 5-9

Identify each of the items 1 through 8 with the best categorization of that item *a* through *e*.

a. Operating only
b. Investing only
c. Financing only
d. Operating or investing
e. Operating or financing

_____ 1. Dividends received (IFRS statement)
_____ 2. Dividends received (GAAP statement)
_____ 3. Interest received (IFRS statement)
_____ 4. Interest received (GAAP statement)
_____ 5. Dividends paid (IFRS statement)
_____ 6. Dividends paid (GAAP statement)
_____ 7. Interest paid (IFRS statement)
_____ 8. Interest paid (GAAP statement)

IFRS—Exercise 5-90
Preparing the Complete Statement of Cash Flows—IFRS **LO5-9**

Refer to the information in Problem 5-64 in Chapter 5. For this assignment only, assume that selling and administrative expenses include $5,000 of interest paid.

Required

Determine net cash flows from operating, investing, and financing activities under IFRS. Assume the company classifies interest paid as a financing activity, and dividends paid as an operating activity.

IFRS—Exercise 7-117
Applying Revenue Recognition: IFRS vs. U.S. GAAP **LO7-12**

Indicate whether the following eight separate items are more in line with U.S. GAAP financial statements or IFRS financial statements.

	U.S. GAAP Statements	IFRS Statements
1. Classification of intellectual property as functional and symbolic.		
2. Election to allow shipping and handling costs to not be classified as a distinct performance obligation.		
3. Option for noncash consideration to be valued at the fair value determined at the first reporting date following the date of receipt.		
4. Exemption for disclosure requirements for certain performance obligations that remain open on a reporting date.		
5. Election to automatically report sales net of sales tax..		
6. A reversal of an impairment loss on a capitalized contract fulfillment cost on the income statement..		
7. Liability related to an onerous contract.		
8. Election for an immaterial (in the context of a contract) performance obligation to not be classified as distinct..		

IFRS—Exercise 7-118
Applying Revenue Recognition: IFRS vs. U.S. GAAP **LO7-12**

Identify each of the phrases 1 through 9 with a description from *a* through *f* that it is best associated with.

a. Affects the validity of a contract under IFRS.
b. Affects the validity of a contract under U.S. GAAP.
c. Specific election applicable under IFRS.
d. Specific election applicable under U.S. GAAP.
e. Not supported under IFRS.
f. Not supported under U.S. GAAP.

____ 1. Probability of collection on a contract estimated at just over 50%.
____ 2. Shipping and handling costs incurred on goods shipped to customer FOB shipping point.
____ 3. Performance obligation considered immaterial within the context of the contract.
____ 4. Reversal on an impairment loss on costs to obtain a contract.
____ 5. Presentation of sales taxes (gross vs. net).
____ 6. Disclosure on remaining performance obligations.
____ 7. Valuation of noncash consideration at a fair value determined after contract inception.
____ 8. Classification of intellectual property as functional or symbolic.
____ 9. Reporting a liability for an onerous contract.

IFRS—Exercise 7-119
Accounting for License Revenue: IFRS vs. U.S. GAAP **LO7-12**

On January 1, 2020, H&N sold a license for $50,000 (cash) for a brand name originating from a segment of its business that is being discontinued. The license has a term of five years. Under U.S. GAAP, the brand name would be considered symbolic intellectual property and revenue will be recognized over time. While the logo has some established brand recognition, H&N will not perform any ongoing activities related to the license (such as additional advertising and consulting).

a. Record H&N's entry(ies) in 2020 to recognize revenue under U.S. GAAP.
b. Record H&N's entry(ies) in 2020 to recognize revenue under IFRS.

IFRS—Exercise 7-120
Recording Shipping Costs: IFRS vs. U.S. GAAP **LO7-12**

On January 31, 2020, Electronics Inc. (manufacturer) entered into a contract with a retailer to sell 50 wireless speakers for a total of $1,250 on account, with free shipping. The speakers are shipped FOB shipping point—the legal title and risk of loss pass to the retailer at the time the speakers are accepted by the carrier. The retailer has control of the speakers during shipment and is able to redirect the shipment if desired. The standalone selling price of the speakers is $1,250 and the standalone selling price of the shipping services is $75.

Required

a. Assume that Electronics Inc. is a U.S. GAAP reporter and elects to treat shipping as a contract fulfillment cost. Record Electronics Inc.'s entries on January 31, 2020. (Ignore the cost of sales entry.)
b. Assume that Electronics Inc. is an IFRS reporter. Record Electronics Inc.'s entries on January 31, 2020. (Ignore the cost of sales entry.)

IFRS—Exercise 8-113
Matching the Accounting Treatment with Descriptions for Cash and Receivables Under IFRS vs U.S. GAAP **LO8-10**

Terms relating to concepts discussed in this chapter along with descriptions of the terms are included in the following two lists.

Terms

____ 1. Transfer of control
____ 2. Transfer of risks and rewards
____ 3. Fair value option
____ 4. Expected credit loss model
____ 5. Bank overdrafts classified as liabilities
____ 6. Bank overdrafts classified as cash
____ 7. Segregation of receivables
____ 8. Current expected credit loss model

Description of Terms

a. Requiring the reporting of certain types of receivables separately as required under U.S. GAAP.
b. More limited in usage under IFRS.
c. Key factor in determining whether a receivable is transferred to another party under U.S. GAAP.
d. Key factor in determining whether a receivable is transferred to another party under IFRS.
e. Requires a bank withdrawal that exceeds a bank deposit to be recorded as a current liability.
f. Allows a bank withdrawal that exceeds a bank deposit to be netted against other bank deposits.
g. Model for recording credit losses that considers lifetime expected credit losses.
h. Model for recording credit losses that recognizes 12 months of losses absent significant deterioration in risk.

Required

Match each term, 1 through 8, with the most appropriate description *a* through *h*.

IFRS—Exercise 8-114
Recording the Transfer of Receivables Under IFRS **LO8-10**

Refer to the information in Exercise 8-54 in Chapter 8 except that the DOS Company is reporting under IFRS. Also assume that the DOS Company determined that significant risks and rewards did not transfer to PS2 Finance Company related to the accounts receivable.

Required
Record the entry on April 1, 2020, for DOS Company.

IFRS—Exercise 8-115
Identifying Differences in Reporting of Cash and Receivables Under IFRS **LO8-10**

Assume that you are assigned to an audit of Spectrum Inc. that follows U.S. GAAP. However, the company also needs to report its financial statements under IFRS. You identify the following items during a review of cash and receivables.

1. A bank overdraft is included in financial reporting as a current liability.
2. The company records restricted cash in an account separate from cash.
3. Cash and cash equivalents are combined in one line item on the balance sheet.
4. Impairment losses on receivables are recorded for the receivable's full lifetime when losses are probable.
5. The company amortizes discounts on notes receivable using the effective interest method.
6. The company estimates sales returns at the time of sale, recording a refund liability.
7. Receivables transferred to a factor were treated as a sale of receivables because control of the receivables had transferred to the factor.
8. Receivables from an affiliated company are disclosed in the notes to the financial statements. Amounts are not included in the accounts receivable balance on the face of the balance sheet.
9. The company uses the net method for recording sales discounts.
10. The company estimates its allowance for doubtful accounts using the balance sheet approach.

Required
For each item, indicate whether it likely will result in a difference in reporting under IFRS. If yes, indicate how the reporting will differ.

IFRS—Exercise 10-108
Analyzing Inventory Accounting: IFRS vs. U.S. GAAP **LO10-10**

Indicate whether the following six *separate* items are more in line with U.S. GAAP financial statements or IFRS financial statements.

	U.S. GAAP Statements	IFRS Statements
1. LIFO cost flow assumption.		
2. Reversal of an impairment loss on inventory..		
3. Similar inventories reported under different cost-flow assumptions.		
4. Lower-of-cost-or-net realizable value rule applied to all categories of inventory.		
5. Disclosure of an inventory impairment reversal.		
6. Inventory recorded at the lower-of-cost-or-market.		

IFRS—Exercise 10-109
Estimating Inventory Using Lower-of-Cost-or-Net Realizable Value **LO10-10**

Annie Taylor reports the following information for its six inventory items on June 30, 2020.

Inventory Item	Quantity	Selling Price	Costs to Sell	Cost per Unit
100	70	$24	$5	$16
101	100	22	4	17
115	50	35	6	31
118	120	40	6	29
120	25	18	4	10
128	45	30	8	26

Required
Annie Taylor follows IFRS reporting. Compute inventory it reports on the balance sheet on June 30, 2020, assuming that the company applies the lower-of-cost-or-net realizable value rule to each individual inventory item.

IFRS—Exercise 11-100
Analyzing Noncurrent Asset Accounting: IFRS vs. U.S. GAAP
LO11-10

Indicate whether the following eight separate items are in line with U.S. GAAP financial statements, IFRS financial statements, or both standards.

	U.S. GAAP Statements	IFRS Statements
1. Building recorded at historical cost on the balance sheet.		
2. Building valued at its appraised value on the balance sheet..		
3. Interest capitalized at the lower of actual or avoidable interest..		
4. Capitalized interest reduced by interest earnings on the related borrowings..		
5. Revenue from government grants recognized in the period received..		
6. Revenue from government grants deferred and recognized over later periods..		
7. Biological asset at net realizable value on the balance sheet..		
8. Biological asset at historical cost on the balance sheet.		

IFRS—Exercise 11-101
Accounting for Fixed Assets under IFRS
LO11-10

Record the following entries for Spectrum Inc., which is an IFRS financial statement reporter.

1. Spectrum Inc. received $2,000,000 as a government grant toward the purchase of a $10,000,000 building. If the company opts to defer the contribution and recognize it over the life of the building, record a summary entry for the purchase.
2. Spectrum Inc. calculated the following amounts related to the construction of a new building on its property. Record the summary entry to capitalize interest expense, assuming that the building was complete at year-end. Assume cash payment of interest.

Actual interest costs	$350,000
Avoidable interest costs	365,000
Interest earnings on borrowings	5,000

3. Spectrum Inc. elects to report equipment using the revaluation model. The carrying value at year-end is $320,000 while an appraisal indicates that the equipment has a fair value of $330,000. Record the adjusting entry required at year-end.

IFRS—Exercise 12-129
Comparing Accounting for Depreciation and Impairment: IFRS vs. U.S. GAAP **LO12-12**

Indicate whether the following seven separate items are in line with U.S. GAAP financial statements, IFRS financial statements, or both standards.

	U.S. GAAP Statements	IFRS Statements
1. Reversal of an impairment loss due to an increase in fair value of a fixed asset.		
2. Recognition of an impairment loss when the carrying value of an asset is less than the undiscounted future cash flows from the asset but is greater than the present value of future cash flows..		
3. Depreciation of a fixed asset by major component.		
4. Use of the straight-line method of depreciation..		
5. Recognition of an impairment loss when the carrying value of an asset is greater than the undiscounted future cash flows from the asset and is greater than the present value of future cash flows.		
6. Prospective treatment of a change in estimate arising from a decrease in an estimate of residual value..		
7. Reversal of an impairment loss due to an increase in fair value of an asset held for sale..		

IFRS—Exercise 12-130
Computing Depreciation by Component
LO12-12

Equipment consists of three major components identified as follows.

Equipment Components	Cost	Useful Life
Component A	$ 15,000	5 years
Component B	25,000	10 years
Component C	150,000	20 years
Total cost of equipment	$190,000	

Required

Compute annual straight-line depreciation for year one under (a) IFRS and (b) U.S. GAAP. Under IFRS, depreciate by component. Under U.S. GAAP, depreciate the asset over the useful life of the equipment of 20 years. Assume no residual values.

IFRS—Exercise 12-131
Computing Impairment Loss on Asset Held for Use **LO12-12**

Information related to a fixed asset (held for use) follows.

Carrying value	$50,000
Estimated cash flows (undiscounted)	60,000
Present value of future cash flows	45,000
Fair value less cost to sell	47,000

Required

Determine the loss on impairment under IFRS and under U.S. GAAP.

IFRS—Exercise 13-76
Revaluing an Intangible Asset under IFRS
LO13-7

On January 1, 2020, Smith Inc. purchased a franchise from the Chester Pizza Company for $200,000. The initial franchise runs 10 years from January 1. Smith Inc. elects to account for the franchise using revaluation. In reference to an active market, Smith Inc. determines the fair value of the franchise to be $195,000 on December 31, 2020. Record Smith's adjusting journal entries on December 31, 2020, under IFRS, related to the franchise.

IFRS—Exercise 13-77
Classifying Research and Development Costs
LO13-7

In January of 2020, Murray Company builds a research facility at a cost of $40 million with an expected useful life of 20 years and zero salvage value. Murray incurs the following additional expenditures in 2020.

Salaries and wages for researchers	$500,000
Materials utilized for research project (no alternative usage)	100,000
Purchase of equipment (to be used over project life of 4 years)	200,000
Fees for consultants on research projects	80,000
Salaries attributed to the development of a patent before technical and economic feasibility	45,000
Salaries attributed to the development of a patent after technical and economic feasibility	60,000
Legal fees paid to file for patent registration	3,000

Required

From the costs listed above, determine the total amount to be expensed and to be capitalized in 2020 under IFRS.

IFRS—Exercise 13-78
Computing Impairment Loss on Patent
LO13-7

Information related to a patent is provided as follows.

Carrying value	$50,000
Estimated cash flows (undiscounted)	60,000
Present value of future cash flows	45,000
Fair value less costs to sell	47,000

Required

Determine the loss on impairment under IFRS and U.S. GAAP.

IFRS—Exercise 13-79
Computing Impairment of Goodwill **LO13-7**

Stiller recorded goodwill in January 2019 related to a purchase of another company. The carrying value of the goodwill is $30,000 on December 31, 2020. On December 31, 2020, the segment for cash-generating unit for which the goodwill relates had a fair value of $580,000. The book value of the net assets of the unit (including goodwill) is $600,000. The present value of the estimated future cash flows of the unit is $590,000.

Required

Compute the impairment loss (if any) on the goodwill of the cash-generating unit under IFRS.

IFRS—Exercise 14-133 Recording Entries on Debt Investments **LO14-10**

On June 1, 2020, Beaubien Inc., an IFRS reporter, purchased $20,000 of Mullen Corp. bonds at par. These bonds pay 4% interest annually on June 1 and pay the principal amount upon maturity on June 1, 2025. Beaubien intends to sell the investment in the near future for a short-term gain. The effective rate of interest on the bonds is 5%.

Required

a. Record the entry for the purchase of the bonds by Beaubien.
b. Record the entry on December 31, 2020, to accrue interest revenue.
c. Record the entry on December 31, 2020, to adjust the investment to fair value, determined to be $19,000 on December 31, 2020.

IFRS—Exercise 14-134 Recording Entries on Equity Investments **LO14-10**

On June 1, 2020, Beaubien Inc., an IFRS reporter, purchased 2,000 shares of common stock of Mullen Corp. for $100,000. Beaubien has insignificant influence on Mullen Corp. and elected to account for the security as a FVTOCI. At December 31, 2020, Mullen Corp. paid dividends of $3 per share. In addition, the fair value of the investment in Mullen Corp. was $98,000 on December 31, 2020.

Required

Prepare the following entries:

a. Purchase on June 1, 2020.
b. Dividends received on December 31, 2020.
c. Adjustment to fair value on December 31, 2020.

IFRS—Exercise 15-100 Contingencies and Current Liabilities: IFRS vs. U.S. GAAP **LO15-7**

For each item *a* through *e*, identify the applicable standards, choosing from options 1 through 4.

1. Consistent with U.S. GAAP only
2. Consistent with IFRS only
3. Consistent with both U.S. GAAP and IFRS
4. Does not follow U.S. GAAP or IFRS

____ *a.* Recognizes a liability using the highest point in a range, when no points in a range are more likely.
____ *b.* Recognizes a liability using the lowest point in a range, when no points in a range are more likely.
____ *c.* Requires a loss contingency to be recorded at present value when the time value of money aspect is material.
____ *d.* Allows the recording of gain contingencies when future realization is probable.
____ *e.* Allows accrual of compensated absences using current salaries (amount less than future salaries) in estimating the liability.

IFRS—Exercise 15-101 Contingencies and Current Liabilities: IFRS vs. U.S. GAAP **LO15-7**

Record any required entries on December 31, 2020, for International Inc. (an IFRS reporter) based upon the following information.

a. International Inc. was sued for $1,000,000 in damages. It appears that a court judgment against the company that is reasonably estimated to be $125,000 has a probability of just over 50%.
b. A gain on a legal settlement is virtually certain and its amount can be reasonably estimated at $5,000.
c. Employees' rights to sick pay benefits at International Inc. vest for possible future use. The rights are attributable to services already rendered, and the total accumulated sick pay was reasonably estimated at $100,000 using current salaries, and $110,000 using future estimated salaries.
d. It is probable that International Inc. will incur a loss due to remedies required for a product defect. Estimates of the gross value and the present value of the obligation are $250,000 and $220,000, respectively.
e. A former employee of the company filed a lawsuit against the company for wrongful termination on January 5, 2021. Employment had been terminated September 2020. A settlement for the case is highly probable based upon the negotiations that have taken place and an estimate of a range of loss is $50,000 to $100,000.
f. International Inc. has a $50,000, 10-year note issued July 31, 2011.
   1. How will the $50,000 be classified in the December 31, 2020, balance sheet?
   2. If the $50,000 is refinanced into a five-year note on January 31, 2021, (before the 2020 financial statements are issued), how will the $50,000 note payable be classified in the December 31, 2020, balance sheet?

IFRS—Exercise 16-134
Analyzing GAAP vs. IFRS: Noncurrent Liabilities **LO16-13**

Identify each of the descriptions *a* through *e* with the phrase 1 through 4 that it is best associated with.

1. Consistent with U.S. GAAP only
2. Consistent with IFRS only
3. Consistent with both U.S. GAAP and IFRS
4. Does not follow U.S. GAAP or IFRS

____ *a.* Requires the separate recording of the convertible feature of a convertible bond as equity.
____ *b.* Reports separately a premium on bonds payable from the bonds payable account.
____ *c.* Allows the use of the straight-line interest method to amortize a discount or premium if results are not materially different from that of the effective interest method.
____ *d.* Requires different accounting treatment of a debt settlement from a debt restructure.
____ *e.* Allows the recording of current debt as long-term debt if a debt refinancing takes place before the financial statements are issued.

IFRS—Exercise 16-135
Recording Bond Entries and Reporting Bonds—Effective Interest Method **LO16-13**

Mitchell International Inc. issued 40, 6%, $1,000 bonds on January 1, 2020, for $38,950. The bonds pay interest annually each December 31 and were issued to yield 7%. The bonds mature December 31, 2022, and the company uses the effective interest method to amortize bond discounts or premiums. The company reports under IFRS.

Required

a. Prepare an amortization schedule for the full bond term.
b. Prepare journal entries on the following dates using the net method to record any bond discounts or premiums.
   1. January 1, 2020.
   2. December 31, 2020.

IFRS—Exercise 16-136
Recording Convertible Bond Entries **LO16-13**

On January 1, 2020, when its $30 par value common stock was selling for $80 per share, Ancil Corporation issued $5,000,000 of 4% (paid annually) convertible debentures (bonds) due in 10 years. The conversion option allowed the holder of each $1,000 bond to convert the bond into five shares of the corporation's $30 par value common stock. The debentures were issued for $5,500,000. The present value of the bond payments at the time of issuance was $4,250,000, and the corporation believes that the difference between the present value and the amount paid is attributable to the conversion feature.

Required

a. Prepare an amortization schedule for the full bond term.
b. Prepare journal entries under IFRS on the following dates using the net method to record any bond discounts or premiums.
   1. January 1, 2020.
   2. December 31, 2020.

IFRS—Exercise 17-127
Analyzing GAAP vs. IFRS: Accounting for Leases **LO17-10**

For each item *a* through *e*, identify the applicable standards, choosing from options 1 through 4.

1. Consistent with U.S. GAAP only
2. Consistent with IFRS only
3. Consistent with both U.S. GAAP and IFRS
4. Does not follow U.S. GAAP or IFRS

____ *a.* Requires the reporting of all leases as finance for the lessee.
____ *b.* Allows the lessor to report leases as operating, sales-type, or direct financing depending on whether certain criteria are met.
____ *c.* Allows lessees to elect the short-term lease exception for leases with a term of one year or less.
____ *d.* Requires the recording of gross profit in full on direct financing leases if performance obligations are satisfied.
____ *e.* Requires the remeasurement of lease liabilities based upon a change in index or rate related to variable lease payments.

IFRS—Exercise 17-128
Recording Entries for Leases by Lessee **LO10**

On January 1, 2020, Wayne Inc., signed an eight-year lease for office space for $24,000 annually, with the first payment due immediately. Wayne has the option to renew the lease for an additional four-year period on or before January 1, 2028, at market lease rates at the time of renewal. Wayne intends to evaluate rental options at the time of the option to renew. The remaining economic life of the office is 30 years. Wayne Inc. is not aware of the implicit rate of the lease but has an incremental borrowing rate of 7%.

Required

a. How would Wayne Inc. classify the lease under IFRS?
b. Prepare the entries for Wayne Inc. for years 2020 and 2021.

IFRS—Exercise 17-129
Recording Entries for Short-Term Leases LO17-10

On January 1, 2020, lessor First Star Leasing Inc. leased equipment to lessee Convers Inc. The equipment cost the lessor $4,800, and the lessor's expected rate of return was 8%. Lease payments of $1,000 are due at the end of each quarter over the lease term of two years. Convers Inc. reports under IFRS.

Required

a. What options does Convers Inc. have in accounting for the lease?

b. Prepare the entries for the lessee in 2020 assuming that the company is interested in avoiding the inclusion of the lease on its balance sheet.

IFRS—Exercise 18-117
GAAP vs. IFRS: Financial Statement Presentation LO18-11

For each item *a* through *e*, identify the applicable standards, choosing from options 1 through 4.

1. Consistent with U.S. GAAP regulations only
2. Consistent with IFRS only
3. Consistent with both U.S. GAAP regulations and IFRS
4. Does not follow U.S. GAAP Regulations or IFRS

____ *a.* Reporting of a deferred tax asset on a gross basis offset by an allowance for amounts *more likely than not* to be realized.

____ *b.* Reporting of a deferred tax asset only if it is probable that it will be realized.

____ *c.* No targeted accounting guidance for uncertain tax positions.

____ *d.* Requires the use of a substantially or fully enacted tax rate to calculate a deferred tax liability.

____ *e.* Balance sheet presentation of deferred tax assets and liabilities on a net basis, as noncurrent.

IFRS—Exercise 18-118
Recording Temporary Differences: Change in Enacted Tax Rates LO18-11

The records of Castle Corporation provided the following income tax allocation data.

	2020	2021	2022	2023
Pretax GAAP income	$40,000	$70,000	$90,000	$100,000

The deferred tax account has a zero balance at the start of 2020. The income tax rate is 30%. Castle Corp reports under IFRS.

There was only one source of temporary differences, estimated warranty expenses, which were recorded (accrued) for accounting purposes in 2020 for $20,000. The balance in the warranty accrual for financial reporting purposes is as follows.

	2020	2021	2022	2023
Warranty accrual	$20,000	$30,000	$25,000	$0

Required

a. Provide the entry to record income tax expense for 2020.

b. In late 2021, the tax legislation was in final stages of passage to a 40% rate for years 2022 and 2023. Provide the journal entry on December 31, 2021.

IFRS—Exercise 19-111
Analyzing GAAP vs. IFRS: Pension Plans LO11

For each item *a* through *e*, identify the applicable standards, choosing from options 1 through 4.

1. Consistent with U.S. GAAP only
2. Consistent with IFRS only
3. Consistent with both U.S. GAAP and IFRS
4. Does not follow U.S. GAAP or IFRS

a. Use of the corridor method to amortize actuarial gains and losses on pension obligations.

b. Reporting of net interest (interest expense on the pension obligation net of actual interest earned on plan assets).

c. Reducing a net pension asset because it exceeds a ceiling.

d. Use of the straight-line method to amortize prior service costs.

e. Choice of recording a plan assets and pension obligation separately on the balance sheet.

IFRS—Exercise 19-112
Recording Pension Costs under IFRS LO19-11

Mac Company has a noncontributory defined benefit pension plan accounted for under IFRS. On December 31, 2020, the following data are available:

PBO credit balance, Dec. 31, 2019, before adjustment	$45,000
Plan asset debit balance, Jan. 1, 2020	52,500
Prior service cost (due to plan amendment on Jan. 1, 2020)	5,000
Service cost	32,500
Interest cost	4,000
Pension benefits paid	2,000
Actual return on plan assets	2,800
Cash funding	25,000
Pension benefits paid to retirees	0

Required

a. Provide the computation for net interest. Assume a discount rate on high-quality corporate bonds of 5%.
b. Compute net service cost.
c. Provide the 2020 entries for Mac Company to account for the pension plan.

IFRS—Exercise 19-113
Recording Pension Costs under IFRS **LO19-11**

Spears Company (an IFRS reporter) presents the following information related to its pension plan, for 2020, before recording pension expense.

Defined benefit obligation, credit balance, Jan. 1, 2020	$300,000
Accumulated OCI—Pension Gain/Loss, credit balance, Jan. 1, 2020	(12,000)
Plan assets at fair value, debit balance, Jan. 1, 2020	280,000
Actuarial loss, determined at Dec. 31, 2020	4,000
Contributions to pension fund in 2020	120,000
Benefits paid in 2020	15,000
Actual return on plan assets	15,400
Service cost	118,000
Average remaining service period of employees: 20 years	
Discount rate on high-quality corporate bonds, 6%	

Required

a. Provide the computation for net interest.
b. Compute net service cost.
c. Provide the 2020 entries for Spears Company to account for the pension plan.
d. What is the funded status of the defined pension obligation on December 31, 2020?

IFRS—Exercise 20-123
GAAP vs. IFRS Financial Statement Presentation **LO20-9**

For each item *a* through *d*, identify the applicable standards, choosing from options 1 through 4.

1. Consistent with U.S. GAAP regulations only
2. Consistent with IFRS only
3. Consistent with both U.S. GAAP regulations and IFRS
4. Does not follow U.S. GAAP regulations or IFRS

____ *a.* Reporting mandatorily redeemable preferred stock as a liability.
____ *b.* Reporting redeemable (at the option of the issuer) preferred stock as stockholders' equity.
____ *c.* Reporting preferred stock that contractually pays fixed dividends annually at 4% of par for 10 years as a liability.
____ *d.* Reports equity for a portion of the proceeds received in issuing convertible bonds.

IFRS—Exercise 20-124
Determining Preferred Stock Financial Statement Presentation **LO20-9**

On December 31, 2020, International Corporation, an IFRS reporter, had 50,000 shares of 6%, $10 par, preferred stock, which is cumulative and nonparticipating.

Required

Identify how the preferred stock would be reported in the balance sheet of an IFRS reporter given the following *separate* scenarios:

a. Preferred shares of Costko are nonredeemable.
b. Preferred shares of Costko will be redeemed by Costko on December 31, 2024, for a fixed price. Although not obligated to pay dividends each year, Costko intends to pay the 6% dividend to the preferred shareholders over the next five years.
c. Preferred shares of Costko may be redeemed by shareholders at a predetermined price at any point in time.
d. Preferred shares of Costko may be called in by Costko at any point in time.

IFRS—Exercise 22-112
Analyzing the Statement of Cash Flows: IFRS vs. GAAP **LO22-9**

For each of the phrases 1 through 8 indicate the description *a* through *e* that it is best associated with.

a.	Operating only	____	1. Dividends received (IFRS statement)
b.	Investing only	____	2. Interest received (IFRS statement)
c.	Financing only	____	3. Dividends paid (U.S. GAAP statement)
d.	Operating or investing	____	4. Interest paid (IFRS statement)
e.	Operating or financing	____	5. Dividends paid (IFRS statement)
		____	6. Dividends received (U.S. GAAP statement)
		____	7. Interest received (U.S. GAAP statement)
		____	8. Interest paid (U.S. GAAP statement)

IFRS—Exercise 22-113
Preparing the Operating Activities Section under IFRS **LO22-9**

The data below were provided by the accounting records of Marshall Company.

Net income (accrual basis)	$25,000
Depreciation expense	3,000
Increase in salaries payable	500
Increase in trade accounts receivable	900
Decrease in merchandise inventory	1,150
Amortization of patent	100
Decrease in long-term liabilities	5,000
Sale of capital stock for cash	12,500
Amortization of discount on bonds payable	150
Dividend payment	1,000

Additional Information

a. Marshall Company is an IFRS reporter.
b. Net income reflects a $1,200 deduction for interest paid that the company elects to report as a financing activity.
c. Net income reflects an $800 addition for interest received that the company elects to report as an investing activity.
d. Marshall Company elects to record dividends paid as an operating activity.

Required

Prepare the reconciliation of net income with cash flow from operations for inclusion in the statement of cash flows (indirect method) under IFRS.

IFRS—Exercise 22-114
Accounting for Bank Overdrafts on an IFRS Statement of Cash Flows **LO22-9**

International Inc., an IFRS reporter, compiled the following cash flow reconciliation for the current year, 2020.

U.S. GAAP Cash Flow Summary:	
Net cash provided by operating activities	$300,000
Net cash used by investing activities	(125,000)
Net cash used by financing activities	(200,000)
Net increase in cash and cash equivalents during 2020	(25,000)
Cash and cash equivalents, January 1, 2020	75,000
Cash and cash equivalents, December 31, 2020	$ 50,000

Required

The company determined that an overdraft of $5,000 of its checking account was incorporated as a financing activity in the reconciliation above. Instead, the company would like to net the overdraft against its positive cash balances. Adjust the reconciliation to make this change.

Answers to Review Exercises

Review 1-7
Part One:
1. *d* 2. *e* 3. *c* 4. *b* 5. *a*
Part Two:
1. *c* 2. *b* 3. *d* 4. *e* 5. *a*

Review 2-11
a. Retrospective *b.* Three *c.* Transition date *d.* Minimal

Review 3-9
1. *b* 2. *b* 3. *c* 4. *c* 5. *c*

Review 4-6
a. Balance sheet *b.* Statement of financial position *c.* U.S. GAAP *d.* IFRS *e.* IFRS *f.* IFRS

Review 5-9
Net cash flows from operating activities $11,000, net cash flows from investing activities ($48,500), net cash flows from financing activities $40,200

Review 7-12
1. *a* 2. *c* 3. *b* 4. *a* 5. *b* 6. *b* 7. *b* 8. *a*

Review 8-10
1. *c* 2. *b* 3. *b* 4. *a*

Review 10-10
1. *a* 2. *a* 3. *c* 4. *a*

Review 11-10
a. To record acquisition through donation—IFRS

Assets	= Liabilities +	Equity
+1,000,000 +4,000,000 −5,000,000		

Cash (proceeds from government grant)	1,000,000	
Building (recorded at net value)	4,000,000	
Cash (payment for building purchase)		5,000,000

b. To record interest capitalization—IFRS

Assets	= Liabilities +	Equity
+48,000 −53,000		−5,000

Building ($50,000 – $2,000)	48,000	
Interest Expense ($55,000 – $48,000 – $2,000)	5,000	
Cash		53,000

c. To adjust land through revaluation model—IFRS

Assets	= Liabilities +	Equity
+20,000		+20,000

Land ($120,000 – $100,000)	20,000	
Unrealized Gain—Revaluation		20,000

Review 12-12
Example One: IFRS: $44,000; U.S. GAAP: $37,333
Example Two: IFRS: $120,000; U.S. GAAP: $0

Review 13-7
Part One: *a.* 2; *b.* 3; *c.* 2; *d.* 3
Part Two: $15,000 impairment loss
Part Three: $10,000 impairment loss

Review 14-10

Example One

a. **September 30, 2020—To record bond purchase**

Investment in AFS—Mack Bonds	20,000	
Cash		20,000

Assets	=	Liabilities	+	Equity
+20,000 −20,000				

Investment in Stock		Cash	
20,000			20,000

b. **December 31, 2020—To record interest accrual**

Interest Receivable (0.05 × $20,000 × 3/12)	250	
Interest Revenue		250

Assets	=	Liabilities	+	Equity
+250				+250

Interest Receivable		Interest Revenue	
250			250

c. **December 31, 2020—To adjust investment to fair value**

Fair Value Adjustment—FVTOCI ($21,000 − $20,000)	1,000	
Net Unrealized Gain or Loss—OCI		1,000

Assets	=	Liabilities	+	Equity
+1,000				+1,000

Fair Value Adjustment—FVTOCI		Unrealized Gain or Loss—OCI	
1,000			1,000

Example Two

a. **September 30, 2020—To record investment purchase**

Investment in FVTOCI—Mack Stock	250,000	
Cash		250,000

Assets	=	Liabilities	+	Equity
+250,000 −250,000				

Investment in Stock		Cash	
250,000			250,000

b. **December 31, 2020—To record receipt of dividends**

Cash	7,500	
Dividend Revenue		7,500

Assets	=	Liabilities	+	Equity
+7,500				+7,500

Cash		Dividend Revenue	
7,500			7,500

c. **December 31, 2020—To adjust investment to fair value**

Fair Value Adjustment—FVTOCI ($255,500 − $250,000)	5,500	
Net Unrealized Gain or Loss—OCI		5,500

Assets	=	Liabilities	+	Equity
+5,500				+5,500

Fair Value Adjustment—FVTOCI		Unrealized Gain or Loss—OCI	
5,500			5,500

Review 15-7

1. *a* 2. *a* 3. *a* 4. *b* 5. *b*

Review 16-13

1. *a* 2. *a* 3. *b* 4. *b* 5. *c*

Review 17-10

Example One

a. Finance Lease

b. **January 1, 2020—To record right-of-use asset and lease liability**

Right-of-Use Asset	1,065,118	
Lease Liability		1,065,118

Assets	=	Liabilities	+	Equity
+1,065,118		+1,065,118		

R-of-U Asset		Lease Liab	
1,065,118			1,065,118

January 1, 2020—To record lease payment

Lease Liability	180,000	
Cash		180,000

Assets	=	Liabilities	+	Equity
−180,000		−180,000		

Cash		Lease Liab	
	180,000	180,000	1,065,118

December 31, 2020—To record interest expense

Interest Expense	53,107	
Lease Liability		53,107

Assets	=	Liabilities	+	Equity
		+53,107		−53,107

Lease Liab		Interest Exp	
180,000	1,065,118 53,107	53,107	

December 31, 2020—To record amortization on right-of-use asset

Amortization Expense	152,160	
Right-of-Use Asset ($1,065,118 / 7)		152,160

Assets	=	Liabilities	+	Equity
−152,160				−152,160

R-of-U Asset		Amortiz Exp	
1,065,118	152,160	152,160	

Example Two

January 1, 2020—To defer rent expense

Prepaid Lease Expense	2,520	
Cash		2,520

Assets	=	Liabilities	+	Equity
+2,520 −2,520				

Prep Lease Exp		Cash	
2,520			2,520

Assets	=	Liabilities	+	Equity
−210				−210

Prep Lease Exp: 210 | 210
Rent Exp: 210 |

January 31, 2020—To record rent expense

Rent Expense	210	
Prepaid Lease Expense		210

Review 18-11

1. *a* 2. *b* 3. *a* 4. *a* 5. *b*

Review 19-11

Service cost	$33,000
Past service cost	30,000
Total service cost	$63,000

Interest revenue ($350,000 × 5%)	$17,500
Interest expense ($300,000 × 5%)	15,000
Net interest	$ 2,500

Review 20-9

a. Stockholders' equity *b.* Stockholders' equity *c.* Liability *d.* Stockholders' equity *e.* Liability

Review 21-11

a. U.S. GAAP *b.* IFRS *c.* U.S. GAAP *and* IFRS *d.* U.S. GAAP

Review 22-9

1. *d* 2. *b* 3. *c* 4. *b* 5. *b*