

## GAAP v IFRS – comparative balance sheets

- A practical summary of the process of conversion from a GAAP presentation to one acceptable under IFRS



## Programme

- Introduction and objectives
- IAS 1 – presentation of financial statements under full IFRS
  - Primary statements
  - Options
- IFRS for SMEs – presentation requirements

### Break

- Example – mapping chart of account headings from a GAAP presentation to IFRS
- Other related issues
  - Other comprehensive income items (recycling)
  - Cash flows - illustration



## Introduction and objectives

- IFRS now provides two different accounting frameworks
  1. Full IFRS
    1. IAS – as issued 1973 – 2000
    2. IFRS – as issued since
    3. IFRIC & SIC
    4. Framework
  2. IFRS for SMEs
    1. Option available to qualifying entities



## Objectives

- Explain the basics of presenting accounts under IFRS
- Illustrate the migration process
- Look at the other practical issues on adoption



## Full IFRS presentation – IAS 1 (revised September 2007)



## Presentation – initial points

- Key concepts
  - Fair presentation
  - Materiality
  - Going concern
- Must state compliance with IFRS = 100% of IFRS
- Disclosures do NOT rectify non-compliance





## Primary statements

- Income statement
  - Combined comprehensive statement or
  - Profit and loss and other comprehensive income (STRGL)
- Statement of position - Balance sheet
- Cash flow – always
- Statement of changes in equity – dividends may be shown as a note



## Income statement presentation – IAS 1

- Standard format derived from IAS 1 – optional?
- No 'operating profit' or exceptional item concept
- Other headings may be added
- No dividends = include in transaction with shareholder's note



## Balance sheet – format

- Horizontal presentation
  - List all assets
  - List all liabilities and shareholder's funds
  - No net current position
- List items in order of increasing liquidity
- Current does not necessarily = 1 year, one business cycle if longer although 1 year split must be given
- No separate heading for provisions – include under other creditors (deferred tax)



## Cash flows

- Required every year as a primary statement
- Three headings of cash flow
  - Operating
  - Financing
  - Investing
- Reconcile to movements in cash and cash equivalents



## Cash equivalents

- Short term investments
- Not subject to interest rate valuation variability
- Under three months to maturity when acquired



## P&L, OCI, Change in equity or notes?

- Impairment loss on goodwill?
- Gain on revaluation of cost of investment – minority stake, to fair value on taking control?
- Interim dividends paid?
- Final dividend declared?
- Share based payment to owner/director
- Gain in net assets of subsidiary that accounts in local currency that is different to functional currency of parent?
- Actuarial loss on defined benefit pension scheme?
- Deferred tax thereon?



## Presentation under the IFRS for SMEs



## SME definition

- No public accountability
  - Shares or debt listed
  - Hold assets in a fiduciary capacity as key role not incidental
- Publish general purpose financial statements
  - Publish does not necessarily mean file publicly
  - Includes statements issued to owners not involved in day-to-day management



## Presentation points

- **Must state basis of preparation – IFRS for SMEs**
- **Must comply in full, very limited opportunity for override**
- **Statements should be prepared based only on the IFRS for SMEs including the pervasive principles as contained in the Standard**
- **A separate booklet contains example financial statements and a disclosure checklist – much simplified from full IFRS**



## Financial statements must comprise

- A statement of financial position
- A comprehensive income statement or statements
- A statement of changes in equity – unless very straightforward when this may be combined with the income statement
- A statement of cash flow
- Notes to the accounts including accounting policy note





## Presentation points – other issues

- No pro forma statements
- Headings can be varied; expenses may be presented by type or by function for example
- Single basic pro forma for all clients
- Cash flow statement required in all circumstances



## Example

Review the example pro forma statements presented in the separate handout and, using the numbers in the trial balance, prepare the:

Statement of financial position; and  
Net income statement



## Other presentation issues



## One or two statement net income

- Net income may be presented in a single statement;  
or
- In two separate statements
  - An income statement – headings up to profit or loss for the year
  - A statement of comprehensive income for all other recognised items
- A change from a one statement to a two statement presentation or vice versa is a change in accounting policy



## Recognition and recycling

- Investments in shares
  - If qualify as subsidiary, associate or joint venture = then account for as required as business combination
- Investment in shares – quoted
  - Value at fair value
  - Gains and losses through profit and loss
- Investment in shares – unquoted (no reliable price)
  - Value at historic cost
  - Consider any impairments



## Statement of changes in equity

- Equity = interests of the owners
- Equity = evidence of interest in the residual net assets
- Present as primary statement except if the only changes in equity are:
  - Profit or loss for the year
  - Dividends paid
  - Prior period adjustments
- In which case can show a statement of income and retained earnings



## Practical concerns

- Local law may impose additional requirements or restrictions
- Chart of accounts may have been developed to provide information for local required reports
  - EU standard format accounts
  - Tax return obligations
- Should the presentation of IFRS statements be:
  - Off line exercise using trial balance?
  - Integrated with chart of accounts management
- Do accounts or can accounts be tagged for XBRL purposes?



## Timing issues

- Adoption of IFRS requires IFRS comparatives for the first year; so
  - Adopt for y/e 31 December 2012
  - Report y/e 31 December 2011 under IFRS
- Should upgrades for existing accounts software be taken? If not taken will the software be able to support migration to IFRS if and when that is adopted?



Any questions?

