

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

dmp training



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?





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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



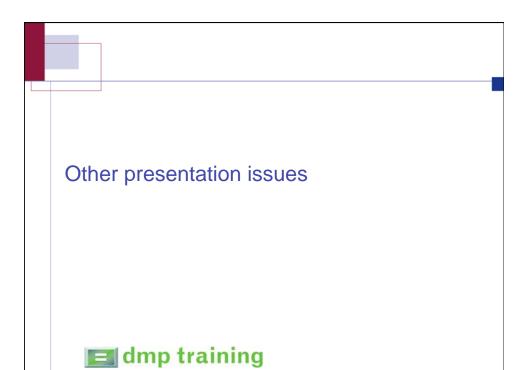


Example

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







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?



