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**INTERNATIONAL STANDARDS CONVERGENCE**  
Cross-Reference to CFA Institute Assigned Reading #43

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**Marketable Securities** Vol 3, pg 651

- Held-to-maturity securities are debt securities that a company intends to, and will be able to hold till maturity.
- Trading securities are debt and equity securities, inclusive of derivatives, acquired with the intent of being traded.
- Available-for-sale securities are debt and equity securities that the company does not plan to hold till maturity or trade in the short term.

**Categories of Marketable Securities and Accounting Treatment** Vol 3, pg 652

<b>Classification</b>	<b>Balance Sheet Value</b>	<b>Unrealized and Realized Gains and Losses</b>	<b>Income (Interest &amp; Dividends)</b>
<b>Held-to-maturity</b>	Amortized cost (Par value +/- unamortized premium/ discount).	<i>Unrealized:</i> Not reported <i>Realized:</i> Recognized on income statement.	Recognized on income statement.
<b>Held-for-trading</b>	Fair Value.	<i>Unrealized:</i> Recognized on income statement. <i>Realized:</i> Recognized on income statement.	Recognized on income statement.
<b>Available-for-sale</b>	Fair Value.	<i>Unrealized:</i> Recognized in other comprehensive income. <i>Realized:</i> Recognized on income statement.	Recognized on income statement.

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**Inventory Accounting** Vol 3, pg 653

	<b>Balance Sheet</b>	<b>Permitted Cost Recognition Methods</b>	<b>Changes in Balance Sheet Value</b>
<b>U.S. GAAP</b>	Lower of cost or market.	<ul style="list-style-type: none"> <li>▪ LIFO.</li> <li>▪ FIFO.</li> <li>▪ Weighted average cost.</li> </ul>	Permits inventory write downs, but not reversal of write downs.
<b>IFRS</b>	Lower of cost or net realizable value.	<ul style="list-style-type: none"> <li>▪ FIFO.</li> <li>▪ Weighted Average Cost.</li> </ul>	Permits inventory write downs, and also reversals of write downs.

IFRS does not permit LIFO because the use of LIFO is often tax driven as it results in lower taxable income in an inflationary environment.

**Property, Plant and Equipment** Vol 3, pg 654

	<b>Balance Sheet</b>	<b>Changes in Balance Sheet Value</b>	<b>Effects of Changes in Balance Sheet Value</b>
<b>U.S. GAAP</b>	Cost minus accumulated depreciation.	Does not permit upward revaluation.	No effect.
<b>IFRS</b>	Cost minus accumulated depreciation.	<p>Permits upward revaluation.</p> <p>Asset is reported at fair value at the revaluation date less accumulated depreciation following the revaluation.</p>	<p>The increase in the asset's value from revaluation is reported as a part of equity unless it is reversing a previously-recognized decrease in the value of the asset.</p> <p>A decrease in the value of the asset is reported on the income statement unless it is reversing a previously-reported upward revaluation.</p>

**Long-Term Investments** Vol 3, pg 654

<b>Percent Ownership</b>	<b>Extent of Control</b>	<b>Accounting Treatment</b>
Less than 20%	No significant control	Classified as held-to-maturity, trading, or available for sale securities.
20% - 50%	Significant Influence	Equity method.
More than 50%	Significant Control	Consolidation.
Shared (joint ventures)	Joint Control	Equity method/ proportionate consolidation.

**Goodwill** Vol 3, pg 655

IFRS identifies goodwill as the excess of the purchase price over the fair value of the identifiable assets and liabilities of the acquired business. Goodwill is an unidentifiable asset that cannot be bought and sold independently by the firm. It is capitalized as an asset and tested annually for impairment.

- Impairment expense decreases net income.
- Impairment reduces the balance sheet value of the asset. In subsequent years, reported financial ratios like ROA, ROE and asset turnover improve.
- Impairment is a noncash expense and therefore, has no affect on cash flows.

Analysts make the following goodwill-related adjustments to facilitate comparisons across companies:

- Remove goodwill from total assets when calculating financial ratios.
- Remove goodwill impairment expense from the income statement.
- Evaluating prospective business acquisitions by considering the purchase price relative to the net assets and earning prowess of the acquired business.

Acquisitions also create comparability problems between the pre-merger and post-merger financial statements of the acquirer because:

- The assets and liabilities of the acquired business are consolidated with the acquirer's and reported at their fair values, while the acquirer's original assets and liabilities are reported at historical cost.
- The operating performance of the acquired firm is included in the acquirer's income statement and cash flow statement from the acquisition date forward. Past income statements and cash flow statements are not restated.

**Identifiable Intangible Assets** Vol 3, pg 659

	<b>Balance Sheet</b>	<b>Changes in Balance Sheet Value</b>	<b>Effects of Changes in Balance Sheet Value</b>
<b>U.S. GAAP</b>	<p>Only purchased intangibles may be recognized as assets. Internally developed items cannot be recognized as assets.</p> <p>Reported at cost minus accumulated amortization for assets with finite useful lives.</p> <p>Reported at cost minus impairment for assets with infinite useful lives.</p>	<p>Does not permit upward revaluation.</p>	<p>No Effect.</p>
<b>IFRS</b>	<p>Only purchased intangibles may be recognized as assets. Internally developed items cannot be recognized as assets.</p> <p>Reported at cost minus accumulated amortization for assets with finite useful lives.</p> <p>Reported at cost minus impairment for assets with infinite useful lives.</p>	<p>Permits upward revaluation.</p> <p>Assets are reported at fair value as of the revaluation date less subsequent accumulated amortization.</p>	<p>An increase in value is recognized as a part of equity unless it is a reversal of a previously-recognized downward revaluation. A decrease in value is recognized on the income statement unless it is a reversal of a previously-recognized upward revaluation.</p>

**Long-Term Contracts** Vol 3, pg 661

	<b>Outcome can be reliably estimated</b>	<b>Outcome cannot be reliably estimated</b>
<b>U.S. GAAP</b>	<p>Percentage-of-completion method.</p>	<p>Completed contract method.</p>
<b>IFRS</b>	<p>Percentage-of-completion method.</p>	<p>Revenue is recognized to the extent that it is probable to recover contract costs.</p> <p>Profit is only recognized at project completion.</p>

**Cost of Sales** Vol 3, pg 662

- IFRS does not permit LIFO as an inventory valuation method.
- U.S. GAAP permits LIFO as an inventory valuation method. However, it also requires firms to disclose the necessary information (LIFO reserve) to convert LIFO-based inventory and cost of goods sold to FIFO-based amounts to facilitate comparisons.

**Operating Expenses** Vol 3, pg 662

- U.S. GAAP differentiates expenses from losses. Expenses are cash outflows relating to operating activities of the business.
- IFRS does not differentiate between expenses and losses.

**Depreciation** Vol 3, pg 662

Under IFRS, companies are required to review their depreciation policies at the end of the year. Depreciation policies depend on estimates of useful life and salvage value. IFRS requires that the depreciation method chosen by the firm reflects the pattern of the expected consumption of the asset. If there are any changes in these estimates, they should be reflected in future financial statements.

**Interest Expense** Vol 3, pg 663

Generally, borrowing costs such as interest expense are recognized on the income statement in the period in which they are incurred.

- Under IFRS, firms may *choose* to capitalize interest expenses related to the acquisition, construction or production of an asset that will take a long time to be completed.
- Under U.S. GAAP, such interest expenses *must* be capitalized.

**Income Tax Expense** Vol 3, pg 663

Under U.S. GAAP and IFRS, companies are required to recognize deferred tax assets and deferred tax liabilities that are created due to temporary differences between financial reporting and tax reporting standards. There are differences between the two regarding the scope of coverage of principles.

**Nonrecurring Items** Vol 3, pg 664

Convergence has been achieved between IFRS and U.S. GAAP with regards to the reporting of changes in accounting principles and discontinued operations. However, they differ in the treatment of extraordinary items.

- Under U.S. GAAP, extraordinary items (items that are both infrequent in occurrence and unusual in nature) are reported as a separate line item, net of tax, below income from continuing operations.
- IFRS does not permit the classification of an item as an extraordinary item.