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An Overview of International Financial Reporting Standards October 14, 2011

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What are International Financial Reporting Standards (IFRS)?

Definition of IFRS

- Narrow Meaning
 - *Numbered series* of pronouncements issued by the *International Accounting Standards Board (IASB)*, collectively called *standards*.

- Broad Meaning
 - *Entire body* of authoritative *IASB literature*, including the following:
 - Standards whether labeled *IFRS* or International Accounting Standards (*IASs*)
 - Interpretations, whether labeled *IFRIC* (the former name of the interpretive body) or *SIC* (the predecessor to IFRIC)

For Which Type of Entities are Designed the IFRSs?

- IFRSs are *designed to apply* to general purposes financial statements and other financial reporting of all *profit-oriented entities*, including commercial, industrial, and financial entities, regardless of the legal form of organization.

- IFRSs are *not designed* to apply to *not-for-profit entities* or those *government owned entities*.

International Accounting Standards Board (IASB)

- The IASB was established in 2001 by its forerunner, the *International Accounting Standards Committee*, which itself was established in 1973.
- Independent privately funded accounting standard-setting body based in *London*
- Board members are from nine countries

Objectives of the International Accounting Standards Board (IASB)

- To develop, in the public interest, a single set of high *quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information* in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
- To promote the use and *rigorous application* of those standards;
- In fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the *special needs of small and medium-sized entities and emerging economies*; and
- To bring about *convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards* to high quality solutions.

International Accounting Standards Board (IASB)

- ❑ IASB projects generally take *three years or more*, from *formation* to standard *issuance*.
- ❑ *Release* of IFRS exposure draft requires *approval by 8* of the board's 14 members.
- ❑ The major *contributions* of the IASB include *harmonizing accounting standards and disclosures* to meet the *needs* of the *world's capital markets*, providing an accounting foundation for underdeveloped or newly industrialized countries to and advancing *compatibility* of *domestic and international accounting requirements*.

International Accounting Standards Board (IASB)

- Related organizations of the IASB:
 - *International Financial Reporting Interpretations Committee (IFRIC)*
 - 12 members
 - *Develops interpretations* of standards for IASB approval
 - *Standards Advisory Council (SAC)*
 - 40 members
 - *Provides* the IASB with *advice* concerning Board *priorities, technical accounting issues, and the implications of proposed standards* on users and preparers of f/s

International Accounting Standards Board (IASB)

- Parent organization of IASB
 - *International Accounting Standards Committee Foundation (IASC Foundation)*
 - 22 trustees oversees the operation of the IASB
 - Appoints members of the IASB, IFRIC, and SAC
 - Responsible for *funding* the IASB and affiliates

Demand for International Accounting Standards

Why International Accounting Standards are Needed?

- Various *international forces* have *increased* the *need* to have *similar standards* around the globe, therefore reducing costs:
 - Multinational corporations
 - Growth of global capital markets.
 - Increase economic interdependence
 - Growth of multinational political organizations (European Union is an example)

Why Accounting Rules Differ Internationally?

Factors that Affect Accounting Standards

- Accounting rules differ internationally because are **established by governments and/or accounting bodies** that have *jurisdiction* only within the *borders* of their respective *country*.
- Factors that affect accounting standards include:
 - Sources of capital
 - Inflation
 - Taxation
 - Culture
 - Legal System
 - Accidents of History
 - Business complexity

Some Material Differences Across Countries

- ❑ *Tax based accounting*- In some countries, the tax treatment of a transaction must also be used for financial reporting purposes.
- ❑ *Asset revaluations*-It is permissible in some jurisdictions to revalue assets to fair value on a periodic basis.
- ❑ *Form over Substance*- In U.S the substance of the transaction, not the form, controls the accounting treatment. Some other countries account for transactions with reference to the form of the transaction (Example: leases)

Impediments to International Accounting Standards

Possible Impediments to International Accounting Standards

- Twenty years ago (an even today) there were a number of impediments to creation and adoption of worldwide accounting rules.
- Possible impediments include:
 - *Who will create the rules?* Creating a comprehensive body of accounting standards is difficult, time consuming, and costly.
 - *What will the rules be like?* If I am concerned that the rules might not be to my liking or to the liking of those who support me, I may be much less to agree to their creation.
 - In the short term, costs will be higher. Initially, the *costs* will be *higher* for the *entity that creates the rules*. Once the rules are promulgated, *users* will have *higher costs as they learn, apply, and use the new standards*.

Adoption of International Standards

History as to Adoption of International Standards

- May 2000: International Organization of Securities Commissions (IOSCO) *recommended* that its *member bodies permit the use of IFRS for cross-border filings*.
- June 2002: *Council of Ministers of the European Union (EU)* adopted a *regulation that requires the use of IFRS for financial reporting for publicly traded companies* in the EU no later than January 1, 2005.
- July 2002: Financial Reporting Council (FRC) of Australia endorsed adoption of IFRS for Australian reporting entities by January 1, 2005.

History as to Adoption of International Standards

- October 2002: FASB and the IASB announced the issuance of a *memorandum of understanding* (the Norwalk Agreement) marking a step toward formalizing their commitment to *convergence of U.S. and international accounting standards*.
- Standards-setters in additional key *countries* have *announced* that their *domestic public entities will be required to use international standards*
 - Brazil will require IFRS adoption in 2010
 - Canada, India, and Korea will require IFRS beginning in 2011
 - Mexico will adopt IFRS for listed companies in 2012.
 - Japan will permit use of IFRS by certain qualifying domestic companies for fiscal years ending on or after March 31, 2010, with a final decision on widespread adoption by around 2012.

History as to Adoption of International Standards

- September 2009: G-20 leaders *asked* “...international accounting bodies to *re-double their efforts to achieve a single set of high-quality, global accounting standards* within the context of their independent standard-setting process, and complete their convergence project by 2011.”

Recent Security and Exchange Commissions Actions (SEC)

- November 2007: SEC unanimously approved rule amendments under which *financial statements from foreign private issuers in the U.S. will be accepted without reconciliation to U.S. GAAP if (and only if) they are prepared using IFRS as promulgated by the IASB.* The rule is effective for fiscal years ending after November 15, 2007.

- November 2008: SEC issued a Proposed Rule for public comment that sets out a *proposed roadmap that could lead to the mandatory use of IFRS by U.S. issuers beginning in 2014.* Early adoption would be allowed for certain SEC registrants beginning in 2010.

Recent SEC Actions

- February 2010: SEC issued a “Statement in Support of *Convergence and Global Accounting Standards*”. The Statement reiterated the SEC’s strong commitment to “a single set of high-quality globally accepted accounting standards.”
- August 2010: *SEC requested public comment on their consideration of permitting IFRS to be used by U.S. registrants.*
- Clearly, the actions of the SEC over the past few years are very supportive of IFRS adoption by SEC registrants, whether foreign or domestic. What remains to be seen, however, is the pace of adoption for U.S. firms. Notwithstanding, there is a high likelihood that the U.S. and the world will inexorably move toward common accounting and reporting standards primarily based on IFRS.

Recent SEC Actions

- Finally, while current SEC rules may limit the use of IFRS by domestic SEC registrants, there is no such limitation for other companies. *In May 2008, the AICPA Council approved a resolution that recognizes the IASB as a standard-setter for purposes of Rules 202 and 203 of the AICPA Code. In effect, IFRS are GAAP. Thus, financial statements prepared in accordance with IFRS do not require a GAAP exception in an audit, review, or compilation report.*

FASB/IASB Cooperation

- *The FASB and the IASC/IASB have been working cooperatively towards international convergence of accounting standards for a long time.*
- More recently, a very significant series of *events* has *increased* the *visibility, viability, and future acceptance of IFRS*. Those events are related to the *cooperation of the FASB and the IASB* on rulemaking. There has been talk of cooperation for decades, evidenced most recently by a Memorandum of Understanding. However, *recent pronouncements and exposure drafts are putting operational muscle behind the talk*.
- It is clear that FASB/IASB actions are now speaking at least as loudly as their words. In future years, we should expect continued cooperation and increased harmonization of U.S. GAAP and IFRS.

IFRS for Small and Medium Sized Entities

What are Small and Medium Sized Entities (SMEs)?

- Small and medium-sized entities are entities that:
 - Do not have **public accountability**, and publish **general purpose financial statements** for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

- *An entity has public accountability if:*
 - Its *debt or equity instruments are traded in a public market* or it is in the *process of issuing such instruments for trading in a public market* (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or if it *holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses*. This is typically the case for *banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks*.

What are Small and Medium Sized Entities (SMEs)?

- Some entities may also hold assets in a *fiduciary capacity for a broad group of outsiders* because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for *travel or real estate agents, schools, charitable organizations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies*), that does not make them publicly accountable.

IFRS for Small and Medium Sized Entities (SMEs)

- The *IFRS for SMEs* is a self-contained standard of 230 pages, designed to meet the needs and capabilities of SMEs, which are estimated to account for **over 95 per cent of all companies around the world.**
- Compared with full IFRSs (and many national GAAPs), the *IFRS for SMEs* is less complex in a number of ways.
- Topics not relevant for SMEs are omitted. Examples: earnings per share, interim financial reporting, and segment reporting.
- Where full IFRSs allow accounting policy choices, the *IFRS for SMEs* ***allows only the easier option.*** Examples: no option to revalue property, equipment, or intangibles; a cost-depreciation model for investment property unless fair value is readily available without undue cost or effort.

IFRS for Small and Medium Sized Entities (IFRS for SMEs)

- ❑ Many principles for recognizing and measuring assets, liabilities, income and expenses in full IFRSs are simplified. For example, **no available-for-sale or held-to-maturity classes of financial assets.**
- ❑ Significantly fewer disclosures are required (roughly 300 versus 3,000).
- ❑ The standard has been written in clear, easily translatable language.
- ❑ To further reduce the burden for SMEs, **revisions** to the IFRS will be *limited to once every three years.*

Overall Comparison of U.S. GAAP and IFRSs

Overall Comparison of U.S. GAAP and IFRSs

IFRS	U.S. GAAP
<p>Principles based, without heavy use of rules. IFRS is broad in scope. The standards are concise, written in plain language, and provide for limited exceptions and bright lines.</p>	<p>Based on principles, with heavy use of rules to illustrate principles. Typically require a higher level of professional judgment, which may facilitate an enhanced focus on the economic purpose of a company's transactions and how the transactions are reflected in its financial reporting.</p>
<p>Provides much less overall detail (example: guidance provided for revenue recognition is less extensive than U.S. GAAP).</p>	<p>Provides extensive prescriptive guidance and detailed rules</p>
<p>Contain relatively little industry-specific guidance</p>	<p>Contain industry-specific guidance</p>

Upon application of IFRS, which differences between United States of America Generally Accepted Accounting Principles (US GAAP) and IFRS may significantly impact hospitals financial statements

Differences in the Terms and Organization of Financial Statements Presentations

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

□ Change in terms and wordings:

US GAAP	IFRS
Inventory	Stocks
Common Stocks	Share Capital
Minority Interest	Outside Interests
Accounts Receivable	Debtors
Accounts Payable	Creditors

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

□ Change in terms and wordings: (Continued)

US GAAP	IFRS
Additional Paid-in Capital	Share Issue Premium
Operating Profit	Trading Profit
Retained Earnings	Revenue Reserves

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- Significant difference between US GAAP & IFRS
 - P&E and certain long-live assets may be Revaluated at FMV for IFRS.
 - Comparative f/s:
 - IFRS - Current & prior
 - GAAP – Not specified. SEC requires 3 years (Except for Balance Sheet)

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- IFRS Requires presentation of :
 - Statement of Financial Position
 - Statement of Comprehensive income
 - Statement of changes in equity
 - Statement of cash flows
 - Notes to financial statements

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- Balance sheet order:
 - US GAAP - Decreasing liquidity ($A=L+OE$)
 - IFRS – Increasing liquidity ($A=OE+L$)

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- Statement of Comprehensive Income
 - Might be presented in two separate statements or in one. (statement of income and expenses (non-owner changes in equity) and other comprehensive income

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- Statement of Comprehensive Income – (continued)
 - IFRS present gains and losses are presented as increases / decreases in equity from peripheral or incidental transactions.
 - Extraordinary items presentation
 - IFRS – Prohibited
 - US GAAP – Permitted if unusual & infrequent

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

□ Cash Flow Statement:

	US GAAP	IFRS
Interest paid, interest received	Accounted for in the operating section	Might be accounted for in the operating section or the financing
Non-cash investing & financing activities	Included in cash flow	Excluded from cash flow statement

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- ❑ Financial statements presentation:
 - Notes
 - ❑ IFRS requires **Currency disclosure**
 - ❑ **USGAAP not**
 - Earning per share
 - ❑ IFRS requires disclosure of **basic** and **diluted EPS** from **continuing operation** and from **net profit or loss**

US GAAP	IFRS
Same as IFRS plus EPS for discontinued operations and extraordinary items.	Basic and dilutes EPS for continuing operations and for net profit and loss

Inventories

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

Financial Statements Presentation – Current assets:

Current Asset:	US GAAP	IFRS
Inventories	Cost determination, no significant changes	Cost determination, no significant changes
Inventory cost flow method	FIFO, LIFO & Weighted Average	LIFO not allowed
Inventory Valuation	Lower of cost or market (Market = Replacement Cost RC, if RC > NRV less profit margin, but RC < NRV	Cost if < NRV (Do not use GAAP floor of NRV – profit margin)

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

US GAAP

Lower of cost or market

"Ceiling" NRV (Sales proceeds - additional cost to complete - cost to sale)

"Floor" NRV (Sales proceeds - additional cost to complete - cost to sale - normal profit margin)



Market

IFRS

Lower of cost or market

"Ceiling" NRV (Sales proceeds - additional cost to complete - cost to sale)

N/A for IFRS



Market

Note that if cost is actually lower of replacement cost, IFRS valuation of inventory might be lower / different that in US GAAP.

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

Financial Statements Presentation – Current assets: **Inventory** – (continued)

- **Inventory Write-up:**
 - **US GAAP** – Requires write down of inventory to **lower of cost or market**. If recorded, its **not reversed**.
 - **IFRS** – **Allows to reverse write down** of inventory, if there's clear evidence that an increase in net realizable value exist. Write-up is **recorded in income**, and **disclosed / explained** in the notes to **financial statements**.

Marketable Securities

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

Marketable Securities: (Debt & equity investments assets)

- **Initially accounted at cost**
- **Appointed into:**
 - **Trading** (Held for short term sale, carried at FMV, with realized an unrealized gains and losses presented on income statement.
 - **Available for sale (AFS)**, carried at FMV, with unrealized gains and losses presented in other comprehensive income.
 - **Held to maturity (HTM)**, carried at amortized cost, with unrealized gains and losses presented in other comprehensive income.

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

Marketable Securities: (Continued)

- For HTM the entity must have the “positive intent and ability” to hold them to maturity.
- Under IFRS, if an entity sells “more than an insignificant amount” of HTM assets before maturity it is prohibited from using HTM classification for two full annual reporting periods and are reclassified to AFS at FMV at the date of reclass. **Reevaluation gain / loss** is accounted for in **other comprehensive income**.

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

□ **Marketable Securities: (Continued)**

Differences:

- **IFRS allows reversal of impairment with its effect reflected in the income statements.**
- **US GAAP does not allow reversal of prior impairments charges.**

Property, Plant and Equipment, Investment Property and Impairment of Long-lived Assets

Property, Plant and Equipment (U.S. GAAP vs. IFRS)

- *Under U.S. GAAP, PP&E is reported at cost minus accumulated depreciation. U.S. GAAP also requires to periodically reviews the property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable.*
- *Under IFRS, PP&E is reported at cost net of depreciation and potential impairments. Alternatively, PP&E can be revalued to fair value. Companies may use "highest and best use" to determine fair value.*
- *IFRS provides that, once a company begins to revalue PP&E, it must continue to do so "...with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date."*
- *The offsetting side of the revaluation journal entry will be to "revaluation surplus" in the equity section. The increase/decrease from a revaluation is to be recognized in other comprehensive income and accumulated in equity under the heading "revaluation surplus."*

Property, Plant and Equipment (U.S. GAAP vs IFRS)

□ Example:

In 2008, ABC Company purchased a parcel of land that it used for a parking lot for its employees. The original purchase price was \$100,000. In 2010, the Company decided to revalue its land in accordance with IAS 16. The Company hired an appraiser who determined that the land had a fair value of \$150,000. ABC Company would record the following journal entry:

Land	\$50,000	
Revaluation Surplus		\$50,000

The credit is referred to by various names such as “revaluation equity,” “revaluation reserve,” “property revaluation equity,” or similar.

Property, Plant and Equipment (U.S. GAAP vs. IFRS)

- Accumulated depreciation for a revalued asset can be either
 - Restated proportionally so that the carrying amount of the revalued asset equals its revalued amount, or
 - Eliminated against the gross carrying amount.

See examples in the next slides

Property, Plant and Equipment (U.S. GAAP vs. IFRS)

□ Example 1

XYZ Company purchased a building for \$300,000 at the beginning of 2005. The building was being depreciated at \$10,000 per year (straight line over 30 years) so that, at the end of 2009, the Company had recorded \$50,000 of accumulated depreciation on the building. Thus, the carrying amount for the building is \$250,000. The Company decided to revalue its assets and received a fair value appraisal of \$375,000 on the building as of January 1, 2010. The entries below are as of that date. Using the proportional method we note that the appraised value of \$375,000 suggests a 50% increase in value over the historical cost carrying amount (\$125,000 increase in value divided by the \$250,000 historical cost carrying amount). This suggests that the gross asset amount and the accumulated depreciation should both be written up by that proportion, as follows:

Building	($\$300,000 \times .5$)	\$150,000
Accumulated Depreciation		($\$50,000 \times .5$) \$25,000
Revaluation Surplus		125,000

After the entry is posted, the gross asset will be \$450,000, accumulated depreciation will be \$75,000 and carrying amount will be \$375,000. The equity section will show revaluation surplus of \$125,000 representing the increase in carrying amount from \$250,000 before revaluation to \$375,000 after revaluation.

Property, Plant and Equipment (U.S. GAAP vs. IFRS)

□ Example 2

Using the second method noted above, the accumulated depreciation account will be reduced to zero and the gross asset will reflect the entire fair market value appraisal. Our entry would be:

Building	\$75,000	
Accumulated Depreciation	\$50,000	
Revaluation Surplus		\$125,000

After the entry is posted, the gross asset will be \$375,000, accumulated depreciation will be zero, and the carrying amount will be \$375,000. Again, the equity section will show the revaluation equity of \$125,000 determined in the same manner as above.

Ongoing depreciation charges must reflect the new asset value. Using the information from

The above example , recall the Company had an asset with an original life of 30 years that had been depreciated for five years. After revaluation, the \$375,000 fair value must be depreciated over the remaining 25-year life at the rate of \$15,000 per year.

Property, Plant and Equipment (U.S. GAAP vs. IFRS)

□ Downward Revaluations

- As noted above, once companies begin to revalue their assets, they must continue doing so. It is entirely possible for a company to experience a downward revaluation adjustment when assets are initially or subsequently revalued. *If a downward adjustment is warranted, the revaluation equity account is reduced to the extent it exists (through comprehensive income per revised IAS 1 starting January 1, 2009) and, if any excess remains, it will be recognized in expense.*

Property, Plant and Equipment (U.S. GAAP vs. IFRS)

- **Disclosure Requirements for Long-Term Assets**
 - Required disclosures for long-term assets are more extensive under IFRS than under U.S. GAAP.

Property, Plant and Equipment (U.S. GAAP vs. IFRS)

- **Disclosure Requirements for Long-Term Assets (continued)**
 - In addition to disclosure of depreciation method and lives, IFRS require companies to provide a reconciliation of beginning and ending balances of long-term assets including, among other things, additions, dispositions, increases or decreases from asset revaluation, and other material reconciling items. The reconciliation is required only for the current period even though multiple periods are shown on the balance sheet.
 - If PP&E is revalued, additional disclosures are required, including
 - The effective date of the revaluation;
 - Whether an independent appraiser was involved;
 - The methods and significant assumptions applied in estimating the items' fair values;

Property, Plant and Equipment (U.S. GAAP vs. IFRS)

- Disclosure Requirements for Long-Term Assets (continued)
 - If PP&E is revalued, additional disclosures are required, including
 - The extent to which the items' fair values were determined directly by *reference to observable prices in an active market or recent market transactions on arm's-length terms* or were estimated using other valuation techniques;
 - *For each revalued class of property, plant, and equipment, the carrying amount that would have been recognized had the assets been carried under the cost model; and*
 - The revaluation surplus, indicating the change for the period and any restrictions on the distributions of the balance to shareholders.

Property, Plant and Equipment (IFRS for SMEs)

- ❑ *The IFRS for SMEs section for property, plant and equipment applies to property, plant and equipment and investment property whose fair value cannot be measured reliably without undue cost or effort.*
- ❑ An entity shall measure an item of property, plant and equipment at initial recognition at its cost.
- ❑ An entity shall measure all items of property, plant and equipment after initial recognition at cost less any accumulated depreciation and any accumulated **impairment losses**.

Investment Property (U.S. GAAP vs. IFRS)

- ❑ U.S. GAAP does not separately define investment property
- ❑ IFRS defines *investment property as property held to earn rentals or for capital appreciation or both. Investment property is distinguished from PP&E in that PP&E is used in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business.* Rental property (but not rentals where significant services are provided, such as a hotel) and land held for investment are examples of investment property.
- ❑ Investment property may be accounted for using either a “fair value model” or a “cost model.”
- ❑ Under the fair value model, *investment property should be measured at fair value and changes to fair value are recognized on the income statement.* If the fair value model is used for some investment property, it must be used for all investment property (there are some specific exceptions noted in the standard).

Investment Property (U.S. GAAP vs. IFRS)

- The cost model is the same as the benchmark treatment under IFRS property is measured at cost less accumulated depreciation. *If the cost method is used, the company must disclose the fair value of the investment property in the notes.*
- Note that under IFRS, *the preferred treatment is to record investment property at fair value*, not cost. Thus, it would be highly unlikely that a company that chose fair value model as its accounting policy could justify a subsequent change to the cost model.
- IFRS requires extensive disclosures regarding investment property

Impairment of Long-Lived Assets (U.S. GAAP vs. IFRS)

- Under IFRS, impairment of long-lived assets is suggested if one of various indicators occurs (example: adverse changes in the technology, market, economic, or legal environments of the enterprise have occurred). Then the asset carrying amount is compared with its recoverable amount, determined using the present value of net cash flows or net selling price.
- Under U.S. GAAP, a company will determine if one of the indicators indicates that an asset might be impaired. If there is such an indication, the company performs a recovery test whereby the asset's net carrying amount is compared to the undiscounted future net cash flows from the asset. If the undiscounted cash flows are greater than the carrying amount, no impairment is recorded. However, if the undiscounted cash flows are less than the carrying value, a loss must be recognized. The loss to be reported is the difference between the carrying amount and the asset's fair value.

Impairment of Long-Lived Assets (U.S. GAAP vs. IFRS)

- Subsequent Reversals of Impairment Losses
 - Under IFRS, an enterprise is required to reverse a previously recorded impairment loss in certain circumstances. If an impairment loss is reported in a prior period, and if there has been a change in the estimates used to determine the impairment loss, then the carrying amount of the asset should be increased to its new recoverable amount.
 - *U.S. GAAP does not permit the reversal of impairment decreases previously recorded.*

Intangible Assets

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

Intangible Assets:

- Self created:
 - Purchased self created intangibles might be eligible for capitalization.
 - Research and development:
 - US GAAP records research and development as expense.
 - IFRS records research as expense, but can capitalize certain development cost if meets certain criteria.

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

Intangible assets:

- ❑ **US GAAP** - May be reported at cost, less accumulated amortization and accumulated impairment losses. **(Amortized cost net of allowance for impairment)**
- ❑ **IFRS** - Allows to **report intangible asset at revalued amount (FMV)** less subsequent amortization and accumulated impairment losses. (Limits the use of FMV for intangible asset that can be determined using active market). **Not permitted by US GAAP.**

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- **Intangible assets:** (continued)
 - **Indefinite life – Not amortized. Reviewed** each reporting period for **impairment**, and if **circumstances continue to support indefinite useful life**. (Any change need to be accounted as **change in accounting estimate**. No diff between US GAAP & IFRS
 - **Finite life – Amortized**, reviewed annually for **impairment and amortization period** ongoing pertinence.

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- **Intangible assets: (continued)**
 - **Goodwill – Created in a business combination, not amortized, examined for impairment. Under IFRS Reversal of prior impairments, not permitted for Goodwill. Under US GAAP, is prohibited.**

Contingencies

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

Contingencies:

- Probable and reasonably estimated
 - IFRS – Records **mid point** of a range of estimate
 - US GAAP - Records **low end of a range** of estimate

Deferred Tax Assets

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

□ Deferred tax asset:

- IFRS – Recorded only to the extent that will probably be realized.
- US GAAP – Recorded full, valuation allowance required for more likely than not that will not be realized.

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- **Deferred tax asset: (continued)**
 - **IFRS – Use tax rates that have been enacted or substantively enacted.**
 - **US GAAP – Use tax rates that have been enacted at the balance sheet date.**

Differences between IFRS and US GAAP, and how might impact hospitals financial statements

- **Deferred tax asset: (continued)**
 - **IFRS** – Always classifies as **non-current**.
 - **US GAAP** – Classified as **current / non-current** based on classification of the **asset or liability** from which the item **arises**.

Consolidation of Financial Statements

Consolidation of Financial Statements (U.S. GAAP vs IFRS)

- IFRS permits companies to prepare standalone parent-company-only financial statements. Those statements need not be issued in conjunction with or be appended to the consolidated financial statements. *Such an approach is not permitted under U.S. GAAP.*



Questions
are
guaranteed in
life;
Answers
aren't.

