The need to be "financially bilingual" US GAAP vs IFRS

VII. CASH AND EQUIVALENTS

This presentation contains information, in addition to the material prepared and provided by the professor, from:

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VII. CASH AND CASH EQUIVALENTS

IFRS

1. Allows overdrafts to be offset against other cash accounts.

2. Liabilities can be offset against other cash accounts and stated at their net value on the balance sheet.

US GAAP

1. Overdrafts should be treated as liability.

2. Requires assets and liabilities to be stated separately on balance sheet.

SPECIFIC DIFFERENCES: SELECTED EXAMPLES

Conceptual Framework

Segment Reporting

Interim Reporting

Cash and Equivalents

Account Receivable ✔

Inventory

Revaluation at Market Value (PPE)

Depreciation

Interest Capitalization

Impairment

Exchanges

Research and Development

Contingency

VIII. ACCOUNT RECEIVABLE

VIII. ACCOUNT RECEIVABLE

Starting in 2020, companies will be required to use:

CECL (“Current Expected Credit Loss”) model recognition of Bad Debts Expense

1. To give a more accurate estimate of bad debt expense
2. Uses the allowance method

NEW

1. The “probable” threshold for identifying bad debts is removed.
2. The CECL model explicitly requires creditors to also consider additional information such as reasonable and supportable forecasts about the future.

Account Receivable

US GAAP: FASB ASC 860

1. Allows a "fair value option" for accounting for receivables.
2. Allows Account Receivable "available for sale" accounting only for investments in securities.
3. Requires more disaggregation of accounts and notes receivable in the balance sheet or notes.
4. CECL model, companies consider all relevant information when assessing credit losses, including reasonable and supportable forecasts about the future.

IFRS No. 9

1. Restricts the circumstances in which that option is allowed.
2. Does not allow that approach for receivables.
3. Does not require separate disclosure.
4. ECL model reports a "12-month ECL" unless credit quality has deteriorated significantly

Transfer of Account Receivable

1. Accounting treatment is similar to accounting for the sale of other assets

2. A loss is commonly recognized

3. **When the transfer occurs?**

When the company (the transferor) has ***surrendered control*** *over the assets transferred.*

Sale of Account Receivable

US GAAP: FASB ASC 860

1. Focuses on whether control of assets has shifted from the transferor to the transferee.

IFRS No. 9

1. If the company transfers substantially all of the risks and rewards of ownership, the transfer is treated as a sale
2. If the company retains substantially all of the risks and rewards of ownership, the transfer is treated as a secured borrowing
3. Otherwise, the company accounts for the transaction as a sale if it has transferred control, and as a secured borrowing if it has retained control