The need to be “financially bilingual” US GAAP vs IFRS

XI. PROPERTY PLANT AND EQUIPMENT

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

1. Elizabeth A. Gordon, Temple University, Jana S. Raedy, University of North Carolina, Alexander J. Sannella, Rutgers Business School, ©2016, Pearson | ISBN13: 9780132162302
2. Donald E. Kieso, Jerry J. Weygandt, Terry D. Warfield, Intermediate Accounting, 16th Edition
3. March 2016, ©2016
4. Doupnik T. and Perera H. INTERNATIONAL ACCOUNTING- CONT4029 (Custom Edition by Prof. Aida Lozada and Prof. Carmen Ríos. McGraw-Hill, 2014. ISBN 9781308235059.
5. Thimothy, D., Finn M., Gotti, G. and Perera, H. 5ed. INTERNATIONAL ACCOUNTING. Mc Graw Hill 2020, New York.
6. J. David Spiceland, James Sepe, Mark Nelson, Intermeiate Accounting, 6th edition, McGraw-Hill, 2014. ISBN-13: 978-0077614065 ISBN-10: 0077614062
7. Other: Official Websites

The need to be “financially bilingual” US GAAP vs IFRS

ASSETS CATEGORIES

The need to be “financially bilingual” US GAAP vs IFRS

BILOGICAL ASSETS

Living animals and plants, including the trees in a timber tract or in a fruit orchard.

U.S. GAAP: FASB ASC 205, 350, 820	**IFRS: IAS 41**
➢ Ignores growth of Biological Asset	➢ Biological Asset
➢ Valued at cost less Accumulated Depletion.	➢ Valued at fair value less estimated costs to sell. (NRV)
➢ No income until final product sold	➢ Changes in fair value (even before harvesting) : Net Income

The need to be “financially bilingual” US GAAP vs IFRS

BILOGICAL ASSETS: BEARER PLANTS

IFRS: IAS 16

DEFINITION

1. A bearer plant is a living plant that is used in the production.
2. Supply of agricultural produce.
3. Is expected to bear produce for more than one period.
4. Has a remote likelihood of being sold.

CLASSIFICATION AND MEASURMENT

1. A bearer plant should be accounted for as **(PPE)**
2. Therefore, companies will now be required to measure bearer plants initially at cost and will thereafter have an option to apply either the **cost or the revaluation model.**

EXAMPLE

- Sugarcane roots that produce standing sugar cane.
- Tea bushes that produce the tea leaves.
- Coffee plants that produce cherry.
- Cotton plants that produce seed cotton.
- Oil palms that produce oil palm fruit.

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

BILOGICAL ASSETS: NON BEARER PLANTS

IFRS: IAS 41

1. Crops such as paddy/rice, wheat are not bearer plants
   because these do not bear produce for more than one period.

2. Record at Fair Value.

The need to be “financially bilingual” US GAAP vs IFRS

ADQUISITION

DONATED ASSETS

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

Government Grants

U.S. GAAP: FASB ASC 912

Recorded as revenue in the period received.

IFRS: IAS 20

Deduct the amount of the grant in determining the initial cost of the asset.

OR

Record the grant as a liability, deferred income, in the balance sheet and recognize it in the income statement systematically over the asset's useful life.

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

ASSETS REVALUATION

PROPERTY PLANT AND EQUIPMENT

The need to be “financially bilingual” US GAAP vs IFRS

X. REVALUATION OF ASSETS: PPE

SUMMARY

- Use Fair Value
- Create a Revaluation Surplus Account (other comprehensive income)
- Recover Previous Loss
- Adjust Historical Cost

REVALUATION ASSETS
PROPERTY PLANT AND EQUIPMENT

US GAAP FASB ASC 410,420,845

Measurement After Recognition

- **NOT ALLOWED**

IFRS IAS 16

Measurement After Recognition

- An entity shall choose either the cost model or the revaluation model.
- If a company chooses revaluation, all assets within a class of PPE must be revalued on a regular basis.
- An asset whose fair value can be measured reliably shall be carried at a revalued amount.
- It must be revalued regularly so that the carrying amount approaches the fair value at the end of the period.

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

LAND OR BUILDINGS: FOR RENTAL or CAPITAL APPRECIATION

US GAAP FASB ASC 410,420,845

1. Requires cost model.

2. Footnotes: Disclose Fair Value

IFRS IAS 16, 40

1. Fair Value changes is recognized: Current Income and not revaluation surplus.

2. Foonotes: Fair Value and Cost Model

REVALUATION OF ASSETS: PPE

=

OTHER COMPREHENSIVE INCOME

LET’S REVIEW!!!

NET INCOME

+

OTHER COMPREHENSIVE INCOME

=

COMPREHENSIVE INCOME

The need to be “financially bilingual” US GAAP vs IFRS

LET’S REVIEW

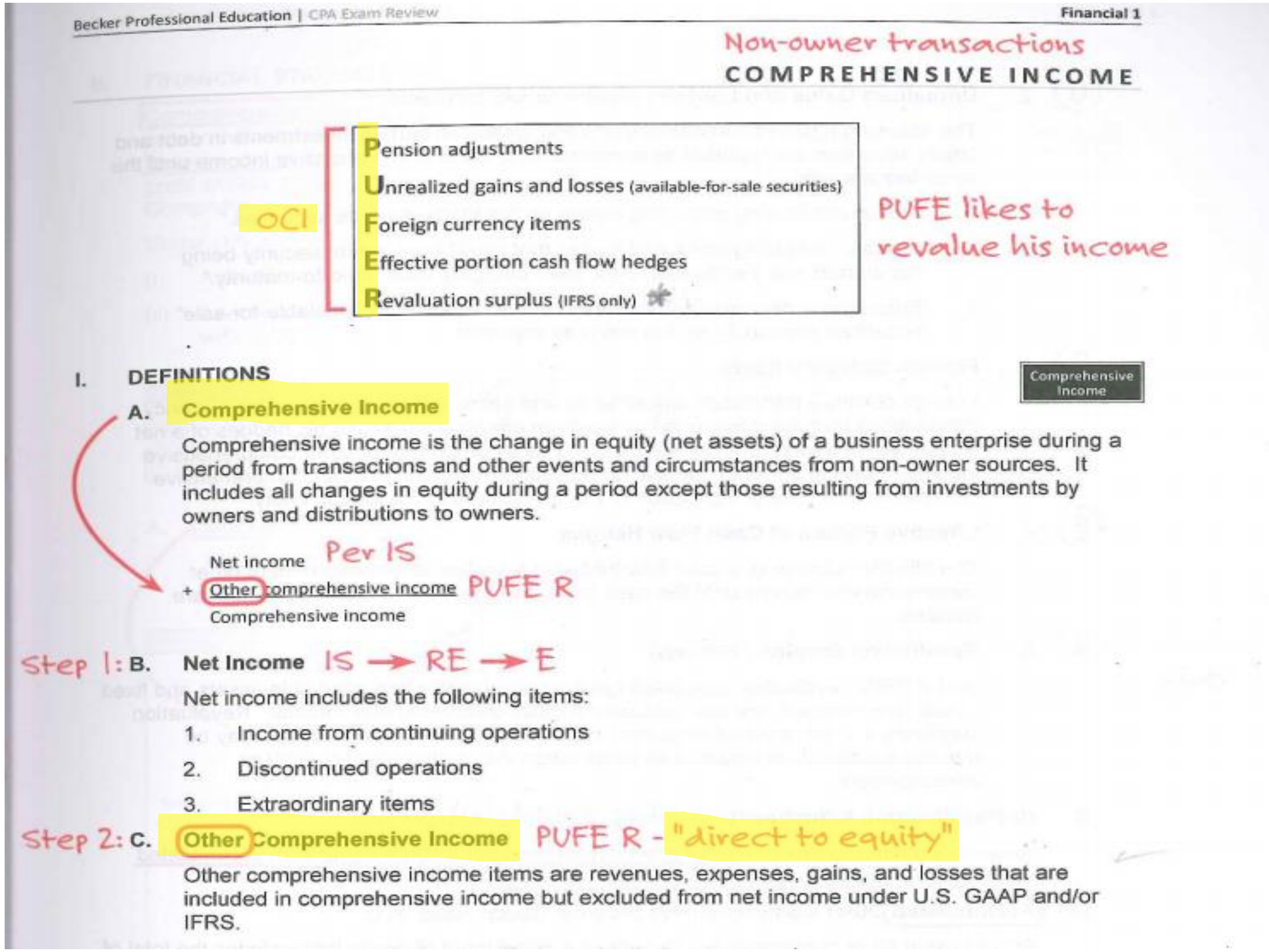
OTHER COMPREHENSIVE INCOME

EQUITY

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

OTHER COMPREHENSIVE INCOME (OCI)

BECKER CPA REVIEW



Becker Professional Education | CPA Exam Review

Financial 1

Non-owner transactions

COMPREHENSIVE INCOME

OCI

- **P**ension adjustments
- **U**nrealized gains and losses (available-for-sale securities)
- **F**oreign currency items
- **E**ffective portion cash flow hedges
- **R**evaluation surplus (IFRS only) *

PUFE likes to revalue his income

I. DEFINITIONS

Comprehensive Income

A. Comprehensive Income

Comprehensive income is the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Net income Per IS
+ Other comprehensive income PUFE R
Comprehensive income

Step 1: B. Net Income IS → RE → E

Net income includes the following items:

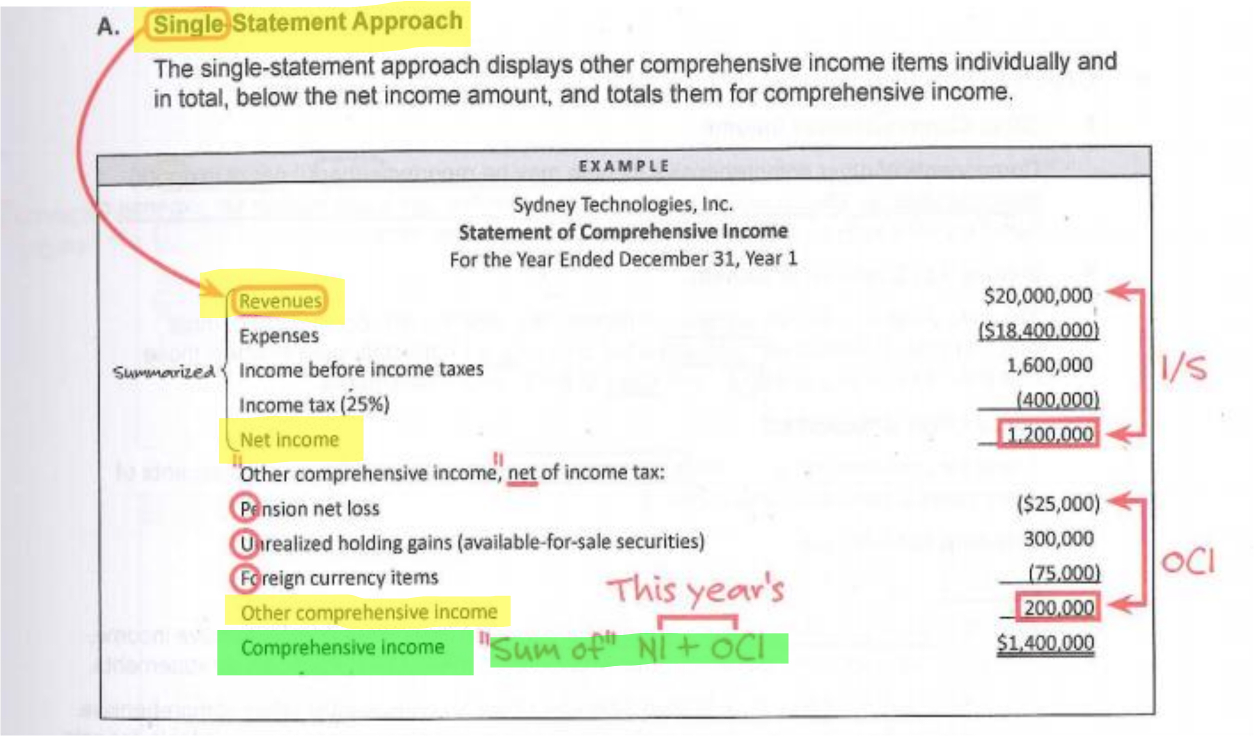
1. Income from continuing operations
2. Discontinued operations
3. Extraordinary items

Step 2: C. Other Comprehensive Income PUFE R - "direct to equity"

Other comprehensive income items are revenues, expenses, gains, and losses that are included in comprehensive income but excluded from net income under U.S. GAAP and/or IFRS.

The need to be “financially bilingual” US GAAP vs IFRS

COMPREHENSIVE INCOME



A. Single Statement Approach

The single-statement approach displays other comprehensive income items individually and in total, below the net income amount, and totals them for comprehensive income.

EXAMPLE

Sydney Technologies, Inc.
Statement of Comprehensive Income
For the Year Ended December 31, Year 1

Revenues	$20,000,000
Expenses	($18,400,000)
Income before income taxes	1,600,000
Income tax (25%)	(400,000)
Net income	1,200,000
"Other comprehensive income," net of income tax:	
Pension net loss	($25,000)
Unrealized holding gains (available-for-sale securities)	300,000
Foreign currency items	(75,000)
Other comprehensive income	200,000
Comprehensive income	$1,400,000

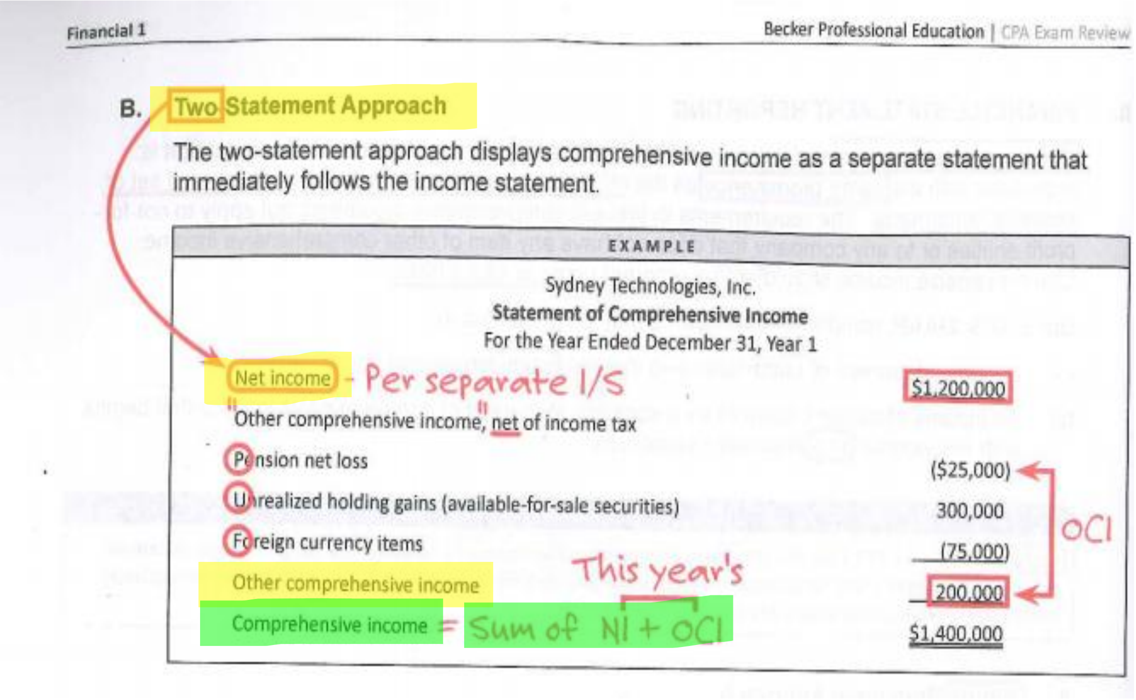
Summarized

I/S

OCI

This year's

"Sum of" NI + OCI



Financial 1

Becker Professional Education | CPA Exam Review

B. Two Statement Approach

The two-statement approach displays comprehensive income as a separate statement that immediately follows the income statement.

EXAMPLE

Sydney Technologies, Inc.
Statement of Comprehensive Income
For the Year Ended December 31, Year 1

Net income	$1,200,000
"Other comprehensive income," net of income tax	
Pension net loss	($25,000)
Unrealized holding gains (available-for-sale securities)	300,000
Foreign currency items	(75,000)
Other comprehensive income	200,000
Comprehensive income	$1,400,000

- Per separate I/S

OCI

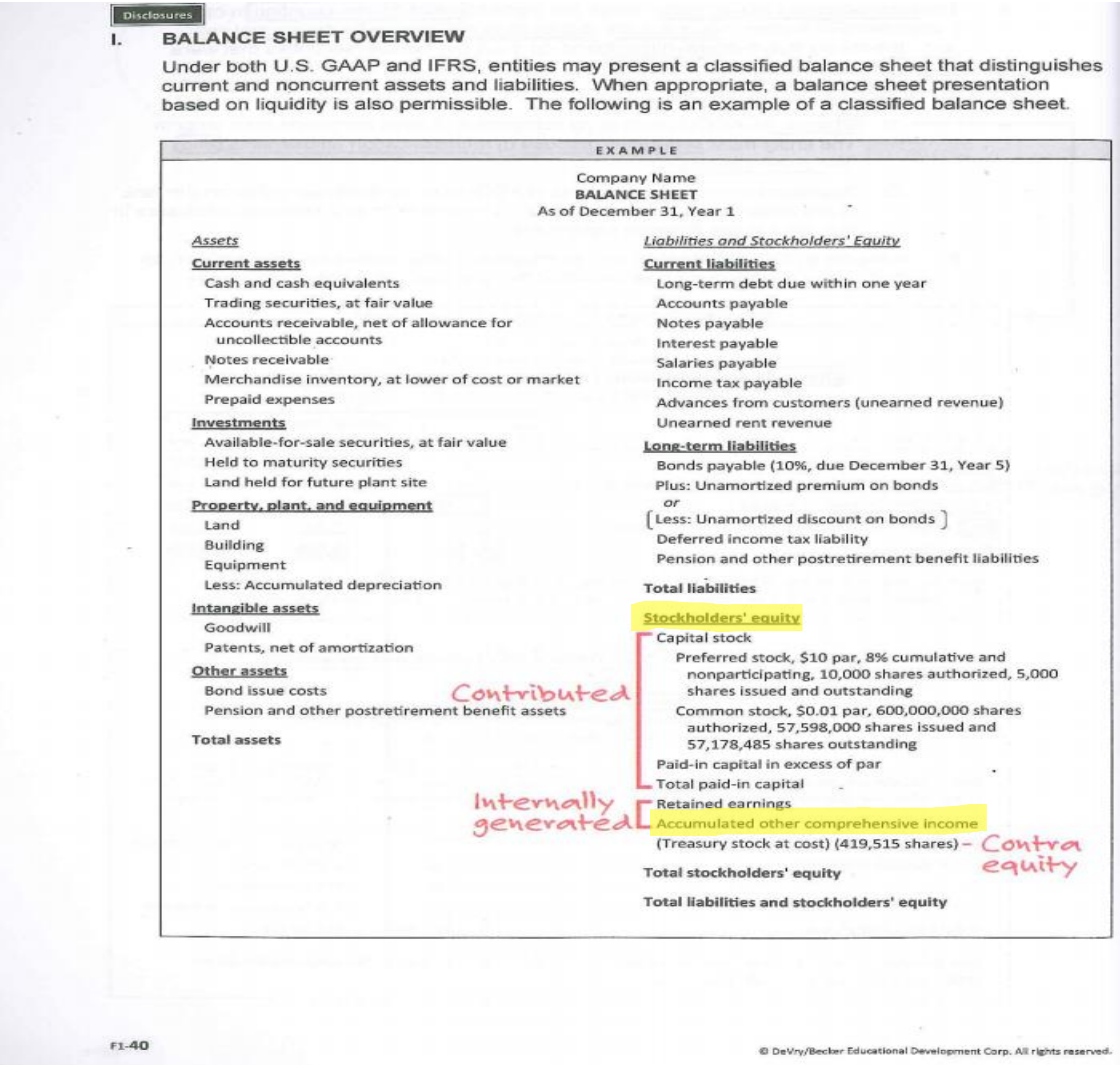
This year's

= Sum of NI + OCI

BECKER CPA REVIEW

The need to be “financially bilingual” US GAAP vs IFRS

OTHER COMPREHENSIVE INCOME



Disclosures

I. BALANCE SHEET OVERVIEW

Under both U.S. GAAP and IFRS, entities may present a classified balance sheet that distinguishes current and noncurrent assets and liabilities. When appropriate, a balance sheet presentation based on liquidity is also permissible. The following is an example of a classified balance sheet.

EXAMPLE

Company Name
BALANCE SHEET
As of December 31, Year 1

Assets

Current assets
- Cash and cash equivalents
- Trading securities, at fair value
- Accounts receivable, net of allowance for uncollectible accounts
- Notes receivable
- Merchandise inventory, at lower of cost or market
- Prepaid expenses

Investments
- Available-for-sale securities, at fair value
- Held to maturity securities
- Land held for future plant site

Property, plant, and equipment
- Land
- Building
- Equipment
- Less: Accumulated depreciation

Intangible assets
- Goodwill
- Patents, net of amortization

Other assets
- Bond issue costs
- Pension and other postretirement benefit assets

Total assets

Liabilities and Stockholders' Equity

Current liabilities
- Long-term debt due within one year
- Accounts payable
- Notes payable
- Interest payable
- Salaries payable
- Income tax payable
- Advances from customers (unearned revenue)
- Unearned rent revenue

Long-term liabilities
- Bonds payable (10%, due December 31, Year 5)
- Plus: Unamortized premium on bonds
- *or*
- [Less: Unamortized discount on bonds]
- Deferred income tax liability
- Pension and other postretirement benefit liabilities

Total liabilities

Stockholders' equity

Contributed
- Capital stock
  - Preferred stock, $10 par, 8% cumulative and nonparticipating, 10,000 shares authorized, 5,000 shares issued and outstanding
  - Common stock, $0.01 par, 600,000,000 shares authorized, 57,598,000 shares issued and 57,178,485 shares outstanding
- Paid-in capital in excess of par
- Total paid-in capital

Internally generated
- Retained earnings
- Accumulated other comprehensive income

- (Treasury stock at cost) (419,515 shares) – Contra equity

Total stockholders' equity

Total liabilities and stockholders' equity

BECKER CPA REVIEW

The need to be “financially bilingual” US GAAP vs IFRS

REVALUATION OF ASSETS: PPE

POSIBLES SCENARIOS!!!

The need to be “financially bilingual” US GAAP vs IFRS

Scenario 1: (↑, ↑)

Revaluation increased

Journal Entry:

Dr. Asset (✓ net)

Cr. Revaluation Surplus (OCI)

✓ Accumulated Depreciation can be adjusted

*Note: assume no previous balance

The need to be “financially bilingual” US GAAP vs IFRS

Scenario 2: (↑, ↓)

Revaluation **(previous balance)** **decreased**

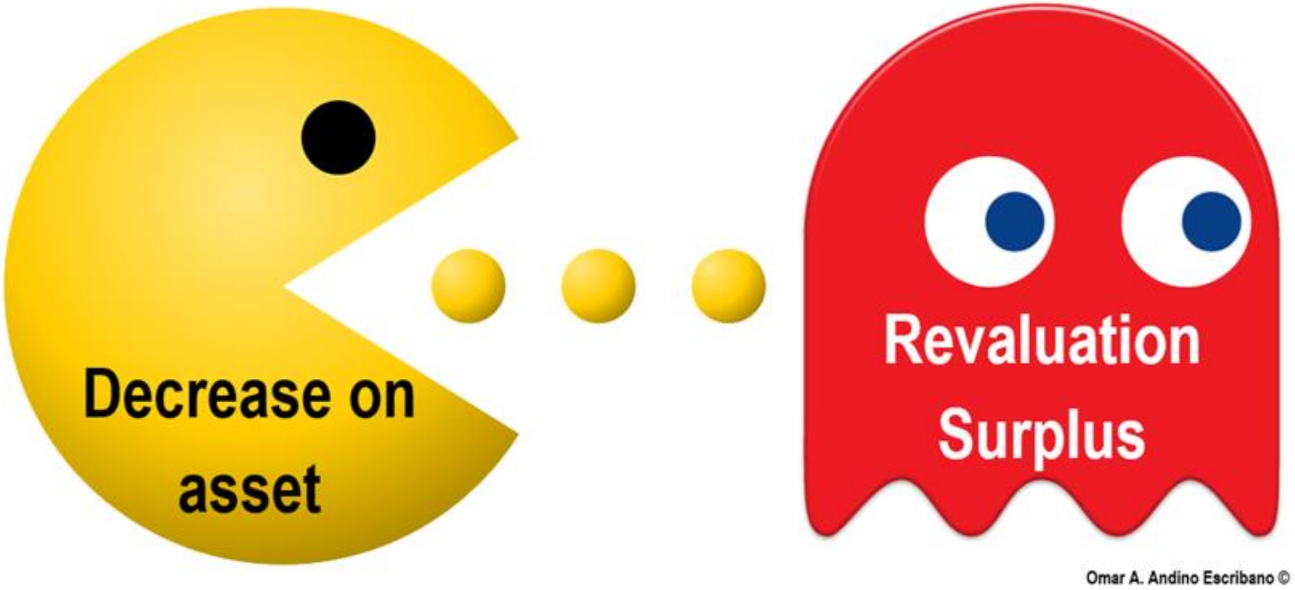
1.Reduce previous surplus to zero, then:
2. Recognized Unrealized Loss/ Other Expense (apply materiality)

<u>Journal Entry:</u>

Dr. Revaluation Surplus
Dr. Unrealized Loss/ Other Expense
Cr. Assets ✓ (net)

✓ Accumulated Depreciation can be adjusted

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

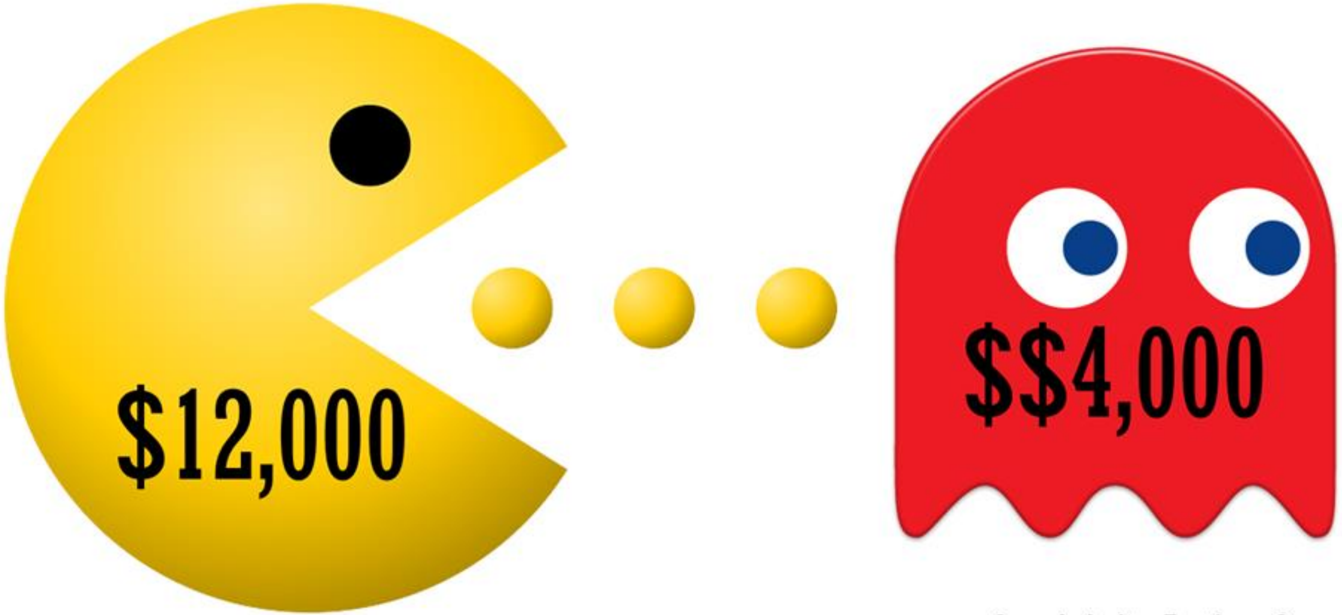


Scenario 2: (↑,↓)

Revaluation (previous balance) decreased

1. Reduce previous surplus to zero, then:
2. Recognized Unrealized Loss/ Other Expense (apply materiality)

The need to be “financially bilingual” US GAAP vs IFRS



Omar A. Andino Escribano ©

Scenario 2: (↑, ↓)

Revaluation (previous balance) decreased

1.Reduce previous surplus to zero, then:
2. Recognized Unrealized Loss/ Other Expense (apply materiality)

The need to be “financially bilingual” US GAAP vs IFRS

Scenario :3 (↓, ↑)

Revaluation **(recover previous balance)** **increased**

1. Increase current income up amount previously recognized as Unrealized Loss/Other Expense.
2. Any excess credited to Revaluation Surplus.

Journal Entry

Dr. Asset ✓(net)

Cr. Recovery of loss on Revaluation (current income)

Cr. Revaluation Surplus

✓ Accumulated Depreciation can be adjusted

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

	LAND	***BUILDING**	***MACHINERY**
COST	$200,000	$300,000	$600,000
MARKET VALUE 12/31/Year 1	$220,000	$310,000	$550,000
MARKET VALUE 12/31/Year 2	$250,000	$285,000	$560,000

Determine the amount in the Revaluation Surplus Account for each asset for Year 2.

***Net**

The need to be “financially bilingual” US GAAP vs IFRS

Determine the amount in the Revaluation Surplus Account for each asset for Year 2.

LAND

COST	$200,000
MARKET VALUE 12/31/Year 1	$220,000
MARKET VALUE 12/31/Year 2	$250,000

LAND (Sceneraio 1)

COST	$200,000	
Year 1	$20,000	
	$220,000	
	$30,000	
Year 2	250,000	

REVALUATION SURPLUS

	Year 1	$20,000
	Year 2	$30,000
		$50,000

Determine the amount in the Revaluation Surplus Account for each asset for Year 2.

*BUILDING

COST	$300,000
MARKET VALUE 12/31/Year 1	$310,000
MARKET VALUE 12/31/Year 2	$285,000

BUILDING (Sceneraio 2)

COST	$300,000	
Year 1	$10,000	
	$310,000	$25,000
Year 2	$285,000	

REVALUATION SURPLUS

	Year 1	$10,000
Y2 $10,000		
		$0

The need to be “financially bilingual” US GAAP vs IFRS

Determine the amount in the Revaluation Surplus Account for each asset for Year 2.

*EQUIPMENT

COST	$600,000
MARKET VALUE 12/31/Year 1	$550,000
MARKET VALUE 12/31/Year 2	$560,000

EQUIPMENT (Sceneraio 3)

COST	$600,000	
Year 1		$50,000
	$550,000	
	$10,000	
Year 2	$560,000	

REVALUATION SURPLUS

	Year 1	$0
	Year 2	$0

REVALUATION METHODS

1. **Restated Accumulated Depreciation Proportionately**

2. **Eliminate Accumulated Depreciation Balance**

The need to be “financially bilingual” US GAAP vs IFRS

Restated Accumulated Depreciation proportionately

BEFORE REVALUATION

Assets Cost:	$10,000,000	100%
A/D	($6,000,000)	60%
Carrying Amount	$4,000,000	40%

Market Value: $5,000,000

$1,000,000

AFTER REVALUATION

$12,500,000		100%
($7,500,000)		60%
$5,000,000	(revalued)	40%

1. Restate the Building and A/D using a ratio
2. Net carrying amount / gross carrying amount (maintain the same % after revaluation)
3. 5,000,000 / .4 = 40% = 12,500,000)

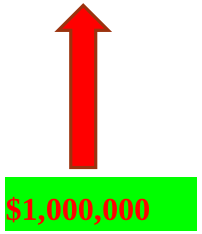
Dr. Asset	**2,500,000**	
Cr. Accumulated Depreciation		**1,500,000**
Cr. Revaluation Surplus		**1,000,000**

The need to be “financially bilingual” US GAAP vs IFRS

Eliminate Accumulated Depreciation Balance

	BEFORE REVALUATION	**AFTER REVALUATION**
Assets Cost:	$10,000,000	$5,000,000 ($10m - $6 + $1m)
A/D	($6,000,000)	($0)
Carrying Amount	$4,000,000	$5,000,000 (revalued)

Market Value: $5,000,000



$1,000,000

Dr. Accumulated Depreciation	6,000,000	
Cr. Asset		6,000,000
Dr. Asset	1,000,000	
Cr. Revaluation surplus		1,000,000

The need to be “financially bilingual” US GAAP vs IFRS

ASSETS REVALUATION

INTANGIBLES

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

Valuation of Indefinite Intangible Assets

U.S. GAAP: FASB ASC 410,420,845

Prohibits revaluation of any intangible asset.

IFRS: IAS 20

*Allows a company to value an intangible

(1) cost less accumulated amortization
or
(2) fair value

* If fair value can be determined by reference to an active market.

Goodwill cannot be revalued

The need to be “financially bilingual” US GAAP vs IFRS

Valuation of Intangible Assets: NEGATIVE GOODWILL

U.S. GAAP: FASB ASC 410,420,845

Negative goodwill must be recognized as gain.

IFRS: IAS 20

Negative goodwill must be recognized as income.

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

ASSESSMENT ACTIVITY

6. ASSET REVALUATION (PPE)