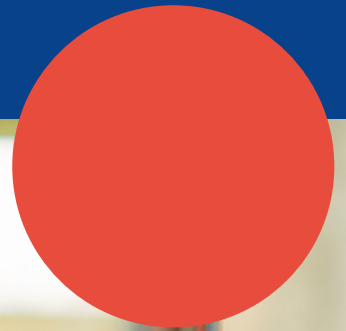


# Ultimate Guide for IFRS vs US - GAAP reporting differences - CFA Level I 2024



## **Loans and Notes Receivables**

IFRS - Amortised cost

US GAAP – Historical cost

## **Unlisted securities for which Fair Value cannot be reliably determined**

IFRS - Amortised cost

US GAAP – Held to Maturity

## **Debt with intent to hold**

IFRS - Amortised cost

US GAAP – Held to Maturity

## **Debt with intent to sell in the near term**

IFRS – Fair value through Profit and loss

US GAAP – Trading

## **Debt securities with no intent to sell in the near term**

IFRS - Fair value through Other Comprehensive Income

US GAAP – Available for sale

**Securities not assigned to either in amortized or fair value through P/L, investments for which the company irrevocably elects this measurement at acquisition**

IFRS - Goes in fair value through Other Comprehensive Income  
US GAAP – No such application

**Cash flow items -  
Dividend paid**

IFRS - Cashflow from Operating Activities (CFO) / Cashflow from Financing activities (CFF)  
US GAAP – Cashflow from Financing activities (CFF)

**Dividend received**

IFRS – Cashflow from Operating Activities (CFO) / Cashflow from Investing Activities (CFI)  
US GAAP – Cashflow from Operating Activities (CFO)

**Interest paid**

IFRS – CFO / CFF  
US GAAP – CFO

**Interest received**

IFRS – CFO / CFI  
US GAAP – CFO

## **Income Taxes**

IFRS - CFO / CFI / CFF

US GAAP – CFO

## **Direct / Indirect Method – CFO**

**IFRS - Both are allowed**

US GAAP – Both are allowed but if indirect is used reconciliation of Net Income (NI) & CFO is to be disclosed

## **Payment for interest and taxes**

IFRS - To be disclosed separately in the Cashflow Statement

US GAAP – They can be reported in the flow statement of disclosed in notes

**FCFF = CFO+ Interest (1-t) – FCINV**

IFRS - Interest might not be added in CFO as it would have been added in CFF

US GAAP – You can only post in CFO so no such thing

## **FCFF**

IFRS – If Dividends paid are subtracted from the CFO, then it needs to be added

US GAAP – No such Bifurcation

## **Research and Development cost**

IFRS - Research expensed while development is capitalized

US GAAP – Both expenses except Software Development

## **Software development (for sale to others)**

IFRS - Expensed until technical feasibility is established and then expensed off

US GAAP – Same treatment

## **Software development (for personal use)**

IFRS - Expensed until technical feasibility is established and then expensed off

US GAAP – Capitalize Development cost

## **Component depreciation**

IFRS - Allowed

US GAAP – Very less used (Almost No)

## **Long-lived asset revaluation**

IFRS – Both revaluation and cost model allowed

US GAAP – Not allowed depreciation reported in the Balance sheet

## **Impairment Treatment**

### **Test for impairment**

IFRS - Annually

US GAAP – When events and circumstances indicate that the firm may not be able to recover the CV of assets.

### **Loss on impairment**

IFRS - CV – RA (Carrying Value – Recoverable Amount)

US GAAP – Carrying Value – fair value if it's known OR  
Carrying Value – Discounted future cashflows

### **Loss recovery**

IFRS – Allowed – limited to original impairment loss

US GAAP - No Reversal Allowed

## **Investment property and long-lived asset**

IFRS – Distinguishes between the two

US GAAP – It does not distinguish between the two

## **Recognition of bond on Balance Sheet**

IFRS – Effective interest rate method allowed

US GAAP – Effective interest rate method preferred but  
Straight-line Method also allowed

## **The bond's issuance cost**

IFRS – Initial bond liability on Balance sheet is reduced by the amount of insurance cost (Netted under CFF)

US GAAP – It is capitalized and amortized as an expense in the Income statement over the term of the bond (Netted under CFF)

## **Derecognition of Debt**

IFRS – Insurance costs are already included in the book value of bond liability. So, no write-off is necessary.

US GAAP – Unamortised bond issuance cost must be written off and included in the Gain/Loss calculation.

## **Pension cost –**

### **Current service cost**

IFRS – Income Statement

US GAAP – Income Statement

## **Past service cost**

IFRS – Other Comprehensive Income

US GAAP – Other Comprehensive Income but amortized over remaining service life

## **Interest income/expense**

IFRS – Income Statement

US GAAP – Income Statement

## **Actual Gain / Loss**

IFRS – Other Comprehensive Income

US GAAP – Other Comprehensive Income

## **Inventory measurement**

### **IFRS – Cost VS Net Realisable Value (Whichever is lower)**

E.g – cost price = 200rs, selling price = 190rs

Replacement cost = 108rs

Net profit margin = 20rs



**Selling cost = 20rs****Answer:**

Cost = 200.

NRV = selling price – selling cost

=190-20

=170

Since  $NRV < Cost$  Inventory will be valued at 170

(inventory write-up allowed till previous write-down)

**US GAAP – Cost VS Lower of Market OR Replacement Cost.**

Cost = 200

Replacement cost = 180

NRV =170

NRV – NP Margin (170-20) = 150

Since Replacement cost (180) is beyond NRV i.e. 170,

inventory must be valued at 170

(write-up is not allowed).

**Agricultural forest, mineral ores & precious metals**

IFRS – At net realizable value.

US GAAP – At net realizable value.

## **Investment property**

IFRS – Include assets that generate rental income and capital appreciation. Can be reported at amortized cost or fair value.

US GAAP – No such thing as an investment property.

## **Difference between expected V/s actual returns**

IFRS – Other Comprehensive Income / Income Statement (Amortised in corridor method).

US GAAP – Other Comprehensive Income

## **Lessee: Accounting**

### **Balance sheet treatment**

IFRS - Recognise “Right of use” (ROU) assets and liability.

US GAAP – Same treatment for all finance leases.

### **Income statement**

IFRS – Reduce depreciation expenses on ROU (Right of Use) assets. Report expenses on lease liability

US GAAP - Report single lease expense (a straight-line allocation on lease cost)

## **Cashflow statement**

IFRS - Reduction of lease liability is a financing cash flow statement. The interest portion of the lease payment is either CFO or CFF outflow.

US GAAP - The interest portion of the lease payment is an outflow under CFO only.

## **Operating lease – (All IFRS & US GAAP finance lease)**

IFRS – Operating and finance leases have the same treatment in IFRS.

US GAAP - Entire cash payment is an Operating cash flow.

## **Balance sheet -**

US GAAP - Recognise “Right of use” (ROU) assets and liability.

## **Income statement**

IFRS - Same treatment as Finance Lease

US GAAP – Report single lease expense (A straight line allocation on lease cost)

## **Statement of cash flows**

IFRS - Same Treatment as Finance Lease.

US GAAP – Entire cash payment is an operating cash outflow.

Exception – short-term lease where the leased asset is low-value

## **Balance Sheet:**

IFRS - No effect

US GAAP – No effect

## **Income statement:**

IFRS – Report rent expenses.

US GAAP – Same treatment.

## **Cashflow statement:**

IFRS – Rent payment is operating cash outflow.

US GAAP – Same treatment.

## **Lessor accounting:**

### **Operating leases**

#### **Balance sheet statement**

IFRS – Retain assets on Balance sheet.

US GAAP – Same treatment.

#### **Income statement**

IFRS – Report lease income. Report depreciation expense on lease assets.

US GAAP – Same treatment.

#### **Cashflow statement**

IFRS - Lease payments received are an operating cash inflow.

US GAAP – Same treatment.

IFRS Finance lease and US GAAP Sales type lease

## **Balance sheet**

IFRS – Remove leased assets from the balance sheet.

Recognize lease assets. (Lease receivable and residual)

US GAAP – Same treatment.

## **Income statement**

IFRS – Report interest revenue on lease receivable. If applicable, report revenue, cost of goods sold, and selling profit.

US GAAP – Same treatment.

## **Statement of cash flows**

IFRS – The interest portion of the lease payment received is either operating or investing cash inflow.

US GAAP – The investing portion of the lease payment received is an operating cash inflow. (Receipt of lease principal is an investing cash flow.)

## **US GAAP- Direct finance lease**

## **Balance sheet**

Remove lease assets from the Balance Sheet and recognize lease receivable.

## **Income statement**

Report interest revenue on lease receivable.

## **Statement of cash flows**

- The interest portion of the lease payment is received as an operating cash inflow.
- Receipt of lease principal is an investing cash inflow.
- If provided leases is the part of the company's normal business activity. The Cashflows related to the leases are classified as an Operating cash flow.

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