

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS): AN OVERVIEW—Solutions

## Discussion Questions

1. Convergence is a process through which the IASB works with the U.S. Financial Accounting Standards Board (FASB) and other national bodies to achieve identical or nearly identical standards worldwide. Adoption would mean that the Securities and Exchange Commission (SEC) mandates the use of IFRS by public companies in the United States. For adoption to take place, the SEC must act.
2. Currently, IFRS are now acceptable under the AICPA Code of Professional Conduct for use by *non-public* companies in the United States. In addition, the SEC allows foreign companies that list on U.S. stock exchanges to report using their IFRS-based statements.
3. The main reasons put forth against the adoption of IFRS are that the IASB is concerned principally with public companies and depends on large accounting firms, IFRS are subjective (rely too much on judgment) and will not promote comparability, and the IASB is subject to pressure from the European Commission.
4. The main reason to support use of IFRS is that they would promote comparability around the world. IFRS are also cost-effective, especially for global U.S. companies. Further, they would create value by lowering financial reporting and transparency risks.
5. The proposal is for all financial statements to follow roughly the current organization of the statement of cash flows. All statements will be divided into five categories as follows:
  - **Business:** Includes line items related to operating and investing activities
  - **Financing:** Includes line items related to financing activities
  - **Income taxes**
  - **Discontinued operations**
  - **Equity**

The resulting statements, especially the statement of comprehensive income and the statement of financial position, will differ substantially from current U.S. GAAP and IFRS financial statements.

6. Both U.S. GAAP and IFRS recognize accrual accounting as the key concept underlying income measurement. However, the FASB and IASB implement this concept very differently. There are important exceptions under both systems, but generally:
  - U.S. GAAP emphasizes the matching rule and measurement of items on the income statement.
  - IFRS emphasize measurement of assets and liabilities on the balance sheet at fair value.
7. Under U.S. GAAP, assets can reflect a variety of values based on both entry and exit prices: fair value, purchase cost, amortized cost, replacement cost, and depreciated cost. In contrast, IFRS uses *fair value* as a single concept based on *exit value*. Specifically, fair value is the amount an asset may be exchanged for, or a liability settled, between knowledgeable parties in an arm's-length transaction. Fair value is not always easy to determine and may have to be estimated because a ready market for the asset may not exist.
8. Fair values are compatible with the conceptual framework for the following reasons:
  - They are *relevant* because they reflect conditions relating to economic resources and obligations under which financial statement users will make decisions.
  - They can be *faithful representations* of assets and liabilities because they reflect risk and probability-weighted assessments of expected future cash flows.
  - They are *timely* because they reflect changes in economic conditions.
  - They are *comparable* because fair value depends only on the characteristics of the asset or liability being measured, not on what the characteristics are of the entity holding the asset or liability or when it was acquired.
  - They enhance *consistency*, a dimension of comparability, because they reflect the same type of information every period.