Deloitte Inc. Moving from US GAAP to IFRS

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1. **An Overview of IFRS**

IFRS are international guidelines of accounting made to be used by the profit oriented organizations for reporting their financial information. Thus, indication of compliance with the IFRS standards implies that an organization has complied with all standards outlined by IFRS, including disclosure guidelines as well as explicit statement of compliance. The objective of the IFRS is to give organization guidelines to follow when reporting their financial statement; thus, the financial statements present fair and accurate information about the organization to interested investors, lenders or creditors (Ball, 2006). Thus, investors will make decision about investing to an organization based on the information provided.

**1.1The main concerns for Deloitte company as they move from U.S. GAAP to IFRS.**

**1.1.1 The Basis of Financial Preparation**

There will be concerns for a company moving from U.S. GAAP to IFRS since there difference when it comes to reporting of the financial statements provided by the two bodies. IFRS has exemptions when it comes to the basis of preparation of financial statements unlike GAAP. The financial statements required under the GAAP include “a statement of financial position, a statement of comprehensive income, and a statement of changes in equity, a statement of cash flows, and notes, including accounting policies and this may require the company adjust to the systems (Ball, 2006).” Thus, in GAAP, changes in the shareholders equity are presented in the statement of changes in equity, which reported separately from all non-owner equity changes. The IFRS requires consolidated financial statements.

**1.1.2 Fair Value Measurement**

In GAAP, a practical expedient allows fair value measurement of an asset to be taken as the net asset value which is not the case for the IFRS. Thus, under IFRS, the company will required to use comprehensive disclosure framework plus the fair value measurement to value an asset. Thus, the fair value measurement Codification standard for the GAAP is different from the comprehensive disclosure framework for fair value measurement of the IFRS

1.2 **The list of differences that is expected in Deloitte Inc. Income Statement and Balance Sheet after the convergence process is complete**.

**1.2.1 Discussion on Various lists**

Under IFRS, all assets and liabilities of the company’s subsidiary as well as the carrying amount of NCI recognized under GAAP will not be recognized. While, the retained interest measured and consideration received at fair value will be recognized by IFRS. As well IFRS will require all amount recognized in OCI to be in line with IFRS standards. Also, reported gain or loss will be registered in profit or loss statement. The loss of control of subsidiary’s assets and liabilities as well as carrying amount of the NCI will be derecognized.

The pro rate spin-offs are recognized on the basis of book values, and loss or profit is not recognized. Non-pro rata spin-offs are recognized on the basis of fair values, and profit and loss are recognized, in IFRS, changes in the parents ownership interest in subsidiary but having control of the subsidiary are accounted as equity transactions and profit or loss is not recognized.

**1.3 Impacts of convergence in Deloitte Company’s inventory account (IAS 2.10)**

In measuring the inventories, the cost included include costs of purchase, taxes, transportation cost, and cost of handling net of trade discounts received, cost of conversion i.e. fixed and variable manufacturing overheads as well as other related costs incurred in bringing the inventories to their present location and conditions. Also, IAS 23 borrowing costs recognizes some circumstances whereby costs of interest can be included in the cost of inventories that can be meet the classification of the qualifying asset. As well the convergence will have an impact on the standard cost i.e. where retail methods might be used to quantify the cost as long as the results approximate the actual cost.

IAS 2 allows use of FIFO OR weighted average cost costing methods whereas in nutshell, specific costs are attributed to the individual items for the inventory items that are not interchangeable as well as for the items that are interchangeable Although FIFO is allowed it not allowed during convergence. Also, the same costing formula should be used for all inventories with similar features while the items with different characteristic different costing formula may be used.

1**.4 Differences between IFRS and US GAAP regarding the accounting for financial instruments**

In US GAAP, comparative financial statements are reported using a financial period of one year whereas, comparative information in the IFRS must be reported with respect to the previous financial year for all the amount reported in the current financial year.

Also, the layout of the balance sheet and income statement are different between US GAAP and IFRS. Under US GAAP, there are no specific rules or guidelines of how a balance sheet or income statement layout should be like while under IFRS, the have an outline of the minimum lists of items that should be include in the balance sheet as well as income statement, although there is also no prescribed standard layout.

Moreover, there is difference in the balance sheet presentation of debt as current versus non-current. In IFRS, the debts related to agreement violation must be reported as current debt unless the lender agreement was agreed before the balance sheet date. In GAAP, the debt where that has been agreement violation must be reported as noncurrent as long as the lender agreed to waive the demand for repayment one year prior to the date of the consolidation and issuance of the current financial statements by the accountants.

**1.5 How the Deloitte Company will be impacted by the conversion process (IAS 32, IAS 39 & IFRS 7).**

Conversing from US GAAP to the IFRS will always result in changing significant accounting policy decisions that effects future results of the organization. For instance, the changes when deciding to account specific financial instruments as either at an amortized cost or fair value; or use of hedge accounting standards.

As they will require time and cost to implement and evaluate, for instance, reviewing of contracts to understand and identify whether they meet the insurance contract standards or reviewing of specific purpose to ensure that whether to consolidate. Thus, conversion will results in changes of accounting principles with will impact the firm’s systems and accounting processes as well as internal control methods.

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