I. TIMING ISSUES: MATCHING, CORRECTING, AND ADJUSTING

A. Introduction
   1. Assets are probable future economic benefits obtained as a result of past events, and liabilities are probable future sacrifices of economic benefits. Revenue is recognized when earned and expenses when incurred, and these two need to be matched in their appropriate period.
   2. Deferrals, such as unearned or prepaid accounts, push recognition of revenue and expense to future periods (after the related cash flow). Accruals (receivables and payables) recognize revenues and expenses before the related cash flow.
   3. Franchise fees, initial and continuing, are revenues to the franchisor and expenses to the franchisee. The initial franchise fee is recorded as an asset by the franchisee and expensed over the period benefited. It is revenue to the franchisor when earned. Continuing franchise fees are revenue to the franchisor and expense to the franchisee in the period incurred.

B. Intangible Assets
   1. Intangible assets are long-lived legal rights and competitive advantages developed or acquired by a business enterprise, including patents, copyrights, trademarks, and goodwill.
   2. Purchased identifiable intangible assets should be recorded at cost plus additional expenditures necessary to purchase. Under U.S. GAAP, research and development costs related to internally developed intangible assets must be expensed. Under IFRS, research costs must be expensed, but development costs may be capitalized if certain criteria are met.
   3. Identifiable intangibles with finite lives are amortized over the shorter of the estimated economic life and the legal life. Goodwill and identifiable intangibles with indefinite lives are not amortized and are subject to impairment testing.
   4. Under U.S. GAAP, intangible assets are reported at cost less amortization (finite life intangibles only) and impairment. Under IFRS, intangible assets may be reported using the cost model (same as U.S. GAAP) or the revaluation model. Revalued intangible assets are reported at fair value on the revaluation date less subsequent amortization and impairment. Revaluation losses are reported on the income statement and revaluation gains are generally reported in other comprehensive income.

C. Start-up Costs
   In financial accounting, start-up costs are expensed as incurred. (Note: Tax rules permit these costs to be capitalized.)

D. Research and Development Costs
   1. U.S. GAAP requires research and development (R&D) expenditures to be expensed as incurred.
      a. Assets with alternative future uses can be expensed over time.
b. When parties contract for R&D services to be performed by another firm, the buyer of R&D will expense amounts as services are obtained from the provider. The seller will expense costs as cost of goods sold.

c. The text shows a list of items not considered R&D.

2. Under IFRS, research costs are expensed and development costs may be capitalized if certain criteria are met.

E. Computer Software Development Costs

1. Under U.S. GAAP, if computer software is to be sold, leased, or licensed, the time line is the key. Expense the development costs from concept to technological feasibility. Capitalize the costs from technological feasibility through the start of selling activity. Resume expensing further development costs after selling has started.

   a. Costs capitalized between technological feasibility and the start of selling are amortized using the greater of two methods: percentage of revenue or straight-line.

2. Under U.S. GAAP, if computer software is to be used internally, the development costs need to be amortized on the straight-line basis.

3. IFRS does not provide separate guidance regarding computer software development costs. Under IFRS, computer software development costs are internally generated intangibles. Research costs must be expensed and development costs may be capitalized if certain criteria are met.

F. Impairments

1. Under U.S. GAAP, finite-life intangibles are tested for impairment using a two-step test:

   a. An asset fails the recoverability test if the asset's carrying value is greater than the sum of future undiscounted net cash flows.

   b. Then, if the asset's carrying value is greater than the asset's fair market value, the excess is the impairment loss.

Indefinite life intangibles other than goodwill are tested using a one-step test in which carrying value is compared to fair value. Under U.S. GAAP, impairment losses cannot be reversed unless the asset is held for disposal.

2. Under IFRS, an impairment loss for an intangible asset other than goodwill is calculated using a one-step model in which the carrying value of the intangible asset is compared to the intangible asset's recoverable amount. IFRS define the recoverable amount as the greater of the asset's fair value less costs to sell and the asset's value in use. Value in use is the present value of the future cash flows expected from the intangible asset. IFRS allow the reversal of impairment losses.

3. Under U.S. GAAP, goodwill is tested for impairment using a two-step test performed at the reporting unit level. Under IFRS, goodwill is tested for impairment using a one-step test performed at the cash-generating unit (CGU) level. Under U.S. GAAP, a private company may elect to apply the alternative method of goodwill accounting, which allows for amortizing goodwill on a straight-line basis over 10 years, or less than 10 years if it can demonstrate that another useful life is more appropriate.
II. LONG-TERM CONSTRUCTION CONTRACTS
   A. The completed contract method recognizes income on completion of the construction contract. This method does not match revenues and expenses over the long term.
   B. The percentage of completion method recognizes revenue over the term of the construction project based on estimated profitability and cost estimates following a four-step process.
   C. Both methods recognize estimated losses immediately.
   D. Under IFRS, the completed contract method is not permitted. The percentage of completion method must be used unless the final outcome of the project cannot be reliably estimated, in which case the cost recovery method is required. Under the cost recovery method, revenue only can be recognized to the extent of costs incurred.

III. ACCOUNTING FOR INSTALLMENT SALES
   A. The installment sale method is used when collectibility cannot be reasonably estimated. Revenue is recognized as cash is collected based on the gross profit rate at time of sale.
   B. The cost recovery method is more conservative than the installment method and is used when collectibility is more doubtful. Revenue is not recognized until the cost of the asset sold is recovered.

IV. ACCOUNTING FOR NONMONETARY EXCHANGES
   A. Under U.S. GAAP, exchanges having commercial substance affect future cash flows.
      1. Recognize all gains/losses in the exchange based on the "old" asset's carrying value in comparison to the "old" asset's fair value.
      2. The new asset's carrying amount will always equal the fair value of the asset given plus cash paid (or minus cash received).
   B. Under U.S. GAAP, exchanges lacking commercial substance do not change future cash flows.
      1. All losses are recognized in these exchanges.
      2. Gains are not recognized in these exchanges unless boot (cash) is received.
         a. If boot is less than 25 percent of total consideration, then recognize gain in proportion to the boot received.
         b. If boot is greater than 25 percent of total consideration, recognize all gain.
   C. Under IFRS, nonmonetary exchanges are characterized as exchanges of similar assets and exchanges of dissimilar assets. Exchanges of dissimilar assets are regarded as exchanges that generate revenue and are accounted for in the same manner as exchanges having commercial substance under U.S. GAAP. Exchanges of similar assets are not regarded as exchanges that generate revenue and no gains are recognized.
V. FINANCIAL REPORTING AND CHANGING PRICES
   A. Financial statements may be restated to demonstrate the effects of changes in the purchasing power of the dollar or the current cost of specific items. GAAP financials are "historic cost/nominal dollar" and can be restated to current costs and/or constant dollar.
   B. Monetary assets and liabilities are "fixed" in terms of dollars while nonmonetary assets and liabilities are not. Holding net monetary assets during inflation results in a purchasing power loss. Holding net monetary liabilities during inflation results in a purchasing power gain.

VI. FOREIGN CURRENCY ACCOUNTING
   A. Foreign currency transactions are transactions denominated in a currency other than that used for financial reporting. Foreign currency transactions require adjusting the receivable or the payable at year-end for changes in the dollar equivalent of the foreign currency denominated transaction since the transaction date. An additional gain or loss is reported when the transaction is settled in the foreign currency.
   B. Foreign financial statement translation is the process of converting a foreign subsidiary's financial statements from the foreign currency to the parent company's reporting currency using the remeasurement method and/or the translation method. The method(s) used to restate the foreign subsidiary's financial statements is determined by the functional currency of the foreign subsidiary.
      1. Remeasurement gains and losses are reported on the income statement.
      2. Translation gains and losses are reported in other comprehensive income (PUFER).

VII. OTHER FINANCIAL STATEMENT PRESENTATIONS
     Other financial statement presentations include OCBOA (other comprehensive basis of accounting) financial statements and personal financial statements. OCBOA presentations include financial statements prepared using the cash basis, the modified cash basis, and the income tax basis.