Ruckman, Inc. – Convergence to IFRS: An Accounting Case Study

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Preparation for first-time adoption of IFRS

As Chris prepares for the convergence of the financial statements of Ruckman, Inc., it is important to understand the underlining primary objectives of U.S. GAAP and IFRS. For both U.S. GAAP and IFRS, the primary objective is to, “provide information useful for decision making” (Doupnik and Perera, 2012:81). Set above all other benefits, being able to make future decisions for investors, bankers, employees, management teams, and many others create an identical blueprint. Notwithstanding, each element of the financial statements begins to branch into different routes and paths that make them incomparable and quite different to say the least. Understanding this basis does allow some contingency to begin to evaluate differences from a material difference rather than a foundational difference. That is, wood-built homes are different from steel-built homes yet both are built on a solid foundation
that happens to be identical. The impact of each building material leads to different structures and, in this project, each structure will be under hard analysis. Largely, both systems are much more alike than different while each system contains its unique features; both systems still highly value the same basic principles of accounting (US GAAP VS. IFRS: The Basics). The differences lie in definition, recognition, measurement, alternatives, lack of requirements or guidance, presentation, and disclosure. These differences create the financial numbers and maintenance; yet, both systems standards are created to demonstrate the qualitative features of accounting that are necessary to help in the decision making process that is so important in the statements. IFRS is also seen as a principle-based comparable to U.S. GAAP as a rule-based (Doupnik and Perera, 2012: 116).

US GAAP is the most sophisticated accounting system as the pioneer in accounting standards. US GAAP, being a rule-based approach, elicits high detail and scrutiny of each principle for every single particular cause applicable (FASB ASC). Whereas, the IFRS system agrees with many underlining principles as US GAAP, the final outcome is more open-ended and workable. Not saying that IFRS is easier to manipulate for corporate benefits but it allows for more room for interpretation. What does that mean for corporations using US GAAP or IFRS? This means that these systems incoherently deal with ways of accounting for enterprises differently. Seemingly, these different approaches raise the cost for compliance to each set of rules by the complexity and differences of each system. As a principle-based accounting system, this system does not include as many exceptions as US GAAP (IFRS 2013). Overall, with a long history and the birth of a new international system, IFRS, the two standards have
enough differences that publications, comparison projects that report over 500 pages of comparative analyses, and most importantly, the actual financial statements incomparability, realize that a convergence to a unified system is important (IFRS 2013).

Therefore, the U.S. is moving closer to IFRS. IFRS has gained international respect. As the Securities and Exchange Commission (SEC) have put together a Work Plan, “to evaluate the effect that using IFRS would have on the U.S. financial reporting system,” the earliest adoption would be 2015 (IFRS, An AICPA Back grounder). As the importance is understood for a single set of international financial reporting standards, the U.S. would make an important move to overall step in sync with this largely increasing popularity of IFRS. The U.S. may be a superpower in today's economy; however, China, Japan, and Europe’s strong economic systems all have or will work on convergence to IFRS (IFRS, An AICPA Back grounder). Today, the use of IFRS is increasing tremendous considering the amount of nations and reporting jurisdictions that permit or require IFRS (IFRS, An AICPA Back grounder).

Granted, as the SEC has created the Work Plan to unite US GAAP and IFRS overtime, the issue is bigger than set standard differences. That is, the Work Plan addresses:

- Determining whether IFRS is sufficiently developed and consistent in application for use as the single set of accounting standards in the U.S. reporting system.
- Ensuring that accounting standards are set by an independent standard setter and for the benefit of investors
- Investor understanding and education regarding IFRS and how it differs from US GAAP
• Understanding whether U.S. laws or regulations, outside of the securities laws and regulatory reporting, would be affected by a change in accounting standards

• Understanding the impact on companies both large and small. Including changes to accounting systems, changes to contractual arrangements, corporate governance considerations and litigation contingencies

• Human capital readiness – determining whether the people who prepare and audit financial statements are sufficiently prepared, through education and experience, to convert to IFRS.

(IFRS, An AICPA Backgrounder)

Some of the benefits of having a unified system, and the importance for Chris and Martha to start making the shift, stated by the AICPA, “is supporting a truly global economy, financial professionals, including CPA’s, will be more mobile, and companies will more easily be able to respond to the human capital needs of their subsidiaries around the world” (IFRS, An AICPA Backgrounder). Some of the major differences that cause this separation in accounting standards to be such a lengthy process are the IFRS standards that remain considerably different from US GAAP (IFRS, An AICPA Backgrounder). These items will be discussed subsequently, but for now, IFRS major downfall is the low context of some of the guidelines. This could be due to the simple cultural difference of a low-context culture compared to a greater portion of the world that is a high-context culture where meaning is inscribed in less words (Cooper, Calloway-Thomas, and Simonds, 2007 28).

Exhibit 1:
1. **General Principles: Presentation**

Under initial analysis would be the overall presentation of the current financial statement compared to IFRS requirements. Each system requires much of the same information, presentation, and components (US GAAP VS. IFRS: The Basics). That is, financial statements that follow US GAAP or IFRS both lead to comparable results because of the similar general principles and conceptual framework (US GAAP VS. IFRS: The Basics). Hence, as the SEC promotes the FASB and IASB to coordinate together, the differences in each vary in magnitude that consequently eliminates the option of full comparability, a principle in both US GAAP and IFRS accounting qualitative features (Stroud, 2011). Yet, the systems relatively similar results underline some basic agreements between US GAAP and IFRS like understandability, relevance, reliability, comparability, and consistency (Stroud, 2011). The major differences with US GAAP and IFRS will be discussed in detail.

The information that both systems require is, “that the financial statements be prepared on the accrual basis of accounting (with the exception of the cash flow statement)” (US GAAP VS. IFRS: The Basics). This fundamental requirement reduces the potential for large discrepancies in accounting practices from the outset and stresses the valuation process of the financial statements required for a public company to be done as the transaction has occurred. Moreover, all the information in the financial statements, to have a complete set, includes the balance sheet, income statement, other comprehensive income, cash flows, and notes to the financials statements (US GAAP VS. IFRS: The Basics). More so, regarding the information presented in the financial statements, the concept of materiality and consistency both, as the
US GAAP versus IFRS: The Basics publication describes, “Have to (be) consider in preparing their financial statements” (US GAAP VS. IFRS: The Basics).

Another, more in depth analysis of information presentation would be the consideration of abnormal fluctuations in earnings, unusual corporate events occur, or something similar, must be reported. Considering one major difference in this application would be extraordinary items (US GAAP VS. IFRS: The Basics). US GAAP allows financial instrument that have an erratic change from unforeseen events to be notes as an extraordinary item. However, IFRS prohibits the use of extraordinary item lines in the income statement (US GAAP VS. IFRS: The Basics). Therefore, Chris will need to attain all information regarding extraordinary items and classify them properly throughout the financial statements. He will need additional information about each component that is an extraordinary item to do this reclassification. Regarding consistency, reporting practices through each period must have retained general rule followings from one period to the next, unless necessary and specifically stated in the financial notes (Stroud, 2011). The overall difference between materiality and consistency with both US GAAP and IFRS is, “the level of specific guidance provided” (US GAAP VS. IFRS: The Basics). Granted, a major difference each is the rule-base versus the principle-base system. Obvious, the level of specified guidance will be more detailed under US GAAP standards versus IFRS as a principle-based approach. Thus, for Chris, as he creates a full analysis, the financial statements tell about Ruckman, Inc.’s current consistently to all periods presented in the 200 financial statements. Thus, for the transitional statement of the new IFRS financial statements,
Chris will need to start with the proper standards to best communicate the company to the public because the standards should not be changed thereafter.

Following, IAS 1 is created for first-time adoption. With a transition date, the opening IFRS balance sheet is, “the starting point” (“IFRS and US GAAP” 16). IAS 1 allows for consideration of optional exemptions for first-time application (“IFRS and US GAAP” 15). This first-time adoption period contains 18 long-term optional exemptions available to reduce the burden caused by retaining the new standards of IFRS. This relief is because some information that Chris will need to get is particularly challenging to find. Especially, the amount of information-gathering necessary for full transition into IFRS creates a large process that IAS 1 allows for three years of adoption before the first full IFRS financial statement is created. Therefore, for Chris, understanding IAS 1 requirements will lead Ruckman, Inc. into a full transition properly. It is also valuable for Chris to understand that sufficient information regarding each current practice will be in question. In effect, Chris will need to understand the full weight and implication of chosen accounting policies applied to the opening balance sheet under IFRS (“IFRS and US GAAP” 16). This analysis is important, especially for Ruckman, Inc. to start off on the right position so that they, “might better reflect the economic substance of their transactions and enhance their communications with investors” (“IFRS and US GAAP” 16).

The scope of detail in regard to each policy will be addressed in this discussion. In that, Chris will need an understanding of the business future goals, current accounting principles, future investments and acquisitions, and the business segments individually and as a whole to be able to make the best possible decisions for accounting policies used. This is important because a
proper reflection of the company’s numbers is the underlining goal. Without this information, Chris and Ruckman, Inc. as a whole will lose the chance of being able to properly present themselves to the public. More so, as IFRS is a more principle-based approach, the degrees-of-freedom are greater than US GAAP. This puts more responsibility upon the company to apply proper discretion and judgment upon its accounting practices under each policy. Ruckman, Inc. has an opportunity to start with a, “‘clean sheet of paper’ mind-set”; yet, must consider the factors discussed above before making any discussion between alternative policies that IFRS allows (“IFRS and US GAAP” 16).

With regard to the actual presentation, Chris will need to understand the physical presentation, financial statement look, and line information to transition from US GAAP standards in regards to Regulation S-X and IFRS requirements. Again, IFRS 1 requires, “an entity adopting IFRS to comply with each IFRS effective at the reporting date of its first IFRS financial statements” (Doupnik and Perera, 2012: 91). Thus, when Ruckman, Inc. decides to prepare IFRS financial statements, for example, on December 31, 2016, all IFRS policies must be in compliance by that date (Doupnik and Perera, 2012: 91). In light of this information, a transition period is created beginning on January 1, 2014, a three-year period, to ease the burden of this requirement (“IFRS and US GAAP” 16). For the opening IFRS balance sheet it must:

- Include all of the assets and liabilities that IFRS requires
- Exclude any assets and liabilities that IFRS does not permit
- Classify all assets, liabilities, and equity in accordance with IFRS
• Measure all items in accordance with IFRS

• Be prepared and presented within an entity’s first IFRS financial statements

(“IFRS and US GAAP” 16)

In the larger scope, Chris will have these bullet points as guiding points of information he will need to address, review, and obtain if unavailable. Most importantly, Chris will need to evaluate current accounting policies and measurements to IFRS regulations and policies to begin to evaluate the criteria and differences necessary from within Ruckman, Inc. to make the transition. Considering, Chris will need an understanding of all current accounting practices to evaluate the differences compared to IFRS. Chris will also need a list of all items, in detail, listed under assets, liabilities, and equity to include or exclude any given practice differences necessary to make the transition. The transition includes many technical challenges, and special consideration on Chris’s behalf is most important to make an effective change for Ruckman, Inc. smooth.

With regard to disclosures of IFRS, the SEC regulations have very key definitions of measures. For example, “operating profit” is vague and diverse with regard to line items comparable under US GAAP with requirements of presentation of certain headings and subtotals (US GAAP VS. IFRS: The Basics). Moreover, under US GAAP, public companies cannot include non-GAAP measures. Differing in principle, IFRS allows, “the presentation (to be) based on what is relevant to an understanding of the entity’s financial performance” (US GAAP VS. IFRS: The Basics). This discrepancy gives Ruckman, Inc. an opportunity to better reflect itself to the public by including possible non-GAAP measures. What this means for
Chris is an opportunity to look over the entire list of current accounting areas with an understanding of IFRS and subsequently present the company in a more realistic and clear way with the public. Thus, Chris will need an understanding of IFRS to be able to make an accurate assessment of best practices and if any non-GAAP measures are applicable or useful to Ruckman, Inc. To make this conversion, Chris will need the information noted in the last paragraph.

2. Significant Accounting Policies

A. Basis of Accounting

Under both US GAAP and IFRS, the basis of accounting section is quite similar. To illustrate, under both standards, “the statements are prepared on a modified historical cost basis with a growing emphasis on fair value” (Santoro, 13). For Chris, the basis of the accounting preparation is now understood to be the same. Thus, no internal change is necessary for Chris to address on the basis of all the policies exercised. Next, an enterprise is required under both standards to inform the public about uncertainties and judgments made in the accounting (Santoro, 13). Chris then has sufficient information in regard to make the conversion to IFRS provided already. That is, Ruckman, Inc. exhibits its uncertainties, procedures, valuation methods, and judgments in the Basis of Accounting section. For example, the section tells about its contingent assets and liabilities. Also, this section shows that some of the results are estimations from actual numbers. Moreover, it clearly states that each consolidated company has consistently applied the accounting policies during all periods. Thus, Chris has been given the information necessary to determine the conversion required to
IFRS under the basis of accounting. More so, no other information is required to make an accurate assessment. Chris has the right information to determine the conversion required.

B. Cash and Cash Equivalents

Under IAS 7, cash and cash equivalents are identical in practice with a differently worded definition except for a minor difference in bank overdrafts. To illustrate, under IAS 7.7-8, “cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value” (IFRS 2013). To note, short-term, highly liquid investments are cash equivalent with a maturity of three months or less (IFRS 2013). With that said, Chris has sufficient information provided in determining the conversion requirements for cash and cash equivalents. Under presentation and accounting methods, both standards rely on the same definition. Under Cash and Cash Equivalents, Ruckman, Inc. has cash on hand, deposits with credit institutions, and short-term notes. To note, bank overdrafts are considered generally considered under this section under US GAAP (Santoro, 11). On the other hand, IFRS in some cases addresses bank overdrafts as ‘cash and cash equivalents’. Thus, Chris will need to do an additional analysis about any current bank overdrafts that Ruckman, Inc. incurs. Stated in section (h) Debt, bank overdrafts are given special attention there. Chris needs more information to make a clear analysis and assessment of the conversion to IFRS. Besides bank overdrafts, all of these regulations fit the requirements of IFRS. Thus, Chris has enough information to make the conversion and does not need any additional information.
C. Accounts Receivable and Other Receivables

First off, Chris would need to know how receivables are measured. Under IFRS requirements, receivables must be initially measured at fair value and they are measured with an amortization cost under an effective interest method (Doupnik and Perera, 2012: 214). This information is not given under the receivables. To note, IFRS standards categorizes financial assets in four major categories that Chris will need to also use to catalog these items for Ruckman, Inc. IAS 39 states that receivables should be tested for impairment or for derecognition individually. Chris does have sufficient information that Ruckman, Inc. currently follows this practice. In this section of the financial statement, it discusses that the company assess, performs, and analyzes accounts receivable according to its customer. A clear conclusion to draw from this is that it would be done on a customer-by-customer basis because they look at transaction history, creditworthiness, and change in customer payment terms. All these items are personalized and cannot be grouped together. Thus, Chris has sufficient information that this bit of the receivables accounting process is in line with IFRS.

D. Inventory

Under ASC 330 and IAS 2, inventory reports on essence toward cost for items either obtained (ASC 330) or held (IAS 2) for sale. ASC 330 states a major objective of inventory is, “the proper determination of income through the process of matching appropriate cost versus revenues” (FASB ASC). Likewise, the IAS 2 major objective of inventory is, “the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value” (IFRS 2013). Both accounting methods feature the accumulation of cost
recognition toward products in a company produced for profits. Namely, both feature, under comparative analysis by Ernst and Young states inventory as, “assets held for sale in the ordinary course of business, in the process of production for such sale or to be consumed in the production of goods or services” (US GAAP VS. IFRS: The Basics).

Approaches of cost methods such as last in first out (LIFO), first in first out (FIFO), average cost, weighted-average cost, gross profit (or margin) method all value inventory to different final numbers. Both US GAAP and IFRS permit and prohibit different costing methods for certain reasons. Within these standards, each system has its benefits for the company at hand. To illustrate some similarities, US GAAP and IFRS both allow FIFO, the retail method, weighted-average cost as formulas to calculate inventory. More so, inventory is valued with all direct expenditures to prepare inventory for purchase excluding selling cost, most storage cost, and general administrative costs in both US GAAP and IFRS (US GAAP VS. IFRS: The Basics).

Important to dissect from this information is that inventories can be valued using any one of the given methods allowed under regulation of that business to reflect a number that benefits for the business. That is, in taxes, accounting presentation of numbers, and many more arenas, the inventory cost method used has the ability to shine a business’s achievements and disregard its weaknesses. The differences thus underline which manipulation methods are prohibited. The main exclusion in IFRS would be LIFO (US GAAP VS. IFRS: The Basics). Under LIFO, the accounting cost method shows a lower overall price in inventory as prices rise in the market. Generally, any economy is marked by inflation rates and increases in pricing. With regards to this, LIFO has the potential to reduce taxes, for example, by showing a lower price.
Likewise, compared to revenues, cost-of-goods-sold (COGS) marked by inventory has the potential to accelerate the look of growth for a business over time and during the short run, appear to be seemly profitable.

The similarities both absorb the basic definition of inventory as cost (US GAAP VS. IFRS: The Basics). Measurements to value inventory within the costing methods includes carrying price. That is, IAS 2.9 states, “Inventories are required to be stated at the lower of cost or net realizable value (NRV)” and in ASC 330.10.35-2, “the measurement of such losses shall be accomplished by applying the rule of pricing inventories at the lower of cost or market” (IFRS 2013, FASB ASC). In this instance, both US GAAP and IFRS may possibly carry inventory at the lower of cost. In detail, the similarity can only exist when replacement cost is greater than NRV (Douplnik and Perera, 2012: 117). However, the differentiation constitutes a major reevaluation of the measurement in any other situation. US GAAP standards will price inventory at market. According to US GAAP VS. IFRS: The Basics, Market is, “defined as current replacement cost, but not greater than net realizable value (estimated selling price less reasonable costs of completion and sale) and not less than net realizable value reduced by a normal sales margin. (US GAAP VS. IFRS: The Basics). Inherent in this definition is one important factor. Under US GAAP, market values inventory at replacement cost with a ceiling and floor. Plus, any markdowns to inventory cannot be reversed even if any increase should happen (Douplnik and Perera, 2012: 117). On the other hand, IAS 2.34 states that any write-down to NRV must be reversed if selling price increases (Douplnik and Perera, 2012: 117). Important in this differential is the understanding the implications of this difference. To begin, over the life of
the product, the two standards will create the same amount for expenses. The difference begins in the amount of expense recognized, at any given time. This will vary considerably determined by the amount of fluctuation both up and down in the NRV (Douplnik and Perera, 2012: 118).

For Ruckman, Inc.’s inventory, different levels of production inventory are determined at different cost methods and each needs special attention. To highlight, Inventory accounts for over a quarter of Ruckman, Inc. current assets (Ruckman, Inc.: 2011). Beginning with primary understanding about US GAAP, the first accounting arena in inventory would be overall valuation of inventory. Considering that, under US GAAP, inventory is stated at the lower of cost and market (GAAP VS. IFRS: The Basics). Ruckman, Inc.’s disclosures open with this statement. Thus, first-and-foremost and above all other remarks about inventory, the current and future inventory will need to be assessed against any increases in previously recognized impairment loses to be reversed up to the NRV (GAAP VS. IFRS: The Basics). Chris will then need to obtain a list of all inventories with product pricing and enough information to figure out NPV and compare each item of inventory to what the inventory is being recognized at currently. More so, this indication shows that sufficient information has been provided in Exhibit 1 of the case to determine that conversion is required under the first statement.

Next, recognizing that different business segments and different levels of production are differentiated in the recognizing of cost methods play a factor in the way that Ruckman, Inc. accounts for their inventory is necessary to understand for this analysis. To begin, under raw materials in the level of production category, Ruckman categorizes raw material using FIFO.
Under FIFO, Ruckman will not need to make any changes to the recording of raw material because FIFO is an acceptable cost method under IAS 2 (IFRS 2013). Also, with the paper goods segment, the cost of work in process and finished goods are presented with the FIFO method. Thus, no considerations or changes are necessary to convert to IFRS under current stated value. Moreover, sufficient information has been provided to determine that conversion is not required. Considering the semiconductor segment, work in process and manufactured finished goods are stated in Exhibit 1 to be, “determined for specifically identifiable assets” (Ruckman, Inc.: 2011). That is, the costs are not under one umbrella of a category but specific to each individual asset. Since valuation for Ruckman, Inc. is done by item or group, sufficient information has been provided to determine whether or not conversion is necessary. In this particular case, no conversion is necessary as both US GAAP and IFRS both allow this valuation practice of item, group, or overall inventory types (Doupnik and Perera, 2012: 117).

In particular, under the semiconductor segment, as certain finished goods are purchased for resale, the cost is determined using the LIFO method. Prohibited by IFRS after 2003, this part of the inventory valuation must be addressed by Chris and united to IFRS standards. Under IAS 2.39, that is consistent with IAS 1 (IFRS 2013), presentation of expenses must have the, “same cost method applied to all inventories similar in nature or use to the entity” (US GAAP VS. IFRS: The Basics). With that said, it would be understood that as these finished goods are repurchased for resale for repair services under the semiconductor segment justifies that as its nature may be similar, the use of the product is quite different. Hence, sufficient information is provided to determine the conversion necessary for the repurchased
finished goods under the semiconductor segment. However, with that said, under IAS 2.35, it states that, “inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset” (IFRS 2013). More information would be needed to know if Ruckman, Inc. has a repair service or if the parts are kept on hand to sell to repair servicers or buyers or Ruckman, Inc. made products. If the products are kept on hand, the inventory could be allocated to another asset. Overall, as the LIFO method is prohibited, conversion is required and Chris will need to obtain additional information in assess the best pricing method to update LIFO. Also, Chris will need all current prices of the items in this categorized under LIFO to properly make the conversion.

Furthermore, if it is considered a service provider, under IAS 2.37, it states that, “the inventories of a service provider may be described as work in progress” (IFRS 2013). Therefore, the inventory of products for repair services in the semiconductor segment of Ruckman, Inc. will need to be classified as a work in progress. Sufficient information is given to make this assessment and address this accounting method difference.

Presumably, under the impairment note under inventories in the disclosure of Ruckman, Inc. it is understood that a recognized revenue of $1.7 million came from, “sales of inventory that had been previously considered excess or obsolete and written-off” (Ruckman, Inc.: 2011). IAS 2.28 clearly states that, “the practice of writing inventories down below cost to net realizable value is consistent with the view that assets should not be carried in excess of amounts of expected to be realized from their sale or use” (IFRS 2013). Therefore, in compliance with IFRS, Ruckman, Inc. is already adhering to the policies of IFRS to the seeable
extent. That is, this item under discussion would need more information about the sale of $1.7 million of excess or obsolete and written-off inventory to understand and have fair judgment about how it should be treated. That is, to make an accurate assessment for this area of the statement, insufficient information is provided regarding how the product or products were sold. Considering this section of the statement, questions like:

1. How much product was sold, to how many customers, and was it anticipated?

   Mainly, this question addresses the overall anticipation of the sale. Understanding this answer allows Chris to analyze if there should be any expense recognition.

2. Did the products NPV shift prior to the write-off.

   This question addresses if the product should have been fully written off or not under the circumstances of the sale.

3. Was the product(s) back on the market? If so, periodic information is needed.

Further analysis is required to make a valid statement about the recognized revenues with no cost associated with the product for a full IFRS conversion.

Under the current notes, the financial statements already include:

- The accounting policies adopted in measuring inventories, including the cost formula used;
- The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
• The amount of any write–down of inventories recognized as an expense in the period.

(IFRS 2013: IAS 2.36)

Additional information – whether unclear or possibly not applicable - Chris will need this information under the inventory section in the disclosures:

• The amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as an expense in the period in accordance with paragraph 34;

• The circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34;

• The carrying amount of inventories carried at fair value less costs to sell;

• The amount of inventories recognized as an expense during the period;

• The carrying amount of inventories pledged as security for liabilities.

• (IFRS 2013: IAS 2.36)

These disclosures are necessary to fulfill IAS 2 for IFRS. As Chris understands more information about the $1.7 million in recognized revenue with no associated cost, this analysis will help determine some of this undisclosed information. As a whole, as Chris understands more about calculations of the current inventory values, he will be able to determine if and which disclosures listed above will need to addressed.

E. Property, Plant, and Equipment:

IAS 16 indicates the principle issues in accounting for property, plant, and equipment (PPE), “are the recognition of the assets, the determination of their carrying amounts and the
depreciation charges and impairment losses to be recognized in relation to them” (IFRS 2013). A measurement of allocation, not valuation, after an item has initially been recognized under IAS 16 allows two accounting models. First, a measure of allocation, after the initial purchase, would be the cost model stated in IAS 16.30 (IFRS 2013). The formula for both US GAAP and IFRS cost model is the asset is carried at cost, less accumulated depreciation and impairment losses (IFRS 2013, FASB ASC). This model recognized that long-term assets cost could be distributed over the expected useful life evenly (FASB ASC). This model, under both systems, allows companies to depreciate an asset over the life of the asset. The life of different PPE items are stated in Ruckman, Inc.’s financial notes.

The second measure of allocation is the revaluation model. This model uses the formula, “fair value less accumulated depreciation and impairment losses” (IFRS 2013). To note, fair value under ASC 360-10-35-36 is determined with an expected present value technique and under IAS 16-6 indicates fair value as, “the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction” (FASB ASC, IFRS 2013). Under this second method, it is clear that Chris will need to be able to identify if the revaluation model is appropriate for Ruckman, Inc. Chris will need to consider if the current method, the cost method, is appropriate for the company under IFRS. Also, if Chris uses the revaluation model, the IFRS carrying basis under this method is very open for interpretation.

That is, fair value is largely depended on appraisals and estimations rather than a strict guide of rules. Just by analysis the differences of definition for fair value, Chris will need to research on current pricing methods for the companies PPE. Chris will further need to revalue all current
PPE to estimate fair value, net book value, and possibly market value considered to what is already documented and accounted for under current standards. The carrying basis, discussed in IFRS and US GAAP: similarities and differences states that, “US GAAP generally utilize historical cost and prohibits revaluations except for certain categories of financial instruments, which are carried at fair value” compared to “Historical cost is the primary basis of accounting. However, IFRS permits the revaluation to fair value of... PPE” (“IFRS and US GAAP” 68). As both descriptions sound similar, there is a large difference in carrying value of assets that is very important for Chris to understand in the conversion process. This information is important for Chris to understand and have to make an accurate assessment because a significant difference on the balance sheet can impact other numbers on the balance sheet and income statement. More so, Chris will need to analyze all depreciation expenses attached to all current PPE so that he may analyze and interpret what is best for the company. Overall, Chris has sufficient information, with regard to the method used in PPE, to determine if the type of conversion is possible. In that, Chris does have the option, in regard to method choice, to stick with what the company currently uses, the cost model. Chris will also need information regarding revalued proprieties properly in regard to fair value. Also, this model requires more attention so that, “carrying amount of assets does not differ materially from the assets’ fair value” (Doupnik and Perera, 2012:120). Depending on the items and classes in PPE, an enterprise must consider all possible fluctuations under the revaluation model to be concurrent with current value. This, for Chris, underlines more attention to Ruckman, Inc.’s current PPE and classes. More so, as a global business with two fields, the company must consider each
enterprise, as a whole, to identify which methodology would be better. Chris would need additional information in regard to all costs associated to PPE, the weight of PPE relative to total assets, liabilities, and equity. He would also need an in-depth understanding of the effects of the revaluation model to infer the possible benefits and disadvantages for Ruckman, Inc. to use the revaluation model. Additionally, under IFRS, the conversion to IFRS will need to be one policy choice for items under an entire class of PPE (IFRS 2013). IAS 16 indicates examples of classes like land, land and buildings, machinery, and office equipment (IFRS 2013). It is not allowed to value the different items in the same class under different models. This makes the understanding of the financial statements easier for the investor. If Chris, upon acquiring all necessary information, recognized the revaluation model as a better choice for Ruckman, Inc., it will require more treatment and analysis than discussed above including the ways of determining fair value, selection of assets to be revalued, treatment of revaluation surpluses and deficits, and more (Doupnik and Perera, 2012:121-122). With all that said, Chris does have sufficient information to make determine the conversion required regarding method of costing.

Following, Chris will need to consider any expenses, specifically interest expenses, tied to the allocation and cost of PPE. Under IAS 23, interest for an acquisition may be included in PPE. Namely, IAS 23.8 states that, “borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of the asset and, therefore, should be capitalized” (IFRS 2013). This establishes that attention during
conversion to IFRS is necessary because under US GAAP, interest is an expense separate from PPE (“IFRS and US GAAP” 73).

With regard to depreciation, both US GAAP and IFRS allow the straight-line method and the declining (diminishing) balance method. Considering, as many other fluctuations in accounting practices may be altered for the most effective way to communicate the company’s financial position, an evaluation of the current practice of the straight-line method versus any IFRS methods would be important during conversion. The difference in overall presentation can cause different depreciation methods to be more useful than the current method.

Ruckman, Inc. gives sufficient information regarding conversion. Whether or not conversion is necessary is up to Ruckman, Inc. on the best possible way to communicate the company’s current financial position in regard to PPE. Now, considering the above similarity, one difference is important to note. That is, IFRS required more frequent attention to depreciation than US GAAP by requiring the component approach for depreciation (“IFRS and US GAAP” 73). With IFRS accounting policy of depreciation, components with different economic lives must be recorded separately. In other words, the useful life or a part of an engine to the useful life of the entire engine will be depreciated separately according to their individual estimated useful lives. Thus, in the list of items that Chris will need to adjust but does not have sufficient information, depreciation of PPE will need to be investigated. First if the company uses this approach and, if not, then the company will need to evaluate each current PPE and assess its components for differences in estimated useful live. This is a tedious job to say the least, but a regulation under IFRS standards. In essence, sufficient information is provided regarding
depreciation methods. With the clear statement under PPE that depreciation is charged on a
straight-line basis and the estimated useful life of items applicable is present, then Chris knows
what conversions may be done. Chris will need additional information about the specific items
in PPE, the asset groups, and the life of the products already used. This information will help
Chris gain a deeper understanding of what is in PPE to determine a couple of things. First,
Chris will be able to determine if under IFRS the current depreciation basis is properly
separating all PPE, as it should be. Also, this information will allow Chris to assess if another
model of depreciation can show a clearer representation of the company under IFRS. In all, the
option of a better representation during conversion may be possible as Chris investigates all
necessary information.

The disclosure information necessary for IFRS that is not addressed in Ruckman, Inc.
financial statements would be after the transition of all PPE to an IFRS system, any revaluations
that may need to happen. Overall, as the method of depreciation is quite similar - exempting
the largest difference of component depreciation being required under IFRS - it is important to
realize that Chris will need to evaluate what is best in terms of effectiveness of the company’s
day to day operations with these different costing methods. That is, the wrong methods used
can first make the company appear to be struggling and secondly, it causes future decision-
making opportunities into new ventures considerate of accounting practice potential errors.

F. Intangible Assets:

Under IAS 38 and ASC 350, Intangible assets are defined as, “nonmonetary assets
without physical substance” (US GAAP VS. IFRS: The Basics). In the same scope, all intangible
assets must have probable economic benefits and costs that could be reliably measured (US GAAP VS. IFRS: The Basics). Overall, a possible major difference in US GAAP versus IFRS would be that revaluation is prohibited in US GAAP and a permitted accounting policy under IFRS. Understanding this difference establishes a basis for possible discrepancies if fair value of current Ruckman, Inc. Intangible Assets outside of goodwill are undervalued (US GAAP VS. IFRS: The Basics). This is important for Chris to understand and gain sufficient information about the internal process of the accounting so that he can prove the proper conversion fair value for all intangible assets necessary to be evaluated. Otherwise, Chris can potentially miss a large IFRS accounting requirement. This requirement will also possibly need further analysis and possibly appraisals depending on what is already known about all intangible assets.

With regard to goodwill, the first section discussed in the Notes of the Financial Statements under intangible assets, “it is recognized only in a business combination and is measured as a residual” (Santoro, 35). Tested yearly for impairment and not amortized, goodwill is recognized differently with each system. In particular, under US GAAP, goodwill impairment testing is performed at the level of the reporting unit versus IFRS at the cash-generating unit. The difference types of analysis reflect a typically larger amount for US GAAP versus IFRS (Doupnik and Perera, 2012:139). Thus, in preparation of the financial statements Chris has sufficient information to determine a conversion is required. As the financial statement indicates, goodwill is currently allocated to a reporting unit and must be converged to a cash-generating unit to meet the IFRS requirements. Chris will need to obtain additional information regarding goodwill and the next section, impairment of goodwill.
about current goodwill valuations in detail, all past goodwill impairments and testing reports of each previous year, and detailed information about reporting units discussed in the financial statements under observation.

Concerning research and development, under both US GAAP and IFRS, “Internal costs... are expensed as incurred under both accounting models” (US GAAP VS. IFRS: The Basics). On the base, the conversion seems simple. Yet, a big difference exists concerning development costs. First off, if an intangible cannot be identified as either research or development, it is classified as a research expense and must be expensed as it occurs (Doupnik and Perera, 2012:132). However, this inclination to ease the burden of classification truly is quite complex. Considering, management makes the judgment whether an item is classified as development if, and only if, the item falls within six key criteria. Furthermore, the distinction between when research ends and development begins is quite vague and unclear in every situation (Doupnik and Perera, 2012:132-133). Any single company, including Ruckman, Inc., can justify their categorization different ways with the same activities. IAS 38 gives examples of things that are included in research and things that are not research nor development yet, the subject matter for IFRS illustrates a different valuation process overall. Thus, for Ruckman, Inc., Chris will need to look into the large amount of research and development cost listed on the income statement. That is because Ruckman, Inc. has research and development lumped together. Research and development are both defined in different ways under both systems. Quite similar in essence, the fact that differences exist, and again that IFRS is a principle-based accounting system, Ruckman, Inc. will need to analyze every entry of research and
development to reassess its concordance on the financial statements. Most of all, address the current accounting methods of research and development with IAS 38 definitions and requirements compared to what is discussed in the financial statements:

(ii) Research and Development. Expenditure on research activates, undertaken with the prospect of gaining new technical knowledge and understanding scientific methods, is recognized as an expense as incurred.

Expenditure on development, comprising costs incurred with the purpose of using scientific knowledge technically and commercially, is expensed as incurred.

(Ruckman, Inc.: 2011)

Hence, the difference in presentation would begin with the separation of research and development cost and the scrutiny of development cost – technically and commercially categorized - to be validated (even though it is highly subjective). Thus, overall, additional information (more in-depth information) is necessary for Ruckman, Inc. to convert their financial statements into IFRS. After such analysis, it is very likely that development costs are taken advantage of under IFRS. In essence, it is important for Chris to really evaluate current accounting practices and categorizations to understand the implications possible with a future IFRS set of financial statements.

Now, a large discussion about impairment of assets is necessary for the determination of sufficient information needed to evaluate if sufficient information under intangible assets is provided for proper conversion to IFRS. In general, impairment of non-financial assets is broad
in scope under IFRS compared to US GAAP standards with specific instructions in some areas requiring impairment testing (Santoro, 49). That is,

both systems do yearly impairment tests for goodwill and intangible assets. This disclosure in the financial statement provides that future impairment testing will continue. However, the definition of impairment will change. Under IAS 36, “an asset is impaired when its carrying amount exceeds its recoverable amount” comparable to US GAAP standards that, “impairment exists when an asset’s carrying amount exceeds the future cash flows” (Doupnik and Perera, 2012:127). The underlining idea that the balance sheet’s carry value for an item should not exceed the potential income from the asset is understood in both regards. The difference lies in valuing the potential income. In practice, this means IAS 36, typically, “an impairment is more likely to arise under IFRS” (Doupnik and Perera, 2012:128). A good note for Chris to detect as he guides the conversion of Ruckman, Inc. into the IFRS financial statements. The financial statements provide enough information to understand that conversion is required and that the accounting methodology must be examined and altered to fit IFRS’s requirements. With that said, the statement indicates, “Impairment is recognized when the carrying amount of the asset exceeds the fair value” (Ruckman, Inc.: 2011). This outlines that specifically that Chris will need to obtain all current data to analyze how impairments effect the financial statements like current carrying amounts, expected future cash flows, and all other data in regard to impairment. Also, Chris will need to find or generate recoverable amounts to compare them with the current numbers used for all impairment valuations.
With impairment valuation, is the potential reversal of impairment losses. An important difference for Chris’s analysis, under IAS 36, would be the understanding that, unlike US GAAP, IFRS recognizes reversals of impairment losses (Doupnik and Perera, 2012:129). Hence, Chris will need to obtain or use already obtained information about recoverable amounts. Chris will need to look if estimated use has changed the impairment to need a reversal but was not reversed because of current regulation in US GAAP prohibiting this practice (Santoro 51). This information is important to conduct further analysis and may require appraisals, and analyzing of net selling price and value in use comparable to US GAAP data of future cash flows and analyze what changes need to be made to fulfill IFRS regulations. Overall, this financial period of the company states that, “To date, no impairment losses for goodwill have been recognized” (Ruckman, Inc.: 2011). With this understanding the transition may be much easier than if there were, however, an analysis of all information regarding impairment would not be insignificant. That is, any reversals on impairment losses for goodwill would not be recognized in this statement and would need to be addressed for the conversion to IFRS.

Further, testing periods, in both systems allow the testing to be done in any period of the year, as long as it is the same each year. In the notes of the financial statements, it states that, “Good will is tested separately for each reporting unit in the fourth quarter of each fiscal year” (Ruckman, Inc.: 2011). Thus, timing of the testing is acceptable for the conversion and no additional information is needed (other than what has been previously discussed about impairment).
Lastly, regarding impairment, both US GAAP and IFRS amortize intangible assets with finite useful lives (Santoro, 35). This similarity identifies that sufficient information is provided regarded intangible assets with definite (or finite) lives can me amortized and no differences appear to be needed for the conversion. In that, no additional information is required to complete that portion of the conversion of impairment to comply with IAS 36.

In detail, reviewing the amortization section under intangible assets, it is charged on a straight-line basis, just like depreciation. Under IAS 38, amortization is amortized over its useful live on the straight-line basis from the first date of use (IFRS 2013). Plus, under IAS 38.107, amortization for intangible assets with an indefinite useful life should not be amortized (IFRS 2013). Intangible assets with an indefinite useful life are assessed and reviewed under the impairment rules. Therefore, sufficient information is provided regarding amortization and conversion does not need to address any accounting methods differently based on the information provided under letter F section V of Exhibit 1 of Ruckman, Inc. financial statements (Ruckman, Inc.: 2011). In detail, Ruckman, Inc. states that amortization is done a straight-line basis, which is acceptable under IFRS. Also, estimated useful lives of different products are shown to amortize over different periods of time. To note, under IFRS requirements, Software costs are treated very special. Chris will need further information in regard to if the software was developed within the company or was purchased. Obviously, not in the business of selling the software, Ruckman, Inc. must consider all special regulations with its inventory first and foremost but also its assets like software, patents, and similar assets.
In regard to subsequent expenditure on capitalized intangible assets, IFRS resembles a similar approach. Under US GAAP, subsequent expenditure on an intangible asset is capitalized if it can show an increase in utility (Santoro, 35). Comparing this to IFRS, the standard is met if, “the definition of an intangible asset and the recognition criteria are met” (Santoro, 35). Approximately similar, both systems highlight a value-adding aspect. If not, as the notes describe it, “it is expensed as incurred” (Ruckman, Inc.: 2011). The financial statements provide sufficient information for determining the conversion requirements necessary. With regard to this information, no addition information is necessary for this note.

G. Contingencies

In regard to contingencies, under ASC 450 and IAS 37, contingencies differ, especially in regard to US GAAP current methods. That is, the rules for recognition are quite similar; yet, the disclosure procedures for each standard relies on different interpretation criteria explained next.

Comparing similarities, contingent liabilities carry the same rules for recognition. To illustrate, if the likelihood of an outflow of resources is remote, both US GAAP and IFRS states no recognition is necessary (IFRS 2013). Likewise, if it is not probable, then it is disclosed and if it is probable it is recognized on the balance sheet (Doupnik and Perera, 2012:177). With that, the difference for both standards is in the interpretation of the word probable. Under IFRS, probable is ‘more likely than not’ and under US GAAP means ‘likely to occur’ (Santoro, 52). This implies a higher recognition under US GAAP than for IFRS. IFRS relies on an edge over 50 percent and US GAAP requirements could be interpreted and is estimated to be in the 70 – 90
percent range (Doupnik and Perera, 2012:177). Thus, for Ruckman, Inc., Chris needs to address this issue. In the financial statements, it states this recognition practice. Chris then does have sufficient information about current methods to make the conversion on the surface. However, Chris will need more information about any current possible contingencies. Under IFRS classifications of remote, not probable, and probable, Chris will need additional information that may possible reclassify a not probable occurrence under probable, which in turn will have an effect on the IFRS financial statements. The importance of this analysis is to disclose all proper information to the public. Current practices for contingent liabilities are similar yet have interpretational differences that Chris will need to address. Thus sufficient information is given about current practices yet, insufficient information is delivered about any possible current contingencies.

Next, estimations with uncertain timing, amount, or existence are placed on a continuum. This spectrum contains a low, mid, and high point range for best estimation. Under IAS 37, when a range of all estimates is equally likely, the midpoint is the best estimate (Doupnik and Perera, 2012:177). Unlike IFRS, if no amount has more weighted value than others, the lower end of the range is chosen (Doupnik and Perera, 2012:177). Explicit in the financial statements, Ruckman, Inc. currently uses the US GAAP requirement considering the low estimates on the balance sheet. Therefore, Chris has sufficient information to make the conversion to IFRS. It is clear that conversion is required and accounting methods differ. Additional information will need to be inputted into the financial statements considering the
fluctuations in the low range and mid-point range of the estimates of all current contingencies held by Ruckman, Inc.

Overall, it is in Ruckman, Inc.’s best interest to analyze current interpretations of contingencies with IFRS principles to make a proper assessment about the companies financial position. The importance of this information obtained by Chris addresses possible discrepancies that will need to be analyzed to create IFRS financial statements properly.

H. Debt

With regard to convertible bonds, all presentation requirements under US GAAP are acceptable under IFRS requirements. Thus sufficient information is given to determine the conversion. As a two component (financial liability and equity instrument), it is a compound instrument (IFRS 2013). For proper presentation, a convertible bond must be accounted for separately (IFRS 2013). That is, each component must be treated separately either as a liability or an equity. With Ruckman, Inc., convertible bonds are currently recorded as a liability. Thus, conversion is required. Additional information would be needed according to figures and current accounts that relate to convertible bonds. Chris will need to investigate and obtain this information to complete the conversion because without the figures, he cannot separate the liability and equity.

Interest expense under US GAAP is calculated with the effective interest method (Santoro, 104). Likewise, IFRS also uses the same method of calculation. Under the Debt section of the financial statement notes, Chris has sufficient information to determine the
conversion requirements for this topic. Furthermore, no additional information is required and
the presentation details are alike.

I. Earnings Per Share

Under IAS 33 and ASC 260, earnings per share (EPS) calculations are quite similar. Much of the same information is disclosed for the presentations. To illustrate, US GAAP and IFRS, “require the presentation of basic and diluted EPS on the face of the income statement” (US GAAP VS. IFRS: The Basics). Major factors of EPS are:

- Basic and diluted EPS are presented for any company that will issue shares to the public market
- Basic and diluted EPS information is presented in the statement of comprehensive income
- Basic EPS calculation
- Diluted EPS calculation

(Santoro, 79-81)

Due to the importance of EPS, it is understandable why the similarities exist. IAS 33 tells how to calculate both EPS and diluted EPS (IFRS 2013). With regard to Ruckman, Inc., the minor differences are in application, thus would not be stated in note (I) of the financial statements. In turn, Chris would be required to conduct further analysis about the company’s contracts settling on shares, calculations, and treatment (US GAAP VS. IFRS: The Basics). Beyond that, sufficient information is provided in the disclosure of EPS to make the conversion. No major differences in presentation exist. Specifically, for Ruckman, Inc., the notes under EPS
state that the calculation for basic EPS is the same as IFRS. That is, EPS “are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year” (Ruckman, Inc.: 2011). With that said, IAS 33 states, “Basic EPS is calculated by dividing the profit or loss attributable to holders of ordinary equity of the parent by the weighted-average number of ordinary shares outstanding during the period (Santoro, 79).

Similarly, as IFRS requires that diluted EPS include dilutive potential like convertible bonds, the notes under EPS make clear that it is done under the same objective. That is, sufficient information has been given in regard to the calculation. To note, one potential difference that has been discussed is the prohibited use of extraordinary items. Under US GAAP, enterprises with any extraordinary items must inform people in their financial statements. Thus, as IFRS does not have this concept, extraordinary items would not be relevant to consider. Overall, conversion, for Ruckman, Inc. will be quite easy as applicable and determining factors of US GAAP resemble IFRS requirements and regulations.

With that said, Chris should still pay special attention to the results of net income from conversion to IFRS. This is important because EPS is a number that is highly noted by the market and future investors. Thus, even with its similarities in application, Chris should still pay attention to the effect of other conversions will have on EPS and its position for the company. More so, it is important to have an understanding of how EPS will be increasing in the future and what helps or hinders EPS growth.

J. Investments
With regard to this section, far more similarities exist than differences. To note, for Ruckman, Inc., the company’s current practices given supply sufficient information required for the conversion to IFRS.

To explain, IFRS classifications are more in-depth for financial assets by consider all possible units. Similar categories for financial assets include held-for-trading, available-for-sale, and held-to-maturity for debt and marketable equity securities (Santoro, 100). These categories determine measurement recognized. An important difference is that IFRS includes unlisted equity in certain categories for trade (Santoro, 103). Before analyzing this topic further, so far Chris does have enough information to determine that equity securities currently classified, as available-for-sale would converge to IFRS. With that said, Chris can also do further analysis in determining whether this is the best method under IFRS. Additional information that Chris could use would be information about impairment and profit or loss history the company has seen with its equity securities. Developing the information about unlisted equity further, current US GAAP standards allow these securities to be carried at cost (Santoro, 111). In contrast, IFRS requires that these financial assets either be measured at fair value or at cost (Santoro, 103). Currently, Ruckman, Inc. is carrying unlisted securities at cost. Thus, sufficient information is provided to determine that conversion is possible due to the difference in accounting methods. Chris will need detailed additional information about all current investments to make a proper analysis of how to make this conversion. Also, Chris will need this additional information to analyze the potential to exercise other practices allowed under IFRS that is prohibited or different under US GAAP standards.
Also, considering listed securities in the financial statements, Chris has sufficient information in regard to determine that no conversion is required - unless exercised for a more effective communication with the public – at measuring these investments at fair value. IFRS requirements for financial assets held for trading are measured at fair value. Currently, the financial statements disclose that listed securities are measured at fair value. Thus, Chris has enough information to determine the possibility of conversion.

To note, no insufficient information is given in regard to make a proper analysis. However, it would be advisable that Chris investigates all current investments to categorize them properly into IFRS requirements. That is, as IFRS has categorizations that measure all financial assets and financial liabilities, it would be preferred that Chris investigates these items in detail by gathering the data on all current investments held by Ruckman, Inc. With this information Chris can make a proper assessment about the best financial positioning the company can acquire through IFRS standards.

K. Revenue

With regard to revenue recognition, under IAS 18 and ASC 605, US GAAP standards, relative to Ruckman, Inc. do not differ dramatically from IFRS requirements.

To illustrate, a major similarity of both standards is the realization of revenue. Under IFRS, revenue is recognized under two criteria. The first is that future economic benefits will flow to the entity is probable and the second is that the benefits can be reliably measured
Compared to US GAAP, the guidelines institute the same principle with different phrases. That is, revenue is recognized when it is, “earned and realized or realizable” (Santoro, 61). The major difference in revenue’s recognition rests in the strict style of rules that US GAAP adheres to compared to the more flexible interpretation of IFRS requirements. US GAAP has criteria differing for specific types of revenue-generating transactions (Santoro, 61). With all that said, for Ruckman, Inc.’s financial statement, the current revenue recognition policy is acceptable under IFRS. Chris does have sufficient information in regard to determine that conversion is required and at what extent. Namely, under the Revenue notes in the financial statements, Ruckman, Inc. clearly states that there are three main terms of arrangement for recognizing revenue, which all follow US GAAP (Ruckman, Inc.: 2011). This information found in the financial statements illustrates that both requirement for IFRS revenue recognition policy are met. In detail, revenue for the sale of goods is recognized when, as IAS 18 states, “the entity has transferred the significant risks and rewards of ownership to the buyer and it no longer retains control or has managerial involvement in the goods” (Santoro, 61). Accordingly, US GAAP’s definition for revenue from the sale of goods is the same with the exception that US GAAP has more specific criteria in regards to this principle than IFRS (Santoro 61). Following this analysis, Chris does have sufficient information to determine the conversion required. The accounting under US GAAP does not differ in presentation or methodology. Thus, the revenue from replacement parts, paper, and pulp sales is recognized properly as well. In that, sales are recognized when legal title passes from the company to the customer. In all, no additional information is required to the revenue recognition of semiconductor equipment being sold.
Following, IFRS allows arrangements of more than one component to be separated (Santoro, 61). Under US GAAP, this is also true with guidelines for making the assessment (Santoro, 61). Since US GAAP guidelines dictate if this arrangements including multiple elements could be separated or qualify as one and Ruckman, Inc. has determined that the installation services with semiconductor and compound-semiconductor equipment is one unit under US GAAP standards, it would be a proper conclusion to assess that (1) IFRS standards are met and (2) that it can be converged into IFRS with or without any change. In other words, sufficient information has been provided to determine the conversion and that the accounting method under US GAAP is acceptable under IFRS with regards to the sales of semiconductor and compound-semiconductor equipment that includes installation services. No additional information is required.

Lastly, in regards to the service contracts, IFRS requirements are similar to US GAAP. The conversion information is provided and no additional information is needed for Chris to determine the conversion. However, Chris will need to address the accounting method. Under US GAAP, the accounting method for service contracts is recognized under the straight-line or proportional performance method (Santoro, 62). IFRS recognizes revenue from service contract under the percentage-of-completion method (Santoro, 62). Thus, the difference in accounting methods needs to be addressed and sufficient information has been included to determine that conversion is required. Overall, for the service contracts revenue recognition, Chris can see that the accounting method needs to change from a straight-line method to a percentage-of-completion method to meet IFRS requirements.
L. Expenses

With regard to Cost of Sales under the Expenses section, this is discussed in (d) Inventory. Also, with regard to Research and Development, under (f) Intangible Assets is a detailed discussion about conversion to IFRS.

M. Deferred Tax

Under ASC 740 and IAS 12, Income taxes are discussed. Overall, income taxes definition is relatively the same. In practice, the differences in definition do not have any major implications (Santoro, 55). More so, current tax is considered the same. Thus, in consideration of income tax accounting practices and overall definition, the conversion to IFRS requires no additional information for Chris to assess.

With regard to deferred taxes, US GAAP and IFRS contain detail information in the treatment of this policy. Concerning Ruckman, Inc., deferred taxes are recognizes the same way under IFRS as US GAAP (Santoro, 55). That is, deferred taxes recognize the temporary differences in the estimated future tax effects (Santoro, 55). More so, they realize unused tax losses and tax credits carried forward (Santoro, 55). Thus, Chris has sufficient information to believe the basis of both policies is comparable. Further, under both systems, deferred taxes are measures on rates that are enacted on the reporting date (Santoro, 56). Although, under IFRS, deferred taxes can also be based on taxes that are ‘substantively’ enacted (Santoro, 56). With this information, Chris has been given sufficient information to determine the conversion requirements. In Ruckman, Inc.’s financial statements it states that deferred taxes are calculated based on tax rates applicable at the balance sheet date (Ruckman, Inc.: 2011). More
so, recognition procedure used by Ruckman, Inc. is upon adoption of the amended law (Ruckman, Inc.: 2011). Following US GAAP policy, Ruckman, Inc. has to consider if any ‘substantively’ enacted tax laws are in motion as they create their IFRS financial statements. With that said, additional information like current tax laws in all taxed areas needs to be analyzed and reviewed for any possible changes to deferred taxes.

In the presentation of deferred tax under IFRS, classification is as a non-current asset section (Santoro, 57). Comparable to US GAAP, it is either classified as current or non-current (Santoro, 57). Thus, Chris has sufficient information in this regard to address that a conversion is required. That would be for deferred tax assets to be taken from current assets to non-current assets. No additional information is required.

N. Employee Benefits

Under ASC 715, ASC 712, and IAS 19, Employee benefits are compared in similar sections with differences lying in practices. Employee benefits, under IAS 19, is defined as, “a single standard that covers all forms of employee compensation and benefits other than share-based compensation” (Doupnik and Perera, 2012:181). Largely, all liabilities for employee benefits are expensed for both standards (Santoro, 64).

First, with regard to transition of a ‘defined contribution plan’, US GAAP follows the same definition as IFRS until the disclosure of post-employment benefits. Notably, other post-employment benefit plans outside of a defined contribution plan can be either, “defined contribution or defined benefit plans” (Santoro, 64). Under this observation to begin, Chris will need to address the classification of all employee benefits in association with post-employment
benefit plans to be classified as either a defined contribution or defined benefit plan. Thus, Chris will need additional information in regard to current classifications of all employee benefits that are given.

Otherwise, similarities are quite large between a defined contribution plan under IFRS and US GAAP. Considering, both standards expense this accounting category as obligations of payment are incurred (Santoro, 64). For Chris, under the financial notes of Employee Benefits, for defined contribution pension plans, they are currently recognized as an expense as incurred in the income statement (Ruckman, Inc.: 2011). With that said, Chris has sufficient information in regard to accounting’s current policy to make the conversion to IFRS standards. Also, Chris has enough information in regard to how defined contribution plans are recognized and handled under current accounting policy to make the conversion to IFRS, which uses the same grounding principles.

In regard to defined benefit plans under employee benefits, the conversion may be quite simple because current methods follow the same standards as IFRS. However, consideration on behalf of Ruckman, Inc. would not be negligible due to ability while converging to consider new and effective ways of communicating with investors a clear representation of the company. To illustrate, under IFRS ‘defined benefit plans’ are recognized as a liability and expensed using an actuarially under the project unit credit method (Santoro, 65). Similar to US GAAP, this accounting method is accepted. More so, Ruckman, Inc. clearly stated in the financial statement under Exhibit 1 currently uses this method. Thus, Chris has been given sufficient information in regard to the accounting method used. Giving attention to
the measurement of a defined benefit plan, first a major similarity exists in obligation to include estimated future salary increases (Santoro, 65). However, IFRS requires that, with evidence that it will occur, to include a future change in state benefits (Santoro, 65). US GAAP does not include this until it occurs. For Ruckman, Inc. the information in the financial statements has sufficient information given to make the conversion. The difference in accounting methods is not stated if Ruckman, Inc. deals with this requirement about future changes in state benefits. Thus, it would be smart of Chris to find additional information about changes in state benefit plans that may occur in the future and if reliable evidence is given.

To discuss actuarial gains or losses under employee benefits, one major difference exists. Both standards use a corridor approach. For Ruckman, Inc. the corridor is a 10 percent corridor said to, “mitigate volatility of net periodic benefit costs from year to year” (Ruckman, Inc.: 2011). Under IFRS, actuarial gains or losses are recognized immediately in other comprehensive income (Santoro, 68). This, successively, identifies that these gains or losses do not need to be recognized in the income statement (US GAAP VS. IFRS: The Basics). Thus, conversion for Ruckman, Inc. requires recognition of gains or losses immediately in other comprehensive income. For Ruckman, Inc. the corridor approach may be an effective way to continue to account for gains and losses; yet, this allows another option for the gains or losses to be recognized immediately in other comprehensive income and not recognized in the income statement (US GAAP VS. IFRS: The Basics). For Chris, a pervasive understanding of these practices will be important to identify the best possible way to communicate the financial position of Ruckman, Inc. In essence, the current presentation with the 10 percent corridor and
excess to be amortized provided sufficient information that no conversion is required; however, with the conversion to IFRS, it may be valuable to recognize these gains or losses immediately in other comprehensive income. Chris can assess if this is positive or negative for the company with more information about the detailed numbers, possible future state benefits for employees, and how much volatility Ruckman, Inc. has seen in the past. Also, considering if there currently is any excess amortized over the average remaining service period, what magnitude will this effect the other comprehensive income section as an immediate recognition over an amortized procedure.

Specific information that Chris will require to conduct a further analysis about a full disclosure of employee benefits that is not clearly stated in the financial statements would be:

- Multi-employer pension plans
- Short-term and Long-term employee benefits
- Timing of recognition of terminating benefits

(US GAAP VS. IFRS: The Basics)

These items must be addressed according to IFRS requirements. In full, employee benefits demonstrate a smooth conversion in accounting methods. With that said, Chris has the opportunity to investigate the best possible methods for IFRS to communicate a clear representation of Ruckman, Inc. to investors, employees, and shareholders.

O. Leases

Under Exhibit 1, in preparation for the conversion to IFRS standards, Ruckman, Inc. is involved in one of the two main classifications of leases, operating leases. To note, in the
conversion to IFRS, with the ability for a company like Ruckman, Inc. to change its current policies to not only fit IFRS but also better communicate the companies financial position with investors, careful consideration of lease classifications should be discussed. It is important to consider in the beginning because modifications are not allowed under both US GAAP and IFRS (Santoro, 74). Moreover, classification for leases depends highly on ownership of risks and rewards on the lessor or lessee under both standards (Santoro, 74). For Chris, the information given is sufficient to conclude that the company currently only has operating leases. Thus sufficient information has been provided for Chris to now look into the differences in operating leases for the conversion to IFRS from US GAAP standards. With that said, it would not be irrelevant for Chris to also further analyze the companies current position and leasing options to better suite its future operations. Granted, under US GAAP standards, a company’s financial position is determined by ‘proper’ use of capital. Thus, a company like Ruckman, Inc. will inherently check the volatility of line items like leases to estimate if it will have a positive or negative effect on the over financial position of the company. Therefore, it will be important and also valuable for Chris to discuss with Martha and others about these current options as Ruckman, Inc. transitions into IFRS standards.

In regard to operating leases, IFRS overall is quite similar to US GAAP standards. For instance, a lease is held under an executor contract for both the lessor and the lessee recognizing payments as income or expense (Santoro 75). Recognition in the financial statement is also identical. Moreover, a detailed note would be if any incentives are granted to the lessee with an operating lease, it is recognized as a reduction in the accounting for the
lease over the term (Santoro, 75). Since this is true, operating leases function on the financial statements comparably. Provided that, Chris has sufficient information in regard to the conversion to IFRS. In full view, differences in presentation do not exist. However, additional information can be beneficial for Chris. That is, Chris should obtain additional information in regard to complete a proper conversion about a possible reclassification into investment property. In IFRS compared to US GAAP: An Overview, it states:

“A lessee may classify a property interest held under an operating lease as an investment property. If this is done, then the lessee accounts for the lease as if it were a finance lease, measures investment property using the fair value model and recognizes a lease liability for future lease payments”

(Santoro, 74)

Accordingly, Ruckman, Inc. now has a new option of classification called investment property. It would be in the companies best interest for Chris to gain information in regard to current operating leases, their function, and if reclassification would be a more effective way of communicating the current operating lease section with the public. In all, the conversion information is provided given that no changes are made to current practices. Specifically, using the straight-line basis over the term of the lease for operating leases is acceptable and fulfills the requirements of IFRS under IAS 17.33 (IFRS 2013).

Lastly, under operating leases, insufficient information is given for Chris to make a wise consideration about operating leases. Chris will need to obtain information about the specific active operating leases that Ruckman, Inc. is discussed in the financial statement. In detail,
Chris could make an accurate assessment on this section of the financial statement if he knows about lease agreements that Ruckman, Inc. currently is engaged with the items of land with a building. The importance of this information is that leases of land with a building can be treated separately that means each could be classified differently as either a finance lease or operating lease (Santoro, 75). This is different than US GAAP, in that requirements for classifications differ in that US GAAP standards are more in detail. Therefore, Ruckman, Inc. has the ability to reclassify leases of land with a building if it better communicates their financial position to the public. With that said, insufficient information is available and must be obtained to make a proper assessment on the lease of land considering Ruckman, Inc.’s operations.

P. Statement of Cash Flows

With regard to the cash flow statement, under Ruckman, Inc.’s current financial obligations, conversion information is sufficient to make the transition. However, like many financial statement sections, additional information regarding certain practices is neither unclear nor insufficient.

To begin, the cash flow statement requirements under US GAAP and IFRS has an abundance of similarities. Again, it is important for Chris to understand that the basic difference in US GAAP as a rule-based approach versus IFRS as a principle-based approach is typically where discrepancies begin to happen. For instance, the main classifications in the statement of cash flows during a certain period for both systems are operating, investing, or financing (Doupnik and Perera, 2012:150). Both systems also allow for the indirect and direct
method. To note, Chris is given sufficient information in regard to accounting methods used. In particular, the indirect method is stated to be the methodology used.

Now, with that said, application of these two main principles is where the differences begin to rise to the surface. Consider the first similarity regarding classification, under US GAAP, separate components of a single transaction are classified, “based on the predominant source of the cash flows unless the underlying transaction is accounted for as having different components” (Santoro, 11). Under IFRS, these separate components of a single transaction are classified operating, investing, or financing (Santoro, 11). The implication of this is more detailed scrutiny and understanding of each line item in the statement of cash flows for proper presentation. With regard to the transition of this information to IFRS requirements, adjustments on presentation are possible and may be beneficial for Ruckman, Inc.’s public view as all the discrepancies in the statement of class flow requirements are addressed.

Considering the second similarities, Ruckman, Inc. currently uses a method that is accepted under IFRS standards. That is, the presentation of the statement of cash flows uses the indirect method. For Chris, sufficient information is given considering that the practice of Ruckman, Inc. is acceptable under IFRS standards. With regard to this information, under IFRS, while using the indirect method the beginning of the reconciliation from income to cash flows, it does not specifically say what it must begin with (Doupnik and Perera, 2012:150). On the other hand, under US GAAP, under these pretenses, it is stated in the text International Accounting that, “the reconciliation from income to cash flows must begin with net income” (Doupnik and Perera, 2012:150). Chris then has the ability to use this knowledge to make
some conclusions for Ruckman, Inc. First, Ruckman, Inc. has the option of reordering their statement of cash flows to better illustrate the company's financial position. Also, Chris can conclude that differences in presentation are going to be a bigger issue with the statement of cash flows rather than actual accounting methods. That is, the current accounting methods are held to a higher scrutiny and with the conversion to IFRS, Ruckman, Inc. will be able to have more freedom in preparation of the statement of cash flows.

Considering the statement of cash flows, there are areas where Chris will need more information to make an accurate assessment that is not explicit in the financial statements. First, Chris will need to obtain additional information in regard to classifications of interest and dividends. Under US GAAP and identical to IFRS, classifications of interest paid/received and dividends received can be given their own policy for classification under operating or financing (Santoro, 11). In contrast, dividends paid are only classified as financing (Doupnik and Perera, 2012:150). With that said, Chris will need to obtain addition information in detail about, most importantly, dividends paid classifications. His analysis will evaluate if dividends paid should be listed as an operating cash flow versus a financing cash flow for future dividends. Currently, Ruckman, Inc. has paid no dividends. Thus, the issue is not current; yet, it is knowledgeable to address. Second, concerning income tax, classification, overall under US GAAP is classified as operating activates (Santoro, 11). When it comes to IFRS, income taxes have more flexibility on classification and could be considered either one of the three (Santoro, 11). This implies for Chris a need to address income taxes paid if they are better described in different sections of the statement of cash flows. Again, to make an accurate
assessment, Chris will need to address the current practices for income taxes addressed in the statement of cash flows. To note, sufficient information is given in regard to cash inflows and cash outflows from taxes and interest to be included in operating activity (Ruckman, Inc.). With this information, Chris can understand where the classification is currently; yet, with the bigger freedom of IFRS, Chris has more options to diversify these line items in different areas of the statement of cash flows. Lastly, another area Chris needs more information is in the detailed items under cash and cash equivalents. For both US GAAP and IFRS, cash and cash equivalents includes, in general, short-term investments (Santoro, 11). However, under US GAAP, detailed inspection of particular items like short-term investments in full and bank overdrafts can be classified differently (Santoro, 11). With this analysis, Chris will need to obtain information in regard to all short-term investments and bank overdrafts and the classification for each to make an accurate assessment for Ruckman, Inc. To note, under the section (h) Debt, Ruckman, Inc. discusses its considerations about bank overdrafts and how they deal with them. Bank Overdrafts were discussed in section (b) Cash and Cash Equivalents in more detail. Through this analysis, Chris can see, under IFRS more responsibility is given to the company. These three items possess a commonality between them that is more freedom in practices than US GAAP currently allows. To restate, this also reveals the basic truth of the different approaches that US GAAP and IFRS use. Overall, without this information for these three main points, Ruckman, Inc.’s conversion to IFRS may lose the opportunity to start under IFRS with the right policies for the company to present itself in the proper way toward the public. This information will help Chris do a proper analysis for each Ruckman, Inc.
Closing Remarks

In conclusion, it has been advised repeated throughout many of the sections that Chris should consider doing an in-depth analysis of how to most effectively communicate Ruckman, Inc.’s financial position to the public. Stated clearly from Ernst and Young, “Conversion is of course more than just an accounting exercise, and identifying accounting differences is only the first step in the process” (US GAAP versus IFRS: The Basics). This analysis covers what Chris will need to address. Yet, with that said, Chris will need to continue to monitor the transition in implementation and control any detours or roadblocks. The depth of this project creates a length for this project to be researched, planned, and implemented over the course of years. As IFRS and US GAAP reach more agreements, this process length will be shortened. Successful conversion will require constant monitoring of changing IFRS standards while maintain an effective rate of achievement towards the goal of IFRS financial statements.
Works Cited


