

Mexico vs. us vs. ifrs essay



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pwc. com/mx/ifrs IFRS, US GAAP and Mexican FRS: similarities and differences* The Summary A comparison of IFRS, US GAAP and Mexican FRS pwc. com/mx/ifrs PricewaterhouseCoopers Mexico Mariano Escobedo 573, Col. Rincon del Bosque. C. P. 11580, Mexico, D. F. Tel. : 5263 6000 Fax: 5263 6010 © 2009 PricewaterhouseCoopers. All rights reserved.

PricewaterhouseCoopers refers to PricewaterhouseCoopers Mexico, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. *connectedthinking is a trademark of PricewaterhouseCoopers. connectedthinking A closer look A sampling of differences This publication is designed to alert companies to the scope of accounting changes that IFRS conversion will bring and to stimulate executive thinking and preparation. With that in mind, the body of the publication provides an overview of some differences between IFRS, US GAAP and Mexican FRS(1). The differences with US GAAP included are considered relevant because some Mexican entities may have had identified the differences between Mexican FRS and US GAAP for example for a listing in the US and might find helpful this reference.

This section provides a summary of some of the similarities and differences discussed in more detail on the complete publication. No summary publication can do justice to the many differences of detail that exist between US GAAP, IFRS and Mexican FRS. Even if the guidance is similar, there can be differences in the detailed application, which could have a material impact on the financial statements. In this publication, we have focused on the measurement similarities and differences most commonly found in practice.

When applying the individual accounting frameworks, readers must consult all the relevant accounting standards and, where applicable, their national law. Listed companies must also follow relevant securities regulations and local stock exchange listing rules. (1) Mexican Financial Reporting Standards – Mexican FRS. The references included herein are identified considering the new guidance effective from January 1, 2009 1 Revenue recognition Broad-based differences in the accounting for the provision of services (US GAAP generally prohibits the approach required by IFRS) may impact the timing of revenue recognition.

Differences involving the separation of multiple deliverable arrangements into components, and the allocation of consideration between those components, may impact the timing of revenue recognition. Where differences exist, revenue may be recognized earlier under IFRS and Mexican FRS(1). The guidance in IFRS with respect to how customer loyalty programs are treated may drive significant differences. The incremental cost model that is permitted under US GAAP is not accepted under IFRS and Mexican FRS(1). 1) Mexican FRS requires following the IFRS guidance for revenue recognition as there is no specific standard in accordance with the framework except for construction contracts where specific literature exists under Mexican FRS. When transitioning to IFRS, the accounting policy should be revisited. Expense recognitions share-based payments Companies that issue awards that vest ratably over time (e. g. , 25% per year over a four-year period) may encounter accelerated expense recognition as well as a different total value to be expensed, for a given award, under IFRS and Mexican FRS (2).

Income tax expense (benefit) related to share-based payments may be more variable under IFRS. There are differences as to when an award is classified as a liability or as a component of equity. Those differences can have profound consequences, since awards classified as liabilities require ongoing valuation adjustments through earnings each reporting period, leading to greater earnings volatility. (2) For Mexican FRS, the IFRS guidance for share based payments was followed until December 31, 2008, as there was no specific standard issued in accordance with the framework.

The new guidance applicable from 2009 is similar to IFRS. However, careful consideration should be given on the application of the new Mexican guidance as differences could arise in practice. Expense recognitionemployee benefits Under IFRS, companies may elect to account for actuarial gains/losses in a manner such that the gains/losses are permanently excluded from the primary statement of operations. Differing restrictions over how assets are valued for the purposes of determining expected returns on plan assets exist under IFRS.

IFRS allows for the separation of certain components of net pension costs whereas US GAAP and Mexican FRS do not. The interest cost and return on assets components of pension cost may be reported as part of financing costs within the statement of operations under IFRS as opposed to operating income under US GAAP and Mexican FRS. Assets— nonfinancial assets Differences in the asset impairment testing model may result in assets being impaired earlier under IFRS and Mexican FRS. However, there are certain differences on the impairment testing under the three frameworks.

The broad based requirement to capitalize development costs under IFRS and Mexican FRS (when certain criteria are met) creates the potential for differences compared with US GAAP, wherein development costs are generally expensed as incurred. IFRS prohibits (whereas US GAAP and Mexican FRS permit) the use of the last-in, first-out inventory-costing methodology. In addition, Mexican FRS accepts the inventory costing excluding the fixed overhead costs. IFRS and Mexican FRS do not have bright line testing criteria for the classification of leases (i. e. operating or finance (capital) leases). In addition, the three frameworks achieving sale/leaseback accounting and earlier gain recognition under sale/leaseback accounting are more frequent when reporting under Mexican FRS.

2 Assets— financial assets

Many financing arrangements, such as asset securitizations, that achieved off balance sheet treatment (i. e. , derecognition) under US GAAP will require full or partial-balance sheet recognition under IFRS. Under Mexican FRS the requirements are very similar to IFRS but in practice the derecognition treatment could be achieved.

Investments in unlisted equity securities generally need to be recorded at fair value under IFRS, whereas under US GAAP they are generally recorded at cost (except for certain industries that apply a fair value model). For Mexican FRS purposes, long-term investments in equity instruments where there is no control, significant influence or joint control are recorded at cost. Differences in the treatment of changes in estimates associated with certain financial assets carried at amortized cost may affect asset carrying values and reported earnings differently under the three accounting frameworks.

Liabilities—taxes There are differences in the recognition and measurement criteria of uncertain tax positions (i. e. , income tax contingencies) under IFRS, US GAAP and Mexican FRS. The physical location of inventory that has moved cross border within a consolidated group can impact tax expense differently under the three frameworks. Deferred taxes on intragroup profits are determined by reference to the buyer's tax rate under IFRS. When reporting under US GAAP, any income tax effects resulting from intragroup profits are deferred at the seller's tax rate. Mexican FRS is silent on this respect.

Differences in the treatment of subsequent changes to certain previously established deferred taxes could result in less volatility in the statement of operations under IFRS and Mexican FRS. **Liabilities-other** Differences within the accounting for provisions, including differing thresholds as to when provisions are to be established, may lead to earlier recognition of expense under Mexican FRS. Specific communication to employees regarding the details of a restructuring plan is not required before the recognition of a provision under IFRS and Mexican FRS (which could accelerate the timing of expense recognition).

Financial liabilities and equity Generally, warrants issued in the US can be net share settled and, hence, are classified as equity under US GAAP.

Warrants of that nature would, under IFRS and Mexican FRS, be considered derivative instruments and would be marked to market through earnings.

More instruments are likely to be classified as liabilities, as opposed to equity, under IFRS and Mexican FRS (e. g. , instruments with contingent settlement provisions). Because balance sheet classification drives the

treatment of disbursements associated with the instruments in question, the classification differences would also impact earnings (i. e. , the treatment of disbursements as interest expense as opposed to dividends). However, there are certain differences between IFRS and Mexican FRS. More instruments are likely to require bifurcation, resulting in treatment as two separate instruments under IFRS and Mexican FRS (i. e. , compound and convertible instruments being split between equity and liability classification). The split accounting under IFRS and Mexican FRS versus the singular accounting under US GAAP can create a significantly different balance sheet presentation while also impacting earnings.

In addition, the result under Mexican FRS and under IFRS could be different even if in both cases the split accounting is achieved. 3 Derivatives and hedging While the hedging models under IFRS, US GAAP and Mexican FRS are founded on similar principles, there are a number of detailed application differences, some of which are more restrictive under IFRS and others of which are more restrictive under US GAAP and/or Mexican FRS. In relation to effectiveness testing, IFRS does not permit the shortcut method that is accepted under US GAAP and Mexican FRS.

As a result, if hedge accounting is to be maintained on an uninterrupted basis, current US GAAP and Mexican FRS reporting entities using the shortcut method will need to prepare documentation that supports hedge accounting (outside of the shortcut strategy), with said documentation in place no later than the transition date to IFRS. IFRS does not include a requirement for net settlement within the definition of a derivative, effectively resulting in more instruments being recognized as derivatives under IFRS.

Hence, more instruments will be recorded on the balance sheet at fair value with adjustments through earnings and greater earnings volatility when reporting under IFRS. Consolidation The entities consolidated within the financial statements may vary with, generally, more entities consolidated under IFRS. IFRS focuses on a control-based model, with consideration of risks and rewards where control is not apparent. US GAAP utilizes a dual consolidation decision model, first assessing a variable interests model and then a voting control model.

Mexican FRS follows a similar approach to IFRS, however certain differences exist. US GAAP is undergoing significant changes in converging with IFRS in this area. Companies will be required to present noncontrolling interests as part of equity following the implementation of new US GAAP guidance.

Additionally, in the event of a loss of control, to the extent any ownership interest is retained, the new US GAAP guidance will require that the interest retained be remeasured at fair value on the date control is lost. Any resulting gain or loss will be recognized in earnings.

This is similar to the accounting currently required under IFRS and Mexican FRS, except that the Mexican FRS guidance does not permit remeasurement to fair value on the date control is lost. Equity Method Mexican FRS requires analysing whether significant influence exists in Special Purpose Entities to apply the equity method to such investments, whereas this is not required for IFRS or USGAAP. For the preparation of separate financial statements (non- consolidated) the investment in subsidiaries, associates and joint ventures should be valued using the equity method.

IFRS requires to measure investment in subsidiaries, associates and/or joint ventures in separate financial statements at either cost or fair value (equity method is not permitted) Business combinations US GAAP is undergoing significant changes in converging with IFRS in this area. Upon the adoption of the new US GAAP guidance, many historical differences will be eliminated, although certain important differences will remain. Mexican FRS was revised considering the convergence with US GAAP and IFRS and is effective from January 1, 2009.

The detailed section on the publication provides an example of such differences. 4 A helpful reminder Mexican FRS As from June 1, 2004, the Mexican Board for Research and Development of Financial Reporting Standards (CINIF for its acronym in Spanish) assumed the duties and responsibilities for issuance of Mexican FRS, activity that was carried out previously by the Mexican Institute of Public Accountants (IMCP for its acronym in Spanish). As its main project, the CINIF made a decision to conduct a study of IFRS and US GAAP to identify the most significant differences with a view to promoting its convergence.

The first step was revising the framework as well as revising some old Mexican standards to adapt them closer to IFRS. The plan is to finish the revision of Mexican FRS by 2011. The standards previously issued by the IMCP were called “ General Accepted Accounting Principles in Mexico” and the standards issued by the CINIF are called “ Financial Reporting Standards” For the purpose of this publication all the Mexican guidance is considered Mexican FRS, when necessary the distinction is made by reference to old FRS

or new FRS, otherwise the Mexican FRS refer to both and effective at the time of publishing this document.

Mexican FRS framework requires following IFRS (as issued by the IASB) as supplementary, when no specific guidance is provided by Mexican FRS for a particular transaction or event. PwC Mexico has prepared a list of those IFRSs, including interpretations (SICs or IFRICs), that are considered supplementary for compliance with Mexican FRS. The analysis of the supplementary application of IFRS for Mexican FRS purposes is relevant as it could reduce the differences when transitioning to IFRS.

However, care should be taken because in certain circumstances the full application of the supplementary IFRSs was not considered because of specific facts and circumstances of the transaction or event and the interaction with other Mexican FRSs. Therefore, more differences could arise in practice. 5 Standard/ Interpretation IAS 18 Title Revenue Summary This standard establishes the accounting treatment of the revenue arising from the ordinary activities of an entity and when revenue should be recognized. This standard also establishes the rules relative to the dividend's revenue recognition.

Mexican FRS C-11 “ Stockholder’s equity” establishes the concerning rules, so it would not be appropriate to apply the IAS 18 dispositions on this matter in a supplementary way. IAS 18 is effective for annual periods beginning on or after January 1, 1995. INTERPRETATIONS that are also consider as supplementary in connection with revenue recognition: – SIC 31 Revenue – Barter transactions involving advertising services, establishes the conditions for the

recognition of revenue regarding barter transactions involving advertising services.

This interpretation only applies to an exchange of dissimilar advertising services. An exchange of similar advertising services is not a transaction that generates revenue under IAS 18. This SIC is effective from December 31, 2001. – IFRIC 13 Customer loyalty programmes These programmes consist in the granting of benefits (points that might be redeemed for products or services of the own entity or third parties, discounts in subsequent purchases, prices, etc. to the clients as a part of a sales transaction. The IFRIC establishes that such benefits should be recognized separately from the sales transactions. This IFRIC is effective for periods beginning on or after July 1, 2008. IAS 20 Accounting for Government Grants and Disclosure of Government Assistance This addresses the accounting and information to be disclosed on the grants from the government, as well as the aspects to be disclosed in relation to other forms of government assistances.

This standard is effective for annual periods beginning on or after January 1, 1984. INTERPRETATION that is also consider as suppletory in connection with government grants: – SIC 10 “ Government assistance- No specific relation to operating activities”, which establishes that the government assistances that are not related to the operating activities of the entity receiving them, should be recognized in the income statement. This SIC is effective from August 1, 1998.

IAS 26 Accounting and Reporting by Retirement Benefit Plans This Standard deals with accounting and reporting by the plan to all participants as a

group. It does not deal with reports to individual participants about their retirement benefit rights. Retirement benefit plans may be defined contribution plans or defined benefits plans. This standard is effective for annual periods beginning on or after January 1, 1988. IAS 31 Interests in Joint Ventures

This establishes the guidance for the accounting of interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However there are certain exceptions contained in the standards. Also, establishes that for jointly controlled entities, the proportional consolidation method should be applied, or alternatively the equity method to recognize the participation in such ventures.

This standard is effective for annual periods beginning on or after January 1, 2005. This version supersedes the one revised in 2000. INTERPRETATION that is also consider as suppletory in connection with joint ventures: – SIC 13 “ Jointly Controlled Entities- Non-Monetary Contributions by Venturers”, The interpretation deals with the venturer? s accounting for non-monetary contributions to a JCE in exchange for an equity interest in the JCE that is accounted for using either the equity method or proportionate consolidation.

SIC 13 is effective for annual periods beginning on or after January 1, 1999. 6 Standard/ Interpretation IAS 40 Title Investment property Summary This establishes the accounting treatment and disclosure requirements for investment properties defined as properties (lands, buildings, part of a

building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

The IAS 40 allows the use of one out of the two models proposed for valuation of the investment properties, these are: cost model and fair value model. The Mexican FRS Circular 55, "IAS 40 supplementary application - April 2001" issued by the IMCP, considers the IAS 40 as supplementary; but it is only accepted that the cost model is used for the recognition and measurement of the investment properties. IFRS 4 Insurance contracts

This standard specifies the financial information the insurers should present on the insurance and reinsurance contracts, as well as the recognition of the financial instruments with similar features issued by an entity, including matters such as: temporary exemption from the fulfillment with other IFRS (test of liabilities adequacy and impairment of assets for reinsurance contracts), insurance contracts acquired in a business combination, etc.

In Mexico, the entities belonging to the financial sector, including the insurers, prepare their financial information according to the rules issued by the CNBV which differ from the Mexican FRS so they should disclose this fact as well as the differences between such rules and the Mexican FRS, including the application of IFRS 4 as supplementary. This standard is effective for annual periods beginning on or after January 1, 2005. IFRS 6 Exploration For and Evaluation of Mineral Resources

This establishes the accounting treatment for the expenditures related to exploration and evaluation of mineral resources as well as the requirement of performing impairment test to those assets. This standard is effective for annual periods beginning on or after January 1, 2006. IFRIC 2 Member's Shares in Cooperative Entities and Similar Instruments Determining Whether an Arrangement Contains a Lease This interpretation provides guidance on how to account financial instruments, including members' shares that have characteristics of equity, including voting rights to participate in dividend distributions.

This IFRIC is effective for annual periods beginning on or after January 1, 2005. Provides a guide to determine if some arrangement are or contain a lease, in which case the provisions in the IAS 17 " Leases" should be applied. IAS 17 is not supplementary in Mexico, therefore, if based on IFRIC 4 it is concluded that there is an arrangement, the provisions of the Statement D-5 " Leases" should be applied. This interpretation applies to accounting in the financial statements of a contributor for interests from decommissioning funds as well as the related obligations assumed in their financial statements.

This interpretation is effective for annual periods beginning on or after January 1, 2006. This Interpretation provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the EU Directive. The IFRIC 6 is effective for annual periods beginning on or after December 1, 2005. IFRIC 4 IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation funds "

Liabilities Arising From Participating in a Specific Market: Waste Electrical and Electronic Equipment IFRIC 6 7 Standard/ Interpretation IFRIC 12

Title Service concession arrangements **Summary** This Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. The concessions covered within the scope of this IFRIC are those where: (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price, and (b) the grantor controls-through ownership, beneficial entitlement of otherwise-any significant residual interest in the infrastructure at the end of the term of the arrangement.

This Interpretation is effective for annual periods beginning on or after January 1, 2008. Currently, there is an exposure draft (INIF 17) regarding an interpretation on service concession arrangement similar to IFRIC 12 and is expected to be effective from January 1, 2010. New Mexican FRS The following standards and interpretations were considered supplementary until new guidance under Mexican FRS was issued as explained below: **Standard/ Interpretation** **Title** **Summary** **IFRS 2** Share-based payments This standard establishes the measurement, presentation and disclosure requirements to be followed in the event of share based payments.

This standard is effective from annual periods beginning on or after January 1, 2005 **INTERPRETATIONS** that were also consider as supplementary in connection with share based payments: **IFRIC 8** “ Scope of the IFRS 2”, clarifies that IFRS 2 applies to transactions in which the entity cannot identify specifically some or all the goods or services received as consideration for

equity instruments of the entity. It is effective from May 1, 2006 IFRIC 11 “IFRS 2 – Group and treasury share transactions”, which establishes the accounting treatment of shared based payments of different entities in a group. It is effective from May 1, 2006.

The Mexican FRS D-8 “ Shared based payments” effective from January 1, 2009, eliminates the supplementary application of IFRS 2, IFRIC 8 and IFRIC 11 from that date. SIC 12 Consolidation – Special purpose entities (SPE) Establishes that an SPE should be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity. The Old Mexican FRS B-8 “ Combined and consolidated financial statements and valuation of permanent share investments” does not consider the treatment for SPE? s therefore the interpretation is considered supplementary.

The Mexican revised FRS B-8 “ Combined and consolidated financial statements” and the new Mexican FRS C-7 “ Investment in associates and other permanent investments” (both effective from January 1, 2009) consider the consolidation of SPE? s in relation with subsidiaries and/or associates. Therefore, this new guidance eliminates the supplementary application of SIC 12 from January 1, 2009. 8 To have a deeper conversation about how this subject may affect your business, please contact: Alberto Del Castillo alberto. del. pwc. com Equipo de consultores altamente especializados en aspectos tecnicos de metodologia de conversion a IFRS, comprobada en mas de 1, 300 conversiones en Mexico y en el mundo. Centro de excelencia de PwC Mexico en IFRS con experiencia desde hace 6 anos. Profesionales especializados en IFRS y con calificacion <https://assignbuster.com/mexico-vs-us-vs-ifrs-essay/>

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