

# Questions-600-6

Finance



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Q1 Lease agreements The amount to be received upon the expiry of the lease will be the deposit plus the present value of the annual lease payment during the 10 years period (Barden et al, 2009).

Q2

#### Similarities

One, the definition used for cash equivalents is similar in both standards.

Two, the accounting treatment on measurement and recognition of receivables such as pledging, factoring, sales discounts, recording trade and use of percentage of sales are similar in both standards (Barden et al, 2009).

#### Differences

To begin with, iGAAP has no guidance regarding segregation of receivables with different characteristics (Barden et al, 2009). Two, US GAAP and iGAAP standards on fair value option for cash equivalents and receivables are similar but not identical. The iGAAP relating to fair value option is subject to certain criteria but the US GAAP is not plus there is no coverage of some financial instruments. Also, both standards differ on the criteria used in derecognizing receivables in that US standard uses loss of control while the international standard combines loss of control and risk and rewards criteria's.

Q3

Recovery losses on prior impairments may be recorded by Walton under iGAAP (Barden et al, 2009). On the other hand, under US GAAP, impairment reversals are not allowed. However, the loan balance after impairment is used as the new basis for the loan.

Q4

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### Similarities

The definition of inventories and accounting treatments are similar.

### Difference

Major differences occur in the methods of valuing inventories. US GAAP allows use of LIFO (last in, First out) inventory valuation method while the international standard does not permit LIFO (Barden et al, 2009). Also, US GAAP allows the costs of spoilage and idle capacity in inventory while iGAAP does not. Lastly, iGAAP allows reversal of write downs, if any, in inventories while UA GAAP does not.

### Q5

Majority of companies in US use LIFO in valuing inventories. LIFO is not internationally recognized (Barden et al, 2009).

### Q6

Operating segments are reportable if one of the following thresholds tests (Barden et al, 2009) is met:

10% asset test- this test is done to ascertain whether segment assets are 10% or more of combined assets of all operating segments.

10% revenue test- segment reported revenue is 10 percent of the overall organizations revenue.

10% profit and loss test- The absolute value of the segments reportable profit loss is 10% or more of the greater of the overall reported profit of all segments reporting profits, or the absolute value of the combined reported losses of all segments reporting losses.

To examine whether the reported segments are enough we will test the operating segment revenue without the intersegment sales. The threshold here is 75%. Therefore enough segments are reportable segment revenues

≥ 75% consolidated revenues.

Q7

a) Revenues are recognized using the same accounting principles as ones used in annual reports (Barden et al, 2009).

b) Products costs should be matched with its associated product and revenues just as it is the case of annual reporting (Barden et al, 2009).

Period costs are charged to earnings when incurred among interim periods.

c) Income tax in interim financial statements should be based on the effective tax rate for the entire year for ordinary earnings (Barden et al, 2009). The effective tax rate combines states and federal income tax rates such as capital gains, foreign tax rates and percentage of completion. The provision for income tax rates in interim reports is computed on a year-to-date basis.

Q8

Nicole, Inc. will not recognize a loss as at 31st Dec 2010. Under iGAAP personal injury is not recognized as contingent liability in financial statement since its fair value cannot be valued reliably (Barden et al, 2009).

Q9

The discreet approach to interim reports is acceptable under iGAAP (Barden et al, 2009) while USGAAP allows the integral part. Therefore, there can be difference between treatments in US. For instant, an iGAAP company expense can benefit later interim period through deferrals and accruals but the US entity will spread the cost across all interim periods.

Q10 Goods in transit

When the head office sends goods to the branch and not received by the branch on the last day of year, they are considered to be goods in transit

(Barden et al, 2009). In our case Bell Inc should report \$700, 000 as the closing inventory. The company had predetermined goods \$50, 000 to be in transit, therefore

Upon receiving the goods, it will Dr closing stock with \$75, 000

And then make an adjustment as it has to return the extra goods by Cr closing stock with \$25, 000

\$

Closing stock

650, 000

add: Goods in transit

75, 000

less: Goods returned

(25, 000)

700, 000

## References

Barden, Phil; Poole, Veronica and Hall, Norma, (2009). IGAAP 2010: A guide to IFRS. LexisNexis Butterworth