



RBei Classes

Best CFA & FRM Coaching in India

Concept-driven teaching • Exam-focused notes • Since 2015

CFA LEVEL I

IFRS vs US GAAP Notes



Financial Statement Analysis

Companion Notes • The Rules That Confuse Students

💡 Plain-English explanations 📊 Worked examples 🧠 Memory hooks ⚠️ Exam traps

Standard Setters

Presentation

Inventory

Long-Lived Assets

R&D & Software

Leases

Income Taxes

Cash Flow Statement

10,000+

Students Trained

350+

Batches Completed

4.9★

Average Rating

Since 2015

Trusted Coaching

★ Mentored by Deepak Goyal — CFA, FRM ★

Prepared by RBei Classes • rbeiset.com • A revision companion for serious CFA candidates

🔗 **IFRS vs US GAAP — finally made simple!** This is the #1 source of confusion in FSA. Each section gives a **side-by-side table** so you can see both rules at a glance, plus a **memory hook** and the **exam trap** to avoid. Blue = **IFRS** 🌐, Rust = **US GAAP** 🇺🇸.

🎯 **Bottom line:** IFRS is the flexible "revalue-up & reverse" rulebook; US GAAP is the rigid "historical-cost, no-reversal" rulebook — but it alone allows LIFO.

💡 **Why It Matters** 🧠 **Memory Hook** ⚠️ **Exam Trap** 🔑 **Key Fact**

1 🏛️ The Big Picture: Standard Setters

Two rulebooks, two philosophies. Knowing the "personality" of each helps you predict the rules.

Aspect	🌐 IFRS	🇺🇸 US GAAP
Standard setter	IASB — International Accounting Standards Board	FASB — Financial Accounting Standards Board
Approach	Principles-based — relies on judgment & the "spirit"	Rules-based — detailed, specific guidance
Where used	140+ countries (EU, much of Asia & the world)	United States

🧠 Memory Hook

"**IFRS = Principles (the spirit). US GAAP = Rules (the letter).**" Almost every difference flows from this. ⚖️

2 📄 Financial Statement Presentation

How the statements are laid out — small differences that students often over-think.

Item	🌐 IFRS	🇺🇸 US GAAP
Balance sheet order	No required order; many present non-current (least liquid) first	Typically current (most liquid) first
Extraordinary items	Prohibited	Prohibited (concept eliminated in 2015)
Comprehensive income	Single statement OR two statements	Single statement OR two statements

⚠️ Exam Trap

Both standards **prohibit extraordinary items** — don't fall for an answer claiming only one does. ✅

3 📦 Inventory

The most heavily tested IFRS/US GAAP topic. The headline: **LIFO is a US-only thing.**

Item	🌐 IFRS	🇺🇸 US GAAP
LIFO method	NOT permitted	Permitted
Allowed cost formulas	FIFO, weighted average, specific identification	FIFO, LIFO, weighted average, specific identification
Valuation	Lower of cost and NRV	Lower of cost and NRV (non-LIFO); lower of cost or market (LIFO & retail)
Write-down reversal	Allowed (limited to original write-down)	Prohibited

🧠 Memory Hook

"**LIFO = an American thing**" and "**IFRS forgives (reverses), US GAAP forgets (no reversal).**" 🔄

🔑 Key Fact

NRV = estimated selling price – costs to complete & sell. "Market" (US GAAP, LIFO/retail) = replacement cost, capped at NRV (ceiling) and NRV – normal profit (floor).

4 🏠 Long-Lived Assets (PP&E & Intangibles)

Big differences here. The theme: **only IFRS lets you revalue assets up and reverse impairments.**

Item	🌐 IFRS	🇺🇸 US GAAP
Measurement model	Cost OR revaluation model	Cost model only
Upward revaluation	Gain to OCI (revaluation surplus); reversal of prior loss to P&L	Not allowed
Component depreciation	Required (depreciate significant parts separately)	Permitted, but rarely used
Investment property	Separate category — cost OR fair value model	No separate category — treated as PP&E (cost)
Impairment test	One step : carrying amount vs recoverable amount*	Recoverability first (undiscounted CFs), then loss = carrying – fair value
Impairment reversal (held for use)	Allowed (reported in profit)	Prohibited

*Recoverable amount = higher of (fair value – costs to sell) and value in use (PV of future cash flows).

🧠 Memory Hook

"Up & Back = IFRS only." Only IFRS writes assets UP (revaluation) and writes impairments BACK (reversal). 📌

⚠️ Exam Trap

A revaluation **gain** goes to OCI (equity), not net income — so it lifts equity but **not** ROE's numerator, which actually *lowers* ROE. 🚗

5 📊 Research & Development (and Software)

Same starting point (research = expense), but they split on development.

Cost	🌐 IFRS	🇺🇸 US GAAP
Research costs	Expensed as incurred	Expensed as incurred
Development costs	Capitalized once technical & commercial feasibility criteria are met	Expensed (generally)
Software for sale	Follows the development rule above	Capitalized after technological feasibility is established

🧠 Memory Hook

"IFRS capitalizes Development; US GAAP expenses R&D (software is the exception)." 💻

📌 Key Fact

Capitalizing development costs (IFRS) raises current net income & assets and shifts the outflow to investing (CFI), boosting current CFO vs a US GAAP firm that expenses it.

6 📄 Leases (Lessee)

Post-2019, **both** put leases on the balance sheet. The only real split is the lessee's income statement.

Item	🌐 IFRS	🇺🇸 US GAAP
Lessee model	Single model — all leases treated like finance leases	Dual model — finance vs operating leases
Balance sheet	ROU asset + lease liability (all leases > 12 months)	ROU asset + lease liability (all leases > 12 months)
Income statement	Interest + amortization (separate) → total expense front-loaded	Operating lease: single straight-line "lease expense"
Cash flow (operating lease)	Interest in CFO (or CFF); principal in CFF	Entire payment in CFO
Lessor accounting	Substantially identical under IFRS and US GAAP (finance vs operating classification).	

🧠 Memory Hook

"IFRS lessee = ONE model; US GAAP lessee = TWO models." Lessor accounting is the same on both. 🚗

7 Income Taxes (Deferred Tax)

The classic split is how each handles a deferred tax asset (DTA) that may not be realized.

Item	IFRS	US GAAP
DTA unlikely to be realized	Recognize DTA only to the extent probable ; reduce/reverse the DTA directly	Recognize full DTA, then a valuation allowance (contra) for the "more likely than not" unrealizable part
Tax rate used	Enacted or substantively enacted	Enacted only
Deferred tax on revaluation	Recognized (since revaluation is allowed)	N/A (no revaluation)
Balance sheet classification	Non-current	Non-current

Key Formula

Income tax expense = Taxes payable + Δ Deferred tax liability – Δ Deferred tax asset.

DTL arises when an asset's carrying amount > its tax base; a DTA when carrying amount < tax base.

Memory Hook

"US GAAP uses a Valuation Allowance; IFRS just Reverses." Same goal, two mechanics.

8 Cash Flow Statement

The most asked classification table on exam day. **US GAAP is rigid; IFRS is flexible.**

Cash flow	IFRS	US GAAP
Interest paid	Operating or Financing	Operating
Interest received	Operating or Investing	Operating
Dividends received	Operating or Investing	Operating
Dividends paid	Operating or Financing	Financing
Taxes paid	Operating (split to I/F if specifically identifiable)	Operating
Bank overdrafts	Part of cash & cash equivalents	Financing activity
Format	Direct or indirect (direct encouraged)	Direct or indirect; reconciliation required if direct

Memory Hook

"Under US GAAP, only Dividends PAID leave Operating (→ Financing)." Everything else (interest paid, interest/dividends received, taxes) sits in CFO.

Exam Trap

Because IFRS gives a **choice**, two identical companies can report different CFO simply due to classification — always check the policy note before comparing.