Daimler AG Case: Developing An Eye For IFRS

By: **Kennard S. Brackney, Ph.D.**

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DAIMLER AG CASE: DEVELOPING AN EYE FOR IFRS

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INTRODUCTION

The case that follows aims to help students develop a better understanding of International Financial Reporting Standards (IFRS). This case uses the financial statements and accounting policies note for a company that reports under IFRS, Daimler AG. Students must identify accounting and reporting treatments Daimler exhibits under IFRS that would be different if the company applied US Generally Accepted Accounting Principles (GAAP) instead. This case is appropriate for use in the first intermediate accounting course or an international accounting course. The case, as prepared, is based upon Daimler's 2014 financial statements, but it easily could be adapted to work with a different year or even a different company.

LEARNING OUTCOMES

This case should help students develop:

(1) their knowledge of GAAP treatments for assets and liabilities;
(2) their understanding of the IFRS treatments that differ;
(3) their ability to research and apply the IFRS standards; and
(4) their ability to read and comprehend a company's financial statements and accounting policies note.

BACKGROUND FOR THE CASE

Motivation for Learning IFRS

More than 130 countries permit or require listed companies to use IFRS (Deloitte 2015). Of the 131 countries, 96 require that all listed companies use the standards. As far as companies, 52% of the Fortune Global 500 report using IFRS (Danjou 2015).

In the US, some companies already use IFRS, and more could join them in the not-too-distant future. Foreign companies registered with the Securities and Exchange Commission (SEC) to issue securities in US markets may opt for IFRS over GAAP in their Form 20-F filings, and more than 500 do so (White 2014). Regarding domestic registrants, the SEC Chief Accountant recently mentioned that the SEC is exploring the possibility of permitting them to submit IFRS basis information as a supplement to their GAAP financial statements (Schnurr 2014). Of course, US private companies have been permitted to use IFRS since 2008, and a study published in 2009 finds that some do (Deloitte 2009).

With a growing percentage of the global marketplace using IFRS, US seekers and suppliers of capital are increasingly likely to have contact with these standards. US companies could see IFRS, and possibly even have to use these standards, in their foreign financing, investing and operating activities. Similarly, US investors could see IFRS in their investing abroad, investing in foreign registrants and investing in US private companies that use the standards. Investing in foreign securities has become common practice. At year-end 2013, the market value of US holdings of foreign securities totaled $9.130 trillion, with most of this amount ($6.473 trillion) invested in foreign equities (Department of the Treasury et al. 2014, p. 4).

It is equally important, if not more so, for US accountants and accounting students to develop some familiarity with these standards. PwC offers a compelling argument for US market participants, including accountants, to develop some IFRS proficiency in a 2014 report titled *IFRS in the US: The Importance of Being Financially Bilingual* (PwC 2014). The Daimler AG case aims to help students develop some understanding of the IFRS standards.

The Case Company – Daimler AG

For several reasons, Daimler AG is a good choice of company for this case. The company is familiar, it uses IFRS and it has an interesting accounting story. Daimler is an automobile manufacturing business (NAICS 336111) based in Stuttgart, Germany. It is the 10th largest company in Europe, based on 2012 revenue (Wikipedia – List of largest European companies by revenue). It is #20 on Fortune's Global 500 2014 list, based on 2013 revenue. Daimler's shares are listed on two exchanges in Germany (Frankfurt and Stuttgart), but a sizable percentage of its shares (25.5%) are held by US investors (Wikipedia – Daimler AG).

Daimler has a strong presence in the US. The company began selling its Mercedes-Benz line here in 1952 (Mercedes-Benz USA 2015), and it started manufacturing the line here in 1997 (Wikipedia – Mercedes-Benz US International). The US is Daimler's largest country market, accounting for 25.6% of 2014 revenue (€33,310 million / €129,872 million) (Daimler AG 2015, p. 268). In 2014, the Mercedes line claimed a 2.2% share of the US new car market (Statista 2015). Mercedes is a major player in the luxury car segment, ranking #1 in new car sales in 2013 and #2 to BMW in 2014 (Woodall 2015).

Daimler added to its visibility in the US through its listing on the New York Stock Exchange (NYSE) in 1993 and its merger with Chrysler Corporation in 1998. Prior to listing in the US, for accounting and reporting, Daimler-Benz AG followed German standards. In 1993, as a foreign registrant, Daimler-Benz began supplying a GAAP reconciliation in its Form 20-F filings with the SEC. After the merger with Chrysler, DaimlerChrysler AG chose to headquarter in Germany, but maintain its listing on the NYSE. The merged company made a significant change in accounting standards, adopting GAAP.

The European Union's (EU's) IAS Regulation, issued in 2002, required listed companies based there to adopt IFRS starting in 2005. The regulation provided certain deferrals, though, including one for companies listed outside the EU who apply an internationally recognized set of standards, such as GAAP. DaimlerChrysler opted for the deferred adoption date – 2007. The company continued to apply GAAP through the 2006 reporting year (DaimlerChrysler AG 2007a, p. F-12). As part of its transition to IFRS, in April 2007, DaimlerChrysler reissued its 2006 financial statements on an IFRS basis (Daimler AG 2008, p. F-10).

A few months after, DaimlerChrysler sold the Chrysler business, and the surviving company continued as Daimler AG. Daimler kept its listing on the NYSE. For SEC reporting, the company expected to return to preparing a GAAP reconciliation, this time to accompany its IFRS basis financial statements (DaimlerChrysler 2007c, p. 6). Daimler benefitted from good timing, though, as in March 2008, the SEC eliminated the GAAP reconciliation requirement for foreign filers using IFRS. For the reporting years 2007 through 2009, Daimler submitted IFRS financial statements in its Form 20-F filings, with no GAAP information included. In 2010, Daimler delisted from the NYSE, so from that year on, it continues to use IFRS, but no longer files with the SEC.

See Exhibit 1 for a summary of Daimler's reporting history. As noted above, the company used GAAP as its primary reporting basis from 1998 to 2006. In its first set of IFRS financial statements, for 2006 and the comparative year 2005, DaimlerChrysler included reconciliations from the previous standards (GAAP) to IFRS for both net income and stockholders' equity (DaimlerChrysler 2007b, p. 16). In the equity reconciliation, the company reported a total of 11 adjustments. The net effect of the 11 adjustments as of the first IFRS reporting date, year-end 2006, was to show a larger equity under IFRS, 9.6% larger ((€37,449 – €34,155) / €34,155). Daimler has not reported any information on IFRS-GAAP differences since 2006. The company's 2014 financial statements and related accounting policies note exhibit a number of interesting differences with GAAP.

CASE INSTRUCTIONS

Tasks

This case is based upon the company Daimler AG. Daimler is a well-known auto manufacturer, headquartered in Germany, and its shares trade on two stock exchanges there. As a listed company in the EU, Daimler must use IFRS as adopted by the EU. Locate the company's 2014 annual report. Once you have found the report, review the company's financial statements (pp. 192-197) and Note 1 – Significant accounting policies (pp. 198-209) to develop some familiarity with this information.

This assignment involves searching for accounting and reporting treatments Daimler uses under IFRS that differ from GAAP requirements and allowances. Specifically, look for treatments Daimler uses that are required under IFRS but not under GAAP, or permitted under IFRS but not under GAAP. Focus on the topics of financial statements and basic assets and liabilities (through the long-term liabilities chapter in your intermediate accounting textbook). Draw upon the IFRS standards pertaining to these topics:

- International Accounting Standard (IAS) 1 – *Presentation of Financial Statements*
- IAS 2 – *Inventories*
- IAS 7 – *Statement of Cash Flow*
- IAS 16 – *Property, Plant and Equipment*
- IAS 36 – *Impairment of Assets*
- IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*
- IAS 38 – *Intangible Assets*

Identify at least 10 substantive differences. Avoid simple differences in terminology (e.g., provision in IFRS versus recognized contingent liability in GAAP). Also, avoid treatments Daimler *elected* under IFRS that it could have *elected* under GAAP as well (e.g., the weighted-average cost flow method for inventories). Look for treatments Daimler exhibits in complying with IFRS that would not be required, or possibly not even permitted, if the company were using GAAP instead. See Exhibit 2 – Authoritative Standing Combinations of Interest. From this exhibit, focus your searching on two distinct sets of differences:

(1) treatments permitted or required under IFRS but not permitted under GAAP (e.g., a revaluation model for fixed assets), plus those required under IFRS but only permitted under GAAP (e.g., component depreciation for fixed assets); and

(2) treatments required under both IFRS and GAAP, but the requirements differ (e.g., recognizing impairment of fixed assets).

Try to steer clear of treatments permitted or required by GAAP, but not exhibited by Daimler (e.g., presenting significant noncash financing and/or investing activities in the body of the statement of cash flows). The reason is, for these situations, we cannot distinguish between Daimler reporting differently under IFRS and Daimler simply not experiencing the underlying transaction or event.

Present your findings in a table. See Exhibit 3 – Template for IFRS-GAAP Differences and Literature Citations. Give a brief description (1-2 sentences) of Daimler's treatment under IFRS and a brief description of the corresponding GAAP treatment that differs.

This assignment includes a research aspect. Research the IFRS standards to determine the specific standard (IAS) and paragraph number that supports the IFRS treatment identified. Cite the standard and paragraph number in your table, immediately following the brief description of Daimler's treatment (e.g., IAS X ¶Y). As far as supplying citations from the Accounting Standards Codification to support your descriptions of GAAP treatments, refer to the guidance provided by your instructor.

Resources

The resources you will need to complete this case include Daimler's 2014 annual report, IFRS standards and GAAP standards. Many of the larger accounting firms have prepared IFRS-GAAP comparisons, and you may find it helpful to consult one or more of these as well. Instructions for accessing these resources follow.

Access Daimler AG's 2014 annual report from the company's website (www.daimler.com). Proceed to the Investor Relations page and look for a link to Annual Report 2014.

Access the IFRS standards from the IFRS Foundation's website (www.ifrs.org). Click on IFRS, then on Standards and Interpretations. Follow the link to register and gain access to the Unaccompanied standards. Click on the specific IAS standard to open it.

You may have access to the GAAP standards through your institution. If not, you can use the Basic View through the Financial Accounting Standards Board's (FASB's) website (www.fasb.org). Click on Standards, then on Accounting Standards Codification. Complete the order form to access the Basic View. Your intermediate accounting textbook may be helpful as well.

The accounting firm resources you may find to be the most useful for purposes of this case include:

(1) Grant Thornton's *Comparison between U.S. GAAP and International Financial Reporting Standards* (April 2015) (https://www.grantthornton.com/issues/library/whitepapers/audit/2015/Comparison-US-GAAP-IFRS.aspx) and
(2) KPMG's *IFRS compared to US GAAP: An overview* (November 2014) (http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/IFRS-compared-to-US-GAAP-An-overview-O-201411.pdf).

More Tips and Hints

Exercise care in using the accounting firm resources. The task in this assignment is not to identify IFRS-GAAP differences in general, but to identify those Daimler exhibits in its accounting and reporting. See Exhibit 4 – Venn Diagram Highlighting Differences of Interest. Focus on the area of intersection, that is, the IFRS-GAAP differences Daimler clearly exhibits in its financial statements and descriptions of accounting policies.

Daimler's 2014 reporting exhibits more than 30 differences with GAAP. The company's five financial statements show a total of 17 differences, and 14 more can be found in the accounting policies note. The instructions say to identify at least 10 differences. Given the large number that exists, the task should be pretty manageable.

If you are having any trouble locating differences, you may find it helpful to think in terms of the five fundamental types of accounting and reporting issues, as follows:

(1) Recognition – whether and when an asset, liability, equity, revenue or expense is recorded.
(2) Measurement – the amount at which an item is recorded and subsequently reported in the financial statements.
(3) Classification – whether and how items are divided into groups for financial statement reporting (e.g., current versus noncurrent, operating versus nonoperating).
(4) Presentation – whether and how an information item is reported in the body of the financial statements.
(5) Disclosure – whether an information item is reported in the financial statements or related notes. Presentation issues are a subset of Disclosure issues.

All five types are represented at least once. The type accounting for the most differences is Presentation (14), followed by Recognition (6) and Measurement (6).

Note that one of the 31 differences is from outside of the seven IASs mentioned above. Daimler exhibits a difference in the presentation of deferred income tax assets and liabilities. See IAS 12 ¶74.

IMPLMENTATION

Setting

I used this case in a large section of an international accounting course in Spring 2015. There were 49 students in the section, all Accounting majors. Almost all of them had completed two of the three required intermediate accounting courses in our bachelor's program. I instructed the students to search for differences related to the financial statements and basic assets and liabilities.

The course was offered in a compressed seven-week format to serve the needs of returning interns. We studied IFRS-GAAP differences as one of several units in the course. We discussed all seven of the IAS standards mentioned in the case. I gave the students two weeks during the compressed meeting format to complete the case. I encouraged them to work in pairs, and over 80% of the students chose to do so.

We used the IFRS standards in class as we studied the IFRS-GAAP differences. The IFRS standards are relatively easy to navigate and comprehend, so I did not provide any guidance on researching them beyond what is stated in the case. Given the course, I was more concerned with the IFRS standards, so I did not ask students to supply citations from the Codification. Instructors, at their discretion, could ask students to supply the GAAP citations. I included them in the suggested solution.

Student Outcomes

I gave the case a point value equivalent to 5% of the course grade. All 49 students submitted a case write-up, with a partner or individually. The students achieved varying degrees of success, but the mean and median scores were in line with those on the exams and other assignments in the course.

The students who lost points tended to have trouble in one of two areas. Some students put forward legitimate IFRS-GAAP differences, but ones that could not be clearly documented from Daimler's financial statements or accounting policies note. For example, IAS 16 ¶43 requires companies to depreciate separately the distinct components of a fixed asset. Daimler no doubt uses component depreciation, but the company does not give any mention of this treatment in its financial statements or notes. I added a Venn diagram (Exhibit 3) and some discussion in the More Tips and Hints section to reinforce the need to work from the information Daimler provides. Also, some students had trouble describing the GAAP treatments that differ. I added encouragements in the Resources section to consult the intermediate accounting textbook and accounting firms' guides for information on GAAP treatments.

I administered a short questionnaire to solicit student feedback on the case. See Exhibit 5 – Summary of Student Feedback Ratings. While the students were somewhat neutral as far as enjoying the assignment, large numbers of them found it to be challenging (89.9%), knowledge-building (91.8%) and worth using again in future terms (75.5%). A large percentage found it beneficial to work in pairs (87.8%).

Suggestions on Use

The case can be modified fairly easily to meet course or instructor needs. It could be used in an intermediate accounting or graduate financial reporting course to give students some exposure to IFRS. The scope could easily be narrowed to focus on just the financial statements (17 differences) or just the financial statements and basic assets (28 differences). The case easily can be adapted to use with a different reporting year or a different company. Each company will reflect a distinct set of IFRS-GAAP differences; still, the structure and at least some of the solution should transfer pretty well.

A few of the open-ended comments from students said they might have benefitted from seeing more similar examples in class. An instructor might consider showing students a few examples of differences from Daimler's financial statements and policies note. The instructor could show them two or three examples, and ask them to find 10 more. Alternatively, an instructor might consider using the Daimler case as an in-class activity, possibly in combination with an outside assignment based on a different company.

CONCLUSION

This case offers an example of a company-based IFRS assignment. The company chosen for the case is a familiar one to US consumers and investors. Daimler's reporting reflects more than 30 differences with GAAP, making it a good choice for the case. The design is very flexible, though, as it could easily be modified to fit a different company.

The students may be surprised at how much the searching for IFRS differences will push them to exercise their knowledge of GAAP. Certainly, the case should help them develop a better understanding of IFRS-GAAP differences. They also will gain some valuable experience researching the IFRS standards. Finally, after completing the assignment, they should feel a little more comfortable with reviewing a company's financial statements and accounting policies note.

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EXHIBIT 1: DAIMLER'S REPORTING BASIS HISTORY

Year(s)	SEC Registrant	Reporting Basis
Prior to 1993	No	German standards
1993-1997	Yes	German standards + GAAP reconciliation
1998-2005	Yes	GAAP
2006	Yes	GAAP + Supplemental IFRS statements
2007-2009	Yes	IFRS
2010-Present	No	IFRS

EXHIBIT 2: AUTHORITATIVE STANDING COMBINATIONS OF INTEREST

IFRS \ GAAP	Not Permitted/Applicable	Permitted	Required
Not Permitted/Applicable			
Permitted	X		X
Required	X	X	X

Primary focus:

- ◻ IFRS permits or requires a treatment; GAAP does not permit it.
- ◻ IFRS requires a treatment; GAAP permits, but does not require, it.
- ◻ IFRS and GAAP require a treatment, but the requirements differ.

Note – The identified differences include one instance where a treatment is permitted by IFRS, but required by GAAP. Daimler does not use the permitted treatment, creating the difference with GAAP.

EXHIBIT 3: TEMPLATE FOR IFRS-GAAP DIFFERENCES AND LITERATURE CITATIONS

Issue	Daimler's Treatment under IFRS	Treatment under GAAP
Issue 1 . . .		
Issue 2 . . .		
Issue 3 . . .		
Issue 4 . . .		
Issue 5 . . .		
Issue 6 . . .		
Issue 7 . . .		
Issue 8 . . .		
Issue 9 . . .		
Issue 10 . . .		

EXHIBIT 4: VENN DIAGRAM HIGHLIGHTING DIFFERENCES OF INTEREST

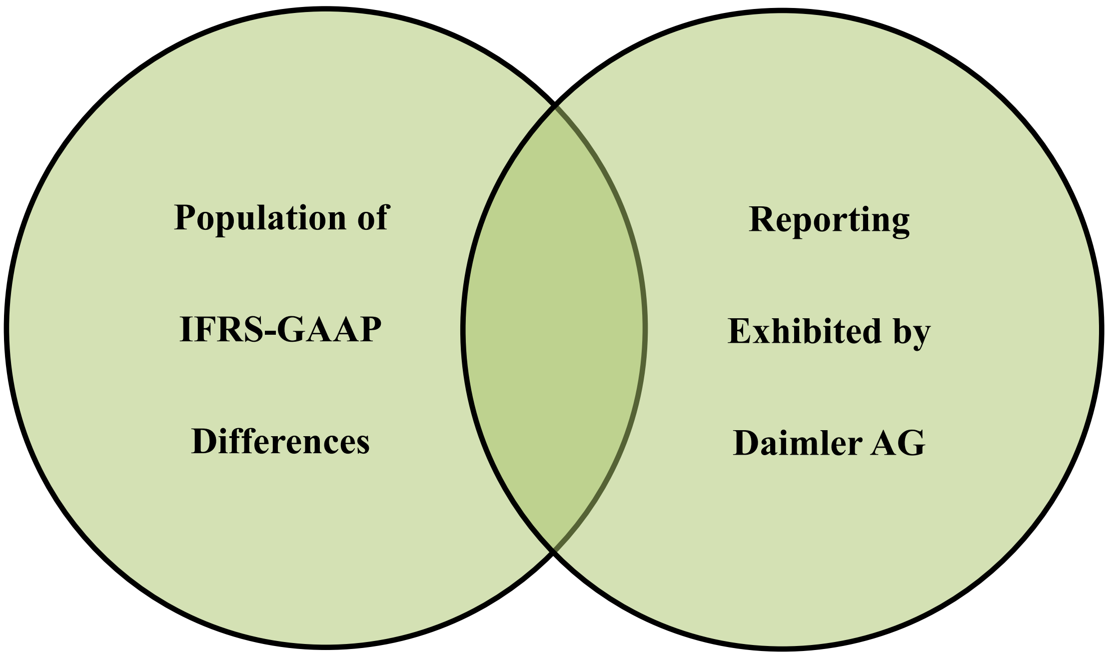

EXHIBIT 5: SUMMARY OF STUDENT FEEDBACK RATINGS

N = 49			
Scale: 1 = Strongly Agree, 2 = Agree, 3 = Neutral, 4 = Disagree, 5 = Strongly Disagree			
Question	**Mean**	**Standard Deviation**	**Percentage 1 or 2**
I enjoyed completing the Daimler IFRS case.	2.714	0.913	49.0%
I would recommend that my instructor use the Daimler case again in future sections of this course.	2.041	0.789	75.5%
I would recommend the Daimler case be completed in groups.	1.673	0.826	87.8%
I found completing the Daimler case to be a challenging exercise.	1.735	0.700	89.8%
Completing the Daimler case increased my knowledge of GAAP-IFRS differences.	1.592	0.643	91.8%

SUGGESTED SOLUTION: (1) IFRS-GAAP DIFFERENCES AND LITERATURE CITATIONS

IS – Income statement *SCI – Statement of comprehensive income* *SFP – Statement of financial position* *SCF – Statement of cash flows* *SCE – Statement of changes in equity*	*R – Recognition issue (N=6)* *M – Measurement issue (N=6)* *C – Classification issue (N=3)* *P – Presentation issue (N=14)* *D – Disclosure issue (N=2)*

Issue	Daimler's Treatment under IFRS	Treatment under GAAP
Financial statements		
1 – Number of comparative years presented [P]	Daimler presents one comparative year (2013), as required by IFRS. <IAS 1 ¶¶38-38A>	GAAP states it is desirable to include comparative years, but it does not address the number to present. <ASC 205-10-45-2> The SEC requires listed companies to present two comparative years. <SEC 2015 ¶1110.1>
2 – References to specific note numbers in the financial statements [P]	IFRS requires companies to cross-reference related notes in the financial statements. Daimler includes a Note column in the IS and SFP. It identifies the relevant notes in the other three statements as well. <IAS 1 ¶113>	GAAP views the significant accounting policies as an integral part of the financial statements, and it states a preference for companies presenting the policies as the first note. There is no requirement, though, to reference specific notes in the financial statements. <ASC 235-10-50-6>
3 – Reporting expenses by nature [P]	IFRS requires companies to provide information on expenses by nature, but gives a choice of location: IS or notes. Daimler reports expenses by function in the IS, but provides some information on expenses by nature in Notes 5 and 10. <IAS 1 ¶¶99,104>	GAAP does not address the reporting of expenses by function or by nature. The SEC instructs listed companies to report expenses by function. <ASC 225-10-S99-2>
4 – In the SCI, separating other comprehensive income (OCI) items based on whether they will be reclassified into net income [C]	As required by IFRS, Daimler separately presents the items that will be reclassified into net income (4 items) and those that will not be reclassified into net income (1 item). <IAS 1 ¶ 82A>	The issue does not arise in GAAP because GAAP requires all OCI items to eventually be reclassified into net income. OCI must be presented according to the distinct sources, but no further breakdown is needed. <ASC 220-10-45-1C>

5 – Presentation order for classifications in the SFP [P]	IFRS gives companies flexibility in ordering the classifications presented in the SFP. For both assets and claims, Daimler inverts the order, showing noncurrent items first, followed by current items. <IAS 1 ¶57>	GAAP does not address the ordering of classifications in the SFP. The SEC gives a list of required presentation items, and it shows them in the familiar current asset-noncurrent asset-current liability-noncurrent liability-equity order. <ASC 210-10-S99-1>
6 – Classification of deferred income tax assets and liabilities in the SFP [C]	As required by IFRS, Daimler classifies all deferred income taxes as noncurrent (see p. 199). <IAS 1 ¶56>	GAAP requires classification of deferred income taxes as current or noncurrent, depending upon the classification of the underlying source. <ASC 740-10-45-4>
7 – Presentation of deferred income tax assets and liabilities in the SFP [P]	As generally required by IFRS, Daimler separately presents gross deferred tax assets and gross deferred tax liabilities. <IAS 12 ¶74>	For each classification, GAAP generally requires presentation of the net deferred tax asset or liability position. <ASC 740-10-45-6>
8 – Presentation of accumulated OCI (AOCI) in the SFP [P]	IFRS requires presentation of the total for issued capital and reserves. Companies must disclose components such as paid-in capital, share premium and reserves. The components may be disclosed in the SFP or in the notes. There is no requirement to separately present AOCI in the SFP. Daimler shows equity components in the SFP, but does not present an item labeled AOCI. <IAS 1 ¶¶54(r),78(e)>	GAAP requires companies to separately present AOCI in the equity section of the SFP. GAAP directs companies to use a descriptive title such as AOCI. <ASC 220-10-45-14>
9 – Presentation of the current income tax liability in the SFP [P]	As required by IFRS, Daimler gives separate presentation to the current income taxes payable (Provision for income taxes (current)). <IAS 1 ¶54(n)>	GAAP does not require separate presentation of this item. The SEC requires listed companies report the item in the SFP or notes, but only when it is 5% or more of the total current liabilities. <ASC 210-10-S99-1>
10 – Starting income figure for the indirect method in the SCF [P]	IFRS says to begin the indirect format with profit or loss, a term often used to refer to net income or net loss. <IAS 7 ¶18> An illustration accompanying the standard shows the indirect format beginning with Profit before taxation. As seemingly permitted, Daimler uses Profit before income taxes. Starting with this figure simplifies the task of presenting the income taxes paid.	GAAP requires companies to start with net income. <ASC 230-10-45-28>
11 – Presentation of income taxes paid in the SCF [P]	IFRS requires income taxes paid to be separately disclosed, normally in the operating section of the SCF. Presentation is required even when the indirect method is used. Daimler presents income taxes paid in the operating section. <IAS 7 ¶35>	GAAP requires companies using the indirect method to disclose the income taxes paid. There is no mention of the body of the statement, suggesting disclosure in the notes. <ASC 230-10-50-2>

12 – Presentation of interest received in the SCF [P]	IFRS requires that interest received be disclosed separately. The wording is similar to that for income taxes paid, which generally is presented in the SCF. Surprisingly, Daimler reports this item in the notes, Note 28. <IAS 7 ¶31>	GAAP does not require the disclosure of interest received when the indirect method is used. <see ASC 230-10-50-2>
13 – Presentation of dividends received in the SCF [P]	IFRS requires that dividends received be disclosed separately. The wording is similar to that for income taxes paid, which generally is presented in the SCF. Surprisingly, Daimler reports this item in the notes, Note 28. <IAS 7 ¶31>	GAAP does not require the disclosure of dividends received when the indirect method is used. <see ASC 230-10-50-2>
14 – Measurement of interest paid [M]	IFRS requires the interest paid presented in the SCF include all interest paid, whether expensed or capitalized. Surprisingly, Daimler presents this item in the notes, Note 28. If Daimler complied with the measurement guidance, the amount reported must include the capitalized interest paid. <IAS 7 ¶32>	GAAP requires companies to present the interest paid, net of any capitalized interest. <ASC 230-10-50-2>
15 – Presentation of a SCE [P]	IFRS requires this statement be presented with the same prominence as the other statements. Daimler presents it 5th among the five financial statements. <IAS 1 ¶¶10-11>	GAAP permits this statement, or the pertinent information from it, to be presented in the notes. <ASC 505-10-50-2>
16 – Presentation of the components of AOCI in the SCE [P]	While IFRS does not require separate presentation of AOCI in the SFP (see 8 above), it does require the components of AOCI be separately presented in the SCE. Companies must show the changes in each component of AOCI. Daimler presents four components in the SCE. <IAS 1 ¶¶106(d),108>	GAAP requires disclosure of the components of AOCI and the changes in each component, but permits this information to be shown in the notes. <ASC 220-10-45-14A>
17 – In the SCE, including OCI items in retained earnings [C]	Daimler includes the OCI items that will not be reclassified into net income in its retained earnings balance. The amount included for 2014 was a net €3,696 loss (net of taxes). <IAS 1 ¶96>	This issue does not arise in GAAP as it requires all OCI items to eventually be reclassified into net income. The standards state the OCI for a period must be added to a component of equity separate from retained earnings and additional paid-in capital. <ASC 220-10-45-14>
Note 1 – Significant accounting policies		
18 – Explicit reference to compliance with a set of standards [D]	Daimler states that it complied with IFRS as adopted by the EU in preparing its financial statements (see p. 198). <IAS 1 ¶16>	There is no requirement in GAAP for the company to state the basis used in preparing its financial statements. The auditor's report identifies the standards the company used.

19– Accounting for development costs [R]	As required by IFRS, Daimler capitalizes qualifying development costs. It amortizes the asset over the related expected product life cycle (see p. 203). <IAS 38 ¶¶57,90(b)-(e),97>	Under GAAP, development costs generally must be expensed as incurred. <ASC 730-10-25-1>
20 – Reporting of expense for amortization of a development costs asset [P]	If a development costs asset contributes to the production of inventory, IFRS calls for the amortization of the asset to be reflected in the inventory account. Upon sale of the inventory, the amortization is reported as part of the cost of goods sold. Daimler reports the expensing of its capitalized development costs in this fashion (see p. 203). <IAS 38 ¶99>	GAAP requires disclosure of the research and development costs expensed, but does not provide any guidance as to the line item through which the expense should be reported. Given that development costs normally are expensed as incurred, there is little basis for reporting the expense as part of the expensing of the inventory asset. <ASC 730-10-50-1>
21 – Accounting for asset retirement costs [M]	IFRS requires companies to estimate these costs and capitalize them as part of the related property, plant and equipment (PPE) item. Daimler states it follows a policy of capitalizing estimated removal and restoration costs into related PPE accounts (see p. 204). <IAS 16 ¶16(c)>	GAAP requires a similar treatment, but only in cases where the asset retirement obligation arises from law or contract. Thus, under GAAP, a company could show a lower acquisition cost for a PPE item. <ASC 410-20-15-2(a-b)>
22 – Disclosure of useful lives for PPE items [D]	IFRS requires companies to disclose the useful lives or depreciation rates used for each class of PPE items. Daimler reports the range of useful lives for each of three classes (see p. 204). <IAS 16 ¶73(c)>	GAAP directs companies to give a general description of the depreciation methods used, but does not specifically require them to disclose useful lives. <ASC 360-10-50-1(d)>
23 – Recognizing impairment of identifiable nonfinancial assets [R]	IFRS uses a 1-step approach for both indefinite-life and finite-life assets. Applying IFRS, Daimler recognizes an impairment loss for all cases where the *recoverable amount* of the asset (the higher of sale value (fair value less costs to sell) and value in use (discounted future cash flows)) falls below the recorded amount (see p. 205). <IAS 36 ¶¶2,8>	GAAP uses a 1-step approach for indefinite-life intangible assets. In contrast, for finite-life intangibles and PPE items, GAAP uses a 2-step approach. For the finite-life assets, an impairment loss is recognized only when the undiscounted sum of the asset's projected future cash flows falls below the recorded amount. <ASC 350-30-35-14 (finite-life intangibles) & 360-10-35-17 (PPE items)>
24 – Measurement of impairment for identifiable nonfinancial assets [M]	As required by IFRS, Daimler writes an impaired asset down to its recoverable amount (see p. 205). <IAS 36 ¶¶18,59>	GAAP requires a write-down to the asset's fair value. <ASC 350-30-35-14 and 35-18 (intangibles) & 360-10-35-17 (PPE items)>

25 – Recognizing a reversal of impairment on identifiable nonfinancial assets [R]	If the recoverable amount subsequently increases, Daimler recognizes reversals of impairment losses, as required by IFRS (see p. 205). <IAS 36 ¶¶110,114>	Under GAAP, the fair value (below book value) becomes the new cost basis. If the fair value recovers in a subsequent period, a company is effectively blocked from recognizing a reversal of the previously recognized impairment loss. <ASC 350-30-35-14 & 35-20 (intangibles) & 360-10-35-20 (PPE items)>
26 – Recognizing impairment of goodwill [R]	IFRS requires a 1-step approach. Daimler recognizes an impairment loss if the *recoverable amount* of a cash-generating unit falls below the unit's recorded amount. The loss is allocated first to reducing goodwill (see p. 205). <IAS 36 ¶104>	GAAP uses a 2-step approach. Proceed to a second step if the fair value of a reporting unit falls below its recorded amount. Assess the need for a write-down in step 2. Recognize a loss if the implied fair value of goodwill falls below its recorded amount. <ASC 350-20-35-8 & 35-11>
27 – Use of the same inventory cost flow method for all items of similar nature and use [M]	Daimler uses the same method (average cost) for all of its inventories of interchangeable items, as required by IFRS (see p. 206). <IAS 2 ¶25>	GAAP permits companies to use multiple methods, even for similar items. <ASC 330-10-30-13>
28 – Definition of *market* for purposes of inventory lower-of-cost-or-market procedure [M]	Daimler defines market as net realizable value, as required by IFRS (see p. 206). <IAS 2 ¶9>	GAAP defines market as the median of three amounts: net realizable value, replacement cost and net realizable value less the company's normal profit margin. <ASC Master Glossary – *market*>
29 – Threshold for recognizing an uncertain liability [R]	As required by IFRS, Daimler recognizes an uncertain liability when the likelihood of existence is at least probable, meaning *more likely than not* (> 50% likely) (see p. 209). <IAS 37 ¶23>	GAAP requires recognition when the likelihood of existence is at least *probable*. <ASC 450-20-25-2> The term probable is widely interpreted as more than 70% likely. <Ernst & Young 2013, p. 37>
30 – Discounting of provisions (recognized loss contingencies) [M]	Consistent with IFRS, Daimler discounts provisions with an original maturity or more than one year for their time value (see p. 209). <IAS 37 ¶45>	ASC 450-20, *Loss Contingencies*, does not address discounting of future cash flows for time value. The guidance in GAAP is context-specific. Discounting generally is required when the timing of the future cash flows is fixed. <Grant Thornton 2015, pp. 55-56>
31 – Recognition of restructuring provisions [R]	IFRS may permit an earlier recognition than GAAP does, upon the creation of a constructive obligation. Consistent with IFRS, Daimler recognizes restructuring provisions upon a detailed formal plan being announced or implemented (see p. 209). <IAS 37 ¶72>	GAAP requires the company to have an unavoidable legal obligation before it can recognize a restructuring charge. This condition normally is met when binding offers are made to individual parties. <ASC 420-10-25-2>

SUGGESTED SOLUTION: (2) COMMENTS ON SELECTED DIFFERENCES

Difference #1

In its 2013 financial statements, Daimler's reporting illustrates another difference pertaining to the number of comparative years (Daimler 2014, p. 188). Daimler presented three balance sheets, as IFRS requires when a company makes an accounting change or correction of error that impacts the balances as of the beginning of the prior year (IAS 1 ¶¶40A-40B). In that situation, the company must present balance sheets for the current year-end, the prior year-end and the beginning of the prior year (e.g., January 1, 2012).

Difference #3

IFRS permits companies to present expenses in the income statement by function or by nature (IAS 1 ¶99). Presenting expenses by function calls for separating manufacturing expenses (e.g., cost of goods sold) from nonmanufacturing expenses (e.g., selling, general and administrative expenses). Presenting expenses by nature means eliminating this distinction and reporting totals for a company's fundamental cost items. IAS 1 requires companies electing the disclosure option for reporting expenses by nature to provide information on depreciation, amortization and personnel costs (¶104). Daimler provides this information in Notes 5, 10, 11 and 12. In these notes, Daimler reveals the totals for depreciation (€8,457) (€3,501 – €93 + €5,049), amortization (€1,507) and personnel (€19,607) expenses.

Difference #4

The OCI item Daimler singles out as not requiring reclassification into net income upon realization is the net actuarial gain/loss on defined-benefit pension plans (–€3,696). IFRS mandates that actuarial gains and losses not be reclassified into net income, though they may be transferred to another component of equity (e.g., retained earnings) (see IAS 19 ¶122 and IAS 1 ¶96).

Difference #5

IFRS gives flexibility in the ordering of balance sheet classifications. To gain a sense of IFRS companies' ordering practices, I reviewed the balance sheets of the 25 largest nonfinancial companies in Europe. I started with a list in Wikipedia (List of largest European companies by [2012] revenue), and I eliminated Daimler (#10) and the financial companies. See the resulting set and findings in (3) Balance Sheet Reporting in Europe. Most of these companies inverted the order of the balance sheet classifications. Of the 25, 17 ordered assets as noncurrent, followed by current. A slightly smaller number (14) inverted the claims as equities, followed by noncurrent liabilities, followed by current liabilities. This analysis suggests the ordering of balance sheet classifications is a common difference, at least for companies in Europe.

Difference #6

The difference in classification of deferred income taxes could be eliminated soon. In January 2015, the FASB issued a proposed Accounting Standards Update (ASU), "Balance Sheet Classification of Deferred Taxes," that would align the classification requirement in GAAP with that in IFRS. If adopted, US companies would be required to classify all deferred tax assets and liabilities as noncurrent items.

Difference #7
The proposed ASU on classification of deferred taxes does not call for any changes in the existing requirement to net the deferred tax assets and liabilities and present only the net position.

Difference #8
See (3) Balance Sheet Reporting in Europe. Of the 25 companies examined, five do not show the components of equity in the balance sheet. Daimler does show the components there, including the item Other reserves, €202. In the statement of changes in equity, Daimler identifies four components of this item, all part of AOCI. Only six of the 25 companies clearly identify AOCI in the balance sheet.

Difference #9
If Daimler were subject to the SEC's materiality test, it would not need to present the current income tax payable as the amount is just 1.1% of total current liabilities (€757 / €66,974).

Difference #10
I also reviewed the cash flow statements of the 25 largest nonfinancial companies in Europe. See (4) Cash Flow Statement Reporting in Europe. Of these companies, 10 report as Daimler does and begin the indirect format for the operating section with income before taxes. The difference noted appears to be a fairly common one, at least for companies in Europe.

Difference #11
The wording of IAS 7 ¶35 seems to say companies must present the income taxes paid as a separate line item in the body of the statement of cash flows, even when the indirect method is used. In fact, the wording may leave a little room for interpretation. Of the 25 European companies, 18 present income taxes paid in the body of the statement, and all 18 classify the outflow as operating. Two other companies show the income taxes paid in a supplemental section of the statement; one of them (E.ON SE) identifies the item as an operating outflow.

Differences #12 and #13
Similar to the income taxes paid, the wording of IAS 7 ¶31 appears to direct companies to present interest received and dividends received as separate line items in the body of the statement. Over half of the 25 European companies do show these receipts as line items in the statement of cash flows. A sizable minority of companies (6) makes no mention of interest received, suggesting the item may not have been material.

Difference #14
The wording of IAS 7 ¶¶31-32 appears pretty clear in directing companies to present the interest paid as a separate line item in the body of the statement of cash flows. As with Differences 11, 12 and 13 above, companies may see some room for interpretation. Daimler chooses to report the amount in the notes. In contrast, most of the European companies (17 of 25) do present interest paid in the body of the statement.

In Note 10, Daimler states it capitalized €7 of interest during 2014 on the development of intangible assets. To comply with the standard (¶32), the €445 of reported interest paid must include the capitalized interest paid as well.

Difference #16

Daimler reports the four components of Other reserves, all part of AOCI, in the statement of changes in equity. The four components are cumulative translation adjustment (€775), unrealized gain on available-for-sale securities (€460), unrealized loss on cash flow hedges (–€1,032), and share of investee's AOCI (–€1). Most of the largest European companies (21 of the 25) show the components of AOCI in the statement of changes in equity.

Difference #17

In the statement of changes in equity, the Retained earnings column, Daimler lists OCI before taxes of –€5,378 and related deferred taxes of €1,682, for a net of –€3,696. In a footnote to this statement, Daimler mentions just one source, actuarial gains/losses on pension plans. The source and amount match the OCI item Daimler marked in the statement of comprehensive income as not to be reclassified into net income. As permitted by IAS 19 ¶122, Daimler chose to transfer this OCI item directly to retained earnings in the year of initial recognition.

Difference #19

Daimler reports a sizable development cost asset (€7,245), accounting for 77.3% of intangible assets and 3.8% of total assets. Applying GAAP, Daimler would have expensed these costs as incurred. Using the company's average income tax rate for 2014 of 28% (€2,883 / €10,173), the company's equity would be approximately €5,216 lower (€7,245 x (100% – 28%)). In percentage terms, Daimler's equity would be approximately 12% lower (€5,216 / €44,584).

Difference #20

Daimler discloses that for 2014, it reported €1,212 from amortization of its development costs asset as part of the line item cost of sales (Note 5). Applying GAAP, Daimler likely would have reported this amount as part of operating expenses. As a result, Daimler's reported gross profit for the year is approximately 4% lower than what it would be under GAAP (€1,212 / (€28,184 + €1,212)).

Differences #23, #24 and #25

In 2014, Daimler recognized an impairment loss on fixed assets of €93 (Note 5). IFRS is more likely than GAAP to require a write-down of long-lived assets, particularly finite-life ones. For two reasons, though, the amount of the loss may be smaller: the write-down point (higher of sale value and use value) is sometimes higher, and the loss must be reversed if the value of the asset recovers.

Difference #26

Daimler does not appear to have recognized any impairment of goodwill during 2014 (see Note 10). Similar to Difference #24 above, the write-down point (higher of sale value and use value) could be higher under IFRS, resulting in a smaller impairment loss.

Difference #28
In 2014, Daimler recognized a write-down of €391 (Note 18). The write-down point for inventory losses tends to be higher under IFRS, generally resulting in fewer losses and smaller losses.

The FASB moved recently to eliminate this difference for many US companies. In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, to align the write-down point in GAAP with that in IFRS. The new standard exempts companies using LIFO or the retail inventory method. These companies will continue to define *market* as the middle of three candidate values. For this subset of companies only, the difference with IFRS will remain. Public companies must apply the new guidance starting in 2017.

Differences #29 and #30
Daimler reports a total of €28,393 of provisions in its balance sheet. This amount represents 19.6% of the company's total liabilities. The largest is for pensions and similar obligations, €12,806. IFRS generally requires earlier recognition, due to the lower threshold. The amount often is smaller, though, as IFRS is more likely to require discounting for time value.

Difference #31
In 2014, Daimler recognized restructuring provisions of €19 (Note 5). Due to the requirement to recognize constructive obligations, IFRS often requires earlier recognition of restructuring charges.

SUGGESTED SOLUTION: (3) BALANCE SHEET REPORTING IN EUROPE

Balance Sheet Reporting Practices
25 Largest Nonfinancial Companies in Europe (all use IFRS)
2014 unless otherwise noted

Presentation:	*Classifications and items:*
SFP – Statement of financial position	*C – Current assets/liabilities*
SCE – Statement of changes in equity	*NC – Noncurrent assets/liabilities*
SCI – Statement of comprehensive income	*SE – Stockholders' equity*
N# – Note number	*AOCI – Accumulated other comprehensive income*

Company	**Codes (see below)**	**Order for Assets**	**Order for Claims**	**Reporting of SE Components**		**Reporting of AOCI Components**
Royal Dutch Shell plc	1	NC-C	NC-C-SE	SFP		N22
BP plc	1	NC-C	C-NC-SE	SCE		SCE & N30
Total S.A.	1	NC-C	SE-NC-C	SFP		SCE & N17
Volkswagen AG		NC-C	SE-NC-C	SFP		SCE
Glencore Xstrata		NC-C	SE-NC-C	SFP		N16
Gazprom		C-NC	C-NC-SE	SFP		SCE
E.ON SE		NC-C	SE-NC-C	SFP	AOCI	SCE
Eni SpA	1	C-NC	C-NC-SE	SFP		SCE
GDF Suez		NC-C	SE-NC-C	SCE		SCE & N18
Carrefour		NC-C	SE-NC-C	SFP		SCE
Statoil ASA	1	NC-C	SE-NC-C	SCE		SCE
Fiat SpA	1,2	NC-C	SE-NC-C	SCE		SCE
Siemens AG	1	C-NC	C-NC-SE	SFP		SCE
Lukoil		C-NC	C-NC-SE	SFP	AOCI	SCE
Enel SpA		NC-C	SE-NC-C	SFP		SCE
Tesco plc (2015)		NC-C	C-NC-SE	SFP		SCE
BASF		NC-C	SE-NC-C	SFP	AOCI	SCI
BMW		NC-C	SE-NC-C	SFP	AOCI	SCE
ArcelorMittal	1	C-NC	C-NC-SE	SFP		SCE
Nestlé		C-NC	C-NC-SE	SFP		SCE & N18
Metro	3	C-NC	C-NC-SE	SFP	AOCI	–
Électricité de France		NC-C	SE-NC-C	SFP		SCE
Telefónica S.A.	1	NC-C	SE-NC-C	SCE		SCE
PSA Peugeot Citiröen		NC-C	SE-NC-C	SFP		SCE
Deutsche Telekom		C-NC	C-NC-SE	SFP	AOCI	SCE
Totals:						
C-NC for assets		8				
C-NC-SE for claims			10			
SE components in SFP				20		
AOCI identified in SFP				6		
AOCI components in SCE						21

Codes:
1 – Company is an SEC registrant (N=9).
2 – Company does not classify liabilities; it lists them in liquidity order (N=1).
3 – Company's AOCI appears immaterial (N=1).

SUGGESTED SOLUTION: (4) CASH FLOW STATEMENT REPORTING IN EUROPE

Cash Flow Reporting Practices
25 Largest Nonfinancial Companies in Europe (all use IFRS)
2014 unless notes otherwise

Presentation:	*Classifications:*
SCF – Statement of cash flows	*O – Operating*
SCFS – SCF supplemental section	*I – Investing*
N# – Note number	*F – Financing*

Company	**Codes (see below)**	**Reporting of Income Taxes Paid**		**Reporting of Interest Paid**		**Reporting of Interest Received**		**Reporting of Dividends Received**	
Royal Dutch Shell plc		SCF	O	SCF	F	SCF	I	SCF	O
BP plc	1	SCF	O	SCF	O	SCF	O	SCF	O
Total S.A.		N27	O	N27	O	N27	O	N27	O
Volkswagen AG	1	SCF	O	N33	O	N33	O	N33	O
Glencore Xstrata	1	SCF	O	SCF	O	SCF	O	SCF	I
Gazprom	1,2	N31	O	SCF	I,F	SCF	I	N15	–
E.ON SE		SCFS	O	SCFS	O	SCFS	O	SCFS	O
Eni SpA		SCF	O	SCF	O	SCF	O	SCF	O
GDF Suez		SCF	O	SCF	F	SCF	I,F	SCF	O,I
Carrefour	1	SCF	O	SCF	F	–	–	SCFS	O
Statoil ASA	1	SCF	O	SCF	O	SCF	O	N8	–
Fiat SpA		N32	O	N32	–	N32	–	SCF	O
Siemens		SCF	O	SCF	F	SCF	O	SCF	O
Lukoil		SCFS	–	SCFS	–	–	–	–	–
Enel SpA	1	SCF	O	SCF	O	SCF	O	SCF	O
Tesco plc (2015)	1	SCF	O	SCF	O	SCF	I	SCF	I
BASF		N29	O	N29	O	N29	O	N29	O
BMW		SCF	O	SCF	F	SCF	O	N44	–
ArcelorMittal		SCF	O	SCF	O	SCF	O	SCF	O
Nestlé	3	SCF	O	N17	O	SCF	O	SCF	O
Metro	1	SCF	O	SCF	O	–	–	SCF	I
Électricité de France	1	SCF	O	SCF	O	–	–	SCF	O
Telefónica S.A.	4	SCF	O	SCF	O	–	–	SCF	O
PSA Peugeot Citiröen		N14	O	N16	O	N16	O	N11	–
Deutsche Telekom		SCF	O	SCF	O	SCF	O	SCF	O
Totals:									
Presents in SCF		18		17		14		15	
Presentation – O-I-F		18-0-0		11-1-6		10-4-1		12-4-0	
Classification – O-I-F		24-0-0		17-1-6		15-4-1		17-4-0	

Codes:
1 – Company starts the operating section with income before taxes (N=10).
2 – Company presents the entire operating section in the notes (N=1).
3 – Company presents only the total of interest and dividends received (N=1).
4 – Company uses the direct format for the operating section (N=1).