Case Study Analysis

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**Introduction**

This paper is an analysis paper that is aimed to analyze the case titled *“Accounting for business combinations and the convergence of International Financial Reporting Standards with the U.S. generally accepted accounting principles”*.The paper also covers and answers some of the most important and critical questions assigned in the case by covering some key concepts such as FAS 141R and FAS 160, the difference between US GAAP and IFRS, introduction of SPEs, and impacts of FAS 141R and FAS on financial ratio.

**Question # 1**

*What key financial ratios will be affected by the adoption of FAS 141Rand FAS 160? What will be the likely effect?*

Almost all of the financial ratios that had been affected by FAS 141R and FAS 160 in the year 2009 were subsidiaries' assets and liabilities of companies. However, there are not much but fewer variances that had been witnessed 10 years before today and not every concern have been covered with the implementation of the newer protocol which state that the leading business or company should consolidate subsidiaries’ financial statements with the financial statements of the leading or parent company.

The differences between the US GAAP and IFRS have been eliminated by the very recent updates by the FASB and IASB in accounting for the business combination and reporting for consolidated businesses. Hence, debt to equity of the company and the business deficit to asset ratio would be there (Beaton, 2008). And it would lead to enhancing equity through the proper classification of non-controlling business assets.

**Question # 2**

*Could any of the recent and forthcoming changes affect the company’s acquisition strategies and potentially its growth?*

Yes! The company growth and acquisition strategy would be affected because of the adaptation of FAS 141R and FAS 160 and acquisition in the future would be accounted for as on the full market value. With the valuation, the non-controlling interest would also be increased with the increase of goodwill. While on the opposing side, the under-valuation of businesses asset would lead to a raise. And it is a fact in case the assets valued at full market value and then overvalued, so it will be like assets decline at full value. Getting assets is an expense and in case of the new standard, this would count as an incurred expense which would decrease the income of the company (Spathis, & Georgakopoulou, 2007). Hence to cover the set financial target, the acquisition such as assets acquisition strategy has to be amended by the company as it affects the growth in an inverse manner.

**Question # 3**

*What were FASB’s primary reasons for issuing FAS 141R and FAS 160?*

Beyond many, the main reason behind issuing the FAS 141R and FAS 160 was the establishment of different changes between US GAAP and IFRS that would help to simplify the international convergence of accounting. The improvement of information and its relevance was the second reason behind this issuance while to assist the disclosure of business assets and debts from business combinations possibilities.

A key role of the FAS 160 was to ensure consistency when disclosing the non-controlling interest by developing accounting and reporting standards. This was aimed to be done in consolidated financial statements. While another purpose was to use it for the collection of NCI accounting and IFRS requirements that are beneficial to better comparability, and relevance of financial information.

**Question # 4**

*What are qualifying SPEs? Do they exist under IFRS? What is the effect of FAS 166 eliminating the concept of qualifying SPE son the convergence of accounting standards?*

According to (Beaton, 2008), in 2009, the FAS 160 had been issued by FASB had led to removing SPEs concept and even idea by the IFRS entities or authorities. This had put effects in a way that business assesses these entities in the current time for the consolidation that is easily possible. While the SPEs concept has been introduced for the second time in FAS 167 for the purpose to have an understanding of the benefits of SPEs that can direct operatives of SPEs.

**Question # 5**

*If the company adopts IFRS, what changes should management be aware of?*

Many changes that the management should be aware of. But, the changes that are highly important than others including controlling. This means that the management should put a huge focus on controlling entities and to enhance power that is aimed to get operational and financial roles into notice by the management (Spathis, & Georgakopoulou, 2007). Furthermore, management should also be aware of the cost of the business combination, changes with new accounting reports, and changes in income to investors, etc.

**Question # 6**

*What are the principle differences between IFRS and U.S. GAAP?*

Beyond many, the major difference between US GAAP and IFRS is that the US GAAP is a rule-based approach while IFRS is principle-based. But based on the case study at hand there are 6 principle differences between US GAAP and IFRS which are; 1) control definition, 2) shares considered in determining to control, 3) calculation of goodwill while acquiring, 4) contingencies, 5) initial or primary measurement, and 6) goodwill impairment testing (Barth, et.al, 2012).

**Conclusion**

After an in-depth analysis of the case study and questions assigned, it has come to conclude that the effect of adopting FAS 141R and FAS 160 on the financial ratio is significant while the recent changes also have enough impacts on the company’s acquisition strategy and growth. Further, there are several reasons behind the issuance of FAS 141R and FAS 160 which are enough crucial. The introduction of SPEs is to have knowledge of the benefits of it. Beyond these, it has come to know that in the case of IFRS, the crucial changes for the management are variances in operational, financial and controlling outcomes. At last, it has been found that the difference between US GAAP and IFRS is very clear that include control, shares considered in controlling, and calculation of goodwill, etc.

**References**

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