



Comparisons of the FRF for SMEs™ Reporting Framework to Other Bases of Accounting



Owner-managers of small and medium entities (SMEs), CPAs serving SMEs, users of SME financial statements, and other stakeholders are often familiar with the tax basis of accounting and U.S. GAAP. Also, stakeholders are following the implementation of the International Financial Reporting Standard for Small- and Medium-Sized Entities (IFRS for SMEs) around the world as its use continues to expand. As such, these stakeholders are interested in understanding how the principles and criteria included in the FRF for SMEs accounting framework compare to those other bases of accounting.

To assist those stakeholders, comparisons are presented on the following pages of the FRF for SMEs accounting framework to:

- the tax basis,
- U.S. GAAP, and
- IFRS for SMEs.

These comparisons are not all inclusive. Rather, the following comparisons are made at a high level and are intended to draw attention to differences between the FRF for SMEs accounting framework and the other bases of accounting on certain accounting and financial reporting matters.



Comparison of the FRF for SMEs Accounting Framework with Tax Basis Accounting ¹

The FRF for SMEs accounting framework draws upon a blend of traditional methods of accounting and accrual income tax accounting. One of its key features is that adjustments needed to reconcile tax return income with book income are reduced. The following is a comparative discussion of the FRF for SMEs accounting framework and tax basis accounting for certain topics considered significant for most users of the framework. This presentation does not describe all of the differences between the FRF for SMEs accounting framework and the tax basis of accounting. Rather, the presentation highlights areas that AICPA staff believes would be of particular interest to stakeholders.

Overview of Tax Basis Financial Statements



The *tax basis* is defined as “a basis of accounting that the entity uses to file its income tax return for the period covered by the financial statements.” It is typically based on federal income tax laws found in the Internal Revenue Code (IRC), along with related regulations, revenue rulings, and procedures. These laws and regulations generally deal with the determination of taxable income and, therefore, focus on the measurement of revenues and expenses (and in some cases, on the determination of the basis of assets and liabilities). However, income tax laws generally do not address financial statement presentation or disclosure considerations.

IRS Accounting Methods

The tax basis of accounting covers a range of alternative bases, from cash to full accrual, depending on the nature of the reporting entity and, in some cases, the entity’s elections. In general, the IRC allows two overall methods of accounting: the cash method and the accrual method.

¹ As of May 2013

- Under the cash method (used by many small businesses)
 - Income includes all items actually or constructively received during the year; and
 - Expenses are generally deducted in the year they are actually paid or property is transferred.
- Under the accrual method
 - Income is generally reported in the year earned;
 - Expenses are generally deducted in the year incurred; and
 - Generally, the IRC requires that businesses that use inventories use the accrual method for inventory purchases and sales.

Entities may select an accounting method based on the following rules.

<p>C Corporations</p>	<ul style="list-style-type: none"> • Generally, C corporations are required to use the accrual method of accounting. • However, the IRC allows the use of the cash method if the corporation's average gross receipts are \$5 million or less for the prior three years. • The IRC allows qualified personal service corporations to use the cash method.
<p>S Corporations</p>	<ul style="list-style-type: none"> • S corporations generally are eligible to use either cash or accrual. • However, S corporations that allocate more than 35 percent of their losses to shareholders who do not actively participate in the management of the business cannot use the cash method.
<p>Partnerships</p>	<ul style="list-style-type: none"> • Partnerships are generally eligible to use either cash or accrual. • However, limited partnerships generally cannot use the cash method if they allocate more than 35 percent of their tax losses to limited partners. • If general or limited partnerships have C corporation partners, they cannot use the cash method if the partnerships have average gross receipts of more than \$5 million for the three preceding tax years.
<p>Sole Proprietorships</p>	<ul style="list-style-type: none"> • Generally, sole proprietorships are eligible to use either cash or accrual. • A sole proprietor may use the accrual method for the business and the cash method for nonbusiness income and deductions.

Key Differences

Although the FRF for SMEs accounting framework largely parallels the accrual method under the tax basis of accounting, the FRF for SMEs reporting option provides a more comprehensive

and consistent financial reporting and accounting basis than the tax basis. This leads to a more complete presentation of the entity’s financial position, results of operations, and cash flows, as well as more informative disclosures.

Revenue and Expense Recognition

Generally, revenue and expense recognition do not differ between the FRF for SMEs accounting framework and the accrual method for income tax reporting purposes.

<p>Revenue</p>	<p>Under the tax basis, income is generally reported in the year earned.</p> <ul style="list-style-type: none"> • Entities using the tax basis generally include an amount as gross income for the tax year in which <ul style="list-style-type: none"> ○ all events that fix the entity’s right to receive the amount have occurred; and ○ the entity can determine the amount with reasonable accuracy. <p>Under this rule, an amount is included in gross income on the earliest of the following dates:</p> <ul style="list-style-type: none"> • When payment is received • When the income amount is due to the entity • When the income is earned
<p>Expenses</p>	<p>Expenses are generally deducted or capitalized when all of the following conditions are met:</p> <ul style="list-style-type: none"> • All events necessary to establish the fact of liability or deduction have occurred; • The amount of the liability or deduction is determinable with reasonable accuracy; and • Economic performance has occurred <ul style="list-style-type: none"> ○ Generally, economic performance occurs when property or services are provided to (or by) another party, or when the property is used.

Special Revenue Situations

As stated previously, generally, revenue recognition does not differ between the FRF for SMEs accounting framework and the accrual method for income tax reporting purposes. However, special rules may apply to the following:

Topic	FRF for SMEs	Tax Basis
<i>Installment sales</i>	Revenue is ordinarily recognized at the time a sale is made, even if the sales price will be collected in installments.	Income from an installment sale is recognized when it is fixed and determinable and all events have occurred. Deductions are permitted later if the sale becomes uncollectible.
<i>Sales returns</i>	Recognition of probable returns in the period the sale is recognized.	No allowance for returns is permitted - returns cannot be recorded until they occur.
<i>Advance payments</i>	Advance payments are generally recorded as deferred revenue and recognized when earned.	Advance payments for services to be performed in a later tax year are generally recognized as income in the year the payment is received. However, if the services are to be performed by the end of the next tax year, the entity can elect to postpone recognizing the advance payment until the next tax year.

Topic	FRF for SMEs	Tax Basis
<i>Long-term contracts</i>	<p>Performance should be determined using one of the following methods:</p> <ul style="list-style-type: none"> • Percentage-of-completion method; or • Completed-contract method. <ul style="list-style-type: none"> ○ Used when the entity cannot reasonably estimate the extent of progress toward completion ○ May also be used if the following conditions are met: <ul style="list-style-type: none"> ▪ The completed contract method is used for income tax reporting purposes. ▪ The financial position and results of operations of the entity would not vary materially from those resulting from use of the percentage-of-completion method (for example, in circumstances in which an entity has primarily short-term contracts). 	<p>Generally, entities must report earnings from long-term contracts for tax purposes using the percentage-of-completion method.</p> <p>However, the completed-contract method may be used by entities with average gross receipts of \$10 million or less for the three taxable years preceding the contract year if they perform only</p> <ul style="list-style-type: none"> • real property contracts that will be completed within two years, or • manufacturing contracts that will be completed within one year.
<i>Rental Income and Expense</i>	<p>Lessees and lessors generally recognize rent under non-cancelable operating leases on a straight-line method over the period the lessee controls the use of the leased property.</p>	<p>Accrual method <u>lessors</u> usually recognize rental income under operating leases when earned.</p> <p>Accrual method <u>lessees</u> generally recognize rent expense under operating leases when payments are due.</p>



Statement of Financial Position Measurement and Presentation Issues

Topic	FRF for SMEs	Tax Basis
<i>Receivables</i>	<ul style="list-style-type: none"> • Allows entities to provide an allowance for receivables for which collection is doubtful. 	<ul style="list-style-type: none"> • Must use the specific charge-off method to deduct bad debt losses related to trade notes and accounts receivable. Receivables are not charged to expense until all collection efforts have been exhausted and they are deemed worthless.
<i>Inventories</i>	<ul style="list-style-type: none"> • Inventory is measured at the lower of cost or net realizable value. • Cost is determined by any of the conventional cost flow assumptions. • Charging all overhead costs to expense is not permitted. • Abnormal amounts of production costs, wasted materials, and labor are to be charged to expense in the year they are incurred. • Overhead costs are allocated based on normal production capacity. This might create differences between inventory calculated under the framework and under tax laws. • Inventory losses are essentially recorded when they are probable and estimable, whether they result from obsolescence, damage, or declining prices. 	<ul style="list-style-type: none"> • Inventory is generally valued using the cost method, lower of cost or market method, or retail method. • Cost is determined by any of the conventional cost flow assumptions. • Charging all overhead costs to expense is not permitted. • Inventory losses are generally not recognized until the inventory is actually offered for sale at lower prices or until the inventory is actually sold or discarded.

Topic	FRF for SMEs	Tax Basis
<i>Investments</i>	<ul style="list-style-type: none"> • Equity and debt instruments held for sale are accounted for at market value, which results in unrealized gains and losses being recognized in some cases. • The equity method is used to account for investments when the investor can exercise significant influence over the investee. Generally, significant influence exists when the ownership interest is 20 percent or more. 	<ul style="list-style-type: none"> • In general, investments in debt and equity securities are carried at cost for income tax reporting purposes. Accordingly, gains and losses under the income tax basis generally are recognized only when realized. • For tax purposes, the equity method of accounting does not exist. Instead, dividend income is included in income. • A pro rata share of the investee income or loss is not recorded by the investor.
<i>Prepaid Expenses</i>	<ul style="list-style-type: none"> • Recorded as an asset and amortized to expense. 	<ul style="list-style-type: none"> • Expenses paid in advance are deductible only in the year to which the expense applies, unless the expense qualifies for the “12-month rule.” • Under the 12-month rule, the entity is not required to capitalize amounts paid to create certain rights or benefits that do not extend beyond the earlier of the following: <ul style="list-style-type: none"> ○ 12 months after the right or benefit begins ○ The end of the tax year after the tax year in which payment is made

Topic	FRF for SMEs	Tax Basis
Property and Equipment	<ul style="list-style-type: none"> Requires depreciation to be recognized in a rational and systematic manner over the useful life of the asset. Depreciation expense is calculated on the cost less any expected <i>residual value</i>. Assets contributed by an owner are valued at market value. Does not recognize an expense similar to the IRC Section 179 deduction for costs incurred to acquire certain property and equipment during the year within specified limitations. 	<ul style="list-style-type: none"> Most property and equipment is depreciated under the Modified Accelerated Cost Recovery System (MACRS), often resulting in more rapid depreciation over shorter lives than would be used under FRF for SMEs. IRC Section 179 permits taxpayers to deduct the cost incurred to acquire certain property and equipment during the year within specified limitations. Assets contributed by an owner may be valued at the owner's tax basis. Tax laws pertaining to capital leases are less explicit than under the FRF for SMEs accounting framework. Generally, for tax purposes, an equipment lease is not considered to be a capital lease unless it contains a bargain-purchase option.
Intangible Assets	<ul style="list-style-type: none"> Goodwill is amortized over a 15 year period. A recognized intangible asset is amortized over the best estimate of its useful life. 	<ul style="list-style-type: none"> Intangible assets (including goodwill) acquired after August 10, 1993 (or July 25, 1991, if elected), are referred to as IRC Section 197 intangibles and may be amortized over a 15-year life beginning with the month the assets were acquired.
Consolidation	<ul style="list-style-type: none"> Consolidation is based on a threshold of more than 50 percent ownership. The framework provides more explicit guidance on accounting for a business combination, as well as subsequent consolidation. 	<ul style="list-style-type: none"> The threshold for consolidation under the IRC is 80 percent ownership.

Comparison of the FRF for SMEs Accounting Framework With U.S. GAAP—Major Areas ²

The following table presents a high-level comparison of the FRF for SMEs accounting framework with U.S. GAAP for certain key topics. This presentation does not describe all of the differences between the FRF for SMEs accounting framework and U.S. GAAP. Rather, the presentation highlights areas that AICPA staff believes would be of particular interest to stakeholders.

Topic	FRF for SMEs	U.S. GAAP
Fair Value	<ul style="list-style-type: none"> • Uses the term “market value.” It is defined as “the amount of the consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.” • Market value measurement used only in very limited circumstances, such as business combinations, certain nonmonetary transactions, and marketable equity and debt securities that are held for sale. 	<ul style="list-style-type: none"> • <i>Fair value</i> is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” • Provides an overall framework to measuring fair value (e.g., fair value hierarchy, valuation techniques). • Standardized disclosure requirements for fair value measurements. • Nonpublic entities are exempt from certain fair value disclosures.
Impairment	<ul style="list-style-type: none"> • No assessment of impairments for long-lived assets. • A depreciated or amortized cost approach is followed. Assets no longer used are written off. • (See Goodwill below) 	<ul style="list-style-type: none"> • Long-lived assets are tested for impairment upon a triggering event. • Indefinite-lived intangible assets are subject to an impairment test annually. • (See Goodwill below)
Comprehensive Income	<ul style="list-style-type: none"> • No concept of comprehensive income or items of other comprehensive income. 	<ul style="list-style-type: none"> • Certain items are classified as other comprehensive income (OCI) and displayed as such.
Industry-Specific Guidance	<ul style="list-style-type: none"> • Framework does not contain industry-specific guidance. 	<ul style="list-style-type: none"> • Extensive industry-specific guidance. • The FASB issued a broad

² As of June 2014

Topic	FRF for SMEs	U.S. GAAP
		principles-based revenue recognition model that replaces industry-specific revenue guidance once the new standard is effective.
Consolidation / Subsidiaries	<ul style="list-style-type: none"> • Policy choice to either consolidate subsidiaries or account for subsidiaries using the equity method. • <i>Subsidiary</i> defined as an entity in which another entity owns more than 50 percent of the outstanding residual equity interests. • No concept of variable interest entities. 	<ul style="list-style-type: none"> • Consolidation is required for reporting entity with controlling financial interest in another entity. • Variable interest entity (VIE) model is used when controlling financial interest is achieved through arrangements that do not involve voting interests. • Private companies may elect not to follow the VIE model for common control leasing arrangements.
Income Taxes	<ul style="list-style-type: none"> • Policy choice to account for income taxes using either the taxes payable method or the deferred income taxes method. • No evaluation or accrual of uncertain tax positions. 	<ul style="list-style-type: none"> • Income taxes accounted for using a deferred income tax method. • Uncertain income tax positions must be evaluated and accrual made if certain conditions are met.
Leases	<ul style="list-style-type: none"> • Traditional accounting approach blended with some accrual income tax accounting methods. • Lessee classifies leases as either operating or capital leases. • Lessor accounts for leases as sales type, direct financing, or operating. 	<ul style="list-style-type: none"> • Lessee classifies leases as either operating or capital leases. • Lessor accounts for leases as sales type, direct financing, or operating.³
Push-Down Accounting	<ul style="list-style-type: none"> • New basis (push-down) accounting guidance provided. • Specific guidance provided on comprehensive revaluation of assets 	<ul style="list-style-type: none"> • No requirement to apply push-down accounting.⁴

³ The FASB has an ongoing project to revamp its current lease accounting model and adopt a right-of-use (ROU) model. For example, a lessee would recognize a ROU asset and liability for all lease contracts (other than short-term leases).

⁴ The FASB's Emerging Issues Task Force is working on a potential standard on push-down accounting.

Topic	FRF for SMEs	U.S. GAAP
	and liabilities under certain conditions.	
Intangible Assets	<ul style="list-style-type: none"> All intangible assets are considered to have a finite useful life and are amortized over their estimated useful lives. In accounting for expenditures on internally-generated intangible assets during the development phase, management should make an accounting policy choice to either expense such expenditures as incurred or capitalize such expenditures as an intangible asset, provided the criteria are met. 	<ul style="list-style-type: none"> A recognized intangible asset is amortized over its useful life unless that life is determined to be indefinite. Intangible assets subject to amortization are tested for impairment upon a triggering event. Indefinite-lived intangible assets are subject to an impairment test annually. An impairment test is also required upon a triggering event. Optional qualitative assessment is permitted.⁵
Goodwill	<ul style="list-style-type: none"> Amortized over the same period as that used for federal income tax purposes or 15 years. No impairment testing. 	<ul style="list-style-type: none"> Private companies may elect to amortize over a period of ten years or less. Trigger based impairment test, along with a simplified approach for private companies.

⁵ The FASB’s Private Company Council (PCC) is working on a project to consider the accounting for identifiable intangible assets in a business combination.

Topic	FRF for SMEs	U.S. GAAP
Revenue	<ul style="list-style-type: none"> • Broad, principle-based guidance on revenue recognition. • Revenue should be recognized when performance is achieved and ultimate collection is reasonably assured. • For goods: Performance is achieved when the entity transfers the risks and rewards associated with the goods to a customer. • For services: Performance should be determined using either the percentage of completion method or the completed contract method. Performance should be regarded as having been achieved when reasonable assurance exists regarding the measurement of the consideration that will be derived from rendering the service or performing the long-term contract. 	<ul style="list-style-type: none"> • Revenue⁶ is realized or realizable when all of the following criteria are met: <ul style="list-style-type: none"> ○ Persuasive evidence of an arrangement exists; ○ Delivery has occurred or services have been rendered; ○ The seller’s price to the buyer is fixed or determinable; and ○ Collectability is reasonable assured. • Construction and production contracts are accounted for using the percentage-of-completion method or completed contract method. • Industry-specific guidance.
Investments/ Financial Assets and Liabilities	<ul style="list-style-type: none"> • Historical cost approach. • Market value measurement required only for investments being held for sale. • Changes in market value included in net income. 	<ul style="list-style-type: none"> • Classification required based on management intent and ability. • Securities classified as “available for sale” or “trading” measured at fair value. • Debt securities classified as “held-to-maturity” measured at amortized cost. • Accounting for changes in fair value depends upon classification.

⁶ The FASB issued a new revenue recognition standard. The core principle of the new model is that an entity should recognize revenue when promised goods or services are transferred to customers. The amount of revenue recognized reflects the consideration that is expected in exchange for those goods or services. The new revenue guidance is effective for nonpublic entities with an annual reporting period beginning after December 15, 2017.

Topic	FRF for SMEs	U.S. GAAP
<i>Derivatives</i>	<ul style="list-style-type: none"> • Disclosure approach. • Recognition at settlement (cash basis). • No hedge accounting. 	<ul style="list-style-type: none"> • All derivatives recognized as either assets or liabilities. • Measured at fair value. • Accounting for changes in fair value depends on the use of the derivative. • Hedge accounting permitted. • Private companies may elect a simplified hedge accounting approach for swaps that are entered into for the purpose of economically converting a variable-rate borrowing into a fixed-rate borrowing.
<i>Stock-Based Compensation</i>	<ul style="list-style-type: none"> • Disclosure only. 	<ul style="list-style-type: none"> • Stock-based compensation is classified as “Liability” or “Equity” • Accounting for stock-based compensation expense depends upon classification. • Measurement of stock-based compensation is fair-value based. • Nonpublic entities permitted to measure stock-based compensation under “calculated-value method.” When it is not possible to reasonably estimate fair value or calculated value, intrinsic value is permitted.
<i>Defined Benefit Plans</i>	<ul style="list-style-type: none"> • Policy choice to account for plans using either a current contribution payable method or one of the accrued benefit obligation methods. 	<ul style="list-style-type: none"> • Plans accounted for using a projected benefit obligation model.

Topic	FRF for SMEs	U.S. GAAP
Business Combinations	<ul style="list-style-type: none"> As of the acquisition date, the acquirer should recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date market values. Certain exceptions exist. An entity should make an accounting policy choice to account for an intangible asset acquired in a business combination either by separately recognizing the intangible asset as an identifiable asset or by not separately recognizing the intangible asset as an identifiable asset and subsuming into goodwill the value of the intangible asset. 	<ul style="list-style-type: none"> As of the acquisition date, the acquirer should recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Certain exceptions exist.⁷
Inventories	<ul style="list-style-type: none"> Valued at lower of cost or net realizable value. 	<ul style="list-style-type: none"> Valued at lower of cost or market, with market generally considered to be replacement cost; however, market is not permitted to exceed net realizable value or be less than net realizable value less a normal profit margin.

⁷ The FASB’s Private Company Council (PCC) is working on a project to consider the accounting for identifiable intangible assets in a business combination. This effort is expected to result in fewer intangible assets being separately recognized.

Comparison of the FRF for SMEs Accounting Framework With IFRS for SMEs—Major Areas⁸



In general, the FRF for SMEs reporting option is similar in many ways to IFRS for SMEs. Both are intended to be simplified, relevant, and cost-effective financial reporting frameworks for SMEs. In addition, both contain targeted financial statement disclosures and contain less prescriptive guidance. However, the IFRS for SMEs is GAAP whereas the FRF for SMEs reporting option is a non-GAAP special purpose framework (an other

comprehensive basis of accounting or OCBOA). Also, the parameters defining what kinds of entities are intended to utilize the framework and IFRS for SMEs are different, with IFRS for SMEs having a more prescribed scope. The following table presents a high-level comparison of the FRF for SMEs accounting framework with IFRS for SMEs for certain key topics. This presentation does not describe all of the differences between the FRF for SMEs accounting framework and IFRS for SMEs. Rather, the presentation highlights areas that AICPA staff believes would be of particular interest to stakeholders.

Topic	FRF for SMEs Accounting Framework	IFRS for SMEs
Comparative Financial Statements	<ul style="list-style-type: none"> Comparative financial statements are not required. 	<ul style="list-style-type: none"> Requires comparative information in respect of the previous comparable period for all amounts presented in the current period’s financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period’s financial statements.

⁸ As of May 2013

Topic	FRF for SMEs Accounting Framework	IFRS for SMEs
Comprehensive Income	<ul style="list-style-type: none"> No concept of comprehensive income or items of other comprehensive income. 	<ul style="list-style-type: none"> Provides an accounting policy choice between presenting total comprehensive income in a single statement or in two separate statements. Certain items are classified as other comprehensive income and displayed as such.
Fair Value	<ul style="list-style-type: none"> Uses the term “market value,” defined as “the amount of the consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.” Market value measurement used only in very limited circumstances, such as business combinations, certain nonmonetary transactions, and marketable equity and debt securities held-for-sale. 	<ul style="list-style-type: none"> Use the term “fair value.” It is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. Wider use of fair value measurements compared to the FRF for SMEs accounting framework.
Inventories	<ul style="list-style-type: none"> Last in, first out (LIFO) is permitted. 	<ul style="list-style-type: none"> LIFO is not permitted. Inventory is assessed at the end of each reporting period for impairment or for recovery of previously recognized impairment.
Subsidiaries	<ul style="list-style-type: none"> <i>Subsidiary</i> defined as an entity in which another entity owns more than 50 percent of the outstanding residual equity interests. Policy choice to either consolidate subsidiaries or account for subsidiaries using the equity method. No concept of special purpose entities (SPEs) or variable interest entities. 	<ul style="list-style-type: none"> <i>Subsidiary</i> defined as an entity that is controlled by the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. If an entity has created an SPE to accomplish a narrow and well-defined objective, the entity shall consolidate the SPE when the substance of the relationship indicates that the SPE is controlled by that entity.

Topic	FRF for SMEs Accounting Framework	IFRS for SMEs
Investments/ Financial Assets and Liabilities	<ul style="list-style-type: none"> • Historical cost approach for investments and financial assets and liabilities. • Market value measurement required only for investments being held for sale, with changes in market value included in net income. • Investees over which the investor has significant influence are accounted for under the equity method. 	<ul style="list-style-type: none"> • There are two classification categories for financial instruments: amortized cost and fair value through earnings. • Basic financial instruments are measured at amortized cost except for investments in nonconvertible and nonputtable preference shares and nonputtable ordinary shares that are publicly traded or whose fair value can be measured reliably. • All instruments other than basic debt instruments (including instruments with embedded derivatives) are measured at fair value through earnings. • Investments in associates (<i>associates</i> are entities in which the investor has the ability to exercise significant influence) are accounted for using one of the following methods: the cost method (if there is no published price quotation), equity method, or fair-value-through-earnings method.
Derivatives	<ul style="list-style-type: none"> • Disclosure approach. • Recognition at settlement (cash basis). • No hedge accounting. 	<ul style="list-style-type: none"> • Derivatives are recognized and measured at fair value through earnings. • Hedge accounting is prescribed.
Stock-Based Compensation	<ul style="list-style-type: none"> • Disclosure only. 	<ul style="list-style-type: none"> • Compensation expense is recognized. • Specific accounting depends on terms and type of instrument.

Topic	FRF for SMEs Accounting Framework	IFRS for SMEs
Leases	<ul style="list-style-type: none"> • The criteria for determining whether a lease is a capital lease to a lessee generally are similar to IFRS for SMEs. Unlike IFRS for SMEs, however, the FRF for SMEs accounting framework provides specific quantitative thresholds for determining certain criteria. • Under the FRF for SMEs accounting framework, if land is the sole item of property leased, the lessee accounts for the lease as a capital lease only if the lease transfers ownership of the property at the end of the lease term. • From the point of view of a lessor, some additional criteria must be met to classify the lease as a capital lease. • Under the FRF for SMEs accounting framework, lessors' capital leases are categorized as direct financing leases or sales-types leases (both similar to the finance lease category in IFRS for SMEs). 	<ul style="list-style-type: none"> • See the FRF for SMEs column.
Goodwill	<ul style="list-style-type: none"> • Amortized over the same period as that used for federal income tax purposes or 15 years. • No impairment testing. 	<ul style="list-style-type: none"> • Goodwill is amortized over its useful life. If an entity cannot reliably estimate its useful life, the life is presumed to be 10 years. • Impairment testing is required only when there is an indicator of impairment.

Topic	FRF for SMEs Accounting Framework	IFRS for SMEs
<i>Intangible Assets</i>	<ul style="list-style-type: none"> • All intangible assets are considered to have a finite useful life and are amortized over their estimated useful lives. • In accounting for expenditures on internally-generated intangible assets during the development phase, management should make an accounting policy choice to either expense such expenditures as incurred or capitalize such expenditures as an intangible asset, provided the criteria are met. 	<ul style="list-style-type: none"> • All intangible assets (including goodwill) are finite-lived and are amortized over their useful lives. If an entity cannot reliably estimate the useful life of an intangible asset, the life is presumed to be 10 years. • Expenditures on internally developed intangibles, including research and development costs, are expensed as incurred, unless they are part of the cost of another asset that meets the recognition criteria in IFRS for SMEs.
<i>Statement of Cash Flows</i>	<ul style="list-style-type: none"> • Cash inflows from interest and dividends received are classified as cash flows from operating activities. • Cash outflows related to interest paid are classified as an operating activity, unless capitalized. • Cash outflows related to dividends paid are classified as cash flows used in financing activities. • Cash outflows from dividends paid by subsidiaries to noncontrolling interests are presented separately as cash flows used in financing activities. 	<ul style="list-style-type: none"> • An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. • Alternatively, the entity may classify interest paid and interest and dividends received as financing cash flows and investing cash flows, respectively, because they are costs of obtaining financial resources or returns on investments. • An entity may classify dividends paid as a financing cash flow because they are a cost of obtaining financial resources. • Alternatively, the entity may classify dividends paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

Topic	FRF for SMEs Accounting Framework	IFRS for SMEs
Debt Covenant Violation	<ul style="list-style-type: none"> • Debt covenant violations may be cured after the balance sheet date, eliminating the need to reclassify the debt. 	<ul style="list-style-type: none"> • Curing a debt covenant violation after the balance sheet date may not eliminate the need to reclassify the debt.
Investment Property	<ul style="list-style-type: none"> • No specific definition of investment property. Investments in land and buildings are accounted for as property, plant, and equipment. 	<ul style="list-style-type: none"> • Separate accounting guidance for investment property. • Investment property is property (land or a building, or 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 use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of business.
Component Depreciation	<ul style="list-style-type: none"> • No requirement for separate components of an asset (nor is there a prohibition against doing so). • Composite depreciation method may be used. 	<ul style="list-style-type: none"> • If the major components of an item of property, plant, and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life.
Joint Ventures	<ul style="list-style-type: none"> • A venturer should make an accounting policy choice to account for its interests in joint ventures using one of the following methods: <ul style="list-style-type: none"> ○ Equity; or ○ Proportionate consolidation. <ul style="list-style-type: none"> ▪ Only applicable to unincorporated entities where it is an established industry practice. 	<ul style="list-style-type: none"> • Investments in jointly controlled entities may be accounted for using one of the following methods: <ul style="list-style-type: none"> ○ Cost (if there is no published price quotation); ○ Equity; or ○ Fair-value-through-earnings.

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<i>Impairment of Long-Lived Assets</i>	<ul style="list-style-type: none"> • No assessment of impairments for long-lived assets. • A depreciated or amortized cost approach is followed. Assets no longer used are written off. 	<ul style="list-style-type: none"> • Impairment testing is required only when there is an indicator of impairment.
<i>Contingencies</i>	<ul style="list-style-type: none"> • A contingency is recognized when <ul style="list-style-type: none"> ○ It is probable that a future event will confirm that the value of an asset has diminished or a liability has been incurred at the date of the financial statements; and ○ The amount of the loss can be reasonably estimable. • “Probable” is defined as likely to occur, a threshold higher than the “more likely than not” threshold used in IFRS for SMEs. 	<ul style="list-style-type: none"> • A contingency is recognized when it is more likely than not that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably.
<i>Income Taxes</i>	<ul style="list-style-type: none"> • Policy choice to account for income taxes using either the taxes payable method or the deferred income taxes method. • No evaluation or accrual of uncertain tax positions. 	<ul style="list-style-type: none"> • Income taxes accounted for using a deferred income tax method. • Uncertain income tax positions must be evaluated and accrual made if certain conditions are met.

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<i>Borrowing Costs</i>	<ul style="list-style-type: none"> • An entity can choose to capitalize interest costs related to an item of property, plant, and equipment that is acquired, constructed, or developed over time. • When a financial liability is issued or assumed in an arm's length transaction, an entity should measure it at its exchange amount adjusted by financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance, or assumption. • An entity can choose to capitalize interest costs related to inventories that require a substantial period of time to get them ready for their intended use or sale. 	<ul style="list-style-type: none"> • Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. An entity should recognize all borrowing costs as an expense in net income in the period in which they are incurred.
<i>Long-Lived Assets Held for Sale</i>	<ul style="list-style-type: none"> • A long-lived asset to be sold should be classified as held for sale and presented separately in the entity's statement of financial position. The assets and liabilities of a disposal group classified as held for sale should be presented separately in the asset and liability sections, respectively, of the statement of financial position. • A long-lived asset should not be amortized while it is classified as held for sale. 	<ul style="list-style-type: none"> • There is no "held for sale" classification for nonfinancial assets or groups of assets and liabilities and related measurement provisions.

Learn more about FRF for SMEs™ through additional resources at aicpa.org/FRF-SMEs.