Case 5-1

# S. A. Harrington Company

S. A. Harrington Company is a U.S.-based company that prepares its consolidated financial statements in accordance with U.S. GAAP. The company reported income in 2015 of $5,000,000 and stockholders' equity at December 31, 2015, of $40,000,000.

The CFO of S. A. Harrington has learned that the U.S. Securities and Exchange Commission is considering requiring U.S. companies to use IFRS in preparing consolidated financial statements. The company wishes to determine the impact that a switch to IFRS would have on its financial statements and has engaged you to prepare a reconciliation of income and stockholders' equity from U.S. GAAP to IFRS. You have identified the following five areas in which S. A. Harrington's accounting principles based on U.S. GAAP differ from IFRS.

1. Restructuring
2. Pension plan
3. Stock options
4. Revenue recognition
5. Bonds payable

The CFO provides the following information with respect to each of these accounting differences.

## Restructuring Provision

The company publicly announced a restructuring plan in 2015 that created a valid expectation on the part of the employees to be terminated that the company will carry out the restructuring. The company estimated that the restructuring would cost $300,000. No legal obligation to restructure exists as of December 31, 2015.

## Pension Plan

In 2013, the company amended its pension plan, creating a past service cost of $60,000. The past service cost was attributable to already vested employees who had an average remaining service life of 15 years. The company has no retired employees.

## Stock Options

Stock options were granted to key officers on January 1, 2015. The grant date fair value per option was $10, and a total of 9,000 options were granted. The options vest in equal installments over three years: one-third vest in 2014, one-third in 2015, and one-third in 2016. The company uses a straight-line method to recognize compensation expense related to stock options.

## Revenue Recognition

The company entered into a contract in 2015 to provide engineering services to a long-term customer over a 12-month period. The fixed price is $250,000, and the company estimates with a high degree of reliability that the project is 30 percent complete at the end of 2015.

## Bonds Payable

On January 1, 2014, the company issued $10,000,000 of 5 percent bonds at par value that mature in five years on December 31, 2018. Costs incurred in issuing the bonds were $500,000. Interest is paid on the bonds annually.

### *Required*

Prepare a reconciliation schedule to reconcile 2015 net income and December 31, 2015, stockholders' equity from a U.S. GAAP basis to IFRS. Ignore income taxes. Prepare a note to explain each adjustment made in the reconciliation schedule.