

FINOVATEPRO

SPECIFIC CASE MANUAL SERIES

*Accounting for Revenue, Debt and Obligations, Leases, Fixed Assets and Retirement
Accounts*

finovatepro.com

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FINOVATEPRO SPECIFIC CASE MANUAL SERIES

IFRS vs U.S. GAAP Comparison Manuals

Practical Case-Based Accounting Guides

JS Morlu Quality | Audit-Grade | Step-by-Step | 8th Grade Readability

PURPOSE OF THIS SERIES

These manuals are designed to help:

- Accountants
- Controllers
- CFOs
- Auditors
- Students
- Operators
- and non-accountants

understand the **real operational differences** between IFRS and U.S. GAAP using:

- practical cases
 - journal entries
 - workflows
 - reconciliations
 - disclosures
 - audit risks
 - and real-world mistakes.
-

CORE DESIGN PRINCIPLE

☞ Most people memorize standards.

☞ Very few understand operational reality.

This series focuses on:

how transactions happen in real life

what can go wrong

how auditors test them

how systems should automate them

SERIES STRUCTURE

The series will consist of 5 major manuals:

Revenue Recognition

Debt & Borrowings

Leases

Fixed Assets

Retirement Plans & Employee Benefits

MANUAL 1 - REVENUE RECOGNITION

IFRS vs U.S. GAAP Comparison Manual

COVERAGE

Standards

IFRS 15 Revenue from Contracts with Customers

ASC 606 Revenue from Contracts with Customers

OUTLINE

Volume 1 - Revenue Foundations

Core principles

Performance obligations

Transaction price

Timing of recognition

Contract assets vs receivables

Volume 2 - Daily Revenue Operations

Billing

Deferred revenue

Revenue accruals

Customer deposits

Refund liabilities

Volume 3 - Complex Revenue Cases

Multiple-element arrangements

Variable consideration

Discounts & rebates

Contract modifications

Principal vs agent

Volume 4 - Industry-Specific Revenue

SaaS

Government contracting

Construction

Nonprofit grants

Financial institutions

Volume 5 - Month-End Close & Audit

Revenue reconciliation

Cut-off testing

Deferred revenue rollforward

Audit procedures

Common fraud schemes

Volume 6 - IFRS vs GAAP Differences

Collectability thresholds

Practical expedients

Disclosure differences

Presentation differences

Volume 7 - Case Studies & Failures

Early recognition

Side agreements

Fake revenue

Channel stuffing

Bill-and-hold arrangements

MANUAL 2 - DEBT & BORROWINGS

IFRS vs U.S. GAAP Comparison Manual

COVERAGE

Standards

IFRS 9 Financial Instruments

ASC 470 Debt

OUTLINE

Volume 1 - Debt Foundations

Loans payable

Notes payable

Bonds

Amortized cost

Volume 2 - Interest & Effective Yield

Effective interest method

Debt issuance costs

Premiums & discounts

Interest accruals

Volume 3 - Debt Modifications

Troubled debt restructuring

Refinancing

Extinguishment

Covenant breaches

Volume 4 - Convertible & Complex Debt

Convertible instruments

Warrants

Embedded derivatives

Hybrid instruments

Volume 5 - Month-End Close & Audit

Debt reconciliations

Covenant testing

Interest validation

Confirmation procedures

Volume 6 - IFRS vs GAAP Differences

Classification

Convertible debt accounting

Modification accounting

Fair value elections

Volume 7 - Case Studies

Hidden liabilities

Covenant violations

Off-balance-sheet debt

Debt restructuring failures

MANUAL 3 - LEASE ACCOUNTING

IFRS vs U.S. GAAP Comparison Manual

COVERAGE

Standards

IFRS 16 Leases

ASC 842 Leases

OUTLINE

Volume 1 - Lease Foundations

Right-of-use assets

Lease liabilities

Identifying leases

Lease term

Volume 2 - Initial Recognition

Measurement

Discount rates

Journal entries

Lease incentives

Volume 3 - Subsequent Accounting

Amortization

Interest

Reassessments

Modifications

Volume 4 - Specialized Lease Cases

Embedded leases

Variable lease payments

Sale-leaseback

Short-term leases

Volume 5 - Month-End Close & Audit

Lease rollforwards

Reconciliation

Audit testing

Disclosure tie-outs

Volume 6 - IFRS vs GAAP Differences

Single-model vs dual-model

Expense presentation

Classification differences

Volume 7 - Case Studies

Hidden leases

Wrong discount rates

Incomplete lease population

Misclassification

MANUAL 4 - FIXED ASSETS

IFRS vs U.S. GAAP Comparison Manual

COVERAGE**Standards**

IAS 16 Property, Plant and Equipment

ASC 360 Property, Plant, and Equipment

OUTLINE**Volume 1 - Fixed Asset Foundations**

Capitalization

Useful life

Depreciation

Asset classes

Volume 2 - Asset Acquisition & Construction

Purchases

Self-constructed assets

Borrowing costs

Asset tagging

Volume 3 - Depreciation & Impairment

Straight-line

Units of production

Impairment testing

Disposal

Volume 4 - Specialized Asset Cases

Component accounting

Revaluation model (IFRS)

Asset retirement obligations

Idle assets

Volume 5 - Month-End Close & Audit

Fixed asset rollforward

Physical verification

Depreciation reconciliation

Audit procedures

Volume 6 - IFRS vs GAAP Differences

Revaluation

Componentization
Impairment reversals
Development costs

Volume 7 - Case Studies

Capitalizing repairs
Ghost assets
Missing disposals
Wrong useful lives

MANUAL 5 - RETIREMENT PLANS & EMPLOYEE BENEFITS

IFRS vs U.S. GAAP Comparison Manual

COVERAGE

Standards

IAS 19 Employee Benefits
ASC 715 Compensation-Retirement Benefits

OUTLINE

Volume 1 - Retirement Foundations

Defined contribution
Defined benefit
Pension obligations

Volume 2 - Pension Accounting

Service cost

Interest cost

Actuarial assumptions

Plan assets

Volume 3 - Other Employee Benefits

PTO

bonuses

healthcare obligations

severance

Volume 4 - Specialized Cases

Curtailments

Settlements

Multiemployer plans

Frozen plans

Volume 5 - Month-End Close & Audit

Actuarial reports

Rollforwards

Employer contributions

Audit testing

Volume 6 - IFRS vs GAAP Differences

OCI treatment

corridor method history

actuarial gain/loss treatment

Volume 7 - Case Studies

underfunded pensions
assumption manipulation
missing liabilities
contribution timing errors

COMMON STRUCTURE ACROSS ALL MANUALS

Each manual will include:

1. Step-by-Step Operational Workflows

How transactions occur in real life

2. Journal Entries

Exact entries under IFRS and U.S. GAAP

3. Real Case Studies

Failures, frauds, audit findings, lawsuits

4. JS Morlu Audit Procedures

What auditors actually test

5. Month-End Close Checklists

Execution-level operational guidance

6. Dashboard KPIs

Real-time monitoring metrics

7. Disclosure Examples

Audit-grade financial statement notes

8. Common Errors

Peer review findings and practical failures

FINAL DESIGN PHILOSOPHY

☞ These manuals are not academic textbooks.

They are:

operational

practical

audit-grade

regulator-defensible

system-design-ready

FOR FINOVATEPRO

This becomes:

FinovatePro accounting intelligence layer

industry-specific compliance engine

automated accounting workflow logic

☞ This is how FinovatePro becomes more than software.

MANUAL 1 - REVENUE RECOGNITION

IFRS vs U.S. GAAP COMPARISON MANUAL

JS Morlu Quality | Audit-Grade | Operational | Practical | System-Ready

PURPOSE OF THIS MANUAL

Revenue is the most manipulated number in accounting.

Most financial statement frauds historically involved:

fake revenue,

early revenue,

hidden obligations,

or misleading contract accounting.

This manual teaches:

how revenue actually works,

how to recognize it correctly,

how auditors test it,

how fraud happens,

and how systems like FinovatePro should automate controls.

APPLICABLE STANDARDS

International Standards

IFRS 15 Revenue from Contracts with Customers

U.S. GAAP Standards

ASC 606 Revenue from Contracts with Customers

CORE PRINCIPLE OF REVENUE

☞ Revenue is recognized when:

control transfers,
obligations are satisfied,
and collection is probable.

NOT:

when cash is received,
when invoice is sent,
or when management “needs better numbers.”

THE FIVE-STEP REVENUE MODEL (FOUNDATION)

Both IFRS 15 and ASC 606 use the same core framework:

Step	Description
1	Identify the contract
2	Identify performance obligations
3	Determine transaction price
4	Allocate transaction price
5	Recognize revenue when/as obligations satisfied

VOLUME 1 - REVENUE FOUNDATIONS

Core Structure of Revenue Recognition

CHAPTER 1 - IDENTIFYING THE CONTRACT

What Is a Contract?

An agreement that creates:
enforceable rights,
and enforceable obligations.

Contract Criteria

- ✓ approval by parties
 - ✓ commercial substance
 - ✓ payment terms identifiable
 - ✓ collection probable
-

Control Rule

☞ No valid contract = no revenue

Red Flags

unsigned contracts
vague deliverables
weak collectability

CHAPTER 2 - PERFORMANCE OBLIGATIONS

Definition

A promise to transfer:

goods,

services,

or rights.

Examples**SaaS**

software access

implementation

Construction

building project

GovCon

labor hours

deliverables

Key Issue

☞ Are obligations:

distinct?

bundled?

separable?

Control Rule

☞ Revenue follows obligations-not invoices

CHAPTER 3 - TRANSACTION PRICE

Definition

Amount entity expects to receive.

Includes

fixed amounts

variable consideration

discounts

incentives

penalties

Examples

Fixed Contract

\$100,000

Variable Contract

\$100,000 + performance bonus

Control Rule

☞ Revenue estimate must be realistic

Red Flags

aggressive assumptions

unsupported bonuses

CHAPTER 4 - ALLOCATION OF TRANSACTION PRICE

Purpose

Allocate total contract value across obligations.

Example

Contract:

software = \$80K

support = \$20K

Total:

\$100K

Revenue allocated separately.

Control Rule

☞ Allocation must reflect standalone selling prices

CHAPTER 5 - TIMING OF REVENUE

Two Recognition Models

Method	Description
Over Time	Revenue recognized progressively
Point in Time	Revenue recognized once transferred

Over Time Examples

SaaS subscriptions

construction

consulting

Point in Time Examples

equipment sale

inventory transfer

Control Rule

☞ Timing must reflect transfer of control

CHAPTER 6 - CONTRACT ASSETS VS RECEIVABLES

Contract Asset

Revenue recognized before invoicing.

Receivable

Unconditional right to payment.

Example

Work completed but invoice not issued:

☞ contract asset

Invoice issued:

☞ receivable

Control Rule

☞ Distinguish earned revenue from billed revenue

CHAPTER 7 - COMMON FOUNDATION FAILURES

Top Issues

recognizing revenue without contract

ignoring obligations

incorrect allocation

wrong timing

overstated variable consideration

VOLUME 2 - DAILY REVENUE OPERATIONS

Billing | Deferred Revenue | Accruals | Deposits

CHAPTER 8 - BILLING OPERATIONS

Billing ≠ Revenue

Many companies confuse invoices with earned revenue.

Examples

Invoice before work:

☞ deferred revenue

Work before invoice:

☞ accrued revenue / contract asset

Control Rule

☞ Revenue follows performance-not billing timing

CHAPTER 9 - DEFERRED REVENUE

Definition

Cash received before earning revenue.

Entry

Dr Cash
Cr Deferred Revenue

Recognition Later

Dr Deferred Revenue
Cr Revenue

Examples

annual subscriptions
prepaid services

Control Rule

☞ Deferred revenue is a liability

CHAPTER 10 - REVENUE ACCRUALS

Definition

Revenue earned before billing.

Entry

Dr Contract Asset / Accrued Revenue
Cr Revenue

Examples

unbilled consulting

earned construction revenue

Control Rule

☞ Must tie to completed performance

CHAPTER 11 - CUSTOMER DEPOSITS

Definition

Advance cash from customer.

Treatment

Not revenue initially.

Entry

Dr Cash

Cr Customer Deposits / Deferred Revenue

Control Rule

☞ Customer deposits are liabilities

CHAPTER 12 - REFUND LIABILITIES

Examples

returns

cancellation rights

rebates

Accounting

Estimate expected refunds.

Control Rule

☞ Revenue must reflect expected returns

VOLUME 3 - COMPLEX REVENUE CASES***Complex Contracts & Judgment Areas***

CHAPTER 13 - MULTIPLE-ELEMENT ARRANGEMENTS

Examples

software + support

equipment + maintenance

Challenge

Separate obligations correctly.

Risk

↳ Accelerating revenue improperly

CHAPTER 14 - VARIABLE CONSIDERATION

Examples

bonuses

incentives

rebates

penalties

Rule

Recognize only amounts unlikely to reverse materially.

Control Rule

↳ Conservative estimation required

CHAPTER 15 - CONTRACT MODIFICATIONS

Examples

scope changes

additional services

Treatment

Depends on:

distinct services?

pricing changes?

Control Rule

☞ Modifications must be reassessed immediately

CHAPTER 16 - PRINCIPAL VS AGENT

Question

Are you:

controlling the good/service?

or

arranging for someone else?

Principal

Recognize gross revenue.

Agent

Recognize net commission only.

Risk

☞ Gross overstatement of revenue

VOLUME 4 - INDUSTRY-SPECIFIC REVENUE***Real Industry Applications***

SaaS

subscriptions

implementation

usage-based fees

Government Contracting

T&M

cost-plus

fixed-price

Construction

percentage-of-completion

progress billing

Nonprofit Grants

conditional vs unconditional

Financial Institutions

interest income

fees

loan servicing revenue

VOLUME 5 - MONTH-END CLOSE & AUDIT

Audit-Ready Revenue Controls

Revenue Reconciliation

- ✓ billed vs recognized
 - ✓ deferred rollforward
 - ✓ contract assets
-

Cut-Off Testing

Verify:

correct period

no premature revenue

Deferred Revenue Rollforward

Beginning balance

cash received

– revenue recognized

= ending balance

Audit Procedures

Auditors test:

contracts

invoices

delivery evidence

cut-off

estimates

Common Fraud Schemes

fake invoices

side agreements

channel stuffing

bill-and-hold abuse

VOLUME 6 - IFRS vs U.S. GAAP DIFFERENCES

Practical Comparison

Collectability Thresholds

Both require probable collection, but practical interpretation may differ by jurisdiction and practice.

Practical Expedients

Different optional simplifications available.

Presentation Differences

Terminology and disclosure formatting may vary.

Disclosure Differences

IFRS may emphasize principles-based disclosures.
U.S. GAAP often includes more prescriptive requirements.

VOLUME 7 - CASE STUDIES & FAILURES

Real-World Revenue Failures

Case 1 - Early Revenue Recognition

Revenue booked before delivery.

☞ Income overstated.

Case 2 - Side Agreements

Hidden concessions invalidate revenue.

☞ Revenue reversals.

Case 3 - Fake Revenue

Invoices created without real customers.

☞ Fraud.

Case 4 - Channel Stuffing

Shipping excess product to inflate sales.

☞ Unsustainable revenue.

Case 5 - Bill-and-Hold Abuse

Revenue recognized before transfer of control.

☞ Audit failure.

FINAL RULE OF REVENUE

☞ **Revenue is not what management wants. Revenue is what has actually been earned.**

FOR FINOVATEPRO

This becomes:

automated revenue engine

ASC 606 / IFRS 15 compliance layer

audit-ready workflow

fraud detection system

MANUAL 2 - DEBT & BORROWINGS

IFRS vs U.S. GAAP COMPARISON MANUAL

JS Morlu Quality | Audit-Grade | Practical | System-Ready | Reality-Based

PURPOSE OF THIS MANUAL

Debt is one of the most misunderstood and manipulated areas in accounting.

Companies fail not only because they lose money-but because:

debt becomes too expensive,

covenants are breached,

liabilities are hidden,

or cash flow cannot support repayments.

This manual explains:

how debt works operationally,

how it is measured under IFRS and U.S. GAAP,

how auditors test it,

how restructurings fail,

and how systems like FinovatePro should automate debt accounting and monitoring.

APPLICABLE STANDARDS

International Standards

IFRS 9 Financial Instruments

U.S. GAAP Standards

ASC 470 Debt

CORE PRINCIPLE OF DEBT ACCOUNTING

☞ Debt is not just cash received.

Debt creates:
 repayment obligations,
 interest obligations,
 liquidity pressure,
 covenant risk,
 and financial statement exposure.

FOUNDATIONAL RULE

☞ If a liability exists, it must be recognized-even if management dislikes the outcome.

VOLUME 1 - DEBT FOUNDATIONS

Loans | Notes | Bonds | Amortized Cost

CHAPTER 1 - TYPES OF DEBT

Common Debt Types

Type	Description
Loans Payable	Borrowings from banks/lenders
Notes Payable	Formal written obligations
Bonds	Public or private debt securities
Lines of Credit	Revolving borrowing facilities
Convertible Debt	Debt convertible to equity

Key Principle

☞ Debt classification affects:

liquidity,
solvency,
and covenant compliance.

CHAPTER 2 - INITIAL RECOGNITION OF DEBT

Debt Is Recorded At

☞ Fair value of proceeds received, adjusted for issuance costs where applicable.

Basic Entry

Dr Cash
Cr Loans Payable

If Issuance Costs Exist

Debt may initially be reduced by costs under amortized cost accounting.

Control Rule

☞ Debt balances must match executed agreements.

Red Flags

undocumented debt
side agreements
unrecorded obligations

CHAPTER 3 - LOANS PAYABLE

Definition

Borrowings from:
banks,
financial institutions,
or private lenders.

Typical Components

principal
interest rate
repayment schedule
collateral
covenants

Control Rule

☞ Loan schedules must reconcile to GL monthly.

CHAPTER 4 - NOTES PAYABLE

Definition

Formal written promises to repay.

Examples

shareholder notes

seller financing
promissory notes

Risk

☞ Related-party notes often poorly documented.

Control Rule

☞ All notes require:

signed agreement
repayment terms
interest terms

CHAPTER 5 - BONDS

Definition

Debt securities issued to investors.

Key Components

face value
coupon rate
maturity date
issue price

Possible Outcomes

Situation	Result
Issued at par	no premium/discount
Issued above par	premium
Issued below par	discount

Control Rule

☞ Bond amortization must be systematic.

CHAPTER 6 - AMORTIZED COST

Definition

Debt measured using:
effective interest method,
adjusted over time.

Core Concept

Carrying amount changes due to:
amortization,
repayments,
discounts/premiums.

Control Rule

☞ Carrying value must reflect economic reality.

VOLUME 2 - INTEREST & EFFECTIVE YIELD

Interest Mechanics & Yield Accounting

CHAPTER 7 - EFFECTIVE INTEREST METHOD

Definition

Method that spreads:

interest,

issuance costs,

discounts/premiums

over the life of debt.

Purpose

☞ Reflect true borrowing cost.

Example

Loan proceeds:

\$95,000

Repayment:

\$100,000

Difference amortized over time.

Control Rule

☞ Interest expense must reflect effective yield-not just coupon rate.

CHAPTER 8 - DEBT ISSUANCE COSTS

Examples

legal fees

underwriting

lender fees

Treatment

Typically amortized over debt term.

Risk

☞ Expensing immediately may materially distort earnings.

CHAPTER 9 - PREMIUMS & DISCOUNTS

Premium

Debt issued above face value.

Discount

Debt issued below face value.

Accounting Impact

Affects:

carrying amount

interest expense

Control Rule

☞ Premium/discount amortization must reconcile monthly.

CHAPTER 10 - INTEREST ACCRUALS

Definition

Interest incurred but unpaid.

Entry

Dr Interest Expense
Cr Interest Payable

Control Rule

☞ Interest must accrue continuously-not only when paid.

Red Flags

unpaid accrued interest ignored
manual estimates

VOLUME 3 - DEBT MODIFICATIONS

Restructuring | Refinancing | Extinguishment

CHAPTER 11 - TROUBLED DEBT RESTRUCTURING

Definition

Lender grants concessions due to borrower distress.

Examples

reduced interest

extended maturity

principal forgiveness

Risk

☞ Financial distress may require disclosures.

Control Rule

☞ Modifications must be documented and reassessed.

CHAPTER 12 - REFINANCING

Definition

Replacing old debt with new debt.

Questions

Is debt extinguished?

Or modified?

Impact

May trigger:

gain/loss recognition

new effective interest rate

CHAPTER 13 - EXTINGUISHMENT OF DEBT

Occurs When

Debt legally settled or cancelled.

Entry

Dr Debt

Cr Cash

Difference:

☞ gain/loss on extinguishment

Control Rule

☞ Settlement terms must be fully documented.

CHAPTER 14 - COVENANT BREACHES

Examples

liquidity ratio failure

leverage ratio failure

Consequences

accelerated repayment

reclassification to current liability

Control Rule

☞ Covenant compliance must be monitored monthly.

Red Flags

ignored covenant breaches

late waivers

VOLUME 4 - CONVERTIBLE & COMPLEX DEBT

Hybrid Instruments & Embedded Features

CHAPTER 15 - CONVERTIBLE INSTRUMENTS

Definition

Debt convertible into equity.

Key Issue

Separate:

liability component

equity component (IFRS may require split accounting in certain cases)

Risk

☞ Incorrect classification materially impacts leverage.

CHAPTER 16 - WARRANTS

Definition

Rights to purchase shares.

Issue

May require separate valuation.

Control Rule

☞ Embedded equity features must be analyzed carefully.

CHAPTER 17 - EMBEDDED DERIVATIVES

Examples

interest rate features

currency-linked repayment

Risk

May require bifurcation and fair value accounting.

CHAPTER 18 - HYBRID INSTRUMENTS

Definition

Debt with equity-like features.

Examples

convertible preferred debt

structured financing

Control Rule

☞ Legal form ≠ accounting treatment.

VOLUME 5 - MONTH-END CLOSE & AUDIT***Audit-Ready Debt Accounting***

Debt Reconciliations

- ✓ debt schedules vs GL
 - ✓ interest payable
 - ✓ amortization schedules
-

Covenant Testing

- ✓ leverage ratios
 - ✓ liquidity ratios
 - ✓ EBITDA calculations
-

Interest Validation

- ✓ accrued interest
 - ✓ amortization
 - ✓ effective yield
-

Confirmation Procedures

Auditors confirm directly with lenders:

balances

terms

collateral

covenant status

Common Fraud Schemes

hidden liabilities

off-book loans

covenant concealment

fake refinancing

VOLUME 6 - IFRS vs U.S. GAAP DIFFERENCES

Practical Comparison

Classification Differences

IFRS generally more principles-based.

U.S. GAAP often more rules-based in presentation and instrument classification.

Convertible Debt Accounting

Differences may exist in:

separation models

equity component treatment

Modification Accounting

Thresholds and guidance differ operationally.

Fair Value Elections

Optionality and presentation can differ.

VOLUME 7 - CASE STUDIES & FAILURES

Real Debt Failures

Case 1 - Hidden Liabilities

Management keeps debt off books.

☞ Solvency understated.

Case 2 - Covenant Violations

Company breaches ratios but fails to disclose.

☞ Going concern risk.

Case 3 - Off-Balance-Sheet Debt

Guarantees and obligations hidden.

☞ Misleading leverage ratios.

Case 4 - Debt Restructuring Failure

Company refinances repeatedly without solving cash flow problem.

↳ Eventual collapse.

FINAL RULE OF DEBT ACCOUNTING

↳ Debt is not dangerous because it exists.

↳ Debt becomes dangerous when management stops understanding it.

FOR FINOVATEPRO

This becomes:

debt management engine

covenant monitoring system

amortization engine

lender reporting layer

audit-ready debt workflow

MANUAL 3 - LEASE ACCOUNTING

IFRS vs U.S. GAAP COMPARISON MANUAL

JS Morlu Quality | Audit-Grade | Operational | Practical | System-Ready

PURPOSE OF THIS MANUAL

Lease accounting became one of the most disruptive accounting changes in modern financial reporting.

Before modern lease standards:

companies hid obligations off balance sheet,
leverage ratios looked artificially strong,
and users underestimated long-term commitments.

This manual explains:

how leases work operationally,
how to identify lease arrangements,
how to account for right-of-use assets and lease liabilities,
how auditors test leases,
and how systems like FinovatePro should automate lease accounting.

APPLICABLE STANDARDS

International Standards

IFRS 16 Leases

U.S. GAAP Standards

ASC 842 Leases

CORE PRINCIPLE OF LEASE ACCOUNTING

☞ A lease creates:

a right to use an asset,
and an obligation to pay.

Therefore:

leases generally belong on the balance sheet.

FOUNDATIONAL RULE

☞ If you control the use of an identified asset for a period of time in exchange for consideration, you likely have a lease.

VOLUME 1 - LEASE FOUNDATIONS

ROU Assets | Lease Liabilities | Identification | Lease Term

CHAPTER 1 - WHAT IS A LEASE?

Definition

A contract that conveys:
the right to control the use
of an identified asset
for a period of time
in exchange for consideration.

Examples

office space
vehicles
equipment
data centers

copiers

Control Rule

☞ Not every contract is a lease.

Must determine:

identified asset?

control?

economic benefit?

Red Flags

service contracts hiding leases

informal arrangements

unsigned renewals

CHAPTER 2 - RIGHT-OF-USE (ROU) ASSETS

Definition

Asset representing the right to use leased property.

Why It Exists

Even if company does not own asset:

☞ it controls use for a period.

Examples

leased building

leased vehicles

leased servers

Control Rule

☞ ROU asset must equal properly measured lease obligation adjustments.

CHAPTER 3 - LEASE LIABILITIES

Definition

Present value of future lease payments.

Key Components

fixed payments

certain variable payments

renewal periods if reasonably certain

Control Rule

☞ Liability must reflect expected obligation.

CHAPTER 4 - IDENTIFYING LEASES

Critical Question

Does the contract contain a lease?

Common Hidden Lease Areas

outsourcing agreements

transportation contracts

IT hosting arrangements

Example

Dedicated server contract:

☞ may contain embedded lease.

Control Rule

☞ Review ALL service contracts for embedded leases.

CHAPTER 5 - LEASE TERM

Includes

noncancelable period

renewal options reasonably certain

termination options

Risk

☞ Understating lease term understates liabilities.

Control Rule

☞ Lease term must reflect economic reality-not management preference.

VOLUME 2 - INITIAL RECOGNITION

Measurement | Discount Rates | Entries | Incentives

CHAPTER 6 - INITIAL MEASUREMENT

Lease Liability

Present value of future lease payments.

ROU Asset

Lease liability adjusted for:

prepaid rent

incentives

direct costs

Control Rule

☞ Initial measurements must reconcile mathematically.

CHAPTER 7 - DISCOUNT RATES

Possible Rates

Rate	Description
Implicit Rate	Rate built into lease
Incremental Borrowing Rate	Estimated borrowing rate

Risk

☞ Wrong discount rate materially distorts liabilities.

Control Rule

☞ Rate assumptions must be supportable.

CHAPTER 8 - INITIAL JOURNAL ENTRIES

Initial Recognition

Dr Right-of-Use Asset
Cr Lease Liability

Lease Payment

Dr Lease Liability
Dr Interest Expense
Cr Cash

Control Rule

☞ Entries must tie to amortization schedules.

CHAPTER 9 - LEASE INCENTIVES

Examples

free rent periods

landlord reimbursements

tenant improvement allowances

Accounting Impact

Reduce ROU asset and/or lease expense.

Risk

☞ Ignoring incentives overstates assets and expenses.

VOLUME 3 - SUBSEQUENT ACCOUNTING

Amortization | Interest | Reassessment | Modifications

CHAPTER 10 - AMORTIZATION OF ROU ASSET

Purpose

Systematically expense use of leased asset.

Control Rule

☞ Amortization schedule must align with lease term.

CHAPTER 11 - INTEREST ON LEASE LIABILITY

Concept

Lease liability behaves like debt.

Accounting

Interest accrues over time.

Entry

Dr Interest Expense
Cr Lease Liability

Control Rule

☞ Interest must follow effective interest mechanics.

CHAPTER 12 - REASSESSMENTS

Triggers

lease extension
early termination
payment changes

Impact

Recalculate:
liability
ROU asset

Control Rule

☞ Lease changes must trigger reassessment immediately.

CHAPTER 13 - LEASE MODIFICATIONS

Examples

additional space
reduced lease term
payment restructuring

Accounting Impact

May require:
new measurement
adjustment of ROU asset/liability

Control Rule

☞ Modifications must not bypass accounting review.

VOLUME 4 - SPECIALIZED LEASE CASES

Embedded Leases | Variable Payments | Sale-Leaseback

CHAPTER 14 - EMBEDDED LEASES

Definition

Lease hidden inside service contract.

Examples

dedicated equipment

exclusive use arrangements

Risk

☞ Hidden liabilities omitted from balance sheet.

CHAPTER 15 - VARIABLE LEASE PAYMENTS

Examples

percentage rent

usage-based payments

Treatment

Some included in liability.

Others expensed as incurred.

Control Rule

☞ Must distinguish fixed vs variable components.

CHAPTER 16 - SALE-LEASEBACK TRANSACTIONS

Definition

Sell asset then lease it back.

Key Question

Was there a true sale?

Risk

☞ Fake sales used to manipulate financials.

Control Rule

☞ Evaluate transfer of control carefully.

CHAPTER 17 - SHORT-TERM LEASES

Definition

Lease term generally 12 months or less.

Possible Simplification

Recognition exemptions may apply.

Risk

☞ Abuse of short-term classification.

VOLUME 5 - MONTH-END CLOSE & AUDIT

Lease Rollforwards | Reconciliation | Audit Testing

Lease Rollforwards

Track:

beginning balances

additions

payments

modifications

ending balances

Reconciliation

✓ lease schedules vs GL

✓ liabilities vs disclosures

✓ payments vs cash disbursements

Audit Testing

Auditors review:

contracts

completeness

assumptions

discount rates

modifications

Disclosure Tie-Outs

Financial statement disclosures must tie to:

schedules

amortization tables

liability rollforwards

Common Fraud Schemes

hidden leases
omitted renewals
manipulated lease terms
intentional underreporting

VOLUME 6 - IFRS vs U.S. GAAP DIFFERENCES

Practical Comparison

Single-Model vs Dual-Model

IFRS

Generally single lessee model.

U.S. GAAP

Operating lease vs finance lease classification retained for lessee expense presentation.

Expense Presentation

IFRS:

more front-loaded total expense profile generally.

U.S. GAAP:

operating lease expense often straight-line.

Classification Differences

Differences exist in:

lease categories

income statement presentation

Control Rule

☞ Same contract may produce different presentation under IFRS vs GAAP.

VOLUME 7 - CASE STUDIES & FAILURES

Real Lease Failures

Case 1 - Hidden Leases

Service agreements contain unrecorded lease obligations.

☞ Liabilities understated.

Case 2 - Wrong Discount Rates

Management uses artificially low rate.

☞ Lease liabilities understated.

Case 3 - Incomplete Lease Population

Locations or vehicles omitted from system.

☞ Financial statements incomplete.

Case 4 - Misclassification

Finance lease treated as operating arrangement improperly.

☞ Expense and EBITDA distortion.

FINAL RULE OF LEASE ACCOUNTING

☞ Leasing does not eliminate obligations.

☞ It simply spreads them over time.

WHAT THIS BUILDS FOR FINOVATEPRO

This becomes:

lease accounting engine

ASC 842 / IFRS 16 automation layer

amortization engine

disclosure generator

audit-ready lease workflow

MANUAL 4 - FIXED ASSETS

IFRS vs U.S. GAAP COMPARISON MANUAL

JS Morlu Quality | Audit-Grade | Operational | Practical | System-Ready

PURPOSE OF THIS MANUAL

Fixed assets are where companies:

hide expenses,

inflate profits,

overstate asset values,

and quietly distort financial statements for years.

A wrong revenue entry may affect one month.

☞ A wrong fixed asset decision may affect 5–30 years of financial reporting.

This manual explains:

how fixed assets work operationally,

how capitalization decisions affect profit,

how depreciation and impairment work,

how auditors test fixed assets,

and how systems like FinovatePro should automate asset accounting and controls.

APPLICABLE STANDARDS

International Standards

IAS 16 Property, Plant and Equipment

U.S. GAAP Standards

ASC 360 Property, Plant, and Equipment

CORE PRINCIPLE OF FIXED ASSET ACCOUNTING

☞ Fixed assets are costs that provide economic benefit over multiple periods.

Therefore:

they are capitalized initially,

then expensed gradually through depreciation or impairment.

FOUNDATIONAL RULE

☞ Not every purchase is an asset.

The key question is:

“Will this item provide future economic benefit beyond the current period?”

VOLUME 1 - FIXED ASSET FOUNDATIONS

Capitalization | Useful Life | Depreciation | Asset Classes

CHAPTER 1 - WHAT IS A FIXED ASSET?

Definition

A tangible item:

used in operations,

expected to benefit future periods,

and not held for resale.

Examples

buildings

machinery

vehicles

furniture

computers

infrastructure

Control Rule

☞ Asset must:

exist,

be owned or controlled,

and provide future benefit.

Red Flags

fake assets

duplicate assets

expensed capital items

capitalized operating expenses

CHAPTER 2 - CAPITALIZATION

Definition

Recording a cost as an asset instead of immediate expense.

Typical Capitalizable Costs

✓ purchase price

✓ installation

✓ freight

✓ testing

✓ directly attributable costs

Non-Capitalizable Costs

- X training
 - X routine maintenance
 - X general overhead
-

Example

Machine purchase:
\$100,000

Installation:
\$5,000

Capitalized amount:
☞ \$105,000

Control Rule

☞ Capitalization policies must be documented and consistent.

Red Flags

- capitalizing repairs
 - aggressive capitalization
 - inconsistent thresholds
-
-

CHAPTER 3 - USEFUL LIFE

Definition

Estimated period asset will provide benefit.

Examples

Asset	Typical Life
Computers	3–5 years
Vehicles	5–7 years
Buildings	20–40 years

Control Rule

☞ Useful life must reflect operational reality-not profit targets.

Red Flags

unrealistic long lives

no review of estimates

CHAPTER 4 - DEPRECIATION

Definition

Systematic allocation of asset cost over useful life.

Purpose

☞ Match expense to periods benefiting from asset use.

Basic Entry

Dr Depreciation Expense

Cr Accumulated Depreciation

Control Rule

☞ Depreciation must begin when asset is placed into service.

CHAPTER 5 - ASSET CLASSES

Examples

land

buildings

leasehold improvements

machinery

vehicles

IT equipment

Purpose

Different classes:

have different lives,

risks,

and accounting treatment.

Control Rule

☞ Assets must be categorized properly.

VOLUME 2 - ASSET ACQUISITION & CONSTRUCTION

Purchases | Self-Construction | Borrowing Costs

CHAPTER 6 - ASSET PURCHASES

Basic Acquisition

Dr Fixed Asset
Cr Cash / Payable

Control Rule

☞ Purchase documentation required:

invoice

approval

receiving evidence

CHAPTER 7 - SELF-CONSTRUCTED ASSETS

Definition

Company builds asset internally.

Examples

buildings

manufacturing facilities

software infrastructure

Capitalizable Costs

- ✓ materials
 - ✓ labor
 - ✓ construction-related overhead
-

Risk

☞ Overcapitalization of internal costs.

CHAPTER 8 - BORROWING COSTS

Definition

Interest incurred during construction.

IFRS

Certain borrowing costs may be capitalized for qualifying assets.

U.S. GAAP

Capitalization also required in qualifying situations.

Control Rule

☞ Only qualifying borrowing costs may be capitalized.

CHAPTER 9 - ASSET TAGGING & TRACKING

Purpose

Track:

location

condition

ownership

depreciation

Best Practice

Each asset should have:

unique ID

barcode/RFID

responsible department

Control Rule

☞ Untagged assets create audit risk.

VOLUME 3 - DEPRECIATION & IMPAIRMENT

Expense Allocation & Asset Decline

CHAPTER 10 - STRAIGHT-LINE DEPRECIATION

Formula

$(\text{Cost} - \text{Residual Value}) \div \text{Useful Life}$

Most Common Method

Simple and predictable.

Control Rule

☞ Method must reflect usage pattern reasonably.

CHAPTER 11 - UNITS OF PRODUCTION

Definition

Depreciation based on usage/output.

Examples

mining equipment

manufacturing machinery

Risk

☞ Incorrect production estimates distort expense.

CHAPTER 12 - IMPAIRMENT TESTING

Definition

Determine whether asset carrying value exceeds recoverable amount.

Indicators

physical damage

obsolescence

declining cash flows

market decline

Control Rule

☞ Impairment must be recognized promptly.

Red Flags

ignoring impairment indicators

unsupported assumptions

CHAPTER 13 - DISPOSAL OF ASSETS

When Asset Is Sold or Retired

Remove:

cost

accumulated depreciation

Gain/Loss Calculation

Sale proceeds – carrying value

Control Rule

☞ Disposals must be recorded immediately.

Red Flags

ghost assets remaining on books

VOLUME 4 - SPECIALIZED ASSET CASES

Component Accounting | Revaluation | AROs

CHAPTER 14 - COMPONENT ACCOUNTING

Definition

Separate major parts depreciated differently.

Example

Aircraft:

engines

body

interior

IFRS

More explicit emphasis on componentization.

Control Rule

☞ Significant components require separate lives.

CHAPTER 15 - REVALUATION MODEL (IFRS)

IFRS Option

Certain assets may be carried at revalued amounts.

U.S. GAAP

Generally historical cost model.

Risk

☞ Inflated values without support.

Control Rule

☞ Revaluations require reliable valuation support.

CHAPTER 16 - ASSET RETIREMENT OBLIGATIONS (ARO)

Definition

Future obligation to dismantle/remove asset.

Examples

oil wells

environmental cleanup

decommissioning

Accounting Impact

Recognize:

liability

related asset cost

Control Rule

☞ Future obligations must not be ignored.

CHAPTER 17 - IDLE ASSETS

Definition

Assets temporarily not in use.

Issue

Depreciation may still continue depending on circumstances.

Risk

☞ Hiding obsolete assets.

VOLUME 5 - MONTH-END CLOSE & AUDIT

Rollforwards | Verification | Audit Testing

Fixed Asset Rollforward

Track:

beginning balances

additions

disposals

depreciation

ending balances

Physical Verification

Verify:

existence

condition

location

Control Rule

☞ Assets on books must physically exist.

Depreciation Reconciliation

✓ expense vs schedules

✓ accumulated depreciation vs GL

Audit Procedures

Auditors test:

capitalization

existence

impairment

useful lives

completeness

Common Fraud Schemes

ghost assets

capitalized expenses

fake construction projects

hidden disposals

VOLUME 6 - IFRS vs U.S. GAAP DIFFERENCES

Practical Comparison

Revaluation

IFRS:

permits revaluation model.

U.S. GAAP:

generally historical cost only.

Componentization

IFRS:

stronger requirement emphasis.

U.S. GAAP:

more flexible in practice.

Impairment Reversals

IFRS:

some reversals permitted in certain situations.

U.S. GAAP:

reversals generally prohibited for long-lived assets held and used.

Development Costs

IFRS:

certain development costs may be capitalized.

U.S. GAAP:

more restrictive.

VOLUME 7 - CASE STUDIES & FAILURES

Real Fixed Asset Failures

Case 1 - Capitalizing Repairs

Routine repairs recorded as assets.

☞ Expenses understated.

Case 2 - Ghost Assets

Assets disposed years ago still on books.

☞ Assets overstated.

Case 3 - Missing Disposals

Company sells equipment but fails to remove it.

☞ Double-counted assets.

Case 4 - Wrong Useful Lives

Management extends useful life to reduce expense.

☞ Profit artificially inflated.

FINAL RULE OF FIXED ASSET ACCOUNTING

- ☞ Assets do not create value simply because they exist on a balance sheet.
 - ☞ They create value only if they are real, productive, and properly measured.
-

WHAT THIS BUILDS FOR FINOVATEPRO

This becomes:

fixed asset engine

depreciation automation system

impairment monitoring tool

asset lifecycle management

audit-ready asset workflow

MANUAL 5 - RETIREMENT PLANS & EMPLOYEE BENEFITS

IFRS vs U.S. GAAP COMPARISON MANUAL

JS Morlu Quality | Audit-Grade | Practical | Operational | System-Ready

PURPOSE OF THIS MANUAL

Employee benefits are among the most underestimated liabilities in accounting.

Many organizations focus only on:

- salaries,
- payroll,
- and bonuses.
- But the real long-term risks often come from:
- pensions,
- healthcare obligations,
- PTO accruals,
- severance liabilities,
- and post-employment commitments.

A company may appear profitable while quietly accumulating billions in future obligations.

This manual explains:

- how retirement plans work,
 - how obligations are measured,
 - how actuarial assumptions affect financial statements,
 - how auditors test benefit liabilities,
 - and how systems like FinovatePro should automate employee benefit accounting.
-

APPLICABLE STANDARDS

International Standards

IAS 19 Employee Benefits

U.S. GAAP Standards

ASC 715 Compensation-Retirement Benefits

CORE PRINCIPLE OF EMPLOYEE BENEFIT ACCOUNTING

☞ Employee benefits are earned as employees provide service-not only when cash is paid later.

FOUNDATIONAL RULE

☞ If employees earn a benefit today that creates a future obligation, the liability must be recognized.

VOLUME 1 - RETIREMENT FOUNDATIONS

Defined Contribution | Defined Benefit | Pension Obligations

CHAPTER 1 - TYPES OF RETIREMENT PLANS

Defined Contribution Plans

Employer contributes fixed amount.

Examples:

401(k)

retirement savings plans

Employer Obligation

Limited to agreed contributions.

Accounting Simplicity

Expense recognized as contributions are earned.

Control Rule

☞ Contributions must reconcile to payroll and plan records.

CHAPTER 2 - DEFINED BENEFIT PLANS

Definition

Employer promises future retirement benefits.

Examples

pension plans

guaranteed retirement income

Key Risk

Employer bears:

investment risk

actuarial risk

longevity risk

Accounting Complexity

Requires:

actuarial valuations

long-term assumptions

Control Rule

☞ Obligations must reflect realistic assumptions.

CHAPTER 3 - PENSION OBLIGATIONS

Definition

Present value of future promised benefits.

Affected By

employee service

salary growth

life expectancy

discount rates

Control Rule

☞ Pension liabilities must reflect economic reality-not management optimism.

Red Flags

unrealistic assumptions

outdated actuarial reports

VOLUME 2 - PENSION ACCOUNTING

Service Cost | Interest Cost | Assumptions | Plan Assets

CHAPTER 4 - SERVICE COST

Definition

Increase in obligation due to employee service during current period.

Example

Employee earns additional pension benefit through one year of work.

Entry

Dr Pension Expense
Cr Pension Liability

Control Rule

☞ Service cost must align with actuarial reports.

CHAPTER 5 - INTEREST COST

Definition

Growth in pension obligation due to passage of time.

Concept

Pension liabilities behave like discounted debt obligations.

Entry

Dr Interest Expense
Cr Pension Liability

Control Rule

☞ Discount rates materially affect liability.

CHAPTER 6 - ACTUARIAL ASSUMPTIONS

Key Assumptions

discount rate

salary increases

employee turnover

mortality/life expectancy

healthcare inflation

Risk

☞ Small assumption changes can materially affect liabilities.

Control Rule

☞ Assumptions must be:

supportable

documented

reviewed annually

Red Flags

assumption manipulation to reduce liabilities

CHAPTER 7 - PLAN ASSETS

Definition

Assets set aside to fund benefits.

Examples

investments

mutual funds

bonds

equities

Key Issue

Compare:

plan assets

vs

pension obligations

Underfunded Plan

Obligation > assets

Control Rule

☞ Fair value of plan assets must be validated.

VOLUME 3 - OTHER EMPLOYEE BENEFITS

PTO | Bonuses | Healthcare | Severance

CHAPTER 8 - PAID TIME OFF (PTO)

Definition

Vacation/sick leave earned by employees.

Accounting Rule

Recognize liability as earned.

Entry

Dr PTO Expense
Cr PTO Liability

Control Rule

☞ PTO accruals must reflect unused earned balances.

Red Flags

ignoring carryover obligations

CHAPTER 9 - BONUSES

Recognition

Recognize when:
probable

measurable

Examples

annual bonuses

performance incentives

Risk

☞ Delaying accrual inflates profit.

CHAPTER 10 - HEALTHCARE OBLIGATIONS

Examples

retiree healthcare

post-employment medical benefits

Complexity

Long-term estimates required.

Control Rule

☞ Future obligations must not be ignored.

CHAPTER 11 - SEVERANCE

Definition

Payments due upon termination.

Recognition

Recognize when obligation exists and is probable.

Examples

layoffs

restructuring plans

Control Rule

☞ Severance liabilities require formal approval/documentation.

VOLUME 4 - SPECIALIZED CASES

Curtailments | Settlements | Multiemployer Plans

CHAPTER 12 - CURTAILMENTS

Definition

Reduction in expected future service or benefits.

Examples

plant closure

workforce reduction

Accounting Impact

May trigger:

gain/loss recognition

Control Rule

☞ Curtailments must be identified immediately.

CHAPTER 13 - SETTLEMENTS

Definition

Elimination of pension obligation.

Examples

lump-sum payouts

annuity purchases

Risk

☞ Settlement accounting errors materially distort results.

CHAPTER 14 - MULTIEMPLOYER PLANS

Definition

Plans shared by multiple employers.

Challenges

shared obligations

withdrawal liabilities

Control Rule

☞ Participation obligations must be disclosed properly.

CHAPTER 15 - FROZEN PLANS

Definition

No new benefits accrue.

Issue

Existing liabilities remain.

Risk

☞ Companies incorrectly assume obligations disappear.

VOLUME 5 - MONTH-END CLOSE & AUDIT

Actuarial Reports | Rollforwards | Audit Testing

Actuarial Reports

Review:

assumptions

obligation calculations

asset valuations

Rollforwards

Track:

beginning balances

service cost

interest cost

contributions

actuarial gains/losses

ending balances

Employer Contributions

Verify:

timing

completeness

proper allocation

Audit Testing

Auditors test:

actuarial assumptions

participant data

plan assets

disclosures

employer contributions

Common Fraud Schemes

hidden liabilities

assumption manipulation

omitted obligations

delayed recognition

VOLUME 6 - IFRS vs U.S. GAAP DIFFERENCES

Practical Comparison

OCI Treatment

Both frameworks use OCI significantly for remeasurements, but presentation and terminology differ operationally.

Corridor Method History

Historically more associated with older U.S. GAAP approaches.

Actuarial Gains/Losses

Recognition mechanics and presentation differ between frameworks.

Control Rule

☞ Same economic obligation may present differently under IFRS vs GAAP.

VOLUME 7 - CASE STUDIES & FAILURES

Real Retirement Plan Failures

Case 1 - Underfunded Pensions

Company promises more than assets can support.

☞ Massive hidden liability.

Case 2 - Assumption Manipulation

Discount rate adjusted aggressively to reduce liabilities.

☞ Financial statements misleading.

Case 3 - Missing Liabilities

Retiree healthcare obligations omitted.

☞ Understated liabilities.

Case 4 - Contribution Timing Errors

Employer contributions recorded in wrong period.

☞ Expense and liability distortion.

FINAL RULE OF EMPLOYEE BENEFIT ACCOUNTING

☞ Employee benefits are not optional promises.

☞ They are real obligations created by employee service.

WHAT THIS BUILDS FOR FINOVATEPRO

This becomes:

pension accounting engine

PTO accrual system

actuarial integration workflow

benefit liability tracking

audit-ready employee benefit reporting